

LINDSAY CORP  
Form 10-Q  
January 07, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

**For the quarterly period ended November 30, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**47-0554096**  
**(I.R.S. Employer**  
**Identification No.)**

**2222 N. 111th Street, Omaha, Nebraska**  
**(Address of principal executive offices)**

**68164**  
**(Zip Code)**

**402-829-6800**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of December 31, 2014, 12,015,919 shares of the registrant's common stock were outstanding.

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**Lindsay Corporation**

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(\$ and shares in thousands, except per share amounts)	Three months ended	
	November 30, 2014	November 30, 2013
Operating revenues	\$ 134,845	\$ 147,671
Cost of operating revenues	97,931	107,520
Gross profit	36,914	40,151
Operating expenses:		
Selling expense	9,417	9,756
General and administrative expense	12,871	11,743
Engineering and research expense	2,724	2,660
Total operating expenses	25,012	24,159
Operating income	11,902	15,992
Other income (expense):		
Interest expense	(71)	(39)
Interest income	172	135
Other expense, net	(342)	(271)
Earnings before income taxes	11,661	15,817
Income tax expense	4,093	5,583
Net earnings	\$ 7,568	\$ 10,234
Earnings per share:		
Basic	\$ 0.62	\$ 0.79
Diluted	\$ 0.62	\$ 0.79
Shares used in computing earnings per share:		
Basic	12,224	12,889
Diluted	12,274	12,951
Cash dividends declared per share	\$ 0.270	\$ 0.130

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



Table of Contents**Lindsay Corporation and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

(\$ in thousands)	Three months ended	
	November 30, 2014	November 30, 2013
Net earnings	\$ 7,568	\$ 10,234
Other comprehensive income (loss):		
Defined benefit pension plan adjustment, net of tax	32	28
Foreign currency translation adjustment, net of hedging activities and tax	(3,973)	877
Total other comprehensive (loss) income, net of tax expense (benefit) of \$556 and (\$357)	(3,941)	905
Total comprehensive income	\$ 3,627	\$ 11,139

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

**Table of Contents****Lindsay Corporation and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(\$ and shares in thousands, except par values)	November 30, 2014	November 30, 2013	August 31, 2014
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 139,287	\$ 151,803	\$ 171,842
Receivables, net of allowance of \$2,530, \$3,349, and \$2,857, respectively	89,165	122,093	94,135
Inventories, net	77,010	75,614	71,696
Deferred income taxes	17,107	13,469	17,714
Other current assets	18,853	15,989	18,671
<b>Total current assets</b>	<b>341,422</b>	<b>378,968</b>	<b>374,058</b>
Property, Plant and Equipment:			
Cost	170,051	156,299	169,696
Less accumulated depreciation	(99,150)	(91,047)	(97,239)
<b>Property, plant and equipment, net</b>	<b>70,901</b>	<b>65,252</b>	<b>72,457</b>
Intangibles, net			
Goodwill	30,821	35,029	31,980
Other noncurrent assets, net of allowance of \$2,017, \$0, and \$2,000, respectively	36,634	37,193	37,021
	10,299	5,261	11,035
<b>Total assets</b>	<b>\$ 490,077</b>	<b>\$ 521,703</b>	<b>\$ 526,551</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current Liabilities:			
Accounts payable	\$ 48,648	\$ 45,902	\$ 42,424
Other current liabilities	60,972	57,132	73,943
<b>Total current liabilities</b>	<b>109,620</b>	<b>103,034</b>	<b>116,367</b>
Pension benefits liabilities			
Deferred income taxes	6,530	6,263	6,600
Other noncurrent liabilities	11,903	14,715	12,992
	9,190	8,022	7,945
<b>Total liabilities</b>	<b>137,243</b>	<b>132,034</b>	<b>143,904</b>

Shareholders Equity:

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Preferred stock of \$1 par value - Authorized 2,000 shares; no shares issued and outstanding			
Common stock of \$1 par value - authorized 25,000 shares; 18,674, 18,620, and 18,636 shares issued at November 30, 2014 and 2013 and August 31, 2014, respectively	18,674	18,620	18,636
Capital in excess of stated value	52,650	49,288	52,866
Retained earnings	449,658	414,133	445,366
Less treasury stock - at cost, 6,578, 5,698, and 6,196 shares at November 30, 2014 and 2013 and August 31, 2014, respectively	(162,006)	(90,961)	(132,020)
Accumulated other comprehensive loss, net	(6,142)	(1,411)	(2,201)
<b>Total shareholders equity</b>	<b>352,834</b>	<b>389,669</b>	<b>382,647</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 490,077</b>	<b>\$ 521,703</b>	<b>\$ 526,551</b>

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

**Table of Contents****Lindsay Corporation and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(\$ in thousands)	Three months ended	
	November 30, 2014	November 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 7,568	\$ 10,234
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,748	3,707
Provision for uncollectible accounts receivable	169	442
Deferred income taxes	(774)	(1,365)
Share-based compensation expense	1,099	1,180
Other, net	1,368	(244)
Changes in assets and liabilities:		
Receivables	1,792	(1,608)
Inventories	(5,347)	(6,608)
Other current assets	(1,513)	(431)
Accounts payable	7,300	3,356
Other current liabilities	(8,131)	(5,986)
Current income taxes payable	(3,441)	3,140
Other noncurrent assets and liabilities	1,857	111
Net cash provided by operating activities	5,695	5,928
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(3,649)	(2,387)
Proceeds from sale of property, plant and equipment		34
Proceeds from settlement of net investment hedges	1,889	101
Payments for settlement of net investment hedges	(329)	(1,035)
Net cash used in investing activities	(2,089)	(3,287)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Common stock withheld for payroll tax withholdings	(1,699)	(2,027)
Excess tax benefits from share-based compensation	501	465
Repurchase of common shares	(29,986)	
Dividends paid	(3,276)	(1,681)
Net cash used in financing activities	(34,460)	(3,243)
Effect of exchange rate changes on cash and cash equivalents	(1,701)	478

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Net change in cash and cash equivalents	(32,555)	(124)
Cash and cash equivalents, beginning of period	171,842	151,927
Cash and cash equivalents, end of period	\$ 139,287	\$ 151,803

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

**Table of Contents****Lindsay Corporation and Subsidiaries****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1 Condensed Consolidated Financial Statements**

The condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission ( SEC ) and do not include all of the disclosures normally required by U.S. generally accepted accounting principles ( U.S. GAAP ) as contained in Lindsay Corporation s (the Company ) Annual Report on Form 10-K. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s most recent Annual Report on Form 10-K for the fiscal year ended August 31, 2014.

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

The condensed consolidated financial statements were prepared using U.S. GAAP. These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

**Note 2 New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (the ASU ). The ASU 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. The effective date for the ASU will be the first quarter of fiscal year 2018. 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 condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the ASU on its ongoing financial reporting.

**Note 3 Net Earnings per Share**

The following table shows the computation of basic and diluted net earnings per share for the three months ended November 30, 2014 and 2013:

	<b>Three months ended</b>	
	<b>November 30,</b>	<b>November 30,</b>
<b>(\$ and shares in thousands, except per share amounts)</b>	<b>2014</b>	<b>2013</b>

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<b>Numerator:</b>		
Net earnings	\$ 7,568	\$ 10,234
<b>Denominator:</b>		
Weighted average shares outstanding	12,224	12,889
Diluted effect of stock awards	50	62
Weighted average shares outstanding assuming dilution	12,274	12,951
Basic net earnings per share	\$ 0.62	\$ 0.79
Diluted net earnings per share	\$ 0.62	\$ 0.79

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:

<b>Units and options in thousands</b>	<b>Three months ended</b>	
	<b>November 30,</b>	
	<b>2014</b>	<b>2013</b>
Restricted stock units	10	11
Stock options	58	33

**Table of Contents****Note 4 Income Taxes**

It is the Company's policy to report income tax expense for interim periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective income tax rate. The tax effects of such discrete events are recognized in the interim period in which the events occur. The Company recorded no material discrete items for the three months ended November 30, 2014 and 2013.

The Company recorded income tax expense of \$4.1 million and \$5.6 million for the three months ended November 30, 2014 and 2013, respectively. The estimated annual effective income tax rate was 35.1 percent and 35.3 percent for the three months ended November 30, 2014 and 2013, respectively.

**Note 5 Inventories**

Inventories consisted of the following as of November 30, 2014, November 30, 2013 and August 31, 2014:

(\$ in thousands)	November 30, 2014	November 30, 2013	August 31, 2014
Raw materials and supplies	\$ 21,006	\$ 20,386	\$ 19,953
Work in process	9,343	7,045	9,990
Finished goods and purchased parts	54,015	54,540	48,300

Market  
Price

Net Asset  
Value

Premium/  
(Discount)

Average  
Daily Volume/(Shares)

September 30, 2008

\$ 9.20

		\$10.82
		(14.97
)%		
	24,108	
December 31, 2008		
		8.90
		8.72
		2.06
	43,032	
March 31, 2009		
		9.10
		8.44
		7.82
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37,089

June 30, 2009

11.45

10.13

13.03

32,450

2

*Semi-Annual Report to Shareholders*

**Looking for Additional Information?**

The Fund is traded under the symbol **WEA** and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol **XWEAX** on most financial websites. *Barron's* and *The Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites, as well as [www.leggmason.com/cef](http://www.leggmason.com/cef).

**In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.**

*Semi-Annual Report to Shareholders*

**Special Shareholder Notices**

On May 20, 2009, the Fund announced monthly distributions of \$0.1000 per common share for the months of June, July, August and September 2009. The Fund had previously paid a monthly distribution of \$0.09375 per share since March 2005. In declaring the new rate, the Fund cited an increase in net investment income generated by its investment portfolio as a result of high reinvestment rates on the types of securities in which it invests. The lower cost of leverage on the Fund's preferred shares also contributed to the increase in net investment income available to common shareholders.

Additionally, the Fund announced that it will declare distributions quarterly while maintaining its policy of paying distributions monthly, effective with the July 2009 distribution.

This information is not for tax reporting purposes, but is being provided to announce the amount of the Fund's distributions that have been declared by the Board of Trustees. In early 2010, after definitive information is available, the Fund will send shareholders a Form 1099-DIV, if applicable, specifying how the distributions paid by the Fund during the prior calendar year should be characterized for purposes of reporting the distributions on a shareholder's tax return (e.g., ordinary income, long-term capital gain or return of capital).

*Semi-Annual Report to Shareholders*

**Portfolio Diversification**

*June 30, 2009A*

The pie and bar charts above represent the composition of the Fund's portfolio as of June 30, 2009 and do not include derivatives such as Futures Contracts, Options Written, and Credit Default Swaps.

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*A The Fund is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.*

*B Standard & Poor's Ratings Services provides capital markets with credit ratings for the evaluation and assessment of credit risk.*

*C Yankee Bond A dollar-denominated bond issued in the U.S. by foreign entities.*

## Semi-Annual Report to Shareholders

## Portfolio of Investments

June 30, 2009 (Unaudited)

Western Asset Premier Bond Fund

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Long-Term Securities</b>	<b>149.6%</b>				
<b>Corporate Bonds and Notes</b>	<b>77.1%</b>				
<i>Aerospace and Defense</i>	<i>2.0%</i>				
L-3 Communications Corp.		6.375%	10/15/15	\$ 535,000	\$ 485,512
Northrop Grumman Corp.		7.750%	2/15/31	1,000,000	1,251,334
The Boeing Co.		6.125%	2/15/33	600,000	610,883
					2,347,729
<i>Airlines</i>	<i>10.5%</i>				
America West Airlines Inc.		8.057%	7/2/20	2,755,598	2,232,035
Continental Airlines Inc.		7.160%	3/24/13	669,978	559,432
Continental Airlines Inc.		6.900%	1/2/18	946,155	823,155
Continental Airlines Inc.		6.820%	5/1/18	913,728	721,845
Continental Airlines Inc.		6.545%	2/2/19	1,737,143	1,606,858
Continental Airlines Inc.		8.048%	11/1/20	636,843	534,948
Continental Airlines Inc.		6.703%	6/15/21	819,937	688,747
DAE Aviation Holdings Inc.		11.250%	8/1/15	460,000	266,800A
Northwest Airlines Corp.		7.575%	9/1/20	611,898	458,924
Northwest Airlines Inc.		1.487%	8/6/13	3,003,56	2,072,796B,C
United Air Lines Inc.		7.032%	10/1/10	82,728	81,074
United Air Lines Inc.		7.186%	4/1/11	17,378	17,117
United Air Lines Inc.		6.602%	9/1/13	51,805	51,287
US Airways Pass-Through Trust		6.850%	1/30/18	2,937,253	2,144,194
					12,259,212
<i>Auto Components</i>	<i>N.M.</i>				
Visteon Corp.		8.250%	8/1/10	122,000	3,660D
Visteon Corp.		12.250%	12/31/16	306,000	10,710A,D
					14,370
<i>Automobiles</i>	<i>1.8%</i>				
DaimlerChrysler NA Holding Corp.		7.300%	1/15/12	1,000,000	1,035,545
DaimlerChrysler NA Holding Corp.		8.500%	1/18/31	1,000,000	1,051,965
General Motors Corp.		8.375%	7/15/33	410,000	52,275D
					2,139,785
<i>Building Products</i>	<i>0.3%</i>				

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Associated Materials Inc.	11.250%	3/1/14	590,000	259,600
Nortek Inc.	8.500%	9/1/14	45,000	12,825
NTK Holdings Inc.	0.000%	3/1/14	500,000	40,000E
				312,425





## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Diversified Financial Services</i>	4.1%				
AAC Group Holding Corp.		10.250%	10/1/12	\$ 440,000	\$ 319,000A
Air 2 US		8.027%	10/1/19	361,007	256,315A
CCM Merger Inc.		8.000%	8/1/13	140,000	96,600A
Citigroup Inc.		6.625%	6/15/32	1,000,000	819,924
DI Finance LLC		9.500%	2/15/13	502,000	484,430
JPMorgan Chase and Co.		5.125%	9/15/14	1,300,000	1,293,707
Liberty Media LLC		3.750%	2/15/30	1,860,000	669,600G
TNK-BP Finance SA		7.875%	3/13/18	420,000	346,500A
Vanguard Health Holding Co. II LLC		9.000%	10/1/14	535,000	512,262
					4,798,338
<i>Diversified Telecommunication Services</i>	2.4%				
Cincinnati Bell Inc.		6.300%	12/1/28	25,000	15,500
Citizens Communications Co.		9.250%	5/15/11	90,000	93,825
Hawaiian Telecom Communications Inc.		12.500%	5/1/15	135,000	14D,F
Level 3 Financing Inc.		9.250%	11/1/14	660,000	541,200
MetroPCS Wireless Inc.		9.250%	11/1/14	15,000	14,906
Qwest Communications International Inc.		7.250%	2/15/11	160,000	155,200
Qwest Communications International Inc.		7.500%	2/15/14	140,000	127,750
Qwest Corp.		7.875%	9/1/11	390,000	390,000
Qwest Corp.		7.500%	10/1/14	150,000	143,063
Telcordia Technologies Inc.		10.000%	3/15/13	485,000	297,062A
Univision Communications Inc.		12.000%	7/1/14	420,000	412,650A
Windstream Corp.		8.625%	8/1/16	635,000	608,012
					2,799,182
<i>Electric Utilities</i>	4.5%				
Duke Energy Corp.		6.250%	1/15/12	250,000	268,843
Energy Future Holdings Corp.		11.250%	11/1/17	1,674,800	1,021,628H
FirstEnergy Corp.		6.450%	11/15/11	610,000	636,694
FirstEnergy Corp.		7.375%	11/15/31	3,040,000	2,869,328
Orion Power Holdings Inc.		12.000%	5/1/10	150,000	155,250
TXU Electric Delivery Co.		7.000%	9/1/22	250,000	264,018
					5,215,761
<i>Energy Equipment and Services</i>	1.2%				
Complete Production Services Inc.		8.000%	12/15/16	150,000	128,250
EEB International Ltd.		8.750%	10/31/14	820,000	846,650A

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Gulfmark Offshore Inc.

7.750%

7/15/14

270,000

247,050

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## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Hotels, Restaurants and Leisure</i> Continued					
River Rock Entertainment Authority		9.750%	11/1/11	\$ 180,000	\$ 135,000
Sbarro Inc.		10.375%	2/1/15	90,000	54,900
Snoqualmie Entertainment Authority		5.384%	2/1/14	110,000	52,800A,B
Station Casinos Inc.		7.750%	8/15/16	205,000	70,725F
Station Casinos Inc.		6.625%	3/15/18	100,000	2,000F
Wendy s/Arby s Group Inc.		10.000%	7/15/16	100,000	95,625A
					1,711,290
<i>Household Durables</i>					
	0.5%				
American Greetings Corp.		7.375%	6/1/16	20,000	14,300
K Hovnanian Enterprises Inc.		8.625%	1/15/17	120,000	56,400
Norcraft Cos.		9.000%	11/1/11	360,000	356,400
Norcraft Holdings LP		9.750%	9/1/12	155,000	144,925
					572,025
<i>Independent Power Producers and Energy Traders</i>					
	4.1%				
Dynegy Holdings Inc.		7.750%	6/1/19	650,000	506,187
Edison Mission Energy		7.750%	6/15/16	180,000	146,700
Edison Mission Energy		7.625%	5/15/27	179,000	114,560
Exelon Generation Co. LLC		6.950%	6/15/11	2,000,000	2,117,904
Mirant North America LLC		7.375%	12/31/13	350,000	336,000
NRG Energy Inc.		7.375%	2/1/16	505,000	477,856
NRG Energy Inc.		7.375%	1/15/17	225,000	212,063
The AES Corp.		9.750%	4/15/16	360,000	364,500A
The AES Corp.		8.000%	10/15/17	525,000	488,250
The AES Corp.		8.000%	6/1/20	100,000	89,750
					4,853,770
<i>Industrial Conglomerates</i>					
	2.1%				
Tyco International Ltd. / Tyco International Finance SA		6.875%	1/15/21	2,615,000	2,472,781
<i>IT Services</i>					
	1.0%				
Ceridian Corp.		12.250%	11/15/15	130,000	93,763H
Electronic Data Systems Corp.		7.450%	10/15/29	500,000	603,642

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SunGard Data Systems Inc.	10.250%	8/15/15	520,000	480,350
				1,177,755

## Semi-Annual Report to Shareholders

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Leisure Equipment and Products</i>					
Eastman Kodak Co.	0.5%	7.250%	11/15/13	\$ 910,000	\$ 555,100
<i>Media</i>					
Affinion Group Inc.	5.1%	10.125%	10/15/13	180,000	166,500
Affinion Group Inc.		11.500%	10/15/15	225,000	192,375
CCH I Holdings LLC		11.000%	10/1/15	927,000	111,240D,F
CCH II Holdings LLC		10.250%	10/1/13	150,000	157,500D,F
Charter Communications Holdings LLC		11.750%	5/15/11	80,000	240D,F
Charter Communications Holdings LLC		12.125%	1/15/12	40,000	600D,F
Charter Communications Operating LLC		10.875%	9/15/14	280,000	289,800A,D,F
CMP Susquehanna Corp.		0.000%	5/15/14	14,000	5,950A,C,I
Comcast Corp.		5.900%	3/15/16	400,000	413,769
Comcast Corp.		7.050%	3/15/33	1,000,000	1,064,256
CSC Holdings Inc.		7.625%	4/1/11	50,000	49,500
CSC Holdings Inc.		6.750%	4/15/12	250,000	241,250
Idearc Inc.		8.000%	11/15/16	720,000	18,900D
News America Holdings Inc.		8.875%	4/26/23	400,000	383,787
R.H. Donnelley Corp.		8.875%	10/15/17	320,000	16,400D
Time Warner Inc.		6.875%	5/1/12	1,400,000	1,497,643
Time Warner Inc.		7.700%	5/1/32	1,150,000	1,130,066
TL Acquisitions Inc.		10.500%	1/15/15	270,000	218,700A
					5,958,476
<i>Metals and Mining</i>					
Alcoa Inc.	2.0%	5.375%	1/15/13	750,000	732,232
CII Carbon LLC		11.125%	11/15/15	580,000	418,325A
Freeport-McMoRan Copper & Gold Inc.		8.375%	4/1/17	730,000	735,475
Metals USA Inc.		11.125%	12/1/15	445,000	365,456
Noranda Aluminium Acquisition Corp.		6.163%	5/15/15	155,508	85,724B,H
					2,337,212
<i>Multi-Utilities</i>					
Dominion Resources Inc.	0.9%	5.700%	9/17/12	770,000	819,048
MidAmerican Energy Holdings Co.		5.875%	10/1/12	250,000	266,251
					1,085,299
<i>Multiline Retail</i>					
Dollar General Corp.	0.5%	10.625%	7/15/15	170,000	183,600
Dollar General Corp.		11.875%	7/15/17	45,000	48,600H

## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Multiline Retail</i> Continued					
The Neiman-Marcus Group Inc.		9.000%	10/15/15	\$ 266,337	\$ 157,139H
The Neiman-Marcus Group Inc.		7.125%	6/1/28	330,000	199,650
					588,989
<i>Oil, Gas and Consumable Fuels</i>					
	10.4%				
Belden and Blake Corp.		8.750%	7/15/12	750,000	607,500
Berry Petroleum Co.		10.250%	6/1/14	130,000	131,300
Chesapeake Energy Corp.		6.375%	6/15/15	480,000	427,200
Chesapeake Energy Corp.		6.625%	1/15/16	30,000	26,325
Chesapeake Energy Corp.		7.250%	12/15/18	300,000	261,000
Colorado Interstate Gas Co.		6.800%	11/15/15	150,000	154,093
DCP Midstream LP		7.875%	8/16/10	750,000	784,564
Devon Energy Corp.		7.950%	4/15/32	1,000,000	1,192,501
Devon Financing Corp. ULC		6.875%	9/30/11	1,000,000	1,086,091
El Paso Corp.		7.750%	6/15/10	1,496,000	1,497,771
El Paso Corp.		7.800%	8/1/31	190,000	154,985
Exco Resources Inc.		7.250%	1/15/11	465,000	451,050
Hess Corp.		7.875%	10/1/29	1,640,000	1,778,819
Hess Corp.		7.300%	8/15/31	60,000	61,935
International Coal Group Inc.		10.250%	7/15/14	220,000	155,100
KazMunaiGaz Exploration Production GDR		8.375%	7/2/13	230,000	212,175A
Kinder Morgan Energy Partners LP		7.125%	3/15/12	500,000	534,649
Parker Drilling Co.		9.625%	10/1/13	300,000	277,500
Petrohawk Energy Corp.		9.125%	7/15/13	145,000	144,275
Plains Exploration and Production Co.		10.000%	3/1/16	140,000	143,850
Quicksilver Resources Inc.		11.750%	1/1/16	185,000	191,475
SemGroup LP		8.750%	11/15/15	305,000	12,200A,D,F
Sonat Inc.		7.625%	7/15/11	500,000	489,916
Stone Energy Corp.		8.250%	12/15/11	160,000	131,200
The Williams Cos. Inc.		7.500%	1/15/31	902,000	793,760
The Williams Cos. Inc.		8.750%	3/15/32	85,000	85,425
Valero Energy Corp.		7.500%	4/15/32	400,000	382,738
					12,169,397
<i>Paper and Forest Products</i>					
	1.6%				
Appleton Papers Inc.		8.125%	6/15/11	5,000	3,250F
Appleton Papers Inc.		9.750%	6/15/14	305,000	103,700F



## Semi-Annual Report to Shareholders

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Paper and Forest Products</i> Continued					
NewPage Corp.		7.278%	5/1/12	\$ 375,000	\$ 183,750B
Weyerhaeuser Co.		6.750%	3/15/12	800,000	800,288
Weyerhaeuser Co.		7.375%	3/15/32	1,000,000	798,155
					1,889,143
<i>Pharmaceuticals</i>					
Leiner Health Products Inc.	N.M.	11.000%	6/1/12	280,000	700D,F
<i>Real Estate Investment Trusts (REITs)</i>					
Ventas Inc.	0.2%	6.750%	4/1/17	260,000	233,350
<i>Real Estate Management and Development</i>					
Ashton Woods USA LLC	0.1%	0.000%	6/30/15	65,000	24,375A,E,F
Realogy Corp.		12.375%	4/15/15	495,000	138,600
					162,975
<i>Road and Rail</i>					
Hertz Corp.	0.4%	10.500%	1/1/16	90,000	80,100
RailAmerica Inc.		9.250%	7/1/17	220,000	212,300A
Swift Transportation Co.		8.633%	5/15/15	90,000	29,700A,B
Swift Transportation Co.		12.500%	5/15/17	325,000	113,750A
					435,850
<i>Semiconductors and Semiconductor Equipment</i>					
Freescale Semiconductor Inc.	0.1%	8.875%	12/15/14	25,000	12,625
Freescale Semiconductor Inc.		10.125%	12/15/16	130,000	44,200
					56,825
<i>Software</i>					
Activant Solutions Inc.	N.M.	9.500%	5/1/16	45,000	34,763
<i>Specialty Retail</i>					
Blockbuster Inc.	0.1%	9.000%	9/1/12	210,000	100,800
Michaels Stores Inc.		10.000%	11/1/14	40,000	33,600
					134,400
<i>Textiles, Apparel and Luxury Goods</i>					
Oxford Industries Inc.	0.2%	11.375%	7/15/15	255,000	253,725A

## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Corporate Bonds and Notes</b> Continued					
<i>Tobacco</i> 0.3%					
Alliance One International Inc.		11.000%	5/15/12	\$ 205,000	\$ 214,225
Alliance One International Inc.		10.000%	7/15/16	170,000	161,075A
					375,300
<i>Trading Companies and Distributors</i> 0.6%					
Ashtead Capital Inc.		9.000%	8/15/16	129,000	109,328A
H&E Equipment Services Inc.		8.375%	7/15/16	345,000	276,862
Penhall International Corp.		12.000%	8/1/14	390,000	140,400A,F
RSC Equipment Rental Inc.		10.000%	7/15/17	170,000	170,000A,C
					696,590
<i>Transportation Infrastructure</i> 0.2%					
Hawker Beechcraft Acquisition Co.		8.875%	4/1/15	500,000	210,000H
<i>Wireless Telecommunication Services</i> 1.5%					
AT&T Mobility LLC		6.500%	12/15/11	250,000	269,706
Sprint Capital Corp.		8.375%	3/15/12	1,450,000	1,428,250
					1,697,956
<b>Total Corporate Bonds and Notes</b>					90,318,245
(Cost \$103,780,065)					
<b>Asset-Backed Securities</b> 29.0%					
<i>Fixed Rate Securities</i> 8.6%					
Associates Manufactured Housing Pass Through Certificates 1997-CLB2		8.900%	6/15/28	3,403,183	1,603,998C
Bear Stearns Asset Backed Securities Trust 2007-SD1 1A3A		6.500%	10/25/36	1,443,274	778,605
Captiva CBO 1997-1A A		6.860%	11/30/09	295,431	207,806A,C,J
Contimortgage Home Equity Trust 1997-4 B1F		7.330%	10/15/28	550,654	398,123
Firstfed Corp. Manufactured Housing Contract 1996-1 B		8.060%	10/15/22	2,100,000	1,875,961A,C
Global Franchise Trust 1998-1 A2		6.659%	10/10/11	918,530	505,184A,C
Green Tree Financial Corp. 1992-2 B		9.150%	1/15/18	258,006	168,817
Green Tree Financial Corp. 1993-1 B		8.450%	4/15/18	345,396	252,914
		8.000%	9/15/27	90,412	65,708

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Green Tree Home Improvement Loan Trust  
1996-D HIB2

Green Tree Recreational Equipment &  
Consumer Trust 1996-C CTFS

7.650%

10/15/17

300,786

204,627

14

## Semi-Annual Report to Shareholders

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Asset-Backed Securities</b> Continued					
<i>Fixed Rate Securities</i> Continued					
Indymac Manufactured Housing Contract 1997-1 A5		6.970%	2/25/28	\$ 311,706	\$ 226,417
Lehman XS Trust 2007-1 WF1		7.000%	1/25/37	1,175,539	664,179
PAMCO CLO 1997-1A B		7.910%	8/6/09	895,691	89,569
Pegasus Aviation Lease Securitization 2000-1 A2		8.370%	3/25/30	1,600,000	400,000A
Renaissance Home Equity Loan Trust 2004-2 AF4		5.392%	7/25/34	858,164	638,397
Settlement Fee Finance LLC 2004-1A A		9.100%	7/25/34	891,851	694,752A,C
Structured Asset Securities Corp. 2002-AL1 A3		3.450%	2/25/32	1,059,190	801,413
Structured Asset Securities Corp. 2003-AL1		3.357%	4/25/31	150,658	130,458A
Vanderbilt Mortgage Finance 1997-B 1B2		8.155%	10/7/26	472,238	311,318
					10,018,246
<i>Indexed Securities</i> B					
	11.5%				
ACE Securities Corp. 2005-SD1 A1		0.714%	11/25/50	90,573	85,550
AmeriCredit Automobile Receivables Trust 2007-CM A3B		0.348%	5/7/12	1,855,486	1,830,628
Bayview Financial Acquisition Trust 2007-B 2A1		0.616%	8/28/47	1,913,702	1,457,061
Bayview Financial Asset Trust 2004-SSRA A1		0.909%	12/25/39	514,832	335,568A
Bayview Financial Asset Trust 2007-SR1A A		0.764%	3/25/37	2,121,043	827,207A
Bayview Financial Asset Trust 2007-SR1A M3		1.464%	3/25/37	664,714	132,943A
Bayview Financial Asset Trust 2007-SR1A M4		1.814%	3/25/37	181,286	22,298A,C
Citigroup Mortgage Loan Trust Inc. 2006-SHL1 A1		0.514%	11/25/45	339,645	193,125A
Citigroup Mortgage Loan Trust Inc. 2007-SHL1 A		0.714%	11/25/46	1,345,161	503,225A
Countrywide Asset-Backed Certificates 2007-13 2A1		1.214%	10/25/47	1,353,481	835,771
Countrywide Asset-Backed Certificates 2007-SEA2 1A1		1.314%	8/25/47	77,440	42,084A,C
Countrywide Home Equity Loan Trust 2007-GW A		0.869%	11/15/28	1,945,275	870,900C
Credit-Based Asset Servicing and Securitization 2004-CB2 M1		0.834%	7/25/33	2,209,205	1,259,309
CS First Boston Mortgage Securities Corp. 2004-CF2 2A1		0.784%	5/25/44	129,769	87,048A
Ellington Loan Acquisition Trust 2007-1 A2A1		1.314%	5/26/37	384,905	272,520A
Fremont Home Loan Trust 2006-2 2A2		0.424%	2/25/36	1,029,603	952,579



## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Asset-Backed Securities</b> Continued					
<i>Indexed Securities</i> <sup>B</sup> Continued					
GMAC Mortgage Corp. Loan Trust 2004-VF1 A1		1.064%	2/25/31	\$ 737,266	\$ 290,196 <sup>A</sup>
GSAA Home Equity Trust 2006-19 A3A		0.554%	12/25/36	1,000,000	342,059
IXIS Real Estate Capital Trust 2005-HE3 A4		0.684%	12/25/35	33,409	31,421
Lehman XS Trust 2006-GP4		0.384%	8/25/46	368,042	298,231
Long Beach Mortgage Loan Trust 2005-WL2 3A1		0.494%	8/25/35	49,133	47,748
Morgan Stanley ABS Capital I 2003-SD1 A1		0.814%	3/25/33	25,114	15,033
MSDWCC Heloc Trust 2003-2 A		0.574%	4/25/16	253,292	141,852
New Century Home Equity Loan Trust 2004-2 A2		0.684%	8/25/34	475,320	237,794
RAAC Series 2007-RP1 M1		0.864%	5/25/46	210,000	4,725 <sup>A</sup>
Renaissance Home Equity Loan Trust 2005-3 AV3		0.694%	11/25/35	800,000	347,224
Residential Asset Mortgage Products Inc. 2004-RZ1 AII		0.794%	3/25/34	446,709	161,529
Residential Asset Securities Corp. 2001-KS3 AII		0.774%	9/25/31	342,595	207,511
Salomon Brothers Mortgage Securities VII 2002-CITI		0.614%	3/25/32	443,908	395,722
Structured Asset Securities Corp. 2007-BC1 A2		0.364%	2/25/37	1,138,641	1,021,881
Wachovia Asset Securitization Inc. 2002-HE1		0.684%	9/27/32	244,949	117,289
Wachovia Asset Securitization Inc. 2002-HE2		0.744%	12/25/32	91,298	37,441
Wachovia Asset Securitization Inc. 2003-HE1		0.604%	3/25/33	33,582	19,405
					13,424,877
<i>Stripped Securities</i>					
	0.5%				
Bear Stearns Asset Backed Securities Trust 2006-SD3 1P0		0.000%	8/25/36	1,649,582	575,832 <sup>C,K2</sup>
Oakwood Mortgage Investors Inc. 2002-C AIO		6.000%	8/15/10	549,460	30,736 <sup>F,K1</sup>
					606,568
<i>Variable Rate Securities</i> <sup>I</sup>					
	8.4%				
BankAmerica Manufactured Housing Contract 1997-2 M		6.900%	4/10/28	100,000	124,622
		6.681%	12/1/33	523,187	445,959

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Conseco Finance Securitizations Corp. 2002-1  
A

GMAC Mortgage Corp. Loan Trust 2005-HE2

A3	4.622%	11/25/35	547,763	518,714i
Green Tree 2008-MH1 A1	7.000%	4/25/38	88,906	86,835A
Greenpoint Manufactured Housing 1999-5 A5	7.820%	12/15/29	706,000	565,790
GSAMP Trust 2003-SEA2 A1	4.422%	7/25/33	2,348,025	1,846,802

## Semi-Annual Report to Shareholders

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Asset-Backed Securities</b> Continued					
<i>Variable Rate Securities</i> Continued					
Merit Securities Corp. 13 A4		7.988%	12/28/33	\$ 3,642,074	\$ 3,368,885
Oakwood Mortgage Investors Inc. 2002-B A3		6.060%	3/15/25	315,161	232,915
Residential Asset Securities Corp. 2002-KS2 AI6		6.228%	4/25/32	965,189	782,199
Residential Asset Securities Corp. 2003-KS8 AI6		4.830%	10/25/33	1,193,234	877,027
Saxon Asset Securities Trust 2000-2 MF1		8.870%	7/25/30	187,695	182,349
Vanderbilt Mortgage Finance 1997-C		7.830%	8/7/27	137,387	99,979I
Vanderbilt Mortgage Finance 2000-B IB2		9.250%	7/7/30	975,773	753,199
					9,885,275
<b>Total Asset-Backed Securities</b> (Cost \$38,776,250)					33,934,966
<b>Mortgage-Backed Securities</b>	<b>29.4%</b>				
<i>Fixed Rate Securities</i>	<i>3.1%</i>				
Banc of America Commercial Mortgage Inc. 2007-5 A3		5.620%	2/10/51	800,000	600,070
Bear Stearns Asset Backed Securities Trust 2002-AC1 B4		7.000%	1/25/32	1,054,426	207,870A
Enterprise Mortgage Acceptance Co. 1999-1 A1		6.420%	10/15/25	15,884	8,099A,C
GMAC Commercial Mortgage Securities Inc. 1998-C2 F		6.500%	5/15/35	1,000,000	893,499
JPMorgan Chase Commercial Mortgage Securities Corp. 2008-C2 A1		5.017%	2/12/51	315,840	315,949
Metropolitan Asset Funding Inc. 1998-BI B1		8.000%	11/20/24	943,070	387,403
Washington Mutual Alternative Mortgage Pass-Through Certificates 2006-5 3A3		6.221%	7/25/36	905,000	427,537
Washington Mutual Alternative Mortgage Pass-Through Certificates 2006-7 A2A		5.667%	9/25/36	1,519,910	744,992
Washington Mutual Alternative Mortgage Pass-Through Certificates 2006-7 A3		6.081%	9/25/36	185,000	72,900
					3,658,319
<i>Indexed Securities</i> B	<i>21.1%</i>				
American Home Mortgage Investment Trust 2007-A 4A		0.764%	7/25/46	1,021,535	504,555A,C
Bayview Commercial Asset Trust 2005-3A A2		0.714%	11/25/35	833,121	449,854A,C
Bayview Commercial Asset Trust 2005-4A A1		0.614%	1/25/36	484,144	263,981A
Bayview Commercial Asset Trust 2007-5A A1		0.964%	10/25/37	632,932	547,486A



## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Mortgage-Backed Securities</b> Continued					
<i>Indexed Securities</i> Continued					
Bella Vista Mortgage Trust 2004-2 A1		0.684%	2/25/35	\$ 2,472,296	\$ 1,207,550
BlackRock Capital Finance LP 1997-R2 B5		6.650%	12/25/35	615,665	61,566A
CBA Commercial Small Balance Commercial Trust 2005-1A		0.634%	7/25/35	2,056,708	1,181,692A,C
Chevy Chase Mortgage Funding Corp. 2004-3A A1		0.564%	8/25/35	1,903,267	1,230,780A
Chevy Chase Mortgage Funding Corp. 2004-4A A1		0.544%	10/25/35	2,728,121	1,423,790A
Chevy Chase Mortgage Funding Corp. 2005-4A A1		0.514%	10/25/36	2,470,872	1,092,039A
CNL Funding 1998-1 C2		1.068%	9/18/11	3,360,000	907,632A,C
Countrywide Alternative Loan Trust 2005-J12		0.584%	8/25/35	332,522	150,647
Countrywide Home Loans 2004-HYB5 7A1		2.502%	4/20/35	4,219,874	1,603,552
Countrywide Home Loans 2004-R1 1AF		0.714%	11/25/34	1,410,686	1,279,569A
Countrywide Home Loans 2004-R2 1AF1		0.734%	11/25/34	694,079	479,350A
Countrywide Home Loans 2005-09 1A1		0.614%	5/25/35	1,929,413	864,234
Greenpoint Mortgage Funding Trust 2005-AR5 2A2		0.584%	11/25/46	3,647,647	1,189,842
Greenpoint Mortgage Funding Trust 2005-AR5 3A2		0.584%	11/25/46	2,166,525	734,888
GSMPS Mortgage Loan Trust 2005-RP1 1AF		0.664%	1/25/35	333,259	216,007A
GSMPS Mortgage Loan Trust 2005-RP1 2A1		5.323%	1/25/35	1,892,328	1,309,674A
GSMPS Mortgage Loan Trust 2005-RP3		0.664%	9/25/35	1,524,272	1,049,527A
Harborview Mortgage Loan Trust 2004-8 3A2		0.713%	11/19/34	232,514	108,418
Harborview Mortgage Loan Trust 2005-9 B10		2.065%	6/20/35	1,173,313	87,002
Impac CMB Trust 2004-9 1A1		1.074%	1/25/35	69,277	35,515
Impac CMB Trust 2A-10		0.954%	3/25/35	575,118	208,703
IndyMac Index Mortgage Loan Trust 2007-AR15 2A1		5.694%	8/25/37	6,339,049	2,874,495
Luminent Mortgage Trust 2006-6 A1		0.514%	10/25/46	1,393,077	572,332
MASTR Alternative Loans Trust 2003-7 7A1		0.714%	11/25/33	509,926	444,499
Merit Securities Corp. 11PA B3		2.566%	9/28/32	850,000	185,045A,C
Regal Trust IV 1999-1 A		3.955%	9/29/31	148,731	126,633A,C
Residential Asset Securitization Trust 2003-A1 A2		0.814%	3/25/33	772,532	679,312
Sequoia Mortgage Trust 2003-2 A2		1.447%	6/20/33	62,947	47,418
Sequoia Mortgage Trust 2004-11 A1		0.615%	12/20/34	49,368	33,547
Structured Asset Securities Corp. 2002-9 A2		0.614%	10/25/27	1,270,218	1,013,746



## Semi-Annual Report to Shareholders

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE	
<b>Mortgage-Backed Securities</b> Continued						
<i>Indexed Securities</i> <sup>B</sup> Continued						
Washington Mutual Inc. 2004-AR12 A2A		0.703%	10/25/44	\$ 235,839	\$ 132,701	
Washington Mutual Mortgage Pass-Through Certificates 2006-AR5 3A		2.280%	7/25/46	1,561,666	473,460	
						24,771,041
<i>Stripped Securities</i>	0.9%					
Indymac Index Mortgage Loan Trust 2005-AR14 BX		2.400%	7/25/35	8,499,375	84,994	F,K1
LB-UBS Commercial Mortgage Trust 2001-C3 X		1.144%	6/15/36	2,534,946	38,320	A,F,K1
Prime Mortgage Trust 2005-2 2XB		1.740%	10/25/32	3,815,192	279,402	K1
Prime Mortgage Trust 2005-5 1X		0.860%	7/25/34	11,454,296	192,124	K1
Prime Mortgage Trust 2005-5 1XB		1.480%	7/25/34	3,182,043	121,121	K1
Residential Asset Mortgage Products, Inc. 2005-SL2 AP0		0.000%	2/25/32	437,243	325,741	K2
						1,041,702
<i>Variable Rate Securities</i> <sup>I</sup>	4.3%					
Bear Stearns Alt-A Trust 2005 -10 21A1		4.714%	1/25/36	1,449,262	725,016	C
Credit Suisse Mortgage Capital Certificates 2007-C3 A4		5.912%	6/15/39	242,000	164,714	
Harborview Mortgage Loan Trust 2004-10 4A		5.238%	1/19/35	571,448	457,510	
JPMorgan Mortgage Trust 2007-A2 4A2		6.036%	4/25/37	300,000	167,159	
Merrill Lynch Mortgage Investors Inc. 2005-A2		4.482%	2/25/35	531,764	426,608	
Nomura Asset Acceptance Corp. 2004-AR4 1A1		4.872%	12/25/34	601,069	519,925	C
Thornburg Mortgage Securities Trust 2007-4 2A1		6.207%	9/25/37	1,062,613	767,986	
Thornburg Mortgage Securities Trust 2007-4 3A1		6.190%	9/25/37	1,010,888	649,708	
WaMu Mortgage Pass-Through Certificates 2004-AR11		4.435%	10/25/34	118,611	99,896	
WaMu Mortgage Pass-Through Certificates 2007-HY7 2A3		5.805%	7/25/37	2,000,000	1,003,027	
						4,981,549
<b>Total Mortgage-Backed Securities</b> (Cost \$43,015,709)						34,452,611

## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>U.S. Government Agency Mortgage-Backed Securities</b>	<b>0.7%</b>				
<i>Fixed Rate Securities</i>	0.7%				
Fannie Mae (Cost \$758,975)		6.500%	8/25/44	\$ 734,512	\$ 782,140L
<b>Yankee Bonds</b>	<b>9.5%</b>				
<i>Aerospace and Defense</i>	0.2%				
Systems 2001 Asset Trust		6.664%	9/15/13	173,539	173,539A
<i>Chemicals</i>	0.1%				
Methanex Corp.		8.750%	8/15/12	85,000	81,175
Sensata Technologies BV		8.000%	5/1/14	110,000	54,037
					135,212
<i>Commercial Banks</i>	0.2%				
ICICI Bank Ltd.		6.375%	4/30/22	284,000	221,479A,E
<i>Containers and Packaging</i>	0.1%				
Smurfit Kappa Funding PLC		7.750%	4/1/15	150,000	115,875
<i>Diversified Financial Services</i>	0.7%				
Lukoil International Finance BV		6.356%	6/7/17	340,000	302,600A
UFJ Finance Aruba AEC		6.750%	7/15/13	500,000	517,721
					820,321
<i>Diversified Telecommunication Services</i>	3.0%				
Axtel SA		11.000%	12/15/13	221,000	216,580
Deutsche Telekom International Finance BV		5.250%	7/22/13	600,000	616,279
France Telecom SA		8.500%	3/1/31	600,000	770,598M
Intelsat Bermuda Ltd.		9.500%	6/15/16	35,000	35,175A
Intelsat Bermuda Ltd.		11.250%	6/15/16	340,000	346,800
Nordic Telephone Co. Holdings ApS		8.875%	5/1/16	285,000	275,025A
NTL Cable PLC		9.125%	8/15/16	790,000	760,375
Wind Acquisition Finance SA		10.750%	12/1/15	500,000	500,000A
					3,520,832

## Semi-Annual Report to Shareholders

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Yankee Bonds</b> Continued					
<i>Energy Equipment and Services</i>	0.2%				
Compagnie Generale de Geophysique-Veritas		7.500%	5/15/15	\$ 210,000	\$ 192,675
<i>Foreign Governments</i>	0.1%				
Republic of Honduras		1.926%	10/1/11	84,158	81,526B
Republic of Venezuela		9.375%	1/13/34	2,000	1,250
					82,776
<i>Insurance</i>	0.7%				
XL Capital Ltd.		5.250%	9/15/14	1,000,000	839,270
<i>Media</i>	N.M.				
Sun Media Corp.		7.625%	2/15/13	55,000	36,163
<i>Metals and Mining</i>	0.4%				
Evraz Group SA		8.875%	4/24/13	100,000	82,000A
Novelis Inc.		7.250%	2/15/15	115,000	87,400
Vedanta Resources PLC		8.750%	1/15/14	330,000	300,300A
					469,700
<i>Oil, Gas and Consumable Fuels</i>	2.5%				
Anadarko Finance Co.		6.750%	5/1/11	750,000	780,600
Anadarko Finance Co.		7.500%	5/1/31	1,000,000	975,769
Burlington Resources Finance Co.		7.400%	12/1/31	450,000	502,551
Gazprom		6.212%	11/22/16	280,000	233,800A
Gazprom		6.510%	3/7/22	130,000	97,500A
OPTI Canada Inc.		7.875%	12/15/14	240,000	155,400
OPTI Canada Inc.		8.250%	12/15/14	190,000	125,400
					2,871,020
<i>Paper and Forest Products</i>	0.4%				
Abitibi-Consolidated Co. of Canada		13.750%	4/1/11	520,000	478,400A,D
<i>Road and Rail</i>	0.4%				
Grupo Transportacion Ferroviaria Mexicana SA de CV		9.375%	5/1/12	370,000	351,500
Kansas City Southern de Mexico		12.500%	4/1/16	170,000	172,550A
					524,050

## Semi-Annual Report to Shareholders

## Portfolio of Investments Continued

## Western Asset Premier Bond Fund Continued

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	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Yankee Bonds<sup>J</sup> Continued</b>					
<i>Wireless Telecommunication Services</i>	0.5%				
True Move Co. Ltd.		10.750%	12/16/13	200,000	\$ 153,000A
True Move Co. Ltd.		10.750%	12/16/13	590,000	451,350A
					604,350
<b>Total Yankee Bonds</b>					
(Cost \$11,912,958)					11,085,662
<b>Common Stocks and Equity Interests</b>	<b>N.M.</b>				
<i>Hotels, Restaurants and Leisure</i>	<i>N.M.</i>				
Buffets Restaurants Holdings Inc.					
(Cost \$262,700)				506shs	455C,O
<b>Preferred Stocks</b>	<b>0.6%</b>				
CMP Susquehanna Radio Holdings Corp.		0.000%		3,171	1,348A,C,I,N
Fannie Mae		5.375%		15	45,000G,L,N
Freddie Mac		5.160%		100	100G,L,N
Freddie Mac		5.000%		200	280L,N
Freddie Mac		8.375%		20,500	25,010E,L,N
General Motors Corp.		5.250%		225,000	590,625G
Preferred Blocker Inc.		7.000%		254	109,236A
<b>Total Preferred Stocks</b>					
(Cost \$5,644,586)					771,599
<b>Trust Preferred Securities</b>	<b>3.3%</b>				
Corp-Backed Trust Certificates		7.375%		33,900	55,935
Corp-Backed Trust Certificates		8.000%		15,600	212,160
CORTS Trust for Ford Motor Co.		8.000%		155,100	2,117,115
PreferredPlus TR-CCR1		8.250%		5,100	70,380
SATURNS-F 2003-5		8.125%		104,100	1,440,744
<b>Total Trust Preferred Securities</b>					
(Cost \$5,033,601)					3,896,334

## Semi-Annual Report to Shareholders

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
<b>Warrants</b>	<b>N.M.</b>				
<i>Commercial Banks</i>	<i>N.M.</i>				
CNB Capital Trust		0.000%	3/23/19	3,624wts	\$ 100A,C,N
<i>Hotels, Restaurants and Leisure</i>	<i>N.M.</i>				
Buffets Restaurants Holdings Inc.		0.000%	4/28/14	224	F,N
<b>Total Warrants</b>					
(Cost \$100)					100
<b>Total Long-Term Securities</b>					
(Cost \$209,184,944)					175,242,112
<b>Short-Term Securities</b>	<b>10.0%</b>				
<i>Repurchase Agreements</i>	<i>10.0%</i>				
JPMorgan Chase and Co. 0.04% dated 6/30/09, to be repurchased at \$11,500,013 on 7/1/09 (Collateral: \$11,749,000 Freddie Mac Discount Note, 0.000%, due 9/30/09, valued \$11,730,000)				\$ 11,500,000	11,500,000
Morgan Stanley 0.01%, dated 6/30/09, to be repurchased at \$176,000 on 7/1/09 (Collateral: \$180,000 Federal Home Loan Bank Bonds, 0.930% due 3/30/10, value \$179,520)				176,000	176,000
<b>Total Short-Term Securities</b>					
(Cost \$11,676,000)					11,676,000
<b>Total Investments</b> (Cost \$220,860,944)	<b>159.6%</b>				186,918,112
<b>Other Assets Less Liabilities</b>	<b>1.9%</b>				2,225,305
<b>Liquidation value of preferred shares</b>	<b>(61.5)%</b>				(72,000,000)
<b>Net Assets Applicable to Common Shareholders</b>	<b>100.0%</b>				\$ 117,143,417

N.M. Not Meaningful.

*A Rule 144a Security* A security purchased pursuant to Rule 144a under the Securities Act of 1933 which may not be resold subject to that rule except to qualified institutional buyers. These securities, which the Fund's investment adviser has determined to be liquid, unless otherwise noted, represent 28.73% of net assets.

*B Indexed Security* The rates of interest earned on these securities are tied to the London Interbank Offered Rate ( LIBOR ), the Euro Interbank Offered Rate ( EURIBOR ) Index, the Consumer Price Index ( CPI ), the one-year Treasury Bill Rate or the ten-year Japanese Government Bond Rate. The coupon rates are the rates as of June 30, 2009.

*C Security* is valued in good faith at fair value by or under the direction of the Board of Trustees.

*D Bond* is currently in default.

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*E Stepped Coupon Security* A security with a predetermined schedule of interest or dividend rate changes at which time it begins to accrue interest or pay dividends according to the predetermined schedule.

*F Illiquid security valued at fair value under the procedures approved by the Board of Trustees.*

*G Convertible Security* Security may be converted into the issuer's common stock.

*Semi-Annual Report to Shareholders*

**Portfolio of Investments Continued**

Western Asset Premier Bond Fund Continued

*H Pay-in-Kind ( PIK ) security* A security in which interest or dividends during the initial few years is paid in additional PIK securities rather than in cash.

*I The coupon rates shown on variable rate securities are the rates at June 30, 2009. These rates vary with the weighted average coupon of the underlying loans.*

*J Yankee Bond* A dollar-denominated bond issued in the U.S. by foreign entities.

*K Stripped Security* Security with interest-only or principal-only payment streams, denoted by a 1 or 2, respectively. For interest-only securities, the amount shown as principal is the notional balance used to calculate the amount of interest due.

*L On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into conservatorship.*

*M Credit Linked Security* The rates of interest earned on these securities are tied to the credit rating assigned by Standard & Poor's Rating Service and/or Moody's Investors Services.

*N Non-income producing.*

*O Aggregate cost for federal income tax purposes is substantially the same as book cost. At June 30, 2009, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:*

<i>Gross unrealized appreciation</i>	\$	8,755,977
<i>Gross unrealized depreciation</i>		(42,698,809)
<i>Net unrealized depreciation</i>	\$	(33,942,832)

*See notes to financial statements.*

## Semi-Annual Report to Shareholders

### Statement of Assets and Liabilities

June 30, 2009 (Unaudited)

Western Asset Premier Bond Fund

#### Assets:

Investment securities at value (Cost \$209,184,944)	\$	175,242,112
Short-term securities at value (Cost \$11,676,000)		11,676,000
Cash		149,626
Foreign currency at value (Cost \$891)		904
Interest and dividends receivable		2,717,628
Unrealized appreciation of swaps		834,533
Restricted cash pledged as collateral for swaps		800,000
Receivable for securities sold		309,563
Amounts receivable for open swaps		4,700
Other assets		20,986
Total assets		191,756,052

#### Liabilities:

Payable for securities purchased	\$	1,602,398
Unrealized depreciation of swaps		748,659
Accrued management fee		101,445
Amounts payable for open swaps		2,122
Accrued expenses		158,011
Total liabilities		2,612,635

#### Preferred Shares:

No par value, 2,880 shares authorized, issued and outstanding, \$25,000 liquidation value per share (Note 6)		72,000,000
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<b>Net Assets Applicable to Common Shareholders</b>	<b>\$</b>	<b>117,143,417</b>
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#### Composition of Net Assets Applicable to Common Shareholders:

Common shares, no par value, unlimited number of shares authorized, 11,561,030 shares issued and outstanding (Note 5)	\$	163,195,328
Undistributed net investment income		7,404,725
Accumulated net realized loss on investments, swaps and foreign currency transactions		(19,599,691)
Net unrealized depreciation of investments, swaps and foreign currency translations		(33,856,945)
<b>Net Assets Applicable to Common Shareholders</b>	<b>\$</b>	<b>117,143,417</b>

Net Asset Value Per Common Share: (\$117,143,417 ÷ 11,561,030 common shares issued and outstanding)	\$	10.13
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See notes to financial statements.



## Semi-Annual Report to Shareholders

### Statement of Operations

For the Six Months Ended June 30, 2009 (Unaudited)

Western Asset Premier Bond Fund

#### Investment Income:

Interest	\$	10,101,756	
Dividends		467,488	
Total income			\$ 10,569,244

#### Expenses:

Management fees		476,906	
Audit and legal fees		321,274	
Reports to shareholders		48,772	
Custodian fees		28,030	
Registration fees		29,442	
Excise tax		24,504	
Trustees' fees and expenses		14,272	
Transfer agent and shareholder servicing expense		9,081	
Other expenses		20,513	
Preferred shares auction agent fee expense		90,669	
Net expenses			1,063,463
<b>Net Investment Income</b>			<b>9,505,781</b>

#### Net Realized and Unrealized Gain/(Loss) on Investments:

Net realized gain/(loss) on:			
Investments		(3,309,219)	
Swaps		(11,059,142)	
Foreign currency transactions		(70,449)	
			(14,438,810)
Change in unrealized appreciation/(depreciation) of:			
Investments		18,064,439	
Swaps		9,757,973	
Foreign currency translations		63,319	
			27,885,731
<b>Net realized and unrealized gain on investments</b>			<b>13,446,921</b>
<b>Change in net assets resulting from operations</b>			<b>\$ 22,952,702</b>
<b>Dividends to Preferred Shareholders from:</b>			
Net investment income		(169,577)	
			(169,577)
<b>Change in Net Assets Applicable to Common Shareholders Resulting From Operations</b>			<b>\$ 22,783,125</b>

See notes to financial statements.



*Semi-Annual Report to Shareholders***Statement of Changes in Net Assets**

Western Asset Premier Bond Fund

	FOR THE SIX MONTHS ENDED JUNE 30, 2009 (Unaudited)	FOR THE YEAR ENDED DECEMBER 31, 2008
<b>Change in Net Assets:</b>		
Net investment income	\$ 9,505,781	\$ 16,751,431
Net realized loss	(14,438,810)	(1,820,141)
Change in unrealized appreciation/(depreciation)	27,885,731	(62,747,908)
Change in net assets resulting from operations	22,952,702	(47,816,618)
<b>Dividends to Preferred Shareholders From:</b>		
Net investment income	(169,577)	(2,236,599)
Net realized gain on investments		(238,432)
<b>Change in Net Assets Applicable to Common Shareholders Resulting from Operations</b>	<b>22,783,125</b>	<b>(50,291,649)</b>
<b>Distributions to Common Shareholders From:</b>		
Net investment income	(6,551,799)	(12,090,786)
Net realized gain on investments		(1,121,178)
<b>Capital transactions:</b>		
Reinvestment of dividends resulting in the issuance of 86,490 and 4,597 common shares, respectively	810,027	61,654
Change in net assets	17,041,353	(63,441,959)
<b>Net Assets:</b>		
Beginning of period	100,102,064	163,544,023
End of period	\$117,143,417	\$100,102,064
Undistributed net investment income	\$ 7,404,725	\$ 4,620,320

*See notes to financial statements.*

## Semi-Annual Report to Shareholders

### Financial Highlights

Contained below is per share operating performance data for a share of common stock outstanding throughout each period shown, total investment return, ratios to average net assets and other supplemental data. This information has been derived from information in the financial statements.

	SIX MONTHS ENDED JUNE 30, 2009 (Unaudited)		2008	YEARS ENDED DECEMBER 31,			2004					
				2007	2006	2005						
Net asset value per common share, beginning of period	\$	8.72	\$	14.26	\$	15.15	\$	14.93	\$	15.52	\$	15.00
<b>Investment Operations:</b>												
Net investment income <sup>A</sup>		.83		1.46		1.27		1.37		1.37		1.33
Net realized and unrealized gain/(loss)		1.16		(5.64)		(.60)		.45		(.55)		.56
Dividends paid to preferred shareholders from:												
Net investment income		(.01)		(.19)		(.25)		(.30)		(.21)		(.09)
Net realized gain on investments				(.02)		(.09)		(.01)				
Total from investment operations applicable to common shareholders		1.98		(4.39)		.33		1.51		.61		1.80
Distributions paid to common shareholders from:												
Net investment income		(.57)		(1.05)		(.97)		(1.10)		(1.20)		(1.28)
Net realized gain on investments				(.10)		(.25)		(.19)				
Total distributions paid to common shareholders		(.57)		(1.15)		(1.22)		(1.29)		(1.20)		(1.28)
Net asset value per common share, end of period	\$	10.13	\$	8.72	\$	14.26	\$	15.15	\$	14.93	\$	15.52
Market value, end of period	\$	11.45	\$	8.90	\$	13.13	\$	15.15	\$	13.72	\$	16.14
<b>Total investment return based on:</b>												
Market Value		36.55%B		(24.60)%		(5.79)%		20.43%		(7.83)%		10.79%
Net Asset Value		23.81%B		(32.45)%		2.17%		10.67%		4.31%		12.57%
<b>Ratios to Average Net Assets Applicable to Common Shareholders:<sup>C</sup></b>												
Total expenses (including interest expense)		2.13%D		2.06%		1.72%		1.86%		1.63%		1.17%
Expenses (including interest expense) net of waivers, if any		2.13%D		2.06%		1.71%		1.86%		1.63%		1.17%
Expenses (including interest expense) net of all reductions		2.13%D		2.06%		1.71%		1.86%		1.63%		1.17%
Expenses (excluding interest expense) net of all reductions		2.13%D		1.83%		1.15%		1.15%		1.13%		1.13%
Net investment income <sup>E</sup>		18.77%D		10.68%		6.76%		7.18%		7.58%		8.22%
<b>Supplemental Data:</b>												
Portfolio turnover rate		11.7%B		45.3%		90.3%		65.0%		41.0%		39.0%
	\$	117,143	\$	100,102	\$	163,544	\$	173,707	\$	171,010	\$	177,288

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Net assets applicable to common shareholders, end of period (in thousands)

**Preferred share information at end of the period:**

Aggregate amount outstanding (in thousands)	\$	72,000	\$	72,000	\$	72,000	\$	72,000	\$	72,000	\$	72,000
Asset coverage on preferred shares, end of period <sup>F</sup>		261%		239%		327%		341%		337%		346%
Liquidation and market value per share (in thousands)	\$	25	\$	25	\$	25	\$	25	\$	25	\$	25

*A Computed using average daily shares outstanding.*

*B Not annualized.*

*C Total expenses reflects operating expenses prior to any voluntary expense waivers and/or compensating balance credits. Expenses net of waivers reflects total expenses before compensating balance credits but net of any voluntary expense waivers. Expenses net of all reductions reflects expenses less any compensating balance credits and/or voluntary expense waivers.*

*D Annualized.*

*E Ratios are calculated on the basis of income and expenses applicable to both the common and preferred shares relative to the average net assets of common shareholders. Ratios of net investment income before preferred share dividends to average net assets of common shareholders are 19.11%, 12.33%, 9.21%, 8.99%, 8.85% and 9.11%, for the six months ended June 30, 2009 and the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.*

*F Asset coverage on preferred shares equals net assets of common shares plus the redemption value of the preferred shares divided by the value of outstanding preferred stock.*

*See notes to financial statements.*

*Semi-Annual Report to Shareholders*

**Notes to Financial Statements**

*(Unaudited)*

**1. Significant Accounting Policies:**

Western Asset Premier Bond Fund (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company. The Fund commenced investment operations on March 28, 2002.

The Fund's investment objective is to provide current income and capital appreciation by investing primarily in a diversified portfolio of investment grade bonds. The Fund currently seeks to achieve its investment objective by investing substantially all of its assets in bonds, including corporate bonds, U.S. government and agency securities and mortgage-related securities. The ability of the issuers of the securities held by the Fund to meet their obligations might be affected by, among other things, economic developments in a specific state, industry or region.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through August 24, 2009, the issuance date of the financial statements.

***Investment Valuation***

The Fund's securities are valued under policies approved by and under the general oversight of the Board of Trustees. The Fund adopted Statement of Financial Accounting Standards No. 157 (FAS 157). FAS 157 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
  
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
  
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

Debt securities are valued at the last quoted bid prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Equity securities for which market quotations are available are valued at the last sale price or official closing price on the primary market or exchange on which they trade. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market and are valued at the bid price as of the close of business of that market. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund's Board of Trustees.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

## Semi-Annual Report to Shareholders

## Notes to Financial Statements - Continued

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-Term Securities:				
Corporate Bonds and Notes		\$ 90,117,920	\$ 200,325	\$ 90,318,245
Asset-Backed Securities		32,097,125	1,837,841	33,934,966
Mortgage-Backed Securities		33,085,874	1,366,737	34,452,611
U.S. Government Agency Mortgage-Backed Securities		782,140		782,140
Yankee Bonds		11,085,662		11,085,662
Common Stocks and Equity Interests: Consumer Discretionary				
Preferred Stocks	\$ 616,015	154,236	1,348	771,599
Trust Preferred Securities	3,896,334			3,896,334
Warrants			100	100
Long-Term Securities	4,512,349	167,322,957	3,406,806	175,242,112
Short-Term Investments:				
Repurchase Agreements		11,676,000		11,676,000
Total Investments	\$ 4,512,349	\$ 178,998,957	\$ 3,406,806	\$ 186,918,112
Other Financial Instruments:				
Credit Default Swaps on Corporate Issues - Buy		803,342		803,342
Credit Default Swaps on Credit Indices - Sell		(717,468)		(717,468)
Other Financial Instruments		\$ 85,874		\$ 85,874
Total	\$ 4,512,349	\$ 179,115,022	\$ 3,406,806	\$ 187,003,986

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Corporate Bonds and Notes	Asset-Backed Securities	Mortgage- Backed Securities	Common Stocks and Equity Interests Consumer Discretionary	Preferred Stocks	Warrants	Total
Balance as of December 31, 2008	\$ 1,853	\$ 276,041 7,724	\$ 185,045 11,031				\$ 461,086 20,608

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Accrued Premiums/ Discounts							
Realized Gain/(Loss)(1)		14,449	4,979	\$ (312)			19,116
Change in Unrealized Appreciation (Depreciation)(2)	(3,238)	118,260	594,233	(262,245)			447,010
Net Purchases	201,710	576,295	578,364	263,012	\$1,348	\$100	1,620,829
Net Sales		25,828	6,915				32,743
Net transfers in to Level 3		870,900					870,900
Net transfers out of Level 3							
Balance as of June 30, 2009	\$200,325	\$1,837,841	\$1,366,737	\$ 455	\$1,348	\$100	\$3,406,806
Net Unrealized Appreciation (Depreciation) for Investments in securities still held at the reporting period(2)	\$ (3,238)	\$ (940,129)	\$ 478,510	\$ (262,245)			\$ (727,102)

(1) This amount is included in net realized gain (loss) from investment transactions in the accompanying Statement of Operations.

(2) This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

*Semi-Annual Report to Shareholders****Security Transactions***

Security transactions are accounted for as of the trade date. Realized gains and losses from security transactions are reported on an identified cost basis for both financial reporting and federal income tax purposes.

For the six months ended June 30, 2009, security transactions (excluding short-term investments) were as follows:

Purchases		Proceeds from Sales	
U.S. Gov t. Securities	Other	U.S. Gov t. Securities	Other
	\$29,104,305	\$3,775,132	\$15,498,646

***Foreign Currency Translation***

Assets and liabilities initially expressed in non-U.S. currencies are translated into U.S. dollars using currency exchange rates determined prior to the close of trading on the New York Stock Exchange, usually at 2:00 p.m. Eastern time. Purchases and sales of securities and income and expenses are translated into U.S. dollars at the prevailing market rates on the dates of such transactions. The effects of changes in non-U.S. currency exchange rates on investment securities and other assets and liabilities are included with the net realized and unrealized gain or loss on investment securities.

***Repurchase Agreements***

The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, a fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and of the fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during a fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian acting on the fund's behalf, or a third party custodian take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked to market to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

***Reverse Repurchase Agreements***

The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed-upon time and price, thereby determining the yield to the buyer during the buyer's holding period. A reverse repurchase agreement involves the risk, among others, that the market value of the collateral retained by the fund may decline below the price of the securities the fund has sold but is obligated to repurchase under the agreement. In the

event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the fund's use of the proceeds of the agreement may be restricted pending a determination by the party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations.

*Forward Currency Exchange Contracts*

As part of its investment program, the Fund may utilize forward currency exchange contracts. Forward foreign exchange contracts are marked-to-market daily using foreign currency exchange rates supplied by an independent pricing service. The change in the contract's market value is recorded by the Fund as an unrealized gain or loss. When a contract is closed or delivery is taken, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of forward foreign currency exchange contracts does not eliminate fluctuations in the underlying prices of the Fund's securities, but it does establish a rate of exchange that can be achieved in the future. These forward foreign currency exchange contracts involve market risk in excess of amounts reflected in the financial statements. Although forward foreign currency exchange contracts used for hedging purposes limit the risk of loss due to the decline in the value of the hedged currency, they also limit any potential gain that

*Semi-Annual Report to Shareholders*

**Notes to Financial Statements - Continued**

might result should the value of the currency increase. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts.

The Fund had no outstanding forward foreign currency exchange contracts as of June 30, 2009.

***Distributions to Common Shareholders***

Investment income and distributions to shareholders are recorded on the ex-dividend date. Dividends from net investment income are declared and paid monthly. On May 20, 2009 the Fund announced that it will declare distributions quarterly while maintaining its policy of paying distributions monthly. Net capital gain distributions are declared and paid after the end of the tax year in which the gain is realized. An additional distribution may be made in December to the extent necessary in order to comply with federal excise tax requirements. Distributions are determined in accordance with federal income tax regulations, which may differ from those determined in accordance with accounting principles generally accepted in the United States of America; accordingly, periodic reclassifications are made within the Fund's capital accounts to reflect income and gains available for distribution under federal income tax regulations. Interest income and expenses are recorded on the accrual basis. Bond discounts and premiums are amortized and included in interest income for financial reporting and federal income tax purposes.

***Compensating Balance Credits***

The Fund has an arrangement with its custodian bank, whereby a portion of the custodian's fee is paid indirectly by credits earned on the Fund's cash on deposit with the bank. This deposit arrangement is an alternative to purchasing overnight investments.

***Credit and Market Risk***

Investments in structured securities collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value of these investments resulting in a lack of correlation between their credit ratings and values.

***Other***

In the normal course of business, the Fund enters into contracts that provide general indemnifications. The Fund's maximum exposure under these arrangements is dependent upon claims that may be made against the Fund in the future and, therefore, cannot be estimated; however, based on experience, the risk of material loss from such claims is considered remote.

*Single Sourced Securities*

Certain securities held by the Fund at June 30, 2009 are valued based on a price provided by a single source or dealer. The prices provided may differ from the value that would be realized if the securities were sold. As of June 30, 2009, 12.01% of the securities held by the Fund were either fair valued securities or were valued based on a price provided by a single independent pricing service or dealer ( single source securities ).

**2. Federal Income Taxes:**

It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute to shareholders substantially all of its income and net realized gains on investments, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund's financial statements. However, due to the timing of when distributions are made, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income exceeds the distributions from such taxable income for the year. The Fund has accrued \$24,504 of Federal excise tax attributable to the six months ended June 30, 2009.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that as of June 30, 2009, no provision for income tax would be required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

*Semi-Annual Report to Shareholders*

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

As of December 31, 2008, the Fund had a net capital loss carryforward of approximately \$3,000,112 all of which expires in 2016.

**3. Financial Instruments:**

*Swap Agreements*

The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with ordinary portfolio transactions.

*Credit Default Swaps*

The Fund may enter into credit default swap ( CDS ) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where a Fund has exposure to a sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

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Payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. A liquidation payment received or made at the termination of the swap is recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as realized gain or loss at the time of receipt of payment on the Statement of Operations.

The Fund's maximum risk of loss from counterparty risk, either as the protection seller or as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized in the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

## Semi-Annual Report to Shareholders

## Notes to Financial Statements - Continued

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation/(depreciation). Gains or losses are realized upon termination of the swap agreement. Periodic payments and premiums received or made by a Fund are recorded in the Statement of Operations as realized gains or losses, respectively. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund's custodian in compliance with the terms of the swap contracts. Securities held as collateral for swap contracts are identified in the Portfolio of Investments and restricted cash, if any, is identified in the Statement of Assets and Liabilities. Risks may exceed amounts recognized in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms, and the possible lack of liquidity with respect to the swap agreements.

As disclosed in the Fair Values of Derivatives Balance Sheet table that follows each Fund's summary of open swap contracts, the aggregate fair value of credit default swaps in a net liability position as of June 30, 2009 was \$748,659. The aggregate fair value of assets posted as collateral for all swaps was \$800,000. If a defined credit event had occurred as of June 30, 2009, the swaps' credit-risk-related contingent features would have been triggered and the Fund would have been required to pay up to \$21,858,317 less the value of the contracts' related reference obligations.

As of June 30, 2009, the one-month London Interbank Offered Rates ( LIBOR ) was 0.31%.

**CREDIT DEFAULT SWAP ON CREDIT INDICES - SELL PROTECTION<sup>1</sup>**

Swap Counterparty (Reference Entity):	Termination Date	Periodic Payments Received by the Fund	Contract Notional Amount <sup>2</sup>	Market Value <sup>3</sup>	Upfront Premiums Paid/ (Received)	Unrealized Depreciation
Merrill Lynch & Co., Inc. (CDX HY 8)	June 20, 2012	0.86% Quarterly	\$21,858,317	\$(717,468)		\$(717,468)*
Net unrealized depreciation on sales of credit default swaps on credit indices						\$ (717,468)

**CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION<sup>4</sup>**

Swap Counterparty (Reference Entity):	Termination Date	Periodic Payments Made by the Fund	Contract Notional Amount <sup>2</sup>	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ Depreciation
	June 25, 2035		\$ 43,000	\$ 40,547		\$ 40,547

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Credit Suisse First Boston USA (AAMES Mortgage Investment Trust 2005-1 M8, 1-Month LIBOR + 160 bp, due 6/25/35)		1.28% Monthly			
Credit Suisse First Boston USA (AAMES Mortgage Investment Trust 2005-1 M9, 1-Month LIBOR + 250 bp, due 6/25/35)	June 25, 2035	2.05% Monthly	43,000	41,217	41,217
Credit Suisse First Boston USA (ACE Securities Corp. 2005-HE1 M8, 1-Month LIBOR + 138 bp, due 2/25/35)	February 25, 2035	1.31% Monthly	33,283	32,496	32,496
Credit Suisse First Boston USA (Aegis Asset Backed Securities Trust 2004-4 B2, 1-Month LIBOR + 190bp, due 10/25/34)	October 25, 2034	1.37% Monthly	32,243	28,486	28,486

## Semi-Annual Report to Shareholders

Swap Counterparty (Reference Entity):	Termination Date	Periodic Payments Made by the Fund	Contract Notional Amount <sup>2</sup>	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ Depreciation
Credit Suisse First Boston USA (Aegis Asset Backed Securities Trust 2005 B2, 1-Month LIBOR + 130 bp, due 3/25/35)	March 25, 2035	1.31% Monthly	\$ 43,000	\$ 42,681		\$ 42,681
Credit Suisse First Boston USA (Aegis Asset Backed Securities Trust 2005 B3, 1-Month LIBOR + 200 bp, due 3/25/35)	March 25, 2035	2.18% Monthly	43,000	42,964		42,964
Credit Suisse First Boston USA (Argent Securities Inc. 2004-W11 M10, 1-Month LIBOR + 350bp, due 11/25/34)	November 25, 2034	2.15% Monthly	16,384	15,905		15,905
Credit Suisse First Boston USA (Argent Securities Inc. 2004-W11 M9, 1-Month LIBOR + 225bp, due 11/25/34)	November 25, 2034	1.33% Monthly	16,384	15,773		15,773
Credit Suisse First Boston USA (Argent Securities Inc. 2004-W4 M3, 1-Month LIBOR + 300 bp, due 3/25/34)	March 25, 2034	2.2% Monthly	20,620	16,236		16,236
Credit Suisse First Boston USA (Finance America Mortgage Loan Trust 2004-3 M8, 1-Month LIBOR + 180bp, due 11/25/34)	November 25, 2034	1.31% Monthly	15,633	15,041		15,041
Credit Suisse First Boston USA (Finance America Mortgage Loan Trust 2004-3 M9, 1-Month LIBOR + 315bp, due 11/25/34)	November 25, 2034	2.18% Monthly	8,580	8,409		8,409
Credit Suisse First Boston USA (Fremont Home Loan Trust 2005-A M8, 1-Month LIBOR + 135 bp, due 1/25/35)-	January 25, 2035	1.31% Monthly	17,046	16,617		16,617
Credit Suisse First Boston USA (Fremont Home Loan Trust 2005-A, 1-Month LIBOR + 100bp, due 1/25/35)	January 25, 2035	2.08% Monthly	4,181	4,159		4,159
Credit Suisse First Boston USA (IndyMac Home Equity Loan Asset-Backed, Trust 2004-C M8, 1-Month LIBOR + 190bp, due	March 25, 2035	1.28% Monthly	22,446	20,586		20,586

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3/25/35)

Credit Suisse First Boston USA (IndyMac Home Equity Loan Asset-Backed, Trust 2004-C M9, 1-Month LIBOR + 325bp, due 3/25/35)	March 25, 2035	2.05% Monthly	17,912	16,651	16,651
Credit Suisse First Boston USA (Long Beach Mortgage Loan Trust 2004-1 M9, 1-Month LIBOR + 350bp, due 2/25/34)	February 25, 2034	2.15% Monthly	12,052	7,021	7,021

## Semi-Annual Report to Shareholders

## Notes to Financial Statements Continued

Swap Counterparty (Reference Entity):	Termination Date	Periodic Payments Made by the Fund	Contract Notional Amount <sup>2</sup>	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ Depreciation
Credit Suisse First Boston USA (Long Beach Mortgage Loan Trust 2005-1 M8, 1-Month LIBOR + 170 bp, due 2/25/35)	February 25, 2035	1.31% Monthly	\$ 20,879	\$ 20,390		\$ 20,390
Credit Suisse First Boston USA (Long Beach Mortgage Loan Trust 2005-1 M9, 1-Month LIBOR + 275bp, due 2/25/35)	February 25, 2035	2.08% Monthly	13,092	13,063		13,063
Credit Suisse First Boston USA (MASTR Asset Backed Securities Trust 2005-NC1 M8, 1-Month LIBOR + 153bp, due 12/25/34)	December 25, 2034	1.31% Monthly	25,304	23,876		23,876
Credit Suisse First Boston USA (MASTR Asset Backed Securities Trust 2005-NC1 M9, 1-Month LIBOR + 240bp, due 12/25/34)	December 25, 2034	2.08% Monthly	22,737	21,806		21,806
Credit Suisse First Boston USA (Merrill Lynch Mortgage Investors, Inc. 2004-WMC1 B3, 1-Month LIBOR + 225bp, due 9/25/35)	September 25, 2035	2.05% Monthly	11,329	10,388		10,388
Credit Suisse First Boston USA (Merrill Lynch Mortgage Investors, Inc. 2004-WMC4 B3, 1-Month LIBOR + 375bp, due 4/25/35)	April 25, 2035	2.15% Monthly	12,666	12,260		12,260
Credit Suisse First Boston USA (Merrill Lynch Mortgage Investors, Inc. 2005-NC1 B2, 1-Month LIBOR + 130bp, due 10/25/35)	October 25, 2035	1.28% Monthly	15,387	14,066		14,066
Credit Suisse First Boston USA (Merrill Lynch Mortgage Investors, Inc. 2005-NC1 B3, 1-Month LIBOR + 205bp, due 10/25/35)	October 25, 2035	2.05% Monthly	15,461	14,443		14,443

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Credit Suisse First Boston USA (Merrill Lynch Mortgage Investors, Inc. 2005-WMC1 B2, 1-Month LIBOR + 135bp, due 9/25/35)	September 25, 2035	1.28% Monthly	14,594	13,504	13,504
Credit Suisse First Boston USA (Morgan Stanley ABS Capital I 2005-WMC1 B2, 1-Month LIBOR + 130 bp, due 1/25/35)	January 25, 2035	1.31% Monthly	13,639	13,238	13,238
Credit Suisse First Boston USA (Morgan Stanley ABS Capital I 2005-WMC1 B3, 1-Month LIBOR + 215bp, due 1/25/35)	January 25, 2035	2.18% Monthly	6,000	5,974	5,974
Credit Suisse First Boston USA (New Century Home Equity Loan Trust 2004-2 M9, 1-Month LIBOR + 325bp, due 8/25/34)	August 25, 2034	2.15% Monthly	17,236	10,364	10,364

## Semi-Annual Report to Shareholders

Swap Counterparty (Reference Entity):	Termination Date	Periodic Payments Made by the Fund	Contract Notional Amount <sup>2</sup>	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ Depreciation
Credit Suisse First Boston USA (New Century Home Equity Loan Trust 2005-1 M8, 1-Month LIBOR + 140 bp, due 3/25/35)	March 25, 2035	1.31% Monthly	\$ 21,085	\$ 18,165		\$ 18,165
Credit Suisse First Boston USA (New Century Home Equity Loan Trust 2005-1 M9, 1-Month LIBOR + 205 bp, due 3/25/35)	March 25, 2035	2.18% Monthly	18,390	16,101		16,101
Credit Suisse First Boston USA (Novastar Home Equity Loan 2005-1 B2, 1-Month LIBOR + 135 bp, due 6/25/35)	June 25, 2035	1.28% Monthly	43,000	38,669		38,669
Credit Suisse First Boston USA (Novastar Home Equity Loan 2005-4 B3, 1-Month LIBOR + 195 bp, due 6/25/35)	June 25, 2035	2.05% Monthly	43,000	39,886		39,886
Credit Suisse First Boston USA (Park Place Securities Inc. 2005-WCH1 M8, 1-Month LIBOR + 155bp, due 1/25/36)	January 25, 2036	1.36% Monthly	43,000	41,132		41,132
Credit Suisse First Boston USA (Park Place Securities, Inc. 2005-WCH1 M9, 1-Month LIBOR + 250 bp, due 1/25/36)	January 25, 2036	2.18% Monthly	41,462	40,423		40,423
Credit Suisse First Boston USA (People's Choice Home Loan Securities Trust 2004-1 M6, 1-Month LIBOR + 230bp, due 6/25/34)	June 25, 2034	1.37% Quarterly	26,740	26,244		26,244

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Credit Suisse First Boston USA (People's Choice Home Loan Securities Trust 2005-1 B3, 1-Month LIBOR + 260bp, due 1/25/35)	January 25, 2035	2.05% Monthly	33,714	33,685	33,685
Credit Suisse First Boston USA (People's Choice Home Loan Securities Trust 2005-1, 1-Month LIBOR + 165bp, due 1/25/35)	January 25, 2035	1.28% Monthly	43,000	42,067	42,067
The Goldman Sachs Group, Inc. (Citigroup Inc., 6.5%, due 1/18/2011)	March 20, 2014	4.7% Quarterly	1,700,000	(31,191 )	(31,191)
Net unrealized appreciation on buys of credit default swaps on corporate issues					\$803,342

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- <sup>1</sup> *If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.*
  - <sup>2</sup> *The maximum potential amount the Fund could be required to make as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.*
  - <sup>3</sup> *The quoted market prices and resulting values for credit default swap agreements on asset-backed securities and credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement been closed/sold as of the period end. Decreasing market values when compared to the notional*

*Semi-Annual Report to Shareholders*

**Notes to Financial Statements - Continued**

amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

4 If the Fund is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the underlying securities comprising the referenced index.

Percentage shown is an annual percentage rate.

\* Security is valued in good faith at fair value by or under the direction of the Board of Directors.

**4. Derivative Instruments and Hedging Activities**

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, requires enhanced disclosure about an entity's derivative and hedging activities.

Below is a table, grouped by derivative type that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at June 30, 2009.

	Asset Derivatives		Total
	Credit Contracts Risk1	Other Contracts Risk1	
Swap Contracts	\$834,533		\$834,533

1 Balance sheet location: Receivables

	Liability Derivatives		Total
	Credit Contracts Risk1	Other Contracts Risk1	
Swap Contracts	\$748,659		\$748,659

1 Balance sheet location: Payables

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the six months ended June 30, 2009. The first table provides additional detail about the amounts and sources of gains/(losses) realized on derivatives during the period. The second table provides additional information about the changes in unrealized appreciation/(depreciation) resulting from the Fund's derivatives and hedging activities during the period.

	Amount of Realized Gain or (Loss) on Derivatives Recognized		Total
	Credit Contracts Risk	Other Contracts Risk1	
Swap Contracts	\$(11,059,142)		\$(11,059,142)

	Change in Unrealized Appreciation/Depreciation on Derivatives Recognized		Total
	Credit Contracts Risk	Other Contracts Risk1	
Swap Contracts	\$9,757,973		\$9,757,973

**5. Common Shares:**

Of the 11,561,030 shares of common stock outstanding at June 30, 2009, Western Asset owns 13,522 shares.

*Semi-Annual Report to Shareholders***6. Preferred Shares:**

There are 2,880 shares of Auction Market Preferred Shares ( Preferred Shares ) authorized. The Preferred Shares have rights as set forth in the Fund's Agreement and Declaration of Trust, as amended to date, and its Bylaws, as amended to date (the Bylaws ), or as otherwise determined by the Trustees. The 2,880 Preferred Shares outstanding consist of two series, 1,440 shares of Series M and 1,440 shares of Series W. The Preferred Shares have a liquidation value of \$25,000 per share, plus any accumulated but unpaid dividends whether or not earned or declared.

Dividends on the Series M and Series W Preferred Shares are cumulative and are paid at a rate typically reset every seven and twenty-eight days, respectively, based on the results of an auction. Dividend rates ranged from 0.135% to 1.727% between January 1, 2009 to June 30, 2009. The weekly auctions for Series M and W have all failed during the fiscal year 2009; consequently, the dividend rate paid on the preferred shares has moved to the maximum rate as defined in the prospectus. Since mid-February 2008, holders of actions-rate preferred shares ( ARPS ) issued by the Fund has been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Fund has consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate. The maximum rate is calculated at 150% of the reference rates, which is the 7-day AA Financial Composite Commercial Paper rate for Series M and the 30-day AA Commercial Paper rate for Series W. These rates are typically higher than the rates that would have otherwise been set through a successful auction.

The Preferred Shares are redeemable at the option of the Fund, in whole or in part, on the second business day preceding any dividend payment date at \$25,000 per share plus any accumulated but unpaid dividends.

The Fund is subject to certain restrictions relating to the Preferred Stock. The Fund may not declare dividends or make other distributions on shares of common stock or purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding Preferred Stock would be less than 200%. The Preferred Stock is also subject to mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends, whether or not declared, if certain requirements relating to the composition of the assets and liabilities of the Fund as set forth in Bylaws are not satisfied.

The Preferred Stock Shareholders are entitled to one vote per share and generally vote with the common shareholders but vote separately as a class to elect two directors and on certain matters affecting the rights of the Preferred Stock. The issuance of Preferred Stock poses certain risks to holders of common stock, including, among others, the possibility of greater market price volatility, and in certain market conditions, the yield to holders of common stock may be adversely affected. The Fund is required to maintain certain asset coverages with respect to the Preferred Stock. If the Fund fails to maintain these coverages and does not cure any such failure within the required time period, the Fund is required to redeem a requisite number of shares of the Preferred Stock in order to meet the applicable requirement. The Preferred Stock is otherwise not redeemable by holders of the shares. Additionally, failure to meet the foregoing asset coverage requirements would restrict the Fund's ability to pay dividends to common shareholders.

After each auction, the auction agent will pay to each broker/dealer, from monies the Fund provides, a participation fee. For the period of the report and for all previous periods since the ARPS have been outstanding, the participation fee has been paid at the annual rate of 0.25% of the

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purchase price of the ARPS that the broker/dealer places at the auction. However, subsequent to the period of this report, effective on August 3, 2009, Citigroup Global Markets Inc. reduced its participation fee to an annual rate of 0.05% of the purchase price of the ARPS, in the case of a failed auction.

### **7. Transactions With Affiliates:**

The Fund has a management agreement with Western Asset Management Company ( Western Asset ). Pursuant to the terms of the management agreement, the Fund pays Western Asset an annual fee, payable monthly, in an amount equal to 0.55% of the average weekly value of the Fund's total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities. The liquidation preference of any Preferred Shares outstanding is not considered a liability. Pursuant to a Portfolio Management Agreement between Western Asset and Western Asset Management Company Limited ( WAML ), Western Asset pays a portion of the fees it receives from the Fund to WAML at an annual rate of 0.425% of the average weekly value of the Fund's total managed assets that WAML manages. Effective February 3, 2009, Western Asset Management Company Pte. Ltd. in Singapore

*Semi-Annual Report to Shareholders*

**Notes to Financial Statements - Continued**

( Western Singapore ) and Western Asset Management Company Ltd in Japan ( Western Japan ) became additional subadvisers to the Fund under portfolio management agreements between Western Asset and Western Singapore, and Western Asset and Western Japan.

Western Singapore and Western Japan provide certain subadvisory services to the Fund relating to currency transactions and investments in non-U.S. dollar-denominated securities and related foreign currency instruments in Asia (excluding Japan) and Japan, respectively. The Fund's current management fee remains unchanged. WAML will continue to provide subadvisory services with respect to other aspects of the non-U.S. dollar-denominated portions of the Fund's investment portfolio.

Under the terms of the administration services agreement among the Fund, Western Asset and Legg Mason Fund Adviser, Inc. ( LMFA ), Western Asset pays (not the Fund) LMFA, a monthly fee at an annual rate of 0.125% of the Fund's average weekly total managed assets, subject to a monthly minimum fee of \$12,500.

The Board has approved the substitution of Legg Mason Partners Funds Advisor, LLC ( LMPFA ) for LMFA. Effective upon the substitution, LMPFA will assume the rights and responsibilities of LMFA under its administrative services agreement. This substitution is expected to occur in the third quarter of 2009.

LMFA, LMPFA, Western Asset, WAML, Western Singapore and Western Japan are wholly owned subsidiaries of Legg Mason, Inc.

**8. Trustee Compensation:**

Each Independent Trustee receives an aggregate fee of \$70,000 annually for serving on the combined Board of Trustees/Directors of the Fund, Western Asset Income Fund and Western Asset Funds, Inc. Each Trustee also receives a fee of \$7,500 and related expenses for each meeting of the Board or of a committee attended in-person and a fee of \$2,500 for participating in each telephonic meeting. The Chairman of the Board and the Chairman of the Audit Committee each receive an additional \$25,000 per year for serving in such capacities. Each member of the Audit Committee receives a fee of \$6,000 for serving as a member of the Audit Committee. Other committee members receive a fee of \$3,000 for serving as a member of each committee upon which they serve. All such fees are allocated among the Fund, Western Asset Income Fund and Western Asset Funds, Inc. according to each such investment company's annual net assets. Trustee Ronald Olson receives from Western Asset an aggregate fee of \$70,000 annually for serving on the combined Board of Trustees/Directors of the Fund, Western Asset Income Fund and Western Asset Funds, Inc., as well as a fee of \$7,500 and related expenses for each meeting of the Board attended in person and a fee of \$2,500 for participating in each telephonic meeting.

**9. Shareholder Meeting Results:**

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The Fund's annual meeting of shareholders was held on May 27, 2009. Of the 11,539,217 common shares outstanding, the following shares were voted in the meeting:

	For	Withheld
<u>Election of Trustees:</u>		
Ronald J. Arnault	10,028,865	243,738
Anita L. DeFrantz	10,021,472	251,131
William E. B. Siart	10,031,625	240,978
Jaynie Miller Studenmund	10,017,800	254,803
Avedick B. Poladian	10,015,175	257,428

## Semi-Annual Report to Shareholders

Of the 2,880 preferred shares outstanding, the following shares were voted in the meeting:

	For	Withheld
<u>Election of Trustees:</u>		
Ronald J. Arnault	2,589	51
Anita L. DeFrantz	2,589	51
William E.B. Siart	2,589	51
Jaynie Miller Studenmund	2,589	51
Avedick B. Poladian	2,589	51
*R. Jay Gerken	2,589	51
*Ronald L. Olson	2,589	51

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\* Mr. Gerken and Mr. Olson are the Preferred Trustees elected by a plurality vote of the preferred shares, voting as a separate class.

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**Western Asset Premier Bond Fund**

*The Board of Trustees*

William E. B. Siart, Chairman  
R. Jay Gerken  
Ronald J. Arnault  
Anita L. DeFrantz  
Ronald L. Olson  
Avedick B. Poladian  
Jaynie Miller Studenmund

Western Asset Management Company Pte. Ltd.  
1 George Street #23-01  
Singapore 049145

Western Asset Management Company Ltd  
367 Shin-Marunouchi Building  
5-1 Marunouchi 1-Chrome Chiyoda-Ku  
Tokyo 100-6536

*Officers*

R. Jay Gerken, President  
Gavin L. James, Vice President  
S. Kenneth Leech, Vice President  
Stephen A. Walsh, Vice President  
Frances M. Guggino, Principal Financial and Accounting Officer  
Todd F. Kuehl, Chief Compliance Officer  
Erin K. Morris, Treasurer  
Robert I. Frenkel, Secretary and Chief Legal Officer

*Custodian*

State Street Bank and Trust Company  
1 Lincoln Street  
Boston, Massachusetts 02111

*Counsel*

Ropes & Gray LLP  
1211 Avenue of the Americas  
New York, New York 10036

*Investment Advisers*

Western Asset Management Company  
385 East Colorado Boulevard  
Pasadena, California 91101

*Independent Registered Public Accounting Firm*

PricewaterhouseCoopers LLP  
100 East Pratt Street  
Baltimore, Maryland 21202

Western Asset Management Company Limited  
10 Exchange Square  
London, England EC2A2EN

*Transfer Agent*

American Stock Transfer & Trust Company LLC  
59 Maiden Lane  
New York, New York, 10038

**Western Asset Premier Bond Fund**

WESTERN ASSET PREMIER BOND FUND

55 Water Street  
New York, New York 10041

In accordance with Section 23(c) of the Investment Company Act of 1940, the Fund hereby gives notice that it may, from time to time, repurchase its common shares or preferred shares in the open market at the option of the Board of Trustees, and on such terms as the Board of Trustees shall determine.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at [www.leggmason.com/cef](http://www.leggmason.com/cef) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

**This report is transmitted to the shareholders of Western Asset Premier Bond Fund for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.**

AMERICAN STOCK  
TRANSFER & TRUST COMPANY  
59 Maiden Lane,  
New York, New York 10038

LMF-WEA/S(08/09)SR09-892

**Item 2. Code of Ethics.**

Not applicable for semi-annual reports.

**Item 3. Audit Committee Financial Expert.**

Not applicable for semi-annual reports.

**Item 4. Principal Accountant Fees and Services.**

Not applicable for semi-annual reports.

**Item 5. Audit Committee of Listed Registrants.**

Not applicable for semi-annual reports.

**Item 6. Schedule of Investments**

The schedule of investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this Form.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Not applicable for semi-annual reports.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Not applicable for semi-annual reports.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**

Not applicable.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Directors that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item 10.

**Item 11. Controls and Procedures.**

(a) The Registrant's principal executive and principal financial officers have concluded, based on their evaluation of the Registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant's disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods in the SEC's rules and forms and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the Registrant's internal control over financial reporting during the Registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

- (a) (1) Not applicable for semi-annual reports.
  - (a) (2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 filed as an exhibit hereto.
  - (a) (3) Not applicable.
  - (b) Certifications pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 filed as an exhibit hereto.
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Western Asset Premier Bond Fund**

By: /s/ R. Jay Gerken  
R. Jay Gerken  
President  
**Western Asset Premier Bond Fund**

Date: August 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ R. Jay Gerken  
R. Jay Gerken  
President  
**Western Asset Premier Bond Fund**

Date: August 31, 2009

By: /s/ Frances M. Guggino  
Frances M. Guggino  
Principal Financial and Accounting Officer  
**Western Asset Premier Bond Fund**

Date: August 31, 2009

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