

MOVING PEOPLE, MOVING GOODS, MOVING FORWARD...

PORTEC RAIL
P R O D U C T S , I N C .



2008 ANNUAL REPORT

Positioned for...

Opportunity

Positioned for...

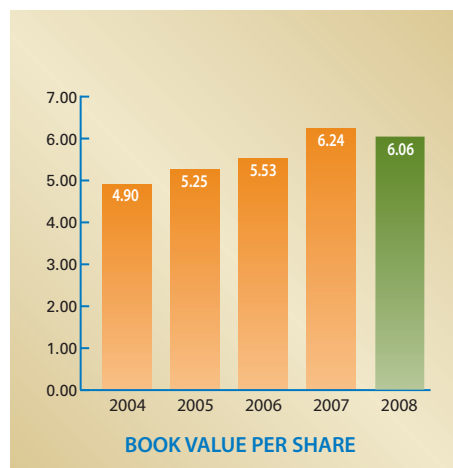
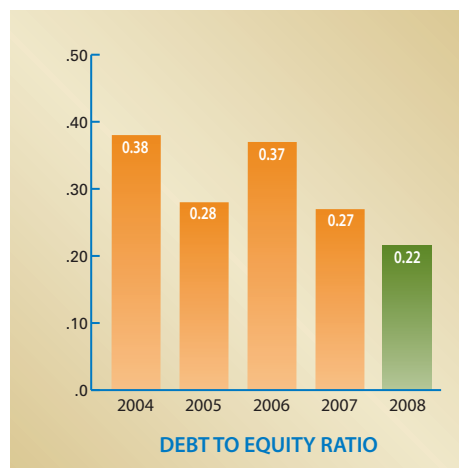
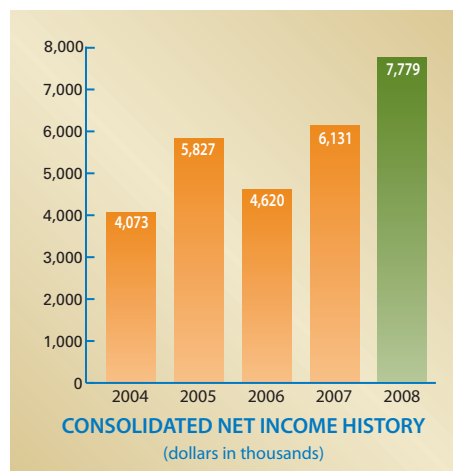
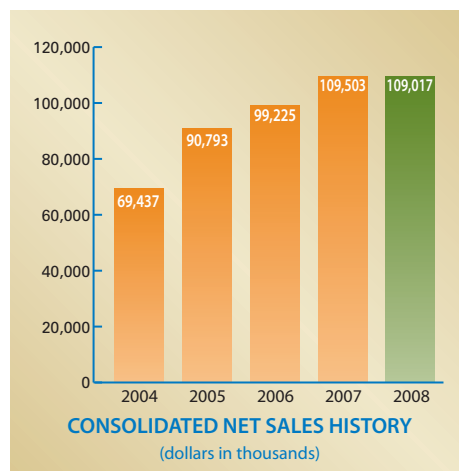
Opportunity

Steel wheels riding on steel rails...

this unique relationship pictured on the cover represents a major source of our work, inspiration and opportunity. The wheel/rail interface is about more than how trains travel to their destination. Where the wheel contacts the rail is a physicist's rolling laboratory. Motion forces, high stresses, extreme temperature and wear emit their slow, destructive influence mile after mile. The people of Portec Rail are developing and applying the latest technology in friction management, fault detection and infrastructure component design to battle these conditions for enhanced asset life and improved safety.

Financial Highlights

Year ended December 31 (dollars in thousands)	2008	2007	2006	2005	2004
OPERATING PERFORMANCE					
Net Sales	\$ 109,017	\$ 109,503	\$ 99,225	\$ 90,793	\$ 69,437
Net Income	7,779	6,131	4,620	5,827	4,073
Diluted Earnings per Share	0.81	0.64	0.48	0.61	0.46
Weighted Average Diluted Shares Outstanding	9,601,928	9,601,779	9,601,779	9,601,779	8,929,599
Operating Cash Flow	10,107	8,934	6,284	5,364	2,855
FINANCIAL CONDITION					
Total Assets	\$96,823	\$ 104,226	\$ 101,682	\$ 88,869	\$ 88,625
Total Debt, including Capital Leases	12,610	16,328	19,392	14,249	17,719
Total Shareholders' Equity	58,176	59,897	53,096	50,448	47,044
Total Debt to Total Equity	21.7%	27.3%	36.5%	28.2%	37.7%
OTHER DATA					
Capital Expenditures	\$2,697	\$ 2,348	\$ 2,073	\$ 1,750	\$ 1,040
Research and Development	3,036	2,400	2,600	2,900	1,001
Number of Employees	307	288	285	297	279



Positioned for... **Today and tomorrow!**

The insight our corporate management team brings to our endeavor is well understood and represented in these reports over the years.

The accuracy of their carefully tailored strategies, implemented with guidance from our Board of Directors, is becoming increasingly clear. We continue to advance a mix of products and services in markets that help ensure the long-term success of our company. We believe this has also positioned our organization to weather the effects of the current global economic environment. Traditionally, annual reports focus on the year just completed, but in view of the economic conditions we face today it is impossible not to also examine how Portec Rail Products, Inc. has prepared for the uncertainty of what lies ahead.

The worldwide rail industry and, in particular, the rail infrastructure segment in North America show signs it is positioned better than most industries during this time of economic uncertainty. In recent history the freight railroads have increased annual capital infrastructure investment, enabling enhanced train velocity and support of long-term capacity improvements. These performance goals mirror Portec Rail's expertise. The railroads at this time appear to be focused on long-term growth even in the face of reduced traffic patterns projected for 2009. As an energy-efficient means of transportation, the railroads

are now taking a different path maintaining long-term growth as the goal. Overall, published* projected investment estimates for 2009 appear to be slightly less than the record investment levels of 2008 but still at levels that position the rail freight industry to continue making "in-roads" on capturing trucking industry market share. The freight railroads recognize that when the economy does improve, traffic will rebound and growth will surge... so they must be ready to respond to demand. The passenger rail market segment also offers promise as published** reports indicate robust investment and new initiatives for expansion.

Just as the railroads are positioned for growth and uncertainty, so is Portec Rail. Our team's hard work developing new products, technologies, services and manufacturing efficiencies to expand and grow the business is truly enhancing our market position. Continued cultivation of our knowledge base has furthered our leadership role in key industry segments as we continue to enjoy new levels of customer engagement and cooperation. Last year we discussed how we measure up and in light of today's economic conditions we believe we more than measure up. Portec Rail is *positioned* for opportunity today and tomorrow!

Portec Rail's Worldwide Presence

CANADA

Montreal, Quebec
St. Jean, Quebec
Vancouver, British Columbia

UNITED STATES

Chicago, Illinois
Pittsburgh, Pennsylvania
Huntington, West Virginia
Dublin, Ohio

UNITED KINGDOM

Sheffield, England
Leicester, England



A Letter to Shareholders

Let us begin by thanking our employees, directors and shareholders for their efforts and support during this past year. In the most challenging economic environment in recent memory, we achieved our second consecutive year of record earnings. This achievement is a reflection of all of our ongoing efforts to continuously improve our performance from marketing and sales through production engineering, research & development, operations and field service support. We consider our success a validation from our customers of the relevance of our products and services in providing valuable solutions for improving their business. Our diligence in looking for opportunities to provide new or improved products and services to our customers to help them reduce costs and improve their overall efficiency is what continues to position Portec Rail for success.

Our financial performance was led by significant contributions from our friction management and load securement product groups while our track component, wayside data management and our non-rail related material handling businesses turned in solid performances in 2008. In particular, strong demand for a broad range of our friction management products and services spurred the performance of this product group. Many new product enhancements tested and introduced in 2007, such as our improved GreaseGuide™ rail curve lubricant application bars along with our PROTECTOR® IV with RPM™ (Remote Performance Monitoring™) feature were in demand by key customers in various markets. This strong demand was underscored by the introduction of our Total Friction Management™ program. We discuss its strategic impact in greater detail in this annual report.

Our Shipping Systems Division continued to benefit from strong demand for its core load securement products as well as our Vulcan product line. A significant contribution to our results was also realized from new products such as the WinChock™ Uni-Level vehicle securement system used in the transport of Class VIII vehicles to market.

For our track component product lines, in 2008 we completed projects such as the bonded joint assembly process and facility improvements at our Huntington, West Virginia plant. We also continued to develop and field-test the new Exi™ rail anchor for the North American market. Our wayside data management and fault detection systems from our Salient Systems division continued to penetrate new markets, with products such as the Wheel Impact Load Detection (WILD) systems and the improved Rail Stress Monitor.

As we look forward, we are encouraged by the rail transportation industry and the improving political desire to invest in rail infrastructure in many parts of the world. We are well-positioned to be a part of a global effort to increase and improve rail infrastructure. We believe we have a broad range of products and services that will help reduce operating costs and improve overall efficiencies for the rail operators, whether they are heavy-haul freight or rail passenger service. We will also continue to control costs, improve products and services, and seek strategic acquisitions and partnerships while advancing our technological footprint. We look forward to your continued support in helping us provide greater value in building a well-positioned, stronger Portec Rail.



Marshall T. Reynolds
Chairman of the Board

Chairman of the Board of the Company since December 1997. Mr. Reynolds has previously served as President, Chief Executive Officer and Chairman of the Board of Directors of Champion Industries, Inc. (a commercial printer, businessform manufacturer and supplier of office products and furniture) from 1992 to the present; President and General Manager of the Harrah and Reynolds Corporation from 1964 and sole shareholder since 1972; Chairman of the Board of the Pullman Plaza Hotel in Huntington, West Virginia; and Chairman of McCorkle Machine and Engineering Company in Huntington, West Virginia. Mr. Reynolds also serves as a director of the Abigail Adams National Bancorp, Inc. in Washington, D.C.; Chairman of the Board of First Guaranty Bancshares, Inc. in Hammond, Louisiana; and Chairman of the Board of Premier Financial Bancorp in Georgetown, Kentucky.



Richard J. Jarosinski, P.E.
President and Chief Executive Officer

Mr. Jarosinski has been employed by the Company since 1975, and was appointed President and Chief Executive Officer effective October 1, 2006. Mr. Jarosinski was Group Vice President of the Company from February 2, 2005 through September 30, 2006, and President and General Manager of the Railway Maintenance Products Division from January 1998 through February 1, 2005. Mr. Jarosinski served as a member of our Board of Directors from January 1998 to May 2004. Mr. Jarosinski is a registered Professional Engineer in the state of Pennsylvania as has held various positions with trade associations in the rail industry.

Konstantinos Papazoglou, Executive Vice President and Chief Operating Officer

Mr. Papazoglou has been employed by the Company since 1978, and was appointed Executive Vice President and Chief Operating Officer effective October 1, 2006. Mr. Papazoglou was Group Vice President of the Company from February 2, 2005 through September 30, 2006, and President of the Portec, Rail Products Ltd. Division from August 1997 to February 1, 2005. Mr. Papazoglou served as a member of the Company's Board of Directors from January 1998 to May 2004. Mr. Papazoglou holds both a Bachelor's Degree and a Master's Degree in Mechanical Engineering from Concordia University in Montreal, Quebec, Canada.



John N. Pesarsick, Chief Financial Officer

Mr. Pesarsick has been employed by the Company since 2003, and was appointed Chief Financial Officer in April 2006 and Assistant Secretary in June 2006. Mr. Pesarsick previously served as Corporate Controller for the Company and held various positions in the Corporate Accounting department. Prior to joining the Company in 2003, he was employed by NCS Healthcare, Inc. as a Regional Assistant Controller since 2000. Mr. Pesarsick began his career in public accounting with Ernst & Young, LLP, is a Certified Public Accountant, and holds a Bachelor's Degree in Accounting from Robert Morris University.



John S. Cooper, Vice Chairman of the Board of Directors

Mr. Cooper has served as a member of the Company's Board of Directors since December 1997. Mr. Cooper served as President and Chief Executive Officer from December 1997 to September 30, 2006, and was appointed Vice Chairman of the Board of Directors on October 1, 2006. Mr. Cooper was hired by the Company's predecessor in July 1979 as Division Vice President of Operations - Railcar Division, and became Division Vice President and General Manager - Railcar Division in August 1980, Vice President and Group Executive in June 1983, Vice President and General Manager - Railway Maintenance Products Division in April 1985, and Senior Vice President and Group Executive - Railroad Group in February 1987. Mr. Cooper was employed by the American Bridge Division of United States Steel Corporation from 1956 to 1979. Mr. Cooper received his degree in Civil Engineering from Pennsylvania State University.



Board of Directors



A. Michael Perry



John S. Cooper



Louis J. Akers



Daniel P. Harrington



Douglas V. Reynolds



Neal W. Scaggs



Thomas W. Wright



Phillip T. Shell



Marshall T. Reynolds



Kirby J. Taylor

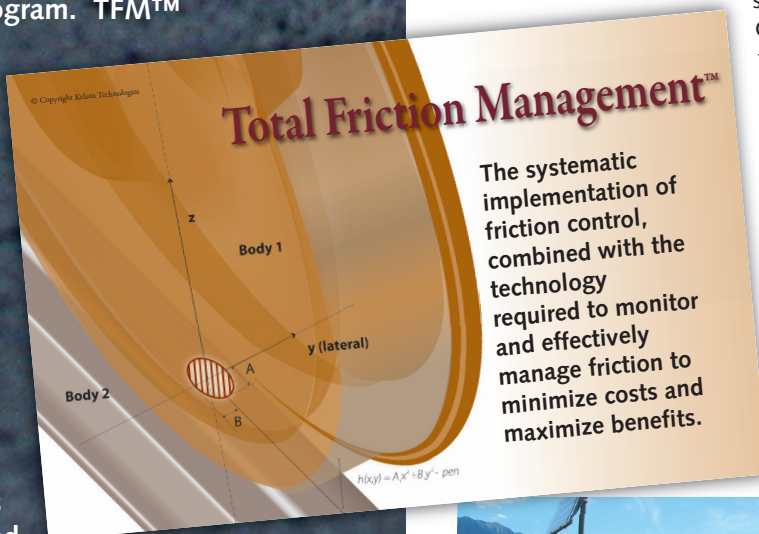


Philip E. Cline

Positioned for... **Performance!**

Some say that success is the result of being prepared to perform when an opportunity arises. We believe it is much more... success just doesn't happen- it takes hard work and talented people that "take the bull by the horns" to create opportunity and deliver superior performance!

Today, there is no better way to grasp the meaning of performance at Portec Rail than through our Total Friction Management™ program. TFM™ represents years of friction management research & on-going development, refined by seasoned field-service resources. It is the result of continuously enhancing product performance... progressing from the early days of mechanical lubricators to today's sophisticated PROTECTOR®/KELTRACK® friction modifier system, to the work of our wheel/rail interface experts in blending the latest stress-state solution of equipment, materials and people for each unique customer.



It's **TOTAL** for a reason

Total means exactly that! Total Friction Management™ recognizes the importance of both optimum gauge face and top-of-rail friction control as well as "total" management of the entire process to ensure optimum track friction control is not only achieved but also continuously maintained. We define TFM™ as...

"The systematic implementation of friction control, combined with the technology required to monitor and effectively manage friction to minimize costs and maximize benefits."

A simple sentence for a complex program/model that is changing the way railroads approach friction management. We believe the Portec Rail Group is the only supplier equipped to deliver the tangible financial results from enhanced fuel savings, rail life and track structure integrity that TFM™ offers.

Nothing demonstrates this systemic change more than the Class I Railroads and in particular the Canadian Pacific Railroad. CP's dedication to friction management is well documented and their latest effort is described in the November 2008 Railway Age*. This effort is rooted in its "100% Effective Lubrication Initiative"*** from 2000 and the 2005 follow-up study "100% Effective Friction Management Strategy"****, that built upon the benefits of effective gauge face





◀ A major component of Total Friction Management™ is performance verification which ensures the expected benefits are being achieved. This mountainous area with severe curvature features an instrumented section of track measuring the Lateral/Vertical forces on the rail validating the top-of-rail application effectiveness of KELTRACK®. This extreme environment is where effective friction management is needed most! In other words, if it performs here it can perform anywhere!

lubrication by incorporating top-of-rail application of KELTRACK®. Since the completion of these studies much work has been done by CP, Portec Rail and Kelsan Technologies to refine these practices, resulting in the Total Friction Management™ approach and a five-year contract between CP and Portec Rail. Implementation commenced during 2008 in the rugged terrain, tight curves and mountain grades of Western Canada... the ideal location to capture the significant savings of Total Friction Management™. Covering approximately 900 main line route miles between Calgary, Alberta, and Vancouver, British Columbia. the project incorporates deployment, management and monitoring of PROTECTOR® trackside top-of-rail application systems, and trackside gauge face lubrication systems. At full implementation all systems will be outfitted with Remote Performance Monitoring™ (RPM™) technology, allowing the status, performance and consumption of KELTRACK® or grease for each unit to be tracked remotely, ensuring that Total Friction Management™ is maintained. The projected benefits of this program are also discussed in the November 2008, Railway Age article entitled, "Steady as she goes. In uncertain times the Canadian Pacific remains focused on long-term strategies"*. .

The success of our Total Friction Management™ program has truly positioned Portec Rail ahead of the competition as we strive for North American and global adaptation for each unique market and customer. It performs on many levels...reducing the stress-state through fully integrated solutions delivering our customers documented economic results to how it improves the outlook for our long-term company growth while potentially offering resistance to the effects of the current economic environment.

Fuel Savings

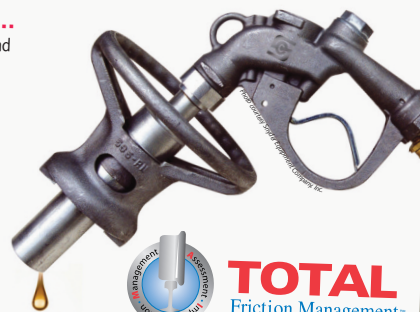
that's no drop in the bucket!

Fuel savings of over 4%...

What could it do for your **bottom-line** and **operating ratio**?

Whether crude oil is \$40 or \$140 a barrel, the potential savings are real and significant. This is only part of the potential savings... reductions in rail wear and track structure degradation come along for the ride!

Total Friction Management™ can deliver results! The systematic implementation of friction control, combined with the technology required to monitor and effectively manage friction to minimize costs and maximize benefits is a reality. Only the Portec Rail Group has the knowledge, expertise and resources to deliver the tangible financial results from enhanced fuel savings, rail life and track structure integrity.



Let us show you why a Major Class I Railroad entrusted Portec Rail Group with the implementation and management of its Friction Control Program!



PORTEC RAIL GROUP

www.portecrail.com | www.kelsan.com

Railway Maintenance Products Division
P.O. Box 38250
Pittsburgh, PA 15238-8250
Phone: 412-782-6000



Kelsan Technologies
1140 West 15th St.
North Vancouver, BC V7P 1M9
Phone: 604-594-5100

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“ The Total Friction Management™ model offers the inherent flexibility required to meet the needs and practical constraints of each individual customer. Portec Rail is committed to promoting and supporting this rail friction application and monitoring model in a way that ensures our customers obtain the economic benefits associated with this program. ”

Richard Jarosinski, *President and CEO*

◀ A Portec Rail Group TFM™ service specialist performs a field software upgrade to a PROTECTOR® IV Remote Performance Monitoring™ system.

* "Steady as she goes. In uncertain times the Canadian Pacific remains focused on long-term strategies". Railway Age, November 2008, pages 24-32 visit www.nxtbook.com/nxtbooks/sb/ra1108/#/26 or www.portecrail.com for a link to the article.

** Sroba, P., Roney, M., Dashko, R., and Magel, E. Canadian Pacific Railway's 100% Effective Lubrication Initiative. Presentation for AREMA 2001 Conference & Exhibition Chicago, Illinois September 9-12, 2001.

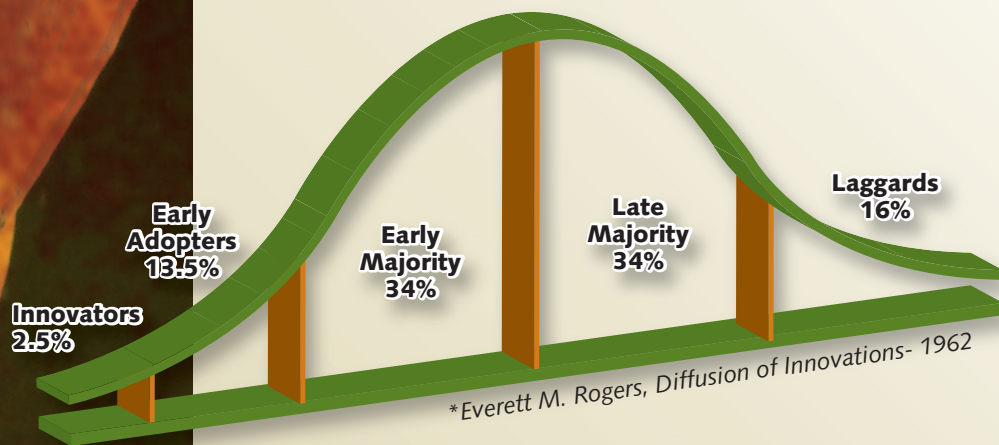
*** Sroba, P., Oldknow, K., Dashko, R. and Roney, M. (2005) Canadian Pacific Railway 100% Effective Friction Management Strategy, Proceedings of the IJHA Conference, Rio de Janeiro, Brazil, June 2005, 9pp.





Positioned for... *Expansion*

The adoption of advanced technology by the marketplace is an interesting process. According to the highly studied Roger's "Diffusion of Innovations" theory* and its Adoption Curve that has been applied to a wide variety of industries as well as the study of social change in populations, "Innovators" are 2.5% of those first to accept a new innovation, concept or idea, "Early Adopters" 13.5%, "Early Majority" 34%, "Late Majority" 34% with the "Laggards" bringing up the rear at 16%.



When you examine this theory and compare it to the advanced technology segments of our business you can see it in action. We encountered this with the introduction of the Kelsan products, in particular KELTRACK® and the adoption of Top-of-Rail friction management solutions. This technology enabled the development of our Total Friction Management™ offering and now all signs indicate the "Early Adoption" stage is most likely underway with a possible transition to the "Early Majority" stage. This has been a long process in relative terms due to the old railroad belief that nothing comes between the wheels and the railhead. However, through diligent scientific validation this has been overcome.



SALIENT SYSTEMS, Inc.



Salient Systems continues to accelerate the "curve" ... the Rail Stress Monitor™

Salient Systems has also experienced the reality of the adoption curve during the development of the Wheel Impact Load Detector (WILD) and other *intellitrac*® fault detection system products now in use by many rail freight and transit operators. Our expectation for the Rail Stress Monitor™ (RSM™) is that it will accelerate progression through the adoption curve. This is based upon Salient's reputation for providing valuable fault detection solutions and the RSM's capability to reduce the stress-state as well as dramatically improve safety. The capability to effectively and efficiently manage thermal rail stress is vital in order to provide the benefits of preventing speed restrictions, reducing the cost of emergency track repairs, optimizing track maintenance scheduling and improving safety... all reasons to adopt this technology even during times of economic uncertainty.

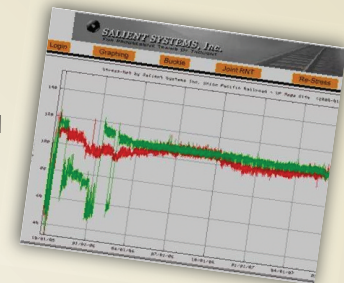
"Innovators" and "Early Adopters" recognize the benefits of the RSM™ with implementation underway or under consideration.

In Australia as the VLine continues "Providing Public Transportation for Victorians" they plan to monitor the entire system around Melbourne and are developing a program for instituting speed restrictions based on stress free temperature data provided by the RSM™. Once the evaluation is complete adoption is expected to commence in 2009.

The East Japan Railway Company (JR East) is evaluating a RSM™ module on the Takasaki curve outside Tokyo to validate high speed data acquisition up to 100 mph/160 kph from an End of Train (EOT) data transmission device. Excellent test results indicate that adoption over the entire JR East network will soon be under consideration.



◀ Rail Stress Monitor Hand-held Interrogator™ retrieves stress and temperature data



In the Western United States where drastic daily temperature swings have an impact on everything from people's attire to rail temperature is an environment tailor made for the RSM™. Here the Union Pacific Railroad is expanding the use of RSM™ and the StressNet™ system with installations in Colorado, Wyoming, Texas, and Nebraska utilizing handheld and wayside data collectors for monitoring these most demanding locations across their system.

Salient Systems continues to enhance the RSM™ and StressNet™ system, as well as develop other innovations, such as an international version of the Track Buckle Analysis software solution. **As product development continues to proceed, we recognize the influence of the "Diffusion of Innovations Theory"**. We also know that diligence can rapidly impact the adoption and expansion of this advanced technology while ensuring we are positioned for long-term and immediate opportunities!



◀ Union Pacific Railroad, Western U.S.A. A recently upgraded Wheel Impact Load Detector (WILD) site.

Positioned for... **Revitalization**



Longevity is a virtue we have cited many times over the years when describing our products as well as our company. Sometimes, however, making a long-lasting, quality product is just not enough! A common track component and the first product manufactured by organizational ancestor, Railway Specialty and Supply Company, the rail anchor is a perfect example. Designed to keep rail fixed in position by "anchoring" it to the tie, it is an economical fixation device used by most railroads. **Since the 1930's the FAIR® Rail Anchor has been a refined and durable brand.** The primary market for the FAIR® has been the Canadian Railroads with their robust performance requirements vital for withstanding the demands of a rugged operating environment. In the U.S., however, the FAIR® has appealed to non-traditional customers such as contractors serving regional and industrial railroads. This is a result of the U.S. Class I market in the 1980's shifting to a low-cost anchor with reduced performance specifications inferior to the FAIR®. Our predecessor company made a strategic decision to not invest in the development of a lower cost anchor while focusing on the Canadian and international markets better suited to the FAIR®. The XL-1 FAIR® and IMPROVED FAIR® rail anchors have enjoyed 100% of the Canadian market until 2006 when one Canadian railroad modified the requirements to what was being used by their U.S. subsidiaries.

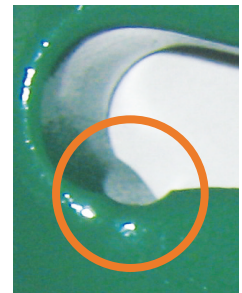
Enter the Exi™ Rail Anchor!

We seized this opportunity to recapture lost Canadian market share while positioning Portec Rail to revitalize U.S. market share. The goal was to produce a rail anchor satisfying the modified Canadian requirement as well as the shifted market preferences in the U.S. This required a delicate balance of matching cost reduction and the desired performance characteristics while still offering a differential competitive advantage with superior value. The new Exi™ Rail Anchor achieved this without compromising quality or performance. The Exi™ has been met with early success, notably the recapture of the lost Canadian market share and significant new opportunities in the U.S. Almost all U.S. Class I

Railroads have either approved or are currently evaluating the Exi™ rail anchor for use, a major hurdle in the quest to revitalize U.S. market share.

A simple yet dramatic improvement over competitive designs, **the Over-Drive stop ensures the anchor is installed properly**, delivering optimum holding power, performance and multiple re-application capabilities.

The Exi™ is another example of how we are positioning the company for growth while potentially battling the economic unknowns. It is an enduring, yet basic product staple. Innovative in a subtle way as it increases asset utilization of production facilities while expanding the product offering and revitalizing market share!



**TIME TO SWITCH
OVER** to the
exi RAIL ANCHOR™

from the company with over 100 years of rail anchor expertise!



Portec Rail's enhanced version of a widely used drive-on anchor that features a unique **OVER-DRIVE Stop**.

Portec Rail has over 100 years of experience making quality rail anchors that have taken decades of punishment on the harshest territories around the globe. This dedication to quality is found in the Exi™ anchor. Not just in quality manufacturing, but quality ideas like our simple yet unique "twist"... the Over-Drive Stop that demonstrates our commitment to improving the products rail operators count on over and over again!

- Compatible with all Rail Anchor application Track Machinery
- Class I approved
- Unique Over-Drive stop



Time to switch **OVER** to the Exi™

PORTEC RAIL
PRODUCTS LTD.



www.portecrail.com

Railway Maintenance Products Division
P.O. Box 38250
Pittsburgh, PA 15238-8250
Phone: 412-782-6000

Portec Rail Products Ltd.
2044 32nd Avenue
Lachine, Quebec H8T 3H7
Phone: 514-636-5580



Positioned for... **Efficiency**

It is obvious that what a company manufactures is the difference between marketplace success and failure. However, we also know that *how* we manufacture is as important as *what* we manufacture. All of our cutting edge research & development, engineering validation and marketing strategy are compromised if the manufacturing process can't produce the desired quality product *efficiently*.

In 2008 we invested in significant capital improvements at our Huntington, West Virginia manufacturing facility. The focus was to incorporate "Lean Manufacturing Techniques" to our Bonded Insulated Joint Kit and Bonded-to-Rail (BTR) production lines. Cost reduction, quality improvement and enhanced worker safety were the project goals. The flow of material was carefully scrutinized from the receiving area through each work station all the way to the loading dock. The removal of bottlenecks imposed by equipment and processes dramatically improved

material flow. The addition of automated processes and expanded staging areas for work-in-process at each workstation allow continued production during unplanned minor stoppages due to single workstation equipment malfunctions or other delays. Automation delivered benefits in labor savings, improved precision and waste reduction. Worker ergonomics were also improved where necessary by adding equipment such as a lift assisted joint bar handling system.

In addition to these improvements, the entire facility was ISO 9001:2008 certified. This includes production of all our friction management equipment as well as our Shipping Systems Division load securement products, the SSD office in Chicago and the RMPD Pittsburgh office.



Our attention to continuously improving our product quality, worker safety and cost efficiency helps to ensure our long-term organizational health by positioning Portec Rail for access to potential new markets as well as to further entrench our position in existing markets where current economic conditions emphasize value-driven opportunities now more than ever!





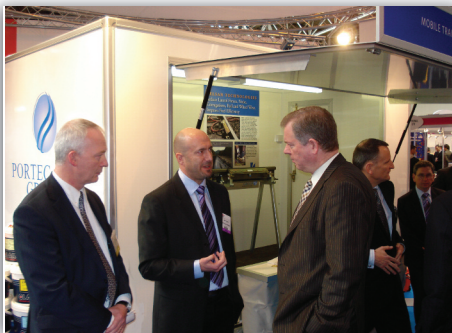
Positioned for...

Visibility

Visibility in the marketplace is vital to any organization and we are aggressive in keeping our brand out in front! From covering basic, yet vital activities like continuously maintaining direct customer contact to publishing groundbreaking scientific papers or supporting editorial coverage of developments like Total Friction Management™ to selecting the most effective industry trade exhibitions, these are just a few of the tools employed to communicate our message.

Visibility is positioning Portec Rail for...opportunity!

Infrarail '08, National Exhibition Centre Birmingham UK, March 11-13



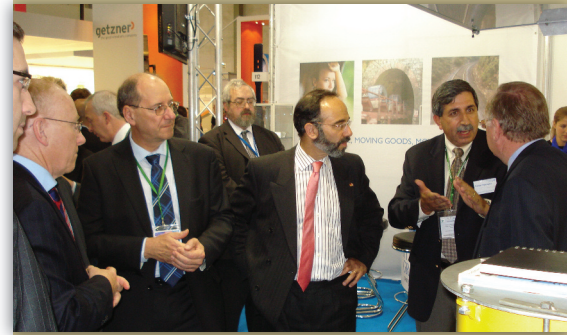
Left to right
 Jeremy Candfield, Director General of the Railway Industry Association, Gary Elliott Sales & Engineering Director, Portec Rail – Sheffield, UK Rail Minister Tom Harris, MP



Salient Systems, Ryan McWilliams VP-Technology & Business Development, explains the Rail Stress Monitor installation procedure

Not pictured
 Peter Henderson, Network Rail's Group Infrastructure Director and Executive Director and Lord Berkeley, Chairman of the Rail Freight Group.

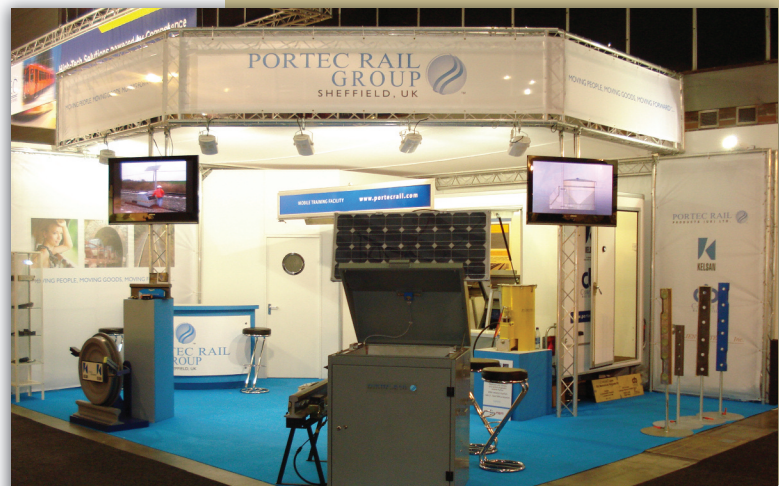
Innotrans '08, Messe Berlin, Berlin Germany, September 23-26



UK delegation visits Portec Rail for a quick explanation on the benefits of Friction Management from Portec Rail's Kostas Papazoglou



Left to right
 Peter Tibber - Director of Trade & Investment Germany, UKTI (based at the British Consulate in Düsseldorf)
 Tony Mercado - Director Rail Technical & Professional, DfT, Kostas Papazoglou – Portec Rail Chief Operating Officer
 Sir Ian McAllister - Chairman Network Rail (now retired), Haydn Abbott - MD Angel Trains International, Sir Michael Arthur KCMG - HM Ambassador in Berlin, Jeremy Candfield – Director General, Railway Industry Association



REMSA '08, Salt Palace
Convention Center, Salt Lake City,
Utah, September 21-23



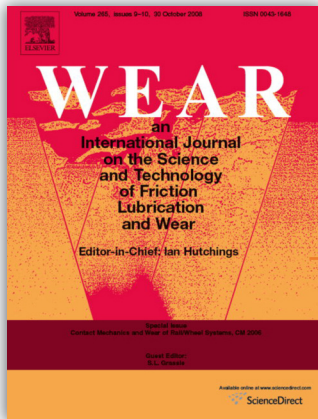
What is classified in the North American rail industry as the mid-cycle "small" show was not for Portec Rail... major highlights include the introduction of the Total Friction Management™ program and the Exi™ Rail Anchor

Global Tech 2008, Chicago, Illinois,
September 21-24

At the Railway Supply Institute's exhibition our Shipping Systems Division's WinChock™ system for securing Class VIII vehicles to the Uni-Level railcar was on display.



Photo - William C. Vanturono/Railway Age



Technical Papers

Eadie, D., Elvidge, D., Oldknow, K., Stock, R., Pointner, P., Kalousek, J. and Klausner, P. (2008) **The Effects of Top of Rail Friction Modifier on Wear and Rolling Contact Fatigue: Full Scale Rail-Wheel Test Rig Evaluation, Analysis and Modelling**, *Wear* 265 (2008), pp. 1222-1230
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Journal homepage: www.elsevier.com/locate/wear

Innovative Shuttle Car Solution Moves Totes For LIMPAC Allibert

A Tote Transport Challenge
There are over 3,000 product lines of moulded plastic totes manufactured by LIMPAC Allibert at the Westwood site.
Final assembly of the totes used to be carried out in lanes leading to the manufacturing facility and out of the gate. The company built a dedicated Assembly together with a new Warehouse and Distribution Centre.
The challenge for the Kaye division of CI Logistics was to design a shuttle car system to transport the moulded totes to the final assembly area. The shuttle cars were to be used to transport the totes from the Warehouse into the manufacturing plant.

Complex Operation
This is a complex operation as there can be up to 42 different product lines passing through the plant at any one time. The shuttle cars are used to transport the totes to the manufacturing floor where they are assembled. There is also a final 100 to 200 pallets in this area. The main assembly area however, is on the ground floor where there are five separate sub-assembly stations.
Neil Chaplain is the Head of Operations for LIMPAC and he was instrumental in selecting CI Logistics as the tote transport challenge.

CI Logistics
Carrying Innovation

"We selected CI Logistics because they demonstrated their engineering expertise by interpreting the brief in a unique way."
Neil Chaplain, Head of Operations, LIMPAC Allibert

Simplicity... a solution case study

Our UK-based CI Logistics unit developed an innovative answer to a situation that required the complex movement of up to 42 product lines through a manufacturing facility assembly area. A unique, conceptually simple solution utilizing shuttle cars eliminated the need to install more complex transfer devices. This enabled a fully integrated installation that delivers the right products to the right area exactly when required. Simplicity provided CI Logistics an opportunity to provide the best solution... a solution that no other supplier could conceive.

"We selected CI Logistics because they demonstrated their engineering expertise by interpreting the brief in a unique way."

Neil Chaplain, Head of Operations, LIMPAC Allibert

Genealogy

April 16, 1870

- Fred A. Poor, Portec's founder, born in Andover, Maine

1887

- Poor begins business career with Adams Express Company

1892

- Poor joins Hall Signal Company of Chicago

1900

- Poor joins the Weber Rail Joint Company, Chicago

1904

- Continuous Rail Joint Company Ltd. is formed in Canada

1905

- Continuous Rail Joint Company merges with Weber Rail Joint Company and Independent Supply Company of Chicago to form the Rail Joint Company of New York

1906

- After patenting one of the first successful rail anchors and forming the Railway Specialty and Supply Company with R.N. Baylies, Fred Preston and Philip W. Moore on April 12, Poor continues on with the Rail Joint Company

1910

- Railway Specialty and Supply Company changes name to P&M Company (after Preston and Moore) and is now known as the largest supplier of rail anchors in the world
- Fred Poor leaves the Rail Joint Company to become President of P&M Company

1912

- P&M Company Ltd. (Portec, Rail Products Ltd.) formed in Canada

1919

- P&M (England) Ltd. (Portec Rail Products UK Ltd.) formed in association with Lt. Col. L.P. Winby

1928

- Name of P&M Company changed to Poor & Company
- Common stock listed on New York Stock Exchange

1929

- Fred Poor purchases the Rail Joint Company at which he once worked

1930

- Establishment of P&M (Australia) Pty. Ltd. subsidiary

1950

- Purchase of Pioneer Engineering Works by Poor & Company marks entry into construction equipment business

August 20, 1953

- Fred Poor passes away

1967

- Brandon Equipment Company, Inc. (Shipping Systems) purchased

1968

- Poor & Company changes name to Portec, Inc.
- Fry & Company (Flomaster) purchased by Portec
- Paragon purchased by Portec

1969

- P&M Co. (England) Ltd. changes name to Portec (UK) Ltd. and relocates offices from London, England to Wrexham, Wales

1975

- Portec acquires Railway Maintenance Corporation (RMC)

1976

- Portec acquires Hawley Forge Manufacturing Company

1977

- Portec acquires Midwest Freight Car Company

1978

- Portec acquires Kolberg Manufacturing Corp.
- Portec purchases Georgia Railcar facility

1982

- Portec establishes Automated Systems Division to furnish guided vehicles for factory and warehouse automation

1984

- Portec sells Railcar Division to Thrall Car

1989

- Portec Railway Maintenance Products Division opens rail joint and lubrication products manufacturing facility in Huntington, West Virginia

- Portec closes Troy, New York, rail joint manufacturing facility
- Portec sells Railway Maintenance Equipment Division (RMC) to Fairmont (now Fairmont-Tamper Corp. Division of Harsco) and closes Pittsburgh manufacturing facility

1993

- Portec UK acquires Torvale Fisher Ltd. (mechanical handling company)

1994

- Portec acquires the Count Recycling Systems and Innovator Manufacturing

1996

- Portec Railway Maintenance Products Division acquires the Moore & Steele (M&S) railway lubrication product line

1997

- Portec sells construction equipment division (Kolberg and Pioneer product lines) to Astec, Inc.
- Portec Rail Products, Inc. is established as a private company following the acquisition of all Portec, Inc. railroad-related business units
- Portec Rail Products (UK) Ltd. acquires Whitehough Engineering Co. (hydraulic lubricators)

1998

- Portec, Inc. becomes a private company engaged in materials handling by merging J. Richards Industries and Manufacturing with the Flomaster Division
- Portec Rail Products, Inc.'s Canadian division — Portec, Rail Products Ltd. — rebuilds and automates Quebec rail anchor manufacturing facility

1999

- Portec Rail Products (UK) Ltd. acquires Conveyors International

2000

- Plant expansions are completed for Portec, Rail Products Ltd. spike manufacturing facility in St. Jean, Quebec and Portec Rail Products (UK) Ltd. material handling products in Wrexham, Wales

2002

- Portec Rail Products (UK) Ltd. unit, Conveyors International, acquires the assets and product lines of Quodeck, a manufacturer of turnkey equipment solutions for the fashion and garment industry

2003

- Portec Rail files S-1 registration statement with SEC relative to initial public offering of stock

2004

- Portec Rail completes initial public offering and is traded on the NASDAQ Global Select Market System under the symbol "PRPX"
- Salient Systems, Inc. is acquired, a developer of railway electronic wayside data collection and data management systems
- Portec Rail acquires Kelsan Technologies Corp., a developer of wheel/rail interface friction control products

2006

- Acquired certain assets and inventory of Kaybe Ltd. in the UK and integrated with existing material handling operation located in Leicester, England
- Acquired 100% of the outstanding common stock of Coronet Rail Ltd., a manufacturer of insulated rail joints and track fasteners based in Sheffield, England
- On April 12, Portec Rail celebrated the 100th anniversary of the founding of its earliest organizational ancestor, the Railway Specialty and Supply Company
- Acquired the railroad product line assets of Vulcan Chain Corporation, a Detroit, Michigan manufacturer of freight securement products and integrated with the Shipping Systems Division

2007

- Expanded the Huntington, West Virginia manufacturing facility to accommodate production of the Vulcan product line
- Completed the reorganization of our United Kingdom operations by consolidating our rail and material handling operations from four locations into two; one at our Sheffield, England facility (rail) and the other at our Leicester, England facility (material handling)
- Surpassed \$100 million in global sales

2008

- Capital improvements at our Huntington, West Virginia manufacturing facility focused on incorporating "Lean Manufacturing Techniques" to our Bonded Insulated Joint Kit and Bonded-to-Rail (BTR) production lines
- Railway Maintenance Products Division and the Shipping Systems Division achieved ISO 9001:2008 certification

PORTEC RAIL
P R O D U C T S , I N C .



2008 FINANCIALS

Positioned for...
Opportunity

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008.

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number: 000-50543

PORTEC RAIL PRODUCTS, INC.
(Exact name of registrant as specified in its charter)

West Virginia
(State or other jurisdiction of incorporation or organization)

55-0755271
(I.R.S. Employer Identification No.)

900 Old Freeport Road, Pittsburgh, Pennsylvania
(Address of principal executive offices)

15238-8250
(Zip Code)

Registrant's telephone number, including area code: (412) 782-6000

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2008, as reported by the NASDAQ Global Market, was \$69.8 million.

As of February 28, 2009, there were issued and outstanding 9,602,029 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

- (1) Proxy Statement for the 2009 Annual Meeting of Stockholders of the Registrant (Part III).
- (2) Annual Report to Stockholder (Part II and IV).

PORTEC RAIL PRODUCTS, INC.

INDEX TO FORM 10-K

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Cautionary Statement Relevant to Forward-looking Statements

This Form 10-K contains or incorporates by reference forward-looking statements relating to the Company. These statements may be found throughout this Form 10-K, particularly under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," among others. Forward-looking statements typically are identified by the use of terms, such as "may," "will," "plan," "should," "expect," "anticipate," "believe," "if," "estimate," "intend," and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these and similar words carefully because they describe our expectations, plans, strategies, goals and beliefs concerning future business conditions, our results of operations, our financial position, and our business outlook, or state other "forward-looking" information based on currently available information. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. We undertake no obligation to update publicly or revise any forward-looking statements. You should not place undue reliance on the forward-looking statements.

The Company identifies below important factors that could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. In particular, the Company's future results could be affected by a variety of factors, such as:

- the length and severity of the current worldwide recession;
- customer demand;
- competitive dynamics in the North American and worldwide railroad and railway supply industries;
- capital expenditures and maintenance spending by the railway industry in North America and worldwide;
- economic conditions, including changes in inflation rates or interest rates;
- product development and the success of new products;
- our ability to successfully pursue, consummate and integrate attractive acquisition opportunities;
- changes in laws and regulations;
- the development and retention of sales representation and distribution agreements with third parties;
- limited international protection of our intellectual property;
- the loss of key personnel;
- fluctuations in the cost and availability of raw materials and supplies, and any significant disruption of supplies;
- foreign economic conditions, including currency rate fluctuations;
- political unrest in foreign markets and economic uncertainty due to terrorism or war;
- exposure to pension liabilities;
- seasonal fluctuations in our sales;
- technological innovations by our competitors; and
- the importation of lower cost competitive products into our markets.

The Company specifically declines to undertake any obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

ITEM 1. BUSINESS

Overview

Portec Rail Products, Inc. (sometimes herein referred to as “we,” the “Company,” or “Portec Rail Products”) was incorporated in West Virginia in 1997, in conjunction with the purchase of rail-related assets and select material handling assets of Portec, Inc. We along with our predecessor, Portec, Inc., have served the railroad industry since 1906 by manufacturing, supplying and distributing a broad range of rail products, including rail joints, rail anchors, rail spikes, railway friction management products and systems, railway wayside data collection and data management systems and freight car securement systems. We also manufacture material handling equipment for industries outside the rail transportation sector at our United Kingdom operation. We serve both the domestic and international markets.

We operate through four global business segments consisting of Railway Maintenance Products Division (“RMP”), Shipping Systems Division (“SSD”), Portec Rail Nova Scotia Company (“Canada”) and Portec Rail Products (UK) Ltd. (“United Kingdom”). The presentation of segment information reflects the manner in which we organize and manage our segments by geographic areas for making operating decisions, assessing performance and allocating resources. Sales and operating income by segment are presented in Management’s Discussion and Analysis set forth in Item 7 in this annual report on Form 10-K and Note 14 “Segments, Geographic and Major Customer Financial Information” of our consolidated financial statements set forth in Item 8 in this annual report on Form 10-K.

Our corporate headquarters is located at 900 Old Freeport Road, Pittsburgh, Pennsylvania 15238. Our telephone number is (412) 782-6000.

Recent Developments

The American Recovery and Reinvestment Act of 2009 (“ARRA”), more commonly known as the economic stimulus or economic recovery package, was signed into law on February 17, 2009, by President Obama. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients until the recipient has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury’s consultation with the recipient’s appropriate regulatory agency. At this time, we are unable to assess what the impact of ARRA will be on our business or on our ability to secure funding from financial institutions.

Railway Maintenance Products Division – “RMP”

RMP, our largest business segment, provides track component and friction management products and services to railroads, transit systems and railroad contractors from our manufacturing and assembly plant located in Huntington, West Virginia. Our wholly-owned subsidiary, Salient Systems, Inc. (Salient Systems), provides our railroad customers with railway wayside detection and operating asset data management systems from its engineering and assembly operation in Dublin, Ohio. Approximately 90% to 95% of our sales from this entire business segment are to our United States and Canadian customers while 5% to 10% of our sales from this segment are to other customers. RMP’s administrative functions such as customer service, engineering, purchasing and accounting are conducted in Pittsburgh, Pennsylvania in the same office location as our corporate headquarters.

Track Component Products. We sell a variety of products used on new or existing track work for repair. The primary customers for these products are Class I railroads, regional railroads, local railroads, railroad contractors and transit systems. These products include standard and insulated rail joints, gauge plates, and curve blocks.

RMP is a major supplier of rail joints in the North American market. Rail joints are high strength steel bars, designed to join rails together while maintaining rail strength and continuity. Many joints are designed to be insulated from the rail to facilitate the railway signal system. Low voltage current is transmitted through the rail and segments of the track are electrically isolated through the use of insulated rail joints. We furnish our customers epoxy-bonded insulated joints, polyurethane-encapsulated insulated joints and epoxy fiberglass (non-steel) insulated joints.

As railroads have increased axle loads, train speeds and utilization of main lines, the demands placed upon the rail joint also have increased. To meet these demands, we have expanded and improved our product line of standard joints, bonded insulated joints, polyurethane-encapsulated insulated joints and fiberglass epoxy insulated joints. Continued technological advancements in metallurgy and adhesives in addition to engineering tools such as computer aided design analysis and advanced product testing processes enable us to provide a higher level of product performance.

Friction Management Products and Services. As the North American market leader, our friction management products and services control the coefficient-of-friction at the rail/wheel interface thus improving train-operating efficiency, reducing track stresses and lowering related maintenance costs for our customers. Friction management includes gauge face lubrication with rail curve greases and top-of-rail applications with friction modifiers such as our KELTRACK® Trackside. A friction modifier is designed to maintain friction levels that help provide for efficient train control and dynamics. Lubricants and friction modifiers can be applied by a fixed station at the side of the track (wayside application), by a specifically equipped truck as it moves along the rails (hi-rail application), or by units mounted on a locomotive, a special rail car inside the train consist, or transit system car (on-board application). The dominant technology of applying lubricants or friction modifiers to the rail is a wayside assembly of a tank housing a pump which feeds special distribution bars fastened to the rail. As railroads increase axle loads and utilization of main lines, friction management becomes increasingly more important. RMP designs, manufactures and sells the equipment for our friction management applications, and acts as a distributor for various other lubricants used in gauge face lubrication applications. RMP also has exclusive distributor rights for utilizing a mobile rail-mounted tribometer for use in monitoring friction levels of rail.

Our most advanced wayside friction management system is the Protector® IV application system which we began producing and selling in August 2000. The Protector® IV is suitable for transit and freight railroad solutions. It reduces rail wear, lateral forces and noise, and is in service in North America, South America, Europe and Asia. The Protector® IV is the most complete wayside system developed to function in the wide array of operating conditions found in these markets.

We believe we offer our customers the widest choice of railway friction management products and services for most applications and have a dominant share of the North American market for railway friction management products.

Wayside Data Collection and Data Management Systems. Salient Systems designs, manufactures and provides wayside measurement and detection products, services and support for both the domestic and the international railway transportation industry. Salient Systems' products are engineered to enhance our rail customers' equipment utilization by improving reliability and reducing maintenance expense.

Salient Systems' three major product lines fall under its comprehensive set of solutions for the global railroad market as its IntelliTrack® technologies.

Wayside Data Collection Systems. The wayside data collection systems focus on the health of rolling stock:

- Wheel Impact Load Detector — continually monitors locomotive and rail car wheel health by measuring and reporting the impact loads from moving trains allowing for the targeted removal of defective wheels from service.
- Hunting Truck Detector — Provides alarms for excessive lateral forces caused by hunting trucks before they significantly contribute to the rapid wear of rail and rail cars.

- Truck Performance Detector — Provides alarms for rail cars whose suspension systems are not tracking properly along curved track due to worn or defective undercarriages.
- Automatic Vehicle Overload & Imbalance Detector — Provides alarms for overloaded or imbalanced rail cars at track speeds with an additional high speed weigh-in-motion capability.
- Low Hose Detector — Provides alarms for low or dragging coupling hoses on rail cars by means of an optical sensing approach to minimize false alarms common to mechanically-based systems.
- Railstress Monitor — Provides rail-neutral temperature and rail stress readings in order to allow proper management of rail laying and maintenance procedures.
- StressNet® — A strategic network of proprietary Railstress Monitors installed along the rail that routinely measure and record a region's longitudinal stress and temperature history. The data can then be uploaded for analysis and reporting by the StressNet® Data Management System.

Database Management Systems. Salient Systems also markets two database management systems that provide extensive trend analysis to proactively identify potential safety problems and optimize maintenance planning:

- Wheel Data Management System — Presents fleet performance and actionable maintenance information in a customer readable form.
- StressNet® Data Management System — Provides long-term trend analysis of shifts in neutral rail temperature to reveal track regions increasingly at risk of rail buckling or pull-aparts.

Rail Friction Management Systems. The rail industry recognizes the benefits of proper system-wide lubrication and the effects of poor or improper lubrication on fuel consumption, rail wear and noise. Salient Systems' product line includes a tribometer product to assist in rail friction management that we will utilize as part of our approach of providing a total solution to a customer's friction management problems:

- Portable Tribometer — An effective, user-friendly method to spot-check the coefficient of friction of rail/wheel interfaces and validate the quality of rail lubrication methods.

Shipping Systems Division – “SSD”

Our SSD business segment engineers and sells load securement systems to the railroad industry. These systems secure a wide variety of products and lading onto freight cars. Our customers include railroads, railcar builders, railcar repair shops and railcar lessors. We believe that we possess a significant share of the North American railroad load securement systems market. Most of the assembly work for SSD is performed at RMP's Huntington, West Virginia manufacturing plant, although some manufacturing is subcontracted to independent third parties. SSD is headquartered near Chicago, in Oak Brook, Illinois.

In October 2006, we acquired the railroad product line assets of Vulcan Chain Corporation (Vulcan), a Detroit, Michigan manufacturer of freight securement products for the railroad industry. Since the acquisition date, the Vulcan assets and results of operations have been included in the Shipping Systems business segment and the consolidated financial statements. See Notes to Consolidated Financial Statements – Acquisition of Vulcan Chain Corporation Assets, Note 2, page 62.

SSD continues to work closely with railcar owners and shippers to promote its patented WinChock™ securement system for transporting heavy-duty highway truck tractors. SSD has also developed and successfully passed the Association of American Railroads' (AAR) established criteria for a new higher-capacity bridge plate.

Portec Rail Nova Scotia Company, our wholly-owned Canadian subsidiary – “Canada”

In conjunction with the acquisition of Kelsan, we established a new Canadian subsidiary, Portec Rail Nova Scotia Company, and transferred ownership of Portec, Rail Products Ltd. to Portec Rail Nova Scotia Company. This subsidiary was initially established to provide a legal structure for our Canadian entities that would provide the most advantageous tax benefits under both Canadian and United States income tax laws. In 2007, the United States Internal Revenue Service (IRS) enacted new regulations that had a potentially adverse impact on our previous favorable tax position, and resulted in a restructuring of the debt obligations of the Portec Rail Nova Scotia entity in December 2008. Management has evaluated the tax structure of our Canadian business segment and implemented a plan that we believe will preserve the tax benefits under this new debt structure.

Our Canadian operations produce rail anchors and rail spikes at our manufacturing plant in St. Jean, Quebec, primarily for the Canadian railroads, with some products exported to the United States and for other international customers. Rail anchors and rail spikes are devices used to secure rails to wooden ties to restrain the movement of the rail. We also design, manufacture, and sell friction management products from our facility in Lachine, Quebec, a suburb of Montreal.

Our Kelsan Technologies operation is headquartered in Vancouver, British Columbia. Kelsan is an innovative developer of friction control solutions, which control friction at the wheel/rail interface in order to reduce costs and improve performance. Used by transit and freight rail companies around the world, Kelsan’s patented friction control solutions extend rail and wheel life, improve fuel efficiency, reduce green house gas emissions, and also reduce noise, lateral forces, and short pitch corrugations. Kelsan markets the environmentally friendly technology to customers in both liquid and solid sticks through a variety of delivery systems.

For its liquid products Kelsan manufactures KELTRACK®, which is a patented water-based liquid friction modifier. KELTRACK® is applied using a Portec Rail Products Protector® IV Top-Of-Rail application system, or through a variety of other application methods for hi-rail or on-board systems. When applied, KELTRACK® leaves a dry thin film on the top of the rail surface. The thin film is then transferred to the vehicles from the top of the rail and provides friction control between the wheel/rail interface. KELTRACK® is manufactured in different formulas matched to a variety of applications in both freight and transit systems.

For its solid stick products, Kelsan manufactures a spring-applied solid lubricant stick made of unique ingredients that when applied to a rail wheel flange or tread, help improve the lubrication and traction qualities of the rail/wheel interface.

There are two major Canadian transcontinental railroads, the Canadian Pacific Railway and the Canadian National Railway, that we serve from our Canadian operations, and a number of regional railroads. Kelsan also has an established network of agents and distributors throughout the world, in particular Europe and Asia, to supplement its sales team. This network is now used to aggressively promote our friction management equipment into these two key markets, while realizing continuing ongoing sales of the friction modifier solutions being pumped onto the rails through our equipment.

Portec Rail Products (UK) Ltd., our wholly-owned United Kingdom subsidiary – “United Kingdom”

In the United Kingdom, we operate and serve our customers in two different markets. Our Portec Rail Group in Sheffield, England serves our United Kingdom and European customers. Product lines include friction management products and services and track component products similar to those of our North American divisions. We design and manufacture a complete line of rail joints including the Coronet epoxy (glue) insulated rail joints, a Coronet nylon-encapsulated insulated joint, and also distribute a complete line of track fastener to the United Kingdom railways as well as to international customers. The Portec Rail Group in Sheffield also designs and sells friction management products for the United Kingdom and European markets and distributes KELTRACK® trackside friction modifiers and Protector® IV application systems.

In the material handling market, we operate and serve our customers from our location in Leicester, England, under the trade name of Conveyors International (CI Logistics). Our material handling operation designs, manufactures and sells various products, such as overhead and floor conveyors, expandable boom conveyors, racking systems and mezzanine flooring systems. Our material handling systems are designed to provide our

customers with a total solution to moving products throughout their factory, offloading their products from trucks and moving their goods in other types of applications. Our Quodeck product line is a line of racking systems, mezzanine floor systems and turnkey equipment mainly used in the garment distribution industry.

During the third quarter 2006, we announced a business reorganization plan, which consolidated our rail and material handling operations in the United Kingdom from four locations into two, one at our Sheffield, England facility (rail) and the other at our Leicester, England facility (material handling). Prior to December 2006, we also had locations in Stone, England and Wrexham, Wales. As a result of the business restructuring during 2006, we closed the Stone and Wrexham locations, and sold our Wrexham facility for approximately \$2.0 million (£1,025,000 pounds sterling) in March 2007. The reorganization was substantially complete as of December 31, 2006, and was finalized during the first quarter 2007.

In April 2006, we acquired the common stock of Coronet Rail, Ltd. (Coronet Rail), a United Kingdom-based manufacturer of railway track component products. Coronet Rail is operated under the United Kingdom business segment. See Notes to Consolidated Financial Statements – Acquisition of Coronet Rail, Ltd., Note 3, page 63.

In January 2006, we acquired certain assets of Kaybe (Conveyors) Ltd. (Kaybe). The acquired assets include inventory, the Kaybe name and the customer list. The Kaybe product line is primarily for use in the warehousing sector. The acquired assets were integrated into our existing material handling operation located in Leicester, England. This product line is operated under our United Kingdom segment. See Notes to Consolidated Financial Statements – Acquisition of Kaybe (Conveyors) Ltd. Product Line Assets, Note 4, page 64.

Alliances

We have created alliances with independent strategic partners within our industry to broaden the scope of our existing friction management products and services that we provide to our customers. In 2000, we formed an informal alliance of technology companies to enhance friction management solutions for the wheel/rail interface; however, since 2000, some of the original members such as Kelsan Technologies and Salient Systems have become wholly-owned subsidiaries of our company. Except for these wholly-owned subsidiaries and two other independent members, there are no formal written agreements among all the other members of the alliance. Under the Friction Force[®] registered trademark brand of products and services, the alliance strengthens our market position in lubrication and friction management and enables us to deliver improved solutions with enhanced value to our customers. For one independent alliance member, we have a written agreement that names us as the exclusive North American distributor for the SoyTrak[™] Rail Curve Lubricant, a biodegradable, environmentally-friendly soy-based lubricant developed and manufactured by Environmental Lubricants Manufacturing, Inc. For the other independent alliance member, we have a written exclusive distributorship for DMF (Diversified Metal Fabricators) to market and use a mobile rail-mounted tribometer which measures rail friction in order to help manage our friction management application methods. These alliances evolve as needed to address market opportunities as well as to most effectively serve our customers.

Industry Overview

We provide products and services primarily for the railway industry, which includes freight railroads and transit systems. However, the demand for our products could be impacted by the continuing fluctuation in energy costs and the current economic conditions. We service the railway industry, which is dependant on the rising and falling costs of energy. Rail traffic, car loadings, new freight-car builds, capital expenditures and maintenance spending are factors that impact the demand for our products and services. The railway industry in North America and worldwide is a capital intensive industry, and our sales may be impacted by the industry's capital expenditures and maintenance spending for programs designed to increase the efficiency and productivity of rail operations and for routine maintenance of rail operations. Deregulation and consolidation in the railroad industry, market competition between railroads and trucking and the impact of the global economy continue to impact the railway industry, including the railway supply market. We believe the railway industry is in a long-term growth trend despite the current global economic crisis.

The Surface Transportation Board, the federal agency responsible for the economic regulation of the railroad industry, designates United States freight railroads into three classes based upon their operating revenues. “Class I” railroads are defined as those with operating revenue of at least \$359.6 million in 2007; “Class II” railroads had between \$28.8 million and \$359.6 million of operating revenue in 2007; “Class III” railroads had less than \$28.8 million of operating revenues in 2007.

The Association of American Railroads (AAR) identifies two groups of non-Class I railroads based upon their revenue and mileage characteristics. “Regional” railroads are defined as line-haul railroads that operate at least 350 miles of road and/or earned revenue between \$40 million and the Class I revenue threshold. “Local” railroads include freight railroads, which are not Class I or regional. Local railroads operate less than 350 miles of road and earn less than \$40 million of revenue annually.

Since 1979, consolidation in the North American railroad industry has resulted in 36 Class I railroads being reduced to seven. In particular, several mergers of large U.S. railroads have occurred in the last 20 years. We believe that the improved efficiency and service capability of the larger railroads ultimately tends to boost rail traffic, which is an important driver of the demand for our products.

Business Strategy

Our business strategy is to (i) increase the market share of our track component products that serve as the foundation for our railway business; (ii) advance the technology and expand the friction management products and services along with our wayside detection and data operating management systems that we offer to railroads and transit system companies in North America while expanding our geographic footprint globally, with a primary focus on Europe, South America and Asia; (iii) increase our offering of products and services to assist businesses in loading, securing and transporting materials on railcars; (iv) increase the sales and profitability of our material handling products; and (v) continue to seek accretive acquisition opportunities that can assist in growing our business by complementing or expanding our existing products and services.

Sales and Marketing

Each of our business units initiates their individual sales programs, which vary due to the different product lines and geographic locations. Our marketing efforts include promoting our business through trade show presentations, industry research/application papers, trade magazine advertising, a worldwide sales distribution network and through our website. In addition, our managers and engineers participate in various industry conferences and industry professional organizations to interface with customer engineers and end users of our products. The business units also use an in-house sales department to sell replacement parts and field service and a combination of employee sales personnel, third party sales representatives and distributors to call on customer purchasing managers, engineers and operations managers. Internationally, we also utilize a network of agents across Europe, South America and Asia and our internal sales employees to reach current customers and cultivate potential customers in these areas.

Sources and Availability of Raw Materials and Supplies

The products we manufacture and sell require a supply of raw materials, including steel and steel fabrications and numerous specialty components, such as pumps, distribution bars and electronic controls. There are at least two suppliers for most components. Inventory levels are continually monitored to ensure adequate supplies are available to meet our production requirements. Periodically, advance purchases are made to avoid possible shortages of material due to capacity limitations of component suppliers and possible price increases. We rely on established relationships with major suppliers to ensure the availability of raw materials and specialty items rather than long term supply contracts. However, when raw material prices are volatile we will consider the use of multi-year supply agreements. Our goal is to maintain good relationships with our suppliers and we have not experienced any significant interruptions in recent years in the supply of raw materials or specialty components.

The fluctuating costs of our raw materials and supplies could negatively impact our profits. As the volatility of the markets continues to change, so does the pricing of our raw materials and supplies. We may not have the ability to incorporate these price changes into the marketing of our products due to contract constraints and

competitive pricing pressures. Accordingly, this may limit our ability to maintain existing margins, and may also have a material effect on our operating profits.

Although there are a large number of domestic and foreign suppliers of steel and steel fabricators, our RMP segment relies upon two primary steel suppliers for a substantial amount of its joint bar steel, but also has three other domestic steel suppliers. The steel that we purchase is priced via combination of prevailing market prices and previously negotiated customer prices. RMP has utilized steel suppliers in China for some of its domestic steel requirements. This provides an additional steel source as we continue to monitor the prices and availability from our domestic steel suppliers. Our Montreal operation obtains the bulk of its steel supply for rail spikes and rail anchors from three steel suppliers. There is an informal agreement with one of these suppliers and we purchase steel at prevailing market prices. Our Kelsan operation has two years remaining on a three-year supply agreement with a supplier of its primary raw material. This agreement provides fixed pricing and monthly minimum and maximum purchase quantities.

Principal Customers

Our business depends largely upon sales to United States, Canadian and United Kingdom railroads and transit systems. For each of the years ended December 31, 2008 and 2007, sales to our two largest customers, Canadian Pacific Railway and Canadian National Railway, accounted for approximately 15% and 7% for 2008 and 10% and 9% for 2007 of our total sales. For additional information on our principal customers, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business Segment Review.”

Backlog

Our backlog is based on customer purchase orders that we believe are firm. Customer orders, however, may be subject to cancellation and other customary industry terms and conditions. Historically, little variation has been experienced between the number of products ordered and the number of products actually sold. A significant portion of our sales have very short lead terms of 30 to 60 days that may not be recorded on any quarter or year end backlog summary. The backlog is not necessarily indicative of future results of operations. The railroad industry, in general, has historically been subject to fluctuations due to overall economic conditions.

The following table sets forth the dollar amount of backlog for our business segments at the dates indicated.

	At December 31,		
	2008	2007	2006
	(In thousands)		
RMP.....	\$ 6,665	\$ 8,911	\$ 8,532
SSD.....	780	1,190	1,225
Canada.....	3,800	1,755	4,203
United Kingdom.....	<u>2,861</u>	<u>4,510</u>	<u>6,620</u>
Total backlog.....	14,106	16,366	20,580
Less: Intra-company backlog.....	<u>1,135</u>	<u>323</u>	<u>738</u>
Net external backlog.....	<u>\$ 12,971</u>	<u>\$ 16,043</u>	<u>\$ 19,842</u>

Seasonality of Business

The demand for some of our products is subject to seasonal fluctuations. Our railroad product lines normally experience strong sales during the second and third quarters as a result of seasonal pick-up in construction and trackwork due to favorable weather conditions. In contrast, our railroad product lines experience normal downturns in sales during the first and fourth quarters due in part to reductions in construction and trackwork during the winter months, particularly in the northern United States and Canada. This reduction in sales generally has a negative impact on our first and fourth quarter results. Notwithstanding seasonal trends, quarterly fluctuations in railroad spending for capital programs and routine maintenance can alter the expected seasonal impact on our business.

Patents and Trademarks

We own a number of United States, Canadian and international patents and trademarks including those acquired with the purchase of Salient Systems, Kelsan and the Vulcan Chain railroad product line. We have several patents on our friction management products, such as the Protector® IV application system, along with a significant number of patents related to our friction modifier product lines at Kelsan, which we believe are of material importance to the business as a whole. With the purchase of the Vulcan Chain railroad product line in October 2006, we acquired a patent for a vehicle restraint assembly, which we believe is a significant addition to the SSD business segment. We believe that, in the aggregate, our patents and trademarks give us a competitive advantage. We also rely on a combination of trade secrets and other intellectual property laws, non-disclosure agreements and other protective measures to establish and protect our proprietary rights in intellectual property.

Research and Development

Our research and development programs focus on improving the effectiveness of our existing products and innovating new products and technologies for our customers. During the years ended December 31, 2008, 2007 and 2006, we spent approximately \$3.0 million, \$2.4 million and \$2.6 million, respectively, on research and development programs.

A large portion of our research and development efforts have been devoted to developing friction management products, particularly the Protector® IV electronic lubricator, as well as the associated distribution bars for both gauge face lubrication and top-of-rail friction modifiers. In addition to the wayside Protector® IV system, we have committed resources to various application methods of our friction modifiers. We will continue to dedicate resources to commercialize the Salient Systems' Railstress Monitor, and to fund technological advancements of Kelsan's stick lubrication and liquid friction modifier product lines. Development efforts also continue on niche items for our track component group, as heavier axle loads and higher speeds continue to require more reliability and longer life of some products in this product group.

Competition

Competition on some of our product lines has been strong. We feel that the diversity of our product lines and product offerings strengthens our competitive position and provides better products and services to our customers.

For our track component product lines, price competition is strong mostly due to the fact that this product group is recognized as a commodity group. However, opportunities to obtain better pricing for our products reflects specialized designs being developed due to heavier axle loads, higher rail traffic volumes and higher train speeds causing the need for longer lasting and overall better performing products. Competition comes primarily from various long time suppliers. For some products, foreign suppliers continue to attempt to enter the larger North American market, but with higher transportation costs and higher material costs worldwide, this activity has slowed down during 2008.

For our friction management and wayside detection systems, our highly engineered products offer opportunities for competing on a value-added basis. Price is a factor, but it can be less significant when this product group sells on the merits of total value provided to the customer. Product performance, technological leadership, quality, reliability of delivery and strong customer service and support are all valued by our customers and are all significant factors when evaluating the price of our products. We believe we have significant market share positions with both of these product groups, but the need is always there to use our research and development efforts to penetrate new market segments. Competitors in these product groups have not changed over the last year. We believe that our competitors remain committed to enter our markets. Consequently, we continue to attempt to provide the best value for our customers by supplying a quality product at the most affordable price. Intellectual property rights also continue to be used to sustain our significant position in North America and in growing our penetration levels into new markets.

For our load securement systems, we have an established position in the marketplace. The acquisition of the Vulcan Chain product line in October 2006 eliminated a significant competitor. The integration of this product line into our Huntington, West Virginia manufacturing facility has positioned us to capitalize on improved cost efficiencies.

For our material handling group, which is located in Leicester, England, the competitive environment has not changed significantly. This is a project-type product group that is bid against a variety of competitors depending on the type of project. To compete and be successful, we must sustain a competent technical workforce and strive for the lowest cost of production.

Environmental Matters

We are subject to foreign, national, state, provincial, and local environmental laws and regulations concerning, among other matters, air emissions, wastewater discharge, solid and hazardous waste disposal, and employee health and safety. We believe that our current operations are in compliance with all applicable environmental laws and regulations. See “Legal Proceedings” for information relating to a proceeding in which we are involved regarding environmental matters.

Regulation

In the course of our operations we furnish products and services which are required to meet industry specifications. The American Railway Engineering and Maintenance of Way Association (AREMA) publishes standards and recommended practices applicable to our track component product line. Our customers use the AREMA standards and from time to time include their own specifications for the products and services that they purchase. The Association of American Railroads (AAR) promulgates a wide variety of rules and regulations governing the safety and design of equipment. Our securement system designs require AAR approval as well as our customer’s approval and often the approval of the shipper. In the United Kingdom, our products must gain approval and meet the specifications of Network Rail, the national United Kingdom rail infrastructure system.

We maintain quality assurance programs at all of our locations. With one exception, all of our locations are all certified under ISO 9001:2000.

Employees

We employed 305 people at December 31, 2008, of which 146 were located in the United States, 94 were located in Canada, and 65 were located in the United Kingdom. We consider the relationship with our employees to be good. Our employees in the United States, the United Kingdom and our Canadian employees in Vancouver, British Columbia are not subject to any collective bargaining agreement. Approximately 10% of our employees, all of whom are employed at our manufacturing facility in St. Jean, Quebec, Canada, are subject to a collective bargaining agreement. This agreement is effective through August 31, 2009.

Available Information

Availability of Reports. Portec Rail Products, Inc. is a reporting company under the Securities Exchange Act of 1934, as amended (the “1934 Act”), and files reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). The public may read and copy any Company filings at the Commission’s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. Because the Company makes filings to the Commission electronically, you may access this information at the Commission’s internet site: www.sec.gov. This site contains reports, proxies and information statements and other information regarding issuers that file electronically with the Commission.

Web Site Access. Our internet Web site address is www.portecrail.com. We make available, free of charge at this Web site, access to annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Commission. Access to reports of beneficial ownership filed pursuant to Section 16(a) of the 1934 Act are also available on our Web site.

ITEM 1A. RISK FACTORS

Risk Factors Relating to Our Business

Currency fluctuations between the U.S. dollar, Canadian dollar and British pound sterling can adversely affect our reported financial results.

The majority of our products and services are sold in the United States, Canada and the United Kingdom. Fluctuations in the relative values of the United States dollar, Canadian dollar and British pound sterling could significantly increase the cost of our products to the ultimate purchaser. Under such circumstances our sales may decrease or we may have to reduce the prices for our products and services, thereby reducing our income.

We report our financial condition and results of operations in United States dollars. Fluctuations in the relative values of the United States dollar, Canadian dollar and British pound sterling will require adjustments in our reported earnings and operations to reflect exchange rate translation in our Canadian and United Kingdom sales and operations. Our reported financial results will be impacted in response to such currency fluctuations. If the United States dollar strengthens in value as compared to the value of the Canadian dollar or British pound sterling, our reported earnings in dollars from sales in those currencies will be unfavorable. Conversely, we will have a favorable result if the United States dollar weakens in value as compared to the value of the Canadian dollar or British pound sterling.

We do not have any control over exchange rates, as these are largely driven by worldwide economic factors. Beginning in approximately the fourth quarter 2008, and continuing into the first quarter 2009, the exchange rate of the Canadian dollar and British pound sterling into United States dollars has weakened considerably. Lower exchange rates of these currencies into United States dollars may have an adverse impact on our consolidated results of operations.

New legislation or regulatory changes could impact the Company's earnings or restrict its ability to independently negotiate prices.

Political changes could result in legislative or regulatory changes that impose new burdens on the Company and its customers, increase operating costs, reduce operating efficiency or limit revenues. Legislation passed by Congress or new regulations issued by federal agencies could potentially have a significant impact on the revenues, costs and profitability of the business of the Company's railroad customers resulting in a potential adverse impact on our business. The railroad industry is vulnerable to economic re-regulation by Congress, which could have a significant negative impact on rail services and would likely force a reduction in capital spending by the Company's primary customers. For example, statutes imposing price or labor constraints or affecting rail-to-rail competition could adversely affect the profitability of railroads which in turn may reduce their expenditures. Also, additional regulations related to environmental matters such as greenhouse gas emissions could increase operating costs or reduce operating efficiencies of railroads thereby affecting the business of our customers and reducing the income we receive from the railroad industry.

We have limited international protection of our intellectual property.

We own a number of patents and trademarks under the intellectual property laws of the United States, Canada and the United Kingdom. Our patent protections begin expiring in 2014. However, we have not perfected patent and trademark protection of our proprietary intellectual property in other countries. The failure to obtain patent and trademark protection in other countries may result in other companies copying and marketing products that are based upon our proprietary intellectual property. This could impede our growth into new markets where we do not have such protections and result in greater supplies of similar products, which in turn could result in a loss of pricing power and reduced revenue.

We may not achieve benefits from future acquisitions.

Our business strategy includes the potential acquisition of businesses that we expect would complement and expand our existing products and services. We may not be able to successfully identify suitable acquisition opportunities or complete any particular acquisition, combination or other transaction on acceptable terms. In addition, the timing and success of our efforts to acquire any particular business and integrate the acquired business into our existing operations cannot be predicted. Acquisitions involve a number of risks and challenges, including:

- diversion of management's attention;
- the need to integrate acquired operations, internal controls and operational functions;
- potential loss of key employees and customers of the acquired companies;
- an increase in our expenses and working capital requirements; and
- increased debt or dilution from issuance of common stock.

Any of these factors could adversely affect our ability to achieve anticipated benefits from an acquisition.

Disruption of our relationships with key suppliers would adversely affect our business.

We rely upon third party steel mills to manufacture steel for our track component products based upon specifications that we provide. In 2008, approximately 84% of our domestic requirements for steel were purchased from two primary suppliers, and approximately 73% of our Canadian requirements were purchased from two primary Canadian suppliers. In the event our steel suppliers for railroad track products were to go out of business, refuse to continue their business relationship with us or become subject to work stoppages, our business could be disrupted. While management believes that it could secure alternative manufacturing sources, there can be no assurance that we would not incur substantial delays and significant expense in securing such alternative suppliers. Furthermore, alternative suppliers might charge significantly higher prices than we currently pay. Under such circumstances, the disruption to our business may have a material adverse impact on our financial condition or results of operations.

If we lose key personnel or qualified technical staff, our ability to manage the day-to-day aspects of our business will be adversely affected.

We believe that the attraction and retention of qualified personnel is critical to our success. If we lose key personnel or are unable to recruit qualified personnel, our ability to manage the day-to-day aspects of our business will be adversely affected. Our operations and prospects depend in large part on the performance of our senior management team, which includes Richard J. Jarosinski, our President and Chief Executive Officer, Konstantinos Papazoglou, our Executive Vice President and Chief Operating Officer, and John N. Pesarsick, our Chief Financial Officer. The loss of the services of one or all members of our senior management team could have a material adverse effect on our business, financial condition or results of operations. Because our senior management team has many years experience with our company and within the industries in which we operate, it would be difficult to replace them without adversely affecting our business operations. We do not have employment or non-compete agreements with any members of our senior management team.

As we expand our sales of products and services internationally, we will increase our exposure to international economic and political risks.

Historically, substantially all of our business has been conducted in the United States, Canada and the United Kingdom. International revenues outside of our core United States, Canada and United Kingdom markets accounted for 12% and 7.0% of our revenues for the years ended December 31, 2008 and 2007, respectively. We are placing increased emphasis on the expansion of our international sales opportunities. Doing business outside the United States subjects us to various risks, including changing economic and political conditions, work stoppages, exchange controls, currency fluctuations, armed conflicts and unexpected changes in United States and foreign laws relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. Increasing sales to foreign countries will expose us to increased risk of loss from foreign currency fluctuations and exchange controls as well as longer accounts receivable payment cycles. We have no control over most of these risks and may be unable

to anticipate changes in international economic and political conditions and, therefore, unable to alter our business practices in time to avoid the adverse effect of any of these possible changes.

We have significant pension liabilities, which may significantly increase our funding requirements under ERISA and other applicable regulations.

We maintain defined benefit pension plans in the United States and United Kingdom that cover a significant number of our current employees, former employees and retirees. These defined benefit pension plans were frozen effective December 31, 2003. Our actuaries currently project that our obligations to the pension plans' beneficiaries exceed plan assets. The shortfall in plan assets may cause us to fund significant amounts of cash into these plans to cover any minimum funding requirements under regulatory requirements. As a result, in 2009, we will be required to make minimum contributions to our U.S. defined benefit plan of \$116,000, and to our United Kingdom defined benefit plans of \$135,000 (£93,000 pounds sterling).

Our retirement benefit plan liability is inversely impacted by the interest rate used in our actuary's calculation. As a result, when interest rates decline, our actuarially calculated benefit plan liability increases. Conversely, as interest rates increase, the actuarially calculated retirement benefit plan liability decreases. In 2008, a decrease in interest rates caused an increase in our actuarially calculated benefit plan liability and our retirement benefit plan liability still exceeded the fair value of plan assets. However, as the interest rates decreased and our actuarially calculated retirement benefit plan liability increased between December 31, 2007 and 2008, we decreased our shareholders' equity by \$1,839,000 in order to reflect the increase in our minimum pension liability. For the same period of the prior year, our shareholders' equity was increased by \$1,380,000 in order to reflect a reduction in our minimum pension liability. Further declines in the market value of these defined benefit pension plan assets will have an adverse impact on our shareholder's equity and uses of cash for other investment opportunities.

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

We are required under generally accepted accounting principles to review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered to be a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include a decline in stock price and market capitalization, a significant decrease in the market value of an asset, and slower growth rates in our industry. We may be required to record a significant charge to earnings during the period in which any impairment of our goodwill or intangible assets is determined. This may adversely impact our results of operations or financial condition.

Risk Factors Relating to Our Industry

General economic conditions could negatively impact demand for our products and services.

The current economic environment has impacted demand for rail and rail commodities. Further decline in general domestic and global economic conditions could further affect demand for our products, which in turn could reduce our revenues, increase bad debt expense, significantly reduce our cash flow, or have other adverse effects. Continued weakness of the economy or further downturns could adversely affect our Company's operating results.

Our sales can fluctuate from quarter to quarter due to seasonal factors or our railroad customers' capital expenditure or routine maintenance spending programs.

Our sales can fluctuate from quarter to quarter because of several factors. First, the demand for certain of our railroad product lines, including rail joints, rail anchors and spikes, is subject to seasonal fluctuations. We generally experience strong sales in the second and third quarters as a result of seasonal pick-up in construction and trackwork due to favorable weather conditions, compared with an expected downturn in the first and fourth quarter of each year due largely to reductions in construction and trackwork in the winter months. Notwithstanding expected seasonal fluctuations, many of our customers are large companies which, as a matter of routine purchasing practices, place large orders for our products and services that can have a disproportionate impact on our revenues in

a particular quarter. Such large orders in any given quarter improve the sales performance of that quarter. Conversely, if a major customer delays spending in a particular quarter, our revenue decreases in that quarter.

A decrease in rail traffic or rail capital expenditures due to weakness in the general economy or competitive factors could adversely affect our operating results.

Weakness in the general economy, or factors such as work stoppage or competition from other modes of transportation, can cause a decrease in rail transportation or rail capital expenditures, which could have an adverse impact on our financial condition or results of operations. For example, railroads directly compete with the trucking industry for the transportation of freight. In the event that the transportation of freight by truck becomes preferable as a result of pricing, legislative developments or other factors, the profitability of railroads would be adversely affected, resulting in a decrease in capital spending or routine maintenance spending. A decrease in capital spending or routine maintenance spending by our railroad customers could result in lower sales of our products and decreased revenue.

Competition and innovation by our competitors may adversely affect our business.

The markets for our products are highly competitive. Competition is based on price, product performance, technological leadership, customer service and other factors. Technological innovation in the railroad and railroad supply industry has evolved and continues to evolve. Technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage. In particular, our business would be adversely affected if any existing or new competitors developed improved or less expensive products.

New or existing competitors may import track component products for sale in the North American market at reduced prices.

Our rail joint, rail anchor, rail spike and other track component market share could be reduced by new or existing competitors importing either raw material steel for these products or finished products from lower cost foreign sources. Standard rail joints are currently available, imported from Asia, and have been approved for use and are being purchased by some Class I and short line railroads.

Further consolidation of the railroad industry may adversely affect our business.

Over the past 10 years there has been a consolidation of railroad carriers operating in North America. Currently, seven Class I railroads operate in North America, which includes two major railroads in Canada. Future consolidation of the railroad industry may affect our sales and result in reduced income because the loss of a Class I account to competitors would have a greater impact on our operations.

Risk Factors Relating to Our Stock Ownership

Potential voting control by directors, management and employees could make a takeover attempt more difficult to achieve.

Our directors, management and employees control a significant percentage of our common stock. Executive officers and directors as a group own 2.9 million shares, or 31% of the outstanding shares as of December 31, 2008. If these individuals were to act together, they could have significant influence over or control the outcome of any shareholder vote. This voting power may discourage takeover attempts that other shareholders may desire.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our business through our corporate and business unit offices, and through our manufacturing facilities. Our offices and manufacturing facilities are suitable and adequate to meet our current and future production requirements. The following table sets forth information about our offices and manufacturing facilities as of December 31, 2008.

<u>Corporate Office</u>	<u>Owned or Leased</u>
900 Old Freeport Road Pittsburgh, Pennsylvania 15238	Leased
<u>Business Unit Offices</u>	
Railway Maintenance Products Division 900 Old Freeport Road Pittsburgh, Pennsylvania 15238	Leased
Salient Systems, Inc. 4393-K Tuller Road Dublin, OH 43017 (1)	Leased
Shipping Systems Division 120 West 22nd Street Oak Brook, Illinois 60523	Leased
Portec, Rail Products Ltd. 2044 - 32 nd Avenue Lachine, Québec, H8T 3H7 Canada (1)	Leased
<u>Manufacturing Facilities</u>	
Portec Rail Products, Inc. 900 Ninth Avenue West Huntington, West Virginia 25701	Leased
Portec, Rail Products Ltd. 350 Boulevard Industriel Saint-Jean-sur-Richelieu, Québec, J3B 4S6 Canada (2)	Owned
Kelsan Technologies Corp. 1140 West 15 th Street North Vancouver, B.C. V7P 1M9 Canada (1)	Leased
Portec Rail Products (UK) Ltd. 43 Wenlock Way Troon Industrial Area Leicester LE4 9HU United Kingdom (1)	Leased
Coronet Rail, Ltd. Portec Rail Products (UK) Ltd. Stamford Street Sheffield S9 2TL United Kingdom (1)	Leased

(1) Serves as a business unit office and manufacturing/assembly facility.

(2) This property is subject to several encumbrances under our credit facilities.

ITEM 3. LEGAL PROCEEDINGS

We are involved periodically in various claims and lawsuits that arise in connection with our business. Other than as set forth below, these are routine legal proceedings that, in the aggregate, are not material to our financial condition and results of operations.

In July 1999, Portec, Inc., the predecessor of Portec Rail Products, was named as a defendant in Niagara Mohawk Power Corporation v. Consolidated Rail Corporation, et al. venued in the United States District Court, Northern District of New York. The plaintiff, Niagara Mohawk Power Corporation (“Niagara Mohawk”) is seeking contribution from nine named defendants for costs it has incurred, and is expected to incur, in connection with the environmental remediation of property located in Troy, New York under the Comprehensive Environmental Response, Compensation and Liability Act, also known as “CERCLA” or “Superfund,” and other causes of action. The basis of the action stems from Niagara Mohawk’s agreement with the New York State Department of Environmental Conservation, pursuant to an Order on Consent, to environmentally remediate property identified as the Troy Water Street Site. The defendants consist of companies that at the time were industrial in nature, or owners of companies industrial in nature, and who owned or operated their businesses on portions of the Troy Water Street site or on properties contiguous, or otherwise in close proximity, to the Troy Water Street Site. Niagara Mohawk alleges that the defendants either released hazardous materials directly to the Troy Water Street site or released hazardous materials that migrated onto the Troy Water Street Site, and therefore the defendants should be responsible for a portion of the costs of remediation.

In September 1999, we filed our answer, denying responsibility for Niagara Mohawk’s allegations. In November 2001, we filed a motion for summary judgment, seeking to have Portec, Inc. removed as a defendant or, in the alternative, to have the court limit the claims that may be asserted against Portec, Inc. In November 2003, the United States District Court, Northern District of New York granted the summary judgment motion filed on behalf of Portec, Inc., and dismissed all claims and cross-claims against Portec, Inc. Although a number of other defendants were also dismissed on summary judgment, a few were not, and therefore the action is continuing. The summary judgment decision was entered as an amended judgment in March 2004. In March 2004, Niagara Mohawk filed a notice of appeal to the United States Court of Appeals for the Second Circuit. In April 2005, the plaintiff’s appeal was dismissed by the Second Circuit Court without prejudice, and the matter was remanded to the District Court for consideration in light of a new United States Supreme Court decision. As a result, in June 2006, the District Court dismissed all claims brought by the plaintiff pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund). In July 2006 the plaintiff filed a notice of appeal to the Second Circuit. However, in early 2008, the plaintiff’s appeal was dismissed again by the Second Circuit Court without prejudice, and the matter was remanded to the District Court for consideration in light of another recent United States Supreme Court decision. In July 2008, the District Court decided that the United States Supreme Court decision did not necessitate any change in the District Court’s prior determinations in this case and held that all of its prior rulings stand. In August 2008, the plaintiff filed a third notice of appeal to the Second Circuit Court. This appeal is currently in the briefing process. Ongoing litigation may be protracted, and we may incur additional ongoing legal expenses, which are not estimable at this time.

We believe that Niagara Mohawk’s case against Portec, Inc. is without merit. Because Niagara Mohawk is seeking unspecified monetary contribution from the defendants, we are unable to determine, if Niagara Mohawk were to prevail on appeal, the extent to which we would have to make a contribution, or whether such contribution would have a material adverse effect on our financial condition or results of operations. However, total clean up costs at the Troy Water Street site are expected to be substantial and may approach \$50 million. If liability for a portion of these costs is attributed to us, such liability could be material. Furthermore, if Niagara Mohawk wins on appeal, ongoing litigation may be protracted and legal expenses may be material to our results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the year ended December 31, 2008 to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Portec Rail Products, Inc. common stock is currently listed on the NASDAQ Global Market under the symbol "PRPX." Trading in the Company's common stock on the NASDAQ Global Market commenced in January 2004. As of February 28, 2009, there were 9,602,029 shares of Portec Rail Products, Inc. common stock issued and outstanding and approximately 226 shareholders of record, which does not include shares held by shareholders in broker accounts.

Set forth below is information regarding the payment of dividends and our high and low bid and asked price for each quarter of 2008 and 2007.

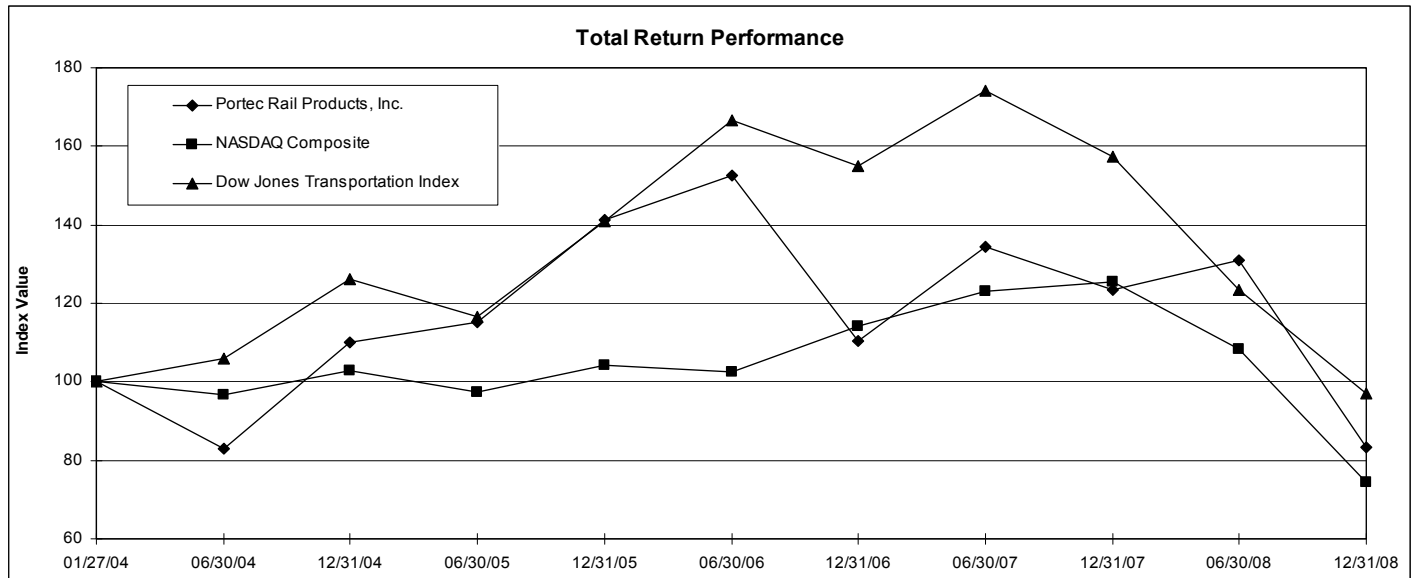
<u>Quarter Ended- 2008</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
March 31	\$ 11.64	\$ 8.21	\$ 0.06
June 30	12.90	10.50	0.06
September 30	12.44	8.25	0.06
December 31	9.09	4.08	0.06
<u>Quarter Ended- 2007</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
March 31	\$ 10.67	\$ 9.50	\$ 0.06
June 30	13.13	9.97	0.06
September 30	14.05	9.56	0.06
December 31	12.98	9.70	0.06

Under West Virginia law, we may pay dividends and make other capital distributions to our shareholders provided that no distribution may be made if, after giving it effect: (i) we would not be able to pay our debts as they become due in the usual course of business; or (ii) our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, or to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of our common stockholders.

No securities were repurchased by the Company during the year ended December 31, 2008.

Stock Performance Graph

The following graph demonstrates a comparison of total cumulative returns for the Company's common stock, the Dow Jones U.S. Industrial Transportation Index, and the NASDAQ Composite Index. The graph assumes an investment of \$100 on January 27, 2004 in the Company's common stock and in each of the stocks comprising the indices. Each of the indices assumes that all dividends were reinvested and that the investment was maintained to and including December 31, 2008, the end of the Company's 2008 fiscal year.



Index	Period Ending											
	01/27/04	06/30/04	12/31/04	06/30/05	12/31/05	06/30/06	12/31/06	06/30/07	12/31/07	06/30/08	12/31/08	
Portec Rail Products, Inc.	100.00	83.01	110.01	115.37	141.21	152.44	110.28	134.32	123.31	131.03	83.32	
NASDAQ Composite	100.00	96.77	102.81	97.21	104.22	102.65	114.14	123.02	125.34	108.36	74.53	
Dow Jones Transportation Index	100.00	105.99	126.29	116.60	141.01	166.46	154.85	174.09	157.29	123.60	97.12	

Compensation Plans

Set forth below is information as of December 31, 2008 regarding equity compensation plans that have been approved by shareholders. We have no equity based benefit plans that were not approved by shareholders.

Plan	Number of securities to be issued upon exercise of outstanding options and rights	Number of securities issued on exercise of options and rights	Weighted average exercise price	Number of securities remaining available for issuance under plan
Equity compensation plans approved by shareholders.....	142,800 ⁽¹⁾	250	\$ 8.50	6,950 ⁽²⁾
Equity compensation plans not approved by shareholders.....	-0-	-0-	N/A	-0-
Total	142,800	250	\$ 8.50	6,950

(1) Consists of 79,250 stock options granted on January 16, 2007, 72,750 stock options granted on January 30, 2008 and 1,750 granted on July 2, 2008 under the 2006 Stock Option Plan less 8,700 and 2,000 stock options forfeited during 2008 and 2007, respectively, and 250 options were exercised during 2008.

(2) Based upon 150,000 shares of common stock authorized for issuance pursuant to grants of incentive and non-statutory stock options. See Note 18 Stock Options, Page 89.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated historical financial data of Portec Rail Products, Inc. for the periods and at the dates indicated. The information is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of Portec Rail Products, Inc.

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Net sales.....	\$ 109,017	\$ 109,503	\$ 99,225	\$ 90,793	\$ 69,437
Cost of sales.....	<u>73,445</u>	<u>74,995</u>	<u>68,848</u>	<u>61,235</u>	<u>49,720</u>
Gross profit.....	35,572	34,508	30,377	29,558	19,717
Selling, general and administrative.....	22,635	22,781	22,117	19,641	13,347
Amortization expense.....	<u>1,199</u>	<u>1,241</u>	<u>926</u>	<u>698</u>	<u>116</u>
Operating income.....	11,738	10,486	7,334	9,219	6,254
Interest expense.....	805	1,247	1,105	856	203
Other expense/(income), net.....	<u>(87)</u>	<u>246</u>	<u>140</u>	<u>248</u>	<u>(25)</u>
Income before income taxes.....	11,020	8,993	6,089	8,115	6,076
Provision for income tax.....	<u>3,241</u>	<u>2,862</u>	<u>1,469</u>	<u>2,288</u>	<u>2,003</u>
Net income.....	<u>\$ 7,779</u>	<u>\$ 6,131</u>	<u>\$ 4,620</u>	<u>\$ 5,827</u>	<u>\$ 4,073</u>
Earnings per share:					
Basic & Diluted.....	\$ 0.81	\$ 0.64	\$ 0.48	\$ 0.61	\$ 0.46
Cash dividends paid per share.....	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.21	\$ 0.20
Weighted average shares outstanding:					
Basic & Diluted.....	9,601,928	9,601,779	9,601,779	9,601,779	8,929,599

	At December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Working capital(1).....	\$23,804	\$24,445	\$24,771	\$25,415	\$25,261
Total assets	96,823	104,226	101,682	88,869	88,625
Short-term debt	6,500	6,865	5,655	3,847	3,611
Long-term debt and capital lease obligations, net of current portion	6,110	9,463	13,737	10,402	14,108
Total shareholders' equity	58,176	59,897	53,096	50,448	47,044

(1) Working capital represents total current assets less total current liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of Portec Rail Products, Inc. and the related notes beginning on page 53. Unless otherwise specified, any reference to a "year" is to a year ended December 31. Additionally, when used in this Form 10-K, unless the context requires otherwise, the terms "we," "our" and "us" refer to Portec Rail Products, Inc. and its business segments.

Overview

In the United States, Canada and the United Kingdom, we are a manufacturer, supplier and distributor of a broad range of rail products, including rail joints, rail anchors, rail spikes, railway friction management products and systems, railway wayside data collection and data management systems and load securement systems. End users of our rail products include Class I railroads, short-line and regional railroads and transit systems. Our North American business segments along with the rail division of our United Kingdom business segment serve these end users. Our United Kingdom business segment also manufactures and supplies material handling products for industries outside the rail transportation sector, primarily to end users within the United Kingdom. These products include overhead and floor conveyor systems, expandable boom conveyors, racking systems and mezzanine flooring systems. The end users of our material handling products are primarily in the manufacturing, distribution, garment and food industries.

Results of Operations

Year Ended December 31, 2008 compared to the Year Ended December 31, 2007

Net Sales. Net sales for the year ended December 31, 2008 were \$109.0 million compared to \$109.5 million for the year ended December 31, 2007, a decrease of \$486,000 or 0.4% from the previous year. Net sales within our RMP segment were lower by \$4.1 million, while net sales at our United Kingdom segment declined \$1.7 million in 2008. Partially offsetting these sales declines in the current year were net sales increases of \$3.4 million at our Canada segment and \$1.9 million at our SSD segment. The decrease in sales of \$4.1 million at RMP is primarily due to lower demand for our track components and Salient Systems' products. The decrease of \$1.7 million in net sales at our United Kingdom operations is a combination of unfavorable foreign currency translation of \$2.2 million that negatively impacted net sales across all product lines, and lower demand for material handling products of approximately \$1.6 million due to a weaker market for these products brought on by economic conditions in the United Kingdom. These decreases were partially offset by an increase in demand for friction management products of approximately \$1.7 million, along with an increase in sales of track component products. The increase in sales of \$3.4 million at our Canadian operations is primarily due to higher sales of our friction management products due to securing a contract from a large customer for the implementation of a Total Friction Management™ program. Foreign currency translation of Canadian dollars into U.S. dollars did not have a significant impact on our net sales for the year ended December 31, 2008. The increase in net sales of \$1.9 million at SSD is primarily due to increased sales of our automotive products and chain securement systems.

Gross Profit. Our consolidated gross profit increased to \$35.6 million for the year ended December 31, 2008, an increase of \$1.1 million or 3.1%, from \$34.5 million for the comparable period in the prior year. This

increase is due to increases of \$2.1 million at our Canadian operations and \$383,000 at SSD, partially offset by lower gross profit at our United Kingdom operations of \$1.0 million and \$414,000 at RMP. The \$2.1 million increase at our Canadian operations is due to a favorable product mix, as sales of our friction management products were significantly higher in the current period. Gross profit at our United Kingdom operations declined \$1.0 million, reflecting a combination of an unfavorable foreign currency translation of \$717,000 that negatively impacted gross profit, lower gross profit on material handling product sales of approximately \$690,000, and higher gross profit of \$413,000 on sales of friction management products. The decrease of \$414,000 in gross profit at RMP is a combination of lower gross profit of \$1.3 million on lower sales of Salient Systems' products due to weaker demand in the current period, higher gross profit of \$449,000 contributed by the track component product line due to lower warranty expense associated with defective BTRs in 2008 than in 2007 (See Note 13 Commitments and Contingencies, Page 83), and higher gross profit on sales of friction management products in 2008.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expense decreased to \$22.6 million for the year ended December 31, 2008, a decrease of \$146,000 or 0.6% from \$22.8 million for the year ended December 31, 2007. This decrease is due to lower SG&A expenses of \$423,000 at our United Kingdom operations and \$373,000 within Corporate shared services in the current period. These decreases were partially offset by higher SG&A expenses of \$285,000 at our Canadian operations, \$196,000 at RMP and \$169,000 at SSD. The lower SG&A expense at our United Kingdom operations is primarily due to a favorable foreign currency translation of \$490,000 that positively impacted SG&A expense and thus lowered expenses, partially offset by an increase of \$67,000 due to higher professional fees and employee salary and benefit costs. SG&A expense for Corporate shared service decreased \$373,000 in the current period, primarily due to lower professional fees, employee salary and benefit costs and depreciation expense, partially offset by higher legal fees, contractual services and research and development expenses. SG&A expense for our Canadian operations increased \$285,000 in the current period due to higher employee salary and benefit costs, higher incentive expense due to higher profitability, and higher professional fees, partially offset by lower insurance expense. The \$196,000 increase in SG&A at RMP is primarily due to increased professional fees and higher employee salary and benefit costs. The \$169,000 increase in SG&A at SSD is primarily due to higher employee salary and benefit costs due to new hires and higher incentive expense due to increased profitability and higher trade show expense in the current period.

Interest Expense. Interest expense decreased to \$805,000 for the year ended December 31, 2008, a decrease of \$442,000 or 35.5%, from \$1.2 million for the comparable period in 2007. The decrease is primarily due to lower interest rates on our debt obligations and the reduction of outstanding debt from \$16.3 million at December 31, 2007 to \$12.6 million at December 31, 2008.

Other (Income)/Expense. Other income of \$87,000 for the year ended December 31, 2008, includes foreign currency transaction gains of \$206,000, interest income of \$68,000 and an insurance policy deductible recovery of \$25,000, partially offset by losses on disposals of fixed assets of \$236,000. Other expense of \$246,000 for the year ended December 31, 2007 includes foreign currency transaction losses of \$354,000 and an impairment charge of \$50,000 related to the sale of our Troy, NY property in May 2007 (See Note 17 Impairment of Long-Lived Assets, Page 89). These expenses for the year ended December 31, 2007 were partially offset by an insurance policy recovery of \$114,000 and rental income of \$18,000 on our Troy, NY property prior to its sale in May 2007.

Provision for Income Taxes. The provision for income taxes increased to \$3.2 million for the year ended December 31, 2008 from \$2.9 million for the comparable period in 2007, reflecting an increase in income before taxes from \$9.0 million for the year ended December 31, 2007 to \$11.0 million for the year ended December 31, 2008. The effective tax rates on reported taxable income were 29.4% and 31.8% for the years ended December 31, 2008 and 2007, respectively. Tax rates in our foreign jurisdictions range from 30.0% to 35.5%. As such, our consolidated effective tax rate is impacted by our foreign locations pro-rata share of consolidated income before taxes and related tax expense or benefit. Our consolidated effective tax rate also reflects research and development tax credits at our Canadian operations, which reduced income tax expense by \$465,000 and \$314,000, or 4.2% and 3.5% for the years ended December 31, 2008 and 2007, respectively. Income tax expense for the year ended December 31, 2007 is higher by approximately \$128,000 or 1.4%, due to the income tax on the gain recorded in the United Kingdom on the sale in March 2007 of our Wrexham, Wales, United Kingdom facility (See Note 16 Restructuring Costs, Page 88). In conjunction with this transaction, the gain reported in the United Kingdom was effectively eliminated in the U.S. by the write-off of the remaining step-up basis, which originated in connection with the purchase of the Company in 1997.

Net Income. Net income increased to \$7.8 million for the year ended December 31, 2008, an increase of \$1.6 million or 26.8%, from \$6.1 million for the comparable period in 2007. Our basic and diluted net income per share increased to \$0.81 for the year ended December 31, 2008, from \$0.64 per share for the comparable period in 2007, on average shares outstanding of 9,601,928, and 9,601,779 for the years ended December 31, 2008 and 2007, respectively.

Year Ended December 31, 2007 compared to the Year Ended December 31, 2006

Net Sales. Net sales increased to \$109.5 million for the year ended December 31, 2007, an increase of \$10.3 million or 10.4%, from \$99.2 million for the comparable period in 2006. The increase in net sales is primarily attributable to increased sales of \$4.0 million at SSD, \$3.7 million at RMP, \$2.2 million at our Canadian operations and \$332,000 at our United Kingdom operations. Of the \$4.0 million of higher sales at SSD, \$2.6 million is due to new sales contributed by the Vulcan asset acquisition, which was completed in October 2006, and \$1.4 million is due to higher sales of other SSD products, primarily automotive products. Net sales at RMP increased \$3.7 million, of which \$2.2 million is primarily due to increased sales of track component products and \$1.5 million is due to higher sales of Salient Systems' products. Net sales at our Canadian operations increased \$2.2 million, of which \$1.4 million is due to foreign currency translation that positively impacted net sales. In addition, net sales increased \$844,000 primarily due to higher sales of rail spikes, primarily during the fourth quarter 2007, and higher sales of Kelsan friction management products. The \$332,000 increase in sales at our United Kingdom operations reflects a \$1.9 million favorable foreign currency translation and a \$1.5 million increase in sales during the first quarter 2007 as a result of the Coronet Rail acquisition in April 2006, partially offset by lower sales volume of material handling and friction management products of \$3.1 million.

Gross Profit. Our consolidated gross profit was negatively impacted by \$1.3 million due to warranty costs associated with our Bonded to Rail (BTR) products within our RMP segment. Despite these warranty costs, our consolidated gross profit increased to \$34.5 million for the year ended December 31, 2007, an increase of \$4.1 million or 13.6%, from \$30.4 million for the comparable period in 2006. The increase in gross profit is attributable to higher gross profit of \$1.7 million at SSD, \$1.2 million at our Canadian operations, \$705,000 at RMP and \$479,000 at our United Kingdom operations. The increase in gross profit at SSD for the current period includes \$927,000 of gross profit contributed by the Vulcan product line, along with a more favorable product mix and sales of our new WinChock product. Higher gross profit at our Canadian operations is primarily attributable to \$758,000 of additional gross profit on higher sales volume of Kelsan's friction management products, and \$491,000 of favorable foreign currency translation. The \$705,000 increase in gross profit at RMP is primarily due to increased sales volume of Salient Systems' products, partially offset by \$1.3 million for warranty costs on defective BTR products. (See Note 13, Commitments and Contingencies, Page 83). Increased gross profit of \$479,000 at our United Kingdom operations is primarily due to \$666,000 of foreign currency translation that positively impacted gross profit, partially offset by lower gross profit of \$180,000 due to lower sales volume of material handling and friction management products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to \$22.8 million for the year ended December 31, 2007, an increase of \$664,000 or 3.0%, from \$22.1 million for the comparable period in 2006. The increase is primarily due to higher expenses of \$462,000 in corporate shared services, \$294,000 at SSD and \$215,000 at RMP, partially offset by lower expenses of \$264,000 at our Canadian operations. The increase in selling, general and administrative expenses in corporate shared services is primarily due to professional fees related to Sarbanes-Oxley compliance efforts, incentive expense related to annual profit-sharing payouts and compensation expense associated with the January 2007 stock option grants. Selling, general and administrative expenses at SSD increased \$294,000 primarily due to new expenses added as a result of the Vulcan asset acquisition. The increase in selling, general and administrative expenses of \$215,000 at RMP is primarily due to higher commission expenses and increased travel costs at Salient Systems. Partially offsetting the overall increase in selling, general and administrative expenses are lower expenses of \$264,000 at our Canadian operations, which is primarily due to lower salaries and benefits at Kelsan and lower franchise taxes and research and development expenses at our Montreal location of \$552,000 combined, partially offset by an unfavorable foreign currency translation of \$288,000.

Amortization Expense. Amortization expense increased to \$1.2 million for the year ended December 31, 2007, an increase of \$315,000 or 34.0%, from \$926,000 for the comparable period in 2006. This increase is

primarily due to amortization expense on intangible assets purchased and deferred financing fees incurred as a result of the Coronet Rail acquisition and Vulcan asset acquisition.

Interest Expense. Interest expense increased to \$1.2 million for the year ended December 31, 2007, an increase of \$142,000 or 12.9%, from \$1.1 million for the comparable period in 2006. This increase is primarily due to higher interest expense of \$132,000 on debt incurred to finance the Vulcan asset acquisition. Total debt obligations decreased to \$16.3 million at December 31, 2007 from \$19.4 million at December 31, 2006. The decrease in long-term debt of \$4.0 million is primarily due to the repayment of the Coronet Rail term loan in March 2007 (See Note 16, Restructuring Costs, page 88), partially offset by an increase in short-term borrowings of \$1.0 million.

Other Expense. Other expense increased to \$246,000 for the year ended December 31, 2007, an increase of \$106,000 or 75.7%, from \$140,000 for the comparable period in 2006. Other expense in the current period includes foreign currency transaction losses of \$354,000. Additionally, we incurred a \$50,000 impairment loss as our Troy, New York property with a net book value of \$500,000 was sold to the Troy Local Development Corporation for \$450,000 in May 2007. Partially offsetting these expenses are proceeds of \$114,000 from the settlement of an insurance claim at our United Kingdom operations.

Provision for Income Taxes. The provision for income taxes increased to \$2.9 million for the year ended December 31, 2007 from \$1.5 million for the comparable period in 2006, reflecting an increase in income before taxes from \$6.1 million for the year ended December 31, 2006 to \$9.0 million for the year ended December 31, 2007. The effective tax rates on reported taxable income were 31.8% and 24.1% for the years ended December 31, 2007 and 2006, respectively. Tax rates in our foreign jurisdictions range from 30.0% to 35.5%. As such, our consolidated effective tax rate is impacted by our foreign locations pro-rata share of consolidated income before taxes and related tax expense or benefit. Additionally, our consolidated effective tax rate reflects research and development tax credits received by our Canadian operations, which reduced income tax expense by \$314,000 and \$418,000, or 3.5% and 6.9% for the years ended December 31, 2007 and 2006, respectively. Income tax expense for the year ended December 31, 2007 is higher by approximately \$128,000 due to the income tax on the gain recorded in the United Kingdom on the sale in March 2007 of the Wrexham facility (See Note 16 Restructuring Costs, Page 88), which impacted our consolidated effective tax rate by 1.4%. In conjunction with this transaction, the gain reported in the United Kingdom was effectively eliminated in the U.S. by the write-off of the remaining step-up basis, which originated in connection with the purchase of the Company in 1997. In 2007, the IRS eliminated favorable tax treatment of our Canadian business segment's tax structure effective for the 2008 tax year. We are currently evaluating our corporate tax structure and alternatives in response to this action by the IRS. Our maximum exposure as a result of the new IRS regulations is estimated to be in the range of \$150,000 to \$200,000 or approximately \$0.02 per share of lost tax benefits in 2008.

Net Income. Net income increased to \$6.1 million for the year ended December 31, 2007, an increase of \$1.5 million or 32.7%, from \$4.6 million for the comparable period in 2006. Our basic and diluted net income per share increased to \$0.64 for the year ended December 31, 2007, from \$0.48 per share for the comparable period in 2006, on average shares outstanding of 9,601,779 for both periods.

Business Segment Review

Our operations are organized into four business segments consisting of the Railway Maintenance Products Division (RMP), the Shipping Systems Division (SSD), Portec Rail Nova Scotia Company (Canada) and Portec Rail Products (UK) Ltd. (United Kingdom), along with corporate shared services. The presentation of segment information reflects the manner in which we organize and manage our segments by geographic areas for making operating decisions, assessing performance and allocating resources. Intersegment sales do not have an impact on our consolidated financial condition or results of operations. Coronet Rail's results of operations and its assets and liabilities have been included in the United Kingdom segment and the consolidated financial statements since the date of the acquisition. Assets acquired from Vulcan Chain are included in the Shipping Systems business segment and our consolidated financial statements since the acquisition date.

Railway Maintenance Products Division – "RMP". Our RMP business segment manufactures and assembles track components and related products, friction management products, and wayside data collection and data management systems. We also provide services to railroads, transit systems and railroad contractors, and are a

distributor and reseller of purchased track components and lubricants manufactured by third parties. Our manufactured and assembled track component and friction management products consist primarily of standard and insulated rail joints, friction management systems and wayside data collection and data management systems. Our purchased and distributed products consist primarily of various lubricants. RMP's largest customers are Class I railroads in North America. For the years ended December 31, 2008, 2007 and 2006, RMP's consolidated external sales to its two largest customers represented 28%, 32% and 30%, respectively.

	Year Ended December 31,		
	2008	2007	2006
(In thousands)			
External sales	\$ 46,268	\$ 50,327	\$ 46,599
Intersegment sales.....	2,969	1,993	2,164
Operating income.....	6,447	7,071	6,589
Sales by product line (1)			
Track component products.....	\$ 24,175	\$ 28,063	\$ 25,178
Friction management products and services	15,720	14,977	16,597
Wayside data collection and data management systems	5,170	6,685	5,202
Other products and services	4,172	2,595	1,786
Total product and service sales	<u>\$ 49,237</u>	<u>\$ 52,320</u>	<u>\$ 48,763</u>

(1) Includes intersegment sales.

For the year ended December 31, 2008, external sales for RMP decreased by \$4.1 million or 8.1%, to \$46.3 million from \$50.3 million during the comparable period in 2007. The decrease in external sales is primarily due to lower sales of Salient Systems' products and track component products, reflecting weaker demand, partially offset by higher sales of friction management products, and sales of our locomotive car repair products and services, which are included in other products and services. Operating income for the year ended December 31, 2008 decreased to \$6.4 million from \$7.1 million for the comparable period in 2007, a decrease of \$624,000 or 8.8%. The decrease in operating income is primarily due to lower gross profit on lower sales of our Salient Systems' products, partially offset by higher gross profit on higher sales of friction management products and other products and services. Additionally, we incurred \$1.3 million of warranty expense in 2007 related to defective BTR's. During 2008, we did not incur any warranty expense related to this issue (See Note 13 Commitments and Contingencies, Page 83). Also contributing to the lower operating income is an increase of \$196,000 in selling, general and administrative expenses at RMP, primarily due to higher professional fees and higher employee salary and benefit costs.

For the year ended December 31, 2007, external sales for RMP increased by \$3.7 million or 8.0%, to \$50.3 million from \$46.6 million during the comparable period in 2006. The increase in external sales is primarily due to higher sales of track component products reflecting stronger customer demand, partially offset by lower sales of friction management products, primarily lubricants, and a \$1.5 million increase in sales of Salient Systems' products. Included in the track component products sales is \$302,000 related to steel surcharges being a pass-through cost to our customers at no additional profit. Operating income for the year ended December 31, 2007 increased to \$7.1 million from \$6.6 million for the comparable period in 2006, an increase of \$482,000 or 7.3%. Operating income was negatively impacted by \$1.3 million during 2007 due to warranty costs on defective BTR products. (See Note 13 Commitments and Contingencies, Page 83) The overall increase in operating income is primarily due to higher gross profit on higher sales of Salient Systems' products, partially offset by lower gross profit on lower sales of friction management products and increased selling, general and administrative expenses at Salient Systems, primarily due to higher commissions and travel costs.

Shipping Systems Division – "SSD". Our SSD segment engineers and sells load securement systems and related products to the railroad freight car market. These systems are used to secure a wide variety of products and lading onto freight cars. Most of the assembly work for SSD is performed at RMP's Huntington, West Virginia manufacturing plant, although some manufacturing is subcontracted to independent third parties. For the years

ended December 31, 2008, 2007 and 2006, SSD's two largest customers represented 44%, 33% and 39% of external sales, respectively.

On October 10, 2006, we acquired the railroad product line assets of Vulcan, a Detroit, Michigan manufacturer of freight securement products for the railroad industry. Since the acquisition date, the results of operations for the assets acquired from Vulcan have been included in the Shipping Systems segment and consolidated financial statements.

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
External sales (1)	\$ 10,679	\$ 8,817	\$ 4,842
Intersegment sales.....	—	(3)	15
Operating income (1).....	1,836	1,624	387
Sales by product line (2)			
Chain securement systems (3)	\$ 3,087	\$ 2,331	\$ 2,188
Automotive products (3).....	6,298	4,939	1,346
Strap securement systems	419	759	912
All other load securement systems (3).....	875	785	411
Total product and service sales.....	<u>\$ 10,679</u>	<u>\$ 8,814</u>	<u>\$ 4,857</u>

(1) Includes Vulcan-acquired product sales of \$4.1 million, \$3.7 million and \$877,000, and operating income of \$600,000, \$776,000 and \$74,000 for the years ended December 31, 2008, 2007 and 2006 respectively. Amounts for 2006 are for the period of acquisition date through December 31, 2006.

(2) Includes intersegment sales.

(3) Includes Vulcan-acquired products sales of \$780,000, \$2.7 million and \$542,000 within chain securement systems, automotive products, and all other load securement systems, respectively, for the year ended December 31, 2008. Includes Vulcan-acquired product sales of \$558,000, \$2.5 million and \$628,000 within chain securement systems, automotive products, and all other load securement systems, respectively, for the year ended December 31, 2007.

For the year ended December 31, 2008, external sales for SSD increased by \$1.9 million or 21.1%, to \$10.7 million from \$8.8 million during the comparable period in 2007. The \$1.9 million increase in external sales is primarily due to higher sales of automotive products and chain securement systems. Operating income for the year ended December 31, 2008 increased to \$1.8 million from \$1.6 million during the comparable period in 2007, an increase of \$212,000 or 13.1%, primarily due to increased gross profit on higher sales of automotive products and chain securement systems, partially offset by higher selling, general and administrative expense of \$169,000, due to higher employee salaries and benefit expenses, increased incentive expense and higher trade show expense in the current period.

For the year ended December 31, 2007, external sales for SSD increased by \$4.0 million or 82.1%, to \$8.8 million from \$4.8 million during the comparable period in 2006. The increase in external sales is primarily due to \$2.6 million of new sales contributed by the Vulcan asset acquisition, which was completed in October 2006, along with an increase in sales of other SSD products, primarily automotive products. Operating income for the year ended December 31, 2007 increased to \$1.6 million from \$387,000 during the comparable period in 2006, an increase of \$1.2 million or 319.6%, primarily due to additional operating income contributed by the Vulcan asset acquisition, along with an increase in gross profit primarily due to higher sales of automotive products, in particular our WinChock product.

Portec Rail Nova Scotia Company – “Canada”. Our Canadian operations include a manufacturing operation near Montreal, Quebec, and a manufacturing and technology facility in Vancouver, British Columbia (Kelsan Technologies Corp. – “Kelsan”). Our Montreal operation manufactures rail anchors and rail spikes and assembles friction management products primarily for the two largest Canadian railroads. Rail anchors and spikes are devices to secure rails to the ties to restrain the movement of the rail tracks. Kelsan's two primary product lines

are stick lubrication and application systems and a liquid friction modifier, KELTRACK®. Kelsan manufactures its stick and applicator systems in Vancouver and subcontracts the manufacturing of the KELTRACK® product line. For the years ended December 31, 2008, 2007 and 2006, Canada's consolidated external sales to its two largest customers represented 54%, 64% and 70%, respectively.

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except translation rate)		
External sales.....	\$ 26,486	\$ 23,059	\$ 20,816
Intersegment sales	7,472	7,065	6,469
Operating income (1).....	4,323	2,470	1,001
Average translation rate of Canadian dollar to United States dollar	0.9411	0.9419	0.8848
Sales by product line (2)			
Rail anchors and spikes	\$ 14,954	\$ 15,406	\$ 14,307
Friction management products and services.....	17,257	13,520	11,947
Other products and services.....	1,747	1,198	1,031
Total product and service sales.....	<u>\$ 33,958</u>	<u>\$ 30,124</u>	<u>\$ 27,285</u>

(1) Operating income includes an operating loss from Portec Rail Nova Scotia Company of \$654,000, \$631,000 and \$596,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

(2) Includes intersegment sales.

For the year ended December 31, 2008, external sales for Canada increased by \$3.4 million or 14.9%, to \$26.5 million from \$23.1 million during the comparable period in 2007. The increase in external sales is primarily due to higher sales of friction management products and services. Operating income for the year ended December 31, 2008 increased to \$4.3 million from \$2.5 million during the comparable period in 2007, an increase of \$1.9 million or 75.0%. The increase in operating income is primarily due to higher gross profit of \$2.1 million due to higher sales volume of our friction management products, partially offset by an increase in selling, general, and administrative expense of \$285,000, primarily due to higher employee salaries and incentive expense, and increased professional fees.

For the year ended December 31, 2007, external sales for Canada increased by \$2.2 million or 10.8%, to \$23.1 million from \$20.8 million during the comparable period in 2006. The increase in external sales is primarily attributable to a \$1.4 million foreign currency translation that positively impacted sales, and an increase in sales volume of \$844,000 primarily from higher rail spike sales during the fourth quarter 2007 and higher Kelsan friction management sales. Operating income for the year ended December 31, 2007 increased to \$2.5 million from \$1.0 million during the comparable period in 2006, an increase of \$1.5 million or 146.9%. The increase is attributable to higher gross profit of \$1.2 million primarily due to higher sales volume of Kelsan friction management products. In addition, selling, general, and administrative expenses were \$264,000 lower, primarily due to lower salaries and benefits at Kelsan and lower franchise tax expense and research and development costs at our Montreal location.

Portec Rail Products (UK) Ltd. - "United Kingdom". In the United Kingdom, we operate and serve our customers in two different markets. The United Kingdom's rail business, which comprised approximately 64%, 58% and 53% of total segment sales for the years ended 2008, 2007 and 2006, respectively, includes sales of friction management and track component products and services to the United Kingdom passenger rail network. For the years ended December 31, 2008, 2007 and 2006, this segment's two largest rail customers represented 31%, 24% and 22% of total external sales, respectively.

Over the same time period described above, our material handling business represented approximately 36%, 42% and 47%, respectively, of the total sales generated by our United Kingdom segment. Our major product lines in this market include overhead and floor conveyor systems, boom conveyors, racking systems and mezzanine flooring systems. The end users of our products are primarily United Kingdom-based companies in the manufacturing, distribution, garment and food industries. As our material handling products are primarily dependent upon the capital spending plans of manufacturers, our largest customers vary each year depending upon the contracts that are secured. For the years ended December 31, 2008, 2007 and 2006, our two largest material handling customers represented 8%, 8% and 11% of total external sales, respectively.

During the third quarter 2006, we announced a business reorganization plan, which consolidated our rail and material handling operations in the United Kingdom from four locations into two; one at our Sheffield, England facility (rail) and the other at our Leicester, England facility (material handling). This reorganization was completed during the first quarter 2007 with the sale of our Wrexham, Wales facility. See Note 16 Restructuring Costs, Page 89.

In April 2006, we acquired Coronet Rail, Ltd., located in Sheffield, England, United Kingdom. Coronet Rail is a manufacturer of railway track component products and a major supplier of insulated rail joints and track fasteners to the United Kingdom railways and international customers. Since the acquisition, the assets and liabilities and results of operations for Coronet Rail have been included in the United Kingdom segment and the consolidated financial statements.

In January 2006, we acquired certain assets of Kaybe (Conveyors) Ltd. (Kaybe). The acquired assets include inventory, the Kaybe name and the customer list. The Kaybe product line is primarily for use in the warehousing sector. The acquired assets were integrated into our existing material handling operation located in Leicester, England. Since the acquisition, the Kaybe assets and the results of operations for this product line have been operated under the United Kingdom segment.

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except translation rate)		
External sales	\$ 25,584	\$ 27,300	\$ 26,968
Intersegment sales	—	146	15
Operating income	2,394	2,956	2,530
Average translation rate of British pound sterling to United States dollar.....	1.8432	2.0086	1.8577
Sales by product line (1)			
Material handling products.....	\$ 9,194	\$ 11,520	\$ 12,749
Friction management products and services.....	11,172	10,407	10,135
Track component products (2).....	<u>5,218</u>	<u>5,519</u>	<u>4,099</u>
Total product and service sales.....	<u>\$ 25,584</u>	<u>\$ 27,446</u>	<u>\$ 26,983</u>

(1) Includes intersegment sales.

(2) Prior to the acquisition, Coronet Rail's fiscal year was March 31st. Before pro forma adjustments, audited net sales and operating profit for Coronet Rail for the year ended March 31, 2006 was \$7.9 million (£4.4 million pounds sterling) and \$1.3 million (£756,000 pounds sterling), respectively. The amounts listed under this footnote are not included in the above United Kingdom table.

For the year ended December 31, 2008, external sales at our United Kingdom operations decreased \$1.7 million or 6.3%, to \$25.6 million from \$27.3 million during the comparable period in 2007. The decrease of \$1.7 million in external sales is a combination of unfavorable foreign currency translation of \$2.2 million that negatively impacted net sales across all product lines and lower demand for material handling products of approximately \$1.6 million, due to a weaker market for these products brought on by economic conditions in the United Kingdom. These decreases were partially offset by an increase in demand for friction management products of approximately \$1.7 million, along with an increase in sales of track component products. Operating income for the year ended December 31, 2008 decreased to \$2.4 million from \$3.0 million during the comparable period in 2007, a decrease of \$562,000 or 19.0%. The decrease in operating income is a combination of an unfavorable foreign currency

translation of \$717,000 that negatively impacted gross profit, lower gross profit on material handling product sales of approximately \$690,000, and higher gross profit of \$413,000 on sales of fiction management products. In addition to lower gross profit, selling general and administrative expense declined \$423,000 in the current period, which positively impacted operating income. This decrease of \$423,000 is primarily due to a favorable foreign currency translation of \$490,000 that positively impacted SG&A expense and thus lowered expenses, partially offset by an increase of \$67,000 due to higher professional fees and employee salary and benefit costs.

For the year ended December 31, 2007, external sales at our United Kingdom operations increased \$332,000 or 1.2%, to \$27.3 million from \$26.9 million during the comparable period in 2006. The increase in external sales is a combination of a \$1.9 million favorable foreign currency translation that positively impacted sales, offset by \$1.6 million of lower sales of material handling and friction management products, partially offset by higher sales of track component products. Operating income for the year ended December 31, 2007 increased to \$3.0 million from \$2.5 million during the comparable period in 2006, an increase of \$426,000 or 16.8%. The increase is attributable to lower selling, general and administrative expenses of \$373,000, primarily due to a non-recurring restructuring charge in 2006, lower insurance expenses and professional fees, and a \$209,000 foreign currency translation that positively impacted operating income. Partially offsetting this increase is lower gross profit of \$180,000 primarily due to lower sales volume of material handling and friction management products.

Liquidity and Capital Resources

Our cash flow from operations is the primary source of financing for internal growth, capital expenditures, repayments of long-term contractual obligations, dividends to our shareholders and other commercial commitments. The most significant risk associated with our ability to generate sufficient cash flow from operations is the overall level of demand for our products. Our total cash balance is \$5.4 million at December 31, 2008. We may use this cash for acquisitions, product line expansions or general corporate purposes. In addition to cash generated from operations, we have revolving and overdraft credit facilities in place to support the working capital needs of each of our business segments. We believe that cash flow from operations and the ability to borrow additional cash under our credit and overdraft facilities along with our existing cash balances will be sufficient to meet our cash flow requirements and growth objectives over the next twelve months.

Cash Flow Analysis.

For the year ended December 31, 2008, we generated \$10.1 million in cash from operating activities compared to \$8.9 million for the year ended December 31, 2007. Cash generated from operating activities during the year ended December 31, 2008 includes net income of \$7.8 million, an increase of \$1.6 million from 2007. Depreciation and amortization expense totaled \$3.1 million in 2008 compared to \$3.6 million in 2007, a decrease of \$533,000, primarily because several assets related to the December 1997 purchase of the Company were fully-depreciated as of December 31, 2007. Higher inventory balances resulted in the use of \$4.0 million of cash during the current period, while higher accounts payable balances provided \$2.5 million of cash during the current period, due to the timing of vendor payments. Lower accounts receivable balances generated \$630,000 of cash during the current period. Additionally, minimum funding requirements applicable to our defined benefit pension plans in the United States and United Kingdom required cash contributions into the plans of \$809,000 during 2008. The net change in deferred income taxes provided \$838,000 of cash during 2008.

Net cash used in investing activities was \$2.9 million in 2008, compared to \$2,000 of cash used in investing activities during 2007. Net cash used in investing activities during 2008 includes \$2.7 million for capital expenditures. In 2008, we completed two significant capital projects that totaled \$1.9 million at our Huntington, West Virginia plant that our Board of Directors had previously approved. Of the \$1.9 million total cost on these projects, approximately \$1.3 million was spent in 2008 and \$590,000 was spent in 2007, as these projects had begun in 2007. We feel that these projects will significantly improve the capacity and efficiency of our bonded joint bar and Bonded-to-Rail (BTR) track component product lines. Cash used in investing activities in 2007 includes capital expenditures of \$2.3 million, along with cash proceeds of \$2.5 million from the sale of our Wrexham, Wales and our Troy, NY properties. Cash used in investing activities includes contingent consideration paid to the former owners of Vulcan in the amounts of \$202,000 and \$168,000 for 2008 and 2007, respectively.

Net cash used in financing activities was \$4.9 million in 2008 compared to net cash used by financing activities of \$6.7 million in 2007. Net cash used in financing activities during 2008 includes repayment of long-term debt obligations of \$9.3 million and cash dividends of \$2.3 million on common stock paid to shareholders. Cash provided by financing activities in 2008 includes \$4.9 million borrowed from National City Bank in December, 2008 to refinance an outstanding term loan of \$4.9 million (\$5.9 million Canadian), originally borrowed by Portec Rail Nova Scotia Company and used to finance the Kelsan acquisition in 2004. The new loan should provide more favorable income tax benefits in the future. Cash provided by financing activities in 2008 also includes \$1.8 million borrowed in August 2008 from Boone County Bank, a related party, to support the capital improvements made to our Huntington, West Virginia manufacturing facility. This loan was increased to \$2.1 million in February 2009. During 2007, we repaid outstanding debt of \$5.7 million. Cash used in financing activities during 2007 includes cash dividends of \$2.3 million on common stock paid to shareholders. A net increase in borrowings on our working capital facilities provided \$898,000 of cash from financing activities during 2007. Outstanding checks in excess of bank account balances provided \$309,000 of cash from financing activities in 2007.

Credit Facilities.

In December 2008, PNC Financial Services Group Inc. of Pittsburgh, Pennsylvania acquired National City Corp. of Cleveland, Ohio. As disclosed in Note 9, Long Term Debt, Page 69, we have a number of lending facilities with National City Bank. At this time, we are unaware of the impact, if any, this will have on our ability to finance our working capital requirements.

Our credit facility with National City Bank is a term loan and revolving credit facility that provided the financing for the Kelsan acquisition in November 2004 and the Vulcan asset acquisition in October 2006, and also supports the working capital requirements of our United States and Canadian business units. The components of this facility are as follows: 1) a \$7.0 million United States revolving credit facility; 2) a \$4.1 million (\$5.0 million CDN) revolving credit facility for our Canadian operations; 3) an outstanding term loan in the original amount of \$4.9 million that replaced the term loan in the original amount of \$14.9 million (\$17.6 million CDN) provided for the Kelsan acquisition in November 2004; and 4) an outstanding term loan in the original amount of \$3.0 million provided in November 2006 for the Vulcan asset acquisition. Currently, we have no outstanding letters of credit under our United States revolving credit facility. As of December 31, 2008, we had the ability to borrow an additional \$8.4 million under the United States and Canadian revolving credit facilities. This agreement contains financial covenants that require us to maintain a current ratio, cash flow coverage and leverage ratios, and maintain minimum amounts of tangible net worth. This credit facility further limits capital expenditures, sales of assets, and additional indebtedness. We were in compliance with all of these financial covenants as of December 31, 2008. For additional details on our debt obligations and credit facilities, see Note 9 Long-Term Debt, Page 69.

As of December 31, 2008, the balance outstanding on the U.S. revolving credit facility was \$2.8 million. The balance outstanding on the Kelsan acquisition loan was \$4.9 million at December 31, 2008. The balance outstanding on the Vulcan acquisition loan was \$1.7 million at December 31, 2008. Our Canadian revolving credit facility had no outstanding borrowings as of December 31, 2008.

We have a working capital facility with a United Kingdom financial institution that supports the working capital requirements of our United Kingdom operations and includes an overdraft availability of \$1.4 million (£900,000 pounds sterling), \$255,000 (£175,000 pounds sterling) for the issuance of performance bonds, and \$58,000 (£40,000 pounds sterling) for the negotiation of foreign checks. There were no outstanding borrowings as of December 31, 2008; however, our availability under this credit facility was reduced due to outstanding performance bonds in the amount of \$227,000 (£156,000 pounds sterling) as of December 31, 2008. The balance outstanding on the Coronet Rail acquisition loan was \$1.1 million (£775,000 pounds sterling) at December 31, 2008.

In July 2008, we entered into a new loan agreement with Boone County Bank, Inc. for a line of credit in the maximum amount of \$2.1 million to finance capital expenditures at our manufacturing facility in Huntington, West Virginia. As of December 31, 2008, the outstanding balance on this facility was \$1.8 million. Boone County Bank, Inc. is a related-party (see Note 9, Long-Term Debt, Page 69). In February 2009 this loan was increased to \$2.1 million and the interest rate was lowered to United States prime rate less 0.25%. The terms of the loan require principal repayment of \$35,000 monthly for 60 months, beginning in February 2009. We previously had a \$2.0 million line of credit with Boone County Bank, Inc. for our United States business segments that was terminated in April, 2008.

Summary of Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2008:

<u>Contractual Obligations</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>More than 5 years</u>
	(In thousands)				
Term loans	\$ 9,810	\$ 3,700	\$ 5,481	\$ 590	\$ 39
Purchase obligations	5,614	4,519	1,095	—	—
Operating leases (1)	4,896	1,319	1,817	715	1,045
Working capital facilities	2,800	2,800	—	—	—
Future interest payments (2)	415	216	171	28	—
Pension contributions (3)	<u>3,716</u>	<u>252</u>	<u>1,693</u>	<u>1,365</u>	<u>406</u>
Total contractual obligations (4)	<u>\$ 27,251</u>	<u>\$ 12,806</u>	<u>\$ 10,257</u>	<u>\$ 2,698</u>	<u>\$ 1,490</u>

- (1) The majority of our future operating lease obligations are for property leases at our operating locations. There are no unusual terms or conditions within these leases.
- (2) Represents future interest payments on long-term debt obligations as of December 31, 2008. Assumes that interest rates on our long-term debt agreements at December 31, 2008 will continue for the life of the agreements.
- (3) Pension plan contributions that may be required more than one year from December 31, 2008 will be dependent upon the performance of plan assets.
- (4) During the first quarter 2007, we recognized a liability of \$313,000 for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48). We recognized a total of \$0 of expense related to FIN 48 during 2008. This amount is included within other long-term liabilities on the December 31, 2008 consolidated balance sheet. However, because of the high degree of uncertainty regarding the timing of future cash flows associated with this FIN 48 liability, we cannot reasonably estimate the periods of related future payments, and as such, we have excluded the FIN 48 liability from the contractual obligations table.

Financial Condition

Lower foreign currency translation rates had a significant impact on our consolidated balance sheet as of December 31, 2008, as the conversion of our foreign subsidiaries' balance sheets into U.S. dollars is at a lower rate as of December 31, 2008 than at December 31, 2007. At December 31, 2008 total assets were \$96.8 million, a decrease of \$7.4 million from \$104.2 million as of December 31, 2007. The decrease at December 31, 2008 is primarily due to \$5.5 million of lower intangible assets and goodwill, lower accounts receivable of \$2.9 million and \$1.0 million of lower property, plant and equipment, primarily due to the decrease in foreign currency exchange rates in relation to the United States dollar at December 31, 2008 compared to December 31, 2007. Partially offsetting these decreases are increases in cash and cash equivalents of \$1.1 million, and an \$866,000 increase in inventory in the current period, primarily to support our operations.

Total outstanding debt obligations at December 31, 2008 decreased by \$3.7 million or 22.8%, to \$12.6 million as of December 31, 2008, from \$16.3 million at December 31, 2007. The decrease in total outstanding debt obligations is primarily due to the repayment of long-term debt obligations during 2008, along with the impact of lower foreign currency translation rates at December 31, 2008.

Our consolidated shareholders' equity was negatively impacted by \$7.3 million during 2008, of which \$5.5 million is due to the impact of lower foreign currency translation rates in converting our foreign subsidiary balance sheets into United States dollars at December 31, 2008. Management cannot guarantee that future foreign currency exchange rates will not have a material impact on our balance sheet or shareholders' equity. Additionally, actuarial

losses on our defined benefit pension plans negatively impacted our December 31, 2008 shareholders' equity by \$1.8 million. Management cannot guarantee that future losses in our defined benefit pension plans will not have a material impact on our shareholders' equity.

The majority of our track components products that we manufacture and sell, such as our rail joints, rail anchors and rail spikes require steel as a major element in the production process. Worldwide steel prices began to increase in 2004, resulting in surcharges being added to our overall raw material costs. This trend continued in 2005 and during 2006 we began to see a transition on some purchases from surcharges to higher base prices for some of the materials, primarily steel. During 2008, prices for steel were higher for some products in certain markets, while some prices were lower in certain markets. We continue to monitor the price of our primary raw materials. If a prolonged increase in steel prices should continue and we are unable to pass on these added costs to our customers, our future earnings could be negatively impacted.

Discussion of Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our audited and unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We review the accounting policies we use in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate the appropriateness of these estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. Revenue from product sales is recognized at the time products are delivered and title has passed or when service is performed. Delivery is determined by our shipping terms, which are primarily FOB shipping point. Shipments are made only under a valid contract or purchase order where the sales price is fixed or determinable and collectability of the resulting receivable is reasonably assured. Revenue is recognized net of returns, discounts and other allowances.

Revenue from installation of material handling equipment and railway wayside data collection and data management systems is generally recognized by applying percentages of completion for each contract to the total estimated profits for the respective contracts. The length of each contract varies, but is typically about two to five months. The percentages of completion are determined by comparing the actual costs of work performed to date to the current estimated total costs of the respective contracts. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, repairs and depreciation costs.

When the estimate on a contract indicates a loss, the entire loss is immediately recorded in the accounting period that the loss is determined. The cumulative effect of revisions in estimates of total costs or revenue during the course of the work is reflected in the accounting period in which the facts that caused the revision first become known.

Allowances for Doubtful Accounts. We maintain a reserve to absorb potential losses relating to bad debts arising from uncollectible accounts receivable. The allowance for doubtful accounts is maintained at a level that we consider adequate to absorb potential bad debts inherent in the accounts receivable balance and is based on ongoing assessments and evaluations of the collectability, historical loss experience of accounts receivable and the financial status of customers with accounts receivable balances. Bad debts are charged and recoveries are credited to the reserve when incurred.

We believe the accounting estimate related to the allowance for doubtful accounts is a "critical accounting estimate" because we have a significant concentration of accounts receivable in the rail industry.

The economic conditions could affect our customers' ability to pay and changes in the estimate could have a material effect on net income.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for all inventories. Inventory costs include material, labor and manufacturing overhead. We establish obsolescence reserves for slow-moving and obsolete inventories. Obsolescence reserves reduce the carrying value of slow moving and obsolete inventories to their estimated net realizable value, which generally approximates the recoverable scrap value. We utilize historical usage, our experience, current backlog and forecasted usage to evaluate our reserve amounts. We also periodically evaluate our inventory carrying value to ensure that the amounts are stated at the lower of cost or market. If actual market conditions are less favorable than those projected by us, additional inventory reserves may be required.

Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. We assess the impairment of goodwill and other intangible assets at least annually and whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. We evaluate the goodwill of each of our reporting units and our indefinite-lived intangible assets for impairment as required under SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step is to identify a potential impairment and the second step measures the amount of an impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of a reporting unit's goodwill exceeds its estimated fair value. The fair values of our reporting units are determined using a discounted cash flow analysis based upon historical and projected financial information. The intangible assets of our business segments are tested following the same process. The estimates of future cash flows, discount rates, and long-term growth rates, based on reasonable and supportable assumptions and projections, require our judgment. Factors that could change the result of our goodwill and intangible asset impairment test include, but are not limited to, different assumptions used to forecast future revenue, expenses, capital expenditures and working capital requirements used in our cash flow models. In addition, selection of a risk-adjusted discount rate on the estimated undiscounted cash flow is susceptible to future changes in market conditions and when unfavorable, can adversely affect our original estimates of fair values. As such, to account for the uncertainty inherent in our estimates and future projections, we perform sensitivity analyses to determine our margin of error. Since adoption of SFAS No. 142, we have not recognized any impairment of goodwill or other intangible assets.

Our amortizable intangible assets are evaluated for impairment in accordance with SFAS No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires amortizable intangible assets to be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. Furthermore, SFAS No. 144 presents six factors that should be considered in conjunction with a company's intangible assets as the presence of any one of these factors might indicate that the asset is impaired. Since the adoption of SFAS No. 144, we have not recognized any impairment of intangible assets.

In conjunction with the acquisitions of Coronet Rail and the assets of Vulcan, we recorded the fair value of the acquired tangible and intangible assets in accordance with SFAS No. 142. As part of our procedures to determine fair values of all acquired assets, we engaged an independent valuation expert to evaluate the technology and intellectual property along with other intangible assets that could be assigned a fair value under these acquisitions. We supplied the independent valuation expert with the historical and estimated cash flows of the companies along with an estimate of future costs to maintain these technologies. The independent valuation expert used these estimates and other assumptions to determine the present value of the discounted cash flows of these various technologies. In addition, we evaluated the future lives of the identified intangible assets to determine if they have definite or indefinite lives.

As a result of the Vulcan asset acquisition, we assigned fair values of \$2.2 million to customer relationships, \$890,000 to a unique customer relationship, \$342,000 to vehicle restraint assembly technology (G-Van patent), \$47,000 to a supply agreement and \$5,000 to non-compete agreements. We also determined that there was \$830,000 of goodwill to be recorded as part of this transaction. The goodwill balance increased to \$1.2 million at December 31, 2008, primarily due to accrued earn-out based upon sales volume, which is recorded as an increase of the total purchase price. In addition, we have estimated that the customer relationships, a unique customer relationship, vehicle restraint assembly technology, supply agreement, and non-compete agreements have definite

lives of 19 years, 17 years, 11 years, 3 years and 7 years, respectively, due to our estimates that the projected economic earnings associated with these intangible assets will begin to lapse after these time frames. We will monitor these assets to determine if certain events occur that could cause the lives assigned to these intangible assets to become shorter than originally assigned. We would then assign a shorter future estimated life based on the years that we feel that the product would have value in the marketplace and record an impairment charge in the proper accounting period.

As a result of the Coronet Rail acquisition, we assigned a fair value of \$3.3 million (£1.9 million pounds sterling) to customer relationships, \$188,000 (£108,000 pounds sterling) to non-compete agreements, and \$34,000 (£19,000 pounds sterling) to a supply agreement. We also determined that there was \$1.9 million (£1.1 million pounds sterling) of goodwill to be recorded as part of this transaction. In addition, we have estimated that the customer relationships, non-compete agreements, and supply agreement have definite lives of 20 years, 5 years, and 10 years, respectively, due to our estimates that projected economic earnings associated with these intangible assets will begin to lapse after these time frames. We will monitor these intangible assets to determine if certain events occur that could cause the lives assigned to these intangible assets to become shorter than originally assigned. We would then assign a shorter future estimated life based on the years that we feel that the product would have value in the marketplace and then record an impairment charge in the proper accounting period.

Warranty Reserves. Most of our products are covered by a replacement warranty. We establish warranty reserves for expected warranty claims based upon our historical experience, or for known warranty issues and their estimable replacement costs. During 2007, we became aware of a problem with RMP's Bonded to Rail (BTR) joint bars assembled in Huntington, WV. Warranty expense incurred in 2007 for this issue totaled \$1.3 million. We did not incur any additional warranty expense for this issue in 2008. As of December 31, 2008, the warranty accrual for this issue is \$177,000. See Note 13, Commitments and Contingencies, Page 83 for further details.

Pension and Other Post-Retirement Benefit obligations. We maintain defined benefit pension plans in the United States and the United Kingdom that cover a significant number of our active employees, former employees and retirees. We account for these plans as required under SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158 "Employer's Accounting for Defined Benefit Plans and Other Postretirement Plans." The liabilities and expenses for pensions require significant judgments and estimates. These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, inflation, the long-term rate of return on plan assets and mortality tables. Management has mitigated the future liability for active employees by freezing all defined benefit pension plans effective December 31, 2003. The rate used to discount future estimated liabilities is determined based upon a hypothetical double A yield curve represented by a series of annualized individual discount rates from one-half to thirty years. Our inflation assumption is based on an evaluation of external market indicators. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations. The effects of actual results that differ from these assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligations in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our obligations and future expense.

As interest rates decline, the actuarially calculated retirement benefit plan liability increases. Conversely, as interest rates increase, the actuarially calculated retirement benefit plan liability decreases. Past declines in interest rates and equity markets have had a negative impact on the retirement benefit plan liability and fair value of our plan assets. As a result, the accumulated benefit obligation exceeded the fair value of plan assets at December 31, 2006, which resulted in a \$396,000, net of tax, decrease in equity. In addition, the accumulated benefit obligation exceeded the fair value of plan assets at December 31, 2007; however, as a result of an increase in interest rates during 2007, our retirement benefit plan liability at December 31, 2007 is less than the liability at December 31, 2006, which resulted in a \$1,380,000, net of tax, increase in shareholder's equity. During 2008 a decline in the interest rates again caused a negative impact by causing our accumulated benefit obligation to exceed the fair value of the plan assets thus increasing on our retirement benefit plan liability. The decline resulted in a negative impact to shareholders' equity of \$1.8 million for the year ended December 31, 2008.

We maintain a post-retirement benefit plan at our Canadian operation near Montreal, which provides retiree life insurance, health care benefits and, for a closed group of employees, dental care. We account for this plan under SFAS No. 158. The liabilities and expenses for post-retirement benefit plans require significant judgments and

estimates. These amounts are actuarially determined using the projected benefit method pro rated on service and significant management assumptions, including salary escalation, retirement ages of employees and expected health care costs. Retirement benefit plan adjustments and changes in assumptions are amortized to earnings over the estimated average remaining service life of the members and, therefore, generally affect recognized expense and the recorded obligations in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our obligations and future expense.

Income Taxes. Significant judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. As a company with international operations, we record an estimated liability or benefit for our current income tax provision and other taxes based on what we determine will likely be paid in various jurisdictions in which we operate. We use our best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters including the resolution of the tax audits in the various affected tax jurisdictions and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the recorded amount. We do not believe that such a charge would be material.

The process of recording deferred tax assets and liabilities involves summarizing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent that we believe that recovery is not likely, a valuation allowance is established. If a valuation allowance is established in a period, an expense is recorded. The valuation allowance is based on our experience and current economic situation. We believe that operations will provide taxable income levels to recover deferred tax assets on our consolidated balance sheet as of December 31, 2008.

As of January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48), which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of uncertain tax positions to be taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The determination of the amount of benefits to be recognized and the sustainability of our tax positions upon examination require us to make certain estimates and to use our best judgment based upon historical experience.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk on our contractual long-term debt obligations and our working capital facilities are under floating interest rate arrangements. However, we have determined that these risks are not significant enough to warrant hedging programs. If interest rates increase, we will be exposed to higher interest rates and we will be required to use more cash to settle our long-term debt obligations. As interest rates increase on our variable long-term debt, it will have a negative impact on future earnings because the increased rates will increase our interest expense. Conversely, if interest rates decrease on our variable long-term debt, it will have a positive impact on future earnings because the lower rates will decrease our interest expense. Based upon the long-term debt amount as of December 31, 2008, for every 1% increase or decrease in the interest rate on our long-term debt, our annual interest expense will fluctuate by approximately \$126,000.

In addition, we are exposed to foreign currency translation fluctuations with our international operations. We do not have any foreign exchange derivative contracts to hedge against foreign currency exposures. Therefore, we are exposed to the related effects when the foreign currency exchange rates fluctuate. If the U.S. dollar strengthens against the Canadian dollar and/or the British pound sterling, the translation rate for these foreign currencies will decrease, which will have a negative impact on our operating income. For the year ended December 31, 2008, for every 1/100 change in the exchange rate of the Canadian dollar to the U.S. dollar, our Canadian operation's operating income would have changed by approximately \$43,000. Further, for every 1/100 change in the exchange rate of the British pound sterling to the U.S. dollar, the impact on operating income for our United Kingdom operations for the year ended December 31, 2008 would have been approximately \$12,000.

Foreign currency translation fluctuations have no impact on cash flows as long as we continue to reinvest any profits back into the respective foreign operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following are included in this item:

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

Report of Management on Internal Control over Financial Reporting

Reports of Independent Registered Public Accounting Firms

The supplementary data required by this Item (selected quarterly financial data) is provided in Note 15 of the Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Assets		
Current assets		
Cash and cash equivalents	\$ 5,371	\$ 4,273
Accounts receivable, net	14,553	17,411
Inventories, net	23,856	22,990
Prepaid expenses and other current assets	489	586
Deferred income taxes	369	375
Total current assets	44,638	45,635
Property, plant and equipment, net	10,203	11,121
Intangible assets, net	27,732	31,542
Goodwill	13,413	15,059
Other assets	837	869
Total assets	\$ 96,823	\$ 104,226
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 6,500	\$ 6,865
Accounts payable	7,155	6,167
Accrued income taxes	513	706
Customer deposits	1,935	1,380
Accrued compensation	2,641	2,979
Other accrued liabilities	2,088	2,795
Deferred purchase price – current portion	—	298
Total current liabilities	20,832	21,190
Long-term debt, less current maturities	6,110	9,463
Deferred income taxes	7,224	11,524
Accrued pension costs	3,583	1,175
Other long-term liabilities	898	977
Total liabilities	38,647	44,329
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, \$1 par value, 50,000,000 shares authorized, 9,602,029 and 9,601,779 shares issued and outstanding at December 31, 2008 and 2007, respectively	9,602	9,602
Additional paid-in capital	25,443	25,342
Retained earnings	28,635	23,161
Accumulated other comprehensive gain (loss)	(5,504)	1,792
Total shareholders' equity	58,176	59,897
Total liabilities and shareholders' equity	\$ 96,823	\$ 104,226

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	Years Ended December 31		
	2008	2007	2006
	<i>(Dollars in Thousands, Except Per Share Data)</i>		
Net sales	\$ 109,017	\$ 109,503	\$ 99,225
Cost of sales	73,445	74,995	68,848
Gross profit	35,572	34,508	30,377
Selling, general and administrative	22,635	22,781	22,117
Amortization expense	1,199	1,241	926
Operating income	11,738	10,486	7,334
Interest expense	805	1,247	1,105
Other (income)/expense, net	(87)	246	140
Income before income taxes	11,020	8,993	6,089
Provision for income taxes	3,241	2,862	1,469
Net income	\$ 7,779	\$ 6,131	\$ 4,620
Earnings per share			
Basic and Diluted	\$ 0.81	\$ 0.64	\$0.48
Dividends per share	\$ 0.24	\$ 0.24	\$0.24

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other	Total
	Shares	Amount			Comprehensive Income (Loss)	
	<i>(Dollars in Thousands)</i>					
Balance at January 1, 2006	9,601,779	9,602	\$ 25,290	\$ 17,332	\$ (1,776)	\$ 50,448
Cash dividends on common stock paid to shareholders	—	—	—	(2,305)	—	(2,305)
Comprehensive income:						
Net income	—	—	—	4,620	—	4,620
Minimum pension liability adjustment, net of tax benefit of \$140	—	—	—	—	(396)	(396)
Foreign currency translation adjustment, net of tax provision \$446	—	—	—	—	729	729
Total comprehensive income						4,953
Balance at December 31, 2006	9,601,779	\$ 9,602	\$ 25,290	\$ 19,647	\$ (1,443)	\$ 53,096
Cash dividends on common stock paid to shareholders	—	—	—	(2,304)	—	(2,304)
Cumulative effect of a change in accounting principle (FIN 48)	—	—	—	(313)	—	(313)
Stock compensation expense	—	—	52	—	—	52
Comprehensive income:						
Net income	—	—	—	6,131	—	6,131
Minimum pension liability adjustment, net of tax provision of \$684	—	—	—	—	1,380	1,380
Foreign currency translation adjustment, net of tax provision of \$1,137	—	—	—	—	1,855	1,855
Total comprehensive income						9,366
Balance at December 31, 2007	9,601,779	\$ 9,602	\$ 25,342	\$ 23,161	\$ 1,792	\$ 59,897
Issuance of common stock	250	—	3	—	—	3
Cash dividends on common stock paid to shareholders	—	—	—	(2,305)	—	(2,305)
Stock compensation expense	—	—	98	—	—	98
Comprehensive income:						
Net income	—	—	—	7,779	—	7,779
Minimum pension liability adjustment, net of tax benefit of \$1,083	—	—	—	—	(1,839)	(1,839)
Foreign currency translation adjustment, net of tax benefit of \$3,345	—	—	—	—	(5,457)	(5,457)
Total comprehensive income						483
Balance at December 31, 2008	9,602,029	\$ 9,602	\$ 25,443	\$ 28,635	\$ (5,504)	\$ 58,176

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2008	2007	2006
Operating Activities			
Net income	\$ 7,779	\$ 6,131	\$ 4,620
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	1,852	2,343	2,103
Amortization expense	1,199	1,241	926
Provision for doubtful accounts	123	70	37
Deferred income taxes	838	(346)	(446)
Pension expense (income)	(64)	75	29
Loss on sale of fixed assets	271	81	94
Pension contributions	(809)	(207)	(23)
Stock-based compensation expense	98	52	—
Impairment of long-lived assets	—	50	100
Changes in operating assets and liabilities:			
Accounts receivable	630	(148)	(131)
Inventories	(4,014)	1,264	(845)
Prepaid expenses and other current assets	(246)	85	(217)
Accounts payable	2,467	(1,745)	211
Income taxes payable	13	(281)	(341)
Accrued expenses	(30)	269	167
Net cash provided by operating activities	<u>10,107</u>	<u>8,934</u>	<u>6,284</u>
Investing Activities			
Purchases of property, plant and equipment	(2,697)	(2,348)	(2,073)
Proceeds from sale of assets	32	2,514	1
Contingent consideration – business acquisition	(202)	(168)	—
Business acquisitions, net of cash acquired	—	—	(9,446)
Net cash used in investing activities	<u>(2,867)</u>	<u>(2)</u>	<u>(11,518)</u>
Financing Activities			
Net increase (decrease) in working capital facilities	(33)	898	(166)
Outstanding checks in excess of funds on deposit	61	309	(42)
Principal payments on promissory notes	(280)	(280)	(280)
Proceeds from term loans	6,684	55	7,178
Principal payments on term loans	(9,043)	(5,316)	(2,829)
Principal payments on capital leases	—	(69)	(72)
Issuance of common stock	2	—	—
Cash dividends paid to shareholders	(2,305)	(2,304)	(2,305)
Fees paid to obtain new financing	(20)	—	(75)
Net cash (used in) provided by financing activities	<u>(4,934)</u>	<u>(6,707)</u>	<u>1,409</u>
Effect of exchange rate changes on cash and cash equivalents	(1,208)	226	280
Increase (decrease) in cash and cash equivalents	1,098	2,451	(3,545)
Cash and cash equivalents at beginning of period	4,273	1,822	5,367
Cash and cash equivalents at end of period	<u>\$ 5,371</u>	<u>\$ 4,273</u>	<u>\$ 1,822</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest	\$ 829	\$ 1,314	\$ 1,080
Income taxes	<u>\$ 2,500</u>	<u>\$ 3,211</u>	<u>\$ 2,923</u>

See Notes to Consolidated Financial Statements

Note 1: Nature of Operations and Significant Accounting Policies

Nature of Operations

We manufacture, supply and distribute a broad range of rail products, including rail joints, rail anchors, rail spikes, railway friction management products and systems, railway wayside data collection and data management systems and freight car securement systems. We also manufacture material handling equipment for industries outside the rail transportation sector at our Leicester, England operation. We serve both the domestic and international markets. Our manufacturing facilities are located in Huntington, West Virginia; St. Jean, Quebec, Canada; Vancouver, British Columbia, Canada; Leicester, England, United Kingdom; and Sheffield, England, United Kingdom. We operate engineering and assembly facilities in Dublin, Ohio and near Montreal, Quebec, and have an office near Chicago, Illinois. Our corporate headquarters is located near Pittsburgh, Pennsylvania.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Portec Rail Products, Inc.; Salient Systems, Inc. (Salient Systems), our wholly-owned United States subsidiary; Portec Rail Nova Scotia Company, our wholly-owned Canadian subsidiary; and Portec Rail Products (UK) Ltd., our wholly-owned United Kingdom subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. For further details regarding our subsidiaries, refer to Exhibit 21, Subsidiaries of the Registrant.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Outstanding checks in excess of funds on deposit (book overdrafts) are shown as part of accounts payable on the consolidated balance sheet. The change in book overdrafts between periods is presented as a use or source of cash from financing activities on our consolidated statement of cash flows.

Accounts Receivable

Accounts receivable are stated at the amount billed to our customers. We provide an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are generally due between 30 and 60 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written-off based on individual credit evaluation and specific customer circumstances.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for all inventories. Inventory costs include material, labor and manufacturing overhead.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded by the straight-line method based on estimated useful lives as follows:

Buildings and improvements	10-25 years
Machinery and equipment	4-10 years
Office furniture and equipment	3-5 years

Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease. Expenses for repairs, maintenance and renewals are charged to operations as incurred. Expenditures that improve an asset or extend its useful life are capitalized.

Goodwill and Identifiable Intangible Assets

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 ceased the amortization of goodwill and other intangible assets with indefinite useful lives. SFAS No. 142 also requires that these assets be reviewed for impairment at least annually.

Intangible assets with definite lives will continue to be amortized over their estimated useful lives and will be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We adopted SFAS No. 142 effective January 1, 2002. We are required to test our goodwill for impairment using a two-step process described in SFAS No. 142 on an annual basis or whenever events or circumstances indicate that the fair value of our reporting units may have been affected. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. We have established October 1st as our annual measurement date for impairment of goodwill. We completed the annual impairment tests for 2008, 2007 and 2006, and determined that no impairment adjustment was required.

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, we evaluate the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to: (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires that we make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Patents

Patents consist of legal and filing costs incurred in obtaining patent protection for product technology. The accounting rules allow for patent costs to be amortized over the legal life or the useful life of the patent, whichever is shorter. In 2007, we implemented a new patent policy, which amortizes patent costs on a straight-line basis over a period of five to twenty years.

Deferred Financing Costs

Deferred financing costs that relate to obtaining debt facilities are capitalized and amortized over the term of the facility using the level-yield method or straight-line where appropriate. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

Foreign Currency Translation

The assets and liabilities of our foreign subsidiaries are measured using the local currency as the functional currency and are translated into U.S. dollars at exchange rates as of the balance sheet date. Income statement amounts are translated at the weighted-average rates of exchange during the year. The translation adjustment is accumulated as a separate component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in determining net income.

Revenue Recognition

Revenue from product sales is recognized at the time products are delivered and title has passed or when service is performed. Delivery is determined by our shipping terms, which are primarily FOB shipping point. Revenue is recognized net of returns, discounts and other allowances.

Revenue from installation of material handling equipment and railway wayside data collection and data management systems is generally recognized by applying percentages of completion for each contract to the total estimated profits for the respective contracts. The length of each contract varies, but is typically about two to five months. The percentages of completion are determined by relating the actual costs of work performed to date to the current estimated total costs of the respective contracts. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, repairs and depreciation.

When the estimate on a contract indicates a loss, our policy is to record the entire loss immediately in the accounting period that the loss is determined. The cumulative effect of revisions in estimates of total costs or revenue during the course of the work is reflected in the accounting period in which the facts that caused the revision first become known.

Applicable taxes assessed by governmental authorities, such as sales, use, value added, and some excise taxes are billed to customers at the time of sale and not included as a part of net sales. These taxes assessed are remitted as required by each governmental jurisdiction on a monthly, quarterly or annual basis.

Related Party Transactions

Related party transactions are conducted with companies under common control of our shareholders or directors. During 2008, we entered into a loan agreement with Boone County Bank, which is a related party. See Note 9 – Long-Term Debt, Page 69 for further details.

Warranty Obligations

Most of our products are covered by a replacement warranty. We record a liability for product warranty obligations based upon historical warranty claims experience or known warranty issues and their replacement costs. During 2007, we incurred \$1.3 million of warranty expense related to RMP's Bonded to Rail (BTR) joint bars manufactured in Huntington, WV, which are covered by a standard one-year replacement warranty. We did not incur any warranty expense during 2008 related to this issue. At December 31, 2008 and 2007, the warranty accrual related to this issue was \$177,000 and \$572,000, respectively. See Note 13, Commitments and Contingencies, Page 83 for further details. Product warranty accruals as of December 31, 2006 were not material.

Income Taxes

Deferred income taxes are provided for the tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Research and development tax credits are accounted for under the flow-through method as a reduction of income tax expense in the year the credits are earned.

As of January 1, 2007, we adopted FIN 48, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of uncertain tax positions to be taken or expected to be taken in a tax return.

Use of Estimates

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

Shipping and Handling

Shipping and handling costs that we incur are included in the cost of sales.

Financial Instruments

The carrying value of our financial instruments approximates their fair values.

Research and Development

Research and development costs are charged to expense as incurred. Research and development costs incurred during 2008, 2007 and 2006 were approximately \$3.0 million, \$2.4 million and \$2.6 million, respectively.

Advertising Expense

Advertising expense is comprised of trade shows and other promotional expenses. Advertising expenses are charged to income during the period incurred. Advertising expenses charged to income totaled \$299,000 in 2008, \$265,000 in 2007 and \$374,000 in 2006.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. In addition, SFAS 157 was issued to eliminate the different definitions of fair value in order to provide consistency and comparability in fair value measurements. However, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We have adopted this standard as of the first quarter 2008.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement 115 that provides companies with an option to report certain financial assets and liabilities in their entirety at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The fair value option may be applied instrument by instrument, and may be applied only to entire instruments. A business entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The Company is evaluating its options provided for under this statement and their potential impact on its financial statements when implemented. This statement is being reviewed in conjunction with the requirements of SFAS No. 157 discussed above.

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141R, Business Combinations - a revision of SFAS 141 (SFAS 141R), which will significantly alter the way that companies account for business combinations under the acquisition method. Under SFAS 141R, an acquiring entity will be required to recognize the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. In addition, the following specific changes will be made: (1) all acquisition costs will be expensed as incurred; (2) any restructuring charges related to the business combination will generally be expensed subsequent to the acquisition date; (3) non-controlling interests will be recorded at fair value at the acquisition date; (4) acquired contingent liabilities will be recorded at fair value at acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies; (5) in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; and (6) changes in the deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will generally affect income tax expense. For calendar year companies, SFAS 141R prospectively applies to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of SFAS 141R will have an impact on future business combinations in which we engage; however, at this time, we cannot determine if the impact will be material.

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133. SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133, requiring enhanced disclosures about the Company's derivative and hedging activities. The Company is required to provide enhanced disclosures about (a) how and why it uses derivative instruments,

(b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the Company's financial position, results of operations, and cash flows. SFAS No. 161 is effective prospectively, with comparative disclosures of earlier periods encouraged upon initial adoption. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not anticipate that the adoption of this statement will have a material impact on its consolidated financial statement footnote disclosures.

Earnings Per Share

Basic earnings per share (EPS) are computed as net income available to common shareholders divided by the weighted average common shares outstanding. Diluted earnings per share considers the potential dilution that occurs related to issuance of common stock under stock option plans. We calculated the dilutive effect of our stock options in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128). For the twelve months ending December 31, 2008, we determined that our stock options have an anti-dilutive effect on earnings per share, as the incremental shares related to the 2007 and 2008 stock options grants (see Note 18, Stock Options, Page 89) would reduce our average shares outstanding by 24,004 shares. The incremental shares related to the 2007 stock option grant would reduce our average shares outstanding by 7,126 shares for the year ended December 31, 2007. As such, the anti-dilutive shares are not included in the calculation of diluted earnings per share. We did not have any stock options outstanding during the year ended December 31, 2006. As such, the anti-dilutive shares are not included in the calculation of diluted earnings per share.

	Years Ended December 31		
	2008	2007	2006
	<i>(Dollars in Thousands, Except Share and Per Share Data)</i>		
Net income available to common shareholders	\$ 7,779	\$ 6,131	\$ 4,620
Basic common shares:			
Weighted average shares outstanding	9,601,928	9,601,779	9,601,779
Diluted average shares outstanding	9,601,928	9,601,779	9,601,779
Basic and diluted earnings per share	\$ 0.81	\$ 0.64	\$ 0.48

On June 8, 2006, our shareholders approved the Portec Rail Products, Inc. 2006 Stock Option Plan (the Option Plan). The Option Plan authorizes the issuance of up to 150,000 shares of common stock of Portec Rail Products, Inc. pursuant to grants of incentive and non-statutory stock options and will remain in effect for a period of ten years. We adopted Statement of Financial Accounting Standards No. 123 (R), Share-Based Payments (SFAS 123(R)), effective January 1, 2006. Stock options granted are accounted for in accordance with SFAS 123 (R). See Note 18, Stock Options, Page 89.

Reclassifications

Certain reclassifications have been made to the 2007 and 2006 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on net earnings.

Note 2: Acquisition of Vulcan Chain Corporation Assets

On October 10, 2006, we acquired the railroad product line assets of Vulcan Chain Corporation (Vulcan), a Detroit, Michigan manufacturer of freight securement products for the railroad industry, for a total initial purchase price of \$4,479,000 including direct acquisition costs of \$143,000. The acquired assets include certain patent interests, equipment, and other intangible assets. Of the \$4,479,000 purchase price, \$4,330,000 was paid at closing and was financed with borrowings from our National City Bank revolving credit facility along with available cash balances. On November 7, 2006, we entered into a \$3,000,000 five-year term loan from National City Bank. Portec Rail Products, Inc. is the sole guarantor of the term loan with substantially all of its United States assets pledged as collateral. The proceeds from this term loan were used to repay the revolving credit facility balance. In addition to the \$4,330,000 paid at closing, an earn-out

provision based upon the sales volume of the acquired product line will be paid to the former owners of Vulcan over the next three years. Vulcan's railroad product line is a major supplier of new and reconditioned tie-down systems for the shipment of new automobiles and vans by the rail industry. Vulcan's products complement our existing Shipping Systems Division products. Accordingly, all assets and liabilities are included in the Shipping Systems segment, and the results of operations for Vulcan have been included in the Shipping Systems segment and consolidated financial statements since the date of acquisition.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we accounted for the acquisition using the purchase method of accounting. Accordingly, the assets and liabilities of Vulcan were adjusted to fair value as of the acquisition date. In addition, all identifiable intangible assets were recorded at fair value and included as part of net assets acquired. The fair value of intangible assets was determined by an independent valuation expert. The assets acquired included \$3,455,000 of intangible assets other than goodwill. Of the \$3,455,000 of acquired intangible assets, a value of \$2,169,000 was assigned to customer relationships, which will be amortized on a straight-line basis over an estimated useful life of 19 years; a value of \$890,000 was assigned to a unique customer relationship, which will be amortized on a straight-line basis over an estimated useful life of 17 years; a value of \$344,000 was assigned to vehicle restraint assembly technology (G-Van patent), which will be amortized on a straight-line basis over an estimated useful life of 11 years; a value of \$47,000 was assigned to a supply agreement, which will be amortized on a straight-line basis over an estimated useful life of 3 years; and a value of \$5,000 was assigned to non-compete agreements with the owners and one former employee of Vulcan, which will be amortized on a straight-line basis over an estimated useful life of 7 years. As part of this transaction, we recorded \$830,000 of goodwill, which represents the excess purchase price over the fair value of net assets acquired. The goodwill balance increased to \$1.2 million at December 31, 2008, primarily due to accrued earn-out based upon sales volume, which is recorded as an increase of the total purchase price in accordance with SFAS 141 *Business Combinations*. During the year ended December 31, 2008 and 2007, total earn-out payments of \$195,000 and \$77,000, respectively, were paid to the former owners of Vulcan. We anticipate approximately \$105,000 of additional payments to be made in 2009. In accordance with SFAS No. 142, goodwill will not be amortized, but evaluated for impairment annually. We anticipate approximately \$105,000 of additional earn-out payments to be made in 2009. All intangible assets resulting from the acquisition are included in the Shipping Systems segment.

The following summarizes the estimated fair values at the acquisition date:

	October 10 2006
	<i>(In Thousands)</i>
Property, plant and equipment, net	\$ 196
Intangible Assets	3,453
Goodwill	830
Total assets acquired	<u>\$ 4,479</u>

Note 3: Acquisition of Coronet Rail, Ltd.

On April 12, 2006, Portec Rail Products (UK) Ltd., our wholly-owned subsidiary, acquired 100% of the outstanding common stock of Coronet Rail, Ltd. (Coronet Rail), effective as of April 8, 2006, for a total purchase price of \$5,762,000 (£3,310,000 pounds sterling), including direct acquisition costs of \$179,000 (£103,000 pounds sterling). Of the total purchase price of \$5,762,000, \$4,178,000 (£2,400,000 pounds sterling) was paid at closing and was financed by a United Kingdom financial institution in the form of 1) a \$2,611,000 (£1,500,000 pounds sterling) five-year term loan and 2) a \$1,567,000 (£900,000 pounds sterling) fifteen-year term loan. Portec Rail Products (UK) Ltd. is the sole guarantor of the term loans with substantially all of our United Kingdom assets pledged as collateral. In addition to the \$4,178,000 (£2,400,000 pounds sterling) paid at closing, a deferred purchase price of \$1,044,000 (£600,000 pounds sterling) without interest was paid to the former shareholders of Coronet Rail over the subsequent 24-month period in equal, quarterly installments. Under the terms of the share purchase agreement executed in conjunction with the purchase of Coronet Rail, a working capital adjustment of \$361,000 (£207,000 pounds sterling) was paid to the former shareholders of Coronet Rail in June 2006. As of December 31, 2008, \$1,044,000 (£600,000 pounds sterling) of the deferred purchase price has been paid to the former shareholders of Coronet Rail. Coronet Rail is a major supplier of insulated rail joints and track fasteners to the United Kingdom railways, and is operated under our United Kingdom business segment. Accordingly, all assets and

liabilities are included in the United Kingdom segment, and the results of operations for Coronet Rail have been included in the United Kingdom segment and consolidated financial statements since the effective date of the acquisition.

In accordance with SFAS No. 141, we accounted for the acquisition using the purchase method of accounting. Accordingly, the assets and liabilities of Coronet Rail were adjusted to fair value as of the effective date of the acquisition. In addition, all identifiable intangible assets were recorded at fair value and included as part of net assets acquired. The fair value of intangible assets was determined by an independent valuation expert. The assets acquired included \$3,499,000 (£2,010,000 pounds sterling) of intangible assets other than goodwill. Of the \$3,499,000 of acquired intangible assets, a value of \$3,277,000 (£1,883,000 pounds sterling) was assigned to customer relationships, which will be amortized on a straight-line basis over an estimated useful life of 20 years; a value of \$188,000 (£108,000 pounds sterling) was assigned to non-compete agreements with the former shareholders of Coronet Rail, which will be amortized on a straight line basis over an estimated useful life of 5 years; and a value of \$34,000 (£19,000 pounds sterling) was assigned to a supply agreement, which will be amortized on a straight-line basis over an estimated useful life of 10 years. As part of the transaction, we recorded \$1,915,000 (£1,100,000 pounds sterling) of goodwill, which represents the excess purchase price over the fair value of net assets acquired. In accordance with SFAS No. 142, goodwill will not be amortized but evaluated for impairment annually. All intangible assets resulting from the acquisition are included in the United Kingdom segment.

The following summarizes the estimated fair values as of the acquisition effective date:

	<u>April 8</u> <u>2006</u> <i>(In Thousands)</i>
Cash and cash equivalents	\$ 12
Accounts receivable, net	1,801
Inventories, net	1,663
Property, plant and equipment, net	362
Intangible Assets	3,499
Goodwill	1,915
Total assets acquired	<u>9,252</u>
Accounts payable	\$ 1,157
Working capital facility	612
Accrued income taxes	376
Accrued compensation	2
Other accrued liabilities	180
Deferred income taxes (current and long-term)	1,073
Capital leases (current and long-term)	90
Total liabilities	<u>3,490</u>
Net assets acquired	<u>\$ 5,762</u>

Note 4: Acquisition of Kaybe (Conveyors) Ltd. Assets

On January 4, 2006, Portec Rail Products (UK) Ltd., our wholly-owned subsidiary, acquired certain assets of Kaybe (Conveyors) Ltd. (Kaybe) for \$115,000 (£65,000 pounds sterling). The acquired assets include inventory, the Kaybe name and the customer list. The acquired assets were integrated into our existing material handling operation located in Leicester, England. Accordingly, all assets and liabilities are included in the United Kingdom segment, and the results of operations for Kaybe have been included in the United Kingdom segment and consolidated financial statements since the date of acquisition. This acquisition was accounted for under the purchase method of accounting. We did not recognize any goodwill or intangible assets in conjunction with this asset acquisition.

Note 5: Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. We generally do not require collateral for our trade accounts receivable. We continually evaluate our accounts receivable and adjust our allowance for doubtful accounts for changes in potential credit risk.

Accounts receivable consists of the following:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Accounts receivable	\$ 14,671	\$ 17,532
Less allowance for doubtful accounts	118	121
Net accounts receivable	<u>\$ 14,553</u>	<u>\$ 17,411</u>

Note 6: Inventories

The major components of inventories are as follows:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Raw materials	\$ 10,617	\$ 9,849
Work in process	411	521
Finished goods	13,727	13,017
	<u>24,755</u>	<u>23,387</u>
Less reserve for slow-moving and obsolete inventory	899	397
Net inventory	<u>\$ 23,856</u>	<u>\$ 22,990</u>

Note 7: Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Land	\$ 117	\$ 143
Buildings and improvements	7,402	7,466
Machinery and equipment	13,270	12,569
Office furniture and equipment	1,773	3,271
Construction-in-progress	86	1,212
	<u>22,648</u>	<u>24,661</u>
Less accumulated depreciation	12,445	13,540
Net property and equipment	<u>\$ 10,203</u>	<u>\$ 11,121</u>

Total depreciation expense was approximately \$1,852,000, \$2,343,000 and \$2,103,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 8: Goodwill and Intangible Assets

As a result of the Vulcan asset acquisition and the acquisitions of Coronet Rail, Ltd. in 2006, and Kelsan and Salient Systems in 2004, we acquired \$31.2 million of intangible assets other than goodwill. For further details see Acquisition Notes 2 and 3. Of the \$31.2 million of intangible assets acquired, \$17.8 million are definite-lived, amortizable intangible assets and \$13.4 million are indefinite-lived, non-amortizable intangible assets (Salient Systems). Additionally, as part of these transactions, we recorded \$8.6 million of goodwill, which represents the excess purchase price over the fair value of the net assets acquired. Of the \$8.6 million of goodwill, \$4.2 million and \$1.7 million were recorded as part of the Kelsan and Salient acquisitions, respectively, in 2004. We recorded \$1.9 million and \$830,000 of goodwill as part of the Coronet acquisition and Vulcan asset acquisition, respectively, in 2006. During 2008 and 2007, Vulcan's goodwill balance increased to \$1.2 million and \$991,000, respectively due to accrued earn-out based upon sales volume, which is recorded as an increase of the total purchase price in accordance with SFAS 141 *Business Combinations*. This increase is presented in the table below. During the years ended December 31, 2008 and 2007, we made total earn-out payments of \$195,000 and \$77,000, respectively to the former owners of Vulcan. We anticipate approximately \$105,000 of additional earn-out payments to be made in 2009.

The changes in the carrying amounts of goodwill attributable to each segment at December 31, 2008 and 2007 are as follows:

	December 31 2007	Acquired Goodwill	Foreign Exchange	December 31 2008
	<i>(In Thousands)</i>			
RMP	\$ 4,656	\$ —	\$ —	\$ 4,656
SSD	1,256	202	—	1,458
Canada	5,434	—	(916)	4,518
United Kingdom	3,713	—	(932)	2,781
Total	<u>\$ 15,059</u>	<u>\$ 202</u>	<u>\$ (1,848)</u>	<u>\$ 13,413</u>

	December 31 2006	Acquired Goodwill	Foreign Exchange	December 31 2007
	<i>(In Thousands)</i>			
RMP	\$ 4,656	\$ —	\$ —	\$ 4,656
SSD	1,095	161	—	1,256
Canada	4,696	—	738	5,434
United Kingdom	3,729	—	(16)	3,713
Total	<u>\$ 14,176</u>	<u>\$ 161</u>	<u>\$ 722</u>	<u>\$ 15,059</u>

The carrying basis and accumulated amortization of definite lived intangible assets are as follows:

<u>Amortizable Intangible Assets</u>	December 31, 2008			
	Amortization Period (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
	<i>(In Thousands)</i>			
<u>Patents</u>				
RMP	7	\$ 209	\$ (27)	\$ 182
SSD	10	41	(7)	34
Canada (1)	5 to 20	816	(358)	458
		1,066	(392)	674
<u>Kelsan Acquisition</u>				
Stick friction modifier product technology	15	5,365	(1,460)	3,905
Keltrack [®] liquid friction modifier product technology	28	5,047	(736)	4,311
		10,412	(2,196)	8,216
<u>Coronet Rail Acquisition</u>				
Customer relationships	20	2,748	(375)	2,373
Non-compete agreements	5	158	(86)	72
Supply agreement	10	28	(8)	20
Deferred financing fees	5	46	(27)	19
		2,980	(496)	2,484
<u>Vulcan Product Line Acquisition</u>				
Customer relationships	19	2,169	(251)	1,918
Unique customer relationship	17	890	(115)	775
Vehicle restraint assembly technology	11	344	(70)	274
Supply agreement	3	47	(35)	12
Non-compete agreements	7	5	(2)	3
		3,455	(473)	2,982
Total		\$ 17,913	\$ (3,557)	\$ 14,356

(1) Includes Kelsan patents with a gross carrying value, accumulated amortization, and net book value of \$795,000, \$354,000, and \$441,000, respectively.

December 31, 2007				
<u>Amortizable Intangible Assets</u>	<u>Amortization Period (in years)</u>	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
		<i>(In Thousands)</i>		
<u>Patents</u>				
RMP	7	\$ 102	\$ (7)	\$ 95
SSD	10	39	(3)	36
Canada (1)	5 to 20	807	(352)	455
		948	(362)	586
<u>Kelsan Acquisition</u>				
Stick friction modifier product technology	15	6,569	(1,350)	5,219
Keltrack [®] liquid friction modifier product technology	28	6,180	(681)	5,499
Deferred financing fees	5	97	(60)	37
		12,846	(2,091)	10,755
<u>Coronet Rail Acquisition</u>				
Customer relationships	20	3,742	(324)	3,418
Non-compete agreements	5	214	(74)	140
Supply agreement	10	38	(6)	32
Deferred financing fees	5	63	(23)	40
		4,057	(427)	3,630
<u>Vulcan Product Line Acquisition</u>				
Customer relationships	19	2,169	(138)	2,031
Unique customer relationship	17	890	(63)	827
Vehicle restraint assembly technology	11	344	(39)	305
Supply agreement	3	47	(19)	28
Non-compete agreements	7	5	(1)	4
		3,455	(260)	3,195
Total		\$ 21,306	\$ (3,140)	\$ 18,166

(1) Includes Kelsan patents with a gross carrying value, accumulated amortization, and net book value of \$797,000, \$352,000, and \$445,000, respectively.

No significant residual value is estimated for these intangible assets. The carrying amounts and accumulated amortization were impacted by foreign currency translation adjustments. Aggregated amortization expense for all intangible assets for the years ended December 31, 2008, 2007 and 2006 totaled \$1,199,000, \$1,241,000, and \$926,000, respectively.

The following table represents the total estimated amortization of intangible assets for the five succeeding years:

For the Year Ended December 31,	Estimated Amortization Expense
	<i>(In Thousands)</i>
2009	\$ 989
2010	975
2011	939
2012	931
2013	930

The carrying value of indefinite-lived intangible assets is as follows as of December 31, 2008 and December 31, 2007:

Non-Amortized Intangible Assets (Salient Systems Acquisition):	Carrying Value
	<i>(In Thousands)</i>
Wheel Impact Load Detector technology	\$ 9,797
Railstress Monitor technology	3,579
Total	<u>\$ 13,376</u>

Note 9: Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
National City Bank Credit Facility: (a)		
Term loan – Kelsan acquisition	\$ 4,884	\$ 8,435
Term loan – Vulcan asset acquisition	1,700	2,300
Revolving credit facility – United States	2,800	2,300
Revolving credit facility – Canada	—	—
United Kingdom loans: (b)		
Term loan – Coronet Rail acquisition	1,131	2,119
Working capital facility	—	575
Term loans - vehicles	15	39
Promissory notes – Salient Systems acquisition (c)	280	560
Credit facility – Boone County Bank, Inc. (d)	1,800	—
	<u>12,610</u>	<u>16,328</u>
Less current maturities	<u>6,500</u>	<u>6,865</u>
	<u>\$ 6,110</u>	<u>\$ 9,463</u>

(a) National City Bank Credit Facility

In December 2008, PNC Financial Services Group Inc. of Pittsburgh, Pennsylvania acquired National City Corp. of Cleveland, Ohio. We have a number of lending facilities with National City Bank. At this time, we are unaware of the impact, if any, this will have on our ability to finance our working capital requirements.

Our credit facility with National City Bank is a term loan and revolving credit facility that provided the financing for the Kelsan acquisition in November 2004 and the Vulcan asset acquisition in October 2006, and also supports the working capital requirements of our United States and Canadian business units. The components of this facility are as follows: 1) a \$7.0 million United States revolving credit facility; 2) a \$4.1 million (\$5.0 million CDN) revolving credit facility for our Canadian operations; 3) an outstanding term loan in the original amount of \$4.9 million that replaced the term loan in the original amount of \$14.9 million (\$17.6 million CDN) provided for the Kelsan acquisition in November 2004; and 4) an outstanding term loan in the original amount of \$3.0 million provided in November 2006 for the Vulcan asset acquisition. As of December 31, 2008, we had the ability to borrow an additional \$8.4 million under the United States and Canadian revolving credit facilities.

This agreement contains certain financial covenants that require us to maintain a current ratio, cash flow coverage and leverage ratios, and to maintain minimum amounts of tangible net worth. This credit facility further limits capital expenditures, sales of assets, and additional indebtedness. At December 31, 2008, we were in compliance with all of these financial covenants.

Term Loan – Kelsan Acquisition

To finance the acquisition of Kelsan on November 30, 2004 we borrowed \$14.9 million (\$17.6 million CDN) from National City Bank (Canada) through Portec Rail Nova Scotia Company, a wholly-owned subsidiary of Portec Rail Products, Inc. Portec Rail Nova Scotia Company was the borrower of the funds under the credit agreement, and Portec Rail Products, Inc. was the sole guarantor of the term loan with substantially all of our United States assets pledged as collateral. Under this seven-year term loan, our monthly principal payments were approximately \$211,000 (\$210,050 CDN). We had the option to direct outstanding borrowings under a Canadian prime lending rate option, a Canadian Banker's Acceptance Equivalent Note ("BA Note") option, or utilize a combination of both of these options at our discretion. Interest rates under these options are the prevailing Canadian prime rate plus an applicable margin of .75% to 1.75% (prime rate option), or the BA Note interest rate plus an applicable margin of 1.75% to 2.75% (BA Note option).

In December 2008, we replaced the outstanding balance of \$4.9 million (\$5.9 million CDN) on the Canadian loan with a new \$4.9 million loan from National City Bank. Portec Rail Products, Inc. is the sole guarantor of the term loan with substantially all of our United States assets pledged as collateral. The monthly principal payment on the new loan is approximately \$174,000. Interest on the outstanding balance accrues at LIBOR-based rate plus 1.75% to 2.25% and is paid monthly. As of December 31, 2008, the principal balance outstanding was \$4.9 million, and accrued interest at a rate of 2.2%. This term loan is scheduled to mature on May 1, 2011.

Term Loan – Vulcan Asset Acquisition

On November 7, 2006, we borrowed \$3.0 million from National City Bank to finance the Vulcan acquisition. Portec Rail Products, Inc. is the sole guarantor of the term loan with substantially all of our United States assets pledged as collateral. Under this five-year term loan, our monthly principal payments are \$50,000. The outstanding principal balance accrues interest based upon the 30-day LIBOR rate plus 1.5%. As of December 31, 2008 and 2007, we had outstanding borrowings of \$1.7 million and 2.3 million, respectively, which accrued interest at 1.97% and 6.43% as of December 31, 2008 and 2007, respectively. This term loan is scheduled to mature on October 31, 2011.

Revolving Credit Facility – United States

Our United States revolving credit facility permits borrowings up to \$7.0 million to support the working capital requirements of our United States operations. Included in the \$7.0 million is a sub-limit of \$1.6 million for standby and commercial letters-of-credit. Outstanding borrowings under this facility can be priced at a prime-based rate or a LIBOR-

based rate. Outstanding borrowings under this facility were \$2.8 million and \$2.3 million as of December 31, 2008 and 2007, respectively. Borrowings on this facility accrued interest at 1.97% and 6.43% at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, we had \$0 and \$80,000, respectively, as outstanding commercial letters-of-credit. This credit facility expires on September 30, 2011.

Revolving Credit Facility - Canada

The working capital requirements for our Canadian operations are supported by a \$4.2 million (\$5.0 million CDN) revolving credit facility. Included within the \$4.2 million is a sub-limit of \$335,000 (\$400,000 CDN) for standby and commercial letters-of-credit. The interest rate is the Canadian prime rate plus 1.0%. Borrowings on this facility accrued interest at 4.5% and 7.0% at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, there were no outstanding borrowings under this facility. This facility is scheduled to expire on December 31, 2011.

(b) United Kingdom Loans

Term Loan - Coronet Rail Acquisition

In conjunction with the acquisition of Coronet Rail in April 2006, we borrowed \$2.6 million (£1.5 million pounds sterling) and \$1.6 million (£900,000 pounds sterling) in the form of two term loans provided by a United Kingdom financial institution. The \$1.6 million (900,000 pounds sterling) loan was repaid in full in March 2007 with proceeds from the sale of the Wrexham facility. The \$2.6 million (£1.5 million pounds sterling) loan has an outstanding balance of approximately \$1.1 million (£775,000 pounds sterling) as of December 31, 2008 and accrued interest at 3.75%.

Working Capital Facility

In May 2008, we entered into a new working capital facility for Portec Rail Products (UK) Ltd., and Coronet Rail Ltd., which includes an overdraft availability of \$1.3 million (£900,000 pounds sterling); \$255,000 (£175,000 pounds sterling) for the issuance of performance bonds, and \$58,000 (£40,000 pounds sterling) for the negotiation of foreign checks. This credit facility supports the working capital requirements of Portec Rail Products (UK) Ltd. and Coronet Rail, and is collateralized by substantially all of the assets of Portec Rail Products (UK) Ltd. and its wholly-owned subsidiaries, including Coronet Rail, Ltd. The interest rate on this overdraft facility is the financial institution's base rate plus 1.5%. The interest rate as of December 31, 2008 was 4.5%. There were no outstanding borrowings as of December 31, 2008 and 2007; however, our availability under this credit facility was reduced due to outstanding performance bonds in the amount of \$227,000 (£156,000 pounds sterling) and \$309,000 (£156,000 pounds sterling) as of December 31, 2008 and 2007, respectively. This facility is scheduled to expire on April 30, 2009.

Prior to May 2008, the working capital needs of Coronet Rail were serviced by an invoice discounting facility provided by a United Kingdom financial institution. This facility permitted Coronet Rail to borrow up to 85% of its eligible accounts receivable, to a maximum of \$1.5 million (£750,000 pounds sterling) for its working capital requirements. As of December 31, 2007, the balance was \$575,000 (£290,000 pounds sterling) and the interest rate on the facility was 7.5%.

Prior to May 2008, our working capital facility for Portec Rail Products (UK) Ltd. included \$1.2 million (£700,000 pounds sterling) of overdraft availability; \$311,000 (£175,000 pounds sterling) for the issuance of performance bonds, and \$71,000 (£40,000 pounds sterling) for the negotiation of foreign checks.

(c) Salient Systems Promissory Notes

In connection with the acquisition of Salient Systems on September 30, 2004, we executed two promissory notes. One promissory note was executed with Harold Harrison, the founder and former President and Chief Executive Officer of Salient Systems. This promissory note, in the aggregate principal amount of \$1,064,000 is due to Mr. Harrison in four equal, annual installments of \$266,000 beginning January 3, 2006 and ending January 5, 2009. A second promissory note was executed with Falls River Group, LLC, which acted as a financial advisor to Salient Systems. This promissory note, in the aggregate principal amount of \$56,000 is due to Falls River Group, LLC in four equal, annual installments of \$14,000 beginning January 3, 2006 and ending January 5, 2009. In January 2008 and 2007, principal payments of \$266,000 and \$14,000, and accrued interest of \$46,000 and \$68,000, respectively, were paid to the note holders. The unpaid principal

balance of the promissory notes accrues interest at the prime rate as published in the *Wall Street Journal*. The final principal payments of \$266,000 and \$14,000 were paid to the note holders on January 5, 2009. All accrued and unpaid interest is payable annually beginning January 3, 2006. The outstanding balance on the promissory notes accrued interest at 3.25% as of December 31, 2008. At December 31, 2008, we had accrued interest of \$14,000 related to these promissory notes.

(d) Credit Facility – Boone County Bank, Inc.

In July 2008, we entered into a new loan agreement with Boone County Bank, Inc. for a line of credit in the maximum amount of \$2.1 million to finance capital expenditures at our manufacturing facility in Huntington, West Virginia. As of December 31, 2008, the outstanding balance on this facility was \$1.8 million, and the interest rate was 3.25%. In February 2009 this loan was increased to \$2.1 million and the interest rate was lowered to United States prime rate less 0.25%. The terms of the loan require principal repayment of \$35,000 monthly for 60 months, beginning in February 2009. This facility has a current maturity date of January 14, 2014. We previously had a \$2.0 million line of credit with Boone County Bank, Inc. for our United States business segments that was terminated in April, 2008.

Boone County Bank, Inc. is a wholly-owned subsidiary of Premier Financial Bancorp, Inc., located in Madison, West Virginia. Our Chairman of the Board is the Chairman of the Board and a shareholder of Premier Financial Bancorp, Inc. We believe that our credit facility with Boone County Bank, Inc. is on terms comparable to those obtained by a non-affiliated third party.

Future Maturities of Long-Term Debt

Future maturities of long-term debt are as follows:

	<i>(In Thousands)</i>
2009	\$ 6,500
2010	3,619
2011	1,862
2012	453
2013	137
Thereafter	39
Total	<u>\$ 12,610</u>

Note 10: Retirement Plans

Defined Contribution Plans

We maintain a qualified defined contribution 401(k) plan covering substantially all of our United States employees. Under the terms of the plan, we contribute 3% of each employee’s monthly compensation as a non-elective contribution and may also contribute up to 50% of the first 6% of each employee’s compensation contributed to the plan as an annual profit sharing match, depending on certain profitability thresholds. Total expense that we recorded for non-elective and matching contributions was approximately \$428,000, \$406,000 and \$352,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

At our Canadian operation near Montreal, we maintain a defined contribution plan covering all non-union employees. Under the terms of the Canadian plan, we may contribute 4% of each employee’s compensation as a non-elective contribution and may also contribute 30% of the first 6% of each employee’s compensation contributed to the plan. Total expense that we recorded for non-elective and matching contributions for the Canadian defined contribution plan was approximately \$90,000, \$88,000 and \$73,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

We also maintain a defined contribution plan covering substantially all employees of Portec Rail Products (UK) Ltd. Benefits under this plan are provided under no formal written agreement. Under the terms of the defined contribution plan, we may make non-elective contributions of between 3% and 7.5% of each employee’s compensation.

There are no Company matching contributions. Total expense that we recorded for the United Kingdom defined contribution plan contributions was approximately \$110,000, \$131,000 and \$109,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Defined Benefit Pension Plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). Under the new standard, companies must recognize a net liability or asset, based upon the Projected Benefit Obligation (pension plans) or the Accumulated Postretirement Benefit Obligation (other post retirement plans), to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The difference between a plan's funded status and its current balance sheet position will be recognized, net of tax, as a component of accumulated other comprehensive income. This standard requires annual disclosures for sponsors of defined benefit plans. For each annual statement of income presented, the new disclosures require companies to disclose the change in accumulated other comprehensive income during the period by component, and require companies to separately disclose the amounts recognized in accumulated other comprehensive income at year-end due to gains/losses, prior service costs/credits, and transition assets/obligations. In addition, companies are required to disclose the amortization of gains/losses, prior service cost/credits, and transition assets/obligations expected to be recognized in the income statement during the following fiscal year, as well as the expected return on plan assets during the period. In the year of adoption, companies are required to disclose the incremental impact of applying SFAS 158 on individual financial statement line items including the liability for pension benefits, deferred income taxes, total liabilities, accumulated other comprehensive income and total shareholder's equity. The adoption of this standard and the new annual disclosures are effective for fiscal years ending after December 15, 2006. Retroactive application of this standard is not permitted.

United States Defined Benefit Pension Plan

We maintain a defined benefit pension plan that covers a significant number of our current United States employees, former employees and retirees. For hourly employees, benefits under the plan are based on years of service. For salaried employees, benefits under the plan are based on years of service and the employee's average compensation during defined periods of service. In August 2003, we amended our United States defined benefit pension plan by freezing the benefits accrued for all participants effective December 31, 2003, and preventing new enrollments after December 31, 2003. No minimum contribution was required by the plan during calendar years 2007 or 2006. In 2008, we made contributions to the plan totaling \$615,000, of which \$492,000 relates to the 2007 plan year and \$123,000 relates to the 2008 plan year. In 2009, we anticipate making total contributions of \$116,000 in 2009 for the 2008 and 2009 plan years.

United Kingdom Defined Benefit Pension Plans:

In September 2003, we amended the Portec Rail and Conveyors plans by freezing the benefits accrued for all participants effective December 31, 2003. Our future net periodic pension cost and plan funding will be dependent upon the performance of plan assets and assumptions adopted. United Kingdom regulations require trustees to adopt a prudent approach to funding defined benefit pension plans. The unrecognized transition obligation for the Portec Rail plan of \$260,000 and for the Conveyors plan of \$48,000 will continue to be amortized over the average remaining service period of employees in the plan.

Portec Rail Products (UK) Limited Pension Plan (Portec Rail Plan):

We maintain the Portec Rail Products (UK) Limited Pension Plan (Portec Rail plan), a defined benefit pension plan in the United Kingdom. The Portec Rail plan covers some current employees, former employees and retirees, and has been frozen to new entrants since April 1, 1997. Benefits under the Portec Rail plan were based on years of service and eligible compensation during defined periods of service. Our funding policy for the Portec Rail plan is to make minimum annual contributions required by applicable regulations. Our total contributions into the Portec Rail plan amounted to approximately \$124,000, \$170,000 and \$23,000 for the years ended December 31, 2008, 2007 and 2006, respectively. We expect to contribute \$107,000 (£74,000 pounds sterling) to the Portec Rail plan during 2009.

Conveyors International Limited Pension Plan (Conveyors Plan):

We also maintain the Conveyors International Limited Pension Plan (Conveyors plan), a defined benefit pension plan in the United Kingdom. After January 2002, the Conveyors plan covers only former employees. Benefits under the Conveyors plan were based on years of service and eligible compensation during defined periods of service. Our funding policy for the Conveyors plan is to make minimum annual contributions required by applicable regulations. Our total contributions into the Conveyors plan amounted to approximately \$28,000, \$38,000 and \$0 for the years ended December 31, 2008, 2007 and 2006, respectively. Our future net periodic pension cost and plan funding will be dependent upon the performance of plan assets. We expect to contribute \$28,000 (£19,000 pounds sterling) to the Conveyors plan during 2009.

Other Post-Retirement Benefit Plan

At our Canadian operation near Montreal, we maintain a post-retirement benefit plan, which provides retiree life insurance, health care benefits and, for a closed group of employees, dental care. Retiring employees with a minimum of 10 years of service are eligible for the plan benefits. The plan is not funded, and as such, does not have any assets to fund future benefit obligations. Cost of benefits earned by employees is charged to expense as services are rendered. For the years ended December 31, 2008, 2007, and 2006, we recognized expense of \$48,000 (\$51,000 CDN), \$52,000 (\$55,000 CDN), and \$59,000 (\$67,000 CDN), respectively. Our accrued benefit obligation per our actuarial valuation was \$377,000 (\$458,000 CDN) and \$514,000 (\$511,000 CDN) as of December 31, 2008 and 2007, respectively. This amount is recognized within other long-term liabilities with corresponding amounts included in deferred income tax and accumulated other comprehensive income on the consolidated balance sheet.

United States Defined Benefit Plan

We use a December 31 measurement date for the United States defined benefit pension plan. The funded status of our United States defined benefit pension plan is as follows for the periods ended:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,736	\$ 9,488
Interest cost	545	534
Actuarial gain	(85)	(721)
Benefits paid	(568)	(565)
Benefit obligation at end of year	<u>8,628</u>	<u>8,736</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	7,929	7,920
Actual return on plan assets	(2,077)	574
Employer contributions	615	—
Benefits paid	(568)	(565)
Fair value of plan assets at end of year	<u>5,899</u>	<u>7,929</u>
Funded status of the plan	<u>(2,729)</u>	<u>(807)</u>
Net pension (liability)	<u>\$ (2,729)</u>	<u>\$ (807)</u>
Accumulated Benefit Obligation	<u>\$ 8,628</u>	<u>\$ 8,736</u>
Amounts recognized in the balance sheets:		
Accrued benefit liability	\$ (2,729)	\$ (807)
Accumulated other comprehensive loss	4,607	2,020
Net amount recognized at December 31	<u>\$ 1,878</u>	<u>\$ 1,213</u>

Amounts Recognized in Accumulated Other Comprehensive Income

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 4,607	\$ 2,020
	<u>\$ 4,607</u>	<u>\$ 2,020</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	For the period ended December 31	
	2008	
	<i>(In Thousands)</i>	
Net actuarial loss arising during measurement period	\$	2,653
Amortization of prior net actuarial gains		(66)
Total Recognized in Other Comprehensive Income	<u>\$</u>	<u>2,587</u>

The weighted average assumptions used to determine the benefit obligation are as follows for the periods ended:

	December 31	
	2008	2007
Discount rate	6.90%	6.53%
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used for determining net periodic pension cost are as follows for the periods ended:

	December 31		
	2008	2007	2006
Discount rate	6.90%	6.53%	5.75%
Expected return on plan assets	8.25%	8.25%	8.25%

The components of net periodic pension (benefit) cost for the years ended December 31, 2008, 2007 and 2006 were:

	December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
Interest cost	\$ 545	\$ 534	\$ 530
Expected return on plan assets	(661)	(627)	(647)
Amortization of net actuarial loss	66	129	107
Pension cost (benefit)	\$ (50)	\$ 36	\$ (10)

We have estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Plan assets are held by a trust company as trustee, which invests the plan assets in accordance with the provisions of the trust agreement and investment objective guidelines. These plan documents permit investment in cash/money market funds, United States fixed income securities and equity securities, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through investment in equity securities within the prescribed guidelines. Substantially all plan assets held within our United States defined benefit pension plans consists of level one marketable securities as defined by SFAS 157 *Fair Value Measurements*. The target asset allocation percentages for 2008 and 2007 are as follows:

	Pension Assets
Cash/money market funds	0 – 10%
U.S. fixed income securities	20 – 40%
Equity securities	60 – 80%

Plan assets are re-balanced at least quarterly. At December 31, 2008 and 2007, plan assets by category are as follows:

	2008	2007
Cash/money market funds	1%	6%
U.S. fixed income securities	23	29
Equity securities	76	65
	100%	100%

We anticipate the following components of net periodic (benefit) cost during 2009:

Components of 2009 Net Periodic Pension (Benefit) Cost

	<i>(In Thousands)</i>
Interest cost	\$ 576
Expected return on assets	(650)
Amortization of unrecognized actuarial loss	103
Net periodic pension cost	<u>\$ 29</u>

The following estimated future benefit payments are expected to be paid under the United States defined benefit pension plan:

	Pension Benefits
	<i>(In Thousands)</i>
2009	\$ 568
2010	562
2011	568
2012	571
2013	577
2014 – 2018	3,109

United Kingdom Defined Benefit Pension Plans

We use a December 31 measurement date for the United Kingdom defined benefit pension plans. The funded status of our United Kingdom defined benefit pension plans is as follows for the years ended December 31:

	Portec Rail Plan 2008	Conveyors Plan 2008	Portec Rail Plan 2007	Conveyors Plan 2007
	<i>(In Thousands)</i>			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 5,748	\$ 1,283	\$ 6,332	\$ 1,454
Service cost	—	—	5	4
Interest cost	250	55	318	72
Actuarial gain	(301)	(92)	(882)	(212)
Benefits paid	(123)	(115)	(119)	(57)
Foreign currency translation adjustments	(1,526)	(340)	94	22
Benefit obligation at end of year	<u>4,048</u>	<u>791</u>	<u>5,748</u>	<u>1,283</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	5,530	1,133	4,970	1,048
Actual return on plan assets	(665)	(111)	435	88
Employer contributions	124	28	170	38
Benefits paid	(123)	(115)	(119)	(57)
Foreign currency translation adjustments	(1,469)	(301)	74	16
Fair value of plan assets at end of year	<u>3,397</u>	<u>633</u>	<u>5,530</u>	<u>1,133</u>
Funded status of the plan	<u>(651)</u>	<u>(158)</u>	<u>(218)</u>	<u>(150)</u>
Net pension liability	<u>\$ (651)</u>	<u>\$ (158)</u>	<u>\$ (218)</u>	<u>\$ (150)</u>
Accumulated Benefit Obligation	<u>\$ 4,048</u>	<u>\$ 791</u>	<u>\$ 5,748</u>	<u>\$ 1,283</u>
Amounts recognized in the balance sheets:				
Prepaid benefit cost	\$ —	\$ —	\$ —	\$ —
Accrued benefit liability	(651)	(158)	(218)	(150)
Accumulated other comprehensive loss	1,169	423	738	470
Net amount recognized at December 31	<u>\$ 518</u>	<u>\$ 265</u>	<u>\$ 520</u>	<u>\$ 320</u>

Amounts Recognized in Accumulated Other Comprehensive Income

	Portec Rail Plan December 31 2008	Conveyors Plan December 31 2008	Portec Rail Plan December 31 2007	Conveyors Plan December 31 2007
	<i>(In Thousands)</i>			
Transition obligation	\$ (260)	\$ (48)	\$ (412)	\$ (77)
Net actuarial loss	1,429	471	1,150	547
	<u>\$ 1,169</u>	<u>\$ 423</u>	<u>\$ 738</u>	<u>\$ 470</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Portec Rail Plan For the period ended December 31 2008	Conveyors Plan For the period ended December 31 2008
	<i>(In Thousands)</i>	
Net actuarial loss	\$ 646	\$ 67
Amortization of:		
Transition obligation	42	7
Net actuarial (gain)/loss	(61)	3
Foreign currency translation adjustment	(196)	(124)
Total Recognized in Other Comprehensive Income	<u>\$ 431</u>	<u>\$ (47)</u>

The weighted-average assumptions used to determine the benefit obligation are as follows for the periods ended:

	December 31	
	2008	2007
Discount rate	6.10%	5.90%
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used for determining net periodic pension cost are as follows for the years ended December 31:

	December 31		
	2008	2007	2006
Discount rate	6.10%	5.90%	5.00%
Expected return on plan assets	5.40%	7.20%	7.00%
Rate of compensation increase	N/A	N/A	N/A

The components of net periodic pension cost (benefit) are as follows for the years ended December 31:

	Portec Rail Plan 2008	Conveyors Plan 2008	Portec Rail Plan 2007	Conveyors Plan 2007	Portec Rail Plan 2006	Conveyors Plan 2006
	<i>(In Thousands)</i>					
Service cost	\$ —	\$ —	\$ 5	\$ 4	\$ —	\$ —
Interest cost	250	56	318	72	306	69
Expected return on plan assets	(280)	(53)	(355)	(73)	(333)	(70)
Amortization of transition amount	(44)	(7)	(59)	(11)	(58)	(11)
Amortization of unrecognized loss	61	3	133	5	131	5
Pension cost (benefit)	\$ (13)	\$ (1)	\$ 42	\$ (3)	\$ 46	\$ (7)

We have estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Plan assets are invested by the Trustees in accordance with a written Statement of Investment Principles. This statement permits investment in equities, corporate bonds, United Kingdom government securities, commercial property and cash, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide steady growth without undue fluctuations. The target asset allocation percentages for 2008 and 2007 were as follows:

	Portec Rail Plan	Conveyors Plan
Equity securities	Up to 100%	Up to 100%
Commercial property	Not to exceed 50%	Not to exceed 50%
U.K. Government securities	Not to exceed 50%	Not to exceed 50%
Cash	Up to 100%	Up to 100%

Substantially all plan assets held within our United Kingdom defined benefit pension plans consist of level one marketable securities as defined by SFAS 157 *Fair Value Measurements*. The plan assets by category for the years ended December 31, 2008 and 2007 are as follows:

	Portec Rail Plan 2008	Conveyors Plan 2008	Portec Rail Plan 2007	Conveyors Plan 2007
Equity securities	35%	29%	41%	33%
Bonds	32	29	28	23
Commercial property	4	—	25	30
Other	3	4	—	—
Cash	26	38	6	14
	100%	100%	100%	100%

We anticipate the following components of net periodic (benefit) cost during 2009:

Components of 2009 Net Periodic (Benefit) Cost

	Portec Rail Plan	Conveyors Plan
	<i>(In Thousands)</i>	
Interest cost	\$ 241	\$ 48
Expected return on assets	(178)	(31)
Amortization of transition obligation	(44)	(9)
Amortization of actuarial loss	114	28
Net periodic pension cost	<u>\$ 133</u>	<u>\$ 36</u>

The following estimated future benefit payments are expected to be paid, under the United Kingdom defined benefit plans:

	Portec Rail Plan	Conveyors Plan
	<i>(In Thousands)</i>	
2009	\$ 245	\$ 22
2010	211	23
2011	355	23
2012	157	33
2013	182	26
2014 – 2018	1,593	136

The methodology used to estimate future benefits payments was changed as of December 31, 2008 to assume that participants will elect to receive the maximum up front benefit payout in the year of their retirement. This change resulted in an increase in total benefit payments for the years shown of \$673,000 and \$9,000 for the Portec Rail and Conveyors plans, respectively.

Note 11: Accumulated Other Comprehensive Loss

	Currency Translation Adjustment	Minimum Liability – Retirement Plans	Accumulated Other Comprehensive Income (Loss)
	<i>(In Thousands)</i>		
Balance at January 1, 2006	\$ 1,386	\$ (3,162)	\$ (1,776)
Net change	729	(396)	333
Balance at December 31, 2006	2,115	(3,558)	(1,443)
Net change	1,855	1,380	3,235
Balance at December 31, 2007	3,970	(2,178)	1,792
Net change	(5,457)	(1,839)	(7,296)
Balance at December 31, 2008	<u>\$ (1,487)</u>	<u>\$ (4,017)</u>	<u>\$ (5,504)</u>

The deferred tax asset/(liability) associated with the currency translation adjustment included in accumulated other comprehensive income for other non-United States subsidiaries was approximately \$912,000, \$(2,433,000), and \$(1,296,000) at December 31, 2008, 2007 and 2006, respectively. The deferred tax asset/(liability) associated with the minimum pension liability included in accumulated other comprehensive income was approximately \$2,249,000, \$1,166,000, and \$1,849,000 at December 31, 2008, 2007 and 2006, respectively.

Note 12: Income Taxes

Income tax expense consists of the following:

	Years Ended December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
Income taxes:			
Current:			
Federal	\$ 794	\$ 1,068	\$ 602
State	139	210	152
Foreign	1,390	1,349	1,139
	<u>2,323</u>	<u>2,627</u>	<u>1,893</u>
Deferred:			
Federal	336	(37)	(226)
State	70	(30)	(1)
Foreign	512	302	(197)
	<u>918</u>	<u>235</u>	<u>(424)</u>
Total	<u>\$ 3,241</u>	<u>\$ 2,862</u>	<u>\$ 1,469</u>

A reconciliation of U.S. income tax computed at the statutory rate and actual expense is as follows:

	Years Ended December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
Amount computed at statutory rate	\$ 3,747	\$ 3,057	\$ 2,070
State and local taxes less applicable federal income tax	138	119	100
Incremental tax on foreign operations	(678)	(27)	(250)
Non-taxable income	—	(328)	(336)
Other	34	41	(115)
Total	<u>\$ 3,241</u>	<u>\$ 2,862</u>	<u>1,469</u>

The components of the net deferred tax assets and liabilities are as follows:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Deferred tax liabilities:		
Property and equipment	\$ 955	\$ 543
Goodwill and intangible assets	9,886	10,980
Unrepatriated earnings of foreign subsidiaries	457	534
Foreign currency translation	—	2,433
Other	151	148
Total deferred tax liabilities	11,449	14,638
Deferred tax assets:		
Minimum pension liability	2,228	1,130
Inventory reserves	268	130
Accrued expenses	87	211
Accounts receivable	13	13
Uniform capitalization	197	170
Foreign tax credit carryforward	276	276
Foreign currency translation	912	—
Foreign operating losses and research expenditures	512	1,497
Other	101	62
Total deferred tax assets	4,594	3,489
Valuation allowance	—	—
Net deferred tax assets	4,594	3,489
Net deferred tax liabilities	\$ 6,855	\$ 11,149

The above net deferred tax liability is presented on the balance sheet as follows:

	December 31	
	2008	2007
	<i>(In Thousands)</i>	
Deferred tax asset – current	\$ 369	\$ 375
Deferred tax liability – long-term	7,224	11,524
Net deferred tax liability	\$ 6,855	\$ 11,149

Our foreign tax credit carry forwards expire from 2010 to 2016. At December 31, 2008 and 2007, we had approximately \$2,525,000 and \$2,896,000, respectively, of net deferred tax liabilities located outside of the United States.

As a result of the November 30, 2004 Kelsan acquisition, at December 31, 2008 and 2007, we have approximately \$0 and \$1,835,000, respectively of non-capital losses for income tax purposes, which are only available to offset the taxable income of Kelsan in future years. These losses expire in 2014. In addition, we have approximately \$1,768,000 of scientific research and development expenditures available for unlimited carry forward to offset the taxable income of Kelsan in future years.

Uncertain Tax Positions

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48) became effective for us on January 1, 2007. The adoption of FIN 48 during the first quarter of 2007 resulted in a transition adjustment which reduced retained earnings as of January 1, 2007 by \$313,000, of which \$195,000 was for taxes and \$118,000 was for interest and penalties. During 2008, we identified additional liabilities of \$93,000 which were offset by reductions in prior year tax positions of \$93,000.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended December 31, 2008 is as follows:

	<u>2008</u>
	<i>(In Thousands)</i>
Balance at January 1, 2008	\$ 313
Additions based on tax positions related to the current year	81
Additions for tax positions of prior years	12
Reductions for tax positions of prior years	(93)
Settlements	—
Balance at December 31, 2008	<u>\$ 313</u>

The Company is currently undergoing an Internal Revenue Service audit of the federal tax return for the year ended December 31, 2006. We have not been made aware of any issues that have arisen thus far in the audit process that would be cause for any further adjustments to our previously calculated FIN 48 liability.

The Company is not aware of any other changes to our assessment of positions taken in the United States federal and foreign jurisdictions and therefore continues to identify no exposure to the financial statements in these areas.

We continue to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. We or one of our subsidiaries files income tax returns in the United States federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, we are no longer subject to United States federal, state and local, or non-United States income tax examinations by tax authorities for years before 2003.

Note 13: Commitments and Contingencies

Lease Commitments

All of our operating locations, except our manufacturing facility in Saint-Jean-sur-Richelieu, Quebec, Canada, are leased facilities. In addition, we lease certain automobiles and office equipment. These leases are subject to renewal options for varying periods. Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more consist of the following:

	<i>(In Thousands)</i>
2009	\$ 1,319
2010	1,067
2011	750
2012	428
2013	287
Thereafter	<u>1,045</u>
Total minimum lease payments	<u>\$ 4,896</u>

Operating lease expense under such arrangements was \$1,390,000, \$1,386,000 and \$1,132,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Contingencies

During the second quarter 2007, we became aware of a problem with RMP's Bonded to Rail (BTR) joint bars in which the epoxy that is used as the primary method of adhesion to the rail appeared to fail in certain instances. The BTR is a finished good which includes two sections of rail, two joint bars and necessary hardware, and is sold as a final assembled product. We notified our BTR customers of this problem as soon as we became aware of it. We have extensively investigated the cause of the epoxy failure and performed field inspections of BTRs that may have been affected. We have identified the potential time period during which these BTRs were assembled and have continued to correct any possible deficiencies. We feel reasonably certain that we have identified the causes of the problem and that we have corrected these deficiencies from recurring.

The BTR products manufactured by RMP are covered by a one-year replacement warranty. Accordingly, we have accounted for any contingent costs associated with the remediation of the BTRs under FASB 5 Accounting for Contingencies, specifically Accrual for Loss Contingencies and Obligations Related to Product Warranties and Product Defects. For the years ended December 31, 2008 and 2007, we recognized warranty expense of \$0 and \$1.3 million, respectively, related to defective BTRs. This amount was included in cost of goods sold for the RMP business segment. The balance in the BTR warranty reserve at December 31, 2008 was \$177,000, which management expects to be adequate to cover expected future costs associated with potentially defective BTRs. We believe that \$177,000 is a reasonable estimate of our potential exposure for warranty claims on BTRs as of December 31, 2008. However, changes in the components of our estimate due to new information or future events could cause this estimate to vary significantly. There can be no assurance that future costs pertaining to this issue will not have a material impact on our financial condition or results of operations.

Litigation

We are involved from time to time in lawsuits that arise in the normal course of business. We actively and vigorously defend all lawsuits. In 1999, we were named with numerous other defendants in an environmental lawsuit. The plaintiff seeks to recover costs, which it has incurred, and may continue to incur, to investigate and remediate its former property as required by the New York State Department of Environmental Conservation (NYSDEC). We have not been named as a liable party by the NYSDEC and believe we have no liability to the plaintiff. We filed a motion for summary judgment seeking a ruling to have us dismissed from the case. In November 2003, the motion for summary judgment was granted and we were dismissed from the case by the United States District Court for the Northern District of New York. In March 2004, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit, appealing, in part, the District Court's decision to dismiss all claims against us. In April 2005, the plaintiff's appeal was dismissed by the Second Circuit Court without prejudice, and the matter was remanded to the United States District Court for the Northern District of New York for consideration in light of a recent United States Supreme Court decision. As a result, in June 2006, the District Court dismissed all claims brought by the plaintiff pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund). In July 2006, the plaintiff filed a notice of appeal to the Second Circuit. However, in early 2008, the plaintiff's appeal was dismissed again by the Second Circuit Court without prejudice, and the matter was remanded to the District Court for consideration in light of another recent United States Supreme Court decision. In July 2008, The District Court decided that the United States Supreme Court decision did not necessitate any change in the District Court's prior determinations in this case and held that all of its prior rulings stand. In August 2008, the plaintiff filed a third notice of appeal to the Second Circuit Court. This appeal is currently in the briefing process. Ongoing litigation may be protracted, and we may incur additional ongoing legal expenses, which are not estimable at this time.

Purchase Obligations

At December 31, 2008, we had \$3.6 million of outstanding steel purchase orders. Commitments for steel purchases by our Canadian operation near Montreal represented \$3.0 million of the \$3.6 million total. The remaining \$579,000 represented steel purchases by the RMP division. These obligations become due during 2009.

In addition, at December 31, 2008, based upon our three-year supply agreement for a primary raw material at Kelsan, we have an obligation to purchase \$3.2 million of raw material beginning in 2008 and continuing through 2010, of which \$2.0 million is required to be purchased through December 31, 2010.

Note 14: Segments, Geographic and Major Customer Financial Information

Segments

We operate four business segments consisting of Railway Maintenance Products Division (RMP), Shipping Systems Division (SSD), Portec Rail Nova Scotia Company (Canada) and Portec Rail Products (UK) Ltd. (United Kingdom), along with a corporate functional shared service. The presentation of segment information reflects the manner in which we organize and manage our segments by geographic areas for making operating decisions, assessing performance and allocating resources. Intersegment sales are accounted for at arm's-length prices, reflecting prevailing market conditions within the United States, Canada and the United Kingdom. Such sales and associated costs are eliminated in the consolidated financial statements.

Railway Maintenance Products Division (RMP) Our RMP segment manufactures and assembles track components and related products, friction management products, railway wayside data collection and data management systems and provides services to railroads, transit systems and railroad contractors. RMP is also a distributor and reseller of purchased track components and lubricants manufactured by third parties. The manufactured and assembled track component and friction management products consist primarily of standard and insulated rail joints, friction management systems, and wayside data collection and data management systems. The purchased and distributed products consist primarily of various lubricants. The friction management products are designed for rail customers to help them achieve cost savings primarily through reduced rail wear, wheel wear and fuel usage in order to be more competitive. The manufactured and assembled track components, such as rail joints, are used for rail replacement or repair. Salient Systems is operated under the RMP segment.

Shipping Systems Division (SSD) Our SSD segment engineers and sells securement systems and related products primarily to the railroad freight car market. These systems are used to secure a wide variety of products and lading onto freight cars. Most of the assembly work for SSD is performed at RMP's Huntington, West Virginia manufacturing plant, although some manufacturing is subcontracted to independent third parties.

Portec Rail Nova Scotia Company (Canada) Our Canada segment includes Kelsan, located in Vancouver, British Columbia, and our operation near Montreal. Our Montreal operation manufactures rail anchors and rail spikes and assembles friction management products, primarily for the two largest Canadian railroads. Rail anchors and rail spikes are devices to secure rails to the ties to restrain the movement of the rail. Through its technology and manufacturing facility in Vancouver, Kelsan engineers and manufactures stick friction modifiers and related application systems. The manufacturing process for the production of Kelsan's liquid friction modifier, Keltrack[®], is subcontracted to an independent contractor. Friction modifiers are water-based liquids that contain a suspension of active friction modifier materials that help reduce friction and noise while being applied on top of the rail without impacting a train's braking or traction capabilities. The friction management products are aimed at our rail customers to help them achieve cost savings primarily through reduced rail wear, wheel wear and fuel usage in order to be more competitive.

Portec Rail Products (UK) Ltd. (United Kingdom) Our United Kingdom segment operates and serves customers in two different markets. In the rail market, product lines include friction management products and services and track component products that primarily serve the United Kingdom passenger rail network. In the material handling market, the major product lines are overhead and floor conveyor systems, boom conveyors, and racking and mezzanine flooring systems. The end users of the material handling products are primarily United Kingdom-based customers in the manufacturing, distribution, garment and food industries.

	Years Ended December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
External Sales			
RMP	\$ 46,268	\$ 50,327	\$ 46,599
SSD	10,679	8,817	4,842
Canada	26,486	23,059	20,816
United Kingdom	25,584	27,300	26,968
Total	<u>\$ 109,017</u>	<u>\$ 109,503</u>	<u>\$ 99,225</u>
Intersegment Sales			
RMP	\$ 2,969	\$ 1,993	\$ 2,164
SSD	—	(3)	15
Canada	7,472	7,065	6,469
United Kingdom	—	146	15
Total	<u>\$ 10,441</u>	<u>\$ 9,201</u>	<u>\$ 8,663</u>
Total Sales			
RMP	\$ 49,237	\$ 52,320	\$ 48,763
SSD	10,679	8,814	4,857
Canada	33,958	30,124	27,285
United Kingdom	25,584	27,446	26,983
Total	<u>\$ 119,458</u>	<u>\$ 118,704</u>	<u>\$ 107,888</u>
Operating Income (Loss)			
RMP	\$ 6,447	\$ 7,071	\$ 6,589
SSD	1,836	1,624	387
Canada	4,323	2,470	1,001
United Kingdom	2,394	2,956	2,530
Corporate Shared Services	(3,262)	(3,635)	(3,173)
Total	<u>11,738</u>	<u>10,486</u>	<u>7,334</u>
Interest Expense	805	1,247	1,105
Other (Income)/Expense, net	<u>(87)</u>	<u>246</u>	<u>140</u>
Income Before Income Taxes	<u>\$ 11,020</u>	<u>\$ 8,993</u>	<u>\$ 6,089</u>

	Years Ended December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
Depreciation			
RMP	\$ 580	\$ 800	\$ 785
SSD	206	154	34
Canada	780	797	630
United Kingdom	220	480	565
Corporate Shared Services	66	112	89
Total	\$ 1,852	\$ 2,343	\$ 2,103
Amortization			
RMP	\$ 20	\$ 7	\$ —
SSD	217	215	48
Canada	730	751	707
United Kingdom	232	268	171
Corporate Shared Services	—	—	—
Total	\$ 1,199	\$ 1,241	\$ 926
Total Assets			
RMP	\$ 40,870	\$ 40,360	\$ 40,903
SSD	7,882	7,862	7,571
Canada	32,990	36,014	30,022
United Kingdom	14,938	19,775	22,478
Corporate Shared Services	143	215	708
Total	\$ 96,823	\$ 104,226	\$ 101,682
Capital Expenditures			
RMP	\$ 2,212	\$ 801	\$ 499
SSD (1)	84	519	38
Canada	154	525	1,137
United Kingdom (1)	199	407	288
Corporate Shared Services	48	96	111
Total	\$ 2,697	\$ 2,348	\$ 2,073

(1) – Capital expenditures for SSD do not include assets purchased from Vulcan Chain Corporation in October 2006. This includes \$196,000 of property, plant, and equipment and \$4.3 million of goodwill and intangible assets. Capital expenditures for the United Kingdom segment do not include assets of Coronet Rail purchased in April 2006. This includes \$362,000 of property, plant, and equipment and \$5.4 million of goodwill and intangible assets.

Major Customers

Our largest customers are North American Class I railroads. Our products are also sold to a variety of regional and short-line railroads, rail transit systems, and original equipment manufacturers for the material handling market in the United Kingdom. Our two largest customers represented approximately 22%, 19% and 19% of our sales for the years ended December 31, 2008, 2007 and 2006, respectively. At December 31, 2008 and 2007, our two largest customers represented approximately 6% and 15%, respectively, of our total accounts receivable.

Geographic information for sales, based on country of destination, and assets, based on country of location, is as follows:

	Years Ended December 31		
	2008	2007	2006
	<i>(In Thousands)</i>		
External Sales			
United States	\$ 47,760	\$ 51,696	\$ 45,909
Canada	29,017	23,590	22,182
United Kingdom	19,678	26,627	22,888
Other	12,562	7,590	8,246
Total	<u>\$ 109,017</u>	<u>\$ 109,503</u>	<u>\$ 99,225</u>
Total Assets			
United States	\$ 48,895	\$ 48,437	\$ 49,182
Canada	32,990	36,014	30,022
United Kingdom	14,938	19,775	22,478
Total	<u>\$ 96,823</u>	<u>\$ 104,226</u>	<u>\$ 101,682</u>

Note 15: Selected Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(Dollars in Thousands, Except Per Share Data)</i>				
2008				
Revenue	\$ 24,843	\$ 30,194	\$ 29,644	\$ 24,336
Gross Profit	7,710	9,918	9,913	8,031
Net Income	1,344	2,403	2,516	1,515
Earnings per Share:				
Basic and Diluted	\$ 0.14	\$ 0.25	\$ 0.26	\$ 0.16
Cash Dividend per Share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06
2007				
Revenue	\$ 27,484	\$ 29,090	\$ 27,998	\$ 24,931
Gross Profit	8,046	9,103	9,195	8,164
Net Income	1,205	1,887	1,890	1,149
Earnings per Share:				
Basic and Diluted	\$ 0.13	\$ 0.20	\$ 0.20	\$ 0.12
Cash Dividend per Share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06
2006				
Revenue	\$ 23,115	\$ 28,972	\$ 24,282	\$ 22,856
Gross Profit	6,839	8,484	7,643	7,411
Net Income	1,033	1,522	1,201	864
Earnings per Share:				
Basic and Diluted	\$ 0.11	\$ 0.16	\$ 0.13	\$ 0.09
Cash Dividend per Share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06

The sums of the quarterly earnings per share may not equal annual amounts due to rounding. Additionally, the above unaudited financial information reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the results of the respective interim periods.

Note 16: Restructuring CostsUnited Kingdom

During the third quarter 2006, we announced a business reorganization plan, which consolidated our rail and material handling operations in the United Kingdom from four locations into two, one at our Sheffield, England facility (rail) and the other at our Leicester, England facility (material handling). Prior to December 2006, we also had locations in Stone, England and Wrexham, Wales. As a result of the business restructuring during 2006, we closed the Stone and Wrexham locations, and sold our Wrexham facility for approximately \$2.0 million (£1,025,000 pounds sterling) in March 2007. The reorganization was substantially complete as of December 31, 2006, and was finalized during the first quarter 2007.

Note 17: Impairment of Long-Lived Assets

In May 2007, we sold our Troy, New York property to the Troy Local Development Corporation for net proceeds of \$448,000, which includes \$2,000 of transfer taxes paid. In conjunction with this transaction, during the second quarter 2007, we recognized a pre-tax impairment loss of \$50,000 on our Troy property to reflect its current market value. This impairment charge of \$50,000 is included as a component of other expense on the consolidated income statement for the year ended December 31, 2007.

Note 18: Stock Options

On July 2, 2008, January 30, 2008 and January 16, 2007, the Company granted 1,750, 72,750 and 79,250 incentive stock options, respectively, to certain employees with an exercise price of \$12.01, \$9.68 and \$9.65 per stock option, respectively, which is equal to the closing stock price on the date of grants. The stock options will vest ratably over a 5-year vesting period and will expire on July 2, 2018, January 30, 2018 and January 16, 2017, respectively. These options were granted under the Portec Rail Products, Inc. 2006 Stock Option Plan (the Option Plan), which authorizes the issuance of up to 150,000 shares of common stock of Portec Rail Products, Inc. pursuant to grants of incentive and non-statutory stock options and will remain in effect for a period of ten years. In 2007, 2000 stock options from the 2007 stock option grant were forfeited; these were re-granted on January 30, 2008. The 1,750 stock options issued on July 2, 2008 were also re-granted from options that had been forfeited in 2008.

We adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payments (SFAS 123 (R)), effective January 1, 2006; however, we did not incur any compensation expense during 2006. For the year ended December 31, 2008, we recognized compensation expense of \$98,000, related to the 2008 and 2007 stock option grants. For the year ended December 31, 2007, we recognized compensation expense of \$52,000 related to the 2007 stock option grant. These amounts are included in selling, general and administrative expenses on the consolidated income statement. We expect to recognize additional compensation expense of approximately \$205,000 and \$164,000 over the remaining vesting periods of the 2008 and 2007 stock option grants, respectively. During the second quarter of 2008, 250 stock options were exercised.

We recorded a tax benefit of \$34,000 and \$18,000 for the compensation expense recognized on these stock options during 2008 and 2007, respectively. Incentive stock options do not provide a tax deduction for the Company unless the optionee makes a disqualifying disposition of the stock within two years from the date the option is granted or one year from the date the option is exercised. A cashless exercise is an example of a disqualifying disposition as the optionee exercises his stock options and disposes of his stock at the same time. As we anticipate that the majority of our employees that were granted stock options will choose to exercise their options via a cashless exercise, we have recognized a tax benefit in order to account for the expected tax deduction.

To calculate our fair value price per stock option, we utilized a Black-Scholes Model. The following inputs were used in our Black-Scholes Model calculation:

Grant Date	Fair Value Price	Stock Price on Grant Date	Exercise Price per Stock Option	Annual Dividend Yield	Risk-free Rate	Expected Volatility	Expected Term (in years)
7/02/08	\$4.56	\$12.01	\$12.01	2.00%	4.25%	36.36%	7.5
1/30/08	\$3.67	\$9.68	\$9.68	2.48%	4.00%	38.87%	7.5
1/16/07	\$3.61	\$9.65	\$9.65	2.50%	4.73%	39.40%	6.5

Our annual dividend yield is calculated by dividing the sum of per share dividends declared and paid during the previous four quarters by the stock price on the grant date. Our risk-free rate is based upon the current United States Treasury yield on a seven-year note. Expected volatility is a function of our historical closing stock price over a period of one-year. We have limited historical information available regarding employee stock option exercise patterns. Therefore, we estimate the expected term on our stock option grants based upon historical employee turnover.

The following table summarizes the stock option transactions during the year ended December 31, 2008:

	Number of Stock Options (in Thousands)	Weighted Average Exercise Price
Outstanding at January 1, 2007	—	N/A
Granted	79	\$ 9.65
Exercised	—	N/A
Forfeited	(2)	\$ 9.65
Outstanding at December 31, 2007	77	\$ 9.65
Granted	75	\$ 9.73
Exercised	—	N/A
Forfeited	(9)	\$ 9.66
Outstanding at December 31, 2008	143	\$ 9.69
Exercisable at December 31, 2008	15	\$ 9.65

A summary of information regarding stock options outstanding as of December 31, 2008, is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2008 (in Thousands)	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2008 (in Thousands)	Weighted Average Exercise Price
\$9.65 - \$12.01	143	8.50	\$ 9.69	15	\$ 9.65

A summary of the status of, and changes to, unvested options during the year ended December 31, 2008, is as follows:

	Number of Stock Options	Weighted Average Exercise Price
	<i>(in Thousands)</i>	
Non-vested at January 1, 2007	—	N/A
Granted	79	\$ 9.65
Vested	—	N/A
Forfeited	(2)	\$ 9.65
Non-vested at December 31, 2007	<u>77</u>	<u>\$ 9.65</u>
Granted	75	\$ 9.73
Vested	(15)	\$ 9.65
Forfeited	(9)	\$ 9.66
Non-vested at December 31, 2008	<u><u>128</u></u>	<u><u>\$ 9.70</u></u>

Note 19: Financial Instruments

We are exposed to market risk due to changes in currency exchange rates and interest rates. We currently do not utilize hedging or derivatives to offset these risks.

Currency Exchange Risk

Occasionally, we are exposed to currency exchange risk from transactions we enter into with customers whereby we settle in a currency other than our primary currency. Our primary foreign currency exposures in relation to the U.S. dollar are the British pound sterling and the Canadian dollar. The amount of transactions and the currency exchange differences that we recorded for reported years and periods could be significant.

Interest Rate Risk

We have \$12.6 million of debt as of December 31, 2008. Most of this debt is variable rate and adjusts based upon an underlying index such as LIBOR or Prime Rate.

Note 20: Certain Significant Estimates

Our estimates that influence the financial statements are normally based on knowledge and experience about past and current events and assumptions about future events. We consider the following estimates impacting the financial statements to be significant.

Employee Benefits—Defined Benefit Plan

The liabilities and expenses for pensions require significant judgments and estimates. These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and assumptions relating to the employee workforce (retirement age and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year end on debt instruments that could be used to settle obligations of the plan. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations.

Warranty Reserves

We provide replacement warranties for defective products. As such, we establish warranty reserves for expected warranty claims based upon our historical experience. In addition, specific reserves are established for known warranty issues and their estimable losses.

Goodwill and Other Intangible Assets

We evaluate the recoverability of the goodwill of each of our reporting units as required under SFAS No. 142 by comparing the fair value of each reporting unit with its carrying value. The fair values of our reporting units are determined by using a discounted cash flow analysis based upon historical and projected financial information. We apply our best judgment when assessing the reasonableness of the financial projections used to determine the fair value of each reporting unit.

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, we evaluate the recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable.

Income Taxes

As a company with international operations, we record an estimated liability or benefit for income taxes and other taxes based on what we determine will likely be paid in various jurisdictions in which we operate. We use our best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters including the resolution of tax audits in the various affected tax jurisdictions and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the recorded amount.

As of January 1, 2007, we adopted FIN 48, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of uncertain tax positions to be taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The determination of the amount of benefits to be recognized and the sustainability of our tax positions upon examination require us to make certain estimates and to use our best judgment based upon historical experience.

Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has used the framework set forth in the report entitled "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that the Company's internal control over financial reporting was effective as of the end of the most recent fiscal year. The Company's internal control over financial reporting as of December 31, 2008 has been audited by Arnett & Foster, PLLC and Garbutt & Elliott, Ltd. independent registered public accounting firms, as stated in their reports which appear herein.

/s/ Richard J. Jarosinski
Richard J. Jarosinski
President and Chief Executive Officer
Principal Executive Officer

/s/ John N. Pesarsick
John N. Pesarsick
Chief Financial Officer and
Principal Accounting Officer



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Portec Rail Products, Inc.
Pittsburgh, Pennsylvania

We have audited Portec Rail Products, Inc., and Subsidiaries', internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Portec Rail Products, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We did not audit the internal control over financial reporting of Portec Rail Products (UK) Ltd., and Subsidiaries, a wholly-owned consolidated subsidiary, whose consolidated financial statements reflect total assets and net sales of \$14,736 and \$25,584 (dollars in thousands), respectively, included in the related consolidated financial statement amounts as of and for the year ended December 31, 2008. The internal control over financial reporting of this wholly-owned consolidated subsidiary was audited by other accountants, whose report has been furnished to us, and our opinion, insofar as it relates to the internal control over financial reporting of Portec Rail Products (UK) Ltd., is based solely on the report of the other accountants.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles,

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and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the report of the other accountants, Portec Rail Products, Inc., and Subsidiaries, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Portec Rail Products, Inc., and Subsidiaries, as of and for the year ended December 31, 2008, and our report dated March 13, 2009, expressed an unqualified opinion.

ARNETT & FOSTER P.L.L.C.

Arnett + Foster, P.L.L.C.

Charleston, West Virginia
March 13, 2009



To the Board of Directors and Shareholders
Portec Rail Products, Inc.
Pittsburgh, Pennsylvania

We have audited the consolidated balance sheets of Portec Rail Products, Inc., and Subsidiaries, as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2008 and 2007 consolidated financial statements of Portec Rail Products (UK) Ltd., and Subsidiaries, a wholly-owned consolidated subsidiary, whose consolidated financial statements reflect total assets of \$14,736 and net sales of \$25,584 (dollars in thousands) for 2008, and total assets of \$19,573 and net sales of \$27,300 (dollars in thousands) for 2007, that are included in the related consolidated financial statement amounts as of and for the years ended December 31, 2008 and 2007. Those consolidated financial statements were audited by other accountants, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Portec Rail Products (UK) Ltd., and Subsidiaries, is based solely on the report of the other accountants. Our audit included auditing the adjustments to convert the financial statements of Portec Rail Products (UK) Ltd., and Subsidiaries, to U.S. generally accepted accounting principles in its consolidation into the financial statements of Portec Rail Products, Inc., and Subsidiaries.

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

In our opinion, based on our audits and the report of the other accountants, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portec Rail Products, Inc., and Subsidiaries, as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years ended December 31, 2008 and 2007, in conformity with U.S. generally accepted accounting principles.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Portec Rail Products, Inc., and Subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2009, expressed an unqualified opinion on the effectiveness of Portec Rail Products, Inc., and Subsidiaries' internal control over financial reporting.

ARNETT & FOSTER P.L.L.C.

Arnett + Foster, P.L.L.C.

Charleston, West Virginia
March 13, 2009

Report of Independent Registered Public Accounting Firm

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS,
PORTEC RAIL PRODUCTS (UK) LIMITED
SHEFFIELD
UNITED KINGDOM

We have audited Portec Rail Products (UK) Limited's internal control over financial reporting as of December 31, 2008, based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Portec Rail Products (UK) Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Portec Rail Products (UK) Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements for the year ended December 31, 2008 of Portec Rail Products (UK) Limited and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Garbutt & Elliot Limited

Garbutt & Elliott Limited
Chartered Accountants and Registered Auditors
York
United Kingdom

March 13, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
PORTEC RAIL PRODUCTS (UK) LIMITED
SHEFFIELD
UNITED KINGDOM

We have audited the consolidated balance sheets of Portec Rail Products (UK) Limited and Subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income and cashflows for each of the years in the two year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008 and 2007, and the consolidated results of its operations and its cashflows for each of the years in the two year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United Kingdom.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008 based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2009, expressed an unqualified opinion on the effective operation of internal control over financial reporting.

/s/ Garbutt & Elliott Limited

Garbutt & Elliott Limited
Chartered Accountants and Registered Auditors
York
United Kingdom

March 13, 2009

Report of independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Shareholders
Portec Rail Products, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheet of Portec Rail Products, Inc. (Company) as of December 31, 2006 (not presented herein), and the related consolidated statements of income, shareholders' equity and cash flows for the year ended December 31, 2006. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2006 consolidated financial statements of Portec Rail Products (UK) Ltd. (Subsidiary), a wholly owned subsidiary, whose consolidated statements reflect total assets of \$22,478 and net sales of \$26,968 (dollars in thousands) for 2006 included in the related consolidated financial statement amounts as of and for the year ended December 31, 2006. Those consolidated financial statements were audited by other accountants, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Subsidiary, is based solely on the report of the other accountants.

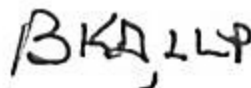
Our audit also included auditing the adjustments to convert the financial statements of the Subsidiary into accounting principles generally accepted in the United States of America for purposes of consolidation.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United State of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2007, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP



Evansville, Indiana
March 13, 2007

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As of August 9, 2007, we engaged Arnett & Foster, Certified Public Accountants, PLLC (“Arnett & Foster”) as our new independent registered public accounting firm. We continued our relationship with BKD, LLP (“BKD”) as our independent registered public accounting firm through the preparation and filing on August 7, 2007 of our Form 10-Q for the quarter ended June 30, 2007. On August 10, 2007, we notified BKD that we were terminating BKD as principal accountants.

BKD’s reports on the consolidated financial statements of the Company as of and for the year ended December 31, 2006 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. Arnett & Foster has been engaged to audit the consolidated financial statements of the Company as of and for the years ending December 31, 2008 and 2007. The engagement of Arnett & Foster was approved by our Audit Committee.

In connection with the audit of the fiscal year ended December 31, 2006 and the subsequent interim periods through August 13, 2007, there were no (1) disagreements with BKD on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which disagreements, if not resolved to the satisfaction of BKD, would have caused them to make reference to the subject matter of the disagreements in connection with their opinion and (2) no reportable events.

On August 13, 2007, we filed a Form 8-K with the SEC to report the termination of our relationship with BKD and our appointment of Arnett & Foster.

Arnett & Foster was engaged by the Company on August 9, 2007 to audit our consolidated financial statements as of and for the year ending December 31, 2007. During the period beginning January 1, 2005 through the filing of our Form 8-K, we did not consult with Arnett & Foster regarding any matters set forth in Item 304(a)(2)(i) or (ii) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year covered by this annual report (the “Evaluation Date”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s Report on Internal Control over Financial Reporting

Our Internal Control over Financial Reporting is set forth in Item 8 and incorporated herein by reference.

(c) Changes in Internal Controls over Financial Reporting

No change in the Company’s internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference is the information set forth under the caption “Election of Directors” in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2008 (“2009 Proxy Statement”).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information set forth under the caption “Election of Directors” in the 2009 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners” and certain information regarding stock ownership under the caption “Election of Directors” in the 2009 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the information set forth under the caption “Election of Directors” in the 2009 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the information with respect to principal accountant fees and services set forth under the caption “Ratification of Appointment of Auditors” in the 2009 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

(a)(1) Financial Statements

- Consolidated Balance Sheets,
December 31, 2008 and 2007
- Consolidated Statements of Income,
Years Ended December 31, 2008, 2007 and 2006
- Consolidated Statements of Shareholders' Equity,
Years Ended December 31, 2008, 2007 and 2006
- Consolidated Statements of Cash Flows,
Years Ended December 31, 2008, 2007 and 2006
- Notes to Consolidated Financial Statements.

- Report of Management on Internal Control over Financial Reporting

- Reports of Independent Registered Public Accounting Firms

(a)(2) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

(a)(3) Exhibits

- 3.1 Articles of Incorporation of Portec Rail Products, Inc., as amended*
- 3.2 Bylaws of Portec Rail Products, Inc.*
- 4 Form of Common Stock Certificate*
- 10 Portec Rail Products, Inc. 2006 Stock Option Plan***
- 14 Code of Ethics**
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Garbutt & Elliott, Ltd.
- 23.2 Consent of Arnett & Foster, PLLC
- 23.3 Consent of BKD, LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference to the Registrant's Registration Statement on Form S-1 under the Securities Act of 1933, filed with the SEC on November 6, 2003, as amended (Registration No. 333-110288).

** Incorporated by reference to previously filed Form 10-K for the year ended December 31, 2007.
*** Incorporated by reference to previously filed Form 10-K for the year ended December 31, 2008.

- (b) The exhibits listed under (a)(3) above are filed herewith.
- (c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PORTEC RAIL PRODUCTS, INC.

Date: March 13, 2009

By: /s/ Richard J. Jarosinski
Richard J. Jarosinski, President and
Chief Executive Officer
Principal Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, 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/ Richard J. Jarosinski
Richard J. Jarosinski, President and Chief Executive
(Principal Executive Officer)

Date: March 13, 2009

By: /s/ John N. Pesarsick
John N. Pesarsick, Chief Financial Officer
(Principal Accounting Officer)

Date: March 13, 2009

By: /s/ Marshall T. Reynolds
Marshall T. Reynolds, Chairman of the Board

Date: March 13, 2009

By: /s/ Douglas V. Reynolds
Douglas V. Reynolds, Director

Date: March 13, 2009

By: /s/ John S. Cooper
John S. Cooper, Vice Chairman of the Board

Date: March 13, 2009

By: /s/ Louis J. Akers
Louis J. Akers, Director

Date: March 13, 2009

By: /s/ Neal W. Scaggs
Neal W. Scaggs, Director

Date: March 13, 2009

By: /s/ Philip E. Cline
Philip E. Cline, Director

Date: March 13, 2009

By: /s/ Philip Todd Shell
Philip Todd Shell, Director

Date: March 13, 2009

By: /s/ Daniel P. Harrington
Daniel P. Harrington, Director

Date: March 13, 2009

By: /s/ Kirby J. Taylor
Kirby J. Taylor, Director

Date: March 13, 2009

By: /s/ A. Michael Perry
A. Michael Perry, Director

Date: March 13, 2009

By: /s/ Thomas W. Wright
Thomas W. Wright, Director

Date: March 13, 2009

EXHIBIT INDEX

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* Incorporated by reference to the Registrant's Registration Statement on Form S-1 under the Securities Act of 1933, filed with the SEC on November 6, 2003 (Registration No. 333-110288).

** Incorporated by reference to previously filed Form 10-K for the year ended December 31, 2006.

*** Incorporated by reference to previously filed Form 10-K for the year ended December 31, 2007.

SUBSIDIARIES OF THE REGISTRANT

<u>Parent Company</u>	<u>Subsidiary Company</u>	<u>Jurisdiction of Incorporation</u>
Portec Rail Products, Inc.	Salient Systems, Inc.	United States
Portec Rail Products, Inc.	Portec Rail Nova Scotia Company	Canada
Portec Rail Nova Scotia Company	Portec, Rail Products Ltd.	Canada
Portec, Rail Products Ltd.	Kelsan Technologies Corp.	Canada
Kelsan Technologies Corp.	Kelsan Technologies (Europe) Limited	United Kingdom
Portec Rail Products, Inc.	Portec Rail Products (UK) Ltd.	United Kingdom
Portec Rail Products (UK) Ltd.	Coronet Rail, Ltd.	United Kingdom

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement of Portec Rail Products, Inc. on Form S-8 (Commission File No. 333-138991) of our report dated March 13 2009, on our audit of the consolidated financial statements of Portec Rail Products (UK) Limited as of December 31, 2008 and 2007, and for the years then ended, which report is included in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 13, 2009, on our audit of the internal control over financial reporting of Portec Rail Products, Inc. as of December 31, 2008 and 2007, which report is included in this Annual Report on Form 10-K.

/s/ Garbutt & Elliott Limited

Garbutt & Elliott Limited

York
United Kingdom
March 13 2009



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-138991) on Form S-8 of Portec Rail Products, Inc. and Subsidiaries, of our reports dated March 13, 2009, relating to our audits of the consolidated financial statements and internal control over financial reporting which appear in this Annual Report on Form 10-K of Portec Rail Products, Inc. for the year ended December 31, 2008.

ARNETT & FOSTER, P.L.L.C.

Arnett + Foster, P.L.L.C.

Charleston, West Virginia
March 13, 2009



400 Cross Pointe Boulevard
P.O. Box 628
Evansville, IN 47704-0628
812.428.6500 Fax 812.428.6545 www.bkd.com

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement of Portec Rail Products, Inc. on Form S-8 (Commission File No. 333-138991) of our report dated March 13, 2007, on our audit of the consolidated financial statements of Portec Rail Products, Inc. as of December 31, 2006 and for the year ended December 31, 2006, which report is included in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 13, 2007, on our audit of the internal control over financial reporting of Portec Rail Products, Inc. as of December 31, 2006, which report is included in this Annual Report on Form 10-K.

/s/ BKD, LLP

A handwritten signature in black ink that reads "BKD, LLP". The letters are stylized and slanted.

BKD, LLP

Evansville, Indiana

March 9, 2009

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard J. Jarosinski, certify that:

1. I have reviewed this Annual Report on Form 10-K of Portec Rail Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2009
Date

/s/ Richard J. Jarosinski
Richard J. Jarosinski
President and Chief Executive Officer
Principal Executive Officer

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John N. Pesarsick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Portec Rail Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
5. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 13, 2009
Date

/s/ John N. Pesarsick
John N. Pesarsick,
Chief Financial Officer and Principal Accounting Officer

**Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Richard J. Jarosinski, President, Chief Executive Officer, and Principal Executive Officer, and John N. Pesarsick, Chief Financial Officer and Principal Accounting Officer of Portec Rail Products, Inc. (the “Company”) each certify in his capacity as an officer of the Company that he has reviewed the annual report of the Company on Form 10-K for the fiscal year ended December 31, 2008 and that to the best of his knowledge:

- (1) the annual report fully complies with the requirements of Sections 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

March 13, 2009
Date

/s/ Richard J. Jarosinski
Richard J. Jarosinski, President and Chief Executive Officer
Principal Executive Officer

March 13, 2009
Date

/s/ John N. Pesarsick
John N. Pesarsick, Chief Financial Officer
Principal Accounting Officer

Corporate Office

Portec Rail Products, Inc.

900 Old Freeport Road, Box 38250
Pittsburgh, PA 15238-8250 USA
Phone: 412-782-6000
Fax: 412-782-3987

Division and Subsidiary Offices

Railway Maintenance Products Division

900 Old Freeport Road, Box 38250
Pittsburgh, PA 15238-8250 USA
Phone: 412-782-6000
Fax: 412-782-1037
RMPsales@PortecRail.com

Salient Systems, Inc.

4393-K Tuller Road
Dublin, OH 43017-5008 USA
Phone: 614-792-5800
Fax: 614-792-5888
information@salientsystems.com

Shipping Systems Division

120 West 22nd Street
Oak Brook, IL 60523 USA
Phone: 630-573-4778
Fax: 630-573-4659
SSDsales@PortecRail.com

Portec, Rail Products Ltd.

2044 32nd Avenue
Lachine, Quebec H8T 3H7 Canada
Phone: 514-636-5590
Fax: 514-636-5747
CANADAsales@PortecRail.com

Kelsan Technologies Corp.

1140 West 15th Street
North Vancouver, British Columbia
Canada V7P 1M9
Phone: 604-984-6100
Fax: 604-984-3419
sales@kelsan.com

Portec Rail Products (UK) Ltd.

Railway Products

Stamford Street
Sheffield
S9 2TL
United Kingdom
Phone: +44-114-256-2225
Fax: +44-144-251-7826
UKsales@PortecRail.com

Kelsan Technologies (Europe) LTD.

Stamford Street
Sheffield
S9 2TL
United Kingdom
Phone: +44-114-256-2225
Fax: +44-144-251-7826
Email: bharris@kelsan.com

Coronet Rail Limited

Stamford Street
Sheffield
S9 2TL
United Kingdom
Phone: +44-114-256-2225
Fax: +44-144-251-7826
Email: infos@coronetrail.co.uk

CI Logistics

43 Wenlock Way
Troon Industrial Area
Leicester LE4 9HU
United Kingdom
Phone: +44-116-276-1691
Fax: +44-116-276-9836
ci@conveyors.co.uk
www.conveyors.co.uk

SHAREHOLDERS' INFORMATION

CORPORATE HEADQUARTERS

PORTEC RAIL PRODUCTS, INC.

MAILING ADDRESS

P.O. Box 38250
Pittsburgh, PA 15238-8250

STREET ADDRESS

900 Old Freeport Rd.
Pittsburgh, PA 15238
Phone: 412-782-6000
Fax: 412-782-3987

NOTICE TO SHAREHOLDERS

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission, including the financial statements and schedules thereto, is available through links to EDGAR on the Portec Rail web site at www.portecrail.com, connecting directly to EDGAR at www.sec.gov or upon written request to:

Portec Rail Products, Inc.
P.O. Box 38250
Pittsburgh, PA 15238-8250

ANNUAL MEETING

The annual meeting of shareholders will be held at 10:00 a.m. on Thursday, June 11, 2009 at the Pullman Plaza Hotel, 1001 Third Avenue, Huntington, WV 25701

REQUESTS FOR INFORMATION

Shareholders, analysts and others seeking financial information are requested to contact our Chief Financial Officer at Corporate Headquarters.

STOCK TRANSFER AGENT AND REGISTRAR

National City Bank, Cleveland, OH
Toll Free: 1-800-622-6757

SHAREHOLDER CORRESPONDENCE AND WRITTEN STOCK TRANSFER REQUESTS SHOULD BE SENT TO:

National City Bank, Dept 5352
Corporate Trust Operations, P.O. Box 92301
Cleveland, OH 44193-0900

COMMON STOCK LISTING

Common Stock Listing: Common stock of Portec Rail Products, Inc. is traded on the NASDAQ Global Market under the symbol "PRPX".

AUDITORS

Arnett & Foster PLLC
AF Center
101 Washington St., E.
P.O. Box 2629
Charleston, WV 25329

SPECIAL COUNSEL

Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue NW, Suite 400
Washington, DC 20015

WEBSITE

Visit our website at: www.portecrail.com