STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X]

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

For the quarterly period ended December 31, 2013

[ ]

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

Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	31-0596149
(State of incorporation)	*(IRS Employer Identification No.)*

11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE	03079
(Address of principal executive offices)	*(Zip Code)*

(603) 893-9701

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

Large accelerated filer [ ]

Accelerated filer [X]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller Reporting Company [ ]

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

The number of shares of Registrant's Common Stock outstanding on January 29, 2014 was 12,762,061

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PART I. FINANCIAL INFORMATION

ITEM 1

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,060	$ 1,064
Accounts receivable, net	89,952	102,268
Inventories	97,058	84,956
Prepaid expenses and other current assets	13,145	7,776
Income taxes receivable	4,717	-
Deferred tax asset	12,076	12,237
Total current assets	265,008	258,301
Property, plant, and equipment, net	93,889	95,020
Goodwill	113,514	111,905
Intangible assets, net	25,810	25,837
Other non-current assets	21,695	19,510
Total non-current assets	254,908	252,272
Total assets	$ 519,916	$ 510,573
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 56,666	$ 69,854
Accrued expenses	49,638	46,981
Income taxes payable	5,332	1,638
Total current liabilities	111,636	118,473
Long-term debt	46,060	50,072
Accrued pension and other non-current liabilities	47,910	51,040

Total non-current liabilities		93,970		101,112
Stockholders' equity:				
Common stock, par value $1.50 per share - 60,000,000				
shares authorized, 27,984,278 issued, 12,619,957 and				
12,549,806 outstanding at December 31, 2013 and June 30, 2013		41,976		41,976
Additional paid-in capital		39,001		37,199
Retained earnings		563,319		546,031
Accumulated other comprehensive loss		(58,726)		(65,280)
Treasury shares (15,364,321 shares at December 31, 2013				
and 15,434,472 shares at June 30, 2013)		(271,260)		(268,938)
Total stockholders' equity		314,310		290,988
Total liabilities and stockholders' equity	$	519,916	$	510,573

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Six Months Ended December 31, 2013	Six Months Ended December 31, 2012
Net sales	$ 172,243	$ 168,629	$ 355,816	$ 352,015
Cost of sales	114,679	112,339	239,136	236,480
Gross profit	57,564	56,290	116,680	115,535
Selling, general, and administrative expenses	43,608	39,037	85,033	80,421
Restructuring costs	644	985	4,450	1,220
Other operating (income) expense, net	(1,962)	-	(1,962)	-
Total operating expenses	42,290	40,022	87,521	81,641
Income from operations	15,274	16,268	29,159	33,894
Interest expense	(592)	(575)	(1,152)	(1,226)
Other non-operating income (expense)	66	166	520	130
Income from continuing operations before income taxes	14,748	15,859	28,527	32,798
Provision for income taxes	4,105	4,833	7,771	9,847
Income from continuing operations	10,643	11,026	20,756	22,951
Income (loss) from discontinued operations, net of income taxes	(126)	(65)	(1,157)	(160)
Net income (loss)	$ 10,517	$ 10,961	$ 19,599	$ 22,791
Basic earnings (loss) per share:				
Continuing operations	$ 0.84	$ 0.88	$ 1.65	$ 1.82
Discontinued operations	(0.01)	(0.01)	(0.09)	(0.01)
Total	$ 0.83	$ 0.87	$ 1.56	$ 1.81

Diluted earnings (loss) per share:								
Continuing operations	$	0.83	$	0.86	$	1.63	$	1.79
Discontinued operations		(0.01)		-		(0.09)		(0.01)
Total	$	0.82	$	0.86	$	1.54	$	1.78
Cash dividends per share	$	0.10	$	0.08	$	0.18	$	0.15

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended December 31,				Six Months Ended December 31,			
(In thousands)		**2013**		**2012**		**2013**		**2012**
Net income (loss)	$	10,517	$	10,961	$	19,599	$	22,791
Other comprehensive income (loss):								
Defined benefit pension plans:								
Actuarial gains (losses) and other changes in unrecognized costs	$	198	$	(82)	$	(758)	$	(389)
Amortization of unrecognized costs		1,100		2,205		2,523		4,405
Derivative instruments:								
Change in unrealized gains and (losses)		(30)		52		(120)		(209)
Amortization of unrealized gains and (losses) into interest expense		255		264		522		525
Foreign currency translation adjustments		443		396		4,972		3,226
Other comprehensive income (loss) before tax	$	1,966	$	2,835	$	7,139	$	7,558
Income tax provision (benefit):								
Defined benefit pension plans:								
Actuarial gains (losses) and other changes in unrecognized costs	$	(100)	$	21	$	467	$	98
Amortization of unrecognized costs		(390)		(807)		(899)		(1,611)
Derivative instruments:								
Change in unrealized gains and (losses)		11		(20)		45		79
Amortization of unrealized gains and (losses) into interest expense		(97)		(100)		(198)		(199)
Income tax provision benefit to other comprehensive income (loss)	$	(576)	$	(906)	$	(585)	$	(1,633)

Other comprehensive income (loss), net of tax		1,390		1,929		6,554		5,925
Comprehensive income (loss)	$	11,907	$	12,890	$	26,153	$	28,716

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended December 31, 2013		Six Months Ended December 31, 2012	
Cash flows from operating activities				
Net income	$	19,599	$	22,791
(Income) loss from discontinued operations		1,157		160
Income from continuing operations		20,756		22,951
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		7,550		7,765
Stock-based compensation		2,319		1,725
Non-cash portion of restructuring charge		3,342		-
Disposal of real estate and equipment		925		-
Contributions to defined benefit plans		(733)		(3,876)
Net changes in operating assets and liabilities		(13,978)		(3,909)
Net cash provided by (used in) operating activities - continuing operations		20,181		24,656
Net cash (used in) operating activities - discontinued operations		(2,779)		(1,418)
Net cash provided by (used in) operating activities		17,402		23,238
Cash flows from investing activities				
Expenditures for property, plant, and equipment		(7,963)		(9,723)
Expenditures for acquisitions, net of cash acquired		-		(39,613)
Other investing activity		(3,482)		108
Net cash (used in) investing activities		(11,445)		(49,228)
Cash flows from financing activities				
Borrowings on revolving credit facility		34,500		74,000
Payments of revolving credit facility		(38,500)		(62,723)

Activity under share-based payment plans		138		135
Excess tax benefit from share-based payment activity		1,423		2,011
Purchases of treasury stock		(5,106)		(8,004)
Cash dividends paid		(2,267)		(1,883)
Net cash provided by (used in) financing activities		(9,812)		3,536
Effect of exchange rate changes on cash and cash equivalents		851		831
Net change in cash and cash equivalents		(3,004)		(21,623)
Cash and cash equivalents at beginning of year		51,064		54,749
Cash and cash equivalents at end of period	$	48,060	$	33,126

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1)

Management Statement

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations for the three and six months ended December 31, 2013 and 2012, the cash flows for the six months ended December 31, 2013 and 2012 and the financial position of the Company at December 31, 2013. The interim results are not necessarily indicative of results for a full year. The unaudited condensed consolidated financial statements and notes do not contain information which would substantially duplicate the disclosures contained in the audited annual consolidated financial statements and notes for the year ended June 30, 2013. The condensed consolidated balance sheet at June 30, 2013 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements contained herein should be read in conjunction with the Annual Report on Form 10-K and in particular the audited consolidated financial statements for the year ended June 30, 2013. Unless otherwise noted, references to years are to the Company s fiscal years.

2)

Acquisition

In July 2012, the Company acquired Meder electronic AG (Meder), a German manufacturer of magnetic reed switch, reed relay, and reed sensor products. Meder, whose products and geographic markets are complementary to Standex Electronics, is reported under the Electronics Products Group. This investment substantially broadens the global footprint, product line offerings, and end-user markets of the Electronics segment.

The Company paid $43.2 million in cash for 100% of the equity of Meder. Acquired intangible assets of $8.2 million consist of $3.4 million of trademarks, which are indefinite-lived, and $4.8 million of customer relationships, which are amortized over a period of 10 years. Acquired goodwill of $12.1 million is not deductible for income tax purposes due to the nature of the transaction. The Company finalized the purchase price allocation during the quarter ended December 31, 2012.

The components of the fair value of the Meder acquisition, including the initial allocation of the purchase price and subsequent measurement period adjustments, are as follows (in thousands):

Meder Electronic

Fair value of business combination:		
Cash payments	$	43,181
Less: cash acquired		(3,568)
Total	$	39,613
Identifiable assets acquired and liabilities assumed:		
Current Assets	$	20,246
Property, plant, and equipment		11,060
Identifiable intangible assets		8,200
Goodwill		12,063
Other non-current assets		222
Liabilities Assumed		(8,642)
Deferred taxes		(3,536)
Total	$	39,613

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3)

Discontinued Operations

In pursuing our business strategy we have divested certain businesses and recorded activities of these businesses as discontinued operations. In December 2011, the Company entered into a plan to divest its Air Distribution Products (ADP) business unit in order to allow the Company to focus its financial assets and managerial resources on its remaining portfolio of businesses. On March 30, 2012, the Company completed the sale of the ADP business. During the first quarter of fiscal year 2014, the Company received notice that its obligations under a guarantee provided to the buyers of ADP were triggered as a result of its withdrawal from a multi-employer pension plan in which the Company previously participated. As a result, the Company recorded a charge of $1.2 million in excess of the value of the guarantee already recorded. The Company settled this obligation during the second quarter of 2014.

Assets and liabilities related to discontinued operations appear in the condensed consolidated balance sheets are as follows (in thousands):

		December 31, 2013		June 30, 2013
Current assets	$	800	$	483
Other non-current assets		3,014		3,000
Accrued expenses		1,173		795
Accrued pension and other non-current liabilities		1,536		3,219

4)

Fair Value Measurements

The financial instruments shown below are presented at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and the methodologies used in valuation are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities. The Company s deferred compensation plan assets consist of shares in various mutual funds (for the deferred compensation plan, investments are participant-directed) which invest in a broad portfolio of debt and equity securities. These assets are valued based on publicly quoted market prices for the funds shares as of the balance sheet dates.

Level 2 Inputs, other than quoted prices in an active market, that are observable either directly or indirectly through correlation with market data. For foreign exchange forward contracts and interest rate swaps, the Company values the instruments based on the market price of instruments with similar terms, which are based on spot and forward rates as of the balance sheet dates. The Company has considered the creditworthiness of counterparties in valuing all assets and liabilities.

Level 3 Unobservable inputs based upon the Company s best estimate of what market participants would use in pricing the asset or liability.

During the three and six months ended December 31, 2013, there were no transfers of assets or liabilities between level 1 and level 2 of the fair value measurement hierarchy. The Company s policy is to recognize transfers between levels as of the date they occur.

Cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value.

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Items presented at fair value at December 31, 2013 and June 30, 2013 consisted of the following (in thousands):

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	$ 2,963	$ 2,963	$ -	$ -
Foreign exchange contracts	751	-	751	-
Liabilities				
Interest rate swaps	$ 1,490	$ -	$ 1,490	$ -
Foreign exchange contracts	2,626	-	2,626	-

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	$ 2,478	$ 2,478	$ -	$ -
Foreign exchange contracts	37	-	37	-
Liabilities				
Interest rate swaps	$ 1,875	$ -	$ 1,875	$ -
Foreign exchange contracts	1,443	-	1,443	-

5)

Inventories

Inventories are comprised of the following (in thousands):

	December 31, 2013	June 30, 2013
Raw materials	$ 42,929	$ 37,906
Work in process	26,538	24,112
Finished goods	27,591	22,938
Total	$ 97,058	$ 84,956

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations and were $5.4 million and $11.2 million for the three and six months ended December 31, 2013 and $5.0 million and $10.9 million for the three and six months ended December 31, 2012, respectively.

6)

Goodwill

Changes to goodwill during the six months ended December 31, 2013 were as follows (in thousands):

	June 30, 2013			December 31, 2013	
	Gross	Accumulated Impairment	Net	Translation Adjustment	Net
Food Service Equipment Group	$ 63,729	$ (17,939)	$ 45,790	$ 5	$ 45,795
Engraving Group	20,614	-	20,614	125	20,739
Engineering Technologies Group	10,861	-	10,861	943	11,804
Electronics Products Group	31,582	-	31,582	536	32,118
Hydraulics Products Group	3,058	-	3,058	-	3,058
Total	$ 129,844	$ (17,939)	$ 111,905	$ 1,609	$ 113,514

7)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships		Trademarks		Other		Total	
December 31, 2013								
Cost	$	33,206	$	13,035	$	4,452	$	50,693
Accumulated amortization		(21,160)		-		(3,723)		(24,883)
Balance, December 31, 2013	$	12,046	$	13,035	$	729	$	25,810
June 30, 2013								
Cost	$	31,850	$	12,878	$	4,228	$	48,956
Accumulated amortization		(19,529)		-		(3,590)		(23,119)
Balance, June 30, 2013	$	12,321	$	12,878	$	638	$	25,837

Amortization expense for the three and six months ended December 31, 2013 was $0.7 million and $1.4 million, respectively. Amortization expense for the three and six months ended December 31, 2012 was $0.6 million and $1.3 million, respectively. At December 31, 2013, amortization expense is estimated to be $1.3 million in the remainder of 2014, $2.4 million in 2015, $1.9 million in 2016, $1.6 million in 2017, $1.4 million in 2018, and $4.2 million thereafter.

8)

Debt

As of December 31, 2013, the Company s debt is due as follows (in thousands):

Fiscal Year		
		$
2014		8
2015		15
2016		15
2017		46,015
2018		7
Thereafter		-
	$	46,060

Bank Credit Agreements

The Company has in place a five-year $225 million unsecured Revolving Credit Facility (Credit Agreement , the facility), which expires in January 2017 and includes a letter of credit sub-facility with a limit of $30 million and a $100 million accordion feature. As of December 31, 2013 the Company has used $10.8 million against the letter of credit sub-facility. The Company had the ability to borrow $168.2 million under the facility.

At December 31, 2013, the carrying value of the current borrowings under the facility approximated fair value.

9) Derivative Financial Instruments

Interest Rate Swaps

From time to time as dictated by market opportunities, the Company enters into interest rate swap agreements designed to manage exposure to interest rates on the Company s variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated its interest rate swap agreements, including those that are forward-dated, as cash flow hedges, and changes in the fair value of the swaps are recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swaps will be reported by the Company in interest expense.

The Company s effective swap agreements convert the base borrowing rate on $45 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 2.40% at December 31, 2013. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands):

				Fair Value	
Effective Date	**Notional Amount**	**Fixed Rate**	**Maturity**	**December 31, 2013**	**June 30, 2013**
June 1, 2010	$ 5,000,000	2.495%	May 24, 2015	$ (159)	$ (205)
June 1, 2010	5,000,000	2.495%	May 24, 2015	(159)	(205)
June 8, 2010	10,000,000	2.395%	May 26, 2015	(303)	(389)
June 9, 2010	5,000,000	2.340%	May 26, 2015	(148)	(190)
June 18, 2010	5,000,000	2.380%	May 24, 2015	(151)	(194)
September 21, 2011	5,000,000	1.280%	September 21, 2013	-	(14)
September 21, 2011	5,000,000	1.595%	September 22, 2014	(53)	(83)
March 15, 2012	10,000,000	2.745%	March 15, 2016	(517)	(595)
				$ (1,490)	$ (1,875)

The Company reported no losses for the three and six months ended December 31, 2013, as a result of hedge ineffectiveness. Future changes in these swap arrangements, including termination of the agreements, may result in a reclassification of any gain or loss reported in accumulated other comprehensive income (loss) into earnings as an adjustment to interest expense. Accumulated other comprehensive income (loss) related to these instruments is being amortized into interest expense concurrent with the hedged exposure.

Foreign Exchange Contracts

Forward foreign currency exchange contracts are used to limit the impact of currency fluctuations on certain anticipated foreign cash flows, such as foreign sales, foreign purchases of materials, and loan payments to and from subsidiaries. The Company enters into such contracts for hedging purposes only. For hedges of intercompany loan payments, the Company has not elected hedge accounting due to the general short-term nature and predictability of the transactions, and records derivative gains and losses directly to the statement of operations. At December 31, 2013 and June 30, 2013, the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized (losses) of ($1.9) million and ($1.4) million, respectively, which approximate the unrealized gains and losses on the related loans. The notional amounts of the Company s forward contracts, by currency, are as follows:

Currency	Notional Amount (in native currency) December 31, 2013	June 30, 2013
Euro	42,679,064	48,349,064
British Pound Sterling	2,000,000	2,580,289
Canadian Dollar	3,600,000	3,600,000

The table below presents the fair value of derivative financial instruments as well as their classification on the balance sheet (in thousands):

	Assets Derivatives			
	December 31, 2013		June 30,2013	
Derivative designated as hedging instruments	Balance Sheet Line Item	Fair Value	Balance Sheet Line Item	Fair Value
Foreign exchange contracts	Other Assets	$ 751	Other Assets	$ 37

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	Liability Derivatives					
	December 31, 2013			June 30,2013		
Derivative designated as hedging instruments	Balance Sheet Line Item		Fair Value	Balance Sheet Line Item		Fair Value
Interest rate swaps	Accrued Liabilities	$	1,490	Accrued Liabilities	$	1,875
Foreign exchange contracts	Accrued Liabilities		2,626	Accrued Liabilities		1,443
		$	4,116		$	3,318

The table below presents the amount of gain (loss) recognized in comprehensive income on our derivative financial instruments (effective portion) designated as hedging instruments and their classification within comprehensive income for the periods ended (in thousands):

	Three Months Ended December 31,				Six Months Ended December 31,			
	2013		2012		2013		2012	
Interest rate swaps	$	(30)	$	52	$	(120)	$	(209)

The table below presents the amount reclassified from accumulated other comprehensive income (loss) to Net Income for the periods ended (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended December 31,				Six Months Ended December 31,				Affected line item in the Statements of Operations
	2013		2012		2013		2012		
Interest rate swaps	$	255	$	264	$	522	$	525	Interest expense

10)

Retirement Benefits

The Company has defined benefit pension plans covering certain current and former employees both inside and outside of the U.S. The Company s pension plan for U.S. salaried employees was frozen as of December 31, 2007, and participants in the plan ceased accruing future benefits. The Company s pension plan was frozen for substantially all remaining participants as of July 31, 2013, and replaced with a defined contribution benefit plan.

Net Periodic Benefit Cost for the Company s U.S. and Foreign pension benefit plans for the three and six months ended December 31, 2013 and 2012 consisted of the following components (in thousands):

	U.S. Plans		Non-U.S. Plans	
	Three Months Ended December 31,		Three Months Ended December 31,	
	2013	2012	2013	2012