

STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
May 01, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES

NO []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 []

DELAWARE
(State of incorporation)

31-0596149
(IRS Employer Identification No.)

11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE
(Address of principal executive offices)

03079
(Zip Code)

(603) 893-9701

(Registrant's telephone number, including area code)

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 [X]

Accelerated filer []

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

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

The number of shares of Registrant's Common Stock outstanding on April 27, 2015 was 12,777,465

STANDEX INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except per share data)	March 31, 2015	June 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 83,986	\$ 74,260
Accounts receivable, net of reserve for doubtful accounts of \$2,281 and \$2,282 at March 31, 2015 and June 30, 2014	103,008	107,674
Inventories	115,482	97,065
Prepaid expenses and other current assets	6,314	7,034
Income taxes receivable	2,316	922
Deferred tax asset	13,269	12,981
Total current assets	324,375	299,936
Property, plant, and equipment, net	109,371	96,697
Intangible assets, net	38,257	31,490
Goodwill	151,783	125,965
Deferred tax asset	915	878
Other non-current assets	24,942	23,194
Total non-current assets	325,268	278,224
Total assets	\$ 649,643	\$ 578,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 68,956	\$ 85,206
Accrued expenses	43,875	51,038
Income taxes payable	7,531	4,926
Total current liabilities	120,362	141,170
Long-term debt	129,835	45,056
Accrued pension and other non-current liabilities	53,134	51,208
Total non-current liabilities	182,969	96,264
Stockholders' equity:		
Common stock, par value \$1.50 per share, 60,000,000		

shares authorized, 27,984,278 issued, 12,657,128 and 12,639,615 outstanding at March 31, 2015 and June 30, 2014		41,976		41,976
Additional paid-in capital		46,311		43,388
Retained earnings		618,019		584,014
Accumulated other comprehensive loss		(79,991)		(55,819)
Treasury shares: 15,327,150 shares at March 31, 2015 and 15,344,663 shares at June 30, 2014		(280,003)		(272,833)
Total stockholders' equity		346,312		340,726
Total liabilities and stockholders' equity	\$	649,643	\$	578,160

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
(In thousands, except per share data)	2015	2014	2015	2014
Net sales	\$ 180,999	\$ 174,160	\$ 572,363	\$ 518,840
Cost of sales	123,741	116,588	390,193	344,969
Gross profit	57,258	57,572	182,170	173,871
Selling, general, and administrative expenses	39,028	41,743	124,836	123,352
Restructuring costs	398	1,381	2,354	5,831
Other operating (income) expense, net	-	-	59	(1,962)
Total operating expenses	39,426	43,124	127,249	127,221
Income from operations	17,832	14,448	54,921	46,650
Interest expense	(938)	(557)	(2,369)	(1,709)
Other non-operating income (expense)	103	3,457	556	3,977
Income from continuing operations before income taxes	16,997	17,348	53,108	48,918
Provision for income taxes	4,232	4,082	14,153	12,812
Income from continuing operations	12,765	13,266	38,955	36,106
Income (loss) from discontinued operations, net of income taxes	(139)	(46)	(593)	(3,287)
Net income (loss)	\$ 12,626	\$ 13,220	\$ 38,362	\$ 32,819
Basic earnings (loss) per share:				
Continuing operations	\$ 1.01	\$ 1.05	\$ 3.08	\$ 2.86
Discontinued operations	(0.01)	-	(0.05)	(0.26)
Total	\$ 1.00	\$ 1.05	\$ 3.03	\$ 2.60
Diluted earnings (loss) per share:				
Continuing operations	\$ 1.00	\$ 1.04	\$ 3.04	\$ 2.83
Discontinued operations	(0.01)	-	(0.05)	(0.26)
Total	\$ 0.99	\$ 1.04	\$ 2.99	\$ 2.57
Cash dividends per share	\$ 0.12	\$ 0.10	\$ 0.34	\$ 0.28

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended				Nine Months Ended			
	March 31,				March 31,			
	2015		2014		2015		2014	
Net income (loss)	\$	12,626	\$	13,220	\$	38,362	\$	32,819
Other comprehensive income (loss):								
Defined benefit pension plans:								
Actuarial gains (losses) and other changes in unrecognized costs		582		(53)		1,548		(811)
Amortization of unrecognized costs		1,165		1,102		3,524		3,625
Derivative instruments:								
Change in unrealized gains and (losses)		(448)		(47)		(550)		(167)
Amortization of unrealized gains and (losses) into interest expense		296		252		802		774
Foreign currency translation gains (losses)		(12,188)		(945)		(27,721)		4,027
Other comprehensive income (loss) before tax		(10,593)		309		(22,397)		7,448
Income tax provision (benefit):								
Defined benefit pension plans:								
Actuarial gains (losses) and other changes in unrecognized costs		(135)		12		(423)		479
Amortization of unrecognized costs		(415)		(388)		(1,255)		(1,287)
Derivative instruments:								
Change in unrealized gains and (losses)		171		18		210		63
Amortization of unrealized gains and (losses) into interest expense		(113)		(96)		(307)		(294)
Income tax provision (benefit) to other comprehensive income (loss)		(492)		(454)		(1,775)		(1,039)
Other comprehensive income (loss), net of tax		(11,085)		(145)		(24,172)		6,409
Comprehensive income (loss)	\$	1,541	\$	13,075	\$	14,190	\$	39,228

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 38,362	\$ 32,819
(Income) loss from discontinued operations	593	3,287
Income from continuing operations	38,955	36,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,602	11,032
Stock-based compensation	2,806	5,454
Non-cash portion of restructuring charge	(215)	3,755
Excess tax benefit from share-based payment activity	(1,644)	(1,498)
Gain from sale of real estate	-	925
Life insurance benefit	-	(3,353)
Contributions to defined benefit plans	(1,069)	(1,093)
Net changes in operating assets and liabilities	(28,360)	(16,125)
Net cash provided by (used in) operating activities - continuing operations	23,075	35,203
Net cash provided by (used in) operating activities - discontinued operations	(1,818)	(1,352)
Net cash provided by (used in) operating activities	21,257	33,851
Cash flows from investing activities		
Expenditures for property, plant, and equipment	(18,847)	(15,697)
Expenditures for acquisitions, net of cash acquired	(57,149)	-
Other investing activity	1,197	617
Net cash (used in) investing activities - continuing operations	(74,799)	(15,080)
Net cash (used in) investing activities - discontinued operations	-	(587)
Net cash (used in) investing activities	(74,799)	(15,667)
Cash flows from financing activities		
Borrowings on revolving credit facility	267,500	50,000
Payments of revolving credit facility	(182,700)	(55,000)
Activity under share-based payment plans	675	353
	1,644	1,498

Excess tax benefit from share-based payment activity				
Purchases of treasury stock		(9,835)		(5,548)
Cash dividends paid		(4,301)		(3,529)
Net cash provided by (used in) financing activities		72,983		(12,226)
Effect of exchange rate changes on cash and cash equivalents		(9,715)		465
Net change in cash and cash equivalents		9,726		6,423
Cash and cash equivalents at beginning of year		74,260		51,064
Cash and cash equivalents at end of period	\$	83,986	\$	57,487

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$	1,849	\$	1,386
Income taxes, net of refunds	\$	10,474	\$	11,408

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 nine months ended March 31, 2015 and 2014, the cash flows for the nine months ended March 31, 2015 and 2014 and the financial position of Standex International Corporation (Standex or the Company), at March 31, 2015. 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, 2014. The condensed consolidated balance sheet at June 30, 2014 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, 2014. There have been no changes to our Summary of Accounting Policies subsequent to June 30, 2014. Unless otherwise noted, references to years are to the Company's fiscal years.

2)

Acquisition

On September 4, 2014, the Company acquired Enginetics Corporation (Enginetics), a leading producer of aircraft engine components for all major aircraft platforms. This investment complements our Engineering Technologies Group and allows us to provide broader solutions to the aviation market.

The Company paid \$55.0 million in cash for 100% of the outstanding stock of MPE Aeroengines Inc, of which Enginetics is a wholly owned subsidiary and has preliminarily recorded intangible assets of \$10.6 million, consisting of \$9.1 million of customer relationships which are expected to be amortized over a period of fifteen years and \$1.5 million of trademarks which are indefinite-lived. Acquired goodwill of \$33.1 million is not deductible for income tax purposes due to the nature of the transaction. As of March 31, 2015, the purchase price allocation is preliminary as the Company has not yet finalized the fair value of the acquired assets and contractual liabilities.

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

Enginetics	Preliminary Allocation			Allocation at	
			Adjustments		March 31, 2015
Fair value of business combination:					
Cash payments	\$	55,021	\$	\$	55,021
Less: cash acquired		(113)			(113)
Total	\$	54,908	\$	-	\$ 54,908
Identifiable assets acquired and liabilities assumed:					
Current Assets	\$	12,350	\$	(216)	\$ 12,134
Property, plant, and equipment		8,881			8,881
Identifiable intangible assets		10,600			10,600
Goodwill		32,797		349	33,146
Other non-current assets		158			158
Liabilities assumed		(2,826)		(32)	(2,858)
Deferred taxes		(7,052)		(101)	(7,153)
Total	\$	54,908	\$	-	\$ 54,908

On June 20, 2014, the Company acquired all of the outstanding stock of Ultrafryer Systems, Inc. (Ultrafryer), a producer of commercial deep fryers for restaurant and commercial installations. This investment complements our Food Service Equipment Group's product line and allows us to provide broader solutions to restaurant chains and commercial food service installations.

The Company paid \$23.0 million in cash for 100% of the stock of Ultrafryer and has recorded intangible assets of \$7.6 million, consisting of \$2.4 million of trademarks which are indefinite-lived, \$4.9 million of customer relationships, and \$0.3 million of other intangible assets which are expected to be amortized over a period of fifteen and three to five years, respectively. Acquired goodwill of \$11.0 million is not deductible for income tax purposes due to the nature of the transaction.

The components of the fair value of the Ultrafryer acquisition, including the preliminary allocation of the purchase price and subsequent measurement periods adjustments, related to the purchase of land and building, at March 31, 2015, are as follows (in thousands):

Ultrafryer**Preliminary Allocation**

			Adjustments	Final
Fair value of business combination:				
Cash payments	\$	20,745	\$ 2,241	\$ 22,986
Less: cash acquired		(20)	-	(20)
Total	\$	20,725	\$ 2,241	\$ 22,966
Identifiable assets acquired and liabilities assumed:				
Current Assets	\$	5,871	\$ 50	\$ 5,921
Property, plant, and equipment		1,259	2,100	3,359
Identifiable intangible assets		7,612	-	7,612
Goodwill		10,930	91	11,021
Liabilities assumed		(1,733)	-	(1,733)
Deferred taxes		(3,214)	-	(3,214)
Total	\$	20,725	\$ 2,241	\$ 22,966

3)

Discontinued Operations

In pursuing our business strategy we have divested certain businesses and recorded activities of these businesses as discontinued operations.

In June 2014, the Company divested the American Foodservice Company (AFS), a manufacturer of custom design and fabrication of counter systems and cabinets, in our Food Service Equipment Group segment.

Discontinued operations for the three and nine months ended March 31, 2015 and 2014 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net sales	\$ -	\$ 4,887	\$ -	\$ 16,062
Pre-tax earnings	(186)	(264)	(833)	(4,950)
(Provision) benefit for taxes	47	218	240	1,663
Net earnings (loss) from discontinued operations	\$ (139)	\$ (46)	\$ (593)	\$ (3,287)

In connection with the divestiture of ADP in March 2012, the Company remained an obligor under a lease that was assumed in full by the buyer on a facility in Portland, OR. Pursuant to the transaction, the Company received a \$3.0 million promissory note from the buyer. The note is secured by a mortgage on the ADP real estate sold in the transaction in Detroit Lakes, MN, Medina, NY, and Powder Springs, GA, and contains a cross-default provision against the lease. The Company remained the obligor of ADP's Philadelphia, PA facility and administrative offices, and sublet space to the buyer after the divestiture. The buyer terminated their obligation under the Philadelphia sublease beginning September 2014. On February 4, 2015 we entered into a one year two term, renewable, sublease agreement within this building. Our aggregate obligation with respect to both the Portland and Philadelphia leases is \$2.0 million, of which \$0.9 million was recorded as a liability at March 31, 2015. We do not expect to record additional charges related to these obligations.

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

	March 31, 2015		June 30, 2014
Current assets	\$ 19	\$	199
Other non-current assets	3,014		3,014
Accrued expenses	1,380		2,340
Accrued pension and other non-current liabilities	1,260		1,791

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 nine months ended March 31, 2015, 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.

Items presented at fair value at March 31, 2015 and June 30, 2014 consisted of the following (in thousands):

	Total	March 31, 2015		
		Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	\$ 2,269	\$ 2,269	\$ -	\$ -
Foreign exchange contracts	2,332	-	2,332	-
Liabilities				
Interest rate swaps	\$ 809	\$ -	\$ 809	\$ -
Foreign exchange contracts	1,795	-	1,795	-
	Total	June 30, 2014		
		Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	\$ 3,114	\$ 3,114	\$ -	\$ -
Foreign exchange contracts	356	-	356	-
Liabilities				
Interest rate swaps	\$ 1,061	\$ -	\$ 1,061	\$ -
Foreign exchange contracts	1,552	-	1,552	-

5)

Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2015	June 30, 2014
Raw materials	\$	\$