STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 02, 2016

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, 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 [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 [ ]

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 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 January 26, 2016 was 12,832,860

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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)		**December 31, 2015**		**June 30, 2015**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	104,214	$	96,128
Accounts receivable, net of reserve for doubtful accounts of $2,232 and $2,226 at December 31, 2015 and June 30, 2015		91,977		110,478
Inventories		108,987		108,305
Prepaid expenses and other current assets		5,692		7,070
Income taxes receivable		7,100		747
Deferred tax asset		12,700		12,674

Total current assets		330,670		335,402
Property, plant, and equipment, net		109,240		108,536
Intangible assets, net		40,456		38,048
Goodwill		160,241		154,732
Deferred tax asset		850		917
Other non-current assets		19,000		21,428
Total non-current assets		329,787		323,661
Total assets	$	660,457	$	659,063
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	56,802	$	80,764
Accrued liabilities		49,957		47,742
Income taxes payable		9,049		10,285
Total current liabilities		115,808		138,791
Long-term debt		108,933		101,753
Accrued pension and other non-current liabilities		69,622		69,949
Total non-current liabilities		178,555		171,702
Stockholders' equity:				
Common stock, par value $1.50 per share, 60,000,000 shares authorized, 27,984,278 issued, 12,696,081 and 12,651,488 outstanding at December 31, 2015 and June 30, 2015		41,976		41,976
Additional paid-in capital		50,085		47,254
Retained earnings		657,887		632,864
Accumulated other comprehensive loss		(101,824)		(93,017)
Treasury shares: 15,288,197 shares at December 31, 2015 and 15,332,790 shares at June 30, 2015		(282,030)		(280,507)
Total stockholders' equity		366,094		348,570
Total liabilities and stockholders' equity	$	660,457	$	659,063

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended	Six Months Ended

	December 31,		December 31,	
(In thousands, except per share data)	2015	2014	2015	2014
Net sales	$ 181,948	$ 189,337	$ 380,346	$ 391,364
Cost of sales	123,713	130,537	253,559	266,452
Gross profit	58,235	58,800	126,787	124,912
Selling, general, and administrative expenses	40,696	41,854	84,626	85,808
Restructuring costs	1,477	1,094	2,996	1,956
Other operating (income) expense, net	-	-	-	59
Total operating expenses	42,173	42,948	87,622	87,823
Income from operations	16,062	15,852	39,165	37,089
Interest expense	(731)	(788)	(1,375)	(1,431)
Other non-operating income (expense)	294	188	484	453
Income from continuing operations before income taxes	15,625	15,252	38,274	36,111
Provision for income taxes	3,179	3,989	9,687	9,921
Income from continuing operations	12,446	11,263	28,587	26,190
Income (loss) from discontinued operations, net of income taxes	(75)	(79)	(235)	(454)
Net income (loss)	$ 12,371	$ 11,184	$ 28,352	$ 25,736
Basic earnings (loss) per share:				
Continuing operations	$ 0.98	$ 0.89	$ 2.26	$ 2.07
Discontinued operations	(0.01)	(0.01)	(0.02)	(0.04)
Total	$ 0.97	$ 0.88	$ 2.24	$ 2.03
Diluted earnings (loss) per share:				
Continuing operations	$ 0.97	$ 0.88	$ 2.24	$ 2.04
Discontinued operations	(0.01)	(0.01)	(0.02)	(0.04)
Total	$ 0.96	$ 0.87	$ 2.22	$ 2.00
Cash dividends per share	$ 0.14	$ 0.12	$ 0.26	$ 0.22

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended December 31, 2015	2014	Six Months Ended December 31, 2015	2014
Net income (loss)	$ 12,371	$ 11,184	$ 28,352	$ 25,736
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ 261	$ 372	$ 557	$ 966
Amortization of unrecognized costs	1,199	1,174	2,402	2,359
Derivative instruments:				
Change in unrealized gains and (losses)	434	(100)	(44)	(102)
Amortization of unrealized gains and (losses) into interest expense	107	248	227	506
Foreign currency translation gains (losses)	(4,781)	(6,724)	(10,919)	(15,533)
Other comprehensive income (loss) before tax	$ (2,780)	$ (5,030)	$ (7,777)	$ (11,804)
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ (57)	$ (80)	$ (115)	$ (288)
Amortization of unrecognized costs	(423)	(419)	(845)	(840)
Derivative instruments:				
Change in unrealized gains and (losses)	(166)	38	16	39
Amortization of unrealized gains and (losses) into interest expense	(40)	(95)	(86)	(194)
	$	$	$	$

Income tax provision (benefit) to other comprehensive income (loss)		(686)		(556)	(1,030)		(1,283)
Other comprehensive income (loss), net of tax		(3,466)		(5,586)	(8,807)		(13,087)
Comprehensive income (loss)	$	8,905	$	5,598	$ 19,545	$	12,649

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Cash Flows

		Six Months Ended December 31,		
(In thousands)		**2015**		**2014**
Cash flows from operating activities				
Net income	$	28,352	$	25,736
(Income) loss from discontinued operations		235		454
Income from continuing operations		28,587		26,190
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		8,804		8,305
Stock-based compensation		2,806		1,669
Non-cash portion of restructuring charge		1,941		(74)
Excess tax benefit from share-based payment activity		(809)		(1,644)
Contributions to defined benefit plans		(645)		(491)
Net changes in operating assets and liabilities		(9,817)		(22,157)
Net cash provided by (used in) operating activities - continuing operations		30,867		11,798
Net cash provided by (used in) operating activities - discontinued operations		(652)		(657)

Net cash provided by (used in) operating activities		30,215		11,141
Cash flows from investing activities				
Expenditures for property, plant, and equipment		(8,724)		(13,961)
Expenditures for acquisitions, net of cash acquired		(13,544)		(57,149)
Proceeds from sales of real estate and equipment		235		115
Other investing activity		-		1,128
Net cash (used in) investing activities - continuing operations		(22,033)		(69,867)
Net cash (used in) investing activities - discontinued operations		2,803		-
Net cash (used in) investing activities		(19,230)		(69,867)
Cash flows from financing activities				
Borrowings on revolving credit facility		48,500		245,500
Payments of revolving credit facility		(41,500)		(164,700)
Activity under share-based payment plans		745		613
Excess tax benefit from share-based payment activity		809		1,644
Purchases of treasury stock		(3,053)		(8,067)
Cash dividends paid		(3,294)		(2,783)
Net cash provided by (used in) financing activities		2,207		72,207
Effect of exchange rate changes on cash and cash equivalents		(5,106)		(5,170)
Net change in cash and cash equivalents		8,086		8,311
Cash and cash equivalents at beginning of year		96,128		74,260
Cash and cash equivalents at end of period	$	104,214	$	82,571

Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest	$	1,094	$	1,193
Income taxes, net of refunds	$	14,925	$	7,639

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, 2015 and 2014, the cash flows for the six months ended December 31, 2015 and 2014 and the financial position of Standex International Corporation (Standex , the Company , we , us , or our), at December 31, 2015. The interim results 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, 2015. The condensed consolidated balance sheet at June 30, 2015 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, 2015. Certain prior period amounts have been reclassified to conform to the current period presentation. Unless otherwise noted, references to years are to the Company s fiscal years.

During the first quarter of 2016, we retrospectively adopted accounting standard update ASU 2015-3, *Simplifying the Presentation of Debt Issuance Cost*. The adoption of this update has reclassed debt issuance cost from Other non-current assets to Long-term debt. There have been no other significant changes in our reported financial position or results of operations and cash flows as a result of the adoption of new accounting pronouncements or to our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 that have had a significant impact on our consolidated financial statements or notes herein.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. We evaluated subsequent events through the date and time our unaudited condensed consolidated financial statements were issued.

2)

Acquisition

<u>**Northlake**</u>

On October 1, 2015, the Company acquired Northlake Engineering, Inc., (Northlake), a Wisconsin-based designer, manufacturer and distributor of high reliability electromagnetic products and solutions serving the North America power distribution and medical equipment markets. Northlake reports to our Electronics Products Group.

The Company paid $13.5 million in cash for 100% of the outstanding stock of Northlake owned by William A. Hardt and the Marlene T. Hardt Family Trust, and has preliminarily recorded intangible assets of $4.1 million, consisting of $2.5 million of customer relationships which primarily are expected to be amortized over a period of twelve and half years, $1.3 million of trademarks which are indefinite-lived and $0.3 million of non-compete which are expected to amortized over a period of five years. Acquired goodwill of $7.8 million is deductible for income tax. The Company anticipates finalizing the purchase price allocation during the current fiscal year.

The components of the fair value of the Northlake acquisition, including the preliminary allocation of the purchase price at December 31, 2015, are as follows (in thousands):

		Preliminary Allocation	
Fair value of business combination:			
Cash payments	$		13,859
Less: cash acquired			(315)
Total	$		13,544
Identifiable assets acquired and liabilities assumed:			
Current Assets		$	2,810
Property, plant, and equipment			1,407
Identifiable intangible assets			4,124
Goodwill			7,821
Other non-current assets			158
Liabilities assumed			(2,620)
Expected final payments			(156)
Total		$	13,544

Enginetics

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 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 $34.8 million is not deductible for income tax purposes due to the nature of the transaction. The Company finalized the purchase price allocation during the fourth quarter ended June 30, 2015.

The components of the fair value of the Enginetics acquisition, is as follows (in thousands):

		Final
Fair value of business combination:		
Cash payments	$	55,021
Less: cash acquired		(113)
Total	$	54,908
Identifiable assets acquired and liabilities assumed:		
Current Assets	$	12,134
Property, plant, and equipment		8,808
Identifiable intangible assets		10,600
Goodwill		34,790
Other non-current assets		158
Liabilities assumed		(5,449)
Deferred taxes		(6,133)
Total	$	54,908

Ultrafryer

The Company paid a total of $23.0 million, in cash, to acquire all of the outstanding stock of Ultrafryer Systems, Inc. (Ultrafryer), a producer of commercial deep fryers for restaurant and commercial installations. This included, in the subsequent fiscal year, during the quarter ended September 30, 2014, a $2.2 million disbursement related to the Ultrafryer acquisition to purchase the land and building associated with the business.

The Company s recent acquisitions are strategically significant to the future growth prospects of the Company, however at the time of the acquisition and June 30, 2015, we concluded, that historical results of the acquired Companies both individually and in the aggregate, were immaterial to the Company s consolidated financial results and therefore additional proforma disclosures are not presented.

3)

Discontinued Operations

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

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

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2015	**2014**	**2015**	**2014**

Net sales	$ -	$ -	$ -	$ -
Pre-tax earnings	(94)	(126)	(342)	(647)
(Provision) benefit for taxes	19	47	107	193
Net earnings (loss) from discontinued operations	$ (75)	$ (79)	$ (235)	$ (454)

On March 30, 2012, Air Distribution Products Group, (ADP) was sold to a private equity buyer for consideration of $16.1 million consisting of $13.1 million in cash and a $3.0 million promissory note from the buyer. The note was secured by a mortgage on the ADP real estate sold in the transaction in Detroit Lakes, MN, Medina, NY, and Powder Springs, GA. During the first quarter 2016, the private equity buyer of ADP sold one of the facilities securing the note. The Company released all mortgages on the properties and accepted an advanced payment of $2.8 million during October 2015 in order to reduce repayment risk and settle all obligations under the note. The Company recorded a $0.2 million loss in discontinued operations during the first quarter 2016 related to this transaction.

The Company remained the obligor of ADP s Philadelphia, PA facility and administrative offices. We have entered into a renewable sublease agreement with a third party for this space. Our obligation with respect to the lease is $1.0 million, of which $0.7 million was recorded as a liability at December 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 are as follows (in thousands):

	December 31, 2015	**June 30, 2015**
Current assets	$ -	$ 23
Other non-current assets	14	3,014
Accrued expenses	1,352	1,383
Accrued pension and other non-current liabilities	289	896

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.

There were no transfers of assets or liabilities between level 1 and level 2 of the fair value measurement hierarchy at December 31, 2015 and June 30, 2015. 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 December 31, 2015 and June 30, 2015 consisted of the following (in thousands):

	December 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 2,578	$ 2,578	$ -	$ -
Foreign exchange contracts	251	-	251	-
Liabilities				
Foreign exchange contracts	$ 20	$ -	$ 20	$ -
Interest rate swaps	531	-	531	-

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	$ 2,324	$ 2,324	$ -	$ -
Foreign exchange contracts	844	-	844	-
Liabilities				
Foreign exchange contracts	$ 193	$ -	$ 193	$ -
Interest rate swaps	551	-	551	-

5)

Inventories

Inventories are comprised of the following (in thousands):

	December 31, 2015	June 30, 2015
Raw materials	$ 48,962	$ 46,865
Work in process	28,160	29,165
Finished goods	31,865	32,275
Total	$ 108,987	$ 108,305

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 were $4.9 million and $10.6 million for the three and six months ended December 31, 2015, respectively and $6.1 million and $12.5 million for the three and six months ended December 31, 2014, respectively.

6)

Goodwill

Changes to goodwill during the period ended December 31, 2015 were as follows (in thousands):

	June 30, 2015	Acquisition	Translation Adjustment	December 31, 2015

Food Service Equipment Group	$ 56,812	$ -	$ (8)	$ 56,804
Engraving Group	20,248	-	(94)	20,154
Engineering Technologies Group	46,000	-	(681)	45,319
Electronics Products Group	28,614	7,821	(1,529)	34,906
Hydraulics Products Group	3,058	-	-	3,058
Total	$ 154,732	$ 7,821	$ (2,312)	$ 160,241

7)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
December 31, 2015				
Cost	$ 45,462	$ 16,763	$ 4,491	$ 66,716
Accumulated amortization	(23,545)	-	(2,715)	(26,260)
Balance, December 31, 2015	$ 21,917	$ 16,763	$ 1,776	$ 40,456
June 30, 2015				
Cost	$ 43,493	$ 15,514	$ 4,096	$ 63,103
Accumulated amortization	(22,628)	-	(2,427)	(25,055)
Balance, June 30, 2015	$ 20,865	$ 15,514	$ 1,669	$ 38,048

Amortization expense for the three and six months ended December 31, 2015 was $0.8 million and $1.6 million, respectively. Amortization expense for the three and six months ended December 31, 2014 was $0.7 million and $1.4 million, respectively. At December 31, 2015, amortization expense is estimated to be $2.0 million for the remainder of 2016, $3.6 million in 2017, $3.4 million in 2018, $3.1 million in 2019, $2.6 million in 2020, and $8.9 million thereafter.

8)

Warranties

The expected cost associated with warranty obligations on our products is recorded as a component of Cost of sales when the revenue is recognized. The Company s estimate of warranty cost is based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Since warranty estimates are forecasts based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

The changes in warranty reserve, which are recorded as a component of accrued liabilities, for the six months ended December 31, 2015 and year ended June 30, 2015 were as follows (in thousands):

		December 31, 2015		**June 30, 2015**
Balance at beginning of year	$	7,436	$	6,941
Acquisitions and other		(1)		3
Warranty expense		7,414		11,086
Warranty claims		(6,324)		(10,594)
Balance at end of period	$	8,525	$	7,436

9)

Debt

At December 31, 2015 and June 30, 2015, we had debt issuance costs of $1.1 million and $1.3 million, respectively. The Company s debt payments are due as follows (in thousands):

Fiscal Year		**December 31, 2015**
2016	$	6
2017		12
2018		6
2019		-
2020		110,000
Thereafter		-
Funded Debt		110,024
Issuance cost		(1,091)
Debt net of issuance cost	$	108,933

Bank Credit Agreements

During fiscal year 2015, the Company entered into an Amended and Restated Credit Agreement (Credit Facility , or facility). This five-year Credit Facility expires in December 2019 and has a borrowing limit of $400 million, which can be increased by an amount of up to $100 million, in accordance with specified conditions contained in the agreement. The facility also includes a $10 million sublimit for swing line loans and a $30 million sublimit for letters of credit.

At December 31, 2015, the Company had standby letters of credit outstanding, primarily for insurance purposes, of $7.7 million and had the ability to borrow $247.2 million under the facility. At December 31, 2015, the carrying value of the current borrowings under the facility approximates fair value.

10)

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 $60 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 1.65% at December 31, 2015. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands, except percentages):

				Fair Value	
Effective Date	Notional Amount	Fixed Rate	Maturity	December 31, 2015	June 30, 2015
March 15, 2012	10,000	2.745%	March 15, 2016	$ (60)	$ (186)
	20,000	1.180%		(85)	(140)

December 19, 2014			December 19, 2017		
December 19, 2014	5,000	1.200%	December 19, 2017	(23)	(36)
December 18, 2015	15,000	1.460%	December 19, 2018	(117)	(39)
December 19, 2015	10,000	2.005%	December 19, 2019	(246)	(150)
				$ (531)	$ (551)

The Company reported no losses for the three and six months ended December 31, 2015, 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, 2015 and June 30, 2015, the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized gain (losses) of $0.2 million and $0.7 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:

	Notional Amount (in native currency)	
Currency	**December 31, 2015**	**June 30, 2015**
Euro	5,829,098	10,134,797
British Pound Sterling	144,635	1,730,542

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

	Asset Derivatives			
	December 31, 2015		**June 30, 2015**	
Derivative designated as hedging instruments	**Balance Sheet**		**Balance Sheet**	

	Line Item	Fair Value	Line Item	Fair Value
Foreign exchange contracts	Other Assets	$ 251	Other Assets	$ 844

	Liability Derivatives			
	December 31, 2015		June 30, 2015	
Derivative designated as hedging instruments	Balance Sheet Line Item	Fair Value	Balance Sheet Line Item	Fair Value
Interest rate swaps	Accrued Liabilities	$ 531	Accrued Liabilities	$ 551
Foreign exchange contracts	Accrued Liabilities	20	Accrued Liabilities	193
		$ 551		$ 744

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,	
	2015	2014	2015	2014
Interest rate swaps	$ 307	$ (100)	$ (245)	$ (102)
Foreign exchange contracts	127	-	201	-
	$ 434	$ (100)	$ (44)	$ (102)

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
	2015	2014	2015	2014	
Interest rate swaps	$ 138	$ 248	$ 266	$ 506	Interest expense
Foreign exchange contracts	(31)	-	(39)	-	Cost of Sales
	$ 107	$ 248	$ 227	$ 506	

11)

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. employees is frozen for substantially all participants and has been 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, 2015 and 2014 consisted of the following components (in thousands):

	U.S. Plans Three Months Ended December 31,		Non-U.S. Plans Three Months Ended December 31,	
	2015	2014	2015	2014
Service cost	$ 16	$ 53	$ 8	$ 12
Interest cost	2,873	2,619	363	409
Expected return on plan assets	(3,465)	(3,489)	(330)	(371)
Recognized net actuarial loss	995	986	213	189
Amortization of prior service cost	3	14	(12)	(14)
Net periodic benefit cost	$ 422	$ 183	$ 242	$ 225

	U.S. Plans Six Months Ended December 31,		Non-U.S. Plans Six Months Ended December 31,	
	2015	2014	2015	2014
Service cost	$ 34	$ 106	$ 17	$ 24
Interest cost	5,745	5,238	734	840
Expected return on plan assets	(6,932)	(6,977)	(667)	(763)
Recognized net actuarial loss	1,990	1,973	430	389
Amortization of prior service cost	7	27	(24)	(28)
Net periodic benefit cost	$ 844	$ 367	$ 490	$ 462

The Company expects to pay $1.5 million in contributions to its defined benefit plans during fiscal 2016. Contributions of $0.3 million and $0.6 million were made during the three and six months ended December 31, 2015 compared to $0.2 million and $0.5 million during the three and six months ended December 31, 2014, respectively. Required contributions of $0.9 million will be paid to the Company s U.K. defined benefit plan during 2016. The Company also expects to make contributions of $0.2 million and $0.3 million to its unfunded defined benefit plans in the U.S. and Germany, respectively during the current fiscal year.

12)

Income Taxes

The Company's effective tax rate from continuing operations for the second quarter of 2016 was 20.3% compared with 26.2% for the prior year quarter. The lower effective tax rate in 2016 is the result of two events: first, an increase in the jurisdictional mix of income where more income is being taxed outside of the U.S. at lower tax rates than in the prior year quarter, and second, a larger discrete tax benefit for 2016 related to the retroactive reinstatement of the research and development (R&D) credit in the U.S.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2015 was 25.3% compared with 27.5% for the prior year. The lower effective tax rate for the year to date is due to the same jurisdictional mix of income and the R&D tax credit.

During the quarter ended December 31, 2015, the Company increased its uncertain tax positions related to a bargain-sale of property to a charitable organization. The impact of this position has been included in the Company s annual effective tax rate calculation.

13)

Earnings Per Share

The following table sets forth a reconciliation of the number of shares (in thousands) used in the computation of basic and diluted earnings per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	**2014**	**2015**	**2014**
Basic - Average shares outstanding	12,692	12,656	12,675	12,655
Effect of dilutive securities:				
Unvested, restricted stock awards	99	146	102	163
Diluted - Average shares outstanding	12,791	12,802	12,777	12,818

Earnings available to common stockholders are the same for computing both basic and diluted earnings per share. No options to purchase common stock were excluded as anti-dilutive from the calculation of diluted earnings per share for the three and six months ended December 31, 2015 and 2014, respectively.

Performance stock units of 30,764 and 28,597 for the six months ended December 31, 2015 and 2014, respectively, are excluded from the diluted earnings per share calculation as the performance criteria have not been met.

14)

Comprehensive Income (Loss)

The components of the Company s accumulated other comprehensive loss are as follows (in thousands):

		December 31, 2015		June 30, 2015
Foreign currency translation adjustment	$	(24,252)	$	(13,333)
Unrealized pension losses, net of tax		(77,249)		(79,248)
Unrealized losses on derivative instruments, net of tax		(323)		(436)
Total	$	(101,824)	$	(93,017)

15)

Contingencies