II-VI INC
Form 10-Q
May 08, 2015

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 March 31, 2015

¨ 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: 0-16195

II-VI INCORPORATED

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-1214948
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
375 Saxonburg Boulevard Saxonburg, PA	16056
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: 724-352-4455

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 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 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	¨	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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At May 2, 2015, 61,066,939 shares of Common Stock, no par value, of the registrant were outstanding.

II-VI INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

II-VI Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

($000)

	March 31, 2015	June 30, 2014
Assets		
Current Assets		
Cash and cash equivalents	$154,703	$174,660
Accounts receivable - less allowance for doubtful accounts of $1,264 at March 31, 2015 and $1,852 at June 30, 2014	134,982	136,723
Inventories	164,401	165,873
Deferred income taxes	12,193	11,118
Prepaid and refundable income taxes	7,139	4,440
Prepaid and other current assets	15,429	12,917
Total Current Assets	488,847	505,731
Property, plant & equipment, net	202,073	208,939
Goodwill	195,634	196,145
Other intangible assets, net	125,399	136,404
Investment	12,296	11,589
Deferred income taxes	5,170	4,038
Other assets	8,849	9,080
Total Assets	$1,038,268	$1,071,926
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of long-term debt	$20,000	$20,000
Accounts payable	40,960	45,767
Accrued compensation and benefits	32,514	32,461
Accrued income taxes payable	7,641	4,584
Deferred income taxes	806	732
Other accrued liabilities	28,378	31,521
Total Current Liabilities	130,299	135,065
Long-term debt	168,002	221,960
Deferred income taxes	7,464	7,440
Other liabilities	21,641	32,418
Total Liabilities	327,406	396,883
Shareholders' Equity		
Preferred stock, no par value; authorized - 5,000,000 shares; none issued	-	-
Common stock, no par value; authorized - 300,000,000 shares; issued - 71,688,493 shares at March 31, 2015; 70,935,098 shares at June 30, 2014	226,600	213,573

Accumulated other comprehensive income	7,517	19,406
Retained earnings	570,233	521,327
	804,350	754,306
Treasury stock, at cost - 10,564,849 shares at March 31, 2015 and 9,481,963 shares at June 30, 2014	(93,488)	(79,263)
Total Shareholders' Equity	710,862	675,043
Total Liabilities and Shareholders' Equity	$1,038,268	$1,071,926

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Earnings (Unaudited)

($000 except per share data)

	Three Months Ended March 31,	
	2015	2014
Revenues		
Domestic	$68,233	$54,424
International	114,476	119,131
Total Revenues	182,709	173,555
Costs, Expenses and Other Expense (Income)		
Cost of goods sold	116,984	118,865
Internal research and development	12,874	12,099
Selling, general and administrative	35,192	33,848
Interest expense	844	1,412
Other expense (income), net	1,534	(1,694)
Total Costs, Expenses and Other Expense (Income)	167,428	164,530
Earnings from Continuing Operations Before Income Taxes	15,281	9,025
Income Taxes	773	494
Net Earnings	$14,508	$8,531
Basic Earnings Per Share:		
Consolidated	$0.24	$0.14
Diluted Earnings Per Share:		
Consolidated	$0.23	$0.13

- See notes to condensed consolidated financial statements.

II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Earnings (Unaudited)

($000 except per share data)

	Nine Months Ended March 31, 2015	2014
Revenues		
Domestic	$198,909	$178,683
International	346,369	316,657
Total Revenues	545,278	495,340
Costs, Expenses and Other Expense (Income)		
Cost of goods sold	348,676	330,945
Internal research and development	38,662	31,201
Selling, general and administrative	104,354	101,412
Interest expense	3,086	3,064
Other expense (income), net	(6,079)	(2,766)
Total Costs, Expenses and Other Expense (Income)	488,699	463,856
Earnings from Continuing Operations Before Income Taxes	56,579	31,484
Income Taxes	7,673	5,823
Earnings from Continuing Operations	48,906	25,661
Earnings from Discontinued Operation, net of income tax	-	133
Net Earnings	$48,906	$25,794
Basic Earnings Per Share:		
Continuing Operations	$0.80	$0.41
Discontinued Operation	$-	$-
Consolidated	$0.80	$0.41
Diluted Earnings Per Share:		
Continuing Operations	$0.78	$0.40
Discontinued Operation	$-	$-
Consolidated	$0.78	$0.40

- See notes to condensed consolidated financial statements.

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II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

($000)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Net earnings	$14,508	$8,531	$48,906	$25,794
Other comprehensive income (loss):				
Foreign currency translation adjustments	(7,343)	(2,123)	(11,509)	2,250
Pension adjustment, net of taxes of $(6) and $101 for the three and nine months ended, respectively	22	-	(380)	-
Comprehensive income	$7,187	$6,408	$37,017	$28,044

- See notes to condensed consolidated financial statements.

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II-VI Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

($000)

	Nine Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities		
Net earnings	$48,906	$25,794
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Earnings from discontinued operation, net of tax	-	(133)
Depreciation	30,259	31,191
Amortization	8,983	8,234
Share-based compensation expense	8,586	9,732
Impairment of intangible assets	1,962	-
Loss on foreign currency remeasurements and transactions	1,892	380
Earnings from equity investment	(707)	(517)
Deferred income taxes	(2,104)	(1,814)
Excess tax benefits from share-based compensation expense	(404)	(522)
Increase (decrease) in cash from changes in:		
Accounts receivable	(5,972)	(17,719)
Inventories	(5,721)	3,886
Accounts payable	(3,625)	21,943
Income taxes	677	(7,810)
Other operating net assets	2,971	(5,237)
Net cash provided by operating activities:		
Continuing Operations	85,703	67,408
Discontinued Operation	-	1,197
Net cash provided by operating activities	85,703	68,605
Cash Flows from Investing Activities		
Additions to property, plant & equipment	(40,163)	(20,767)
Purchases of business, net of cash acquired	-	(177,676)
Other investing activities	64	226
Net cash used in investing activities	(40,099)	(198,217)
Cash Flows from Financing Activities		
Proceeds from borrowings	3,000	183,000
Payments on borrowings	(56,500)	(34,000)
Purchases of treasury stock	(12,729)	(10,957)
Payments of redeemable noncontrolling interest	-	(8,789)
Payments on holdback arrangements	(2,350)	(2,200)
Proceeds from exercises of stock options	4,058	3,613
Other financing activities	(610)	(1,375)
Net cash (used in) provided by financing activities	(65,131)	129,292
Effect of exchange rate changes on cash and cash equivalents	(430)	578
Net (decrease) increase in cash and cash equivalents	(19,957)	258

Cash and Cash Equivalents at Beginning of Period	174,660	185,433
Cash and Cash Equivalents at End of Period	$154,703	$185,691
Cash paid for interest	$3,081	$2,883
Cash paid for income taxes	$9,025	$12,545
Non cash transactions:		
Purchases of businesses - holdback amount recorded in Other accrued liabilities	$-	$10,000
Capital lease obligation incurred on facility lease	$-	$11,857

- See notes to condensed consolidated financial statements.

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e II-VI Incorporated and Subsidiaries

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(000)

	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
Balance - June 30, 2014	70,935	$213,573	$ 19,406	$521,327	(9,482)	$(79,263)	$675,043
Shares issued under share-based compensation plans	681	4,058	-	-	(75)	(1,082)	2,976
Net earnings	-	-	-	48,906	-	-	48,906
Purchases of treasury stock	-	-	-	-	(936)	(12,729)	(12,729)
Treasury stock under deferred compensation arrangements	72	414	-	-	(72)	(414)	-
Foreign currency translation adjustments	-	-	(11,509)	-	-	-	(11,509)
Share-based compensation expense	-	8,586	-	-	-	-	8,586
Pension adjustment, net of taxes of $101	-	-	(380)	-	-	-	(380)
Tax deficiency from share-based compensation expense	-	(31)	-	-	-	-	(31)
Balance - March 31, 2015	71,688	$226,600	$ 7,517	$570,233	(10,565)	$(93,488)	$710,862

- See notes to condensed consolidated financial statements.

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II-VI Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

The condensed consolidated financial statements of II-VI Incorporated ("II-VI" or the "Company") for the three and nine months ended March 31, 2015 and 2014 are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation for the periods presented have been included. All adjustments are of a normal recurring nature unless disclosed otherwise. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. The consolidated results of operations for the three and nine months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full fiscal year. The June 30, 2014 Condensed Consolidated Balance Sheet information was derived from the Company's audited financial statements.

Effective July 1, 2014, the Company realigned its organizational structure into three reporting segments for the purpose of making operational decisions and assessing financial performance: (i) II-VI Laser Solutions, (ii) II-VI Photonics, and (iii) II-VI Performance Products. The Company is reporting financial information (revenue through operating income) for these new reporting segments in this Quarterly Report on Form 10-Q, which management believes will provide enhanced visibility and transparency into the operations, business drivers and the value of the enterprise.

Note 2. Discontinued Operation

During December 2013, the Company completed the discontinuance of its tellurium product line by exiting all business activities associated with this product. This product line previously was serviced by Pacific Rare Specialty Metals & Chemicals, Inc. ("PRM") and was included as part of the Performance Products segment. Prior periods have been restated to present this product line on a discontinued operation basis. The revenues and earnings of the tellurium product line have been reflected as a discontinued operation for the periods presented as follows: ($000):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Revenues	$ -	$ -	$ -	$ 1,849
Earnings from discontinued operation before income taxes	-	-	-	133
Income tax benefit (expense)	-	-	-	-
Earnings from discontinued operation, net of taxes	$ -	$ -	$ -	$ 133

Note 3. Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued as final, an Accounting Standards Update (“ASU”) 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance about whether a cloud computing arrangement includes a software license. The update is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The update allows for the use of either a prospective or retrospective adoption approach. Management is currently evaluating the available transition methods and the potential impact of adoption on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. This ASU requires entities to present debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability, consistent with debt discounts. The guidance does not address situations in which debt issuance costs do not have an associated debt liability or exceed the carrying amount of the associated debt liability. This ASU will be effective beginning in fiscal year 2017. Management is currently evaluating the potential impact of adoption on the Company's consolidated financial statements.

In February 2015, the FASB issued as final, ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which affects reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The update allows for the use of either a full retrospective or a modified retrospective adoption approach. Management is currently evaluating the available transition methods and the potential impact of adoption on the Company’s consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items. This ASU eliminates the requirement to separately present and disclose extraordinary and unusual items in the financial statements. This ASU will be effective beginning in 2016. The adoption of this ASU is not expected to have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606) which supersedes virtually all existing revenue recognition guidance under U.S. GAAP. The update's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Currently the update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The update allows for the use of either the retrospective or modified retrospective approach of adoption. On April 29, 2015, the FASB issued an exposure draft (ED) of a proposed ASU that would delay by one year the effective date of its new revenue recognition standard. Under the proposal, the standard would be effective of public entities for annual reporting periods beginning after December 15, 2017 and interim periods therein. The proposal would permit adoption of the standard as early as the original public entity effective date. Early adoption prior to that date would not be permitted. Management currently is evaluating the available transition methods and the potential impact of adoption on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The new standard will be effective for annual periods beginning on or after December 15, 2014, with early adoption permitted and will be effective for the Company beginning in the first quarter of fiscal year 2016. The adoption of this standard is not expected to have a significant impact on the Company’s consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11: Presentation of an Unrecognized Tax benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit carryforward Exists. The ASU changes how certain unrecognized tax benefits are to be presented on the consolidated balance sheet. This ASU clarified existing guidance to require that an unrecognized tax benefit, or a portion thereof, be presented in the consolidated balance sheet as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, similar tax loss, or a tax credit carryforward, except when an NOL carryforward, similar tax loss, or tax credit carryforward is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. In such a case, the unrecognized tax benefit would be presented in the consolidated balance sheet as a liability. This update was effective for fiscal years beginning after December 15, 2013 and was effective for the Company for the fiscal quarter ended September 30, 2014. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Note 4. Investment

The Company has an equity investment of 20.2% in Guangdong Fuxin Electronic Technology ("Fuxin") based in Guangdong Province, China, which is accounted for under the equity method of accounting. The total carrying value of the investment recorded at March 31, 2015 and June 30, 2014 was $12.3 million and $11.6 million, respectively. During the three months ended March 31, 2015 and 2014, the Company's pro-rata share of earnings from this investment was $0.2 million and $0.1 million, respectively, and was $0.7 million and $0.5 million during the nine months ended March 31, 2015 and 2014, respectively, and was recorded in Other expense (income), net in the Condensed Consolidated Statements of Earnings.

Note 5. Inventories

The components of inventories were as follows ($000):

	March 31, 2015	June 30, 2014
Raw materials	$65,734	$71,949
Work in progress	59,550	44,739
Finished goods	39,117	49,185
	$164,401	$165,873

Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following ($000):

	March 31, 2015	June 30, 2014
Land and land improvements	$2,407	$2,381
Buildings and improvements	91,424	96,551
Machinery and equipment	354,862	335,408
Construction in progress	20,320	16,990
	469,013	451,330
Less accumulated depreciation	(266,940)	(242,391)
	$202,073	$208,939

During the quarter ended March 31, 2015, as part of the Company's ongoing restructuring of its military related businesses in the Performance Products segment, the Company implemented a plan to sell one of its manufacturing facilities located in New Port Richey, Florida. The Company anticipates completing the sale within the next twelve months, has reclassified the carrying value of the land and building of approximately $1.2 million as assets held for sale and has included the carrying value in Prepaid and other current assets in the Condensed Consolidated Balance Sheets at March 31, 2015.

Note 7. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill were as follows ($000):

	Nine Months Ended March 31, 2015			
	II-VI Laser Solutions	II-VI Photonics	II- VI Performance Products	Total
Balance-beginning of period	$44,041	$ 99,214	$ 52,890	$196,145
Foreign currency translation	(567)	56	-	(511)
Balance-end of period	$43,474	$ 99,270	$ 52,890	$195,634

The Company reviews the recoverability of goodwill at least annually and any time business conditions indicate a potential change in recoverability. The Company may use a combination of a discounted cash flow model ("DCF model") and a market analysis to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in estimating the forecasted cash flows used in the DCF model, including markets and market shares, sales volume and pricing, costs to produce, working capital changes and income tax rates. Management considers historical experience and all available information at the time the fair values of the reporting units are estimated. However, actual fair values that could be realized could differ from those used to evaluate the impairment of goodwill.

As a result of the July 1, 2014 segment realignment, the Company reviewed the recoverability of the carrying value of goodwill at its reporting units. The Company had the option to perform a qualitative assessment of goodwill prior to completing the quantitative test to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill and other intangible assets. Due to the short duration of time since the Company’s most recent annual quantitative goodwill impairment test, which was completed on April 1, 2014, the Company elected to perform a qualitative test on its reporting units as part of the segment realignment. The Company did not record any impairment of goodwill during the nine months ended March 31, 2015, as the qualitative assessment did not indicate deterioration in the fair value of its reporting units since the most recent annual impairment test.

During the quarter ended March 31, 2015, the Company recognized an impairment charge on two of its indefinite lived trademarks in the Photonics reporting unit as these trademarks were abandoned as a result of the Company rebranding efforts. Total impairment recorded during the quarter ended March 31, 2015 was $2.0 million, which represented the entire carrying value of these two trademarks and was recorded in Other expense (income), net in the Condensed Consolidated Statements of Earnings.

The gross carrying amount and accumulated amortization of the Company's intangible assets other than goodwill as of March 31, 2015 and June 30, 2014 were as follows ($000):

	March 31, 2015			June 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Technology and Patents	$50,460	$ (17,710)	$32,750	$50,505	$ (14,474)	$36,031
Trademarks	15,853	(1,092)	14,761	17,870	(1,037)	16,833
Customer Lists	102,383	(24,619)	77,764	102,839	(19,448)	83,391
Other	1,569	(1,445)	124	1,586	(1,437)	149
Total	$170,265	$ (44,866)	$125,399	$172,800	$ (36,396)	$136,404

Amortization expense recorded on the Company's intangible assets was $3.0 million and $9.0 million for the three and nine months ended March 31, 2015, respectively, and was $2.6 million and $8.2 million for the three and nine months ended March 31, 2014, respectively. The technology and patents are being amortized over a range of 60 to 240 months, with a weighted average remaining life of approximately 114 months. The customer lists are being amortized over a range of approximately 120 months to 240 months with a weighted average remaining life of approximately 146 months. The gross carrying amount of trademarks includes $14.4 million of acquired trade names with indefinite lives that are not amortized but tested annually for impairment or more frequently if a triggering event occurs. Included in the gross carrying amount and accumulated amortization of the Company's intangible assets is the effect of foreign currency translation on that portion of the intangible assets relating to the Company's German subsidiaries, as well as Photop Technologies, Inc. ("Photop").

At March 31, 2015, the estimated amortization expense for existing intangible assets for each of the five succeeding fiscal years is as follows ($000):

Year Ending June 30,	
Remaining 2015	$2,921
2016	11,619
2017	11,609
2018	11,140
2019	10,715

Note 8. Debt

The components of debt for the periods indicated were as follows ($000):

	March 31, 2015	June 30, 2014
Line of credit, interest at LIBOR, as defined, plus 1.5% and 1.75%, respectively	$115,500	$154,000
Term loan, interest at LIBOR, as defined, plus 1.25%	70,000	85,000
Yen denominated line of credit, interest at LIBOR, as defined, plus 0.625%	2,502	2,960
Total debt	188,002	241,960
Current portion of long-term debt	(20,000)	(20,000)
Long-term debt, less current portion	$168,002	$221,960

The Company's First Amended and Restated Credit Agreement (the "Credit Facility") provides for a revolving credit facility of $225 million, as well as a $100 million Term Loan. The Term Loan is being repaid in consecutive quarterly principal payments on the first business day of each January, April, July and October, with the first payment having commenced on October 1, 2013, as follows: (i) twenty consecutive quarterly installments of $5 million and (ii) a final installment of all remaining principal due and payable on the maturity date. The Credit Facility is unsecured, but is guaranteed by each existing and subsequently acquired or organized wholly-owned domestic subsidiary of the Company. The Company has the option to request an increase to the size of the Credit Facility in an aggregate additional amount not to exceed $100 million. The Credit Facility has a five-year term through September 2018 and has an interest rate of LIBOR, as defined in the agreement, plus 0.75% to 1.75% based on the Company's ratio of consolidated indebtedness to consolidated EBITDA. Additionally, the facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of March 31, 2015, the Company was in compliance with all financial covenants under its Credit Facility.

The Company's Yen denominated line of credit is a 500 million Yen facility that has a five-year term through June 2016 and has an interest rate equal to LIBOR, as defined in the loan agreement, plus 0.625% to 1.50%. At March 31, 2015 and June 30, 2014, the Company had 300 million Yen borrowed. Additionally, the facility is subject to certain covenants, including those relating to minimum interest coverage and maximum leverage ratios. As of March 31, 2015, the Company was in compliance with all financial covenants under its Yen facility.

The Company had aggregate availability of $109.7 million and $71.0 million under its lines of credit as of March 31, 2015 and June 30, 2014, respectively. The amounts available under the Company's lines of credit are reduced by outstanding letters of credit. As of March 31, 2015 and June 30, 2014, total outstanding letters of credit supported by these credit facilities were $1.5 million.

The weighted average interest rate of total borrowings was 1.8% and 1.7% for the nine months ended March 31, 2015 and 2014, respectively.

Remaining annual principal payments under the Company's existing credit facilities as of March 31, 2015 were as follows:

Period	Term Loan	Yen Line of Credit	U.S. Dollar Line of Credit	Total
Year 1	$20,000	$-	$-	$20,000
Year 2	20,000	2,502	-	22,502
Year 3	20,000	-	-	20,000
Year 4	10,000	-	115,500	125,500
Year 5	-	-	-	-
Total	$70,000	$2,502	$115,500	$188,002

Note 9. Income Taxes

The Company's year-to-date effective income tax rate at March 31, 2015 and 2014 was 13.6% and 18.5%, respectively. The variations between the Company's effective tax rate from continuing operations and the U.S. statutory rate of 35.0% were primarily due to the consolidation of the Company's foreign operations, which are subject to income taxes at lower statutory rates. In addition, the Company reversed $1.5 million of unrecognized income tax benefits as a result of the expiration of the statute of limitations of its fiscal year 2011 income tax return as well as the favorable tax treatment of a $7.7 million settlement agreement relating to prior year acquisitions, which contributed to the favorable year to date effective income tax rate.

U.S. GAAP clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of March 31, 2015 and June 30, 2014, the Company's gross unrecognized income tax benefit was $1.9 million and $2.8 million, respectively. The Company has classified the uncertain tax positions as noncurrent income tax liabilities, as the amounts are not expected to be paid within one year. If recognized, substantially all of the gross unrecognized tax benefits at March 31, 2015 would impact the effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision on the Condensed Consolidated Statements of Earnings. The amount of accrued interest and penalties included in the $1.9 million and $2.8 million of gross unrecognized income tax benefit at March 31, 2015 and June 30, 2014, respectively, was immaterial. Fiscal years 2012 to 2014 remain open to examination by the United States Internal Revenue Service, and fiscal years 2007 to 2014 remain open to examination by certain state jurisdictions and certain foreign taxing jurisdictions.

Note 10. Earnings Per Share

The following table sets forth the computation of earnings per share for the periods indicated. Weighted average shares issuable upon the exercises of stock options and the release of performance and restricted shares not included in the calculation because they were anti-dilutive totaled approximately 334,000 and 729,000 for the three and nine months ended March 31, 2015, respectively, and 542,000 and 433,000 for the three and nine months ended March 31, 2014, respectively ($000 except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Earnings from continuing operations	$14,508	$8,531	$48,906	$25,661
Earnings from discontinued operation	-	-	-	133
Net earnings	$14,508	$8,531	$48,906	$25,794
Divided by:				
Weighted average shares	61,082	62,355	61,319	62,426

Basic earnings per common share: