STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 03, 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 December 31, 2014

[ ]

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 [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 28, 2014 was 12,772,022

STANDEX INTERNATIONAL CORPORATION

INDEX

1

PART I. FINANCIAL INFORMATION

ITEM 1

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except per share data)		December 31, 2014		June 30, 2014
ASSETS				
Current Assets:				
Cash and cash equivalents	$	82,571	$	74,260
Accounts receivable, net of reserve for doubtful accounts of $2,156 and $2,282 at December 31, 2014 and June 30, 2014		101,868		107,674
Inventories		113,221		97,065
Prepaid expenses and other current assets		6,488		7,034
Income taxes receivable		3,327		922
Deferred tax asset		12,676		12,981
Total current assets		320,151		299,936
Property, plant, and equipment, net		110,462		96,697
Intangible assets, net		39,320		31,490
Goodwill		154,764		125,965
Deferred tax asset		910		878
Other non-current assets		24,943		23,194
Total non-current assets		330,399		278,224
Total assets	$	650,550	$	578,160
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	67,849	$	85,206
Accrued expenses		48,398		51,038
Income taxes payable		7,643		4,926
Total current liabilities		123,890		141,170
Long-term debt		125,840		45,056

Accrued pension and other non-current liabilities		54,408		51,208
Total non-current liabilities		180,248		96,264
Stockholders' equity:				
Common stock, par value $1.50 per share, 60,000,000 shares				
authorized, 27,984,278 issued, 12,654,931 and 12,639,615				
outstanding at December 31, 2014 and June 30, 2014		41,976		41,976
Additional paid-in capital		45,126		43,388
Retained earnings		606,929		584,014
Accumulated other comprehensive loss		(68,906)		(55,819)
Treasury shares: 15,329,347 shares at December 31, 2014				
and 15,344,663 shares at June 30, 2014		(278,713)		(272,833)
Total stockholders' equity		346,412		340,726
Total liabilities and stockholders' equity	$	650,550	$	578,160

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013		Six Months Ended December 31, 2014		Six Months Ended December 31, 2013	
Net sales	$	189,337	$	166,540	$	391,364	$	344,680
Cost of sales		130,537		110,646		266,452		228,381
Gross profit		58,800		55,894		124,912		116,299
Selling, general, and administrative expenses		41,854		42,074		85,808		81,609
Restructuring costs		1,094		644		1,956		4,450
Other operating (income) expense, net		-		(1,962)		59		(1,962)
Total operating expenses		42,948		40,756		87,823		84,097
Income from operations		15,852		15,138		37,089		32,202
Interest expense		(788)		(592)		(1,431)		(1,152)
Other non-operating income (expense)		188		66		453		520
Income from continuing operations before income taxes		15,252		14,612		36,111		31,570
Provision for income taxes		3,989		4,120		9,921		8,730
Income from continuing operations		11,263		10,492		26,190		22,840
Income (loss) from discontinued operations, net of income taxes		(79)		25		(454)		(3,241)
Net income (loss)	$	11,184	$	10,517	$	25,736	$	19,599
Basic earnings (loss) per share:								
Continuing operations	$	0.89	$	0.83	$	2.07	$	1.81
Discontinued operations		(0.01)		-		(0.04)		(0.26)
Total	$	0.88	$	0.83	$	2.03	$	1.55
Diluted earnings (loss) per								

share:								
Continuing operations	$	0.88	$	0.82	$	2.04	$	1.79
Discontinued operations		(0.01)		-		(0.04)		(0.25)
Total	$	0.87	$	0.82	$	2.00	$	1.54
Cash dividends per share	$	0.12	$	0.10	$	0.22	$	0.18

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, 2014	Three Months Ended December 31, 2013	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
Net income (loss)	$ 11,184	$ 10,517	$ 25,736	$ 19,599
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ 372	$ 198	$ 966	$ (758)
Amortization of unrecognized costs	1,174	1,100	2,359	2,523
Derivative instruments:				
Change in unrealized gains and (losses)	(100)	(30)	(102)	(120)
Amortization of unrealized gains and (losses) into interest expense	248	255	506	522
Foreign currency translation gains (losses)	(6,724)	443	(15,533)	4,972
Other comprehensive income (loss) before tax	$ (5,030)	$ 1,966	$ (11,804)	$ 7,139
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ (80)	$ (100)	$ (288)	$ 467
Amortization of unrecognized costs	(419)	(390)	(840)	(899)
Derivative instruments:				
	38	11	39	45

Change in unrealized gains and (losses)								
Amortization of unrealized gains and (losses) into interest expense		(95)		(97)		(194)		(198)
Income tax provision (benefit) to other comprehensive income (loss)	$	(556)	$	(576)	$	(1,283)	$	(585)
Other comprehensive income (loss), net of tax		(5,586)		1,390		(13,087)		6,554
Comprehensive income (loss)	$	5,598	$	11,907	$	12,649	$	26,153

See notes to unaudited condensed consolidated financial statements

4

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

		Six Months Ended December 31,		
(In thousands)		2014		2013
Cash flows from operating activities				
Net income	$	25,736	$	19,599
(Income) loss from discontinued operations		454		3,241
Income from continuing operations		26,190		22,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		8,305		7,388
Stock-based compensation		1,669		2,319
Non-cash portion of restructuring charge		(74)		3,342
Gain from sale of real estate		-		925
Contributions to defined benefit plans		(491)		(733)
Net changes in operating assets and liabilities		(23,801)		(16,312)
Net cash provided by (used in) operating activities - continuing operations		11,798		19,769
Net cash provided by (used in) operating activities - discontinued operations		(657)		(2,367)
Net cash provided by (used in) operating activities		11,141		17,402
Cash flows from investing activities				
Expenditures for property, plant, and equipment		(13,961)		(7,393)
Expenditures for acquisitions, net of cash acquired		(57,149)		-
Proceeds from sales of real estate and equipment		115		(3,482)
Other investing activity		1,128		-
Net cash (used in) investing activities - continuing operations		(69,867)		(10,875)
Net cash (used in) investing activities - discontinued operations		-		(570)

Net cash (used in) investing activities		(69,867)		(11,445)
Cash flows from financing activities				
Borrowings on revolving credit facility		245,500		34,500
Payments of revolving credit facility		(164,700)		(38,500)
Activity under share-based payment plans		613		138
Excess tax benefit from share-based payment activity		1,644		1,423
Purchases of treasury stock		(8,067)		(5,106)
Cash dividends paid		(2,783)		(2,267)
Net cash provided by (used in) financing activities		72,207		(9,812)
Effect of exchange rate changes on cash and cash equivalents		(5,170)		851
Net change in cash and cash equivalents		8,311		(3,004)
Cash and cash equivalents at beginning of year		74,260		51,064
Cash and cash equivalents at end of period	$	82,571	$	48,060
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest	$	1,193	$	924
Income taxes, net of refunds	$	7,639	$	8,764

See notes to unaudited condensed consolidated financial statements

5

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, 2014 and 2013, the cash flows for the six months ended December 31, 2014 and 2013 and the financial position of Standex International Corporation (Standex or the Company), at December 31, 2014. 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 $32.8 million is not deductible for income tax purposes due to the nature of the transaction. The Company anticipates finalizing the purchase price allocation upon receipt of the sellers final tax return during the quarter ended March 31, 2015.

The components of the fair value of the Enginetics acquisition, including the preliminary allocation of the purchase price at December 31, 2014, are as follows (in thousands):

Enginetics	**Preliminary Allocation**		**Adjustments**		**Allocation at December 31, 2014**	
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	$	(36)	$	12,314
Property, plant, and equipment		8,881				8,881
Identifiable intangible assets		10,600				10,600
Goodwill		32,797		15		32,812
Other non-current assets		158				158
Liabilities assumed		(2,826)		(32)		(2,858)
Deferred taxes		(7,052)		53		(6,999)
Total	$	54,908	$	-	$	54,908

6

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 December 31, 2014, 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 six months ended December 31, 2014 and 2013 are as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net sales	$ -	$ 5,712	$ -	$ 11,175
Pre-tax earnings	(126)	(50)	(647)	(4,686)
(Provision) benefit for taxes	47	75	193	1,445
Net earnings (loss) from discontinued operations	$ (79)	$ 25	$ (454)	$ (3,241)

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 and Medina, NY 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. We are actively marketing this facility for subleases and expect to sublet this building. Our aggregate obligation with respect to both the Portland and Philadelphia leases is $2.2 million, of which $1.0 million was recorded as a liability at December 31 2014. We do not expect to record additional changes 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, 2014	June 30, 2014
Current assets	$ 62	$ 199
Other non-current assets	3,014	3,014
Accrued expenses	1,424	2,340
Accrued pension and other non-current liabilities	1,374	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 six months ended December 31, 2014, 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 December 31, 2014 and June 30, 2014 consisted of the following (in thousands):

	December 31, 2014							
		Total		Level 1		Level 2		Level 3
Assets								
Marketable securities - deferred compensation plan	$	2,196	$	2,196	$	-	$	-
Foreign exchange contracts		735		-		735		-
Liabilities								
Interest rate swaps	$	656	$	-	$	656	$	-
Foreign exchange contracts		832		-		832		-

	June 30, 2014							
		Total		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):

	December 31, 2014	June 30, 2014
Raw materials	$ 52,084	$ 44,273
Work in process	29,087	24,551
Finished goods	32,050	28,241
Total	$ 113,221	$ 97,065

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 $6.1 million and $12.5 million for the three and six months ended December 31, 2014, respectively and $5.1 million and $10.6 million for the three and six months ended December 31, 2013, respectively.

6)

Goodwill

Changes to goodwill during the six months ended December 31, 2014 were as follows (in thousands):

	June 30, 2014	Acquisitions	Translation Adjustment	December 31, 2014
Food Service Equipment Group	$ 56,731	$ 91	$ (9)	$ 56,813
Engraving Group	20,716	-	(285)	20,431
Engineering Technologies Group	12,188	32,812	(1,080)	43,920
Electronics Products Group	33,272	-	(2,730)	30,542
Hydraulics Products Group	3,058	-	-	3,058
Total	$ 125,965	$ 32,903	$ (4,104)	$ 154,764

9

7)

Intangible Assets

Intangible assets consist of the following (in thousands):

		Customer Relationships		Trademarks		Other		Total
December 31, 2014								
Cost	$	43,957	$	15,720	$	4,041	$	63,718
Accumulated amortization		(21,676)		-		(2,722)		(24,398)
Balance, December 31, 2014	$	22,281	$	15,720	$	1,319	$	39,320
June 30, 2014								
Cost	$	36,145	$	14,508	$	4,061	$	54,714
Accumulated amortization		(21,137)		-		(2,087)		(23,224)
Balance, June 30, 2014	$	15,008	$	14,508	$	1,974	$	31,490

Amortization expense for the three and six months ended December 31 2014 was \$0.7 million and \$1.4 million, respectively. Amortization expense for the three and six months ended December 31 2013 was \$0.7 million and \$1.3 million, respectively. At December 31, 2014, amortization expense is estimated to be \$1.4 million for the remainder of 2015, \$3.2 million in 2016, \$3.2 million in 2017, \$3.0 million in 2018, \$2.7 million in 2019, and \$10.1 million thereafter.

8)

Warranties

The expected cost associated with warranty obligations on our products is recorded 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, 2014 and year ended June 30, 2014 were as follows (in thousands):

		December 31, 2014		June 30, 2014
Balance at beginning of year	$	6,941	$	6,782
Acquisitions		-		274
Warranty expense		2,937		3,937
Warranty claims		(2,560)		(4,052)
Balance at end of period	$	7,318	$	6,941

9)

Debt

As of December 31, 2014, the Company s debt is due as follows (in thousands):

Fiscal Year		
2015	$	7
2016		13
2017		13
2018		7
2019		-
Thereafter		125,800
	$	125,840

10

Bank Credit Agreements

On December 19, 2014 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. The facility amends and restates a previously existing $225 million revolving credit agreement, which was scheduled to expire in January 2017. As of December 31, 2014 the Company has used $8.4 million against the letter of credit sub-facility and had the ability to borrow $265.8 million under the facility.

At December 31, 2014, 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 $75 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 1.99% at December 31, 2014. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands, except percentages):

Effective Date	Notional Amount	Fixed Rate	Maturity	Fair Value December 31, 2014	Fair Value June 30, 2014
June 1, 2010	$ 5,000	2.495%	May 24, 2015	$ (49)	$ (108)
June 1, 2010	5,000	2.495%	May 24, 2015	(49)	(108)
June 8, 2010	10,000	2.395%	May 26, 2015	(94)	(206)
June 9, 2010	5,000	2.340%	May 26, 2015	(46)	(100)
June 18, 2010	5,000	2.380%	May 24, 2015	(47)	(103)
September 21, 2011	5,000	1.595%	September 22, 2014	-	(18)
March 15, 2012	10,000	2.745%	March 15, 2016	(295)	(418)
December 19, 2014	20,000	1.180%	December 19, 2017	(31)	-
December 19, 2014	5,000	1.200%	December 19, 2017	(11)	-
December 19, 2015	10,000	2.005%	December 19, 2019	(34)	-
				$ (656)	$ (1,061)

The Company reported no losses for the three and six months ended December 31, 2014, 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, 2014 and June 30, 2014, the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized (losses) of ($0.1) million and ($1.2) 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, 2014**	**June 30, 2014**
Euro	19,779,460	24,289,064
British Pound Sterling	1,290,646	3,600,000
Canadian Dollar	-	3,975,192

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, 2014		**June 30, 2014**	
Derivative designated as hedging instruments	**Balance Sheet Line Item**	**Fair Value**	**Balance Sheet Line Item**	**Fair Value**
Foreign exchange contracts	Other Assets	$ 735	Other Assets	$ 356

	Liability Derivatives			
	December 31, 2014		**June 30, 2014**	
Derivative designated as hedging instruments	**Balance Sheet Line Item**	**Fair Value**	**Balance Sheet Line Item**	**Fair Value**
Interest rate swaps	Accrued Liabilities	$ 656	Accrued Liabilities	$ 1,061
Foreign exchange contracts	Accrued Liabilities	832	Accrued Liabilities	1,552
		$ 1,488		$ 2,613

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,	
	2014	2013	2014	2013
Interest rate swaps	$ (100)	$ (30)	$ (102)	$ (120)

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
	2014	2013	2014	2013	of Operations
Interest rate swaps	$ 248	$ 255	$ 506	$ 522	Interest expense

12

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, 2014 and 2013 consisted of the following components (in thousands):

	U.S. Plans Three Months Ended December 31,		Non-U.S. Plans Three Months Ended December 31,	
	2014	2013	2014	2013
Service cost	$ 53	$ 49	$ 12	$ 12
Interest cost	2,619	2,810	409	430
Expected return on plan assets	(3,489)	(3,378)	(371)	(382)
Recognized net actuarial loss	986	923	189	204
Amortization of prior service cost	14	14	(14)	-
Net periodic benefit cost	$ 183	$ 418	$ 225	$ 264

	U.S. Plans Six Months Ended December 31,		Non-U.S. Plans Six Months Ended December 31,	
	2014	2013	2014	2013
Service cost	$ 106	$ 134	$ 24	$ 23
Interest cost	5,238	5,620	840	844
Expected return on plan assets	(6,977)	(6,756)	(763)	(752)
Recognized net actuarial loss	1,973	2,095	389	400
Amortization of prior service cost	27	29	(28)	-
Net periodic benefit cost	$ 367	$ 1,122	$ 462	$ 515

The Company expects to pay $1.6 million in contributions to its defined benefit plans during fiscal 2015. Contributions of $0.2 million and $0.5 million were made during the three and six months ended December 31, 2014. Required contributions of $1.0 million will be paid to the Company s U.K. defined benefit plan during 2015. The Company also expects to make contributions of $0.2 million and $0.4 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 2015 was 26.2% compared with 28.2% for the prior year quarter. The lower effective tax rate in 2015 is primarily due to a discrete tax benefit in the quarter related to the retroactive reinstatement of the research and development (R&D) credit as part of the Tax Increase Prevention Act of 2014 that was signed into law on December 19, 2014.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2014 was 27.5% compared with 27.7% for the prior year. The Company s effective tax rate has decreased slightly from the prior year. The decrease is due to the reinstatement of the R&D credit as that is partially offset by an increase in the jurisdictional mix of income where more income is being taxed in the US at a higher tax rate.

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,	
	2014	2013	2014	2013
Basic - Average shares outstanding	12,656	12,634	12,655	12,598
Effect of dilutive securities:				
Unvested stock awards	146	134	163	165
Diluted - Average shares outstanding	12,802	12,768	12,818	12,763

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, 2014 and 2013, respectively.

Performance stock units of 28,597 and 35,514 for the six months ended December 31, 2014 and 2013, 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, 2014	June 30, 2014
Foreign currency translation adjustment	$ (5,733)	$ 9,800
Unrealized pension losses, net of tax	(62,771)	(64,968)

Unrealized losses on derivative instruments, net of tax		(402)		(651)
Total	$	(68,906)	$	(55,819)

15)

Contingencies

From time to time, the Company is subject to various claims and legal proceedings, including claims related to environmental remediation, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, the Company s management does not believe that the outcome of any of the currently existing legal matters will have a material impact on the Company s consolidated financial position, results of operations or cash flow. The Company accrues for losses related to a claim or litigation when the Company s management considers a potential loss probable and can reasonably estimate such potential loss.

16)

Industry Segment Information

The Company has determined that it has five reportable segments organized around the types of product sold:

Food Service Equipment Group an aggregation of seven operating segments that manufacture and sell commercial food service equipment.

Engraving Group provides mold texturizing, roll engraving and process machinery for a number of industries.

Engineering Technologies Group provides customized solutions in the fabrication and machining of engineered components for the aerospace, energy, aviation, medical, oil and gas, and general industrial markets.

Electronics Products Group manufacturing and selling of electronic components for applications throughout the end-user market spectrum.

Hydraulics Products Group manufacturing and selling of single- and double-acting telescopic and piston rod hydraulic cylinders.

Net sales and income (loss) from continuing operations by segment for the three months ended December 31, 2014 and 2013 were as follows (in thousands):

	Three Months Ended December 31,			
	Net Sales		Income from Operations	
	2014	2013	2014	2013
Segment:				
Food Service Equipment Group	$ 98,533	$ 87,370	$ 6,912	$ 7,294
Engraving Group	26,625	28,384	5,947	5,820
Engineering Technologies Group	26,605	17,323	3,218	2,456
Electronics Products Group	27,823	26,461	4,738	4,392
Hydraulics Products Group	9,751	7,002	1,452	1,059
Restructuring costs			(1,094)	(644)
Other operating income (expense), net			-	1,962
Corporate			(5,321)	(7,201)
Sub-total	$ 189,337	$ 166,540	$ 15,852	$ 15,138
Interest expense			(788)	(592)
Other non-operating income			188	66
Income from continuing operations before income taxes			$ 15,252	$ 14,612

Six Months Ended December 31,

	Net Sales		Income from Operations	
	2014	2013	2014	2013
Segment:				
Food Service Equipment Group	$ 212,366	$ 187,281	$ 18,585	$ 19,263
Engraving Group	54,713	53,411	12,890	10,593
Engineering Technologies Group	46,724	34,588	5,438	4,538
Electronics Products Group	57,293	54,605	10,284	9,530
Hydraulics Products Group	20,268	14,795	3,174	2,233
Restructuring costs			(1,956)	(4,450)
Other operating income (expense), net			(59)	1,962
Corporate			(11,267)	(11,467)
Sub-total	$ 391,364	$ 344,680	$ 37,089	$ 32,202
Interest expense			(1,431)	(1,152)
Other non-operating income			453	520
Income from continuing operations before income taxes			$ 36,111	$ 31,570

Net sales include only transactions with unaffiliated customers and include no intersegment sales. Income (loss) from operations by segment excludes interest expense and other non-operating income (expense).

The Company s identifiable assets at December 31, 2014 and June 30, 2014 are as follows (in thousands):

	December 31, 2014	June 30, 2014
Food Service Equipment Group	$ 214,434	$ 214,674
Engraving Group	100,155	101,106
Engineering Technologies Group	144,871	75,591
Electronics Products Group	98,569	103,699
Hydraulics Products Group	17,923	16,410
Corporate & Other	74,598	66,680
Total	$ 650,550	$ 578,160

17)

Restructuring

The Company has undertaken cost reduction and facility consolidation initiatives that have resulted in severance, restructuring, and related charges. A summary of charges by initiative is as follows (in thousands):

	Three Months Ended December 31, 2014			Six Months Ended December 31, 2014		
Fiscal 2015	**Involuntary Employee Severance and Benefit Costs**	**Other**	**Total**	**Involuntary Employee Severance and Benefit Costs**	**Other**	**Total**
Restructuring initiatives	$ 299	$ 795	$ 1,094	$ 333	$ 798	$ 1,131
Prior year initiatives	-	-	-	125	700	825
	$ 299	$ 795	$ 1,094	$ 458	$ 1,498	$ 1,956

	Three Months Ended December 31, 2013	Six Months Ended December 31, 2013
Fiscal 2014	**Involuntary Employee Severance and Benefit Costs**	