

SENSIENT TECHNOLOGIES CORP
Form 10-Q
August 06, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended: June 30, 2013

OR

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: 1 7626

SENSIENT TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin 39 0561070
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) Number)

777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202-5304
(Address of principal executive offices)

Registrant's telephone number, including area code: (414) 271 6755

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 at least the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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):

Edgar Filing: SENSIENT TECHNOLOGIES CORP - Form 10-Q

Large accelerated filer 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

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

Class	Outstanding at July 31, 2013
Common Stock, par value \$0.10 per share	50,043,385

SENSIENT TECHNOLOGIES CORPORATION
INDEX

	Page No.
PART I. FINANCIAL INFORMATION:	
Item 1. Financial Statements:	
<u>Consolidated Condensed Statements of Earnings – Three and Six Months Ended June 30, 2013 and 2012.</u>	1
<u>Consolidated Condensed Statements of Comprehensive Income - Three and Six Months Ended June 30, 2013 and 2012.</u>	2
<u>Consolidated Condensed Balance Sheets - June 30, 2013 and December 31, 2012.</u>	3
<u>Consolidated Condensed Statements of Cash Flows – Six Months Ended June 30, 2013 and 2012.</u>	4
<u>Notes to Consolidated Condensed Financial Statements.</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	16
Item 4. <u>Controls and Procedures.</u>	16
PART II. OTHER INFORMATION:	
Item 1. <u>Legal Proceedings.</u>	17
Item 1A. <u>Risk Factors.</u>	18
Item 6. <u>Exhibits.</u>	18
<u>Signatures.</u>	19
<u>Exhibit Index.</u>	20

Index

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(In thousands except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	\$378,806	\$367,777	\$744,446	\$733,437
Cost of products sold	256,285	247,822	504,788	498,150
Selling and administrative expenses	73,843	65,657	154,642	134,500
Operating income	48,678	54,298	85,016	100,787
Interest expense	4,008	4,347	8,269	8,753
Earnings before income taxes	44,670	49,951	76,747	92,034
Income taxes	12,388	15,046	23,026	28,223
Net earnings	\$32,282	\$34,905	\$53,721	\$63,811
Average number of common shares outstanding:				
Basic	49,751	49,537	49,731	49,656
Diluted	49,917	49,771	49,892	49,884
Earnings per common share:				
Basic	\$0.65	\$0.70	\$1.08	\$1.29
Diluted	\$0.65	\$0.70	\$1.08	\$1.28
Dividends per common share	\$0.23	\$0.22	\$0.45	\$0.43

See accompanying notes to consolidated condensed financial statements.

1

Index

SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2013	2012	2013	2012
Comprehensive Income	\$24,657	\$2,579	\$28,043	\$56,360

See accompanying notes to consolidated condensed financial statements.

IndexSENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$26,665	\$15,062
Trade accounts receivable, net	259,146	237,626
Inventories	427,041	442,714
Prepaid expenses and other current assets	57,849	55,952
TOTAL CURRENT ASSETS	770,701	751,354
OTHER ASSETS	45,715	47,685
INTANGIBLE ASSETS, NET	10,869	11,578
GOODWILL	441,489	451,318
PROPERTY, PLANT AND EQUIPMENT:		
Land	54,940	53,387
Buildings	334,459	339,732
Machinery and equipment	716,314	735,237
Construction in progress	77,513	41,999
	1,183,226	1,170,355
Less accumulated depreciation	(651,105)	(655,647)
	532,121	514,708
TOTAL ASSETS	\$1,800,895	\$1,776,643
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade accounts payable	\$88,552	\$96,283
Accrued salaries, wages and withholdings from employees	27,644	27,162
Other accrued expenses	60,834	56,946
Income taxes	5,943	3,797
Short-term borrowings	30,336	20,048
TOTAL CURRENT LIABILITIES	213,309	204,236
OTHER LIABILITIES	22,259	24,003
ACCRUED EMPLOYEE AND RETIREE BENEFITS	60,464	60,527
LONG TERM DEBT	342,699	333,979

SHAREHOLDERS' EQUITY:

Common stock	5,396	5,396
Additional paid in capital	99,437	98,253
Earnings reinvested in the business	1,181,306	1,150,092
Treasury stock, at cost	(93,712)	(95,258)
Accumulated other comprehensive loss	(30,263)	(4,585)
TOTAL SHAREHOLDERS' EQUITY	1,162,164	1,153,898
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,800,895	\$ 1,776,643

See accompanying notes to consolidated condensed financial statements.

IndexSENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net earnings	\$53,721	\$63,811
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	25,893	24,453
Share-based compensation	1,330	2,425
Loss (Gain) on assets	3,073	(1,047)
Deferred income taxes	(222)	338
Changes in operating assets and liabilities	(13,751)	(40,863)
Net cash provided by operating activities	70,044	49,117
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(55,241)	(47,847)
Proceeds from sale of assets	31	1,321
Other investing activity	(132)	(124)
Net cash used in investing activities	(55,342)	(46,650)
Cash flows from financing activities:		
Proceeds from additional borrowings	75,596	47,605
Debt payments	(55,127)	(23,435)
Purchase of treasury stock	-	(17,104)
Dividends paid	(22,507)	(21,548)
Proceeds from options exercised and other equity transactions	420	873
Net cash used in financing activities	(1,618)	(13,609)
Effect of exchange rate changes on cash and cash equivalents	(1,481)	342
Net increase (decrease) in cash and cash equivalents	11,603	(10,800)
Cash and cash equivalents at beginning of period	15,062	22,855
Cash and cash equivalents at end of period	\$26,665	\$12,055

See accompanying notes to consolidated condensed financial statements.

Index

SENSIENT TECHNOLOGIES CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

In the opinion of Sensient Technologies Corporation (the “Company”), the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) which are necessary to present fairly the financial position of the Company as of June 30, 2013, and December 31, 2012, the results of operations and comprehensive income for the three and six months ended June 30, 2013 and 2012, and cash flows for the six months ended June 30, 2013 and 2012. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Expenses are charged to operations in the year incurred. However, for interim reporting purposes, certain expenses, primarily depreciation expense, are charged to operations based on a proportionate share of estimated annual amounts rather than as they are actually incurred. In interim periods, depreciation expense is estimated using actual depreciation on fixed assets that have been placed in service at the beginning of the year, combined with an estimate of depreciation expense on expected current year additions.

On January 1, 2013, the Company adopted Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires companies to report the effect on the line items for significant items reclassified out of other comprehensive income to net income, prospectively. The Company has included this disclosure in Note 9 of these Consolidated Condensed Financial Statements. The adoption of this ASU had no impact on the Company’s financial condition or results of operations.

Refer to the notes in the Company's annual consolidated financial statements for the year ended December 31, 2012, for additional details of the Company's financial condition and a description of the Company’s accounting policies, which have been continued without change except with respect to ASU No. 2013-02.

2. Fair Value

Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures, defines fair value for financial assets and liabilities, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. As of June 30, 2013 and December 31, 2012, the Company’s only assets and liabilities subject to this standard are forward exchange contracts and mutual fund investments. The fair value of the forward exchange contracts based on current pricing obtained for comparable derivative products (Level 2 inputs) was a liability of \$0.2 million as of June 30, 2013 and was negligible as of December 31, 2012. The fair value of the investments based on June 30, 2013, and December 31, 2012, market quotes (Level 1 inputs) was an asset of \$19.6 million and \$20.3 million, respectively.

The carrying values of the Company’s cash and cash equivalents, trade accounts receivable, accounts payable, accrued expenses and short-term borrowings approximated fair values as of June 30, 2013. The fair value of the Company’s long-term debt, including current maturities, is estimated using discounted cash flows based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements (Level 2 inputs). The carrying value of the long-term debt at June 30, 2013, was \$342.7 million. The fair value of the long-term debt at June 30, 2013, was

\$358.3 million.

3. Debt

On April 5, 2013, the Company entered into an agreement with investors to issue 10-year, fixed-rate senior notes of \$75 million and about €38 million at fixed rates of 3.66% and 3.06%, respectively. These notes will have a final maturity in November of 2023. Proceeds from the sale of the notes will be received in November 2013 and used to repay maturing debt and for general corporate purposes.

5

Index

4. Segment Information

Operating results by segment for the periods and at the dates presented are as follows:

(In thousands)	Flavors & Fragrances	Color	Corporate & Other	Consolidated
<u>Three months ended June 30, 2013:</u>				
Revenue from external customers	\$ 219,142	\$ 121,376	\$ 38,288	\$ 378,806
Intersegment revenue	8,776	5,213	517	14,506
Total revenue	\$ 227,918	\$ 126,589	\$ 38,805	\$ 393,312
Operating income (loss)	\$ 32,561	\$ 27,710	\$ (11,593)	\$ 48,678
Interest expense	-	-	4,008	4,008
Earnings (loss) before income taxes	\$ 32,561	\$ 27,710	\$ (15,601)	\$ 44,670
<u>Three months ended June 30, 2012:</u>				
Revenue from external customers	\$ 208,941	\$ 123,383	\$ 35,453	\$ 367,777
Intersegment revenue	9,977	5,858	324	16,159
Total revenue	\$ 218,918	\$ 129,241	\$ 35,777	\$ 383,936
Operating income (loss)	\$ 33,459	\$ 26,553	\$ (5,714)	\$ 54,298
Interest expense	-	-	4,347	4,347
Earnings (loss) before income taxes	\$ 33,459	\$ 26,553	\$ (10,061)	\$ 49,951
<u>Six months ended June 30, 2013:</u>				
Revenue from external customers	\$ 426,757	\$ 243,657	\$ 74,032	\$ 744,446
Intersegment revenue	18,202	10,810	766	29,778
Total revenue	\$ 444,959	\$ 254,467	\$ 74,798	\$ 774,224
Operating income (loss)	\$ 61,481	\$ 53,683	\$ (30,148)	\$ 85,016
Interest expense	-	-	8,269	8,269
Earnings (loss) before income taxes	\$ 61,481	\$ 53,683	\$ (38,417)	\$ 76,747
<u>Six months ended June 30, 2012:</u>				
Revenue from external customers	\$ 413,341	\$ 250,085	\$ 70,011	\$ 733,437
Intersegment revenue	20,308	11,412	762	32,482
Total revenue	\$ 433,649	\$ 261,497	\$ 70,773	\$ 765,919
Operating income (loss)	\$ 62,524	\$ 52,336	\$ (14,073)	\$ 100,787
Interest expense	-	-	8,753	8,753
Earnings (loss) before income taxes	\$ 62,524	\$ 52,336	\$ (22,826)	\$ 92,034

Beginning in the first quarter of 2013, the results of operations for the Company's cosmetic and pharmaceutical businesses in Asia Pacific and China, previously reported in the Corporate & Other segment, are reported in the Color segment. Results for 2012 have been restated to reflect this change.

The Company evaluates performance based on operating income of the respective segments before restructuring costs, interest expense and income taxes. The 2013 restructuring costs are included in the Corporate & Other segment.

5. Inventories

At June 30, 2013 and December 31, 2012, inventories included finished and in-process products totaling \$278.2 million and \$301.6 million, respectively, and raw materials and supplies of \$148.8 million and \$141.1 million, respectively.

6

Index

6. Retirement Plans

The Company's components of annual benefit cost for the defined benefit plans for the periods presented are as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Service cost	\$755	\$635	\$1,513	\$1,271
Interest cost	600	675	1,204	1,352
Expected return on plan assets	(362)	(358)	(727)	(717)
Amortization of prior service cost	43	493	86	986
Amortization of actuarial loss	799	188	1,599	377
Defined benefit expense	\$1,835	\$1,633	\$3,675	\$3,269

7. Derivative Instruments and Hedging Activity

The Company may use forward exchange contracts and foreign currency denominated debt to manage its exposure to foreign exchange risk by reducing the effect of fluctuating foreign currencies on short-term foreign currency denominated intercompany transactions, non-functional currency raw material purchases, non-functional currency sales and other known foreign currency exposures. These forward exchange contracts have maturities of less than twelve months. The Company's primary hedging activities and their accounting treatment are summarized below:

Forward exchange contracts – The forward exchange contracts that have been designated as hedges are accounted for as cash flow hedges. The Company had \$25.5 million and \$18.9 million of forward exchange contracts, designated as hedges, outstanding as of June 30, 2013, and December 31, 2012, respectively. Due to the short term nature of these contracts, the results of these transactions are not material to the financial statements. In addition, the Company utilizes forward exchange contracts that are not designated as cash flow hedges and the results of these transactions are not material to the financial statements.

Net investment hedges – The Company has certain debt denominated in Euros and Swiss Francs. These debt instruments have been designated as partial hedges of the Company's Euro and Swiss Franc net asset positions. Changes in the fair value of this debt attributable to changes in the spot foreign exchange rate are recorded in foreign currency translation in other comprehensive income ("OCI"). As of June 30, 2013, and December 31, 2012, the total value of the Company's Euro and Swiss Franc debt was \$91.5 million and \$55.0 million, respectively. For the three and six months ended June 30, 2013, the impact of foreign exchange rates on these debt instruments increased debt by \$1.1 million and decreased debt by \$1.4 million, respectively, and has been recorded as foreign currency translation in OCI.

8. Income Taxes

The effective income tax rates for the quarters ended June 30, 2013 and 2012 were 27.7% and 30.1%, respectively. For the six months ended June 30, 2013 and 2012, the effective income tax rates were 30.0% and 30.7%, respectively. The effective tax rates in both 2013 and 2012 were reduced by changes in estimates associated with the finalization of prior year foreign and domestic tax items, including the reversal of valuation allowances related to tax loss carryovers. The 2013 rates in the three- and six-month periods include the impact of the restructuring costs.

Index

9. Accumulated Other Comprehensive Income

The following tables summarize the changes in Accumulated Other Comprehensive Income (OCI) during the three- and six-month periods ended June 30, 2013:

Three Months Ended June 30, 2013

(In thousands)	Cash			Total
	Flow Hedges	Pension Items (a)	Foreign Currency Items	
Balance as of March 31, 2013	\$ 282	\$(11,534)	\$(11,386)	\$(22,638)
Other comprehensive loss before reclassifications	(750)	-	(7,375)	(8,125)
Amounts reclassified from OCI	(27)	527	-	500
Balance as of June 30, 2013	\$(495)	\$(11,007)	\$(18,761)	\$(30,263)

Six Months Ended June 30, 2013

(In thousands)	Cash			Total
	Flow Hedges	Pension Items (a)	Foreign Currency Items	
Balance as of December 31, 2012	\$ 35	\$(12,062)	\$7,442	\$(4,585)
Other comprehensive loss before reclassifications	(478)	-	(26,203)	(26,681)
Amounts reclassified from OCI	(52)	1,055	-	1,003
Balance as of June 30, 2013	\$(495)	\$(11,007)	\$(18,761)	\$(30,263)

(a) Cash Flow Hedges and Pension Items are net of tax.

The following table summarizes the pension items reclassified out of OCI and into the Statement of Earnings during the three- and six-month periods ended June 30, 2013:

(In thousands)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Amortization of pension expense included in selling and administrative expense:		
Prior service cost	\$ 43	\$ 86
Actuarial loss	799	1,599
Total before income taxes	842	1,685
Tax benefit	(315)	(630)
Total net of tax	\$ 527	\$ 1,055

10. Restructuring

The Company recorded restructuring costs of \$6.6 million (\$4.7 million after-tax) and \$19.4 million (\$14.1 million after-tax) for the three- and six-month periods ended June 30, 2013, respectively, related to the 2013 restructuring program to relocate the Flavors & Fragrances Group headquarters to Chicago, as well as a profit improvement plan across all segments of the Company.

Index

Detail of the restructuring costs and the line items in which it was recorded in the Corporate & Other segment are as follows:

Three Months Ended June 30, 2013

(In thousands)	Selling &		Total
	Administrative	Cost of Products Sold	
Employee separations	\$ 2,428	\$ -	\$2,428
Long-lived asset impairment	880	-	880
Write-down of inventory	-	277	277
Other Costs	3,057	-	3,057
Total	\$ 6,365	\$ 277	\$6,642

Six Months Ended June 30, 2013

(In thousands)	Selling &		Total
	Administrative	Cost of Products Sold	
Employee separations	\$ 11,340	\$ -	\$11,340
Long-lived asset impairment	3,406	-	3,406
Write-down of inventory	-	872	872
Other Costs	3,797	-	3,797
Total	\$ 18,543	\$ 872	\$19,415

The Company expects to incur approximately \$6 million to \$9 million of additional restructuring costs by the end of December 2013.

The following table summarizes the restructuring costs by segment:

(In thousands)	Three	Six
	Months	Months
	Ended	Ended
	June 30,	June 30,
	2013	2013
Flavors & Fragrances	\$ 5,951	\$ 14,490
Color	600	4,310
Corporate & Other	91	615
Total	\$ 6,642	\$ 19,415

The following table summarizes the accrual for the restructuring and other charges for the six-month period ended June 30, 2013:

(In thousands)	Employee		Total
	Separations	Asset Related and other	
Balance as of December 31, 2012	\$ -	\$ -	\$ -
Restructuring costs	11,340	8,075	19,415

Edgar Filing: SENSIENT TECHNOLOGIES CORP - Form 10-Q

Cash spent	(4,910)	(2,451)	(7,361)
Reduction of assets	-	(4,278)	(4,278)
Translation adjustment	(135)	-	(135)
Balance as of June 30, 2013	\$ 6,295	\$ 1,346	\$ 7,641

9

Index

11. Commitments and Contingencies

Cherry Blossom Litigation

Cherry Blossom LLC, a Traverse City, Michigan contractor that had produced cherry products for the Company, ceased operations in May 2009. At the time, Cherry Blossom had physical possession of brined cherries belonging to the Company with a book value of approximately \$0.5 million. Despite the Company's demands, Cherry Blossom refused to permit the Company to take possession of the cherries for processing elsewhere.

In June 2009, the Company sued Cherry Blossom in the Circuit Court of Grand Traverse County, Michigan, seeking an order for return of the cherries. Cherry Blossom's asset based lender, Crossroads Financial (which claimed to be owed \$1.4 million) ("Crossroads"), intervened and claimed a senior lien on the cherries. The Circuit Court denied the Company's request for immediate possession and permitted Cherry Blossom to retain and process the cherries. The Circuit Court later held that Crossroads had a senior lien on the cherries and was entitled to receive the proceeds from the sale of the cherries. The Circuit Court also denied the Company's cross claims against Crossroads to recoup certain overpayments that the Company made to Cherry Blossom/Crossroads and to recoup payments made by the Company to the United States Department of Labor on Cherry Blossom's/Crossroads' behalf. The Company has appealed these adverse decisions of the Circuit Court.

Crossroads asserted a claim against the Company for money damages in an undetermined amount. Crossroads claimed that it has a lien on all of Cherry Blossom's accounts receivable from the Company and that the Company had performed a number of offsets against its accounts payable to Cherry Blossom in derogation of Crossroads' rights as lienholder. The Circuit Court denied Crossroads' claims for money damages against the Company. Crossroads has appealed this adverse decision of the Circuit Court.

The Company and Crossroads completed briefing on their respective appeals on January 6, 2012. The Michigan Court of Appeals has scheduled oral argument for September 10, 2013.

Cherry Blossom counterclaimed against the Company, alleging that Cherry Blossom had purchased exclusive rights to certain proprietary cherry processing formulas used in the Company's cherry product. Cherry Blossom sought a preliminary injunction against the Company's delivery of copies of the formulas to any third party. The Court denied Cherry Blossom's motion regarding the formulas and eventually dismissed Cherry Blossom's claims. The Company also initiated a suit against Cherry Blossom in the United States District Court for the Western District of Michigan seeking a declaratory judgment that the Company has the right to use the cherry processing formulas. Because Cherry Blossom subsequently filed a petition in bankruptcy, the Federal District Court closed the matter. This closing was for administrative purposes only and did not constitute a decision on the merits.

Christopher Hubbell, a principal of Cherry Blossom, has personally filed a petition for bankruptcy. The Company originally opposed the bankruptcy petition to the extent Mr. Hubbell sought a discharge of the Company's alleged damages arising from his own fraudulent acts connected to Cherry Blossom's granting of an allegedly superior interest in the Company's cherries to Crossroads. The Company and Hubbell filed a joint motion to dismiss the Company's claims against Hubbell without prejudice pending the Michigan state court action. The Bankruptcy Court granted the motion. Under the terms of the dismissal, if the state courts determine that the Company is liable to Crossroads, the Company will have 60 days to reopen the adversary proceeding and pursue its claims against Hubbell. If the state courts determine that the Company is not liable to Crossroads, the dismissal shall be deemed with prejudice.

Vega v. Sensient Dehydrated Flavors LLC

On January 3, 2013, Thomas Vega, a current employee, filed (but did not serve) a Class Action Complaint in San Francisco County Superior Court against Sensient Dehydrated Flavors LLC. On February 11, 2013, Vega filed and

served a First Amended Complaint (“Complaint”) against the Company and a Company supervisor. Vega alleges that the Company failed to provide alleged class members with meal periods, compensation for the alleged absence of meal periods, and accurate wage statements, in violation of the California labor code. The alleged class includes all employees paid on an hourly basis and all forklift operators. The Complaint seeks damages, back wages, injunctive relief, penalties, interest, and attorneys’ fees for the members of the alleged class. The Complaint alleges that the total damages and costs “do not exceed a[n] aggregate of \$4,999,999.99.”

10

Index

The Complaint alleges two causes of action. The first cause of action is for “Unfair Competition.” The plaintiff’s theory is that the Company, by allegedly not complying with state wage and hour laws, had an unfair competitive advantage against other employers who were complying with those laws. The main strategic reason that plaintiffs plead this cause of action is that the statute of limitations is four years. The second cause of action is for alleged substantive violations of the California labor code provisions governing wages, hours, and meal periods.

On March 13, 2013, the parties filed a joint stipulation and proposed order to remove the case from San Francisco County Superior Court to Stanislaus County Superior Court. On April 18, 2013, the Court granted the request. The discovery process is currently underway. The parties have also agreed to pursue an early mediated resolution of this matter. The mediation will occur on October 7, 2013.

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company except as described above.

Index

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Revenue was \$378.8 million in the quarter ended June 30, 2013, an increase of 3.0% from \$367.8 million reported in the second quarter of 2012. Revenue for the six months ended June 30, 2013, was \$744.4 million, an increase of 1.5% from the prior year. Revenue for the Flavors & Fragrances segment increased 4.1% and 2.6% for the quarter and six months ended June 30, 2013, respectively, from the comparable periods last year. Color segment revenue decreased 2.1% and 2.7% for the quarter and six months ended June 30, 2013, respectively, from the comparable periods last year primarily due to the reduction of sales of non-strategic and lower margin products. Corporate & Other revenue increased 8.5% and 5.7% for the quarter and six months ended June 30, 2013, respectively, from the comparable periods last year. The impact of foreign exchange rates increased consolidated revenue by approximately 50 basis points and 10 basis points in the quarter and six months ended June 30, 2013, respectively. Additional information on group results can be found in the Segment Information section.

Earlier this year, the Company announced that it was initiating a broad and strategic restructuring plan. The plan includes relocating the Flavors & Fragrances Group headquarters to Chicago, consolidating several operating facilities throughout Europe and North America, and reducing headcount by more than 200 employees.

The gross profit margin was 32.3% for the quarter ended June 30, 2013, and 32.6% for the same period in 2012. The gross profit margin was 32.2% and 32.1% for the six months ended June 30, 2013 and 2012, respectively. Included in cost of sales are \$0.3 million and \$0.9 million of restructuring costs in the quarter and six months ended June 30, 2013, respectively, which reduced gross profit. Before the restructuring costs, gross margin decreased 20 basis points to 32.4% in the second quarter primarily due to the impact of higher manufacturing costs, partially offset by an increase in selling prices. For the six months ended June 30, 2013, gross margin before the restructuring costs was 32.3%, an increase of 20 basis points primarily due to higher selling prices and favorable product mix which more than offset higher raw material costs.

Selling and administrative expenses as a percent of revenue were 19.5% and 17.9% in the quarters ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, selling and administrative expenses as a percent of revenue were 20.8% and 18.3%, respectively. Restructuring costs of \$6.4 million and \$18.5 million were included in selling and administrative expenses in the three and six months ended June 30, 2013, respectively. Before the restructuring costs, selling and administrative expenses as a percent of revenue were 17.8% and 18.3% for the three and six months ended June 30, 2013, respectively. Lower legal and other professional fees and savings from the 2013 restructuring program were partially offset by normal inflationary increases.

Operating income was \$48.7 million and \$54.3 million for the second quarters of 2013 and 2012, respectively. Before the \$6.6 million of total restructuring costs, operating income for the second quarter of 2013 was \$55.3 million, an increase of 1.9% from the prior year. Operating income for the six months ended June 30, 2013 and 2012, respectively, was \$85.0 million and \$100.8 million. Before the \$19.4 million of total restructuring costs, operating income for the first six months of 2013 was \$104.4 million, an increase of 3.6%. The impact of foreign exchange rates increased operating profit by approximately 80 basis points and 60 basis points in the three and six months ended June 30, 2013, respectively. Operating margins were 12.9% and 14.8% for the second quarters of 2013 and 2012, respectively, and 11.4% and 13.7% for the six months ended June 30, 2013 and 2012, respectively. Before the impact of the restructuring costs, 2013 operating margin was 14.6% in the second quarter and 14.0% for the first six months of 2013.

Interest expense for the second quarters of 2013 and 2012 was \$4.0 million and \$4.3 million, respectively. For the first six months of the year, interest expense was \$8.3 million in 2013 and \$8.8 million in 2012. The decrease is primarily

due to lower average interest rates in the quarter and six months ended June 30, 2013.

The effective income tax rates were 27.7% and 30.1% for the quarters ended June 30, 2013 and 2012, respectively. The effective income tax rates were 30.0% and 30.7% in the six months ended June 30, 2013 and 2012, respectively. Before the restructuring costs, the effective tax rate was 27.9% and 29.5% for the three and six months ended June 30, 2013. The effective tax rates in both 2013 and 2012 were reduced by changes in estimates associated with the finalization of prior year tax items and valuation allowances. The Company expects the effective tax rate for the remainder of 2013 to be between 32.0% and 32.5%, before the income tax expense or benefit related to discrete items and the restructuring costs, which will be reported in the quarter in which they occur.

12

Index

The table below reconciles the reported three and six months ended June 30, 2013, results to those results before the impact of the restructuring charge, which are non-GAAP financial measures.

(\$'s in thousands)	Reported 2013	Restructuring Impact	Adjusted 2013
Quarter ended June 30, 2013			
Revenue	\$378,806	\$ -	\$378,806
Cost of products sold	256,285	277	256,008
Selling and administrative expenses	73,843	6,365	67,478
Operating income	48,678	(6,642)	55,320
Interest expense	4,008	-	4,008
Earnings before income taxes	44,670	(6,642)	51,312
Income taxes	12,388	(1,940)	14,328
Net earnings	\$32,282	\$ (4,702)	\$36,984
Gross margin	32.3 %		32.4 %
Selling and administrative	19.5 %		17.8 %
Operating margin	12.9 %		14.6 %
Effective income tax rate	27.7 %		27.9 %
			