STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended December 31, 2008	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.)*
6 MANOR PARKWAY, 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 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, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __

Accelerated filer X

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]

The number of shares of Registrant's Common Stock outstanding on January 26, 2009 was 12,355,567.

STANDEX INTERNATIONAL CORPORATION

INDEX

Page No.

PART I.

FINANCIAL INFORMATION:

Item 1.

Unaudited Condensed Consolidated Balance Sheets for

December 31, 2008 and June 30, 2008

2

Unaudited Condensed Consolidated Statements of Income for the

Three and Six Months Ended December 31, 2008 and 2007

3

Unaudited Condensed Consolidated Statements of Cash Flows for the

Six Months Ended December 31, 2008 and 2007

4

Notes to Unaudited Condensed Consolidated Financial Statements

5

Item 2.

Management's Discussion and Analysis of Financial Condition and

Results of Operations

14

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

25

Item 4.

Controls and Procedures

26

PART II.

OTHER INFORMATION:

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

27

Item 4.

Submission of Matters to a Vote of Security Holders

27

Item 5.

Other Information

28

Item 6.

Exhibits

28

PART I. FINANCIAL INFORMATION
ITEM 1.

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands)	December 31, 2008	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,515	$ 28,657
Accounts receivable	84,828	103,055

Inventories	96,850	87,619
Income tax receivables	4,771	983
Prepaid expenses and other current assets	5,150	3,337
Deferred tax asset	14,513	13,032
Total current assets	223,627	236,683
Property, plant and equipment	109,435	116,565
Goodwill	117,566	120,650
Intangible assets	25,358	27,473
Prepaid pension cost	3,688	1,972
Other non-current assets	19,512	19,691
Total non-current assets	275,559	286,351
Total assets	$ 499,186	$ 523,034
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,705	$ 28,579
Accounts payable	55,404	66,174
Accrued expenses	46,062	50,286
Current liabilities - discontinued operations	5,075	2,701
Total current liabilities	111,246	147,740
Long-term debt - less current portion	127,265	106,086
Accrued pension and other non-current liabilities	48,958	46,050
Total non-current liabilities	176,223	152,136
Stockholders' equity:		
Common stock	41,976	41,976
Additional paid-in capital	27,992	27,158
Retained earnings	435,097	433,435
Accumulated other comprehensive loss	(31,325)	(17,531)
Treasury shares	(262,023)	(261,880)
Total stockholders' equity	211,717	223,158
Total liabilities and stockholders' equity	$ 499,186	$ 523,034

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Income

	Three Months Ended		**Six Months Ended**	
	December 31,		**December 31,**	
(In thousands, except per share data)	**2008**	**2007**	**2008**	**2007**

Net sales	$ 155,510	$ 172,245	$ 336,205	$ 347,765
Cost of sales	109,930	120,959	233,507	246,884
Gross profit	45,580	51,286	102,698	100,881
Selling, general and administrative expenses	38,512	40,009	80,558	78,758
Restructuring costs	1,081	-	5,402	-
Total operating expenses	39,593	40,009	85,960	78,758
Income from operations	5,987	11,277	16,738	22,123
Interest expense	(1,761)	(2,739)	(3,479)	(5,414)
Other non-operating income (expense)	152	(248)	923	(95)
Income from continuing operations before income taxes	4,378	8,290	14,182	16,614
Provision for income taxes	908	2,778	3,617	5,786
Income from continuing operations	3,470	5,512	10,565	10,828
Income (loss) from discontinued operations, net of income taxes	(1,321)	-	(3,422)	605
Net income	$ 2,149	$ 5,512	$ 7,143	$ 11,433
Basic earnings per share:				
Continuing operations	$ 0.28	$ 0.45	$ 0.86	$ 0.88
Discontinued operations	(0.11)	-	(0.28)	0.05
Total	$ 0.17	$ 0.45	$ 0.58	$ 0.93
Diluted earnings per share:				
Continuing operations	$ 0.28	$ 0.45	$ 0.85	$ 0.87
Discontinued operations	(0.11)	-	(0.28)	0.05
Total	$ 0.17	$ 0.45	$ 0.57	$ 0.92
Cash dividends per share	$ 0.21	$ 0.21	$ 0.42	$ 0.42

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended December 31,	
(In thousands)	**2008**	**2007**
Cash flows from operating activities		
Net income	$ 7,143	$ 11,433

Income from discontinued operations	(3,422)	605
Income from continuing operations	10,565	10,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,095	8,398
Stock-based compensation	1,702	908
Gain from sale of investments, real estate and equipment	34	(138)
Non-cash portion of restructuring charges	3,872	-
Net changes in operating assets and liabilities	(17,820)	(3,396)
Net cash provided by operating activities - continuing operations	6,448	16,600
Net cash (used in) operating activities - discontinued operations	(2,467)	-
Net cash provided by operating activities	3,981	16,600
Cash flows from investing activities		
Expenditures for property, plant and equipment	(4,050)	(5,826)
Proceeds from sale-leaseback transaction	-	7,239
Acquisition, net of cash received	(1,854)	-
Proceeds from sale of investments, real estate and equipment	108	611
Proceeds from life insurance policy	1,929	-
Net cash provided by (used in) investing activities - continuing operations	(3,867)	2,024
Net cash provided by investing activities - discontinued operations	-	1,574
Net cash provided by investing activities	(3,867)	3,598
Cash flows from financing activities		
Proceeds from additional borrowings	37,634	1,550
Payments of debt	(40,070)	(22,163)
Stock issued under employee stock option and purchase plans	629	286
Stock repurchased under employee stock option and purchase plans	(1,639)	(529)
Debt issuance costs	-	(281)
Cash dividend paid	(5,174)	(5,154)
Net cash (used in) financing activities - continuing operations	(8,620)	(26,291)
Net cash (used in) financing activities	(8,620)	(26,291)
Effect of exchange rate changes on cash and cash equivalents	(2,636)	623
Net change in cash and cash equivalents	(11,142)	(5,470)
Cash and cash equivalents at beginning of year	28,657	24,057
Cash and cash equivalents at end of period	$ 17,515	$ 18,587

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1)

Management Statement

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations and comprehensive income for the three and six months ended December 31, 2008 and 2007, the cash flows for the six months ended December 31, 2008 and 2007 and the financial position of the Company at December 31, 2008. 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, 2008. The condensed consolidated balance sheet at June 30, 2008 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, 2008. Unless otherwise noted, references to years are to fiscal years.

2)

Inventories

Inventories are comprised of the following (in thousands):

	December 31, 2008	June 30, 2008
Raw materials	$ 47,057	$ 37,839
Work in process	24,801	24,254
Finished goods	24,992	25,526
Total	$ 96,850	$ 87,619

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 income and were $6.5 million and $7.4 million for the three months ended December 31, 2008 and 2007, respectively. For the six months ended December 31, 2008 and 2007, distribution costs were $14.5 million and $14.8 million, respectively.

3)

Goodwill

Changes to goodwill during the six months ended December 31, 2008 were as follows (in thousands):

	Food Service Equipment Group	Air Distribution Products Group	Engraving Group	Engineered Products Group	Hydraulics Products Group	Total
Balance at June 30, 2008	$ 63,558	$ 14,934	$ 19,149	$ 19,950	$ 3,059	$120,650
Acquisition	-	-	-	186	-	186
Translation adjustment and other	(32)	-	(494)	(2,744)	-	(3,270)
Balance at December 31, 2008	$ 63,526	$ 14,934	$ 18,655	$ 17,392	$ 3,059	$117,566

4)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
December 31, 2008				
Cost	$ 21,390	$ 12,211	$ 4,479	$ 8,080
Accumulated amortization	(8,506)	-	(4,216)	(12,722)
Balance, December 31, 2008	$ 12,884	$ 12,211	$ 263	$ 25,358
June 30, 2008				
Cost	$ 20,958	$ 12,200	$ 5,550	$ 38,708
Accumulated amortization	(6,725)	-	(4,510)	(11,235)
Balance, June 30, 2008	$ 14,233	$ 12,200	$ 1,040	$ 27,473

Amortization expense for the three months ended December 31, 2008 and 2007 was $0.9 million and $1.0 million, respectively. Amortization expense for the six months ended December 31, 2008 and 2007 was $1.7 million and $2.0 million, respectively.

5)

Debt

The Company s debt is due as follows at December 31, 2008 (in thousands):

<u>Fiscal Year</u>	
2009	$ 1,134
2010	3,571

2011	3,571
2012	3,571
2013	116,823
Thereafter	3,300
	$ 131,970

The Company has in place a $150 million unsecured revolving credit facility which expires in September 2012. As of December 31, 2008 the Company has the ability to borrow $36.8 million under this facility.

6) Derivative Financial Instruments

In July 2008, the Company entered into a series of interest rate swap agreements designed to limit exposure to fluctuating interest rates on its floating rate indebtedness. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt upon monthly settlement. The Company recognizes all derivatives on its balance sheet at fair value. As the derivative instrument held by the Company is classified as a cash flow hedge under Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities*, changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge ineffectiveness, if any, associated with the swaps will be reported by the Company in interest expense.

The swap agreements have one and two year terms effectively converting interest payments on our long-term debt from variable to fixed rates. We converted interest payments on $88.5 million of debt due under our revolving credit agreement from variable rates based on LIBOR to a weighted average fixed rate of 3.23% for an effective rate of 4.01% based on the Company s credit spread at December 31, 2008. The Company recorded a liability of $2.6 million on its balance sheet at December 31, 2008, with changes in fair market value included in other comprehensive income. The company values the swaps based on contract prices in the derivatives market for similar instruments, which are Level 2 pricing inputs in the GAAP valuation hierarchy.

The Company reported no losses for the three and six months ended December 31, 2008, as a result of hedge ineffectiveness. Future changes in this swap arrangement, including termination of the agreement, may result in a reclassification of any gain or loss reported in other comprehensive income into earnings as an adjustment to interest expense.

7)

Retirement Benefits

Net Periodic Benefit Cost for the three and six months ended December 31, 2008 and 2007 consisted of the following components:

	Pension Benefits	
	U.S. Plans	
	Three Months Ended	**Six Months Ended**
	December 31,	**December 31,**
(In thousands)	**2008**	