STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 06, 2008

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, 2007	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 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 February 4, 2008 was 12,487,050.

STANDEX INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STANDEX INTERNATIONAL CORPORATION
Consolidated Condensed Balance Sheets
(Unaudited)

(In thousands)		December 31, 2007		June 30, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	18,587	$	24,057
Accounts receivable (net of allowances of $3,269 and $3,339 as of December 31 and June 30, 2007, respectively)		96,040		106,116
Inventories		95,828		91,301
Prepaid expenses and other current assets		4,890		3,762
Deferred tax asset		12,358		11,093
Total current assets		227,703		236,329
Property, plant and equipment, net		116,431		122,315
Goodwill		120,419		118,911
Intangible assets		29,030		31,228
Prepaid pension cost		12,890		8,256
Other non-current assets		23,606		22,861
Total assets	$	530,079	$	539,900
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	$	30,121	$	4,162
Accounts payable		56,911		65,977
Accrued expenses		48,674		49,370
Current liabilities - discontinued operations		786		821
Total current liabilities		136,492		120,330

Long-term debt - less current portion	117,586	164,158
Accrued pension and other non-current liabilities	50,006	50,981
Total liabilities	304,084	335,469
Shareholders' equity:		
Common stock	41,976	41,976
Additional paid-in capital	25,418	25,268
Retained earnings	431,524	426,171
Accumulated other comprehensive loss	(11,139)	(26,533)
Treasury shares	(261,784)	(262,451)
Total shareholders' equity	225,995	204,431
Total liabilities and shareholders' equity	$ 530,079	$ 539,900

The accompanying notes are an integral part of these unaudited consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION
Consolidated Condensed Statements of Income
(Unaudited)

(In thousands, except per share data)	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Six Months Ended December 31, 2007	Six Months Ended December 31, 2006
Net sales	$ 172,245	$ 139,268	$ 347,765	$ 288,758
Cost of sales	120,959	100,799	246,884	207,232
Gross profit	51,286	38,469	100,881	81,526
Operating expenses:				
Selling, general and administrative expenses	40,009	30,376	78,758	63,141
Restructuring costs	-	184	-	290
	40,009	30,560	78,758	63,431
Income from operations	11,277	7,909	22,123	18,095
Other non-opearting income and expense:				
Interest expense	2,739	1,548	5,414	3,370
Other non-operating (income) expense	248	(11)	95	(792)
	2,987	1,537	5,509	2,578
Income from operations before income taxes	8,290	6,372	16,614	15,517
Provision for income taxes	2,778	1,602	5,786	4,758
Income from continuing operations	5,512	4,770	10,828	10,759
Income from discontinued operations, net of income taxes	-	48	605	6,190
Net income	$ 5,512	$ 4,818	$ 11,433	$ 16,949
Basic earnings per share:				
Continuing operations	$ 0.45	$ 0.39	$ 0.88	$ 0.88
Discontinued operations	-	0.01	0.05	0.51

Total	$	0.45	$	0.40	$	0.93	$	1.39
Diluted earnings per share:								
Continuing operations	$	0.45	$	0.38	$	0.87	$	0.86
Discontinued operations		-		-		0.05		0.50
Total	$	0.45	$	0.38	$	0.92	$	1.36
Cash dividends per share	$	0.21	$	0.21	$	0.42	$	0.42
Weighted average shares, basic		12,288		12,219		12,272		12,219
Weighted average shares, diluted		12,345		12,398		12,392		12,417

The accompanying notes are an integral part of these unaudited consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended December 31,	
(In thousands)	**2007**	**2006**
Cash flows from operating activities		
Net income	$ 11,433	$ 16,949
Income from discontinued operations	605	6,190
Income from continuing operations	10,828	10,759
Adjustments to reconcile net income to net cash flows:		
Depreciation and amortization	8,398	6,320
Stock-based compensation	908	1,025
Gain from sale of investments, real estate and equipment	(138)	(1,071)
Contributions to defined benefit plans	-	(3,444)
Non-cash portion of restructuring charge	-	130
Net Changes in operating assets and liabilities	(3,396)	(1,418)
Net cash provided by operating activities - continuing operations	16,600	12,301
Net cash provided by (used in) operating activities - discontinued operations	-	(7,129)
Net cash provided by operating activities	16,600	5,172
Cash flows from investing activities		
Expenditures for property, plant and equipment	(5,826)	(4,242)
Proceeds from sale-leaseback transaction	7,239	-
Proceeds from sale of investments, real estate and equipment	611	1,327
Net cash provided by (used in) investing activities - continuing operations	2,024	(2,915)
Net cash provided by investing activities - discontinued operations	1,574	31,064
Net cash provided by investing activities	3,598	28,149
Cash flows from financing activities		
Proceeds from additional borrowings	1,550	-
Payments of debt	(22,163)	(28,216)

Proceeds from stock issued under employee stock plans		286		972
Purchase of treasury shares		(529)		(2,770)
Debt issuance costs		(281)		-
Cash dividend paid		(5,154)		(5,133)
Net cash used in financing activities		(26,291)		(35,147)
Effect of exchange rate changes on cash and cash equivalents		623		344
Net change in cash and cash equivalents		(5,470)		(1,482)
Cash and cash equivalents at beginning of year		24,057		32,590
Cash and cash equivalents at end of period	$	18,587	$	31,108
Cash paid during the period for:				
Interest	$	5,735	$	3,428
Income taxes	$	4,986	$	7,229

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Standex International Corporation

Notes to Unaudited Consolidated Condensed Financial Statements

1)

Management Statement

In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments necessary to present fairly the results of operations for the three and six months ended December 31, 2007 and 2006, the cash flows for the six months ended December 31, 2007 and 2006 and the financial position of the Company at December 31, 2007. The interim results are not necessarily indicative of results for a full year. The unaudited consolidated condensed 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, 2007. The consolidated balance sheet at June 30, 2007 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, 2007.

2)

Inventories

Inventories are comprised of the following:

	December 31, 2007		June 30, 2007	
Raw materials	$	43,395	$	44,073
Work in process		25,939		23,112
Finished goods		26,494		24,116
Total	$	95,828	$	91,301

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying unaudited consolidated condensed statements of income and were $7.4 million and $6.2 million for the three months ended December 31, 2007 and 2006, respectively. For the six months ended December 31, 2007 and 2006, distribution costs were $14.8 million and $13.0 million, respectively. Our gross profit margins may not be comparable to those of other entities due to different classifications of costs and expenses.

3)

Goodwill

Changes to goodwill during the six months ended December 31, 2007 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, 2007	$ 63,236	$ 14,933	$ 18,987	$ 18,696	$ 3,059	$ 118,911
Purchase accounting adjustments	332	-	-	-	-	332
Translation adjustment	-	-	121	1,055	-	1,176
Balance at December 31, 2007	$ 63,568	$ 14,933	$ 19,108	$ 19,751	$ 3,059	$ 120,419

4)

Intangible Assets

Changes to intangible assets during the six months ended December 31, 2007 were as follows:

(in thousands)	**Customer Relationships**	**Trademarks**	**Other**	**Total**
Balance at June 30, 2007	$ 17,224	$ 12,095	$ 1,909	$ 31,228
Purchases	-	7	-	7
Amortization expense	(1,763)	-	(451)	(2,214)
Translation adjustment	9	-	-	9
Balance at December 31, 2007	$ 15,470	$ 12,102	$ 1,458	$ 29,030
Accumulated Amortization Expense	$ 4,924	$ -	$ 4,709	$ 9,633

Amortization expense for intangible assets was approximately $1.0 million and $417,000 for the three months ended December 31, 2007 and 2006, respectively and approximately $2.2 million and $960,000 for the six months ended December 31, 2007 and 2006, respectively.

5) Accrued Expenses

Accrued expenses for continuing operations consist of the following:

(in thousands)	December 31, 2007	June 30, 2007
Compensation and benefits	$ 22,140	$ 21,750
Workers' compensation	9,444	7,430
Accrued warranties	5,099	4,518
Income tax payable	1,144	454
Other	10,847	15,218
Total	$ 48,674	$ 49,370

As of December 31 and June 30, 2007, amounts accrued for compensation and benefits consisted primarily of earned, but unpaid employee compensation, benefits and payroll taxes. Other accrued expenses consisted primarily of amounts due for audit and tax services, legal services, advertising and insurance.

The Company had accrued liabilities related to discontinued operations, primarily accrued rent and warranty costs, of $786,000 and $821,000 at December 31, 2007 and June 30, 2007, respectively.

6)

Debt

As of September 11, 2007, the Company and its lenders executed two amendments to the $150 million unsecured revolving credit facility (the facility), which extended the maturity date to September 11, 2012, and modified certain financial covenants to reflect the recent acquisitions. In connection with the amendment, the Company incurred approximately $231,000 of arrangement fees and related costs, which have been deferred and are being amortized over the expected term of the facility. After giving effect to the extended maturity date, the Company s debt is due as follows at December 31, 2007 (in thousands):

Fiscal Year	
For the remainder of fiscal year 2008	$ 1,550
2009	28,571
2010	3,571
2011	3,571
2012 and thereafter	110,444
Total	$ 147,707

The Company also executed an amendment as of September 11, 2007, to the note purchase agreements with the institutional investors which modified certain financial covenants to reflect the recent acquisitions. In connection with the amendment, the Company incurred approximately $50,000 of arrangement fees and related costs. The arrangement fees have been deferred and are being amortized over the remaining lives of the notes.

The Company borrowed $1.6 million against its line of credit during the three months ended December 31, 2007, to fund working capital requirements.

7)

Sale and Leaseback

On September 24, 2007, Standex Air Distribution Products, Inc. (ADP), a subsidiary of the Company, sold its manufacturing facility located in Philadelphia and leased back approximately two-thirds of the floor space of the facility. Through its lean enterprise initiative, the Company has been able to significantly improve the floor space utilization of the Philadelphia operation and as a result used the sale and leaseback as a means to capitalize on these improvements. The lease has an initial term of ten years with two consecutive additional five-year options to renew. The net proceeds from the sale, after transaction and other related costs, were $7.2 million resulting in a gain of approximately $2.0 million. Under the provisions of sale-leaseback accounting, the transaction was considered a normal leaseback; therefore the realized gain was deferred and is being recognized in proportion to the lease payments expensed over the initial 10-year lease term. The deferred gain is classified as other non-current liabilities on the balance sheet. The minimum annual lease payments are approximately:

Fiscal Year		
For the remainder of fiscal year 2008	$	280,000
2009		560,000
2010		560,000
2011		560,000
2012 and thereafter		3,492,000
Total	$	5,452,000