

SENSIENT TECHNOLOGIES CORP

Form 10-Q

August 06, 2010

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**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, 2010**

**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 incorporation or organization)

(I.R.S. Employer Identification 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):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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, 2010

Common Stock, par value \$0.10 per share

49,662,678



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## 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		Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 333,969	\$ 303,959	\$ 648,045	\$ 586,783
Cost of products sold	229,008	209,269	448,138	405,563
Selling and administrative expenses	57,815	51,433	114,106	99,579
Operating income	47,146	43,257	85,801	81,641
Interest expense	5,488	5,650	10,266	12,896
Earnings before income taxes	41,658	37,607	75,535	68,745
Income taxes	12,973	11,788	23,383	21,319
Net earnings	\$ 28,685	\$ 25,819	\$ 52,152	\$ 47,426
Average number of common shares outstanding:				
Basic	49,047	48,301	48,937	48,223
Diluted	49,365	48,554	49,244	48,453
Earnings per common share:				
Basic	\$ .58	\$ .53	\$ 1.07	\$ .98
Diluted	\$ .58	\$ .53	\$ 1.06	\$ .98
Dividends per common share	\$ .20	\$ .19	\$ .39	\$ .38

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 (In thousands)

	June 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 13,911	\$ 12,219
Trade accounts receivable, net	216,486	200,186
Inventories	367,573	390,011
Prepaid expenses and other current assets	47,873	55,693
<b>TOTAL CURRENT ASSETS</b>	<b>645,843</b>	<b>658,109</b>
<b>OTHER ASSETS</b>	<b>35,887</b>	<b>38,349</b>
<b>INTANGIBLE ASSETS, NET</b>	<b>12,791</b>	<b>13,621</b>
<b>GOODWILL</b>	<b>421,261</b>	<b>455,995</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	45,389	49,429
Buildings	276,554	293,200
Machinery and equipment	601,593	630,420
Construction in progress	30,548	20,211
	954,084	993,260
Less accumulated depreciation	(558,189)	(567,643)
	395,895	425,617
<b>TOTAL ASSETS</b>	<b>\$ 1,511,677</b>	<b>\$ 1,591,691</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 90,018	\$ 88,915
Accrued salaries, wages and withholdings from employees	20,089	22,568
Other accrued expenses	51,387	64,789
Income taxes	6,807	692
Short-term borrowings	39,652	39,181

TOTAL CURRENT LIABILITIES	207,953	216,145
OTHER LIABILITIES	24,072	27,203
ACCRUED EMPLOYEE AND RETIREE BENEFITS	51,259	50,796
LONG-TERM DEBT	349,485	388,852
SHAREHOLDERS' EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	88,404	85,504
Earnings reinvested in the business	955,868	922,963
Treasury stock, at cost	(96,808)	(103,878)
Accumulated other comprehensive loss	(73,952)	(1,290)
TOTAL SHAREHOLDERS' EQUITY	878,908	908,695
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,511,677	\$ 1,591,691

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	\$ 64,186	\$ 55,445
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(19,853)	(19,602)
Proceeds from sale of assets	76	4
Other investing activity	(340)	(366)
Net cash used in investing activities	(20,117)	(19,964)
Cash flows from financing activities:		
Proceeds from additional borrowings	126,253	216,138
Debt payments	(147,965)	(228,695)
Dividends paid	(19,247)	(18,476)
Proceeds from options exercised and other equity transactions	7,768	4,522
Net cash used in financing activities	(33,191)	(26,511)
Effect of exchange rate changes on cash and cash equivalents	(9,186)	(1,879)
Net increase in cash and cash equivalents	1,692	7,091
Cash and cash equivalents at beginning of period	12,219	8,498
Cash and cash equivalents at end of period	\$ 13,911	\$ 15,589

See accompanying notes to consolidated condensed financial statements.



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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, 2010 and December 31, 2009, the results of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009. 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 are charged to operations based on a proportionate share of estimated annual amounts rather than as they are actually incurred.

Refer to the notes in the Company's annual consolidated financial statements for the year ended December 31, 2009, for additional details of the Company's financial condition and a description of the Company's accounting policies, which have been continued without change.

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, 2010 and December 31, 2009, 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) at June 30, 2010 and December 31, 2009, was a liability of \$0.06 million and \$0.3 million, respectively. The fair value of the investments based on June 30, 2010 and December 31, 2009, market quotes (Level 1 inputs) was an asset of \$13.2 million and \$13.5 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, 2010. 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. The carrying value of the long-term debt at June 30, 2010 was \$349.5 million. The fair value of the long-term debt at June 30, 2010 was \$358.1 million.

3. Debt

In November 2009, the Company entered into an agreement to issue U.S. dollar denominated debt totaling \$110 million through a private placement of notes with a group of four financial institutions. These notes were issued on May 3, 2010, and have a fixed coupon rate of 4.91% with a final maturity date of May 3, 2017.

Proceeds from the sale of the notes have been used to repay existing indebtedness and for general corporate purposes.

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## 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
Three months ended June 30, 2010:				
Revenue from external customers	\$ 199,024	\$ 108,225	\$ 26,720	\$ 333,969
Intersegment revenue	6,023	4,754	381	11,158
Total revenue	\$ 205,047	\$ 112,979	\$ 27,101	\$ 345,127
Operating income (loss)	\$ 33,223	\$ 20,880	\$ (6,957)	\$ 47,146
Interest expense			5,488	5,488
Earnings (loss) before income taxes	\$ 33,223	\$ 20,880	\$ (12,445)	\$ 41,658
Three months ended June 30, 2009:				
Revenue from external customers	\$ 193,663	\$ 89,305	\$ 20,991	\$ 303,959
Intersegment revenue	3,892	4,419	226	8,537
Total revenue	\$ 197,555	\$ 93,724	\$ 21,217	\$ 312,496
Operating income (loss)	\$ 34,249	\$ 15,001	\$ (5,993)	\$ 43,257
Interest expense			5,650	5,650
Earnings (loss) before income taxes	\$ 34,249	\$ 15,001	\$ (11,643)	\$ 37,607
Six months ended June 30, 2010:				
Revenue from external customers	\$ 384,958	\$ 212,438	\$ 50,649	\$ 648,045
Intersegment revenue	10,791	8,497	723	20,011
Total revenue	\$ 395,749	\$ 220,935	\$ 51,372	\$ 668,056
Operating income (loss)	\$ 60,407	\$ 38,988	\$ (13,594)	\$ 85,801
Interest expense			10,266	10,266
Earnings (loss) before income taxes	\$ 60,407	\$ 38,988	\$ (23,860)	\$ 75,535
Six months ended June 30, 2009:				
Revenue from external customers	\$ 374,387	\$ 172,982	\$ 39,414	\$ 586,783
Intersegment revenue	7,716	7,832	474	16,022

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Total revenue	\$ 382,103	\$ 180,814	\$ 39,888	\$ 602,805
Operating income (loss)	\$ 64,206	\$ 28,732	\$ (11,297)	\$ 81,641
Interest expense			12,896	12,896
Earnings (loss) before income taxes	\$ 64,206	\$ 28,732	\$ (24,193)	\$ 68,745

5. Inventories

At June 30, 2010 and December 31, 2009, inventories included finished and in-process products totaling \$259.4 million and \$275.5 million, respectively, and raw materials and supplies of \$108.2 million and \$114.5 million, respectively.

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## 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,	
	2010	2009	2010	2009
Service cost	\$ 469	\$ 311	\$ 944	\$ 615
Interest cost	709	747	1,427	1,470
Expected return on plan assets	(323)	(271)	(654)	(522)
Amortization of prior service cost	753	456	1,506	911
Amortization of actuarial loss	118	52	236	102
Defined benefit expense	\$ 1,726	\$ 1,295	\$ 3,459	\$ 2,576

During the three and six months ended June 30, 2010, the Company made contributions to its defined benefit pension plans of \$0.9 million and \$1.9 million, respectively. Total contributions to Company defined benefit pension plans are expected to be \$3.8 million in 2010.

## 7. Comprehensive Income

Comprehensive income is comprised of the following:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings	\$ 28,685	\$ 25,819	\$ 52,152	\$ 47,426
Currency translation adjustments	(46,428)	46,665	(72,551)	19,685
Net unrealized (loss) gain on cash flow hedges	(440)	(60)	(111)	60
Net comprehensive (loss) income	\$			