STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
February 03, 2017

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, 2016

[ ]

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)

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 [ ]

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 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 30, 2017 was 12,749,065

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STANDEX INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except per share data)		**December 31, 2016**		**June 30, 2016**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	121,301	$	121,988
Accounts receivable, net of reserve of $2,217 and $2,119 at December 31, 2016 and June 30, 2016		99,183		103,974
Inventories		110,952		105,402

Prepaid expenses and other current assets		6,318		4,784
Income taxes receivable		5,674		1,325
Deferred tax asset		14,607		16,013
Assets held for sale		-		2,363
Total current assets		358,035		355,849
Property, plant, and equipment, net		110,530		106,686
Intangible assets, net		55,449		40,412
Goodwill		161,017		157,354
Deferred tax asset		2,663		11,361
Other non-current assets		23,035		18,795
Total non-current assets		352,694		334,608
Total assets	$	710,729	$	690,457
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	60,140	$	77,099
Accrued liabilities		53,588		50,785
Income taxes payable		3,264		4,695
Liabilities held for sale		-		1,528
Total current liabilities		116,992		134,107
Long-term debt		124,295		92,114
Accrued pension and other non-current liabilities		90,744		94,277
Total non-current liabilities		215,039		186,391
Stockholders' equity:				
Common stock, par value $1.50 per share, 60,000,000 shares authorized, 27,984,278 issued, 12,664,281 and 12,674,458 outstanding at December 31, 2016 and June 30, 2016		41,976		41,976
Additional paid-in capital		55,096		52,374
Retained earnings		698,327		678,002
Accumulated other comprehensive loss		(126,694)		(117,975)
Treasury shares: 15,319,997 shares at December 31, 2016 and 15,309,820 shares at June 30, 2016		(290,007)		(284,418)
Total stockholders' equity		378,698		369,959
Total liabilities and stockholders' equity	$	710,729	$	690,457

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except per share data)	2016	2015	2016	2015
Net sales	$ 173,854	$ 181,948	$ 353,454	$ 380,346
Cost of sales	116,960	123,713	234,784	253,559
Gross profit	56,894	58,235	118,670	126,787
Selling, general, and administrative expenses	40,493	40,696	82,105	84,626
Acquisition related costs	1,503	-	1,503	-
Restructuring costs	1,664	1,477	2,058	2,996
Total operating expenses	43,660	42,173	85,666	87,622
Income from operations	13,234	16,062	33,004	39,165
Interest expense	(850)	(731)	(1,547)	(1,375)
Other non-operating income, net	332	294	766	484
Income from continuing operations before income taxes	12,716	15,625	32,223	38,274
Provision for income taxes	2,458	3,179	8,014	9,687
Income from continuing operations	10,258	12,446	24,209	28,587
Income (loss) from discontinued operations, net of income taxes	6	(75)	(44)	(235)
Net income	$ 10,264	$ 12,371	$ 24,165	$ 28,352
Basic earnings (loss) per share:				
Continuing operations	$ 0.81	$ 0.98	$ 1.91	$ 2.26
Discontinued operations	-	(0.01)	-	(0.02)
Total	$ 0.81	$ 0.97	$ 1.91	$ 2.24
Diluted earnings (loss) per share:				
Continuing operations	$ 0.80	$ 0.97	$ 1.90	$ 2.24
Discontinued operations	-	(0.01)	-	(0.02)
Total	$ 0.80	$ 0.96	$ 1.90	$ 2.22
Cash dividends per share	$ 0.16	$ 0.14	$ 0.30	$ 0.26

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Net income (loss)	$ 10,264	$ 12,371	$ 24,165	$ 28,352
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ 516	$ 261	$ 631	$ 557
Amortization of unrecognized costs	1,427	1,199	2,867	2,402
Derivative instruments:				
Change in unrealized gains and (losses)	493	434	554	(44)
Amortization of unrealized gains and into interest expense	83	107	304	227
Foreign currency translation gains (losses)	(10,441)	(4,781)	(11,607)	(10,919)
Other comprehensive income (loss) before tax	$ (7,922)	$ (2,780)	$ (7,251)	$ (7,777)
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ (224)	$ (57)	$ (134)	$ (115)
Amortization of unrecognized costs	(502)	(423)	(1,008)	(845)
Derivative instruments:				
Change in unrealized gains and (losses)	(188)	(166)	(211)	16
Amortization of unrealized gains and (losses) into	(32)	(40)	(116)	(86)

interest expense				
Income tax provision (benefit) to other comprehensive income (loss)	$ (946)	$ (686)	$(1,469)	$ (1,030)
Other comprehensive loss, net of tax	(8,868)	(3,466)	(8,720)	(8,807)
Comprehensive income	$ 1,396	$ 8,905	$ 15,445	$ 19,545

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)	**2016**	**2015**
Cash flows from operating activities		
Net income	$ 24,165	$ 28,352
Loss from discontinued operations	44	235
Income from continuing operations	24,209	28,587
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,044	8,804
Stock-based compensation	2,843	2,806
Non-cash portion of restructuring charge	42	1,941
Excess tax benefit from share-based payment activity	(577)	(809)
Contributions to defined benefit plans	(624)	(645)
Net changes in operating assets and liabilities	(14,671)	(9,817)
Net cash provided by operating activities - continuing operations	20,266	30,867
Net cash used in operating activities - discontinued operations	(227)	(652)
Net cash provided by operating activities	20,039	30,215
Cash flows from investing activities		
	(13,029)	(8,724)

Expenditures for property, plant, and equipment		
Expenditures for acquisitions, net of cash acquired	(24,660)	(13,544)
Proceeds from sales of real estate and equipment	24	235
Disposition of a business	652	-
Net cash used in investing activities - continuing operations	(37,013)	(22,033)
Net cash provided by investing activities - discontinued operations	-	2,803
Net cash used in investing activities	(37,013)	(19,230)
Cash flows from financing activities		
Borrowings on revolving credit facility	73,000	48,500
Payments of revolving credit facility	(41,000)	(41,500)
Activity under share-based payment plans	618	745
Excess tax benefit from share-based payment activity	577	809
Purchases of treasury stock	(6,905)	(3,053)
Cash dividends paid	(3,798)	(3,294)
Net cash provided by financing activities	22,492	2,207
Effect of exchange rate changes on cash and cash equivalents	(6,205)	(5,106)
Net change in cash and cash equivalents	(687)	8,086
Cash and cash equivalents at beginning of year	121,988	96,128
Cash and cash equivalents at end of period	$ 121,301	$ 104,214
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 1,272	$ 1,094
Income taxes, net of refunds	$ 9,207	$ 14,925

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 for the three and six months ended December 31, 2016 and 2015, the cash flows for the six months ended December 31, 2016 and 2015 and the financial position of Standex International Corporation (Standex , the Company , we , us , or our), at December 31, 2016. The interim results 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, 2016. The condensed consolidated balance sheet at June 30, 2016 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, 2016. Certain prior period amounts have been reclassified to conform to the current period presentation. Unless otherwise noted, references to years are to the Company s fiscal years.

There have been no significant changes in our reported financial position, results of operations, cash flows or to our critical accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 that have had a significant impact on our consolidated financial statements or notes herein.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. We evaluated subsequent events through the date and time our unaudited condensed consolidated financial statements were issued.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract, and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and deferred tax assets are required to be classified as non-current on the consolidated balance sheet. ASU 2015-17 will become effective for fiscal years, and the interim periods within those years, beginning after

December 15, 2016 with early adoption permitted. The Company is currently assessing the potential impact of the adoption of ASU 2015-17 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the potential impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation (Topic 718)*. The new standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under this guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the additional paid-in capital pool and reduces the complexity in accounting for excess tax benefits and tax deficiencies. The new standard is effective for public companies for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, however, early adoption is allowed. The Company is currently assessing the potential impact of the adoption of ASU 2016-09 on its consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments (a consensus of the emerging issues take force).* This standard is effective for fiscal years beginning after December 15, 2017. The standard requires a retrospective application and early adoption is acceptable. The Company is continuing to evaluate the impact of adopting ASU 2016-15 on its consolidated financial statements.

2)

Acquisitions

The Company s recent acquisitions are strategically significant to the future growth prospects of the Company, however at the closing date of each acquisition and December 31, 2016, historical results of the acquired Companies both individually and in the aggregate, were immaterial to the Company s consolidated financial results. Pro forma results of operations have not been presented due to the immaterial impact the amounts would have had on the Company's historical results of operations.

<u>Horizon Scientific</u>

During the second quarter of fiscal year 2017, the Company acquired Horizon Scientific, Inc., (Horizon), a supplier of laboratory refrigerators and freezers, as well as cryogenic equipment for the scientific, bio-medical and pharmaceutical markets. We believe the acquisition of Horizon enhances Standex s penetration of the refrigeration markets in the growing scientific sector. We have included the operating results of Horizon in our Food Service Equipment segment in our Condensed Consolidated Financial Statements.

The Company paid $24.7 million in cash, net of cash acquired, for 100% of the outstanding stock of Horizon. The final purchase price is subject to cash and net working capital adjustments that have not yet been finalized along with deferred consideration of up to $8.4 million. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. Goodwill recorded from this transaction is attributable to potential revenue increases from synergies with our existing customer base and channel partners.

Intangible assets of $17.6 million have been preliminarily recorded, consisting of $16.1 million of customer relationships which are expected to be amortized over a period of fifteen years, $1.2 million of trademarks which are indefinite lived, and $0.3 million of product order backlog which is expected to be amortized during the current fiscal year. The goodwill of $5.5 million created by the transaction is not deductible for income tax purposes.

The components of the fair value of the Horizon acquisition, including the preliminary allocation of the purchase price at December 31, 2016, are as follows (in thousands):

		Preliminary Allocation
Fair value of business combination:		
Cash payments	$	26,457
Less: cash acquired		(1,797)
Total	$	24,660
Identifiable assets acquired and liabilities assumed:		
Current assets	$	4,863
Inventories		4,470
Property, plant, and equipment		1,616
Identifiable intangible assets		17,550
Goodwill		5,452
Liabilities assumed		(2,374)
Deferred taxes		(6,917)
Total	$	24,660

Transaction costs associated with this acquisition were immaterial. All transaction costs have been recorded as general and administrative expense for the three and six months ended December 31, 2016.

The initial allocation of the purchase price is based upon a preliminary valuation, and accordingly, our estimates and assumptions are subject to change as we obtain additional information during the measurement period and complete the valuation of intangible assets. The Company anticipates finalizing the purchase price allocation during the current fiscal year.

Northlake

During the second quarter of fiscal year 2016, the Company acquired Northlake Engineering, Inc., (Northlake), a Wisconsin-based designer, manufacturer and distributor of high reliability electromagnetic products and solutions serving the North America power distribution and medical equipment markets. Northlake reports to our Electronics segment.

The Company paid $13.7 million in cash for 100% of the outstanding stock of Northlake and has recorded intangible assets of $6.8 million, consisting of $4.1 million of customer relationships which primarily are expected to be amortized over a period of twelve and half years, $2.4 million of trademarks which are indefinite-lived and $0.3 million of non-compete which are expected to amortized over a period of five years. Acquired goodwill of $5.1 million is deductible for income tax purposes. The Company finalized the purchase price allocation during the quarter ending June 30, 2016.

The components of the fair value of the Northlake acquisition, including the allocation of the purchase price is as follows (in thousands):

		Final
Fair value of business combination:		
Cash payments	$	14,015
Less: cash acquired		(315)
Total	$	13,700
Identifiable assets acquired and liabilities assumed:		
Current assets	$	2,810
Property, plant, and equipment		1,407
Identifiable intangible assets		6,824

Goodwill	5,121
Other non-current assets	158
Liabilities assumed	(2,620)
Final payments	-
Total	$ 13,700

Acquisition-Related Costs

Acquisition-related costs include costs related to acquired businesses and other pending acquisitions. These costs consist of (i) deferred compensation and (ii) acquisition-related professional service fees and expenses, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and regulatory matters related to acquired entities. These costs do not include purchase accounting expenses, which we define as acquired backlog and the step-up of inventory to fair value, or the amortization of the acquired intangible assets.

Deferred compensation costs relate to payments due to the Horizon seller of $2.8 million on the second anniversary and $5.6 million on the third anniversary of the closing date of the purchase. The deferred compensation costs of $0.7 million recorded in the three and six months ended December 31, 2016 are the estimated deferred compensation earned by the Horizon seller to date. The payments are contingent on the seller remaining an employee of the Company with limited exceptions at each anniversary date.

The components of acquisition-related costs, net are as follows (dollars in thousands):

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2016	**2015**	**2016**	**2015**
Deferred compensation arrangements	$ 703	$ -	$ 703	$ -
Acquisition-related costs	800	-	800	-
Total	$ 1,503	$ -	$ 1,503	$ -

3)

Discontinued Operations

In pursuing our business strategy, we have divested certain businesses and recorded activities of these businesses as discontinued operations.

Discontinued operations for the three and six months ended December 31, 2016 and 2015 are as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	**2015**	**2016**	**2015**
Net sales	$ -	$ -	$ -	$ -
Pre-tax earnings	13	(94)	(49)	(342)
(Provision) benefit for taxes	(7)	19	5	107
Net earnings (loss) from discontinued operations	$ 6	$ (75)	$ (44)	$ (235)

On March 30, 2012, Air Distribution Products Group, (ADP) was sold to a private equity buyer for consideration of $16.1 million consisting of $13.1 million in cash and a $3.0 million promissory note from the buyer. The note was secured by a mortgage on the ADP real estate sold in the transaction in Detroit Lakes, MN, Medina, NY, and Powder Springs, GA. During the first quarter 2016, the private equity buyer of ADP sold one of the facilities securing the note. The Company released all mortgages on the properties and accepted an advanced payment of $2.8 million during October 2015 in order to reduce repayment risk and settle all obligations under the note. The Company recorded a $0.2 million loss in discontinued operations during the first quarter 2016 related to this transaction.

Assets and liabilities related to discontinued operations appear in our Unaudited Condensed Consolidated Balance Sheets as follows (in thousands):

	December 31, 2016	**June 30, 2016**
Other non-current assets	14	14
Accrued expenses	1,060	1,204
Accrued pension and other non-current liabilities	-	55

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 Unaudited Condensed Consolidated Balance Sheets 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.

There were no transfers of assets or liabilities between level 1 and level 2 of the fair value measurement hierarchy at December 31, 2016 and June 30, 2016. 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, 2016 and June 30, 2016 consisted of the following (in thousands):

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 2,245	$ 2,245	$ -	$ -
Liabilities				
Foreign exchange contracts	$ 70	$ -	$ 70	$ -
Interest rate swaps	287	-	287	-
Contingent acquisition payments (a)	703	-	-	703

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Marketable securities - deferred compensation plan	$ 2,333	$ 2,333	$ -	$ -
Foreign exchange contracts	11	-	11	-
Liabilities				
Foreign exchange contracts	$ 94	$ -	$ 94	$ -
Interest rate swaps	1,038	-	1,038	-

(a) The fair value of our contingent consideration arrangement is determined based on our evaluation as to the probability and amount of any deferred compensation that has been earned to date.

Our financial liabilities based upon Level 3 inputs include a contingent consideration arrangement relating to our acquisition of Horizon. We are contractually obligated to pay contingent consideration payments based on the criteria of continued employment of the seller on the second and third anniversary of the closing date of the acquisition. We will update our assumptions each reporting period based on new developments and record such amounts at fair value based on the revised assumptions until the consideration is paid.

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2020. As of December 31, 2016, we could be required to pay up to $8.4 million for contingent consideration arrangements if specific criteria are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are continued employment of the seller and the risk-adjusted discount rate for the fair value measurement. As of December 31, 2016, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimate had changed.

5)

Inventories

Inventories are comprised of the following (in thousands):

	December 31, 2016	June 30, 2016
Raw materials	$ 49,624	$ 46,616
Work in process	28,527	26,541
Finished goods	32,801	32,245
Total	$ 110,952	$ 105,402

Distribution costs associated with the sale of inventory, which are recorded as a component of selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations, were $4.6 million and $9.6 million for the three and six months ended December 31, 2016, respectively and $4.9 million and $10.6 million for the three and six months ended December 31, 2015, respectively.

6)

Goodwill

Changes to goodwill during the period ended December 31, 2016 were as follows (in thousands):

	June 30, 2016	Acquisition	Translation Adjustment	December 31, 2016
Food Service Equipment	$ 56,804	$ 5,452	$ -	$ 62,256
Engraving	19,935	-	(88)	19,847
Engineering Technologies	44,321	-	(676)	43,645
Electronics	33,235	-	(1,025)	32,210
Hydraulics	3,059	-	-	3,059
Total	$ 157,354	$ 5,452	$ (1,789)	$ 161,017

7)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
December 31, 2016				
Cost	$ 61,756	$ 18,334	$ 4,355	$ 84,445
Accumulated amortization	(26,234)	-	(2,762)	(28,996)
Balance, December 31, 2016	$ 35,522	$ 18,334	$ 1,593	$ 55,449
June 30, 2016				
Cost	$ 46,297	$ 17,263	$ 4,471	$ 68,031
Accumulated amortization	(24,892)	-	(2,727)	(27,619)
Balance, June 30, 2015	$ 21,405	$ 17,263	$ 1,744	$ 40,412

Amortization expense for the three months ended December 31, 2016 and 2015 was $1.1 million and $0.8 million, respectively. Amortization expense for the six months ended December 31, 2016 and 2015 was $2.0 million and $1.6 million, respectively. At December 31, 2016, amortization expense of current intangible assets is estimated to be $2.2 million for the remainder of fiscal year 2017, $4.6 million in 2018, $4.6 million in 2019, $4.1 million in 2020, $3.6 million in 2021 and $17.8 million thereafter.

8)

Warranties

The expected cost associated with warranty obligations on our products is recorded as a component of cost of sales 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, as of December 31, 2016 and year ended June 30, 2016, were as follows (in thousands):

	December 31, 2016	June 30, 2016
Balance at beginning of year	$ 9,085	$ 7,436
Acquisitions and other	296	(5)
Warranty expense	3,965	13,503
Warranty claims	(4,481)	(11,849)
Balance at end of period	$ 8,865	$ 9,085

9)

Debt

Long-term debt is comprised of the following (in thousands):

	December 31, 2016		June 30, 2016	
Bank credit agreements	$	125,000	$	93,000
Other		12		18
Total funded debt		125,012		93,018
Issuance Cost		(717)		(904)
Total long-term debt	$	124,295	$	92,114

The Company s debt payments are due as follows (in thousands):

Fiscal Year	December 31, 2016	
2017	$	6
2018		6
2019		-
2020	125,000	
2021		-
Thereafter		-
Funded Debt		125,012
Issuance cost		(717)
Debt net of issuance cost	$	124,295

Bank Credit Agreements

During fiscal year 2015, 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.

At December 31, 2016, the Company had standby letters of credit outstanding, primarily for insurance purposes, of $8.4 million and had the ability to borrow $213.1 million based on the trailing twelve months EBITDA per the credit agreement. At December 31, 2016, 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 $50 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 1.43% at December 31, 2016. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands, except percentages):

				Fair Value	
Effective Date	**Notional Amount**	**Fixed Rate**	**Maturity**	**December 31, 2016**	**June 30, 2016**
December 19, 2014	20,000	1.18%	December 19, 2017	$ (47)	$ (201)
December 19, 2014	5,000	1.20%	December 19, 2017	(13)	(52)
December 18, 2015	15,000	1.46%	December 19, 2018	(68)	(325)
December 19, 2015	10,000	2.01%	December 19, 2019	(158)	(460)
				$ (286)	$ (1,038)

The Company reported no losses for the three and six months ended December 31, 2016, 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 Unaudited Condensed Consolidated Statements of Operations. At December 31, 2016 and June 30, 2016, the Company had outstanding forward contracts related to hedges of intercompany loans with both net unrealized gain (losses) of $(0.1) million, 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, 2016**	**June 30, 2016**
Euro	199,904	2,476,683
British Pound Sterling	247,852	593,799

The table below presents the fair value of derivative financial instruments as well as their classification on the Unaudited Condensed Consolidated Balance Sheets (in thousands):

	Asset Derivatives			
	December 31, 2016		**June 30, 2016**	
Derivative designated as hedging instruments	**Balance Sheet Line Item**	**Fair Value**	**Balance Sheet Line Item**	**Fair Value**
Foreign exchange contracts	Other Assets	$ 1	Other Assets	$ 11

	Liability Derivatives			
	December 31, 2016		**June 30, 2016**	
Derivative designated as hedging instruments	**Balance Sheet Line Item**	**Fair Value**	**Balance Sheet Line Item**	**Fair Value**
Interest rate swaps	Accrued Liabilities	$ 286	Accrued Liabilities	$ 1,038
	Accrued Liabilities	70	Accrued Liabilities	94

Foreign exchange contracts	$	356	$	1,132

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,	
	2016	2015	2016	2015
Interest rate swaps	$ 465	$ 307	$ 628	$ (245)
Foreign exchange contracts	28	127	(74)	201
	$ 493	$ 434	$ 554	$ (44)

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 Unaudited Condensed Statements of Operations
	2016	2015	2016	2015	
Interest rate swaps	$ 110	$ 138	$ 229	$ 266	Interest expense
Foreign exchange contracts	(27)	(31)	75	(39)	Cost of Sales
	$ 83	$ 107	$ 304	$ 227	

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, 2016 and 2015 consisted of the following components (in thousands):

	U.S. Plans Three Months Ended December 31,		**Non-U.S. Plans Three Months Ended December 31,**	
	2016	**2015**	**2016**	**2015**
Service cost	$ 1	$ 16	$ 9	$ 8
Interest cost	2,613	2,873	250	363
Expected return on plan assets	(3,440)	(3,465)	(282)	(330)
Recognized net actuarial loss	1,190	995	249	213
Amortization of prior service cost	-	3	(12)	(12)
Net periodic benefit cost	$ 364	$ 422	$ 214	$ 242

	U.S. Plans Six Months Ended December 31,		**Non-U.S. Plans Six Months Ended December 31,**	
	2016	**2015**	**2016**	**2015**
Service cost	$ 2	$ 34	$ 19	$ 17
Interest cost	5,226	5,745	514	734
Expected return on plan assets	(6,881)	(6,932)	(579)	(667)
Recognized net actuarial loss	2,381	1,990	511	430
Amortization of prior service cost	-	7	(24)	(24)
Net periodic benefit cost	$ 728	$ 844	$ 441	$ 490

The Company expects to pay $1.3 million in contributions to its defined benefit plans during fiscal 2017. Contributions of $0.4 million and $0.6 million were made during the three and six months ended December 31, 2016 compared to $0.3 million and $0.6 million during the three and six months ended December 31, 2015, respectively. Required contributions of $0.7 million will be paid to the Company s U.K. defined benefit plan during 2017. The Company also expects to make contributions of $0.3 million to each of its unfunded defined benefit plans in the U.S. and Germany, respectively, during the remainder of the current fiscal year.

12)

Income Taxes

The Company's effective tax rate from continuing operations for the second quarter of 2017 was 19.3% compared with 20.3% for the prior year quarter. The effective tax rate in 2017 was lower due to the jurisdictional mix of income where more income is being taxed outside of the U.S. at lower tax rates than in the prior year quarter.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2016 was 24.9% compared with 25.3% for the prior year. The effective tax rate for the year to date was lower due to the same jurisdictional mix.

13)

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributable to unvested stock units outstanding, if dilutive.

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,**	
	2016	**2015**	**2016**	**2015**
Basic - Average shares outstanding	12,659	12,692	12,668	12,675
Dilutive effect of unvested, restricted stock awards	95	99	104	102
Diluted - Average shares outstanding	12,754	12,791	12,772	12,777

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, 2016 and 2015, respectively.

Performance stock units of 29,607 and 30,764 for the six months ended December 31, 2016 and 2015, 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 income (loss) are as follows (in thousands):

		December 31, 2016		June 30, 2016
Foreign currency translation adjustment	$	(36,242)	$	(24,636)
Unrealized pension losses, net of tax		(90,342)		(92,698)
Unrealized losses on derivative instruments, net of tax		(110)		(641)
Total	$	(126,694)	$	(117,975)

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 an aggregation of eight operating segments that manufacture and sell commercial food service equipment;

Engraving provides mold texturizing, slush molding tools, project management and design services, roll engraving, hygiene product tooling, low observation vents for stealth aircraft, and process machinery for a number of industries;

Engineering Technologies provides net and near net formed single-source customized solutions in the manufacture of engineered components for the aviation, aerospace, defense, energy, industrial, medical, marine, oil and gas, and manned and unmanned space markets.

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

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

Net sales and income from continuing operations by segment for the three and six months ended December 31, 2016 and 2015 were as follows (in thousands):

	Three Months Ended December 31,							
	Net Sales				**Income from Operations**			
	2016		**2015**		**2016**		**2015**	
Segment:								
Food Service Equipment	$	92,200	$	90,936	$	7,206	$	6,704
Engraving		25,861		31,935		6,510		7,443
Engineering Technologies		18,549		20,711		1,877		2,093
Electronics		28,497		28,350		6,091		4,525
Hydraulics		8,747		10,016		979		1,519
Restructuring costs						(1,664)		(1,477)
Acquisition-related costs						(1,503)		-
Corporate						(6,262)		(4,745)
Sub-total	$	173,854	$	181,948	$	13,234	$	16,062
Interest expense						(850)		(731)
Other non-operating income						332		294
Income from continuing operations before income taxes					$	12,716	$	15,625

	Six Months Ended December 31,							
	Net Sales				**Income from Operations**			
	2016		**2015**		**2016**		**2015**	
Segment:								
Food Service Equipment	$	184,852	$	198,149	$	16,694	$	20,728

Engraving	52,591	65,456	13,907	17,350
Engineering Technologies	37,269	39,422	3,372	2,768
Electronics	59,148	56,336	12,565	10,075
Hydraulics	19,594	20,983	3,108	3,495
Restructuring costs			(2,058)	(2,996)
Acquisition-related costs			(1,503)	-
Corporate			(13,081)	(12,255)
Sub-total	$ 353,454	$ 380,346	$ 33,004	$ 39,165
Interest expense			(1,547)	(1,375)
Other non-operating income			766	484
Income from continuing operations before income taxes			$ 32,223	$ 38,274

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

The Company s identifiable assets at December 31, 2016 and June 30, 2016 are as follows (in thousands):

	December 31, 2016	June 30, 2016 *
Food Service Equipment	$ 231,946	$ 206,875
Engraving	119,902	117,026
Engineering Technologies	146,527	147,866
Electronics	114,416	114,001
Hydraulics	18,642	19,084
Corporate & Other	79,296	85,605
Total	$ 710,729	$ 690,457

* The identified assets as of June 30, 2016 for certain segments have been revised from amounts previously reported due to certain immaterial allocation differences.

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, 2016	Six Months Ended December 31, 2016

Fiscal 2017	Involuntary Employee Severance and Benefit Costs	Other	Total	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring initiatives	$ 1,117	$ 492	$ 1,609	$ 1,146	$ 828	$ 1,974
Prior year initiatives	-	55	55	-	84	84
	$					