

SENSIENT TECHNOLOGIES CORP

Form 10-Q

August 08, 2008

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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, 2008

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 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
Common Stock, par value \$0.10 per share

Outstanding at July 31, 2008
48,297,687

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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,	
	2008	2007	2008	2007
Revenue	\$ 332,795	\$ 304,310	\$ 640,214	\$ 589,578
Cost of products sold	231,073	209,834	442,850	408,954
Selling and administrative expenses	56,869	54,485	112,878	106,421
Operating income	44,853	39,991	84,486	74,203
Interest expense	8,480	9,470	17,058	18,722
Earnings before income taxes	36,373	30,521	67,428	55,481
Income taxes	10,913	9,288	21,291	16,902
Net earnings	\$ 25,460	\$ 21,233	\$ 46,137	\$ 38,579
Average number of common shares outstanding:				
Basic	47,569	46,655	47,434	46,529
Diluted	48,166	47,149	47,986	47,029
Earnings per common share:				
Basic	\$.54	\$.46	\$.97	\$.83
Diluted	\$.53	\$.45	\$.96	\$.82
Dividends per common share	\$.18	\$.16	\$.36	\$.32

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (In thousands)

	June 30, 2008 (Unaudited)	December 31, 2007 *
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,280	\$ 10,522
Trade accounts receivable, net	230,558	196,458
Inventories	382,711	361,534
Prepaid expenses and other current assets	45,250	41,530
TOTAL CURRENT ASSETS	668,799	610,044
OTHER ASSETS	43,800	44,404
INTANGIBLE ASSETS, NET	14,960	14,789
GOODWILL	493,366	476,611
PROPERTY, PLANT AND EQUIPMENT:		
Land	50,231	46,013
Buildings	269,084	259,830
Machinery and equipment	640,416	612,265
Construction in progress	37,337	30,335
	997,068	948,443
Less accumulated depreciation	(564,318)	(530,109)
	432,750	418,334
TOTAL ASSETS	\$ 1,653,675	\$ 1,564,182
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 96,960	\$ 88,812
Accrued salaries, wages and withholdings from employees	20,071	23,684
Other accrued expenses	56,440	56,948
Income taxes	7,026	2,342
Short-term borrowings	51,056	57,487
TOTAL CURRENT LIABILITIES	231,553	229,273

OTHER LIABILITIES	29,504	26,670
ACCRUED EMPLOYEE AND RETIREE BENEFITS	46,493	44,197
LONG-TERM DEBT	458,381	449,621
SHAREHOLDERS EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	78,197	75,233
Earnings reinvested in the business	847,082	818,180
Treasury stock, at cost	(122,229)	(132,358)
Accumulated other comprehensive income	79,298	47,970
TOTAL SHAREHOLDERS EQUITY	887,744	814,421
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,653,675	\$ 1,564,182

See accompanying notes to consolidated condensed financial statements.

* Condensed from
audited financial
statements.

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

	Six Months Ended June 30,	
	2008	2007
Net cash provided by operating activities	\$ 38,486	\$ 48,817
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(22,876)	(15,629)
Proceeds from sale of assets	25	1,420
Decrease in other assets	1,410	462
Net cash used in investing activities	(21,441)	(13,747)
Cash flows from financing activities:		
Proceeds from additional borrowings	9,052	25,191
Debt payments	(21,562)	(52,876)
Dividends paid	(17,235)	(15,003)
Proceeds from options exercised	11,785	7,985
Net cash used in financing activities	(17,960)	(34,703)
Effect of exchange rate changes on cash and cash equivalents	673	518
Net (decrease) increase in cash and cash equivalents	(242)	885
Cash and cash equivalents at beginning of period	10,522	5,035
Cash and cash equivalents at end of period	\$ 10,280	\$ 5,920

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, 2008 and December 31, 2007, the results of operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007. 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 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, 2007, 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 for the item discussed in Note 3.

2. Share-Based Compensation

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, on January 1, 2006, using the modified prospective transition method. The Company recognized \$0.6 million and \$0.3 million of share-based compensation expense for the quarters ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008 and 2007, the Company recognized \$0.8 million and \$1.8 million of share-based compensation expense, respectively.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. Grants during the six months ended June 30, 2008 and 2007 had weighted-average fair values of \$6.77 and \$5.81 per share, respectively. Significant assumptions used in estimating the fair value of the awards granted during the six months ended June 30 are as follows:

	2008	2007
Dividend yield	2.3%	2.7%
Volatility	26.3%	26.0%
Risk-free interest rate	3.1%	4.8%
Expected term (years)	5.3	5.0

3. Fair Value Measurements

On January 1, 2008 the Company adopted FASB Statement No. 157, *Fair Value Measurements*. This Statement defines fair value for financial assets and liabilities, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. As of June 30, 2008, the Company's only assets and liabilities subject to this statement are forward contracts (all currently

accounted for as cash flow hedges) and mutual fund investments. Both of these financial instruments were previously being recorded by the Company at fair value that meets the requirements as defined by FASB Statement No. 157. Accordingly, there is no impact on the Company's net earnings and financial position as a result of adopting this standard. The fair value of the forward contracts based on current pricing obtained for comparable derivative products (Level 2 inputs per Statement No. 157) at June 30, 2008 was an asset of \$0.9 million. The fair value of the investments based on June 30, 2008 market quotes (Level 1 inputs per Statement No. 157) was an asset of \$16.4 million.

The Company reviewed Financial Accounting Standards Board (FASB) Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities*, which permits companies to choose to measure many financial instruments and certain other items at fair value. The Company chose not to elect the fair value option for any

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assets and liabilities not currently valued at fair value and determined that this statement does not have an impact on its financial statements and disclosures.

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, 2008:				
Revenue from external customers	\$ 209,675	\$ 103,794	\$ 19,326	\$ 332,795
Intersegment revenue	4,747	3,547	937	9,231
Total revenue	\$ 214,422	\$ 107,341	\$ 20,263	\$ 342,026
Operating income (loss)	\$ 33,944	\$ 19,288	\$ (8,379)	\$ 44,853
Interest expense			8,480	8,480
Earnings (loss) before income taxes	\$ 33,944	\$ 19,288	\$ (16,859)	\$ 36,373
Three months ended June 30, 2007:				
Revenue from external customers	\$ 194,630	\$ 92,987	\$ 16,693	\$ 304,310
Intersegment revenue	4,214	2,831	708	7,753
Total revenue	\$ 198,844	\$ 95,818	\$ 17,401	\$ 312,063
Operating income (loss)	\$ 30,341	\$ 17,157	\$ (7,507)	\$ 39,991
Interest expense			9,470	9,470
Earnings (loss) before income taxes	\$ 30,341	\$ 17,157	\$ (16,977)	\$ 30,521
Six months ended June 30, 2008:				
Revenue from external customers	\$ 400,583	\$ 202,296	\$ 37,335	\$ 640,214
Intersegment revenue	9,042	7,816	1,519	18,377
Total revenue	\$ 409,625	\$ 210,112	\$ 38,854	\$ 658,591
Operating income (loss)	\$ 62,739	\$ 37,793	\$ (16,046)	\$ 84,486
Interest expense			17,058	17,058
Earnings (loss) before income taxes	\$ 62,739	\$ 37,793	\$ (33,104)	\$ 67,428

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Six months ended June 30, 2007:

Revenue from external customers	\$ 371,253	\$ 186,129	\$ 32,196	\$ 589,578
Intersegment revenue	8,104	5,881	1,349	15,334
Total revenue	\$ 379,357	\$ 192,010	\$ 33,545	\$ 604,912
Operating income (loss)	\$ 55,778	\$ 34,270	\$ (15,845)	\$ 74,203
Interest expense			18,722	18,722
Earnings (loss) before income taxes	\$ 55,778	\$ 34,270	\$ (34,567)	\$ 55,481

Beginning in the first quarter of 2008, the Company's operations in China, previously reported in the Flavors & Fragrances Group, are reported in the Corporate and Other segment. Results for 2007 have been restated to reflect this change.

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5. Inventories

At June 30, 2008 and December 31, 2007, inventories included finished and in-process products totaling \$279.0 million and \$266.3 million, respectively, and raw materials and supplies of \$103.7 million and \$95.2 million, respectively.

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,	
	2008	2007	2008	2007
Service cost	\$ 338	\$ 261	\$ 669	\$ 523
Interest cost	751	599	1,498	1,196
Expected return on plan assets	(291)	(160)	(578)	(319)
Amortization of prior service cost	488	484	975	968
Amortization of actuarial loss	58	49	116	97
Defined benefit expense	\$ 1,344	\$ 1,233	\$ 2,680	\$ 2,465

During the three and six months ended June 30, 2008, the Company made contributions to its defined benefit pension plans of \$0.9 million and \$2.3 million. Total contributions to Company defined benefit pension plans are expected to be \$5.9 million in 2008.

7. Comprehensive Income

Comprehensive income is comprised of the following:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net earnings	\$ 25,460	\$ 21,233	\$ 46,137	\$ 38,579
Currency translation adjustments	2,966	13,353	30,145	15,064
Net				