SENSIENT TECHNOLOGIES CORP
Form 10-Q
May 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: March 31, 2006

OR

o **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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 April 28, 2006
Common Stock, par value $0.10 per share	46,346,697 shares

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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 Ended March 31,	
	2006	2005
Revenue	$ 262,924	$ 250,877
Cost of products sold	183,485	176,185
Selling and administrative expenses	48,664	49,814
Operating income	30,775	24,878
Interest expense	8,708	8,724
Earnings before income taxes	22,067	16,154
Income taxes	6,449	3,323
Net earnings	$ 15,618	$ 12,831
Average number of common shares outstanding:		
Basic	45,805	46,735
Diluted	45,972	47,167
Earnings per common share:		
Basic	$ .34	$ .27
Diluted	$ .34	$ .27
Dividends per common share	$ .15	$ .15

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	March 31, 2006 (Unaudited)	December 31, 2005 *
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,852	$ 7,068
Trade accounts receivable, net	173,765	163,724
Inventories	304,827	313,513
Prepaid expenses and other current assets	36,526	36,039
TOTAL CURRENT ASSETS	517,970	520,344
OTHER ASSETS	60,754	63,384
INTANGIBLE ASSETS, NET	14,665	14,964
GOODWILL	423,113	420,201
PROPERTY, PLANT AND EQUIPMENT:		
Land	34,559	33,351
Buildings	233,749	232,301
Machinery and equipment	534,032	532,852
Construction in progress	18,051	13,779
	820,391	812,283
Less accumulated depreciation	(448,744)	(437,060)
	371,647	375,223
TOTAL ASSETS	$ 1,388,149	$ 1,394,116
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 73,091	$ 77,080
Accrued salaries, wages and withholdings from employees	13,454	15,249
Other accrued expenses	52,370	53,432
Income taxes	18,502	21,610
Short-term borrowings	56,229	63,218
Current maturities of long-term debt	209,406	207,341

TOTAL CURRENT LIABILITIES	423,052	437,930
DEFERRED INCOME TAXES	4,815	4,881
OTHER LIABILITIES	4,280	3,974
ACCRUED EMPLOYEE AND RETIREE BENEFITS	43,038	41,980
LONG-TERM DEBT	280,726	283,123
SHAREHOLDERS EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	66,856	71,582
Earnings reinvested in the business	745,213	736,544
Treasury stock, at cost	(155,423)	(152,727)
Nonvested stock		(5,965)
Accumulated other comprehensive (loss) income	(29,804)	(32,602)
TOTAL SHAREHOLDERS EQUITY	632,238	622,228
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,388,149	$ 1,394,116

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)

	Three Months Ended March 31,	
	2006	2005
Net cash provided by operating activities	$ 20,782	$ 20,285
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(4,383)	(6,500)
Proceeds from sale of assets	64	
Decrease in other assets	512	184
Net cash used in investing activities	(3,807)	(6,316)
Cash flows from financing activities:		
Proceeds from additional borrowings	22,624	18,767
Debt and capital lease payments	(32,455)	(24,110)
Purchase of treasury stock	(4,563)	
Dividends paid	(6,949)	(7,063)
Proceeds from options exercised		891
Net cash used in financing activities	(21,343)	(11,515)
Effect of exchange rate changes on cash and cash equivalents	152	(119)
Net (decrease) increase in cash and cash equivalents	(4,216)	2,335
Cash and cash equivalents at beginning of period	7,068	2,243
Cash and cash equivalents at end of period	$ 2,852	$ 4,578

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, in the opinion of Company management, necessary to present fairly the financial position of the Company as of March 31, 2006 and December 31, 2005, the results of operations for the three months ended March 31, 2006 and 2005, and cash flows for the three months ended March 31, 2006 and 2005. 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 financials 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.

Certain amounts as previously presented have been reclassified to conform to the current period presentation. The effect of these reclassifications is not material to the condensed financial statements.

Refer to the notes in the Company s annual consolidated financial statements for the year ended December 31, 2005, for additional details of the Company s financial condition and a description of the Company s accounting policies.

2. Stock-Based Compensation

The Company has various stock option plans under which employees and directors may be granted options to purchase common stock at 100% of the market price on the day the options are granted. As of March 31, 2006, there are 1.4 million shares available to be granted as future stock options under existing stock plans. Stock options become exercisable over a three-year vesting period or upon retirement and expire 10 years from the date of grant.

Awarded shares of nonvested stock become freely transferable at the earlier of five years from the date of grant or upon retirement after the participant attains age 65. During the period of restriction, the holder of restricted stock has voting rights and is entitled to receive all dividends and other distributions paid with respect to the stock.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, on January 1, 2006. SFAS No. 123(R) requires stock-based compensation to be expensed over the vesting period of the awards based on the grant-date fair value. The Company elected to adopt using the modified prospective transition method which does not result in the restatement of previously issued financial statements. The provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. In addition, compensation expense must be recognized for any unvested stock option awards outstanding as of the date of adoption.

Prior to January 1, 2006, the Company accounted for stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation expense had been recognized for stock options because all options granted had an exercise price equal to the market value of the underlying stock on the grant date.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. Significant assumptions used in estimating the fair value of awards granted during the first quarter ended March 31, 2006 and 2005, are as follows:

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	2006	2005
Dividend yield	3.3%	2.8%
Volatility	27.4%	29.2%
Risk-free interest rate	4.8%	4.2%
Expected term (years)	5.2	5.1

Total pre-tax stock-based compensation recognized in the Consolidated Condensed Statements of Earnings was $1.3 million and $0.4 million for the first quarter ending March 31, 2006 and March 31, 2005, respectively. Tax related benefits of $0.4 million and $0.2 million were also recognized for the first quarter of 2006 and 2005, respectively. Amounts recorded in 2005 primarily represent expenses related to nonvested stock awards because no expense was recognized for stock options. There were no option exercises during the first quarter of 2006. Cash received from the exercise of stock options was $0.9 million for the first quarter of 2005 and is reflected in cash flows from financing activities in the Consolidated Condensed Statements of Cash Flows.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company s earnings before income taxes and net earnings for the period ended March 31, 2006, are $0.5 million and $0.3 million lower, respectively, than if the Company had continued to account for stock-based compensation under APB No. 25. Basic and diluted earnings per share for the period ended March 31, 2006, both would have been $.35, if the Company had not adopted SFAS No. 123(R).

The following table illustrates the pro forma effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation for the quarter ended March 31, 2005:

(in thousands except per share information)		Three Months Ended March 31, 2005
Net earnings, as reported	$	12,831
Add: reported stock compensation expense net of tax		242
Less: fair value stock compensation expense net of tax		(1,588)
Pro forma net earnings	$	11,485
Earnings per share:		
Basic as reported	$	.27
Basic pro forma	$	.25
Diluted as reported	$	.27
Diluted pro forma	$	.24

The pro forma expense for the three months ended March 31, 2005, included $1.0 million after-tax compensation expense related to accelerated amortization for retirement eligible participants, as the Company s stock compensation plans provide for full vesting of awards at retirement. Beginning in the first quarter of 2005, stock compensation expense for retirement eligible participants was reported in pro forma net earnings over the lesser of three years or until the participant achieves early retirement age. Previously, this expense was recognized over the vesting period, which was three years.

The following table summarizes the transactions of the stock option plans for the quarter ended March 31, 2006:

(In thousands except exercise price and life)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	3,231	$ 20.62	5.8	$ 376
Granted	89	19.03		
Exercised				
Cancelled	(109)	20.45		
Outstanding at March 31, 2006	3,211	$ 20.58	5.8	$ 410
Exercisable at March 31, 2006	2,532	$ 20.61	4.9	$ 410

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The aggregate intrinsic value of stock options exercised during the first quarter ended March 31, 2005, was $88,000. There were no stock options exercised during the first quarter ended March 31, 2006.

As of March 31, 2006, total remaining unearned compensation related to unvested stock options was $1.4 million, which will be amortized over the weighted-average remaining service period of 2.1 years.

The Company had 456,100 shares of nonvested stock outstanding at January 1, 2006 and March 31, 2006. The weighted-average grant-date fair value of these shares was $20.26 per share. The fair value of the nonvested shares at the date of grant is amortized over the vesting period but not exceeding age 65 of the participant. As of March 31, 2006, total remaining unearned compensation related to nonvested stock was $5.2 million, which will be amortized over the weighted-average remaining service period of 2.3 years.

SFAS No. 123(R) requires the cash flows from the excess tax benefits the Company realizes on the exercise of stock options to be presented as cash flows from financing activities in the Consolidated Condensed Statements of Cash Flows. Previously, the entire tax benefit related to the exercise of stock options was reported as cash flows from operating activities. The prior year statement of cash flows has not been restated. The tax benefits on the exercise of stock options for the quarter ended March 31, 2005, presented as cash flows from operating activities, were not material.

3. Segment Information

Operating results and the related assets by segment for the periods and at the dates presented are as follows:

(In thousands)	Flavors & Fragrances	Color	Corporate & Other	Consolidated
Three months ended March 31, 2006:				
Revenues from external customers	$ 167,483	$ 85,797	$ 9,644	$ 262,924
Intersegment revenues	3,031	3,359	360	6,750
Total revenue	$ 170,514	$ 89,156	$ 10,004	$ 269,674
Operating income (loss)	$ 22,893	$ 15,845	$ (7,963)	$ 30,775
Interest expense			8,708	8,708
Earnings (loss) before income taxes	$ 22,893	$ 15,845	$ (16,671)	$ 22,067
Three months ended March 31, 2005:				
Revenues from external customers	$ 155,000	$ 85,856	$ 10,021	$ 250,877
Intersegment revenues	3,385	4,204	520	8,109
Total revenue	$ 158,385	$ 90,060	$ 10,541	$ 258,986
Operating income (loss)	$ 20,539	$ 14,764	$ (10,425)	$ 24,878
Interest expense			8,724	8,724
Earnings (loss) before income taxes	$ 20,539	$ 14,764	$ (19,149)	$ 16,154

4. Inventories

At March 31, 2006 and December 31, 2005, inventories included finished and in-process products totaling $224.7 million and $234.1 million, respectively, and raw materials and supplies of $80.1 million and $79.4 million, respectively.

5. Restructuring Charges

In the fourth quarter of 2005, the Company announced a cost reduction plan intended to improve profitability and mitigate the impact of higher costs within its businesses. The plan also addressed the need to close facilities and reduce headcount. The Company recorded restructuring and other charges of $12.8 million ($9.8 million after tax, or $0.21 per share) primarily related to the cost reduction plan. During the three months ended March 31, 2006, approximately $3.8 million of payments, primarily for severance, have been applied to the restructuring and other charges reserve. The majority of the remaining payments are anticipated to be made later in 2006.

A rollforward of the restructuring and other charges reserve is included below:

(In thousands)	
December 31, 2005	$ 5,639
Amounts paid	(3,823)
March 31, 2006	$ 1,816

6. Retirement Plans

The Company s components of annual benefit cost for the defined benefit plans for the periods presented are as follows:

	Three Months Ended March 31,	
(In thousands)	2006	2005
Service cost	$ 277	$ 263
Interest cost	579	446
Expected return on plan assets	(199)	(83)
Amortization of prior service cost	320	320
Amortization of actuarial (gain)/loss	84	24
Settlement expense		15
Defined benefit expense	$ 1,061	$ 985

During the three months ended March 31, 2006, the Company made contributions to its defined benefit pension plans of $0.6 million. Total contributions to Company defined benefit pension plans are expected to be $2.2 million in 2006.

7. Shareholders Equity

During the three months ended March 31, 2006, the Company repurchased 200,949 shares of common stock for an aggregate price of $3.6 million. The Company did not repurchase any shares of its common stock during the three months ended March 31, 2005.

Comprehensive income (loss) is comprised of the following:

	Three Months Ended March 31,	
(In thousands)	2006	2005
Net earnings	$ 15,618	$ 12,831
Currency translation adjustments	2,930	(15,434)
Net unrealized (loss) gain on cash flow hedges	(133)	1,012

Net comprehensive income (loss)	$ 18,415	$ (1,591)

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8. Cash Flows from Operating Activities

Cash flows from operating activities are detailed below:

	Three Months Ended March 31,	
(In thousands)	2006	2005
Cash flows from operating activities:		
Net earnings	$ 15,618	$ 12,831
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	10,973	11,642
Stock-based compensation	1,336	369
Changes in operating assets and liabilities	(7,145)	(4,557)