STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
May 01, 2015

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 March 31, 2015

[ ]

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 April 27, 2015 was 12,777,465

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PART I.

FINANCIAL INFORMATION:

PART I. FINANCIAL INFORMATION
ITEM 1

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except per share data)		**March 31, 2015**		**June 30, 2014**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	83,986	$	74,260
Accounts receivable, net of reserve for doubtful accounts of $2,281 and $2,282 at March 31, 2015 and June 30, 2014		103,008		107,674
Inventories		115,482		97,065
Prepaid expenses and other current assets		6,314		7,034
Income taxes receivable		2,316		922
Deferred tax asset		13,269		12,981
Total current assets		324,375		299,936
Property, plant, and equipment, net		109,371		96,697
Intangible assets, net		38,257		31,490
Goodwill		151,783		125,965
Deferred tax asset		915		878
Other non-current assets		24,942		23,194
Total non-current assets		325,268		278,224
Total assets	$	649,643	$	578,160
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$	68,956	$	85,206
Accrued expenses		43,875		51,038
Income taxes payable		7,531		4,926
Total current liabilities		120,362		141,170
Long-term debt		129,835		45,056
Accrued pension and other non-current liabilities		53,134		51,208
Total non-current liabilities		182,969		96,264
Stockholders' equity:				
Common stock, par value $1.50 per share, 60,000,000				

shares authorized, 27,984,278 issued, 12,657,128 and 12,639,615 outstanding at March 31, 2015 and June 30, 2014		41,976		41,976
Additional paid-in capital		46,311		43,388
Retained earnings		618,019		584,014
Accumulated other comprehensive loss		(79,991)		(55,819)
Treasury shares: 15,327,150 shares at March 31, 2015 and 15,344,663 shares at June 30, 2014		(280,003)		(272,833)
Total stockholders' equity		346,312		340,726
Total liabilities and stockholders' equity	$	649,643	$	578,160

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)		Three Months Ended March 31, 2015		Three Months Ended March 31, 2014		Nine Months Ended March 31, 2015		Nine Months Ended March 31, 2014
Net sales	$	180,999	$	174,160	$	572,363	$	518,840
Cost of sales		123,741		116,588		390,193		344,969
Gross profit		57,258		57,572		182,170		173,871
Selling, general, and administrative expenses		39,028		41,743		124,836		123,352
Restructuring costs		398		1,381		2,354		5,831
Other operating (income) expense, net		-		-		59		(1,962)
Total operating expenses		39,426		43,124		127,249		127,221
Income from operations		17,832		14,448		54,921		46,650
Interest expense		(938)		(557)		(2,369)		(1,709)
Other non-operating income (expense)		103		3,457		556		3,977
Income from continuing operations before income taxes		16,997		17,348		53,108		48,918
Provision for income taxes		4,232		4,082		14,153		12,812
Income from continuing operations		12,765		13,266		38,955		36,106
Income (loss) from discontinued operations, net of income taxes		(139)		(46)		(593)		(3,287)
Net income (loss)	$	12,626	$	13,220	$	38,362	$	32,819
Basic earnings (loss) per share:								
Continuing operations	$	1.01	$	1.05	$	3.08	$	2.86
Discontinued operations		(0.01)		-		(0.05)		(0.26)
Total	$	1.00	$	1.05	$	3.03	$	2.60
Diluted earnings (loss) per share:								
Continuing operations	$	1.00	$	1.04	$	3.04	$	2.83
Discontinued operations		(0.01)		-		(0.05)		(0.26)
Total	$	0.99	$	1.04	$	2.99	$	2.57
Cash dividends per share	$	0.12	$	0.10	$	0.34	$	0.28

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	$ 12,626	$ 13,220	$ 38,362	$ 32,819
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	582	(53)	1,548	(811)
Amortization of unrecognized costs	1,165	1,102	3,524	3,625
Derivative instruments:				
Change in unrealized gains and (losses)	(448)	(47)	(550)	(167)
Amortization of unrealized gains and (losses) into interest expense	296	252	802	774
Foreign currency translation gains (losses)	(12,188)	(945)	(27,721)	4,027
Other comprehensive income (loss) before tax	(10,593)	309	(22,397)	7,448
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	(135)	12	(423)	479
Amortization of unrecognized costs	(415)	(388)	(1,255)	(1,287)
Derivative instruments:				
Change in unrealized gains and (losses)	171	18	210	63
Amortization of unrealized gains and (losses) into interest expense	(113)	(96)	(307)	(294)
Income tax provision (benefit) to other comprehensive income (loss)	(492)	(454)	(1,775)	(1,039)
Other comprehensive income (loss), net of tax	(11,085)	(145)	(24,172)	6,409
Comprehensive income (loss)	$ 1,541	$ 13,075	$ 14,190	$ 39,228

See notes to unaudited condensed consolidated financial statements

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STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended March 31, 2015		Nine Months Ended March 31, 2014	
Cash flows from operating activities				
Net income	$	38,362	$	32,819
(Income) loss from discontinued operations		593		3,287
Income from continuing operations		38,955		36,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		12,602		11,032
Stock-based compensation		2,806		5,454
Non-cash portion of restructuring charge		(215)		3,755
Excess tax benefit from share-based payment activity		(1,644)		(1,498)
Gain from sale of real estate		-		925
Life insurance benefit		-		(3,353)
Contributions to defined benefit plans		(1,069)		(1,093)
Net changes in operating assets and liabilities		(28,360)		(16,125)
Net cash provided by (used in) operating activities - continuing operations		23,075		35,203
Net cash provided by (used in) operating activities - discontinued operations		(1,818)		(1,352)
Net cash provided by (used in) operating activities		21,257		33,851
Cash flows from investing activities				
Expenditures for property, plant, and equipment		(18,847)		(15,697)
Expenditures for acquisitions, net of cash acquired		(57,149)		-
Other investing activity		1,197		617
Net cash (used in) investing activities - continuing operations		(74,799)		(15,080)
Net cash (used in) investing activities - discontinued operations		-		(587)
Net cash (used in) investing activities		(74,799)		(15,667)
Cash flows from financing activities				
Borrowings on revolving credit facility		267,500		50,000
Payments of revolving credit facility		(182,700)		(55,000)
Activity under share-based payment plans		675		353
		1,644		1,498

Excess tax benefit from share-based payment activity				
Purchases of treasury stock		(9,835)		(5,548)
Cash dividends paid		(4,301)		(3,529)
Net cash provided by (used in) financing activities		72,983		(12,226)
Effect of exchange rate changes on cash and cash equivalents		(9,715)		465
Net change in cash and cash equivalents		9,726		6,423
Cash and cash equivalents at beginning of year		74,260		51,064
Cash and cash equivalents at end of period	$	83,986	$	57,487
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the year for:				
Interest	$	1,849	$	1,386
Income taxes, net of refunds	$	10,474	$	11,408

See notes to unaudited condensed consolidated financial statements

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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 nine months ended March 31, 2015 and 2014, the cash flows for the nine months ended March 31, 2015 and 2014 and the financial position of Standex International Corporation (Standex or the Company), at March 31, 2015. The interim results are not 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, 2014. The condensed consolidated balance sheet at June 30, 2014 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, 2014. There have been no changes to our Summary of Accounting Policies subsequent to June 30, 2014. Unless otherwise noted, references to years are to the Company s fiscal years.

2)

Acquisition

On September 4, 2014, the Company acquired Enginetics Corporation (Enginetics), a leading producer of aircraft engine components for all major aircraft platforms. This investment complements our Engineering Technologies Group and allows us to provide broader solutions to the aviation market.

The Company paid $55.0 million in cash for 100% of the outstanding stock of MPE Aeroengines Inc, of which Enginetics is a wholly owned subsidiary and has preliminarily recorded intangible assets of $10.6 million, consisting of $9.1 million of customer relationships which are expected to be amortized over a period of fifteen years and $1.5 million of trademarks which are indefinite-lived. Acquired goodwill of $33.1 million is not deductible for income tax purposes due to the nature of the transaction. As of March 31, 2015, the purchase price allocation is preliminary as the Company has not yet finalized the fair value of the acquired assets and contractual liabilities.

The components of the fair value of the Enginetics acquisition, including the preliminary allocation of the purchase price and subsequent measurement period adjustments, are as follows (in thousands):

Enginetics		**Preliminary Allocation**		**Adjustments**		**Allocation at March 31, 2015**
Fair value of business combination:						
Cash payments	$	55,021	$		$	55,021
Less: cash acquired		(113)				(113)
Total	$	54,908	$	-	$	54,908
Identifiable assets acquired and liabilities assumed:						
Current Assets	$	12,350	$	(216)	$	12,134
Property, plant, and equipment		8,881				8,881
Identifiable intangible assets		10,600				10,600
Goodwill		32,797		349		33,146
Other non-current assets		158				158
Liabilities assumed		(2,826)		(32)		(2,858)
Deferred taxes		(7,052)		(101)		(7,153)
Total	$	54,908	$	-	$	54,908

On June 20, 2014, the Company acquired all of the outstanding stock of Ultrafryer Systems, Inc. (Ultrafryer), a producer of commercial deep fryers for restaurant and commercial installations. This investment complements our Food Service Equipment Group s product line and allows us to provide broader solutions to restaurant chains and commercial food service installations.

The Company paid $23.0 million in cash for 100% of the stock of Ultrafryer and has recorded intangible assets of $7.6 million, consisting of $2.4 million of trademarks which are indefinite-lived, $4.9 million of customer relationships, and $0.3 million of other intangible assets which are expected to be amortized over a period of fifteen and three to five years, respectively. Acquired goodwill of $11.0 million is not deductible for income tax purposes due to the nature of the transaction.

The components of the fair value of the Ultrafryer acquisition, including the preliminary allocation of the purchase price and subsequent measurement periods adjustments, related to the purchase of land and building, at March 31, 2015, are as follows (in thousands):

Ultrafryer	**Preliminary Allocation**	**Adjustments**	**Final**
Fair value of business combination:			
Cash payments	$ 20,745	$ 2,241	$ 22,986
Less: cash acquired	(20)	-	(20)
Total	$ 20,725	$ 2,241	$ 22,966
Identifiable assets acquired and liabilities assumed:			
Current Assets	$ 5,871	$ 50	$ 5,921
Property, plant, and equipment	1,259	2,100	3,359
Identifiable intangible assets	7,612	-	7,612
Goodwill	10,930	91	11,021
Liabilities assumed	(1,733)	-	(1,733)
Deferred taxes	(3,214)	-	(3,214)
Total	$ 20,725	$ 2,241	$ 22,966

3)

Discontinued Operations

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

In June 2014, the Company divested the American Foodservice Company (AFS), a manufacturer of custom design and fabrication of counter systems and cabinets, in our Food Service Equipment Group segment.

Discontinued operations for the three and nine months ended March 31, 2015 and 2014 are as follows (in thousands):

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2015	**2014**	**2015**	**2014**
Net sales	$ -	$ 4,887	$ -	$ 16,062
Pre-tax earnings	(186)	(264)	(833)	(4,950)
(Provision) benefit for taxes	47	218	240	1,663
Net earnings (loss) from discontinued operations	$ (139)	$ (46)	$ (593)	$ (3,287)

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In connection with the divestiture of ADP in March 2012, the Company remained an obligor under a lease that was assumed in full by the buyer on a facility in Portland, OR. Pursuant to the transaction, the Company received a $3.0 million promissory note from the buyer. The note is secured by a mortgage on the ADP real estate sold in the transaction in Detroit Lakes, MN, Medina, NY, and Powder Springs, GA, and contains a cross-default provision against the lease. The Company remained the obligor of ADP s Philadelphia, PA facility and administrative offices, and sublet space to the buyer after the divestiture. The buyer terminated their obligation under the Philadelphia sublease beginning September 2014. On February 4, 2015 we entered into a one year two term, renewable, sublease agreement within this building. Our aggregate obligation with respect to both the Portland and Philadelphia leases is $2.0 million, of which $0.9 million was recorded as a liability at March 31, 2015. We do not expect to record additional charges related to these obligations.

Assets and liabilities related to discontinued operations appear in the condensed consolidated balance sheets are as follows (in thousands):

	March 31, 2015	June 30, 2014
Current assets	$ 19	$ 199
Other non-current assets	3,014	3,014
Accrued expenses	1,380	2,340
Accrued pension and other non-current liabilities	1,260	1,791

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 consolidated balance sheet 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.

During the three and nine months ended March 31, 2015, there were no transfers of assets or liabilities between level 1 and level 2 of the fair value measurement hierarchy. 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.

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Items presented at fair value at March 31, 2015 and June 30, 2014 consisted of the following (in thousands):

	March 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 2,269	$ 2,269	$ -	$ -
Foreign exchange contracts	2,332	-	2,332	-
Liabilities				
Interest rate swaps	$ 809	$ -	$ 809	$ -
Foreign exchange contracts	1,795	-	1,795	-

	June 30, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 3,114	$ 3,114	$ -	$ -
Foreign exchange contracts	356	-	356	-
Liabilities				
Interest rate swaps	$ 1,061	$ -	$ 1,061	$ -
Foreign exchange contracts	1,552	-	1,552	-

5)

Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2015	**June 30, 2014**
Raw materials	$ 49,297	$ 44,273
Work in process	32,263	24,551
Finished goods	33,922	28,241
Total	$ 115,482	$ 97,065

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations were $5.4 million and $17.9 million for the three and nine months ended March 31, 2015, respectively and $4.4 million and $15.0 million for the three and nine months ended March 31, 2014, respectively.

6)

Goodwill

Changes to goodwill during the nine months ended March 31, 2015 were as follows (in thousands):

	June 30, 2014		Acquisitions		Translation Adjustment		March 31, 2015	
Food Service Equipment Group	$	56,731	$	91	$	(14)	$	56,808
Engraving Group		20,716		-		(537)		20,179
Engineering Technologies Group		12,188		33,146		(1,601)		43,733
Electronics Products Group		33,272		-		(5,267)		28,005
Hydraulics Products Group		3,058		-		-		3,058
Total	$	125,965	$	33,237	$	(7,419)	$	151,783

7)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships		Trademarks		Other		Total	
March 31, 2015								
Cost	$	42,997	$	15,444	$	4,025	$	62,466
Accumulated amortization		(21,938)		-		(2,271)		(24,209)
Balance, March 31, 2015	$	21,059	$	15,444	$	1,754	$	38,257
June 30, 2014								
Cost	$	36,145	$	14,508	$	4,061	$	54,714
Accumulated amortization		(21,137)		-		(2,087)		(23,224)

Balance, June 30, 2014	$	15,008	$	14,508	$	1,974	$	31,490

Amortization expense for the three and nine months ended March 31, 2015 was $0.7 million and $2.1 million, respectively. Amortization expense for the three and nine months ended March 31 2014 was $0.6 million and $1.9 million, respectively. At March 31, 2015, amortization expense is estimated to be $0.6 million for the remainder of 2015, $3.1 million in 2016, $3.1 million in 2017, $2.9 million in 2018, $2.7 million in 2019, and $10.5 million thereafter.

8)

Warranties

The expected cost associated with warranty obligations on our products is recorded 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.

		March 31, 2015		**June 30, 2014**
Balance at beginning of year	$	6,941	$	6,782
Acquisitions and other		50		274
Warranty expense		8,335		3,937
Warranty claims		(8,014)		(4,052)
Balance at end of period	$	7,312	$	6,941

The changes in warranty reserve, which are recorded as a component of accrued liabilities, for the nine months ended March 31, 2015 and year ended June 30, 2014 were as follows (in thousands):

9)

Debt

As of March 31, 2015, the Company s debt is due as follows (in thousands):

Fiscal Year		
2015	$	5
2016		12

2017		12
2018		6
2019		-
Thereafter		129,800
	$	129,835

Bank Credit Agreements

On December 19, 2014 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. The facility amends and restates a previously existing $225 million revolving credit agreement, which was scheduled to expire in January 2017. As of March 31, 2015 the Company has used $7.8 million against the letter of credit sub-facility and had the ability to borrow $210.3 million under the facility.

At March 31, 2015, 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 $90 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 1.91% at March 31, 2015. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands, except percentages):

	Notional Amount	Fixed Rate		Fair Value	
Effective Date			**Maturity**	**March 31, 2015**	**June 30, 014**
June 1, 2010	$ 5,000	2.495%	May 24, 2015	$ (20)	$ (108)
June 1, 2010	5,000	2.495%	May 24, 2015	(20)	(108)
June 8, 2010	10,000	2.395%	May 26, 2015	(19)	(206)
June 9, 2010	5,000	2.340%	May 26, 2015	(39)	(100)
June 18, 2010	5,000	2.380%	May 24, 2015	(19)	(103)
September 21, 2011	5,000	1.595%	September 22, 2014	-	(18)
March 15, 2012	10,000	2.745%	March 15, 2016	(245)	(418)
December 19, 2014	20,000	1.180%	December 19, 2017	(163)	-
December 19, 2014	5,000	1.200%	December 19, 2017	(44)	-
December 19, 2015	10,000	2.005%	December 19, 2019	(190)	-
January 14, 2015	15,000	1.460%	December 19, 2018	(50)	-
				$ (809)	$ (1,061)

The Company reported no losses for the three and nine months ended March 31, 2015, 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

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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 statement of operations. At March 31, 2015 and June 30, 2014, the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized gain (losses) of $0.5 million and ($1.2) million, respectively, 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	**March 31, 2015**	**June 30, 2014**
Euro	19,779,460	24,289,064
British Pound Sterling	855,910	3,600,000
Canadian Dollar	-	3,975,192

The table below presents the fair value of derivative financial instruments as well as their classification on the balance sheet (in thousands):

	Asset Derivatives					
	March 31, 2015			**June 30, 014**		
Derivative designated as hedging instruments	**Balance Sheet Line Item**		**Fair Value**	**Balance Sheet Line Item**		**Fair Value**
Foreign exchange contracts	Other Assets	$	2,332	Other Assets	$	356

	Liability Derivatives					
	March 31, 2015			**June 30, 2014**		
Derivative designated as hedging instruments	**Balance Sheet Line Item**		**Fair Value**	**Balance Sheet Line Item**		**Fair Value**
Interest rate swaps	Accrued Liabilities	$	809	Accrued Liabilities	$	1,061
Foreign exchange contracts	Accrued Liabilities		1,795	Accrued Liabilities		1,552
		$	2,604		$	2,613

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 March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Interest rate swaps	$ (448)	$ (47)	$ (550)	$ (167)

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 March 31,		Nine Months Ended March 31,		Affected line item in the Statements of Operations
	2015	2014	2015	2014	
Interest rate swaps	$ 296	$ 252	$ 802	$ 774	Interest expense

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 nine months ended March 31, 2015 and 2014 consisted of the following components (in thousands):

	U.S. Plans Three Months Ended March 31,		Non-U.S. Plans Three Months Ended March 31,	
	2015	2014	2015	2014
Service cost	$ 53	$ 49	$ 10	$ 12
Interest cost	2,619	2,810	389	438
Expected return on plan assets	(3,489)	(3,378)	(355)	(391)
Recognized net actuarial loss	986	923	180	208
Amortization of prior service cost	14	14	(12)	-
Net periodic benefit cost	$ 183	$ 418	$ 212	$ 267

	U.S. Plans Nine Months Ended March 31,		Non-U.S. Plans Nine Months Ended March 31,	
	2015	**2014**	**2015**	**2014**
Service cost	$ 158	$ 183	$ 34	$ 35
Interest cost	7,857	8,430	1,229	1,282
Expected return on plan assets	(10,466)	(10,134)	(1,118)	(1,143)
Recognized net actuarial loss	2,959	3,018	569	608
Amortization of prior service cost	41	43		