STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
October 28, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2010 Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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 (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 [ ] 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, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __

Accelerated filer X

Non-accelerated filer __

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 October 25, 2010 was 12,572,343

STANDEX INTERNATIONAL CORPORATION

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PART I. FINANCIAL INFORMATION
ITEM 1.

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands)	September 30, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,593	$ 33,630
Accounts receivable, net	95,966	92,520
Inventories, net	73,932	69,554
Income tax receivables	-	3,634
Prepaid expenses and other current assets	8,966	5,346
Deferred tax asset	12,575	12,351
Total current assets	204,032	217,035
Property, plant and equipment, net	92,637	93,227
Goodwill	104,511	102,804
Intangible assets, net	17,359	17,791
Other non-current assets	16,098	15,422
Total non-current assets	230,605	229,244
Total assets	$ 434,637	$ 446,279
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 2,500	$ -
Accounts payable	57,101	58,514
Accrued expenses	39,168	40,683
Income taxes payable	1,656	-
Current liabilities - discontinued operations	2,826	2,319
Total current liabilities	103,251	101,516
Long-term debt	60,800	93,300
Accrued pension and other non-current liabilities	62,496	59,400
Total non-current liabilities	123,296	152,700
Stockholders' equity:		
Common stock, par value $1.50 per share - 60,000,000 shares authorized, 27,984,278 issued, 12,566,121 and 12,447,891 outstanding at September 30, 2010 and June 30, 2010	41,976	41,976

Additional paid-in capital	30,510	31,460
Retained earnings	455,661	445,313
Accumulated other comprehensive loss	(61,556)	(66,456)
Treasury shares (15,418,157 shares at September 30, 2010		
and 15,536,387 shares at June 30, 2010)	(258,501)	(260,230)
Total stockholders' equity	208,090	192,063
Total liabilities and stockholders' equity	$ 434,637	$ 446,279

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended September 30, 2010	2009
Net sales	$ 157,059	$ 152,109
Cost of sales	105,997	102,921
Gross profit	51,062	49,188
Selling, general and administrative expenses	35,517	34,573
Gain on sale of real estate	(3,076)	-
Restructuring costs	981	1,557
Total operating expenses	33,422	36,130
Income from operations	17,640	13,058
Interest expense	(709)	(935)
Other non-operating income (expense)	(12)	244
Income from continuing operations before income taxes	16,919	12,367
Provision for income taxes	5,392	3,980
Income from continuing operations	11,527	8,387
Income (loss) from discontinued operations, net of income taxes	(539)	1,395
Net income	$ 10,988	$ 9,782
Basic earnings (loss) per share:		
Continuing operations	$ 0.92	$ 0.68
Discontinued operations	(0.04)	0.11
Total	$ 0.88	$ 0.79
Diluted earnings (loss) per share:		
Continuing operations	$ 0.90	$ 0.67
Discontinued operations	(0.04)	0.11
Total	$ 0.86	$ 0.78
Cash dividends per share	$ 0.05	$ 0.05

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended September 30,	
(In thousands)	**2010**	**2009**
Cash flows from operating activities		
Net income	$ 10,988	$ 9,782
Income (loss) from discontinued operations	(539)	1,395
Income from continuing operations	11,527	8,387
Adjustments to reconcile net income to net cash provided by		

operating activities:		
Depreciation and amortization	3,347	3,719
Stock-based compensation	982	666
(Gain) loss from sale of investments, real estate and equipment	(3,076)	26
Non-cash portion of restructuring charges	374	1,302
Net changes in operating assets and liabilities	(4,739)	(5,464)
Net cash provided by operating activities - continuing operations	8,415	8,636
Net cash (used in) operating activities - discontinued operations	(276)	(1,201)
Net cash provided by operating activities	8,139	7,435
Cash flows from investing activities		
Expenditures for property, plant and equipment	(1,395)	(739)
Expenditures for acquisitions, net of cash acquired	(1,316)	-
Proceeds from sale of real estate and equipment	4,645	9
Proceeds from life insurance policies	-	93
Other investing activity	(1,147)	-
Net cash provided by (used in) investing activities - continuing operations	787	(637)
Net cash provided by investing activities - discontinued operations	-	-
Net cash provided by (used in) investing activities	787	(637)
Cash flows from financing activities		
Borrowings on revolving credit facility	7,500	18,000
Payments of debt	(37,500)	(25,000)
Activity under share-based payment plans	86	98
Excess tax benefit from share-based payment activity	96	-
Purchases of treasury stock	(839)	(364)
Cash dividends paid	(623)	(634)
Net cash (used in) financing activities - continuing operations	(31,280)	(7,900)
Net cash (used in) financing activities - discontinued operations	-	-
Net cash (used in) financing activities	(31,280)	(7,900)
Effect of exchange rate changes on cash and cash equivalents	1,317	172
Net change in cash and cash equivalents	(21,037)	(930)
Cash and cash equivalents at beginning of year	33,630	8,984
Cash and cash equivalents at end of period	$ 12,593	$ 8,054

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 months ended September 30, 2010 and 2009, the cash flows for the three months ended September 30, 2010 and 2009 and the financial position of the Company at September 30, 2010. 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, 2010. The condensed consolidated balance sheet at June 30, 2010 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, 2010. Unless otherwise noted, references to years are to fiscal years.

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 condensed consolidated financial statements were issued.

2)

Fair Value of Financial Instruments

Our 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 our 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 KEYSOP and 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. Based on the creditworthiness of our counterparties, the Company has not discounted these assets and liabilities for credit risk.

Level 3 Unobservable inputs based upon the Company s best estimate of what market participants would use in pricing the asset or liability. The Company does not hold any Level 3 instruments as of the balance sheet dates.

Cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value.

The fair values of our financial instruments at September 30, 2010 and June 30, 2010 were (in thousands):

	September 30, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets				

Marketable securities - KEYSOP assets	$ 5,426	$ 5,426	$ -	$ -
Marketable securities - deferred compensation plan	714	714	-	-
Foreign exchange contracts	1,189	-	1,189	-

Financial Liabilities

	Interest rate swaps	$ 1,636	-	$ 1,636	-

		June 30, 2010			
		Total	Level 1	Level 2	Level 3
Financial Assets					
	Marketable securities - KEYSOP assets	$ 5,018	$ 5,018	$ -	$ -
	Marketable securities - deferred compensation plan	670	670	-	-
	Foreign exchange contracts	106	-	106	-
Financial Liabilities					
	Foreign exchange contracts	$ 31	-	$ 31	-
	Interest rate swaps	920	-	920	-

During the three months ended September 30, 2010, there were no transfers of assets or liabilities between hierarchical levels. The Company s policy is to recognize transfers between levels as of the date they occur.

3)

Inventories

Inventories are comprised of the following (in thousands):

	September 30, 2010	June 30, 2010
Raw materials	$ 35,049	$ 34,329
Work in process	21,762	20,640
Finished goods	17,121	14,585
Total	$ 73,932	$ 69,554

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 and were $5.8 million for the three months ended both September 30, 2010 and 2009.

4)

Goodwill

Changes to goodwill during the three months ended September 30, 2010 were as follows (in thousands):

	Food Service Equipment Group	Air Distribution Products Group	Engraving Group	Engineering Technologies Group	Electronics and Hydraulics Group	Total
Balance at June 30, 2010	$ 45,590	$ 14,933	$ 19,839	$ 186	$ 22,256	$102,804
Acquisition	-	-	1,019	-	-	1,019
Translation adjustment and other	5	-	112	-	571	688
Balance at September 30, 2010	$ 45,595	$ 14,933	$ 20,970	$ 186	$ 22,827	$104,511

5)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
September 30, 2010				
Cost	$ 21,326	$ 8,808	$ 4,352	$ 34,486
Accumulated amortization	(12,840)	-	(4,287)	(17,127)
Balance, September 30, 2010	$ 8,486	$ 8,808	$ 65	$ 17,359
June 30, 2010				
Cost	$ 21,055	$ 8,808	$ 4,165	$ 34,028
Accumulated amortization	(12,162)	-	(4,075)	(16,237)
Balance, June 30, 2010	$ 8,893	$ 8,808	$ 90	$ 17,791

Amortization expense for the three months ended September 30, 2010 and 2009 was $0.5 million and $0.7 million, respectively. At September 30, 2010, amortization expense is estimated to be $1.5 million in the remainder of 2011, $1.6 million in 2012, $1.2 million in 2013, $1.0 million in 2014, and $0.8 million in 2015.

6)

Debt

The Company s debt is due as follows at September 30, 2010 (in thousands):

Fiscal Year		
2011		2,500
2012		-
2013		57,500
2014		-
2015		-
Thereafter		3,300
	$	63,300

The Company has in place a $150 million unsecured revolving credit facility which expires in September 2012. As of September 30, the Company has the ability to borrow $92.5 million under this facility. The Company also utilizes two uncommitted money market credit facilities to help manage daily working capital needs. Amounts outstanding under these facilities were $2.5 million and $0 at September 30, 2010 and June 30, 2010, respectively.

The carrying value of the current borrowings under the facility exceeds their estimated fair value by $2.0 million at September 30, 2010.

7) 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 $30.0 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 2.42 % at September 30, 2010. The Company also has an additional $10.0 million of forward-dated swap agreements that do not become effective until 2012. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands):

				Fair Value (in thousands)	
Effective Date	**Notional Amount**	**Fixed Rate**	**Maturity**	**September 30, 2010**	**June 30, 2010**
July 14, 2008	30,000,000	3.35%	July 19, 2010	$ -	$ (77)
July 10, 2008	30,000,000	3.38%	July 28, 2010	-	(76)
June 1, 2010	5,000,000	2.495%	May 26, 2015	(279)	(148)
June 1, 2010	5,000,000	2.495%	May 26, 2015	(279)	(148)
June 4, 2010	10,000,000	2.395%	May 26, 2015	(512)	(243)
June 9, 2010	5,000,000	2.34%	May 26, 2015	(243)	(108)
June 18, 2010	5,000,000	2.38%	May 26, 2015	(252)	(120)
September 21, 2011	5,000,000	1.28%	September 21, 2013	(30)	-
September 21, 2011	5,000,000	1.595%	September 22, 2014	(41)	-
				$ (1,636)	$ (920)

The Company reported no losses for the three months ended September 30, 2010, 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 into earnings as an adjustment to interest expense. Accumulated other comprehensive loss related to these instruments is being amortized into earnings when the hedged exposure affects interest expense.

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 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 statement of operations. At September 30, 2010, the Company had outstanding forward contracts related to hedges of intercompany loans with unrealized gains of $1.2 million. The unrealized gains on these instruments approximate the transaction loss on the related loans, and substantially all of these instruments were settled in October 2010. At June 30, 2010, the amount of outstanding forward foreign exchange contracts was not material.

8)

Retirement Benefits

Net Periodic Benefit Cost for the Company s U.S. and Foreign pension benefit plans for the three months ended September 30, 2010 and 2009 consisted of the following components:

	Pension Benefits			
	U.S. Plans Three Months Ended September 30,		Non-U.S. Plans Three Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
Service cost	$ 111	$ 78	$ 10	$ 32
Interest cost	3,038	3,222	406	449
Expected return on plan assets	(3,944)	(3,900)	(362)	(390)
Recognized net actuarial loss	1,086	444	146	66
Amortization of prior service cost	36	44	(14)	(16)
Net periodic benefit cost	$ 327	$ (112)	$ 186	$ 141

The Company expects to pay $0.5 million in required contributions to the plans during 2011. No contributions were made during the three months ended September 30, 2010.

9)

Income Taxes

The Company s effective tax rate for the three months ended September 30, 2010 was 31.9% compared with 32.2% for the three months ended September 30, 2009.

10)

Earnings Per Share

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

	September 30,	
	2010	2009
Basic - Average shares outstanding	12,501	12,409
Effect of dilutive securities - Stock options and		
unvested stock awards	255	189
Diluted - Average shares outstanding	12,756	12,598

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 from the calculation of diluted earnings per share as anti-dilutive for the three months ended September 30, 2010 and 2009, respectively.

60,642 and 78,900 performance stock units are excluded from the diluted earnings per share calculation as the performance criteria have not been met for the three months ended September 30, 2010 and 2009, respectively.

11)

Comprehensive Income (Loss)

Total comprehensive income (loss) and its components for the three months ended September 30, 2010 and 2009 were as follows (in thousands):

	Three Months Ended September 30,	
	2010	2009
Net income:	$ 10,988	$ 9,782
Other comprehensive gains (losses):		
Amortization of unrealized pension and OPEB losses, net of tax	436	477
Foreign currency translation adjustment	4,908	2,459
Change in fair value of derivative instruments, net of tax	(444)	241
Comprehensive income	$ 15,888	$ 12,959

The components of accumulated other comprehensive loss are as follows (in thousands):

	September 30, 2010	June 30, 2010
Foreign currency translation adjustment	$ 11,450	$ 6,542
Unrealized pension losses, net of tax	(71,939)	(72,375)
Unrealized loss on derivative instruments, net of tax	(1,067)	(623)
Accumulated other comprehensive loss	$ (61,556)	$ (66,456)

12)

Contingencies

The Company is a party to a number of actions filed or has been given notice of potential claims and legal proceedings related to environmental, commercial disputes, employment matters and other matters generally incidental to our business. Liabilities are recorded when the amount can be reasonably estimated and the loss is deemed probable. Management has evaluated each matter based, in part, upon the advice of our independent environmental consultants and in-house personnel. Management believes the ultimate resolution will not be material to our financial position, results of operations or cash flows.

During 2008, the Company entered into an Administrative Order of Consent (AOC) with the U.S. Environmental Protection Agency (EPA) related to the removal of various PCB-contaminated materials and soils at a site where the Company leased a building and conducted operations from 1967-1979. Remediation efforts were substantially completed during the 3rd quarter of 2009, and the Company received a closing letter from the EPA in the second quarter of 2010. The Company actively sought the recovery of costs incurred in carrying out the terms of the AOC through negotiations with its legacy insurers. During the three months ended September 30, 2009, the Company determined that a settlement was probable and recorded $2.3 million ($1.4 million net of tax), which is net of costs incurred to negotiate the settlement. As expected, the settlement came to fruition in the second quarter of 2010, with a final recovery of $2.5 million ($1.6 million net of tax). As the site is the former location of the Club Products and Monarch Aluminum divisions, the recovery has been included in results from discontinued operations for the period.

13)

Industry Segment Information

The Company has determined that it has five reportable segments organized around the types of product sold:

Food Service Equipment Group an aggregation of seven operating segments that manufacture and sell commercial food service equipment.

Air Distribution Products Group manufactures and sells metal duct and fittings for residential HVAC systems.

Engraving Group provides mold texturizing, roll engraving and process machinery for a number of industries.

Engineering Technologies Group provides customized solutions in the fabrication and machining of engineered components for the aerospace, energy, and aviation markets.

Electronics and Hydraulics Group a combination of two operating segments that manufacture and sell electrical components and that manufacture and sell single- and double-acting telescopic and piston rod hydraulic cylinders.

Net sales and income (loss) from continuing operations by segment for the three months ended September 30, 2010 and 2009 were as follows (in thousands):

	Three Months Ended September 30,			
	Net Sales		Income from Operations	
	2010	2009	2010	2009
Segment:				
Food Service Equipment Group	$93,317	$ 91,773	$ 11,184	$ 13,301
Air Distribution Products Group	13,783	14,322	(455)	95
Engraving Group	20,638	19,187	3,937	2,361
Engineering Technologies Group	12,537	14,636	2,980	2,830
Electronics and Hydraulics Group	16,784	12,191	2,450	786
Restructuring costs			(981)	(1,557)
Gain on sale of real estate			3,076	-
Corporate			(4,551)	(4,758)
Sub-total	$157,059	$ 152,109	$ 17,640	$ 13,058
Interest expense			(709)	(935)
Other non-operating income			(12)	244
Income (loss) from continuing operations before income taxes			$ 16,919	$ 12,367

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

14) 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 September 30, 2010		
	Involuntary Employee Severance and Benefit Costs	**Other**	**Total**
Workforce Reduction	$ 96	$ -	$ 96
Consolidation of Global Manufacturing Footprint	$ 16	$ 869	$ 885
	$ 112	$ 869	$ 981
	2009		
Workforce Reduction	$ 224	$ -	$ 224
Consolidation of Global Manufacturing Footprint	$ 117	$ 1,216	$ 1,333
	$ 341	$ 1,216	$ 1,557

Workforce Reduction

In response to the recession taking place in the current macroeconomic environment and its impact on the Company, management reduced the number of salaried and indirect labor employees via workforce reductions. During 2010, with related expense carrying over into 2011, the Company made reductions which primarily affected our international headcount.

Activity in the reserves for the Workforce Reduction is as follows (in thousands):

Involuntary Employee Severance and Benefit

	Costs
Restructuring Liabilities at June 30, 2010	$ 178
Additions	96
Payments	(138)
Restructuring Liabilities at September 30, 2010	$ 136

Consolidation of Global Manufacturing Footprint

As part of the Company s ongoing effort to generate operational efficiencies and in response to downturn in certain markets served by the Company s operating segments, the Company has closed or is in the process of closing several of its manufacturing facilities and consolidating production. These costs are composed primarily of severance, other termination benefits, and expenses associated with the relocation of the plants production capacities to other facilities. The liabilities associated with this initiative are expected to be paid through 2011.

Activity in the reserves related to optimization of the Company s manufacturing locations is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring Liabilities at June 30, 2010	$ 147	$ 183	$ 330
Additions and adjustments	(5)	838	833
Payments	(119)	(921)	(1,040)
Restructuring Liabilities at September 30, 2010	$ 23	$ 100	$ 123

The Company s total restructuring expenses by segment are as follows (in thousands):

Three Months Ended September 30, 2010

Involuntary
Employee

	Severance and Benefit Costs	Other	Total
Food Service Equipment Group	$ -	$ 802	$ 802
Air Distribution Products Group	16	67	83
Engraving Group	69	-	69
Corporate	27	-	27
Total expense	$ 112	$ 869	$ 981
		2009	
Food Service Equipment Group	$ 117	$ 1,154	$ 1,271
Air Distribution Products Group	$ 4	$ 38	42
Engraving Group	171	24	195
Corporate	49	-	49
Total expense	$ 341	$ 1,216	$ 1,557

15)

Gain on Sale of Real Estate

During the quarter ended September 30, 2010, the Company completed the sale of a parcel of real estate in Lyon, France, on which it had previously operated an Engraving Group facility. Proceeds from the sale were $4.6 million and the sale resulted in a pre-tax gain of $3.1 million, net of related costs.

16)

Discontinued Operations

As discussed in Note 12 - Contingencies, the Company recorded $2.3 million ($1.4 million net of tax) during the three months ended September 30, 2009 related to the recovery of costs previously incurred in carrying out environmental remediation efforts at the former location of the Club Products and Monarch Aluminum divisions.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Annual Report on Form 10-Q that are not based on historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as should, could, "may," will, expect," "believe "estimate," "anticipate," intends, "continue," or similar terms or variations of those terms or the negative of those terms. There are many factors that affect the Company s business and the results of its operations and may cause the actual results of operations in future periods to differ materially from those currently expected or desired. These factors include, but are not limited to conditions in the financial and banking markets, including fluctuations in the exchange rates and the inability to repatriate foreign cash, general and international recessionary economic conditions, including the impact, length and degree of the current recessionary conditions on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, housing transportation and general industrial markets, lower-cost competition, the relative mix of products which impact margins and operating efficiencies, both domestic and foreign, in certain of our businesses, the impact of higher raw material and component costs, particularly steel, petroleum based products and refrigeration components, an inability to realize the expected cost savings from restructuring activities, effective completion of plant consolidations, cost reduction efforts, including procurement savings and productivity enhancements, capital management improvements, strategic capital expenditures, and the implementation of lean enterprise manufacturing techniques, the inability to achieve the savings expected from the sourcing of raw materials from and diversification efforts in emerging markets and the inability to achieve synergies contemplated by the Company. Other factors that could impact the Company include changes to future pension funding requirements and the failure by the purchaser of our former Berean bookstore chain to satisfy its obligations under those leases where the Company remains an obligor. In addition, any forward-looking statements represent management's estimates only as of the day made and should not be relied upon as representing management's estimates as of any subsequent date. While the Company may elect to update forward-looking statements at some point in the future, the Company and management specifically disclaim any obligation to do so, even if management's estimates change.

Overview

We are a leading manufacturer of a variety of products and services for diverse commercial and industrial market segments. We have five reporting segments: Food Service Equipment Group, Air Distribution Products Group (ADP), Engraving Group, Engineering Technologies Group, and Electronics and Hydraulics Group. Our continuing objective is to identify those of our businesses which hold the greatest potential for profitable growth, and direct our resources to supporting both organic growth and acquisition opportunities in those businesses.

Our customer base in the food service equipment, automotive, U.S. residential housing and general industrial sectors have all experienced difficult recessionary market conditions that have negatively impacted our sales volume. During the second half of 2010, we began to see an uneven recovery indicating that our end-user markets have begun to stabilize, as evidenced by increased sales in the third and fourth quarters of 2010 and the first quarter of 2011. We remain cautiously optimistic, however, and we continue to experience challenging market conditions in the near term, especially in the construction and housing markets.

Since the beginning of 2009, our focus had been on reducing our cost structure through company-wide headcount reductions, plant consolidations, procurement savings, and improved productivity in all aspects of our operations. Over the course of their phase-in, these cost reduction efforts have allowed the Company to significantly improve margins and increase its bottom line despite year over year sales declines. Substantially all of our remaining restructuring initiatives were completed last year, and we are now seeing the full impact of approximately $40 million in our annual run rate. In addition to the focus on cost reductions, we have improved the Company s liquidity through better working capital management, more strategic capital expenditures, and sale of excess land and buildings. The success of these efforts is evidenced by our net debt to capital ratio of 19.6% at September 30, 2010.

In furtherance of our acquisition strategy, we completed an acquisition subsequent to the end of the quarter of the Tri-Star brand, which will provide our Food Service Equipment Group with a more complete Cooking Solutions product offering through its primary cooking product line, including high quality restaurant- and value-series range platforms. In addition, at the beginning of the quarter, we completed the acquisition of the assets of Melco Engraving India which provided our Engraving Group with a presence in the strategic, rapidly growing, Indian geographic market. We will continue to leverage our strong balance sheet to make accretive, bolt-on acquisitions that should reinforce our positions in our markets and with our customers and strengthen our strategic business groups.

We continue to focus our attention on driving market share gains in what we expect will be a highly competitive, low-growth, environment in our end-user markets. Each of our business units has developed a series of top-line initiatives that we believe will provide opportunities for market share gains which should supplement future natural growth in our markets. These growth initiatives include new product introductions, expansion of product offerings through private labeling, geographic expansion of sales coverage, the use of new channels of sales, leveraging strategic customer relationships, development of energy efficient products, new applications for existing products and technology, and next generation products and services for our end-user markets. At the same time, over the past several years we have created a strong lean enterprise culture within our business units whereby we seek continuous improvement in our manufacturing processes, working capital management, and overall cost structure.

Because of the diversity of the Company s businesses, end user markets and geographic locations, management does not use specific external indices to predict the future performance of the Company, other than general information about broad macroeconomic trends. Each of our individual business units serves niche markets and attempts to identify trends other than general business and economic conditions which are specific to their businesses and which could impact their performance. Those units report any such information to senior management, which uses it to the extent relevant to assess the future performance of the Company. A description of any such material trends is described below in the applicable segment analysis.

We monitor a number of key performance indicators including net sales, income from operations, backlog and gross profit margin. A discussion of these key performance indicators is included within the discussion below.

Unless otherwise noted, references to years are to fiscal years.

Results from Continuing Operations

	Three Months Ended September 30,	
(Dollar amounts in thousands)	**2010**	**2009**
Net sales	$ 157,059	$152,109
Gross profit margin	32.5%	32.3%
Income (loss) from operations	17,640	13,058
Backlog as of September 30	112,564	101,913

Net Sales

(In thousands)	Three Months Ended September 30, 2010	
Net sales, prior period	$	152,109
Components of change in sales:		
Effect of exchange rates		(959)
Effect of acquisitions		244
Organic sales change		5,665
Net sales, current period	$	157,059

Net sales for the first quarter of 2011 increased $5.0 million, or 3.3%, when compared to the same period of 2009. This change was due to organic sales increases of $5.7 million, or 3.7% offset by approximately $1.0 million of unfavorable foreign exchange. Also impacting sales was $0.2 million of revenue from our newly acquired Engraving Group operation in India. Sales increased across all segments except the ADP Group, which is heavily dependent on new residential construction, and the Engineering Technologies Group, where revenues are historically variable due to the timing of large projects. The Engraving and Electronics and Hydraulics Groups showed the strongest quarterly increases in sales.

Gross Profit Margin

Our gross profit margin increased to 32.5% for the first quarter of 2011 versus 32.3% in the same quarter of last year. While gross profit margins are down in the Food Service Equipment Group and ADP Group largely due to a sharp rise in metal costs, our other groups all saw healthy increases of over 500 basis points as we successfully leveraged recent cost reductions.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses for the first quarter of 2011 were $35.5 million, or 22.6% of sales, compared to $34.6 million, or 22.7% of sales, reported for the same period a year ago. The 10 basis point improvement came despite the reinstatement of the Company s 401(k) match, which was absent from expense in the prior year quarter. This improvement is reflective of our new cost structure, and we expect to further leverage this structure in the face of improved volume.

Income from Operations

Income from operations for the first quarter of 2011 was $17.6 million, compared to $13.1 million reported for the same period a year ago. The first quarter of 2011 includes a $3.1 million gain on the sale of property from a former Engraving Group operation in Lyon, France. Excluding the impact of this gain, income from operations increased $1.5 million, or 11.5% over the prior year quarter. The increase to operating income was driven primarily by increased sales favorably leveraging our recent cost reduction efforts.

Interest Expense

Interest expense for the first quarter of 2011 decreased $0.2 million, or 24.2%, to $0.7 million. This decrease is due to both lower overall borrowings on the Company s revolving credit facility and a lower effective aggregate interest rate due to the expiration of $60 million of interest rate swaps during the quarter combined with a LIBOR base rate that continues to hover near historical lows.

Other Non-Operating Income (Expense)

Other non-operating expense for the quarter totaled $0.0 million compared to prior period income of $0.2 million.

Income Taxes

Our effective tax rate for the three months ended September 30, 2010 was 31.9% compared with 32.2% for the same period last year.

Backlog

Backlog at September 30, 2010 increased $10.7 million, or 10.5%, compared to September 30, 2009. The overall increase is attributable to increased bookings in the Food Service Equipment Group, where sales on the Refrigerated Solutions side of the Group have begun to emerge from their recessionary bottom.

Segment Analysis

Food Service Equipment Group

	Three Months Ended September 30,		**%**
	2010	**2009**	**Change**
Sales	$ 93,317	$91,773	