

SENSIENT TECHNOLOGIES CORP
Form 10-Q
November 07, 2012

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:

September 30, 2012

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
(State or other jurisdiction of incorporation or
organization)

39-0561070
(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 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

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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

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 | Outstanding at October 31, 2012 |
|--|---------------------------------|
| Common Stock, par value \$0.10 per share | 49,768,429 |

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ITEM 1.FINANCIAL INFORMATION
FINANCIAL STATEMENTSSENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(In thousands except per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$369,371 | \$363,751 | \$1,102,808 | \$1,090,431 |
| Cost of products sold | 251,778 | 249,086 | 749,928 | 748,916 |
| Selling and administrative expenses | 66,892 | 64,722 | 201,392 | 193,642 |
| Operating income | 50,701 | 49,943 | 151,488 | 147,873 |
| Interest expense | 4,483 | 4,934 | 13,236 | 14,919 |
| Earnings before income taxes | 46,218 | 45,009 | 138,252 | 132,954 |
| Income taxes | 13,342 | 13,012 | 41,565 | 41,056 |
| Net earnings | \$32,876 | \$31,997 | \$96,687 | \$91,898 |
| Average number of common shares outstanding: | | | | |
| Basic | 49,536 | 49,776 | 49,616 | 49,723 |
| Diluted | 49,785 | 49,967 | 49,850 | 49,911 |
| Earnings per common share: | | | | |
| Basic | \$0.66 | \$0.64 | \$1.95 | \$1.85 |
| Diluted | \$0.66 | 0.64 | \$1.94 | \$1.84 |
| Dividends per common share | \$0.22 | \$0.21 | \$0.65 | \$0.63 |

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In thousands)
 (Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------|-------------------------------------|-------------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Comprehensive Income (Loss) | \$50,381 | \$(31,903) | \$106,741 | \$74,524 |

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|-------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12,340 | \$ 22,855 |
| Trade accounts receivable, net | 246,691 | 219,494 |
| Inventories | 439,743 | 414,449 |
| Prepaid expenses and other current assets | 51,584 | 50,072 |
| TOTAL CURRENT ASSETS | 750,358 | 706,870 |
| OTHER ASSETS | 39,405 | 38,730 |
| INTANGIBLE ASSETS, NET | 11,716 | 12,660 |
| GOODWILL | 446,654 | 444,365 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 52,576 | 52,271 |
| Buildings | 320,058 | 298,743 |
| Machinery and equipment | 702,104 | 674,011 |
| Construction in progress | 58,352 | 34,439 |
| | 1,133,090 | 1,059,464 |
| Less accumulated depreciation | (644,383) | (607,925) |
| | 488,707 | 451,539 |
| TOTAL ASSETS | \$ 1,736,840 | \$ 1,654,164 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | \$ 101,594 | \$ 93,851 |
| Accrued salaries, wages and withholdings from employees | 25,945 | 29,088 |
| Other accrued expenses | 59,588 | 56,985 |
| Income taxes | 5,514 | 4,377 |
| Short-term borrowings | 15,870 | 22,974 |
| TOTAL CURRENT LIABILITIES | 208,511 | 207,275 |
| OTHER LIABILITIES | 31,085 | 33,005 |
| ACCRUED EMPLOYEE AND RETIREE BENEFITS | 56,420 | 52,252 |

| | | |
|--|-------------|-------------|
| LONG-TERM DEBT | 328,837 | 312,422 |
| SHAREHOLDERS' EQUITY: | | |
| Common stock | 5,396 | 5,396 |
| Additional paid-in capital | 97,854 | 94,187 |
| Earnings reinvested in the business | 1,133,808 | 1,069,610 |
| Treasury stock, at cost | (96,077) | (80,935) |
| Accumulated other comprehensive loss | (28,994) | (39,048) |
| TOTAL SHAREHOLDERS' EQUITY | 1,111,987 | 1,049,210 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,736,840 | \$1,654,164 |

See accompanying notes to consolidated condensed financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net earnings | \$96,687 | \$91,898 |
| Adjustments to arrive at net cash provided by operating activities: | | |
| Depreciation and amortization | 36,504 | 34,983 |
| Share-based compensation | 3,375 | 2,673 |
| (Gain) Loss on assets | (1,015) | 297 |
| Deferred income taxes | 627 | (4,108) |
| Changes in operating assets and liabilities | (43,968) | (19,171) |
| Net cash provided by operating activities | 92,210 | 106,572 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (67,600) | (44,125) |
| Proceeds from sale of assets | 1,321 | 3 |
| Other investing activity | (160) | (207) |
| Net cash used in investing activities | (66,439) | (44,329) |
| Cash flows from financing activities: | | |
| Proceeds from additional borrowings | 55,665 | 49,407 |
| Debt payments | (46,212) | (78,169) |
| Purchase of treasury stock | (17,104) | - |
| Dividends paid | (32,489) | (31,451) |
| Proceeds from options exercised and other equity transactions | 1,399 | 3,006 |
| Net cash used in financing activities | (38,741) | (57,207) |
| Effect of exchange rate changes on cash and cash equivalents | 2,455 | (5,807) |
| Net decrease in cash and cash equivalents | (10,515) | (771) |
| Cash and cash equivalents at beginning of period | 22,855 | 14,255 |
| Cash and cash equivalents at end of period | \$12,340 | \$13,484 |

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 September 30, 2012, and December 31, 2011, the results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2012 and 2011, and cash flows for the nine months ended September 30, 2012 and 2011. 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 (“GAAP”) 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, primarily depreciation expense, are charged to operations based on a proportionate share of estimated annual amounts rather than as they are actually incurred. In interim periods, depreciation expense is estimated using actual depreciation on fixed assets that have been placed in service at the beginning of the year, combined with an estimate of depreciation expense on expected current year additions.

On January 1, 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which requires companies to disclose items of net income, items of other comprehensive income and total comprehensive income either in a single continuous statement or in two separate but consecutive statements. The Company has included Consolidated Condensed Statements of Comprehensive Income in this Form 10-Q. The primary difference between the Company’s net earnings and comprehensive income is the impact of foreign currency translation that is included in Other Comprehensive Income. The adoption of this ASU had no impact on the Company’s financial condition or results of operations.

Refer to the notes in the Company's annual consolidated financial statements for the year ended December 31, 2011, for additional details regarding the Company's financial condition and a description of the Company’s accounting policies, which have been continued without change.

2. Fair Value

Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures, defines fair value for financial assets and liabilities, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. As of September 30, 2012 and December 31, 2011, the Company’s only assets and liabilities subject to this standard are forward exchange contracts and mutual fund investments. The fair value of the forward exchange contracts based on current pricing obtained for comparable derivative products (Level 2 inputs) was an asset of \$0.1 million and \$0.4 million as of September 30, 2012 and December 31, 2011, respectively. The fair value of the investments based on September 30, 2012, and December 31, 2011, market quotes (Level 1 inputs) was an asset of \$18.4 million and \$17.4 million, respectively.

The carrying values of the Company’s cash and cash equivalents, trade accounts receivable, accounts payable, accrued expenses and short-term borrowings approximated fair values as of September 30, 2012. The fair value of the Company’s long-term debt, including current maturities, is estimated using discounted cash flows based on the

Company's current incremental borrowing rates for similar types of borrowing arrangements (Level 2 inputs). The carrying value of the long-term debt at September 30, 2012, was \$328.8 million. The fair value of the long-term debt at September 30, 2012, was \$351.6 million.

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3. 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 September 30, 2012: | | | | |
| Revenue from external customers | \$ 215,306 | \$ 113,914 | \$ 40,151 | \$ 369,371 |
| Intersegment revenue | 9,393 | 6,746 | 639 | 16,778 |
| Total revenue | \$ 224,699 | \$ 120,660 | \$ 40,790 | \$ 386,149 |
| Operating income (loss) | \$ 31,810 | \$ 23,459 | \$ (4,568) | \$ 50,701 |
| Interest expense | -- | -- | 4,483 | 4,483 |
| Earnings (loss) before income taxes | \$ 31,810 | \$ 23,459 | \$ (9,051) | \$ 46,218 |
| Three months ended September 30, 2011: | | | | |
| Revenue from external customers | \$ 210,686 | \$ 115,994 | \$ 37,071 | \$ 363,751 |
| Intersegment revenue | 9,580 | 4,981 | 572 | 15,133 |
| Total revenue | \$ 220,266 | \$ 120,975 | \$ 37,643 | \$ 378,884 |
| Operating income (loss) | \$ 33,149 | \$ 22,891 | \$ (6,097) | \$ 49,943 |
| Interest expense | -- | -- | 4,934 | 4,934 |
| Earnings (loss) before income taxes | \$ 33,149 | \$ 22,891 | \$ (11,031) | \$ 45,009 |
| Nine months ended September 30, 2012: | | | | |
| Revenue from external customers | \$ 628,647 | \$ 360,045 | \$ 114,116 | \$ 1,102,808 |
| Intersegment revenue | 29,701 | 19,806 | 2,327 | 51,834 |
| Total revenue | \$ 658,348 | \$ 379,851 | \$ 116,443 | \$ 1,154,642 |
| Operating income (loss) | \$ 94,334 | \$ 74,930 | \$ (17,776) | \$ 151,488 |
| Interest expense | -- | -- | 13,236 | 13,236 |
| Earnings (loss) before income taxes | \$ 94,334 | \$ 74,930 | \$ (31,012) | \$ 138,252 |
| Nine months ended September 30, 2011: | | | | |
| Revenue from external customers | \$ 623,578 | \$ 360,003 | \$ 106,850 | \$ 1,090,431 |
| Intersegment revenue | 28,485 | 19,035 | 1,665 | 49,185 |
| Total revenue | \$ 652,063 | \$ 379,038 | \$ 108,515 | \$ 1,139,616 |
| Operating income (loss) | \$ 97,634 | \$ 69,886 | \$ (19,647) | \$ 147,873 |
| Interest expense | -- | -- | 14,919 | 14,919 |
| Earnings (loss) before income taxes | \$ 97,634 | \$ 69,886 | \$ (34,566) | \$ 132,954 |

Beginning in the first quarter of 2012, the results of operations for certain of the Company's flavors businesses in Central and South America are reported in the Corporate and Other segment. This change was made to give management greater insight into the Company's flavor operations in this growing region. Previously, these results were included in the Flavors and Fragrances segment. Results for 2011 have been restated to reflect this change.

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4. Inventories

At September 30, 2012 and December 31, 2011, inventories included finished and in-process products totaling \$287.6 million and \$282.1 million, respectively, and raw materials and supplies of \$152.1 million and \$132.4 million, respectively.

5. 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 September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 637 | \$ 605 | \$ 1,908 | \$ 1,818 |
| Interest cost | 678 | 725 | 2,030 | 2,178 |
| Expected return on plan assets | (360) | (371) | (1,077) | (1,111) |
| Amortization of prior service cost | 493 | 811 | 1,479 | 2,434 |
| Amortization of actuarial loss | 190 | 336 | 567 | 1,008 |
| Defined benefit expense | \$ 1,638 | \$ 2,106 | \$ 4,907 | \$ 6,327 |

6. Shareholders' Equity

During the nine months ended September 30, 2012, the Company repurchased 460,000 shares of common stock for an aggregate price of \$17.1 million. The Company did not repurchase any shares of its common stock during the three months ended September 30, 2012 or 2011 or the nine months ended September 30, 2011.

7. Derivative Instruments and Hedging Activity

The Company may use forward exchange contracts and foreign currency denominated debt to manage its exposure to foreign exchange risk by reducing the effect of fluctuating foreign currencies on short-term foreign currency denominated intercompany transactions, non-functional currency raw material purchases, non-functional currency sales and other known foreign currency exposures. These forward exchange contracts have maturities of less than twelve months. The Company's primary hedging activities and their accounting treatment are summarized below:

Forward exchange contracts – The forward exchange contracts that have been designated as hedges are accounted for as cash flow hedges. The Company had \$25.5 million and \$27.9 million of forward exchange contracts, designated as hedges, outstanding as of September 30, 2012, and December 31, 2011, respectively. Due to the short term nature of these contracts, the results of these transactions are not material to the financial statements. In addition, the Company utilizes forward exchange contracts that are not designated as cash flow hedges and the results of these transactions are also not material to the financial statements.

Net investment hedges – The Company has certain debt denominated in Euros and Swiss Francs. These debt instruments have been designated as partial hedges of the Company's Euro and Swiss Franc net asset positions. Changes in the fair value of this debt attributable to changes in the spot foreign exchange rate are recorded in foreign currency translation in Other Comprehensive Income ("OCI"). As of September 30, 2012, and December 31, 2011, the total value of the Company's Euro and Swiss Franc debt was \$103.2 million and \$98.9 million, respectively. For the

three and nine months ended September 30, 2012, the impact of foreign exchange rates on these debt instruments increased debt by \$1.4 million and decreased debt by \$0.6 million, respectively, and these amounts have been recorded as foreign currency translation in OCI.

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8. Income Taxes

The effective income tax rates for the quarters ended September 30, 2012 and 2011 were 28.9% in both periods. For the nine months ended September 30, 2012 and 2011, the effective income tax rates were 30.1% and 30.9%, respectively. The effective tax rates in both 2012 and 2011 were reduced by changes in estimates associated with the finalization of prior year tax items and also changes in the estimate of the effective tax rates.

9. Restructuring Charges

The Company recorded a restructuring charge of \$4.8 million (\$3.7 million net of tax) in the fourth quarter of 2011 related to a plan to improve the profitability and efficiency of selected operations. The restructuring charge mainly includes severance and other employee separation costs. During the three and nine months ended September 30, 2012, approximately \$0.2 million and \$1.7 million of payments, respectively, have been applied to the restructuring reserve. As of September 30, 2012, the balance of the restructuring reserve was \$0.2 million.

10. Commitments and Contingencies

Cherry Blossom Litigation

Cherry Blossom LLC, a Traverse City, Michigan contractor that had produced cherry products for the Company, ceased operations in May 2009. At the time, Cherry Blossom had physical possession of brined cherries belonging to the Company with a book value of approximately \$0.5 million. Despite the Company's demands, Cherry Blossom refused to permit the Company to take possession of the cherries for processing elsewhere.

In June 2009, the Company sued Cherry Blossom in the Circuit Court of Grand Traverse County, Michigan, seeking an order for return of the cherries. Cherry Blossom's asset based lender, Crossroads Financial (which claimed to be owed \$1.4 million) ("Crossroads"), intervened and claimed a senior lien on the cherries. The Circuit Court denied the Company's request for immediate possession and permitted Cherry Blossom to retain and process the cherries. The Circuit Court later held that Crossroads had a senior lien on the cherries and was entitled to receive the proceeds from the sale of the cherries. The Circuit Court also denied the Company's cross claims against Crossroads to recoup certain overpayments that the Company made to Cherry Blossom/Crossroads and to recoup payments made by the Company to the United States Department of Labor on Cherry Blossom's/Crossroads' behalf. The Company has appealed these adverse decisions of the Circuit Court.

Crossroads asserted a claim against the Company for money damages in an undetermined amount. Crossroads claimed that it has a lien on all of Cherry Blossom's accounts receivable from the Company and that the Company had performed a number of offsets against its accounts payable to Cherry Blossom in derogation of Crossroads' rights as lienholder. The Circuit Court denied Crossroads' claims for money damages against the Company. Crossroads has appealed this adverse decision of the Circuit Court.

The Company and Crossroads completed briefing on their respective appeals on January 6, 2012. The Company has requested oral argument on its appeal. To date, the appellate court has not yet decided whether to grant oral argument, and if so, when argument will take place.

Cherry Blossom counterclaimed against the Company, alleging that Cherry Blossom had purchased exclusive rights to certain proprietary cherry processing formulas used in the Company's cherry product. Cherry Blossom sought a preliminary injunction against the Company's delivery of copies of the formulas to any third party. The Court denied Cherry Blossom's motion regarding the formulas and eventually dismissed Cherry Blossom's claims. The Company also initiated a suit against Cherry Blossom in the United States District Court for the Western District of Michigan

seeking a declaratory judgment that the Company has the right to use the cherry processing formulas. Because Cherry Blossom subsequently filed a petition in bankruptcy, the Federal District Court closed the matter. This closing was for administrative purposes only and did not constitute a decision on the merits.

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Christopher Hubbell, a principal of Cherry Blossom, has personally filed a petition for bankruptcy. The Company originally opposed the bankruptcy petition to the extent Mr. Hubbell sought a discharge of the Company's alleged damages arising from his own fraudulent acts connected to Cherry Blossom's granting of an allegedly superior interest in the Company's cherries to Crossroads. The Company and Hubbell have now filed a joint motion to dismiss the Company's claims against Hubbell without prejudice pending the Michigan state court action. Under the terms of the joint motion, if the state courts determine that the Company is liable to Crossroads, the Company will have 60 days to reopen the adversary proceeding and pursue its claims against Hubbell. If the state courts determine that the Company is not liable to Crossroads, the dismissal shall be deemed with prejudice. A decision on the joint motion is anticipated soon.

Daito Kasei Kogyo Co. Ltd. vs. Sensient Cosmetic Technologies SAS

In 1992 Sensient Cosmetic Technologies SAS ("SCT") and Daito Kasei Kogyo Co., Ltd. ("Daito") entered into a distribution agreement pursuant to which SCT became the exclusive distributor in Europe of coloring agents and ingredients manufactured in Japan by Daito and, in turn, Daito became the exclusive distributor in Japan of certain products produced in France by SCT. By 2008, the sale of Daito products represented €4 million of SCT's sales. In contrast, Daito's sales of SCT's products in Japan amounted to only €0.4 million in 2008. The agreement was entered into for an initial period to end on December 31, 1993, and was tacitly renewed for two-year periods through December 31, 2009, subject to a requirement of six months' notice for termination.

On July 7, 2009, Daito notified SCT of its decision to terminate SCT's distributorship in Europe, with effect as of February 10, 2010. SCT informed Daito that the notice of termination was insufficient in light of the lengthy commercial relationship between the parties. Daito eventually ostensibly agreed to extend the notice period but the commercial relationship did not function as it had in the past. On August 10, 2010, SCT filed a complaint before the Paris Commercial Court alleging that Daito wrongfully terminated its long-standing established commercial relationship with SCT, that SCT should have been given a notice period of thirty-six months in light of the twenty-year relationship between the parties and that Daito should pay damages to SCT of over €3.8 million.

On January 26, 2011, Daito filed a response in a hearing of the Court in which it denied any liability for SCT's claims and asserted counter-claims of €1.6 million for unlawful termination of Daito's distributorship in Japan, unlawful termination of an alleged "agency contract" in Japan and SCT's cancellation of certain Daito orders in October 2010.

At a hearing on May 4, 2011, Daito's counsel indicated that she would no longer represent Daito in this case due to a conflict of interest. On September 14, 2011, new counsel appeared for Daito at a hearing and filed slightly amended pleadings contending that SCT had not suffered any loss as a result of the termination. SCT responded to the amended pleadings confirming the extent of its losses at a hearing on November 9, 2011. At a hearing on February 1, 2012, SCT re-asserted its claims against Daito and again requested dismissal of Daito's counter-claims. Alternatively, SCT requested that the Court sever the proceedings by separating Daito's counter-claims from SCT's claim and in addition find that Japanese law is applicable to the counter-claims. In submissions filed on April 11 and July 4, 2012, the parties re-affirmed their respective positions. It is anticipated that the trial will be held in the first half of 2013.

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company except as described above.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS

OVERVIEW

Sensient's third quarter revenue was \$369.4 million in 2012, an increase of 1.5% from the \$363.8 million reported in 2011. Revenue was \$1.10 billion and \$1.09 billion for the nine months ended September 30, 2012 and 2011, respectively. The impact of foreign exchange rates decreased consolidated revenue by 3.8% and 3.4% in the quarter and nine months ended September 30, 2012, respectively. Revenue for the Flavors & Fragrances segment increased 2.0% and 1.0% for the quarter and nine months ended September 30, 2012, respectively, from the comparable periods last year. Color segment revenue decreased 0.3% for the quarter and increased 0.2% for the nine months ended September 30, 2012, from the comparable periods last year. Corporate and Other revenue increased 8.4% and 7.3% for the three and nine months ended September 30, 2012, respectively, from the comparable periods last year. Additional information on segment results can be found in the Segment Information section.

The gross profit margin increased 30 basis points to 31.8% for the quarter ended September 30, 2012, from 31.5% for the same period in 2011. For the nine months ended September 30, 2012, the gross profit margin increased 70 basis points to 32.0% from 31.3% in the comparable period in 2011. Favorable product mix combined with higher selling prices more than offset the impact of higher raw material costs for both the quarter and nine months ended September 30, 2012.

Selling and administrative expenses as a percent of revenue were 18.1% and 17.8% in the quarters ended September 30, 2012 and 2011, respectively. The increase in 2012 was primarily due to higher employee costs as a result of increases in sales and technical staff. For the nine months ended September 30, 2012 and 2011, selling and administrative expenses as a percent of revenue were 18.3% and 17.8%, respectively. The year-to-date increase in selling and administrative expenses as a percent of revenue was primarily due to higher employee costs, including increases in sales and technical staff, and higher legal costs incurred by the Company in an attempt to recover costs from one of its former law firms. The action related to a significant environmental liability arising out of a 1988 transaction in which the law firm was the Company's legal advisor. No additional costs were incurred in the third quarter and we do not expect to incur any future costs related to this action.

Third quarter operating income was \$50.7 million in 2012, an increase of 1.5% from \$49.9 million in 2011. Operating income was \$151.5 million for the nine months ended September 30, 2012, an increase of 2.4% from \$147.9 million reported in the comparable period of 2011. The impact of foreign exchange rates decreased operating income by 3.6% in both the quarter and nine months ended September 30, 2012. The changes in operating income were due to the revenue, gross profit margin and expense changes discussed above. Additional information can be found in the Segment Information section.

Interest expense for the third quarter of 2012 decreased 9.1% to \$4.5 million from \$4.9 million in the prior year's quarter. Interest expense decreased 11.3% to \$13.2 million for the nine months ended September 30, 2012, from \$14.9 million in the same period in 2011. In both the three and nine months ended September 30, 2012, the benefit of lower interest rates more than offset the impact of higher average debt.

The effective income tax rates were 28.9% for both quarters ended September 30, 2012 and 2011. The effective income tax rates were 30.1% and 30.9% for the nine months ended September 30, 2012 and 2011, respectively. The effective tax rates in both 2012 and 2011 were reduced by changes in estimates associated with the finalization of prior year tax items. In addition, the 2012 rate in the quarter and nine-month period and the 2011 rate in the quarter include a change in estimate of the Company's annual effective tax rate. The Company expects the effective tax rate for the remainder of 2012 to be approximately 32.25%, excluding the income tax expense or benefit related to discrete

items, which will be reported separately in the quarter in which they occur.

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SEGMENT INFORMATION

Flavors & Fragrances –

Revenue for the Flavors & Fragrances segment was \$224.7 million and \$220.3 million in the third quarters of 2012 and 2011, respectively. Higher revenue in North America (\$8.0 million), Europe (\$2.7 million) and Mexico (\$1.1 million) was offset by the unfavorable impact of foreign exchange rates \$7.4 million. The higher revenue was due to increased volumes in all markets combined with higher prices in North America and Mexico.

Flavors & Fragrances segment operating income was \$31.8 million and \$33.1 million in the third quarters of 2012 and 2011, respectively. The decrease was primarily attributable to lower profit in North America (\$1.9 million) combined with the unfavorable impact of foreign exchange rates (\$0.5 million), partially offset by higher profit in Mexico (\$0.7 million). The lower profit in North America was primarily related to increased raw material costs, partially offset by higher selling prices, combined with the impact of inventory destocking at certain customers. Higher profit in Mexico was primarily due to favorable pricing and product mix. Operating income as a percent of revenue was 14.2% and 15.0% for the third quarters of 2012 and 2011, respectively.

Revenue for the Flavors & Fragrances segment was \$658.3 million and \$652.1 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in revenue was primarily due to higher revenue in North America (\$18.9 million), Europe (\$5.4 million) and Mexico (\$2.9 million). These were partially offset by the unfavorable impact of foreign exchange rates (\$20.9 million). The higher revenue in both North America and Mexico was primarily due to higher prices and increased volumes. The higher revenue in Europe was primarily due to higher volumes of fragrances.

Operating income was \$94.3 million and \$97.6 million for the nine months ended September 30, 2012 and 2011, respectively. Lower profit in North America (\$1.5 million) and Europe (\$1.5 million) and the unfavorable impact of foreign exchange rates (\$2.0 million) were partially offset by higher profit in Mexico (\$1.6 million). The lower profit in North America was primarily due to higher raw material costs. The lower profit in Europe was primarily due to higher costs.

Color –

Revenue for the Color segment was \$120.7 million and \$121.0 million for the quarters ended September 30, 2012 and 2011, respectively. The unfavorable impact of foreign exchange rates (\$6.3 million) more than offset the higher sales of non-food colors (\$4.2 million) and higher sales of food and beverage colors (\$1.8 million). The higher sales of non-food colors and food and beverage colors were primarily due to higher volumes and an increase in selling prices. Although sales of OEM inkjet products in the third quarter of 2012 were relatively flat with the prior year, the termination of a supply agreement by a major customer is expected to reduce sales of OEM inkjet ink products beginning in mid-2013. Sales under this supply agreement were low margin products that the Company continues to rationalize. As disclosed late in 2011, the Company is in the process of expanding its digital inks business in Switzerland. The Company believes that there is more potential in digital inks and is focusing on this higher margin business for growth.

Operating income for the quarter ended September 30, 2012, was \$23.5 million, an increase of 2.5% from the \$22.9 million reported in the comparable period last year. The increase was primarily due to higher profit on sales of food and beverage colors (\$2.3 million) partially reduced by lower profit on sales of non-food colors (\$0.7 million) and the unfavorable impact of foreign exchange rates (\$1.2 million). The higher profit on sales of food and beverage colors was primarily driven by favorable product mix and higher selling prices and volumes. The lower profit on sales of non-food colors was primarily due to higher costs partially offset by increased selling prices and volumes. Operating income as a percent of revenue increased to 19.4% in the third quarter of 2012 compared to 18.9% in the prior year's quarter.

Color segment revenue was \$379.9 million and \$379.0 million for the nine months ended September 30, 2012 and 2011, respectively. Higher sales of non-food colors (\$12.4 million) and food and beverage colors (\$5.6 million) were mostly offset by the unfavorable impact of foreign exchange rates (\$17.1 million). The higher sales of both non-food colors and food and beverage colors were due to both higher volumes and selling prices.

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Operating income was \$74.9 million for the first nine months of 2012, an increase of 7.2% from \$69.9 million reported for the first nine months of 2011. The increase was primarily due to the higher profit on sales of food and beverage colors (\$8.1 million), partially offset by the unfavorable impact of foreign exchange rates (\$3.3 million). The higher profit on sales of food and beverage colors was primarily due to the increased revenue discussed above combined with favorable product mix. Operating income as a percent of revenue was 19.7%, up from 18.4% in the prior year's first nine months.

Corporate & Other –

Corporate & Other includes the Asia Pacific region, China and beginning in 2012 certain of the Company's flavor businesses in Central and South America, in addition to the corporate office expenses. The 2011 results have been restated to reflect this change.

Revenue for the Corporate & Other segment was \$40.8 million and \$37.6 million for the quarters ended September 30, 2012 and 2011, respectively. The increase was primarily related to higher volumes in Asia Pacific.

The Corporate & Other segment reported operating losses of \$4.6 million and \$6.1 million for the quarters ended September 30, 2012 and 2011, respectively. The improvement in results was primarily due to the profit on higher volumes in Asia Pacific, and lower expenses.

Revenue for the Corporate & Other segment was \$116.4 million and \$108.5 million for the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily due to higher volumes in Asia Pacific.

An operating loss of \$17.8 million was reported in the first nine months of 2012 compared to \$19.6 million in the prior year period. The improvement in results was primarily due to the profit on higher volumes in Asia Pacific, and lower expenses.

LIQUIDITY AND FINANCIAL CONDITION

The Company's ratio of debt to total capital was 23.7% and 24.2% as of September 30, 2012, and December 31, 2011, respectively. The decrease was due to higher total equity at September 30, 2012, partially reduced by higher debt. Debt increased due to the items noted below.

Net cash provided by operating activities was \$92.2 million and \$106.6 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease in cash provided by operating activities was primarily due to higher cash required to fund an increase in working capital. The increase in working capital was primarily driven by higher accounts receivable related to the increase in local currency sales in 2012 compared to 2011 and inventory restocking at certain locations.

Net cash used in investing activities was \$66.4 million and \$44.3 million for the nine months ended September 30, 2012 and 2011, respectively. Capital expenditures were \$67.6 million and \$44.1 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in capital expenditures is related to the expansion of capabilities and improvement of efficiencies at various locations.

Net cash used in financing activities was \$38.7 million in the first nine months of 2012 and \$57.2 million in the comparable period of 2011. The cash required to fund capital expenditures, treasury stock purchases and dividend payments in the first nine months of 2012 caused the Company to increase debt by a net amount of \$9.5 million compared to \$28.8 million of net repayments of debt in the comparable period of 2011. For purposes of the cash flow statement, net changes in debt exclude the impact of foreign exchange rates. Dividends of \$32.5 million and \$31.5 million were paid during the nine months ended September 30, 2012 and 2011, respectively. Dividends were 65 cents

per share for the first nine months of 2012 and 63 cents per share in the comparable period of 2011, reflecting the Company's increase in the quarterly dividend to 22 cents per share beginning in the second quarter of 2012.

The Company's financial position remains strong. The Company expects that its cash flows from operations and existing lines of credit can be used to meet future cash requirements for operations, capital expenditures, acquisitions, if any, stock repurchases, if any, and dividend payments to shareholders.

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CONTRACTUAL OBLIGATIONS

There have been no material changes in the Company's contractual obligations during the quarter ended September 30, 2012. For additional information about contractual obligations, refer to pages 21 and 22 of the Company's 2011 Annual Report, portions of which were filed as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements as of September 30, 2012.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company's critical accounting policies during the quarter ended September 30, 2012. For additional information about critical accounting policies, refer to pages 19 and 20 of the Company's 2011 Annual Report, portions of which were filed as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's exposure to market risk during the quarter ended September 30, 2012. For additional information about market risk, refer to pages 20 and 21 of the Company's 2011 Annual Report, portions of which were filed as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chairman and Chief Executive Officer and its Senior Vice President and Chief Financial Officer, of the effectiveness, as of the end of the period covered by this report, of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act of 1934. Based upon that evaluation, the Company's Chairman and Chief Executive Officer and its Senior Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Change in Internal Control Over Financial Reporting: During the quarter ended September 30, 2012, the Company implemented a new enterprise resource planning software application at one significant location in its Flavors & Fragrances segment. The implementation included the order taking, manufacturing, general ledger and financial reporting processes. The Company followed a system development process that required significant pre-implementation planning, design and testing. There has been no other change in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management's current assumptions and estimates of future economic circumstances, industry conditions, Company performance and financial results. Forward-looking statements include statements in the future tense, statements referring to any period after September 30 2012, and statements including the terms "expect," "believe," "anticipate" and other similar terms that express expectations as to future events or conditions. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for such forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that could cause actual events to differ materially from those expressed in those statements. A variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results. These factors and assumptions include the pace and nature of new product introductions by the Company's customers; the Company's ability to successfully implement its growth strategies; the outcome of the Company's various productivity-improvement and cost-reduction efforts; changes in costs of raw materials and energy; industry and economic factors related to the Company's domestic and international business; competition from other suppliers of colors, flavors and fragrances; growth or contraction in markets for products in which the Company competes; terminations and other changes in customer relationships; industry and customer acceptance of price increases; currency exchange rate fluctuations; cost and availability of credit; results of litigation, environmental investigations or other proceedings; complications as a result of existing or future information technology system applications and hardware; the matters discussed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011; and the matters discussed above under Part I, Item 2 including the critical accounting policies referenced therein. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Cherry Blossom Litigation

Cherry Blossom LLC, a Traverse City, Michigan contractor that had produced cherry products for the Company, ceased operations in May 2009. At the time, Cherry Blossom had physical possession of brined cherries belonging to the Company with a book value of approximately \$0.5 million. Despite the Company's demands, Cherry Blossom refused to permit the Company to take possession of the cherries for processing elsewhere.

In June 2009, the Company sued Cherry Blossom in the Circuit Court of Grand Traverse County, Michigan, seeking an order for return of the cherries. Cherry Blossom's asset based lender, Crossroads Financial (which claimed to be owed \$1.4 million) ("Crossroads"), intervened and claimed a senior lien on the cherries. The Circuit Court denied the Company's request for immediate possession and permitted Cherry Blossom to retain and process the cherries. The Circuit Court later held that Crossroads had a senior lien on the cherries and was entitled to receive the proceeds from the sale of the cherries. The Circuit Court also denied the Company's cross claims against Crossroads to recoup certain overpayments that the Company made to Cherry Blossom/Crossroads and to recoup payments made by the Company to the United States Department of Labor on Cherry Blossom's/Crossroads' behalf. The Company has appealed these adverse decisions of the Circuit Court.

Crossroads asserted a claim against the Company for money damages in an undetermined amount. Crossroads claimed that it has a lien on all of Cherry Blossom's accounts receivable from the Company and that the Company had performed a number of offsets against its accounts payable to Cherry Blossom in derogation of Crossroads' rights as lienholder. The Circuit Court denied Crossroads' claims for money damages against the Company. Crossroads has appealed this adverse decision of the Circuit Court.

The Company and Crossroads completed briefing on their respective appeals on January 6, 2012. The Company has requested oral argument on its appeal. To date, the appellate court has not yet decided whether to grant oral argument, and if so, when argument will take place.

Cherry Blossom counterclaimed against the Company, alleging that Cherry Blossom had purchased exclusive rights to certain proprietary cherry processing formulas used in the Company's cherry product. Cherry Blossom sought a preliminary injunction against the Company's delivery of copies of the formulas to any third party. The Court denied Cherry Blossom's motion regarding the formulas and eventually dismissed Cherry Blossom's claims. The Company also initiated a suit against Cherry Blossom in the United States District Court for the Western District of Michigan seeking a declaratory judgment that the Company has the right to use the cherry processing formulas. Because Cherry Blossom subsequently filed a petition in bankruptcy, the Federal District Court closed the matter. This closing was for administrative purposes only and did not constitute a decision on the merits.

Christopher Hubbell, a principal of Cherry Blossom, has personally filed a petition for bankruptcy. The Company originally opposed the bankruptcy petition to the extent Mr. Hubbell sought a discharge of the Company's alleged damages arising from his own fraudulent acts connected to Cherry Blossom's granting of an allegedly superior interest in the Company's cherries to Crossroads. The Company and Hubbell have now filed a joint motion to dismiss the Company's claims against Hubbell without prejudice pending the Michigan state court action. Under the terms of the joint motion, if the state courts determine that the Company is liable to Crossroads, the Company will have 60 days to reopen the adversary proceeding and pursue its claims against Hubbell. If the state courts determine that the Company is not liable to Crossroads, the dismissal shall be deemed with prejudice. A decision on the joint motion is anticipated soon.

Daito Kasei Kogyo Co. Ltd. vs. Sensient Cosmetic Technologies SAS

In 1992 Sensient Cosmetic Technologies SAS ("SCT") and Daito Kasei Kogyo Co., Ltd. ("Daito") entered into a distribution agreement pursuant to which SCT became the exclusive distributor in Europe of coloring agents and ingredients manufactured in Japan by Daito and, in turn, Daito became the exclusive distributor in Japan of certain products produced in France by SCT. By 2008, the sale of Daito products represented €4 million of SCT's sales. In contrast, Daito's sales of SCT's products in Japan amounted to only €0.4 million in 2008. The agreement was entered into for an initial period to end on December 31, 1993, and was tacitly renewed for two-year periods through December 31, 2009, subject to a requirement of six months' notice for termination.

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On July 7, 2009, Daito notified SCT of its decision to terminate SCT's distributorship in Europe, with effect as of February 10, 2010. SCT informed Daito that the notice of termination was insufficient in light of the lengthy commercial relationship between the parties. Daito eventually ostensibly agreed to extend the notice period but the commercial relationship did not function as it had in the past. On August 10, 2010, SCT filed a complaint before the Paris Commercial Court alleging that Daito wrongfully terminated its long-standing established commercial relationship with SCT, that SCT should have been given a notice period of thirty-six months in light of the twenty-year relationship between the parties and that Daito should pay damages to SCT of over €3.8 million.

On January 26, 2011, Daito filed a response in a hearing of the Court in which it denied any liability for SCT's claims and asserted counter-claims of €1.6 million for unlawful termination of Daito's distributorship in Japan, unlawful termination of an alleged "agency contract" in Japan and SCT's cancellation of certain Daito orders in October 2010.

At a hearing on May 4, 2011, Daito's counsel indicated that she would no longer represent Daito in this case due to a conflict of interest. On September 14, 2011, new counsel appeared for Daito at a hearing and filed slightly amended pleadings contending that SCT had not suffered any loss as a result of the termination. SCT responded to the amended pleadings confirming the extent of its losses at a hearing on November 9, 2011. At a hearing on February 1, 2012, SCT re-asserted its claims against Daito and again requested dismissal of Daito's counter-claims. Alternatively, SCT requested that the Court sever the proceedings by separating Daito's counter-claims from SCT's claim and in addition find that Japanese law is applicable to the counter-claims. In submissions filed on April 11 and July 4, 2012, the parties re-affirmed their respective positions. It is anticipated that the trial will be held in the first half of 2013.

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company except as described above.

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ITEM 1A.

RISK FACTORS

See “Risk Factors” in Part I, Item 1A of the Company’s annual report on Form 10-K for the year ended December 31, 2011.

ITEM 6.

EXHIBITS

See Exhibit Index following this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SENSIENT TECHNOLOGIES CORPORATION

Date: November 7, 2012

By: /s/ John L. Hammond
John L. Hammond, Senior Vice President,
General Counsel & Secretary

Date November 7, 2012:

By: /s/ Richard F. Hobbs
Richard F. Hobbs, Senior Vice
President & Chief Financial Officer

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SENSIENT TECHNOLOGIES CORPORATION
EXHIBIT INDEX
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

| Exhibit | Description | Incorporated by Reference From | Filed Herewith |
|------------|---|-----------------------------------|----------------|
| <u>3.2</u> | Amended and Restated By-Laws of the Company | | X |
| <u>31</u> | Certifications of the Company's Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act | | X |
| <u>32</u> | Certifications of the Company's Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer pursuant to 18 United States Code § 1350 | | X |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T | | X* |

* Pursuant to Rule 406T of Regulation S-T this interactive data is deemed "furnished" and not "filed".