STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
January 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2017

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

DELAWARE 31-0596149
(State of incorporation) *(IRS Employer Identification No.)*

11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE 03079
(Address of principal executive offices) *(Zip Code)*

(603) 893-9701

(Registrant's telephone number, including area code)

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

Large accelerated filer [X] Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller Reporting Company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The number of shares of Registrant's Common Stock outstanding on January 24, 2018 was 12,829,489.

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PART I. FINANCIAL INFORMATION
ITEM 1

STANDEX INTERNATIONAL CORPORATION
Condensed Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 2017 (unaudited)	June 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 109,389	$ 88,566
Accounts receivable, net of reserve for doubtful accounts of $2,946 and $2,406 at December 31, 2017 and June 30, 2017	131,584	127,060
Inventories	130,715	119,401
Prepaid expenses and other current assets	9,604	8,397
Income taxes receivable	1,012	2,469
Deferred tax asset	-	14,991
Total current assets	382,304	360,884
Property, plant, and equipment, net	144,610	133,160
Intangible assets, net	102,216	102,503
Goodwill	249,685	242,690
Deferred tax asset	10,699	1,135
Other non-current assets	27,156	27,304
Total non-current assets	534,366	506,792
Total assets	$ 916,670	$ 867,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 93,049	$ 96,487
Accrued liabilities	63,985	58,694
Income taxes payable	6,685	4,783
Total current liabilities	163,719	159,964
Long-term debt	216,157	191,976
Accrued pension and other non-current liabilities	115,862	107,072
Total non-current liabilities	332,019	299,048
Stockholders' equity:		
Common stock, par value $1.50 per share, 60,000,000 shares authorized, 27,984,278 issued, 12,709,238 and 12,662,661 outstanding at December 31, 2017 and June 30, 2017	41,976	41,976
Additional paid-in capital	59,016	56,783

Retained earnings		723,435		716,605
Accumulated other comprehensive loss		(112,075)		(115,938)
Treasury shares: 15,275,040 shares at December 31, 2017				
and 15,321,617 shares at June 30, 2017		(291,420)		(290,762)
Total stockholders' equity		420,932		408,664
Total liabilities and stockholders' equity	$	916,670	$	867,676

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Net sales	$ 209,751	$ 173,854	$ 424,130	$ 353,454
Cost of sales	138,225	116,960	278,423	234,784
Gross profit	71,526	56,894	145,707	118,670
Selling, general, and administrative expenses	50,679	40,493	100,705	82,105
Acquisition related costs	703	1,503	1,708	1,503
Restructuring costs	1,966	1,664	4,970	2,058
Total operating expenses	53,348	43,660	107,383	85,666
Income from operations	18,178	13,234	38,324	33,004
Interest expense	(1,793)	(850)	(3,514)	(1,547)
Other non-operating income, net	453	332	1,057	766
Income from continuing operations before income taxes	16,838	12,716	35,867	32,223
Provision for income taxes	19,642	2,274	24,672	7,437
Net income (loss) from continuing operations	(2,804)	10,442	11,195	24,786
Income (loss) from discontinued operations, net of income taxes	(3)	6	(2)	(44)
Net income (loss)	$ (2,807)	$ 10,448	$ 11,193	$ 24,742
Basic earnings per share:				
Continuing operations	$ (0.22)	$ 0.82	$ 0.88	$ 1.96
Discontinued operations	-	-	-	-
Total	$ (0.22)	$ 0.82	$ 0.88	$ 1.96
Diluted earnings per share:				
Continuing operations	$ (0.22)	$ 0.82	$ 0.88	$ 1.94
Discontinued operations	-	-	-	-
Total	$ (0.22)	$ 0.82	$ 0.88	$ 1.94
Cash dividends per share	$ 0.18	$ 0.16	$ 0.34	$ 0.30

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Net income (loss)	$ (2,807)	$ 10,448	$ 11,193	$ 24,742
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ (88)	$ 516	$ (338)	$ 631
Amortization of unrecognized costs	1,370	1,427	2,736	2,867
Derivative instruments:				
Change in unrealized gains (losses)	(2,351)	493	(1,577)	554
Amortization of unrealized gains and into interest expense	913	83	1,064	304
Foreign currency translation gains (losses)	(956)	(10,441)	2,455	(11,607)
Other comprehensive income (loss) before tax	$ (1,112)	$ (7,922)	$ 4,340	$ (7,251)
Income tax provision (benefit):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	$ 425	$ (224)	$ 477	$ (134)
Amortization of unrecognized costs	(327)	(502)	(805)	(1,008)
Derivative instruments:				
Change in unrealized gains and (losses)	5	(188)	(104)	(211)
Amortization of unrealized gains and (losses) into interest expense	(8)	(32)	(44)	(116)
Income tax provision (benefit) to other comprehensive income (loss)	$ 95	$ (946)	$ (476)	$ (1,469)
Other comprehensive gain (loss), net of tax	(1,017)	(8,868)	3,864	(8,720)
Comprehensive income (loss)	$ (3,824)	$ 1,580	$ 15,057	$ 16,022

See notes to unaudited condensed consolidated financial statements

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended December 31,	
(In thousands)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 11,193	$ 24,742
Income from discontinued operations	2	44
Income from continuing operations	11,195	24,786
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,052	9,044
Stock-based compensation	2,877	2,843
Non-cash portion of restructuring charge	664	42
Contributions to defined benefit plans	(530)	(624)
Net changes in operating assets and liabilities	(2,592)	(15,248)
Net cash provided by operating activities - continuing operations	25,666	20,843
Net cash (used in) operating activities - discontinued operations	(45)	(227)
Net cash provided by operating activities	25,621	20,616
Cash flows from investing activities		
Expenditures for property, plant, and equipment	(15,683)	(13,029)
Expenditures for acquisitions, net of cash acquired	(10,397)	(24,660)
Proceeds from life insurance policies	2,217	24
Other investing activity	1,093	652
Net cash (used in) investing activities	(22,770)	(37,013)
Cash flows from financing activities		
Borrowings on revolving credit facility	108,500	73,000
Payments of revolving credit facility	(87,288)	(41,000)
Activity under share-based payment plans	622	618
Purchases of treasury stock	(1,924)	(6,905)
Cash dividends paid	(4,312)	(3,798)
Net cash provided by financing activities	15,598	21,915
Effect of exchange rate changes on cash and cash equivalents	2,374	(6,205)
Net change in cash and cash equivalents	20,823	(687)
Cash and cash equivalents at beginning of year	88,566	121,988
Cash and cash equivalents at end of period	$ 109,389	$ 121,301

Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 2,951	$ 1,272
Income taxes, net of refunds	$ 8,077	$ 9,207

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 and six months ended December 31, 2017 and 2016, the cash flows for the six months ended December 31, 2017 and 2016 and the financial position of Standex International Corporation (“Standex”, the “Company”, “we”, “us”, or “our”), at December 31, 2017. The interim results are n necessarily indicative of results for a full year. The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the company believes that the disclosures made are adequate to make the information not misleading. 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, 2017. The condensed consolidated balance sheet at June 30, 2017 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, 2017. Certain prior period amounts have been reclassified to conform to the current period presentation. Unless otherwise noted, references to years are to the Company’s fiscal years.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was passed which resulted in the Company recording provisional estimates related to foreign earnings and changes in the revaluation of deferred taxes in our consolidated financial statements. Other changes implemented by the Act will not impact the Company until the fiscal year ending June 30, 2019. There have been no other significant changes in our reported financial position, results of operations, cash flows or to our critical accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 that have had a significant impact on our consolidated financial statements or notes herein.

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 unaudited condensed consolidated financial statements were issued.

During the fourth quarter of fiscal 2017, we adopted Accounting Standards Update (ASU) 2016-09 requiring the recognition of excess tax benefits as a component of income tax expense which were historically recognized in equity. As required, the fiscal results for the three and six months ended December 31, 2016 have been recast to include a tax benefit of $0.2 million and $0.6 million, respectively. In addition, the ASU requires a prospective update to the treasury method of calculating weighted average diluted shares outstanding resulting in the inclusion of additional shares in our diluted EPS calculation for the three and six months ended December 31, 2016.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounts Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This update amends the current guidance on revenue recognition related to contracts with customers. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In early 2016, the FASB issued additional updates: ASU No. 2016-10, 2016-11 and 2016-12. These updates provide further

guidance and clarification on specific items within the previously issued update. The Company anticipates it will adopt Topic 606 under the modified retrospective method and will only apply this method to contracts that are not completed as of the date of adoption. Application of this method will result in a cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application for any open contracts as of the adoption date.

The Company has established a global steering committee with a project plan to analyze the impact of this standard. The assessment phase of the project plan is on-going and includes identifying the various revenue streams, initiating contract reviews and reviewing current accounting policies and practices to identify potential differences that would result from the application of the standard. This assessment includes (1) utilizing questionnaires to assist with the identification of revenue streams, (2) performing sample contract analyses for each revenue stream identified, (3) assessing the noted differences in recognition and measurement that may result from adopting this new standard, (4) performing detailed analyses of contracts with larger customers, and (5) developing plans to test transactions for consistency with contract provisions that affect revenue recognition. The committee is currently analyzing the impact of the standard on its contract portfolio by reviewing a sample of its contracts to identify potential differences that would result from applying the requirements of the new standard. The committee also continues to analyze the impact of requirements for combining contracts, performance obligations, and variable consideration. The global steering committee is apprising both management and the audit committee of project status on a recurring basis. Following the completion of the assessment phase, the Company will initiate efforts to redesign impacted processes, policies, controls and disclosures, as necessary. The Company has not yet finalized its assessment of the impact of Topic 606, but expects to adopt this standard, as required, for the Company's interim and annual reporting periods beginning July 1, 2018. The Company does not expect to early adopt.

In November 2015, the FASB issued ASU Update 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, as part of its simplification initiatives. This update requires deferred tax liabilities and assets to be classified as non-current on the consolidated condensed balance sheet for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. An entity can elect adoption prospectively or retrospectively to all periods presented. We have adopted ASU 2015-17 prospectively. As a result, we have presented all deferred tax assets and liabilities as noncurrent on our consolidated balance sheet as of December 31, 2017, but have not reclassified current deferred assets and liabilities on our consolidated balance sheet as of June 30, 2017. There was no impact on our results of operations as a result of the adoption of ASU 2015-17.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. While we are continuing to assess the effect of the adoption, we currently believe the most significant potential changes relate to (i) recognition of right-of-use assets and lease liabilities on our balance sheet for equipment and real estate operating leases, and (ii) the derecognition of existing assets and liabilities for certain sale-leaseback transactions that currently do not qualify for sale accounting. The Company anticipates the adoption will have a material impact on the Company's consolidated financial statements due to the materiality of the underlying leases subject to the new guidance, however are unable to quantify that effect until our analysis is complete.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units

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related to an entity's testing of reporting units for goodwill impairment. It further clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently assessing the potential impact of the adoption of ASU 2017-04 on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. The new guidance requires the service cost component of net periodic benefit cost to be presented in the same income statement line items as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost are to be stated separately from service cost and outside of operating income. This guidance is effective for fiscal years beginning after December 15, 2017 (fiscal 2019 for the Company) and interim periods within those annual periods. The amendment is to be applied retrospectively. The Company is in the preliminary stages of assessing the potential impact of the adoption of ASU 2017-07 on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815); Targeting Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and to make certain targeted improvements to simplify the application of hedge accounting guidance. The new guidance requires additional disclosures including cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items. This guidance is effective for fiscal years beginning after December 15, 2018 (fiscal 2020 for the Company), and interim periods within those fiscal years. The amendment is to be applied prospectively. The Company is in the preliminary stages of assessing the potential impact of the adoption of ASU 2017-12 on our consolidated financial statements.

2. ACQUISITIONS

The Company’s recent acquisitions are strategically significant to the future growth prospects of the Company. At the time of the acquisition and December 31, 2017, the Company evaluated the significance of each acquisition on a standalone basis and in aggregate, considering both qualitative and quantitative factors.

Piazza Rosa Group

During the first quarter of fiscal year 2018, the Company acquired the Piazza Rosa Group. The Italy-based privately held company is a leading provider of mold and tool treatment and finishing services for the automotive and consumer products markets. We have included the results of the Piazza Rosa Group in our Engraving segment in our Condensed Consolidated Financial Statements.

The Company paid $10.1 million in cash, net of a $2.8 million payment to satisfy debt of the entity at the time of acquisition, for all of the issued and outstanding equity interests of the Piazza Rosa Group. The final purchase price is subject to net asset value adjustments that have not yet been finalized. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. Goodwill recorded from this transaction is attributable to potential revenue increases from the combined competencies with Standex Engraving's worldwide presence and Piazza Rosa Group's texturizing capabilities. The combined companies create a global tool finishing service leader and open additional opportunities in the broader surface engineering market.

Intangible assets of $4.1 million were preliminarily recorded, consisting of $2.3 million of customer relationships to be amortized over a period of eight years, $1.6 million for trademarks, and $0.2 million of other intangibles assets. Since the preliminary valuation, the Company adjusted goodwill by $1.2 million primarily as a result of identification of other identifiable assets. The goodwill of $5.1 million created by the transaction is not deductible for income tax purposes.

The components of the fair value of the Piazza Rosa Group acquisition, including the preliminary allocation of the purchase price at December 31, 2017, are as follows (in thousands):

		Preliminary Allocation September 30, 2017		Adjustments		Adjusted Allocation December 31, 2017
Fair value of business combination:						
Cash payments	$	12,889	$	-	$	12,889
Less: cash paid to satisfy acquired debt		(2,833)		-		(2,833)
Total	$	10,056	$	-	$	10,056
Identifiable assets acquired and liabilities assumed:						
Other acquired assets	$	2,678	$	1,176	$	3,854
Inventories		637		(2)		635
Property, plant, and equipment		5,005		-		5,005
Identifiable intangible assets		4,087		(1)		4,086
Goodwill		6,218		(1,155)		5,063
Liabilities assumed		(7,387)		-		(7,387)
Deferred taxes		(1,182)		(18)		(1,200)
Total	$	10,056	$	-	$	10,056

OKI Sensor Device Corporation

During the third quarter of fiscal year 2017, the Company acquired all of the outstanding shares of OKI Sensor Device Corporation from OKI Electric Industry Co., Ltd. Located in Kofu City, Japan, OKI Sensor Device Corporation is the world's leading designer and supplier of magnetic reed switches. Now named Standex Electronics Japan Corporation ("Standex Electronics Japan"), the acquisition enhances the Company's access to important Asian markets and enables the Company to offer a world class suite of reed switches and related magnetic solutions while continuing to serve Standex Electronics Japan's diverse distribution channels. We have included the results of Standex Electronics Japan in our Electronics segment in our Condensed Consolidated Financial Statements.

The Company paid $129.2 million in cash, net of cash acquired, for 100% of the outstanding stock of Standex Electronics Japan. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. Goodwill recorded from this transaction is attributable to potential revenue increases from enhanced access to our Asian markets and synergies created from the vertical integration with a key supplier.

Intangible assets of $51.4 million were preliminarily recorded, consisting of $47.8 million of developed technology to be amortized over a period of 10-20 years, $3.4 million of customer relationships to be amortized over a period of fifteen years, and $0.2 million of product order backlog which was amortized during fiscal year 2017. Since the preliminary valuation, the Company adjusted goodwill by $3.2 million as a result of tax adjustments, a pension adjustment of $1.9 million and purchase accounting changes including a decrease in the fair value of developed technology and customer relationships of $2.3 million and $0.2 million, respectively, and an additional $0.1 million of product order backlog which was amortized during fiscal year 2017. The goodwill of $79.2 million created by the transaction is not deductible for income tax purposes.

The components of the fair value of the Standex Electronics Japan acquisition, including the allocation of the purchase price at December 31, 2017, are as follows (in thousands):

	Preliminary Allocation	Adjustments	Adjusted Allocation
	March 31, 2017		December 31, 2017
Fair value of business combination:			
Cash payments	$ 137,676	$ -	$ 137,676
Less: cash acquired	(8,521)	-	(8,521)
Total	$ 129,155	$ -	$ 129,155
Identifiable assets acquired and liabilities assumed:			
Other acquired assets	$ 12,497	$ (2,158)	$ 10,339
Inventories	7,387	816	8,203
Property, plant, and equipment	12,703	5,750	18,453
Identifiable intangible assets	53,800	(2,400)	51,400
Goodwill	75,985	3,202	79,187
Liabilities assumed	(10,811)	(8,468)	(19,279)
Deferred taxes	(22,406)	3,258	(19,148)
Total	$ 129,155	$ -	$ 129,155

The initial allocation of the purchase price is based upon a preliminary valuation, and accordingly, our estimates and assumptions are subject to change as we obtain additional information during the measurement period.

The following table reflects the unaudited pro forma operating results of the Company for the three and six months ended December 31, 2017 and 2016, which give effect to the acquisition of Standex Electronics Japan as if it had occurred at the beginning of each period presented. The pro forma information combines the historical financial results of the Company and Standex Electronics Japan, adjusted for changes in foreign exchange rates. The pro forma results are not necessarily indicative of the operating results that would have occurred had the acquisition been effective at the beginning of each period, nor are they intended to be indicative of results that may occur in the future. The pro forma information does not include the effects of any synergies related to the Standex Electronics Japan acquisition, transactions between the entities prior to acquisition, or the pre-acquisition impact of other businesses acquired by the Company during this period as they were not material to the Company's historical results of operations.

	(Unaudited Pro Forma)		(Unaudited Pro Forma)	
	Three Months ended December 31,		Six Months Ended December 31,	
In thousands	**2017**	**2016**	**2017**	**2016**
Net Sales	$ 209,751	$ 189,796	$ 424,130	$ 387,060
Net Income	$ (2,804)	$ 12,217	$ 11,020	$ 27,134

Earnings per share:								
Basic	$	(0.22)	$	0.97	$	0.87	$	2.14
Diluted	$	(0.22)	$	0.96	$	0.86	$	2.12

Pro forma earnings during six months ended December 31, 2017 were adjusted to exclude tax-affected acquisition-related costs incurred during the first quarter of $0.2 million.

Pro forma earnings during the three months ended December 31, 2016 were adjusted to include tax-affected expense of $0.7 million for amortization of intangible assets recognized at fair value, depreciation expense of $0.3

million for the fair value adjustment of the acquired fixed assets, $0.4 million of interest expense associated with incremental borrowings under the Company's Credit Facility and $0.2 million of acquisition-related costs.

Pro forma earnings during the six months ended December 31, 2016 were adjusted to include tax-affected expense of $1.4 million for amortization of intangible assets recognized at fair value, depreciation expense of $0.6 million for the fair value adjustment of the acquired fixed assets, $0.7 million of interest expense associated with incremental borrowings under the Company's Credit Facility and $0.2 million of acquisition-related costs.

Horizon Scientific

During the second quarter of fiscal year 2017, the Company acquired Horizon Scientific, a supplier of laboratory refrigerators and freezers, as well as cryogenic equipment for the scientific, bio-medical and pharmaceutical markets. We believe the acquisition of Horizon Scientific enhances Standex's penetration of the refrigeration markets in the growing scientific sector. We have included the operating results of Horizon Scientific in our Food Service Equipment segment in our Condensed Consolidated Financial Statements.

The Company paid $25.0 million in cash, net of cash acquired, for 100% of the outstanding stock of Horizon Scientific. The purchase price was subject to cash and net working capital adjustments of $0.3 million which was paid during the first quarter of fiscal year 2018 along with deferred compensation of up to $8.4 million. The purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date.

Intangible assets of $16.2 million have been recorded, consisting of $14.5 million of customer relationships which are expected to be amortized over a period of fifteen years, $1.4 million of trademarks which are indefinite lived, and $0.3 million of product order backlog which amortized during the current fiscal year. The goodwill of $6.7 million created by the transaction is not deductible for income tax purposes.

The components of the fair value of the Horizon Scientific acquisition, including the allocation of the purchase price, are as follows (in thousands):

		Final
Fair value of business combination:		
Cash payments	$	26,457
Identified cash and net working capital adjustment		341

Less: cash acquired			(1,797)
Total	$		25,001
Identifiable assets acquired and liabilities assumed:			
Current assets	$		4,863
Inventories			4,470
Property, plant, and equipment			1,616
Identifiable intangible assets			16,150
Goodwill			6,660
Liabilities assumed			(2,374)
Deferred taxes		(6,384)	
Total	$		25,001

The Company finalized the purchase price allocation during fiscal year 2017. Transaction costs associated with this acquisition were immaterial. All transaction costs were recorded as general and administrative expense during the year ended June 30, 2017.

Acquisition-Related Costs

Acquisition-related costs include costs related to acquired businesses and other pending acquisitions. These costs consist of (i) deferred compensation and (ii) acquisition-related professional service fees and expenses, including financial advisory, legal, accounting, and other outside services incurred in connection with acquisition activities, and regulatory matters related to acquired entities. These costs do not include purchase accounting expenses, which we define as acquired backlog and the step-up of inventory to fair value, or the amortization of the acquired intangible assets.

Deferred compensation costs relate to payments due to the Horizon Scientific seller of $2.8 million on the second anniversary and $5.6 million on the third anniversary of the closing date of the purchase. For the three and six months ended December 31, 2017, we recorded deferred compensation costs for estimated deferred compensation earned by the Horizon Scientific seller to date of $0.7 million and $1.4 million, respectively. The payments are contingent on the seller remaining an employee of the Company with limited exceptions at each anniversary date.

Acquisition related expenses consist of miscellaneous professional service fees and expenses for our recent acquisitions.

The components of acquisition-related costs are as follows (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Deferred compensation arrangements	$ 703	$ 703	$ 1,405	$ 703
Acquisition-related costs	-	800	303	800
Total	$ 703	$ 1,503	$ 1,708	$ 1,503

3) Fair Value Measurements

The financial instruments shown below are presented at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and the methodologies used in valuation are as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities. The Company's deferred compensation plan assets consist of shares in various mutual funds (for the deferred compensation plan, investments are participant-directed) which invest in a broad portfolio of debt and equity securities. These assets are valued based on publicly quoted market prices for the funds' shares as of the balance sheet dates.

Level 2 – Inputs, other than quoted prices in an active market, that are observable either directly or indirectly through correlation with market data. For foreign exchange forward contracts and interest rate swaps, the Company values the instruments based on the market price of instruments with similar terms, which are based on spot and forward rates as of the balance sheet dates. The Company has considered the creditworthiness of counterparties in valuing all assets and liabilities.

Level 3 – Unobservable inputs based upon the Company's best estimate of what market participants would use in pricing the asset or liability.

There were no transfers of assets or liabilities between any levels of the fair value measurement hierarchy at December 31, 2017 and June 30, 2017. The Company's policy is to recognize transfers between levels as of the date they occur.

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

Items presented at fair value at December 31, 2017 and June 30, 2017 consisted of the following (in thousands):

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 2,398	$ 2,398	$ -	$ -
Foreign exchange contracts	1,108	-	1,108	-
Interest rate swaps	469	-	469	-
Liabilities				
Foreign exchange contracts	$ 6,235	$ -	$ 6,235	$ -
Interest rate swaps	13	-	13	-
Contingent acquisition payments [a]	3,513	-	-	3,513

	June 30, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Marketable securities - deferred compensation plan	$ 2,397	$ 2,397	$ -	$ -
Foreign exchange contracts	399	-	399	-
Interest rate swaps	3,777	-	3,777	-
Liabilities				
Foreign exchange contracts	$ 3,232	$ -	$ 3,232	$ -

Interest rate swaps	3,958	-	3,958	-
Contingent acquisition payments [(a)]	2,108	-	-	2,108

[(a)] The fair value of our contingent consideration arrangement is determined based on our evaluation as to the probability and amount of any deferred compensation that has been earned to date.

Our financial liabilities based upon Level 3 inputs include a contingent consideration arrangement relating to our acquisition of Horizon Scientific. We are contractually obligated to pay contingent consideration payments based on the criteria of continued employment of the seller on the second and third anniversary of the closing date of the acquisition. We will update our assumptions each reporting period based on new developments and record such amounts at fair value based on the revised assumptions until the consideration is paid.

Contingent acquisition payment liabilities are scheduled to be paid in periods through fiscal year 2020. As of December 31, 2017, we could be required to pay up to $8.4 million for contingent consideration arrangements if specific criteria are achieved. We have determined the fair value of the liabilities for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value

hierarchy. The fair value of the contingent consideration liability associated with future payments was based on several factors, the most significant of which are continued employment of the seller and the risk-adjusted discount rate for the fair value measurement. As of December 31, 2017, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimate had changed.

4) Inventories

Inventories are comprised of the following (in thousands):

	December 31, 2017	June 30, 2017
Raw materials	$ 59,175	$ 53,313
Work in process	35,093	28,110
Finished goods	36,447	37,978
Total	$ 130,715	$ 119,401

Distribution costs associated with the sale of inventory, which are recorded as a component of selling, general and administrative expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations, were $5.5 million and $11.5 million for the three and six months ended December 31, 2017, respectively and $4.6 million and $9.6 million for the three and six months ended December 31, 2016, respectively.

5) Goodwill

Changes to goodwill during the period ended December 31, 2017 were as follows (in thousands):

	June 30, 2017	Acquisitions	Translation Adjustment	December 31, 2017
Food Service Equipment	$ 63,464	$ -	$ -	$ 63,464
Engraving	20,000	5,063	286	25,349
Engineering Technologies	44,120	-	342	44,462
Electronics	112,047	286	1,018	113,351
Hydraulics	3,059	-	-	3,059
Total	$ 242,690	$ 5,349	$ 1,647	$ 249,685

6) Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Tradenames (Indefinite-lived)	Developed Technology	Other	Total
December 31, 2017					
Cost	$ 67,095	$ 20,515	$ 47,426	$ 4,908	$ 139,944
Accumulated amortization	(31,450)	-	(2,776)	(3,502)	(37,728)
Balance, December 31, 2017	$ 35,645	$ 20,515	$ 44,650	$ 1,406	$ 102,216
June 30, 2017					
Cost	$ 64,247	$ 18,715	$ 47,586	$ 4,503	$ 135,051
Accumulated amortization	(28,764)	-	(826)	(2,958)	(32,548)
Balance, June 30, 2017	$ 35,483	$ 18,715	$ 46,760	$ 1,545	$ 102,503

Amortization expense for the three months ended December 31, 2017 and 2016 was $2.3 million and $1.1 million, respectively. Amortization expense for the six months ended December 31, 2017 and 2016 was $4.5 million and $2.0 million, respectively. At December 31, 2017, amortization expense of current intangible assets is estimated to be $4.6 million for the remainder of fiscal year 2018, $9.0 million in 2019, $8.4 million in 2020, $7.9 million in 2021, $7.4 million in 2022 and $44.4 million thereafter.

7) Warranties

The expected cost associated with warranty obligations on our products is recorded as a component of cost of sales when the revenue is recognized. The Company's estimate of warranty cost is based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Since warranty estimates are forecasts based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

The changes in warranty reserve, which are recorded as a component of accrued liabilities, as of December 31, 2017 and year ended June 30, 2017 were as follows (in thousands):

		December 31, 2017		June 30, 2017
Balance at beginning of year	$	9,243	$	9,085
Acquisitions and other		8		301
Warranty expense		4,775		9,203
Warranty claims		(4,709)		(9,346)
Balance at end of period	$	9,317	$	9,243

8) Debt

Long-term debt is comprised of the following (in thousands):

		December 31, 2017		June 30, 2017
Bank credit agreements	$	216,500	$	192,500
Other		-		6

Total funded debt		216,500		192,506
Issuance Cost		(343)		(530)
Total long-term debt	$	216,157	$	191,976

The Company’s debt payments are due as follows (in thousands):

Fiscal Year		**December 31, 2017**
2018	$	-
2019		-
2020		216,500
2021		-
2022		-
Thereafter		-
Total Debt		216,500
Issuance cost		(343)
Debt net of issuance cost	$	216,157

Bank Credit Agreements

During fiscal year 2015, the Company entered into an Amended and Restated Credit Agreement ("Credit Facility", or "facility"). This five-year Credit Facility expires in December 2019 and has a borrowing limit of $400 million, which can be increased by an amount of up to $100 million, in accordance with specified conditions contained in the agreement. The facility also includes a $10 million sublimit for swing line loans and a $30 million sublimit for letters of credit.

At December 31, 2017, the Company had standby letters of credit outstanding, primarily for insurance purposes, of $8.9 million and had the ability to borrow $172.0 million under the facility. At December 31, 2017, the carrying value of the current borrowings under the facility approximates fair value.

9) 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 $75 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 1.74% at December 31, 2017. The fair value of the swaps, recognized in accrued expenses and in other comprehensive income, is as follows (in thousands, except percentages):

				December 31,	June 30,
Effective Date	**Notional Amount**	**Fixed Interest Rate**	**Maturity**	**2017**	**2017**
December 19, 2014	20,000	1.18%	December 19, 2017	$ -	$ 8
December 19, 2014	5,000	1.20%	December 19, 2017	-	1
December 18, 2015	15,000	1.46%	December 19, 2018	43	(1)

December 19, 2015	10,000	2.01%	December 19, 2019	(13)	(106)
May 24, 2017	25,000	1.88%	April 24, 2022	231	(60)
May 24, 2017	25,000	1.67%	May 24, 2020	195	(23)
				$ 456	$ (181)

The Company reported no losses for the three and six months ended December 31, 2017, as a result of hedge ineffectiveness. Future changes in these swap arrangements, including termination of the agreements, may result in a reclassification of any gain or loss reported in accumulated other comprehensive income (loss) into earnings as an adjustment to interest expense. Accumulated other comprehensive income (loss) related to these instruments is being amortized into interest expense concurrent with the hedged exposure.

Foreign Exchange Contracts

Forward foreign currency exchange contracts are used to limit the impact of currency fluctuations on certain anticipated foreign cash flows, such as collections from customers and loan payments between subsidiaries. The Company enters into such contracts for hedging purposes only. The Company has designated certain of these currency contracts as hedges, and changes in the fair value of these contracts are recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with these contracts will be reported in net income. At December 31, 2017 and June 30, 2017, the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized gain (losses) of $(5.1) million and $(2.8) million, respectively, which approximate the unrealized gains and losses on

the related loans. The contracts have maturity dates ranging from 2018-2023, which correspond to the related intercompany loans. The notional amounts of the Company's forward contracts, by currency, are as follows:

Currency	December 31, 2017	June 30, 2017
USD	69,000	73,000
Euro	21,312	21,335
Pound Sterling	6,750	6,962
Peso	54,000	54,000
Canadian	20,600	20,600

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

	Asset Derivatives			
	December 31, 2017		June 30, 2017	
Derivative designated as hedging instruments	Balance Sheet Line Item	Fair Value	Balance Sheet Line Item	Fair Value
Interest rate swaps	Other Assets	$ 469	Other Assets	$ -
Foreign exchange contracts	Other Assets	1,108	Other Assets	-
		$ 1,577		$ -

	Liability Derivatives			
	December 31, 2017		June 30, 2017	
Derivative designated as hedging instruments	Balance Sheet Line Item	Fair Value	Balance Sheet Line Item	Fair Value
Interest rate swaps	Accrued Liabilities	$ 13	Accrued Liabilities	$ 181
Foreign exchange contracts	Accrued Liabilities	6,235	Accrued Liabilities	2,833
		$ 6,248		$ 3,014

The table below presents the amount of gain (loss) recognized in comprehensive income on our derivative financial instruments (effective portion) designated as hedging instruments and their classification within comprehensive income for the periods ended (in thousands):

	Three Months Ended		**Six Months Ended**	
	December 31,		**December 31,**	
	2017	**2016**	**2017**	**2016**
Interest rate swaps	$ 131	$ 465	$ 417	$ 628
Foreign exchange contracts	(2,482)	28	(1,994)	(74)
	$ (2,351)	$ 493	$ (1,577)	$ 554

The table below presents the amount reclassified from accumulated other comprehensive income (loss) to Net Income for the periods ended (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	**Three Months Ended December 31,**		**Six Months Ended December 31,**		**Affected line item in the Unaudited Condensed Statements of Operations**
	2017	**2016**	**2017**	**2016**	
Interest rate swaps	$ 913	$ 110	$ 1,064	$ 229	Interest expense
Foreign exchange contracts	-	(27)	-	75	Cost of Sales
	$ 913	$ 83	$ 1,064	$ 304	

10) Retirement Benefits

The Company has defined benefit pension plans covering certain current and former employees both inside and outside of the U.S. The Company's pension plan for U.S. employees is frozen for substantially all participants and has been replaced with a defined contribution benefit plan.

Net Periodic Benefit Cost for the Company's U.S. and Foreign pension benefit plans for the three and six months ended December 31, 2017 and 2016 consisted of the following components (in thousands):

	U.S. Plans Three Months Ended December 31,		Non-U.S. Plans Three Months Ended December 31,	
	2017	2016	2017	2016
Service cost	$ 1	$ 1	$ 9	$ 9
Interest cost	2,520	2,613	259	250
Expected return on plan assets	(3,354)	(3,440)	(235)	(282)
Recognized net actuarial loss	1,145	1,190	234	249
Amortization of prior service cost	-	-	(9)	(12)
Net periodic benefit cost	$ 312	$ 364	$ 258	$ 214

	U.S. Plans Six Months Ended December 31,		Non-U.S. Plans Six Months Ended December 31,	
	2017	2016	2017	2016
Service cost	$ 2	$ 2	$ 18	$ 19
Interest cost	5,040	5,226	514	514
Expected return on plan assets	(6,707)	(6,881)	(466)	(579)
Recognized net actuarial loss	2,290	2,381	463	511
Amortization of prior service cost	-	-	(17)	(24)
Net periodic benefit cost	$ 625	$ 728	$ 512	$ 441

The Company expects to pay $1.4 million in contributions to its defined benefit plans during fiscal 2018. Contributions of $0.3 million and $0.5 million were made during the three and six months ended December 31, 2017 compared to $0.4 million and $0.6 million during the three and six months ended December 31, 2016, respectively. Required contributions of $0.8 million will be paid to the Company's U.K. defined benefit plan during 2018. The

Company also expects to make contributions during the current fiscal year of $0.2 million and $0.3 million to its unfunded defined benefit plans in the U.S. and Germany, respectively.

11) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act was passed which, among other things, reduces the federal corporate tax rate to 21.0% effective January 1, 2018. Recent SEC guidance allows for a measurement period approach for the income tax effects of tax reform for which the accounting is incomplete in accordance with Staff Accounting Bulletin No. 118. The Company requires more time to conduct a complete and accurate assessment of the tax reform. In addition, further guidance from the Department of Treasury and various state taxing authorities as well as year-end financial data is required before various calculations can be complete. The accounting for the impact of the Act is incomplete, but the Company is able to provide a provisional estimate for the toll/transition tax on foreign earnings and the change related to the revaluation of our deferred taxes. These provisional estimates result in the following impact to the second fiscal quarter ended December 31, 2017:

The Company has used a blended federal rate of 28.0% for the fiscal year ending June 30, 2018 in the calculation of the annual effective tax rate before discrete items. Beginning in fiscal year 2019, we will use a federal rate of 21.0%.

The Company has discretely recorded a charge of approximately $1.2 million to its provision for income taxes due to a revaluation of the Company's estimated deferred tax assets as of December 31, 2017. The Company used an estimate as a result of the blended rate used for the current year. A change in the estimated current year activity will have an impact on the charge recorded.

The Company has discretely recorded a charge of approximately $13.8 million to its provision for income taxes due to a mandatory deemed repatriation of foreign earnings. The Company used an estimate because the calculation involves data from a future period (June 30, 2018) and the Company is awaiting further guidance from the tax authorities regarding the technical application of the rules. Under the Act, the Company is permitted to pay this tax over an eight-year period commencing with the due date of the 2018 tax return. The Company has not factored in the state impact of this transition tax in the quarter as more time is required to determine how each of the various states will treat this item.

Since these provisions were based on estimates, the Company will continue to measure the impact of these areas and record any changes in subsequent quarters when information and guidance become available.

Other law changes implemented by the Act such as the repeal of the Section 199 manufacturing deduction, changes to the calculation for Section 162(m) executive compensation deduction, interest deduction limitation and Global Intangible Low Taxed Income (GILTI), and others will not have any impact on the Company until the fiscal year ending June 30, 2019. The Company will continue to monitor guidance regarding these changes for how it will impact the financial statements in later periods.

The Company's effective tax rate from continuing operations for the second quarter of 2018 was 116.7% compared with 17.9% for the prior year quarter. The effective tax rate in 2018 was higher due to approximately $15 million discrete tax charges related to the US tax reform recorded in the period and not in the prior year quarter.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2017 was 68.8% compared with 23.1% for the prior year. The effective tax rate for the year to date was higher due to the same discrete tax reform charges.

12) 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	Six Months

	Months Ended		Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Basic - Average shares outstanding	12,704	12,659	12,689	12,668
Dilutive effect of unvested, restricted stock awards	-	102	89	110
Diluted - Average shares outstanding	12,704	12,761	12,778	12,778

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 as anti-dilutive from the calculation of diluted earnings per share for the three and six months ended December 31, 2017 and 2016, respectively.

Performance stock units of 40,936 and 29,607 for the six months ended December 31, 2017 and 2016, respectively, are excluded from the diluted earnings per share calculation as the performance criteria have not been met.

13) Comprehensive Income (Loss)

The components of the Company’s accumulated other comprehensive income (loss) are as follows (in thousands):

	December 31, 2017	June 30, 2017
Foreign currency translation adjustment	$ (22,653)	$ (25,107)
Unrealized pension losses, net of tax	(84,576)	(86,646)
Unrealized losses on derivative instruments, net of tax	(4,846)	(4,185)
Total	$ (112,075)	$ (115,938)

14) Contingencies

From time to time, the Company is subject to various claims and legal proceedings, including claims related to environmental remediation, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, the Company's management does not believe that the outcome of any of the currently existing legal matters will have a material impact on the Company's consolidated financial position, results of operations or cash flow. The Company accrues for losses related to a claim or litigation when the Company's management considers a potential loss probable and can reasonably estimate such potential loss.

15) Industry Segment Information

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

• Food Service Equipment – an aggregation of eight operating segments that manufacture and sell commercial food service equipment;

• Engraving – provides mold texturizing, slush molding tools, project management and design services, tool finishing, hygiene product tooling, low observation vents for stealth aircraft, and process machinery for a number of industries;

• Engineering Technologies – provides net and near net formed single-source customized solutions in the manufacture of engineered components for the aviation, aerospace, defense, energy, industrial, medical, marine, oil and gas, and manned and unmanned space markets.

• Electronics – manufacturing and selling of electronic components for applications throughout the end-user market spectrum; and

• Hydraulics – manufacturing and selling of 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 December 31, 2017 and 2016 were as follows (in thousands):

	Three Months Ended December 31,			
	Net Sales		Income from Operations	
	2017	2016	2017	2016
Segment:				
Food Service Equipment	$ 97,222	$ 92,200	$ 7,841	$ 7,206
Engraving	33,879	25,861	6,796	6,510
Engineering Technologies	21,928	18,549	1,529	1,877
Electronics	46,035	28,497	10,221	6,091
Hydraulics	10,687	8,747	1,496	979
Restructuring costs			(1,966)	(1,664)
Corporate			(7,036)	(6,262)
Acquisition-related costs			(703)	(1,503)
Sub-total	$ 209,751	$ 173,854	$ 18,178	$ 13,234
Interest expense			(1,793)	(850)
Other non-operating income			453	332
Income from continuing operations before income taxes			$ 16,838	$ 12,716

	Six Months Ended December 31,			
	Net Sales		Income from Operations	
	2017	2016	2017	2016
Segment:				
Food Service Equipment	$ 200,287	$ 184,852	$ 18,266	$ 16,694
Engraving	66,708	52,591	14,216	13,907
Engineering Technologies	42,195	37,269	2,695	3,372
Electronics	92,850	59,148	20,457	12,565
Hydraulics	22,090	19,594	3,348	3,108
Restructuring costs			(4,970)	(2,058)
Acquisition-related costs			(1,708)	(1,503)
Corporate			(13,980)	(13,081)
Sub-total	$ 424,130	$ 353,454	$ 38,324	$ 33,004
Interest expense			(3,514)	(1,547)
Other non-operating income			1,057	766
Income from continuing operations before income taxes			$ 35,867	$ 32,223

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).

The Company's identifiable assets at December 31, 2017 and June 30, 2017 are as follows (in thousands):

	December 31, 2017	June 30, 2017
Food Service Equipment	$ 245,688	$ 243,414
Engraving	150,769	115,664
Engineering Technologies	151,908	150,805
Electronics	290,044	292,776
Hydraulics	24,651	21,405
Corporate & Other	53,610	43,612
Total	$ 916,670	$ 867,676

16) 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 December 31, 2017			Six Months Ended December 31, 2017		
Fiscal 2018	**Involuntary Employee Severance and Benefit Costs**	**Other**	**Total**	**Involuntary Employee Severance and Benefit Costs**	**Other**	**Total**
Restructuring initiatives	$ 228	$ 1,453	$ 1,681	$ 1,910	$ 2,000	$ 3,910
Prior year initiatives	113	172	285	155	905	1,060
	$ 341	$ 1,625	$ 1,966	$ 2,065	$ 2,905	$ 4,970

Fiscal 2017	Three Months Ended December 31, 2016			Six Months Ended December 31, 2016		
	Involuntary Employee Severance and Benefit Costs	**Other**	**Total**	**Involuntary Employee Severance and Benefit Costs**	**Other**	**Total**
Restructuring initiatives	$ 1,117	$ 492	$ 1,609	$ 1,146	$ 828	$ 1,974
Prior year initiatives	-	55	55	-	84	84
	$ 1,117	$ 547	$ 1,664	$ 1,146	$ 912	$ 2,058

2018 Restructuring Initiatives

The Company continues to focus on our efforts to reduce cost and improve productivity across our businesses, particularly through headcount reductions, facility closures, and consolidations. During the six months ended December 31, 2017, we incurred restructuring expenses from 2018 initiatives related to three restructuring programs that are intended to improve profitability, streamline production and enhance capacity to support future growth: (1) the realignment of management functions at the Food Service Equipment Group level; (2) headcount reduction and plant realignment with regard to the standard products businesses within Food Service Equipment; and (3) the exit of an unprofitable Engraving business in Brazil.

	Involuntary Employee Severance and Benefit Costs	**Other**	**Total**
Restructuring liabilities at June 30, 2017	$ -	$ -	$ -
Additions and adjustments	2,082	2,002	4,084
Payments	(1,624)	(1,786)	(3,410)
Restructuring liabilities at December 31, 2017	$ 458	$ 216	$ 674

Prior Year Initiatives

The prior year initiatives yet to be completed are primarily the finalization of the manufacturing footprint consolidation within our Enginetics business in the Engineering Technology segment.

Activity in the reserve related to the prior year restructuring initiatives is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring liabilities at June 30, 2017	$ 839	$ 906	$ 1,745
Additions and adjustments	155	906	1,061
Payments	(684)	(1,754)	(2,438)
Restructuring liabilities at December 31, 2017	$ 310	$ 58	$ 368

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

	Three Months Ended December 31, 2017			Six Months Ended December 31, 2017		
	Involuntary Employee Severance and Benefit Costs	Other	Total	Involuntary Employee Severance and Benefit Costs	Other	Total
Food Service Equipment	$ 187	$ 1,135	$ 1,322	$ 748	$ 1,561	$ 2,309
Engraving	24	249	273	739	343	1,082
Engineering Technologies	113	156	269	154	880	1,034
Electronics	-	57	57	132	84	216
Corporate	17	28	45	292	37	329
	$ 341	$ 1,625	$ 1,966	$ 2,065	$ 2,905	$ 4,970

	Three Months Ended December 31, 2016			Six Months Ended December 31, 2016		
	Involuntary Employee Severance and Benefit Costs	Other	Total	Involuntary Employee Severance and Benefit Costs	Other	Total
Food Service Equipment	$ 1,117	$ 3	$ 1,120	$ 1,129	$ 78	$ 1,207
Engraving	-	-	-	6	-	6
Engineering Technologies	-	249	249	-	433	433
Electronics	-	272	272	11	370	381
Corporate	-	23	23	-	31	31
	$ 1,117	$ 547	$ 1,664	$ 1,146	$ 912	$ 2,058

We incurred severance and other costs of $2.0 million and $1.7 million associated with these activities during the three months ended December 31, 2017 and 2016, respectively. We incurred severance and other costs of $5.0 million and $2.1 million associated with these activities during the six months ended December 31, 2017 and 2016, respectively. Restructuring expense is expected to be between $4.0 million and $5.0 million for the remainder of fiscal year 2018.

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

Statements contained in this Quarterly 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 te 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 material adverse or unforeseen legal judgments, fines, penalties or settlements, conditions in the financial and banking markets, including fluctuations in exchange rates and the inability to repatriate foreign cash, general and international recessionary economic conditions, including the impact, length and degree of downturns or slow growth conditions on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, 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, restructuring

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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, the inability to attain expected benefits from strategic alliances or acquisitions 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 impact of recently passed tax reform legislation in the United States. For further information on these and other risk factors, please see the section "Risk Factors" in Company's Annual Report on Form 10-K. 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 markets. We have twelve operating segments, aggregated and organized for reporting purposes into five reportable segments: Food Service Equipment, Engraving, Engineering Technologies, Electronics and Hydraulics. Overall management, strategic development and financial control are maintained by the executive staff from our corporate headquarters located in Salem, New Hampshire.

Our long-term strategy is to build larger industrial platforms through a value creation system that assists management in meeting specific corporate and business unit financial and strategic performance goals in order to create, improve, and enhance shareholder value. The Standex Value Creation System is a standard methodology which provides consistent tools used throughout the company in order to achieve our organization's goal of transforming from its historic roots as a holding company to an efficient operating company. The Standex Value Creation System employs four components: Balanced Performance Plan, Standex Growth Disciplines, Standex Operational Excellence, and Standex Talent Management. The Balanced Performance Plan process aligns annual goals throughout the business and provides a standard reporting, management and review process. It is focused on setting and meeting annual and quarterly targets that support our short and long-term goals. The Standex Growth Disciplines use a set of tools and processes including market maps, growth lane ways, and market tests to identify opportunities to expand the business organically and through acquisitions. Standex Operational Excellence employs a standard playbook and processes, including LEAN, to eliminate waste and improve profitability, cash flow and customer satisfaction. Finally, the Standex Talent Management process is an organizational development process that provides training, development, and succession planning for our employees throughout our worldwide organization. The Standex Value Creation System ties all disciplines in the organization together under a common umbrella by providing standard tools and processes to deliver our business objectives.

It is our objective to grow larger and more profitable business units through both organic initiatives and acquisitions. We seek to identify and implement organic growth initiatives such as new product development, geographic expansion, introduction of products and technologies into new markets and applications, key accounts and strategic sales channel partners. Also, we have a long-term objective to create sizable business platforms by adding

strategically aligned or "bolt on" acquisitions to strengthen the individual businesses, create both sales and cost synergies with our core business platforms, and accelerate their growth and margin improvement. We look to create both sales and cost synergies within our core business platforms, accelerate growth and improve margins. We have a particular focus on identifying and investing in opportunities that complement our products and will increase the global presence and capabilities of our businesses. From time to time, we have divested, and likely will continue to divest, businesses that we feel are not strategic or do not meet our growth and return expectations.

As part of our ongoing strategy, we acquired Italy-based Piazza Rosa Group ("Piazza Rosa"). The privately held company is a leading provider of mold, tool treatment and finishing services for the automotive and consumer products markets. The combination of these competencies with Standex Engraving's worldwide presence and texturizing capabilities creates a global tool finishing service leader. The acquisition also opens additional opportunities in the broader surface engineering market. The Piazza Rosa Group's results are reported within our Engraving segment.

During our third quarter of fiscal year 2017, we acquired all of the outstanding shares of Oki Sensor Device Corporation from Oki Electric Industry Co., Ltd. Located in Kofu City, Japan, Oki Sensor Device Corporation is the world's leading designer and supplier of magnetic reed switches. Now named Standex Electronics Japan Corporation, ("Standex Electronics Japan") the acquisition enhances the Company's access to important Asian markets and enables the Company to offer a world class suite of reed switches and related magnetic solutions while continuing to serve Standex Electronics Japan's diverse distribution channels. Standex Electronics Japan's results are reported within our Electronics segment.

During our second quarter of fiscal year 2017, we acquired Horizon Scientific, Inc., ("Horizon Scientific") a South Carolina-based supplier of laboratory refrigerators and freezers, as well as cryogenic equipment for the scientific, bio-medical and pharmaceutical markets. We have included the operating results of Horizon Scientific in our Food Service Equipment segment in our Condensed Consolidated Financial Statements. Horizon Scientific expands our access to higher-margin refrigeration markets in the growing scientific sector that provides solutions for exacting temperature storage requirements. Horizon Scientific's products complement the scientific offerings in our Nor-Lake division.

We create "Customer Intimacy" by utilizing the Standex Growth Disciplines to partner with our customers in order to develop and deliver custom solutions or engineered components. By partnering with our customers during long-term product development cycles, we become an extension of their development teams. Through this Partner, Solve, Deliver® methodology, we are able to secure our position as a preferred long-term solution provider for our products and components. This strategy results in increased sales and operating margins that enhance shareholder returns.

Standex Operational Excellence drives continuous improvement in the efficiency of our businesses, both on the shop floor and in the office environment. We recognize that our businesses are competing in a global economy that requires us to improve our competitive position. We have deployed a number of management competencies to drive improvements in the cost structure of our business units including operational excellence through lean enterprise, the use of low cost manufacturing facilities in countries such as Mexico and China, the consolidation of manufacturing facilities to achieve economies of scale and leveraging of fixed infrastructure costs, alternate sourcing to achieve procurement cost reductions, and capital improvements to increase productivity.

The Company's strong historical cash flow has been a cornerstone for funding our capital allocation strategy. We use cash flow generated from operations to fund the strategic growth programs described above, including acquisitions and investments for organic growth, investments in capital assets to improve productivity and lower costs and to return cash to our shareholders through payment of dividends and stock buybacks.

Restructuring expenses reflect costs associated with the Company's efforts of continuously improving operational efficiency and expanding globally in order to remain competitive in the end-user markets we serve. The Company incurs costs for actions to size its businesses to a level appropriate for current economic conditions, improve its cost structure, enhance our competitive position and increase operating margins. Such expenses include costs for moving facilities to locations that allow for lower fixed and variable costs, starting up plants after relocation, downsizing operations because of changing economic conditions, and other costs resulting from asset

redeployment decisions. Shutdown costs include severance, benefits, stay bonuses, lease and contract terminations, asset write-downs, costs of moving fixed assets, and moving and relocation costs. Vacant facility costs include maintenance, utilities, property taxes and other costs.

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 its business and which could impact their performance. Those units report pertinent 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 ("KPIs") including net sales, income from operations, backlog, effective income tax rate, gross profit margin, and operating cash flow. A discussion of these KPIs is included below. We may also supplement the discussion of these KPIs by identifying the impact of foreign exchange rates, acquisitions, and other significant items when they have a material impact on a specific KPI.

We believe the discussion of these items provides enhanced information to investors by disclosing their impact on the overall trend which provides a clearer comparative view of the KPI, as applicable. For discussion of the impact of foreign exchange rates on KPIs, the Company calculates the impact as the difference between the current period KPI calculated at the current period exchange rate as compared to the KPI calculated at the historical exchange rate for the prior period. For discussion of the impact of acquisitions, we isolate the effect on the KPI amount that would have existed regardless of our acquisition. Sales resulting from synergies between our acquisitions and existing operations of the Company are considered organic growth for the purposes of our discussion.

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

Results from Continuing Operations

	Three Months Ended December 31,		**Six Months Ended December 31,**	
(In thousands, except percentages)	**2017**	**2016**	**2017**	**2016**
Net sales	$ 209,751	$ 173,854	$ 424,130	$ 353,454
Gross profit margin	34.1%	32.7%	34.4%	33.6%
Income from operations	18,178	13,234	38,324	33,004

Three Months Ended **Six Months Ended**

(In thousands)		December 31, 2017		December 31, 2017
Net sales, prior year period	$	173,854	$	353,454
Components of change in sales:				
Organic sales change		15,313		25,652
Effect of acquisitions		17,322		40,191
Effect of exchange rates		3,262		4,833
Net sales, current period	$	209,751	$	424,130

Net sales for the second quarter of 2018 increased $35.9 million, or 20.6%, when compared to the prior year period. Organic sales increased by $15.3 million, or 8.8%, with each of the five businesses contributing to the overall increase in the quarter. Acquisitions also contributed 10.0% to the overall growth in the quarter. Foreign currency was favorable and contributed 1.8% to the sales increase.

Net sales in the six months ended December 31, 2017 increased $70.7 million, or 20.0%, when compared to the prior year. The increase in net sales was driven by organic growth of $25.7 million, or 7.3%, incremental sales from acquisitions of $40.2 million, or 11.4%, and favorable currency contributions of $4.8 million, or 1.4%. We discuss our outlook for each segment below.

Gross Profit Margin

Our gross margin for the second quarter of 2018 was 34.1%, compared to the prior year quarter of 32.7%. Gross margin increased by 1.4% primarily due to sales mix.

Our gross margin in the six months ended December 31, 2017 was 34.4%, compared to the prior year of 33.6%. Gross margin also increased year to date due to sales mix.

Restructuring Charges

During the second quarter of fiscal year 2018, we incurred restructuring expenses of $2.0 million primarily related to four restructuring programs that are intended to improve profitability, streamline production and enhance capacity to support future growth: (1) the realignment of management functions at the Food Service Equipment Group level; (2) headcount reduction and plant realignment with regard to the standard products businesses within Food Service Equipment; (3) the exit of an unprofitable Engraving business in Brazil; and (4) the finalization of the manufacturing footprint consolidation within our Enginetics business in the Engineering Technology segment.

Restructuring expenses for the six months ended December 31, 2017 were $5.0 million for the on-going initiatives. We expect to incur additional restructuring costs between $4.0 million and $5.0 million throughout the remainder of fiscal year 2018.

Acquisition Related Expenses

During the second quarter of fiscal year 2018, we incurred acquisition-related expenses of $0.7 million for deferred compensation earned by the Horizon Scientific seller during the quarter. The payments are contingent on the seller remaining an employee of the Company and are therefore treated as compensation expense.

Acquisition related expenses for the six months ended December 31, 2017 were $1.7 million comprised of $1.4 million for deferred compensation earned by the Horizon Scientific seller during the year, and other acquisition expenses related to Standex Electronics Japan and Piazza Rosa.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") for the second quarter of 2018 were $50.7 million, or 24.2% of sales, compared to $40.5 million, or 23.3% of sales, during the prior year quarter. SG&A expenses during the quarter were impacted by: i) on-going SG&A expenses related to our recent acquisitions of $4.6 million, ii) an increase in distribution and selling expenses of $1.7 million, iii) and an increase in administrative expenses primarily related to investments to support our recent acquisitions and growth laneways.

SG&A for the six months ended December 31, 2017 were $100.7 million, or 23.7% of sales, compared to $82.1 million, or 23.2% of sales, during the prior year quarter. SG&A expenses were impacted by: i) on-going SG&A expenses related to our recent acquisitions of $9.9 million, ii) an increase in distribution and selling expenses of $2.7 million, iii) and an increase in administrative expenses primarily related to investments to support our recent acquisitions and growth laneways.

Income from Operations

Income from operations for the second quarter of 2018 was $18.2 million, compared to $13.2 million during the prior year quarter. The increase of $4.9 million, or 37.4%, is primarily due to higher sales volume and improved gross margin as a result of our recent acquisitions, lower pre-acquisition expenses and the absence of purchase accounting incurred in prior year, partially offset by increased selling and distribution expenses related to overall increased sales volume.

Income from operations for the six months ended December 31, 2017 was $38.3 million, compared to $33.0 million during the prior year. The increase of $5.3 million, or 16.1%, is primarily due to higher sales volume, improved gross margin, and a lesser amount of purchase accounting incurred in prior year as a result of our recent acquisitions, partially offset by increased selling and distribution expenses related to increased sales volume.

Interest Expense

Interest expense for the second quarter of 2018 was $1.8 million, compared to $0.9 million during the prior year quarter. The increase is due to higher borrowings associated with the recent acquisitions in addition to an increase in our effective interest rate of 2.7% as of December 31, 2017, as compared to 1.9% as of December 31, 2016. Interest expense for the six months ended December 31, 2017 and December 31, 2016 were $3.5 million and $1.5 million, respectively.

Income Taxes

The Company's effective tax rate from continuing operations for the second quarter of 2018 was 116.7% compared with 17.9% for the prior year quarter. The effective tax rate in 2018 was higher due to approximately $15 million discrete tax charges related to the US tax reform recorded in the period and not in the prior year quarter.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2017 was 68.8% compared with 23.1% for the prior year. The effective tax rate for the year to date was higher due to discrete tax reform charges.

See Note 1, “Management Statement” and Note 11, “Income Taxes” in the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for further discussion on the impact of the Tax Cuts and Jobs Act and Staff Accounting Bulletin No. 118.

Backlog

Backlog includes all active or open orders for goods and services that have a firm fixed customer purchase order with defined delivery dates. Backlog also includes any future deliveries based on executed customer contracts, so long as such deliveries are based on agreed upon delivery schedules. Backlog is not generally a significant factor in the Company’s businesses because of our relatively short delivery periods and rapid inventory turnover with the exception of Engineering Technologies. Due to the nature of long term agreements in the Engineering Technologies group, the timing of orders and delivery dates can vary considerably resulting in significant backlog changes from one period to another. In general, the majority of net realizable backlog beyond one year comes from the Engineering Technologies Group.

	As of December 31, 2017		As of December 31, 2016	
	Total Backlog	Backlog under 1 year	Total Backlog	Backlog under 1 year
Food Service Equipment	$ 40,221	$ 35,957	$ 44,884	$ 42,143
Engraving	18,195	18,195	14,147	14,061
Engineering Technologies	93,319	66,157	87,609	68,758
Electronics	65,043	54,508	42,148	35,200
Hydraulics	7,477	7,477	3,925	3,925
Total	$ 224,255	$ 182,294	$ 192,713	$ 164,087

Total backlog realizable under one year increased $18.2 million, or 11.1%, to $182.3 million at December 31, 2017 from $164.1 million at December 31, 2016.

Organic backlog under one year increased $12.1 million, or 7.5%, while acquisitions contributed an additional $7.5 million.

Segment Analysis

Food Service Equipment Group

	Three Months Ended December 31,		%	Six Months Ended December 31,		%
(In thousands, except percentages)	2017	2016	Change	2017	2016	Change
Net sales	$ 97,222	$ 92,200	5.4%	$ 200,287	$ 184,852	8.3%
Income from operations	7,841	7,206	8.8%	18,266	16,694	9.4%
Operating income margin	8.1%	7.8%		9.1%	9.0%	

Net sales in the second quarter of fiscal year 2018 increased $5.0 million, or 5.4%, when compared to the prior year quarter. Organic sales growth of $3.2 million drove 3.5% of the gain, foreign exchange contributed $0.4 million, or 0.4%, while the Horizon Scientific acquisition added $1.4 million, or 1.6%. Total sales within the Refrigeration Group increased 7.6%, as we saw a return of strength in the chain and after-market sectors along with continued strength in the buying groups. Cooking Solutions sales decreased 1.3% due to exiting low margin product lines. Our Specialty Solutions sales increased by 8.7% due to strong volume in both our beverage and merchandising markets.

Net sales in the six months ended December 31, 2017, increased $15.4 million, or 8.3%, when compared to the prior year. Organic sales are up $5.3 million. Foreign exchange was favorable by $0.6 million, or 0.3%. Total sales within the Refrigeration Group increased $15.3 million, or 15.1%, driven by increased sales to the dealer channel, strengthening chain business, and a contribution of $9.5 million from the Horizon acquisition. Cooking Solutions were down 5.2% due to product rationalization and lower sales to the buying groups. Specialty Solutions sales were

up 9.4% due to higher volume in our beverage market with the successful introduction of new products and continued strong merchandising sales.

Income from operations in the second quarter of fiscal 2018 increased by $0.6 million, or 8.8%, when compared to the prior year quarter. The operating income results were impacted by the absence of purchase accounting expenses in the prior year of $1.1 million. Segment profitability was negatively impacted in the current quarter due to increased rebate expenses as Refrigeration buying groups achieved higher rebate levels for the 2017 calendar year. We expect profitability improvements in 2018 due to exiting calendar year low-margin buying group contracts and as the restructuring programs are completed in our standard products plants.

Income from operations in the six months ended December 31, 2017, increased $1.6 million, or 9.4%, when compared to the prior year. The operating income results were impacted by the absence of purchase accounting expenses in the prior year of $1.1 million. Sales volume increases and exiting low-margin product lines accounted for the remainder of the gain.

Engraving Group

	Three Months Ended			Six Months Ended		
	December 31,		%	December 31,		%
(In thousands, except percentages)	2017	2016	Change	2017	2016	Change
Net sales	$ 33,879	$ 25,861	31.0%	$ 66,708	$ 52,591	26.8%
Income from operations	6,796	6,510	4.4%	14,216	13,907	2.2%
Operating income margin	20.1%	25.2%		21.3%	26.4%	

Net sales for the second quarter of fiscal year 2018 increased by $8.0 million, or 31.0%, when compared to the prior year quarter. Organic sales increased by $3.1 million, or 12.0%, driven by Mold-Tech sales in all regions. The Piazza Rosa Group acquisition generated $3.4 million, or 13.2%, of additional sales. Foreign exchange accounted for $1.5 million, or 5.8%. We expect the new technologies of Architexture, nickel shell and laser to positively impact sales during the balance of the fiscal year. We also expect to increase revenues as we deploy the Piazza Rosa tool finishing capabilities throughout our global Mold-Tech network.

Net sales for the six months ended December 31, 2017, increased by $14.1 million, or 26.8%, when compared to the prior year. Organic sales increased by 11.3%, or $6.0 million. The Piazza Rosa Group acquisition generated $5.9 million, or 11.3%, of additional sales. Foreign exchange accounted for $2.2 million, or 4.2%.

Income from operations for the second quarter of fiscal year 2018 increased by $0.3 million, or 4.4%, when compared to the prior year quarter. Margin rate was impacted by implementation of growth initiatives as well as integration costs associated with the Piazza Rosa acquisition.

Income for the six months ended December 31, 2017, increased $0.3 million, or 2.2%, when compared to the prior year. Margin rate was impacted by sales mix along with start-up costs related to new product laneways and integration expenses associated with the Piazza Rosa acquisition. Purchase accounting expenses of $0.2 million were incurred during the first quarter of 2018.

Engineering Technologies Group

	Three Months Ended			Six Months Ended		
	December 31,		%	December 31,		%
(In thousands, except percentages)	2017	2016	Change	2017	2016	Change

Net sales	$	21,928	$	18,549	18.2%	$	42,195	$	37,269	13.2%
Income from operations		1,529		1,877	(18.6%)		2,695		3,372	(20.1%)
Operating income margin		7.0%		10.1%			6.4%		9.0%	

Net sales in the second quarter of fiscal year 2018 increased by $3.4 million, or 18.2%, when compared to the prior year quarter. Aviation sales increased $3.5 million compared to the prior period primarily due to sales increases of engine components, lipskins, and an aviation development contract milestone. Our current focus for the second half of the year is to deliver on developmental programs in the space segment and to meet delivery schedules on long-term aviation agreements.

Net sales for the six months ended December 31, 2017, increased by $4.9 million, or 13.2%, when compared to the prior year. Aviation sales increased 31.9% due to increased sales of lipskins, and an aviation development contract milestone. Space sales were up 5.5% due to an increase in the development programs for the manned sector.

Income from operations in the second quarter of fiscal year 2018 decreased by $0.3 million, or 18.6%, when compared to the prior year quarter. Margins were negatively impacted by large development programs in space and aviation. Legacy aviation pricing pressures continued to affect margins in the current quarter.

Income from operations for the six months ended December 31, 2017, decreased by $0.7 million, or 20.1%, when compared to the prior year. The decrease in operating income was the result of legacy aviation pricing pressures, manufacturing inefficiencies and by large development programs in space and aviation.

Electronics Group

	Three Months Ended			Six Months Ended		
	December 31,		%	December 31,		%
(In thousands, except percentages)	2017	2016	Change	2017	2016	Change
Net sales	$ 46,035	$ 28,497	61.5%	$ 92,850	$ 59,148	57.0%
Income from operations	10,221	6,091	67.8%	20,457	12,565	62.8%
Operating income margin	22.2%	21.4%		22.0%	21.2%	

Net sales in the second quarter of fiscal year 2018 increased $17.5 million, or 61.5%, when compared to the prior year quarter. Organic growth was $3.9 million, or 13.6%, while our Japanese acquisition contributed $12.5 million, or 43.8%. Foreign exchange accounted for $1.2 million, or 4.1%, in sales increases. Sales were higher in all major geographic markets, particularly Europe with improving levels in North America and Asia. New sensor and relay applications continued to drive growth. Growth was strong in the industrial, utilities, distribution, transportation and military aerospace markets. We anticipate continued growth across most industries due to new business opportunities that have materialized.

Net sales for the six months ended December 31, 2017, increased $33.7 million, or 57.0%, when compared to the prior year. Organic sales growth was $7.1 million, or 12.1% for the first half when compared to the prior year. Sales increased $24.8 million, or 41.9%, due to the Standex Electronics Japan acquisition. Foreign exchange increased sales by $1.8 million, or 3.0%. Sales in all major geographic areas were higher, again mostly in the sensor and relay applications.

Income from operations in the second quarter of fiscal year 2018 increased $4.1 million, or 67.8%, when compared to the prior year quarter. The earnings improvement is due to the higher organic sales as well as the acquisition impact and continued operational cost improvements.

Income from operations for the six months ended December 31, 2017, increased $7.9 million, or 62.8%, when compared to the prior year. The increase is due to the organic sales margin impact combined with operating cost savings initiatives as well as the acquisition earnings impact.

Hydraulics Group

	Three Months Ended		%	Six Months Ended		%
	December 31,			December 31,		
(In thousands, except percentages)	2017	2016	Change	2017	2016	

Critical Accounting Policies

The Company's consolidated financial statements were prepared in accordance with U. S. generally accepted accounting principles, which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the judgment increases, such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different from estimated. Management has identified certain critical accounting policies, described below, that require significant judgment to be exercised by management.

Revenue Recognition

The Company derives its revenues from several sources. All of the Company's segments perform consulting and staffing services. The Company's Engineering Services and Information Technology Services segments also perform project services. All of the Company's segments derive revenue from permanent placement fees.

Project Services - The Company recognizes revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" which clarifies application of U.S. generally accepted accounting principles to revenue transactions. Project services are generally provided on a cost-plus-fixed-fee or time-and-material basis. Typically, a customer will outsource a discrete project or activity and the Company assumes responsibility for the performance of such project or activity. The Company recognizes revenues and associated costs on a gross basis as services are provided to the customer and costs are incurred using its employees. The Company, from time to time, enters into contracts requiring the completion of specific deliverables. The Company recognizes revenue on these deliverables at the time the client accepts and approves the deliverables. In instances where project services are provided on a fixed-price basis and the contract will extend beyond a 12-month period, revenue is recorded in accordance with the terms of each contract. In some instances, revenue is billed and recorded at the time certain milestones are reached, as defined in the contract. In other instances, revenue is billed and recorded based upon contractual rates per hour. In addition, some contracts contain "Performance Fees" (bonuses) for completing a contract under budget. Performance Fees, if any, are recorded when the contract is completed and the revenue is reasonably certain of collection. Some contracts also limit

revenues and billings to maximum amounts. Provision for contract losses, if any, is made in the period such losses are determined. For contracts where there are multiple deliverables and the work has not been 100% complete on a specific deliverable, the costs have been deferred. The associated costs are expensed when the related revenue is recognized.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Revenue Recognition (Continued)

Consulting and Staffing Services - Revenues derived from consulting and staffing services are recorded on a gross basis as services are performed and associated costs have been incurred using employees of the Company. In these circumstances, the Company assumes the risk of acceptability of its employees to its customers. In certain cases, the Company may utilize other companies and their employees to fulfill customer requirements. In these cases, the Company receives an administrative fee for arranging for, billing for, and collecting the billings related to these companies. The customer is typically responsible for assessing the work of these companies who have responsibility for acceptability of their personnel to the customer. Under these circumstances, the Company's reported revenues are net of associated costs (effectively the administrative fee).

Permanent Placement Services - The Company earns permanent placement fees from providing permanent placement services. Fees for placements are recognized at the time the candidate commences employment. The Company guarantees its permanent placements on a prorated basis for 90 days. In the event a candidate is not retained for the 90-day period, the Company will provide a suitable replacement candidate. In the event a replacement candidate cannot be located, the Company will provide a prorated refund to the client. An allowance for refunds, based upon the Company's historical experience, is recorded in the financial statements. Revenues are recorded on a gross basis as a component of revenue.

Accounts Receivable

The Company's accounts receivable are primarily due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Accounts receivable payment terms vary and are stated in the financial statements at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts

receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable assets. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company performs its annual goodwill impairment testing, by reportable unit, as of November 30 of each year, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducted its annual goodwill impairment test for 2007 as of November 30, 2007 and identified no impairments. Goodwill was $46.4 million and $39.6 million at June 28, 2008 and December 29, 2007, respectively.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Long-Lived Assets

The Company evaluates long-lived assets and intangible assets with definite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When it is probable that undiscounted future cash flows will not be sufficient to recover an asset’s carrying amount, the asset is written down to its fair value. Assets to be disposed of by sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.

Accounting for Stock Options

The Company uses stock options to attract, retain and reward employees for long-term service.

Effective as of January 1, 2006, the Company adopted SFAS No. 123R “Share Based Payment” (“SFAS No. 123R”). SFAS No. 123R requires that the compensation cost relating to stock-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R covers a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans.

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, SFAS No. 123R includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of stock-based payment awards. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (“SAB No. 107”) relating to SFAS No. 123R. The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123R.

Since the Company adopted SFAS No. 123R, effective January 1, 2006, using the modified-prospective transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the period of

adoption. The Company measures stock-based compensation cost using the Black-Scholes option pricing model.

Accounting for Income Taxes

In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted tax laws, published tax guidance and estimates of future earnings. As of June 28, 2008, the Company had total net deferred tax assets of $2.4 million, primarily representing the tax effect of an allowance for doubtful accounts. Realization of deferred tax assets is dependent upon the likelihood that future taxable income will be sufficient to realize these benefits over time, and the effectiveness of tax planning strategies in the relevant tax jurisdictions. In the event that actual results differ from these estimates and assessments, valuation allowances may be required.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007. The Company recognized no material adjustments in the liability for unrecognized income tax benefits due to the adoption of FIN 48. The Company conducts its operations in multiple tax jurisdictions in the United States and Canada. With limited exceptions, the Company is no longer subject to audits by tax authorities for tax years prior to 2003. At June 28, 2008, the Company did not have any uncertain tax positions.

The Company's future effective tax rates could be adversely affected by changes in the valuation of its deferred tax assets or liabilities or changes in tax laws or interpretations thereof. In addition, the Company is subject to the examination of its income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Accrued Bonuses

The Company pays bonuses to certain executive management, field management and corporate employees based on, or after giving consideration to, a variety of financial performance measures. Executive management, field management and certain corporate employees' bonuses are accrued throughout the year for payment during the first quarter of the following year, based in part upon anticipated annual results compared to annual budgets. In addition, the Company pays discretionary bonuses to certain employees, which are not related to budget performance. Variances in actual results versus budgeted amounts can have a significant impact on the calculations and therefore on the estimates of the required accruals. Accordingly, the actual earned bonuses may be materially different from the estimates used to determine the quarterly accruals.

Forward-looking Information

The Company's growth prospects are influenced by broad economic trends. The pace of customer capital spending programs, new product launches and similar activities have a direct impact on the need for consulting and engineering services as well as temporary and permanent employees. When the U.S. and Canadian economies decline, the Company's operating performance could be adversely impacted. The Company believes that its fiscal discipline, strategic focus on targeted vertical markets and diversification of service offerings provides some insulation from adverse trends. However, declines in the economy could result in the need for future cost reductions or changes in strategy.

Additionally, changes in government regulations could result in prohibition or restriction of certain types of employment services or the imposition of new or additional employee benefits, licensing or tax requirements with respect to the provision of employment services that may reduce RCM's future earnings. There can be no assurance that RCM will be able to increase the fees charged to its clients in a timely manner and in a sufficient amount to cover increased costs as a result of any of the foregoing.
The employment services market is highly competitive with limited barriers to entry. RCM competes in global, national,

regional and local markets with numerous consulting, engineering and employment companies. Price competition in the industries the Company serves is significant, and pricing pressures from competitors and customers are increasing. RCM expects that the level of competition will remain high in the future, which could limit RCM’s ability to maintain or increase its market share or profitability.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Twenty-Six Weeks Ended June 28, 2008 Compared to Twenty-Six Weeks Ended June 30, 2007

A summary of operating results for the fiscal periods ended June 28, 2008 and June 30, 2007 is as follows (in thousands, except for earnings per share data):

	June 28, 2008	
	Amount	% of Revenue
Revenues	$104,125	100.0
Cost of services	76,677	73.6
Gross profit	27,448	26.4
Selling, general and administrative	22,626	21.7
Bad debt - note receivable	6,090	5.9
Depreciation and amortization	921	1.0
	29,637	28.6
Operating (loss) income	(2,189)	(2.2
Other (expense) income	(46)	
(Loss) income before income taxes	(2,235)	(2.2
Income taxes	(1,005)	(1.0
Net (loss) income	($1,230)	(1.2
(Loss) earnings per share		
Basic:	($0.10)	
Diluted:	($0.10)	

The above summary is not a presentation of results of operations under accounting principles generally accepted in the United States of America and should not be considered in isolation or as an alternative to results of operations as an indication of the Company’s performance.

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The year to date reporting periods ended June 28, 2008 and June 30, 2007 consisted of twenty-six

weeks each.

Revenues. Revenues decreased 6.5%, or $7.2 million, for the twenty-six weeks ended June 28, 2008 as compared to the same period in the prior year (the "comparable prior year period"). Revenues decreased $1.9 million in the Information Technology ("IT") segment, decreased $9.1 million in the Engineering segment, and increased $3.8 million in the Commercial segment. Management attributes the overall decrease to a weakening of the general economy and the loss of an engineering client, which generated revenue of $10.8 million in the 2007 period as compared to $-0- in the 2008 period. Management expects revenues for the remainder of fiscal 2008 to remain generally consistent on a prorated basis with the revenues for the thirteen weeks ended June 28, 2008. Revenues that were attributable to acquisitions which occurred in the IT segment since June 30, 2007 and were not included in the comparable prior year period were approximately $8.6 million.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Twenty-Six Weeks Ended June 28, 2008 Compared to Twenty-Six Weeks Ended June 30, 2007 - (Continued)

Cost of Services. Cost of services decreased 9.8%, or $8.3 million, for the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. This decrease was primarily due to the decrease in revenues. Cost of services as a percentage of revenues decreased to 73.6% for the twenty-six weeks ended June 28, 2008 from 76.3% for the comparable prior year period. This decrease was primarily attributable to decreased revenues in the Engineering segment, which had lower gross margins. Management anticipates the ratio gross margins for the remainder of fiscal 2008 to remain comparable to those in the twenty-six weeks ended June 28, 2008.

Selling, General and Administrative. Selling, general and administrative (“SGA”) expenses increased 9.2%, or $1.9 million, for the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 21.7% for the twenty-six weeks ended June 28, 2008 as compared to 18.6% for the comparable prior year period. This percentage increase was primarily attributable to the SGA expenses incurred in connection with two acquisitions subsequent to February 28, 2008. Management expects SGA expenses for the remainder of fiscal 2008 to remain generally consistent with the SGA expenses, adjusted for seventeen weeks of additional SGA expenses from the aforementioned acquisitions, for the twenty-six weeks ended June 28, 2008.

Bad Debt - Note Receivable. On February 26, 2008, the Company accepted a promissory note from a customer for $7.5 million per agreement which includes interest in payment of a like amount of accounts receivable from that customer. Of that amount, the note provides that $3.1 million is payable within 12 months and the remaining $4.4 million is payable in 36 monthly installments of $152,000, including principal and interest at 6% per annum through July 2011. The customer paid $1.2 million through April 30, 2008. The note receivable is collateralized by a second position on all of the customer’s accounts receivable as well as the personal guarantees of all its officers. On April 30, 2008, management of the Company

concluded that the customer was going to default on its May 1, 2008 installment payment and the Company at that time determined that this note receivable will not likely be collectible. Therefore, the Company recorded a $6.1 million reserve to this doubtful account for the twenty-six weeks ended June 28, 2008.

Depreciation and Amortization. Depreciation and amortization increased 27.9%, or $.2 million for the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. This increase was principally attributable to amortization of intangibles incurred from two acquisitions in the 2008 period.

Other Income (Expense). Other (expense) income consists of interest expense, net of interest income and gains and losses on foreign currency transactions and, in 2007, the proceeds from a legal settlement. For the twenty-six weeks ended June 28, 2008, actual interest expense of $105,000 was offset by $64,000 of interest income, which was earned from short-term money market deposits. Interest expense, net increased $42,000 for the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. This increase was primarily due to increased borrowing levels associated with the funding of two acquisitions in the 2008 period. Gains and losses on foreign currency transactions increased $16,000 in the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. This increase was attributable to the unfavorable exchange rates realized during the 2008 period. The proceeds from the legal settlement in 2007 were realized when the Company reached a settlement with one of the law firm defendants resulting in the recovery of $800,000 (see footnote 15 to the consolidated financial statements).

Income Tax. Income tax expense decreased 144.1%, or $3.3 million, for the twenty-six weeks ended June 28, 2008 as compared to the comparable prior year period. This decrease was principally attributable to a decrease in income before taxes, which included a $6.1 million bad debt expense on a note receivable for the twenty-six weeks ended June 28, 2008 as well as an increase in tax deductible goodwill amortization of approximately $213,000. The effective tax rate was a credit of 45.0% for the twenty-six weeks ended June 28, 2008 as compared to 40.0% in the comparable prior year period. Without the bad debt expense, the effective tax rate would have been 36.4%.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Twenty-Six Weeks Ended June 28, 2008 Compared to Twenty-Six Weeks Ended June 30, 2007 - (Continued)

Segment Discussion (See Footnote 14)

Information Technology

IT revenues of $50.4 million in 2008 decreased $1.9 million, or 3.6%, compared to 2007. The decrease in revenue was attributable to the weakness in the economy and demand for the Company’s IT services. The IT segment EBITDA was $1.5 million, or 30.7% of the overall EBITDA for 2008, as compared to $3.3 million, or 59.3% of the overall EBITDA for 2007.

Engineering

Engineering revenues of $28.1 million in 2008 decreased $9.1 million, or 24.4%, compared to 2007. The decrease in revenue was attributable to a weakening of the general economy and the loss of an Engineering client that generated revenue of $10.8 million in the 2007 period. The Engineering segment EBITDA was $1.5 million, or 30.6% of the overall EBITDA for 2008, as compared to $1.5 million, or 27.2% of the overall EBITDA for 2007.

Commercial

Commercial revenues of $25.6 million in 2008 increased $3.8 million, or 17.2%, compared to 2007. The increase in revenues was principally attributable to increased demand for the Company’s Healthcare staffing services. The Commercial segment EBITDA was $1.9 million, or 38.7% of the overall EBITDA for 2008, as compared to $760,000, or 13.5% of the overall EBITDA for 2007.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Thirteen Weeks Ended June 28, 2008 Compared to Thirteen Weeks Ended June 30, 2007

A summary of operating results for the fiscal periods ended June 28, 2008 and June 30, 2007 is as follows (in thousands, except for earnings per share data):

	June 28, 2008	
	Amount	% of Revenue
Revenues	$55,011	100.0
Cost of services	39,861	72.5
Gross profit	15,150	27.5
Selling, general and administrative	12,141	22.1
Depreciation and amortization	560	1.0
	12,701	23.1
Operating income	2,449	4.5
Other income (expense)	(73)	(.2
Income before income taxes	2,376	4.3
Income taxes	936	1.7
Net (loss) income	$1,440	2.6
Earnings per share		
Basic:	$0.11	
Diluted:	$0.11	

The above summary is not a presentation of results of operations under accounting principles generally accepted in the United States of America and should not be considered in isolation or as an alternative to results of operations as an indication of the Company's performance.

The Company follows a 52/53 week fiscal reporting calendar ending on the Saturday closest to December 31. A 53-week year occurs periodically. The year to date reporting periods ended June 28, 2008 and June 30, 2007 consisted of thirteen weeks each.

Revenues. Revenues decreased 3.2%, or $1.8 million, for the thirteen weeks ended June 28, 2008 as compared to the same period in the prior year (the "comparable prior year period"). Revenues increased $0.8 million in the Information Technology ("IT") segment, decreased $4.2 million in the Engineering segment, and increased $1.6 million in the Commercial segment. Management attributes the overall decrease to a weakening of the general economy and the loss of an engineering client, which generated revenue of $5.8 million in the 2007 period as compared to $-0- in the 2008 period. Management expects revenues for the remainder of fiscal 2008 to remain generally consistent on a prorated basis with the revenues for the thirteen weeks ended June 28, 2008. Revenues that were attributable to acquisitions which occurred in the IT segment since June 30, 2007 were not included in the comparable prior year period were approximately $7.1 million.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Thirteen Weeks Ended June 28, 2008 Compared to Thirteen Weeks Ended June 30, 2007 - (Continued)

Cost of Services. Cost of services decreased 7.1%, or $3.0 million, for the thirteen weeks ended June 28, 2008 as compared to the comparable prior year period. This decrease was primarily due to the decrease in revenues. Cost of services as a percentage of revenues decreased to 72.5% for the thirteen weeks ended June 28, 2008 from 75.4% for the comparable prior year period. This decrease was primarily attributable to decreased revenues in the Engineering segment, which had lower gross margins. Management anticipates the ratio of cost of sales to revenues for the remainder of fiscal 2008 to remain comparable to the thirteen weeks ended June 28, 2008.

Selling, General and Administrative. SGA expenses increased 14.2%, or $1.5 million, for the thirteen weeks ended June 28, 2008 as compared to the comparable prior year period. As a percentage of revenues, SGA expenses were 22.1% for the thirteen weeks ended June 28, 2008 as compared to 18.7% for the comparable prior year period. This percentage increase was primarily attributable to the SGA expenses incurred in connection with two acquisitions subsequent to February 28, 2008. Management expects SGA expenses for the remainder of fiscal 2008 to remain generally consistent with the SGA expenses, adjusted for thirteen weeks of additional SGA expenses from the aforementioned acquisition, for the thirteen weeks ended June 28, 2008.

Depreciation and Amortization. Depreciation and amortization increased $0.2 million for the thirteen weeks ended June 28, 2008 as compared to the comparable prior year period. This increase was principally attributable to amortization of intangibles incurred from two acquisitions in the 2008 period.

Other Income (Expense). Other (expense) income consists of interest expense, net of interest income and gains and losses on foreign currency transactions. For the thirteen weeks ended June 28, 2008, actual interest expense of $91,000 was offset by $24,000 of interest income, which was earned from short-term money market deposits. Interest expense, net increased $75,000 for the thirteen weeks ended June 28, 2008 as

compared to the comparable prior year period. This increase was primarily due to increased borrowing levels associated with the funding of two acquisitions in the 2008 period. Loss on foreign currency transactions increased $19,000 in the thirteen weeks ended June 28, 2008 as compared to the comparable prior year period. This increase was attributable to the unfavorable exchange rates realized during the 2008 period.

Income Tax. Income tax expense decreased 17.4%, or $0.2 million, for the thirteen weeks ended June 28, 2008 as compared to the comparable prior year period. This decrease was principally attributable to a decrease in income before taxes, which included an increase in goodwill amortization of approximately $165,000. The effective tax rate was a credit of 39.3% for the thirteen weeks ended June 28, 2008 as compared to 37.9% in the comparable prior year period.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Thirteen Weeks Ended June 28, 2008 Compared to Thirteen Weeks Ended June 30, 2007 - (Continued)

Segment Discussion (See Footnote 14)

Information Technology

IT revenues of $28.0 million in 2008 increased $0.8 million, or 2.8%, compared to 2007. The increase in revenue was attributable to two acquisitions in the IT segment in the 2008 period offset by the continued weakening of the general economy. The IT segment EBITDA was $1.0 million, or 33.7% of the overall EBITDA for 2008, as compared to $1.8 million, or 55.0% of the overall EBITDA for 2007.

Engineering

Engineering revenues of $14.1 million in 2008 decreased $4.2 million, or 22.9%, compared to 2007. The decrease in revenue was attributable to a weakening of the general economy and the loss of an engineering client that generated revenue of $5.1 million in the 2007 period. The Engineering segment EBITDA was $910,000, or 30.2% of the overall EBITDA for 2008, as compared to $857,000, or 25.7% of the overall EBITDA for 2007.

Commercial

Commercial revenues of $12.9 million in 2008 increased $1.6 million, or 13.9%, compared to 2007. The increase in revenues was principally attributable to increased revenues in the Company’s Healthcare business unit. The Commercial segment EBITDA was $1.1 million, or 36.1% of the overall EBITDA for 2008, as compared to $642,000, or 19.3% of the overall EBITDA for 2007.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Liquidity and Capital Resources

The following table summarizes the major captions from the Company's Consolidated Statements of Cash Flows:

	Twenty-Six Weeks Ended	
(In thousands)	June 28, 2008	June 30, 2007
Operating Activities	($8,720)	$3,933
Investing Activities	($8,685)	($367)
Financing Activities	$10,056	$620

Operating Activities

Operating activities used $8.7 million of cash for the twenty-six weeks ended June 28, 2008 as compared to $3.9 million provided by operating activities for the comparable 2007 period. The decrease in cash provided by operating activities was primarily attributable to an increase in accounts receivable, an increase in deferred tax assets, an increase in prepaid expenses and other current assets, a decrease in accounts payable and accrued expenses, accrued compensation, provision for doubtful accounts, and income taxes payable. These changes were offset by an increase in payroll and withheld taxes.

Investing Activities

Investing activities used $8.7 million for the twenty-six weeks ended June 28, 2008 as compared to $367,000 for the comparable prior year period. The increase in the use of cash for investing activities for 2008 as compared to the comparable 2007 period was primarily attributable to increases in expenditures for property and equipment and in cash used for acquisitions.

Financing Activities

In 2008, financing activities principally consisted of the proceeds from borrowing from the line of credit to finance the

acquisition of NuSoft Solutions, Inc and MBH Solutions, Inc. (See footnote 5 to the financial statements). In 2007, financing activities principally consisted of the exercise of stock options with an aggregate exercise price of $554,000.

The Company and its subsidiaries are party to a loan agreement with Citizens Bank of Pennsylvania, administrative agent for a syndicate of banks, which provides for a $25 million revolving credit facility and includes a sub-limit of $5.0 million for letters of credit (the “Revolving Credit Facility”). Borrowings under the Revolving Credit Facility bear interest at one of two alternative rates, as selected by the Company at each incremental borrowing. These alternatives are: (i) LIBOR (London Interbank Offered Rate), plus applicable margin, or (ii) the agent bank's prime rate.

All borrowings under the Revolving Credit Facility are collateralized by all of the assets of the Company and its subsidiaries and a pledge of the stock of its subsidiaries. The Revolving Credit Facility also contains various financial and non-financial covenants, such as restrictions on the Company’s ability to pay dividends.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Liquidity and Capital Resources - (Continued)

Financing Activities - (Continued)

The Revolving Credit Facility expires in August 2011. The weighted average interest rates, which include unused line fees, under the Revolving Credit Facility for the twenty-six weeks ended June 28, 2008 and June 30, 2007 were 4.1% and 35.4%, respectively. The weighted average interest rate for the 2007 period was disproportionately high in relation to the interest expense incurred because of the inclusion of unused line fees of $7,600. During the twenty-six weeks ended June 28, 2008 and June 30, 2007, the Company’s outstanding borrowings ranged from $-0- to $10.5 million and $-0- million to $1.5 million, respectively. At June 28, 2008 and December 29, 2007, there were $10.0 million and $-0- outstanding borrowings under this facility, respectively. At June 28, 2008, there were letters of credit outstanding for $1.6 million. At June 28, 2008, the Company had availability for additional borrowings under the Revolving Credit Facility of $13.4 million.

The Company anticipates that its primary uses of capital in future periods will be for working capital purposes. Funding for any long-term and short-term capital requirements as well as future acquisitions will be derived from one or more of the Revolving Credit Facility, funds generated through operations or future financing transactions. The Company is subject to legal proceedings and claims that arise from time to time in the ordinary course of its business, which may or may not be covered by insurance. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, liquidity and the results of operations for the period in which the effect becomes reasonably estimable.

The Company's business strategy is to achieve growth both internally through operations and externally through strategic acquisitions. The Company from time to time engages in discussions with potential acquisition candidates. As the size of the Company and its financial resources increase, however, acquisition opportunities requiring significant commitments of

capital may arise. In order to pursue such opportunities, the Company may be required to incur debt or issue potentially dilutive securities in the future. No assurance can be given as to the Company's future acquisition and expansion opportunities or how such opportunities will be financed.

The Company does not currently have material commitments for capital expenditures and does not currently anticipate entering into any such commitments during the next 12 months. The Company's current commitments consist primarily of lease obligations for office space and potential deferred consideration payments (see note 5 to the financial statements). The Company believes that its capital resources are sufficient to meet its present obligations and those to be incurred in the normal course of business for the next 12 months.

At June 28, 2008, the Company had a deferred tax asset totaling $2.4 million, primarily representing the tax effect of an allowance for doubtful accounts. The Company expects to utilize the deferred tax asset during the 12 months ending June 27, 2009 by offsetting the related tax benefits of the asset against tax liabilities incurred from forecasted taxable income.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

Liquidity and Capital Resources - (Continued)

Financing Activities - (Continued)

Summarized below are the Company’s obligations and commitments to make future payments under lease agreements and debt obligations as of June 28, 2008 (in thousands):

			Payments
	Total	Less Than 1 Year	1-3 Years
Long-Term Debt Obligations [1]	$10,000	$10,000	
Operating Lease Obligations	11,753	3,793	$5,416
Total	$21,753	$13,793	$5,416

[1] The Revolving Credit Facility is for $25.0 million and includes a sub-limit of $5.0 million for letters of credit. The agreement expires in August 2011. At June 28, 2008, there were $10.0 million outstanding borrowings under the line of credit and there were outstanding letters of credit for $1.6 million.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations - (Continued)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and debt instruments, which primarily consist of its Revolving Credit Facility. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of June 28, 2008, the Company's investments consisted of cash and money market funds. The Company does not use interest rate derivative instruments to manage its exposure to interest rate changes. Presently the impact of a 10% (approximately 90 basis points) increase in interest rates on its variable debt (using an incremental borrowing rate) would have a relatively nominal impact on the Company's results of operations. The Company does not expect any material loss with respect to its investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures as of the end of the period covered by this report were functioning effectively to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter and that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 15 to the consolidated financial statements included in Item 1 of this report.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the “Risk Factors” section (Item 1A) of the Company’s Annual Report on Form 10-K for the year ended December 29, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 28, 2008, the Company issued to MBH Solutions, Inc. (“MBH”), 50,000 shares (the “Shares”) of the common stock, par value $0.05, of the Company, at an aggregate valuation of $205,000, as part of the consideration for the acquisition of certain assets from MBH. The issuance of the Shares was made in reliance on an exemption from registration of the Shares under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Shareholders on June 12, 2008.

The following actions were taken:

1) The following directors were elected to serve as Class C directors on the Board of Directors, and shall serve a term expiring at the Company’s Annual Meeting in 2011 and until their respective successor shall be elected and qualified. Tabulated voting results were as follows:

Leon Kopyt (Class C) (For 6,205,658; Withheld

4,724,658)

Stanton Remer (Class C) (For 6,189,748; Withheld 4,740,568)

The Class A director of the Company, Norman S. Berson, will continue to serve on the Board of Directors for a term expiring at the Company's Annual Meeting in 2009 and until his successor has been elected and qualified.

The Class B directors of the Company, Robert B. Kerr and Lawrence Needleman, will continue to serve on the Board of Directors for a term expiring at the Company's Annual Meeting in 2010 and until their successors have been elected and qualified.

2) Approval of Grant Thornton LLP as the independent auditing firm for the Company for the fiscal year ending December 27, 2008.

Votes For – 10,836,372 Votes Against – 82,787 Abstentions – 11,157

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RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

32.1 Certification of Chief Executive Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

32.2 Certification of Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)

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RCM TECHNOLOGIES, INC.

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.

RCM Technologies, Inc.

Date: August 7, 2008 By: /s/ Stanton Remer

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Stanton Remer
Executive Vice President, Chief Financial Officer,

Treasurer, Secretary and Director
(Principal Financial Officer and
Duly Authorized Officer of the Registrant)

Exhibit 31.1

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934

CERTIFICATION

I, Leon Kopyt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

/s/
Leon Kopyt

Leon Kopyt

Chairman, President and Chief Executive Officer

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Exhibit 31.2

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934

CERTIFICATION

I, Stanton Remer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RCM Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

/s/
Stanton Remer

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Stanton Remer
Executive Vice President
Chief Financial Officer, Treasurer, and Secretary

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Exhibit 32.1

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934

I, Leon Kopyt, President and Chief Executive Officer of RCM Technologies, Inc., a Nevada corporation (the "Company"), hereby certify that, to my knowledge:

(1) The Company's periodic report on Form 10-Q for the quarter ended June 28, 2008 (the "Form 10-Q") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Leon Kopyt

Leon Kopyt
President and Chief Executive Officer

Date: August 7, 2008

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Exhibit 32.2

RCM TECHNOLOGIES, INC.

CERTIFICATIONS REQUIRED BY
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934

I, Stanton Remer, Chief Financial Officer of RCM Technologies, Inc., a Nevada corporation (the “Company”), hereby certify that, to my knowledge:

(1) The Company’s periodic report on Form 10-Q for the quarter ended June 28, 2008 (the “Form 10-Q”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

/s/ Stanton Remer

Stanton Remer

Chief Financial Officer

Date: August 7, 2008