

PARK ELECTROCHEMICAL CORP  
Form 10-Q  
October 07, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended August 28, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-4415**

**PARK ELECTROCHEMICAL CORP.**

**(Exact Name of Registrant as Specified in Its Charter)**

**New York** **11-1734643**  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

**48 South Service Road, Melville, N.Y.** **11747**  
(Address of Principal Executive Offices) (Zip Code)

**(631) 465-3600**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year,  
if Changed Since Last Report)

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  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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer   Accelerated Filer   Non-Accelerated Filer   Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 20,234,671 as of October 3, 2016.

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**PART I. FINANCIAL INFORMATION****Item I. Financial Statements.****PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Amounts in thousands)**

|                                                                                            | <b>August 28,<br/>2016<br/>(unaudited)</b> | <b>February<br/>28,<br/>2016*</b> |
|--------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------|
| <b>ASSETS</b>                                                                              |                                            |                                   |
| <b>Current assets:</b>                                                                     |                                            |                                   |
| Cash and cash equivalents                                                                  | \$ 103,438                                 | \$97,757                          |
| Marketable securities (Note 3)                                                             | 136,268                                    | 139,668                           |
| Accounts receivable, less allowance for doubtful accounts of \$326 and \$324, respectively | 18,369                                     | 22,583                            |
| Inventories (Note 4)                                                                       | 11,749                                     | 10,214                            |
| Prepaid expenses and other current assets                                                  | 2,292                                      | 1,963                             |
| <b>Total current assets</b>                                                                | <b>272,116</b>                             | <b>272,185</b>                    |
| Property, plant and equipment, net                                                         | 19,969                                     | 21,512                            |
| Goodwill and other intangible assets                                                       | 9,833                                      | 9,833                             |
| Restricted cash (Note 5)                                                                   | 10,000                                     | 10,000                            |
| Other assets                                                                               | 1,328                                      | 1,247                             |
| <b>Total assets</b>                                                                        | <b>\$ 313,246</b>                          | <b>\$ 314,777</b>                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                |                                            |                                   |
| <b>Current liabilities:</b>                                                                |                                            |                                   |
| Current portion of long-term debt (Note 5)                                                 | \$ 3,000                                   | \$3,000                           |
| Accounts payable                                                                           | 4,936                                      | 6,155                             |
| Accrued liabilities                                                                        | 5,304                                      | 4,580                             |
| Income taxes payable                                                                       | 2,164                                      | 2,943                             |
| <b>Total current liabilities</b>                                                           | <b>15,404</b>                              | <b>16,678</b>                     |
| Long-term debt (Note 5)                                                                    | 70,500                                     | 72,000                            |
| Deferred income taxes (Note 9)                                                             | 43,937                                     | 43,937                            |
| Other liabilities                                                                          | 1,024                                      | 1,295                             |
| <b>Total liabilities</b>                                                                   | <b>130,865</b>                             | <b>133,910</b>                    |

Commitments and contingencies (Note 11)

**Shareholders' equity (Note 8):**

|                                                   |                   |                   |
|---------------------------------------------------|-------------------|-------------------|
| Common stock                                      | 2,096             | 2,096             |
| Additional paid-in capital                        | 167,102           | 166,398           |
| Retained earnings                                 | 26,806            | 25,922            |
| Accumulated other comprehensive earnings          | 1,397             | 1,471             |
|                                                   | <b>197,401</b>    | <b>195,887</b>    |
| Less treasury stock, at cost                      | (15,020 )         | (15,020 )         |
| <b>Total shareholders' equity</b>                 | <b>182,381</b>    | <b>180,867</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 313,246</b> | <b>\$ 314,777</b> |

\*The balance sheet at February 28, 2016 has been derived from the audited financial statements at that date.

See Notes to Consolidated Financial Statements (Unaudited).

**PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share amounts)

|                                              | <b>13 Weeks Ended<br/>(Unaudited)</b> |                                | <b>26 Weeks Ended<br/>(Unaudited)</b> |                                |
|----------------------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
|                                              | <b>August<br/>28,<br/>2016</b>        | <b>August<br/>30,<br/>2015</b> | <b>August<br/>28,<br/>2016</b>        | <b>August<br/>30,<br/>2015</b> |
| Net sales                                    | \$29,058                              | \$37,947                       | \$60,548                              | \$75,776                       |
| Cost of sales                                | 21,824                                | 27,586                         | 44,527                                | 54,048                         |
| <b>Gross profit</b>                          | <b>7,234</b>                          | <b>10,361</b>                  | <b>16,021</b>                         | <b>21,728</b>                  |
| Selling, general and administrative expenses | 5,110                                 | 5,009                          | 10,447                                | 10,810                         |
| Restructuring charges (Note 6)               | 23                                    | 91                             | 93                                    | 215                            |
| <b>Earnings from operations</b>              | <b>2,101</b>                          | <b>5,261</b>                   | <b>5,481</b>                          | <b>10,703</b>                  |
| Interest expense (Note 5)                    | 334                                   | 356                            | 667                                   | 725                            |
| Interest and other income                    | 369                                   | 317                            | 747                                   | 582                            |
| <b>Earnings before income taxes</b>          | <b>2,136</b>                          | <b>5,222</b>                   | <b>5,561</b>                          | <b>10,560</b>                  |
| Income tax provision (Note 9)                | 155                                   | 653                            | 630                                   | 1,214                          |
| <b>Net earnings</b>                          | <b>\$1,981</b>                        | <b>\$4,569</b>                 | <b>\$4,931</b>                        | <b>\$9,346</b>                 |
| <b>Earnings per share (Note 7):</b>          |                                       |                                |                                       |                                |
| Basic earnings per share                     | \$0.10                                | \$0.23                         | \$0.24                                | \$0.46                         |
| Basic weighted average shares                | 20,235                                | 20,337                         | 20,235                                | 20,442                         |
| Diluted earnings per share                   | \$0.10                                | \$0.23                         | \$0.24                                | \$0.46                         |
| Diluted weighted average shares              | 20,235                                | 20,340                         | 20,235                                | 20,453                         |
| Dividends declared per share                 | \$0.10                                | \$0.10                         | \$0.20                                | \$0.20                         |

See Notes to Consolidated Financial Statements (Unaudited).



**PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS****(Amounts in thousands)**

|                                                                       | <b>13 Weeks<br/>Ended<br/>(Unaudited)<br/>August<br/>28,<br/>2016</b> |                                | <b>26 Weeks<br/>Ended<br/>(Unaudited)<br/>August<br/>28,<br/>2016</b> |                                |                |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------|-----------------------------------------------------------------------|--------------------------------|----------------|
|                                                                       | <b>August<br/>30,<br/>2015</b>                                        | <b>August<br/>28,<br/>2016</b> | <b>August<br/>30,<br/>2015</b>                                        | <b>August<br/>28,<br/>2016</b> |                |
| Net earnings                                                          |                                                                       | \$1,981                        | \$4,569                                                               | \$4,931                        | \$9,346        |
| Other comprehensive earnings (loss), net of tax:                      |                                                                       |                                |                                                                       |                                |                |
| Foreign currency translation                                          |                                                                       | 26                             | 8                                                                     | 5                              | 63             |
| Unrealized gains on marketable securities:                            |                                                                       |                                |                                                                       |                                |                |
| Unrealized holding gains arising during the period                    |                                                                       | 11                             | 14                                                                    | 11                             | 29             |
| Less: reclassification adjustment for gains included in net earnings  |                                                                       | -                              | (3 )                                                                  | (55 )                          | (6 )           |
| Unrealized losses on marketable securities:                           |                                                                       |                                |                                                                       |                                |                |
| Unrealized holding losses arising during the period                   |                                                                       | (45 )                          | (128 )                                                                | (69 )                          | (71 )          |
| Less: reclassification adjustment for losses included in net earnings |                                                                       | 19                             | 3                                                                     | 34                             | 3              |
| Other comprehensive earnings (loss)                                   |                                                                       | 11                             | (106 )                                                                | (74 )                          | 18             |
| <b>Total comprehensive earnings</b>                                   |                                                                       | <b>\$1,992</b>                 | <b>\$4,463</b>                                                        | <b>\$4,857</b>                 | <b>\$9,364</b> |

See Notes to Consolidated Financial Statements (Unaudited).

**PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

|                                                                                     | <b>26 Weeks Ended (Unaudited)<br/>August 28,<br/>2016</b> | <b>August 30,<br/>2015</b> |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------|
| <b>Cash flows from operating activities:</b>                                        |                                                           |                            |
| Net earnings                                                                        | \$ 4,931                                                  | \$ 9,346                   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                                           |                            |
| Depreciation and amortization                                                       | 1,652                                                     | 1,677                      |
| Stock-based compensation                                                            | 704                                                       | 841                        |
| Provision for deferred income taxes                                                 | -                                                         | (10,860 )                  |
| Amortization of bond premium                                                        | 278                                                       | 454                        |
| Changes in operating assets and liabilities                                         | 1,252                                                     | 523                        |
| <b>Net cash provided by operating activities</b>                                    | <b>8,817</b>                                              | <b>1,981</b>               |
| <b>Cash flows from investing activities:</b>                                        |                                                           |                            |
| Purchase of property, plant and equipment                                           | (94 )                                                     | (226 )                     |
| Proceeds from sales of property, plant and equipment                                | -                                                         | 2,026                      |
| Purchases of marketable securities                                                  | (27,102 )                                                 | (49,388 )                  |
| Proceeds from sales and maturities of marketable securities                         | 29,478                                                    | 39,005                     |
| <b>Net cash provided by (used in) investing activities</b>                          | <b>2,282</b>                                              | <b>(8,583 )</b>            |

|                                                                                         |                   |          |                  |          |
|-----------------------------------------------------------------------------------------|-------------------|----------|------------------|----------|
| <b>Cash flows from financing activities:</b>                                            |                   |          |                  |          |
| Dividends paid                                                                          | (4,047            | )        | (4,104           | )        |
| Restricted cash (Note 5)                                                                | -                 |          | (25,000          | )        |
| Proceeds from exercise of stock options                                                 | -                 |          | 50               |          |
| Payments of long-term debt                                                              | (1,500            | )        | (5,000           | )        |
| Purchase of treasury stock                                                              | -                 |          | (11,925          | )        |
| <b>Net cash used in financing activities</b>                                            | <b>(5,547</b>     | <b>)</b> | <b>(45,979</b>   | <b>)</b> |
|                                                                                         |                   |          |                  |          |
| Increase (decrease) in cash and cash equivalents before effect of exchange rate changes | 5,552             |          | (52,581          | )        |
| Effect of exchange rate changes on cash and cash equivalents                            | 129               |          | 422              |          |
| <b>Increase (decrease) in cash and cash equivalents</b>                                 | <b>5,681</b>      |          | <b>(52,159</b>   | <b>)</b> |
| Cash and cash equivalents, beginning of period                                          | 97,757            |          | 141,538          |          |
| <b>Cash and cash equivalents, end of period</b>                                         | <b>\$ 103,438</b> |          | <b>\$ 89,379</b> |          |
|                                                                                         |                   |          |                  |          |
| <b>Supplemental cash flow information:</b>                                              |                   |          |                  |          |
| Cash paid during the period for income taxes, net of refunds                            | \$ 1,763          |          | \$ 12,859        |          |
| Cash paid during the period for interest                                                | \$ 653            |          | \$ 410           |          |

See Notes to Consolidated Financial Statements (Unaudited).

## **PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Amounts in thousands, except share (unless otherwise stated), per share and option amounts)**

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#### **1. CONSOLIDATED FINANCIAL STATEMENTS**

The Condensed Consolidated Balance Sheet as of August 28, 2016, the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Earnings for the 13 weeks and 26 weeks ended August 28, 2016 and August 30, 2015 and the Condensed Consolidated Statements of Cash Flows for the 26 weeks then ended have been prepared by Park Electrochemical Corp. (the “Company”), without audit. In the opinion of management, these unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at August 28, 2016 and the results of operations and cash flows for all periods presented. The Consolidated Statements of Operations are not necessarily indicative of the results to be expected for the full fiscal year or any subsequent interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 28, 2016. There have been no significant changes to such accounting policies during the 26 weeks ended August 28, 2016.

#### **2. FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the “exit price”) in an orderly transaction between market participants at the measurement date.

Fair value measurements are broken down into three levels based on the reliability of inputs as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (*e.g.*, interest rates and yield curves observable at commonly quoted intervals or current market) and contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value of the Company's cash and cash equivalents, accounts receivable, accounts payable and current liabilities approximate their carrying value due to their short-term nature. Due to the variable interest rates periodically adjusting with the current LIBOR, the carrying value of outstanding borrowings under the Company's long-term debt approximates its fair value. (See Note 5). Certain assets and liabilities of the Company are required to be recorded at fair value on either a recurring or non-recurring basis. On a recurring basis, the Company records its marketable securities at fair value using Level 1 or Level 2 inputs. (See Note 3).

The Company's non-financial assets measured at fair value on a non-recurring basis include goodwill and any long-lived assets written down to fair value. To measure fair value of such assets, the Company uses Level 3 inputs consisting of techniques including an income approach and a market approach. The income approach is based on a discounted cash flow analysis and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. Assumptions used in the discounted cash flow analysis require the exercise of significant judgment, including judgment about appropriate discount rates, terminal values, growth rates and the amount and timing of expected future cash flows. There were no transfers between levels within the fair value hierarchy during the 26 weeks ended August 28, 2016 and August 30, 2015. With respect to goodwill, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying value. If, based on that assessment, the Company believes it is more likely than not that the fair value is less than its carrying value, a two-step goodwill impairment test is performed. There have been no changes in events or circumstances which required impairment charges to be recorded during the 26 weeks ended August 28, 2016.

### 3. MARKETABLE SECURITIES

All marketable securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, included in comprehensive earnings. Realized gains and losses, amortization of premiums and discounts, and interest and dividend income are included in interest and other income in the Consolidated Statements of Operations. The costs of securities sold are based on the specific identification method.

The following is a summary of available-for-sale securities:

|                                               | <b>August 28, 2016</b> |                   |                |                |
|-----------------------------------------------|------------------------|-------------------|----------------|----------------|
|                                               | <b>Total</b>           | <b>Level 1</b>    | <b>Level 2</b> | <b>Level 3</b> |
| U.S. Treasury and other government securities | \$ 115,770             | \$ 115,770        | \$ -           | \$ -           |
| U.S. corporate debt securities                | 20,498                 | 20,498            | -              | -              |
| <b>Total marketable securities</b>            | <b>\$ 136,268</b>      | <b>\$ 136,268</b> | <b>\$ -</b>    | <b>\$ -</b>    |

**February 28, 2016**

|                                               | <b>Total</b>      | <b>Level 1</b>    | <b>Level 2</b> | <b>Level 3</b> |
|-----------------------------------------------|-------------------|-------------------|----------------|----------------|
| U.S. Treasury and other government securities | \$ 118,194        | \$ 118,194        | \$ -           | \$ -           |
| U.S. corporate debt securities                | 21,474            | 21,474            | -              | -              |
| <b>Total marketable securities</b>            | <b>\$ 139,668</b> | <b>\$ 139,668</b> | <b>\$ -</b>    | <b>\$ -</b>    |

The following table shows the amortized cost basis of, and gross unrealized gains and losses on, the Company's available-for-sale securities:

|                                               | <b>Amortized<br/>Cost<br/>Basis</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
|-----------------------------------------------|-------------------------------------|---------------------------------------|----------------------------------------|
| <b>August 28, 2016:</b>                       |                                     |                                       |                                        |
| U.S. Treasury and other government securities | \$ 115,655                          | \$ 298                                | \$ 183                                 |
| U.S. corporate debt securities                | 20,517                              | 4                                     | 23                                     |
| <b>Total marketable securities</b>            | <b>\$ 136,172</b>                   | <b>\$ 302</b>                         | <b>\$ 206</b>                          |
| <b>February 28, 2016:</b>                     |                                     |                                       |                                        |
| U.S. Treasury and other government securities | \$ 117,897                          | \$ 372                                | \$ 74                                  |
| U.S. corporate debt securities                | 21,554                              | -                                     | 81                                     |
| <b>Total marketable securities</b>            | <b>\$ 139,451</b>                   | <b>\$ 372</b>                         | <b>\$ 155</b>                          |

The estimated fair values of such securities at August 28, 2016 by contractual maturity are shown below:

|                                       |                  |
|---------------------------------------|------------------|
| Due in one year or less               | \$67,498         |
| Due after one year through five years | 68,770           |
|                                       | <b>\$136,268</b> |

#### **4. INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company writes down its inventory for estimated obsolescence or unmarketability based upon the age of the inventory and assumptions about future demand for the Company's products and market conditions. Inventories consisted of the following:

| <b>August<br/>28,<br/>2016</b> | <b>February<br/>28,<br/>2016</b> |
|--------------------------------|----------------------------------|
|--------------------------------|----------------------------------|

#### **Inventories:**



|                        |                 |                  |
|------------------------|-----------------|------------------|
| Raw materials          | \$6,844         | \$ 5,462         |
| Work-in-process        | 2,169           | 2,215            |
| Finished goods         | 2,455           | 2,172            |
| Manufacturing supplies | 281             | 365              |
|                        | <b>\$11,749</b> | <b>\$ 10,214</b> |

## 5. LONG-TERM DEBT

On February 12, 2014, the Company entered into a four-year amended and restated revolving credit facility agreement (the "Amended Credit Agreement") with PNC Bank, National Association ("PNC Bank"). The Amended Credit Agreement provided for loans up to \$104,000 to the Company and letters of credit up to \$2,000 for the account of the Company. Through January 15, 2016, the Company had borrowed \$52,000 to finance a special dividend paid to shareholders of the Company in the 2014 fiscal year fourth quarter and an additional \$52,000 to continue the loan that was provided under a prior credit agreement with PNC Bank, and PNC Bank had issued two standby letters of credit for the account of the Company in the total amount of \$1,075 to secure the Company's obligations under its workers' compensation insurance program. During the 2016 fiscal year, the Company made principal payments of \$10,000 in accordance with the Amended Credit Agreement.

On January 15, 2016, the Company entered into a three-year revolving credit facility agreement (the "Credit Agreement") with HSBC Bank USA, National Association ("HSBC Bank"). This Credit Agreement replaced the Amended Credit Agreement that the Company entered into with PNC Bank in February 2014 described in the preceding paragraph. The Credit Agreement provides for loans up to \$75,000 and letters of credit up to \$2,000. The \$75,000 is payable in twelve quarterly installments of \$750 each, beginning in March 2016, with the remaining amount outstanding under the Credit Agreement payable on January 26, 2019.

Borrowings under the Credit Agreement bear interest at a rate equal to, at the Company's option, either (a) a fluctuating rate per annum (computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed) equal to the Base Rate (as defined in the Credit Agreement), such interest rate to change automatically from time to time effective as of the effective date of each change in the Base Rate or (b) a rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the one, two, three or six month LIBOR plus 1.15%. Under the Credit Agreement, the Company is also obligated to pay to HSBC Bank a nonrefundable commitment fee equal to 0.10% per annum (computed on the basis of a year of 360 days and actual days elapsed) multiplied by the average daily difference between the amount of (i) the revolving credit commitment plus the letter of credit facility and (ii) the revolving facility usage, payable quarterly in arrears.

The Credit Agreement contains certain customary affirmative and negative covenants, including customary financial covenants. The covenants under the Credit Agreement require the Company to (a) maintain a gross leverage charge ratio not to exceed 3.75 to 1.00 beginning with the fiscal quarter first ending after January 26, 2016 and continuing thereafter, (b) maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 beginning with the fiscal quarter first ending after January 26, 2016 and continuing thereafter, and (c) maintain a minimum quick ratio of 2.00 to 1.00 beginning with the fiscal quarter first ending after January 26, 2016 and continuing thereafter. In addition, the Company must maintain minimum domestic liquid assets of \$10,000 in cash held at all times in a domestic deposit account.

At August 28, 2016, \$73,500 of indebtedness was outstanding under the Credit Agreement with an interest rate of 1.75%. Interest expense recorded under the Credit Agreement and the Amended Credit Agreement was \$334 and \$667 during the 13-week and 26-week periods ended August 28, 2016, respectively, and \$356 and \$725 during the 13-week and 26-week periods ended August 30, 2015, respectively.

## **6.RESTRUCTURING CHARGES**

During the 2013 fiscal year, the Company closed its Nelco Technology (Zhuhai FTZ) Ltd. business unit located in Zhuhai, China. The Nelco Technology (Zhuhai FTZ) Ltd. building was sold for \$2,026 during the first quarter of the 2016 fiscal year. There was no gain or loss on the sale of the building, since the carrying value of the building was equal to the selling price. The Company paid \$0 and \$38 during the 13 weeks ended August 28, 2016 and August 30,

2015, respectively, and \$0 and \$75 during the 26 weeks ended August 28, 2016 and August 30, 2015, respectively, of additional pre-tax charges related to such closure.

The Company recorded additional restructuring charges of \$23 and \$53 during the 13 weeks ended August 28, 2016 and August 30, 2015, respectively, and \$93 and \$140 during the 26 weeks ended August 28, 2016 and August 30, 2015, respectively, related to the closure in the 2009 fiscal year of the Company's New England Laminates Co., Inc. business unit located in Newburgh, New York. The New England Laminates Co., Inc. building in Newburgh, New York is held for sale. In the 2004 fiscal year, the Company reduced the book value of the building to zero, and the Company intends to sell it during the 2017 fiscal year.

## 7. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the sum of (a) the weighted average number of shares of common stock outstanding during the period and (b) the potentially dilutive securities outstanding during the period. Stock options are the only potentially dilutive securities; and the number of dilutive options is computed using the treasury stock method.

The following table sets forth the calculation of basic and diluted earnings per share:

|                                                            | <b>13 Weeks Ended</b> |                   | <b>26 Weeks Ended</b> |                   |
|------------------------------------------------------------|-----------------------|-------------------|-----------------------|-------------------|
|                                                            | <b>August 28,</b>     | <b>August 30,</b> | <b>August 28,</b>     | <b>August 30,</b> |
|                                                            | <b>2016</b>           | <b>2015</b>       | <b>2016</b>           | <b>2015</b>       |
| <b>Net earnings</b>                                        | <b>\$1,981</b>        | <b>\$4,569</b>    | <b>\$4,931</b>        | <b>\$9,346</b>    |
| Weighted average common shares outstanding for basic EPS   | 20,235                | 20,337            | 20,235                | 20,442            |
| Net effect of dilutive options                             | -                     | 3                 | -                     | 11                |
| <b>Weighted average shares outstanding for diluted EPS</b> | <b>20,235</b>         | <b>20,340</b>     | <b>20,235</b>         | <b>20,453</b>     |
| <b>Basic earnings per share</b>                            | <b>\$0.10</b>         | <b>\$0.23</b>     | <b>\$0.24</b>         | <b>\$0.46</b>     |
| <b>Diluted earnings per share</b>                          | <b>\$0.10</b>         | <b>\$0.23</b>     | <b>\$0.24</b>         | <b>\$0.46</b>     |

Potentially dilutive securities, which were not included in the computation of diluted earnings per share because either the effect would have been anti-dilutive or the options' exercise prices were greater than the average market price of the common stock, were 882,000 and 926,000 for the 13 weeks ended August 28, 2016 and August 30, 2015,

respectively, and 953,000 and 812,000 for the 26 weeks ended August 28, 2016 and August 30, 2015, respectively.

## **8. SHAREHOLDERS' EQUITY**

On January 8, 2015, the Company announced that its Board of Directors authorized the Company's purchase, on the open market and in privately negotiated transactions, of up to 1,250,000 shares of its common stock, representing 6% of the Company's 20,945,634 total outstanding shares as of the close of business on January 7, 2015. This authorization supersedes all prior Board of Directors' authorizations to purchase shares of the Company's common stock.

On March 10, 2016, the Company announced that its Board of Directors authorized the Company's purchase, on the open market and in privately negotiated transactions, of up to 1,000,000 additional shares of its common stock, in addition to the unused prior authorization to purchase shares of the Company's common stock announced on January 8, 2015. As a result, the Company is authorized to purchase up to a total of 1,531,412 shares of its common stock, representing approximately 7.6% of the Company's 20,234,671 total outstanding shares as of the close of business on October 3, 2016.

The Company did not purchase any shares of its common stock during the 26 weeks ended August 28, 2016 and purchased 444,834 shares during the 26 weeks ended August 30, 2015.

## **9. INCOME TAXES**

The Company's effective tax rates for the 13 weeks and 26 weeks ended August 28, 2016 were 7.3% and 11.3%, respectively, compared to 12.5% and 11.5%, respectively, for the 13 weeks and 26 weeks ended August 30, 2015. The lower effective tax rate for the 13 weeks ended August 28, 2016 was primarily due to lower taxable income in low tax rate jurisdictions to offset taxable losses in higher tax rate jurisdictions.

The Company continuously evaluates the liquidity and capital requirements of its operations in the United States and of its foreign operations. As a result of such evaluation during the 2014 fiscal year, the Company recorded a non-cash charge for the accrual of U.S. deferred income taxes in the amount of \$63,958 on undistributed earnings of the Company's subsidiary in Singapore. In the 2016 fiscal year, the Company repatriated \$61,000 to the United States and paid income taxes of \$10,682 to the respective tax authorities.

## **10. GEOGRAPHIC REGIONS**

The Company is a global advanced materials company which develops, manufactures, markets and sells advanced composite materials, primary and secondary structures and assemblies and low-volume tooling for the aerospace markets and high-technology digital and RF/microwave printed circuit materials principally for the telecommunications and internet infrastructure, enterprise and military/aerospace markets. The Company's products are sold to customers in North America, Asia and Europe. The Company's manufacturing facilities are located in Kansas, Singapore, France, Arizona and California. The Company operates as a single operating segment, which is advanced materials for the electronics and aerospace markets, with common management and identical or very similar economic characteristics, products, raw materials, manufacturing processes and equipment, customers and markets, marketing, sales and distribution methods and regulatory environments. The chief operating decision maker reviews financial information on a consolidated basis.

Sales are attributed to geographic regions based upon the region in which the materials were delivered to the customer. Sales between geographic regions were not significant.

Financial information regarding the Company's operations by geographic region is as follows:

|                    | <b>13 Weeks Ended</b> |                  | <b>26 Weeks Ended</b> |                  |
|--------------------|-----------------------|------------------|-----------------------|------------------|
|                    | <b>August</b>         | <b>August</b>    | <b>August</b>         | <b>August</b>    |
|                    | <b>28,</b>            | <b>30,</b>       | <b>28,</b>            | <b>30,</b>       |
|                    | <b>2016</b>           | <b>2015</b>      | <b>2016</b>           | <b>2015</b>      |
| <b>Sales:</b>      |                       |                  |                       |                  |
| North America      | \$ 15,990             | \$ 21,329        | \$ 32,827             | \$ 39,645        |
| Asia               | 11,119                | 14,557           | 23,266                | 31,790           |
| Europe             | 1,949                 | 2,061            | 4,455                 | 4,341            |
| <b>Total sales</b> | <b>\$ 29,058</b>      | <b>\$ 37,947</b> | <b>\$ 60,548</b>      | <b>\$ 75,776</b> |

|                                | <b>August</b>    | <b>February</b>  |
|--------------------------------|------------------|------------------|
|                                | <b>28,</b>       | <b>28,</b>       |
|                                | <b>2016</b>      | <b>2016</b>      |
| <b>Long-lived assets:</b>      |                  |                  |
| North America                  | \$ 20,614        | \$ 21,618        |
| Asia                           | 8,920            | 9,459            |
| Europe                         | 268              | 268              |
| <b>Total long-lived assets</b> | <b>\$ 29,802</b> | <b>\$ 31,345</b> |

## 11. CONTINGENCIES

### Litigation

The Company is subject to a number of proceedings, lawsuits and other claims related to environmental, employment, product and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes in these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters. The Company believes that the ultimate disposition of such proceedings, lawsuits and claims will not have a material adverse effect on the Company's liquidity, capital resources or business or its consolidated results of operations, cash flows or financial position.

### Environmental Contingencies



The Company and certain of its subsidiaries have been named by the Environmental Protection Agency (the "EPA") or a comparable state agency under the Comprehensive Environmental Response, Compensation and Liability Act (the "Superfund Act") or similar state law as potentially responsible parties in connection with alleged releases of hazardous substances at four sites.

Under the Superfund Act and similar state laws, all parties who may have contributed any waste to a hazardous waste disposal site or contaminated area identified by the EPA or comparable state agency may be jointly and severally liable for the cost of cleanup. Generally, these sites are locations at which numerous persons disposed of hazardous waste. In the case of the Company's subsidiaries, generally the waste was removed from their manufacturing facilities and disposed at waste sites by various companies which contracted with the subsidiaries to provide waste disposal services. Neither the Company nor any of its subsidiaries have been accused of or charged with any wrongdoing or illegal acts in connection with any such sites. The Company believes it maintains an effective and comprehensive environmental compliance program.

The insurance carriers who provided general liability insurance coverage to the Company and its subsidiaries for the years during which the Company's subsidiaries' waste was disposed at these sites have in the past reimbursed the Company and its subsidiaries for 100% of their legal defense and remediation costs associated with three of these sites.

The total costs incurred by the Company and its subsidiaries in connection with these sites, including legal fees incurred by the Company and its subsidiaries and their assessed share of remediation costs and excluding amounts paid or reimbursed by insurance carriers, were \$1 and \$1 in the 13 weeks and 26 weeks, respectively, ended August 28, 2016 and \$1 and \$2 in the 13 weeks and 26 weeks, respectively, ended August 30, 2015. The Company had no recorded liabilities for environmental matters at August 28, 2016 or February 28, 2016.

The Company does not record environmental liabilities and related legal expenses for which the Company believes that it and its subsidiaries have general liability insurance coverage for the years during which the Company's subsidiaries' waste was disposed at three sites for which certain subsidiaries of the Company have been named as potentially responsible parties. Pursuant to such general liability insurance coverage, three insurance carriers reimburse the Company and its subsidiaries for 100% of the legal defense and remediation costs associated with the three sites.

Included in selling, general and administrative expenses are charges for actual expenditures and accruals, based on estimates, for certain environmental matters described above. The Company accrues estimated costs associated with known environmental matters, when such costs can be reasonably estimated and when the outcome appears probable. The Company believes that the ultimate disposition of known environmental matters will not have a material adverse effect on the Company's liquidity, capital resources or business or its consolidated results of operations, cash flows or financial position.

## **12. ACCOUNTING PRONOUNCEMENTS**

### *Recently Issued*

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* intended to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure requirements, effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. The Company is currently evaluating the impact that this new guidance may have on its consolidated results of operations, cash flows, financial position and disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, intended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, *Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcements at the June 2015 EITF Meeting*. ASU No. 2015-15 amends Subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2015. This guidance did not have a material impact on the Company's consolidated results of operations, cash flows, financial position or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance requires that an entity recognize revenue to depict the transfer of 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 expands the related disclosure requirements. The new standard was originally scheduled to be effective for fiscal years beginning after December 15, 2016, including interim reporting periods within those fiscal years. In August 2015, the FASB delayed the effective date of this guidance for one year. With the delay, the new standard is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with an option to adopt the standard on the originally scheduled effective date. The Company is currently evaluating the impact that this new guidance may have on its consolidated results of operations, cash flows, financial position and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, to reduce the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017 and the interim periods within those fiscal years. The Company is currently evaluating the impact that this new guidance may have on its consolidated cash flows.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**General:**

Park Electrochemical Corp. ("Park" or the "Company") is a global advanced materials company which develops, manufactures, markets and sells advanced composite materials, primary and secondary structures and assemblies and low-volume tooling for the aerospace markets and high-technology digital and RF/microwave printed circuit materials principally for the telecommunications and internet infrastructure, enterprise and military/aerospace markets. The Company's manufacturing facilities are located in Kansas, Singapore, France, Arizona and California. The Company also maintains research and development facilities in Arizona, Kansas and Singapore.

*Financial Overview*

The Company's total net sales worldwide in the 13 weeks and 26 weeks ended August 28, 2016 were 23% and 20% lower, respectively, than in the 13 weeks and 26 weeks ended August 30, 2015 principally as a result of lower sales of the Company's printed circuit materials products in Asia and North America, and lower sales of the Company's aerospace composite materials, structures and assemblies. The Company's total net sales worldwide in the 13 weeks ended August 28, 2016 were lower than such sales in the 13 weeks ended May 29, 2016 as a result of lower sales of the Company's printed circuit materials products in Asia and North America in the 13 weeks ended August 28, 2016, offset by higher sales of the Company's aerospace composite materials, structures and assemblies products in the 13 weeks ended August 28, 2016.

The Company's gross profit margins, measured as percentages of sales, decreased to 24.9% and 26.5%, respectively, in the 13 weeks and 26 weeks ended August 28, 2016 from 27.3% and 28.7%, respectively, in the 13 weeks and 26 weeks ended August 30, 2015 principally as a result of lower sales and production levels of printed circuit materials products in Asia and North America and lower sales of aerospace materials, structures and assemblies in the 13 weeks and 26 weeks ended August 28, 2016, combined with the fixed nature of certain overhead costs, partially offset by lower direct material costs for aerospace materials, structures and assemblies.

The Company's earnings from operations and net earnings were 60% and 57% lower, respectively, in the 13 weeks ended August 28, 2016 than in last fiscal year's comparable period primarily as a result of the aforementioned decrease in sales and reduction in the gross profit margin. Earnings from operations in the 13 weeks ended August 28, 2016 included pre-tax restructuring charges of \$23,000 in connection with the closure in fiscal year 2009 of the New England Laminates Co., Inc. facility located in Newburgh, New York. Earnings from operations in the 13 weeks ended August 30, 2015 included pre-tax restructuring charges of \$93,000 related to facility closures in prior fiscal years.

The Company's earnings from operations and net earnings were 49% and 47% lower, respectively, in the 26 weeks ended August 28, 2016 than in last fiscal year's comparable period primarily as a result of the aforementioned decrease in sales and reduction in the gross profit margin, partially offset by a 3% reduction in selling, general and administrative expenses. Earnings from operations in the 26 weeks ended August 28, 2016 and in the 26 weeks ended August 30, 2015 included pre-tax restructuring charges of \$91,000 and \$215,000, respectively, related to the aforementioned facility closures.

The global markets for the Company's products continue to be very difficult to forecast, and it is not clear to the Company what the demand for the Company's products will be in the remainder of the 2017 fiscal year or beyond.

## Results of Operations:

The following table provides the components of the consolidated statements of operations:

| (amounts in thousands, except per share amounts) | 13 Weeks Ended  |                 |               | 26 Weeks Ended  |                 |               |
|--------------------------------------------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
|                                                  | August 28, 2016 | August 30, 2015 | % Change      | August 28, 2016 | August 30, 2015 | % Change      |
| Net sales                                        | \$29,058        | \$37,947        | (23 )%        | \$60,548        | \$75,776        | (20 )%        |
| Cost of sales                                    | 21,824          | 27,586          | (21 )%        | 44,527          | 54,048          | (18 )%        |
| <b>Gross profit</b>                              | <b>7,234</b>    | <b>10,361</b>   | <b>(30 )%</b> | <b>16,021</b>   | <b>21,728</b>   | <b>(26 )%</b> |
| Selling, general and administrative expenses     | 5,110           | 5,009           | 2 %           | 10,447          | 10,810          | (3 )%         |
| Restructuring charges                            | 23              | 91              | (75 )%        | 93              | 215             | (57 )%        |
| <b>Earnings from operations</b>                  | <b>2,101</b>    | <b>5,261</b>    | <b>(60 )%</b> | <b>5,481</b>    | <b>10,703</b>   | <b>(49 )%</b> |
| Interest expense                                 | 334             | 356             | (6 )%         | 667             | 725             | (8 )%         |
| Interest and other income                        | 369             | 317             | 16 %          | 747             | 582             | 28 %          |
| <b>Earnings before income taxes</b>              | <b>2,136</b>    | <b>5,222</b>    | <b>(59 )%</b> | <b>5,561</b>    | <b>10,560</b>   | <b>(47 )%</b> |
| Income tax provision                             | 155             | 653             | (76 )%        | 630             | 1,214           | (48 )%        |
| <b>Net earnings</b>                              | <b>\$1,981</b>  | <b>\$4,569</b>  | <b>(57 )%</b> | <b>\$4,931</b>  | <b>\$9,346</b>  | <b>(47 )%</b> |
| <b>Earnings per share:</b>                       |                 |                 |               |                 |                 |               |
| Basic earnings per share                         | \$0.10          | \$0.23          | (57 )%        | \$0.24          | \$0.46          | (48 )%        |
| Diluted earnings per share                       | \$0.10          | \$0.23          | (57 )%        | \$0.24          | \$0.46          | (48 )%        |

### Net Sales

The Company's total net sales worldwide in the 13 weeks and 26 weeks ended August 28, 2016 decreased to \$29.1 million and \$60.5 million, respectively, from \$37.9 million and \$75.8 million in the 13 weeks and 26 weeks, respectively, ended August 30, 2015 primarily as a result of lower sales of the Company's printed circuit materials products in Asia and North America and lower sales of the Company's aerospace composite materials, structures and assemblies.

The Company's total net sales of its printed circuit materials products were \$20.2 million and \$44.0 million in the 13 weeks and 26 weeks, respectively, ended August 28, 2016, or 70% and 73%, respectively, of the Company's total net sales worldwide in such periods, compared to \$26.2 million and \$54.3 million in the 13 weeks and 26 weeks, respectively, ended August 30, 2015, or 69% and 72%, respectively, of the Company's total net sales worldwide in such periods. The Company's total net sales of its aerospace composite materials, structures and assemblies products were \$8.8 million and \$16.5 million in the 13 weeks and 26 weeks, respectively, ended August 28, 2016, or 30% and 27%, respectively, of the Company's total net sales worldwide in such periods, compared to \$11.7 million and \$21.5 million in the 13 weeks and 26 weeks, respectively, ended August 30, 2015, or 31% and 28%, respectively, of the Company's total net sales worldwide in such periods.

The Company's foreign sales were \$13.1 million and \$27.7 million, respectively, during the 13 weeks and 26 weeks ended August 28, 2016, or 45% and 46%, respectively, of the Company's total net sales worldwide during such periods, compared with \$16.6 million and \$36.1 million, respectively, of foreign sales, or 44% and 48%, respectively, of total net sales worldwide during last fiscal year's comparable periods. The Company's foreign sales during the 13-week and 26-week periods ended August 28, 2016 decreased 21% and 23%, respectively, from the 2016 fiscal year comparable periods. The decrease in the 13-week and 26-week periods was primarily due to the lower sales in Asia described above.



In the 13 weeks ended August 28, 2016, the Company's sales in North America, Asia and Europe were 55%, 38% and 7%, respectively, of the Company's total net sales worldwide compared to 56%, 39% and 5%, respectively, in the 13 weeks ended August 30, 2015. In the 26 weeks ended August 28, 2016, the Company's sales in North America, Asia and Europe were 54%, 39% and 7%, respectively, of the Company's total net sales worldwide compared to 52%, 42% and 6%, respectively, in the 26 weeks ended August 30, 2015. The Company's sales in North America decreased 25%, its sales in Asia decreased 24% and its sales in Europe decreased 5% in the 13-week period ended August 28, 2016 compared to the 13-week period ended August 30, 2015, and its sales in North America decreased 17%, its sales in Asia decreased 27% and its sales in Europe increased 3% in the 26-week period ended August 28, 2016 compared to the 26-week period ended August 30, 2015.

During each of the 13-week and 26-week periods ended August 28, 2016 and each of the 13-week and 26-week periods ended August 30, 2015, the Company's total net sales worldwide of high performance printed circuit materials were 93% of the Company's total net sales worldwide of printed circuit materials.

The Company's high performance printed circuit materials (non-FR4 printed circuit materials) include high-speed, low-loss materials for digital and RF/microwave applications requiring lead-free compatibility and high bandwidth signal integrity, bismalimide triazine ("BT") materials, polyimides for applications that demand extremely high thermal performance and reliability, cyanate esters, quartz reinforced materials, and polytetrafluoroethylene ("PTFE") and modified epoxy materials for RF/microwave systems that operate at frequencies up to at least 79GHz.

#### *Gross Profit*

The Company's gross profits in the 13 weeks and 26 weeks ended August 28, 2016 were lower than its gross profits in the prior year's comparable periods, and the gross profits as percentages of sales for the Company's worldwide operations in the 13 weeks and 26 weeks ended August 28, 2016 decreased to 24.9% and 26.5%, respectively, from 27.3% and 28.7%, respectively, in the 13 weeks and 26 weeks ended August 30, 2015 primarily due to lower sales and production levels of the Company's printed circuit materials products in Asia and North America and its aerospace composite materials, structures and assemblies in the 2017 fiscal year periods combined with the fixed nature of certain overhead costs, which were partially offset by lower direct material costs for aerospace materials, structures and assemblies.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$100,000 during the 13 weeks ended August 28, 2016, or by 2%, and decreased by \$400,000 during the 26 weeks ended August 28, 2016, or by 3%, compared to last fiscal year's comparable periods, and these expenses, measured as percentages of sales, were 17.6% and 17.3%, respectively, in the

13 weeks and 26 weeks ended August 28, 2016 compared to 13.2% and 14.3%, respectively, in the 13 weeks and 26 weeks ended August 30, 2015.

Selling, general and administrative expenses included stock option expenses of \$352,000 and \$704,000, respectively, for the 13 weeks and 26 weeks ended August 28, 2016, compared to stock option expenses of \$422,000 and \$841,000, respectively, for the 13 weeks and 26 weeks ended August 30, 2015.

### *Restructuring Charges*

In the 13 weeks and 26 weeks ended August 28, 2016, the Company recorded pre-tax restructuring charges of \$23,000 and \$93,000, respectively, compared to \$91,000 and \$215,000, respectively, in the 13 weeks and 26 weeks ended August 30, 2015, in connection with the closures in prior years of its facilities located in Zhuhai, China and Newburgh, New York.

### *Earnings from Operations*

For the reasons set forth above, the Company's earnings from operations were \$2.1 million and \$5.5 million, respectively, for the 13 weeks and 26 weeks ended August 28, 2016, which included the aforementioned restructuring charges of \$23,000 and \$93,000, respectively, compared to \$5.3 million and \$10.7 million, respectively, for the 13 weeks and 26 weeks ended August 30, 2015, which included the aforementioned restructuring charges of \$91,000 and \$215,000, respectively.

### *Interest Expense*

Interest expense in the 13 weeks and 26 weeks ended August 28, 2016 related to the Company's outstanding borrowings under the three-year revolving credit facility agreement that the Company entered into with HSBC Bank in the fourth quarter of the 2016. The agreement provides for an interest rate on the outstanding loan balance of LIBOR plus 1.15%. Other interest rate options are available to the Company under the agreement. See "Liquidity and Capital Resources" elsewhere in this Item 2 and Note 5 of the Notes to Consolidated Financial Statements included elsewhere in this Report for additional information.

### *Interest and Other Income*

Interest income was \$369,000 and \$747,000, respectively, for the 13 weeks and 26 weeks ended August 28, 2016 compared to \$317,000 and \$582,000, respectively, for last fiscal year's comparable periods. Interest income increased 16% and 28%, respectively, for the 13 weeks and 26 weeks ended August 28, 2016 primarily as a result of higher weighted average interest rates and larger average balances of marketable securities held by the Company in the 13 weeks and 26 weeks ended August 28, 2016 compared to last fiscal year's comparable periods. During the 26 weeks ended August 28, 2016, the Company earned interest income principally from its investments, which were primarily in short-term instruments and money market funds.

*Income Tax Provision*

The Company's effective income tax rates for the 13 weeks and 26 weeks ended August 28, 2016 were 7.3% and 11.3%, respectively, compared to 12.5% and 11.5%, respectively, for the 13 weeks and 26 weeks ended August 30, 2015. The lower effective tax rates were primarily due to higher portions of taxable income in jurisdictions with lower effective income tax rates and larger foreign tax incentives in the 13 weeks and 26 weeks ended August 28, 2016.

*Net Earnings*

For the reasons set forth above, the Company's net earnings for the 13 weeks and 26 weeks ended August 28, 2016 were \$2.0 million and \$4.9 million, respectively, including the pre-tax restructuring charges described above, compared to net earnings of \$4.6 million and \$9.3 million for the 13 weeks and 26, respectively, weeks ended August 30, 2015, including the pre-tax restructuring charges described above.

*Basic and Diluted Earnings Per Share*

In the 13 weeks and 26 weeks ended August 28, 2016, basic and diluted earnings per share were \$0.10 and \$0.24, respectively, including, in both such periods, the restructuring charges described above. This compared to basic and diluted earnings per share of \$0.23 and \$0.46 in the 13 weeks and 26 weeks ended August 30, 2015, respectively, including, in both such periods, the restructuring charges described above. The net impact of the restructuring charges discussed above reduced basic and diluted earnings per share by \$0.01 in the 26 weeks ended August 30, 2015.

**Liquidity and Capital Resources:**

| (amounts in thousands)         | August<br>28,<br>2016 | February<br>28,<br>2016 | Increase |
|--------------------------------|-----------------------|-------------------------|----------|
| Cash and marketable securities | \$239,706             | \$237,425               | \$ 2,281 |
| Restricted cash                | 10,000                | 10,000                  | -        |
| Working capital                | 256,712               | 255,507                 | 1,205    |

| (amounts in thousands)                              | <b>26 Weeks Ended</b> |                       |          |
|-----------------------------------------------------|-----------------------|-----------------------|----------|
|                                                     | August<br>28,<br>2016 | August<br>30,<br>2015 | Increase |
| Net cash provided by operating activities           | \$8,817               | \$1,981               | \$6,836  |
| Net cash provided by (used in) investing activities | 2,282                 | (8,583 )              | 10,865   |
| Net cash used in financing activities               | (5,547)               | (45,979)              | 40,432   |

Cash and Marketable Securities

Of the \$249.7 million of cash and marketable securities and restricted cash at August 28, 2016, \$238.6 million was owned by certain of the Company's wholly owned foreign subsidiaries. The Company believes it has sufficient liquidity to fund its operating activities through the end of the 2016 fiscal year and for the foreseeable future thereafter.

The change in cash, marketable securities and restricted cash at August 28, 2016 compared to February 28, 2016 was the result of cash used in operating activities and a number of additional factors. The significant changes in cash flows from operating activities were as follows:

accounts receivable decreased by 19% at August 28, 2016 compared to February 28, 2016, primarily due to lower sales in the quarter ended August 28, 2016 than in the fourth quarter of the 2016 fiscal year;

inventory increased by 15% at August 28, 2016 compared to February 28, 2016, primarily due to the timing of purchases of raw materials;

Income taxes payable decreased by 26% at August 28, 2016 compared to February 28, 2016, primarily due to income tax payments made during the 26 weeks ended August 28, 2016;

accounts payable decreased by 20% at August 28, 2016 compared to February 28, 2016, primarily due to the timing of vendor payments and raw material purchases from suppliers; and

accrued liabilities increased by 16% at August 28, 2016 compared to February 28, 2016, primarily due to an increase in payroll related accruals.

In addition, the Company paid \$4.0 and \$4.1 million in cash dividends in the 26 weeks ended August 28, 2016 and August 30, 2015, respectively. During the 26 weeks ended August 28, 2016, the Company also made \$1.5 million of principal payments on its long-term debt. During the 26 weeks ended August 30, 2015, the Company also received \$2.0 million of proceeds from the sale of the Nelco Zhuhai building in Zhuhai, China, made \$5.0 million of principal payments on its long-term debt and purchased treasury shares at an aggregate cost of \$11.9 million.

### Working Capital

Working capital did not change significantly at August 28, 2016 compared to February 28, 2016.

The Company's current ratio (the ratio of current assets to current liabilities) was 17.7 to 1 at August 28, 2016 compared to 16.3 to 1 at February 28, 2016.

### Cash Flows

During the 26 weeks ended August 28, 2016, the Company's net earnings, before depreciation and amortization, stock-based compensation, amortization of bond premium and changes in operating assets and liabilities, were \$3.9 million. During the same 26 week period, the Company expended \$94,000 for the purchase of property, plant and equipment, compared with \$226,000 during the 26 weeks ended August 30, 2015. The Company paid \$4.0 and \$4.1 million in cash dividends in the 26 weeks ended August 28, 2016 and August 30, 2015, respectively. In addition, during the 26 week period ended August 30, 2015, the Company received \$2.0 million in proceeds from the sale of the Nelco Zhuhai building in Zhuhai, China, made \$5.0 million of principal payments on its long-term debt and purchased treasury shares at an aggregate cost of \$11.9 million.



Debt

At August 28, 2016 and February 28, 2016, the Company had \$73.5 million and \$75.0 million of bank debt, respectively. In the fourth quarter of 2016, the Company entered into a three-year revolving credit facility agreement (the "Credit Agreement") with HSBC Bank. The Credit Agreement provides for loans up to \$75.0 million to the Company and letters of credit up to \$2.0 million for the account of the Company, and subject to the terms and conditions of the Credit Agreement, an interest rate on the outstanding loan balance of LIBOR plus 1.15%. The Credit Agreement contains certain customary affirmative and negative covenants and customary financial covenants. In the event that the Company breaches a covenant that is deemed to be a default under the Credit Agreement requiring prepayment of the outstanding borrowings, the Company has sufficient liquidity to prepay the outstanding amount, as well as any related income taxes for potentially repatriated funds, at any time, and such prepayment would not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position. For additional information, see Note 5 of the Notes to Consolidated Financial Statements included elsewhere in this Report.

Other Liquidity Factors

The Company believes its financial resources will be sufficient, through the end of fiscal year 2017 and for the foreseeable future thereafter, to provide for continued investment in working capital and property, plant and equipment and for general corporate purposes. The Company's financial resources are also available for purchases of the Company's common stock, appropriate acquisitions and other expansions of the Company's business.

The Company is not aware of any circumstances or events that are reasonably likely to occur that could materially affect its liquidity.

**Contractual Obligations:**

The Company's contractual obligations and other commercial commitments to make future payments under contracts, such as lease agreements, consist only of (i) operating lease commitments and commitments to purchase raw materials and (ii) the bank debt described above. The Company has no other long-term debt, capital lease obligations, unconditional purchase obligations or other long-term obligations, standby letters of credit, guarantees, standby repurchase obligations or other commercial commitments or contingent commitments, other than two standby letters of credit in the total amount of \$1.1 million to secure the Company's obligations under its workers' compensation insurance program.

**Off-Balance Sheet Arrangements:**

The Company's liquidity is not dependent on the use of, and the Company is not engaged in, any off-balance sheet financing arrangements, such as securitization of receivables or obtaining access to assets through special purpose entities.

**Critical Accounting Policies and Estimates:**

The foregoing Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these Consolidated Financial Statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to sales allowances, allowances for doubtful accounts, inventories, valuation of long-lived assets, income taxes, contingencies and litigation, and employee benefit programs. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's critical accounting policies that are important to the Consolidated Financial Statements and that entail, to a significant extent, the use of estimates and assumptions and the application of management's judgment are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2016. There have been no significant changes to such accounting policies during the 2017 fiscal year second quarter.

### **Contingencies:**

The Company is subject to a number of proceedings, lawsuits and other claims related to environmental, employment, product and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes in these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

### **Factors That May Affect Future Results.**

Certain portions of this Report which do not relate to historical financial information may be deemed to constitute forward-looking statements that are subject to various factors which could cause actual results to differ materially from the Company's expectations or from results which might be projected, forecast, estimated or budgeted by the Company in forward-looking statements. Such factors include, but are not limited to, general conditions in the electronics and aerospace industries, the Company's competitive position, the status of the Company's relationships with its customers, economic conditions in international markets, the cost and availability of raw materials, transportation and utilities, and the various factors set forth in Item 1A "Risk Factors" and under the caption "Factors That May Affect Future Results" after Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2016.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's market risk exposure at August 28, 2016 is consistent with, and not greater than, the types of market risk and amount of exposures presented in the Annual Report on Form 10-K for the fiscal year ended February 28, 2016.

### **Item 4. Controls and Procedures.**

(a) Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of August 28, 2016, the end of the quarterly fiscal period covered by this quarterly report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting.

There has not been any change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

There have been no material changes in the risk factors as previously disclosed in the Company's Form 10-K Annual Report for the fiscal year ended February 28, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information with respect to shares of the Company's Common Stock acquired by the Company during each month included in the Company's 2017 fiscal year second quarter ended August 28, 2016.

| <b>Period</b> | <b>Total Average<br/>Number of<br/>Shares (or<br/>Units)<br/>Purchased</b> | <b>Total<br/>Number of<br/>Shares (or<br/>Units)<br/>Purchased<br/>As</b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value) of<br/>Shares (or Units)<br/>that May Yet Be</b> |
|---------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
|---------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|

|                     |          |           |          | <b>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Purchased<br/>Under the Plans<br/>or Programs</b> |
|---------------------|----------|-----------|----------|---------------------------------------------------------------------|------------------------------------------------------|
| May 30 - June 28    | 0        | \$        | -        | 0                                                                   |                                                      |
| June 29 - July 28   | 0        | \$        | -        | 0                                                                   |                                                      |
| July 29 - August 28 | 0        | \$        | -        | 0                                                                   |                                                      |
|                     |          |           | -        |                                                                     |                                                      |
| <b>Total</b>        | <b>0</b> | <b>\$</b> | <b>-</b> | <b>0</b>                                                            | <b>1,531,412 (a)</b>                                 |

Aggregate number of shares available to be purchased by the Company pursuant to share purchase authorizations announced on January 8, 2015 and March 10, 2016.

(a) Pursuant to such authorizations, the Company is authorized to purchase its shares from time to time on the open market or in privately negotiated transactions.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

31.1 Certification of principal executive officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

31.2 Certification of principal financial officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

32.1 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended August 28, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at August 28, 2016 (unaudited) and February 28, 2016; (ii) Consolidated Statements of Operations for the 13 weeks and 26 weeks ended August 28, 2016 and August 30, 2015 (unaudited); (iii) Consolidated Statements of Comprehensive Earnings for the 13 weeks and 26 weeks ended August 28, 2016 and August 30, 2015 (unaudited); and (iv) Condensed Consolidated

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Statements of Cash Flows for the 26 weeks ended August 28, 2016 and August 30, 2015 (unaudited).

\* +

\*Filed electronically herewith.

+ Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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## SIGNATURES

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

Park  
Electrochemical  
Corp.  
(Registrant)

Date: October 7, 2016

/s/ Brian E. Shore  
Brian E. Shore  
Chief Executive  
Officer  
(principal executive  
officer)

Date: October 7, 2016

/s/ P. Matthew Farabaugh  
P. Matthew Farabaugh  
Senior Vice President and Chief Financial Officer  
(principal financial officer)

**EXHIBIT INDEX**

**Exhibit  
No.      Name**

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\*      Filed electronically herewith.

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