

STANDEX INTERNATIONAL CORP/DE/  
Form 10-Q  
January 31, 2019

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended December 31, 2018

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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). YES  NO

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

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

The number of shares of Registrant's Common Stock outstanding on January 28, 2019 was 12,653,152.

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**PART I. FINANCIAL INFORMATION****ITEM 1****STANDEX INTERNATIONAL CORPORATION****Condensed Consolidated Balance Sheets**

|   | <b>December<br/>31, 2018</b> | <b>June 30,<br/>2018</b> |
|---|------------------------------|--------------------------|
| (In thousands, except per share data)   | <b>(unaudited)</b>           |                          |
| <b>ASSETS</b>   |                              |                          |
| Current Assets:   |                              |                          |
| Cash and cash equivalents   | \$ 118,174                   | \$ 109,602               |
| Accounts receivable, net of reserve for doubtful accounts of \$1,660 and \$2,184 at December 31, 2018 and June 30, 2018 | 111,905                      | 119,783                  |
| Inventories   | 109,423                      | 104,300                  |
| Prepaid expenses and other current assets   | 21,425                       | 10,255                   |
| Income taxes receivable   | 1,486                        | 2,348                    |
| Current assets- Discontinued Operations   | 36,092                       | 37,671                   |
| Total current assets  | 398,505                      | 383,959                  |
| Property, plant, and equipment, net   | 142,332                      | 136,934                  |
| Intangible assets, net  | 115,495                      | 84,938                   |
| Goodwill  | 261,569                      | 211,751                  |
| Deferred tax asset  | 6,313                        | 7,447                    |
| Other non-current assets  | 28,384                       | 29,749                   |
| Long-term assets-Discontinued Operations  | 61,454                       | 62,159                   |
| Total non-current assets  | 615,547                      | 532,978                  |
| Total assets  | \$ 1,014,052                 | \$ 916,937               |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|  |           |           |
|--|-----------|-----------|
| Current Liabilities:                                 |           |           |
| Accounts payable                                     | \$ 56,460 | \$ 78,947 |
| Accrued liabilities                                  | 61,262    | 57,679    |
| Income taxes payable                                 | 7,672     | 6,050     |
| Current liabilities-Discontinued Operations          | 18,906    | 18,665    |
| Total current liabilities                            | 144,300   | 161,341   |
| Long-term debt                                       | 314,661   | 193,772   |
| Accrued pension and other non-current liabilities    | 102,215   | 110,979   |
| Non-current liabilities- Discontinued Operations     | 50        | 50        |
| Total non-current liabilities                        | 416,926   | 304,801   |
| Stockholders' equity:                                |           |           |
| Common stock, par value \$1.50 per share, 60,000,000 |           |           |

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|   |              |            |
|---|--------------|------------|
| shares authorized, 27,982,115 issued, 12,528,152 and<br>12,705,562 outstanding at December 31, 2018 and June 30, 2018 | 41,976       | 41,976     |
| Additional paid-in capital  | 63,024       | 61,328     |
| Retained earnings   | 784,687      | 761,430    |
| Accumulated other comprehensive loss  | (126,777)    | (121,859)  |
| Treasury shares: 15,453,963 shares at December 31, 2018<br>and 15,278,716 shares at June 30, 2018                     | (310,084)    | (292,080)  |
| Total stockholders' equity  | 452,826      | 450,795    |
| Total liabilities and stockholders' equity  | \$ 1,014,052 | \$ 916,937 |

See notes to unaudited condensed consolidated financial statements

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**STANDEX INTERNATIONAL CORPORATION**  
**Unaudited Condensed Consolidated Statements of Operations**

| (In thousands, except per share data)                 | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>December 31,</b>       |             | <b>December 31,</b>     |             |
|   | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Net sales   | \$ 195,522                | \$ 185,694  | \$ 388,609              | \$ 374,836  |
| Cost of sales   | 128,586                   | 122,377     | 252,421                 | 245,848     |
| Gross profit  | 66,936                    | 63,317      | 136,188                 | 128,988     |
| Selling, general, and administrative expenses         | 45,693                    | 43,794      | 91,165                  | 86,851      |
| Acquisition related costs                             | 859                       | 703         | 1,547                   | 1,708       |
| Restructuring costs                                   | 177                       | 1,775       | 624                     | 4,732       |
| Total operating expenses                              | 46,729                    | 46,272      | 93,336                  | 93,291      |
| Income from operations                                | 20,207                    | 17,045      | 42,852                  | 35,697      |
| Interest expense                                      | (3,123)                   | (1,793)     | (5,368)                 | (3,514)     |
| Other non-operating expenses, net                     | (750)                     | (242)       | (1,015)                 | (336)       |
| Income from continuing operations before income taxes | 16,334                    | 15,010      | 36,469                  | 31,847      |
| Provision for income taxes                            | 3,860                     | 19,359      | 9,702                   | 23,622      |
| Net income (loss) from continuing operations          | 12,474                    | (4,349)     | 26,767                  | 8,225       |
| Income (loss) from discontinued operations, net of    |                           |             |                         |             |
| income taxes  | 924                       | 1,543       | 2,488                   | 2,968       |
| Net income (loss)                                     | \$ 13,398                 | \$ (2,806)  | \$ 29,255               | \$ 11,193   |
| Basic earnings per share:                             |                           |             |                         |             |
| Continuing operations                                 | \$ 0.99                   | \$ (0.34)   | \$ 2.11                 | \$ 0.65     |
| Discontinued operations                               | 0.07                      | 0.12        | 0.20                    | 0.23        |
| Total   | \$ 1.06                   | \$ (0.22)   | \$ 2.31                 | \$ 0.88     |
| Diluted earnings per share:                           |                           |             |                         |             |
| Continuing operations                                 | \$ 0.98                   | \$ (0.34)   | \$ 2.10                 | \$ 0.64     |
| Discontinued operations                               | 0.07                      | 0.12        | 0.20                    | 0.23        |
| Total   | \$ 1.05                   | \$ (0.22)   | \$ 2.30                 | \$ 0.87     |
| Cash dividends per share                              | \$ 0.20                   | \$ 0.18     | \$ 0.38                 | \$ 0.34     |

See notes to unaudited condensed consolidated financial statements

**STANDEX INTERNATIONAL CORPORATION**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income**

|   | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>December 31,</b>       |             | <b>December 31,</b>     |             |
| (In thousands)  | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Net income (loss)                                     | \$ 13,398                 | \$ (2,806)  | \$ 29,255               | \$ 11,193   |
| Other comprehensive income (loss):                    |                           |             |                         |             |
| Defined benefit pension plans:                        |                           |             |                         |             |
| Actuarial gains (losses) and other changes in         | \$                        |             |                         |             |
| unrecognized costs                                    | (40)                      | \$ (88)     | \$ 281                  | \$ (338)    |
| Amortization of unrecognized costs                    | 1,115                     | 1,370       | 2,231                   | 2,736       |
| Derivative instruments:                               |                           |             |                         |             |
| Change in unrealized (losses)                         | (4,737)                   | (2,351)     | (4,375)                 | (1,577)     |
| Amortization of unrealized gains and into             |                           |             |                         |             |
| interest expense                                      | 2,931                     | 913         | 2,272                   | 1,064       |
| Foreign currency translation gains (losses)           | 359                       | (956)       | (5,662)                 | 2,455       |
| Other comprehensive income (loss) before tax          | \$ (372)                  | \$ (1,112)  | \$ (5,253)              | \$ 4,340    |
| Income tax provision (benefit):                       |                           |             |                         |             |
| Defined benefit pension plans:                        |                           |             |                         |             |
| Actuarial gains (losses) and other changes in         | \$                        |             |                         |             |
| unrecognized costs                                    | (17)                      | \$ 425      | \$ (26)                 | \$ 477      |
| Amortization of unrecognized costs                    | (272)                     | (327)       | (545)                   | (805)       |
| Derivative instruments:                               |                           |             |                         |             |
| Change in unrealized gains and (losses)               | 437                       | 5           | 339                     | (104)       |
| Amortization of unrealized gains and (losses) into    |                           |             |                         |             |
| interest expense                                      | 25                        | (8)         | 40                      | (44)        |
| Income tax provision (benefit) to other comprehensive | \$                        |             |                         |             |
| income (loss)   | 173                       | \$ 95       | \$ (192)                | \$ (476)    |
| Other comprehensive gain (loss), net of tax           | (199)                     | (1,017)     | (5,445)                 | 3,864       |
| Comprehensive income (loss)                           | \$ 13,199                 | \$ (3,823)  | \$ 23,810               | \$ 15,057   |

See notes to unaudited condensed consolidated financial statements



**STANDEX INTERNATIONAL CORPORATION**  
**Unaudited Condensed Consolidated Statements of Cash Flows**

| (In thousands)  | <b>Six Months Ended</b> |             |        |
|---|-------------------------|-------------|--------|
|   | <b>December 31,</b>     |             |        |
|   | <b>2018</b>             | <b>2017</b> |        |
| <b>Cash flows from operating activities</b>   |                         |             |        |
| Net income  | \$ 29,255               | \$ 11,193   |        |
| Income from discontinued operations   | 2,488                   | 2,968       |        |
| Income from continuing operations   | 26,767                  | 8,225       |        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                         |             |        |
| Depreciation and amortization   | 14,817                  | 12,843      |        |
| Stock-based compensation  | 2,029                   | 2,877       |        |
| Non-cash portion of restructuring charge  | (132)                   | 664         |        |
| Contributions to defined benefit plans  | (499)                   | (530)       |        |
| Net changes in operating assets and liabilities   | (29,132)                | 822         |        |
| Net cash provided by operating activities - continuing operations                           | 13,850                  | 24,901      | 25,666 |
| Net cash provided by operating activities - discontinued operations                         | 5,411                   | 726         | (45)   |
| Net cash provided by operating activities   | 19,261                  | 25,627      |        |
| <b>Cash flows from investing activities</b>   |                         |             |        |
| Expenditures for property, plant, and equipment   | (16,192)                | (14,723)    |        |
| Expenditures for acquisitions, net of cash acquired   | (95,918)                | (10,397)    |        |
| Proceeds from life insurance policies   | -                       | 2,217       |        |
| Other investing activity  | 3,144                   | 1,087       |        |
| Net cash (used in) investing activities   | (108,966)               | (21,816)    |        |
| Net cash provided by (used in) investing activities - discontinued operations               | 2,690                   | (960)       |        |
| Net cash (used in) investing activities   | (106,276)               | (22,776)    |        |
| <b>Cash flows from financing activities</b>   |                         |             |        |
| Borrowings on revolving credit facility   | 509,500                 | 108,500     |        |
| Payments of revolving credit facility   | (387,500)               | (87,288)    |        |
| Contingent consideration payment  | (910)                   | -           |        |
| Activity under share-based payment plans  | 797                     | 622         |        |
| Purchases of treasury stock   | (19,135)                | (1,924)     |        |
| Cash dividends paid   | (4,825)                 | (4,312)     |        |
| Net cash provided by financing activities   | 97,927                  | 15,598      |        |
| Effect of exchange rate changes on cash and cash equivalents                                | (2,340)                 | 2,374       |        |
| Net change in cash and cash equivalents   | 8,572                   | 20,823      |        |
| Cash and cash equivalents at beginning of year  | 109,602                 | 88,566      |        |
| Cash and cash equivalents at end of period  | \$ 118,174              | \$ 109,389  |        |

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the year for:

|                              |    |       |    |       |
|------------------------------|----|-------|----|-------|
| Interest                     | \$ | 4,822 | \$ | 2,951 |
| Income taxes, net of refunds | \$ | 7,118 | \$ | 8,077 |

See notes to unaudited condensed consolidated financial statements

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**STANDEX INTERNATIONAL CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1) Management Statement**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations for the three and six months ended December 31, 2018 and 2017, the cash flows for the six months ended December 31, 2018 and 2017 and the financial position of Standex International Corporation (“Standex”, the “Company”, “we”, “us”, or “our”), at December 31, 2018. The interim results are not 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, 2018. The condensed consolidated balance sheet at June 30, 2018 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, 2018. 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.

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.

***RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842) Targeted Improvements”. The updated guidance provides an optional transition method, which allows for the application of the standard as of the adoption date with no restatement of prior period amounts. We plan to adopt the standard on July 1, 2019 under the optional transition method described above. We are currently in the process of selecting lease accounting software as well as assessing the impact that the new standard will have on our Consolidated Financial Statements, which will consist primarily of a balance sheet gross up of our operating leases to show equal and offsetting lease assets and lease liabilities. Due to the materiality of the underlying leases subject to the new guidance, we anticipate the adoption will have a material impact on the Company’s consolidated financial statements, 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 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.

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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 along with providing new alternatives for applying hedge accounting to additional hedging strategies and measuring the hedged item in fair value hedges of interest rate risk. 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. Given the improvements made to the application of hedge accounting under the guidance, the Company has decided to early adopt the ASU in the second quarter of fiscal 2019, or on December 1, 2018.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)" ("ASU 2018-02"), which provides for the option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings resulting from the Tax Cuts and Jobs Act ("Tax Reform Act"). ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. ASU 2018-02 is to be applied retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate related to the Tax Reform Act is recorded. The Company is in the process of assessing the impact of adoption on its 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, 2018, the Company evaluated the significance of each acquisition on a standalone basis and in aggregate, considering both qualitative and quantitative factors.

### **Agile Magnetics**

On the last business day of the first quarter of fiscal year 2019, the Company acquired Agile Magnetics ("Agile"). The New Hampshire based, privately held company is a provider of high-reliability magnetics to customers in the semiconductor, military, aerospace, healthcare, and general industrial industries. The Company has included the results of Agile in its Electronics segment in the Condensed Consolidated Financial Statements.

The Company paid \$39.2 million in cash for all of the issued and outstanding equity interests of Agile. The preliminary purchase price was allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on a preliminary estimate of their fair values on the closing date. During the second quarter, the Company commenced a formal valuation of the acquired assets and liabilities and has updated the preliminary

intangible asset values recorded at the end of the first quarter based on the preliminary valuation. Goodwill recorded from this transaction is attributable to expanded capabilities of the combined organization which will allow for improved responsiveness to customer demands via a larger pool of engineering resources and local manufacturing.

Intangible assets of \$18.1 million are preliminarily recorded, consisting of \$14.3 million of customer relationships and \$3.8 million for trademarks. The goodwill of \$15.8 million preliminarily recorded in connection with the transaction is deductible for income tax purposes. The Company's assigned fair values are preliminary as of December 31, 2018 until such time as the valuation can be finalized.

The components of the fair value of the Agile acquisition, including the preliminary allocation of the purchase price at December 31, 2018, are as follows (in thousands):

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|   | <b>Preliminary Allocation September<br/>30, 2018</b> | <b>Adjustments</b> | <b>Adjusted Allocation December<br/>31, 2018</b> |
|---|--|--------------------|--|
| Fair value of business combination:                   |  |                    |  |
| Cash payments   | \$ 39,194  |                    | 39,194   |
| Less, cash acquired                                   |  | (1)                | (1)  |
| Total   | \$ 39,193  |                    | 39,193   |
|   |  |                    |  |
| Identifiable assets acquired and liabilities assumed: |  |                    |  |
| Other acquired assets                                 | \$ 1,928   | (35)               | 1,893  |
| Inventories   | 2,506  | 90                 | 2,596  |
| Customer Backlog                                      | -  | 220                | 220  |
| Property, plant, & equipment                          | 1,318  | (348)              | 970  |
| Identifiable intangible assets                        | 13,718   | 4,432              | 18,150   |
| Goodwill  | 20,142   | (4,351)            | 15,791   |
| Liabilities assumed                                   | (419)  | (8)                | (427)  |
| Total   | \$ 39,193  | -                  | 39,193   |

### **Tenibac-Graphion Inc.**

During August of fiscal year 2019, the Company acquired Tenibac-Graphion Inc. (“Tenibac”). The Michigan based, privately held company is a provider of chemical and laser texturing services for the automotive, medical, packaging, and consumer products markets. The Company has included the results of Tenibac in its Engraving segment in the Condensed Consolidated Financial Statements.

The Company paid \$57.3 million in cash for all of the issued and outstanding equity interests of Tenibac. 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 the complimentary services that the combined business can now offer to our customers, through increased responsiveness to customer demands, and providing innovative approaches to solving customer needs by offering a full line of mold and tool services to customers.

Intangible assets of \$16.9 million are preliminarily recorded, consisting of \$11.3 million of customer relationships to be amortized over a period of nine years, \$4.2 million for trademarks, and \$1.4 million of other intangibles assets. The Company’s assigned fair values are preliminary as of December 31, 2018 until reviewed closing financial statements can be prepared by an independent accountant as required by the stock purchase agreement. The goodwill

of \$33.7 million created by the transaction is deductible for income tax purposes.

The components of the fair value of the Tenibac acquisition, including the preliminary allocation of the purchase price at December 31, 2018, are as follows (in thousands):

|                                     | <b>Preliminary Allocation</b> | <b>September 30, 2018</b> | <b>Adjustments</b> | <b>Adjusted Allocation</b> | <b>December 31, 2018</b> |
|-------------------------------------|-------------------------------|---------------------------|--------------------|----------------------------|--------------------------|
| Fair value of business combination: |                               |                           |                    |                            |                          |
| Cash payments                       | \$                            |                           | 57,284             |                            | 57,824                   |
| Less cash acquired                  |                               |                           | (558)              |                            | (558)                    |
| Total                               | \$                            |                           | 56,726             | -                          | 56,726                   |

Identifiable assets acquired and liabilities assumed:

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|                                |    |         |       |         |
|--------------------------------|----|---------|-------|---------|
| Other acquired assets          | \$ | 5,023   | (649) | 4,374   |
| Inventories                    |    | 324     |       | 324     |
| Customer backlog               |    | 1,000   | (800) | 200     |
| Property, plant, & equipment   |    | 2,490   |       | 2,490   |
| Identifiable intangible assets |    | 15,960  | 900   | 16,860  |
| Goodwill                       |    | 32,949  | 799   | 33,748  |
| Liabilities assumed            |    | (1,020) | (250) | (1,270) |
| Total                          | \$ | 56,726  | -     | 56,726  |

### 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.

The Company paid \$10.1 million in cash for all of the issued and outstanding equity interests of the Piazza Rosa Group and also paid \$2.8 million subsequent to closing in order to satisfy assumed debt of the entity at the time of acquisition. The Company has estimated that total cash consideration will be adjusted by \$2.6 million based upon achievement of certain revenue metrics over the three years following acquisition. The Company made the first payment of \$0.9 million during the first quarter of 2019 based on achievement of the revenue metrics during the first year.

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. The Company finalized its purchase accounting for this acquisition in the first quarter of fiscal year 2019. The goodwill of \$7.1 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 final allocation of the purchase price at December 31, 2018, are as follows (in thousands):

|   | <b>Preliminary<br/>Allocation</b> |        |                    | <b>Final</b>      |           |
|---|-----------------------------------|--------|--------------------|-------------------|-----------|
|   | <b>September<br/>30, 2017</b>     |        | <b>Adjustments</b> | <b>Allocation</b> |           |
| Fair value of business combination:                   |                                   |        |                    |                   |           |
| Total cash consideration                              | \$                                | 10,056 | \$                 | -                 | \$ 10,056 |
| Fair value of contingent consideration                |                                   | -      |                    | 2,617             | 2,617     |
| Total   | \$                                | 10,056 | \$                 | 2,617             | \$ 12,673 |
| Identifiable assets acquired and liabilities assumed: |                                   |        |                    |                   |           |
| Other acquired assets                                 | \$                                | 2,678  | \$                 | 1,664             | \$ 4,342  |
| Inventories   |                                   | 637    |                    | (2)               | 635       |
| Property, plant, and equipment                        |                                   | 5,005  |                    | 558               | 5,563     |
| Identifiable intangible assets                        |                                   | 4,087  |                    | (615)             | 3,472     |

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|                     |           |          |           |
|---------------------|-----------|----------|-----------|
| Goodwill            | 6,218     | 858      | 7,076     |
| Liabilities assumed | (7,387)   | -        | (7,387)   |
| Deferred taxes      | (1,182)   | 154      | (1,028)   |
| Total               | \$ 10,056 | \$ 2,617 | \$ 12,673 |

### 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 \$3.0 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, 2018 and 2017, we recorded deferred compensation costs of \$0.7 million for estimated deferred compensation earned by the Horizon Scientific seller to date. The payments are contingent on the seller remaining an employee of the Company, with limited exceptions, at each anniversary date.

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

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

|                                    | <b>Three Months Ended</b> |             | <b>Six Months Ended</b>  |             |
|------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                    | <b>December 31, 2018</b>  | <b>2017</b> | <b>December 31, 2018</b> | <b>2017</b> |
| Deferred compensation arrangements | \$ 703                    | \$ 703      | \$ 1,370                 | \$ 1,405    |
| Acquisition-related costs          | 156                       | -           | 177                      | 303         |
| Total                              | \$ 859                    | \$ 703      | \$ 1,547                 | \$ 1,708    |

### 3) Revenue From Contracts With Customers

Effective July 1, 2018, the Company adopted the new accounting standard ASU No. 2014-09, "Revenue from Contracts with Customers" (ASC 606) using the modified retrospective method to contracts that were not completed as of June 30, 2018. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings, whereby the cumulative impact of all prior periods is recorded in retained earnings or other impacted balance sheet line items upon adoption. The comparative information has not been adjusted and continues to be reported under ASC 605. The impact on the Company's consolidated income statements, balance sheets, equity or cash flows as of the adoption date as a result of applying ASC 606 have been reflected within those respective financial statements.

Under the Company's historical accounting policies, non-developmental long-term contracts were recognized when the goods were transferred to the customer. Upon adoption, contracts for highly customized customer products that have no alternative use and in which the contract specifies the Company has a right to payment for its costs, plus a reasonable margin met the requirements for recognition over time under ASC 606. Additionally, under the Company's historical accounting policies, the Food Service Equipment segment estimated the rebate accrual based on a volume-related method for rebates. Under ASC 606, the Company now calculates the rebate accrual on anticipated sales for the rebate period, rather than measurement of actual achievement of specific tiers.

Upon adoption, we recognized a reduction to retained earnings of \$1.0 million which is comprised of (i) a net change for Engineering Technologies of \$0.7 million in revenues offset by cost of sales increase of \$0.6 million; and (ii) a \$1.5 million adjustment for accrued rebates in the Food Service Equipment segment. The details of the adjustments to retained earnings upon adoption on June 30, 2018 as well as the effects on the consolidated balance sheet as of June 30, 2018, as if ASC 606 had been adopted in our 2018 fiscal year are as follows:

| (in thousands)     | <b>Cumulative<br/>Effect</b> |
|--------------------|------------------------------|
| Net sales          | \$ (799)                     |
| Cost of Sales      | (574)                        |
| Income tax expense | 340                          |
| Net Loss           | (1,033)                      |

| <b>Effective Date</b> | <b>Reported</b>                 |                |                    |
|-----------------------|---------------------------------|----------------|--------------------|
|                       | <b>June 30, 2018</b>            | <b>ASC 606</b> | <b>As Adjusted</b> |
|                       | <b>Adjustments July 1, 2018</b> |                |                    |
| Inventories           | \$ 127,223                      | \$ (574)       | \$ 126,649         |
| Accounts receivable   | 134,228                         | 703            | 134,931            |
| Accrued liabilities   | 65,575                          | 1,502          | 67,077             |
| Deferred income taxes | 26,816                          | (340)          | 26,476             |
| Retained earnings     | 761,430                         | (1,033)        | 760,397            |

Note that above amounts as of June 30 are before any restatement of balances to discontinued operations.

The following tables reconcile the balances as presented as of and for the three and six months ended December 31, 2018 exclusive of the cumulative effect adjustment presented above to the balances prior to the adjustments made to implement the new revenue recognition standard for the same period (in thousands):

|   | <b>Three Months Ended<br/>December 31, 2018</b> |                                  |  |
|---|---|----------------------------------|--|
|   | <b>Balances</b>                                 |                                  |  |
|   | <b>As<br/>Presented</b>                         | <b>Impact<br/>of<br/>ASC 606</b> | <b>Without<br/>adoption<br/>of ASC<br/>606</b> |
| Net sales   | \$ 195,522                                      | \$ (2,812)                       | \$ 192,710                                     |
| Cost of sales   | 128,586   | (2,786)                          | 125,800  |
| Gross profit  | 66,936  | (26)                             | 66,910   |
| Provision for income taxes                                      | 3,860   | (8)                              | 3,852  |
| Income from continuing operations                               | 12,474  | (18)                             | 12,456   |
| Income (loss) from discontinued operations, net of income taxes | 924   | 171                              | 1,095  |
| Net income (loss)   | \$ 13,398                                       | \$ 153                           | \$ 13,551                                      |

**Six Months Ended December  
31, 2018**

|   | <b>Balances</b>         |                                  |  |
|---|-------------------------|----------------------------------|--|
|   | <b>As<br/>Presented</b> | <b>Impact<br/>of<br/>ASC 606</b> | <b>Without<br/>adoption<br/>of ASC<br/>606</b> |
| Net sales   | \$ 388,609              | \$ (5,855)                       | \$ 382,754                                     |
| Cost of sales   | 252,421                 | (5,282)                          | 247,139  |
| Gross profit  | 136,188                 | (573)                            | 135,615  |
| Provision for income taxes                                      | 9,702                   | (166)                            | 9,536  |
| Income from continuing operations                               | 26,767                  | (407)                            | 26,360   |
| Income (loss) from discontinued operations, net of income taxes | 2,488                   | 195                              | 2,683  |
| Net income (loss)   | \$ 29,255               | \$ (212)                         | \$ 29,043                                      |

**December 31, 2018**

|  | <b>Balances</b>         |                              |                                    |
|--|-------------------------|------------------------------|------------------------------------|
|  | <b>As<br/>Presented</b> | <b>Impact of<br/>ASC 606</b> | <b>Without adoption of ASC 606</b> |
| <b>ASSETS</b>                                |                         |                              |                                    |
| Prepaid Expenses                             | \$ 21,425               | \$ (7,083)                   | \$ 14,342                          |
| Inventories                                  | 109,423                 | 5,282                        | 114,705                            |
| <b>LIABILITIES</b>                           |                         |                              |                                    |
| Accrued liabilities                          | \$ 61,262               | \$ (1,228)                   | \$ 60,034                          |
| Income taxes payable                         | 7,672                   | (166)                        | 7,506                              |
| Current liabilities- Discontinued Operations | 18,906                  | (195)                        | 18,711                             |
| Retained earnings                            | 784,687                 | (212)                        | 784,475                            |

*Disaggregation of Revenue from Contracts with Customers*

The following table presents revenue disaggregated by product line and segment (in thousands):

|                         | <b>Three Months Ended</b>    |                              |
|-------------------------|------------------------------|------------------------------|
| Revenue by Product Line | <b>December<br/>31, 2018</b> | <b>December<br/>31, 2017</b> |
| Refrigeration           | \$ 52,217                    | \$ 56,434                    |
| Merchandising & Display | 9,065                        | 8,235                        |
| Pumps                   | 7,371                        | 8,496                        |

|                                     |            |            |
|-------------------------------------|------------|------------|
| Total Food Service Equipment        | 68,653     | 73,165     |
| Engraving Services                  | 35,796     | 30,131     |
| Engraving Products                  | 2,689      | 3,748      |
| Total Engraving                     | 38,485     | 33,879     |
| Engineering Technologies Components | 23,568     | 21,928     |
| Electronics                         | 52,700     | 46,035     |
| Hydraulics Cylinders and System     | 12,116     | 10,687     |
| Total Revenue by Product Line       | \$ 195,522 | \$ 185,694 |

The following table presents revenue disaggregated by product line and segment (in thousands):

| Revenue by Product Line             | Six Months Ended  |                   |
|-------------------------------------|-------------------|-------------------|
|                                     | December 31, 2018 | December 31, 2017 |
| Refrigeration                       | \$ 106,664        | 116,105           |
| Merchandising & Display             | 18,229            | 17,048            |
| Pumps                               | 16,098            | 17,839            |
| Total Food Service Equipment        | 140,991           | 150,992           |
| Engraving Services                  | 69,653            | 60,124            |
| Engraving Products                  | 4,813             | 6,584             |
| Total Engraving                     | 74,466            | 66,708            |
| Engineering Technologies Components | 44,351            | 42,195            |
| Electronics                         | 104,150           | 92,851            |
| Hydraulics Cylinders and System     | 24,651            | 22,090            |
| Total Revenue by Product Line       | \$ 388,609        | 374,836           |

The following table presents revenue from continuing operations disaggregated by geography based on company's locations (in thousands):

| Net sales           | Three Months Ended |                   | Six Months Ended |                   |
|---------------------|--------------------|-------------------|------------------|-------------------|
|                     |                    | December 31, 2018 |                  | December 31, 2018 |
| United States       | \$                 | 129,969           |                  | 254,705           |
| Asia Pacific        |                    | 28,163            |                  | 56,041            |
| EMEA <sup>(1)</sup> |                    | 32,978            |                  | 68,504            |
| Other Americas      |                    | 4,412             |                  | 9,359             |
| Total               | \$                 | 195,522           |                  | 388,609           |

<sup>(1)</sup> EMEA consists primarily of Europe, Middle East and S. Africa.

The following table presents revenue from continuing operations disaggregated by timing of recognition (in thousands):

| <b>Timing of Revenue Recognition</b>                 | <b>Three Months Ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>December 31, 2018</b>  | <b>December 31, 2017</b> |
| Products and services transferred at a point in time | \$ 188,093                | \$ 182,441               |
| Products transferred over time                       | 7,429                     | 3,253                    |
| Net Sales  | \$ 195,522                | \$ 185,694               |

| <b>Timing of Revenue Recognition</b>                 | <b>Six Months Ended</b>  |                          |
|--|--------------------------|--------------------------|
|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
| Products and services transferred at a point in time | \$ 375,998               | \$ 367,954               |
| Products transferred over time                       | 12,611                   | 6,882                    |
| Net Sales  | \$ 388,609               | \$ 374,836               |

*Contract Balances*

Contract assets represent sales recognized in excess of billings related to work completed but not yet shipped for which revenue is recognized over time. Contract assets are recorded as accounts receivable.

Contract liabilities are customer deposits for which revenue has not been recognized. Current contract liabilities are recorded as accrued expenses.

The following table provides information about contract assets and liability balances as of December 31, 2018 and September 30, 2018 (in thousands):

|                             | <b>Balance at Beginning of<br/>Period</b> |          | <b>Additions</b> | <b>Deductions</b> | <b>Balance at End of<br/>Period</b> |
|-----------------------------|---|----------|------------------|-------------------|-------------------------------------|
| <b>Fiscal quarter ended</b> |   |          |                  |                   |                                     |
| <b>December 31, 2018</b>    |   |          |                  |                   |                                     |
| Contract assets:            |   |          |                  |                   |                                     |
| Accounts receivable         | \$ 1,552                                  |          | \$ 10,735        | \$ 9,584          | \$ 2,703                            |
| Unbilled services           | 7,183                                     |          | 2,465            | 1,035             | 8,613                               |
| Contract liabilities:       |   |          |                  |                   |                                     |
| Customer deposits           | 2,049                                     |          | 3,383            | -                 | 5,432                               |
| <b>Fiscal quarter ended</b> |   |          |                  |                   |                                     |
| <b>September 30, 2018</b>   |   |          |                  |                   |                                     |
| Contract assets:            |   |          |                  |                   |                                     |
| Accounts receivable         | \$ 5,655                                  | \$ 5,422 | \$ 9,525         |                   | \$ 1,552                            |
| Unbilled services           | 5,904                                     |          | 2,960            | 1,681             | 7,183                               |
| Contract liabilities:       |   |          |                  |                   |                                     |
| Customer deposits           | 2,552                                     |          | -                | 503               | 2,049                               |

During the quarters ended December 31, 2018 and September 30, 2018, we recognized the following revenue as a result of changes in the contract liability balances (in thousands):

|  | <b>December 31, 2018</b> | <b>September 30, 2018</b> |
|--|--------------------------|---------------------------|
| <b>Revenue recognized in the period from:</b>  |                          |                           |
| Amounts included in the \$ contract liability balance at the beginning of the period | - \$                     | 503                       |

The timing of revenue recognition, invoicing and cash collections results in billed receivables, contract assets and contract liabilities on the consolidated balance sheets.

When consideration is received from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the goods and services are transferred to the customer and all revenue recognition criteria have been met.

#### 4) Fair Value Measurements

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

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

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

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

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

There were no transfers of assets or liabilities between any levels of the fair value measurement hierarchy at December 31, 2018 and June 30, 2018. 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, 2018 and June 30, 2018 consisted of the following (in thousands):

|  | <b>December 31, 2018</b> |                |                |                |
|--|--------------------------|----------------|----------------|----------------|
|  | <b>Total</b>             | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                                      |                          |                |                |                |
| Marketable securities - deferred compensation plan | \$ 2,514                 | \$ 2,514       | \$ -           | \$ -           |
| Interest rate swaps                                | 803                      | -              | 803            | -              |
| <b>Liabilities</b>                                 |                          |                |                |                |
| Foreign exchange contracts                         | \$ 5,853                 | \$ -           | \$ 5,853       | \$ -           |
| Interest rate swaps                                | 453                      | -              | 453            | -              |
| Contingent acquisition payments <sup>(a)</sup>     | 5,036                    | -              | -              | 5,036          |

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|  | <b>June 30, 2018</b> |                |                |                |
|--|----------------------|----------------|----------------|----------------|
|  | <b>Total</b>         | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                                      |                      |                |                |                |
| Marketable securities - deferred compensation plan | \$ 2,362             | \$ 2,362       | \$ -           | \$ -           |
| Foreign exchange contracts                         | 1,357                | -              | 1,357          | -              |
| Interest rate swaps                                | 1,325                | -              | 1,325          | -              |
| <b>Liabilities</b>                                 |                      |                |                |                |
| Foreign exchange contracts                         | \$ 4,204             | \$ -           | \$ 4,204       | \$ -           |
| Contingent acquisition payments <sup>(a)</sup>     | 7,535                | -              | -              | 7,535          |

<sup>(a)</sup> 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 consist of contingent consideration arrangements relating to our acquisitions of Horizon Scientific and Piazza Rosa. We are contractually obligated to pay contingent consideration payments in connection with the Horizon Scientific acquisition based on the criteria of continued employment of the seller on the second and third anniversary of the closing date of the acquisition. We are contractually obligated to pay contingent consideration payments in connection with the Piazza Rosa acquisition based on the achievement of certain revenue targets during each of the first three years following acquisition. Piazza Rosa exceeded the defined revenue targets during the first year and a payment was made to the Piazza Rosa sellers during the first quarter of fiscal 2019. The seller of Horizon remained employed on the second anniversary of the closing date and a payment was made to the seller in the second quarter of fiscal 2019. 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. As of December 31, 2018, neither the range of outcomes nor the assumptions used to develop the estimate had changed.

## **5) Discontinued Operations**

In pursuing our business strategy, the Company has divested certain businesses and recorded activities of these businesses as discontinued operations. During the first quarter of 2019, the Company decided to divest its Cooking Solutions Group, which consists of three operating segments and a minority interest investment, in order to focus its financial assets and managerial resources on its remaining portfolio of businesses. The Company believes that the sale will be completed before the end of the fiscal year and has concluded that all criteria of ASC 205-20-45 have been met as to classify the three operating segments and minority interest investment as discontinued operations. During the second quarter of fiscal 2019, we sold our minority interest investment to the majority shareholders.

Results of the Cooking Solutions Group in current and prior periods have been classified as discontinued operations in the Condensed Consolidated Financial Statements to exclude the results from continuing operations. Activity related to the Cooking Solutions Group and other discontinued operations for the three and six months ended December 31, 2018 and 2017 is as follows (in thousands):

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|  | <b>Three Months<br/>Ended</b> |             | <b>Six Months Ended</b> |             |
|--|-------------------------------|-------------|-------------------------|-------------|
|  | <b>December 31,</b>           |             | <b>December 31,</b>     |             |
|  | <b>2018</b>                   | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Net Sales                                  | \$ 23,980                     | \$ 24,057   | \$ 48,427               | \$ 49,295   |
| Income from Operations                     | 1,777                         | 1,691       | 3,608                   | 3,742       |
| Non-Operating Income /<br>(Loss)           | (658)                         | 135         | (592)                   | 276         |
| Profit Before Taxes                        | 1,119                         | 1,826       | 3,016                   | 4,018       |
| Provision for Taxes                        | 195                           | 283         | 528                     | 1,050       |
| Net income from<br>Discontinued Operations | \$ 924                        | \$ 1,543    | \$ 2,488                | \$ 2,968    |

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

|                                 | <b>December 31, 2018</b> |           | <b>June 30, 2018</b> |  |
|---------------------------------|--------------------------|-----------|----------------------|--|
|                                 |                          |           |                      |  |
| Accounts receivable             | \$ 11,700                | \$ 14,445 |                      |  |
| Inventories                     | 23,865                   | 22,923    |                      |  |
| Prepaid Expenses                | 527                      | 303       |                      |  |
| Total current assets            | 36,092                   | 37,671    |                      |  |
| Property, plant, equipment, net | 7,556                    | 7,637     |                      |  |
| Intangible assets, net          | 12,701                   | 13,137    |                      |  |
| Goodwill                        | 40,011                   | 40,011    |                      |  |
| Other non-current assets        | 1,186                    | 1,374     |                      |  |
| Total non-current assets        | 61,454                   | 62,159    |                      |  |
| Total Assets                    | \$ 97,546                | \$ 99,830 |                      |  |
| Accounts Payable                | \$ 9,853                 | \$ 10,759 |                      |  |
| Accrued Liabilities             | 9,053                    | 7,897     |                      |  |
| Income Tax Payable              | -                        | 9         |                      |  |
| Total current liabilities       | 18,906                   | 18,665    |                      |  |
| Non-current Liabilities         | 50                       | 50        |                      |  |
| Total Liabilities               | \$ 18,956                | \$ 18,715 |                      |  |
| Net Assets                      | \$ 78,590                | \$ 81,115 |                      |  |

The Company believes that the fair value of the Cooking Solutions Group net assets exceeds the net book value of the assets.

**6) Inventories**

Inventories from continuing operations are comprised of the following (in thousands):

|                 | <b>December 31,<br/>2018</b> | <b>June 30,<br/>2018</b> |
|-----------------|------------------------------|--------------------------|
| Raw materials   | \$ 50,557                    | \$ 46,833                |
| Work in process | 32,164                       | 30,526                   |
| Finished goods  | 26,702                       | 26,941                   |
| Total           | \$ 109,423                   | \$ 104,300               |

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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 \$4.8 million and \$8.9 million for the three and six months ended December 31, 2018, respectively and \$4.1 million and \$8.6 million for the three and six months ended December 31, 2017, respectively.

## 7) Goodwill

Changes to goodwill during the period ended December 31, 2018 were as follows (in thousands):

|                             | June 30,<br>2018 | Discontinued<br>Operations | Continuing<br>Ops - June<br>30, 2018 | Acquisitions | Translation<br>Adjustment | December<br>31, 2018 |
|-----------------------------|------------------|----------------------------|--------------------------------------|--------------|---------------------------|----------------------|
| Food Service<br>Equipment   | \$ 63,464        | \$ (40,011)                | \$ 23,453                            | \$ -         | \$ -                      | \$ 23,453            |
| Engraving                   | 27,194           | -                          | 27,194                               | 34,258       | (170)                     | 61,282               |
| Engineering<br>Technologies | 44,247           | -                          | 44,247                               | -            | (312)                     | 43,935               |
| Electronics                 | 113,798          | -                          | 113,798                              | 15,791       | 251                       | 129,840              |
| Hydraulics                  | 3,059            | -                          | 3,059                                | -            | -                         | 3,059                |
| Total                       | \$ 251,762       | \$ (40,011)                | \$ 211,751                           | \$ 50,049    | \$ (231)                  | \$ 261,569           |

## 8) Intangible Assets

Intangible assets consist of the following (in thousands):

|                             | Customer<br>Relationships | Tradenames<br>(Indefinite-lived) | Developed<br>Technology | Other    | Total      |
|-----------------------------|---------------------------|----------------------------------|-------------------------|----------|------------|
| <b>December 31, 2018</b>    |                           |                                  |                         |          |            |
| Cost                        | \$ 72,643                 | \$ 19,088                        | \$ 48,816               | \$ 5,642 | \$ 146,189 |
| Accumulated<br>amortization | (20,974)                  | -                                | (6,666)                 | (3,054)  | (30,694)   |
|                             | \$ 51,669                 | \$ 19,088                        | \$ 42,150               | \$ 2,588 | \$ 115,495 |

Balance, December  
31, 2018

**June 30, 2018**

|                             |    |          |    |        |    |         |    |         |    |          |
|-----------------------------|----|----------|----|--------|----|---------|----|---------|----|----------|
| Cost                        | \$ | 48,285   | \$ | 11,102 | \$ | 48,281  | \$ | 4,025   | \$ | 111,693  |
| Accumulated<br>amortization |    | (19,134) |    | -      |    | (4,709) |    | (2,912) |    | (26,755) |
| Balance, June 30,<br>2018   | \$ | 29,151   | \$ | 11,102 | \$ | 43,572  | \$ | 1,113   | \$ | 84,938   |

Amortization expense for the three months ended December 31, 2018 and 2017 was \$3.0 million and \$2.2 million, respectively. Amortization expense for the six months ended December 31, 2018 and 2017 was \$4.7 million and \$4.2 million, respectively. At December 31, 2018, amortization expense of intangible assets is estimated to be \$5.7 million for the remainder of fiscal year 2019, \$10.9 million in 2020, \$10.2 million in 2021, \$9.6 million in 2022, \$8.8 million in 2023 and \$50.3 million thereafter.

**9) 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 from continuing operations, which are recorded as a component of accrued liabilities, as of December 31, 2018 and June 30, 2018 were as follows (in thousands):

|                              | <b>December<br/>31, 2018</b> | <b>June 30,<br/>2018</b> |
|------------------------------|------------------------------|--------------------------|
| Balance at beginning of year | \$ 4,966                     | \$ 4,667                 |
| Acquisitions and other       | (111)                        | (138)                    |
| Warranty expense             | 2,345                        | 6,248                    |
| Warranty claims              | (2,488)                      | (5,811)                  |
| Balance at end of period     | \$ 4,712                     | \$ 4,966                 |

#### 10) Debt

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

|                        | <b>December 31,<br/>2018</b> | <b>June 30,<br/>2018</b> |
|------------------------|------------------------------|--------------------------|
| Bank credit agreements | \$ 316,000                   | \$ 194,000               |
| Total funded debt      | 316,000                      | 194,000                  |
| Issuance Cost          | (1,339)                      | (228)                    |
| Total long-term debt   | \$ 314,661                   | \$ 193,772               |

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

| <b>Fiscal Year</b> | <b>December<br/>31, 2018</b> |
|--------------------|------------------------------|
| 2019               | \$ -                         |
| 2020               | -                            |
| 2021               | -                            |

|                           |            |
|---------------------------|------------|
| 2022                      | -          |
| 2023                      | -          |
| Thereafter                | 316,000    |
| Total Debt                | 316,000    |
| Issuance cost             | (1,339)    |
| Debt net of issuance cost | \$ 314,661 |

***Bank Credit Agreements***

During the second quarter of fiscal year 2019, the Company entered into a five-year Amended and Restated Credit Agreement (“Credit Facility”, or “facility”). The facility has a borrowing limit of \$500 million which is an increase of \$100 million from the prior facility’s \$400 million limit. The facility can be increased by an amount of up to \$250 million, in accordance with specified conditions contained in the agreement. The facility also includes a \$10 million sublimit for swing line loans and a \$35 million sublimit for letters of credit.

At December 31, 2018, the Company had standby letters of credit outstanding, primarily for insurance purposes, of \$7.4 million and had the ability to borrow \$176.6 million under the facility. At December 31, 2018, the carrying value of the current borrowings under the facility approximates fair value.

**11) Derivative Financial Instruments**

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. Given the improvements made to the application of hedge accounting under the guidance, the Company has decided to early adopt the ASU in the second quarter of fiscal 2019, or on December 1, 2018. As of the adoption date, the Company had both foreign currency swaps and interest rate swaps which are designated and accounted for as cash flow hedges with no hedge ineffectiveness historically recorded. As the Company had historically determined its foreign currency exchange contracts and interest rate swaps to be perfectly effective it did not record any hedge ineffectiveness in earnings related to the swaps historically or on the initial application date. Therefore, there is no cumulative-effect adjustment necessary to apply this change in accounting principle. In addition to the above, the Company reviewed the ASU and identified no other provisions of the standard which would result in a quantitative impact as a result of applying the new guidance.

*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 \$85 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 2.11% at December 31, 2018. The fair value of the swaps, recognized in accrued expenses and in other comprehensive income, is as follows (in thousands, except percentages):

| <b>Effective Date</b> | <b>Notional Amount</b> | <b>Fixed Interest Rate</b> | <b>Maturity</b>   | <b>December 31,<br/>2018</b> | <b>June<br/>30,<br/>2018</b> |
|-----------------------|------------------------|----------------------------|-------------------|------------------------------|------------------------------|
| December 18, 2015     | 15,000                 | 1.46%                      | December 19, 2018 | -                            | 55                           |
| December 19, 2015     | 10,000                 | 2.01%                      | December 19, 2019 | 53                           | 74                           |
| May 24, 2017          | 25,000                 | 1.88%                      | April 24, 2022    | 448                          | 764                          |

|                |        |       |                |        |          |
|----------------|--------|-------|----------------|--------|----------|
| May 24, 2017   | 25,000 | 1.67% | May 24, 2020   | 302    | 432      |
| August 6, 2018 | 25,000 | 2.83% | August 6, 2023 | (454)  | -        |
|                |        |       |                | \$ 349 | \$ 1,325 |

The Company reported no losses for the three and six months ended December 31, 2018, 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, 2018 and June 30, 2018, the

Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized losses of \$(5.9) million and \$(2.9) million, respectively, which approximate the unrealized gains and losses on the related loans. The contracts have maturity dates ranging from 2019-2023, which correspond to the related intercompany loans. The notional amounts of the Company's forward contracts, by currency, are as follows:

|                 | <b>June 30,</b>          |             |
|-----------------|--------------------------|-------------|
| <b>Currency</b> | <b>December 31, 2018</b> | <b>2018</b> |
| USD             | 59,786                   | 64,558      |
| Euro            | 12,150                   | 21,300      |
| Pound Sterling  | 6,750                    | 6,826       |
| 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):

|   | <b>Asset Derivatives</b> |                   |                      |                   |
|---|--------------------------|-------------------|----------------------|-------------------|
|   | <b>December 31, 2018</b> |                   | <b>June 30, 2018</b> |                   |
| <b>Derivative designated as hedging instruments</b> | <b>Balance Sheet</b>     |                   | <b>Balance Sheet</b> |                   |
|   | <b>Line Item</b>         | <b>Fair Value</b> | <b>Line Item</b>     | <b>Fair Value</b> |
| Interest rate swaps                                 | Other Assets             | \$ 803            | Other Assets         | \$ 1,325          |
| Foreign exchange contracts                          | Other Assets             | -                 | Other Assets         | 1,357             |
|   |                          | \$ 803            |                      | \$ 2,682          |

|   | <b>Liability Derivatives</b> |                   |                      |                   |
|---|------------------------------|-------------------|----------------------|-------------------|
|   | <b>December 31, 2018</b>     |                   | <b>June 30, 2018</b> |                   |
| <b>Derivative designated as hedging instruments</b> | <b>Balance Sheet</b>         |                   | <b>Balance Sheet</b> |                   |
|   | <b>Line Item</b>             | <b>Fair Value</b> | <b>Line Item</b>     | <b>Fair Value</b> |
| Interest rate swaps                                 | Accrued Liabilities          | 454               | Accrued Liabilities  | -                 |
| Foreign exchange contracts                          | Accrued Liabilities          | 5,853             | Accrued Liabilities  | 4,204             |

\$ 6,307      \$ 4,204

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):

|                            | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|----------------------------|---------------------------|-------------|-------------------------|-------------|
|                            | <b>December 31,</b>       |             | <b>December 31,</b>     |             |
|                            | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Interest rate swaps        | \$ (1,768)                | \$ 131      | \$ (1,371)              | \$ 417      |
| Foreign exchange contracts | (2,969)                   | (2,482)     | (3,003)                 | (1,994)     |
|                            | \$ (4,737)                | \$ (2,351)  | \$ (4,374)              | \$ (1,577)  |

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

| <b>Details about Accumulated Other Comprehensive</b> | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             | <b>Affected line item</b>                                  |
|--|---------------------------|-------------|-------------------------|-------------|--|
| <b>Income (Loss) Components</b>                      | <b>December 31,</b>       |             | <b>December 31,</b>     |             | <b>in the Unaudited Condensed Statements of Operations</b> |
|  | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |  |

|                            |          |        |          |          |                  |
|----------------------------|----------|--------|----------|----------|------------------|
| Interest rate swaps        | \$ (101) | \$ 913 | \$ (162) | \$ 1,064 | Interest expense |
| Foreign exchange contracts | 3,032    | -      | 2,434    | -        | Interest expense |
|                            | \$ 2,931 | \$ 913 | \$ 2,272 | \$ 1,064 |                  |

## 12) 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.

As of July 1, 2018, the Company adopted ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This new guidance required 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. The retrospective adoption this ASU resulted in the reclassification of net benefit costs of \$0.1 million and \$0.2 million from cost of sales and \$0.4 million and \$0.8 million from the selling, general, and administrative expenses to other expense non-operating in the Consolidated Statement of Operations for the three and six months ended December 31, 2018 and 2017, respectively. No net benefit costs were recorded in the Company's Cooking Solutions Group in either fiscal years 2019 or 2018.

Net Periodic Benefit Cost for the Company's U.S. and Foreign pension benefit plans for the three and six months ended December 31, 2018 and 2017 consisted of the following components (in thousands):

|                                    | U.S. Plans                         |         | Non-U.S. Plans                     |        |
|------------------------------------|------------------------------------|---------|------------------------------------|--------|
|                                    | Three Months Ended<br>December 31, |         | Three Months Ended<br>December 31, |        |
|                                    | 2018                               | 2017    | 2018                               | 2017   |
| Service cost                       | \$ 1                               | \$ 1    | \$ 9                               | \$ 9   |
| Interest cost                      | 2,586                              | 2,520   | 249                                | 259    |
| Expected return on plan assets     | (3,385)                            | (3,354) | (225)                              | (235)  |
| Recognized net actuarial loss      | 1,030                              | 1,145   | 84                                 | 234    |
| Amortization of prior service cost | -                                  | -       | -                                  | (9)    |
| Net periodic benefit cost          | \$ 232                             | \$ 312  | \$ 117                             | \$ 258 |

|                                    | <b>U.S. Plans</b>       |             | <b>Non-U.S. Plans</b>   |             |
|------------------------------------|-------------------------|-------------|-------------------------|-------------|
|                                    | <b>Six Months Ended</b> |             | <b>Six Months Ended</b> |             |
|                                    | <b>December 31,</b>     |             | <b>December 31,</b>     |             |
|                                    | <b>2018</b>             | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Service cost                       | \$ 2                    | \$ 2        | \$ 17                   | \$ 18       |
| Interest cost                      | 5,171                   | 5,040       | 503                     | 514         |
| Expected return on plan assets     | (6,771)                 | (6,707)     | (453)                   | (466)       |
| Recognized net actuarial loss      | 2,061                   | 2,290       | 170                     | 463         |
| Amortization of prior service cost | -                       | -           | -                       | (17)        |
| Net periodic benefit cost          | \$ 463                  | \$ 625      | \$ 237                  | \$ 512      |

The Company expects to pay \$1.3 million in contributions to its defined benefit plans during fiscal 2019. Contributions of \$0.3 million and \$0.5 million were made during the three and six months ended December 31, 2018 compared to \$0.3 million and \$0.5 million during the three and six months ended December 31, 2017, respectively. Required contributions of \$0.8 million will be paid to the Company's U.K. defined benefit plan

during 2019. 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.

### 13) Income Taxes

The Company has been recording estimates for the tax impact related to the Tax Cuts and Jobs Act (“TCJA”) signed into law by President Trump on December 22, 2017 according to Staff Accounting Bulletin No. 118 (“SAB 118”), which permits filers to record provisional amounts during a measurement period ending no later than one year from the date of the Act’s enactment. As of December 31, 2018, the Company is considering the accounting for the tax effects of the enactment of the Act as completed. The Company has recorded a tax benefit of approximately \$779 thousand in Q2 for the toll/transition tax related to the TCJA. The Company will be finalizing its tax returns in Q3 and will record any final adjustments as part of the return to provision process. The Company does not expect any material adjustments as it finalizes the tax returns.

The Company's effective tax rate from continuing operations for the second quarter of 2019 was 23.6% compared with 129.0% 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 prior year and not in the current year quarter.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2018 was 26.6% compared with 74.2% for the prior year. The effective tax rate for the year to date was higher due to the same discrete tax reform charges that are not recurring in the current year.

### 14) 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:

|                                    | <b>Three<br/>Months<br/>Ended<br/>December<br/>31,</b> |             | <b>Six Months<br/>Ended<br/>December<br/>31,</b> |             |
|------------------------------------|--|-------------|--|-------------|
|                                    | <b>2018</b>  | <b>2017</b> | <b>2018</b>                                      | <b>2017</b> |
| Basic - Average shares outstanding | 12,636   | 12,704      | 12,667   | 12,689      |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Dilutive effect of unvested, restricted stock awards | 49     | -      | 70     | 89     |
| Diluted - Average shares outstanding                 | 12,685 | 12,704 | 12,737 | 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, 2018 and 2017, respectively.

Performance stock units of 75,191 and 40,936 for the six months ended December 31, 2018 and 2017, respectively, are excluded from the diluted earnings per share calculation as the performance criteria have not been met.

### 15) Comprehensive Income (Loss)

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

|   | <b>December 31,<br/>2018</b> | <b>June 30,<br/>2018</b> |
|---|------------------------------|--------------------------|
| Foreign currency translation adjustment                 | \$ (30,675)                  | \$ (25,013)              |
| Unrealized pension losses, net of tax                   | (93,171)                     | (95,112)                 |
| Unrealized losses on derivative instruments, net of tax | (2,931)                      | (1,734)                  |
| Total   | \$ (126,777)                 | \$ (121,859)             |

**16) 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.

**17) Industry Segment Information**

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

- Food Service Equipment – a manufacturer of commercial food service equipment;
- Engraving – provides mold texturizing, slush molding tools, project management and design services, 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 and six months ended December 31, 2018 and 2017 were as follows (in thousands):

|                        | <b>Three Months Ended December 31,</b> |             |                               |             |
|------------------------|--|-------------|-------------------------------|-------------|
|                        | <b>Net Sales</b>                       |             | <b>Income from Operations</b> |             |
|                        | <b>2018</b>                            | <b>2017</b> | <b>2018</b>                   | <b>2017</b> |
| Segment:               |  |             |                               |             |
| Food Service Equipment | \$ 68,653                              | \$ 73,165   | \$ 5,190                      | \$ 5,968    |

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|  |            |            |           |           |
|--|------------|------------|-----------|-----------|
| Engraving  | 38,485     | 33,879     | 6,849     | 6,958     |
| Engineering Technologies                                 | 23,568     | 21,928     | 2,061     | 1,543     |
| Electronics  | 52,700     | 46,035     | 10,376    | 10,269    |
| Hydraulics   | 12,116     | 10,687     | 1,929     | 1,517     |
| Restructuring costs                                      |            |            | (177)     | (1,775)   |
| Corporate  |            |            | (5,162)   | (6,732)   |
| Acquisition-related costs                                |            |            | (859)     | (703)     |
| Sub-total  | \$ 195,522 | \$ 185,694 | \$ 20,207 | \$ 17,045 |
| Interest expense   |            |            | (3,123)   | (1,793)   |
| Other non-operating expense                              |            |            | (750)     | (242)     |
| Income from continuing operations before<br>income taxes |            |            | \$ 16,334 | \$ 15,010 |

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|   | <b>Six Months Ended December 31,</b> |             |                               |             |
|---|--------------------------------------|-------------|-------------------------------|-------------|
|   | <b>Net Sales</b>                     |             | <b>Income from Operations</b> |             |
|   | <b>2018</b>                          | <b>2017</b> | <b>2018</b>                   | <b>2017</b> |
| Segment:  |                                      |             |                               |             |
| Food Service Equipment                                | \$ 140,991                           | \$ 150,992  | \$ 11,857                     | \$ 14,287   |
| Engraving   | 74,466                               | 66,708      | 14,398                        | 14,540      |
| Engineering Technologies                              | 44,351                               | 42,195      | 3,836                         | 2,724       |
| Electronics   | 104,150                              | 92,851      | 23,163                        | 20,552      |
| Hydraulics  | 24,651                               | 22,090      | 3,512                         | 3,389       |
| Restructuring costs                                   |                                      |             | (624)                         | (4,732)     |
| Acquisition-related costs                             |                                      |             | (1,547)                       | (1,708)     |
| Corporate   |                                      |             | (11,743)                      | (13,355)    |
| Sub-total   | \$ 388,609                           | \$ 374,836  | \$ 42,852                     | \$ 35,697   |
| Interest expense                                      |                                      |             | (5,368)                       | (3,514)     |
| Other non-operating expense                           |                                      |             | (1,015)                       | (336)       |
| Income from continuing operations before income taxes |                                      |             | \$ 36,469                     | \$ 31,847   |

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, 2018 and June 30, 2018 are as follows (in thousands):

|                          | <b>December<br/>31, 2018</b> | <b>June 30,<br/>2018</b> |
|--------------------------|------------------------------|--------------------------|
| Food Service Equipment   | \$ 150,728                   | \$ 149,743               |
| Engraving                | 223,209                      | 149,973                  |
| Engineering Technologies | 143,904                      | 150,150                  |
| Electronics              | 336,562                      | 318,564                  |
| Hydraulics               | 29,970                       | 25,646                   |
| Corporate & Other        | 32,116                       | 23,031                   |
| Discontinued Operations  | 97,563                       | 99,830                   |
| Total                    | \$ 1,014,052                 | \$ 916,937               |

## 18) Restructuring

The Company has undertaken cost reduction and facility consolidation initiatives that have resulted in severance, restructuring, and related charges.

*2019 Restructuring Initiatives*

The Company continues to focus our efforts to reduce cost and improve productivity across our businesses, particularly through headcount reductions, facility closures, and consolidations. During the first quarter of fiscal year 2019, we incurred restructuring expenses related to third party assistance with analysis and implementation of these activities.

*Prior Year Restructuring Initiatives*

During the first two quarters of fiscal year 2018, we incurred restructuring expenses related to three restructuring programs, namely: (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.

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A summary of charges by initiative is as follows (in thousands):

|                           | <b>Three Months Ended<br/>December 31, 2018</b>                   |              |              | <b>Six Months Ended<br/>December 31, 2018</b>                     |              |              |
|---------------------------|---|--------------|--------------|---|--------------|--------------|
|                           | <b>Involuntary<br/>Employee<br/>Severance<br/>and<br/>Benefit</b> |              | <b>Total</b> | <b>Involuntary<br/>Employee<br/>Severance<br/>and<br/>Benefit</b> |              | <b>Total</b> |
| <b>Fiscal 2019</b>        | <b>Costs</b>  | <b>Other</b> |              | <b>Costs</b>  | <b>Other</b> |              |
| Restructuring initiatives | \$ 297  | \$ (280)     | \$ 17        | \$ 297  | \$ 70        | \$ 367       |
| Prior year initiatives    | 40  | 120          | 160          | 125   | 132          | 257          |
|                           | \$ 337  | \$ (160)     | \$ 177       | \$ 422  | \$ 202       | \$ 624       |

|                           | <b>Three Months Ended<br/>December 31, 2017</b>               |              |              | <b>Six Months Ended<br/>December 31, 2017</b>                 |              |              |
|---------------------------|---|--------------|--------------|---|--------------|--------------|
|                           | <b>Involuntary<br/>Employee<br/>Severance<br/>and Benefit</b> |              | <b>Total</b> | <b>Involuntary<br/>Employee<br/>Severance and<br/>Benefit</b> |              | <b>Total</b> |
| <b>Fiscal 2018</b>        | <b>Costs</b>  | <b>Other</b> |              | <b>Costs</b>  | <b>Other</b> |              |
| Restructuring initiatives | \$ 142  | \$ 1,348     | \$ 1,490     | \$ 1,777  | \$ 1,895     | \$ 3,672     |
| Prior year initiatives    | 113   | 172          | 285          | 155   | 905          | 1,060        |
|                           | \$ 255  | \$ 1,520     | \$ 1,775     | \$ 1,932  | \$ 2,800     | \$ 4,732     |

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

| <b>Current Year Initiatives</b>                | <b>Involuntary<br/>Employee<br/>Severance<br/>and Benefit<br/>Costs</b> |       | <b>Other</b> | <b>Total</b> |
|--|---|-------|--------------|--------------|
|  | Restructuring liabilities at June 30, 2018                              | \$    | -            | \$           |
| Additions and adjustments                      |   | 297   |              | 367          |
| Payments                                       |   | (201) |              | (221)        |
| Restructuring liabilities at December 31, 2018 | \$  | 96    | \$ 50        | \$ 146       |

| <b>Prior Year Initiatives</b>                  | <b>Involuntary<br/>Employee<br/>Severance and<br/>Benefit Costs</b> |       | <b>Other</b> | <b>Total</b> |
|--|---|-------|--------------|--------------|
|  | Restructuring liabilities at June 30, 2018                          | \$    | 456          | \$ 25        |
| Additions and adjustments                      |   | 125   |              | 257          |
| Payments                                       |   | (428) |              | (552)        |
| Restructuring liabilities at December 31, 2018 | \$  | 153   | \$ 33        | \$ 186       |

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

|                          | <b>Three Months Ended<br/>December 31, 2018</b>                             |              |              | <b>Six Months Ended<br/>December 31, 2018</b>                           |              |              |
|--------------------------|---|--------------|--------------|---|--------------|--------------|
|                          | <b>Involuntary<br/>Employee<br/>Severance<br/>and<br/>Benefit<br/>Costs</b> | <b>Other</b> | <b>Total</b> | <b>Involuntary<br/>Employee<br/>Severance<br/>and Benefit<br/>Costs</b> | <b>Other</b> | <b>Total</b> |
| Food Service Equipment   | \$ 255  | \$ 91        | \$ 346       | \$ 276  | \$ 91        | \$ 367       |
| Engraving                | 20  | -            | 20           | 67  | -            | 67           |
| Engineering Technologies | -   | 99           | 99           | 17  | 99           | 116          |
| Electronics              | -   | -            | -            | -   | 12           | 12           |
| Corporate                | 62  | (350)        | (288)        | 62  | -            | 62           |
|                          | \$ 337  | \$ (160)     | \$ 177       | \$ 422  | \$ 202       | \$ 624       |

|                          | <b>Three Months Ended<br/>December 31, 2017</b>                             |              |              | <b>Six Months Ended<br/>December 31, 2017</b>                           |              |              |
|--------------------------|---|--------------|--------------|---|--------------|--------------|
|                          | <b>Involuntary<br/>Employee<br/>Severance<br/>and<br/>Benefit<br/>Costs</b> | <b>Other</b> | <b>Total</b> | <b>Involuntary<br/>Employee<br/>Severance<br/>and Benefit<br/>Costs</b> | <b>Other</b> | <b>Total</b> |
| Food Service Equipment   | \$ 100  | \$ 1,031     | \$ 1,131     | \$ 615  | \$ 1,456     | \$ 2,071     |
| Engraving                | 24  | 249          | 273          | 739   | 343          | 1,082        |
| Engineering Technologies | 113   | 156          | 269          | 154   | 880          | 1,034        |
| Electronics              | -   | 57           | 57           | 132   | 84           | 216          |
| Corporate                | 18  | 27           | 45           | 292   | 37           | 329          |
|                          | \$ 255  | \$ 1,520     | \$ 1,775     | \$ 1,932  | \$ 2,800     | \$ 4,732     |

Restructuring expense is expected to be approximately \$1.0 million for the remainder of fiscal year 2019.

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

*Statements contained in this Quarterly Report 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,” “anticipate,” “intend,” “continue,” or similar terms or variations of those terms or the negative of those terms. There are many factors that affect the Company’s business and the results of its operations and that may cause the actual results of operations in future periods to differ materially from those currently expected or anticipated. These factors include, but are not limited to: materially adverse or unanticipated 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; domestic and international economic conditions, including the impact, length and degree of economic downturns on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, oil and gas, transportation, consumer appliance and general industrial markets; lower-cost competition; the relative mix of products which impact margins and operating efficiencies 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 including effective completion of plant consolidations, cost reduction efforts including procurement savings and productivity enhancements, capital management improvements, strategic capital expenditures, and the implementation of lean enterprise manufacturing techniques; the inability to achieve the savings expected from global sourcing of raw materials and diversification efforts in emerging markets; the*

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*impact on cost structure and on economic conditions as a result of actual and threatened increases in trade tariffs; the inability to attain expected benefits from acquisitions and the inability to effectively consummate and integrate such acquisitions and achieve synergies envisioned by the Company; market acceptance of our products; our ability to design, introduce and sell new products and related product components; the ability to redesign certain of our products to continue meeting evolving regulatory requirements; the impact of delays initiated by our customers; and our ability to increase manufacturing production to meet demand; and potential changes to future pension funding requirements. 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 five reportable segments: Food Service Equipment, Engraving, Engineering Technologies, Electronics and Hydraulics. Overall management, strategic development and financial control are led by the executive staff at our corporate headquarters located in Salem, New Hampshire. During the first quarter of 2019, the Company decided to divest its Cooking Solutions Group, which consists of three operating segments, in order to focus its financial assets and managerial resources on its higher growth and operating margin businesses. As a result, our ongoing operations now have nine operating business units. The management discussion and analysis set forth below pertains to our on-going operations and excludes results from the Cooking Solutions Group.

Our long-term strategy is to build larger, more profitable 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:

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During the first quarter of 2019, we announced our decision to divest our Cooking Solutions Group, which consists of three operating segments: Associated American Industries, BKI, and Ultrafryer, in order to focus our financial assets and managerial resources on our remaining portfolio of businesses. In connection with our divestiture efforts, we have retained an investment bank to assist us with the sale process; in addition, we have sold our minority interest in a European oven manufacturer back to the majority owners.

In September 2018, we acquired New Hampshire-based Regional Mfg. Specialists, Inc. (now named Agile Magnetics, Inc.), a provider of high-reliability magnetics. The addition of Agile Magnetics is an important step forward in building out the high reliability magnetics business of Standex Electronics. As a result of this combination, we have broadened our exposure to several high-growth end-markets and added a valuable manufacturing and sales base in the Northeast. Additionally, we can now offer complementary products from Standex's broader portfolio to Agile's customer base. Agile Magnetics products include transformers, inductors and coils for mission critical applications for blue chip OEMs in the semiconductor, military, aerospace, healthcare, and industrial markets. It operates one manufacturing facility in New Hampshire.

In August 2018, we acquired Michigan-based Tenibac-Graphion, Inc. (Tenibac-Graphion), a provider of chemical and laser texturing services. The combination of Tenibac-Graphion and Standex Engraving will expand services available to customers, increase responsiveness to customer demands, and drive innovative approaches to solving customer needs. The combined customer base now has access to the full line of mold and tool services, such as the Architexture design consultancy, Vycon™ part wrapping, chemical and laser engraving, tool finishing, and tool enhancements. Tenibac-Graphion serves automotive, packaging, medical and consumer products customers, and operates three facilities, two in Michigan and one in China.

We acquired Italy-based Piazza Rosa Group ("Piazza Rosa") in July 2017. 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.

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 is designed to result 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.

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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 |            | Six Months Ended |            |
|------------------------------------|--------------------|------------|------------------|------------|
|                                    | December 31,       |            | December 31,     |            |
| (In thousands, except percentages) | 2018               | 2017       | 2018             | 2017       |
| Net sales                          | \$ 195,522         | \$ 185,694 | \$ 388,609       | \$ 374,836 |
| Gross profit margin                | 34.2%              | 34.1%      | 35.0%            | 34.4%      |
| Income from operations             | 20,207             | 17,045     | 42,852           | 35,697     |

| (In thousands)                 | <b>Three Months Ended</b> | <b>Six Months Ended</b>  |
|--------------------------------|---------------------------|--------------------------|
|                                | <b>December 31, 2018</b>  | <b>December 31, 2018</b> |
| Net sales, prior year period   | \$ 185,694                | \$ 374,836               |
| Components of change in sales: |                           |                          |
| Organic sales change           | 2,974                     | 5,033                    |
| Effect of acquisitions         | 9,460                     | 12,736                   |
| Effect of exchange rates       | (2,606)                   | (3,996)                  |
| Net sales, current period      | \$ 195,522                | \$ 388,609               |

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Net sales for the second quarter of 2019 increased \$9.8 million, or 5.3%, when compared to the prior year period. Organic sales increased by \$3.0 million, or 1.6%, with Engineering Technologies, Electronics, and Hydraulics contributing to the overall increase in the quarter. Acquisitions also contributed 5.1% to the overall growth in the quarter. Foreign currency was unfavorable by 1.4%.

Net sales in the six months ended December 31, 2018 increased \$13.8 million, or 3.7%, when compared to the prior year. The increase in net sales was driven by organic growth of \$5.0 million, or 1.3%, incremental sales from acquisitions of \$12.7 million, or 3.4%, and unfavorable currency of \$4.0 million, or 1.1%. We discuss our outlook for each segment below.

### **Gross Profit Margin**

Our gross margin for the second quarter of 2019 was 34.2% essentially flat with the prior year quarter's gross margin of 34.1%.

Our gross margin in the six months ended December 31, 2018 was 35.0%, compared to the prior year of 34.4%. Gross margin increased by 0.6% primarily due to the sales mix of businesses.

### **Restructuring Charges**

We incurred restructuring expenses of \$0.2 million for the quarter and \$0.6 million for the six month period, primarily related to headcount reductions associated with our Refrigeration Solution Group.

We expect to incur additional restructuring costs approximately \$1.0 million throughout the remainder of fiscal year 2019.

### **Acquisition Related Expenses**

We incurred acquisition-related expenses of \$0.9 million for the second quarter and \$1.5 million for the six months ended December 31, 2018, primarily 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.

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

Selling, General, and Administrative Expenses (“SG&A”) for the second quarter of 2019 were \$45.7 million, or 23.4% of sales, compared to \$43.8 million, or 23.6% 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 \$1.9 million, ii) an increase in distribution and selling expenses of \$0.6 million.

SG&A for the six months ended December 31, 2018 were \$91.2 million, or 23.5% of sales, compared to \$86.9 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 \$2.9 million, ii) an increase in distribution and selling expenses of \$1.4 million.

### **Income from Operations**

Income from operations for the second quarter of 2019 was \$20.2 million, compared to \$17.0 million during the prior year quarter. The increase of \$3.2 million, or 18.6%, is primarily due to higher sales volume as a result of our recent acquisitions, a reduction of restructuring expense, partially offset by increased selling and distribution expenses related to overall increased sales volume.

Income from operations for the six months ended December 31, 2018 was \$42.9 million, compared to \$35.7 million during the prior year. The increase of \$7.2 million, or 20.0%, is primarily due to higher sales volume, and a lesser amount of restructuring expenses as compared to the prior year.

### **Interest Expense**

Interest expense for the second quarter of 2019 was \$3.1 million, compared to \$1.8 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 3.7% as of December 31, 2018, as compared to 2.7% as of December 31, 2017. Interest expense for the six months ended December 31, 2018 and December 31, 2017 were \$5.4 million and \$3.5 million, respectively.

### **Income Taxes**

The Company has been recording estimates for the tax impact related to the Tax Cuts and Jobs Act (“TCJA”) signed into law by President Trump on December 22, 2017 according to Staff Accounting Bulletin No. 118 (“SAB 118”), which permits filers to record provisional amounts during a measurement period ending no later than one year from the date of the Act’s enactment. As of December 31, 2018, the Company is considering the accounting for the tax effects of the enactment of the Act as completed. The Company has recorded a tax benefit of approximately \$779 thousand in Q2 for the toll/transition tax related to the TCJA. The Company will be finalizing its tax returns in Q3 and will record any final adjustments as part of the return to provision process. The Company does not expect any material adjustments as it finalizes the tax returns.

The calculation for FY19 annual effective tax rate reflects various changes due to the TCJA such as a federal corporate tax rate of 21%, the repeal of the Sec. 199 manufacturing deduction, new tax provisions under Section 951A (GILTI) and Sec. 250(a) (FDII), and changes to the executive compensation limitation among others. Included in the effective tax rate calculation is also a provision for foreign withholding taxes related to future distributions on expected current year earnings in certain foreign jurisdictions.

The Company's effective tax rate from continuing operations for the second quarter of 2019 was 23.6% compared with 129.0% 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 prior period and not in the current year quarter.

The Company's effective tax rate from continuing operations for the six months ended December 31, 2018 was 26.6% compared with 74.2% for the prior year. The effective tax rate for the year to date was higher due to the same discrete tax reform charges that are not recurring in the current year.

Discontinued operations had an adverse impact on the effective tax rate of .9% for the quarter ending December 31, 2018. This is the result of lower taxed income being moved to discontinued operations which put upward pressure on the rate from continuing operations.

The Company is currently under audit by the IRS for the fiscal years ending June 30, 2016 and 2017.

### **Backlog**

Backlog includes all active or open orders for goods and services. 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. Backlog orders are not necessarily an indicator of future sales levels because of variations in lead times and customer production demand pull systems. Customers may delay delivery of products or cancel orders prior to shipment, subject to possible cancellation penalties. 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, 2018 |                      |  | As of December 31, 2017 |                      |  |
|--------------------------|-------------------------|----------------------|--|-------------------------|----------------------|--|
|                          | Total Backlog           | Backlog under 1 year |  | Total Backlog           | Backlog under 1 year |  |
| Food Service Equipment   | \$ 30,784               | \$ 26,713            |  | \$ 32,517               | \$ 28,253            |  |
| Engraving                | 17,671                  | 17,662               |  | 18,282                  | 18,283               |  |
| Engineering Technologies | 106,948                 | 79,892               |  | 93,319                  | 66,157               |  |
| Electronics              | 69,858                  | 62,127               |  | 65,043                  | 54,508               |  |
| Hydraulics               | 17,531                  | 17,531               |  | 7,477                   | 7,477                |  |
| Total                    | \$ 242,792              | \$ 203,925           |  | \$ 216,638              | \$ 174,678           |  |

Total backlog realizable under one year increased \$29.2 million, or 16.7%, to \$203.9 million at December 31, 2018 from \$174.7 million at December 31, 2017.

Organic backlog under one year increased \$23.3 million, or 13.3%, while acquisitions contributed an additional \$6.0 million.

## Segment Analysis

### Food Service Equipment Group

|                                    | Three Months Ended |                   |          | Six Months Ended  |                   |          |
|------------------------------------|--------------------|-------------------|----------|-------------------|-------------------|----------|
|                                    | December 31, 2018  | December 31, 2017 | % Change | December 31, 2018 | December 31, 2017 | % Change |
| (In thousands, except percentages) |                    |                   |          |                   |                   |          |
| Net sales                          | \$ 68,653          | \$ 73,165         | (6.2%)   | \$ 140,991        | \$ 150,992        | (6.6%)   |
| Income from operations             | 5,190              | 5,968             | (13.0%)  | 11,857            | 14,287            | (17.0%)  |
| Operating income margin            | 7.6%               | 8.2%              |          | 8.4%              | 9.5%              |          |

Net sales for the second quarter of fiscal year 2019 decreased by \$4.5 million, or 6.2%, when compared to the prior year. Refrigeration experienced a soft quarter as market conditions led to weaker sales across most channels including drug retail, and buying groups. Scientific sales were robust during the quarter as roll outs and store refurbishments at

major pharmacy customers led to increased volume. Our Specialty Solutions sales were essentially flat as compared to prior year.

Income from operations for the second quarter of fiscal year 2019 decreased \$0.8 million primarily related to Refrigeration sales volume declines partially offset by the strong performance in Scientific. We anticipate that market conditions in Refrigeration will remain challenged over the remainder of the fiscal year however, we expect new product introductions in the Scientific business should drive increased sales volume in that portion of the segment.

Net sales for the first six months of fiscal year 2019 decreased by \$10.0 million or 6.6% as weakness in the Refrigeration business impacted the year to date results.

Income from operations declined \$2.4 million during the six months ended December 31, 2018 also as a result of the sales declines in Refrigeration.

**Engraving Group**

| (In thousands, except percentages) | <b>Three Months Ended</b> |             |               | <b>Six Months Ended</b> |             |               |
|------------------------------------|---------------------------|-------------|---------------|-------------------------|-------------|---------------|
|                                    | <b>December 31,</b>       |             | <b>%</b>      | <b>December 31,</b>     |             | <b>%</b>      |
|                                    | <b>2018</b>               | <b>2017</b> | <b>Change</b> | <b>2018</b>             | <b>2017</b> | <b>Change</b> |
| Net sales                          | \$ 38,485                 | \$ 33,879   | 13.6%         | \$ 74,466               | \$ 66,708   | 11.6%         |
| Income from operations             | 6,849                     | 6,958       | (1.6%)        | 14,398                  | 14,540      | (1.0%)        |
| Operating income margin            | 17.8%                     | 20.5%       |               | 19.3%                   | 21.8%       |               |

Net sales for the second quarter of fiscal year 2019 increased by \$4.6 million, or 13.6%, when compared to the prior year quarter. The acquisition of Tenibac in the beginning of fiscal year 2019 generated \$6.3 million of additional sales for the quarter. Organic sales declined by \$0.2 million and foreign exchange was unfavorable by \$1.5 million. Sales in Asia were adversely impacted by customer reaction to tariffs imposed as a result of the ongoing trade dispute between the US and China. We anticipate some softness in the third quarter but improvement in the fourth quarter.

Net sales for the six months ended December 31, 2018, increased by \$7.8 million, or 11.6%, when compared to the prior year. The acquisition of Tenibac led to increased sales of \$8.9 million. Organic sales increased by 0.9% for the year. Foreign exchange negatively impacted sales by \$2.4 million for the year to date period. Looking forward, we anticipate that foreign exchange will have a negative impact on operating income in the coming quarter.

Income from operations for the second quarter of fiscal year 2019 decreased by \$0.1 million, or -1.6%, when compared to the prior year quarter. The Tenibac acquisition contributed favorably to earnings for the quarter but was offset by outsourcing costs, the cancellation of a key program for an American OEM, and increased investments related to tool finishing and nickel shell.

Income for the six months ended December 31, 2018, decreased \$0.1 million, or -1.0%, when compared to the prior year. Operating income was negatively impacted by purchase accounting expenses of \$0.2 million related to the Tenibac acquisition.

**Engineering Technologies Group**

| (In thousands, except percentages) | <b>Three Months Ended</b> |             |               | <b>Six Months Ended</b> |             |               |
|------------------------------------|---------------------------|-------------|---------------|-------------------------|-------------|---------------|
|                                    | <b>December 31,</b>       |             | <b>%</b>      | <b>December 31,</b>     |             | <b>%</b>      |
|                                    | <b>2018</b>               | <b>2017</b> | <b>Change</b> | <b>2018</b>             | <b>2017</b> | <b>Change</b> |

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|                         |           |           |       |           |           |       |
|-------------------------|-----------|-----------|-------|-----------|-----------|-------|
| Net sales               | \$ 23,568 | \$ 21,928 | 7.5%  | \$ 44,351 | \$ 42,195 | 5.1%  |
| Income from operations  | 2,061     | 1,543     | 33.6% | 3,836     | 2,724     | 40.8% |
| Operating income margin | 8.7%      | 7.0%      |       | 8.6%      | 6.5%      |       |

Net sales in the second quarter of fiscal year 2019 increased by \$1.6 million, or 7.5%, compared to the prior year quarter. Sales distribution by market for the quarter was as follows: 47% aviation, 25% space, 16% energy, 6% defense, 5% medical and 1% other markets. Sales in the aviation market were down compared to the prior year due to lower sales to the engine suppliers on the LEAP program and a small volume decrease related to the A320 GTF engine. Space sales were up \$2.0M due to higher volume in the unmanned segment of the market. Energy sales were up \$0.6 million due to higher sales into the project based Oil and Gas segment.

Net sales for the six months ended December 31, 2018, increased by \$2.2 million, or 5.1%, when compared to the prior year. Aviation sales increased \$0.2 million as volume improvements in the structures segment were partially offset by the lower aircraft engine sales. Total launch vehicle sales were up 7.6% due to an increase in the unmanned satellite segment. Energy related sales were up \$1.7 million due to higher volume in the Oil and Gas segment. Our current focus for the second half of the year is to continue to support current delivery schedules on

long-term aviation agreements, execute on the Oil & Gas project volumes, and space and defense market development programs. We expect sales volumes in the third quarter and into the fourth quarter to increase over the volume levels delivered in the first two quarters. The forecasted volume levels in the aviation segment, combined with the booked project based work in the oil & gas and space segment should support the increase.

Income from operations in the second quarter of fiscal year 2019 increased by \$0.5 million, or 33.6%, when compared to the prior year quarter. The increase was a result of higher sales volume, along with contract price adjustments and efficiency improvements in the aviation engine and structures segment.

Income from operations for the six months ended December 31, 2018, increased by \$1.1 million, or 40.8%, when compared to the prior year. The increase in operating income was the result higher sales volume, price increases in the Aviation segment, and improvements in manufacturing efficiencies.

## Electronics Group

| (In thousands, except percentages) | Three Months Ended |           |        | Six Months Ended |           |        |
|------------------------------------|--------------------|-----------|--------|------------------|-----------|--------|
|                                    | December 31,       |           | %      | December 31,     |           | %      |
|                                    | 2018               | 2017      | Change | 2018             | 2017      | Change |
| Net sales                          | \$ 52,700          | \$ 46,035 | 14.5%  | \$104,150        | \$ 92,851 | 12.2%  |
| Income from operations             | 10,376             | 10,269    | 1.0%   | 23,163           | 20,552    | 12.7%  |
| Operating income margin            | 19.7%              | 22.3%     |        | 22.2%            | 22.1%     |        |

Net sales in the second quarter of fiscal year 2019 increased \$6.7 million, or 14.5%, when compared to the prior year quarter. Organic growth was 9.5% while acquisitions contributed 6.8%. The currency effect decreased sales by \$0.8 million, or 1.8%. Sales were higher in all major geographic markets. New sensor, switch and relay applications continued to drive growth especially in the industrial and distribution markets.

Net sales for the six months ended December 31, 2018, increased \$11.3 million, or 12.2%, when compared to the prior year. Sales increased \$3.2 million, or 3.4%, due to the Agile Magnetics acquisition. The currency effect decreased sales by \$1.2 million, or 1.3%. Organic sales growth was \$9.4 million, or 10.1% for the first half when compared to the prior year. Sales in all major geographic areas were higher, again mostly in the industrial and distribution markets. Looking forward, we are noticing some signs of potential softness in our core markets which we believe are the result of ongoing trade tensions between the US and China. However, we expect to offset much of this softness with new business opportunities and leads from the recent Electronica trade show.

Income from operations in the second quarter of fiscal year 2019 increased \$0.1 million, or 1.0%, when compared to the prior year quarter. The slight increase in earnings was due to higher sales which were mostly offset by currency impact, inflationary cost increases, particularly metal liquids, and the Agile Magnetics acquisition purchase accounting.

Income from operations for the six months ended December 31, 2018, increased \$2.6 million, or 12.7%, when compared to the prior year. The increase is due to the higher organic and acquisition sales offset by currency impacts, inflationary cost increases, and the Agile Magnetics purchase accounting.

### Hydraulics Group

|                                    | Three Months Ended   |          |             | Six Months Ended     |           |             |
|------------------------------------|----------------------|----------|-------------|----------------------|-----------|-------------|
|                                    | December 31,<br>2018 | 2017     | %<br>Change | December 31,<br>2018 | 2017      | %<br>Change |
| (In thousands, except percentages) |                      |          |             |                      |           |             |
| Net sales                          | \$12,116             | \$10,687 | 13.4%       | \$24,651             | \$ 22,090 | 11.6%       |
| Income from operations             | 1,929                | 1,517    | 27.2%       | 3,512                | 3,389     | 3.6%        |
| Operating income margin            | 15.9%                | 14.2%    |             | 14.2%                | 15.3%     |             |

Net sales in the second quarter of fiscal year 2019 increased \$1.4 million, or 13.4%, when compared to the prior year results. The increase in revenue during the quarter was primarily driven by strong sales to refuse truck and container handler OEM's in North America as well as strong aftermarket sales into all markets. The new pack eject cylinder for OEM front end loading refuse trucks was a major contributor during the quarter, and we expect this to continue in the future as this product has been well received by the customer base. With a strong market presence in North America, our traditional dump truck and trailer markets also continue to drive top line growth.

Income from operations in the second quarter of fiscal year 2019 increased \$0.4 million, or 27.2%, when compared to the same quarter in 2018. The increase is due to higher sales together with cost containment in all areas of the business and increased productivity.

Net sales for the six months ended December 31, 2018, increased \$2.6 million, or 11.6%, when compared to the prior year. Similar to the quarter, the increase is due to market share gains in the refuse OEM marketplace and steady growth in the North American dump markets. As we move into the second half of 2019, we anticipate demand in our end markets to remain positive due to construction and infrastructure projects. Additionally, we foresee additional market share gains at the OEM level and distribution aftermarket partners.

Income from operations for the six months ended December 31, 2018, was essentially flat when compared to the prior year. Machine utilization problems in the first quarter caused manufacturing inefficiencies; these issues were remedied by the start of the second quarter.

## Corporate and Other

|                                    | Three Months Ended |                   |          | Six Months Ended  |                   |          |
|------------------------------------|--------------------|-------------------|----------|-------------------|-------------------|----------|
|                                    | December 31, 2018  | December 31, 2017 | % Change | December 31, 2018 | December 31, 2017 | % Change |
| (In thousands, except percentages) |                    |                   |          |                   |                   |          |
| Income (loss) from operations:     |                    |                   |          |                   |                   |          |
| Corporate                          | \$ (5,162)         | \$ (6,732)        | 23.3%    | \$ (11,743)       | \$ (13,355)       | 12.1%    |
| Acquisition-related costs          | (859)              | (703)             | (22.2%)  | (1,547)           | (1,708)           | 9.4%     |
| Restructuring                      | (177)              | (1,775)           | 90.0%    | (624)             | (4,732)           | 86.8%    |

Corporate expenses in the second quarter of fiscal year 2019 declined by \$1.6 million, or 23.3%, when compared to the prior year quarter primarily due to decreased stock compensation costs and reduced professional service expenses.

Corporate expenses for the six months ended December 31, 2018, decreased by \$1.6 million, or 12.1%, when compared to the prior year. The decrease is primarily due to lower incentive compensation expense and cost containment efforts.

The restructuring and acquisition-related costs have been discussed above in the Company Overview.

### **Liquidity and Capital Resources**

At December 31, 2018, our total cash balance was \$118.2 million, of which \$107.1 million was held by foreign subsidiaries. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to capital controls; however, those balances are generally available without legal restrictions to fund ordinary business operations.

Net cash provided by continuing operating activities for the six months ended December 31, 2018, was \$13.9 million compared to net cash provided by continuing operating activities of \$24.9 million in the prior year. We generated \$43.4 million from income statement activities and used \$15.7 million of cash to fund working capital increases. Cash flow used in investing activities for the six months ended December 31, 2018, totaled \$109.9 million. Uses of investing cash consisted primarily of capital expenditures of \$16.2 million and \$96.8 million for

the acquisition of Agile and Tenibac along an earnout payment due to the Piazza Rosa seller. These uses of investing cash were partially offset by \$3.1 million from net proceeds of the sale of assets. In connection with the building sale, we have leased a new Engraving facility more suited to our operational needs. Cash inflows provided by financing activities for the six months ended December 31, 2018 were \$98.8 million and included net borrowings of \$122.0 million, cash paid for dividends of \$4.8 million and stock repurchases of \$19.1 million.

During the second quarter of fiscal year 2019, the Company entered into a five-year Amended and Restated Credit Agreement (“credit agreement”, or “facility”). The facility has a borrowing limit of \$500 which is an increase of \$100 million from the prior facility’s \$400 million limit. The facility can be increased by an amount of up to \$250 million, in accordance with specified conditions contained in the agreement. The facility also includes a \$10 million sublimit for swing line loans and a \$35 million sublimit for letters of credit.

Under the terms of the Credit Facility, we will pay a variable rate of interest and a commitment fee on borrowed amounts as well as a commitment fee on unused amounts under the facility. The amount of the commitment fee will depend upon both the undrawn amount remaining available under the facility and the Company’s funded debt to EBITDA (as defined in the agreement) ratio at the last day of each quarter. As our funded debt to EBITDA ratio increases, the commitment fee will increase.

Funds borrowed under the facility may be used for the repayment of debt, working capital, capital expenditures, acquisitions (so long as certain conditions, including a specified funded debt to EBITDA leverage ratio is maintained), and other general corporate purposes. As of December 31, 2018, the Company has used \$7.4 million against the letter of credit sub-facility and had the ability to borrow \$176.6 million under the facility based on our current trailing twelve-month EBITDA. The facility contains customary representations, warranties and restrictive covenants, as well as specific financial covenants. The Company’s current financial covenants under the facility are as follows:

*Interest Coverage Ratio* - The Company is required to maintain a ratio of Earnings Before Interest and Taxes, as Adjusted (“Adjusted EBIT per the Credit Facility”), to interest expense for the trailing twelve months of at least 2.75:1, an improvement over the interest coverage ratio of 3.0:1 permitted under the previous agreement. Adjusted EBIT per the Credit Facility specifically excludes extraordinary and certain other defined items such as cash restructuring and acquisition-related charges up to the lower of \$20.0 million or 10% of EBITDA, an increase from the prior agreement’s \$7.5 million cap on restructuring expenses. The new facility continues to allow unlimited non-cash charges including purchase accounting and goodwill adjustments. At December 31, 2018, the Company’s Interest Coverage Ratio was 10.22:1.

*Leverage Ratio* - The Company’s ratio of funded debt to trailing twelve month Adjusted EBITDA per the Facility, calculated as Adjusted EBIT per the Credit Facility plus depreciation and amortization, may not exceed 3.5:1. Under certain circumstances in connection with a Material Acquisition (as defined in the Facility), the Facility allows for the leverage ratio to go as high as 4.0:1 for a four-fiscal quarter period. At December 31, 2018, the Company’s Leverage Ratio was 2.08:1.

As of December 31, 2018, we had borrowings under our facility of \$316.0 million and the effective rate of interest for outstanding borrowings under the facility was 3.7%. Our primary cash requirements in addition to day-to-day operating needs include interest payments, capital expenditures, acquisitions, share repurchases, and dividends. Our primary sources of cash for these requirements are cash flows from continuing operations and borrowings under the facility. We expect 2019 capital spending to be between \$35.0 and \$36.0 million which includes amounts not spent in 2018 and includes \$0.8 million for our recent acquisitions. We also expect that depreciation and amortization expense will be between \$22.0 and \$23.0 million and \$8.5 and \$9.5 million, respectively.

In order to manage our interest rate exposure, we are party to \$85.0 million of active floating to fixed rate swaps. These swaps convert our interest payments from LIBOR to a weighted average rate of 2.11%.

The following table sets forth our capitalization at December 31, 2018 and June 30, 2018:

| (In thousands)                 | <b>December 31,</b> |         | <b>June 30,</b> |         |
|--------------------------------|---------------------|---------|-----------------|---------|
|                                | <b>2018</b>         |         | <b>2018</b>     |         |
| Long-term debt                 | \$                  | 314,661 | \$              | 193,772 |
| Less cash and cash equivalents |                     | 118,174 |                 | 109,602 |
| Net debt                       |                     | 196,487 |                 | 84,170  |
| Stockholders' equity           |                     | 452,826 |                 | 450,795 |
| Total capitalization           | \$                  | 649,313 | \$              | 534,965 |

We sponsor a number of defined benefit and defined contribution retirement plans. The U.S. pension plan is frozen for substantially all participants. We have evaluated the current and long-term cash requirements of these plans, and our existing sources of liquidity are expected to be sufficient to cover required contributions under ERISA and other governing regulations.

The fair value of the Company's U.S. defined benefit pension plan assets was \$173.9 million at December 31, 2018, as compared to \$191.0 million at the most recent measurement date, which occurred as of June 30, 2018. The next measurement date to determine plan assets and benefit obligations will be on June 30, 2019.

The Company expects to pay \$1.3 million in contributions to its defined benefit plans during fiscal 2019. Contributions of \$0.3 million and \$0.5 million were made during the three and six months ended December 31, 2018 compared to \$0.3 million and \$0.5 million during the three and six months ended December 31, 2017, respectively. Required contributions of \$0.8 million will be paid to the Company's U.K. defined benefit plan during 2019. 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.

Any subsequent plan contributions will depend on the results of future actuarial valuations.

We have an insurance program in place to fund supplemental retirement income benefits for five retired executives. Current executives and new hires are not eligible for this program. At December 31, 2018, the underlying policies had a cash surrender value of \$17.6 million and are reported net of loans of \$8.6 million for which we have the legal right of offset, these amounts are reported net on our balance sheet.

## Other Matters

*Inflation* – Certain of our expenses, such as wages and benefits, occupancy costs and equipment repair and replacement, are subject to normal inflationary pressures. Inflation for medical costs can impact both our reserves for self-insured medical plans as well as our reserves for workers' compensation claims. We monitor the inflationary rate and make adjustments to reserves whenever it is deemed necessary. Our ability to manage medical costs inflation is dependent upon our ability to manage claims and purchase insurance coverage to limit the maximum exposure for us. Each of our segments is subject to the effects of changing raw material costs caused by the underlying commodity price movements. In general, we do not enter into purchase contracts that extend beyond one operating cycle. While Standex considers our relationship with our suppliers to be good, there can be no assurances that we will not experience any supply shortage.

*Foreign Currency Translation* – Our primary functional currencies used by our non-U.S. subsidiaries are the Euro, British Pound Sterling (Pound), Mexican (Peso), Japanese (Yen), and Chinese (Yuan).

*Environmental Matters* – To the best of our knowledge, we believe that we are presently in substantial compliance with all existing applicable environmental laws and regulations and do not anticipate any instances of non-compliance that will have a material effect on our future capital expenditures, earnings or competitive position.

*Seasonality* – We are a diversified business with generally low levels of seasonality, however our fiscal third quarter typically has a comparatively lower level of sales and profitability.

*Employee Relations* – The Company has labor agreements with four union locals in the United States and several European employees belong to European trade unions. None of the union contracts in the U.S. will expire during fiscal 2019.

### **Critical Accounting Policies**

The condensed consolidated financial statements include the accounts of Standex International Corporation and all of its subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying condensed consolidated financial statements. Although we believe that materially different amounts would not be reported due to the accounting policies adopted, the application of certain accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Our Annual Report on Form 10-K for the year ended June 30, 2018 lists a number of accounting policies which we believe to be the most critical.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Risk Management**

We are exposed to market risks from changes in interest rates, commodity prices and changes in foreign currency exchange. To reduce these risks, we selectively use, from time to time, financial instruments and other proactive management techniques. We have internal policies and procedures that place financial instruments under the direction of the Treasurer and restrict all derivative transactions to those intended for hedging purposes only. The use of financial instruments for trading purposes (except for certain investments in connection with the non-qualified defined contribution plan) or speculation is strictly prohibited. The Company has no majority-owned subsidiaries that are excluded from the consolidated financial statements. Further, we have no interests in or relationships with any special purpose entities.

### **Exchange Rate Risk**

We are exposed to both transactional risk and translation risk associated with exchange rates. Our overall transactional risk is mitigated, in large part, by natural hedges developed with locally denominated debt service on intercompany accounts. In the six months ended December 31, 2018, net sales to external customers in our consolidated sales not transacted in functional currency were 3.4%. We also mitigate certain of our foreign currency exchange rate risks by entering into forward foreign currency contracts from time to time. The contracts are used as a hedge against anticipated foreign cash flows, such as dividend payments, loan payments, and materials purchases, and are not used for trading or speculative purposes. The fair values of the forward foreign currency exchange contracts

are sensitive to changes in foreign currency exchange rates, as an adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts. However, any such losses or gains would generally be offset by corresponding gains and losses, respectively, on the related hedged asset or liability. At December 31, 2018, the fair value, in the aggregate, of the Company's open foreign exchange contracts was a liability of \$5.9 million.

Our primary translation risk is with the Euro, British Pound Sterling, Peso, Japanese Yen and Chinese Yuan. A hypothetical 10% appreciation or depreciation of the value of any these foreign currencies to the U.S. Dollar at December 31, 2018, would not result in a material change in our operations, financial position, or cash flows. We hedge our most significant foreign currency translation risks primarily through cross currency swaps and other instruments, as appropriate.

### **Interest Rate Risk**

Our interest rate exposure is limited primarily to interest rate changes on our variable rate borrowings. From time to time, we will use interest rate swap agreements to modify our exposure to interest rate movements. The Company's currently effective swap agreements convert our base borrowing rate on \$85.0 million of debt due

under our Credit Agreement from a variable rate equal to LIBOR to a weighted average rate of 2.11% at December 31, 2018.

The Company's effective rate on variable-rate borrowings, including the impact of interest rate swaps, under the revolving credit agreement increased from 3.29% at June 30, 2018 to 3.7% at December 31, 2018.

### **Concentration of Credit Risk**

We have a diversified customer base. As such, the risk associated with concentration of credit risk is inherently minimized. As of December 31, 2018, no one customer accounted for more than 5% of our consolidated outstanding receivables or of our sales.

### **Commodity Prices**

The Company is exposed to fluctuating market prices for all commodities used in its manufacturing processes. Each of our segments is subject to the effects of changing raw material costs caused by the underlying commodity price movements and the impact that any tariffs may have on such commodities. In general, we do not enter into purchase contracts that extend beyond one operating cycle. While Standex considers our relationship with our suppliers to be good, there can be no assurances that we will not experience any supply shortage.

The Engineering Technologies, Food Service Equipment, Electronics, and Hydraulics Groups are all sensitive to price increases for steel products, other metal commodities and petroleum based products. In the past year, we have experienced price fluctuations for a number of materials including steel, copper wire, other metal commodities, refrigeration components and foam insulation. These materials are some of the key elements in the products manufactured in these segments. Wherever possible, we will implement price increases to offset the impact of changing prices. The ultimate acceptance of these price increases, if implemented, will be impacted by our affected divisions' respective competitors and the timing of their price increases.

## **ITEM 4. CONTROLS AND PROCEDURES**

At the end of the period covered by this Report, the management of the Company, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as

amended ("Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018 in ensuring that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

SEC guidance permits the exclusion of an evaluation of the effectiveness of a registrant's disclosure controls and procedures as they relate to the internal control over financial reporting for an acquired business during the first year following such acquisition. As discussed in Note 2 to the consolidated financial statements contained in this Report, the Company acquired all of the outstanding stock of Agile Magnetics, Inc. and Tenibac-Graphion, Inc. during the last year. These acquisitions represent approximately 4.8% and 3.1% of the Company's consolidated continuing operations revenue for the three and six months ended December 31, 2018, respectively, and approximately 9.7% of the Company's consolidated assets at December 31, 2018. Management's evaluation and conclusion as to the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2018 excludes any evaluation of the internal control over financial reporting of Agile Magnetics, Inc. and Tenibac-Graphion Inc.

There was no change in the Company's internal control over financial reporting during the quarterly period ended December 31, 2018 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

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

(c) The following table provides information about purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

#### Issuer Purchases of Equity Securities<sup>1</sup>

Quarter Ended December 31, 2018

| Period                               | (a) Total number of shares (or units) purchased | (b) Average price paid per share (or unit) | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs |            |
|--------------------------------------|---|--|---|---|------------|
|                                      |   |  |   |   |            |
| October 1 -<br>October 31, 2018      | 2,951   | \$ 108.56                                  | 2,951   | \$  | 85,916,651 |
| November 1 –<br>November 30,<br>2018 | 219,277   | \$ 80.56                                   | 219,277   |   | 68,251,696 |
| December 1 –<br>December 31,<br>2018 | 4,332   | \$ 72.32                                   | 4,332   |   | 67,938,406 |
| Total                                | 226,560   | \$ 80.77                                   | 226,560   | \$  | 67,938,406 |

(1) The Company has a Stock Buyback Program (the “Program”) which was originally announced on January 30, 1985 and most recently amended on April 26, 2016. Under the Program, the Company was authorized to repurchase up to an aggregate of \$100 million of its shares. Under the program, purchases may be made from time to time on the open market, including through 10b5-1 trading plans, or through privately negotiated transactions, block transactions, or other techniques in accordance with prevailing market conditions and the requirements of the Securities and Exchange Commission. The Board’s authorization is open-ended and does not establish a timeframe for the purchases. The Company is not obligated to acquire a particular number of shares, and the program may be discontinued at any time at the Company’s discretion.

## ITEM 6. EXHIBITS

### (a) Exhibits

31 . 1Principal Executive Officer’s Certification Pursuant to Rule 13a-14(a)/15d-14(a) and Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31 . 2Principal Financial Officer’s Certification Pursuant to Rule 13a-14(a)/15d-14(a) and Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32Principal Executive Officer and Principal Financial Officer Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101The following materials from this Quarterly Report on Form 10-Q, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

**ALL OTHER ITEMS ARE INAPPLICABLE**

**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.

STANDEX INTERNATIONAL CORPORATION

Date: January 31, 2019 /s/ THOMAS D. DEBYLE

Thomas D. DeByle  
Vice President/Chief Financial Officer  
(Principal Financial & Accounting Officer)

Date: January 31, 2019 /s/ SEAN C. VALASHINAS

Sean C. Valashinas  
Chief Accounting Officer/Assistant Treasurer