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## **FORM 10-K**

**STANDEX INTERNATIONAL CORP/DE/ - SXI**

**Filed: August 28, 2014 (period: June 30, 2014)**

Annual report with a comprehensive overview of the company

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

FORM 10-K

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

For the fiscal year ended June 30, 2014

Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its Charter)

DELAWARE

31-0596149

(State of incorporation)

(I.R.S. 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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE  
SECURITIES EXCHANGE ACT OF 1934:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$1.50 Per Share	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer \_\_\_ Non-accelerated filer \_\_ Smaller Reporting Company \_\_

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant at the close of business on December 31, 2013 was approximately \$777,812,000. Registrant's closing price as reported on the New York Stock Exchange for December 31, 2013 was \$62.88 per share.

The number of shares of Registrant's Common Stock outstanding on August 21, 2013 was 12,760,139

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2014 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this report.

## Forward Looking Statement

Statements contained in this Annual Report on Form 10-K that are not based on historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as "should," "could," "may," "will," "expect," "believe," "estimate," "anticipate," "intends," "continue," or similar terms or variations of those terms or the negative of those terms.

There are many factors that affect the Company's business and the results of its operations and may cause the actual results of operations in future periods to differ materially from those currently expected or desired. These factors include, but are not limited to material adverse or unforeseen legal judgments, fines, penalties or settlements, conditions in the financial and banking markets, including fluctuations in exchange rates and the inability to repatriate foreign cash, general and international recessionary economic conditions, including the impact, length and degree of the current slow growth conditions on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, transportation and general industrial markets, lower-cost competition, the relative mix of products which impact margins and operating efficiencies, both domestic and foreign, in certain of our businesses, the impact of higher raw material and component costs, particularly steel, petroleum based products and refrigeration components, an inability to realize the expected cost savings from restructuring activities, effective completion of plant consolidations, cost reduction efforts, restructuring including procurement savings and productivity enhancements, capital management improvements, strategic capital expenditures, and the implementation of lean enterprise manufacturing techniques, the inability to achieve the savings expected from the sourcing of raw materials from and diversification efforts in emerging markets, the inability to attain expected benefits from strategic alliances or acquisitions and the inability to achieve synergies contemplated by the Company. Other factors that could impact the Company include changes to future pension funding requirements. 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.

## PART I

### Item 1. Business

Standex International Corporation ("Standex", the "Company" or "we"<sup>(1)</sup>) was incorporated in 1975 and is the successor of a corporation organized in 1955. We have paid dividends each quarter since Standex became a public corporation in November 1964.

- (1) References in this Annual Report on Form 10-K to "Standex" or the "Company" or "we," "our" or "us" shall mean Standex International Corporation and its subsidiaries.

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

We are a leading manufacturer of a variety of products and services for diverse commercial and industrial market segments.

We have 11 operating segments, aggregated and organized for reporting purposes into five segments: Food Service Equipment Group, Engraving Group, Engineering Technologies Group, Electronics Products Group and Hydraulics Products Group. Overall management, strategic development and financial control are maintained by the executive staff from our corporate headquarters located in Salem, New Hampshire.

Our corporate strategy has several primary components.

- It is our objective to grow larger and more profitable business units through both organic initiatives and acquisitions. On an ongoing basis we identify and implement organic growth initiatives such as new product development, geographic expansion, introduction of products and technologies into new markets and applications and leveraging of sales synergies between business units, key accounts and strategic sales channel partners. Also, we utilize strategically aligned or "bolt on" acquisitions to create both sales and cost synergies with our core business platforms to accelerate their growth and margin improvement. There is 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 businesses that we felt were not strategic or did not meet our growth and return expectations.
- We create "Customer Intimacy" by partnering with our customers in order to develop and deliver customer solutions or engineered products that provide higher levels of value-added technology-driven solutions to our customers. This relationship generally provides us with the ability to sustain sales and profit growth over time and provide superior operating margins to enhance shareholder returns. Further, we have made a priority in developing new sales

channels and leveraging strategic customer relationships.

- We focus on operational excellence through continuous improvement in the cost structure of our businesses and recognize that our businesses are competing in a global economy that requires that we constantly strive to improve our competitive position. We have deployed a number of management competencies including lean enterprise, the use of low cost manufacturing facilities in countries such as Mexico, India, 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 shop floor productivity, which drives improvements in the cost structure of our business units.
- Our capital allocation strategy is to use cash flow generated from operations to fund the strategic growth programs above, including acquisitions, dividends, and capital investments for organic growth and cost reductions. We recognize that cash flow is fundamental in our ability to invest in organic and acquisitive growth for our business units and return cash to our shareholders in the form of dividends to reflect the measure of quality from the earnings that we generate over time.

Please visit our website at [www.standex.com](http://www.standex.com) to learn more about us or to review our most recent SEC filings. The information on our website is for informational purposes only and is not incorporated into this Annual Report on Form 10-K.

## Description of Segments

### *Food Service Equipment Group*

Our Food Service Equipment businesses are leading, broad-line manufacturers of commercial food service equipment which include products on the “cold side” or in the refrigerated segment of food service applications and on the “hot side” or in the cooking, warming or holding segment of the market. Our products are used throughout the entire commercial food service process; from storage, to preparation, to cooking and to display. The equipment that we design and manufacture is utilized in restaurants, convenience stores, quick-service restaurants, supermarkets, drug stores and institutions such as hotels, casinos and both corporate and school cafeterias to meet the challenges of providing food and beverages that are fresh and appealing while at the same time providing for food safety, energy efficiency and reliability of the equipment performance.

The Food Service Equipment Group also applies technology and product expertise in the health science and medical markets. Customers in this segment include laboratories, health care institutions, and blood banks. Our products are sold direct, through dealers, and through industry representatives. Through innovation and acquisition, we continue to expand this segment. Our brands and products include:

- Master-Bilt® and Kool Star® refrigerated reach-in and under counter refrigerated cabinets, cases, display units, and walk-in coolers and freezers;
- Nor-Lake, Incorporated walk-in coolers and freezers and reach-in and under counter refrigerated cabinets to meet food service and scientific needs;
- APW Wyott®, American Permanent Ware, Bakers Pride®, Tri-Star and BevLes® commercial ranges, ovens, griddles, char broilers, holding cabinets, toasters and combination steam and convection ovens used in cooking, toasting, warming and merchandising food;
- Ultrafryer Systems®, producer of commercial deep fryers for restaurant and commercial installations;
- Barbecue King® and BKI® commercial cook and hold units, rotisseries, pressure fryers, ovens and baking equipment
- Federal Industries merchandizing display cases for bakery, deli and confectionary products; and
- Procon® pump systems used in beverage and industrial fluid handling applications.

### *Engraving Group*

Our Engraving Group is a leader in providing texturizing services world-wide. Our products and finishes are used in virtually every industry by the world’s largest manufacturers. We shorten the supply chain for global OEMs as a single source texturing supplier. Our established worldwide network of manufacturing centers and design centers provide uniform engravings for countless applications and provide consumer products a distinct competitive advantage. Texturizing molds used in the production of plastic components, giving the final product the cosmetic appearance and appeal that consumers require. We provide texturizing services for molds used to produce plastic components, automotive applications, and consumer products including household items made of plastic, toys, computers, and electronic devices. Our worldwide locations enable us to better serve our customers within key geographic areas, including the United States, Canada, Europe, China, India, Southeast Asia, Korea, Australia, South Africa, and South America. We also produce specialized tooling used

in the manufacture of cores for consumer and medical products. The Engraving Group also texturizes and produces embossed and engraved rolls, plates, process tooling, and machinery serving a wide variety of industries.

Through the development of proprietary digital based process technology, new “green field” facilities particularly focused on expansion through acquisitions and in emerging markets. The Engraving Group continues to build its market leadership position through continuously expanding the breadth of products and services it provides to its customers on a global basis. The companies and products and services within the Engraving Group include:

- Mold-Tech® which texturizes molds used in manufacturing plastic injected components; Mullen® Burst Testers;
- Roehlen®, Eastern Engraving and I R International which engrave and emboss rolls and plates used in manufacturing continuous length materials;
- Innovent is an engineering and manufacturing company delivering innovative product and service solutions to core forming, aerospace, and industrial clients around the world; and
- B.F. Perkins® providing customized texturing solution machinery for every application.

Our products are primarily sold direct through our global sales network. The Engraving Group serves a number of industries including automotive, plastics, building products, synthetic materials, converting, textile and paper, computer, housewares, hygiene product tooling and aerospace industries.

### ***Engineering Technologies Group***

The Company’s Engineering Technologies Group consists of the Spincraft unit, with locations in North Billerica, Massachusetts, New Berlin, Wisconsin, and in Newcastle, UK. The group provides single-source customized solutions using a wide variety of world-class precision manufacturing capabilities, including metal spinning and metal forming, heat treating, machining, high speed milling, and other fabrication services in all thickness and size ranges for virtually all workable metal alloys. Our components and assemblies can be found in a wide variety of advanced applications. Sales are made directly to our customers in the manned and unmanned space, aviation, defense, energy, industrial, medical, marine, and oil and gas markets.

### ***Electronics Products Group***

Our Electronics Products Group is a leading manufacturer of reed switches; reed relays; fluid level, flow, pressure, proximity, conductive and inductive sensors; electronic assemblies; and magnetic components such as toroid and planar transformers as well as providing other value added customer solutions. Sales are made both directly to customers and through manufacturers’ representatives, dealers and distributors. End user market segments include automotive, white goods, lighting, HVAC, space, military, medical, security, and general industrial applications.

Our investment in technology and resources to support profitable growth is a major focus for the business. The fiscal 2013 investment in Meder more than doubled the size of our Electronics Products Group, allowed us to complement our existing electronics business with significantly broadened product line offerings, end-user markets, and manufacturing support that have enhanced our global footprint for sales coverage and profitable growth. We are also expanding the product line by developing new products, further global expansion, and strategic acquisitions that will drive our growth initiatives.

### ***Hydraulics Products Group***

Our Hydraulics Products Group is a leader in mobile hydraulic cylinders including single or double acting telescopic and piston rod hydraulic cylinders. Custom Hoists is a global supplier and manufacturer of hydraulic cylinders used in the production of both dump trucks and dump trailers, refuse vehicles, and other material handling applications. Sales are made both directly to customers and through dealers and distributors. The Group has also expanded its product line to include wet kits, which are complete hydraulic systems including pumps, hoses and fittings.

### **Raw Materials**

Raw materials and components necessary for the manufacture of our products are generally available from numerous sources. Generally, we are not dependent on a single source of raw materials and supplies. We do not foresee unavailability of materials or supplies which would have a significant adverse effect on any of our businesses, nor any of our segments, in the near term.

## Seasonality

We are a diversified business with generally low levels of seasonality, however our fiscal third quarter is typically the period with the lowest level of sales volume.

## Patents and Trademarks

We hold approximately 66 United States patents and patents pending covering processes, methods and devices and approximately 43 United States trademarks. Many counterparts of these patents have also been registered in various foreign countries. In addition, we have various foreign registered and common law trademarks.

While we believe that many of our patents are important, we credit our competitive position in our niche markets to customer intimacy, engineering capabilities, manufacturing techniques and skills, marketing and sales promotions, service and the delivery of quality products.

Due to the diversity of our businesses and the markets served, the loss of any single patent or trademark would not, in our opinion, materially affect any individual segment.

## Customers

Our business is not dependent upon a single customer or a few large customers, the loss of any one of which would have a material adverse effect on our operations. No customer accounted for more than 5% of our consolidated revenue in fiscal 2014 or any of the years presented.

## Working Capital

Our primary source of working capital is the cash generated from continuing operations. No segments require any special working capital needs outside of the normal course of business.

## Backlog

Backlog includes all active or open orders for goods and services that have a firm fixed customer purchase order with defined delivery dates. Backlog also includes any future deliveries based on executed customer contracts, so long as such deliveries are based on agreed upon delivery schedules. Backlog is not generally a significant factor in the Company's businesses because of our relatively short delivery periods and rapid inventory turnover with the exception of Engineering Technologies.

Backlog orders believed to be firm at June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Food Service Equipment	\$ 51,516	\$ 37,888
Engraving	11,456	11,116
Engineering Technologies	64,083	55,356
Electronics Products	32,102	28,671
Hydraulics Products	5,678	2,687
Total	164,835	135,718
Net realizable beyond one year	21,703	10,322
Net realizable within one year	\$ 143,132	\$ 125,396

## Competition

Standex manufactures and markets products many of which have achieved a unique or leadership position in their market.

However, we encounter competition in varying degrees in all product groups and for each product line. Competitors include domestic and foreign producers of the same and similar products. The principal methods of competition are product performance and technology, price, delivery schedule, quality of services, and other terms and conditions.

## International Operations

We have international operations in all of our business segments. International operations are conducted at 42 locations, in Europe, Canada, China, India, Singapore, Korea, Australia, Mexico, Brazil, and South Africa. See the Notes to Consolidated Financial Statements for international operations financial data. Our international operations contributed approximately 29% of operating revenues in 2014 and 28% in 2013. International operations are subject to certain inherent risks in connection with the conduct of business in foreign countries including, exchange controls, price controls, limitations on participation in local enterprises, nationalizations, expropriation and other governmental action, restrictions of repatriation of earnings, and changes in currency exchange rates.

## Research and Development

Developing new and improved products, broadening the application of established products, continuing efforts to improve our methods, processes, and equipment continues to drive our success. However, due to the nature of our manufacturing operations and the types of products manufactured, expenditures for research and development are not significant to any individual segment or in the aggregate. Research and development costs are quantified in the Notes to Consolidated Financial Statements. We develop and design new products to meet customer needs in order to offer enhanced products or to provide customized solutions for customers.

## 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.

## Financial Information about Geographic Areas

Information regarding revenues from external customers attributed to the United States, all foreign countries and any individual foreign country, if material, is contained in the Notes to Consolidated Financial Statements for "Industry Segment Information."

## Number of Employees

As of June 30, 2014, we employed approximately 4,200 employees of which approximately 2,000 were in the United States. About 300 of our U.S. employees were represented by unions. Approximately 43% of our production workforce is situated in low-cost manufacturing regions such as Mexico, Brazil and Asia.

## Executive Officers of Standex

The executive officers of the Company as of June 30, 2014 were as follows:

<u>Name</u>	<u>Age</u>	<u>Principal Occupation During the Past Five Years</u>
David A. Dunbar	52	President and Chief Executive Officer of the Company since January 2014; President of the Valves and Controls global business unit of Pentair Ltd from 2009 through December 31, 2013.
Thomas D. DeByle	54	Vice President and Chief Financial Officer of the Company since March 2008.
Deborah A. Rosen	59	Chief Legal Officer of the Company since October 2001; Vice President of the Company since July 1999.
John Abbott	55	Group Vice President of the Food Service Group since December 2006.

The executive officers are elected each year at the first meeting of the Board of Directors subsequent to the annual meeting of stockholders, to serve for one-year terms of office. There are no family relationships among any of the directors or executive officers of the Company.

## Long-Lived Assets

Long-lived assets are described and discussed in the Notes to Consolidated Financial Statements under the caption "Long-Lived Assets."

## Available Information

Standex's corporate headquarters are at 11 Keewaydin Drive, Salem, New Hampshire 03079, and our telephone number at that location is (603) 893-9701.

The U.S. Securities and Exchange Commission (the "SEC") maintains an internet website at [www.sec.gov](http://www.sec.gov) that contains our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, and all amendments thereto. All reports that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Standex's internet website address is [www.standex.com](http://www.standex.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements, and all amendments thereto, are available free of charge on our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. In addition, our code of business conduct, our code of ethics for senior financial management, our corporate governance guidelines, and the charters of each of the committees of our Board of Directors (which are not deemed filed by this reference), are available on our website and are available in print to any Standex shareholder, without charge, upon request in writing to "Chief Legal Officer, Standex International Corporation, 11 Keewaydin Drive, Salem, New Hampshire, 03079."

The certifications of Standex's Chief Executive Officer and Chief Financial Officer, as required by the rules adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, are filed as exhibits to this Form 10-K.

## Item 1A. Risk Factors

An investment in the Company's common shares involves various risks, including those mentioned below and those that are discussed from time to time in our other periodic filings with the SEC. Investors should carefully consider these risks, along with the other information filed in this report, before making an investment decision regarding our common shares. All of these risks could have a material adverse effect on our financial condition, results of operations and/or value of our common shares.

### ***A deterioration in the domestic and international economic environment could adversely affect our operating results and financial condition.***

Recessionary economic conditions coupled with a tightening of credit could adversely impact major markets served by our businesses, including cyclical markets such as automotive, heavy construction vehicle, general industrial and food service. An economic recession could adversely affect our business by:

- reducing demand for our products and services, particularly in markets where demand for our products and services is cyclical;
- causing delays or cancellations of orders for our products or services;
- reducing capital spending by our customers;
- increasing price competition in our markets;
- increasing difficulty in collecting accounts receivable;
- increasing the risk of excess or obsolete inventories;
- increasing the risk of impairment to long-lived assets due to reduced use of manufacturing facilities;
- increasing the risk of supply interruptions that would be disruptive to our manufacturing processes; and
- reducing the availability of credit for our customers.

### ***We rely on our credit facility to provide us with sufficient capital to operate our businesses.***

We rely on our revolving credit facility to provide us with sufficient capital to operate our businesses. The availability of borrowings under our revolving credit facility is dependent upon our compliance with the covenants set forth in the facility, including the maintenance of certain financial ratios. Our ability to comply with these covenants is dependent upon our future performance, which is subject to economic conditions in our markets along with factors that are beyond our control.

Violation of those covenants could result in our lenders restricting or terminating our borrowing ability under our credit facility, cause us to be liable for covenant waiver fees or other obligations, or trigger an event of default under the terms of our credit facility, which could result in acceleration of the debt under the facility and require prepayment of the debt before



its due date. Even if new financing is available in the event of a default under our current credit facility, the interest rate charged on any new borrowing could be substantially higher than under the current credit facility, thus adversely affecting our overall financial condition. If our lenders reduce or terminate our access to amounts under our credit facility, we may not have sufficient capital to fund our working capital needs or we may need to secure additional capital or financing to fund our working capital requirements or to repay outstanding debt under our credit facility.

***Our credit facility contains covenants that restrict our activities.***

Our revolving credit facility contains covenants that restrict our activities, including our ability to:

- incur additional indebtedness;
- make investments;
- create liens;
- pay cash dividends to shareholders unless we are in compliance with the financial covenants set forth in the credit facility; and
- sell material assets.

***Our global operations subject us to international business risks.***

We operate in 42 locations outside of the United States in Europe, Canada, China, India, Singapore, Korea, Australia, Mexico, Brazil, and South Africa. If we are unable to successfully manage the risks inherent to the operation and expansion of our global businesses, those risks could have a material adverse effect on our business, results of operations or financial condition. Those international business risks include:

- fluctuations in currency exchange rates;
- restrictions on repatriation of earnings;
- import and export controls;
- political, social and economic instability or disruptions;
- potential adverse tax consequences;
- difficulties in staffing and managing multi-national operations;
- difficulties in our ability to enforce legal rights and remedies; and
- changes in regulatory requirements.

***Failure to achieve expected savings and synergies could adversely impact our operating profits and cash flows.***

We focus on improving profitability through lean enterprise, low cost sourcing and manufacturing initiatives, improving working capital management, developing new and enhanced products, consolidating factories where appropriate, automating manufacturing processes, diversification efforts and completing acquisitions which deliver synergies to supplement sales and growth. If we were unable to successfully execute these programs, this failure could adversely affect our operating profits and cash flows. In addition, actions we may take to consolidate manufacturing operations to achieve cost savings or adjust to market developments may result in restructuring charges that adversely affect our profits.

***Violation of anti-bribery or similar laws by our employees, business partners or agents could result in fines, penalties, damage to our reputation or other adverse consequences.***

We cannot assure that our internal controls, code of conduct and training of our employees will provide complete protection from reckless or criminal acts of our employees, business partners or agents that might violate US or international laws relating to anti-bribery or similar topics. An action resulting in a violation of these laws could subject us to civil or criminal investigations that could result in substantial civil or criminal fines and penalties and which could damage our reputation.

***We face significant competition in our markets and, if we are not able to respond to competition in our markets, our net sales, profits and cash flows could decline.***

Our businesses operate in highly competitive markets. In order to effectively compete, we must retain long standing relationships with significant customers, offer attractive pricing, develop enhancements to products that offer performance features that are superior to our competitors and which maintain our brand recognition, continue to automate our manufacturing capabilities, continue to grow our business by establishing relationships with new customers, diversify into emerging markets and penetrate new markets. If we are unable to compete effectively, our net sales, profitability and cash flows could decline. Pricing pressures resulting from competition may adversely affect our net sales and profitability.

***If we are unable to successfully introduce new products and product enhancements, our future growth could be impaired.***

Our ability to develop new products and innovations to satisfy customer needs or demands in the markets we serve can affect our competitive position and often requires significant investment of resources. Difficulties or delays in research, development or production of new products and services or failure to gain market acceptance of new products and technologies may significantly reduce future net sales and adversely affect our competitive position.

***Increased prices or significant shortages of the commodities that we use in our businesses could result in lower net sales, profits and cash flows.***

We purchase large quantities of steel, refrigeration components, freight services, foam insulation and other metal commodities for the manufacture of our products. Historically, prices for commodities have fluctuated, and we are unable to enter into long term contracts or other arrangements to hedge the risk of price increases in many of these commodities. Significant price increases for these commodities could adversely affect our operating profits if we cannot timely mitigate the price increases by successfully sourcing lower cost commodities or by passing the increased costs on to customers. Shortages or other disruptions in the supply of these commodities could delay sales or increase costs.

***An inability to identify or complete future acquisitions could adversely affect our future growth.***

As part of our growth strategy, we intend to pursue acquisitions that provide opportunities for profitable growth for our businesses and which enable us to leverage our competitive strengths. While we continue to evaluate potential acquisitions, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval for certain acquisitions or otherwise complete acquisitions in the future. An inability to identify or complete future acquisitions could limit our future growth.

***We may experience difficulties in integrating acquisitions.***

Integration of acquired companies involves a number of risks, including:

- inability to operate acquired businesses profitably;
- failure to accomplish strategic objectives for those acquisitions;
- unanticipated costs relating to acquisitions or to the integration of the acquired businesses;
- difficulties in achieving planned cost savings synergies and growth opportunities; and
- possible future impairment charges for goodwill and non-amortizable intangible assets that are recorded as a result of acquisitions.

Additionally, our level of indebtedness may increase in the future if we finance acquisitions with debt, which would cause us to incur additional interest expense and could increase our vulnerability to general adverse economic and industry conditions and limit our ability to service our debt or obtain additional financing. We cannot assure that future acquisitions will not have a material adverse effect on our financial condition, results of operations and cash flows.

***Impairment charges could reduce our profitability.***

We test goodwill and our other intangible assets with indefinite useful lives for impairment on an annual basis or on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value. Various uncertainties, including continued adverse conditions in the capital markets or changes in general economic conditions, could impact the future operating performance at one or more of our businesses which could significantly affect our valuations and could result in additional future impairments. The recognition of an impairment of a significant portion of goodwill would negatively affect our results of operations and could be a material effect to us.

***Material adverse or unforeseen legal judgments, fines, penalties or settlements could have an adverse impact on our profits and cash flows.***

We are and may, from time to time, become a party to legal proceedings incidental to our businesses, including, but not limited to, alleged claims relating to product liability, environmental compliance, patent infringement, commercial disputes and employment matters. In accordance with United States generally accepted accounting principles, we have established reserves based on our assessment of contingencies. Subsequent developments in legal proceedings may affect our assessment and estimates of loss contingencies recorded as reserves which could require us to record additional reserves or make

material payments which could adversely affect our profits and cash flows. Even the successful defense of legal proceedings may cause us to incur substantial legal costs and may divert management's time and resources away from our businesses.

***The costs of complying with existing or future environmental regulations, and of correcting any violations of these regulations, could increase our expenses and reduce our profitability.***

We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, use and disposal of chemicals, hazardous waste and other toxic and hazardous materials used to manufacture, or resulting from the process of manufacturing, our products. We cannot predict the nature, scope or effect of regulatory requirements to which our operations might be subject or the manner in which existing or future laws will be administered or interpreted. We are also exposed to potential legacy environmental risks relating to businesses we no longer own or operate. Future regulations could be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations, could be significant.

In addition, properly permitted waste disposal facilities used by us as a legal and legitimate repository for hazardous waste may in the future become mismanaged or abandoned without our knowledge or involvement. In such event, legacy landfill liability could attach to or be imposed upon us in proportion to the waste deposited at any disposal facility.

Environmental laws require us to maintain and comply with a number of permits, authorizations and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of these requirements could result in financial penalties and other enforcement actions. We could be required to halt one or more portions of our operations until a violation is cured. Although we attempt to operate in compliance with these environmental laws, we may not succeed in this effort at all times. The costs of curing violations or resolving enforcement actions that might be initiated by government authorities could be substantial.

***Strategic divestitures could negatively affect our results and contingent liabilities from businesses that we have sold could adversely affect our results of operations and financial condition.***

We have retained responsibility for some of the known and unknown contingent liabilities related to a number of businesses we have sold, such as lawsuits, tax liabilities, product liability claims, and environmental matters and have agreed to indemnify purchasers of these businesses for certain of those contingent liabilities.

***The trading price of our common stock has been volatile, and investors in our common stock may experience substantial losses.***

The trading price of our common stock has been volatile and may become volatile again in the future. The trading price of our common stock could decline or fluctuate in response to a variety of factors, including:

- our failure to meet the performance estimates of securities analysts;
- changes in financial estimates of our net sales and operating results or buy/sell recommendations by securities analysts;
- fluctuations in our quarterly operating results;
- substantial sales of our common stock;
- changes in the amount or frequency of our payment of dividends or repurchases of our common stock;
- general stock market conditions; or
- other economic or external factors.

***Decreases in discount rates and actual rates of return could require future pension contributions to our pension plans which could limit our flexibility in managing our company.***

Key assumptions inherent in our actuarially calculated pension plan obligations and pension plan expense are the discount rate and the expected rate of return on plan assets. If discount rates and actual rates of return on invested plan assets were to decrease significantly, our pension plan obligations could increase materially. The size of future required pension contributions could require us to dedicate a greater portion of our cash flow from operations to making contributions, which could negatively impact our financial flexibility.

***Our business could be negatively impacted by cybersecurity threats, information systems and network interruptions, and other security threats or disruptions.***

Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. Cybersecurity threats in particular, are persistent, evolve quickly, and include, but are not limited to, computer viruses, attempts to access information, denial of service and other electronic security breaches. These events could disrupt our operations or customers and other third party IT systems in which we are involved and could negatively impact our reputation among our customers and the public which could have a negative impact on our financial conditions, results of operations, or liquidity.

***Various restrictions in our charter documents, Delaware law and our credit agreement could prevent or delay a change in control of us that is not supported by our board of directors.***

We are subject to a number of provisions in our charter documents, Delaware law and our credit facility that may discourage, delay or prevent a merger, acquisition or change of control that a stockholder may consider favorable. These anti-takeover provisions include:

- maintaining a classified board and imposing advance notice procedures for nominations of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings;
- a provision in our certificate of incorporation that requires the approval of the holders of 80% of the outstanding shares of our common stock to adopt any agreement of merger, the sale of substantially all of the assets of Standex to a third party or the issuance or transfer by Standex of voting securities having a fair market value of \$1 million or more to a third party, if in any such case such third party is the beneficial owner of 10% or more of the outstanding shares of our common stock, unless the transaction has been approved prior to its consummation by all of our directors;
- requiring the affirmative vote of the holders of at least 80% of the outstanding shares of our common stock for stockholders to amend our amended and restated by-laws;
- covenants in our credit facility restricting mergers, asset sales and similar transactions; and
- the Delaware anti-takeover statute contained in Section 203 of the Delaware General Corporation Law.

Section 203 of the Delaware General Corporation Law prohibits a merger, consolidation, asset sale or other similar business combination between Standex and any stockholder of 15% or more of our voting stock for a period of three years after the stockholder acquires 15% or more of our voting stock, unless (1) the transaction is approved by our board of directors before the stockholder acquires 15% or more of our voting stock, (2) upon completing the transaction the stockholder owns at least 85% of our voting stock outstanding at the commencement of the transaction, or (3) the transaction is approved by our board of directors and the holders of 66 2/3% of our voting stock, excluding shares of our voting stock owned by the stockholder.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We operate a total of 74 manufacturing plants and warehouses located throughout the United States, Europe, Canada, Australia, Singapore, Korea, China, India, Brazil, South Africa, and Mexico. The Company owns 26 of the facilities and the balance are leased. The approximate building space utilized by each product group is as follows (in thousands):

	Area in Square Feet	
	Owned	Leased
Food Service Equipment	1,059	401
Engraving	268	380
Engineering Technologies	171	145
Electronics Products	177	157
Hydraulics Products	101	40
Corporate and other	43	12
Total	1,819	1,135

In general, the buildings are in sound operating condition and are considered to be adequate for their intended purposes and current uses.

We own substantially all of the machinery and equipment utilized in our businesses.

### Item 3. Legal Proceedings

Discussion of legal matters is incorporated by reference to Part II, Item 8, Note 12, "CONTINGENCIES," in the Notes to the Consolidated Financial Statements.

### Item 4. Mine Safety Disclosures

Not Applicable

## PART II

### Item 5. Market for Standex Common Stock

#### Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market in which the Common Stock of Standex is traded is the New York Stock Exchange under the ticker symbol "SXI". The high and low sales prices for the Common Stock on the New York Stock Exchange and the dividends paid per Common Share for each quarter in the last two fiscal years are as follows:

Year Ended June 30	Common Stock Price Range				Dividends Per Share	
	2014		2013		2014	2013
	High	Low	High	Low		
First quarter	\$ 60.96	\$ 52.00	\$ 47.34	\$ 41.29	\$ 0.08	\$ 0.07
Second quarter	64.90	56.15	52.14	43.00	0.10	0.08
Third quarter	63.76	52.29	57.64	51.28	0.10	0.08
Fourth quarter	78.49	53.82	55.18	49.18	0.10	0.08

The approximate number of stockholders of record on August 21, 2014 was 1,783.

Additional information regarding our equity compensation plans is presented in the Notes to Consolidated Financial Statements under the caption "Stock-Based Compensation and Purchase Plans" and Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

#### Issuer Purchases of Equity Securities (1)

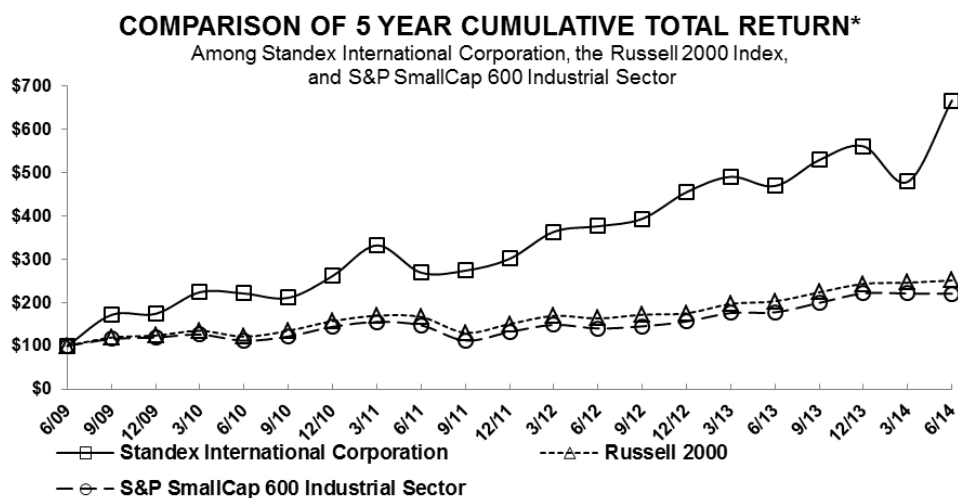
##### Quarter Ended June 30, 2014

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
April 1 - April 30, 2014	20,531	\$55.06	20,531	501,862
May 1 - May 31, 2014	14,752	\$72.74	14,752	487,110
June 1 - June 30, 2014	521	\$73.90	521	486,589
TOTAL	<u>35,804</u>	<u>\$62.62</u>	<u>35,804</u>	<u>486,589</u>

(1) The Company has a Stock Buyback Program (the "Program") which was originally announced on January 30, 1985. Under the Program, the Company may repurchase its shares from time to time, either in the open market or through private transactions,

whenever it appears prudent to do so. The Program has no expiration date, and the Company from time to time may authorize additional increases of share increments for buyback authority so as to maintain the Program. The Company authorized, on August 20, 2013, the repurchase of 0.5 million shares for repurchase pursuant to its Program. All previously announced repurchases have been completed.

The following graph compares the cumulative total stockholder return on the Company's Common Stock as of the end of each of the last five fiscal years, with the cumulative total stockholder return on the Standard & Poor's Small Cap 600 (Industrial Segment) Index and on the Russell 2000 Index, assuming an investment of \$100 in each at their closing prices on June 30, 2008 and the reinvestment of all dividends.



\*\$100 invested on 6/30/09 in stock or index, including reinvestment of dividends.  
Fiscal year ending June 30.

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## Item 6. Selected Consolidated Financial Data

Selected financial data for the five years ended June 30, is as follows:

See Item 7 for discussions on comparability of the below.

	2014	2013	2012	2011	2010
<b>SUMMARY OF OPERATIONS (in thousands)</b>					
Net sales					
Food Service Equipment	\$ 377,848	\$ 367,008	\$ 364,759	\$ 343,150	\$ 318,225
Engraving	109,271	93,380	93,611	85,258	77,372
Engineering Technologies	79,642	74,838	74,088	61,063	58,732
Electronics Products	114,881	108,085	48,206	46,600	37,201
Hydraulics Products	34,538	30,079	29,922	22,925	16,598
Total	<u>\$ 716,180</u>	<u>\$ 673,390</u>	<u>\$ 610,586</u>	<u>\$ 558,996</u>	<u>\$ 508,128</u>
Gross profit	<u>\$ 238,269</u>	<u>\$ 218,191</u>	<u>\$ 201,736</u>	<u>\$ 185,858</u>	<u>\$ 170,095</u>
Operating income (loss)					
Food Service Equipment	\$ 38,203	\$ 37,533	\$ 38,389	\$ 37,633	\$ 39,732
Engraving	22,145	15,596	17,896	14,182	9,395
Engineering Technologies	12,676	13,241	14,305	12,606	13,843
Electronics Products	19,732	16,147	8,715	7,551	4,074
Hydraulics Products	5,781	4,968	4,403	2,436	963
Restructuring (a)	(10,077)	(2,666)	(1,685)	(1,843)	(3,494)
Gain on sale of real estate	-	-	4,776	3,368	1,405
Other operating income (expense), net	3,462	-	-	-	-
Corporate and Other	(26,054)	(22,924)	(23,443)	(20,959)	(20,137)
Total	<u>\$ 65,868</u>	<u>\$ 61,895</u>	<u>\$ 63,356</u>	<u>\$ 54,974</u>	<u>\$ 45,781</u>
Interest expense	(2,249)	(2,469)	(2,280)	(2,107)	(3,624)
Other non-operating (loss) income	4,184	(128)	519	(199)	748
Provision for income taxes	(18,054)	(15,244)	(15,699)	(15,027)	(13,050)
Income from continuing operations	49,749	44,054	45,896	37,641	29,855
Income/(loss) from discontinued operations	(6,883)	794	(14,991)	(2,275)	(1,156)
Net income	<u>\$ 42,866</u>	<u>\$ 44,848</u>	<u>\$ 30,905</u>	<u>\$ 35,366</u>	<u>\$ 28,699</u>

(a) See discussion of restructuring activities in Note 16 of the consolidated financial statements.

	2014	2013	2012	2011	2010
<b>PER SHARE DATA</b>					
Basic					
Income from continuing operations	\$ 3.94	\$ 3.51	\$ 3.67	\$ 3.02	\$ 2.40
Income/(loss) from discontinued operations	(0.55)	0.06	(1.20)	(0.18)	(0.09)
Total	<u>\$ 3.39</u>	<u>\$ 3.57</u>	<u>\$ 2.47</u>	<u>\$ 2.84</u>	<u>\$ 2.31</u>
Diluted					
Income from continuing operations	\$ 3.89	\$ 3.45	\$ 3.59	\$ 2.95	\$ 2.35
Income/(loss) from discontinued operations	(0.54)	0.06	(1.17)	(0.18)	(0.09)

Total	<u>\$ 3.35</u>	<u>\$ 3.51</u>	<u>\$ 2.42</u>	<u>\$ 2.77</u>	<u>\$ 2.26</u>
Dividends declared	\$ 0.38	\$ 0.31	\$ 0.27	\$ 0.23	\$ 0.20

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>BALANCE SHEET (in thousands)</b>					
Total assets	\$ 578,160	\$ 510,573	\$ 479,811	\$ 474,905	\$ 446,279
Accounts receivable	107,674	97,995	96,493	92,032	83,890
Inventories	97,065	81,811	70,802	72,447	56,015
Accounts payable	85,206	67,552	60,229	66,103	48,289
Goodwill	125,965	111,905	100,633	102,439	87,870
Short-term debt	\$ -	\$ -	\$ -	\$ 5,100	\$ -
Long-term debt	45,056	50,072	50,000	46,500	93,300
Total debt	45,056	50,072	50,000	51,600	93,300
Less cash	74,260	51,064	54,749	14,407	33,630
Net debt (cash)	(29,204)	(992)	(4,749)	37,193	59,670
Stockholders' equity	340,726	290,988	242,907	245,613	192,063
<b>KEY STATISTICS</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gross profit margin	33.3%	32.4%	33.0%	33.2%	33.5%
Operating income margin	9.2%	9.2%	10.4%	9.8%	9.0%



## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a leading manufacturer of a variety of products and services for diverse commercial and industrial market segments. We have five reportable segments: Food Service Equipment Group, Engraving Group, Engineering Technologies Group, Electronics Products Group, and the Hydraulics Products Group. Our business objectives are to provide value-added, technology-driven solutions to our customers, grow our businesses, and increase our business profitability. Our strategic business objective is to 1) identify those businesses which are best able to meet our objectives, and invest in them by taking advantage of both organic growth and acquisition opportunities and 2) pursue operational excellence in order to improve operating margins and working capital management.

Over the past 24 months, we invested in new strategic businesses that enhance and provide complementary products and services to our segments. During June 2014, the Company acquired two companies. The Company purchased Ultrafryer Systems, Inc., ("Ultrafryer"), a manufacturer of high quality commercial deep fryers for restaurant and commercial installations. This investment complements our Food Service Equipment Group's product line and allows us to provide broader solutions to restaurant chains and commercial food service installations. The Company acquired planar technology from Planar Quality Corporation, a developer of transformers for commercial, military and space applications. This investment will enhance our Electronics Production Group's capabilities. In addition, July 2012, the Company acquired Meder electronic AG ("Meder"), a German manufacturer of magnetic reed switch, reed relay, and reed sensor products. Meder's products and geographic markets are complementary to Standex Electronics and the acquisition more than doubled the size of the Electronics Products Group. This investment also substantially broadened the global footprint, product line offerings, and end-user markets of the Electronics segment.

We have successfully taken substantial measures over the same periods to reduce our cost structure and improve business profitability. As part of this ongoing strategy, beginning in the first quarter of fiscal 2014, the Company, in our efforts to reduce cost and improve productivity across the Food Service Equipment Group, announced that we will consolidate operations in the Cooking Solutions Cheyenne, Wyoming plant into its Mexico facility and other Food Service operations in North America. As of June 30, 2014, the Cheyenne consolidation has been completed. During June 2014, the Company divested American Foodservice Company, a manufacturer of custom design and fabrication of counter systems and cabinets in our Food Service Equipment Group segment. We continue to evaluate our products and production processes and expect to execute similar cost reductions and restructuring programs on an ongoing basis.

We continue to strive for improved profitability in all aspects of our operations through low cost manufacturing and value-added engineering initiatives, plant consolidations, procurement savings, and improved productivity. These measures have been the principal factors in allowing the Company to improve margins and profitability. In addition to the focus on improving our cost structure, we have improved the Company's liquidity through better working capital management, and the sale of excess land and buildings. This additional liquidity has allowed us to increase dividends, increase capital investments, and expand through acquisitions. Our net debt (cash) to capital ratio for June 2014 and 2013 was (9.4%) and (0.3%) respectively.

Our business units are actively engaged in initiating new product introductions, expansion of product offerings through private labeling and sourcing agreements, geographic expansion of sales coverage, the development of new sales channels, leveraging strategic customer relationships, development of energy efficient products, new applications for existing products and technology, and next generation products and services for our end-user markets.

Because of the diversity of the Company's businesses, end user markets and geographic locations, management does not use specific external indices to predict the future performance of the Company, other than general information about broad macroeconomic trends. Each of our individual business units serves niche markets and attempts to identify trends other than

general business and economic conditions which are specific to their businesses and which could impact their performance.

Those units report 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, and gross profit margin. A discussion of these KPIs is included within the discussion 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 the discussed KPI. We believe that the discussion of these items provides enhanced information to investors by disclosing their consequence on the overall trend in order to provide a clearer comparative view of the KPI where 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 to the KPI amount that would have existed regardless of our acquisition. Sales resulting from synergies between the acquisition 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.

**Consolidated Results from Continuing Operations (in thousands):**

	2014	2013	2012
Net sales	\$ 716,180	\$ 673,390	\$ 610,586
Gross profit margin	33.3%	32.4%	33.0%
Restructuring costs	10,077	2,666	1,685
Gain on sale of real estate	-	-	4,776
Other income/(expense) operating	3,462	-	-
Income from operations	65,868	61,895	63,356
Backlog (realizable within 1 year)	\$ 143,132	\$ 125,396	\$ 111,208
	2014	2013	2012
Net sales	\$ 716,180	\$ 673,390	\$ 610,586
Components of change in sales:			
Effect of acquisitions	297	55,129	14,117
Effect of exchange rates	3,954	(2,807)	(888)
Organic sales growth	38,539	10,482	38,361

Net sales for the fiscal year 2014 increased by \$42.8 million, or 6.4%, when compared to the prior year. The increase is driven by \$38.5 million or 5.7% of organic sales growth from all our segments and favorable foreign exchange of \$4.0 million. Sales growth is a result of success of our top-line growth initiatives and improvements in end-user markets.

Net sales in 2013 increased \$62.8 million, or 10.3%, from 2012 levels. Of the increase, \$55.1 million, or 9.0% was attributable to the acquisition related to Electronics and \$10.5 million, or 1.7% of organic growth, from all of our segments. Sales growth was partially offset by unfavorable foreign exchange of \$2.8 million.

**Gross Profit Margin**

During 2014, gross margin increased to 33.3% as compared to 32.4% in 2013. This increase is primarily a result of sales volume and favorable sales mix, coupled with the absence of \$1.5 million of purchase accounting charges incurred during 2013 associated with the Meder acquisition. Gross margin has increased at the Engraving Group due to strong automotive Mold-Tech sales.

During 2013, gross margin decreased to 32.4% as compared to 33.0% in 2012. This decrease is primarily a result of \$1.5 million in our Meder purchase accounting expenses primarily related to a step up of acquired inventory to fair value, and a

gross margin decline at Engineering Technologies offset by the improvement in Food Service Equipment Group and Hydraulics.

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

Selling, general, and administrative expenses for the fiscal year 2014 increased by \$12.2 million, or 7.9%, when compared to the prior year. The increase was driven by \$3.9 million of management transition costs, and \$3.4 million of compensation expense due to improved performance and increase of \$3.1 million of increased selling and distribution expenses due to incremental sales volume. The charge for management transition expense includes search fees, relocation and other costs associated with the hiring of a new chief executive officer (“CEO”) and the acceleration of stock incentive compensation expenses related to the retired CEO.

Selling, general, and administrative expenses for the fiscal year 2013 increased by \$12.2 million, or 8.6%, when compared to the prior year. The increase was driven by \$9.6 million of Meder acquisition costs, \$3.0 million related to our legacy defined benefit pension plans, and the settlement of a lawsuit related to our Refrigerated Solutions business.

### **Income from Operations**

Income from operations for the fiscal year 2014 increased by \$4.0 million or 6.4%, when compared to the prior year. The increase is primarily driven by \$42.8 million of sales increases, gross profit improvement of \$20.0 million, and a \$3.5 million net gain from insurance proceeds, partially offset by increased operating expense and restructuring costs.

Income from operations for the fiscal year 2013 decreased by \$1.5 million, or 2.3%, when compared to the prior year. The decrease was primarily the result of 2012 gain on sale of real-estate of \$4.8 million and \$1.5 million of purchase accounting expense associated with the Meder acquisition during 2013.

Discussion of the performance of all of our Groups is more fully explained in the segment analysis that follows.

### **Income Taxes**

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2014 was \$18.1 million, or an effective rate of 26.6%, compared to \$15.2 million, or an effective rate of 25.7% for the year ended June 30, 2013, and \$15.7 million, or an effective rate of 25.5% for the year ended June 30, 2012. Changes in the effective tax rates from period to period may be significant as they depend on many factors including, but not limited to, the amount of the Company's income or loss, the mix of income earned in the US versus outside the US, the effective tax rate in each of the countries in which we earn income, and any one time tax issues which occur during the period.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2014 was impacted by the following items: (i) a benefit of \$0.5 million related to the R&D tax credit that expired during the fiscal year on December 31, (ii) a benefit of \$0.5 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first quarter during the fiscal year, (iii) a benefit of \$1.1 million due to non-taxable life insurance proceeds received in the third quarter and (iv) a benefit of \$3.8 million due to the mix of income earned in jurisdictions with beneficial tax rates.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2013 was impacted by the following items: (i) a benefit of \$0.4 million related to the retroactive extension of the R&D credit recorded during the third quarter, (ii) a benefit of \$0.3 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first and fourth quarters, (iii) a benefit of \$1.0 million from the reversal of a deferred tax liability that was determined to be no longer required during the third quarter and (iv) a benefit of \$2.8 million due to the mix of income earned in jurisdictions with beneficial tax rates.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2012 was impacted by the following items: (i) a benefit of \$1.3 million from the reversal of income tax contingency reserves that were determined to be no longer needed due to the lapsing of the statute of limitations and re-measurement of existing tax contingency reserves based on recently completed tax examinations, (ii) a benefit of \$0.4 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first quarter, and (iii) a benefit of \$4.5 million due to the mix of income earned in jurisdictions with beneficial tax rates.

## Capital Expenditures

In general, our capital expenditures over the longer term are expected to be approximately 2% to 3% of net sales but could increase to fund targeted sales growth initiatives and cost reduction programs. During 2014, capital expenditures increased to \$19.9 million compared to 2013 of \$14.4 million. The increase is primarily the result of the catastrophic failure of a large vertical machining center located at our Engineering Technologies facility in Massachusetts and support of our new long term customer contracts.

## Backlog

Backlog includes all active or open orders for goods and services that have a firm fixed customer purchase order with defined delivery dates. Backlog also includes any future deliveries based on executed customer contracts, so long as such deliveries are based on agreed upon delivery schedules. Backlog is not generally a significant factor in the Company's businesses because of our relatively short delivery periods and rapid inventory turnover with the exception of Engineering Technologies.

Backlog realizable within one year increased \$17.7 million, or 14.1%, to \$143.1 million at June 30, 2014 from \$125.4 million at June 30, 2013. Backlog realizable within one year has increased due to increase in customer demand and the acquisition of Ultrafryer.

## Segment Analysis (in thousands)

### Food Service Equipment

	2014 compared to 2013			2013 compared to 2012		
	2014	2013	% Change	2013	2012	% Change
Net sales	\$ 377,848	\$ 367,008	3.0%	\$ 367,008	\$ 364,759	0.6%
Income from operations	38,203	37,533	1.8%	37,533	38,390	-2.2%
Operating income margin	10.1%	10.2%		10.2%	10.5%	

Net sales for fiscal year 2014 increased \$10.8 million, or 3.0%, when compared to the prior year. The Refrigerated Solutions (walk-in coolers and freezers and refrigerated cabinets) and Specialty Solutions businesses grew approximately 5.8% and 3.6%, respectively, year over year, while the Cooking Solutions Group net sales declined by 3.0% year over year. The Refrigeration business continued to see penetration into the dollar store segment with its new line of "endless" merchandising products. Also strong were the general dealer markets and specialty cabinets for the beverage industry. This strength was partially offset by continued weakness in the drug retail segment as new store construction is at reduced levels compared to prior year, and to our quick-service restaurant chain customers that had reduced domestic capital spending due to customer changes in timing of deliveries. The Specialty Solutions Group growth was driven by strong growth in the beverage pump business as demand returned in both the domestic and international markets, particularly with demand for new products in the European espresso market segment. This growth was partial offset by a sales decline in the Specialty Merchandising segment due to soft demand in the middle of the fiscal year. The sales decline in the Cooking Solutions Group was driven by weakness at several key dealers, lapping of a chain rollout in the prior year and reductions in inventories at parts distributors. In addition, disruption late in the fiscal year due to the manufacturing realignment shifted some backlog out of the fourth quarter to 2015. This was partially overcome by strengthening of the U.S. retail supermarket deli market segment, overcoming further softening of sales in the UK as capital spending in the UK supermarket segment continued to be weak. In addition, the Cooking Group benefited from \$0.3 million of sales from the Ultrafryer acquisition.

Income from operations for fiscal year 2014 increased \$0.7 million, or 1.8%, when compared to the prior year. The Group's return on sales decreased from 10.2% to 10.1% in the current year. The positive impact of the year over year volume increase was partially offset by a combination of adverse product and customer mix changes. Additionally, productivity was negatively impacted by disruption related to the manufacturing realignment. This disruption is expected to be resolved during 2015 as the benefits of the factory consolidation are realized. In response to these margin challenges, the Group has implemented multiple productivity improvement actions, including cost reductions through capital investments and product redesign, and material cost reductions, coupled with selective price increases.

We have targeted a 200 basis point improvement to Food Service operating margins in the next 18 to 24 months. During the fourth quarter of 2014 we took steps to achieve that goal with the closure of the Cheyenne facility, the sale of the American Food Service, ("AFS") business, and the acquisition of Ultrafryer. The Company expects that half of the targeted margin

improvements will be achieved through the Cheyenne consolidation, and that the AFS divestiture and the Ultrafyer acquisition to will substantially contribute to the remaining margin improvements.

Net sales for fiscal year 2013 increased \$2.2 million, or 0.6%, when compared to fiscal 2012. The top line growth included the negative effect of foreign exchange rates of \$0.6 million in sales. The Refrigerated Solutions (walk-in coolers and freezers and refrigerated cabinets) grew approximately 4.0% and the Specialty Solutions group grew 0.4%, while the Cooking Solutions Group net sales declined by 5.7% year over year. The Refrigeration business experienced strong sales to our quick-service restaurant chain customers, and we saw continued traction in the dollar store segment. This strength was offset by weakness in the Drug Retail segment as new store construction was at reduced levels. The Specialty Solutions Group growth was driven by double digit growth in the specialty merchandising, partially offset by a 7% decline in the global beverage pump business due to soft demand, particularly in the European markets. The sales decline in the Cooking Solutions group was driven by the BKI division which experienced weakness in both the US and UK which were negatively impacted by reduced capital spending in the supermarket segments, and a difficult year over year comparison due to a significant roll-out to a major US supermarket chain in fiscal 2012. This decline was partially offset by 3.6% growth in the AAI segment of the Cooking Group which primarily serves the restaurant and convenience store markets.

Income from operations for fiscal year 2013 declined \$0.9 million, or 2.2%, when compared to the prior year. This includes the negative effect of foreign exchange rates of \$0.1 million. The Group's return on sales decreased from 10.5% in fiscal 2012 to 10.2% in fiscal 2013. The positive impact of the year over year volume increase was partially offset by a combination of adverse product and customer mix changes, marketing cost increases and increased warranty costs in the beverage business.

### Engraving

	2014 compared to 2013			2013 compared to 2012		
	2014	2013	% Change	2013	2012	% Change
Net sales	\$ 109,271	\$ 93,380	17.0%	\$ 93,380	\$ 93,611	-0.2%
Income from operations	22,145	15,596	42.0%	15,596	17,896	-12.9%
Operating income margin	20.3%	16.7%		16.7%	19.1%	

Net sales for fiscal year 2014 increased by \$15.9 million or 17.0%, compared to the prior year. This growth is driven by record new model launches and refreshed platforms in the global automotive industry which we do not anticipate to continue in 2015. Increased market share gained by our Mold-Tech business resulted in a 26% or \$16.9 million increase in mold texturing sales as compared to the prior year. Growth for Mold-Tech was strong in all markets we operate in worldwide. Sales of core forming tooling grew 6% or \$0.5 million as compared to prior year. We continue to experience softness in our roll plate and machinery business, primarily in North America.

Income from operations in fiscal year 2014 increased by \$6.5 million, or 42%, when compared to the prior year. High margins associated with new automotive model platform launches and refreshed platforms worldwide drove higher profitability for the year. During 2015, capital spending is expected to increase in order to support the increased demand for direct laser engraving capabilities worldwide. We also intend to devote additional resources to our new design capability in order to further customer intimacy.

Net sales for the fiscal year 2013 remained flat, when compared to the prior year. During the fourth quarter sales to automotive OEM's in the mold texturing market softened as compared to the very strong sales level achieved in the prior year quarter. The decline in mold texturing sales occurred primarily in North America mold texturing while both the Europe and China markets showed year over year growth. During the fourth quarter sales in the Innovent core forming tool and rolls, plates and machinery businesses also declined.

Income from operations in fiscal year 2013 decreased by \$2.3 million, or 12.9%, when compared to the prior year. Unfavorable performance was primarily driven by one-time costs related to moving our Brazilian operations, start-up of our MT Korea operation and lower fourth quarter demand in North America.

### Engineering Technologies

	2014 compared to 2013		2013 compared to 2012	
		%		%

	2014	2013	Change	2013	2012	Change
Net sales	\$ 79,642	\$ 74,838	6.4%	\$ 74,838	\$ 74,088	1.0%
Income from operations	12,676	13,241	-4.3%	13,241	14,305	-7.4%
Operating income margin	15.9%	17.7%		17.7%	19.3%	

Net sales in the fiscal year 2014 increased \$4.8 million, or 6.4%, when compared to the prior year. Sales growth in the space, energy, aviation, and oil and gas markets was offset by declines in the medical and industrial market segments. The space market segment increased from prior year levels due to continued strong demand on launch vehicle development programs and the satellite launch segment. The land based gas turbine business improved year-over-year due to increased demand from our OEM customers. Sales to the oil and gas segment increased year-over-year as a result of additional large offshore platform projects. The aviation market was up from the prior year as a result of newly awarded programs and development contracts as well as increased market penetration. New business development resources will be devoted to further penetrate key customer markets during 2015.

Income from operations in the fiscal year 2014 decreased \$0.6 million, or 4.3%, when compared to the prior year. Volume and product mix improvements in the UK were offset by higher manufacturing and development costs in the U.S. In 2015, capital spending is expected to increase to support strategic long term agreements primarily with aviation and space customers.

Net sales in the fiscal year 2013 increased \$0.8 million, or 1.0%, when compared to the prior year. Sale growth in the aerospace and energy markets was offset by declines in the oil and gas segment. The aerospace segment increased from prior year levels due to strong demand for unmanned space launch vehicles. The land based gas turbine business improved significantly year over year due to strong demand from several of our OEM customers. Sales to the oil and gas segment were down as the prior year benefited from several very large offshore platform projects which did not repeat in the current year. The aviation market was down from prior year due to order phasing and the defense market was up slightly over the prior year.

Income from operations in the fiscal year 2013 decreased \$1.1 million, or 7.4%, when compared to the prior year. This decrease is primarily due to the impact of reduced sales in the higher margin oil and gas markets

#### **Electronics Products**

	2014 compared to 2013			2013 compared to 2012		
	2014	2013	% Change	2013	2012	% Change
Net sales	\$ 114,881	\$ 108,085	6.3%	\$ 108,085	\$ 48,206	124.2%
Income from operations	19,732	16,147	22.2%	16,147	8,715	85.3%
Operating income margin	17.2%	14.9%		14.9%	18.1%	

Net sales in the fiscal year 2014 increased \$6.8 million, or 6.3%, when compared to the prior year. Much of the increase took place within the sensor product line both in North America and Europe. Sales in various markets improved particularly in transportation, industrial, contract manufacturing and metering. Sales were also helped by favorable exchange totaling roughly \$2.6 million. To drive strategic growth in 2015, we plan to increase business development initiatives in order to drive new business opportunities.

Income from operations in the fiscal year 2014 increased \$3.6 million, or 22.2%, when compared to the prior year. The improvement was driven by the sales increase as well as various cost savings both material and labor, product mix in sensors, a consolidation of the Tianjin manufacturing and Hong Kong distribution operations into the existing Shanghai operation, and the absence of \$1.5 million of purchase accounting expenses related to the Meder acquisition incurred in 2013. During 2015, we plan to increase capital spending to further automate our new Mexico factory and to further develop our planar and sensor technologies.

Net sales in the fiscal year 2013 increased \$59.9 million, or 124.2%, when compared to the prior year. This increase includes the impact of \$55.1 million from the acquisition of Meder and \$4.8 million of organic growth driven by increased sales from the new sensor programs launched over the past 18 months partially offset by lower sales in magnetic products.

Income from operations in the fiscal year 2013 increased \$7.4 million, or 85.3%, when compared to the prior year. This increase was primarily driven by the Meder acquisition. The integration of the Meder acquisition continued successfully throughout the year with a focus on identifying and implementing both sales and cost synergies. These cost synergies were primarily the result of procurement savings and the consolidation of our sales and production facilities in China into a single facility. Income from the Meder acquisition was accretive to earnings inclusive of \$1.5 million in purchase accounting expenses primarily related to a step up of inventory to fair value.

### Hydraulics Products

	2014 compared to 2013			2013 compared to 2012		
	2014	2013	% Change	2013	2012	% Change
Net sales	\$ 34,538	\$ 30,079	14.8%	\$ 30,079	\$ 29,922	0.5%
Income from operations	5,781	4,968	16.4%	4,968	4,403	12.8%
Operating income margin	16.7%	16.5%		16.5%	14.7%	

Net sales in the fiscal year 2014 increased \$4.5 million, or 14.8%, when compared to the prior year. Diversification of our OEM business into refuse and construction equipment along with the revitalization of the traditional North American dump truck and trailer and export markets drove the 14.8% growth in net sales. The strategy to penetrate alternative markets either with new engineered cylinder designs or modifications to existing designs has proven to be very successful. Several of these new products are being applied in North American refuse garbage trucks, roll off container handlers, and construction equipment. Typically the telescopic cylinders for these new applications are being manufactured in the United States and the rod cylinders are built in our factory in Tianjin, China. To support our global customer base, we completed another expansion of the factory in China. The geographic sales growth continues in Germany, South America, Australia, and Central America.

Income from operations in the fiscal year 2014 increased \$0.8 million or 16.4% when compared to the prior year. This increase in annual income from operations was primarily due to better factory expense absorption both in the North American and the Tianjin China factories in addition to very close monitoring of costs.

Net sales in the fiscal year 2013 increased \$0.2 million, or 0.5%, when compared to the prior year. Continued market share gains in the North American refuse market coupled with growth in the aftermarket segment was offset by softness in the traditional North American dump truck and trailer and export markets. In many cases end users continue to hold off in making capital investments until absolutely necessary. We have successfully penetrated several large roll off container refuse vehicle OEM's by leveraging our engineering expertise and low cost manufacturing position provided by our factory in Tianjin, China. We also have recently launched a new telescopic cylinder product line for the garbage truck refuse markets that two large OEM customers are now utilizing. We are currently expanding the capacity of our Chinese facility as we expect to continue to drive sales growth by utilizing our low cost position to further penetrate both rod and telescopic cylinder product applications for our global customer base. This expansion geographically includes Australia, South America, Germany, and Central America.

Income from operations in the fiscal year 2013 increased \$0.6 million or 12.8% when compared to the prior year. This increase in annual income from operations can be attributed to cost containment and improvements in both process and productivity during the year in both North America and China.

### Corporate, Restructuring and Other

	2014 compared to 2013			2013 compared to 2012		
	2014	2013	% Change	2013	2012	% Change
Income (loss) from operations:						
Corporate	\$ (26,054)	\$ (22,924)	13.7%	\$ (22,924)	\$(23,443)	-2.2%

Gain on sale of real estate	-	-	-	-	4,776	-100.0%
Restructuring	(10,077)	(2,666)	278.0%	(2,666)	(1,685)	58.2%
Other operating income (expense), net	3,462	-	100.0%	-	-	-

Corporate expenses in fiscal year 2014 increased \$3.1 million or 13.7% when compared to the prior year. The increase was driven by \$3.9 million of management transition. The charge for management transition expense includes search fees, relocation and other costs associated with the hiring of a new chief executive officer (“CEO”) and the acceleration of stock incentive compensation expenses related to the retired CEO.

Corporate expenses in the fiscal year 2013 decreased \$0.5 million, or 2.2% when compared to the prior year. The decrease is primarily driven by a gain of \$2.3 million resulting from the termination of the retiree life insurance benefit and lower incentive compensation expense of \$2.3 million partially offset by an increase of \$1.3 million in pension expense and \$2.8 million of legal settlement costs.

Restructuring expenses reflect costs associated with the Company’s efforts to continuously improve operational efficiency and expand globally in order to remain competitive in the end-user markets we serve. Each year the Company incurs costs for actions to size its businesses to a level appropriate for current economic conditions and to improve its cost structure to improve our competitive position and operating margins. Such expenses include costs for moving facilities to low-cost locations, starting up plants after relocation, curtailing/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, moving, and relocation costs. Vacant facility costs include maintenance, utilities, property taxes, and other costs.

Restructuring expenses of \$10.1 million in the fiscal year 2014 are composed of \$9.2 million at Food Service Equipment primarily related to the announced closure of the Cheyenne, Wyoming facility, which includes a non-cash impairment charge of \$5.4 million.

Restructuring expense of \$2.7 million in the fiscal year 2013 is primarily composed of \$2.0 million in the Engraving Group for ongoing headcount reductions in our European operations and the relocation of our Brazil facility, and \$0.4 million in Electronics, where we are eliminating redundant positions due to the Meder acquisition.

The Company currently expects to incur between \$4.0 and \$5.0 million of restructuring expense in 2015, including the cost to complete actions initiated during 2014 and actions anticipated to be approved and initiated during 2015.

During fiscal year 2014, other operating income (expense), net includes a \$3.5 million net gain from insurance proceeds we received related to a catastrophic failure of a large vertical machining center located at our Engineering Technologies facility in Massachusetts. Insurance proceeds of \$4.5 million were partially offset by the write-off of the net book value of the machine of \$1.0 million. We have acquired a replacement machine for approximately \$2.9 million and anticipate being operational in the first half of the first quarter of 2015.

## Discontinued Operations

In June 2014, the Company divested the American Foodservice Company, a manufacturer of custom design and fabrication of counter systems and cabinets, in our Food Service Equipment Group segment. In connection with this sale, the Company received proceeds of \$3.1 million and recorded a net loss on disposal of \$3.2 million.

In December 2011, the Company divested the Air Distribution Products Group, (“ADP”). In connection with this sale, the Company adjusted the carrying value of ADP’s assets to their net realizable value based on a range of expected sale prices. As a result, the Company recorded goodwill impairment charges of \$14.9 million and impairment charges of \$5.0 million to fixed assets.

On March 30, 2012, ADP was sold to a private equity buyer for consideration of \$16.1 million consisting of \$13.1 million in cash and a \$3.0 million note secured by first mortgages on three ADP facilities. During the quarter ended March 31, 2012, additional pre-tax charges of \$2.6 million were taken in connection with the closing of the sale. These charges related primarily to the impairment of a non-cancellable lease liability that the buyer elected not to assume as part of the purchase.

During 2014, the Company received notice that its obligations under a guarantee provided to the buyers of ADP were triggered as a result of its withdrawal from both of the multi-employer pension plans in which ADP previously participated.



As a result, the Company has recorded charges of \$1.6 million in excess of the value of the guarantee previously recorded in order to fully settle these obligations.

The following table summarizes the Company's discontinued operations activity, by operation, for the years ended June 30, 2014, 2013 and 2012 (in thousands):

	Year Disposed	2014	2013	2012
Sales:				
American Foodservice Company	2014	\$ 20,556	\$ 27,870	\$ 24,054
Air Distribution Products Group	2012	-	-	43,537
		<u>20,556</u>	<u>27,870</u>	<u>67,591</u>
Income (loss) before taxes:				
American Foodservice Company (1)	2014	(8,339)	1,934	1,220
Air Distribution Products Group	2012	(1,849)	(451)	(24,871)
Other loss from discontinued operations		<u>(387)</u>	<u>(207)</u>	<u>(453)</u>
Income (loss) before taxes from discontinued operations		<u>(10,575)</u>	<u>1,276</u>	<u>(24,104)</u>
(Provision) benefit for tax		<u>3,692</u>	<u>(482)</u>	<u>9,113</u>
Net income (loss) from discontinued operations		<u>\$ (6,883)</u>	<u>\$ 794</u>	<u>\$ (14,991)</u>

(1) American Foodservice Company incurred a pretax operational loss of \$3.5 million and pretax loss on sale of \$4.8 million.

#### Liquidity and Capital Resources

At June 30, 2014, our total cash balance was \$74.3 million, of which \$64.0 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.

Our current plans are not expected to require a repatriation of cash to fund our U.S. operations and as a result, we intend to indefinitely reinvest our foreign earnings to fund our overseas growth. If the undistributed earnings of our foreign subsidiaries are needed for operations in the United States we would be required to accrue and pay U.S. taxes upon repatriation.

#### Cash Flow

Net cash provided by operating activities from continuing operations for the year ended June 30, 2014 was \$72.0 million, compared to \$64.2 million for the same period in 2013. The increase of \$7.8 million in net cash provided by operating activities from continuing operations is primarily due to \$5.7 million of increases to net income from continuing operations, \$4.2 million of cash provided by income taxes payable offset by increased pension contributions of \$1.5 million and \$1.5 million of increased working capital.

Net cash used in investing activities from continuing operations for the year ended June 30, 2014 was \$35.6 million, consisting primarily of \$23.1 million for the acquisitions of Ultrafryer and Planar, \$18.8 million for capital expenditures, offset by \$3.2 million of insurance proceeds received from corporate owned life insurance policies.

Net cash used in financing activities for continuing operations for the year ended June 30, 2014, was \$15.0 million consisting primarily of dividends paid of \$4.8 million, repurchased treasury stock of \$7.8 million, and net debt payments of \$5.0 million.

## Capital Structure

On January 5, 2012, the Company entered into a five-year \$225 million unsecured Revolving Credit Facility (“Credit Agreement”, or “facility”), which can be increased by the Company by an amount of up to \$100 million, in accordance with specified conditions contained in the agreement. The facility also includes a \$10 million sublimit for swing line loans and a \$30 million sublimit for letters of credit.

Under the terms of the Credit Agreement, we will pay a variable rate of interest and a commitment fee on available, but 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 particular points in time. As our funded debt to EBITDA ratio increases, the commitment fee will increase. Amounts borrowed under the facility may be in the form of either Base Rate or Eurodollar Rate loans. The rate of interest on Base Rate loans shall be the higher of (i) the Federal Funds rate plus ½ of 1%, (ii) the “prime rate” announced by Citizens Bank, N. A. or (iii) the London interbank offered rate (“LIBOR”) plus ½ of 1% (the rate in effect shall be referred to as the “Base Rate”), plus an additional amount based upon the Company’s debt to EBITDA ratio. The rate of interest on Eurodollar Rate loans shall be the LIBOR rate which corresponds to the interest period (either one, two, three or six months) selected by the Company, plus an additional amount based upon the Company’s funded debt to EBITDA ratio. Swing Line loans shall bear interest at the Base Rate, plus an additional amount based upon the Company’s funded debt to EBITDA ratio. As the Company’s funded debt to EBITDA ratio increases, the additional amount will also increase.

The facility expires in January 2017, and 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 Agreement”), to interest expense for the trailing twelve months of at least 3:1. Adjusted EBIT per the Credit Agreement specifically excludes extraordinary and certain other defined items such as non-cash restructuring and acquisition-related charges up to \$2.0 million, and goodwill impairment. At June 30, 2014, the Company’s Interest Coverage Ratio was 35.58:1.

*Leverage Ratio* - The Company’s ratio of funded debt to trailing twelve month Adjusted EBITDA per the credit agreement, calculated as Adjusted EBIT per the Credit Agreement plus Depreciation and Amortization, may not exceed 3.5:1. At June 30, 2014, the Company’s Leverage Ratio was 0.59:1.

As of June 30, 2014, we had borrowings under the facility of \$45.0 million. As of June 30, 2014, the effective rate of interest for outstanding borrowings under the facility was 3.87%.

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.

Our primary cash requirements in addition to day-to-day operating needs include interest payments, capital expenditures, and dividends. Our primary sources of cash for these requirements are cash flows from continuing operations and borrowings under the facility. We expect to spend between \$24.0 and \$26.0 million on capital expenditures during 2015, and expect that depreciation and amortization expense will be between \$13.0 and \$14.0 million and \$2.5 and \$3.0 million, respectively.

In order to manage our interest rate exposure, we are party to \$45.0 million of floating to fixed rate swaps. These swaps convert our interest payments from LIBOR to a weighted average rate of 2.40%.

The following table sets forth our capitalization at June 30, (in thousands):

	2014	2013
Long-term debt	\$ 45,056	\$ 50,072
Less cash	74,260	51,064
Net (cash) debt	(29,204)	(992)
Stockholders’ equity	340,726	290,988
Total capitalization	\$ 311,522	\$ 289,996

Stockholders' equity increased year over year primarily as a result of current year net income of \$42.9 million partially offset by dividends paid of \$4.8 million. The Company's net (cash) debt to capital percentage increased from -0.3% to -9.4% in 2014 due to the aforementioned, net income to retained earnings, debt reduction and increase availability of cash.

We sponsor a number of defined benefit and defined contribution retirement plans. The fair value of the Company's U.S. pension plan assets was \$216.0 million at June 30, 2014 and the projected benefit obligation in the U.S. was \$240.4 million at that time. In June 2012, the Moving Ahead for Progress in the 21st Century ("MAP 21") bill was signed into law by Congress. Based on changes in pension funding provisions under MAP 21, we made a \$3.25 million contribution during July 2012 due to its favorable treatment under the bill and retroactive treatment under the Pension Protection Act ("PPA"). As a result of this contribution and an additional \$6 million contribution made in June 2012, the plan is 100% funded under PPA rules at June 30, 2014, and we do not expect to make mandatory contributions to the plan until 2019. We do not expect contributions to our other defined benefit plans to be material in 2015.

The Company's pension plan for U.S. salaried employees was frozen as of December 31, 2007, and participants in the plan ceased accruing future benefits. The Company's pension plan for U.S. hourly employees was frozen for substantially all participants as of July 31, 2013, and replaced with a defined contribution benefit plan. We have frozen benefits for substantially all participants in our U.S. defined benefit pension plan as of July 31, 2013. These actions contributed to a decrease of \$2.6 million, or \$0.13 per diluted share, of reduced expense related to our legacy U.S. plan in 2014 compared to 2013.

We have evaluated the current and long-term cash requirements of our defined benefit and defined contribution plans as of June 30, 2014 and determined our operating cash flows from continuing operations and available liquidity are expected to be sufficient to cover the required contributions under ERISA and other governing regulations.

We have an insurance program for certain retired key executives that have underlying policies with a cash surrender value at June 30, 2014 of \$17.7 million and are reported net of loans of \$9.8 million for which we have the legal right of offset. These policies have been purchased to fund supplemental retirement income benefits.

Contractual obligations of the Company as of June 30, 2014 are as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$ 45,056	\$ 18	\$ 45,030	\$ 8	\$ -
Operating lease obligations	25,936	6,053	9,108	4,941	5,834
Estimated interest payments <sup>(1)</sup>	2,583	1,477	1,106	-	-
Post-retirement benefit payments <sup>(2)</sup>	28,108	578	1,141	1,096	25,293
Total	<u>\$ 101,683</u>	<u>\$ 8,126</u>	<u>\$ 56,385</u>	<u>\$ 6,045</u>	<u>\$ 31,127</u>

(1) Estimated interest payments are based upon effective interest rates as of June 30, 2014, and include the impact of interest rate swaps. See Item 7A for further discussions surrounding interest rate exposure on our variable rate borrowings.

(2) Post-retirement benefits and pension plan contribution payments are based upon current benefit payment levels.

At June 30, 2014, we had \$0.6 million of non-current liabilities for uncertain tax positions. We are not able to provide a reasonable estimate of the timing of future payments related to these obligations.

#### Off Balance Sheet Items

In March 2012, the Company sold substantially all of the assets of the ADP business. In connection with the divestiture, the Company remained the lessee of ADP's Philadelphia, PA facility and administrative offices, with the purchaser subleasing a fractional portion of the building at current market rates. In connection with the transaction, the Company recognized a lease impairment charge of \$2.3 million for the remaining rental expense. The Company's aggregate obligation with respect to the

lease is \$1.8 million, of which \$1.3 million was recorded as a liability at June 30, 2014. Additionally, the Company remained an obligor on an additional facility lease that was assumed in full by the buyer, for which our aggregate obligation in the event of default by the buyer is \$0.8 million. With the exception of the impaired portion of the Philadelphia lease, the Company does not expect to make any payments with respect to these obligations. The buyer's obligations under the respective sublease and assumed lease are secured by a cross-default provision in the purchaser's promissory note for a portion of the purchase price which is secured by mortgages on the ADP real estate sold in the transaction.

At June 30, 2014, and 2013, the Company had standby letters of credit outstanding, primarily for insurance purposes, of \$11.3 million and \$10.7 million, respectively.

We had no other material off balance sheet items at June 30, 2014, other than the operating leases summarized above.

#### **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.

*Foreign Currency Translation* – Our primary functional currencies used by our non-U.S. subsidiaries are the Euro, British Pound Sterling (Pound), Mexican (Peso), and Chinese (Yuan). During the current year, the Pound and Euro have experienced increases but the Yuan and Peso have decreased in value related to the U.S. Dollar, our reporting currency.

Since June 30, 2013 the Pound and Euro have appreciated by 12.5% and 5.2%, respectively, the Yuan and Peso have depreciated by 0.2% and 0.1%, respectively (all relative to the U.S. Dollar). These exchange values were used in translating the appropriate non-U.S. subsidiaries' balance sheets into U.S. Dollars at the end of the current year.

*Defined Benefit Pension Plans* – We record expenses related to these plans based upon various actuarial assumptions such as discount rates and assumed rates of returns. We have frozen benefits for substantially all participants in our U.S. defined benefit pension plan as of July 31, 2014. These actions contributed to a decrease of \$2.6 million, or \$0.13 per diluted share, of reduced expense related to our legacy U.S. plan in 2014 compared to 2013.

*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 is typically the period with the lowest level of activity.

*Employee Relations* – The Company has labor agreements with a number of union locals in the United States and a number of European employees belong to European trade unions. There are three union contracts in the U.S expiring during fiscal year 2015.

#### **Critical Accounting Policies**

The Consolidated Financial Statements include accounts of the Company and all of our 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 Consolidated Financial Statements. Although, we believe that materially different amounts would not be reported due to the accounting policies described below, the application of these 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. We have listed a number of accounting policies which we believe to be the most critical.

*Collectability of Accounts Receivable* – Accounts Receivable are reduced by an allowance for amounts that may become uncollectible in the future. Our estimate for the allowance for doubtful accounts related to trade receivables includes evaluation of specific accounts where we have information that the customer may have an inability to meet its financial obligation together with a general provision for unknown but existing doubtful accounts.

*Realizability of Inventories* – Inventories are valued at the lower of cost or market. The Company regularly reviews inventory values on hand using specific aging categories, and records a provision for obsolete and excess inventory based on

historical usage and estimated future usage. As actual future demand or market conditions may vary from those projected by management, adjustments to inventory valuations may be required.

Realization of Goodwill - Goodwill and certain indefinite-lived intangible assets are not amortized, but instead are tested for impairment at least annually and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying amount of the asset. The Company's annual test for impairment is performed using a May 31st measurement date.

We have identified our reporting units for impairment testing as our eleven operating segments, which are aggregated into our five reporting segments as disclosed in Note 18 – Industry Segment Information.

The test for impairment is a two-step process. The first step compares the carrying amount of the reporting unit to its estimated fair value (Step 1). To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting unit's carrying value is compared to the implied fair value (Step 2). To the extent that the carrying value exceeds the implied fair value, impairment exists and must be recognized.

As quoted market prices are not available for the Company's reporting units, the fair value of the reporting units is determined using a discounted cash flow model (income approach). This method uses various assumptions that are specific to each individual reporting unit in order to determine the fair value. In addition, the Company compares the estimated aggregate fair value of its reporting units to its overall market capitalization.

Our annual impairment testing at each reporting unit relied on assumptions surrounding general market conditions, short-term growth rates, a terminal growth rate of 2.5%, and detailed management forecasts of future cash flows prepared by the relevant reporting unit. Fair values were determined primarily by discounting estimated future cash flows at a weighted average cost of capital of 10.59%. An increase in the weighted average cost of capital of approximately 350 basis points in the analysis would not result in the identification of any impairments.

While we believe that our estimates of future cash flows are reasonable, changes in assumptions could significantly affect our valuations and result in impairments in the future. The most significant assumption involved in the Company's determination of fair value is the cash flow projections of each reporting unit. Certain reporting units have been significantly impacted by the current global economic downturn and if the effects of the current global economic environment are protracted or the recovery is slower than we have projected estimates of future cash flows for each reporting unit may be insufficient to support the carrying value of the reporting units, requiring the Company to re-assess its conclusions related to fair value and the recoverability of goodwill.

As a result of our annual assessment, the Company determined that the fair value of the reporting units and indefinite-lived intangible assets substantially exceeded their respective carrying values. Therefore, no impairment charges were recorded in connection with our assessments during 2014.

In connection with the divestiture of ADP, the Company determined that based on the net realizable value of the business in the transaction, the goodwill of the ADP reporting unit was impaired. As such, the Company recognized \$14.9 million in impairment charges in discontinued operations during the second quarter of 2012.

Cost of Employee Benefit Plans – We provide a range of benefits to our employees, including pensions and some postretirement benefits. We record expenses relating to these plans based upon various actuarial assumptions such as discount rates, assumed rates of return, compensation increases, turnover rates, and health care cost trends. The expected return on plan assets assumption of 7.25% in the U.S. is based on our expectation of the long-term average rate of return on assets in the pension funds and is reflective of the current and projected asset mix of the funds and considers the historical returns earned on the funds. We have analyzed the rates of return on assets used and determined that these rates are reasonable based on the plans' historical performance relative to the overall markets as well as our current expectations for long-term rates of returns for our pension assets. The U.S. discount rate of 4.5% reflects the current rate at which pension liabilities could be effectively settled at the end of the year. The discount rate is determined by matching our expected benefit payments from a stream of AA- or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions. We review our actuarial assumptions, including discount rate and expected long-term rate of return on plan assets, on at least an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. Based on information provided by our actuaries and other relevant sources, we believe that our assumptions are reasonable.

The cost of employee benefit plans includes the selection of assumptions noted above. A twenty-five basis point change in the expected return on plan assets assumptions, holding our discount rate and other assumptions constant, would increase or

decrease pension expense by approximately \$0.5 million per year. A twenty-five basis point change in our discount rate, holding all other assumptions constant, would increase or decrease pension expense by approximately \$0.3 million annually. See the Notes to the Consolidated Financial Statements for further information regarding pension plans.

**Business Combinations** - The accounting for business combinations requires estimates and judgments as to expectations for future cash flows of the acquired business and the allocation of those cash flows to identifiable intangible assets in determining the estimated fair values for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed, are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these fair values, the amounts recorded in the consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

Allocations of the purchase price for acquisitions are based on estimates of the fair value of the net assets acquired and are subject to adjustment upon finalization of the purchase price allocation. During this measurement period, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. All changes that do not qualify as measurement period adjustments are included in current period earnings.

### **Recently Issued Accounting Pronouncements**

In June 2014, the Financial Accounting Standards Board ("FASB") issued accounting standard update ("ASU") 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The update provides guidance on how to account for certain share-based payment awards where employees would be eligible to vest in the award regardless of whether the employee is still rendering service on the date the performance target is achieved. The standard is effective for annual and interim periods with those annual periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-12 to have a material impact to its consolidated results of operation.

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard, ASU 2014-09, *Revenue from Contract with Customers*, that will supersede nearly all existing revenue recognition guidance under US GAAP and IFRS. The standard's primary principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. We expect to adopt this standard in the quarter ending September 30, 2017. The Company is still evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 revised guidance to only allow disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations, as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. ASU 2014-08 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company is still evaluating the impact of adopting ASU 2014-08 on its consolidated financial statements.

## **Item 7A. 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 Risk**

We are exposed to both transactional risk and translation risk associated with exchange rates. The transactional risk is mitigated, in large part, by natural hedges developed with locally denominated debt service on intercompany accounts. 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 June 30, 2014 and 2013, the fair value, in the aggregate, of the Company's open foreign exchange was \$1.2 million and \$1.4 million respectively.

Our primary translation risk is with the Euro, British Pound Sterling, and Chinese Yuan. A hypothetical 10% appreciation or depreciation of the value of any these foreign currencies to the U.S. Dollar at June 30, 2014, would not result in a material change in our operations, financial position, or cash flows. We do not hedge our translation risk. As a result, fluctuations in currency exchange rates can affect our stockholders' equity.

#### **Interest Rate**

The Company's effective rate on variable-rate borrowings under the revolving credit agreement is 3.87% and 3.65% at June 30, 2014 and 2013, respectively. 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.

We currently have a \$45.0 million of floating to fixed rate swaps with terms ranging from two to five years. These swaps convert our interest payments from LIBOR to a weighted average rate of 2.40%. Due to the impact of the swaps, an increase in interest rates would not materially impact our annual interest expense at June 30, 2014.

#### **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 June 30, 2014, 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. 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 8. Financial Statements and Supplementary Data**

**Consolidated Balance Sheets**

**Standex International Corporation and Subsidiaries**

**As of June 30** (in thousands, except share data)

**2014**

**2013**

**ASSETS**

Current assets:

Cash and cash equivalents	\$	74,260	\$	51,064
Accounts receivable, net		107,674		97,995
Inventories		97,065		81,811
Prepaid expenses and other current assets		7,034		7,286
Income taxes receivable		922		-
Deferred tax asset		12,981		12,237
Current assets - discontinued operations		-		7,909
Total current assets		<u>299,936</u>		<u>258,302</u>

Property, plant, equipment, net		96,697		92,542
Intangible assets, net		31,490		24,632
Goodwill		125,965		111,905
Deferred tax asset		878		-
Other non-current assets		23,194		19,401
Non-current assets - discontinued operations		-		3,791
Total non-current assets		<u>278,224</u>		<u>252,271</u>
Total assets	\$	<u>578,160</u>	\$	<u>510,573</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:

Accounts payable	\$	85,206	\$	67,552
Accrued liabilities		51,038		46,497
Income taxes payable		4,926		1,638
Current liabilities – discontinued operations		-		2,786
Total current liabilities		<u>141,170</u>		<u>118,473</u>

Long-term debt		45,056		50,072
Deferred income taxes		10,853		7,838
Pension obligations		31,815		33,538
Other non-current liabilities		8,540		9,664
Total non-current liabilities		<u>96,264</u>		<u>101,112</u>

Commitments and Contingencies (Notes 11 and 12)

Stockholders' equity:

Common stock, par value \$1.50 per share - 60,000,000 shares authorized, 27,984,278 issued, 12,639,615 and 12,549,806 shares outstanding in 2014 and 2013		41,976		41,976
Additional paid-in capital		43,388		37,199



Retained earnings	584,014	546,031
Accumulated other comprehensive loss	(55,819)	(65,280)
Treasury shares (15,344,663 shares in 2014 and 15,434,472 shares in 2013)	(272,833)	(268,938)
Total stockholders' equity	<u>340,726</u>	<u>290,988</u>
Total liabilities and stockholders' equity	<u>\$ 578,160</u>	<u>\$ 510,573</u>

See notes to consolidated financial statements.

### Consolidated Statements of Operations

#### Standex International Corporation and Subsidiaries

For the Years Ended June 30 (in thousands, except per share data)

	2014	2013	2012
Net sales	\$ 716,180	\$ 673,390	\$ 610,586
Cost of sales	<u>477,911</u>	<u>455,199</u>	<u>408,850</u>
Gross profit	238,269	218,191	201,736
Selling, general and administrative	165,786	153,630	141,471
Gain on sale of real estate	-	-	(4,776)
Restructuring costs	10,077	2,666	1,685
Other operating (income) expense, net	<u>(3,462)</u>	<u>-</u>	<u>-</u>
Income from operations	<u>65,868</u>	<u>61,895</u>	<u>63,356</u>
Interest expense	2,249	2,469	2,280
Other, net	<u>(4,184)</u>	<u>128</u>	<u>(519)</u>
Total	<u>(1,935)</u>	<u>2,597</u>	<u>1,761</u>
Income from continuing operations before income taxes	67,803	59,298	61,595
Provision for income taxes	<u>18,054</u>	<u>15,244</u>	<u>15,699</u>
Income from continuing operations	49,749	44,054	45,896
Income (loss) from discontinued operations, net of tax	<u>(6,883)</u>	<u>794</u>	<u>(14,991)</u>
Net income	<u>\$ 42,866</u>	<u>\$ 44,848</u>	<u>\$ 30,905</u>
<i>Basic earnings per share:</i>			
Income (loss) from continuing operations	\$ 3.94	\$ 3.51	\$ 3.67
Income (loss) from discontinued operations	<u>(0.55)</u>	<u>0.06</u>	<u>(1.20)</u>
Total	<u>\$ 3.39</u>	<u>\$ 3.57</u>	<u>\$ 2.47</u>
<i>Diluted earnings per share:</i>			
Income (loss) from continuing operations	\$ 3.89	\$ 3.45	\$ 3.59
Income (loss) from discontinued operations	<u>(0.54)</u>	<u>0.06</u>	<u>(1.17)</u>
Total	<u>\$ 3.35</u>	<u>\$ 3.51</u>	<u>\$ 2.42</u>

See notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income**  
**Standex International Corporation and Subsidiaries**

<b>For the Years Ended June 30, 2014</b> (in thousands)	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ 42,866	\$ 44,848	\$ 30,905
Other comprehensive income (loss):			
Defined benefit pension plans:			
Actuarial gains (losses) and other changes in unrecognized costs	\$ (604)	\$ 12,640	\$ (38,283)
Amortization of unrecognized costs	4,855	8,701	5,603
Derivative instruments:			
Change in unrealized gains and losses	(194)	(195)	(1,987)
Amortization of unrealized gains and losses into interest expense	1,031	1,050	820
Foreign currency translation adjustments	6,055	(4,025)	(7,847)
Other comprehensive income (loss) before tax	\$ 11,143	\$ 18,171	\$ (41,694)
Income tax provision (benefit):			
Defined benefit pension plans:			
Actuarial gains (losses) and other changes in unrecognized costs	\$ 362	\$ (4,836)	\$ 13,848
Amortization of unrecognized costs	(1,724)	(3,165)	(2,793)
Derivative instruments:			
Change in unrealized gains and losses	74	75	752
Amortization of unrealized gains and losses into interest expense	(394)	(400)	(310)
Income tax provision benefit to other comprehensive income (loss)	\$ (1,682)	\$ (8,326)	\$ 11,497
Other comprehensive income (loss), net of tax	9,461	9,845	(30,197)
Comprehensive income (loss)	\$ 52,327	\$ 54,693	\$ 708

See notes to consolidated financial statements.



**Consolidated Statements of Stockholders' Equity**

**Standex International Corporation and Subsidiaries**

For the Years Ended June 30 (in thousands)	Common Stock		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Treasury Stock	Total Stockholders' Equity		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
<b>Balance, June 30, 2011</b>	\$ 41,976	\$	33,228	\$	477,726	\$	(44,928)	15,536	\$	(262,389)	\$	245,613
Stock issued for employee stock option and purchase plans, including related income tax benefit			(2,156)					(229)		3,875		1,719
Stock-based compensation			3,856									3,856
Treasury stock acquired								154		(5,521)		(5,521)
Comprehensive income:												
Net Income					30,905							30,905
Foreign currency translation adjustment							(7,847)					(7,847)
Pension and OPEB adjustments, net of tax of \$11.1 million							(21,625)					(21,625)
Change in fair value of derivatives, net of tax of \$0.4 million							(725)					(725)
Dividends paid (\$0.27 per share)					(3,468)							(3,468)
<b>Balance, June 30, 2012</b>	\$ 41,976	\$	34,928	\$	505,163	\$	(75,125)	15,461	\$	(264,035)	\$	242,907
Stock issued for employee stock option and purchase plans, including related income tax benefit and other			(1,072)					(210)		3,606		2,534
Stock-based compensation			3,343									3,343
Treasury stock acquired								184		(8,509)		(8,509)
Comprehensive income:												
Net Income					44,848							44,848
Foreign currency translation adjustment							(4,025)					(4,025)
Pension and OPEB adjustments, net of tax of (\$8.0) million								13,340				13,340
Change in fair value of derivatives, net of tax of (\$0.3) million							530					530
Dividends paid (\$0.31 per share)					(3,980)							(3,980)
<b>Balance, June 30, 2013</b>	\$ 41,976	\$	37,199	\$	546,031	\$	(65,280)	15,435	\$	(268,938)	\$	290,988
Stock issued for employee stock option and purchase plans, including related income tax benefit and other			(441)					(222)		3,895		3,454
Stock-based compensation			6,630									6,630
Treasury stock acquired								132		(7,790)		(7,790)
Comprehensive income:												
Net Income					42,866							42,866
Foreign currency translation adjustment							6,055					6,055
Pension and OPEB adjustments, net of tax of (\$1.3) million								2,889				2,889
Change in fair value of derivatives, net of tax of (\$0.3) million							517					517
Dividends paid (\$0.38 per share)					(4,883)							(4,883)
<b>Balance, June 30, 2014</b>	\$ 41,976	\$	43,388	\$	584,014	\$	(55,819)	15,345	\$	(272,833)	\$	340,726

See notes to consolidated financial statements.



## Consolidated Statements of Cash Flows

### Standex International Corporation and Subsidiaries

For the Years Ended June 30 (in thousands)

	2014	2013	2012
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 42,866	\$ 44,848	\$ 30,905
Income (loss) from discontinued operations	(6,883)	794	(14,991)
Income (loss) from continuing operations	49,749	44,054	45,896
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	14,591	15,235	13,142
Stock-based compensation	6,630	3,343	3,768
Deferred income taxes	(3,343)	(2,416)	2,342
Non-cash portion of restructuring charge	5,982	(31)	81
(Gain)/loss on sale of real estate	-	-	(4,776)
Disposal of real estate and equipment	925	-	-
Life insurance benefit	(3,353)	-	-
Increase/(decrease) in cash from changes in assets and liabilities, net of effects from discontinued operations and business acquisitions:			
Accounts receivables, net	(6,614)	4,335	(6,628)
Inventories	(10,041)	656	792
Contributions to defined benefit plans	(1,527)	(4,578)	(7,268)
Prepaid expenses and other	(6,388)	(2,889)	(2,666)
Accounts payable	15,166	3,414	(433)
Accrued payroll, employee benefits and other liabilities	6,192	2,372	4,317
Income taxes payable	4,023	710	(3,078)
Net cash provided by operating activities from continuing operations	71,992	64,205	45,489
Net cash used for operating activities from discontinued operations	(1,693)	(4,024)	(1,823)
Net cash provided by operating activities	70,299	60,181	43,666
<b>Cash Flows from Investing Activities</b>			
Expenditures for capital assets	(18,832)	(14,104)	(9,741)
Expenditures for acquisitions, net of cash acquired	(23,075)	(39,613)	-
Expenditures for executive life insurance policies	(444)	(435)	(476)
Proceeds withdrawn from life insurance policies	3,654	1,480	152
Proceeds from sale of real estate and equipment	118	28	5,207
Other investing activity	2,964	-	(2,367)
Net cash provided by (used for) investing activities from continuing operations	(35,615)	(52,644)	(7,225)
Net cash provided by (used for) investing activities from discontinued operations	2,452	(43)	15,809
Net cash provided by (used for) investing activities	(33,163)	(52,687)	8,584
<b>Cash Flows from Financing Activities</b>			
Proceeds from borrowings	71,000	121,000	210,500
Payments of debt	(76,000)	(121,785)	(210,300)
Short-term borrowings, net	-	-	(1,800)
Stock issued under employee stock option and purchase plans	1,098	279	316
Excess tax benefit associated with stock option exercises	1,650	1,990	649
Cash dividends paid	(4,793)	(3,891)	(3,383)
Purchase of treasury stock	(7,790)	(8,509)	(5,521)
Net cash used for financing activities	(14,835)	(10,916)	(9,539)
Effect of exchange rate changes on cash	895	(263)	(2,369)
Net change in cash and cash equivalents	23,196	(3,685)	40,342
Cash and cash equivalents at beginning of year	51,064	54,749	14,407
Cash and cash equivalents at end of year	\$ 74,260	\$ 51,064	\$ 54,749
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	\$ 1,834	\$ 2,193	\$ 1,792
Income taxes, net of refunds	\$ 14,048	\$ 14,018	\$ 13,377

See notes to consolidated financial statements.

## STANDEX INTERNATIONAL CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SUMMARY OF ACCOUNTING POLICIES

##### *Basis of Presentation and Consolidation*

Standex International Corporation (“Standex” or the “Company”) is a diversified manufacturing company with operations in the United States, Europe, Asia, Africa, and Latin America. The accompanying consolidated financial statements include the accounts of Standex International Corporation and its subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation.

During the year ended June 30, 2014, the Company completed the divestiture of American Foodservice, “AFS” a custom-fabricated food service counter systems, buffet tables and cabinets division. During the year ended June 30, 2012, the Company completed the divestiture of Air Distribution Products, “ADP” a manufacture of metal and fittings for residential heating ventilating and air conditioning applications business. As a result, the Statement of Operations for all periods has been restated to reflect the operations of AFS and ADP as discontinued operations. The June 30, 2013, Consolidated Balance Sheet has been revised to present the assets and liabilities of AFS as the assets and liabilities of a discontinued operation. For further information, please see Note 15 – Discontinued Operations.

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 consolidated financial statements were issued.

##### *Accounting Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. Estimates are based on historical experience, actuarial estimates, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities when they are not readily apparent from other sources. These estimates assist in the identification and assessment of the accounting treatment necessary with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions.

##### *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments purchased with a maturity of three months or less. These investments are carried at cost, which approximates fair value. At June 30, 2014 and 2013, the Company’s cash was comprised solely of cash on deposit.

##### *Trading Securities*

The Company purchases investments in connection with the KEYSOP Plan for certain retired executives and for its non-qualified defined contribution plan for employees who exceed certain thresholds under our traditional 401(k) plan. These investments are classified as trading and reported at fair value. The investments generally consist of mutual funds, are included in other non-current assets and amounted to \$3.1 million and \$2.5 million at June 30, 2014 and 2013, respectively.

Gains and losses on these investments are recorded as other non-operating income (expense), net in the Consolidated Statements of Operations.

##### *Accounts Receivable Allowances*

The Company has provided an allowance for doubtful accounts reserve which represents the best estimate of probable loss inherent in the Company’s account receivables portfolio. This estimate is derived from the Company’s knowledge of its end markets, customer base, products, and historical experience.

The changes in the allowances for uncollectible accounts during 2014, 2013, and 2012 were as follows (in thousands):

	2014	2013	2012
Balance at beginning of year	\$ 2,325	\$ 1,974	\$ 2,166
Acquisitions	93	190	-
Provision charged to expense	375	268	389
Write-offs, net of recoveries	(511)	(107)	(581)
Balance at end of year	<u>\$ 2,282</u>	<u>\$ 2,325</u>	<u>\$ 1,974</u>

#### ***Inventories***

Inventories are stated at the lower of (first-in, first-out) cost or market.

#### ***Long-Lived Assets***

Long-lived assets that are used in operations, excluding goodwill and identifiable intangible assets, are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Recognition and measurement of a potential impairment loss is performed on assets grouped with other assets and liabilities at the lowest level where identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss is the amount by which the carrying amount of a long-lived asset (asset group) exceeds its estimated fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

#### ***Property, Plant and Equipment***

Property, plant and equipment are reported at cost less accumulated depreciation. Depreciation is recorded on assets over their estimated useful lives, generally using the straight-line method. Lives for property, plant and equipment are as follows:

Routine maintenance costs are expensed as incurred. Major improvements are capitalized. Major improvements to leased buildings are capitalized as leasehold improvements and depreciated over the lesser of the lease term or the life of the improvement.

#### ***Goodwill and Identifiable Intangible Assets***

All business combinations are accounted for using the acquisition method. Goodwill and identifiable intangible assets with indefinite lives, are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Identifiable intangible assets that are not deemed to have indefinite lives are amortized on an accelerated basis over the following useful lives:

See discussion of the Company's assessment of impairment in Note 5 – Goodwill, and Note 6 – Intangible Assets.

#### ***Fair Value of Financial Instruments***



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. For pension assets (see Note 17 – Employee Benefit Plans), securities are valued based on quoted market prices for securities held directly by the trust.

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. For pension assets held in commingled funds (see Note 17 – Employee Benefit Plans) the Company values investments based on the net asset value of the funds, which are derived from the quoted market prices of the underlying fund holdings. 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.

We did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy at June 30, 2014 and 2013.

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

The fair values of our financial instruments at June 30, 2014 and 2013 were (in thousands):

	<b>2014</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
Marketable securities - deferred compensation plan	\$ 3,114	\$ 3,114	\$ -	\$ -
Foreign Exchange contracts	356		356	-
<b>Financial Liabilities</b>				
Foreign Exchange contracts	\$ 1,552	\$ -	\$ 1,552	\$ -
Interest rate swaps	1,061	-	1,061	-
	<b>2013</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
Marketable securities - deferred compensation plan	\$ 2,478	\$ 2,478	\$ -	\$ -
Foreign Exchange contracts	37		37	-
<b>Financial Liabilities</b>				
Foreign Exchange contracts	\$ 1,443	\$ -	\$ 1,443	\$ -
Interest rate swaps	1,875	-	1,875	-

### **Concentration of Credit Risk**

The Company is subject to credit risk through trade receivables and short-term cash investments. Concentration of risk with respect to trade receivables is minimized because of the diversification of our operations, as well as our large customer base and our geographical dispersion. No individual customer accounts for more than 5% of revenues or accounts receivable in the periods presented.

Short-term cash investments are placed with high credit-quality financial institutions. The Company monitors the amount of credit exposure in any one institution or type of investment instrument.

### **Revenue Recognition**

The Company's product sales are recorded when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured. For products that include installation, and if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and installation revenue is recognized when the installation is complete. Revenues under certain fixed price contracts are generally recorded when deliveries are made.

Sales and estimated profits under certain long-term contracts are recognized under the percentage-of-completion methods of accounting, whereby profits are recorded pro rata, based upon current estimates of costs to complete such contracts. Losses on contracts are provided for in the period in which the losses become determinable. Revisions in profit estimates are reflected on a cumulative basis in the period in which the basis for such revision becomes known. Any excess of the billings over cost and estimated earnings on long-term contracts is included in deferred revenue.

### **Cost of Goods Sold and Selling, General and Administrative Expenses**

The Company includes expenses in either cost of goods sold or selling, general and administrative categories based upon the natural classification of the expenses. Cost of goods sold includes expenses associated with the acquisition, inspection, manufacturing and receiving of materials for use in the manufacturing process. These costs include inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs as well as depreciation, amortization, wages, benefits and other costs that are incurred directly or indirectly to support the manufacturing process.

Selling, general and administrative includes expenses associated with the distribution of our products, sales effort, administration costs and other costs that are not incurred to support the manufacturing process. The Company records distribution costs associated with the sale of inventory as a component of selling, general and administrative expenses in the Consolidated Statements of Operations. These expenses include warehousing costs, outbound freight charges and costs associated with distribution personnel. Our gross profit margins may not be comparable to those of other entities due to different classifications of costs and expenses.

### **Research and Development**

Research and development expenditures are expensed as incurred. Total research and development costs, which are classified under selling, general, and administrative expenses, were \$4.8 million, \$4.4 million, and \$4.4 million for the years ended June 30, 2014, 2013, and 2012, respectively.

### **Warranties**

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

The changes in warranty reserve, which are recorded as accrued liabilities, during 2014, 2013, and 2012 were as follows (in thousands):

	2014	2013	2012
Balance at beginning of year	\$ 6,782	\$ 5,767	\$ 4,840
Acquisitions	274	795	-
Warranty expense	3,937	4,282	4,434
Warranty claims	<u>(4,052)</u>	<u>(4,062)</u>	<u>(3,507)</u>

Balance at end of year	<u>\$ 6,941</u>	<u>\$ 6,782</u>	<u>\$ 5,767</u>
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### ***Stock-Based Compensation Plans***

Restricted stock awards generally vest over a three-year period. Compensation expense associated with these awards is recorded based on their grant-date fair values and is generally recognized on a straight-line basis over the vesting period except for awards with performance conditions, which are recognized on a graded vesting schedule. Compensation cost for an award with a performance condition is based on the probable outcome of that performance condition. The stated vesting period is considered non-substantive for retirement eligible participants. Accordingly, the Company recognizes any remaining unrecognized compensation expense upon participant reaching retirement eligibility.

### ***Foreign Currency Translation***

The functional currency of our non-U.S. operations is generally the local currency. Assets and liabilities of non-U.S. operations are translated into U.S. Dollars on a monthly basis using period-end exchange rates. Revenues and expenses of these operations are translated using average exchange rates. The resulting translation adjustment is reported as a component of comprehensive income (loss) in the consolidated statements of stockholders' equity and comprehensive income. Gains and losses from foreign currency transactions are included in results of operations and were not material for any period presented.

### ***Derivative Instruments and Hedging Activities***

The Company recognizes all derivatives on its balance sheet at fair value.

Forward foreign currency exchange contracts are periodically used to limit the impact of currency fluctuations on certain anticipated foreign cash flows, such as foreign purchases of materials and loan payments from subsidiaries. The Company enters into such contracts for hedging purposes only. For hedges of intercompany loan payments, the Company records derivative gains and losses directly to the statement of operations due to the general short-term nature and predictability of the transactions.

The Company also uses interest rate swaps to manage exposure to interest rates on the Company's variable rate indebtedness. The Company values the swaps based on contract prices in the derivatives market for similar instruments.

The Company has designated the swaps as cash flow hedges, and changes in the fair value of the swaps are recognized in other comprehensive income (loss) 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 does not hold or issue derivative instruments for trading purposes.

### ***Income Taxes***

Deferred assets and liabilities are recorded for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax bases of assets and liabilities using enacted tax rates. Valuation allowances are provided when the Company does not believe it more likely than not the benefit of identified tax assets will be realized.

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. The Company accounts for uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized following resolution of any potential contingencies present related to the tax benefit, assuming that the matter in question will be raised by the tax authorities. Interest and penalties associated with such uncertain tax positions are recorded as a component of income tax expense.

### ***Earnings Per Share***

(share amounts in thousands)	2014	2013	2012
Basic – Average Shares Outstanding	12,613	12,561	12,517
Effect of Dilutive Securities – Stock Options and Restricted Stock Awards	165	219	270

Diluted – Average Shares Outstanding	12,778	12,780	12,787
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Both basic and dilutive income is the same for computing earnings per share. There were no outstanding instruments that had an anti-dilutive effect at June 30, 2014, 2013 and 2012.

### Recently Issued Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) issued accounting standard update (“ASU”) 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The update provides guidance on how to account for certain share-based payment awards where employees would be eligible to vest in the award regardless of whether the employee is still rendering service on the date the performance target is achieved. The standard is effective for annual and interim periods with those annual periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-12 to have a material impact to its consolidated results of operation.

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard, ASU 2014-09, *Revenue from Contract with Customers*, that will supersede nearly all existing revenue recognition guidance under US GAAP and IFRS. The standard’s primary principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. The Company expects to adopt this standard in the quarter ending September 30, 2017. The Company is still evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 revised guidance to only allow disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity’s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations, as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. ASU 2014-08 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company is still evaluating the impact of adopting ASU 2014-08 on its consolidated financial statements.

## 2. ACQUISITIONS

In June 2014, the Company acquired Ultrafryer Systems, Inc. (“Ultrafryer”) a producer of commercial deep fryers for restaurant and commercial installations. This investment complements our Food Service Equipment Group’s product line and allows us to provide broader solutions to restaurant chains and commercial food service installations.

The Company paid \$20.7 million in cash for 100% of the stock of Ultrafryer and has preliminarily recorded intangible assets of \$7.6 million, consisting of \$2.4 million of trademarks which are indefinite-lived, \$4.9 million of customer relationships, and \$0.3 million of other intangible assets which are expected to be amortized over a period of fifteen and three to five years, respectively. Acquired goodwill of \$10.9 million is not deductible for income tax purposes due to the nature of the transaction. The Company anticipates finalizing the purchase price allocation, primarily as it relates to acquired tangible assets, during the quarter ended September 30, 2014.

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

	<u>Ultrafryer</u>
Fair value of business combination:	
Cash payments	\$ 20,745
Less: cash acquired	(20)
Total	<u>\$ 20,725</u>
Identifiable assets acquired and liabilities assumed	
Current assets	\$ 5,871

Property, plant, and equipment	1,259
Identifiable intangible assets	7,612
Goodwill	10,930
Liabilities assumed	(1,733)
Deferred taxes	(3,214)
Total	<u>\$ 20,725</u>

In addition, during June 2014, the Company also purchased the assets of Planar Quality Corporation, producer of transformers for commercial, military and space applications. This investment will enhance our Electronics Group's transformer product group capabilities. The company paid \$2.4 million in cash, recorded intangible assets of \$1.0 million consisting of \$0.4 million of patents and \$0.7 million of other intangible assets, which are expected to be amortized over a period of seven and five years, respectively. Acquired goodwill of \$1.2 million is fully deductible for income tax purposes.

In July 2012, the Company acquired Meder electronic AG ("Meder"), a German manufacturer of magnetic reed switch, reed relay, and reed sensor products. Meder, whose products and geographic markets are complementary to Standex Electronics, is reported under the Electronics Products Group. This investment substantially broadens the global footprint, product line offerings, and end-user markets of the Electronics segment.

The Company paid \$43.2 million in cash for 100% of the equity of Meder. Acquired intangible assets of \$8.2 million consist of \$3.4 million of trademarks, which are indefinite-lived, and \$4.8 million of customer relationships, which are expected to be amortized over a period of 10 years. Acquired goodwill of \$12.1 million is not deductible for income tax purposes due to the nature of the transaction. The Company finalized the purchase price allocation during the quarter ended December 31, 2012.

The components of the fair value of the Meder acquisition, including the final allocation of the purchase are as follows (in thousands):

	<b>Meder Electronic</b>
<b>Fair value of business combination:</b>	
Cash payments	\$ 43,181
Less: cash acquired	(3,568)
Total	<u>\$ 39,613</u>
<b>Identifiable assets acquired and liabilities assumed</b>	
Current assets	\$ 20,246
Property, plant, and equipment	11,060
Identifiable intangible assets	8,200
Goodwill	12,063
Other non-current assets	222
Liabilities assumed	(8,642)
Deferred taxes	(3,536)
Total	<u>\$ 39,613</u>

### 3. INVENTORIES

Inventories are comprised of (in thousands):

<b>June 30</b>	<b>2014</b>	<b>2013</b>
Raw materials	\$ 44,273	\$ 36,526
Work in process	24,551	22,886
Finished goods	28,241	22,399
Total	<u>\$ 97,065</u>	<u>\$ 81,811</u>

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses and were \$20.8 million, \$20.1 million, and \$19.9 million in 2014, 2013, and 2012, respectively.

#### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands):

June 30	2014	2013
Land, buildings and leasehold improvements	\$ 78,596	\$ 75,635
Machinery, equipment and other	171,238	154,376
Total	249,834	230,011
Less accumulated depreciation	153,137	137,469
Property, plant and equipment - net	\$ 96,697	\$ 92,542

Depreciation expense for the years ended June 30, 2014, 2013, and 2012 totaled \$12.2 million, \$12.7 million, and \$10.6 million, respectively.

#### 5. GOODWILL

Goodwill and certain indefinite-lived intangible assets are not amortized, but instead are tested for impairment at least annually and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying amount of the asset. The Company's annual test for impairment is performed using a May 31st measurement date.

The Company has identified our reporting units for impairment testing as its eleven operating segments, which are aggregated into five reporting segments as disclosed in Note 18 – Industry Segment Information.

As quoted market prices are not available for the Company's reporting units, the fair value of the reporting units is determined using a discounted cash flow model (income approach). This method uses various assumptions that are specific to each individual reporting unit in order to determine the fair value. In addition, the Company compares the estimated aggregate fair value of its reporting units to its overall market capitalization.

While the Company believes that estimates of future cash flows are reasonable, changes in assumptions could significantly affect valuations and result in impairments in the future. The most significant assumption involved in the Company's determination of fair value is the cash flow projections of each reporting unit. If the estimates of future cash flows for each reporting unit may be insufficient to support the carrying value of the reporting units, requiring the Company to re-assess its conclusions related to fair value and the recoverability of goodwill.

As a result of our annual assessment, the Company determined that the fair value of the reporting units and indefinite-lived intangible assets substantially exceeded their respective carrying values. Therefore, no impairment charges were recorded in connection with our assessments during 2014 and 2013.

Changes to goodwill during the years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Balance at beginning of year	\$ 129,844	\$ 118,572
Accumulated impairment losses	17,939	17,939
Balance at beginning of year, net	111,905	100,633
Acquisitions	12,132	12,063
Foreign currency translation	1,928	(791)
Balance at end of year	\$ 125,965	\$ 111,905

## 6. INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks (Indefinite-lived)	Other	Total
<b>June 30, 2014</b>				
Cost	\$ 36,145	\$ 14,508	\$ 4,061	\$ 54,714
Accumulated amortization	(21,137)	-	(2,087)	(23,224)
Balance, June 30, 2014	<u>\$ 15,008</u>	<u>\$ 14,508</u>	<u>\$ 1,974</u>	<u>\$ 31,490</u>
<b>June 30, 2013</b>				
Cost	\$ 30,289	\$ 11,977	\$ 4,228	\$ 46,494
Accumulated amortization	(18,272)	-	(3,590)	(21,862)
Balance, June 30, 2013	<u>\$ 12,017</u>	<u>\$ 11,977</u>	<u>\$ 638</u>	<u>\$ 24,632</u>

Amortization expense from continuing operations for the years ended June 30, 2014, 2013, and 2012 totaled \$2.6 million, \$2.6 million, and \$2.6 million, respectively. At June 30, 2014, aggregate amortization expense is estimated to be \$2.8 million in fiscal 2015, \$2.7 million in fiscal 2016, \$2.2 million in fiscal 2017, \$2.0 million in fiscal 2018, \$1.9 million in fiscal 2019, and \$5.4 million thereafter.

## 7. DEBT

Long-term debt is comprised of the following at June 30 (in thousands):

	2014	2013
Bank credit agreements	\$ 45,000	\$ 50,000
Other	56	72
Total long-term debt	<u>\$ 45,056</u>	<u>\$ 50,072</u>

Long-term debt is due as follows (in thousands):

2015	\$ 18
2016	15
2017	45,015
2018	8
2019	-
Thereafter	-

### Bank Credit Agreements

On January 5, 2012, the Company entered into a five-year \$225 million unsecured Revolving Credit Facility (“Credit Agreement”, or “facility”), which can be increased by the Company by an amount of up to \$100 million, in accordance with specified conditions contained in the agreement. The facility also includes a \$10 million sub-facility for swing line loans and a \$30 million sub-facility for letters of credit. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate plus an applicable margin, which will fluctuate based on financial performance. The Credit Agreement requires a ratio of funded debt to EBITDA (as defined in the Credit Agreement) of no greater than 3.5:1, an interest coverage ratio of no less than 3:1, as well as customary affirmative and negative covenants and events of default. The Credit Agreement also includes certain requirements related to acquisitions and dispositions. Borrowings under the Credit Agreement are guaranteed by the Company’s domestic subsidiaries and are unsecured. The Company intends to use this Credit Agreement to fund potential acquisitions, to support organic growth initiatives, working capital needs, and for general corporate purposes.

As of June 30, 2014, the Company had the ability to borrow \$168.6 million under this facility. The carrying value of the current borrowings under the facility approximated fair value.

The facility expires in January 2017 and contains customary representations, warranties and restrictive covenants, as well as specific financial covenants. The terms of the Credit Agreement limited the ability of the Company to pay dividends to shareholders unless the Company is in compliance with the specific financial covenants under the facility. 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 Agreement"), to interest expense for the trailing twelve months of at least 3:1. Adjusted EBIT per the Credit Agreement specifically excludes extraordinary and certain other defined items such as non-cash restructuring and acquisition-related charges up to \$2.0 million, and goodwill impairment. At June 30, 2014, the Company's Interest Coverage Ratio was 35.58:1.

*Leverage Ratio* - The Company's ratio of funded debt to trailing twelve month Adjusted EBITDA per the credit agreement, calculated as Adjusted EBIT per the Credit Agreement plus Depreciation and Amortization, may not exceed 3.5:1. At June 30, 2014, the Company's Leverage Ratio was 0.59:1.

#### **Other Long-Term Borrowings**

At June 30, 2014, and 2013, the Company had standby letters of credit outstanding, primarily for insurance purposes, of \$11.3 million and \$10.7 million, respectively.

### **8. ACCRUED LIABILITIES**

Accrued expenses consist of the following (in thousands):

	<b>2014</b>	<b>2013</b>
Payroll and employee benefits	\$ 26,736	\$ 25,403
Workers' compensation	2,610	2,489
Warranty	7,401	6,995
Other	14,291	11,610
Total	<u>\$ 51,038</u>	<u>\$ 46,497</u>

### **9. DERIVATIVE FINANCIAL INSTRUMENTS**

#### *Interest Rate Swaps*

In order to manage our interest rate exposure, we are party to \$45.0 million of floating to fixed rate swaps. These swaps convert our interest payments from LIBOR to a weighted average rate of 2.40% at June 30, 2014.

The fair value of the swaps recognized in accrued liabilities and in other comprehensive income (loss) at June 30, 2014 and 2013 is as follows (in thousands):

Effective Date	Notional Amount	Fixed Interest Rate	Maturity	Fair Value at June 30,	
				2014	2013
June 1, 2010	\$ 5,000	2.495%	May 26, 2015	\$ (108)	\$ (205)
June 1, 2010	5,000	2.495%	May 26, 2015	(108)	(205)
June 4, 2010	10,000	2.395%	May 26, 2015	(206)	(389)
June 9, 2010	5,000	2.34%	May 26, 2015	(100)	(190)
June 18, 2010	5,000	2.38%	May 26, 2015	(103)	(194)
September 21, 2011	5,000	1.28%	September 21, 2013	-	(14)
September 21, 2011	5,000	1.60%	September 22, 2014	(18)	(83)
March 15, 2012	10,000	2.75%	March 15, 2016	(418)	(595)
				<u>\$ (1,061)</u>	<u>\$ (1,875)</u>

The Company reported no losses for the years ended June 30, 2014, 2013, and 2012, 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 foreign purchases of materials and loan payments to and from subsidiaries. The Company enters into such contracts for hedging purposes only. For hedges of intercompany loan payments, the Company has not elected hedge accounting due to the general short-term nature and predictability of the transactions, and records derivative gains and losses directly to the consolidated statement of operations. At June 30, 2014 and 2013 the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized (losses) of (\$1.2) million and (\$1.4) million, respectively, which approximate the unrealized gains or losses on the related loans. The contracts have maturity dates ranging from 2014-2016, which correspond to the related intercompany loans. The notional amounts of these instruments, by currency, are as follows:

Currency	2014	2013
Euro	24,289,064	48,349,064
Canadian Dollar	3,600,000	3,600,000
Pound Sterling	3,975,192	2,580,289

The table below presents the fair value of derivative financial instruments as well as their classification on the balance sheet at June 30, (in thousands):

Derivative designated as hedging instruments	Asset Derivatives			
	2014		2013	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Foreign exchange contracts	Other Assets	\$ 356	Other Assets	\$ 37

Derivative designated as hedging instruments	Liability Derivatives			
	2014		2013	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Interest rate swaps	Accrued Liabilities	\$ 1,061	Accrued Liabilities	\$ 1,875
Foreign exchange contracts	Accrued Liabilities	1,552	Accrued Liabilities	1,443
		<u>\$ 2,613</u>		<u>\$ 3,318</u>

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):

	2014	2013	2012
Interest rate swaps	\$ (194)	\$ (195)	\$ (1,987)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	2014	2013	2012	Affected line item in the Statements of Operations
Interest rate swaps	\$ 1,031	\$ 1,050	\$ 820	Interest expense

## 10. INCOME TAXES

The components of income from continuing operations before income taxes are as follows (in thousands):

	2014	2013	2012
U.S. Operations	\$ 26,965	\$ 35,805	\$ 26,366
Non-U.S. Operations	40,838	23,493	35,229
Total	<u>\$ 67,803</u>	<u>\$ 59,298</u>	<u>\$ 61,595</u>

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities given the provisions of the enacted tax laws. The components of the provision for income taxes on continuing operations (in thousands) were as shown below:

	2014	2013	2012
Current:			
Federal	\$ 9,653	\$ 9,099	\$ 5,176
State	415	1,382	403
Non-U.S.	11,329	7,179	7,778
Total Current	<u>21,397</u>	<u>17,660</u>	<u>13,357</u>
Deferred:			
Federal	\$ (2,017)	\$ (454)	\$ 2,109
State	(376)	18	640
Non-U.S.	(950)	(1,980)	(407)
Total Deferred	<u>(3,343)</u>	<u>(2,416)</u>	<u>2,342</u>
Total	<u>\$ 18,054</u>	<u>\$ 15,244</u>	<u>\$ 15,699</u>

A reconciliation from the U.S. Federal income tax rate on continuing operations to the total tax provision is as follows (in thousands):

	2014	2013	2012
Provision at statutory tax rate	35.0%	35.0%	35.0%
State taxes	0.0%	1.5%	1.1%
Impact of Foreign Operations	-5.6%	-6.5%	-6.3%
Federal tax credits	-0.7%	-2.2%	-0.7%
Life Insurance Proceeds	-1.7%	0.0%	0.0%
Other	-0.4%	-2.1%	-3.6%
Effective income tax provision	<u>26.6%</u>	<u>25.7%</u>	<u>25.5%</u>

Changes in the effective tax rates from period to period may be significant as they depend on many factors including, but not limited to, size of the Company's income or loss and any one-time activities occurring during the period.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2014 was impacted by the following items: (i) a benefit of \$0.5 million related to the R&D tax credit that expired during the fiscal year on December 31, (ii) a benefit of \$0.5 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first quarter during the fiscal year, (iii) a benefit of \$1.1 million due to non-taxable life insurance proceeds received in the first quarter and (iv) a benefit of \$3.8 million due to the mix of income earned in jurisdictions with beneficial tax rates.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2013 was impacted by the following items: (i) a benefit of \$0.4 million related to the retroactive extension of the R&D credit recorded during the third quarter, (ii) a benefit of \$0.3 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first and fourth quarters, (iii) a benefit of \$1.0 million from the reversal of a

deferred tax liability that was determined to be no longer required during the third quarter and (iv) a benefit of \$2.8 million due to the mix of income earned in jurisdictions with beneficial tax rates.

The Company's income tax provision from continuing operations for the fiscal year ended June 30, 2012 was impacted by the following items: (i) a benefit of \$1.3 million from the reversal of income tax contingency reserves that were determined to be no longer needed due to the lapsing of the statute of limitations and re-measurement of existing tax contingency reserves based on recently completed tax examinations, (ii) a benefit of \$0.4 million related to a decrease in the statutory tax rate in the United Kingdom on prior period deferred tax liabilities recorded during the first quarter, and (iii) a benefit of \$4.5 million due to the mix of income earned in jurisdictions with beneficial tax rates.

Significant components of the Company's deferred income taxes are as follows (in thousands):

	2014	2013
Deferred tax liabilities:		
Depreciation and amortization	\$ (20,934)	\$ (18,778)
Total deferred tax liability	\$ (20,934)	\$ (18,778)
Deferred tax assets:		
Accrued compensation	\$ 4,463	\$ 3,464
Accrued expenses and reserves	3,040	2,429
Pension	10,975	12,246
Inventory	1,549	1,588
Other	758	806
Net operating loss and credit carry forwards	3,685	3,164
Total deferred tax asset	\$ 24,470	\$ 23,697
Less: Valuation allowance	(530)	(520)
Net deferred tax asset (liability)	\$ 3,006	\$ 4,399

The Company estimates the degree to which deferred tax assets, including net operating loss and credit carry forwards will result in a benefit based on expected profitability by tax jurisdiction and provides a valuation allowance for tax assets and loss carry forwards that it believes will more likely than not go unrealized. The valuation allowances at June 30, 2014 apply to the tax benefit of state loss carry forwards, which management has concluded that it is more likely than not that these tax benefits will not be realized. The increase (decrease) in the valuation allowance from the prior year was less than \$0.1 million, (\$0.3) million, and \$0.6 million in 2014, 2013, and 2012, respectively.

As of June 30, 2014, the Company had gross state net operating loss ("NOL") and credit carry forwards of approximately \$40.7 million and \$2.8 million, respectively, which may be available to offset future state income tax liabilities and expire at various dates from 2015 through 2034. In addition, the Company had foreign NOL carry forwards of approximately \$2.6 million, \$1.4 million of which carry forward indefinitely, \$1.0 million that carry forward for 10 years and \$0.2 million that carry forward for 5 years.

The Company's income taxes currently payable for federal and state purposes have been reduced by the benefit of the tax deduction in excess of recognized compensation cost from employee stock compensation transactions. The provision for income taxes that is currently payable has not been adjusted by approximately \$1.7 million and \$2.0 million of such benefits of the Company that have been allocated to additional paid in capital in 2014 and 2013, respectively.

A provision has not been made for U.S. or additional non-U.S. taxes on \$127.9 million of undistributed earnings of international subsidiaries that could be subject to taxation if remitted to the U.S. It is not practicable to estimate the amount of tax that might be payable on the remaining undistributed earnings. Our intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. Accordingly, we believe that U.S. tax on any earnings that might be repatriated would be substantially offset by U.S. foreign tax credits.

The total provision for income taxes included in the consolidated financial statements was as follows (in thousands):

	2014	2013	2012
Continuing operations	\$ 18,054	\$ 15,244	\$ 15,699
Discontinued operations	(3,692)	482	(9,109)
	<u>\$ 14,362</u>	<u>\$ 15,726</u>	<u>\$ 6,590</u>

The changes in the amount of gross unrecognized tax benefits during 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012
Beginning Balance	\$ 1,286	\$ 1,298	\$ 2,146
Additions based on tax positions related to the current year	25	77	64
Additions for tax positions of prior years	-	19	394
Reductions for tax positions of prior years	(278)	(108)	(1,306)
Ending Balance	<u>\$ 1,033</u>	<u>\$ 1,286</u>	<u>\$ 1,298</u>

If the unrecognized tax benefits in the table above were recognized in a future period, \$0.6 million of the unrecognized tax benefit would impact the Company's effective tax rate.

Within the next twelve months, the statute of limitations will close in various U.S., state and non-U.S. jurisdictions. As a result, it is reasonably expected that net unrecognized tax benefits from these various jurisdictions would be recognized within the next twelve months. The recognition of these tax benefits is not expected to have a material impact to the Company's financial statements. The Company does not reasonably expect any other significant changes in the next twelve months. The following tax years, in the major tax jurisdictions noted, are open for assessment or refund:

<u>Country</u>	<u>Years Ending June 30,</u>
United States	2011 to 2014
Canada	2010 to 2014
Germany	2010 to 2014
Ireland	2011 to 2014
Portugal	2010 to 2014
United Kingdom	2013 to 2014

The Company's policy is to include interest expense and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of operations. At both June 30, 2014 and June 30, 2013, the company had less than \$0.1 million for accrued interest expense on unrecognized tax benefits.

## 11. COMMITMENTS

The Company leases certain property and equipment under agreements with initial terms ranging from one to twenty years. Rental expense related to continuing operations for the years ended June 30, 2014, 2013, and 2012 was approximately \$5.5 million, \$4.9 million and \$4.8 million, respectively.

The gross minimum annual rental commitments under non-cancelable operating leases, principally real-estate at June 30, 2014:

<u>(in thousands)</u>	<u>Lease</u>	<u>Sublease</u>	<u>Net obligation</u>
2015	\$ 6,053	\$ 666	\$ 5,387
2016	4,960	356	4,604
2017	4,148	338	3,810
2018	2,813	185	2,628
2019	2,128	-	2,128
Thereafter	5,834	-	5,834

In March 2012, the Company sold substantially all of the assets of its ADP business. In connection with the divestiture, the Company remained the lessee of ADP's Philadelphia, PA facility and administrative offices, with the purchaser subleasing a fractional portion of the building at current market rates. In connection with the transaction, the Company recognized a lease impairment charge of \$2.3 million for the remaining rental expense. The Company's aggregate obligation with respect to the lease is \$1.8 million, of which \$1.3 million was recorded as a liability at June 30, 2014. Additionally, the Company remained an obligor on an additional facility lease that was assumed in full by the buyer, for which our aggregate obligation in the event of default by the buyer is \$0.8 million. With the exception of the impaired portion of the Philadelphia lease, the Company does not expect to make any payments with respect to these obligations. The buyer's obligations under the respective sublease and assumed lease are secured by a cross-default provision in the purchaser's promissory note for a portion of the purchase price which is secured by mortgages on the ADP real estate sold in the transaction.

## 12. 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.

## 13. STOCK-BASED COMPENSATION AND PURCHASE PLANS

### *Stock-Based Compensation Plans*

Under incentive compensation plans, the Company is authorized to make grants of stock options, restricted stock and performance share units to provide equity incentive compensation to key employees and directors. In fiscal 2004, the Company began granting stock awards instead of stock options. The stock award program offers employees and directors the opportunity to earn shares of our stock over time, rather than options that give the employees and directors the right to purchase stock at a set price. The Company has stock plans for directors, officers and certain key employees.

Total compensation cost recognized in income for equity based compensation awards was \$6.6 million, \$3.3 million, and \$3.8 million for the years ended June 30, 2014, 2013 and 2012, respectively, primarily within Selling, General, and Administrative Expenses. The total income tax benefit recognized in the consolidated statement of operations for equity-based compensation plans was \$2.3 million, \$1.2 million, and \$1.3 million for the years ended June 30, 2014, 2013 and 2012, respectively.

458,513 shares of common stock were reserved for issuance under various compensation plans at June 30, 2014.

### *Restricted Stock Awards*

The Company may award shares of restricted stock to eligible employees and non-employee directors of the Company at no cost, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares and rights during the restriction period. Such shares and rights are subject to forfeiture if certain employment conditions are not met. During the restriction period, recipients of the shares are entitled to dividend equivalents on such shares, providing that such shares are not forfeited. Dividends are accumulated and paid out at the end of the restriction period. During 2014, 2013 and 2012, the Company granted 62,698, 44,388, and 52,884 shares, respectively, of restricted stock to eligible participants. Restrictions on the stock awards generally lapse between fiscal 2015 and fiscal 2017. For the years ended June 30, 2014, 2013 and 2012, \$3.3 million, \$1.5 million, and \$1.4 million, respectively, was recognized as compensation expense related to restricted stock awards. Substantially all awards are expected to vest.

A summary of restricted stock awards activity during the year ended June 30, 2014 is as follows:

<b>Restricted Stock Awards</b>			
	<b>Number of Shares</b>		<b>Aggregate Intrinsic Value</b>
Outstanding, June 30, 2013	172,490	\$	9,098,848
Granted	62,698		
Exercised / vested	(88,826)		4,932,618
Canceled	(2,267)		
Outstanding, June 30, 2014	<u>144,095</u>	\$	10,732,196

Performance stock units during 2014, 2013 and 2012 had a weighted average grant date fair value of \$58.84, \$44.59, and \$29.05, respectively. The grant date fair value of restricted stock awards is determined based on the closing price of the Company's common stock on the date of grant. The total intrinsic value of awards exercised during the years ended June 30, 2014, 2013, and 2012 was \$3.1 million, \$3.5 million, and \$2.4 million, respectively.

As of June 30, 2014, there was \$2.4 million of unrecognized compensation costs related to awards expected to be recognized over a weighted-average period of 1.22 years.

#### ***Executive Compensation Program***

The Company operates a compensation program for key employees. The plan contains both an annual component as well as long-term component. Under the annual component, participants may elect to defer up to 50% of their annual incentive compensation in restricted stock which is purchased at a discount to the market. Additionally, non-employee directors of the Company may defer a portion of their director's fees in restricted stock units which is purchased at a discount to the market. During the restriction period, recipients of the shares are entitled to dividend equivalents on such units, providing that such shares are not forfeited. Dividend equivalents are accumulated and paid out at the end of the restriction period. The restrictions on the units expire after three years. At June 30, 2014 and 2013 respectively, 52,431 and 105,967 shares of restricted stock units are outstanding and subject to restrictions that lapse between fiscal 2014 and fiscal 2016. The compensation expense associated with this incentive program is charged to income over the restriction period. The Company recorded compensation expense related to this program of \$0.7 million, \$0.6 million, and \$0.4 million for the years ended June 30, 2014, 2013 and 2012, respectively.

As of June 30, 2014, there was \$0.2 million of unrecognized compensation costs related to awards expected to be recognized over a weighted-average period of 1.00 years

The fair value of the awards under the annual component of this incentive program is measured using the Black-Scholes option-pricing model. Key assumptions used to apply this pricing model are as follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Risk-free interest rates	0.70%	0.25%	0.25%
Expected life of option grants (in years)	3	3	3
Expected volatility of underlying stock	38.9%	47.4%	63.2%
Expected quarterly dividends (per share)	<u>\$ 0.08</u>	<u>\$ 0.07</u>	<u>\$ 0.06</u>

Under the long-term component, grants of performance share units ("PSUs") are made annually to key employees and the share units are earned based on the achievement of certain overall corporate financial performance targets over the performance period. At the end of the performance period, the number of shares of common stock issued will be determined by adjusting upward or downward from the target in a range between 50% and 200%. No shares will be issued if the minimum performance threshold is not achieved. The final performance percentage, on which the payout will be based, considering the performance metrics established for the performance period, will be certified by the Compensation Committee of the Board of Directors.

The awards granted by the Committee provided that the PSUs will be converted to shares of common stock if the Company's EBITDA (earnings before interest, taxes, depreciation and amortization) and return on assets meet specified levels approved by the Committee. A participant's right to any shares that are earned will vest in three equal installments. An executive whose employment terminates prior to the vesting of any installment for a reason other than death, disability, retirement, or following a change in control, will forfeit the shares represented by that installment. In certain circumstances, such as death, disability, or retirement, PSUs are paid on a pro-rata basis. In the event of a change in control, vesting of the awards granted is accelerated.

A summary of the awards activity under the executive compensation program during the year ended June 30, 2014 is as follows:

	Annual Component			Performance Stock Units	
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Shares	Aggregate Intrinsic Value
Non-vested, June 30, 2013	105,967	\$ 23.68	\$ 1,683,260	41,003	\$ 2,162,926
Granted	15,608	39.56		87,220	
Vested	(68,504)	22.49	2,308,140	(58,584)	2,386,361
Forfeited	(639)	28.78		(29,273)	
Non-vested, June 30, 2014	<u>52,432</u>	<u>\$ 29.91</u>	\$ 1,360,566	<u>40,366</u>	\$ 2,156,759

Restricted stock awards granted under the annual component of this program in fiscal 2014, 2013, and 2012 had a grant date fair value of \$69.47, \$55.61, and \$40.78, respectively. The PSUs granted in fiscal 2014, 2013 and 2012 had a grant date fair value of \$54.48, \$44.20, and \$26.60, respectively. The total intrinsic value of awards vested under the executive compensation program during the years ended June 30, 2014, 2013 and 2012 was \$2.2 million, \$3.1 million, and \$5.4 million, respectively.

The Company recognized compensation expense related to the PSUs of \$2.7 million, \$1.3 million, and \$2.1 million for the years ended June 30, 2014, 2013 and 2012, respectively. The total unrecognized compensation costs related to non-vested performance share units was \$1.3 million at June 30, 2014, which is expected to be recognized over a weighted average period of 1.90 years.

#### **Employee Stock Purchase Plan**

The Company has an Employee Stock Purchase Plan that allows employees to purchase shares of common stock of the Company at a discount from the market each quarter. Shares of our stock may be purchased by employees quarterly at 95% of the fair market value on the last day of each quarter. Shares of stock reserved for the plan were 97,890 at June 30, 2014. Shares purchased under this plan aggregated 4,473, 5,813, and 9,185 in 2014, 2013 and 2012, respectively, at an average price of \$58.54, \$48.16, and \$34.48, respectively.

#### **14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of the Company's accumulated other comprehensive income (loss) at June 30 are as follows (in thousands):

	2014	2013
Foreign currency translation adjustment	\$ 9,800	\$ 3,745
Unrealized pension losses, net of tax	(64,968)	(67,857)
Unrealized losses on derivative instruments, net of tax	(651)	(1,168)
Total	<u>\$ (55,819)</u>	<u>\$ (65,280)</u>

## 15. DISCONTINUED OPERATIONS

In June 2014, the Company divested the American Foodservice Company, a manufacturer of custom design and fabrication of counter systems and cabinets, in our Food Service Equipment Group segment. In connection with this sale, the Company received proceeds of \$3.1 million and recorded a net loss on disposal of \$3.2 million.

In December 2011, the Company divested the Air Distribution Products Group, ("ADP"). In connection with this sale, the Company adjusted the carrying value of ADP's assets to their net realizable value based on a range of expected sale prices. As a result, the Company recorded goodwill impairment charges of \$14.9 million and impairment charges of \$5.0 million to fixed assets.

On March 30, 2012, ADP was sold to a private equity buyer for consideration of \$16.1 million consisting of \$13.1 million in cash and a \$3.0 million note secured by first mortgages on three ADP facilities. During the quarter ended March 31, 2012, additional pre-tax charges of \$2.6 million were taken in connection with the closing of the sale. These charges related primarily to the impairment of a non-cancellable lease liability that the buyer elected not to assume as part of the purchase.

During 2014, the Company received notice that its obligations under a guarantee provided to the buyers of ADP were triggered as a result of its withdrawal from both of the multi-employer pension plans in which ADP previously participated. As a result, the Company has recorded charges of \$1.6 million in excess of the value of the guarantee previously recorded in order to fully settle these obligations.

The following table summarizes the Company's discontinued operations activity, by operation, for the years ended June 30, 2014, 2013 and 2012 (in thousands):

	Year Disposed	2014	2013	2012
Sales:				
American Foodservice Company	2014	\$ 20,556	\$ 27,870	\$ 24,054
Air Distribution Products Group	2012	-	-	43,537
		<u>20,556</u>	<u>27,870</u>	<u>67,591</u>
Income (loss) before taxes:				
American Foodservice Company (1)	2014	(8,339)	1,934	1,220
Air Distribution Products Group	2012	(1,849)	(451)	(24,871)
Other loss from discontinued operations		(387)	(207)	(453)
Income (loss) before taxes from discontinued operations		<u>(10,575)</u>	<u>1,276</u>	<u>(24,104)</u>
(Provision) benefit for tax		<u>3,692</u>	<u>(482)</u>	<u>9,113</u>
Net income (loss) from discontinued operations		<u>\$ (6,883)</u>	<u>\$ 794</u>	<u>\$ (14,991)</u>

(1) American Foodservice Company incurred a pretax operational loss of \$3.5 million and pretax loss on sale of \$4.8 million.

Assets and liabilities related to discontinued operations to be retained by the Company are recorded in the Consolidated Balance Sheets at June 30 under the following captions (in thousands):

	2014	2013
Current assets	\$ 199	\$ 483
Non-current assets	3,014	3,000
Current liabilities	2,340	795
Non-current liabilities	1,791	3,219

## 16. RESTRUCTURING

The Company has undertaken a number of initiatives that have resulted in severance, restructuring, and related charges. A summary of charges by initiative is as follows (in thousands):



Year Ended June 30,	<b>Involuntary Employee Severance and Benefit Costs</b>	<b>Other</b>	<b>Total</b>
<b>2014</b>			
2014 Restructuring Initiatives	\$ 1,528	\$ 8,477	\$ 10,005
Prior Year Initiatives	72	-	72
Total expense	<u>\$ 1,600</u>	<u>\$ 8,477</u>	<u>\$ 10,077</u>
<b>2013</b>			
2013 Restructuring Initiatives	\$ 1,299	\$ 1,367	\$ 2,666
Prior Year Initiatives	-	-	-
Total expense	<u>\$ 1,299</u>	<u>\$ 1,367</u>	<u>\$ 2,666</u>
<b>2012</b>			
2012 Restructuring Initiatives	\$ 901	\$ 206	\$ 1,107
Prior Year Initiatives	87	491	578
Total expense	<u>\$ 988</u>	<u>\$ 697</u>	<u>\$ 1,685</u>

#### *2014 Restructuring Initiatives*

On August 23, 2013 the Company announced a consolidation of its Cheyenne, Wyoming plant into its Mexico facility and other cooking solutions operations in North America. Restructuring expenses of \$10.1 million in the fiscal year 2014 are composed of \$9.2 million at Food Service Equipment primarily related to the announced closure of the Cheyenne, Wyoming facility, which includes a non-cash impairment charge of \$5.4 million.

Activity in the reserves related to 2014 restructuring initiatives is as follows (in thousands):

	<b>Involuntary Employee Severance and Benefit Costs</b>	<b>Other</b>	<b>Total</b>
Restructuring Liabilities at June 30, 2013	\$ 10	\$ -	\$ 10
Additions	1,528	3,051	4,579
Payments	(983)	(3,051)	(4,034)
Restructuring Liabilities at June 30, 2014	<u>\$ 555</u>	<u>\$ -</u>	<u>\$ 555</u>

#### *Prior Year Initiatives*

During the first half of 2013, the Company began a new headcount reduction program in its European Engraving Group operations as part of the realignment of the Group's global footprint. Restructuring cost of \$0.6 million related to this activity was substantially completed for the year ended June 30, 2013. During the third quarter, the Company completed the move and startup of the Sao Paulo, Brazil, Engraving Group facility to a location more suited to the Group's operational needs. Restructuring expenses for the year ended June 30, 2013 related to these activities were \$1.5 million. Also during the year as redundant positions due to the Meder acquisition are being eliminated the Company incurred \$0.4 million of restructuring costs in China, which was substantially completed for the year ended June 30, 2013.

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

	<b>Involuntary Employee Severance and Benefit</b>		
	<b>Costs</b>	<b>Other</b>	<b>Total</b>
Restructuring Liabilities at June 30, 2012	\$ 41	\$ -	\$ 41
Additions		-	-
Payments	(41)	-	(41)
Restructuring Liabilities at June 30, 2013	\$ -	\$ -	\$ -
Additions	72	-	72
Payments	(72)	-	(72)
Restructuring Liabilities at June 30, 2014	\$ -	\$ -	\$ -

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

Year Ended June 30,	<b>Involuntary Employee Severance and Benefit</b>		
	<b>Costs</b>	<b>Other</b>	<b>Total</b>
	<b>2014</b>		
Food Service Equipment Group	\$ 746	\$ 8,408	\$ 9,154
Engraving Group	667	21	688
Electronics Products Group	187	48	235
Total expense	\$ 1,600	\$ 8,477	\$ 10,077
	<b>2013</b>		
Food Service Equipment Group	\$ 183	\$ 25	\$ 208
Engineering Technologies Group	44	-	44
Engraving Group	776	1,253	2,029
Electronics Products Group	296	89	385
Total expense	\$ 1,299	\$ 1,367	\$ 2,666
	<b>2012</b>		
Food Service Equipment Group	\$ 279	\$ 647	\$ 926
Engraving Group	683	50	733
Corporate	26	-	26
Total expense	\$ 988	\$ 697	\$ 1,685

## 17. EMPLOYEE BENEFIT PLANS

### *Retirement Plans*

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. salaried employees was frozen as of December 31, 2007, and participants in the plan ceased accruing future benefits. The Company's pension plan for U.S. hourly employees was frozen for substantially all participants as of July 31, 2013, and replaced with a defined contribution benefit plan. Based on changes to the plan, the Company recorded a reduction in U.S. non-cash pension plan expense of \$2.6 million as compared to 2013, which was partially offset by increased expenses associated with the implementation of the defined contribution benefit program.

Net periodic benefit cost for U.S. and non-U.S. plans included the following components (in thousands):

Components of Net Periodic Benefit Cost	Pension Benefits					
	U.S. Plans			Foreign Plans		
	Year Ended June 30,			Year Ended June 30,		
	2014	2013	2012	2014	2013	2012
Service Cost	\$ 233	\$ 702	\$ 447	\$ 46	\$ 40	\$ 34
Interest Cost	11,241	10,941	11,975	1,723	1,667	1,758
Expected return on plan assets	(13,513)	(14,790)	(15,333)	(1,532)	(1,339)	(1,527)
Recognized net actuarial loss	3,941	7,577	4,814	819	901	527
Amortization of prior service cost (benefit)	57	98	111	(60)	(57)	(59)
Amortization of transition Obligation (asset)	-	2	2	-	-	-
Curtailment	-	52	-	-	-	-
Net periodic benefit cost (benefit)	\$ 1,959	\$ 4,582	\$ 2,016	\$ 996	\$ 1,212	\$ 733

The following table sets forth the funded status and amounts recognized as of June 30, 2014 and 2013 for our U.S. and foreign defined benefit pension plans (in thousands):

	U.S. Plans		Foreign Plans	
	Year Ended June 30,		Year Ended June 30,	
	2014	2013	2014	2013
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 227,874	\$ 45,212	\$ 37,897	\$ 37,527
Service cost	233	702	46	40
Interest cost	11,241	10,941	1,723	1,667
Actuarial loss (gain)	16,317	(12,366)	2,161	705
Benefits paid	(15,239)	(14,776)	(1,662)	(1,361)
Curtailment	-	(1,839)	-	-
Foreign currency exchange rate	-	-	4,113	(681)
Projected benefit obligation at end of year	\$ 240,426	\$ 227,874	\$ 44,278	\$ 37,897
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 200,174	\$ 198,718	\$ 30,889	\$ 29,138
Actual return on plan assets	30,956	12,825	3,034	2,805
Employer contribution	152	3,407	1,375	1,171
Benefits paid	(15,239)	(14,776)	(1,662)	(1,361)
Foreign currency exchange rate	-	-	3,851	(864)
Fair value of plan assets at end of year	\$ 216,043	\$ 200,174	\$ 37,487	\$ 30,889
Funded Status	\$ (24,383)	\$ (27,700)	\$ (6,791)	\$ (7,008)

**Amounts recognized in the consolidated balance sheets**

**consist of:**

Prepaid Benefit Cost	\$ -	\$ -	\$ 1,167	\$ 99
Current liabilities	(199)	(149)	(327)	(1,120)
Non-current liabilities	(24,184)	(27,551)	(7,631)	(5,987)
Net amount recognized	<u>\$ (24,383)</u>	<u>\$ (27,700)</u>	<u>\$ (6,791)</u>	<u>\$ (7,008)</u>
Unrecognized net actuarial loss	92,036	97,103	10,506	9,651
Unrecognized prior service cost	312	370	(220)	(267)
Accumulated other comprehensive income, pre-tax	<u>\$ 92,348</u>	<u>\$ 97,473</u>	<u>\$ 10,286</u>	<u>\$ 9,384</u>

The accumulated benefit obligation for all defined benefit pension plans was \$283.7 million and \$264.9 million at June 30, 2014 and 2013, respectively.

The estimated actuarial net loss and prior service benefit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$4.8 million and less than \$0.1 million, respectively.

**Plan Assets and Assumptions**

The fair values of the Company's pension plan assets at June 30, 2014 and 2013 by asset category, as classified in the three levels of inputs described in Note 1 under the caption *Fair Value of Financial Instruments*, are as follows (in thousands):

	<b>June 30, 2014</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 3,078	\$ 287	\$ 2,791	\$ -
Common and preferred stocks	107,498	16,754	90,744	-
U.S. Government securities	13,334	-	13,334	-
Corporate bonds and other fixed income securities	118,131	7,297	110,834	-
Other	11,488	-	11,488	-
	<u>\$ 253,529</u>	<u>\$ 24,338</u>	<u>\$ 229,191</u>	<u>\$ -</u>

	<b>June 30, 2013</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 726	\$ 439	\$ 287	\$ -
Common and preferred stocks	107,130	18,824	88,306	-
U.S. Government securities	13,018	-	13,018	-
Corporate bonds and other fixed income securities	101,990	775	101,215	-
Other	8,196	-	8,196	-
	<u>\$ 231,060</u>	<u>\$ 20,038</u>	<u>\$ 211,022</u>	<u>\$ -</u>

Asset allocation at June 30, 2014 and 2013 and target asset allocations for 2014 are as follows:

<b>Asset Category</b>	<b>U.S. Plans</b>		<b>Foreign Plans</b>	
	<b>Year Ended June 30, 2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Equity securities	32%	38%	26%	35%
Debt securities	28%	25%	73%	64%
Global balanced securities	28%	27%	-	-
Other	12%	10%	1%	1%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

<b>Asset Category – Target</b>	<b>2014</b>	
	<b>U.S.</b>	<b>U.K.</b>
Equity securities	32%	25%
Debt and market neutral securities	33%	75%
Global balanced securities	25%	0%
Other	10%	0%
Total	100%	100%

Our investment policy for the U.S. pension plans targets a range of exposure to the various asset classes. Standex rebalances the portfolio periodically when the allocation is not within the desired range of exposure. The plan seeks to provide returns in excess of the various benchmarks. The benchmarks include the following indices: S&P 500; Citigroup PMI EPAC; Citigroup World Government Bond and Barclays Aggregate Bond. A third party investment consultant tracks the plan's portfolio relative to the benchmarks and provides quarterly investment reviews which consist of a performance and risk assessment on all investment managers and on the portfolio.

Certain managers within the plan use, or have authorization to use, derivative financial instruments for hedging purposes, the creation of market exposures and management of country and asset allocation exposure. Currency speculation derivatives are strictly prohibited.

<b>Year Ended June 30</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Plan assumptions - obligation</b>			
Discount rate	2.90 - 4.50%	3.50 - 5.10%	4.00 - 4.60%
Rate of compensation increase	3.80%	3.50 - 3.90%	3.40 - 3.50%
<b>Plan assumptions - cost</b>			
Discount rate	3.50 - 5.10%	4.00 - 4.60%	5.50 - 6.00%
Expected return on assets	4.60 - 7.25%	4.80 - 7.80%	5.40 - 8.10%
Rate of compensation increase	3.90%	3.40 - 3.50%	3.50 - 4.00%

Included in the above are the following assumptions relating to the obligations for defined benefit pension plans in the United States at June 30, 2014; a discount rate of 4.5% and expected return on assets of 7.25%. The U.S. defined benefit pension plans represent the majority of our pension obligations. The expected return on plan assets assumption is based on our expectation of the long-term average rate of return on assets in the pension funds and is reflective of the current and projected asset mix of the funds. The discount rate reflects the current rate at which pension liabilities could be effectively settled at the end of the year. The discount rate is determined by matching our expected benefit payments from a stream of AA- or higher bonds available in the marketplace, adjusted to eliminate the effects of call provisions.

Expected benefit payments for the next five years are as follows: 2015, \$16.6 million; 2016, \$16.6 million; 2017, \$16.8 million; 2018, \$16.9 million; 2019, \$17.1 million and thereafter, \$87.0 million. The Company expects to make \$1.7 million of contributions to its pension plans in 2015.

The Company operates a defined benefit plan in Germany which is unfunded.

#### **Multi-Employer Pension Plans**

We contribute to a number of multiemployer defined benefit plans under the terms of collective bargaining agreements that cover our union-represented employees. These plans generally provide for retirement, death and/or termination benefits for eligible employees within the applicable collective bargaining units, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If we choose to stop participating in some of our multiemployer plans, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

The following table outlines the Company's participation in multiemployer pension plans for the periods ended June 30, 2014, 2013, and 2012, and sets forth the yearly contributions into each plan. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The most recent Pension Protection Act zone status available in 2014 and 2013 relates to the plans' two most recent fiscal year-ends. The zone status is based on information that we received from the plans' administrators and is certified by each plan's actuary. Among other factors, plans certified in the red zone are generally less than 65% funded, plans certified in the orange zone are both less than 80% funded and have an accumulated funding deficiency or are expected to have a deficiency in any of the next six plan years, plans certified in the yellow zone are less than 80% funded, and plans certified in the green zone are at least 80% funded.

The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan ("FIP") for yellow/orange zone plans, or a rehabilitation plan ("RP") for red zone plans, is either pending or has been implemented. For all plans, the Company's contributions do not exceed 5% of the total contributions to the plan in the most recent year.

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status			Contributions			Surcharge Imposed?	Expiration Date of Collective Bargaining Agreement
		2014	2013	FIP/RP Status	2014	2013	2012		
New England Teamsters and Trucking Industry Pension Fund	04-6372430-001	Red	Red	Yes/Implemented	\$ 541	\$ 427	\$ 367	No	4/15/2015
IAM National Pension Fund, National Pension Plan	51-6031295-002	Green	Green	No	659	623	584	No	5/31/2015 - 10/14/16
					<u>\$ 1,200</u>	<u>\$ 1,050</u>	<u>\$ 951</u>		

#### Retirement Savings Plans

The Company has two primary employee savings plans, one for salaried employees and one for hourly employees. Substantially all of our full-time domestic employees are covered by these savings plans. Under the provisions of the plans, employees may contribute a portion of their compensation within certain limitations. The Company, at the discretion of the Board of Directors, may make contributions on behalf of our employees under the plans. Company contributions were \$4.0 million, \$4.1 million, and \$4.1 million for the years ended June 30, 2014, 2013, and 2012, respectively. At June 30, 2014, the salaried plan holds approximately 120,000 shares of Company common stock, representing approximately 10% of the holdings of the plan.

#### Postretirement Benefits Other Than Pensions

The Company sponsors an unfunded postretirement medical plan covering certain full-time employees who retire and have attained the requisite age and years of service. Retired employees are required to contribute toward the cost of coverage according to various established rules.

The accumulated benefit obligation of the post-retirement medical plan was less than \$0.2 million at both June 30, 2014 and June 30, 2013. The plan holds no assets as the Company makes contributions as benefits are due. Contributions for each of the last two fiscal years were less than \$0.1 million. The assumed weighted average discount rate was 4.50% and 5.10% as of June 30, 2014 and 2013, respectively. A 1% increase in the assumed health care cost trend rate does not impact either the accumulated benefit obligation or the net postretirement cost, as the employer contribution for each participant is a fixed amount.

Effective January 1, 2013, the Company terminated its life insurance benefit provided to certain current and future retirees, resulting in a curtailment and settlement of the plan's obligations. The Company recorded a \$2.3 million benefit of the settlement and curtailment as a component of selling general and administrative expenses during the third quarter of 2013.

The following table sets forth the postretirement benefit cost reflected in the consolidated income statement sheet at year end (in thousands):

**Components of Net Periodic Benefit Cost (in thousands)**

	Year Ended June 30,		
	2014	2013	2012
Service Cost	\$ -	\$ 13	\$ 19
Interest Cost	9	49	101
Recognized net actuarial gain	(7)	(24)	(55)
Curtailment	-	51	-
Plan Settlement	-	(2,329)	-
Amortization of transition obligation	-	112	223
Net periodic benefit cost	<u>\$ 2</u>	<u>\$ (2,128)</u>	<u>\$ 288</u>

**18. INDUSTRY SEGMENT INFORMATION**

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

- Food Service Equipment Group— an aggregation of seven operating segments that manufacture and sell commercial food service equipment;
- Engraving Group – provides mold texturizing, slush molding tools, project management and design services, roll engraving, hygiene product tooling, low observation vents for stealth aircraft, and process machinery for a number of industries;
- Engineering Technologies Group – provides customized solutions in the fabrication and machining of engineered components for the aerospace, aviation, energy, aviation, medical, oil and gas, and general industrial markets.
- Electronics Products Group – manufacturing and selling of electronic components for applications throughout the end-user market spectrum; and
- Hydraulics Products Group – manufacturing and selling of single- and double-acting telescopic and piston rod hydraulic cylinders.

Net sales include only transactions with unaffiliated customers and include no significant intersegment or export sales.

Operating income by segment and geographic area excludes general corporate and interest expenses. Assets of the Corporate segment consist primarily of cash, office equipment, and other non-current assets.

Given the nature of our corporate expenses, management has concluded that it would not be appropriate to allocate the expenses associated with corporate activities to our operating segments. These corporate expenses include the costs for the corporate headquarters, salaries and wages for the personnel in corporate, professional fees related to corporate matters and compliance efforts, stock-based compensation and post-retirement benefits related to our corporate executives, officers and directors, and other compliance related costs. The Company has a process to allocate and recharge certain direct costs to the operating segments when such direct costs are administered and paid at corporate. Such direct expenses that are recharged on an intercompany basis each month include such costs as insurance, workers' compensation programs, audit fees and pension expense. The accounting policies applied by the reportable segments are the same as those described in the Summary of Accounting Policies footnote to the consolidated financial statements. There are no differences in accounting policies which would be necessary for an understanding of the reported segment information.

**Industry Segments  
(in thousands)**

	Net Sales			Depreciation and Amortization		
	2014	2013	2012	2014	2013	2012
Food Service Equipment	\$ 377,848	\$ 367,008	\$ 64,759	\$ 4,485	\$ 4,930	\$ 4,994
Engraving	109,271	93,380	93,611	3,342	3,226	3,293
Engineering Technologies	79,642	74,838	74,088	3,063	3,288	3,188
Electronics Products	114,881	108,085	48,206	2,807	2,986	878
Hydraulics Products	34,538	30,079	29,922	625	566	518
Corporate and Other	-	-	-	269	239	271
<b>Total</b>	<b>\$ 716,180</b>	<b>\$ 673,390</b>	<b>\$ 610,586</b>	<b>\$ 14,591</b>	<b>\$ 15,235</b>	<b>\$ 13,142</b>

	Income (Loss) From Operations			Capital Expenditures		
	2014	2013	2012	2014	2013	2012
Food Service Equipment	\$ 38,203	\$ 37,533	\$ 38,389	\$ 3,740	\$ 3,149	\$ 2,318
Engraving	22,145	15,596	17,896	4,648	5,106	2,223
Engineering Technologies	12,676	13,241	14,305	7,686	1,734	2,577
Electronics Products	19,732	16,147	8,715	1,631	3,243	963
Hydraulics Products	5,781	4,968	4,403	684	580	304
Restructuring charge	(10,077)	(2,666)	(1,685)	-	-	-
Gain on sale of real estate	-	-	4,776	-	-	-
Other operating income (expense), net	3,462	-	-	-	-	-
Corporate	(26,054)	(22,924)	(23,443)	1,531	568	13
<b>Total</b>	<b>\$ 65,868</b>	<b>\$ 61,895</b>	<b>\$ 63,356</b>	<b>\$ 19,920</b>	<b>\$ 14,380</b>	<b>\$ 8,398</b>
Interest expense	(2,249)	(2,469)	(2,280)			
Other, net	4,184	(128)	519			
Income from continuing operations before income taxes	\$ 67,803	\$ 59,298	\$ 61,595			

	Goodwill		Identifiable Assets	
	2014	2013	2014	2013
Food Service Equipment	\$ 56,731	\$ 45,790	\$ 214,674	\$ 192,895
Engraving	20,716	20,614	101,106	88,064
Engineering Technologies	12,188	10,861	75,591	68,597
Electronics Products	33,272	31,582	103,699	94,369
Hydraulics Products	3,058	3,058	16,410	15,250
Corporate & Other	-	-	66,680	51,398
<b>Total</b>	<b>\$ 125,965</b>	<b>\$ 111,905</b>	<b>\$ 578,160</b>	<b>\$ 510,573</b>

	Net sales <sup>(1)</sup>		2014		2013		2012	
United States	\$	505,853	\$	488,048	\$	466,248		
Asia Pasific		53,551		51,664		28,739		
EMEA <sup>(2)</sup>		130,602		113,367		91,819		
Other Americas		26,174		20,311		23,780		
<b>Total</b>	<b>\$</b>	<b>716,180</b>	<b>\$</b>	<b>673,390</b>	<b>\$</b>	<b>610,586</b>		

(1) Net sales were identified based on geographic location where our products and services were initiated.

(2) EMEA consists primarily of Europe, Middle East and S. Africa.





<b>Long-lived assets</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
United States	\$ 59,225	\$ 58,890	\$ 60,327
Asia Pasific	5,627	4,166	2,658
EMEA <sup>(2)</sup>	23,266	22,065	11,846
Other Americas	8,579	7,421	5,075
Total	<u>\$ 96,697</u>	<u>\$ 92,542</u>	<u>\$ 79,906</u>

## 19. GAIN ON SALE OF REAL ESTATE

During 2012, the Company completed the sale of an Engraving Group facility in Sao Paolo, Brazil, which was replaced by a leased facility more suited to the Company's operational needs. Proceeds from the sale were \$5.1 million and the sale resulted in a pre-tax gain of \$4.8 million, net of related costs.

## 20. INSURANCE PROCEEDS

During 2014, the Company recorded \$3.5 million net gain, as a component of other operating income net, from insurance proceeds we received related to a catastrophic failure of a large vertical machining center located at our Engineering Technologies facility in Massachusetts. Insurance proceeds of \$4.5 million were partially offset by the write-off of the net book value of the machine of \$1.0 million. We have acquired a replacement machine for approximately \$2.9 million and anticipate being operational in the first half of the first quarter of 2015.

During 2014, the Company recorded \$3.4 million gain, as a component of other net, from proceeds for a life insurance policy triggered by the death of a former executive. This life insurance policy relates to an inactive program for key executives. There are six retired executives remaining in this program and current management is ineligible to participate.

## 21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended June 30, 2014 and 2013 are as follows (in thousands, except for per share data):

	<b>2014</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$ 178,140	\$ 166,540	\$ 174,160	\$ 197,340
Gross profit	60,405	55,894	57,572	64,398
Net income (loss)	9,082	10,517	13,220	10,047
EARNINGS PER SHARE <sup>(1)</sup>				
Basic	\$ 0.97	\$ 0.84	\$ 1.05	\$ 1.08
Diluted	\$ 0.96	\$ 0.83	\$ 1.04	\$ 1.07
	<b>2013</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$ 176,611	\$ 160,866	\$ 160,090	\$ 175,823
Gross profit	57,320	54,061	50,826	55,988
Net income (loss)	11,830	10,961	9,561	12,500
EARNINGS PER SHARE <sup>(1)</sup>				
Basic	\$ 0.09	\$ 0.84	\$ 0.75	\$ 0.98
Diluted	\$ 0.91	\$ 0.83	\$ 0.74	\$ 0.97

<sup>(1)</sup> Basic and diluted earnings per share are computed independently for each reporting period. Accordingly, the sum of the quarterly earnings per share amounts may not agree to the year-to-date amounts.

## 22. SUBSEQUENT EVENT

On August 15, 2014, the Company signed a Stock Purchase Agreement to acquire Ohio-based Enginetic Corporation, (“Enginetics”), a leading producer of aircraft engine components for all major aircraft platforms for approximately \$55.2 million in cash. Enginetics will report to our Engineering Technologies Group and the completion of the transaction is subject to customary closing conditions and is anticipated to close in September 2014.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Standex International Corporation  
Salem, New Hampshire

We have audited the accompanying consolidated balance sheets of Standex International Corporation and subsidiaries (the "Company") as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Standex International Corporation and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2014, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
August 28, 2014

## **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

Not Applicable

### **Item 9A. Controls and Procedures**

The management of the Company including its Chief Executive Officer, and Chief Financial Officer, have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2014, that the disclosure controls and procedures are effective in ensuring that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and (ii) 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 Ultrafryer Systems, Inc., ("Ultrafryer") on June 20, 2014. Ultrafryer represents less than 1% of the Company's consolidated revenue for the period ended June 30, 2014 and approximately 4.5% of the Company's consolidated assets at June 30, 2014. Management's evaluation and conclusion as to the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2014 excludes any evaluation of the internal control over financial reporting of Ultrafryer.

There were no changes in the Company's internal control over financial reporting identified in connection with management's evaluation that occurred during the fourth quarter of our fiscal year (ended June 30, 2014) that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

### **Management's Report on Internal Control over Financial Reporting**

The management of Standex is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Section 240.13a-15(f) of the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this report on Form 10-K. In making this assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework (1992)." These criteria are in the areas of control environment, risk assessment, control activities, information and communication and monitoring. Management's assessment included documenting, evaluating and testing the design and operating effectiveness of our internal control over financial reporting.

Based on the Company's processes, as described above, management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our internal control over financial reporting was effective as of June 30, 2014 to provide reasonable assurance of achieving its objectives. These results were reviewed with the Audit Committee of the Board of Directors. Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an unqualified attestation report on the Company's internal control over financial reporting, which is included below.

### **Inherent Limitation on Effectiveness of Controls**

No matter how well designed, internal control over financial reporting has inherent limitations. Internal control over financial reporting determined to be effective can provide only reasonable, not absolute, assurance with respect to financial statement preparation and may not prevent or detect all misstatements that might be due to error or fraud. In addition, a design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Standex International Corporation  
Salem, New Hampshire

We have audited the internal control over financial reporting of Standex International Corporation and subsidiaries (the "Company") as of June 30, 2014, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in "Management's Annual Report on Internal Control over Financial Reporting", management excluded from its assessment the internal control over financial reporting at Ultrafryer Systems, Inc. ("Ultrafryer"), which was acquired on June 20, 2014, and whose financial statements constitute 6.1% and 4.5% of net and total assets, respectively, and less than 1% each of revenues and net income of the consolidated financial statements as of and for the year ended June 30, 2014. Accordingly, our audit did not include the internal controls over financial reporting at Ultrafryer. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2014 of the Company and our report dated August 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
August 28, 2014

## **Item 9B. Other Information**

None

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The Company will file with the Securities and Exchange Commission ("SEC") a definitive Proxy Statement no later than 120 days after the close of the fiscal year ended June 30, 2014 (the "Proxy Statement"). The information required by this item and not provided in Part I of this report under Item 1 "Executive Officers of Standex" is incorporated by reference from the Proxy Statement under the captions "Election of Directors," "Stock Ownership in the Company," "Other Information Concerning the Company, Board of Directors and its Committees" and "Section 16(a) Beneficial Ownership Reporting Compliance."

There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors. Information regarding the process for identifying and evaluating candidates for director are set forth and incorporated in reference to the information in the Proxy Statement under the caption "Corporate Governance/Nominating Committee Report."

Information regarding the Audit Committee Financial Expert and the identification of the Audit Committee is incorporated by reference to the information in the Proxy Statement under the caption "Other Information Concerning the Company Board of Directors and its Committee, Audit Committee." The Audit Committee is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act.

We maintain a corporate governance section on our website, which includes our code of ethics for senior financial management that applies to our chief executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. Our corporate governance section also includes our code of business conduct and ethics for all employees. In addition, we will promptly post any amendments to or waivers of the code of ethics for senior financial management on our website. You can find this and other corporate governance information at [www.standex.com](http://www.standex.com).

### **Item 11. Executive Compensation**

Information regarding executive compensation is incorporated by reference from the Proxy Statement under the captions and sub-captions: "Executive Compensation," "Compensation Discussion and Analysis," "Report of the Compensation Committee," "2014 Summary Compensation Table," "Other Information Concerning the Company Board of Directors and Its Committees," and "Directors Compensation."

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The stock ownership of each person known to Standex to be the beneficial owner of more than 5% of its Common Stock is incorporated by reference in the Proxy Statement under the caption "Stock Ownership of Certain Beneficial Owners." The beneficial ownership of Standex Common Stock of all directors and executive officers of the Company is incorporated by reference in the Proxy Statement under the caption and sub-caption "Stock Ownership in the Company" and "Stock Ownership by Directors, Nominees for Directors and Executive Officers," respectively.

The Equity Compensation Plan table below presents information regarding the Company's equity based compensation plan at June 30, 2014.

Plan Category	(A) Number of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights	(B) Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights	(C) Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities reflected in Column (A))
Equity compensation plans approved by stockholders	278,129	\$ 5.64	458,513
Equity compensation plans not approved by stockholders	-	-	-
Total	278,129	\$ 5.64	458,513

The Company has one equity compensation plan, approved by stockholders, under which equity securities of the Company have been authorized for issuance to employees and non-employee directors. This plan is further described in the "Notes to Consolidated Financial Statements" under the heading "Stock-Based Compensation and Purchase Plans."

### Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding certain relationships and related transactions is incorporated by reference in the Proxy Statement under the caption and sub-caption "Certain Relationships and Related Transactions" And "Stock Ownership by Directors, Nominees for Director and Executive Officers," respectively.

Information regarding director independence is incorporated by reference in the Proxy Statement under the caption "Election of Directors - Determination of Independence."

### Item 14. Principal Accountant Fees and Services

This Information in addition to information regarding aggregate fees billed for each of the last two fiscal years for professional services rendered by the professional accountant for audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-K as well as others are incorporated by reference in the Proxy Statement under the caption "Independent Auditors' Fees."

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Financial Statements covered by the Report of Independent Registered Public Accounting Firm

- (A) Consolidated Statements of Operations for the fiscal years ended June 30, 2014, 2013 and 2012
- (B) Consolidated Balance Sheets as of June 30, 2014 and 2013
- (C) Consolidated Statements of Stockholders' Equity and Comprehensive Income for the fiscal years ended June 30, 2014, 2013 and 2012
- (D) Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2014, 2013 and 2012
- (E) Notes to Consolidated Financial Statements



(2) Financial Statements Schedule

The following financial statement schedule is included as required by Item 8 to this report on Form 10-K Schedule II – Valuation and Qualifying Accounts is included in the Notes to Consolidated Financial Statements

All other schedules are not required and have been omitted

(3) Exhibits

<b>Exhibit Number</b>		<b>Exhibit Description</b>	<b>Incorporated by Reference</b>		<b>Filed Herewith</b>
			<b>Form</b>	<b>Date</b>	
(b) 3.	(i)	Restated Certificate of Incorporation of Standex, dated October 27, 1998 filed as Exhibit 3(i).	10-Q	12/31/1998	
	(ii)	By-Laws of Standex, as amended, and restated on October 28, 2008 filed as Item 5.03, Exhibit 3.(b)	8-K	10/30/2008	
4.	(a)	Agreement of the Company, dated September 15, 1981, to furnish a copy of any instrument with respect to certain other long-term debt to the Securities and Exchange Commission upon its request filed as Exhibit 4.	10-K	6/30/1981	
10.	(a)	Amended and Restated Employment Agreement dated August 25, 2010 between the Company and Roger L. Fix*	10-K	6/30/2010	
	(b)	Amended and Restated Employment Agreement dated August 25, 2010 between the Company and John Abbott*	10-K	6/30/2010	
	(c)	Amended and Restated Employment Agreement dated August 25, 2010 between the Company and Thomas D. DeByle*	10-K	6/30/2010	
	(d)	Amended and Restated Employment Agreement dated August 25, 2010 between the Company and Deborah A. Rosen*	10-K	6/30/2010	
	(e)	Employment Agreement August 2, 2012 between the Company And Michael A. Patterson*	10-Q	9/30/2013	
	(f)	Amended and Restated Employment Agreement dated August 25, 2010 between the Company and James L. Mettling*	10-K	6/30/2010	
	(g)	Standex International Corporation Amended and And Restated 2008 Long Term Incentive Plan, effective October 28, 2008. Filed as Exhibit 10.*	10-K	6/30/2012	
	(h)	Standex International Corporation Executive Security Program, as amended and restated on January 31, 2001 filed as Exhibit 10(a).*	10-Q	3/31/2001	
	(i)	Standex International Corporation Executive Life Insurance Plan effective April 27, 1994 and as	10-K	6/30/2001	

Amended and restated on April 25, 2001 filed as Exhibit 10(k).\*

(j)	Standex International Corporation Supplemental Retirement Plan adopted April 26, 1995 and Amended on July 26, 1995 filed as Exhibit 10(n).*	10-K	6/30/1995	
(k)	Standex International Corporation Key Employee Share Option Plan dated June 27, 2002 filed as Exhibit 10(p).*	10-K	6/30/2003	
(l)	Form of Indemnification Agreement for directors and executive officers of the Company filed as Item 1.01, Exhibit 10.*	8-K	5/5/2008	
(m)	Executive Officer long-term performance share Unit awards filed as Item 5.02.*	8-K	8/28/2008	
(n)	Standex Deferred Compensation Plan for highly compensated employees filed as Item 5.02.*	8-K	1/31/2008	
(o)	Restricted stock Unit Award granted to Roger L. Fix dated January 25, 2006 filed as Item 1.01.*	8-K	1/27/2006	
(p)	Credit Agreement dated January 5, 2012 between the Company and RBS Citizens, N.A., Bank of America, N.A., Sovereign Bank, T. D. Bank, N.A. and the lenders named in the Credit Agreement as Lenders filed as Exhibit 10.	8-K	1/05/2012	
(q)	Amendment to Directors' Compensation Program for members of the Board of Directors of the Company filed as Item 1.01.*	8-K	11/2/2006	
(r)	Purchase and Sale Agreement dated February 22, 2012 among the Company, Standex Air Distribution, Products, Inc., Snappy Air Distribution Products, Inc. as Sellers and BW HVAC Operations, LLC and BW HVAC Real Estate Holdings, LLC as Buyers	10-Q	3/31/2012	
(s)	Stock Purchase Agreement dated June 20, 2014 among the Company, as Buyer, and the shareholders of Ultrafryer Systems, Inc., as Sellers			X
(t)	Code of Ethics for chief Executive Officer and Senior Financial Officers is incorporated by reference as Exhibit 14.	10-K	6/30/2005	
21.	Subsidiaries of Standex International Corporation			X
23.	Consent of Independent Registered Public Accounting Firm			X
24.	Powers of Attorney of Charles H. Cannon, Thomas E. Choman, William R. Fenoglio, Gerald H. Fickenscher, Roger L. Fix, Thomas J. Hansen, Daniel B. Hogan, and H. Nicholas Muller, III, Ph. D.			X

31.1	Rule 13a-14(a) Certification of President and Chief Executive Officer	X
31.2	Rule 13a-14(a) Certification of Vice President and Chief Financial Officer	X
32.	Section 1350 Certification	X
01.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

\* Management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Standex International Corporation has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on August 28, 2014.

STANDEX INTERNATIONAL CORPORATION  
(Registrant)

/s/ DAVID A. DUNBAR  
David A. Dunbar  
President/Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Standex International Corporation and in the capacities indicated on August 28, 2014:

<u>Signature</u>	<u>Title</u>
<u>/s/ DAVID A. DUNBAR</u> David A. Dunbar	President/Chief Executive Officer
<u>/s/ THOMAS D. DEBYLE</u> Thomas D. DeByle	Vice President/Chief Financial Officer
<u>/s/ SEAN VALASHINAS</u> Sean Valashinas	Chief Accounting Officer

David A. Dunbar, pursuant to powers of attorney which are being filed with this Annual Report on Form 10-K, has signed below on August 28, 2014 as attorney-in-fact for the following directors of the Registrant:

Charles H. Cannon	Thomas E. Chorman
William R. Fenoglio	H. Nicholas Muller, III, Ph.D.
Gerald H. Fickenscher	Daniel B. Hogan,
Roger L. Fix	Thomas J. Hansen

/s/ DAVID A. DUNBAR  
David A. Dunbar

Supplemental Information to be furnished with reports filed pursuant to Section 15(d) of the Act by Registrants which have not registered securities pursuant to Section 12 of the Act.

The Company will furnish its 2014 Proxy Statement and proxy materials to security holders subsequent to the filing of the annual report on this Form. Copies of such material shall be furnished to the Commission when they are sent to security holders.

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23. Consent of Independent Registered Public Accounting Firm		
24. Powers of Attorney of Charles H. Cannon, Thomas E. Chorman, William R. Fenoglio, Gerald Fickenscher, Roger L. Fix, Thomas J. Hansen, Daniel B. Hogan, and H. Nicholas Muller, III, Ph.D.		
31.1 Rule 13a-14(a) Certification of President and Chief Executive Officer		
31.2 Rule 13a-14(a) Certification of Vice President and Chief Financial Officer		
32. Section 1350 Certification		

**END OF FORM 10-K  
SUPPLEMENTAL INFORMATION FOLLOWS**

## Board of Directors

	<b>Title</b>
Roger L. Fix <sup>4</sup>	Chairman
Charles H. Cannon, Jr., <sup>2,4</sup>	Chairman and CEO, JBT Corporation
Thomas E. Chorman <sup>1,3</sup>	CEO, Solar LED Innovations, LLC
William R. Fenoglio <sup>1,4</sup>	Former President/CEO, Augat, Inc.
Gerald H. Fickenscher <sup>1,3</sup>	Retired Vice President, Europe, Middle East, and Africa, Crompton Corporation
David A. Dunbar <sup>4</sup>	President and Chief Executive Officer
Thomas J. Hansen <sup>1</sup>	Former Vice Chairman of IllinoisTool Works, Inc.
Daniel B. Hogan, Ph. D. <sup>2,3</sup>	Executive Director, Passim Folk Music and Cultural Center
H. Nicholas Muller, III, Ph.D. <sup>2,3</sup>	Former President/CEO, Frank Lloyd Wright Foundation

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<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Compensation Committee

<sup>3</sup> Member of Corporate Governance/Nominating Committee

<sup>4</sup> Member of Executive Committee

## Corporate Officers

David A. Dunbar	President and Chief Executive Officer
Thomas D. DeByle	Vice President, Chief Financial Officer and Treasurer
Deborah A. Rosen	Vice President, Chief Legal Officer and Secretary
Stacey S. Constas	Corporate Governance Officer and Assistant Secretary
Sean Valashinas	Chief Accounting Officer and Assistant Treasurer
Christopher J. Seiler	Tax Director

## Operating Management

### FOOD SERVICE EQUIPMENT GROUP

John Abbott	Group Vice President of Food Service Equipment Group
Cooking Solutions Group	
Kevin Clark	President
Refrigerated Solutions Group	
Nor-Lake, Incorporated	
Charles Dullea	President
Federal Industries	

John W. Minahan	President
Master-Bilt Products	
Scott Jordan	President
Procon Products	
Paul Roberts	President
Ultrafryer Systems Inc.	
Edward T. Odmark	President

#### ENGINEERING TECHNOLOGIES

Spincraft	
Leonard Paolillo	President

#### ENGRAVING GROUP

Standex Engraving	
Phillip R. Whisman	President
International Operations	
Flavio Maschera	President

#### ELECTRONICS PRODUCTS GROUP

Standex Electronics, Inc	
Standex Meder Electronics, Inc.	
John Meeks	President

#### HYDRAULICS PRODUCTS GROUP

Custom Hoists, Inc.	
Richard Hiltunen	President

### Shareholder Information

#### Corporate Headquarters

Standex International Corporation  
11 Keewaydin Drive  
Salem, NH 03079  
(603) 893-9701  
Facsimile: (603) 893-7324  
[www.standex.com](http://www.standex.com)

#### Common Stock

Listed on the New York Stock Exchange  
(Ticker symbol: SXI)

#### Transfer Agent and Registrar

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016  
(800) 866-1340  
[www.RTCO.com](http://www.RTCO.com)

**Independent Auditors**

Deloitte & Touche LLP  
200 Berkeley Street  
Boston, MA 02116-5022

**Shareholder Services**

Stockholders should contact Standex's Transfer Agent (Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016) regarding changes in name, address or ownership of stock; lost certificates of dividends; and consolidation of accounts.

**Stockholders' Meeting**

The Annual Meeting of Stockholders will be held at 11:00 a.m. on Wednesday, October 29, 2014 at the Burlington Marriott, One Burlington Mall Road, Burlington, MA 01803.



**NO AGREEMENT, ORAL OR WRITTEN, REGARDING OR RELATING TO ANY OF THE MATTERS COVERED BY THIS DRAFT HAS BEEN ENTERED INTO BETWEEN THE PARTIES. THIS DOCUMENT, IN ITS PRESENT FORM OR AS IT MAY BE HEREAFTER REVISED BY ANY PARTY, WILL NOT BECOME A BINDING AGREEMENT OF THE PARTIES UNLESS AND UNTIL, WITH ALL SCHEDULES AND EXHIBITS ATTACHED, IT HAS BEEN SIGNED BY ALL PARTIES AND COMPLETE SIGNED COPIES HAVE BEEN EXCHANGED. THE EFFECT OF THIS LEGEND MAY NOT BE CHANGED BY ANY ACTION OF THE PARTIES.**

**STOCK PURCHASE AGREEMENT**

BY AND AMONG

**THE SHAREHOLDERS OF  
ULTRAFRYER SYSTEMS, INC.**

("Seller")

AND

**STANDEX INTERNATIONAL CORPORATION**

("Buyer")

June 20, 2014

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## STOCK PURCHASE AGREEMENT

**THIS STOCK PURCHASE AGREEMENT** (this "Agreement"), made as of June 20, 2014, is between Standex International Corporation, a Delaware corporation ("Buyer"), having executive offices at 11 Keewaydin Drive, Suite 300, Salem, New Hampshire 03079, and all of the shareholders, as listed on the signature page of this Agreement (collectively, the "Sellers"), of Ultrafryer Systems, Inc., a Georgia corporation with offices and its manufacturing facility at 302 Spencer Lane, San Antonio, Texas 78201 (the "Company").

**WHEREAS**, Sellers desire to sell, and Buyer desires to purchase, all of the issued and outstanding shares (the "Shares") of the capital stock of the Company for the consideration and on the terms set forth in this Agreement.

The parties, intending to be legally bound, agree as follows:

### ARTICLE 1

#### DEFINITIONS

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Article 1:

**"Agreement"** shall have the meaning set out in the first paragraph of this Agreement.

**"Applicable Contract"** shall have the meaning set out in Section 3.15.

**"Benefit Obligations"** means all obligations, arrangements, or customary practices to provide benefits, other than salary, as compensation for services rendered, to present or former directors, employees, or agents, other than obligations, arrangements, and practices that are Plans.

**"Best Efforts"** means the commercially reasonable efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as reasonably possible; provided, however, that an obligation to use Best Efforts under this Agreement does not require the Person subject to that obligation to take actions that would reasonably be expected to result in an adverse change in the benefits to such Person arising out of this Agreement and the Contemplated Transactions or that would reasonably be expected to have an adverse effect on such Person.

**"Breach"** means an inaccuracy in or breach of, or any failure to perform or comply with, any representation, warranty, covenant, obligation, or other provision of this Agreement, the Schedules to this Agreement, any supplements to the Schedules, or any instrument delivered pursuant to this Agreement.

**"Business"** means the design, manufacture, marketing, and sale of commercial deep fryers, filtering machines, rethermalizer food warmers, food holding stations and custom batter tables for restaurants and commercial installations as conducted by the Company as of the Closing.



**“Business Day”** means any day, other than Saturday and Sunday, on which federally-insured commercial banks in Atlanta, Georgia are generally open for business and capable of sending and receiving wire transfers.

**“Buyer”** shall have the meaning set out in the first paragraph of this Agreement.

**“Buyer’s Advisors”** shall have the meaning set out in Section 5.1

**“Closing”** shall have the meaning set out in Section 2.4.

**“Closing Date”** means the 12:01 a.m. on the day on which the Closing actually takes place.

**“Closing Date Purchase Price”** means \$22,701,000 plus or minus the Working Capital Adjustment pursuant to the second sentence of Section 2.2 and less the purchase price under the Real Estate Purchase.

**“Company”** shall have the meaning set out in the first paragraph of this Agreement.

**“Company Plan”** means all Plans of which the Company is a Plan Sponsor or to which the Company otherwise contributes.

**“Consent”** means any approval, consent, ratification, waiver, or other authorization.

**“Contemplated Transactions”** means all of the transactions contemplated by this Agreement, including:

- (i) the sale of the Shares by Sellers to Buyer;
- (ii) the Closing and completion of the Real Estate Purchase;
- (iii) the performance by Buyer and Sellers of their respective covenants and obligations under this Agreement; and
- (iv) Buyer's acquisition and ownership of the Shares and exercise of control over the Company.

**“Contract”** means any agreement, contract, obligation, promise, or undertaking (whether written or oral) that is legally binding.

**“Copyrights”** means all copyrights in both published works and unpublished works.

**“Damages”** shall have the meaning set forth in Section 10.2.

**“Director/Officer/Fiduciary Indemnitee(s)”** shall have the meaning set out in Section 11.2.

**“Director/Officer/Fiduciary Indemnified Liabilities”** shall have the meaning set out in Section 11.2.

**“Encumbrance”** means any charge, claim, community property interest, equitable interest, lien, pledge, security interest, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any attribute of ownership.

**“Environment”** means soil, air, land surface or subsurface strata, groundwater, drinking water supply, and any other environmental medium or natural resource.

**“Environmental, Health, and Safety Liabilities”** means any cost, damages, liability, or obligation arising from or under Environmental Law or Occupational Safety and Health Law and consisting of or relating to:

- (i) any environmental, health, or safety matters or conditions; and
- (ii) fines, penalties, judgments, awards, legal or administrative proceedings, assessments, expenses, costs, damages, and losses, arising under any Environmental Law or Occupational Safety and Health Law.

**“Environmental Law”** means any Legal Requirement that requires:

- (i) advising appropriate authorities, employees, and the public of intended or actual releases of Hazardous Materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;
- (ii) preventing or reducing to acceptable levels the release of Hazardous Materials into the Environment;
- (iii) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;
- (iv) assuring that products do not present unreasonable risks to human health or the Environment when used or disposed of;
- (v) the cleaning up of Hazardous Materials that have been released, preventing the Threat of Release, or paying the costs of such cleanup or prevention;
- (vi) the treatment, storage, disposal, generation and transportation of industrial, toxic or Hazardous Materials;
- (vii) the prevention of any release or Threat of Release into the Environment of Hazardous Materials;
- (viii) the protection of wildlife, marine sanctuaries and wetlands, including without limitation all endangered and threatened species;

- (ix) the closure or removal of underground and other storage tanks or vessels, abandoned, disposed or discarded barrels, containers and other closed receptacles; and
- (x) any procedures relating to the manufacture, processing, use, distribution, treatment, storage, disposal, transportation or handling of Hazardous Materials.

“**ERISA**” means the Employee Retirement Income Security Act of 1974 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

“**Escrow Agent**” means the escrow agent under the Escrow Agreement.

“**Escrow Agreement**” means an agreement to be entered into by and among Buyer, Sellers’ Representative, and RBS Citizens N.A. on or before the Closing Date, in substantially the form attached hereto as Exhibit A, or such other form as Sellers’s Representative and Buyer shall reasonably agree.

“**Escrow Amount**” means ten percent of the Closing Date Purchase Price.

“**Escrow Fund**” means the funds held by the Escrow Agent pursuant to the Escrow Agreement, as adjusted from time to time by any disbursements in accordance with this Agreement and the Escrow Agreement, and interest and other income of investments thereof.

“**Facility**” means the land and buildings subject to the Real Estate Purchase.

“**Final Closing Financial Statements**” shall have the meaning set forth in Section 2.3.

“**Final Closing Statement of Net Working Capital**” shall have the meaning set forth in Section 2.3 and shall be determined in accordance with the policies and procedures described in Schedule 2.3.

“**GAAP**” means generally accepted United States accounting principles, applied on a basis consistent with the basis on which the Company’s financial statements have been prepared.

“**Governmental Authorization**” means any Consent, license or permit issued, granted, given, or otherwise made available by or under the authority of any Governmental Body.

“**Governmental Body**” means any:

- (i) federal, state, local, county, municipal, foreign, or other government; or
- (ii) governmental authority of any nature (including any governmental agency, branch, department, official representative, or entity and any court or other tribunal).

“**Hazardous Activity**” means the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer,

transportation, treatment, or use (including any withdrawal or other use of groundwater) by the Company of Hazardous Materials in, on, under, about, or from the Facility.

**“Hazardous Materials”** means any waste or other substance that is listed, defined, designated, or classified as hazardous, radioactive, toxic, or a pollutant under or pursuant to any Environmental Law and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos containing materials.

**“Interim Financial Statements”** shall have meaning set out in Section 3.4.

**“IRC”** means the Internal Revenue Code of 1986, as amended.

**“Knowledge”** means to the best of the Sellers’ knowledge and belief, after due inquiry and investigation by the Senior Management Team.

**“Legal Requirement”** means any federal, state, local, municipal, or other administrative order, constitution, law, ordinance, regulation, or statute applicable and relevant to the Company, the Contemplated Transactions and/or this Agreement.

**“Marks”** means all legal names, all fictional business names, trading names, registered and unregistered trademarks, service marks, and registrations and applications for registration of any of the foregoing.

**“Material Adverse Change”** means either (a) the substantial loss of the Popeyes Louisiana Kitchen business or (b) a material adverse effect on the Business, financial condition or results of operation of the Company taken as a whole, but excluding any effect resulting from: (i) the announcement or pendency of the Contemplated Transactions, including the loss of customers or suppliers or cancellations or delays of orders placed with the Company, other than Popeyes Louisiana Kitchen to the extent such loss independently triggers a Material Adverse Change under subsection (a); (ii) conditions affecting the industry in which the Company operates, general business or economic conditions or financial markets; (iii) compliance by the Company with the terms of, or the taking of any action contemplated by, this Agreement; (iv) changes in any Legal Requirement applicable to the Company; or (v) changes by the Company in its accounting methods, principles of practice, as required by applicable Legal Requirements or GAAP. For the purposes of this definition “Material Adverse Change” under subsection (b) shall be deemed to occur whenever the effect of the change in question would exceed Two Hundred Thousand Dollars (\$200,000) individually or in the aggregate.

**“Non-Compete Period”** shall have meaning set out in Section 12.4.

**“Normalized Working Capital”** means the average working capital for the prior historic months in calendar year 2014. Assuming the Closing is in June of 2014, the Normalized Working Capital calculation is set forth on Schedule 2.3.

**“Occupational Safety and Health Law”** means any Legal Requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards, and any program designed to provide safe and healthful working conditions.

**“Optionholders”** means those individuals who own Options.

**“Options”** means those nonqualified stock options granted by the Company and listed on Schedule 3.3.

**“Order”** means any award, decision, injunction, judgment, order, or ruling entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body.

**“Ordinary Course of Business”** means any action taken by a Person if such action is consistent with the past practices of such Person and in the ordinary course of the normal day-to-day operations of such Person.

**“Organizational Documents”** means (a) the articles or certificate of incorporation and the bylaws of the Company; (b) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (c) any amendment to any of the foregoing.

**“Outstanding Debt”** means all of the Company’s (i) all long-term (including the current portion thereof) and short-term indebtedness for borrowed money, and any accrued interest thereon, and (ii) all indebtedness for capital leases.

**“Patents”** means all patents, patent applications, and inventions and discoveries that may be patentable.

**“Person”** means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or other entity.

**“Plans”** has the meaning given in ERISA § 3(3) and as defined in Section 3.11.

**“Plan Sponsor”** has the meaning given in ERISA § 3(16)(B).

**“Proceeding”** means any action, audit, arbitration, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, or investigative) commenced, brought, conducted, Threatened, or heard by or before, or otherwise involving, any Governmental Body or any other Person claiming damages.

**“Purchase Price”** shall have the meaning set out in Section 2.2.

**“Qualified Plan”** means any Plan that meets or purports to meet the requirements of IRC § 401(a).

**“Real Estate Purchase”** means the purchase by Buyer of the real estate and buildings at Lot 64 and 66 of Evening View Subdivision in San Antonio, Texas for a purchase price of \$3,200,000.

**“Real Estate Stub Amount”** means \$1,020,800.

**“Real Property Lease”** shall have the meaning set out in Section 3.27.

**“Related Person”** means, with respect to a particular individual:

- (i) each other member of such individual's Family; or
- (ii) any Person that is directly or indirectly controlled by such individual or one or more members of such individual's Family.

With respect to a specified Person other than an individual:

- (i) any Person that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with such specified Person; or
- (ii) any Person that holds a Material Interest in such specified Person.

For purposes of this definition, (a) the **“Family”** of an individual includes (i) the individual, (ii) the individual's spouse, and (iii) any other natural person who is related to the individual or the individual's spouse within the second degree, and (b) **“Material Interest”** means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of voting securities or other voting interests representing at least 25% of the outstanding voting power of a Person or equity securities or other equity interests representing at least 25% of the outstanding equity securities or equity interests in a Person.

**“Release”** means any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment, whether intentional or unintentional.

**“Released Party”** shall have the meaning set out in Section 12.20.

**“Representative”** means, with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

**“Schedules”** means the schedules, and supplements to the schedules, delivered by Sellers to Buyer pursuant to Section 5.5 concurrently with or subsequent to the execution and delivery of this Agreement.

**“Securities Act”** means the Securities Act of 1933 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

**“Seller Released Party”** shall have the meaning set out in Section 12.20.

**“Sellers”** shall have the meaning set out in the first paragraph of this Agreement.

**“Sellers’ Representative”** shall have the meaning set out in Section 11.4.

**“Senior Management Team”** means Edward Odmark, William Collins, Richard Jones, Steven Hartford and A.C. McNamara.

**“Shareholders Agreement”** means the Ultrafryer Systems, Inc. Shareholders Agreement dated June 1, 2000, by and among the Company and its Shareholders, as such agreement has been thereafter amended to date.

**“Shares”** shall have the meaning set out in the Recitals of this Agreement.

**“Straddle Period”** shall have the meaning set out in Section 11.3.

**“Tax Contest”** shall have the meaning set out in Section 11.3.

**“Taxes”** means all federal, state, local, foreign and other income, sales, use, ad valorem, transfer property, gross receipts, excise, withholding, social security, unemployment and employment, occupation, disability, severance, use, service, license, payroll, franchise, net worth, transfer, alternative and add-on minimum tax, estimated, stamp, capital stock, environmental, windfall profits tax, custom, import, duty, value added, premium, registration and recording taxes or other taxes, fees, assessments or charges of any kind, together with any interest, fines, any penalties, or additions with respect thereto, and the term **“Tax”** means any one of the foregoing Taxes imposed by the United States or any state, local or foreign government or subdivision or agency thereof, whether computed on a separate, consolidated, unitary, combined or any other basis which is a liability of the Company for any period occurring prior to the Closing Date, as determined pursuant to Section 11.3(b).

**“Tax Return”** means any return (including any information return), report, (including abandoned property reports) statement, schedule, or other document or information and any amendments thereto filed with any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

**“Threat of Release”** means a substantial likelihood of a Release that may require action in order to prevent or mitigate damage to the Environment that may result from such Release.

**“Threatened”** means a claim, Proceeding, or dispute, if any demand or statement has been made in writing or any notice has been given in writing that would lead a prudent Person to conclude that such a claim, Proceeding, or dispute is likely to be asserted, commenced, taken, or otherwise pursued in the future.

**“Trade Secrets”** means all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blueprints.

**“Working Capital Adjustment”** means the process used to address the movement (up or down) of the Company’s working capital components (inventory, accounts receivable and accounts payable) from the mutually agreed Normalized Working Capital up through the Closing Date.

**ARTICLE 2**  
**SALE AND TRANSFER OF SHARES;**  
**CLOSING**

2.1 Shares.

Subject to the terms and conditions of this Agreement, at the Closing, each Seller will sell and transfer all of such Seller's right, title and interest in and to the Shares indicated next to such Seller's name on Schedule 2.1, such sale to be evidenced by delivery of original certificates evidencing all of the Shares of the Company owned by such Seller, duly endorsed in blank or accompanied by duly executed stock assignments in blank, in proper form, for transfer to Buyer, free and clear, in each case, of all liens, security interests and other encumbrances, and Buyer agrees to purchase such Shares from each such Seller.

2.2 Purchase Price.

The total gross aggregate purchase price (the "Purchase Price") for the Shares will be an amount equal to the Closing Date Purchase Price, as adjusted pursuant to Sections 2.3(b) through (d). At Closing, the Closing Date Purchase Price shall be calculated using a mutually agreed estimate of the Working Capital Adjustment. For any distributions to the Sellers as a group under this Agreement, the Sellers shall be paid pro rata according to their Share ownership interest in the Company.

2.3 Payments.

Prior to Closing, the Options shall be cancelled and payments made to the Optionholders by the Company pursuant to the terms of the Option Cancellation and Payment Acknowledgements executed by the Optionholders. Following payments made to the Optionholders, all remaining cash held by the Company shall be paid to the Sellers prior to Closing. Immediately thereafter, the Purchase Price shall be paid by Buyer to Sellers, by wire transfer of immediately available funds to an account designated by each respective payee, as follows:

- (a) Closing Date Purchase Price. The Closing Date Purchase Price shall be payable in cash at the Closing by wire transfer of immediately available funds, as follows:
- (i) the Escrow Amount shall be paid to the Escrow Agent to be held in accordance with the terms of the Escrow Agreement;
  - (ii) the entire payoff amount due and payable to those financial institutions who hold evidence of Outstanding Debt, as more specifically described in Schedule 2.3(a)(ii), shall be paid to such institutions;
  - (iii) the fees and expenses of the broker and counsel to the Company in connection with the Contemplated Transaction shall be paid to such parties; and
  - (iv) the balance of the Closing Date Purchase Price shall be paid to Sellers pro rata according to the Share ownership.



- (b) Real Estate Stub Amount. At the Closing, the Buyer shall pay the Real Estate Stub Amount by wire transfer of immediately available funds to the Escrow Agent to be held in accordance with the terms of the Escrow Agreement. If the Real Estate Purchase occurs on or before the date that is forty-five (45) days following the Closing, then Buyer and Sellers' Representative shall cause the Escrow Agent to release the Real Estate Stub Amount to Spencer Lane Properties A, Ltd. (or its designee) simultaneously with the closing of the Real Estate Purchase as payment by Buyer for a portion of the purchase price under the Real Estate Purchase. If the Real Estate Purchase does not occur on or before the date that is forty-five (45) days following the Closing, then the Escrow Agent shall release the Real Estate Stub Amount to Sellers' Representative, on behalf of Sellers, in accordance with the terms of the Escrow Agreement. For the avoidance of doubt, upon the payment of the Real Estate Stub Amount to Sellers Representative, on behalf of Sellers, such payment shall be deemed to be additional Purchase Price hereunder.
- (c) Payment for Working Capital Adjustment. Within three (3) Business Days of the determination of the Final Closing Financial Statements, (1) if the Working Capital Adjustment reflecting the Final Closing Statement of Net Working Capital (defined below) is less than the Working Capital Adjustment used at Closing, Sellers shall pay the difference of up to \$50,000 through the Escrow Fund and the balance of any amount in excess of \$50,000 from Sellers directly to Buyer by wire transfer of immediately available funds to an account designated by Buyer, and (2) if the Working Capital Adjustment reflecting the Final Closing Statement of Net Working Capital is more than the Working Capital Adjustment used at Closing, Buyer shall pay the difference to the Sellers pro rata according to the Share ownership by wire transfer of immediately available funds to accounts designated by Sellers. Notwithstanding anything to the contrary contained in this Agreement, any amounts payable pursuant to this sub-section 2.3(c) shall be paid dollar-for-dollar and shall not be subject to any deductible or basket for claims.
- (d) Determination of Final Closing Statement of Net Working Capital.
- (i) Within ninety (90) days following the Closing Date, the Sellers' Representative shall, deliver to Buyer and Sellers financial statements for the Company as of the Closing Date (the "Final Closing Financial Statements") and a Final Closing Statement of Net Working Capital prepared pursuant to the policies and procedures described in Schedule 2.3, in each case as of the Closing. The Final Closing Financial Statements shall be prepared in accordance with GAAP, applied on a basis consistent with the methodology used in prior periods and shall fairly present the financial condition of the Company, and shall be prepared using the results of the Closing Inventory (as defined in Schedule 2.3) to determine the value of the Inventory.
- (ii) Sellers agree that they will provide Buyer, and its auditors and accountants with reasonable access to the data, work papers and information on which

the Final Closing Financial Statements and the Final Closing Statement of Net Working Capital are based. Buyer shall within thirty (30) days following receipt of the Final Closing Financial Statements and the Final Closing Statement of Net Working Capital, notify Sellers' Representative as to Buyer's specific objection or objections. Buyer and Sellers' Representative shall use their Best Efforts to resolve these objections within forty-five (45) days following the receipt of the Final Closing Financial Statements and the Final Closing Statement of Net Working Capital. If Buyer and Sellers' Representative do not reach a final resolution within such forty-five (45) day period, they shall submit the disputed matter to binding arbitration before a regionally or nationally recognized independent accounting firm mutually agreed upon by both of them. If the parties do not agree on an accounting firm, each side will select an accounting firm who will then together pick a third party accounting firm. Buyer and Sellers shall share equally in the cost of such arbitration. The arbitration will concern, and the arbitrator will consider, only those items and amounts in dispute between Buyer and Sellers' Representative and may not assign or value any item greater than the greatest value for such item claimed by Buyer or Sellers' Representative, or less than the smallest value for such item claimed by Buyer or Sellers' Representative. The arbitrator's determination will be based solely on written presentations by Buyer and Sellers' Representative, and the arbitrator shall not be permitted (absent mutual written agreement of Buyer and Sellers' Representative to the contrary) to make any independent inquiry. Absent mutual written agreement of Buyer and Sellers' Representative, or order of the arbitrator, neither Buyer nor Sellers' Representative shall be permitted to conduct discovery in the manner of a dispute being litigated in a court of competent jurisdiction. Such prohibition shall include without limitation the taking of depositions; the service of written interrogatories, requests for production of documents or requests for admission; and the testimony of live witnesses. The determination of the arbitrator shall be binding and conclusive on the parties as to the items and amounts presented. The amount of Final Closing Statement of Net Working Capital as finally determined pursuant to this Section 2.3(d), whether due to no objections raised by Buyer or pursuant to the dispute resolutions described herein, shall be referred to herein as the "Final Closing Statement of Net Working Capital."

#### 2.4 Closing.

The closing of the purchase and sale (the "Closing") provided for in this Agreement will take place at the offices of Alston & Bird LLP in Atlanta, GA at 10:00 a.m. (local time) on the date first above written. Subject to Article 9, failure to consummate the purchase and sale provided for in this Agreement on the date and time and at the place determined pursuant to this Section 2.4 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

## 2.5 Closing Obligations.

At the Closing, in addition to the documents referenced in Articles 7 and 8:

- (a) Sellers will deliver to Buyer:
  - (i) certificates representing all of the issued and outstanding Shares of the Company, duly endorsed (or accompanied by duly executed stock powers) by the applicable Sellers for transfer to Buyer; and
  - (ii) such other instruments or documents in form and substance as may be reasonably necessary and satisfactory to Buyer to consummate the Contemplated Transactions and to comply with the terms of this Agreement.
- (b) Buyer will deliver to Sellers:
  - (i) in accordance with their pro-rata ownership of the Shares the Closing Date Purchase Price; and
  - (ii) such other instruments or documents in form and substance as may be reasonably necessary and satisfactory to Sellers' Representative to consummate the Contemplated Transactions and to comply with the terms of this Agreement.
- (c) Buyer will deliver to the Escrow Agent the Real Estate Stub Amount.

## ARTICLE 3

### REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller, severally, represents and warrants to Buyer as follows:

#### 3.1 Organization and Good Standing.

Schedule 3.1 contains a complete and accurate list of the jurisdiction of incorporation of the Company and each other jurisdiction in which the Company is authorized to do business. The Company is a corporation duly organized, validly existing, and in good standing under the laws of Georgia, with full corporate power and authority to conduct its Business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under Applicable Contracts. The Company is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification, except where the failure to be so qualified or be in good standing would not have a Material Adverse Change.

### 3.2 Authority; No Conflict.

- (a) This Agreement constitutes the legal, valid, and binding obligation of Sellers, enforceable against Sellers in accordance with its terms. Sellers have the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and to perform their obligations under this Agreement. The foregoing representations and warranties, however, are limited to the extent that the enforceability of this Agreement may be limited by:
  - (i) bankruptcy, insolvency, reorganization, liquidation, moratorium, receivership, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights and remedies generally; and
  - (ii) judicial limitations on the enforcement of the remedy of specific performance and injunctive and other forms of equitable relief.
- (b) Except as set forth in Schedule 3.2, neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will:
  - (i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company, or (B) any resolution adopted by the board of directors or the shareholders of the Company;
  - (ii) give any Governmental Body the right to challenge any of the Contemplated Transactions (to Sellers' Knowledge) or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or any Seller may be subject;
  - (iii) contravene or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract; or
  - (iv) result in the imposition or creation of any Encumbrance upon or any of the assets owned by the Company.
- (c) Except as set forth in Schedule 3.2, no Seller nor the Company is or will be required to give any notice to or obtain any material Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of the Contemplated Transactions.

### 3.3 Capitalization.

The authorized equity securities of the Company are set forth on Schedule 3.3. Sellers will be on the Closing Date the record owners of their respective Shares, free and clear of all Encumbrances. All of the outstanding equity securities and other securities of Company are owned of record by Sellers and the Options are owned of record by the Optionholders. All of the

outstanding equity securities of the Company have been duly authorized and validly issued and are fully paid and non-assessable. There are no Contracts relating to the issuance, sale, or transfer by the Company of any equity securities or other securities of the Company, other than the Options set forth on Schedule 3.3. Except for the Options set forth on Schedule 3.3, there are no outstanding or authorized options, warrants, rights, agreements or commitments to which either the Company or any of Sellers is a party or which are binding upon the Company providing for the issuance, disposition or acquisition of any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company. Except for the Shareholders Agreement, there are no agreements, voting trusts, proxies, or understandings with respect to the voting, or registration under the Securities Act, of any Shares. All of the issued and outstanding Shares and Options were issued in compliance with applicable federal and state securities laws.

#### 3.4 Financial Statements.

Sellers have delivered to Buyer (a) audited financial statements of the Company for the fiscal years 2013 through 2014, including the balance sheets as of such dates and the related audited consolidated statements of income and cash flow for each of the fiscal years then ended, including the notes thereto, and (b) an unaudited, consolidated balance sheet of the Company as of April 30, 2014 and the related unaudited, consolidated statements of income and cash flow for the Company, (the “Interim Financial Statements”). Such financial statements and notes fairly present in all material respects the financial condition and the results of operations and cash flow of the Company as at the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP, on a consistent basis with financial statements previously provided in the data room subject, in the case of Interim Financial Statements, to normal recurring year-end adjustments and the absence of notes. The financial statements referred to in this Section 3.4 reflect the consistent application of such accounting principles throughout the periods involved, except as disclosed in the notes thereto.

#### 3.5 Books and Records.

The books of account, minute books, stock record books, and other records of the Company are complete and correct in all material respects and have been maintained in accordance with commercially reasonable business practices. The minute books of the Company contain materially accurate and complete records of all meetings held of, and corporate action taken by, the stockholders, the Boards of Directors, and committees of the Boards of Directors of the Company.

#### 3.6 Title to Properties; Encumbrances.

The Company owns (with good, and marketable title, subject only to the matters permitted by the following sentence) all the properties and assets (whether tangible or intangible) located in the Facility (except as set forth in Schedule 3.6) and reflected as owned in the books and records of the Company, including all of the properties and assets reflected in the balance sheet included in the Interim Financial Statements (the “Interim Balance Sheet”), except for properties and assets (i) purchased or otherwise acquired by the Company since the date of the Interim Balance Sheet and (ii) sold since the date of the Interim Balance Sheet in the Ordinary Course of Business and

consistent with past practice. All material properties and assets reflected in the Interim Balance Sheet will be free and clear of all Encumbrances as of the Closing except (a) security interests shown on the Interim Balance Sheet as securing specified liabilities or obligations, with respect to which no default or event that, with notice or lapse of time or both, would constitute a default, exists, (b) security interests incurred in connection with the purchase of property or assets after the date of the Interim Balance Sheet (such security interests being limited to the property or assets so acquired), with respect to which no default or event that, with notice or lapse of time or both, would constitute a default, exists, and (c) liens for current Taxes not yet due.

To Sellers' Knowledge, the current use and operation of the Facility is in compliance in all material respects with all applicable laws (other than Environmental Laws which are separately addressed in Section 3.17), including without limitation laws relating to parking, zoning and land use, and public and private covenants and restrictions. The Company has not received written notice of non-compliance with any applicable laws that has not been cured, except to the extent any such non-compliance would not have a Material Adverse Change.

### 3.7 Condition of Assets.

The buildings, plants, structures, machinery, tools, dies, furniture, fixtures and equipment of the Company including the Facility are structurally sound and are in good and serviceable operating condition and repair, ordinary wear and tear excepted. None of such buildings, plants, structures, machinery, tools, dies, furniture, fixtures or equipment including the Facility is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. All such buildings, plants, structures, machinery, tools, dies, furniture, fixtures and equipment including the Facility are sufficient to carry on the Business of the Company as it is currently conducted.

### 3.8 No Undisclosed Liabilities.

The Company has no material liabilities or obligations of any nature (whether Threatened, known or unknown and whether absolute, accrued, contingent, or otherwise) that are required to be reflected in the Company's financial statements except for (a) liabilities or obligations reflected or reserved against in the Interim Balance Sheet, (b) current liabilities incurred since the Interim Balance Sheet in the Ordinary Course of Business since the date thereof and which are comparable in type and amount to liabilities for prior periods, and (c) liabilities reflected in the Final Closing Financial Statements.

### 3.9 Taxes.

- (a) Except as set forth in Schedule 3.9(a), the Company has filed on a timely basis all Tax Returns that are or were required to be filed by or with respect to it, pursuant to applicable Legal Requirements. All such Tax Returns were true, complete and correct in all material respects. The Company has paid all Taxes due and payable and made provision for the payment of all Taxes for which the Company has received an assessment but that are not yet due and payable.
- (b) Schedule 3.9(b) contains a complete and accurate list of all audits of all such Tax Returns, including a reasonably detailed description of the nature and outcome of

each audit. There have been no deficiencies proposed as a result of such audits. The Company has not given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of the Company or for which the Company may be liable.

- (c) All Tax amounts required to be withheld by the Company, and the portion of any such taxes to be paid by the Company to any Governmental Body, have been collected or withheld and either paid to the appropriate Governmental Body or set aside in accounts for such purpose or reserved against or made adequate provision for in the financial statements of the responsible the Company.
- (d) All foreign, state and local jurisdictions where the Company has filed Tax Returns for fiscal year ended February 28, 2013 are set forth in Schedule 3.9(d). The Company has not received any claim, notice or questionnaire from any Governmental Body in any jurisdiction that such the Company is or may be subject to taxation by such jurisdiction.
- (e) The Company is not a party to any Tax allocation or sharing agreement, and the Company does not have any liability for Taxes of any other Person and is not otherwise liable or obligated to indemnify any Person with respect to any Taxes.
- (f) Except as set forth in Schedule 3.9(f), the Company has accurately filed on a timely basis all unclaimed property reports and filings required by applicable Law.

### 3.10 No Material Adverse Change.

Since February 28, 2014, the Company has not suffered any Material Adverse Change, nor has there been any Threatened Material Adverse Change.

### 3.11 Employee Benefits.

Schedule 3.11 contains a complete and accurate list of all Company Plans and other Benefit Obligations of the Company (collectively for the purposes of this Section 3.11, the “Plans”). No Company Plans are defined benefit Pension Plans, Qualified Plans, or Multi-Employer Plans. The Company has performed in all material respects all of its obligations under all Company Plans and other Benefit Obligations of the Company. The Company has made appropriate entries in its financial records and statements for all material obligations and liabilities under such Company Plans and other Benefit Obligations that have accrued but are not due; and the Company, with respect to all Company Plans and other Benefits Obligations of the Company, and each Company Plan and other Benefit Obligation of the Company, is in compliance in all material respects with ERISA, the IRC, and other applicable laws including the provisions of such laws expressly mentioned in this Section 3.11. The Company has complied in all material respects with all provisions, rules, regulations and legislation relating to funding requirements for the Company Plans. No past service funding liabilities exist under the Company Plans. All Company Plans required by law or the terms of the Company Plans to be authorized by the Board of Directors have been duly authorized by the Board of Directors and, if required by law

or by the terms of the Company Plans, by the shareholders of the Company. There are no pending or Threatened audits or investigations by any Governmental Body with respect to any Company Plan.

Copies of each Company Plan, any amendments thereto and any trust agreement and contracts or insurance policies relating to such Company Plan have been made available to Buyer through the electronic data room provided by the Company. Copies of the documentation and material correspondence directly related to the Company Plans have also been made available to Buyer.

Sellers represent and warrant that the Company has not sponsored, maintained or contributed at any time during the preceding five years to any plan, program, fund or arrangement that constitutes a defined benefit Pension Plan, a Qualified Plan or a Multi-Employer Plan.

Neither Sellers nor the Company has made any promises of welfare benefit plans, within the meaning of Section 3(1) of ERISA that provides for continuing benefits or coverage for any former employees or retirees of the Company including but not limited to retiree medical benefits.

### 3.12 Compliance with Legal Requirements: Governmental Authorizations.

Except as set forth in Schedule 3.12 or as would not have a Material Adverse Change:

- (a) The Company is in full compliance with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets;
- (b) no event has occurred or circumstance exists that constitutes or results in a violation or Threatened violation by the Company of, or a failure on the part of the Company to comply with, any Legal Requirement;
- (c) the Company has not received, at any time since February 28, 2014, any written notice or other communication from any Governmental Body regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature except as disclosed on Schedule 3.12; and
- (d) Schedule 3.12 contains a complete and accurate list of each Governmental Authorization that is held by the Company. Unless by its terms it is non-transferable, each such Governmental Authorization shall remain in full force and effect after the Closing Date.

To the Knowledge of Sellers, the Governmental Authorizations listed in Schedule 3.12 collectively constitute all of the material Governmental Authorizations necessary to permit the Company to lawfully conduct and operate its Business in the manner it currently conducts and operates such Business and to permit the Company to own and use its assets in the manner in which its currently owns and uses such assets.



Notwithstanding anything to the contrary set forth in this Section 3.12, none of the representations and warranties set forth in this Section 3.12 is intended or shall be construed to apply to any matter relating to Environmental Laws, Occupational Safety and Health Laws or any laws relating to employment practices, which matters are addressed in Sections 3.17 and 3.18, respectively.

### 3.13 Legal Proceedings; Orders.

- (a) Except as set forth in Schedules 3.13 and 3.17, there is no pending or Threatened Proceeding:
  - (i) that has been commenced by or against the Company; or
  - (ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.
- (b) Except as set forth in Schedule 3.13:
  - (i) there is no Order to which the Company, or any of the assets owned by the Company, is subject; and
  - (ii) no Seller is subject to any Order that relates to the Business of, or any of the assets owned or used by, the Company.

### 3.14 Absence of Certain Changes and Events.

Except as set forth in Schedule 3.14 or as otherwise specifically contemplated by this Agreement, since the date of the Interim Balance Sheet, the Company has conducted its Business only in the Ordinary Course of Business and there has not been any:

- (a) change in the Company's authorized or issued capital stock, grant of any stock option or right to purchase shares of capital stock of the Company; issuance of any security convertible into such capital stock, grant of any registration rights, grant of options, warrants or stock awards, purchase, redemption, retirement, or other acquisition by the Company of any shares of any such capital stock, or declaration or payment of any dividend or other distribution or payment in respect of shares of capital stock;
- (b) amendment to the Organizational Documents of the Company;
- (c) except in the Ordinary Course of Business, payment or increase by the Company of any bonuses, salaries, loans, perquisites, severance arrangements or other compensation to any stockholder, director, officer, or employee or entry into any employment, severance, or similar Contract with any director, officer, or employee;

- (d) adoption of, or increase in the payments to or benefits under, any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of the Company;
- (e) damage to or destruction or loss of any asset or property of the Company, whether or not covered by insurance, which would cause a Material Adverse Change to the properties, assets, business or financial condition of the Company;
- (f) except in the Ordinary Course of Business, entry into, termination of, or receipt of notice of termination of (i) any license, distributorship, dealer, sales representative, joint venture, credit, or similar agreement, or (ii) any Contract or transaction involving a total remaining commitment by or to the Company of at least \$50,000 or a term in excess of twelve (12) months;
- (g) material change in the accounting methods or principles or practices used by the Company;
- (h) payment of long term debt except as in accordance with the normal scheduled maturities for any long term debt;
- (i) grant or making of any mortgage or pledge or subject itself or any of its properties or assets (tangible or intangible) to any claim, lien, charge or encumbrance of any kind (absolute or contingent), except liens for Taxes not currently due;
- (j) making of any commitment or incurring of any liability, through negotiations or otherwise, to any labor organization which could have a Material Adverse Change;
- (k) increase or establishment of any reserve for Taxes or other liabilities on its books or otherwise provide therefor, except for Taxes or other liabilities relating to the Ordinary Course of Business of the Company since the date of the Interim Balance Sheet; or write up or down the value of inventory or determine as collectable any notes or accounts receivable that were previously considered to be uncollectible, except for write-ups or write-downs in accordance with GAAP in the Ordinary Course of Business consistent with past practice;
- (l) making or authorizing of any capital expenditure in excess of \$100,000 for any individual commitment, except as may be necessary for ordinary repair, maintenance or replacement;  
or
- (m) entry into any contract, except in the Ordinary Course of Business, for the sale of goods or the performance of services for or by the Company that is not terminable upon sixty (60) days' notice or less; entry into any contract continuing for a period of more than three months from its date that is not terminable upon sixty (60) days' notice or less; entry into any agreement or instrument, except in the Ordinary Course of Business, relating to the borrowing or lending of money or extension of credit, guarantee or indemnitee of any Person with respect to any obligation for borrowed money or otherwise, excluding endorsements made for

collection; or making or permitting to be made any amendment, modification, cancellation or termination of any material contract, agreement, lease, license, finance agreement or written evidence of indebtedness, except for the renewal of lines of credit in place as of the date hereof, in an amount and on terms consistent with past practice of the Company.

### 3.15 Applicable Contracts; No Defaults.

- (a) Schedule 3.15(a) contains a complete and accurate list of the following executory Contracts to which the Company is a party (each, an “Applicable Contract”):
- (i) each Contract that involves performance of services or delivery of goods or materials by the Company of an amount or value in excess of \$50,000;
  - (ii) each Contract that involves performance of services or delivery of goods or materials to the Company of an amount or value in excess of \$50,000;
  - (iii) each Contract that was not entered into in the Ordinary Course of Business and that involves expenditures by or receipts of the Company in excess of \$50,000;
  - (iv) each Contract that involves the furnishing of goods or services which cannot be cancelled, without penalty, on sixty (60) days or less notice and which affects the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and installment and conditional sales agreements having a value per item or aggregate payments of less than \$50,000 and with terms of less than one year);
  - (v) each Contract containing covenants that in any way purport to restrict the business activity of the Company or limit the freedom of the Company to engage in any line of business or to compete with any Person
  - (vi) each Contract for capital expenditures in excess of \$50,000;
  - (vii) each written warranty, guaranty, and or other similar undertaking with respect to contractual performance extended by the Company other than in the Ordinary Course of Business;
  - (viii) each Contract guaranteeing any indebtedness obligation or liability of a Person other than the Company;
  - (ix) each Contract involving a joint venture, partnership or other cooperative arrangement or any other agreement involving a sharing of profits;
  - (x) each Contract which contains any provisions requiring the Company to indemnify any other Person other than in the Ordinary Course of Business;

- (xi) except in the Ordinary Course of Business, each Contract obligating the Company to sell or deliver any product or service at a price which does not cover the cost (including labor, materials and production overhead) plus the Company's customary profit margin associated therewith;
- (xii) each Contract concerning confidentiality or non-competition, other than in the Ordinary Course of Business; and
- (xiii) each amendment, supplement, and modification (whether oral or written) in respect of any of the foregoing.

The Company has provided or made available true and correct copies of all Applicable Contracts to Buyer. No notice of material default arising under any Applicable Contract has been delivered to or by the Company. Except as set forth in Schedule 3.15, the transfer of the Shares contemplated by this Agreement will not result in any default, penalty or modifications to any such Applicable Contract.

- (b) Each Applicable Contract is a legal, valid and binding obligation of the Company and, to Sellers' Knowledge, each other party thereto, enforceable against each such party thereto in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and subject to general principles of equity.
- (c) Except as set forth in Schedule 3.15(c):
  - (i) the Company is in compliance with all applicable terms and requirements of each Applicable Contract under which it has or had any obligation or liability, except where such non-compliance would not have a Material Adverse Change; and
  - (ii) the Company has not given to or received from any other Person any notice or other communication regarding any actual, Threatened or alleged violation or breach of, or default under, any Applicable Contract.

### 3.16 Insurance.

- (a) The Company has delivered to Buyer true and complete copies of all policies of insurance for the 2013-2014 policy year and binders for all policies of insurance to be issued for the 2014-2015 policy year for which the Company is a named insured. Schedule 3.16 describes any self-insurance arrangement by or affecting the Company, including any reserves established thereunder and identifies all insurance policies for all policy years from the incorporation date of the Company and through the 2012-2013 policy year. Except as set forth on Schedule 3.16, all policies of insurance to which the Company is a named insured:
  - (i) to Sellers' Knowledge, are valid, outstanding, and enforceable and shall so remain through the Closing Date (except to the extent any such policy expires and is renewed in the Ordinary Course of Business);

- (ii) to the Sellers' Knowledge, were procured from insurance companies, in part, by providing insurers with representations and estimated exposure information, after reasonable good faith inquiry;
  - (iii) to Sellers' Knowledge, are sufficient for compliance with all Legal Requirements and Contracts to which the Company is a party;
  - (iv) to Sellers' Knowledge, all material facts, circumstances, situations, events or acts which could give rise to a claim as well as any actual notice of claim or legal action against the Company or its directors, officers, fiduciaries or employees have been reported and filed with any and all insurance companies underwriting insurance policies that may provide coverage for such potential or actual losses for the purpose of complying with the insurance policy(s)' notice requirements and conditions; and
  - (v) do not provide for any retrospective premium adjustment on the part of the Company.
- (b) The Company has paid all insurance premiums due, and has otherwise performed all of its obligations and complied with all conditions, under each insurance policy to which the Company is a named insured or that provides coverage to the Company, directors, officers, fiduciaries or employees thereof, and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination, modification, or acceleration, under the policies.

### 3.17 Environmental Matters.

Except as set forth in Schedule 3.17:

- (a) There are no pending or, to the Knowledge of Sellers, Threatened claims resulting from any Environmental, Health, and Safety Liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting the Facility or the Company.
- (b) The Company is in compliance in all material respects with all present interpretations of, or enforcement policies applicable to, Environmental Laws and Occupational Safety and Health Laws.
- (c) At no time did the Company release on, upon, adjacent to, or into the Facility, substances in violation of Environmental Laws or Occupational Safety and Health Laws which would require remediation or abatement, the cost of which would reasonably be concluded to amount to \$10,000 or more.
- (d) The Company has in full force and effect all Governmental Authorizations required by all applicable Environmental Laws for the operation of its Business and is in material compliance with the terms and conditions of such Governmental Authorizations.

- (e) The Company is not subject to any decree, order, writ, judgment or injunction issued pursuant to, and to the Sellers' Knowledge, is not the subject of any pending or Threatened investigation under any, applicable Environmental Laws.
- (f) To Sellers' Knowledge, there has been no Hazardous Activity at the Facility (except in material compliance with or which have been remediated in material compliance with applicable Environmental Laws at the Facility).
- (g) Buyer has been provided with, in the course of due diligence inquiry, full and accurate disclosure of all known or Threatened material Environmental, Health and Safety Liabilities, and material documentation regarding the Company's policies, procedures and operations in connection with Environmental Laws.

### 3.18 Employees

Schedule 3.18 contains (a) a complete and accurate list, as of May 31, 2014, of the name, job title (to the extent applicable), and current rate of compensation for each Company employee, officer and director, and (b) a list of each such employee/officer who has entered into a contract for employment or a confidentiality/assignment of inventions agreement with the Company, a copy of which has been provided to Buyer. Except as set forth in Schedule 3.18, to Sellers' Knowledge, no employee with annual compensation in excess of seventy-five thousand dollars (\$75,000) or group of at least five (5) employees has any plans to terminate employment with the Company.

There are no controversies pending or, to the Knowledge of Sellers, Threatened controversies involving any employee with annual compensation in excess of seventy-five thousand dollars (\$75,000) or any group of at least five (5) employees of the Company. The Company is in compliance in all material requests with all applicable federal, state and municipal Occupational Safety and Health Laws concerning or affecting employees of the Company.

Except as set forth on Schedule 3.18, the Company has not been since March 1, 2011, or is, subject to any adverse rulings, findings or determinations of unlawful employment practices or violations of other related statutes, and Sellers have not received any written notice of any pending or Threatened investigation, Proceeding, labor dispute or litigation relating to any unlawful employment practice claim or claims or violations of other related statutes, executive orders or administrative determinations or regulations.

### 3.19 Labor Relations; Compliance.

The Company is not a party to any collective bargaining agreement. Since March 1, 2011, there has not been, there is not presently pending or existing, and to Sellers' Knowledge there is not Threatened, (a) any Proceeding against or affecting the Company relating to the alleged violation of any Legal Requirement pertaining to labor relations or employment matters, including any charge or complaint filed by an employee with the Equal Employment Opportunity Commission, or (c) any petition for certification of a collective bargaining agent.

### 3.20 Intellectual Property.

#### (a) Patents.

- (i) Schedule 3.20(a) contains a complete and accurate list of all Patents owned by the Company. Except for licenses granted in the Applicable Contracts, the Company is the owner of all right, title, and interest in and to each of its Patents, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims.
- (ii) All of the issued Patents owned by the Company are currently in compliance with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use) and are valid and no Governmental Body has declared any such Patent unenforceable.
- (iii) To Sellers' Knowledge, since the period the Company owned the Patent, no Patent owned by the Company has been or is now involved in any interference, reissue, reexamination, or opposition proceeding.
- (iv) To Sellers' Knowledge, since the period the Company owned the Patent, no Patent owned by the Company is infringed or has been challenged or Threatened in any way.

#### (b) Marks.

- (i) Schedule 3.20(b) contains a complete and accurate list and summary description of all Marks used by the Company. Except for licenses granted in the Applicable Contracts, the Company is the owner of all right, title, and interest in and to each of its Marks, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims.
- (ii) All Marks owned by the Company that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications) and are valid and subsisting.
- (iii) No Mark owned by the Company has been or is now involved in any opposition, invalidation, or cancellation Proceeding and, to Sellers' Knowledge, no such action is Threatened with the respect to any of such Marks.
- (iv) To Sellers' Knowledge, there is no trademark or trademark application of any third party that potentially interferes with any Mark of the Company.

- (v) To Sellers' Knowledge, no Mark owned by the Company is infringed or has been challenged or Threatened in any way.
- (c) Copyrights. The Company does not have any registered Copyrights
- (d) Royalties. The Company does not pay any royalty to any Person in connection with the property described in this Section 3.20.

### 3.21 Brokers or Finders.

Sellers and their agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement other than in connection with an agreement with Billow Butler & Company, L.L.C. Any payments to Billow Butler & Company, L.L.C. after the Closing Date shall be paid by Sellers.

### 3.22 Product Warranty.

Schedule 3.22 hereto contains an accurate and complete statement of all written warranties, warranty policies, service, subscription and maintenance agreements of the Company. To Sellers' Knowledge, there are no material warranty liabilities or recalls of the Company's products, and no claims for service, repair, replacement, refund, recall or claims for other product-related remedies that are pending, or are reasonably anticipated to be presented with respect to the Company's products.

### 3.23 Product Liability.

Schedule 3.23 contains a complete and accurate list and summary description of all written outstanding liabilities, claims or obligations, absolute or (to Sellers' Knowledge) contingent, pending or (to Sellers' Knowledge) Threatened or otherwise arising from or alleged to arise from any actual or alleged injury to persons or property as a result of the ownership, possession or use of any product assembled or sold by the Company prior to the Closing Date, including but not limited to any claims arising from or alleged to arise from any actual or alleged exposure to asbestos and/or asbestos containing materials. All such claims are fully covered by product liability insurance subject to applicable deductibles and reserves and available limits of coverage or if not are noted on Schedule 3.23. To Sellers' Knowledge, there are no recalls, Threatened or pending, and no report has been filed or required to have been filed with respect to any products of the Company under any applicable statute or regulation.

### 3.24 Customers.

None of the customers of the Company identified on Schedule 3.24 has provided written notice to any member of the Senior Management Team of its intention to terminate its relationship with the Company or to substantially reduce the amount of business it provides to the Company, and Sellers do not have any Knowledge of any such intention unless identified on Schedule 3.24.



### 3.25 Trade Secrets and Proprietary Information.

To Sellers' Knowledge no use of the Trade Secrets owned by the Company violates any trade secret rights of any other Person.

### 3.26 Personal Property Leases.

There are no leases of personal property used by the Company involving annual payments in excess of Fifty Thousand Dollars (\$50,000).

### 3.27 Real Property Lease.

Schedule 3.27 hereto sets forth a complete description of the real property lease related to the Company (the "Real Property Lease") leased or subleased by the Company including the amount of the security deposit, if any, thereunder, a street address, legal description, descriptive summary and list of contracts, agreements, leases, subleases, options and commitments, oral or written, including all material contracts, agreements, leases, subleases, options and commitments relating to or affecting such real property or any interests therein to which the Company is a party or is otherwise bound or affected. Sellers have heretofore made available to Buyer a true and complete copy of the Real Property Lease. The Real Property Lease is legally valid and binding and in full force and effect, and there have been no written or oral modifications, alterations or amendments of or to the Real Property Lease except as set forth on Schedule 3.27. The Company is not in default under any of the terms and provisions of the Real Property Lease, and to the Sellers' Knowledge, the landlord under the Real Property Lease is not in default of any of its obligations thereunder. To the Sellers' Knowledge, there are no defaults, offsets, counterclaims or defenses under the Real Property Lease, and no Seller has received any notice of any default, offset, counterclaim or defense under any of the Real Property Lease. As of Closing, there will be no agreements in place, and binding upon Buyer, regarding the payment of any leasing commissions to any party with respect to the Real Property Lease. With respect to the Real Property Lease:

- (a) No amount payable under the Real Property Lease is past due;
- (b) The Company has complied with all material commitments and obligations on its part to be performed or observed under the Real Property Lease;
- (c) No Seller has received any notice of default (other than defaults which have been waived or cured) under the Real Property Lease or any other communication calling upon Seller to comply with any provision of the Real Property Lease or asserting noncompliance and, except for events, and conditions which have been waived or cured; and
- (d) Except as set forth on Schedule 3.27, there does not exist any security interest, lien, encumbrance or claim of others (excluding the lessor) created or suffered to exist on the leasehold interest created under the Real Property Lease.

The Company has good and valid title to the leasehold estate under the Real Property Lease, free and clear of all liens.

### 3.28 Related Party Interests.

Except as disclosed on Schedule 3.28, to Sellers' Knowledge, no Person that is not a publicly traded corporation in which any of the Sellers has a direct or indirect ownership interest or investment:

- (a) has any cause of action or other claim whatsoever against or owes any amount to, or is owed any amount by the Company in excess of \$50,000;
- (b) has any interest in or owns any property or right used in the conduct of the Business of the Company  
;
- (c) is a party to any Contract with the Company;
- (d) received from or furnished to the Company any goods or services other than employment services (with or without consideration) since the date of the Interim Balance Sheet; or
- (e) owns, directly or indirectly, any debt, equity or other interest or investments in any corporation, firm or other entity which is a competitor, lessor, lessee, customer, supplier or advertiser of the Company.

### 3.29 Delivery of Documents.

Complete copies of all notices and other instruments and documents, including all amendments, supplements and modifications thereto, listed in the Schedules to this Agreement have been made available in the data room to Buyer.

### 3.30 Truth of Representations and Warranties.

No representation or warranty by Sellers in this Agreement or in the Schedules contains or will contain at Closing an untrue statement of a material fact necessary to make the statements and facts contained therein not materially misleading.

### 3.31 Books and Records.

All accounting books, ledgers, records, minute books, share certificate books and corporate seals, where applicable, of the Company and all other records of or concerning the Company are located at the business premises of the Company or retained in the offices of Company counsel.

## ARTICLE 4

### REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as follows:

#### 4.1 Organization and Good Standing.

Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware.

#### 4.2 Authority; No Conflict.

This Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms. Buyer has the absolute and unrestricted right, power, and authority to execute and deliver this Agreement and the other agreements contemplated hereby and to perform its obligations under this Agreement and such other agreements. Buyer is not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the other agreements contemplated hereby or the consummation or performance of any of the Contemplated Transactions.

#### 4.3 Investment Intent.

Buyer is acquiring the Shares for its own account and not with a view to their distribution within the meaning of Section 2(11) of the Securities Act.

#### 4.4 Certain Proceedings.

There is no pending Proceeding against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To Buyer's knowledge, no such Proceeding has been Threatened.

#### 4.5 Available Funds.

Buyer has, or will have as of the Closing Date, sufficient funds to perform all of its obligations under this Agreement, including, without limitation, to make the payments required hereunder.

#### 4.6 Brokers or Finders.

Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement and will indemnify and hold Sellers harmless from any such payment alleged to be due by or through Buyer as a result of the action of Buyer or its officers or agents.

### ARTICLE 5

#### COVENANTS OF SELLERS PRIOR TO CLOSING DATE

#### 5.1 Access and Investigation.

Between the date of this Agreement and the Closing Date, Sellers will, and will cause the Company and its Representatives to: (a) afford Buyer and its Representatives and prospective lenders and their Representatives (collectively, "Buyer's Advisors") reasonable access, upon

reasonable prior notice and coordination with Ed Odmark, to the Company's properties, contracts, books and records, and other documents and data, and will permit Buyer to contact any third party from whom information is sought relevant to the Contemplated Transactions; (b) furnish Buyer and Buyer's Advisors with full and complete copies of all such contracts, books and records, and other existing documents and data as Buyer may reasonably request; (c) furnish Buyer and Buyer's Advisors with such additional financial, operating, and other data and information as Buyer may reasonably request; and (d) facilitate Buyer's due diligence visits with certain primary vendors and customers of the Company as specifically provided for herein. Notwithstanding the foregoing, any contact with employees, vendors, and customers of the Company shall be made only with Sellers' prior approval and after all other due diligence has been completed by Buyer and all other relevant materials issues have been agreed to and concluded between the parties.

Buyer shall comply fully with all rules, regulations, policies and instructions issued by the Company while upon, entering or leaving the Company's property, including any insurance requirements that the Company may impose on contractors authorized to perform work on any property owned or operated by the Company. Buyer shall not unreasonably interfere with the day-to-day operations of the Business of the Company. The Company and the Sellers shall be deemed to have "provided" the Buyer documents and information as reflected hereunder to the extent such documents and information are posted to the data room provided in connection with these Contemplated Transactions.

#### 5.2 Operation of the Business of the Company.

Between the date of this Agreement and the Closing Date, the Sellers who are also members of the Senior Management Team will cause the Company to use their Best Efforts to (a) conduct business only in the Ordinary Course of Business, (b) confer with Buyer concerning operational matters of a material nature, and (c) otherwise report regularly and periodically to Buyer concerning the status of the Business, operations, and finances of the Company.

#### 5.3 Negative Covenant.

Except as otherwise expressly permitted by this Agreement, between the date of this Agreement and the Closing Date, the Sellers who are also members of the Senior Management Team will use their Best Efforts to cause the Company not to, without the prior consent of Buyer, take any affirmative action, or fail to take any reasonable action within their or its control, as a result of which any of the changes or events listed in Section 3.14 is likely to occur.

#### 5.4 Required Approvals.

As promptly as practicable after the date of this Agreement to the extent not already done, the Sellers who are also members of the Senior Management Team will use their Best Efforts to cause the Company to make all filings required by Legal Requirements to be made by them in order to consummate the Contemplated Transactions.

#### 5.5 Notification.

Between the date of this Agreement and the Closing Date, each Seller will promptly notify Buyer in writing if such Seller becomes aware of any fact or condition that causes or constitutes a Breach or potential Breach of any of Sellers' representations and warranties set forth in this

Agreement, or if such Seller becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach or potential Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Schedules if the Schedules were dated the date of the occurrence or discovery of any such fact or condition, Sellers will promptly deliver to Buyer a supplement to the Schedules specifying such change. During the same period, each Seller will promptly notify Buyer of the occurrence of any Breach or potential Breach of any covenant of Sellers in this Article 5 or of the occurrence of any event that may make the satisfaction of the conditions in Article 7 impossible or reasonably unlikely.

5.6 Best Efforts.

Between the date of this Agreement and the Closing Date, the Sellers who are also members of the Senior Management Team will use their Best Efforts to cause the conditions in Article 7 and Section 8.3 to be satisfied.

**ARTICLE 6**

**COVENANTS OF BUYER PRIOR TO  
CLOSING DATE**

6.1 Required Approvals.

As promptly as practicable after the date of this Agreement to the extent not already done, Buyer will, and will cause each of its Related Persons to, make all filings required by Legal Requirements to be made by them in order to consummate the Contemplated Transactions.

6.2 Best Efforts.

Except as set forth in the proviso to Section 6.1, between the date of this Agreement and the Closing Date, Buyer will use its Best Efforts to cause the conditions in Section 7.2(c) and Article 8 to be satisfied.

6.3 Disputes with Company Customers.

If and to the extent Buyer elects to contact any customer of the Company as permitted by the terms of this Agreement, Buyer shall only do so after confirming in writing to Sellers' Representative that Buyer has never asserted any claim against, or otherwise been engaged in any dispute of any nature with, such customer.

**ARTICLE 7**

**CONDITIONS PRECEDENT TO  
BUYER'S OBLIGATION TO CLOSE**

Buyer's obligation to purchase the Shares and to take the other actions required to be taken by Buyer at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in whole or in part):

### 7.1 Accuracy of Representations.

The representations and warranties of Sellers contained in this Agreement shall be true and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date (except to the extent that any such representation or warranty is stated to be made as of a specified date, in which case, such representation and warranty shall be true and correct as of such specified date), except that any inaccuracies in such representations and warranties will be disregarded if the circumstances giving rise to such inaccuracies do not, individually or in the aggregate, constitute, and could not reasonably be expected to constitute, a Material Adverse Change.

### 7.2 Sellers' Performance.

- (a) All of the covenants and obligations that Sellers are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of such covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.
- (b) Each document required to be delivered pursuant to Section 2.5(a) and this Article 7 must have been delivered.
- (c) No Proceeding shall be pending or Threatened by or before any Governmental Body wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of any of the Contemplated Transactions, (ii) cause any of the Contemplated Transactions to be rescinded following consummation or (iii) affect adversely the right of the Buyer to own, operate or control any of the assets and operations of the Company following the Contemplated Transactions, and no such judgment, order, decree, stipulation or injunction shall be in effect.

### 7.3 Resignations.

Buyer shall have received in writing prior to or at the Closing the resignations, effective as of the Closing Date, of each corporate director and officer of the Company.

### 7.4 Escrow Agreement

Sellers' Representative and the Escrow Agent shall have executed and delivered to Buyer the Escrow Agreement.

### 7.5 Good Standing Certificate.

Buyer shall have received certificates certifying that the Company is in good standing under the state of its incorporation.

7.6 Other Documents.

Sellers shall have executed and delivered to Buyer such other documents as counsel for Buyer shall reasonably request to carry out the purposes of this Agreement.

7.7 No Claim Regarding Stock Ownership or Sale Proceeds.

There must not have been made or Threatened by any Person any claim asserting that such Person (a) is the holder or the beneficial owner of, or has the right to acquire or to obtain beneficial ownership of, any stock of, or any other voting, equity, or ownership interest in, the Company, or (b) is entitled to all or any portion of the Purchase Price. Sellers shall either have obtained an agreement from each of the Optionholders who hold Options to acquire Shares of the Company for purchase or cancellation of those respective Options by the Company prior to the Closing and shall provide evidence of this to Buyer, or any Optionholder who does not execute a cancellation agreement shall have exercised his or her Options and become a Seller hereunder.

7.8 Consulting Agreement.

Edward Odmark shall have executed and delivered to Buyer a consulting agreement relating to services to be provided by him to the Company after the Closing Date.

7.9 Consents from Material Customers.

The completion and Closing of the Contemplated Transaction is contingent upon the consent to assignment of all Applicable Contracts with customers and/or vendors and lessors to the extent such Contracts require consent due to change of control, other than the Applicable Contracts set forth on Schedule 7.9.

7.10 Availability of Employees.

Buyer shall have been reasonably satisfied of the availability of the Senior Management Team of the Company and their direct reports for employment with Buyer subsequent to the Closing.

7.11 Extended Reporting Period Coverage for Company's Liability Insurance Policies Written on a Claims-Made Basis.

The Company shall have procured any additional premium for extended reporting period coverage, for a period of three years from the Closing Date; for any liability insurance policy written, in whole or in part, on a claims-made basis, in compliance with policy conditions. Sellers shall pay the Company \$10,000 towards the cost of such insurance at the Closing.

## ARTICLE 8

### CONDITIONS PRECEDENT TO SELLERS' OBLIGATION TO CLOSE

Sellers' obligation to sell the Shares and to take the other actions required to be taken by Sellers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Sellers, in whole or in part):

### 8.1 Accuracy of Representations.

The representations and warranties of Buyer contained in this Agreement shall be true and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date (except to the extent that any such representation or warranty is stated to be made as of a specified date, in which case, such representation and warranty shall be true and correct as of such specified date), except that any inaccuracies in such representations and warranties will be disregarded if such inaccuracies do not, and could not have reasonably be expected to, have a material adverse effect on Buyer's business, financial condition, or results of operation or Buyer's ability to consummate the Contemplated Transactions.

### 8.2 Buyer's Performance.

- (a) All of the covenants and obligations that Buyer is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of such covenants and obligations (considered individually), must have been performed and complied with in all material respects.
- (b) Each document required to be delivered pursuant to this Article 8 must have been delivered.
- (c) Buyer must have satisfied its obligations pursuant to Section 2.3(a) and 2.3(b) to be satisfied at the Closing.

### 8.3 No Injunction.

No Proceeding shall be pending or Threatened by or before any Governmental Body wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of any of the Contemplated Transactions or (ii) cause any of the Contemplated Transactions to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect.

### 8.4 Escrow Agreement.

Buyer and the Escrow Agent shall have executed and delivered to Sellers' Representative the Escrow Agreement.

### 8.5 Consulting Agreement.

Buyer shall have executed and delivered to Edward Odmark a consulting agreement relating to services to be provided by him to the Company after the Closing Date.

## ARTICLE 9

### TERMINATION



## 9.1 Termination Events.

This Agreement may, by notice given prior to the Closing, be terminated:

- (a) by Buyer if there is a Breach of any representation or warranty of Sellers in Article 3 of this Agreement such that the conditions set forth in Section 7.1 would not be satisfied as of the time of said Breach, provided that if such Breach is curable, then Buyer may not terminate this Agreement under this Section 9.1(a) for thirty (30) days after it has given written notice to Sellers of such Breach, provided that Sellers continue to exercise their Best Efforts to cure such Breach (it being understood that Buyer may not terminate this Agreement under this Section 9.1(a) if such Breach is cured during such thirty (30) day period);
- (b) by Sellers if there is a Breach of any representation or warranty of Buyer in Article 4 of this Agreement such that the conditions set forth in Section 8.1 would not be satisfied as of the time of said Breach, provided that if such Breach is curable, then Sellers may not terminate this Agreement under this Section 9.1(b) for thirty (30) days after giving written notice to Buyer of such Breach, provided that Buyer continues to exercise its Best Efforts to cure such Breach (it being understood that Sellers may not terminate this Agreement under this Section 9.1(b) if such Breach is cured during such thirty (30) day period);
- (c) by Buyer if any of the conditions in Sections 7.2 through and including 7.12 (excluding Section 7.7) has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible or commercially impracticable (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date;
- (d) by Sellers, if any of the conditions in Sections 8.2 through and including 8.5 has not been satisfied of the Closing Date or if satisfaction of such a condition is or becomes impossible or commercially impracticable (other than through the failure of Sellers to comply with their obligations under this Agreement) and Sellers have not waived such condition on or before the Closing Date; o  
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- (e) by mutual agreement in writing of Buyer and Sellers.

## 9.2 Effect of Termination.

Each party's right of termination under Section 9.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies.

## ARTICLE 10

### INDEMNIFICATION; REMEDIES

#### 10.1 Survival.

All representations, warranties, covenants, and obligations in this Agreement, the Schedules, the certificates delivered pursuant to Section 2.5, and any other certificate or document delivered pursuant to this Agreement will survive the Closing.

#### 10.2 Indemnification and Payment of Damages by Sellers.

Subject to the other provisions of this Article 10, Sellers, severally, will indemnify and hold harmless Buyer and the Company for, and will pay to them the amount of, any loss, liability, damage, deficiency, penalty, cost, assessment or reasonable expense (including without limitation reasonable attorneys' fees) whether or not involving a third-party claim (collectively, "Damages"), arising from or in connection with:

- (a) any Breach of any representation or warranty made by Sellers in this Agreement, or the Schedules  
; and
- (b) any Breach by Sellers of any covenant or obligation of Sellers in this Agreement.

#### 10.3 Indemnification and Payment of Damages by Buyer.

Subject to the other provisions of this Article 10, Buyer will indemnify and hold harmless Sellers for, and will pay to Sellers the amount of, any Damages, arising from or in connection with:

- (a) any Breach of any representation or warranty made by Buyer in this Agreement; and
- (b) any Breach by Buyer of any covenant or obligation of Buyer in this Agreement.

#### 10.4 Time Limitations.

Notwithstanding Section 10.1, Buyer will have no liability (for indemnification or otherwise) under Section 10.3 with respect to any representation or warranty, or any covenant or obligation to be performed and complied with prior to the Closing Date, unless Sellers notify Buyer of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Sellers no later than eighteen months after the Closing Date. Notwithstanding Section 10.1, Sellers will have no liability (for indemnification or otherwise) under Section 10.2 with respect to any representation or warranty, or any covenant or obligation to be performed and complied with hereunder, unless Buyer notifies Sellers of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Buyer prior to the dates specified below:

- (a) A claim in respect of the representations and warranties set forth in Sections 3.2 (Authority; No Conflict), 3.3 (Capitalization), or a claim in respect of fraud, can be asserted indefinitely;

- (b) A claim in respect of the representations and warranties set forth in Section 3.9 (Taxes) must be asserted prior to the expiration of the respective limitation periods contained in the IRC, or applicable state revenue code or statute, respectively, and any other applicable legislation affecting Taxes;
- (c) A claim in respect of the representation and warranties set forth in Section 3.17 (Environmental Matters) must be asserted prior to the third (3rd) anniversary of the Closing Date;
- (d) A claim in respect of the representation and warranties set forth in Section 3.7 (Condition of Assets) must be asserted prior to expiration of 120 days after the Closing Date; and
- (e) A claim in respect of all representation and warranties not listed in Sections 10.4(a) through (e) must be asserted no later than eighteen months after the Closing Date.

#### 10.5 Limitations on Amount.

Sellers will have no liability (for indemnification or otherwise) with respect to the matters described in Section 10.2 until the total of all Damages with respect to such matters exceeds One Hundred Fifty Thousand Dollars (\$150,000), and then only for the amount by which such Damages exceed One Hundred Fifty Thousand Dollars (\$150,000). The maximum liability of Sellers in aggregate under this Article 10 for any and all Damages, regardless of when suffered, shall be equal to twenty percent (20%) of the Closing Date Purchase Price as adjusted by the Final Closing Statement of Net Working Capital provided, however, that no restriction shall apply in cases of fraud or intentional misrepresentation by any of Sellers and provided further that the Escrow Fund shall be the exclusive remedy for any and all Damages arising from indemnification claims of the type set forth in Sections 10.4(d) and (e).

#### 10.6 Procedure for Indemnification—Third Party Claims.

- (a) Promptly after receipt by an indemnified party of notice of the commencement or Threatened commencement of any Proceeding against it, such indemnified party will, if a claim is to be made against an indemnifying party under this Article 10 give notice to the indemnifying party of the commencement or reasonably anticipated commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is actually prejudiced by the indemnified party's failure to give such notice.
- (b) If any Proceeding referred to in Section 10.6(a) is brought against an indemnified party or Threatened against an indemnified party and notice is given to the indemnifying party of the commencement or Threatened commencement of such Proceeding, the indemnifying party will be entitled to participate in such Proceeding and, to the extent that it wishes, to assume the defense of such Proceeding utilizing Representatives reasonably acceptable to the indemnified

party, and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently, in good faith and using its Best Efforts conducts such defense, be liable to the indemnified party under this Article 10 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding. If the indemnifying party assumes the defense of a Proceeding, no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's consent (which shall not be unreasonably withheld, conditioned or delayed) unless the sole relief provided is monetary damages that are paid in full by the indemnifying party and the settlement thereof imposes no liability or obligation on, and includes a complete release from liability of, the indemnified party or unless the amount in controversy is less than Twenty Thousand Dollars (\$20,000). If notice is given to an indemnifying party of the commencement or Threatened commencement of any Proceeding and the indemnifying party does not, within thirty (30) days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Proceeding, subject to the provisions of this Article 10, the indemnifying party will be bound by any reasonable determination made in such Proceeding or any reasonable compromise or settlement effected by the indemnified party, and will be liable for all reasonable expenses, fees or costs incurred by the indemnified party, whether in connection with the defense of the Proceeding or in any legal or equitable proceeding brought by the indemnified party against the indemnifying party to enforce this Article 10.

#### 10.7 Procedure for Indemnification – Other Claims.

A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought.

#### 10.8 Exclusive Representations and Warranties.

Buyer acknowledges that no Seller has made to Buyer any representation or warranty, express or implied, other than as expressly made in Article 3 (including the Schedules). Without limiting the generality of the foregoing, and notwithstanding any otherwise express representations and warranties made in Article 3 (including the Schedules), Sellers make no representation or warranty to Buyer with respect to (a) any projections, estimates or budgets of future revenues, expenses or expenditures and future results of operations heretofore delivered to or made available to Buyer; or (b) any other information or documents made available to Buyer or its Representatives with respect to Sellers, except as expressly covered by a representation or warranty contained in Article 3 (including the Schedules).

#### 10.9 Credits, Etc.

Notwithstanding anything contained herein to the contrary, in no event shall Buyer or any other indemnified Person be entitled to recover against the Escrow Fund or Sellers with respect to any

claim for which the Company is entitled to indemnification under the provisions of any Contract or other right, until such time as all remedies available to the Company under such Contract or other right, as provided therein, have been exhausted. Buyer shall recover the insurance proceeds under all applicable insurance policies prior to being entitled to recover Damages from or against Sellers hereunder, and any such recovery shall be net of all such insurance proceeds. In determining any Damages payable from the Escrow Fund or otherwise by Sellers to Buyer under this Agreement, Sellers shall be entitled to a credit or offset against such Damages in an amount equal to the value of any documented net tax benefit realized (by reason of a deduction, basis adjustment, credit or otherwise), or any insurance benefit realized or realizable by Buyer in connection with the Damage which forms the basis of an indemnity claim hereunder. Furthermore, Buyer shall not be entitled to any recovery under this Article 10 if and to the extent an adjustment to the Purchase Price has previously been made with respect to such matter. No Seller shall be obligated to pay any amount arising out of Sellers' indemnification obligations pursuant to this Article 10 unless and until the Escrow Fund shall be completely depleted.

#### 10.10 Exclusive Remedy.

The right of Buyer and Sellers to indemnification pursuant to Sections 10.2 and 10.3, shall be the sole and exclusive right and remedy exercisable under this Agreement regardless of the legal theory advanced in support of such claims; provided, however, that this Section 10.10 shall not apply in cases of fraud and intentional misrepresentation.

#### 10.11 Limitation on Damages.

**NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT SHALL ANY PARTY BE LIABLE UNDER THIS AGREEMENT OR OTHERWISE FOR ANY EXEMPLARY, PUNITIVE, REMOTE, SPECULATIVE, CONSEQUENTIAL, SPECIAL OR INCIDENTAL DAMAGES OR LOSS OF PROFITS, AND NO CLAIM SHALL BE MADE OR AWARDED AGAINST THE ESCROW FUND, OR AGAINST ANY PARTY, FOR ANY SUCH DAMAGES OR LOSS OF PROFITS AND IN NO EVENT SHALL THE FOREGOING CONSTITUTE DAMAGES HEREUNDER.**

#### 10.12 Independent Investigation.

In making the decision to enter into this Agreement and consummate the Contemplated Transactions, Buyer has relied upon its own independent due diligence investigations and inspection of the assets of the Company, and on the representations, warranties, covenants, schedules and undertakings of Sellers in this Agreement. Notwithstanding anything contained herein to the contrary, in no event shall Buyer or any the other Indemnified Persons be entitled to assert a claim or recover under this Article 10 with respect to a breach by the Sellers of any representation, warranty, covenant or agreement if Buyer had knowledge thereof at or before Closing solely arising out of any information provided to Buyer in writing by Sellers or made available to Buyer through the data room.

**BUYER ACKNOWLEDGES THAT BY VIRTUE OF BUYER'S ACQUISITION OF THE SHARES, BUYER IS ACQUIRING THE ASSETS AND BUSINESS OWNED BY THE**

**COMPANY IN ITS “AS IS, WHERE IS” CONDITION AND STATE OF REPAIR, AND WITH ALL FAULTS AND DEFECTS, AND THAT EXCEPT AS EXPRESSLY SET OUT IN THIS AGREEMENT, SELLERS HAVE NOT MADE ANY REPRESENTATION, WARRANTY OR COVENANT OF ANY KIND OR NATURE, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MARKETABILITY, QUALITY, CONDITION, CONFORMITY TO SAMPLES, MERCHANTABILITY, AND/OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE, EXCEPT AS OTHERWISE SET OUT IN THIS AGREEMENT, EXPRESSLY DISCLAIMED BY SELLERS.**

**EXCEPT AS EXPRESSLY SET OUT IN THIS AGREEMENT, SELLERS DO NOT MAKE ANY REPRESENTATION, COVENANT OR WARRANTY, EXPRESS, IMPLIED OR STATUTORY, AS TO (A) THE ACCURACY OR COMPLETENESS OF ANY RECORDS DELIVERED TO BUYER WITH RESPECT TO THE ASSETS OF THE COMPANY (PROVIDED THAT THE DISCLAIMER SET FORTH IN THIS CLAUSE (A) IS NOT INTENDED TO EXTEND TO THE SCHEDULES TO THIS AGREEMENT OR TO FRAUD OR INTENTIONAL MISREPRESENTATION), OR (B) ANY FUTURE BUSINESS OR EVENT. WITH RESPECT TO ANY PROJECTION OR FORECAST DELIVERED TO BUYER BY OR ON BEHALF OF SELLERS OR ANY OF THEIR AFFILIATES, BUYER ACKNOWLEDGES THAT (I) THERE ARE UNCERTAINTIES INHERENT IN ATTEMPTING TO MAKE SUCH PROJECTIONS AND FORECASTS, (II) BUYER IS FAMILIAR WITH SUCH UNCERTAINTIES, AND (III) BUYER IS TAKING FULL RESPONSIBILITY FOR MAKING ITS OWN EVALUATION OF THE ADEQUACY AND ACCURACY OF ALL SUCH PROJECTIONS AND FORECASTS FURNISHED.**

#### 10.13 Subrogation.

If and to the extent Sellers are liable to Buyer or any other indemnified Person pursuant to this Article 10, Sellers shall be subrogated to any and all rights of the Company, and Sellers shall be entitled to any and all benefits, rights and remedies that would otherwise be available or accrue to the Company in respect thereof. If and to the extent necessary, desirable, or appropriate, Sellers shall be entitled to exercise their rights pursuant to this Section 10.13 in the name of the Company.

Buyer shall, and shall cause the Company, to cooperate, at Sellers’ sole cost and expense, with all reasonable requests made by Sellers to effectuate the intent of this Section 10.13.

## **ARTICLE 11**

### **ADDITIONAL COVENANTS AND AGREEMENTS**

#### 11.1 Preservation of Books and Records.

For a period of seven (7) years after the Closing Date, Buyer will retain all books and records belonging to the Company at Buyer’s sole cost and expense and, upon request, will make such books and records (including access to personnel familiar therewith) available to Sellers for inspection and/or copying, at the expense of Sellers, at the headquarters of the Company at

reasonable times and during regular office hours. If Buyer, at any time, directly or indirectly, proposes to transfer any of the books and records to another Person, Buyer will provide advance notice of the transfer, obligate the transferee to maintain the books and records as herein required and will retain access to the books and records for the benefit of itself and Sellers. After the seventh (7<sup>th</sup>) anniversary of the Closing Date, if Buyer decides to destroy any books and records, Buyer shall give Sellers at least sixty (60) days prior written notice of the proposed destruction of books and records and Sellers shall have the right, at their own expense, to retrieve all such books and records proposed to be destroyed. If Buyer directly or indirectly sells or otherwise transfers any of the books and records belonging to the Company to any other Person, as a condition to such sale or transfer Buyer shall require such other Person to agree in writing, in form and substance reasonably satisfactory to Sellers, to be bound by the terms of this Section 11.1.

#### 11.2 Indemnification of Directors Officers and Fiduciaries.

From and after the Closing Date, Buyer shall, to the fullest extent permitted by applicable Law and covered by insurance, cause the Company to indemnify, defend and hold harmless each Seller who is now, or has been at any time prior to the date hereof, or who becomes prior to the Closing, a director, officer and/or fiduciary of the Company (each a “Director/Officer/Fiduciary Indemnitee” and collectively, the “Director/Officer/Fiduciary Indemnitees”) against all Damages or, subject to the proviso of the next sentence, amounts paid in settlement, arising out of actions or omissions occurring prior to or at the Closing (and whether asserted or claimed prior to, at or after the Closing) that are, in whole or in part, based on or arise out of the fact that such Person is or was a director, officer and/or fiduciary of the Company prior to the Closing (the “Director/Officer/Fiduciary Indemnified Liabilities”), but specifically excluding Damages to the extent arising out of fraud, intentional misrepresentation or willful misconduct by any Director/Officer/Fiduciary Indemnitee. In the event of the occurrence of any such Director/Officer/Fiduciary Indemnified Liability, (A) Buyer shall cause the Company to pay the reasonable fees and expenses of counsel selected by the Director/Officer/Fiduciary Indemnitees, which counsel shall be reasonably satisfactory to the Company, promptly after statements therefor are received and otherwise advance to each such Director/Officer/Fiduciary Indemnitee upon request reimbursement of documented expenses reasonably incurred, in either case to the extent not prohibited by applicable law, (B) Buyer, the Company and the Director/Officer/Fiduciary Indemnitees shall cooperate in the defense of any such matter, and (C) any determination required to be made with respect to whether a Director/Officer/Fiduciary Indemnitee’s conduct complies with the standards set forth under applicable law shall be made by independent counsel mutually acceptable to Buyer and the Director/Officer/Fiduciary Indemnitee (which acceptance shall not be unreasonably withheld, conditioned or delayed); provided, however, that neither the Company nor the Director/Officer/Fiduciary Indemnitee shall be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), and provided further, that the foregoing shall be in conformance and compliance with the terms and conditions of any applicable underlying insurance policy. The Director/Officer/Fiduciary Indemnitees as a group may retain only one law firm (other than any local counsel) with respect to each related matter except to the extent that there is, in the opinion of counsel to an Director/Officer/Fiduciary Indemnitee, under applicable standards of professional conduct, a conflict on any significant issue between

positions of such Director/Officer/Fiduciary Indemnitee and any other Director/Officer/Fiduciary Indemnitee.

To the fullest extent permitted by law, from and after the Closing Date, all rights to indemnification as of the date hereof in favor of the Director/Officer/Fiduciary Indemnitees with respect to their activities as such prior to the Closing, as provided in the charters and bylaws in effect on the Closing Date and pursuant to this Section 11.2 shall survive the Closing and shall continue in effect for a period of five years following the Closing, and neither Buyer nor the Company shall derogate such rights by taking or failing to take any action.

The provisions of this Section 11.2 are intended to be for the benefit of, and shall be enforceable by, each Director/Officer/Fiduciary Indemnitee and his or her heirs and representatives, as a third party beneficiary of this Section 11.2.

### 11.3 Tax Matters.

- (a) Following the Closing, Sellers shall be solely responsible at their expense for preparing, or causing to be prepared, and timely filing with the appropriate Governmental Body, of the final federal, sub-chapter S Tax Returns of the Company that are due as of the Closing Date (taking into account all applicable timely filed and valid extensions). With respect to any Tax Returns of the Company for a period that begins on or before the Closing Date, including a period that begins on or before but ends after the Closing Date (a "Straddle Period"), Buyer shall prepare such Tax Return in a manner consistent with the prior practice of the Company unless otherwise required by applicable Tax law and shall furnish a copy of such Tax Return to Sellers for their review and prompt approval, which shall not be unreasonably withheld, within 15 days before filing such Tax Return.
- (b) For the sole purpose of appropriately apportioning any Taxes of the Company relating to a Straddle Period, the Company will, when permitted, elect with the relevant Governmental Body to treat for all purposes the Closing Date as the last day of a taxable period of the Company. In the case where applicable law does not permit the Company to treat the Closing Date as the last day of a taxable period, then for purposes of this Agreement, the portion of such Tax that is attributable to the Company for the part of such Straddle Period that ends on the Closing Date shall be (i) in the case of a Tax that is not based or measured by income or receipts of the Company or that is not imposed in connection with any sale or other transfer or assignment of property or any other specifically identifiable transaction or event (or, in the case of such Taxes determined on an arrears basis, the amount of such Taxes for the immediately preceding period), the total amount of such Tax for the full taxable period that includes the Closing Date multiplied by a fraction, the numerator of which is the number of days from the beginning of such taxable period to and including the Closing Date and the denominator of which is the total number of days in such full taxable period, and (ii) in the case of a Tax that is based on or measured by income or receipts of the Company or imposed in connection with any sale or other transfer or assignment



of property or any other specifically identifiable transaction or event, the Tax that would be due with respect to such partial period, if such partial period were a full taxable period, apportioning income, gain, expenses, loss, deductions and credits equitably based on an interim closing of the books as of the end of the Closing Date. All determinations necessary to give effect to the foregoing allocations shall be made in a manner consistent with the prior practices of the Company. Buyer shall not permit the Company to take any actions on the Closing Date that are out of the Ordinary Course of Business of the Company, except as required or contemplated by this Agreement.

- (c) Buyer, the Company and the Sellers shall reasonably cooperate, to the extent reasonably requested by the other party, in connection with the furnishing of information relating to and the filing of Tax Returns of the Company and relating to any audit, litigation or other proceeding with respect to Taxes of the Company. The Company and Buyer agree to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or the Sellers, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority.
- (d) If any Governmental Body asserts a claim, makes an assessment or otherwise disputes or affects the Tax reporting position of the Company for any taxable period ending on or prior to the Closing Date, Buyer shall, promptly upon receipt by Buyer or the Company of notice thereof, provide written notice to the Sellers thereof. The Sellers, at their own expense, shall have the right to represent and control the interests of the Company in any Tax audit or administrative or court proceeding (a "Tax Contest") relating to taxable periods of the Company which end on or before the Closing Date and to employ counsel of their choice; provided, however, that Buyer shall have the right to participate in, and consult with the Sellers regarding, any Tax Contest that may affect the Company for any periods ending after the Closing Date at Buyer's own expense and provided, further, that any settlement or other disposition of any Tax Contest may only be made with the written consent of Buyer, which consent will not be unreasonably withheld. Buyer, at its own expense, shall have the right to represent and control the interests of the Company in any Tax Contest relating to Straddle Periods and to employ counsel of its choice; provided, however, that the Sellers shall have the right to participate in, and consult with Buyer regarding, any Tax Contest that may affect the Company for any periods ending on the Closing Date pursuant to Section 11.3(b) at their own expense and provided, further, that any settlement or other disposition of any Tax Contest may only be with the written consent of the Sellers, which consent will not be unreasonably withheld or delayed.
- (e) Neither Buyer nor the Company may amend or cause the amendment of a Tax Return of the Company, change an annual accounting period, adopt or change any accounting method, or file or amend any Tax election concerning the Company, with respect to any period ending on or prior to the Closing Date (including with

respect to a Tax period of the Company described in Section 11.3(b), the portion of such period ending on the Closing Date pursuant to Section 11.3(b)) without the written consent of the Sellers, which consent shall not be unreasonably withheld or delayed. The Company shall, upon request by the Sellers and at the Sellers' sole expense, cooperate in the preparation, execution and submission to the proper Tax authority of any amended Tax Return, claim or documentation necessary to resolve any Tax matter with respect to the Company for any taxable period ending (or, pursuant to Section 11.3(b), treated as ending) on or before the Closing Date which is required by applicable law to be filed.

- (f) Any refund of Taxes of the Company (including any interest with respect thereto) attributable to any period occurring on or before the Closing Date (including that portion of a period treated as ending on the Closing Date under Section 11.3(b)) shall be the property of the Sellers, shall be paid promptly to the Sellers and if received by Buyer, the Company or any other affiliated entity of Buyer shall be payable promptly to the Sellers.

#### 11.4 Sellers' Representative.

- (a) In order to efficiently administer (i) the determination and payment of the Final Closing Statement of Net Working Capital and the Working Capital Adjustment, (ii) the distribution of any amounts payable or distributable to Sellers, (iii) the waiver of any condition to the obligations of the Company or the Sellers to consummate the Contemplated Transactions, and (iv) the defense and/or settlement of any Proceedings with respect to which the Buyer or the Company may be entitled to be indemnified pursuant to Section 10.2 hereof, by approving this Agreement, or by executing and delivering any of the Closing deliveries contemplated by the Contemplated Transactions, Sellers hereby designate Edward T. Odmark as their representative (the "Sellers' Representative").
- (b) Sellers, by executing this Agreement, shall authorize the Sellers' Representative (i) to make all decisions relating to the determination of the Closing Date Purchase Price, the Final Closing Statement of Net Working Capital and the Working Capital Adjustment, (ii) to make all decisions relating to the distribution of any amounts payable or distributable to or from Sellers hereunder, in accordance with this Agreement and the Escrow Agreement, (iii) to take all action necessary in connection with the waiver of any condition to the obligations of the Company or the Sellers to consummate the Contemplated Transactions, or the defense and/or settlement of any Proceedings with respect to which Buyer or the Company may be entitled to be indemnified pursuant to Section 10.2 hereof, (iv) to give and receive all notices required to be given under this Agreement or the Escrow Agreement, (v) to take any and all additional action as is contemplated to be taken by or on behalf of Sellers by the terms of this Agreement or the Escrow Agreement, (vi) to take all other actions to be taken by or on behalf of Sellers in connection herewith, (vii) to withhold funds to pay Seller-related expenses and obligations, (viii) to withhold additional funds as determined by the Sellers' Representative in its discretion to pay future or contingent Seller

expenses and obligations and (ix) to seek recourse against any Seller for the benefit of the other Sellers in the event of a disbursement to the Buyer or the Company due to any breach of the representations and warranties made by such Seller as to himself, herself, or itself and his, her or its Shares and/or Options in a Closing delivery.

- (c) In the event that the Sellers' Representative becomes unable to perform his responsibilities hereunder or resigns from such position, Sellers holding, prior to the Closing, a majority of the Shares outstanding as set forth on Schedule 3.3 shall select another representative to fill such vacancy, and upon such approval such substituted representative shall be deemed to be the Sellers' Representative for all purposes of this Agreement.
- (d) All decisions and actions by the Sellers' Representative, including, without limitation, any agreement between the Sellers' Representative and the Buyer relating to the determination of the Closing Date Purchase Price, the Final Closing Statement of Net Working Capital or the Working Capital Adjustment or the defense or settlement of any Proceedings with respect to which Buyer or the Company may be entitled to be indemnified pursuant to Section 10.2 hereof, shall be binding upon all of the Sellers, and no Seller shall have the right to object, dissent, protest or otherwise contest the same.
- (e) By approving this Agreement, Sellers agree that:
  - (i) Buyer and the Company shall be able to rely conclusively on the written instructions and decisions of the Sellers' Representative as to the determination of the Closing Date Purchase Price, the Final Closing Statement of Net Working Capital or the Working Capital Adjustment or the settlement of any claims for indemnification by Buyer or the Company pursuant to Section 10.2 hereof or any other actions required to be taken by the Sellers' Representative hereunder, and no Seller or party hereunder shall have any cause of action against Buyer or the Company for any action taken by any such Person in reliance upon the instructions or decisions of the Sellers' Representative;
  - (ii) all actions, decisions and instructions of the Sellers' Representative in accordance with this Section 11.4 shall be conclusive and binding upon all of the Sellers and no Seller shall have any cause of action against the Sellers' Representative for any action taken, decision made or instruction given by the Sellers' Representative under this Agreement, except for fraud or willful breach of this Agreement or the Escrow Agreement by the Sellers' Representative;
  - (iii) the provisions of this Section 11.4 are independent and severable, are irrevocable and coupled with an interest and shall be enforceable notwithstanding any rights or remedies that any Seller may have in connection with the Contemplated Transactions or the Escrow Agreement;

- (iv) the provisions of this Section 11.4 shall be binding upon the executors, heirs, legal representatives and successors of each Seller, and any references in this Agreement or the Escrow Agreement to a Seller or Sellers shall mean and include the successors to Sellers' rights hereunder, whether pursuant to testamentary disposition, the laws of descent and distribution or otherwise;
  - (v) the fees and expenses to be paid at or prior to Closing (either through available cash of the Company or from the Closing Date Purchase Price) shall include the sum of \$300,000 to be paid to the Sellers' Representative and to be used by the Sellers' Representative for the payment of costs and expenses reasonably incurred by the Sellers' Representative in connection with the exercise by it of the authority granted to it herein and in the Seller deliveries (including reasonable attorney fees and expenses and the fees and expenses of any accountants or other professional advisors retained by the Sellers' Representative and any Working Capital Adjustment owed after Closing by Sellers pursuant to the terms of this Agreement). From time to time after the Closing, Sellers' Representative may distribute to Sellers, pro rata in accordance with the Sellers' ownership of Shares, such portion of such sum as the Sellers' Representative reasonably determines will not be needed for the payment of future costs and expenses. After the final resolution of all claims asserted against, or asserted by or on behalf of, Sellers hereunder or under the Escrow Agreement and the final distribution to Sellers of all monies that are or could be distributable to them hereunder or under the Escrow Agreement, any portion of such sum remaining shall be distributed to Sellers pro rata in accordance with the Sellers' ownership of Shares; provided, however, that if the Sellers' Representative incurs costs and expenses disproportionately due to a Seller's breach of his, her or its representations and warranties made by such Seller in one of the Seller deliveries as to himself, herself or itself, or his, her or its Shares or Options, such breaching Seller shall reimburse the Sellers' Representative for the additional costs and expenses disproportionately incurred; and
  - (vi) they will indemnify and hold harmless the Sellers' Representative, severally and jointly, from and against any and all damages which may at any time be imposed on, incurred by or asserted against the Sellers' Representative in any way relating to or arising out of this Agreement, or any related agreement or instrument or any action taken or omitted to be taken by the Sellers' Representative under or in connection herewith, unless such damages resulted solely from the bad faith or willful misconduct of the Sellers' Representative.
- (f) All fees and expenses reasonably incurred by the Sellers' Representative in excess of \$300,000 shall be paid from any funds otherwise due to Sellers (including funds due to the Sellers from the Escrow and eligible for distribution in accordance with the terms of this Agreement and the Escrow Agreement) in

proportion to the Sellers' ownership of the Shares and if no funds are available from the Escrow, then directly from Sellers in proportion to the Sellers' ownership of the Shares received by each Seller.

#### 11.5 Real Estate Purchase.

Buyer shall, and Sellers shall cause Spencer Lane Properties A, Ltd. to, use Best Efforts to close the Real Estate Purchase or before the date that is forty-five (45) days following the Closing.

#### 11.6 Clay Street Dog Wash Agreement.

If, following the Closing, Clay St LLC exercises its right to purchase all of the design information and drawings from the Company under that certain Clay St. Dog Wash contract dated July 20, 2013 (the "Clay St. Agreement"), then Buyer shall cause Company to distribute such amounts received with respect thereto to Sellers' Representative, on behalf of Sellers.

## ARTICLE 12

### GENERAL PROVISIONS

#### 12.1 Expenses.

Buyer will bear its expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of its Representatives. Sellers will bear all of their expenses in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of their Representatives.

#### 12.2 Public Announcements.

Unless required by Legal Requirements or required by this Agreement (in which case the disclosing party shall advise the non-disclosing party in advance and provide a copy of any proposed written disclosure), prior to the Closing the parties shall, and shall cause the Company to, keep this Agreement strictly confidential and may not make any disclosure of this Agreement or the negotiations or discussions made in connection with this Agreement to any Person. Sellers and Buyer will consult with each other concerning the means by which the Company's employees, customers, and suppliers and others having dealings with the Company will be informed of the Contemplated Transactions. Press releases or other written disclosures or announcements concerning the Contemplated Transactions shall be approved by Buyer and Sellers prior to such release or disclosure.

#### 12.3 Confidentiality.

Between the date of this Agreement and the Closing Date, Buyer and Sellers will maintain in confidence, and will cause the directors, officers, employees, agents, and advisors of Buyer and

the Company to maintain in confidence, any written, oral, or other information obtained in confidence from each other, another party or the Company in connection with this Agreement or the Contemplated Transactions, unless (a) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (b) the use of such information is necessary or appropriate in making any filing or obtaining any consent or approval required for the consummation of the Contemplated Transactions (in which case the disclosing party shall provide the non-disclosing party a reasonable opportunity to comment on any proposed written disclosure in advance of its disclosure), or (c) the furnishing or use of such information is required by legal proceedings, (in which case the disclosing party shall provide the non-disclosing party a reasonable opportunity to comment on any proposed written disclosure in advance of its disclosure). If the Contemplated Transactions are not consummated, each party will return promptly at the requestor's expense as much of such written information as the other party may reasonably request. Notwithstanding anything to the contrary herein, the Confidentiality Agreement, dated January 21, 2014, between Buyer and Sellers' investment banker shall remain in full force and effect and is specifically incorporated herein.

#### 12.4 Non-Competition.

After the Closing, none of the Sellers shall directly or indirectly own, manage, be employed by, operate or control, invest in, serve as officer or director for, serve as consultant to, directly or indirectly, or otherwise engage in (except as a holder of less than 2% of the outstanding stock of any company whose securities are traded on any national stock exchange or over-the-counter), the manufacture, design, distribution, marketing or sales of any commercial deep fryers for restaurants and commercial installations, filtering machines, rethermalizer food warmers, food holding stations or batter tables worldwide for a period of five (5) years from the Closing Date for Edward T. Odmark and for a period of three (3) years from the Closing Date for all other Sellers (respectively the

“Non-Compete Period”). In addition, during the Non-Compete Period, no Seller shall, directly or indirectly, persuade or attempt to persuade any employee of the Company to leave the Company's employ, or to become employed by any Person other than the Company for the purpose of engaging in the manufacture, design, distribution, marketing or sales of any commercial deep fryers for restaurants and commercial installations, filtering machines, rethermalizer food warmers, food holding stations or batter tables worldwide. Each Seller agrees that the provisions of this Section 12.4 are reasonable and necessary for Buyer's protection and that if any portion thereof shall be held contrary to law or invalid or unenforceable in any respect in any jurisdiction, or as to one or more periods of time, geographic area, areas of business activities, or any part thereof, the remaining provisions shall not be affected but shall remain in full force and effect and that any such invalid or unenforceable provision shall be deemed, without further action on the part of any Person, modified and limited to the extent necessary to render the same valid and enforceable in such jurisdiction. Each Seller further agrees that the remedies at law in the event of a breach of or a default under this Section 12.4 would be insufficient and that Buyer shall be entitled to the immediate grant of equitable relief including, but not limited to, the remedy of specific performance to enjoin any breach, or the continuation of any breach, of the provisions of this Section 12.4. If any proceeding is brought to enforce this Section 12.4, the prevailing party shall be entitled to recover its attorneys' fees incurred in connection with such proceeding from the other party.

## 12.5 Notices.

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given (a) when delivered by hand (with written confirmation of receipt), (b) when sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) one (1) Business Day after being sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate by notice to the other parties). Notices of change of address shall also be governed by this Section.

Sellers:

c/o Sellers' Representative  
Edward Odmark  
5345 Linnadine Way  
Norcross, GA 30092-1221  
E-Mail: eodmark@ultrafryer.com

with a copy to (which shall not constitute notice):

Teri Lynn McMahon, Esq.  
Alston & Bird  
One Atlantic Center  
1201 West Peachtree Street  
Atlanta, GA 30309-3424  
E-Mail: teri.mcmahon@alston.com

Buyer:

Standex International Corporation  
11 Keewaydin Drive, #300  
Salem, NH 03079  
Attention: Legal Department  
E-Mail: rosen@standex.com

## 12.6 Jurisdiction; Service of Process.

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement shall be brought exclusively in the Federal courts of the state where the breach occurred, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

## 12.7 Further Assurances.

The parties agree on a prompt basis and at the requestee's cost and expense (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other

documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement. After the Closing, Buyer will direct the Company's employees to devote reasonable amounts of time to assisting, in good faith, Sellers and Sellers' Representative in connection with any activity related to enforcing Sellers' rights or performing Sellers' obligations set forth in Articles 2 and 11.

#### 12.8 Waiver.

Except as otherwise provided herein, the rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

#### 12.9 Entire Agreement and Modification.

This Agreement and the Schedules and any Exhibits supersede all prior agreements or oral negotiations or commitments between the parties with respect to the subject matter hereof and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to the subject matter hereof. This Agreement may not be amended except by a written agreement executed by both parties.

#### 12.10 Assignments, Successors, and No Third-Party Rights.

No party hereto may assign any of its rights under this Agreement without the prior consent of the other parties, unless such assignment is made to a subsidiary, affiliate or successor in interest by merger, operation of law, assignment, purchase or otherwise of all or a portion of its business, in which event assignment shall be permitted and the non-assigning party's consent shall not be necessary. In the event of any such assignment or transfer, the transferring party shall still remain liable for the full and complete performance of any outstanding obligations owed under this Agreement. Any assignment within the meaning of this Section shall not be construed as novation.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors, heirs and permitted assigns. Except with respect to Section 11.2 and to the extent otherwise provided, nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement, and this



Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors, heirs and permitted assigns.

#### 12.11 Severability.

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

#### 12.12 Section Headings, Construction.

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to “Section” or “Sections” refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word “including” does not limit the preceding words or terms.

#### 12.13 Schedules.

The information in the Schedules constitutes (a) exceptions or qualifications to particular representations, warranties, covenants and obligations of Sellers as set forth in this Agreement or (b) descriptions or lists of assets and liabilities and other items referred to in this Agreement. The Schedules shall not be construed as indicating that any disclosed information is required to be disclosed, and no disclosure shall be construed as an admission that such information is material to or required to be disclosed by Sellers. Capitalized terms used in the Schedules which are not defined therein have the meanings given them in this Agreement. A matter or item disclosed in any Schedule shall be deemed to be incorporated into each other Schedule with respect to which such disclosure applies if a reasonable person can conclude from the disclosure that it is intended to qualify such other representations, warranties or covenants. The disclosures in each of the Schedules shall be deemed to relate to and function as disclosures and exceptions to the representations and warranties in all Sections of the Agreement to the extent applicable, and not merely to the given representations and warranties in the Section that corresponds numerically to such Schedule.

#### 12.14 Offset.

Nothing contained herein shall create a right of offset or setoff, and Buyer hereby waives and disclaims any right of offset or setoff under all applicable laws.

#### 12.15 Time of Essence.

With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

#### 12.16 Governing Law.

This Agreement will be governed by and construed in accordance with the laws of the State of Georgia without regard to conflicts of laws principles.

#### 12.17 Counterparts.

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

#### 12.18 Attorney Client Privilege.

In any dispute or proceeding arising under or in connection with this Agreement, Sellers shall have the right, at its election, to retain the firm of Alston & Bird LLP to represent it in such matter, and Buyer, for itself and for its successors and assigns, hereby irrevocably waives, and shall cause the Company to waive, any objection and consent to any such representation in any such matter. Buyer acknowledges that the foregoing provision shall apply whether or not Alston & Bird LLP provides legal services to the Company after the Closing Date. Buyer, for itself and its successors and assigns, hereby irrevocably acknowledges and agrees that all communications among the Company, Sellers and their counsel, including Alston & Bird LLP, made in connection with the negotiation, preparation, execution, delivery and closing under, or any dispute or proceeding arising under or in connection with, this Agreement or any other agreement contemplated hereby, or any matter relating to any of the foregoing, are privileged communications among the Company, Sellers and such counsel and after closing, the privilege shall remain within the exclusive control of Seller. Neither Buyer, the Company, nor any Person purporting to act on behalf of or through the Buyer or the Company will seek to obtain the same by any process. In addition, if the transactions contemplated by this Agreement are consummated, all of the Company's privileged records related to such transactions will become property of (and be controlled by) Sellers, and the Company shall not retain any copies of such records or have any access to them. Alston & Bird LLP is an intended beneficiary of this Section 12.18 and is entitled to specifically enforce such provision.

#### 12.19 Shareholders Agreement.

The Sellers hereby waive receipt of the Exercise Notice (as defined in the Shareholders Agreement) and agree that upon Closing, the Shareholders Agreement shall be automatically terminated.

#### 12.20 Mutual Releases.

- (a) If the Closing occurs, each Seller executing this Agreement, on a several basis, for itself, and its successors, personal representatives and assigns, as the case may be, hereby irrevocably releases and forever discharges the Company, the Buyer and each of their respective past and present officers and directors, as the case may be (each, a "Released Party"), from any and all claims and liabilities based upon or related to any fact, thing, act, event, happening, inaction or omission with respect to, arising out of, or attributable to a period prior to the Closing related to the

Company, in law or equity, known or unknown, vested or contingent, suspected or unsuspected, and whether or not concealed or hidden, which ever have or may have existed, or which do exist, that may now or hereafter at any time be made or brought against a Released Party by the Seller; provided, however, that this release shall not apply to (i) any acts or omissions that constitute fraud or willful misconduct on the part of any Released Party, (ii) claims for indemnification or payment of defense costs arising under any of the Company's Organizational Documents, (iii) claims or rights under any employee benefit plan or any Contract between the Company and such Seller in effect as of the Closing (including the Clay St. Agreement), (iv) rights or coverage under insurance policies, (v) claims against any Released Party based upon, related to, arising out of or attributable to this Agreement, the Real Estate Purchase, the Real Property Lease or any other agreement entered into in connection with the Contemplated Transactions, and (vi) claims for compensation and reimbursement of expenses made in the ordinary course of business by a Seller who is an employee of the Company.

- (b) If the Closing occurs, the Buyer, on behalf of itself and its wholly-owned subsidiary, the Company, hereby irrevocably releases and forever discharges the Sellers and their successors, personal representatives and assigns, as the case may be (each, a "Seller Released Party"), from any and all claims and liabilities based upon or related to any fact, thing, act, event, happening, inaction or omission with respect to, arising out of, or attributable to a period at or prior to the Closing of whatever kind or nature, in law or equity, known or unknown, vested or contingent, suspected or unsuspected, and whether or not concealed or hidden, which ever have or may have existed, or which do exist, that may now or hereafter at any time be made or brought against a Seller Released Party by the Company or the Buyer; provided, however, that this release shall not apply to (i) any acts or omissions that constitute fraud or willful misconduct on the part of any Seller Released Party, and (ii) claims against any Seller Released Party based upon, related to, arising out of or attributable to this Agreement or any other agreement entered into in connection with the Contemplated Transactions.

**[Remainder of page intentionally left blank]**

**IN WITNESS WHEREOF**, the parties have hereto executed and delivered this Agreement as of the date first written above.

Standex International Corporation

*/s/ David A. Dunbar*

By:

David A. Dunbar, President/CEO

**SELLERS:**

*/s/ Edward T. Odmark*

Edward T. Odmark

*/s/ William A. Collins, III*

William A. Collins III

*/s/ A. C. McNamara*

A. C. McNamara

*/s/ W. Craig Farr*

W. Craig Farr

*/s/ Robert L. Shaunnessey*

Robert L. Shaunnessey

*/s/ Mary Ann Shaunnessey*

Mary Ann Shaunnessey

## **Endnotes**

**STANDEX INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**SUBSIDIARIES OF REGISTRANT**

Information is set forth below concerning all operating subsidiaries of the Company as of June 30, 2014 (except subsidiaries which, considered in the aggregate do not constitute a significant subsidiary).

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
Associated American Industries, Inc.	Texas
Custom Hoists, Inc.	Ohio
Dombusch & Cia Industria E. Comercio Ltda.	Brazil
Mold-Tech Singapore Pte. Ltd.	Singapore
Nor-Lake, Incorporated	Wisconsin
Precision Engineering International Limited	United Kingdom
S. I. de Mexico S.A. de C.V.	Mexico
Standex de Mexico S.A. de C.V.	Mexico
Standex Electronics, Inc.	Delaware
Standex Electronics (U.K.) Limited	United Kingdom
Standex Engraving L.L.C.	Virginia
Standex Europe B.V.	The Netherlands
Standex Holdings Limited	United Kingdom
Standex International GmbH	Germany
Standex International Limited	United Kingdom
Standex International S.r.l.	Italy
Standex (Ireland) Limited	Ireland
SXI Limited	Canada
Ultrafryer Systems, Inc.	Georgia

## EXHIBIT 23

### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-162044 on Form S-3 and Nos. 333-161647, 333-147190, and 333-179513 on Form S-8 of our reports dated August 28, 2014, relating to the consolidated financial statements of Standex International Corporation and the effectiveness of Standex International Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Standex International Corporation for the year ended June 30, 2014.

/s/ Deloitte & Touche LLP

August 28, 2014  
Boston, Massachusetts

**POWER OF ATTORNEY**

The undersigned, being a director of Standex International Corporation (“Standex”), hereby constitutes David A. Dunbar and Deborah A. Rosen, and each of them singly, my true and lawful attorney with full power to them, and each of them singly, to sign for me and in my name in my capacity as a director of Standex, the Annual Report of Standex on Form 10-K for the fiscal year ended June 30, 2014, and any and all amendments thereto and generally to do such things in my name and behalf to enable Standex to comply with the requirements of the Securities and Exchange Commission relating to Form 10-K.

Witness my signature as of the 15th day of August, 2014.

*/s/ Charles H. Cannon, Jr.*

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Charles H. Cannon, Jr.

**POWER OF ATTORNEY**

The undersigned, being a director of Standex International Corporation (“Standex”), hereby constitutes David A. Dunbar and Deborah A. Rosen, and each of them singly, my true and lawful attorney with full power to them, and each of them singly, to sign for me and in my name in my capacity as a director of Standex, the Annual Report of Standex on Form 10-K for the fiscal year ended June 30, 2014, and any and all amendments thereto and generally to do such things in my name and behalf to enable Standex to comply with the requirements of the Securities and Exchange Commission relating to Form 10-K.

Witness my signature as of the 15<sup>th</sup> day of August, 2014.

*/s/ Thomas E. Chorman*

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Thomas E. Chorman



**POWER OF ATTORNEY**

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Witness my signature as of the 15th day of August, 2014.

*/s/ William R. Fenoglio*

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William R. Fenoglio

**POWER OF ATTORNEY**

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Witness my signature as of the 15th day of August, 2014.

*/s/ Gerald H. Fickenscher*

\_\_\_\_\_  
Gerald H. Fickenscher

**POWER OF ATTORNEY**

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Witness my signature as of the 15th day of August, 2014

*/s/ Roger L. Fix*

---

Roger L. Fix

**POWER OF ATTORNEY**

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Witness my signature as of the 15th day of August, 2014.

*/s/ Thomas J. Hansen*

\_\_\_\_\_  
Thomas J. Hansen

**POWER OF ATTORNEY**

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Witness my signature as of the 15th day of August, 2014.

*/s/ Daniel B. Hogan*

\_\_\_\_\_  
Daniel B. Hogan

**POWER OF ATTORNEY**

The undersigned, being a director of Standex International Corporation (“Standex”), hereby constitutes David A. Dunbar and Deborah A. Rosen, and each of them singly, my true and lawful attorney with full power to them, and each of them singly, to sign for me and in my name in my capacity as a director of Standex, the Annual Report of Standex on Form 10-K for the fiscal year ended June 30, 2014, and any and all amendments thereto and generally to do such things in my name and behalf to enable Standex to comply with the requirements of the Securities and Exchange Commission relating to Form 10-K.

Witness my signature as of the 15th day of August, 2014.

*/s/ H. Nicholas Muller, III*

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H. Nicholas Muller, III

**RULE 13a-14(a) CERTIFICATION**

I, David A. Dunbar, certify that:

1. I have reviewed this Annual Report on Form 10-K of Standex International Corporation for the period ending June 30, 2014;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially

affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2014

/s/ David A. Dunbar

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David A. Dunbar  
President/Chief Executive Officer



**RULE 13a-14(a) CERTIFICATION**

I, Thomas D. DeByle, certify that:

1. I have reviewed this Annual Report on Form 10-K of Standex International Corporation for the period ending June 30, 2014;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2014

*/s/ Thomas D. DeByle*

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Thomas D. DeByle  
Vice President/Chief Financial Officer

**SECTION 1350 CERTIFICATION**

The following statement is being made to the Securities and Exchange Commission solely for purposes of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), which carries with it certain criminal penalties in the event of a knowing or willful misrepresentation.

Each of the undersigned hereby certifies that the Annual Report on Form 10-K for the period ended June 30, 2014 fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Dated: August 28, 2014

*/s/ David A. Dunbar*

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David A. Dunbar  
President/Chief Executive Officer

Dated: August 28, 2014

*/s/ Thomas D. DeByle*

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Thomas D. DeByle  
Vice President/Chief Financial Officer

