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PARK ELECTROCHEMICAL CORP  
Form 10-Q  
July 03, 2008

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 14(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 1, 2008

OR

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

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

Commission file number 1-4415

PARK ELECTROCHEMICAL CORP.  
(Exact Name of Registrant as Specified in Its Charter)

<u>New York</u>	<u>11-1734643</u>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
<u>48 South Service Road, Melville, N.Y.</u>	<u>11747</u>
(Address of Principal Executive Offices)	(Zip Code)

(631) 465-3600

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated File

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 20,455,106 as of July 1, 2008.

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in thousands)

	June 1, 2008 (Unaudited)	March 2, 2008*
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 113,530	\$ 100,159
Marketable securities	100,778	113,819
Accounts receivable, net	37,105	37,466
Inventories (Note 2)	15,275	14,049
Prepaid expenses and other current assets	5,423	5,546
	<u>                    </u>	<u>                    </u>
Total current assets	272,111	271,039
Property, plant and equipment, net	50,536	47,188
Other assets	12,347	9,180
	<u>                    </u>	<u>                    </u>
Total assets	\$ 334,994	\$ 327,407
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,909	\$ 12,828
Accrued liabilities	13,470	13,314
Income taxes payable	5,855	5,837
	<u>                    </u>	<u>                    </u>
Total current liabilities	32,234	31,979
Deferred income taxes	4,851	4,851
Restructuring accruals and other liabilities (Note 5)	4,132	4,224
Liabilities from discontinued operations (Note 4)	17,181	17,181
	<u>                    </u>	<u>                    </u>
Total liabilities	58,398	58,235
Stockholders' equity:		
Common stock	2,045	2,037
Additional paid-in capital	145,569	143,267
Retained earnings	122,575	116,646
Treasury stock, at cost	(5)	(214)
Accumulated other comprehensive income	6,412	7,436
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	276,596	269,172
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 334,994	\$ 327,407
	<u>                    </u>	<u>                    </u>

\*The balance sheet at March 2, 2008 has been derived from the audited financial statements at that date, except for certain reclassifications to conform to the June 1, 2008 balance sheet.

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See accompanying Notes to the Condensed Consolidated Financial Statements.

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Amounts in thousands, except per share amounts)

	13 weeks ended (Unaudited)	
	June 1, 2008	May 27, 2007
Net sales	\$ 59,800	\$ 57,077
Cost of sales	45,227	42,968
Gross profit	14,573	14,109
Selling, general and administrative expenses	6,334	6,572
Earnings from operations	8,239	7,537
Interest income and other income	1,672	2,311
Earnings from operations before income taxes	9,911	9,848
Income tax provision	2,354	2,437
Net earnings	\$ 7,557	\$ 7,411
Earnings per share (Note 6)		
Basic	\$ 0.37	\$ 0.37
Diluted	\$ 0.37	\$ 0.37
Weighted average number of common and common equivalent shares outstanding:		
Basic shares	20,366	20,206
Diluted shares	20,430	20,235
Dividends per share	\$ 0.08	\$ 0.08

See accompanying Notes to the Condensed Consolidated Financial Statements.

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY  
(Amounts in thousands)

	13 weeks ended (Unaudited)	
	June 1, 2008	May 27, 2007
<b>Common stock and paid-in capital:</b>		
Balance, beginning of period	\$ 145,304	\$ 142,067
Stock-based compensation	352	350
Stock option activity	1,601	795
Tax benefit on exercise of options	357	562
	<u>147,614</u>	<u>143,774</u>
<b>Retained earnings:</b>		
Balance, beginning of period	116,646	118,961
Net earnings	7,557	7,411
Dividends	(1,628)	(1,616)
	<u>122,575</u>	<u>124,756</u>
<b>Treasury stock:</b>		
Balance, beginning of period	(214)	(1,625)
Stock option activity	209	1,099
	<u>(5)</u>	<u>(526)</u>
<b>Accumulated other comprehensive income:</b>		
Balance, beginning of period	7,436	4,764
Net unrealized investment gains (losses)	(323)	31
Translation adjustments	(701)	(114)
	<u>6,412</u>	<u>4,681</u>
<b>Total stockholders equity</b>	<u>\$ 276,596</u>	<u>\$ 272,685</u>

See accompanying Notes to the Condensed Consolidated Financial Statements.

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in thousands)

	13 Weeks Ended (Unaudited)	
	June 1, 2008	May 27, 2007
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 7,557	\$ 7,411
Depreciation and amortization	1,946	2,034
Stock-based compensation	352	350
Change in operating assets and liabilities	1,469	6,875
<b>Net cash provided by operating activities</b>	<b>11,324</b>	<b>16,670</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment, net	(5,774)	(1,806)
Purchases of marketable securities	(30,888)	(36,703)
Proceeds from sales and maturities of marketable securities	43,221	33,169
Business acquisition	(4,700)	-
<b>Net cash (used in) provided by investing activities</b>	<b>1,859</b>	<b>(5,340)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	(1,628)	(1,616)
Proceeds from exercise of stock options	1,807	1,894
Tax benefits from stock-based compensation	357	562
<b>Net cash provided by financing activities</b>	<b>536</b>	<b>840</b>
Change in cash and cash equivalents before exchange rate changes	13,719	12,170
Effect of exchange rate changes on cash and cash equivalents	(348)	(174)
Change in cash and cash equivalents	13,371	11,996
Cash and cash equivalents, beginning of period	100,159	119,051
<b>Cash and cash equivalents, end of period</b>	<b>\$ 113,530</b>	<b>\$ 131,047</b>
<b>Supplemental cash flow information:</b>		
Cash paid during the period for income taxes	\$ 1,346	\$ 1,636
See accompanying Notes to the Condensed Consolidated Financial Statements.		

PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
(Amounts in thousands, except per share amounts)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet as of June 1, 2008 and the consolidated statements of operations, stockholders' equity and cash flows for the 13 weeks ended June 1, 2008 have been prepared by the Company, without audit. In the opinion of management, these unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at June 1, 2008 and the results of operations, stockholders' equity and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 2, 2008.

2. INVENTORIES

Inventories consisted of the following:

	June 1, 2008	March 2, 2008
	<u>          </u>	<u>          </u>
Raw materials	\$ 7,019	\$ 5,923
Work-in-process	3,628	3,686
Finished goods	4,227	3,951
Manufacturing supplies	401	489
	<u>          </u>	<u>          </u>
	<u>\$ 15,275</u>	<u>\$ 14,049</u>

3. STOCK-BASED COMPENSATION

As of June 1, 2008, the Company had a 1992 Stock Option Plan and a 2002 Stock Option Plan, and no other stock-based compensation plan. Both Stock Option Plans have been approved by the Company's stockholders and provide for the grant of stock options to directors and key employees of the Company. All options granted under such Plans have exercise prices equal to the fair market value of the underlying common stock of the Company at the time of grant, which pursuant to the terms of the Plans, is the reported closing price of the common stock on the New York Stock Exchange on the date preceding the date the option is granted. Options granted under the Plans become exercisable 25% one year from the date of grant, with an additional 25% exercisable each succeeding anniversary of the date of grant and expire 10 years from the date of grant. The authority to grant additional options under the 1992 Stock Option Plan



expired on March 24, 2002, and options to purchase a total of 900,000 shares of common stock were authorized for grant under the 2002 Stock Option Plan. At June 1, 2008, 1,155,245 shares of common stock of the Company were reserved for issuance upon exercise of stock options under the 1992 Stock Option Plan and the 2002 Stock Option Plan and 275,918 options were available for future grant under the 2002 Stock Option Plan. No options were granted during the 13 week-periods ended June 1, 2008 and May 27, 2007.

The Company records its stock-based compensation at fair value in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ).

The future compensation expense affecting earnings from operations before income taxes for options outstanding at June 1, 2008 will be \$2,465 as a result of the adoption of SFAS 123R.

The following is a summary of options for the 13 weeks ended June 1, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Months	Aggregated Intrinsic Value
Outstanding at March 2, 2008	1,040,739	\$23.50	66.63	\$2,890
Granted	-	-		
Exercised	100,737	17.97		
Terminated or expired	60,675	27.27		
	<u>          </u>			
Outstanding at June 1, 2008	879,327	\$23.88	66.45	\$4,988
Exercisable at June 1, 2008	570,480	\$21.79	47.33	\$4,426

The total intrinsic value of options exercised during the 13 weeks ended June 1, 2008 and May 27, 2007 was \$1,104 and \$1,559, respectively.

A summary of the status of the Company's nonvested options at June 1, 2008, and changes during the 13 week-period then ended, is presented below:

	Shares Subject to Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	361,372	\$9.90
Granted	-	-
Vested	-	-
Terminated	(52,525)	9.83
	<u>          </u>	
Nonvested, end of period	308,847	\$9.90

## 4. DISCONTINUED OPERATIONS AND PENSION LIABILITY

On February 4, 2004, the Company announced that it was discontinuing its financial support of its Dielektra GmbH ( Dielektra ) subsidiary located in Cologne, Germany, due to the continued erosion of the European market for the Company's high technology products. Without Park's financial support, Dielektra filed an insolvency petition, which the Company believes will result in the liquidation of Dielektra. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, Dielektra is treated as a discontinued operation. As a result of the discontinuation of financial support for Dielektra, the Company recognized an impairment charge of \$22,023 for the write-off of Dielektra assets and other costs during the fourth quarter of the 2004 fiscal year. The liabilities from discontinued operations are reported separately on the condensed consolidated balance sheet. These liabilities from discontinued operations included \$12,094 for Dielektra's deferred pension liability.

The Company expects to recognize a gain of approximately \$17 million related to the reversal of these liabilities when the Dielektra insolvency process is completed, although it is unclear when the process will be completed.

Liabilities for discontinued operations as of June 1, 2008 and March 2, 2008 consisted of the following:

	June 1, 2008	March 2, 2008
	<u>          </u>	<u>          </u>
Environmental and other liabilities	\$ 5,087	\$ 5,087
Pension liabilities	12,094	12,094
	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<b>\$17,181</b>	<b>\$ 17,181</b>
	<u>          </u>	<u>          </u>

## 5. RESTRUCTURING AND SEVERANCE CHARGES

In the 2008 fiscal year fourth quarter, the Company recorded a charge of \$1,362 for employment termination benefits and other expenses resulting from a restructuring and workforce reduction at the Company's Neltec Europe SAS electronic materials business unit located in Mirebeau, France. The Company paid \$626 of these charges during the 2008 fiscal year and paid \$398 during the 13 weeks ended June 1, 2008.

During the 2004 fiscal year, the Company recorded charges related to the realignment of its North America volume printed circuit materials operations. The charges were for employment termination benefits of \$1,258, which were fully paid in fiscal year 2004, and lease and other obligations of \$7,292. All costs other than the lease obligations were settled prior to fiscal year 2007. The future lease obligations are payable through September 2013. The remaining balances on the lease obligations relating to the realignment were \$3,598 and \$3,706 as of

June 1, 2008 and March 2, 2008, respectively. The Company applied \$109 of payments against this liability during both the first quarter of fiscal year 2009 and the first quarter of fiscal year 2008.

## 6. EARNINGS PER SHARE

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

The following table sets forth the calculation of basic and diluted earnings per share for the 13 weeks ended June 1, 2008 and May 27, 2007.

	13 weeks ended	
	June 1, 2008	May 27, 2007
Net Earnings	\$ 7,557	\$ 7,411
Weighted average common shares outstanding for basic EPS	20,366	20,206
Net effect of dilutive options	64	29
Weighted average shares outstanding for diluted EPS	20,430	20,235
Basic earnings per share	\$0.37	\$0.37
Diluted earnings per share	\$0.37	\$0.37

Common stock equivalents, which were not included in the computation of diluted earnings per share because either the effect would have been antidilutive or the options' exercise prices were greater than the average market price of the common stock, were 25 and 5 for the thirteen weeks ended June 1, 2008 and May 27, 2007, respectively.

## 7. INCOME TAXES

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (FIN 48) effective as of February 26, 2007.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons, including adding or reducing amounts for current year tax positions, expiration of statutes of limitation on open income tax returns, changes in management's judgment about the level of uncertainty, status of tax examinations, and legislative activity.

A list of open tax years by major jurisdiction follows:

United States	2004	2008
Arizona	2003	2008
California	2003	2008
New York	2004	2008
France	2004	2008
Singapore	2004	2008

The Company's policy is to include applicable interest and penalties related to unrecognized tax benefits as a component of income tax expense.

#### 8. GEOGRAPHIC REGIONS

The Company's printed circuit materials (the Nelco® product line) and the Company's advanced composite materials (the Nelco® product line) are sold to customers in North America, Europe and Asia.

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

Financial information concerning the Company's operations by geographic region follows:

	13 weeks ended	
	June 1, 2008	May 27, 2007
Sales:		
-		
North America	\$ 31,109	\$ 29,286
Europe	6,876	6,525
Asia	21,815	21,266
Total sales	\$ 59,800	\$ 57,077
	June 1, 2008	March 2, 2008
Long-lived assets:		
North America	\$31,677	\$ 25,069
Europe	5,133	4,552
Asia	26,073	26,747
Total long-lived assets	\$62,883	\$ 56,368

#### 9. CONTINGENCIES

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

changes in approach, such as a change in settlement strategy in dealing with these matters.

- b. *Environmental Contingencies* - The Company and certain of its subsidiaries have been named by the Environmental Protection Agency (the EPA) or a comparable state agency under the Comprehensive Environmental Response, Compensation and Liability Act (the Superfund Act) or similar state law as potentially responsible parties in connection with alleged releases of hazardous substances at nine sites. In addition, a subsidiary of the Company has received cost recovery claims under the Superfund Act or similar state laws from other private parties involving two other sites and has received requests from the EPA under the Superfund Act for information with respect to its involvement at three other sites.

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

The insurance carriers who provided general liability insurance coverage to the Company and its subsidiaries for the years during which the Company's subsidiaries' waste was disposed at these sites have agreed to pay, or reimburse the Company and its subsidiaries for, 100% of their legal defense and remediation costs associated with three of these sites and 25% of such costs associated with another one of these sites.

The total costs incurred by the Company and its subsidiaries in connection with these sites, including legal fees incurred by the Company and its subsidiaries and their assessed share of remediation costs and excluding amounts paid or reimbursed by insurance carriers, were approximately \$1 and \$1 in the 13 weeks ended June 1, 2008 and May 27, 2007, respectively. The recorded liabilities included in accrued liabilities for environmental matters were \$1,002 at June 1, 2008 and \$1,577 at March 2, 2008. As discussed in Note 4, liabilities from discontinued operations have been segregated on the condensed consolidated balance sheets and include \$2,121 for environmental matters related to Dielektra.

Such recorded liabilities do not include environmental liabilities and related legal expenses for which the Company has concluded indemnification agreements with the insurance carriers who provided general liability insurance coverage to the Company and its subsidiaries for the years during which the Company's subsidiaries' waste was disposed at three sites for which certain subsidiaries of the Company have been named as potentially responsible parties, pursuant to which agreements such insurance carriers have been paying 100% of the legal defense and remediation costs associated with such three sites since 1985.

Included in cost of sales are charges for actual expenditures and accruals, based on estimates, for certain environmental matters described above. The Company accrues estimated costs associated with

known environmental matters, when such costs can be reasonably estimated and when the outcome appears probable. The Company believes that the ultimate disposition of known environmental matters will not have a material adverse effect on the liquidity, capital resources, business or consolidated results of operations or financial position of the Company. However, one or more of such environmental matters could have a significant negative impact on the Company's consolidated results of operations or financial position for a particular reporting period.

#### 10. ACQUISITION

On April 1, 2008, the Company's new wholly owned subsidiary, Park Aerospace Structures Corp., acquired substantially all the assets and business of Nova Composites, Inc. located in Lynnwood, Washington for a cash purchase price of \$4.5 million paid at the closing of the acquisition and up to an additional \$5.5 million payable over five years depending on the achievement of specified earn-out objectives. Park Aerospace Structures Corp. designs and manufactures aircraft composite structures and components and the tooling for such structures and components. Park's new composite structures and components product line is marketed and sold as Park's Nova<sup>TM</sup> product line.

The Company has not yet determined either the amount or the allocation of the purchase price for the Nova acquisition since the calculation of post closing adjustments has not yet been finalized. The Company expects the valuation process will be finalized in the second half of fiscal year 2009. No significant intangible assets other than goodwill are included in the preliminary allocation of the purchase price in the table below. No in-process research and development assets were acquired.

The acquisition was accounted for under the purchase method and, accordingly, acquired assets and liabilities are recorded at their fair values. The amount paid at closing was approximately \$4.5 million. On a preliminary basis, the total purchase price has been determined as follows (in thousands):

Cash paid at closing	\$4,500
Professional fees and other costs	200
	<hr/>
Total purchase price	\$4,700
	<hr/>

On a preliminary basis, the purchase price has been allocated based on management's estimate of the fair value of the assets acquired and liabilities assumed as follows (in thousands):

Preliminary Purchase Price Allocation	
	<hr/>
Current assets	\$ 232
Long term assets	26
Property, plant and equipment	390
Current liabilities	84
Goodwill	4,136

Goodwill recorded in the acquisition is included in other assets in the condensed consolidated balance sheets. The acquisition of the assets of Nova Composites was not material to the Company. Accordingly, pro forma results of operations for the three months ended June 1, 2008 have not been presented.

## 11. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective March 3, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States ( GAAP ), and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require, or permit, assets or liabilities to be measured at fair value. The adoption of SFAS 157 did not have an impact on the Company's Consolidated Financial Statements.

Effective March 3, 2008, the Company adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The adoption of SFAS 159 did not have an impact on the Company's Consolidated Financial Statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 141R (revised 2007), which replaces Statement of Financial Accounting Standards No. 141, Business Combinations ( SFAS 141R ). SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. This fair value approach replaces the original Statement 141's cost allocation process, whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under Statement of Financial Accounting Standards No. 141. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 141R will impact how the Company records future business combinations.



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

## General:

Park is a global advanced materials company which develops, manufactures and markets high technology digital and RF/microwave printed circuit materials principally for the telecommunications and internet infrastructure and high-end computing markets and advanced composite materials, structures and components principally for the aerospace markets. The Company's core capabilities are in the areas of polymer chemistry formulation, coating technology and advanced composite structures and component design and fabrication. The Company's manufacturing facilities are located in Singapore, China, France, Connecticut, New York, Kansas (under construction), Arizona, California and Washington. The Company's products are marketed and sold under the Nelco®, Nelcote® and Nova™ names.

The Company's net sales increased in the three-month period ended June 1, 2008 compared with last year's comparable period as a result of increases in sales of the Company's printed circuit materials products in North America, Asia and Europe and an increase in sales of the Company's advanced composite materials products and the addition of sales of the Company's advanced composite structures and components products as a result of the Company's acquisition of the aircraft composite structures and components business of Nova Composites in Lynnwood, Washington in the 2009 fiscal year first quarter. The increase in sales resulted in a higher gross profit and higher earnings from operations in the 2009 fiscal year first quarter compared to the 2008 fiscal year first quarter.

The improvement in the Company's operating performance during the 2009 fiscal year first quarter was attributable principally to increases in sales of the Company's printed circuit materials products and advanced composite materials products, as well as higher percentages of sales of higher margin, high performance printed circuit materials products.

The markets in North America and Europe for the Company's printed circuit materials products continued to be weak in the 2009 fiscal year first quarter. The markets for the Company's advanced composite materials products continued to be relatively strong during the 2009 fiscal year first quarter, and, as a result of such strength and the Company's marketing and sales efforts, sales of the Company's advanced composite materials products increased in the first quarter of the 2009 fiscal year compared to the comparable period in the prior fiscal year.

The global markets for the Company's printed circuit materials products continue to be very difficult to forecast, and it is not clear to the Company what the condition of the global markets for the Company's printed circuit materials products will be in the 2009 fiscal year second quarter. The Company believes that the markets for its advanced composite materials products and its advanced composite structures and components products will continue to be relatively strong during the 2009 fiscal year second quarter.

As previously reported, in the first quarter of the Company's 2009 fiscal year, the Company's new wholly owned subsidiary, Park Aerospace Structures Corp., acquired substantially all the assets and business of Nova Composites, Inc., a designer and manufacturer of aircraft composite structures and components and the tooling for such structures and components, located in Lynnwood, Washington, for a cash purchase price of \$4.5 million paid at the closing of the acquisition and up to an additional \$5.5 million payable over five years depending on the achievement of specified earn-out objectives.

In addition, the Company is continuing the construction of a new development and manufacturing facility in Newton, Kansas to produce advanced composite materials principally for the general aviation aircraft segment of the aerospace industry. The Company expects to complete construction of the facility in the 2009 fiscal year second quarter and expects to complete equipment installation in the 2009 fiscal year fourth quarter. As previously reported, the Company plans to spend approximately \$15 million on the facility and equipment in Kansas.

The Company is also exploring the possibility of establishing a manufacturing plant in Mexico to produce the Company's Nov<sup>®</sup>M aircraft structures and components product line. The proposed Mexico plant would be intended to complement the Park Aerospace Structures Corp. plant in Lynnwood, Washington.

Three Months Ended June 1, 2008 Compared with Three Months Ended May 27, 2007:

The Company's total net sales and its net sales of both its printed circuit materials products and its advanced composite materials products increased during the three-month period ended June 1, 2008 compared to the three-month period ended May 27, 2007. Sales of the Company's advanced composite materials, structures and components products were 11% of the Company's total net sales worldwide in the 2009 fiscal year first quarter compared to 9% in the 2008 fiscal year first quarter. The increase in sales of advanced composite materials, structures and components was attributable to an increase in sales of advanced composite materials products and the addition of sales of the Company's advanced composite structures and components products as a result of the Company's acquisition of the structures and components business of Nova Composites in Lynnwood, Washington in the 2009 fiscal year first quarter.

The increased sales in the three months ended June 1, 2008 resulted in higher earnings from operations and higher net earnings compared to the three months ended May 27, 2007.

#### *Results of Operations*

Net sales for the three-month period ended June 1, 2008 increased 5% to \$59.8 million from \$57.1 million for last fiscal year's comparable period. The increase in net sales was principally the result of higher sales of printed circuit materials products in North America, Europe and Asia and higher sales of advanced composite materials, structures and components. The higher sales of printed circuit materials were partially attributable to selling price increases intended to offset increases in the raw materials cost associated with such products. Sales volumes increased 6% in North America, 5% in Europe and 3% in Asia during the 2009 fiscal year first quarter compared to the first quarter in the prior year.

The Company's foreign operations accounted for \$28.7 million of net sales, or 48% of the Company's total net sales worldwide, during the three-month period ended June 1, 2008 compared with \$27.8 million of sales, or 49% of total net sales worldwide, during last fiscal year's comparable period. Net sales by the Company's foreign operations during the 2009 fiscal year first quarter increased by 3% from the 2008 fiscal year comparable period as the result of higher sales in Asia and Europe.

For the three-month period ended June 1, 2008, the Company's sales in North America, Asia and Europe were 52%, 37% and 11%, respectively, of the Company's total net sales worldwide compared with 51%, 37% and 12%, respectively, for the three-month period ended May 27, 2007.

The overall gross profit as a percentage of net sales for the Company's worldwide operations declined to 24.4% during the three-month period ended June 1, 2008 compared with 24.7% for last fiscal year's comparable period. The decrease in the gross profit margin was attributable principally to increases in the costs of utilities, raw materials and freight-in during the three-month period ended June 1, 2008, which were only partially offset by higher percentages of sales of higher margin, high performance printed circuit materials products and selling price increases intended to offset the impact of higher raw materials costs.

During both the three-month periods ended June 1, 2008 and May 27, 2007, the Company's total net sales worldwide of high temperature printed circuit materials, which include high performance materials (non-FR4 printed circuit materials), were 99% of the Company's total net sales worldwide of printed circuit materials.

The Company's high temperature printed circuit materials include its high performance materials (non-FR4 printed circuit materials), which consist of high-speed, low-loss materials for digital and RF/microwave applications requiring lead-free compatibility and high bandwidth signal integrity, bismalimide triazine (BT) materials, polyimides for applications that demand extremely high thermal performance, cyanate esters, and polytetrafluoroethylene (PTFE) materials for RF/microwave systems that operate at frequencies up to 77GHz.

During the three-month period ended June 1, 2008, the Company's total net sales worldwide of high performance printed circuit materials (non-FR4 printed circuit materials) were 60% of the Company's total net sales worldwide of printed circuit materials, compared to 50% for last fiscal year's comparable period.

Selling, general and administrative expenses decreased by \$0.2 million, or by 4%, during the three months ended June 1, 2008 compared with last fiscal year's comparable period, and these expenses, measured as a percentage of sales, were 10.6% during the three months ended June 1, 2008 compared with 11.5% during last fiscal year's comparable period.

For the reasons set forth above, the Company's earnings from operations were \$8.2 million for the three months ended June 1, 2008, compared to earnings from operations of \$7.5 million for the three months ended May 27, 2007.

Interest and other income, principally investment income, was \$1.7 million for the three-month period ended June 1, 2008 compared with \$2.3 million for last fiscal year's comparable period. The decrease in investment income was attributable to lower prevailing interest rates during the 2009 fiscal year first quarter than during the 2008 fiscal year first quarter. The Company's investments were primarily short-term instruments and money market funds.

The Company's effective income tax rate for the three-month period ended June 1, 2008 was 23.8%, compared to 24.7% for last fiscal year's comparable period. The lower tax provision for the 2009 fiscal year first quarter was attributable principally to higher taxable income in jurisdictions with lower effective income tax rates.

The Company's net earnings for the three months ended June 1, 2008 were \$7.6 million, compared to net earnings of \$7.4 million for the three months ended May 27, 2007.

Basic and diluted earnings per share were \$0.37 for both the three-month period ended June 1, 2008 the three-month period ended May 27, 2007.

#### Liquidity and Capital Resources:

At June 1, 2008, the Company's cash and temporary investments were \$214.3 million compared with \$214.0 million at March 2, 2008, the end of the Company's 2008 fiscal year. The Company's working capital (which includes cash and temporary investments) was \$239.9 million at June 1, 2008 compared with \$239.1 million at March 2, 2008. The increase in working capital at June 1, 2008 compared with March 2, 2008 was due principally to the increase in cash and temporary investments and an increase in inventories slightly offset by decreases in accounts receivable and prepaid expenses and other current assets and an increase in accrued liabilities. Inventories were 9% higher at June 1, 2008 than at March 2, 2008 primarily as a result of higher raw materials. The Company's current ratio (the ratio of current assets to current liabilities) was 8.4 to 1 at June 1, 2008 compared to 8.5 to 1 at March 2, 2008.

During the three months ended June 1, 2008, net earnings from the Company's operations, before depreciation and amortization, of \$9.5 million reduced by a net decrease in working capital items, resulted in \$11.3 million of cash provided by operating activities. During the same three-month period, the Company expended \$5.8 million for the purchase of property, plant and equipment, primarily for the Company's new development and manufacturing facility in Newton, Kansas, compared with \$1.8 million for the three-month period ended May 27, 2007, and paid \$1.6 million and \$1.6 million, respectively, in dividends on its common stock in such three-month periods. Net expenditures for property, plant and equipment were \$4.4 million in the 2008 fiscal year and \$3.9 million in the 2007 fiscal year.

At June 1, 2008 and at May 27, 2007, the Company had no long-term debt.

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

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

The Company's contractual obligations and other commercial commitments to make future payments under contracts, such as lease agreements, consist only of operating lease commitments and commitments to purchase plant and equipment for the Company's new development and manufacturing facility currently under construction in Newton, Kansas. The Company has no long-term debt, capital lease obligations, unconditional purchase obligations or other long-term obligations, standby letters of credit, guarantees, standby repurchase obligations or other commercial commitments or contingent commitments, other than two standby letters of credit in the total amount of \$1.6 million to secure the Company's obligations under its workers' compensation insurance program and certain limited energy purchase contracts intended to protect the Company from increased utilities costs.

As of June 1, 2008, there were no material changes outside the ordinary course of the Company's business in the Company's contractual obligations disclosed in Item 7 of Part II of its Form 10-K Annual Report for the fiscal year ended March 2, 2008.

#### Off-Balance Sheet Arrangements:

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

#### Environmental Matters:

In the three-month periods ended June 1, 2008 and May 27, 2007, the Company charged less than \$0.01 million against pretax income for environmental remedial response and voluntary cleanup costs (including legal fees). While annual expenditures have generally been constant from year to year and may increase over time, the Company expects it will be able to fund such expenditures from cash flow from operations. The timing of expenditures depends on a number of factors, including regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties. At June 1, 2008 and March 2, 2008, the amount recorded in liabilities from discontinued operations for environmental matters related to Dielektra was \$2.1 million and the amounts recorded in accrued liabilities for other environmental matters were \$1.0 million and \$1.6 million, respectively. Management does not expect that environmental matters will have a material adverse effect on the liquidity, capital resources, business, consolidated results of operations or consolidated financial position of the Company.

#### Critical Accounting Policies and Estimates:

In response to financial reporting release, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", issued by the Securities and Exchange Commission in December 2001, the following information is provided regarding critical accounting policies that are important to the Consolidated Financial Statements and that entail, to a significant extent, the use of estimates, assumptions and the application of management's judgment.

## General

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

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

## Revenue Recognition

Sales revenue is recognized at the time title to product is transferred to a customer. All material sales transactions are for the shipment of manufactured prepreg and laminate products and advanced composite materials. The Company ships its products to customers based upon firm orders, with fixed selling prices, when collection is reasonably assured.

## Sales Allowances

The Company provides for the estimated costs of sales allowances at the time such costs can be reasonably estimated. The Company's products are made to customer specifications and tested for adherence to such specifications before shipment to customers. There are no future performance requirements other than the products meeting the agreed specifications. The Company's bases for providing sales allowances for returns are known situations in which products may have failed due to manufacturing defects in the products supplied by the Company. The Company is focused on manufacturing the highest quality printed circuit materials and advanced composite materials, structures and components possible and employs stringent manufacturing process controls and works with raw material suppliers who have dedicated themselves to complying with the Company's specifications and technical requirements. The amounts of returns and allowances resulting from defective or damaged products have been approximately 1.0% of sales for each of the Company's last three fiscal years.

## Accounts Receivable

The majority of the Company's accounts receivable are due from purchasers of the Company's printed circuit materials. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within established payment terms and are stated at amounts due from customers net of an allowance

for doubtful accounts. Accounts outstanding longer than established payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

#### Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### Inventories

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

#### Valuation of Long-lived Assets

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Important factors that could trigger an impairment review include, but are not limited to, significant negative industry or economic trends and significant changes in the use of the Company's assets or strategy of the overall business.

#### Income Taxes

Carrying value of the Company's net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If these estimates and assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets resulting in additional income tax expense in the Company's consolidated statement of operations, or conversely to further reduce the existing valuation allowance resulting in less income tax expense. Management evaluates the realizability of the deferred tax assets quarterly and assesses the need for additional valuation allowances quarterly.

#### Restructurings

The Company recorded a one-time charge of \$1.4 million in the fourth quarter of the fiscal year ended March 2, 2008 in connection with a restructuring and workforce reduction at its Neltec Europe SAS electronic materials business unit in France and a charge of \$889 in connection with a workforce reduction at such business unit during the 2006 fiscal year. Such restructuring and workforce reductions are described in Note 5 of the Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Report and in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Report.

### Contingencies

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

### Pension and Other Employee Benefit Programs

Dielektra GmbH had significant pension costs that were developed from actuarial valuations. Inherent in these valuations were key assumptions including discount rates and wage inflation rates. The pension liability of Dielektra has been included in liabilities from discontinued operations on the Company's balance sheet.

The Company's obligations for workers' compensation claims are effectively self-insured, although the Company maintains individual and aggregate stop-loss insurance coverage for such claims. The Company accrues its workers' compensation liability based on estimates of the total exposure of known claims using historical experience and projected loss development factors less amounts previously paid.

The Company and certain of its subsidiaries have a non-contributory profit sharing retirement plan covering their regular full-time employees. In addition, the Company's subsidiaries have various bonus and incentive compensation programs, most of which are determined at management's discretion.

The Company's reserves associated with these self-insured liabilities and benefit programs are reviewed by management for adequacy at the end of each reporting period.

### Factors That May Affect Future Results.

Certain portions of this Report which do not relate to historical financial information may be deemed to constitute forward-looking statements that are subject to various factors which could cause actual results to differ materially from Park's expectations or from results which might be projected, forecast, estimated or budgeted by the Company in forward-looking statements. Such factors include, but are not limited to, general conditions in the electronics and aerospace industries, the Company's competitive position, the status of the Company's relationships with its customers, economic conditions in international markets, the cost and availability of raw materials and utilities, and the various factors set forth in Item 1A "Risk Factors" and under the caption "Factors That May Affect Future Results" after Item 7 of Park's Annual Report on Form 10-K for the fiscal year ended March 2, 2008.



Item 3. Quantitative and Qualitative Disclosure About Market Risk.

The Company's market risk exposure at June 1, 2008 is consistent with, and not greater than, the types of market risk and amount of exposures presented in the Annual Report on Form 10-K for the fiscal year ended March 2, 2008.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Vice President and Controller (the person currently performing the functions similar to those performed by a principal financial officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 1, 2008, the end of the quarterly fiscal period covered by this quarterly report. Based on such evaluation, the Company's Chief Executive Officer and Vice President and Controller have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Vice President and Controller, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting.

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

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item1A. Risk Factors.

There have been no material changes from the risk factors as previously disclosed in the Company's Form 10-K Annual Report for the fiscal year ended March 2, 2008.

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

The following table provides information with respect to shares of the Company's Common Stock acquired by the Company during each month included in the Company's 2009 fiscal year first quarter ended June 1, 2008.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 3-April 1	0		0	
April 3-May 1	0		0	
May 3-June 1	0		0	
Total	0		0	2,000,000(a)

(a) Aggregate number of shares available to be purchased by the Company pursuant to a previous share purchase authorization announced on October 20, 2004. Pursuant to such authorization, the Company is authorized to purchase its shares from time to time on the open market or in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 Certification of principal executive officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).
- 31.2 Certification of principal financial officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).
- 32.1 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Park Electrochemical Corp.

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(Registrant)

/s/ Brian E. Shore

Date: July 2, 2008

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Brian E. Shore  
President and Chief Executive Officer  
(principal executive officer)

/s/ P. Matthew Farabaugh

Date: July 2, 2008

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P. Matthew Farabaugh  
Vice President and Controller  
(principal accounting officer)

## EXHIBIT INDEX

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