

PARK ELECTROCHEMICAL CORP

Form 10-Q

January 03, 2008

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**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 November 25, 2007

OR

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

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

Commission file number 1-4415

**PARK ELECTROCHEMICAL CORP.**

(Exact Name of Registrant as Specified in Its Charter)

New York

11-1734643

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(State or Other Jurisdiction of  
Incorporation or Organization)

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(I.R.S. Employer  
Identification No.)

---

48 South Service Road, Melville, N.Y.

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11747

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(Address of Principal Executive Offices)

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(Zip Code)

---

(631) 465-3600

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(Registrant's Telephone Number, Including Area Code)

Not Applicable

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(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 Filer

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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: 20,346,869 as of January 2, 2008.

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**PARK ELECTROCHEMICAL CORP.  
AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

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

|   | November<br>25,<br>2007<br>(Unaudited) | February<br>25,<br>2007* |
|---|--|--------------------------|
|   | <u>          </u>                      | <u>          </u>        |
| <b>ASSETS</b>                                     |  |                          |
| Current assets:                                   |  |                          |
| Cash and cash equivalents                         | \$ 89,691                              | \$ 119,051               |
| Marketable securities                             | 112,496                                | 89,724                   |
| Accounts receivable, net                          | 40,550                                 | 39,418                   |
| Inventories (Note 2)                              | 14,729                                 | 15,090                   |
| Prepaid expenses and other current assets         | 5,519                                  | 3,049                    |
|   | <u>          </u>                      | <u>          </u>        |
| Total current assets                              | 262,985                                | 266,332                  |
| Property, plant and equipment, net                | 49,318                                 | 49,895                   |
| Other assets                                      | 5,820                                  | 5,695                    |
|   | <u>          </u>                      | <u>          </u>        |
| Total assets                                      | \$ 318,123                             | \$ 321,922               |
|   | <u>          </u>                      | <u>          </u>        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |  |                          |
| Current liabilities:                              |  |                          |
| Accounts payable                                  | \$ 13,538                              | \$ 13,589                |
| Accrued liabilities                               | 14,968                                 | 13,058                   |
| Income taxes payable                              | 1,784                                  | 2,354                    |
|   | <u>          </u>                      | <u>          </u>        |
| Total current liabilities                         | 30,290                                 | 29,001                   |
| Deferred income taxes                             | 4,605                                  | 4,294                    |
| Other liabilities                                 | 6,518                                  | 7,279                    |
| Liabilities from discontinued operations (Note 4) | 17,181                                 | 17,181                   |
|   | <u>          </u>                      | <u>          </u>        |
| Total liabilities                                 | 58,594                                 | 57,755                   |
| Stockholders' equity:                             |  |                          |
| Common stock                                      | 2,037                                  | 2,037                    |
| Additional paid-in capital                        | 142,894                                | 140,030                  |
| Retained earnings                                 | 108,942                                | 118,961                  |
| Treasury stock, at cost                           | (224)                                  | (1,625)                  |
| Accumulated other comprehensive income            | 5,880                                  | 4,764                    |
|   | <u>          </u>                      | <u>          </u>        |
| Total stockholders' equity                        | 259,529                                | 264,167                  |
|   | <u>          </u>                      | <u>          </u>        |
| Total liabilities and stockholders' equity        | \$ 318,123                             | \$ 321,922               |
|   | <u>          </u>                      | <u>          </u>        |

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\*The balance sheet at February 25, 2007 has been derived from the audited financial statements at that date, except for certain reclassifications to conform to the November 25, 2007 balance sheet.

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<br>(Unaudited) |                         | 39 weeks ended<br>(Unaudited) |                         |
|---|-------------------------------|-------------------------|-------------------------------|-------------------------|
|   | November<br>25,<br>2007       | November<br>26,<br>2006 | November<br>25,<br>2007       | November<br>26,<br>2006 |
| Net sales   | \$ 63,653                     | \$ 68,195               | \$ 181,271                    | \$ 197,551              |
| Cost of sales   | 47,577                        | 50,954                  | 134,651                       | 147,903                 |
| Gross profit  | 16,076                        | 17,241                  | 46,620                        | 49,648                  |
| Selling, general and administrative expenses                                | 6,580                         | 6,744                   | 19,803                        | 20,341                  |
| Insurance arrangement termination charge (Note 6)                           | -                             | -                       | -                             | 1,316                   |
| Earnings from operations  | 9,496                         | 10,497                  | 26,817                        | 27,991                  |
| Interest income and other income  | 2,206                         | 1,871                   | 6,980                         | 5,612                   |
| Earnings from operations before income taxes                                | 11,702                        | 12,368                  | 33,797                        | 33,603                  |
| Income tax provision (Note 8)   | 2,925                         | 2,839                   | 8,449                         | 2,636                   |
| Net earnings  | \$ 8,777                      | \$ 9,529                | \$ 25,348                     | \$ 30,967               |
| Earnings per share (Note 7)   |                               |                         |                               |                         |
| Basic   | \$ 0.43                       | \$ 0.47                 | \$ 1.25                       | \$ 1.54                 |
| Diluted   | \$ 0.43                       | \$ 0.47                 | \$ 1.25                       | \$ 1.52                 |
| Weighted average number of common and common equivalent shares outstanding: |                               |                         |                               |                         |
| Basic shares  | 20,340                        | 20,189                  | 20,290                        | 20,169                  |
| Diluted shares  | 20,452                        | 20,332                  | 20,364                        | 20,328                  |
| Dividends per share   | \$ 0.08                       | \$ 0.08                 | \$ 1.74                       | \$ 1.24                 |

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<br>(Unaudited) |                         | 39 weeks ended<br>(Unaudited) |                         |
|--|-------------------------------|-------------------------|-------------------------------|-------------------------|
|  | November<br>25,<br>2007       | November<br>26,<br>2006 | November<br>25,<br>2007       | November<br>26,<br>2006 |
| <b>Common stock and paid-in capital:</b>       |                               |                         |                               |                         |
| Balance, beginning of period                   | \$ 144,399                    | \$ 140,642              | \$ 142,067                    | \$ 139,550              |
| Stock-based compensation                       | 357                           | 350                     | 1,037                         | 933                     |
| Stock option activity                          | 144                           | 101                     | 1,194                         | 281                     |
| Tax benefit on exercise of options             | 31                            | 64                      | 633                           | 393                     |
| <b>Balance, end of period</b>                  | <b>144,931</b>                | <b>141,157</b>          | <b>144,931</b>                | <b>141,157</b>          |
| <b>Retained earnings:</b>                      |                               |                         |                               |                         |
| Balance, beginning of period                   | 101,792                       | 103,839                 | 118,961                       | 105,808                 |
| Net earnings                                   | 8,777                         | 9,528                   | 25,348                        | 30,966                  |
| Dividends                                      | (1,627)                       | (1,615)                 | (35,367)                      | (25,022)                |
| <b>Balance, end of period</b>                  | <b>108,942</b>                | <b>111,752</b>          | <b>108,942</b>                | <b>111,752</b>          |
| <b>Treasury stock:</b>                         |                               |                         |                               |                         |
| Balance, beginning of period                   | (322)                         | (1,407)                 | (1,625)                       | (2,370)                 |
| Stock option activity                          | 98                            | 145                     | 1,401                         | 1,108                   |
| <b>Balance, end of period</b>                  | <b>(224)</b>                  | <b>(1,262)</b>          | <b>(224)</b>                  | <b>(1,262)</b>          |
| <b>Accumulated other comprehensive income:</b> |                               |                         |                               |                         |
| Balance, beginning of period                   | 4,934                         | 3,626                   | 4,764                         | 2,435                   |
| Net unrealized investment gains                | 806                           | 244                     | 914                           | 485                     |
| Translation adjustments                        | 140                           | 103                     | 202                           | 1,053                   |
| <b>Balance, end of period</b>                  | <b>5,880</b>                  | <b>3,973</b>            | <b>5,880</b>                  | <b>3,973</b>            |
| <b>Total stockholders equity</b>               | <b>\$ 259,529</b>             | <b>\$ 255,620</b>       | <b>\$ 259,529</b>             | <b>\$ 255,620</b>       |

See accompanying Notes to the Condensed Consolidated Financial Statements.



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

|  | 39 Weeks Ended<br>(Unaudited) |                         |
|--|-------------------------------|-------------------------|
|  | November<br>25,<br>2007       | November<br>26,<br>2006 |
| <b>Cash flows from operating activities:</b>                     |                               |                         |
| Net earnings   | \$ 25,348                     | \$ 30,966               |
| Depreciation and amortization                                    | 6,036                         | 6,714                   |
| Stock-based compensation   | 1,037                         | 933                     |
| Gain on sale of fixed assets                                     | (75)                          | (18)                    |
| Change in operating assets and liabilities                       | (2,212)                       | (16,779)                |
|  | 30,134                        | 21,816                  |
| <b>Cash flows from investing activities:</b>                     |                               |                         |
| Purchases of property, plant and equipment, net                  | (5,109)                       | (2,994)                 |
| Proceeds from sales of fixed assets                              | 75                            | 565                     |
| Purchases of marketable securities                               | (123,811)                     | (111,110)               |
| Proceeds from sales and maturities of marketable securities      | 101,545                       | 62,039                  |
|  | (27,300)                      | (51,500)                |
| <b>Cash flows from financing activities:</b>                     |                               |                         |
| Dividends paid   | (35,367)                      | (25,022)                |
| Proceeds from exercise of stock options                          | 2,596                         | 1,389                   |
| Tax benefits from stock based compensation                       | 633                           | 393                     |
|  | (32,138)                      | (23,240)                |
| Change in cash and cash equivalents before exchange rate changes | (29,304)                      | (52,924)                |
| Effect of exchange rate changes on cash and cash equivalents     | (56)                          | (54)                    |
|  | (29,360)                      | (52,978)                |
| Cash and cash equivalents, beginning of period                   | 119,051                       | 108,027                 |
|  | \$ 89,691                     | \$ 55,049               |
| <b>Supplemental cash flow information:</b>                       |                               |                         |
| Cash paid during the period for income taxes                     | \$ 8,389                      | \$ 10,458               |

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 November 25, 2007 and the consolidated statements of operations and stockholders equity for the 13 weeks and 39 weeks ended November 25, 2007 and the condensed consolidated statements of cash flows for the 39 weeks then ended 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 November 25, 2007 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 February 25, 2007.

2. INVENTORIES

Inventories consisted of the following:

|                        | November<br>25,<br>2007 | February<br>25,<br>2007 |
|------------------------|-------------------------|-------------------------|
|                        | <u>          </u>       | <u>          </u>       |
| Raw materials          | \$ 6,456                | \$ 6,867                |
| Work-in-process        | 3,807                   | 3,372                   |
| Finished goods         | 4,053                   | 4,535                   |
| Manufacturing supplies | 413                     | 316                     |
|                        | <u>          </u>       | <u>          </u>       |
|                        | <u>\$ 14,729</u>        | <u>\$ 15,090</u>        |

3. STOCK-BASED COMPENSATION

As of November 25, 2007, 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 November 25, 2007, 1,264,932 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

209,693 options were available for future grant under the 2002 Stock Option Plan. Options to purchase 4,000 and 168,150 shares of Common Stock were granted during the 13 weeks and 39 weeks ended November 25, 2007. Options to purchase 174,700 shares of common stock were granted during the 13 weeks and 39 weeks ended November 26, 2006.

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 weighted average grant-date fair value of stock options granted during the 39 weeks ended November 25, 2007 and November 26, 2006 was \$10.30 and \$10.84 per share, respectively, as determined by the Black-Scholes option pricing model (assuming a risk-free interest rate of 4.75% and 4.0%-5.0%, respectively, expected life of 5.2-5.4 years and 4.0-5.6 years, respectively, expected volatility of 32.1%-32.4% and 34.45-58.8%, respectively, and expected dividend yield of 1.06% and 1.0%-1.6%, respectively). The total intrinsic value of options exercised during the 39 weeks ended November 25, 2007 and November 26, 2006 was \$1,882 and \$1,147, respectively.

The estimated term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is based on U.S. Treasury rates at the date of grant with maturity dates approximately equal to the estimated term of the options at the date of the grant. Volatility is based on historical volatility of the Company's stock.

The future compensation expense affecting earnings from operations before income taxes for options outstanding at November 25, 2007 will be \$3,172 as a result of the adoption of SFAS 123R.

The following is a summary of options for the nine-month period ended November 25, 2007:

|                                  | <u>Options</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Contract<br/>Life in<br/>Months</u> | <u>Aggregated<br/>Intrinsic<br/>Value</u> |
|----------------------------------|----------------|--|---|---|
| Outstanding at February 25, 2007 | 1,066,627      | \$ 21.61   | 63.96   | \$ 7,446                                  |
| Granted                          | 168,150        | 30.29  |   |   |
| Exercised                        | 151,086        | 17.18  |   |   |
| Terminated or expired            | 28,452         | 24.75  |   |   |
| Outstanding at November 25, 2007 | 1,055,239      | \$ 23.54   | 70.33   | \$ 7,364                                  |
| Exercisable at November 25, 2007 | 678,117        | \$ 21.48   | 50.44   | \$ 6,127                                  |

#### 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 \$17,000 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 November 25, 2007 and February 25, 2007 consisted of the following:

|                                     | November<br>25,<br>2007 | February<br>25,<br>2007 |
|-------------------------------------|-------------------------|-------------------------|
| Environmental and other liabilities | \$ 5,087                | \$ 5,087                |
| Pension liabilities                 | 12,094                  | 12,094                  |
| <b>Total liabilities</b>            | <b>\$ 17,181</b>        | <b>\$ 17,181</b>        |

#### 5. REALIGNMENT AND SEVERANCE CHARGES

The Company recorded charges during the 2004 fiscal year related to the realignment of its North America volume printed circuit materials operations in Newburgh, New York and Fullerton, California, including employment termination benefits and lease charges. The termination benefits were for the termination of hourly and salaried, administrative, manufacturing and support employees. Such employees were terminated during the 2004 fiscal year, and the termination benefits were paid in installments during such year. The lease charges covered one lease obligation payable through December 2004 and a portion of another lease obligation payable through September 2013.

The liability for lease payments, recorded in other liabilities, was \$3,823 and \$4,149 at November 25, 2007 and February 25, 2007, respectively. For the 13 weeks and 39 weeks ended November 25, 2007, the Company applied \$109 and \$326, respectively, of lease payments against the liability.

#### 6. INSURANCE ARRANGEMENT TERMINATION CHARGE

During the 2007 fiscal year second quarter ended August 27, 2006, the Company terminated a split-dollar life insurance arrangement with Jerry Shore, the Company's founder and former Chairman, President and Chief Executive Officer. The insurance arrangement, which involved two life insurance policies payable on the death of the survivor of Jerry Shore and his spouse with an aggregate face value of \$5 million and annual premium payments by the Company of approximately \$129, was implemented in 1997 but discontinued in 2004 in light of certain provisions of the Sarbanes-Oxley Act of 2002 and due to changes in the income taxation of split-dollar life insurance arrangements. The arrangement is more fully described in the Company's annual proxy statements for each of the years 1998 through 2007. Pursuant to an agreement entered into between Jerry Shore and the Company, the termination of the insurance arrangement involved a payment of \$1,335 by the Company to Mr. Shore in January

2007. Such termination and payment resulted in a net cash cost to the Company of \$685, after the Company's receipt of a portion of the cash surrender value of the life insurance policies. The Company recorded a pre-tax charge of \$1,316 in the 2007 fiscal year second quarter ended August 27, 2006 in connection with this termination and recognized a \$499 tax benefit relating to this insurance termination charge.

## 7. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the sum of (a) the weighted average number of shares of common stock outstanding during the period and (b) the 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 and 39 weeks ended November 25, 2007 and November 26, 2006.

|  | 13 weeks ended          |                         | 39 weeks ended          |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | November<br>25,<br>2007 | November<br>26,<br>2006 | November<br>25,<br>2007 | November<br>26,<br>2006 |
| Net Earnings   | \$ 8,777                | \$ 9,529                | \$ 25,348               | \$ 30,967               |
| Weighted average common shares outstanding for basic EPS | 20,340                  | 20,189                  | 20,290                  | 20,169                  |
| Net effect of dilutive options                           | 112                     | 143                     | 74                      | 159                     |
| Weighted average shares outstanding for diluted EPS      | 20,452                  | 20,332                  | 20,364                  | 20,328                  |
| Basic earnings per share                                 | \$ 0.43                 | \$ 0.47                 | \$ 1.25                 | \$ 1.54                 |
| Diluted earnings per share                               | \$ 0.43                 | \$ 0.47                 | \$ 1.25                 | \$ 1.52                 |

Common stock equivalents, which were not included in the computation of diluted earnings per share because the effect would have been antidilutive as the options' exercise prices were greater than the average market price of the common stock, were 1 for each of the 13 weeks ended November 25, 2007 and November 26, 2006, respectively, and 3 and 4 for the 39 weeks ended November 25, 2007 and November 26, 2006, respectively.

## 8. 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 adoption of FIN 48 did not have an impact on the Company's consolidated financial statements, except for the reclassification of unrecognized tax benefits of approximately \$3,600, including approximately \$400 for interest and penalties, to non-current other liabilities in the Condensed Consolidated Balance Sheets.

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.

During the fiscal year 2008 third quarter, the Company recognized tax benefits of \$540 relating to reserves previously established in the United States for transfer pricing. The reserves, which related to the transfer of intangibles relating to certain products, were deemed to be no longer required due to a change in market conditions during the quarter for the particular products for which the reserves were established.

The Company's effective income tax rates for the three-month and nine-month periods ended November 25, 2007 were 29.6% and 28.2%, respectively, before recognition of tax benefits in the 2008 third quarter of \$540 relating to reserves previously established in the United States for transfer pricing and a tax benefit of \$537 in the 2008 fiscal year second quarter relating to a reserve previously established in a foreign jurisdiction where the Company no longer operates compared to effective income tax rates for the three-month and nine-month periods ended November 26, 2006 of 23.0%, before adjusting for items recorded in the 2007 second quarter. During the 2007 second quarter, the Company recorded tax benefits of \$499 relating to the \$1,316 pre-tax charge recorded by the Company in connection with the termination of an insurance arrangement with Jerry Shore, the Company's founder and former Chairman, President and Chief Executive Officer, the elimination of certain valuation allowances of \$3,500 previously established relating to deferred tax assets in the United States and the elimination of tax reserves of \$1,391 no longer required as a result of the completion of a tax audit. The higher tax provisions for the three-month and nine-month periods ended November 25, 2007 were primarily the result of higher taxable income in jurisdictions with higher income tax rates.

The Company's effective income tax rates for the three-month and nine-month periods ended November 25, 2007 after adjusting for the recognition of tax benefits described above were 25.0%. The Company's effective income tax rates for the three-month and nine-month periods ended November 26, 2006, after adjusting for the tax benefits relating to the insurance arrangement termination charge, the elimination of certain valuation allowances in the United States and the elimination of tax reserves no longer required, all described above, were 23.0% and 7.8%, respectively.

A list of open tax years by major jurisdiction follows:

|               |      |      |
|---------------|------|------|
| United States | 2004 | 2007 |
| Arizona       | 2003 | 2007 |
| California    | 2002 | 2007 |
| New York      | 2004 | 2007 |
| France        | 2004 | 2007 |
| Singapore     | 2004 | 2007 |

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

As part of its quarterly evaluation of deferred tax assets, the Company recognized a tax benefit of \$3,500 during the 2007 fiscal year second quarter relating to the elimination of certain valuation allowances previously established related to deferred tax assets in the United States. The Company believes that it is more likely than not that the tax benefits associated with these deferred tax assets will be realized during the next five fiscal years. In addition, during the 2007 fiscal year second quarter, the Company recognized a tax benefit of \$1,391 relating to the elimination of reserves no longer required as the result of the completion of a tax audit and a \$499 tax benefit relating to the life insurance arrangement termination charge.

## 9. 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          |                                  | 39 weeks ended                   |                         |
|--------------------------------|-------------------------|----------------------------------|----------------------------------|-------------------------|
|                                | November<br>25,<br>2007 | November<br>26,<br>2006          | November<br>25,<br>2007          | November<br>26,<br>2006 |
| <b>Sales:</b>                  |                         |                                  |                                  |                         |
| North America                  | \$ 31,850               | \$ 37,762                        | \$ 92,171                        | \$ 106,633              |
| Europe                         | 8,437                   | 9,127                            | 21,311                           | 27,330                  |
| Asia                           | 23,366                  | 21,306                           | 67,789                           | 63,588                  |
| <b>Total sales</b>             | <b>\$ 63,653</b>        | <b>\$ 68,195</b>                 | <b>\$ 181,271</b>                | <b>\$ 197,551</b>       |
| <br>                           |                         |                                  |                                  |                         |
|                                |                         | <b>November<br/>25,<br/>2007</b> | <b>February<br/>25,<br/>2007</b> |                         |
| <b>Long-lived assets:</b>      |                         |                                  |                                  |                         |
| North America                  |                         | \$ 24,547                        | \$ 25,600                        |                         |
| Europe                         |                         | 4,474                            | 4,659                            |                         |
| Asia                           |                         | 26,117                           | 25,331                           |                         |
| <b>Total long-lived assets</b> |                         | <b>\$ 55,138</b>                 | <b>\$ 55,590</b>                 |                         |

## 10. CONTINGENCIES

- a. *Litigation* The Company is subject to a small number of proceedings, lawsuits and other claims related to environmental, employment 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 from other private parties involving one other site 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 \$10 and \$10 in the 13 weeks and 39 weeks ended November 25, 2007 and November 25, 2006, respectively. The recorded liabilities included in accrued liabilities for environmental matters were \$1,757 at November 25, 2007 and at February 25, 2007. As discussed in Note 4, liabilities from discontinued operations have been segregated on the Consolidated Balance Sheet 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 as 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.

#### 11. RESTRUCTURING

In the 2008 fiscal year third quarter, the Company announced that its electronic materials business unit located in Mirebeau, France, Neltec Europe SAS, proposed to restructure its operations and to reduce its workforce in response to the continuing erosion of the markets for electronic materials in Europe and the continuing migration of such markets to Asia. Neltec Europe SAS has completed an information and consultation process with its employees regarding the proposed restructuring and workforce reduction in accordance with French law and expects to implement the restructuring and workforce reduction in the fourth quarter of the Company's current fiscal year ending March 2, 2008, and the Company expects to record a one-time charge of approximately \$1.5 million in such quarter.

#### 12. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued 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. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect SFAS 157 to have a material effect on the Company's Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard 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. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect SFAS 159 to have a material effect on the Company's Consolidated Financial Statements.

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 (the Nelco<sup>®</sup> product line) and advanced composite materials (the Nelcote<sup>™</sup> product line) principally for the telecommunications and internet infrastructure, high-end computing and aerospace markets. Park focuses on the general aviation aircraft segment of the aerospace market. Park's core capabilities are in the areas of polymer chemistry formulation and coating technology. The Company's manufacturing facilities are located in Singapore, China, France, Connecticut, New York, Arizona and California. In addition, the Company is in the process constructing a new development and manufacturing facility in Newton, Kansas.

The Company's net sales decreased in both the three-month period and nine-month period ended November 25, 2007 compared with last year's comparable periods as a result of decreases in sales of the Company's printed circuit materials products in North America and Europe, which were only partially offset by increases in sales of printed circuit materials products in Asia and increases in sales of advanced composite materials products. The decreases in sales resulted in lower earnings from operations and lower net earnings in the three months and nine months ended November 25, 2007 compared to the three months and nine months ended November 26, 2006.

The Company believes that the markets for its printed circuit materials products have contracted from the levels that existed in the 2007 fiscal year. Consequently, sales of the Company's printed circuit materials products decreased in the 2008 fiscal year third quarter and first nine months compared to the 2007 fiscal year third quarter and first nine months. The markets for the Company's advanced composite materials products continued to be relatively strong during the 2008 fiscal year first nine months, and sales of the Company's advanced composite materials products increased in the third quarter and first nine months of the 2008 fiscal year compared to the comparable periods 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 2008 fiscal year fourth quarter. The Company believes that the markets for its advanced composite materials products will continue to be relatively strong during the 2008 fiscal year fourth quarter.

As previously reported, the Company discontinued its participation in the bidding for certain of the assets and business of Columbia Aircraft Manufacturing Corporation (Columbia) in an auction conducted in the United States Bankruptcy Court for the District of Oregon in Portland, Oregon on November 27, 2007 and incurred approximately \$0.5 million in out-of-pocket expenses relating to its extensive due diligence investigation of Columbia in Bend, Oregon and elsewhere, all of which was expensed in the third quarter ended November 25, 2007.

In the third quarter of the 2007 fiscal year, the Company acquired a facility in Singapore which the Company is modifying and expanding for use as a new advanced composites manufacturing plant. The Company is also in the process of constructing 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. As previously announced, the Company plans to spend approximately \$15 million on the facility and equipment in Kansas.

While the Company continues to expand and invest in its business, it also continues to make additional adjustments to certain of its operations, which may result in workforce reductions. In the 2008 fiscal year third quarter, the Company announced that its electronic materials business unit located in Mirebeau, France, Neltec Europe SAS, proposed to restructure its operations and to reduce its workforce in response to the continuing erosion of the markets for electronic materials in Europe and the continuing migration of such markets to Asia. Neltec Europe SAS has completed an information and consultation process with its employees regarding the proposed restructuring and workforce reduction in accordance with French law and expects to implement the restructuring and workforce reduction in the fourth quarter of the Company's current fiscal year ending March 2, 2008, and the Company expects to record a one-time charge of approximately \$1.5 million in such quarter.

During the 2007 fiscal year's second quarter, the Company recorded a pre-tax charge of \$1.3 million in connection with the termination of an insurance arrangement with Jerry Shore, the Company's founder and former Chairman, President and Chief Executive Officer, and recognized a \$0.5 million tax benefit relating to this insurance termination charge. The termination of the insurance arrangement involved a payment of \$1.3 million by the Company to Mr. Shore in January 2007, which resulted in a net cash cost to the Company of \$0.7 million, after the Company's receipt of a portion of the cash surrender value of the insurance policies. During the 2007 fiscal year's second quarter, the Company also recognized a tax benefit of \$3.5 million relating to the elimination of certain valuation allowances previously established relating to deferred tax assets in the United States and a tax benefit of \$1.4 million relating to the elimination of reserves no longer required as the result of the completion of a tax audit.

Three and Nine Months Ended November 25, 2007 Compared with Three and Nine Months Ended November 26, 2006:

The Company's total net sales and its net sales of printed circuit materials products decreased during the three-month and nine-month periods ended November 25, 2007 compared to the three-month and nine-month periods ended November 26, 2006 principally as a result of declines in such sales in North America and Europe. Net sales of the Company's advanced composite materials products increased during the three-month and nine-month periods ended November 25, 2007 compared to the three-month and nine-month periods ended November 26, 2006. Sales of advanced composite materials were 9% of the Company's total net sales worldwide in the three-month and nine-month periods ended November 25, 2007 compared to 8% of the Company's total net sales worldwide in the 2007 fiscal year comparable periods.

The Company's gross profits in the three months and nine months ended November 25, 2007 were lower than the gross profits in the prior year's comparable periods primarily as a result of lower sales and lower production unit volumes. The gross profit as a percentage of sales in the nine months ended November 25, 2007 was slightly higher than such gross profit margin in the nine months ended November 26, 2006 due to a higher percentage of sales of higher margin, high performance printed circuit materials products.

The Company's earnings from operations and net earnings were lower in both the three-month and nine-month periods ended November 25, 2007 than in the three-month and nine-month periods ended November 26, 2006. However, the Company's net earnings for the nine-month period ended November 26, 2006 were

enhanced by the tax benefits relating to the insurance arrangement termination charge, the elimination of certain valuation allowances previously established relating to deferred tax assets in the United States and the elimination of reserves no longer required as a result of the completion of a tax audit which were only partially offset by the charge resulting from the termination of an insurance arrangement.

#### Results of Operations

The Company's total net sales in the three-month period ended November 25, 2007 decreased 7% to \$63.7 million from \$68.2 million for last fiscal year's comparable period. The Company's total net sales for the nine-month period ended November 25, 2007 decreased 8% to \$181.3 million from \$197.6 million for last fiscal year's comparable period. The decreases in net sales were the result of lower unit volumes of printed circuit materials products shipped by the Company's operations in North America and Europe.

The Company's foreign operations accounted for \$31.8 million and \$89.1 million, respectively, of net sales, or 50% and 49%, respectively, of the Company's total net sales worldwide, during the three-month and nine-month periods ended November 25, 2007, compared with \$30.4 million and \$90.9 million, respectively, of net sales, or 44% and 46%, respectively, of total net sales worldwide, during last year's comparable periods. Net sales by the Company's foreign operations during the three months ended November 25, 2007 increased 5% from the 2007 fiscal year comparable period primarily as a result of an increase in sales in Asia during such period, while net sales by the Company's foreign operations during the nine months ended November 25, 2007 decreased 2% from the 2007 fiscal year comparable period primarily as a result of a decrease in sales in Europe during such period.

For the three-month period ended November 25, 2007, the Company's sales in North America, Asia and Europe were 50%, 37% and 13%, respectively, of the Company's total net sales worldwide compared with 56%, 31% and 13%, respectively, for the three-month period ended November 26, 2006; and for the nine-month period ended November 25, 2007, the Company's sales in North America, Asia and Europe were 51%, 37% and 12% of the Company's total net sales worldwide compared with 54%, 32% and 14%, respectively, for the nine-month period ended November 26, 2006. The Company's sales in North America decreased 15%, its sales in Asia increased 10% and its sales in Europe decreased 8% in the three-month period ended November 25, 2007 compared with the three-month period ended November 26, 2006, and its sales in North America decreased 14%, its sales in Asia increased 7% and its sales in Europe decreased 22% in the nine-month period ended November 25, 2007 compared with the nine-month period ended November 26, 2006.

The overall gross profit as a percentage of net sales for the Company's worldwide operations was 25.3% for the three-month periods ended November 25, 2007 and November 26, 2006. The gross profit margin for the nine-month period ended November 25, 2007 improved slightly to 25.7% from 25.1% for the nine-month period ended November 26, 2006. This improvement was primarily a result of a higher percentage of sales of higher margin, high performance printed circuit materials products.

During the three-month and nine-month periods ended November 25, 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, compared with 97% for last fiscal year's comparable periods.

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 and nine-month periods ended November 25, 2007, the Company's total net sales worldwide of high performance printed circuit materials (non-FR4 printed circuit materials) were 54% and 52%, respectively, of the Company's total net sales worldwide of printed circuit materials, compared with 41% for last fiscal year's comparable periods.

Selling, general and administrative expenses decreased by \$0.2 million and \$0.5 million, respectively, or by 2% and 3%, respectively, during the three-month period and nine-month period, respectively, ended November 25, 2007 compared with last fiscal year's comparable periods. However, these expenses, measured as percentages of sales, were 10.4% and 10.9%, respectively, during the three-month and nine-month periods ended November 25, 2007 compared with 9.9% and 10.3%, respectively, during the last fiscal year's comparable periods. The higher percentages in the 2008 fiscal year periods were the result of lower sales in such periods and the out-of-pocket expenses incurred by the Company related to its due diligence investigation of Columbia Aircraft Manufacturing Corporation discussed below. Stock option expenses were \$0.4 million and \$1.0 million, respectively, for the three-month and nine-month periods ended November 25, 2007 compared with \$0.4 million and \$0.9 million for last fiscal year's comparable periods.

During the three-month period ended November 25, 2007, the Company incurred approximately \$0.5 million in out-of-pocket expenses related to its extensive due diligence investigation of Columbia Aircraft Manufacturing Corporation ( Columbia ) located in Bend, Oregon in preparation for its participation in the bidding for certain of the assets and business of Columbia in an auction conducted in the United States Bankruptcy Court for the District of Oregon in Portland, Oregon on November 27, 2007. The Company had submitted an initial bid for certain of the assets and business of Columbia on November 20, 2007 after conducting extensive due diligence at Columbia in Bend, Oregon and elsewhere. The Company participated in the auction in the Bankruptcy Court in Portland on November 27, 2007 but chose to discontinue its participation in the auction bidding process.

During the three-month period ended August 27, 2006, the Company recorded a pre-tax charge of \$1.3 million in connection with the termination of a life insurance arrangement with Mr. Jerry Shore, the Company's founder and former Chairman, President and Chief Executive Officer, and recognized a tax benefit of \$0.5 million relating to this insurance termination charge. During the 2007 fiscal year second quarter, the Company also recognized a tax benefit of \$3.5 million relating to the elimination of certain valuation allowances previously established relating to deferred tax assets in the United States and a tax benefit of \$1.4 million relating to the elimination of reserves no longer required as the result of the completion of a tax audit.

For the reasons set forth above, the Company's earnings from operations were \$9.5 million for the three months ended November 25, 2007 compared to \$10.5 million for the three months ended November 26, 2006, and its earnings from operations were \$26.8 million for the nine months ended November 25, 2007 compared to \$28.0 million for the nine months ended November 26, 2006, including the \$1.3 million insurance arrangement termination charge described above.

Interest and other income, net, principally investment income, was \$2.2 million and \$7.0 million, respectively, for the three-month and nine-month periods ended November 25, 2007 compared with \$1.9 million and \$5.6 million, respectively, for last fiscal year's comparable periods. The increases in investment income were attributable to higher prevailing interest rates and higher levels of cash available for investment during the 2008 fiscal year first, second and third quarters than during the 2007 fiscal year first, second and third quarters. The Company's investments were primarily short-term taxable instruments and money market funds.

The Company's effective income tax rates for the three-month and nine-month periods ended November 25, 2007 were 29.6% and 28.2%, respectively, before recognition of tax benefits of \$0.5 million in the 2008 fiscal year third quarter relating to reserves previously established in the United States for transfer pricing and tax benefits of \$0.5 million in the 2008 fiscal year second quarter relating to reserves previously established in a foreign jurisdiction where the Company no longer operates compared to effective income tax rates for the three-month and nine-month periods ended November 26, 2006 of 23.0% before adjusting for the tax benefits relating to the insurance arrangement termination charge, the elimination of certain valuation allowances in the United States and the elimination of tax reserves no longer required, all described above. The higher tax provisions for the three-month and nine-month periods ended November 25, 2007 were primarily the results of higher taxable income in jurisdictions with higher income tax rates.

The Company's effective income tax rates for the three-month and nine-month periods ended November 25, 2007 after adjusting for the recognition of tax benefits relating to reserves previously established in the United States for transfer pricing and reserves previously established in a foreign jurisdiction where the Company no longer operates were 25.0%. The Company's effective income tax rates for the three-month and nine-month periods ended November 26, 2006 after adjusting for the tax benefits relating to the insurance arrangement termination charge, the elimination of certain valuation allowances in the United States and the elimination of tax reserves no longer required, all described above, were 23.0% and 7.8%, respectively.

The Company's net earnings for the three months ended November 25, 2007 were \$8.8 million compared to net earnings of \$9.5 million for the three months ended November 26, 2006. The Company's net earnings for the nine months ended November 25, 2007 were \$25.3 million compared to net earnings of \$31.0 million for the nine months ended November 26, 2006, including the \$1.3 million insurance arrangement termination charge described above and the related \$0.5 million tax benefit and the tax benefits of \$4.9 million relating to the elimination of certain valuation allowances and reserves described above.

Basic and diluted earnings per share were \$0.43 and \$1.25 for the three months and nine months, respectively, ended November 25, 2007 compared to basic and diluted earnings per share of \$0.47 for the three months ended November 26, 2006 and basic and diluted earnings per share, including the insurance termination charge and tax benefits described above, of \$1.54 and \$1.52, respectively, for the nine months ended November 26, 2006. The net

impact of the charge and tax benefits described above was to increase basic and diluted earnings per share by \$0.20 in the nine months ended November 26, 2006.

#### Liquidity and Capital Resources:

At November 25, 2007, the Company's cash and temporary investments (consisting of cash and cash equivalents and marketable securities) were \$202.2 million compared with \$208.8 million at February 25, 2007, the end of the Company's 2007 fiscal year. The decrease in the Company's cash and investment position at November 25, 2007 was attributable to the payment of dividends (including a special dividend of \$1.50 per share payable August 22, 2007 and totaling \$30.5 million), the payment of income taxes and purchases of property, plant and equipment partially offset by cash generated by operating activities. The Company's working capital (which includes cash and temporary investments) was \$232.7 million at November 25, 2007 compared with \$237.3 million at February 25, 2007. The decrease in working capital at November 25, 2007 compared with February 25, 2007 was due principally to the decrease in cash and temporary investments and the increase in accrued liabilities only partially offset by increases in accounts receivable and prepaid expenses and other current assets and a decrease in income taxes payable. The 15% increase in accrued liabilities at November 25, 2007 compared to February 25, 2007 was primarily the result of increased accruals for compensation programs and professional fees, including those relating to the Company's due diligence investigation of Columbia. Prepaid expenses and other current assets increased 81% at November 25, 2007 compared to February 25, 2007 primarily as a result of an increase in prepaid expenses, consisting of prepaid taxes and insurance and a refundable deposit required to participate in the auction bidding process for certain assets and business of Columbia. Income taxes payable declined 24% at November 25, 2007 compared to February 25, 2007 primarily as a result of tax payments made during the nine-month period. The Company's current ratio (the ratio of current assets to current liabilities) was 8.7 to 1 at November 25, 2007 compared to 9.2 to 1 at February 25, 2007.

During the nine months ended November 25, 2007, net earnings from the Company's operations, before depreciation and amortization and stock option exercise expense, of \$32.4 million reduced by a net increase in working capital items, resulted in \$30.1 million of cash provided by operating activities. During the same nine-month period, the Company expended a net amount of \$5.0 million for the purchase of property, plant and equipment compared with a net amount of \$2.4 million during the nine-month period ended November 26, 2006. In addition, the Company paid \$35.4 million in dividends on its common stock in the nine-month period ended November 25, 2007 compared to \$25.0 million in the nine-month period ended November 26, 2006 as a result of the Company's declaration of a special cash dividend of \$1.50 per share payable August 22, 2007 and totaling \$30.5 million and a special cash dividend of \$1.00 per share payable August 22, 2006 and totaling \$20.2 million. Net expenditures for property, plant and equipment were \$3.9 million in the 2007 fiscal year and \$4.2 million in the 2006 fiscal year.

At November 25, 2007 and at February 25, 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. 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 \$1.7 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 November 25, 2007, 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 February 25, 2007.

#### 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 nine-month periods ended November 25, 2007 and November 26, 2006, the Company charged approximately \$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 November 25, 2007 and February 25, 2007, the amount recorded in liabilities from discontinued operations for environmental matters related to Dielektra was \$2.1 million and the amount recorded in accrued liabilities for other environmental matters was \$1.8 million. 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 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 expects to record a one-time charge of approximately \$1.5 million in the fourth quarter of the Company's current fiscal year ending March 2, 2008 in connection with a restructuring and workforce reduction at its Neltec Europe SAS business unit in France. Such restructuring and workforce reduction are described in Note 11 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 has significant pension liabilities that were developed from actuarial valuations. Inherent in these valuations are 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 uses an insurance company administrator to process all such claims and benefits. The Company accrues its workers' compensation liability based upon the claim reserves established by the third-party administrator and historical experience.

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 February 25, 2007.

#### Item 3. Quantitative and Qualitative Disclosure About Market Risk.

The Company's market risk exposure at November 25, 2007 is consistent with, and not greater than, the types of market risk and amount of exposures presented in the Annual Report on Form 10-K for the fiscal year ended February 25, 2007.

#### 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 November 25, 2007, 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.

Item 1A. 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 February 25, 2007.

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 2008 fiscal year third quarter ended November 25, 2007.

| <u>Period</u>             | <u>Total Number of Shares (or Units) Purchased</u> | <u>Average Price Paid per Share (or Unit)</u> | <u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u> |
|---------------------------|--|---|--|--|
| August 27 - September 25  | 3(a)   | \$30.17                                       | 0  |  |
| September 26 - October 25 | 0  |   | 0  |  |
| October 26 - November 25  | 0  |   | 0  |  |
| Total                     | 3(a)   | \$30.17                                       | 0  | 2,000,000(b)   |

( a )  
Acquired by the Company pursuant to a privately negotiated transaction with one individual shareholder of the Company at the then current market price of the Company's Common Stock.

( b )  
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)

Date: January 3, 2008

/s/ Brian E. Shore

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

Date: January 3, 2008

/s/ P. Matthew Farabaugh

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



## EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Name</u>   | <u>Page</u> |
|--------------------|---|-------------|
| 31.1               | Certification of principal executive officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a)   | 30          |
| 31.2               | Certification of principal financial officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a)   | 32          |
| 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 | 34          |
| 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 | 35          |