

Ship Finance International LTD

Form 424B5

April 23, 2018

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
4.875% Convertible Senior Notes due 2023	\$ 150,000,000	100%	\$ 150,000,000	\$ 18,675
Common Shares, par value \$.01 per share	(2)	(2)	(2)	(2)

(1)

This filing fee is calculated in accordance with Rule 457(r) and relates to the Registration Statement on Form F-3ASR (Registration No. 333-213782) filed by Ship Finance International Ltd. on September 30, 2016.

(2)

There are also being registered hereby an indeterminate number of common shares into which the 4.875% Convertible Senior Notes due 2023 may be converted. Pursuant to Rule 457(i) under the Securities Act, no separate registration fee is payable where convertible securities and the securities into which conversion is offered are registered at the same time and no additional consideration is to be received in connection with the exercise of the conversion privilege.

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Filed pursuant to Rule 424(b)(5)

Registration No. 333-213782

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 26, 2016)

\$150,000,000

Ship Finance International Limited

4.875% Convertible Senior Notes due 2023

We are offering \$150,000,000 aggregate principal amount of our 4.875% Convertible Senior Notes due 2023 (the “notes”). The notes will bear interest at a rate equal to 4.875% per year. Interest on the notes will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning August 1, 2018. Interest will accrue on the notes from the last date on which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, April 23, 2018. Unless earlier converted, redeemed or repurchased, the notes will mature on May 1, 2023. At maturity, we will pay the principal amount per note plus accrued and unpaid interest in whole in cash, or in part in common shares and in part in cash, at our election, as described in this prospectus supplement.

You may convert your notes, at your option, at any time prior to the close of business on the second scheduled trading day prior to the maturity date. Upon conversion, we will satisfy our conversion obligation by paying or delivering, as the case may be, cash, common shares or a combination of cash and our common shares, at our election, all as described in “Description of Notes—Conversion Rights—Settlement upon Conversion.”

The conversion rate will initially equal 52.8157 of our common shares per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$18.93 per common share), and will be subject to adjustment as described in this prospectus supplement. In addition, we will, in certain circumstances, increase the conversion rate for holders who convert their notes in connection with a make-whole fundamental change. See “Description of Notes—Conversion Rights—Adjustment to Shares Delivered upon Conversion upon a Make-Whole Fundamental Change.”

If 90% or more of the aggregate principal amount of the notes issued on the date of original issuance of the notes have been converted or repurchased, we may, at any time prior to the 61st scheduled trading day immediately preceding the stated maturity date and subject to certain exceptions, redeem all but not part of the remaining outstanding notes at a redemption price of 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date.

If a fundamental change occurs, you will have the right, at your option, to require us to repurchase your notes in cash at a price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The notes will be our senior, unsecured obligations and will rank equal in right of payment with our existing and future senior, unsecured debt, and will be senior in right of payment to any future debt that is expressly subordinated to the notes. The notes will be structurally subordinated to all debt and other liabilities and commitments of our subsidiaries, including trade payables and any guarantees that they may provide with respect to any of our existing or future debt, and will be effectively subordinated to any secured debt that we have incurred or may incur to the extent of the assets securing such debt.

Concurrently with this offering and by means of a separate prospectus supplement and accompanying prospectus, up to 7,000,000 of our common shares will be offered by selling shareholders, who will borrow such shares through lending arrangements from certain of the underwriters (or their respective affiliates), each of which is borrowing the shares either directly from SFL Capital II Ltd. (our wholly-owned subsidiary, which we refer to herein as SFLC) or from its affiliate, which in turn is borrowing the shares from SFLC. We refer to the entities that are borrowing shares from SFLC as the Share Borrowers. The borrowed shares are newly-issued shares issued in connection with this transaction and will be cancelled or held as treasury shares by us upon the expiration or the early termination of the share lending arrangements described herein (unless SFLC directs the borrowed shares to be delivered to a nominee).

We expect that the selling shareholders will sell the borrowed shares and use the resulting short position to establish their initial hedge with respect to their investments in the notes. The selling shareholders may effect such transactions by selling the borrowed shares at various prices from time to time through the Share Borrowers or their respective affiliates. The selling shareholders will receive all of the net proceeds from the sale of the borrowed shares, and neither we nor SFLC will receive any of those proceeds, but we will receive a one-time nominal fee of \$0.01 per share from SFLC for each newly issued share, and SFLC will receive a fee in respect of the borrowed shares from the Share Borrower for the use of the borrowed shares. The concurrent offering of the borrowed shares is conditioned upon the closing of this offering.

The notes will not be listed on any national securities exchange. Currently, there is no public market for the notes. Our common shares are listed on The New York Stock Exchange, or the NYSE, under the symbol "SFL." The last reported sale price of our common shares on the NYSE on April 18, 2018 was \$14.85 per share.

Investing in the notes involves a high degree of risk. Please read "Risk Factors" beginning on page S-13 of this prospectus supplement and similar sections in our filings with the Securities and Exchange Commission, or the Commission, incorporated by reference herein.

Neither the Commission nor any state securities commission has approved or disapproved the issuance of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price(1)	Undewriting Discount	Proceeds, Before Expenses, To Us
Per note	100.0%	2.0%	98.0%
Total	\$ 150,000,000	\$ 3,000,000	\$ 147,000,000

(1)

Plus accrued interest, if any, from April 23, 2018 to the date of delivery.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to \$22,500,000 aggregate principal amount of additional notes at the public offering price less the underwriting discount, solely to cover over-allotments, if any.

The underwriters expect to deliver the notes sold on April 23, 2018.

Joint Book-Running Managers

Morgan Stanley Jefferies Citigroup

Co-Managers

DNB Markets SEAPORT GLOBAL SECURITIES BTIG

ABN AMRO ING

Prospectus Supplement dated April 19, 2018

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Base Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Commission utilizing a “shelf” registration process. This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and the notes offered hereby, and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the base prospectus. The second part, the base prospectus, gives more general information about the securities we may offer from time to time, some of which does not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the notes being offered hereby and other information you should know before investing. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, “Information Incorporated by Reference” in this prospectus supplement and “Where You Can Find Additional Information” in the accompanying prospectus before investing in our notes.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus, or in any free writing prospectus, other offering materials filed by us with the Commission, if any, or information contained in documents which you are referred to by this prospectus supplement or the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different or additional information. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. See “Underwriting.” The information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus, or in any free writing prospectus or any other offering materials is accurate only as of the date of those documents or information, regardless of the time of delivery of the documents or information or the time of any sale of the securities. Our business, financial condition, results of operations and prospects may have changed since those dates.

We prepare our financial statements, including all of the financial statements included or incorporated by reference into this prospectus supplement, in U.S. dollars and in conformity with accounting principles generally accepted in the United States, or U.S. GAAP. We have a fiscal year end of December 31.

Any statement made in this prospectus supplement, the accompanying prospectus or in a document incorporated by reference into this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated by reference into this prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of our securities.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of notes and underlying common shares in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer, or an invitation on our or the underwriters’ behalf, to subscribe to or purchase any notes or underlying common shares, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See “Underwriting.”

The Bermuda Monetary Authority has given its consent for the issue and free transferability of our common shares to and between non-residents of Bermuda for exchange control purposes, provided our

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shares remain listed on an appointed stock exchange, which includes the NYSE. Approvals or permissions given by the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to our performance or our creditworthiness. Accordingly, in giving such consent or permissions, the Bermuda Monetary Authority shall not be liable for the financial soundness, performance or default of our business or for the correctness of any opinions or statements expressed in this prospectus supplement or the accompanying prospectus. Certain issues and transfers of common shares or preference shares involving persons deemed resident in Bermuda for exchange control purposes may require the specific consent of the Bermuda Monetary Authority.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this prospectus supplement, the accompanying prospectus and the documents that we have filed with the Commission that are incorporated by reference into this prospectus supplement may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include, but are not limited to, statements concerning plans, objectives, goals, strategies, future events or performance, underlying assumptions and other statements, which are other than statements of historical facts.

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement pursuant to this safe harbor legislation. This prospectus supplement and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words “believe,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “plan,” “potential,” “may,” “should,” “expect” and similar expressions identify forward-looking statements.

The forward-looking statements in this prospectus supplement, the accompanying prospectus and the documents that we have filed with the Commission that are incorporated by reference into this prospectus supplement are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. We are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to:

- the strength of world economies;
- our ability to generate cash to service our indebtedness;
- the impact on us of any restructuring of the counterparties with whom we deal, including the ongoing restructuring of Seadrill Limited, or Seadrill;
- our ability to continue to satisfy our financial and other covenants, or obtain waivers relating to such covenants from our lenders under our credit facilities;
- our ability to successfully manage our planned growth properly, including accomplishing and integrating the acquisition of vessels or related businesses;
-

our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

- our counterparties' ability or willingness to honor their obligations under agreements with us;
- fluctuations in currencies and interest rates;
- general market conditions, including fluctuations in charter hire rates and vessel values;
- changes in supply and generally the number, size and form of providers of goods and services in the markets in which we operate;
- changes in demand in the markets in which we operate;

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- changes in demand resulting from changes in the Organization of the Petroleum Exporting Countries' petroleum production levels and worldwide oil consumption and storage;
- developments regarding the technologies relating to oil exploration;
- changes in market demand in countries which import commodities and finished goods and changes in the amount and location of the production of those commodities and finished goods;
- increased inspection procedures and more restrictive import and export controls;
- the imposition of sanctions by the Office of Foreign Assets Control of the Department of the U.S. Treasury or pursuant to other applicable laws or regulations against us or any of our subsidiaries;
- changes in our operating expenses, including bunker prices, drydocking and insurance costs;
- performance of our charterers and other counterparties with whom we deal;
- our inability to generate revenues from our profit sharing arrangements;
- timely delivery of vessels under construction within the contracted price;
- changes in governmental rules and regulations or actions taken by regulatory authorities;
- potential liability from pending or future litigation;
- general domestic and international political conditions;
- potential disruption of shipping routes due to accidents;
- piracy or political events; and
- other important factors described under the heading "Risk Factors" in this prospectus supplement, in the accompanying prospectus and in our annual report on Form 20-F for the year ended December 31, 2017, as well as those described from time to time in the reports filed by us with the Commission.

This prospectus supplement may contain assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as forward-looking statements. We may also from time to time make forward-looking statements in our periodic reports that we will file with the Commission, in other information sent to our security holders, and in other written materials. We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material.

We undertake no obligation to publicly update or revise any forward-looking statement contained in this prospectus supplement or the documents incorporated by reference into this prospectus supplement, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus supplement might not occur, and our actual results could differ materially from those anticipated in these forward-looking statements.

MARKET AND INDUSTRY DATA

Certain market data contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus are based on independent industry publications and reports by market research firms. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources referred to above.

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TABLE OF CONTENTS**PROSPECTUS SUPPLEMENT SUMMARY**

This section summarizes some of the information that is contained in this prospectus supplement, the accompanying prospectus or in other documents incorporated by reference into this prospectus supplement. As an investor or prospective investor in the notes, you should review carefully the risk factors and the more detailed information that appear in this prospectus supplement, the accompanying prospectus, any free writing prospectus that may be provided to you in connection with the offering of the notes or that are contained in the documents that we incorporate by reference into this prospectus supplement.

Unless otherwise indicated or if the context otherwise requires, as used in this prospectus supplement, the terms “we,” “our,” “us,” and the “Company” refer to Ship Finance International Limited and all of its subsidiaries.

We use the term deadweight, or “dwt,” in describing the size of vessels. Dwt, expressed in metric tons each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. We use the term twenty-foot equivalent units, or “TEU”, in describing container vessels to refer to the number of standard twenty foot containers that the vessel can carry. We use the term car equivalent unit, or “CEU”, in describing the size of car carriers and number of cars they have the capacity to transport.

Ship Finance International Limited

We are a global international ship-owning company with a large and diverse asset base across the maritime and offshore industries. As of April 17, 2018, our assets consisted of 10 crude oil tankers, 22 dry bulk carriers, 37 container vessels (including two chartered-in 19,200 TEU vessels), two car carriers, two jack-up drilling rigs, two ultra-deepwater drilling units, five offshore support vessels, two chemical tankers and two oil product tankers. Most of our vessels and rigs are employed under long term charters, which are generally contracted to expire between one and 14 years from now. We believe these existing charters provide us with significant and stable base cash flows and high asset utilization, subject to the full performance of the obligations of our counterparties under their agreements with us. The fixed-rate charter backlog as of December 31, 2017 and adjusted for subsequent vessel sales and charter cancellations was approximately \$3.1 billion, with an average remaining charter term of nearly five years, or more than eight years if weighted by charter revenue. Some of our charters include purchase options on behalf of the charterer, which if exercised would reduce our remaining charter coverage and contracted cash flow, but increase our cash position. The amount of actual revenues earned and the actual periods during which revenues are earned may be different from the backlog projections due to various factors including, off-hire caused by unscheduled repairs, maintenance and other factors.

The following table sets forth summary information regarding our fleet as of March 31, 2018.

VESSEL	APPROXIMATE				FLAG	LEASE CLASSIFICATION	CHARTER EXPIRY DATE
	BUILT		DWT				
VLCCs							
Front Ariake	2001		299,000		BA	Capital lease	2023
Front Serenade	2002		299,000		LIB	Capital lease	2024
Front Hakata	2002		298,500		BA	Capital lease	2025
	\$ 0.24						
Basic weighted average shares	20,236	20,235	20,236	20,235			
Diluted earnings	\$ 0.03	\$ 0.10	\$ 0.09	\$ 0.24			

per share				
Diluted weighted average shares	20,250	20,235	20,247	20,235
Dividends declared per share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

See Notes to Consolidated Financial Statements (Unaudited).

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

	13 Weeks Ended (Unaudited) August 27, 2017		26 Weeks Ended (Unaudited) August 27, 2017	
	2016	2016	2016	2016
Net earnings	\$520	\$1,981	\$1,914	\$4,931
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation	72	26	41	5
Unrealized gains on marketable securities:				
Unrealized holding gains arising during the period	21	11	24	11
Less: reclassification adjustment for gains included in net earnings	(27)	-	(96)	(55)
Unrealized losses on marketable securities:				
Unrealized holding losses arising during the period	-	(45)	(117)	(69)
Less: reclassification adjustment for losses included in net earnings	22	19	46	34
Other comprehensive earnings (loss)	88	11	(102)	(74)
Total comprehensive earnings	\$608	\$1,992	\$1,812	\$4,857

See Notes to Consolidated Financial Statements (Unaudited).

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

	26 Weeks Ended (Unaudited)	
	August 27, 2017	August 28, 2016
Cash flows from operating activities:		
Net earnings	\$1,914	\$4,931
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,547	1,652
Stock-based compensation	475	704
Deferred income taxes	(992)	-
Amortization of bond premium	125	278
Non-cash restructuring charges	3,484	-
Changes in operating assets and liabilities	(5,051)	1,252
Net cash provided by operating activities	1,502	8,817
Cash flows from investing activities:		
Purchase of property, plant and equipment	(500)	(94)
Purchases of marketable securities	(141,881)	(27,102)
Proceeds from sales and maturities of marketable securities	74,205	29,478
Net cash (used in) provided by investing activities	(68,176)	2,282
Cash flows from financing activities:		
Dividends paid	(4,047)	(4,047)
Proceeds from exercise of stock options	39	-
Payments of long-term debt	(1,750)	(1,500)
Net cash used in financing activities	(5,758)	(5,547)
(Decrease) increase in cash and cash equivalents before effect of exchange rate changes	(72,432)	5,552
Effect of exchange rate changes on cash and cash equivalents	185	129
(Decrease) increase in cash and cash equivalents	(72,247)	5,681
Cash and cash equivalents, beginning of period	102,438	97,757
Cash and cash equivalents, end of period	\$30,191	\$103,438
Supplemental cash flow information:		
Cash paid during the period for income taxes, net of refunds	\$1,534	\$1,763
Cash paid during the period for interest	\$1,007	\$653

See Notes to Consolidated Financial Statements (Unaudited).

PARK ELECTROCHEMICAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. CONSOLIDATED FINANCIAL STATEMENTS

The Condensed Consolidated Balance Sheet as of August 27, 2017, the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Earnings for the 13 weeks and 26 weeks ended August 27, 2017 and August 28, 2016 and the Condensed Consolidated Statements of Cash Flows for the 26 weeks then ended have been prepared by Park Electrochemical Corp. (the “Company”), without audit. In the opinion of management, these unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at August 27, 2017 and the results of operations and cash flows for all periods presented. The Consolidated Statements of Operations are not necessarily indicative of the results to be expected for the full fiscal year or any subsequent interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended February 26, 2017. There have been no significant changes to such accounting policies during the 26 weeks ended August 27, 2017.

2. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

The Company's non-financial assets measured at fair value on a non-recurring basis include goodwill and any long-lived assets written down to fair value. To measure fair value of such assets, the Company uses Level 3 inputs consisting of techniques including an income approach and a market approach. The income approach is based on a discounted cash flow analysis and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. Assumptions used in the discounted cash flow analysis require the exercise of significant judgment, including judgment about appropriate discount rates, terminal values, growth rates and the amount and timing of expected future cash flows. There were no transfers between levels within the fair value hierarchy during the 26 weeks ended August 27, 2017 and August 28, 2016. With respect to goodwill, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying value. If, based on that assessment, the Company believes it is more likely than not that the fair value is less than its carrying value, a two-step goodwill impairment test is performed. There have been no changes in events or circumstances which required impairment charges to be recorded during the 13 or 26 weeks ended August 27, 2017.

3. MARKETABLE SECURITIES

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

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

	August 27, 2017			
	Total	Level 1	Level 2	Level 3
U.S. Treasury and other government securities	\$151,337	\$151,337	\$ -	\$ -
U.S. corporate debt securities	51,536	51,536	-	-
Total marketable securities	\$202,873	\$202,873	\$ -	\$ -

February 26, 2017

	Total	Level 1	Level 2	Level 3
U.S. Treasury and other government securities	\$ 111,261	\$ 111,261	\$ -	\$ -
U.S. corporate debt securities	24,891	24,891	-	-
Total marketable securities	\$ 136,152	\$ 136,152	\$ -	\$ -

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

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
August 27, 2017:			
U.S. Treasury and other government securities	\$ 151,941	\$ 26	\$ 630
U.S. corporate debt securities	51,665	-	129
Total marketable securities	\$ 203,606	\$ 26	\$ 759
February 26, 2017:			
U.S. Treasury and other government securities	\$ 111,727	\$ 136	\$ 602
U.S. corporate debt securities	24,938	1	48
Total marketable securities	\$ 136,665	\$ 137	\$ 650

The estimated fair values of such securities at August 27, 2017 by contractual maturity are shown below:

Due in one year or less	\$25,939
Due after one year through five years	176,934
	\$202,873

4. INVENTORIES

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

	August 27, 2017	February 26, 2017
<u>Inventories:</u>		
Raw materials	\$7,305	\$ 5,842
Work-in-process	2,714	2,329
Finished goods	1,533	2,585

Manufacturing supplies	367	349
	\$11,919	\$ 11,105

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5. LONG-TERM DEBT

On January 15, 2016, the Company entered into a three-year revolving credit facility agreement (the “Credit Agreement”) with HSBC Bank USA, National Association (“HSBC Bank”). This Credit Agreement replaced the Amended Credit Agreement that the Company entered into with PNC Bank in February 2014. The Credit Agreement provides for loans up to \$75,000 and letters of credit up to \$2,000. The Company borrowed \$75,000 under the Credit Agreement and obtained letters of credit in the initial principal amount of \$1,075. During the 2016 fiscal year, the Company made no payments in accordance with the Credit Agreement. During the 2017 fiscal year, the Company paid a total of \$3,000 in accordance with the Credit Agreement; and, during the 2018 fiscal year first quarter ended May 28, 2017, the Company paid a quarterly installment of \$750. The remaining \$71,250 is payable in seven quarterly installments of \$750 each, with the remaining amount outstanding under the Credit Agreement payable on January 26, 2019. Pursuant to an amendment entered into on April 21, 2017, the second and third installments due in the 2018 fiscal year were increased from \$750 to \$1,000.

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

On January 5, 2017, the Company entered into an amendment to the Credit Agreement (the “Amended Credit Agreement”) with HSBC Bank that modified the LIBOR interest rate and certain covenants. Under the Amended Credit Agreement, the LIBOR interest rate will be equal to the one, two, three, or six month LIBOR plus (a) 1.65% through April 5, 2017, (b) 1.90% from April 6, 2017 through July 5, 2017, (c) 2.15% from July 6, 2017 through October 5, 2017 and (d) 2.65% after October 5, 2017.

The Credit Agreement and the Amended Credit Agreement contain certain customary affirmative and negative covenants, including customary financial covenants. The covenants require the Company to (a) maintain a gross leverage charge ratio not to exceed 4.25 to 1.00 for the fiscal quarter ending August 27, 2017 and 3.75 to 1.00 each fiscal quarter thereafter, (b) maintain a minimum fixed charge coverage ratio of 0.50 to 1.00 for the fiscal quarter ending August 27, 2017 and 1.10 to 1.00 for each fiscal quarter thereafter and (c) maintain a minimum quick ratio of 2.00 to 1.00. In addition, the Company must maintain minimum domestic liquid assets of \$10,000 in cash held at all times in a domestic deposit account. The Company is in compliance with all the financial covenants.

During the quarter end May 28, 2017, the Company entered into two amendments to the Credit Agreement with HSBC Bank that modified the financial covenants and relaxed loan repayment requirements upon repatriation of foreign funds in the first and second quarters of fiscal year 2018. The amendments modified the definition of EBITDA to exclude \$4,600 of restructuring charges in connection with the consolidation of the Company's Nelco Products, Inc. and Neltec, Inc. Business Units in the United States in fiscal year 2018, reduced the maximum gross leverage charge ratio to 1.10 to 1.00 and reduced the fixed charge coverage ratio to 0.20 to 1.00 for the first, second and third quarters of the 2018 fiscal year.

At August 27, 2017, \$70,250 of indebtedness was outstanding under the Credit Agreement with an interest rate of 3.41%. Interest expense recorded under the Credit Agreement and the Amended Credit Agreement was \$603 and \$1,113 during the 13-week and 26-week periods ended August 27, 2017, respectively, and \$334 and \$667 during the 13-week and 26-week periods ended August 28, 2016, respectively.

6. RESTRUCTURING CHARGES

On April 18, 2017, the Company announced the consolidation of its Nelco Products, Inc. Business Unit located in Fullerton, California and its Neltec, Inc. Business Unit located in Tempe, Arizona. The consolidation is expected to take four to six months to complete. When complete, all business functions will be performed at Neltec in Tempe, Arizona and certain manufacturing operations will continue to be performed in California, under the supervision of the Neltec Business Unit.

During the 13-week and 26-week periods ended August 27, 2017 the Company recorded restructuring charges of \$2,813 and \$4,063, respectively, related to the consolidation. The Company estimates the remaining pre-tax charge in connection with the consolidation to be approximately \$1,500. This remaining charge is expected to be incurred primarily during the fiscal year ending March 3, 2019 or beyond. The Company estimates the remaining pre-tax charge in connection with the consolidation to be approximately \$1,500. This remaining charge is expected to be incurred primarily during the fiscal year ending March 3, 2019 or beyond.

The following table sets forth the charges and accruals related to the consolidation:

	Total Expense		Accrual			Total Expense		Total
	For 13 Weeks Ended May 28, 2017	Current Period Expense	Cash Payments	Non-Cash Charges	August 27, 2017	For 26 Weeks Ended August 27, 2017	Expected Costs	
Facility Lease Costs	\$ -	\$ 2,753	\$ -	\$ -	\$ 2,753	\$ 2,753	\$ 2,753	
Severance Costs	1,183	(61)	(391)	-	731	1,122	1,122	
Equipment Removal	-	-	-	-	-	-	700	
Other	67	121	(121)	(67)	-	188	925	
Total Restructuring Plan	\$ 1,250	\$ 2,813	\$ (512)	\$ (67)	\$ 3,484	\$ 4,063	\$ 5,500	

The Company recorded additional restructuring charges of \$89 and \$23 during the 13-week periods ended August 27, 2017 and August 28, 2016, respectively, and \$200 and \$93 during the 26 weeks ended August 27, 2017 and August 28, 2016, respectively, related to the closure in the 2009 fiscal year of the Company's New England Laminates Co., Inc. Business Unit located in Newburgh, New York. The New England Laminates Co., Inc. building in Newburgh, New York is held for sale. In the 2004 fiscal year, the Company reduced the book value of the building to zero, and the Company intends to sell it during the 2018 fiscal year.

7. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the sum of (a) the weighted average number of shares of common stock outstanding during the period and (b) the potentially dilutive securities outstanding during the period. Stock options are the only potentially dilutive securities that have been issued by the Company; 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:

	13 Weeks Ended		26 Weeks Ended	
	August	August	August	August
	27,	28,	27,	28,
	2017	2016	2017	2016
Net earnings	\$520	\$1,981	\$1,914	\$4,931
Weighted average common shares outstanding for basic EPS	20,236	20,235	20,236	20,235
Net effect of dilutive options	14	-	11	-
Weighted average shares outstanding for diluted EPS	20,250	20,235	20,247	20,235
Basic earnings per share	\$0.03	\$0.10	\$0.09	\$0.24
Diluted earnings per share	\$0.03	\$0.10	\$0.09	\$0.24

Potentially dilutive securities, which were not included in the computation of diluted earnings per share because either the effect would have been anti-dilutive or the options' exercise prices were greater than the average market price of the common stock, were 713,000 and 882,000 for the 13 weeks ended August 27, 2017 and August 28, 2016, respectively, and 793,000 and 953,000 for the 26 weeks ended August 27, 2017 and August 28, 2016, respectively.

8. SHAREHOLDERS' EQUITY

During the 26 weeks ended August 27, 2017, the Company sold 2,775 shares of the Company's treasury stock pursuant to the exercises of employee stock options and received proceeds of \$39 from such exercises. The Company recognized stock-based compensation expense, net of tax benefits, of \$459.

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

On March 10, 2016, the Company announced that its Board of Directors authorized the Company's purchase, on the open market and in privately negotiated transactions, of up to 1,000,000 additional shares of its common stock, in addition to the unused prior authorization to purchase shares of the Company's common stock announced on January 8, 2015. As a result, the Company is authorized to purchase up to a total of 1,531,412 shares of its common stock, representing approximately 7.6% of the Company's 20,237,446 total outstanding shares as of the close of business on October 4, 2017.

The Company did not purchase any shares of its common stock during the 26 weeks ended August 27, 2017 or during the 26 weeks ended August 28, 2016.

9. INCOME TAXES

The Company's effective tax rates for the 13 weeks and 26 weeks ended August 27, 2017 were materially different as compared to the 13 weeks and 26 weeks ended August 28, 2016. The lower effective tax rates were primarily due to the mix of earnings and losses in different jurisdictions during the 13 weeks and 26 weeks ended August 27, 2017 and the reversal of a tax reserve of \$688 related to certain foreign tax deductions taken in prior years.

The Company continuously evaluates the liquidity and capital requirements of its operations in the United States and of its foreign operations. As a result of such evaluation during the 2014 fiscal year, the Company recorded a non-cash charge for the accrual of U.S. deferred income taxes in the amount of \$63,958 on undistributed earnings of the Company's subsidiary in Singapore. As a result of such evaluations, the Company repatriated \$7,250, \$6,800 and \$61,000 in cash from the Company's subsidiary in Singapore in the 2018, 2017 and 2016 fiscal years, respectively.

10. GEOGRAPHIC REGIONS

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

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

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

13 Weeks Ended		26 Weeks Ended	
August	August	August	August
27,	28,	27,	28,

	2017	2016	2017	2016
Sales:				
North America	\$17,997	\$15,990	\$33,413	\$32,827
Asia	9,702	11,119	19,735	23,266
Europe	2,137	1,949	4,105	4,455
Total sales	\$29,836	\$29,058	\$57,253	\$60,548

	August 27, 2017	February 26, 2017
Long-lived assets:		
North America	\$21,221	\$20,794
Asia	7,950	8,440
Europe	226	214
Total long-lived assets	\$29,397	\$29,448

11. CONTINGENCIES

Litigation

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

Environmental Contingencies

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

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

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

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

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

12. ACCOUNTING PRONOUNCEMENTS

Recently Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, to improve the accounting for employee share-based payments. The new standard is effective for fiscal years beginning after December 15, 2016 and the interim periods within those fiscal years. The Company has adopted the guidance effective February 27, 2017, the first day of the 2018 fiscal year, and the adoption of this guidance did not impact its consolidated results of operations, cash flows, financial position and disclosures.

Recently Issued

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, to reduce the diversity that exists in the classification and presentation of changes in restricted cash in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017 and the interim periods within those fiscal years. The Company is currently evaluating the impact this new guidance may have on its consolidated cash flows.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, intended to increase transparency and comparability among companies by requiring most leases to be included on the balance sheet and by expanding disclosure requirements, effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (*i.e.*, January 1, 2019, for a calendar year entity). Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact that this new guidance may have on its consolidated results of operations, cash flows, financial position and disclosures.

In May 2014, the FASB issued Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and expands the related disclosure requirements. The new standard was originally scheduled to be effective for fiscal years beginning after December 15, 2016, including interim reporting periods within those fiscal years. In August 2015, the FASB delayed the effective date of this guidance for one year. With the delay, the new standard is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with an option to adopt the standard on the originally scheduled effective date. The Company has concluded that this new guidance will not have a significant impact on its consolidated results of operations, cash flows, financial position and disclosures.

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

General:

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

Financial Overview

The Company's total net sales worldwide in the 13 weeks ended August 27, 2017 were 3% higher than in the 13 weeks ended August 28, 2016 principally as a result of higher sales of the Company's aerospace composite materials, structures and assemblies. Total net sales worldwide in the 26 weeks ended August 27, 2017 were 5% lower than in the 26 weeks ended August 28, 2016 principally as a result of lower sales of the Company's printed circuit materials products in Asia and North America. The Company's total net sales worldwide in the 13 weeks ended August 27, 2017 were higher than such sales in the 13 weeks ended May 28, 2017 primarily as a result of higher sales of the Company's aerospace composite materials, structures and assemblies products in the 13 weeks ended August 27, 2017.

The Company's gross profit margins, measured as percentages of sales, decreased to 24.1% and 23.6%, respectively, in the 13 weeks and 26 weeks ended August 27, 2017 from 24.9% and 26.5%, respectively, in the 13 weeks and 26 weeks ended August 28, 2016. The lower gross profit margin for the 13 weeks ended August 27, 2017 compared to the 13 weeks ended August 28, 2016 was due principally to operating inefficiencies and duplicate costs incurred in connection with the consolidation of the Company's Nelco Products, Inc. and Neltec, Inc. electronics Business Units located in California and Arizona, respectively. The lower gross profit margin for the 26 weeks ended August 27, 2017 compared to the 26 weeks ended August 28, 2016, was principally a result of lower sales and production levels of printed circuit materials products in Asia and North America and the inefficiencies and duplicate costs mentioned above, partially offset by higher sales of aerospace materials, structures and assemblies.

The Company's earnings from operations were negative in the 13 weeks ended August 27, 2017 compared to the 13 weeks ended August 28, 2016 primarily as a result of restructuring charges recorded in the 13 weeks ended August 27, 2017 in connection with the consolidation of the Company's Nelco Products, Inc. and Neltec, Inc. electronics Business Units located in California and Arizona, respectively, partially offset by a 13% reduction in selling, general and administrative expenses. Net earnings were 74% lower in the 13 weeks ended August 27, 2017 than in the 13 weeks

ended August 28, 2016 principally due to the charges for the consolidation of the electronics Business Units and to a higher effective tax rate compared to last year's comparable period, partially offset by the lower selling, general and administrative expenses.

The Company's earnings from operations and net earnings were 99% and 61% lower, respectively, in the 26 weeks ended August 27, 2017 than in last fiscal year's comparable period primarily as a result of the restructuring charges related to the consolidation of the Company's electronics Business Units mentioned above, a one-time litigation expense of \$375,000, the aforementioned decrease in sales and reduction in the gross profit margin and a higher effective tax rate compared to last year's comparable period, partially offset by a 12% reduction in selling, general and administrative expenses.

The global markets for the Company's products continue to be very difficult to forecast, and it is not clear to the Company what the demand for the Company's products will be in the remainder of the 2018 fiscal year or beyond.

Results of Operations:

The following table sets forth the components of the consolidated statements of operations:

(amounts in thousands, except per share amounts)	13 Weeks Ended			26 Weeks Ended		
	August 27, 2017	August 28, 2016	% Change	August 27, 2017	August 28, 2016	% Change
Net sales	\$29,836	\$29,058	3 %	\$57,253	\$60,548	(5) %
Cost of sales	22,659	21,824	4 %	43,754	44,527	(2) %
Gross profit	7,177	7,234	(1) %	13,499	16,021	(16) %
Selling, general and administrative expenses	4,443	5,110	(13) %	9,170	10,447	(12) %
Restructuring charges	2,902	23	12,517 %	4,263	93	4,484 %
(Loss) Earnings from operations	(168)	2,101	(108) %	66	5,481	(99) %
Interest expense	603	334	81 %	1,113	667	67 %
Interest and other income	751	369	104 %	1,500	747	101 %
(Loss) Earnings before income taxes	(20)	2,136	(101) %	453	5,561	(92) %
Income tax (benefit) provision	(540)	155	(448) %	(1,461)	630	(332) %
Net earnings	\$520	\$1,981	(74) %	\$1,914	\$4,931	(61) %
Earnings per share:						
Basic earnings per share	\$0.03	\$0.10	(70) %	\$0.09	\$0.24	(63) %
Diluted earnings per share	\$0.03	\$0.10	(70) %	\$0.09	\$0.24	(63) %

Net Sales

The Company's total net sales worldwide in the 13 weeks ended August 27, 2017 increased to \$29.8 million from \$29.1 million in the 13 weeks ended August 28, 2016 primarily as a result of higher sales of the Company's aerospace composite materials, structures and assemblies, partially offset by lower sales of the Company's printed circuit materials products in Asia and North America. The Company's total net sales worldwide in the 26 weeks ended August 27, 2017 decreased to \$57.3 million from \$60.5 million in the 26 weeks ended August 28, 2016 primarily as a result of lower sales of the Company's printed circuit materials products in Asia and North America, partially offset by higher sales of the Company's aerospace composite materials, structures and assemblies.

The Company's total net sales of its aerospace composite materials, structures and assemblies products were \$11.4 million and \$20.1 million in the 13 weeks and 26 weeks, respectively, ended August 27, 2017, or 38% and 35%, respectively, of the Company's total net sales worldwide in such periods, compared to \$8.8 million and \$16.5 million in the 13 weeks and 26 weeks, respectively, ended August 28, 2016, or 30% and 27%, respectively, of the Company's total net sales worldwide in such periods. The Company's total net sales of its printed circuit materials products were \$18.5 million and \$37.2 million in the 13 weeks and 26 weeks, respectively, ended August 27, 2017, or 62% and 65%, respectively, of the Company's total net sales worldwide in such periods, compared to \$20.2 million and \$44.0 million in the 13 weeks and 26 weeks, respectively, ended August 28, 2016, or 70% and 73%, respectively, of the Company's total net sales worldwide in such periods.

The Company's foreign sales were \$11.8 million and \$23.8 million, respectively, during the 13 weeks and 26 weeks ended August 27, 2017, or 40% and 42%, respectively, of the Company's total net sales worldwide during such periods, compared with \$13.1 million and \$27.7 million, respectively, of foreign sales, or 45% and 46%, respectively, of total net sales worldwide during last fiscal year's comparable periods. The Company's foreign sales during the 13-week and 26-week periods ended August 27, 2017 decreased 9% and 14%, respectively, from the 2016 fiscal year comparable periods. The decreases in the 13-week and 26-week periods were primarily due to the lower sales in Asia described above.

In the 13 weeks ended August 27, 2017, the Company's sales in North America, Asia and Europe were 60%, 33% and 7%, respectively, of the Company's total net sales worldwide compared to 55%, 38% and 7%, respectively, in the 13 weeks ended August 28, 2016. In the 26 weeks ended August 27, 2017, the Company's sales in North America, Asia and Europe were 59%, 34% and 7%, respectively, of the Company's total net sales worldwide compared to 54%, 39% and 7%, respectively, in the 26 weeks ended August 28, 2016. The Company's sales in North America increased 13%, its sales in Asia decreased 13% and its sales in Europe increased 10% in the 13-week period ended August 27, 2017 compared to the 13-week period ended August 28, 2016, and its sales in North America increased 2%, its sales in Asia decreased 15% and its sales in Europe decreased 8% in the 26-week period ended August 27, 2017 compared to the 26-week period ended August 28, 2016.

During each of the 13-week and 26-week periods ended August 27, 2017 and each of the 13-week and 26-week periods ended August 28, 2016, the Company's total net sales worldwide of high performance printed circuit materials were 93% of the Company's total net sales worldwide of printed circuit materials.

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

Gross Profit

The Company's gross profits in the 13 weeks and 26 weeks ended August 27, 2017 were lower than its gross profits in the prior year's comparable periods, and the gross profits as percentages of sales for the Company's worldwide operations in the 13 weeks and 26 weeks ended August 27, 2017 decreased to 24.1% and 23.6%, respectively, from 24.9% and 26.5%, respectively, in the 13 weeks and 26 weeks ended August 28, 2016. The lower gross profit margin for the 13 weeks ended August 27, 2017 compared to the 13 weeks ended August 28, 2016 was principally due to the operating inefficiencies and duplicate costs incurred in connection with the consolidation of the Company's Nelco Products, Inc. and Neltec, Inc. electronics Business Units located in California and Arizona, respectively. The lower

gross profit margin for the 26 weeks ended August 27, 2017 compared to the 26 weeks ended August 28, 2016 was principally a result of lower sales and production levels of printed circuit materials products in Asia and North America and the inefficiencies and duplicate costs mentioned above, partially offset by higher sales of aerospace materials, structures and assemblies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$667,000 during the 13 weeks ended August 27, 2017, or by 13%, and decreased by \$1,277,000 during the 26 weeks ended August 27, 2017, or by 12%, compared to last fiscal year's comparable periods, and these expenses, measured as percentages of sales, were 14.9% and 16.0%, respectively, in the 13 weeks and 26 weeks ended August 27, 2017 compared to 17.6% and 17.3%, respectively, in the 13 weeks and 26 weeks ended August 28, 2016. The decreases in such expenses during the 13 weeks and 26 weeks ended August 27, 2017 were primarily the result of lower payroll, bonus, profit sharing and stock option expenses. During the 26 weeks ended August 27, 2017, selling, general and administrative expenses included a one-time litigation expense of \$375,000.

Selling, general and administrative expenses included stock option expenses of \$235,000 and \$475,000, respectively, for the 13 weeks and 26 weeks ended August 27, 2017, compared to stock option expenses of \$352,000 and \$704,000, respectively, for the 13 weeks and 26 weeks ended August 28, 2016.

Restructuring Charges

In the 13 weeks and 26 weeks ended August 27, 2017, the Company recorded pre-tax restructuring charges of \$2,902,000 and \$4,263,000, respectively, compared to \$23,000 and \$93,000, respectively, in the 13 weeks and 26 weeks ended August 28, 2016, in connection with the consolidation of the Company's electronics Business Units in North America in the 2018 fiscal year and the closures, in prior years, of its facilities located in Zhuhai, China and Newburgh, New York.

Earnings from Operations

For the reasons set forth above, the Company had a loss from operations of \$168,000 in the 13 weeks ended August 27, 2017 and earnings from operations \$66,000 in the 26 weeks ended August 27, 2017, which included the aforementioned restructuring charges of \$2.9 million and \$4.3 million, respectively, and the \$375,000 litigation expense in the 26-week period, compared to \$2.1 million and \$5.5 million, respectively, for the 13 weeks and 26 weeks ended August 28, 2016, which included the aforementioned restructuring charges of \$23,000 and \$93,000, respectively.

Interest Expense

Interest expense in the 13 weeks and 26 weeks ended August 27, 2017 related to the Company's outstanding borrowings under the three-year revolving credit facility agreement that the Company entered into with HSBC Bank in the fourth quarter of the 2016 fiscal year. The agreement provides for an interest rate on the outstanding loan balance of LIBOR plus 1.15% to 2.65%. Other interest rate options are also available to the Company under the agreement. See "Liquidity and Capital Resources" elsewhere in this Item 2 and Note 5 of the Notes to Consolidated Financial Statements included elsewhere in this Report for additional information.

Interest and Other Income

Interest income was \$751,000 and \$1.5 million, respectively, for the 13 weeks and 26 weeks ended August 27, 2017 compared to \$369,000 and \$747,000, respectively, for last fiscal year's comparable periods. Interest income increased 104% and 101%, respectively, for the 13 weeks and 26 weeks ended August 27, 2017 primarily as a result of higher weighted average interest rates and larger average balances of marketable securities held by the Company in the 13 weeks and 26 weeks ended August 27, 2017, compared to last fiscal year's comparable periods. During the 26 weeks ended August 27, 2017, the Company earned interest income principally from its investments, which consisted primarily of short-term instruments and money market funds.

Income Tax Provision

The Company's effective income tax rates for the 13 weeks and 26 weeks ended August 27, 2017 were 2,700% and negative 323%, respectively, compared to 7.3% and 11.3%, respectively, for the 13 weeks and 26 weeks ended August 28, 2016. The lower effective tax rates were primarily due to the high restructuring charges in the 13 weeks and 26 weeks ended August 27, 2017 and the reversal of a tax reserve of \$688,000 in the 13 weeks ended May 28, 2017 related to certain foreign tax deductions taken in prior years.

Net Earnings

For the reasons set forth above, the Company's net earnings for the 13 weeks and 26 weeks ended August 27, 2017 were \$520,000 and \$1.9 million, respectively, including the pre-tax restructuring charges described above, compared to net earnings of \$2.0 million and \$4.9 million for the 13 weeks and 26 weeks, respectively, ended August 28, 2016, including the pre-tax restructuring charges described above.

Basic and Diluted Earnings Per Share

In the 13 weeks and 26 weeks ended August 27, 2017, basic and diluted earnings per share were \$0.03 and \$0.09, respectively, including, in both such periods, the restructuring charges and litigation expense described above. This compared to basic and diluted earnings per share of \$0.10 and \$0.24 in the 13 weeks and 26 weeks ended August 28, 2016, respectively, including, in both such periods, the restructuring charges described above. The net impact of the restructuring charges discussed above reduced basic and diluted earnings per share by \$0.09 and \$0.15 in the 13 weeks and 26 weeks ended August 27, 2017.

Liquidity and Capital Resources:

(amounts in thousands)	August 27, 2017	February 26, 2017	Change
Cash and cash equivalents and marketable securities	\$233,064	\$238,590	\$(5,526)
Restricted cash	10,000	10,000	-
Working capital	251,100	255,007	(3,907)

(amounts in thousands)	26 Weeks Ended		
	August 27, 2017	August 28, 2016	Change
Net cash provided by operating activities	\$1,502	\$8,817	\$(7,315)
Net cash (used in) provided by investing activities	(68,176)	2,282	(70,458)
Net cash used in financing activities	(5,758)	(5,547)	(211)

Cash and Marketable Securities

Of the \$243.1 million of cash and cash equivalents, marketable securities and restricted cash at August 27, 2017, \$235.1 million was owned by certain of the Company's wholly owned foreign subsidiaries. The Company believes it has sufficient liquidity to fund its operating activities through the next 12 months and for the foreseeable future thereafter.

The change in cash and cash equivalents, marketable securities and restricted cash at August 27, 2017 compared to February 26, 2017 was the result of cash used in operating activities and a number of additional factors. The significant changes in cash flows from operating activities were as follows:

accounts receivable increased by 23% at August 27, 2017 compared to February 26, 2017 primarily due to higher sales in the quarter ended August 27, 2017 than in the fourth quarter of the 2017 fiscal year;

inventories increased by 7% at August 27, 2017 compared to February 26, 2017 primarily due to an increase in raw materials, partially offset by a decrease in finished goods;

accounts payable increased by 30% at August 27, 2017 compared to February 26, 2017 primarily due to the timing of vendor payments and raw material purchases from suppliers;

accrued liabilities increased by 107% at August 27, 2017 compared to February 26, 2017 primarily due to the accrual of restructuring costs related to the consolidation of the Company's Nelco Products, Inc. Business Unit in California and its Neltec, Inc. Business Unit in Arizona; and

Income taxes payable decreased by 37% at August 27, 2017 compared to February 26, 2017 primarily due to income tax payments made during the 26 weeks ended August 27, 2017.

In addition, the Company paid \$4.0 million in cash dividends in each of the 26-week periods ended August 27, 2017 and August 28, 2016. During the 26 weeks ended August 27, 2017, the Company also made \$1.75 million of principal payments on its long-term debt.

Working Capital

The decrease in working capital at August 27, 2017 compared to February 26, 2017 was due principally to the increase in accrued liabilities and accounts payable and the decrease in cash and cash equivalents and marketable securities partially offset by increases in accounts receivable, inventories and prepaid expenses and other current assets, and a decrease in income taxes payable.

The Company's current ratio (the ratio of current assets to current liabilities) was 15.2 to 1 at August 27, 2017 compared to 19.1 to 1 at February 26, 2017.

Cash Flows

During the 26 weeks ended August 27, 2017, the Company's net earnings, before depreciation and amortization, stock-based compensation, amortization of bond premium and changes in operating assets and liabilities, were \$3.1 million. During the same 26 week period, the Company expended \$500,000 for the purchase of property, plant and equipment, compared with \$94,000 during the 26 weeks ended August 28, 2016. The Company paid \$4.0 million in cash dividends in each of the 26-week periods ended August 27, 2017 and August 28, 2016.

Debt

At August 27, 2017 and February 26, 2017, the Company had \$70.3 million and \$72.0 million of bank debt, respectively. In the fourth quarter of the 2016 fiscal year, the Company entered into a three-year revolving credit facility agreement (the "Credit Agreement") with HSBC Bank. The Credit Agreement provides for loans up to \$75.0 million to the Company and letters of credit up to \$2.0 million for the account of the Company, and subject to the terms and conditions of the Credit Agreement, an interest rate on the outstanding loan balance of LIBOR plus 1.15% to LIBOR plus 2.65%. The Credit Agreement contains certain customary affirmative and negative covenants and customary financial covenants. In the event that the Company breaches a covenant that is deemed to be a default under the Credit Agreement requiring prepayment of the outstanding borrowings, the Company has sufficient liquidity to prepay the outstanding amount, as well as any related income taxes for potentially repatriated funds, at any time, and such prepayment would not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position. For additional information, see Note 5 of the Notes to Consolidated Financial Statements included elsewhere in this Report.

Other Liquidity Factors

The Company believes its financial resources will be sufficient, through the next 12 months and for the foreseeable future thereafter, to provide for continued investment in working capital and property, plant and equipment and for general corporate purposes. The Company's financial resources are also available for purchases of the Company's common stock, appropriate acquisitions and other expansions of the Company's business.

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

Contractual Obligations:

The Company's contractual obligations and other commercial commitments to make future payments under contracts, such as lease agreements, consist only of (i) operating lease commitments and commitments to purchase raw materials and (ii) the bank debt described above. The Company has no other long-term debt, capital lease obligations, unconditional purchase obligations or other long-term obligations, standby letters of credit, guarantees, standby repurchase obligations or other commercial commitments or contingent commitments, other than two standby letters of credit in the total amount of \$1.0 million to secure the Company's obligations under its workers' compensation insurance program.

Off-Balance Sheet Arrangements:

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

Critical Accounting Policies and Estimates:

The foregoing Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these Consolidated Financial Statements requires the Company to make estimates, assumptions and judgments that affect the reported amounts of assets,

liabilities, revenues and expenses and the related disclosure of contingent liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to sales allowances, allowances for doubtful accounts, inventories, valuation of long-lived assets, income taxes, contingencies and litigation, and employee benefit programs. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's critical accounting policies that are important to the Consolidated Financial Statements and that entail, to a significant extent, the use of estimates and assumptions and the application of management's judgment are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in the Company's Annual Report on Form 10-K for the fiscal year ended February 26, 2017. There have been no significant changes to such accounting policies during the 2018 fiscal year second quarter.

In May 2014, the FASB issued Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and expands the related disclosure requirements. The new standard was originally scheduled to be effective for fiscal years beginning after December 15, 2016, including interim reporting periods within those fiscal years. In August 2015, the FASB delayed the effective date of this guidance for one year. With the delay, the new standard is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with an option to adopt the standard on the originally scheduled effective date. The Company has concluded that this new guidance will not have a significant impact on its consolidated results of operations, cash flows, financial position and disclosures.

Contingencies:

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

Factors That May Affect Future Results.

Certain portions of this Report which do not relate to historical financial information may be deemed to constitute forward-looking statements that are subject to various factors which could cause actual results to differ materially from the Company's expectations or from results which might be projected, forecast, estimated or budgeted by the Company in forward-looking statements. Such factors include, but are not limited to, general conditions in the electronics and aerospace industries, the Company's competitive position, the status of the Company's relationships with its customers, economic conditions in international markets, the cost and availability of raw materials, transportation and utilities, and the various factors set forth in Item 1A "Risk Factors" and under the caption "Factors That May Affect Future Results" after Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 26, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's market risk exposure at August 27, 2017 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 26, 2017.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of August 27, 2017, the end of the quarterly fiscal period covered by this quarterly report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION**Item 1. Legal Proceedings.**

None.

Item 1A. Risk Factors.

There have been no material changes in the risk factors as previously disclosed in the Company's Form 10-K Annual Report for the fiscal year ended February 26, 2017.

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 2018 fiscal year second quarter ended August 27, 2017.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of	Maximum Number
			Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	(or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
May 29 - June 27	0	\$ -	0	
June 28 - July 27	0	\$ -	0	

July 28 - August 27	0	\$	-	0	
Total	0	\$	-	0	1,531,412 (a)

(a) Aggregate number of shares available to be purchased by the Company pursuant to share purchase authorizations announced on January 8, 2015 and March 10, 2016. Pursuant to such authorizations, the Company is authorized to purchase its shares from time to time on the open market or in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

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Item 6. Exhibits.

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

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

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

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

101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended August 27, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at August 27, 2017 (unaudited) and February 26, 2017; (ii) Consolidated Statements of Operations for the 13 weeks and 26 weeks ended August 27, 2017 and August 28, 2016 (unaudited); (iii) Consolidated Statements of Comprehensive Earnings for the 13 weeks and 26 weeks ended August 27, 2017 and August 28, 2016 (unaudited); and (iv) Condensed Consolidated Statements of Cash Flows for the 26 weeks ended August 27, 2017 and August 28, 2016 (unaudited).
* +

* Filed electronically herewith.

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

SIGNATURES

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

Park Electrochemical Corp.

(Registrant)

/s/ Brian E. Shore

Date: October 6, 2017 Brian E. Shore

Chief Executive Officer

(principal executive officer)

/s/ P. Matthew Farabaugh

Date: October 6, 2017 -----

P. Matthew Farabaugh

Senior Vice President and Chief Financial Officer (principal financial officer)

(principal accounting officer)

EXHIBIT INDEX

**Exhibit
No.** **Name**

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