STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
April 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2011 Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	31-0596149
(State of incorporation)	*(IRS Employer Identification No.)*

11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE	03079
(Address of principal executive offices)	*(Zip Code)*

(603) 893-9701

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __

Accelerated filer _X

Non-accelerated filer __

Smaller Reporting Company __

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES [ ] NO [X]

The number of shares of Registrant's Common Stock outstanding on April 25, 2011 was 12,490,968.

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PART I. FINANCIAL INFORMATION

ITEM 1.

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share & per share data)	March 31, 2011	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,079	$ 33,630
Accounts receivable, net	93,513	92,520
Inventories, net	86,839	69,554
Income tax receivables	-	3,634
Prepaid expenses and other current assets	7,653	5,346
Deferred tax asset	11,629	12,351
Total current assets	223,713	217,035
Property, plant and equipment, net	97,089	93,227
Goodwill	119,108	102,804
Intangible assets, net	21,158	17,791
Other non-current assets	17,353	15,422
Total non-current assets	254,708	229,244
Total assets	$ 478,421	$ 446,279
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,600	$ -
Accounts payable	57,482	58,514
Accrued expenses	38,781	40,683
Income taxes payable	637	-
Current liabilities - discontinued operations	1,305	2,319
Total current liabilities	99,805	101,516
Long-term debt	90,800	93,300
Accrued pension and other non-current liabilities	64,309	59,400
Total non-current liabilities	155,109	152,700
Stockholders' equity:		
Common stock, par value $1.50 per share - 60,000,000 shares		
authorized, 27,984,278 issued, 12,449,459 and 12,447,891		

outstanding at March 31, 2011 and June 30, 2010	41,976	41,976
Additional paid-in capital	31,695	31,460
Retained earnings	468,223	445,313
Accumulated other comprehensive loss	(56,073)	(66,456)

Treasury shares (15,534,819 shares at March 31, 2011 and 15,536,387 shares at June 30, 2010)	(262,314)	(260,230)
Total stockholders' equity	223,507	192,063
Total liabilities and stockholders' equity	$ 478,421	$ 446,279

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands, except per share data)	**2011**	**2010**	**2011**	**2010**
Net sales	$146,592	$135,411	$459,174	$426,373
Cost of sales	102,696	94,122	313,890	291,200
Gross profit	43,896	41,289	145,284	135,173
Selling, general and administrative expenses	36,705	33,884	109,336	102,819
Gain on sale of real estate	-	-	(3,368)	(1,405)
Restructuring costs	185	660	1,623	3,687
Total operating expenses	36,890	34,544	107,591	105,101
Income from operations	7,006	6,745	37,693	30,072
Interest expense	(466)	(752)	(1,647)	(2,486)
Other non-operating income (expense)	(150)	224	(95)	413
Income from continuing operations before income taxes	6,390	6,217	35,951	27,999
Provision for income taxes	1,224	1,576	10,147	8,579
Income from continuing operations	5,166	4,641	25,804	19,420
Income (loss) from discontinued operations, net of income taxes	(76)	(40)	(707)	917
Net income	$ 5,090	$ 4,601	$ 25,097	$ 20,337

Basic earnings (loss) per share:								
Continuing operations	$	0.41	$	0.37	$	2.07	$	1.56
Discontinued operations		-		-		(0.06)		0.07
Total	$	0.41	$	0.37	$	2.01	$	1.63
Diluted earnings (loss) per share:								
Continuing operations	$	0.41	$	0.37	$	2.03	$	1.54
Discontinued operations		(0.01)		(0.01)		(0.06)		0.07
Total	$	0.40	$	0.36	$	1.97	$	1.61
Cash dividends per share	$	0.06	$	0.05	$	0.17	$	0.15

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended March 31,	
(In thousands)	**2011**	**2010**
Cash flows from operating activities		
Net income	$ 25,097	$ 20,337
Income (loss) from discontinued operations	(707)	917
Income from continuing operations	25,804	19,420
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	10,221	10,999
Stock-based compensation	2,306	2,751
Gain from sale of real estate	(3,368)	(1,405)
Non-cash portion of restructuring charges	476	1,768
Net changes in operating assets and liabilities	(9,706)	(3,861)
Net cash provided by operating activities -		
continuing operations	25,733	29,672
Net cash (used in) operating activities -		
discontinued operations	(1,847)	(493)
Net cash provided by operating activities	23,886	29,179
Cash flows from investing activities		
Expenditures for property, plant and equipment	(4,934)	(2,980)
Expenditures for acquisitions, net of cash acquired	(26,603)	-
Proceeds from sale of real estate and equipment	5,745	8,694
Expenditures for life insurance policies	(514)	-
Proceeds from life insurance policies	-	93
Other investing activity	(1,127)	-
Net cash (used in) provided by investing activities -		
continuing operations	(27,433)	5,807
Net cash provided by investing activities -		

discontinued operations	-	-
Net cash (used in) provided by investing activities	(27,433)	5,807
Cash flows from financing activities		
Borrowings on revolving credit facility	64,000	48,000
Payments of revolving credit facility	(66,500)	(77,500)
Short-term borrowings, net	1,600	-
Activity under share-based payment plans	259	288
Excess tax benefit from share-based payment activity	247	-
Purchases of treasury stock	(5,114)	(565)
Cash dividends paid	(2,127)	(1,808)
Net cash (used in) financing activities - continuing operations	(7,635)	(31,585)
Net cash (used in) financing activities - discontinued operations	-	-
Net cash (used in) financing activities	(7,635)	(31,585)
Effect of exchange rate changes on cash and cash equivalents	1,631	18

Net change in cash and cash equivalents		(9,551)		3,419
Cash and cash equivalents at beginning of year		33,630		8,984
Cash and cash equivalents at end of period	$	24,079	$	12,403

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1)

Management Statement

The accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations for the three and nine months ended March 31, 2011 and 2010, the cash flows for the nine months ended March 31, 2011 and 2010 and the financial position of the Company at March 31, 2011. The interim results are not necessarily indicative of results for a full year. The unaudited condensed consolidated financial statements and notes do not contain information which would substantially duplicate the disclosures contained in the audited annual consolidated financial statements and notes for the year ended June 30, 2010. The condensed consolidated balance sheet at June 30, 2010 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements contained herein should be read in conjunction with the Annual Report on Form 10-K and in particular the audited consolidated financial statements for the year ended June 30, 2010. Unless otherwise noted, references to years are to fiscal years.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. We evaluated subsequent events through the date and time our condensed consolidated financial statements were issued.

2)

Acquisition

In March 2011, the Company acquired Metal Spinners Group, Ltd. (Metal Spinners), a U.K.-based metal fabrication supplier. The Company paid $23.9 million in cash for 100% of the equity of Metal Spinners. Metal Spinners, which uses technology similar to Spincraft, will be reported under the Engineering Technologies Group. The acquisition will provide the Company with access to new end-user and geographic markets in the medical, general industrial and oil and gas markets in the U.S., U.K., Europe, and China.

The components of the fair value of the Metal Spinners acquisition and the allocation of the purchase price are as follows (in thousands):

Fair value of business combination:		
	Cash payments	$ 23,887
	Less: cash acquired	(1,652)
	Total	$ 22,235
Identifiable assets acquired and liabilities assumed		
	Current assets	$ 5,469
	Property, plant, and equipment	6,534
	Identifiable intangible assets	3,254

Goodwill	13,039
Deferred taxes	(2,235)
Liabilities assumed	(3,826)
Total	$ 22,235

The above purchase price allocation is preliminary and is expected to be finalized in the quarter ended June 30, 2011. The final allocation will be dependent on receipt of valuation of long-lived assets.

The Company made three additional acquisitions during the year two in the Engraving Group and one in the Food Service Equipment Group. Total consideration transferred in the aggregate for these acquisitions was $4.7 million.

3)

Fair Value of Financial Instruments

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

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

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

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

Level 3 Unobservable inputs based upon the Company s best estimate of what market participants would use in pricing the asset or liability. The Company does not hold any Level 3 instruments as of the balance sheet dates.

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

The fair values of our financial instruments at March 31, 2011 and June 30, 2010 were (in thousands):

	March 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**

Financial Assets

Marketable securities - KEYSOP assets	$ 5,943	$ 5,943	$ -	$ -
Marketable securities - deferred compensation plan	1,282	1,282	-	-

	Total	Level 1	Level 2	Level 3
Foreign exchange contracts	174	-	174	-
Financial Liabilities				
Interest rate swaps	$ (493)	-	$ (493)	-
Foreign exchange contracts	(16)	-	(16)	-

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Financial Assets				
Marketable securities - KEYSOP assets	$ 5,018	$ 5,018	$ -	$ -
Marketable securities - deferred compensation plan	670	670	-	-
Foreign exchange contracts	106	-	106	-
Financial Liabilities				
Foreign exchange contracts	$ 31	-	$ 31	-
Interest rate swaps	920	-	920	-

During the three and nine months ended March 31, 2011, there were no transfers of assets or liabilities between hierarchical levels. The Company s policy is to recognize transfers between levels as of the date they occur.

4)

Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2011	June 30, 2010
Raw materials	$ 39,768	$ 34,329
Work in process	25,383	20,640
Finished goods	21,688	14,585

Total	$ 86,839	$ 69,554

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations and were $5.1 million and $16.6 million for the three and nine months ended March 31, 2011, and $4.6 million and $15.4 million for the three and nine months ended March 31, 2010, respectively.

5)

Goodwill

Changes to goodwill during the nine months ended March 31, 2011 were as follows (in thousands):

	Food Service Equipment Group	Air Distribution Products Group	Engraving Group	Engineering Technologies Group	Electronics and Hydraulics Group	Total
Balance at June 30, 2010	$ 45,590	$ 14,933	$ 19,839	$ 186	$ 22,256	$102,804
Acquisitions	702	-	816	13,039	-	14,557
Translation adjustment and other	7	-	280	(100)	1,560	1,747
Balance at March 31, 2011	$ 46,299	$ 14,933	$ 20,935	$ 13,125	$ 23,816	$ 119,108

6)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
March 31, 2011				
Cost	$ 25,437	$ 9,406	$ 4,636	$ 39,479
Accumulated amortization	(13,959)	-	(4,362)	(18,321)
Balance, March 31, 2011	$ 11,478	$ 9,406	$ 274	$ 21,158
June 30, 2010				
Cost	$ 21,055	$ 8,808	$ 4,165	$ 34,028
Accumulated amortization	(12,162)	-	(4,075)	(16,237)
Balance, June 30, 2010	$ 8,893	$ 8,808	$ 90	$ 17,791

Amortization expense for the three and nine months ended March 31, 2011 was $0.5 million and $1.6 million, respectively. Amortization expense for the three and nine months ended March 31, 2010 was $0.6 million and $2.0 million, respectively. At March 31, 2011, amortization expense is estimated to be $0.6 million in the remainder of 2011, $2.0 million in 2012, $1.6 million in 2013, $1.3 million in 2014, and $1.1 million in 2015.

7)

Debt

The Company s debt is due as follows at March 31, 2011 (in thousands):

Fiscal Year	
2011	$ 1,600
2012	-
2013	87,500
2014	-
2015	-

Thereafter		3,300
	$	92,400

The Company has in place a $150 million unsecured revolving credit facility which expires in September 2012. As of March 31, the Company has the ability to borrow $62.5 million under this facility. The Company also utilizes two uncommitted money market credit facilities to help manage daily working capital needs. Amounts outstanding under these facilities were $1.6 million and $0 at March 31, 2011 and June 30, 2010, respectively.

The carrying value of the current borrowings under the $150 million facility exceeds their estimated fair value by $1.1 million at March 31, 2011.

8)

Derivative Financial Instruments

Interest Rate Swaps

From time to time as dictated by market opportunities, the Company enters into interest rate swap agreements designed to manage exposure to interest rates on the Company s variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated its interest rate swap agreements, including those that are forward-dated, as cash flow hedges, and changes in the fair value of the swaps are recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swaps will be reported by the Company in interest expense.

The Company s effective swap agreements convert the base borrowing rate on $30.0 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 2.42 % at March 31, 2011. The Company also has an additional $20.0 million of forward-dated swap agreements that do not become effective until 2012. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands):

				Fair Value (in thousands)	
Effective Date	**Notional Amount**	**Fixed Rate**	**Maturity**	**March 31, 2011**	**June 30, 2010**
July 14, 2008	30,000,000	3.35%	July 19, 2010	$ -	$ (77)
July 10, 2008	30,000,000	3.38%	July 28, 2010	-	(76)
June 1, 2010	5,000,000	2.495%	May 26, 2015	(110)	(148)
June 1, 2010	5,000,000	2.495%	May 26, 2015	(110)	(148)
June 8, 2010	10,000,000	2.395%	May 26, 2015	(177)	(243)
June 9, 2010	5,000,000	2.34%	May 26, 2015	(77)	(108)
June 18, 2010	5,000,000	2.38%	May 26, 2015	(86)	(120)
September 21, 2011	5,000,000	1.28%	September 21, 2013	7	-
September 21, 2011	5,000,000	1.595%	September 22, 2014	43	-
March 15, 2012	10,000,000	2.75%	March 15, 2016	17	-
				$ (493)	$ (920)

The Company reported no losses for the three and nine months ended March 31, 2011 and 2010, as a result of hedge ineffectiveness. Future changes in these swap arrangements, including termination of the agreements, may result in a reclassification of any gain or loss reported in accumulated other comprehensive income into earnings as an adjustment to interest expense. Accumulated other comprehensive loss related to these instruments is being amortized into interest expense concurrent with the hedged exposure.

Foreign Exchange Contracts

Forward foreign currency exchange contracts are used to limit the impact of currency fluctuations on certain anticipated foreign cash flows, such as foreign purchases of materials and loan payments to and from subsidiaries. The Company enters into such contracts for hedging purposes only. For hedges of intercompany loan payments, the Company has not elected hedge accounting due to the general short-term nature and predictability of the transactions, and records derivative gains and losses directly to the statement of operations. At March 31, 2011 the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized gains of $0.2 million, which approximate the unrealized losses on the related loans. At June 30, 2010, the amount of outstanding forward foreign exchange contracts was not material.

9)

Retirement Benefits

Net Periodic Benefit Cost for the Company s U.S. and Foreign pension benefit plans for the three and nine months ended March 31, 2011 and 2010 consisted of the following components (in thousands):

Pension Benefits

	U.S. Plans			
	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Service cost	$ 111	$ 78	$ 333	$ 235
Interest cost	3,037	3,222	9,113	9,666
Expected return on plan assets	(3,944)	(3,900)	(11,833)	(11,701)
Recognized net actuarial loss	1,086	444	3,257	1,333
Amortization of prior service cost	35	44	106	131
Net periodic benefit (income) cost	$ 325	$ (112)	$ 976	$ (336)

	Pension Benefits Non-U.S. Plans			
	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Service cost	$ 10	$ 31	$ 30	$ 97
Interest cost	424	429	1,246	1,328
Expected return on plan assets	(377)	(372)	(1,109)	(1,151)
Recognized net actuarial loss	152	62	448	193
Amortization of prior service cost	(15)	(15)	(44)	(47)
Net periodic benefit cost	$ 194	$ 135	$ 571	$ 420

The Company expects to pay $0.5 million in required contributions to the plans during 2011. The Company made contributions of $0.0 and $0.1 million during the three and nine months ended both March 31, 2011, and March 31, 2010, respectively.

10)

Income Taxes

The Company's effective tax rate for the three months ended March 31, 2011 was 19.2% compared with 25.3% for the same period last year. The effective tax rates for the third quarters of 2011 and 2010 both reflect the impact of the reversal of income tax contingency reserves. These reserves were determined to be no longer needed due to the expiration of applicable statutes of limitations. The Company's effective tax rate for the nine months ended March 31, 2011 was 28.2% compared with 30.6% for same period last year. The lower effective tax rate is primarily due to a benefit related to the retroactive extension of the R&D credit recorded during the second quarter of 2011 and the impact of the reversal of income tax contingency reserves during the third quarter.

11)

Earnings Per Share

The following table sets forth a reconciliation of the number of shares (in thousands) used in the computation of basic and diluted earnings per share:

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2011	**2010**	**2011**	**2010**
Basic - Average shares outstanding	12,450	12,459	12,484	12,436

Effect of dilutive securities - Stock options				
and unvested stock awards	267	213	258	188
Diluted - Average shares outstanding	12,717	12,672	12,742	12,624

Earnings available to common stockholders are the same for computing both basic and diluted earnings per share. No options to purchase common stock were excluded from the calculation of diluted earnings per share as anti-dilutive for the three and nine months ended March 31, 2011 and 2010, respectively.

59,205 and 78,900 performance stock units are excluded from the diluted earnings per share calculation as the performance criteria have not been met for the three and nine months ended March 31, 2011 and 2010, respectively.

12)

Comprehensive Income (Loss)

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

	March 31, 2011	June 30, 2010
Foreign currency translation adjustment	$ 14,705	$ 6,542
Unrealized pension losses, net of tax	(70,453)	(72,375)
Unrealized loss on derivative instruments, net of tax	(325)	(623)
Accumulated other comprehensive loss	$ (56,073)	$ (66,456)

Total comprehensive income (loss) and its components in detail, including reclassification adjustments, for the three and nine months ended March 31, 2011 and 2010 were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net income:	$5,090	$ 4,601	$25,097	$20,337
Other comprehensive income (loss):				
Defined benefit pension plans:				
Actuarial gains (losses) and other changes in unrecognized costs	(296)	472	(743)	620
Amortization of unrecognized costs	1,312	570	3,903	1,673

Derivative instruments:				
Change in unrealized gains and losses	91	(80)	(157)	(346)
Amortization of unrealized gains and losses into interest expense	167	469	614	1,469
Other comprehensive income (loss) before tax:	1,274	1,431	3,617	3,416
Income tax provision (benefit):				
Defined benefit pension plans:				

Actuarial gains (losses) and other changes in unrecognized costs	84	(131)	210	(173)
Amortization of unrecognized costs	(483)	(213)	(1,448)	(653)
Derivative instruments:				
Change in unrealized gains and losses	(30)	27	53	116
Amortization of unrealized gains and losses into interest expense	(58)	(162)	(212)	(507)
Income tax provision benefit to other comprehensive income (loss)	(487)	(479)	(1,397)	(1,217)
Foreign currency translation adjustment	2,674	(1,251)	8,163	1,430
Other comprehensive income (loss), net of tax:	3,461	(299)	10,383	3,629
Comprehensive income	$8,551	$ 4,302	$35,480	$23,966

13)

Contingencies

The Company is a party to a number of actions filed or has been given notice of potential claims and legal proceedings related to environmental, commercial disputes, employment matters and other matters generally incidental to our business. Liabilities are recorded when the amount can be reasonably estimated and the loss is deemed probable. Management has evaluated each matter based, in part, upon the advice of our independent environmental consultants and in-house personnel. Management believes the ultimate resolution will not be material to our financial position, results of operations or cash flows.

During 2008, the Company entered into an Administrative Order of Consent (AOC) with the U.S. Environmental Protection Agency (EPA) related to the removal of various PCB-contaminated materials and soils at a site where the Company leased a building and conducted operations from 1967-1979. Remediation efforts were substantially completed during the 3rd quarter of 2009, and the Company received a closing letter from the EPA in the second quarter of 2010. The Company actively sought the recovery of costs incurred in carrying out the terms of the AOC through negotiations with its legacy insurers. During the three months ended September 30, 2009, the Company determined that a settlement was probable and recorded $2.3 million ($1.4 million net of tax), which is net of costs incurred to negotiate the settlement. As expected, the settlement came to fruition and proceeds were received in the second quarter of 2010, with a final recovery of $2.5 million ($1.6 million net of tax). As the site is the former location of the Club Products and Monarch Aluminum divisions, the recovery has been included in results from discontinued operations for the period.

14)

Industry Segment Information

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

Food Service Equipment Group   an aggregation of seven operating segments that manufacture and sell commercial food service equipment.

Air Distribution Products Group   manufactures and sells metal duct and fittings for residential HVAC systems.

Engraving Group   provides mold texturizing, roll engraving and process machinery for a number of industries.

Engineering Technologies Group   provides customized solutions in the fabrication and machining of engineered components for the aerospace, energy, aviation, medical, oil and gas, and general industrial markets.

Electronics and Hydraulics Group a combination of two operating segments that manufacture and sell electrical components and that manufacture and sell single- and double-acting telescopic and piston rod hydraulic cylinders.

Net sales and income from continuing operations by segment for the three and nine months ended March 31, 2011 and 2010 were as follows (in thousands):

	Three Months Ended March 31,			
	Net Sales		Income from Operations	
	2011	2010	2011	2010
Segment:				
Food Service Equipment Group	$83,295	$ 75,602	$ 6,795	$ 5,674
Air Distribution Products Group	12,270	11,333	(1,127)	(1,626)
Engraving Group	21,992	18,635	3,555	1,830
Engineering Technologies Group	10,996	15,797	1,563	4,775
Electronics and Hydraulics Group	18,039	14,044	2,520	1,490
Restructuring costs			(185)	(660)
Gain on sale of real estate			-	-
Corporate			(6,115)	(4,738)
Sub-total	$146,592	$ 135,411	$ 7,006	$ 6,745
Interest expense			(466)	(752)
Other non-operating income (expense)			(150)	224
Income from continuing operations before income taxes			$ 6,390	$ 6,217

	Nine Months Ended March 31,			
	Net Sales		Income from Operations	
	2011	2010	2011	2010
Segment:				
Food Service Equipment Group	$268,588	$249,312	$ 27,922	$ 28,796
Air Distribution Products Group	39,498	38,729	(1,860)	(1,885)
Engraving Group	63,435	57,701	10,875	6,613
Engineering Technologies Group	37,025	42,815	7,780	10,046
Electronics and Hydraulics Group	50,628	37,816	7,200	3,051
Restructuring costs			(1,623)	(3,687)

Gain on sale of real estate			3,368	1,405
Corporate			(15,969)	(14,267)
Sub-total	$459,174	$426,373	$ 37,693	$ 30,072
Interest expense			(1,647)	(2,486)
Other non-operating income (expense)			(95)	413
Income from continuing operations before income taxes			$ 35,951	$ 27,999

Net sales include only transactions with unaffiliated customers and include no intersegment sales. Income (loss) from operations by segment excludes interest expense and other non-operating income (expense).

15)

Restructuring

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

	Three Months Ended March 31, 2011			Nine Months Ended March 31, 2011		
	Involuntary Employee Severance and Benefit Costs	Other	Total	Involuntary Employee Severance and Benefit Costs	Other	Total
Workforce Reduction	$ 157	$ -	$ 157	$ 292	$ -	$ 292
Consolidation of Global Manufacturing Footprint	$ (2)	$ 30	$ 28	$ 14	$ 1,317	$ 1,331
	$ 155	$ 30	$ 185	$ 306	$ 1,317	$ 1,623
	2010			**2010**		
Workforce Reduction	$ 262	$ -	$ 262	$ 859	$ -	$ 859
Consolidation of Global Manufacturing Footprint	$ 401	$ (3)	$ 398	$ 801	$ 2,027	$ 2,828
	$ 663	$ (3)	$ 660	$ 1,660	$ 2,027	$ 3,687

Workforce Reduction

In response to the recession taking place in the current macroeconomic environment and its impact on the Company, management reduced the number of salaried and indirect labor employees via workforce reductions. During 2010, with related expense carrying over into 2011, the Company made reductions which primarily affected our international headcount.

Activity in the reserves for the Workforce Reduction is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs
Restructuring Liabilities at June 30, 2010	$ 178
Additions	292
Payments	(350)
Restructuring Liabilities at March 31, 2011	$ 120

Consolidation of Global Manufacturing Footprint

As part of the Company s ongoing effort to generate operational efficiencies and in response to downturn in certain markets served by the Company s operating segments, the Company has closed or is in the process of closing several of its manufacturing facilities and consolidating production. These costs are composed primarily of severance, other termination benefits, and expenses associated with the relocation of the plants production capacities to other facilities. The liabilities associated with this initiative are expected to be paid through 2011.

Activity in the reserves related to optimization of the Company s manufacturing locations is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring Liabilities at June 30, 2010	$ 147	$ 183	$ 330
Additions and adjustments	14	1,317	1,331
Payments	(163)	(1,338)	(1,501)
Restructuring Liabilities at March 31, 2011	$ (2)	$ 162	$ 160

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

	Three Months Ended March 31, 2011			Nine Months Ended March 31, 2011		
	Involuntary Employee Severance and Benefit Costs	Other	Total	Involuntary Employee Severance and Benefit Costs	Other	Total
Food Service Equipment Group	$ 71	$ 12	$ 83	$ 71	$ 1,179	$ 1,250
Air Distribution Products Group	-	18	18	16	138	154
Engraving Group	23	-	23	131	-	131
Corporate	61	-	61	88	-	88
Total expense	$ 155	$ 30	$ 185	$ 306	$ 1,317	$ 1,623
	2010			2010		
Food Service Equipment Group	$ 185	$ 303	$ 488	$ 504	$ 1,706	$ 2,210
Air Distribution Products Group	$ 102	$ 104	206	$ 106	$ 651	757
Engraving Group	329	(414)	(85)	914	(334)	580
Electronics and	9	4	13	49	4	53

Hydrualics Group						
Corporate	38	-	38	87	-	87
Total expense	$ 663	$ (3)	$ 660	$ 1,660	$ 2,027	$ 3,687

16)

Gain on Sale of Real Estate

During the first half of 2011, the Company completed the sale of a parcel of real estate in Lyon, France, on which it had previously operated an Engraving Group facility. Proceeds from the sale were $4.9 million and the sale resulted in a pre-tax gain of $3.4 million, net of related costs.

17)

Discontinued Operations

As discussed in Note 13 - Contingencies, the Company recorded a gain of $2.5 million ($1.6 million net of tax) during the first half of 2010 related to the recovery of costs previously incurred in carrying out environmental remediation efforts at the former location of the Club Products and Monarch Aluminum divisions.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Annual Report on Form 10-Q that are not based on historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as should, could, "may," will, expect," "believe "estimate," "anticipate," intends, "continue," or similar terms or variations of those terms or the negative of those terms. There are many factors that affect the Company s business and the results of its operations and may cause the actual results of operations in future periods to differ materially from those currently expected or desired. These factors include, but are not limited to conditions in the financial and banking markets, including fluctuations in the exchange rates and the inability to repatriate foreign cash, general and international recessionary economic conditions, including the impact, length and degree of the current recessionary conditions on the customers and markets we serve and more specifically conditions in the food service equipment, automotive, construction, aerospace, energy, housing transportation and general industrial markets, lower-cost competition, the relative mix of products which impact margins and operating efficiencies, both domestic and foreign, in certain of our businesses, the impact of higher raw material and component costs, particularly steel, petroleum based products and refrigeration components, an inability to realize the expected cost savings from restructuring activities, effective completion of plant consolidations, successful integration of acquisitions, cost reduction efforts, including procurement savings and productivity enhancements, capital management improvements, strategic capital expenditures, and the implementation of lean enterprise manufacturing techniques, the inability to achieve the savings expected from the sourcing of raw materials from and diversification efforts in emerging markets and the inability to achieve synergies contemplated by the Company. Other factors that could impact the Company include changes to future pension funding requirements and the failure by the purchaser of our former Berean bookstore chain to satisfy its obligations under those leases where the Company remains an obligor. In addition, any forward-looking statements represent management's estimates only as of the day made and should not be relied upon as representing management's estimates as of any subsequent date. While the Company may elect to update forward-looking statements at some point in the future, the Company and management specifically disclaim any obligation to do so, even if management's estimates change.

Overview

We are a leading manufacturer of a variety of products and services for diverse commercial and industrial market segments. We have five reporting segments: Food Service Equipment Group, Air Distribution Products Group (ADP), Engraving Group, Engineering Technologies Group, and Electronics and Hydraulics Group. Our continuing objective is to identify those of our businesses which hold the greatest potential for profitable growth, and direct our resources to supporting profitable organic growth and acquisition opportunities in those businesses.

Our customer base in the food service equipment, automotive, U.S. residential housing and general industrial sectors have all experienced difficult recessionary market conditions that have negatively impacted our sales volume. During the second half of 2010, we began to see an uneven recovery indicating that our end-user markets have begun to stabilize, as evidenced by year over year quarterly sales increases that we have experienced in each of the past five quarters. We are cautiously optimistic that sales levels will continue to gradually improve, although ongoing

weakness in the housing sector may continue to hinder near-term improvement in our ADP operations.

During fiscal 2009 and 2010, our focus had been on reducing our cost structure through company-wide headcount reductions, plant consolidations, procurement savings, and improved productivity in all aspects of our operations. These cost reduction efforts have allowed the Company to significantly improve margins and increase its bottom line despite sales being lower than their pre-recession peak by nearly 10%. Substantially all of our restructuring initiatives were completed during fiscal 2010, and we are now seeing the full impact of approximately $40 million of cost reductions in our annual run rate. In addition to the focus on cost reductions, we have improved the Company s liquidity through working capital management, constraining capital expenditures to the most strategically important projects, and sale of excess land and buildings. These efforts have provided us with the liquidity to pursue both top-line growth initiatives and $26.6 million of acquisitions during the year, and their success is further evidenced by our net debt to capital ratio of 23.4% at March 31, 2011.

As part of our ongoing acquisition strategy, we have completed four acquisitions thus far during 2011:

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In March 2011, we acquired Metal Spinners Group, Ltd. (Metal Spinners), a U.K.-based metal fabrication supplier to the medical, general industrial, and oil and gas markets in the U.S., U.K., Europe, and China. Metal Spinners fabrication technology is similar to that of Spincraft, which it will join as part of the Engineering Technologies Group. Metal Spinners will provide the Company with access to new end-user and geographic markets, as well as high-efficiency metal fabrication capabilities and a customer base that includes global leaders in the medical device and oil and gas market sectors.

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In January 2011, we purchased S.A. Chemical Etching in Durban, South Africa to be part of our Mold-Tech operations. This acquisition has the distinction of giving our Engraving Group a presence on six continents, further demonstrating our global capabilities to customers.

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During the second quarter, we acquired the Tri-Star brand of high quality restaurant- and value-series range platforms and other important cooking products, which provide the Cooking Solutions unit of our Food Service Equipment Group with a more complete product offering.

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During the first quarter, we completed the acquisition of the assets of Melco Engraving India which provided our Engraving Group with a presence, and our other divisions with a base from which they can also benefit, in the strategic, rapidly growing, Indian market.

We currently have a solid pipeline of potential acquisition targets we are reviewing, and we will continue to leverage our strong balance sheet to make accretive, bolt-on acquisitions that should reinforce our positions in our markets and with our customers and strengthen our strategic business groups.

We also continue to focus our attention on driving market share gains in what we expect will be a highly competitive, low-growth environment in our end-user markets. Each of our business units has developed a series of top-line initiatives that we believe will provide opportunities for market share gains which should supplement future economic growth in our markets. These growth initiatives include new product introductions, expansion of product offerings through private labeling and sourcing agreements, geographic expansion of sales coverage, and the use of new channels of sales, leveraging strategic customer relationships, development of energy efficient products, new

applications for existing products and technology, and next generation products and services for our end-user markets. At the same time, over the past several years we have created a strong lean enterprise culture, developed low cost sourcing capabilities, and established low cost manufacturing operations in Mexico and China within our business units, whereby we seek continuous improvement in our manufacturing processes, working capital management, and overall cost structure.

Because of the diversity of the Company s businesses, end user markets and geographic locations, management does not use specific external indices to predict the future performance of the Company, other than general information about broad macroeconomic trends. Each of our individual business units serves niche markets and attempts to identify trends other than general business and economic conditions which are specific to their businesses and which could impact their performance. Those units report any such information to senior management, which uses it to the extent relevant to assess the future performance of the Company. A description of any such material trends is described below in the applicable segment analysis.

We monitor a number of key performance indicators (KPIs) including net sales, income from operations, backlog, effective income tax rate, and gross profit margin. A discussion of these KPIs is included within the discussion below. We may also supplement the discussion of these KPIs by speaking to the impact of foreign exchange rates, acquisitions, and other significant items when they have a material impact on the discussed KPI. We believe that the discussion of these items provides enhanced information to investors by disclosing their impact on the overall trend in order to provide a clearer comparative view of the KPI where applicable. For discussion of the impact of foreign exchange rates on KPIs, the Company calculates the impact as the difference between the current period KPI calculated at the current period exchange rate as compared to the KPI calculated at the historical exchange rate for the prior period. For discussion of the impact of acquisitions, we isolate the impact to the KPI amount that would have existed regardless of our acquisition. Sales resulting from synergies between the acquisition and existing operations of the Company are considered organic growth for the purposes of our discussion.

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

Results from Continuing Operations

	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollar amounts in thousands)	2011	2010	2011	2010
Net sales	$ 146,592	$135,411	$ 459,174	$426,373
Gross profit margin	29.9%	30.5%	31.6%	31.7%
Income from operations	7,006	6,745	37,693	30,072
Backlog as of March 31	102,455	92,568	102,455	92,568

Net Sales

(In thousands)	Three Months Ended March 31, 2011	Nine Months Ended March 31, 2011
Net sales, prior period	$ 135,411	$ 426,373
Components of change in sales:		
Effect of exchange rates	808	(1,088)
Effect of acquisitions	2,876	4,151
Organic sales change	7,497	29,738
Net sales, current period	$ 146,592	$ 459,174

Net sales for the third quarter of 2011 increased $11.2 million, or 8.3%, when compared to the same period of 2010. This change was due to organic sales increases of $7.5 million, or 5.6% augmented by approximately $0.8 million of favorable foreign exchange. Also impacting sales was $2.9 million of revenue from newly

acquired operations, primarily consisting of sales from Metal Spinners and Tri-Star. Sales increased by double-digit percentages across all segments except ADP and Engineering Technologies, where sales decreased due to softness in energy markets and the timing of aerospace deliveries.

Net sales for the nine months ended March 31, 2011 increased $32.8 million, or 7.7%, when compared to the same period of 2010. This change was due to organic sales increases of $29.7 million, or 7.0% offset by approximately $1.1 million of unfavorable foreign exchange. Newly acquired operations contributed $4.2 million of sales during the period. The Electronics and Hydraulics Group showed a strong double-digit increase in sales, and the Engraving, Food Service Equipment, and ADP Groups also show year-over-year improvement. The Engineering Technologies Group saw a decrease under similar factors as the quarter.

Gross Profit Margin

Our gross profit margin decreased to 29.9% for the third quarter of 2011 versus 30.5% in the same quarter of last year. Quarterly gross profit margins were primarily impacted by the Engineering Technologies Group, which had a difficult prior year comparison due to large aerospace deliveries in 2010 that did not repeat in 2011.

Gross profit margin for the nine months was approximately flat from prior year at 31.6% in 2011 compared to 31.7% in 2010.

Selling, General, and Administrative Expenses

Selling, General, and Administrative Expenses for the third quarter of 2011 were $36.7 million, or 25.0% of sales, compared to $33.9 million, also 25.0% of sales, reported for the same period a year ago. Expenses in the third quarter of 2011 were impacted by $0.7 million of transaction-specific expenses related to our acquisition of Metal Spinners during the period, as well as increased pension costs of $0.4 million. For the nine months ended March 31, 2011, Selling, General, and Administrative Expenses were $109.3 million, or 23.8% of sales, compared to $102.8 million, or 24.1% of sales, in 2010. This change also includes the impact of 401(k) matching contributions on the first six months of the 2011 period, as our previously-suspended contributions were not reinstated until January 1, 2010. We believe that stability of our SG&A costs in spite of these items is a positive reflection of our new cost structure, and we expect to further leverage this structure in the face of improved volume.

Income from Operations

Income from operations for the third quarter of 2011 was $7.0 million, compared to $6.7 million reported for the same period a year ago. The increase to operating income was driven primarily by increased sales which benefitted from our recent cost reduction efforts. Income from operations for the nine months ended March 31, 2011 was $37.7 million, compared to $30.1 million reported for the nine months ended March 31, 2010. The first nine months of 2011 includes a $3.4 million gain on the sale of property from a former Engraving Group operation in Lyon, France, while the prior year period includes a gain of $1.4 million from the sale of our corporate headquarters in Salem, New Hampshire.

Interest Expense

Interest expense for the third quarter of 2011 decreased $0.3 million, or 38.0%, to $0.5 million compared to the third quarter of 2010. For the nine months ended March 31, 2011, interest expense decreased $0.8 million, or 33.8% in comparison to the prior year period. This decrease is due to both lower overall borrowings on the Company s revolving credit facility and a lower effective interest rate due to the expiration of interest rate swaps in effect in 2010.

Other Non-Operating Income (Expense)

Other non-operating expense was $0.2 million for the three months ended March 31, 2011, compared to income of $0.2 million for the three months ended March 31, 2010. Other non-operating expense was $0.1 million for the nine months ended March 31, 2011, compared to income of $0.4 million for the nine months ended March 31, 2010. Both the three and nine month amounts in 2010 were impacted by a $0.3 million life insurance benefit from the death of a former executive.

Income Taxes

Our effective tax rate for the three months ended March 31, 2011 was 19.2% compared with 25.3% for the same period last year. The effective tax rates for the third quarters of 2011 and 2010 both reflect the impact of the reversal of income tax contingency reserves. These reserves were determined to be no longer needed due to the expiration of applicable statutes of limitations. The Company's effective tax rate for the nine months ended March 31, 2011 was 28.2% compared with 30.6% for same period last year. The lower effective tax rate is primarily due to a benefit related to the retroactive extension of the R&D credit recorded during the second quarter of 2011 and the impact of the reversal of income tax contingency reserves during the third quarter.

Backlog

Backlog at March 31, 2011 increased $9.9 million, or 10.7%, compared to March 31, 2010. The majority of the increase is attributable to increased bookings in the Food Service Equipment Group and in the Electronics and Hydraulics Group, which is benefitting from the recovery of our Hydraulics unit and the continued strength of the Electronics unit.

Segment Analysis

Food Service Equipment Group

	Three Months Ended March 31,		**%**	**Nine Months Ended March 31,**		**%**
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Sales	$83,295	$75,602	10.2%	$268,588	$249,312	7.7%
Income from operations	6,795	5,674	19.8%	27,922	28,796	-3.0%
Operating income margin	8.2%	7.5%		10.4%	11.6%	

Net sales in the third quarter of fiscal 2011 increased $7.7 million, or 10.2%, from the same period one year earlier. The effects of foreign exchange rates accounted for a $0.3 million increase in sales and the acquisition of Tri-Star in the quarter contributed $1.3 million, or 1.8% of the increase in sales. Our Cooking Solutions and Custom Solutions Groups both grew approximately 15% year over year. Our Procon pump business produced double digit growth reflecting continuing strength in the global beverage market and improving industrial demand for our pumps. On the hot side, we continue to gain sales through our exclusive contract for hot dog rollers with 7-Eleven and we have also been awarded the griddle contract for the upcoming rollout of a large national chain s new line of premium burgers. Our Refrigerated Solutions Group grew in the low single digits due to continued strength in sales to quick-service restaurants being offset by project delays at a large national drugstore chain. We expect to see these drugstore sales compressed into the next two quarters. We also continue to pursue new sales in the dollar store segment, where we offer a strong value proposition in a market where refrigerated and frozen food is gaining greater shelf space.

While the price increases we have been able to implement in the market have not kept up with the increase in steel costs over the past several quarters, we believe that metal costs appear to have stabilized in the near term and that the market has begun to accept more favorable pricing.

Net sales in the nine months ended March 31, 2010 increased $19.3 million, or 7.7%, from the same period one year earlier. This includes the negative effect of foreign exchange rates of $0.8 million, and the Tri-Star acquisition accounted for $2.2 million, or 0.9% of these additional sales.

Income from operations for the third quarter of fiscal 2011 was up $1.1 million, or 19.8%, from the same period last year. Return on sales increased from 7.5% to 8.2% for the quarter. The effects of foreign exchange rates accounted for a $0.1 million decrease. EBIT during the quarter also included $0.6 million of expenses for the biannual NAFEM trade show, where we presented all of our Food Service brands under a single banner. This show also represented the formal debut of our range line and other new products, which have already exceeded our expectations to date.

Income from operations for the first nine months of fiscal 2011 decreased $0.9 million, or 3.0%, when compared to the same period one year earlier. The Group s return on sales decreased from 11.6% to 10.4% for the quarter. The impact of the $19.3 million volume increase and cost reductions was offset by a combination of negative mix changes from the prior year, inflationary increases in material costs, and the previously mentioned expenses associated with the NAFEM trade show. We expect that our future margin performance will benefit in the near term by price increases in the 3-5% range and similar to those of which have already been announced by our competitors.

Air Distribution Products Group

	Three Months Ended March 31,		**%**	**Nine Months Ended March 31,**		**%**
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Sales	$12,270	$11,333	8.3%	$39,498	$38,729	2.0%
Loss from operations	(1,127)	(1,626)	30.7%	(1,860)	(1,885)	1.3%
Operating income margin	-9.2%	-14.3%		-4.7%	-4.9%	

Sales for the ADP Group in the third fiscal quarter of 2011 increased a total of $0.9 million from 2010 levels, an 8.3% increase, despite a housing market that continues to languish. The change in sales was mostly the result of the addition of new customer branches that contributed $0.8 million in new business. The continued rollout of new, adjacent product lines contributed an additional $0.2 million as compared to the same period a year ago.

Since December 2008, housing starts in the U.S., after a precipitous decline over the prior 3 years, have remained within a narrow band of historically low annualized starts. As such, sales continue to remain depressed with slight variances from quarter to quarter with ADP s total unit volume 8.2% higher in the third quarter of 2011 as compared to the same period in the prior year. ADP continues to pursue market share gains through its traditional channels by increasing market penetration at existing and new wholesaler accounts, emphasizing our ability to service nationwide wholesalers and large do-it-yourself retailers through our network of factory locations, and by working in conjunction with our wholesalers to target contractor business. ADP s sales initiatives resulted in the addition of 108 new branches of existing customers (each branch being independent in their choice of supplier) compared to the same period a year ago. T he introduction of several new product lines also contributed to the year over year growth in volume.

Net sales for the nine months ending March 31, 2011 improved by $0.8 million, or 2.0%, as pricing remained essentially flat and sales unit volume increased by 2.3%. Nationwide housing starts for the nine-month period ending four months prior to March 31, 2011, the lead time of which is indicative of ADP sales, improved 5.2% from the same nine-month period one year earlier.

The ADP segment recorded a loss of $1.1 million, a $0.5 million improvement from the third quarter of 2010. Increased volume contributed $0.2 million. The balance of the improvement was due to lower administrative expenses and improved factory productivity partially offset by higher priced metal.

Operating income for the nine months ended March 31, 2011 was a loss $1.9 million, essentially flat with the prior year. Metal costs versus the prior year increased by $1.7 million, but these costs were mostly offset by lower SG&A spending and improved factory productivity.

Engraving Group

	Three Months Ended			**Nine Months Ended**		
	March 31,		**%**	**March 31,**		**%**
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Sales	$21,992	$18,635	18.0%	$63,435	$57,701	9.9%
Income from operations	3,555	1,830	94.3%	10,875	6,613	64.4%
Operating income margin	16.2%	9.8%		17.1%	11.5%	

Net sales in the third quarter increased by $3.4 million, or 18.0%, when compared to the same quarter in the prior year. Favorable foreign exchange accounted for $0.4 million of this increase, which was driven by increased sales in the European and China mold texturizing markets, while our new acquisitions in India and South Africa accounted for $0.2 million of this increase. While the third quarter is seasonally our slowest due to the timing of automotive model rollouts, sales remained strong and we anticipate the fourth quarter benefitting from a solid schedule of automotive product launches. While the Roll, Plate, and Machinery markets are still flat, we anticipate that new U.S. government regulations which go into effect January 1, 2012, for cigarette packaging will positively impact our roll engraving and machinery business.

Net sales for the nine months ended March 31, 2011 increased by $5.7 million, or 9.9%, when compared to the first nine months of the prior year. The period was impacted by unfavorable foreign exchange of $0.4 million which offset sales from new acquisitions in India and South Africa of $0.6 million. The overall increase is attributable to strong mold texturing sales worldwide in the automotive markets in North America, Europe & China. Our new acquisitions in India and South Africa continue to perform above expectations.

Income from operations for the quarter ended March 31, 2011 increased $1.7 million, or 94.3% when compared to the same quarter last year. The mold texturizing business has a high percentage of fixed costs, and as such, we are able to leverage our sales increases at a high rate.

Income from operations in the first nine months of 2011 increased by $4.3 million, or 64.4%, when compared to the first nine months of the prior fiscal year on factors similar to the quarter.

Engineering Technologies Group

	Three Months Ended March 31,		%	Nine Months Ended March 31,		%
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Sales	$10,996	$15,797	-30.4%	$37,025	$42,815	-13.5%

Income from operations	1,563	4,775	-67.3%	7,780	10,046	-22.6%
Operating income margin	14.2%	30.2%		21.0%	23.5%	

Net sales for the three months ended March 31, 2011 decreased by $4.8 million, or 30.4%, when compared with the same period in 2010. Sales declined in large part as a result of large aerospace contracts in 2010 that were not repeated in 2011, as well as the timing of current year contracts partially offset by $1.3 million of sales from our recently completed acquisition of Metal Spinners. We expect some strengthening in aerospace and marine shipments over the next two quarters. In addition, sales to the energy sector remain lower due to soft market conditions.

Net sales in the first nine months of this fiscal year decreased $5.8 million or 13.5%, when compared to the same period one year earlier. The decline is a result of lower sales in the aerospace and energy markets, partially offset by improvements in the aviation sector.

Income from operations in the third quarter of 2011 decreased by $3.2 million, or 67.3%, when compared to the same quarter in 2010. The decrease was a result of reduced sales volume and the effect of purchase accounting related to the acquisition of the Metal Spinners Group. We believe that this dilutive effect will be isolated to the third quarter, and both the fourth quarter and 2012 should show a positive contribution.

For the nine month period ending March 31, 2011, income from operations decreased $2.3 million, or 22.6%, when compared to the prior year period. This decrease was driven by the aforementioned sales volume reduction.

Electronics and Hydraulics Group

	Three Months Ended March 31,		**%**	**Nine Months Ended March 31,**		**%**
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Sales	$18,039	$14,044	28.4%	$50,628	$37,816	33.9%
Income from operations	2,520	1,490	69.1%	7,200	3,051	136.0%
Operating income margin	14.0%	10.6%		14.2%	8.1%	

Sales for the Group increased $4.0 million or 28.4% in the third quarter of 2011 when compared to 2010. The increase at the Electronics unit is due to improved market conditions in our end user markets and market share gains resulting from our top line organic growth initiatives. We are in a unique position relative to our competition, as we are able to provide engineering expertise on a global basis combined with the low cost manufacturing due to our facilities located in Mexico and China. Our North American based competition typically cannot offer the same low cost manufacturing position and competitors located in China cannot provide the same level of new product and application engineering capability. The reed switch business posted a record sales volume during the quarter. The Hydraulics unit saw a 39.8% increase in sales as business in the domestic dump truck and dump trailer markets has started to improve due to increases in coal mining, requirements for aggregate, and municipalities having to replace aging equipment. Alternative markets such as oil & gas and refuse vehicles have also assisted in the turnaround. In addition, our diversification efforts in the Chinese domestic market, as well as sales into Southeast Asia, Australia, Central America and South America, are contributing to the increase.

Sales for the nine months ended March 31, 2011, increased $12.8 million or 33.9% when compared to the same period in 2010. The increase at the Electronics unit is due to broad based improved market conditions in the automotive, medical, aerospace and industrial markets as well as market share gains from new products,

penetration into new geographic areas and expanded use of existing technologies into new applications and for new customers. Growth in the Hydraulics unit is primarily the result of the aforementioned gains.

Income from operations during the second quarter increased $1.0 million, or 69.1% compared to the same period last year. At the Electronics unit, improved pricing and productivity improvements were more than sufficient to offset increased raw materials costs as we continue to leverage volume at our low-cost facilities in Mexico and China. Meanwhile, the increase in sales at Hydraulics has leveraged very well due to the impact of cost reduction initiatives taken in 2009, including a facility closure and a 50% headcount reduction.

For the nine months ended March 31, 2011, income from operations increased $4.1 million, or 136%, compared to the prior year quarter, largely on the aforementioned leveraging of our cost structure.

Corporate and Other

	Three Months Ended March 31,		%	Nine Months Ended March 31,		%
(in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Income (loss) from operations:						
Corporate	$(6,115)	$(4,738)	29.1%	$(15,969)	$(14,267)	11.9%
Gain on sale of real estate	-	-		3,368	1,405	139.7%
Restructuring	$ (185)	$ (660)	-72.0%	$ (1,623)	$ (3,687)	-56.0%

Corporate expenses of approximately $6.1 million in the third quarter of 2011 increased $1.4 million, or 29.1%, compared to 2010. This increase consisted primarily of $0.7 million in acquisition-related costs and $0.4 million of increased pension costs. For the nine months ended March 31, 2011, corporate expenses increased $1.7 million, or 11.9% to $14.3 million as compared to the prior year, driven primarily by $1.0 million in transaction-specific acquisition-related costs and increased pension costs of $0.7 million.

During the first half of 2011, we sold the facility related to a former Engraving Group operation in Lyon, France. The Company recorded a gain of $3.4 million upon closure of the sale. During the second quarter of 2010, we sold our Corporate headquarters building in Salem, New Hampshire, and moved to a smaller, leased space more suited to our current operational needs. We recorded a gain of $1.4 million related to this sale.

During the third quarter of 2011, the Company incurred restructuring charges of $0.2 million compared to $0.7 million in the third quarter of 2010. The prior year amount consists primarily of $0.5 million related to the closure of our Dallas, Texas, Food Service Equipment Group facility. Restructuring charges of $3.7 million in the first nine months of 2010 related primarily to the closure of the Food Service Equipment Group facility in New Rochelle, New York, and the consolidation of the aforementioned Dallas facility. The consolidation of the Dallas facility continued into 2011, and constitutes the majority of the expense for the first nine months of this year. Production at both of these facilities has been integrated into our existing facilities in Nogales, Mexico and Cheyenne, Wyoming.

Liquidity and Capital Resources

Cash flows provided by operations for the nine months ended March 31, 2011, were $23.9 million compared to $29.2 million for the same period last year. The reduction in net cash flow from operating activities is primarily

due to increased cash outflows of $5.8 million from changes in operating assets and liabilities. The principal driver of these outflows is an increase in inventory of $13.1 million, net of acquisitions and exchange rate changes. Inventory has increased directly proportional to increased sales volume. Cash flow from investing activities consisted primarily of the sale of excess real estate, increased capital expenditures, and $26.6 million for the acquisitions of four businesses in the Engineering Technologies, Engraving, and Food Service Equipment Groups. We paid dividends of $2.1 million and purchased $5.1 million of common stock into treasury during the period.

As part of our ongoing effort to improve our liquidity, we continue to emphasize disciplined working capital management. Although our balances have increased, our inventory turns have held steady at 4.9 as compared to 5.0 at March 31, 2010. Working capital turns were 4.9 at March 31, 2011, compared to 5.3 in the prior year, however, this number includes the impact of $2.5 million of working capital acquired as part of the Metal Spinners and Mold-Tech South Africa transactions.

We have in place a five year, $150 million unsecured revolving credit facility (the facility) with seven participating banks which originated in September 2007. Funds available under the facility may be used for general corporate purposes or to provide financing for acquisitions. Borrowings under the agreement bear interest at a rate equal to LIBOR plus an applicable percentage, currently 0.525%, based on our consolidated leverage ratio as defined by the agreement. As of March 31, 2011, the effective rate of interest for outstanding borrowings under the facility was 1.77%. We are required to pay an annual fee of 0.10% on the face amount of the facility.

The Company has undertaken several initiatives since the economic recession of 2008 to generate cash and reduce net debt, including reductions in capital expenditures, improved working capital management, short-term repatriation of foreign cash and a reduction in our dividend. As of March 31, 2011, we had borrowings of $87.5 million under the facility. We believe that the remaining $62.5 million available under the facility and the improved operating cash flow resulting from our various initiatives provides us with sufficient liquidity to meet our foreseeable needs.

We also utilize two uncommitted money market credit facilities to help manage daily working capital needs. These unsecured facilities, which are renewed annually, provide for a maximum aggregate credit line of $15 million. Amounts outstanding under these facilities were $1.6 million and $0 at March 31, 2011 and June 30, 2010, respectively.

Our funded debt agreements contain certain customary affirmative and negative covenants, as well as specific financial covenants. The Company s current financial covenants under the facility are as follows:

Interest Coverage Ratio - The Company is required to maintain a ratio of Earnings Before Interest and Taxes, as Adjusted (Adjusted EBIT per the credit agreement), to interest expense for the trailing twelve months of at least 3:1. Adjusted EBIT per the credit agreement specifically excludes extraordinary and certain other defined items such as non-cash restructuring charges and goodwill impairment. At March 31, 2011, the Company s Interest Coverage Ratio was 16.54:1.

Leverage Ratio - The Company s ratio of funded debt to trailing twelve month Adjusted EBITDA per the credit agreement, calculated as Adjusted EBIT per the credit agreement plus Depreciation and Amortization, may not exceed 3.5:1. At March 31, 2011, the Company s Leverage Ratio was 1.54:1.

Consolidated Net Worth The Company is required to maintain a Consolidated Net Worth of at least $163.7 million plus 50% of cumulative net income since the inception of the agreement. Consolidated Net Worth is defined as the Company s net worth as adjusted for unfunded pension liabilities (not to exceed $40 million) and

certain foreign exchange gains and losses. At March 31, 2011, the Company s Consolidated Net Worth was $248.8 million, $23.0 million greater than the required amount of $225.8 million.

Our primary cash requirements in addition to day-to-day operating needs include interest payments, capital expenditures, acquisition expenditures, and dividends. Our primary sources of cash for these requirements are cash flows from continuing operations and borrowings under the facility. We expect to spend between $2 million and $3 million on capital expenditures during the remainder of 2011, and expect that depreciation and amortization expense for the year will be approximately $11.5 million and $2.0 million, respectively.

In June 2010, we entered into $30.0 million of five-year floating to fixed rate swaps. Under the currently effective swaps, we have converted the base borrowing rate on $30.0 million of debt due under the facility from LIBOR to a weighted average rate of 2.42% at March 31, 2011. In anticipation of future borrowings to fund organic growth and acquisitions, we have also entered into three forward-dated swaps totaling $20 million that will become effective in September 2011 and March 2012 in order to take advantage of the current interest rate market. When these forward-dated swaps are effective, our weighted average base borrowing rate on the swapped portion of our debt will be 2.29%.

The following table sets forth our capitalization at March 31, 2011 and June 30, 2010 (in thousands):

	March 31, 2011	June 30, 2010
Short-term debt	1,600	-
Long-term debt	90,800	93,300
Less cash and cash equivalents	24,079	33,630
Net debt	68,321	59,670
Stockholders' equity	223,507	192,063
Total capitalization	$ 291,828	$ 251,733

We sponsor a number of defined benefit and defined contribution retirement plans. We have evaluated the current and long-term cash requirements of these plans. Our operating cash flows from continuing operations are expected to be sufficient to cover required contributions under ERISA and other governing regulations.

The Company s pension plan for U.S. salaried employees was frozen as of January 2008. The fair value of the Company's U.S. pension plan assets was $191.3 million at March 31, 2011, as compared to $174.3 million at the most recent measurement date, which occurred as of June 30, 2010. The next measurement date to determine plan assets and benefit obligations will be on June 30, 2011. Benefit obligations at the next measurement date may exceed plan assets and the plan may or may not require additional future contributions.

We have an insurance program in place to fund supplemental retirement income benefits for certain retired executives. Current executives and new hires are not eligible for this program. At March 31, 2011, the underlying policies have a cash surrender value of $18.0 million, less policy loans of $10.8 million. These amounts are reported net on our balance sheet. The aggregate present value of future obligations was approximately $0.7 million and $1.0 million at March 31, 2011 and June 30, 2010, respectively.

In connection with the sale of the Berean Christian Bookstores completed in August 2006, we assigned all but one associated retail location lease to the buyers, but remained an obligor on the assigned leases. During June 2009, the

Berean business filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The Berean assets were subsequently resold under section 363 of the Code. The new owners of the Berean business have negotiated lower lease rates and extended lease terms at certain of the leased locations. We still remain an

obligor on these leases, but at the renegotiated rates and to the original term of the leases. During the second quarter of 2011, we were able to negotiate the termination of one of the leases not assumed by the original buyer with no additional expense. The aggregate amount of our obligations in the event of default is $2.7 million at March 31, 2011.

Other Matters

Inflation - Certain of our expenses, such as wages and benefits, occupancy costs and equipment repair and replacement, are subject to normal inflationary pressures. Inflation for medical costs can impact both our reserves for self-insured medical plans as well as our reserves for workers' compensation claims. We monitor the inflationary rate and make adjustments to reserves whenever it is deemed necessary. Our ability to manage medical costs inflation is dependent upon our ability to manage claims and purchase insurance coverage to limit our maximum exposure.

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

Environmental Matters - During 2008, the Company entered into an Administrative Order of Consent with the U.S. Environmental Protection Agency related to the removal of various PCB-contaminated materials and soils at a site where the Company leased a building and conducted operations from 1967-1979. See the notes to our consolidated financial statements for further information regarding this event.

We are party to various other claims and legal proceedings, generally incidental to our business. We do not expect the ultimate disposition of these other matters will have a material adverse effect on our financial statements.

Seasonality - We are a diversified business with generally low levels of seasonality, however our third quarter is typically the period with the lowest level of activity.

Critical Accounting Policies

Acquisitions

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

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

Other Critical Accounting Policies

The condensed consolidated financial statements include the accounts of Standex International Corporation and all of its subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying condensed consolidated financial statements. Although we believe that materially different amounts would not be reported due to the accounting policies adopted, the application of certain accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Our Annual Report on Form 10-K for the year ended June 30, 2010 lists a number of accounting policies which we believe to be the most critical.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

Exchange Rate Risk

We are exposed to both transactional risk and translation risk associated with exchange rates. The transactional risk is mitigated, in large part, by natural hedges developed with locally denominated debt service on intercompany accounts. We also mitigate certain of our foreign currency exchange rate risk by entering into forward foreign currency contracts from time to time. The contracts are used as a hedge against anticipated foreign cash flows, such as dividend and loan payments, and are not used for trading or speculative purposes. The fair value of the forward foreign currency exchange contracts is sensitive to changes in foreign currency exchange rates, as an adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts. However, any such losses or gains would generally be offset by corresponding gains and losses, respectively, on the related hedged asset or liability. At March 31, 2011, the collective fair value of the Company s open foreign exchange contracts was not material.

Our primary translation risk is with the Euro, British Pound Sterling (Pound), Canadian Dollar, Mexican Peso, Australian Dollar and Chinese Yuan. A hypothetical 10% appreciation or depreciation of the value of any of these foreign currencies to the U.S. Dollar at March 31, 2011, would not result in a material change in our operations, financial position, or cash flows. We do not hedge our translation risk. As a result, fluctuations in currency exchange rates can affect our stockholders equity.

Interest Rate Risk

Our interest rate exposure is limited primarily to interest rate changes on our variable rate borrowings. From time to time, we use interest rate swap agreements to modify our exposure to interest rate movements. The Company s currently effective swap agreements convert our base borrowing rate on $30.0 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average rate of 2.42% at March 31, 2011. Due to the impact of the swaps, an increase in interest rates would not have materially impacted our interest expense for the three and nine months ended March 31, 2011.

The Company s effective rate on variable-rate borrowings, including the impact of interest rate swaps, under the revolving credit agreement decreased from 3.94% at June 30, 2010 to 1.77% at March 31, 2011.

Concentration of Credit Risk

We have a diversified customer base. As such, the risk associated with concentration of credit risk is inherently minimized. As of March 31, 2011, no one customer accounted for more than 5% of our consolidated outstanding receivables or of our sales.

Commodity Prices

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

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

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this Report, the management of the Company, the Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2011 in ensuring that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and (ii) that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Further, there was no change in the internal controls over financial reporting during the quarterly period ended March 31, 2011 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

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

(c)

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

Issuer Purchases of Equity Securities[1]

Quarter Ended March 31, 2011

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs
January 1 - January 31, 2011	1,319	$ 30.86	1,319	468,810
February 1 - February 28, 2011	4,813	33.83	4,813	463,997
March 1 - March 31, 2011	2,747	35.10	2,747	461,250
Total	8,879	$ 33.78	8,879	461,250

1 The Company has a Stock Buyback Program (the Program) which was originally announced on January 30, 1985. Under the Program, the Company may repurchase its shares from time to time, either in the open market or through private transactions, whenever it appears prudent to do so. On December 15, 2003, the Company authorized an additional 1 million shares for repurchase pursuant to its Program. The Program has no expiration date, and the Company from time to time may authorize additional increases of 1 million share increments for buyback authority so as to maintain the Program.

ITEM 6. EXHIBITS

(a)

Exhibits

31.1

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

31.2

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

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

ALL OTHER ITEMS ARE INAPPLICABLE

SIGNATURES

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

$	1,294			$	1,320	
Affiliate	1,144				1,119	
Feature film	680				570	
Ancillary	229				168	
Eliminations	(23		)		(23	)
Total revenues	$	3,324			$	3,154

NOTE 14. RELATED PARTY TRANSACTIONS

National Amusements, directly and indirectly, is the controlling stockholder of both Viacom and CBS Corporation ("CBS"). National Amusements owns shares in Viacom representing approximately 79.8% of the voting interest in Viacom and approximately 10% of Viacom's combined common stock. National Amusements is controlled by Sumner M. Redstone, our Chairman Emeritus, who is the Chairman and Chief Executive Officer of National Amusements, through the Sumner M. Redstone National Amusements Trust (the "SMR Trust"), which owns shares in National Amusements representing 80% of the voting interest of National Amusements. The shares representing the other 20% of the voting interest of National Amusements are held through a trust controlled by Shari E. Redstone, who is Mr. Redstone's daughter and the non-executive Vice Chair of Viacom's Board of Directors and the President and a member of the Board of Directors of National Amusements. The shares of National Amusements held by the SMR Trust are voted solely by Mr. Redstone until such time as his incapacity or death. Upon Mr. Redstone's incapacity or death, (1) Ms. Redstone will also become a trustee of the SMR Trust and (2) the shares of National Amusements held by the SMR Trust will be voted by the trustees of the SMR Trust. The current trustees include Mr. Redstone and David R. Andelman, a member of the boards of directors of National Amusements and CBS. The current Board of Directors of National Amusements includes Mr. Redstone, Ms. Redstone and Mr. Andelman. In addition, Mr. Redstone serves as Chairman Emeritus of CBS and Ms. Redstone serves as non-executive Vice Chair of CBS.

Transactions between Viacom and related parties are overseen by our Governance and Nominating Committee.

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On December 12, 2016, our Board of Directors announced that it had discontinued the exploration of a potential combination of Viacom and CBS following receipt of a related letter and request from National Amusements, and that it had dissolved the Special Committee that was formed to evaluate a potential transaction.

Viacom and National Amusements Related Party Transactions

National Amusements licenses films in the ordinary course of business for its motion picture theaters from all major studios, including Paramount. During the quarters ended December 31, 2016 and 2015, Paramount earned revenues from National Amusements in connection with these licenses in the aggregate amounts of approximately $2 million and $1 million, respectively.

Viacom and CBS Corporation Related Party Transactions

In the ordinary course of business, we are involved in transactions with CBS and its various businesses that result in the recognition of revenues and expenses by us. Transactions with CBS are settled in cash.

Our Filmed Entertainment segment earns revenues and recognizes expenses associated with its distribution of certain television products into the home entertainment market on behalf of CBS. Pursuant to its agreement with CBS, Paramount distributes CBS’s library of television and other content on DVD and Blu-ray disc on a worldwide basis. Under the terms of the agreement, Paramount is entitled to retain a fee based on a percentage of gross receipts and is generally responsible for all out-of-pocket costs, which are recoupable prior to any participation amounts paid. Paramount also earns revenues from CBS through leasing of studio space and licensing of certain film products.

Our Media Networks segment recognizes advertising revenues and purchases television programming from CBS. The cost of the programming purchases is initially recorded as acquired program rights inventory and amortized over the estimated period that revenues will be generated.

Both of our segments recognize advertising expenses related to the placement of advertisements with CBS.

The following table summarizes the transactions with CBS as included in our Consolidated Financial Statements:

CBS Related Party Transactions (in millions)	Quarter Ended December 31, 2016	Quarter Ended December 31, 2015
Consolidated Statements of Earnings		
Revenues	$ 44	$ 43
Operating expenses	$ 50	$ 59
	December 31, 2016	September 30, 2016
Consolidated Balance Sheets		
Accounts receivable	$ 3	$ 3
Participants’ share and residuals, current	$ 76	$ 66
Program obligations, current	61	61
Program obligations, noncurrent	27	32
Other liabilities	2	2
Total due to CBS	$ 166	$ 161

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Other Related Party Transactions

In the ordinary course of business, we are involved in related party transactions with equity investees. These related party transactions primarily relate to the provision of advertising services, licensing of film and programming content, distribution of films and provision of certain administrative support services, for which the impact on our Consolidated Financial Statements is as follows:

Other Related Party Transactions (in millions)	Quarter Ended December 31, 2016	Quarter Ended December 31, 2015
Consolidated Statements of Earnings		
Revenues	$ 51	$ 5
Operating expenses	$ 32	$ 2
Selling, general and administrative	$ (3)	$ (2)

	December 31, 2016	September 30, 2016
Consolidated Balance Sheets		
Accounts receivable	$ 80	$ 67
Other assets	2	1
Total due from other related parties	$ 82	$ 68
Accounts payable	$ 7	$ 8
Other liabilities	43	69
Total due to other related parties	$ 50	$ 77

All other related party transactions are not material in the periods presented.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.
Management's discussion and analysis of results of operations and financial condition is provided as a supplement to and should be read in conjunction with the unaudited consolidated financial statements and related notes to enhance the understanding of our results of operations, financial condition and cash flows. Additional context can also be found in our Form 10-K for the fiscal year ended September 30, 2016, as filed with the Securities and Exchange Commission ("SEC") on November 9, 2016 (the "2016 Form 10-K"). References in this document to "Viacom," "Company," "we," "us" and "our" mean Viacom Inc. and our consolidated subsidiaries, unless the context requires otherwise.
Significant components of management's discussion and analysis of results of operations and financial condition include:
Overview: The overview section provides a summary of our business.
Results of Operations: The results of operations section provides an analysis of our results on a consolidated and reportable segment basis for the quarter ended December 31, 2016, compared with the quarter ended December 31, 2015. In addition, we provide a discussion of items that affect the comparability of our results of operations.
Liquidity and Capital Resources: The liquidity and capital resources section provides a discussion of our cash flows for the quarter ended December 31, 2016, compared with the quarter ended December 31, 2015, and of our outstanding debt, commitments and contingencies existing as of December 31, 2016.
OVERVIEW
Summary
We are home to premier global media brands that create compelling television programs, motion pictures, short-form content, applications ("apps"), games, consumer products, social media experiences and other entertainment content for audiences in more than 180 countries. Our media networks, including Nickelodeon®, COMEDY CENTRAL®, MTV®, VH1®, SPIKE®, BET®, CMT®, TV Land®, Nick at Nite®, Nick Jr.®, Logo®, Nicktoons®, TeenNick®, Channel 5® (United Kingdom), Telefe™ (Argentina) and Paramount Channel™, reach 510 million households worldwide. Viacom Media Networks also operates branded experiences including channels on streaming services and social media platforms such as DIRECTV NOW and Snapchat Discover. Paramount Pictures® is a major global producer and distributor of filmed entertainment. Paramount Television™ develops, finances and produces programming for television and other platforms.
We operate through two reporting segments: Media Networks and Filmed Entertainment. Our measure of segment performance is adjusted operating income. We define adjusted operating income for our segments as operating income, before equity-based compensation and certain other items identified as affecting comparability, when applicable. Equity-based compensation is excluded from our segment measure of performance since it is set and approved by the Compensation Committee of Viacom's Board of Directors in consultation with corporate executive management, and is included as a component of consolidated adjusted operating income.
Media Networks
Our Media Networks segment generates revenues in three categories: (i) the sale of advertising and marketing services, (ii) affiliate fees from distributors of our programming and program services, such as cable television operators, direct-to-home satellite television operators, Internet distributors, mobile networks and subscription video-on-demand ("SVOD") and other over-the-top ("OTT") services, and (iii) ancillary revenues. Ancillary revenues are principally derived from consumer products, which includes licensing our brands and intellectual property, creation and publishing of interactive games across various platforms (including mobile, PC, and console) and recreation experiences, viewing of our programming through download-to-own and download-to-rent services and the sale of DVDs and Blu-ray discs, and television syndication.
Media Networks segment expenses consist of operating expenses, selling, general and administrative ("SG&A") expenses and depreciation and amortization. Operating expenses are comprised of costs related to original and acquired programming, including programming amortization, expenses associated with the distribution of home entertainment products and consumer products licensing, participations and residuals, integrated marketing expenses and other costs of sales. SG&A expenses consist primarily of employee compensation, marketing, research and professional service fees and facility and occupancy costs. Depreciation and amortization expenses reflect depreciation of fixed assets, including transponders financed under capital leases, and amortization of finite-lived intangible assets.

Filmed Entertainment

Our Filmed Entertainment segment generates revenues principally from: (i) the worldwide theatrical release and/or distribution of motion pictures, (ii) home entertainment, which includes the worldwide sales and distribution of DVDs and Blu-ray discs relating to the motion pictures released theatrically by Paramount and programming of other Viacom brands such as

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Nickelodeon, MTV, Comedy Central and BET, as well as certain acquired films and content distributed on behalf of third parties such as CBS, the viewing of our films through transactional video-on-demand and download-to-own services, for a fee and/or on a revenue sharing basis, (iii) licensing of film and television programs produced, acquired and/or distributed by Paramount that are licensed on a territory by territory basis, for a fee or on a revenue sharing basis, to SVOD, pay and basic cable television, free television and free video-on-demand services and (iv) ancillary revenues from providing production and facilities services to third parties, primarily at Paramount's studio lot, licensing its brands for consumer products, themed restaurants, hotels and resorts, live stage plays, film clips and theme parks, and sale of film rights.

Filmed Entertainment segment expenses consist of operating expenses, SG&A expenses and depreciation and amortization. Operating expenses principally include the amortization of costs of our released feature films and television programming (including participations and residuals), print and advertising expenses and other distribution costs. We incur marketing costs before and throughout the theatrical release of a film and, to a lesser extent, other distribution windows. Such costs are incurred to generate public interest in our films and are expensed as incurred; therefore, we typically incur losses with respect to a particular film prior to and during the film's theatrical exhibition and profitability may not be realized until well after a film's theatrical release. Therefore, the results of the Filmed Entertainment segment can be volatile as films work their way through the various distribution windows. SG&A expenses include employee compensation, facility and occupancy costs, professional service fees and other overhead costs. Depreciation and amortization expense principally consists of depreciation of fixed assets.

RESULTS OF OPERATIONS

Consolidated Results of Operations

Our summary consolidated results of operations are presented below for the quarters ended December 31, 2016 and 2015.

	Quarter Ended		Better/(Worse)	
	December 31,			
(in millions, except per share amounts)	2016	2015	$	%
GAAP				
Revenues	$3,324	$3,154	$170	5 %
Operating income	706	839	(133)	(16)
Net earnings attributable to Viacom	396	449	(53)	(12)
Diluted earnings per share	1.00	1.13	(0.13)	(12)
Non-GAAP*				
Adjusted operating income	$748	$839	$(91)	(11)%
Adjusted net earnings attributable to Viacom	413	470	(57)	(12)
Adjusted diluted earnings per share	1.04	1.18	(0.14)	(12)

* See "Factors Affecting Comparability" section below for a reconciliation of our reported results to our adjusted results, which are calculated on a non-GAAP basis.

Factors Affecting Comparability

The Consolidated Financial Statements reflect our results of operations, financial position and cash flows reported in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results have been affected by certain items identified as affecting comparability. Accordingly, when applicable, we use non-GAAP measures such as consolidated adjusted operating income, adjusted earnings before provision for income taxes,

adjusted provision for income taxes, adjusted net earnings attributable to Viacom and adjusted diluted earnings per share ("EPS"), among other measures, to evaluate our actual operating performance and for planning and forecasting of future periods. We believe that the adjusted results provide relevant and useful information for investors because they clarify our actual operating performance, make it easier to compare our results with those of other companies and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with GAAP, they should not be considered in isolation of, or as a substitute for, operating income, earnings before provision for income taxes, provision for income taxes, net earnings attributable to Viacom and diluted EPS as indicators of operating performance and they may not be comparable to similarly titled measures employed by other companies.

The following tables reconcile our reported results (GAAP) to our adjusted results (non-GAAP) for the quarters ended December 31, 2016 and 2015. The tax impacts included in the tables below have been calculated using the rates applicable to the adjustments presented.

(in millions, except per share amounts)

	Quarter Ended December 31, 2016				
	Operating Income	Earnings Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings Attributable to Viacom	Diluted EPS
Reported results (GAAP)	$706	$ 566	$ 158	$ 396	$1.00
Factors Affecting Comparability:					
Restructuring	42	42	14	28	0.07
Loss on extinguishment of debt	—	6	2	4	0.01
Discrete tax benefit	—	—	15	(15)	(0.04)
Adjusted results (Non-GAAP)	$748	$ 614	$ 189	$ 413	$1.04

(in millions, except per share amounts)

	Quarter Ended December 31, 2015				
	Operating Income	Earnings Before Provision for Income Taxes	Provision for Income Taxes	Net Earnings Attributable to Viacom	Diluted EPS
Reported results (GAAP)	$839	$ 717	$ 256	$ 449	$ 1.13
Factors Affecting Comparability:					
Discrete tax expense	—	—	(21)	21	0.05
Adjusted results (Non-GAAP)	$839	$ 717	$ 235	$ 470	$ 1.18

Restructuring charge: We recognized a pre-tax restructuring charge of $42 million for severance associated with management changes in connection with ongoing strategic initiatives. As we continue to evaluate our strategic initiatives, we may incur additional restructuring charges in the second fiscal quarter.

Loss on extinguishment of debt: In November 2016, we redeemed all $400 million of our outstanding 2.500% senior notes due December 2016 and all $500 million of our outstanding 3.500% senior notes due April 2017 at a redemption price equal to the sum of the principal amount and a make-whole amount, together totaling $906 million, and accrued interest of $6 million. As a result, we recognized a pre-tax extinguishment loss of $6 million.

Discrete taxes: The net discrete tax benefit in the quarter ended December 31, 2016 was principally related to the reversal of a valuation allowance on net operating losses upon receipt of a favorable tax authority ruling. The net discrete tax expense in the quarter ended December 31, 2015 was principally related to a reduction in qualified production activity tax benefits as a result of retroactively reenacted legislation.

Revenues

Worldwide revenues increased $170 million, or 5%, to $3.324 billion in the quarter ended December 31, 2016. Filmed Entertainment revenues increased $146 million, or 24%, primarily reflecting higher theatrical and ancillary revenues. Media Networks revenues increased $24 million, or 1%, principally reflecting higher affiliate and ancillary revenues, partially offset by lower advertising revenues.

Expenses

Total expenses increased $303 million, or 13%, to $2.618 billion in the quarter ended December 31, 2016, reflecting higher segment expenses and the $42 million restructuring charge. Filmed Entertainment expenses increased $180 million, or 24%, driven by higher operating expenses and Media Networks expenses increased $94 million, or 6%, driven by higher SG&A and operating expenses.

Operating

Operating expenses increased $226 million, or 14%, to $1.819 billion in the quarter. Filmed Entertainment operating expenses increased $184 million, or 28%, and Media Networks operating expenses increased $45 million, or 5%.

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Selling, General and Administrative

SG&A expenses increased $34 million, or 5%, to $701 million in the quarter, primarily driven by an increase in Media Networks SG&A expenses of $47 million, or 9%.

Operating Income

Operating income decreased $133 million, or 16%, to $706 million in the quarter ended December 31, 2016, reflecting the operating results discussed above. Excluding the items discussed in “Factors Affecting Comparability”, adjusted operating income decreased $91 million, or 11%, to $748 million. Media Networks adjusted operating income decreased $70 million, or 7%, reflecting higher expenses that more than offset revenue gains. Filmed Entertainment adjusted operating results decreased $34 million, or 23%, principally reflecting higher print and advertising expenses associated with our fiscal 2017 theatrical releases.

Income Taxes

Our effective income tax rate was 27.9% in the quarter ended December 31, 2016. The net discrete tax benefit of $15 million, taken together with the impact of the other factors affecting comparability discussed above, reduced the effective income tax rate by 2.9 percentage points. Excluding the impact of these items, our adjusted effective income tax rate was 30.8%, a decline of 2 percentage points from the prior year quarter primarily driven by the change in the mix of domestic and international income.

Our effective income tax rate was 35.7% in the quarter ended December 31, 2015. The net discrete tax expense of $21 million contributed 2.9 percentage points to the effective income tax rate in the quarter. Excluding the impact of the net discrete tax expense, our adjusted effective income tax rate was 32.8%.

Net Earnings Attributable to Viacom

Net earnings attributable to Viacom decreased $53 million, or 12%, to $396 million in the quarter, principally due to the decline in tax-effected operating income described above and a decline in equity in net earnings of investee companies. Excluding the items discussed in “Factors Affecting Comparability”, adjusted net earnings attributable to Viacom decreased $57 million, or 12%, to $413 million.

Diluted Earnings Per Share

Diluted EPS decreased $0.13 per diluted share to $1.00 in the quarter, reflecting the impact of net earnings. Excluding the items discussed in “Factors Affecting Comparability”, adjusted diluted EPS decreased $0.14 per diluted share to $1.04.

Segment Results of Operations

Transactions between reportable segments are accounted for as third-party arrangements for the purposes of presenting segment results of operations. Typical intersegment transactions include the purchase of advertising by the Filmed Entertainment segment on Media Networks’ properties and the purchase of Filmed Entertainment’s feature films and television programming exhibition rights by Media Networks.

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Media Networks

	Quarter Ended		Better/(Worse)	
	December 31,			
(in millions)	2016	2015	$	%
Revenues by Component				
Advertising	$1,294	$1,320	$ (26)	(2)%
Affiliate	1,144	1,119	25	2
Ancillary	151	126	25	20
Total revenues by component	$2,589	$2,565	$ 24	1 %
Expenses				
Operating	$1,002	$957	$ (45)	(5)%
Selling, general and administrative	557	510	(47)	(9)
Depreciation and amortization	43	41	(2)	(5)
Total expenses	$1,602	$1,508	$ (94)	(6)%
Adjusted Operating Income	$987	$1,057	$ (70)	(7)%

Revenues
Worldwide revenues increased $24 million, or 1%, to $2.589 billion in the quarter ended December 31, 2016. Excluding foreign exchange, which had a 2-percentage point unfavorable impact, worldwide revenues increased 3%, including a 1-percentage point favorable impact from the acquisition of Televisión Federal S.A. ("Telefe"). Domestic revenues were substantially flat at $2.055 billion and international revenues increased $26 million, or 5%, to $534 million. Excluding foreign exchange, which had a 13-percentage point unfavorable impact, international revenues increased 18%, driven by growth in Europe and the acquisition of Telefe, which had an 8-percentage point favorable impact on international revenues.
Advertising
Worldwide advertising revenues decreased $26 million, or 2%, to $1.294 billion in the quarter. Excluding foreign exchange, which had a 3-percentage point unfavorable impact, worldwide advertising revenues increased 1%, including a 2-percentage point favorable impact from the acquisition of Telefe. Domestic advertising revenues decreased $30 million, or 3%, to $991 million. While pricing increased, softer ratings at certain of our networks contributed to lower audience delivery, reducing impressions and associated revenue. International advertising revenues increased $4 million, or 1%, to $303 million. Excluding foreign exchange, which had a 15-percentage point unfavorable impact, international advertising revenues increased 16%, driven by the acquisition of Telefe, which had a 10-percentage point favorable impact on international revenues, and growth in Europe.
Affiliate
Worldwide affiliate revenues increased $25 million, or 2%, to $1.144 billion in the quarter. Excluding foreign exchange, which had a 2-percentage point unfavorable impact, worldwide affiliate revenues increased 4%. Domestic affiliate revenues increased $21 million, or 2%, to $985 million, principally reflecting rate increases and the impact of SVOD and other OTT agreements, partially offset by a modest decline in subscribers and the impact of rate equalization due to the consolidation of a major distribution agreement. Excluding the impact from the timing of product available under SVOD and other OTT agreements, domestic affiliate revenues were substantially flat. International affiliate revenues increased $4 million, or 3%, to $159 million. Excluding foreign exchange, which had a 9-percentage point unfavorable impact, international affiliate revenues increased 12%, which reflects the impact of rate increases, subscriber growth and new channel launches, as well as higher revenues from SVOD and other OTT agreements.

Ancillary

Worldwide ancillary revenue increased $25 million, or 20%, to $151 million in the quarter. Excluding foreign exchange, which had a 4-percentage point unfavorable impact, worldwide ancillary revenues increased 24%, including a 4-percentage point favorable impact from the acquisition of Telefe. Domestic ancillary revenues increased $7 million, or 10%, to $79 million, principally driven by higher home video sales. International ancillary revenues increased $18 million, or 33%, to $72 million. Excluding foreign exchange, which had a 10-percentage point unfavorable impact, international ancillary revenues increased 43%, principally driven by higher consumer product revenue and the acquisition of Telefe, which had a 10-percentage point favorable impact on international ancillary revenues.

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Expenses
Media Networks segment expenses increased $94 million, or 6%, to $1.602 billion in the quarter. Excluding foreign exchange, which had a 3-percentage point favorable impact, worldwide expenses increased 9%, including an unfavorable 2-percentage point impact from the acquisition of Telefe.
Operating
Operating expenses increased $45 million, or 5%, to $1.002 billion in the quarter, driven by higher programming costs of $48 million, or 6%, primarily reflecting our continuing investment in original content. Distribution and other expenses declined $3 million, or 3%.
Selling, General and Administrative
SG&A expenses increased $47 million, or 9%, to $557 million in the quarter, principally driven by an increase in incentive compensation costs. We anticipate SG&A expenses will be higher in the second quarter due to costs associated with the integration of Telefe.
Adjusted Operating Income
Adjusted operating income decreased $70 million, or 7%, to $987 million in the quarter, reflecting the operating results discussed above and foreign exchange, which had a 2-percentage point unfavorable impact.
Filmed Entertainment

	Quarter Ended		Better/(Worse)	
	December 31,			
(in millions)	2016	2015	$	%
Revenues by Component				
Theatrical	$192	$94	$98	104 %
Home entertainment	243	239	4	2
Licensing	245	237	8	3
Ancillary	78	42	36	86
Total revenues by component	$758	$612	$146	24 %
Expenses				
Operating	$847	$663	$(184)	(28)%
Selling, general and administrative	79	82	3	4
Depreciation and amortization	12	13	1	8
Total expenses	$938	$758	$(180)	(24)%
Adjusted Operating Loss	$(180)	$(146)	$(34)	(23)%

Revenues
Worldwide revenues increased $146 million, or 24%, to $758 million in the quarter ended December 31, 2016. Domestic revenues increased 50% to $465 million. International revenues decreased 3% to $293 million, driven by the unfavorable impact of foreign exchange.
Theatrical
Worldwide theatrical revenues increased $98 million, or 104%, to $192 million in the quarter due to higher revenues from our current year releases. Significant current quarter releases were Jack Reacher: Never Go Back, Arrival, Allied, Office Christmas Party and Fences, compared with Daddy's Home, Paranormal Activity: The Ghost Dimension and The Big Short in the prior year quarter. Domestic theatrical revenues increased 128% and international theatrical revenues increased 73%. Foreign exchange had a 3-percentage point unfavorable impact on international theatrical revenues.
Home Entertainment

Worldwide home entertainment revenues increased $4 million, or 2%, to $243 million in the quarter. Significant current quarter releases were Star Trek Beyond, Ben-Hur and Florence Foster Jenkins, while the prior year quarter included Mission: Impossible - Rogue Nation and Terminator: Genisys. Domestic home entertainment revenues increased 12% on strong holiday sales, while international home entertainment revenues decreased 14%. Foreign exchange had a 6-percentage point unfavorable impact on international home entertainment revenues.

Licensing
Licensing revenues increased $8 million, or 3%, to $245 million in the quarter. Domestic licensing revenues increased 41%, primarily driven by the release of television product, while international licensing revenues decreased 17%.

Ancillary
Ancillary revenues increased $36 million, or 86%, to $78 million in the quarter. Domestic ancillary revenues increased 109%, driven by the sale of a partial copyright interest in certain films released in the quarter in connection with a slate financing arrangement. International ancillary revenues increased 10%.

Expenses
Total expenses increased $180 million, or 24%, to $938 million in the quarter, driven by higher operating expenses.
Operating
Operating expenses increased $184 million, or 28%, to $847 million in the quarter. Distribution and other costs, principally print and advertising expenses, increased $151 million, or 47%, primarily driven by higher marketing costs for our current year slate. Film costs increased $33 million, or 10%, driven by higher television production costs.
Selling, General and Administrative
SG&A expenses decreased $3 million, or 4%, to $79 million in the quarter.
Adjusted Operating Loss
Adjusted operating loss was $180 million in the quarter compared with $146 million for the prior year quarter. The decline of $34 million in operating results principally reflects higher print and advertising expenses associated with our fiscal 2017 theatrical releases. Operating losses reflect the recognition of print and advertising expenses incurred in the period, generally before and throughout the theatrical release of a film, while revenues for the respective films are recognized as earned through its theatrical exhibition and subsequent distribution windows.
LIQUIDITY AND CAPITAL RESOURCES
Liquidity
Sources and Uses of Cash
Our primary source of liquidity is cash provided through the operations of our businesses. We have access to external financing sources such as our $2.5 billion five-year revolving credit facility and the capital markets. Our principal uses of cash from operations include the creation of new programming and film content, acquisitions of third-party content, and interest and income tax payments. We also use cash for the repayment of debt, quarterly cash dividends, capital expenditures and acquisitions of businesses, as well as discretionary share repurchases under our stock repurchase program, as deemed appropriate.
We believe that our cash flows from operating activities together with our credit facility provide us with adequate resources to fund our anticipated ongoing cash requirements. We anticipate that future debt maturities will be funded with cash and cash equivalents, cash flows from operating activities and future access to capital markets, including our credit facility.
We may continue to access external financing from time to time depending on our cash requirements, assessments of current and anticipated market conditions and after-tax cost of capital. Our access to capital markets can be impacted by factors outside our control, including economic conditions; however, we believe that our strong cash flows and balance sheet, our credit facility and our credit rating will provide us with adequate access to funding given our expected cash needs. Any new borrowing cost would be affected by market conditions and short and long-term debt ratings assigned by independent rating agencies, and there can be no assurance that we will be able to access capital markets on terms and conditions that will be favorable to us.

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In December 2016, we entered into a three-year strategic agreement with Shanghai Film Group and Huahua Media. As part of the agreement, Shanghai Film Group and Huahua Media will co-finance approximately twenty-five percent of Paramount’s slate of films for a three-year period, with an option for an additional year.

Cash Flows

Cash and cash equivalents were $443 million as of December 31, 2016, an increase of $64 million compared with September 30, 2016.

The following tables include information driving the change in cash and cash equivalents and a reconciliation of net cash provided by/(used in) operating activities (GAAP) to free cash flow and operating free cash flow (non-GAAP). We define free cash flow as net cash provided by/(used in) operating activities minus capital expenditures, plus excess tax benefits from equity-based compensation awards (actual tax deductions in excess of amounts previously recognized, which is included within financing activities in the statement of cash flows), as applicable. We define operating free cash flow as free cash flow, excluding the impact of the cash premium on the extinguishment of debt, as applicable. Free cash flow and operating free cash flow are non-GAAP measures. Management believes the use of this measure provides investors with an important perspective on, in the case of free cash flow, our liquidity, including our ability to service debt and make investments in our businesses, and, in the case of operating free cash flow, our liquidity from ongoing activities.

Change in cash and cash equivalents (in millions)	Quarter Ended December 31, 2016	2015	Better/(Worse) $
Net cash provided by/(used in) operating activities	$159	$(126)	$ 285
Net cash flow used in investing activities	(349)	(56)	(293)
Net cash flow provided by financing activities	292	10	282
Effect of exchange rate changes on cash and cash equivalents	(38)	(7)	(31)
Increase/(decrease) in cash and cash equivalents	$64	$(179)	$ 243
Reconciliation of net cash provided by/(used in) operating activities to free cash flow and operating free cash flow			
Net cash provided by/(used in) operating activities (GAAP)	$159	$(126)	$ 285
Capital expenditures	(52)	(26)	(26)
Free cash flow (Non-GAAP)	107	(152)	259
Debt retirement premium	6	—	6
Operating free cash flow (Non-GAAP)	$113	$(152)	$ 265

Operating Activities

Cash provided by operating activities improved $285 million for the quarter ended December 31, 2016, primarily reflecting the timing of film and programming spend.

Investing Activities

Cash used in investing activities increased $293 million for the quarter ended December 31, 2016, principally driven by the acquisition of Telefe for $336 million, net of cash acquired, in the current quarter.

Financing Activities

Cash provided by financing activities increased $282 million for the quarter ended December 31, 2016, primarily driven by debt transactions totaling $95 million and lower dividend payments of $80 million. In addition, we did not repurchase stock in the current quarter compared with stock repurchase payments of $100 million in the prior year quarter.

Capital Resources

Capital Structure and Debt

Total debt was $12.300 billion as of December 31, 2016, an increase of $387 million from $11.913 billion at September 30, 2016.

In October 2016, we issued a total of $1.3 billion of senior notes as follows:

- $400 million in aggregate principal amount of 2.250% senior notes due 2022 at a price equal to 99.692% of the principal amount (the “2022 Senior Notes”); and

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- $900 million in aggregate principal amount of 3.450% senior notes due 2026 at a price equal to 99.481% of the principal amount (the "2026 Senior Notes" and, together with the 2022 Senior Notes, the "Senior Notes").

The proceeds, net of discount and other issuance fees and expenses, from the issuance of the Senior Notes were $1.285 billion, a portion of which was used to redeem the senior notes described below.

In November 2016, we redeemed all $400 million of our outstanding 2.500% senior notes due December 2016 and all $500 million of our outstanding 3.500% senior notes due April 2017 at a redemption price equal to the sum of the principal amount and a make-whole amount, together totaling $906 million, and accrued interest of $6 million. As a result of the redemption, we recognized a pre-tax extinguishment loss of $6 million.

Credit Facility

At December 31, 2016, there were no amounts outstanding under our credit facility. The credit facility is used for general corporate purposes and to support commercial paper outstanding, if any. The credit facility has one principal financial covenant that requires our interest coverage for the most recent four consecutive fiscal quarters to be at least 3.0x, which we met as of December 31, 2016.

Commitments and Contingencies

Legal Matters

See Note 7 to the Consolidated Financial Statements for information regarding legal matters.

OTHER MATTERS

Related Parties

In the ordinary course of business we enter into transactions with related parties, including National Amusements, Inc., CBS Corporation, their respective subsidiaries and affiliates, and companies that we account for under the equity method of accounting. For additional information, see Note 14 to the Consolidated Financial Statements.

On December 12, 2016, our Board of Directors announced that it had discontinued the exploration of a potential combination of Viacom and CBS following receipt of a related letter and request from National Amusements, and that it had dissolved the Special Committee that was formed to evaluate a potential transaction.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q, including "Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition," contains both historical and forward-looking statements. All statements that are not statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements reflect our current expectations concerning future results, objectives, plans and goals, and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause future results, performance or achievements to differ. These risks, uncertainties and other factors include, among others: the effect of recent changes in management and our board of directors; the public acceptance of our brands, programs, motion pictures and other entertainment content on the various platforms on which they are distributed; the impact of inadequate audience measurement on our program ratings and advertising and affiliate revenues; technological developments and their effect in our markets and on consumer behavior; competition for content, audiences, advertising and distribution; the impact of piracy; economic fluctuations in advertising and retail markets, and economic conditions generally; fluctuations in our results due to the timing, mix, number and availability of our motion pictures and other programming; the potential for loss of carriage or other reduction in the distribution of our content; changes in the Federal communications or other laws and regulations; evolving cybersecurity and similar risks; other domestic and global economic, business, competitive and/or regulatory factors affecting our businesses generally; and other factors described below and in our news releases and filings with the Securities and Exchange Commission, including but not limited to our 2016 Form 10-K and reports on Form 10-Q and Form 8-K. The forward-looking statements included in this document are made only as of the date of this document, and we do not

have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.
Item 3. Quantitative and Qualitative Disclosures about Market Risk.
We are exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market value of investments. In the ordinary course of business, we may employ established and prudent policies and procedures to manage our exposure principally to changes in interest rates and foreign exchange risks. The objective of such policies and procedures is to

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manage exposure to market risks in order to minimize the impact on earnings and cash flows. We do not hold or enter into financial instruments for speculative trading purposes.

Item 4. Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Exchange Act.

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Since our 2016 Form 10-K, there have been no material developments in the material legal proceedings in which we are involved, except as set forth in Note 7 to the Consolidated Financial Statements.

Item 1A. Risk Factors.

A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in our 2016 Form 10-K to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit No.	Description of Exhibit
10.1*	Summary of Viacom Inc. Compensation for Outside Directors.
10.2*	Viacom Inc. 2011 RSU Plan for Outside Directors, as amended and restated as of January 1, 2016, and as further amended and restated as of October 31, 2016.
10.3	Viacom Inc. Senior Executive Short-Term Incentive Plan, as amended and restated effective December 12, 2016 (incorporated by reference to Exhibit A to the Definitive Proxy Statement of Viacom Inc. filed on December 16, 2016) (File No. 001-32686).
10.4*	Employment Agreement between Viacom Inc. and Robert Bakish, dated as of December 12, 2016.
10.5*	Letter Agreement between Viacom Inc. and Robert Bakish, dated as of December 12, 2016.
10.6*	Viacom Inc. 2016 Long-Term Management Incentive Plan: Form of Terms and Conditions to the Performance Share Units.
10.7*	Employment Agreement between Viacom Inc. and Robert Bakish, dated as of October 31, 2016 (superseded by Employment Agreement between Viacom Inc. and Robert Bakish dated as of December 12, 2016).
10.8*	Letter Agreement between Viacom Inc. and Robert Bakish, dated as of October 31, 2016 (superseded by Employment Agreement between Viacom Inc. and Robert Bakish dated as of December 12, 2016).
10.9*	Letter Agreement between Viacom Inc. and Michael D. Fricklas, dated as of December 12, 2016.
10.10*	Employment Agreement between Viacom Inc. and DeDe Lea, dated as of November 14, 2016.
31.1*	Certification of the Chief Executive Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of Viacom Inc. pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer of Viacom Inc. furnished 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 the Chief Financial Officer of Viacom Inc. furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

*Filed herewith

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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.

VIACOM INC.

Date: February 9, 2017 By: /s/ WADE DAVIS
Wade Davis
Executive Vice President, Chief Financial Officer

Date: February 9, 2017 By: /s/ KATHERINE GILL-CHAREST
Katherine Gill-Charest
Senior Vice President, Controller
(Chief Accounting Officer)