

## Notes to Consolidated Financial Statements

Three years ended March 1, 2009

(In thousands, except share, per share and option amounts)

**1. Summary of Significant Accounting Policies**

Park Electrochemical Corp. ("Park"), through its subsidiaries (collectively, the "Company"), is a global advanced materials company which develops, manufactures, markets and sells high-technology digital and RF/microwave printed circuit materials principally for the telecommunications and internet infrastructure and high-end computing markets and advanced composite materials and parts principally for the aerospace markets.

a. *Principles of Consolidation*—The consolidated financial statements include the accounts of Park and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

b. *Use of Estimates*—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

c. *Accounting Period*—The Company's fiscal year is the 52 or 53 week period ending the Sunday nearest to the last day of February. The 2009, 2008 and 2007 fiscal years ended on March 1, 2009, March 2, 2008 and February 25, 2007, respectively. Fiscal years 2009, 2008 and 2007 consisted of 52, 53 and 52 weeks, respectively.

d. *Cash and Cash Equivalents*—The Company considers all money market securities and investments with contractual maturities at the date of purchase of 90 days or less to be cash equivalents.

**Supplemental cash flow information:**

	Fiscal Year		
	2009	2008	2007
Cash paid during the year for:			
Income taxes paid, net of refunds	\$5,381	\$9,804	\$11,712

e. *Marketable Securities*—All marketable securities are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, included in comprehensive income (loss). Realized gains and losses, amortization of premiums and discounts, and interest and dividend income are included in other income. The cost of securities sold is based on the specific identification method. The Company has classified any investment in auction rate securities for which the underlying security had a maturity greater than three months as marketable securities. The Company has not had

any investment in auction rate securities since the 2008 fiscal year third quarter.

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

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

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

i. *Accounts Receivable*—The majority of the Company's accounts receivable are due from purchasers of the Company's printed circuit materials. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within established payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than established payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a

## Notes to Consolidated Financial Statements (continued)

Three years ended March 1, 2009

(In thousands, except share, per share and option amounts)

whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

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

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

l. *Intangible Assets*—Goodwill is not amortized. Other intangible assets are amortized over the useful lives of the assets on a straight line basis. The Company tests for impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

m. *Shipping Costs*—The amounts paid by the Company to third-party shippers for transporting products to customers, which are not reimbursed by customers, are classified as selling expenses. The shipping costs included in selling, general and administrative expenses were approximately \$3,929, \$4,221 and \$4,417 for fiscal years 2009, 2008 and 2007, respectively.

n. *Property, Plant and Equipment*—Property, plant and equipment are stated at cost less accumulated depreciation. The Company capitalizes additions, improvements and major renewals and expenses maintenance, repairs and minor renewals as incurred. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives. Machinery and equipment are generally depreciated over 10 years. Building and leasehold improvements are depreciated over 25–30 years or the term of the lease, if shorter.

o. *Income Taxes*—Deferred income taxes are provided for temporary differences in the reporting of certain items, primarily depreciation, for income tax purposes as compared with financial accounting purposes.

United States ("U.S.") Federal income taxes have not been provided on the undistributed earnings (approximately \$128,000 March 1, 2009) of the Company's foreign subsidiaries, because it is management's practice and intent to reinvest such earnings in the operations of such subsidiaries.

p. *Foreign Currency Translation*—Assets and liabilities of foreign subsidiaries using currencies other than the U.S. dollar as their functional currency are translated into U.S. dollars at fiscal year-end exchange rates, and income and expense items are translated at average exchange rates for the period. Gains and losses resulting from translation are recorded as currency translation adjustments in comprehensive income.

q. *Stock-Based Compensation*—The Company implemented the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure", in the fourth quarter of fiscal year 2003. Effective February 27, 2006, the beginning of the Company's 2007 fiscal year, the Company began recording compensation expense associated with stock options, the only form of equity compensation issued by the Company, in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123R"). The Company recognizes such compensation expense on a straight-line basis over the four-year service period during which the options become exercisable.

## 2. Marketable Securities

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

	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>March 1, 2009:</b>			
U.S. Treasury and other government securities	\$ 25	\$ —	\$ 7,975
U.S. corporate debt securities	48	166	40,918
Certificates of deposit	10	—	135,611
Total debt securities	<u>\$ 83</u>	<u>\$166</u>	<u>\$184,504</u>
<b>March 2, 2008:</b>			
U.S. Treasury and other government securities	\$ 39	\$ 47	\$ 30,829
U.S. corporate debt securities	90	185	70,390
Certificates of deposit	—	—	12,600
Total debt securities	<u>\$129</u>	<u>\$232</u>	<u>\$113,819</u>

The gross realized gains on the sales of securities were \$0, \$1 and \$43 for fiscal years 2009, 2008 and 2007, respectively, and the gross realized losses were \$0, \$4 and \$114 for fiscal years 2009, 2008 and 2007, respectively.

As of March 3, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). The adoption of SFAS 157 did not have a material effect on the Company's Consolidated Financial Statements. Under SFAS 157, fair values of the investments are determined based on observable inputs, which are quoted market prices for identical assets in active markets.

The estimated fair values of the debt and marketable securities at March 1, 2009, by contractual maturity, are shown below:

	Estimated Fair Value
Due in one year or less	\$173,964
Due after one year through five years	10,540
	<u>\$184,504</u>

### 3. Inventories

Inventories consisted of the following:

	March 1, 2009	March 2, 2008
Raw materials	\$ 5,711	\$ 5,923
Work-in-process	2,110	3,686
Finished goods	2,561	3,951
Manufacturing supplies	295	489
	<u>\$ 10,677</u>	<u>\$ 14,049</u>

### 4. Property, Plant and Equipment

	March 1, 2009	March 2, 2008
Land, buildings and improvements	\$ 35,496	\$ 36,182
Machinery, equipment, furniture and fixtures	131,731	137,816
	<u>167,227</u>	<u>173,998</u>
Less accumulated depreciation and amortization	118,450	126,810
	<u>\$ 48,777</u>	<u>\$ 47,188</u>

Property, plant and equipment are initially valued at cost. Depreciation and amortization expense relating to property, plant and equipment was \$7,707, \$8,286 and \$8,992 for fiscal years 2009, 2008 and 2007, respectively. In the 2009 fiscal year fourth quarter, the Company recorded a pre-tax impairment charge of \$3,967 for the write-off of construction costs related to the installation of an advanced high-speed treater at the Company's Nelco Products Pte. Ltd. electronic materials business unit in Singapore.

The Company has \$950 of building and machinery and equipment which are held for sale at its Neltec Europe SAS business unit in Mirebeau, France and its New England Laminates, Co., Inc. business unit in Newburgh, New York. The Company has stopped depreciating these assets and intends to sell the machinery and equipment during the 2010 fiscal year and the buildings during the 2010 or 2011 fiscal years. The selling prices are expected to equal or exceed the book values.

### 5. Goodwill and Other Intangible Assets

In the first quarter of the Company's 2009 fiscal year, the Company's wholly owned subsidiary, Park Aerospace Structures Corp., acquired substantially all the assets and business of Nova Composites, Inc., a manufacturer of aircraft composite parts and the tooling for such parts, located in Lynnwood, Washington, for a cash purchase price of \$4,500 paid at the closing of the acquisition and up to an additional \$5,500 payable over five years depending on the achievement of specified earn-out objectives. The Company is in the process of determining the additional amount, if any, up to \$1,100, payable for the first year. The Company recorded \$4,351 of goodwill and an intangible asset related to a patent of \$106, which will be amortized over 15 years. Other intangibles are amortized over the useful lives of the assets.

	March 1, 2009	March 2, 2008
Goodwill	\$4,351	\$—
Other Intangibles	112	6
	<u>\$4,463</u>	<u>\$ 6</u>

## Notes to Consolidated Financial Statements (continued)

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(In thousands, except share, per share and option amounts)

## 6. Accrued Liabilities

	March 1, 2009	March 2, 2008
Payroll and payroll related	\$ 2,485	\$ 3,812
Employee benefits	989	966
Workers' compensation accrual	1,233	1,274
Environmental reserve (Note 16)	844	1,577
Restructuring accruals	2,239	1,169
Other	3,635	4,516
	<u>\$11,425</u>	<u>\$13,314</u>

## 7. Income Taxes

The income tax (benefit) provision includes the following:

	Fiscal Year		
	2009	2008	2007
Current:			
Federal	\$ 2,087	\$ 3,388	\$ 2,319
State and local	224	698	349
Foreign	3,593	5,341	3,445
	<u>5,904</u>	<u>9,427</u>	<u>6,113</u>
Deferred:			
Federal	(4,354)	(1,015)	(664)
State and local	(583)	(100)	(554)
Foreign	(472)	303	(544)
	<u>(5,409)</u>	<u>(812)</u>	<u>(1,762)</u>
	<u>\$ 495</u>	<u>\$ 8,615</u>	<u>\$ 4,351</u>

During the fourth quarter of the 2009 fiscal year, the Company recorded a tax benefit of \$4,677 from the elimination of certain valuation allowances resulting principally from the closure of the Company's New England Laminates Co., Inc. business unit located in Newburgh, New York.

During the fourth quarter of the 2008 fiscal year, the Company recognized a tax benefit of \$1,500 related to reserves previously established in the United States for transfer pricing. During the third quarter of the 2008 fiscal year, the Company recognized a tax benefit of \$540 related to reserves that were deemed no longer required due to a change in market conditions. During the second quarter of the 2008 fiscal year, the Company recognized a tax benefit of \$537 for the elimination of a reserve in a foreign jurisdiction where the Company no longer operates.

As part of its evaluation of deferred tax assets, the Company recognized a tax benefit of \$3,500 during the 2007 fiscal year relating to the elimination of certain valuation allowances previously established in the United States. During the 2007 fiscal year, the Company also recognized a tax benefit of \$1,391 relating to the elimination of reserves no longer required as the result of the completion of a tax audit, a \$499 tax benefit relating to a life insurance arrangement termination charge and a tax benefit of \$715 relating to the recognition of tax credits resulting from operating losses sustained in prior years in France.

The components of earnings before income taxes were as follows:

	Fiscal Year		
	2009	2008	2007
United States	\$ 2,422	\$13,729	\$18,330
Foreign	16,587	29,565	25,812
Earnings from continuing operations before income taxes	<u>\$19,009</u>	<u>\$43,294</u>	<u>\$44,142</u>

The Company's effective income tax rate differs from the statutory U.S. Federal income tax rate as a result of the following:

	Fiscal Year		
	2009	2008	2007
Statutory U.S. Federal tax rate	34.0%	35.0%	35.0%
State and local taxes, net of Federal benefit	0.6	0.9	(0.3)
Foreign tax rate differentials	(7.7)	(8.1)	(9.1)
Valuation allowance on deferred tax assets	(24.0)	0.1	(4.4)
Adjustment of tax accruals and reserves	(0.4)	(6.0)	(5.8)
Utilization of net operating loss carryovers	—	—	(1.6)
Foreign tax credits	(3.2)	(2.3)	(2.1)
Other, net	3.3	0.3	(1.8)
	<u>2.6%</u>	<u>19.9%</u>	<u>9.9%</u>

The Company had total net operating loss carryforwards of approximately \$24,300 and \$19,200 in fiscal years 2009 and 2008, respectively. All of the total net operating loss carryforwards related to foreign operations in fiscal years 2009 and 2008. The foreign net operating loss carryforwards have no expiration.

The Company had New York State investment tax credits of \$1,180 and \$2,164 in fiscal years 2009 and 2008, respectively. The reduction of the investment tax credit carryforward is primarily due to the recapture of certain credits in accordance with New York State Tax Law in connection with the closing of the Company's New England Laminates Co., Inc. business unit located in Newburgh, New York. A \$50 benefit has been recognized for these credits; however, the Company does not believe that realization of the principal portion of the investment tax credit carryforward is more likely than not.

The deferred tax asset valuation allowance of \$8,787 as of March 1, 2009 related to foreign net operating losses and New York State investment tax credit carryforwards. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of the Company's long-term deferred tax liabilities and assets as of March 1, 2009 and March 2, 2008 were as follows:

	March 1, 2009	March 2, 2008
Deferred tax assets:		
Impairment of fixed assets	\$ 5,757	\$ 4,455
Net operating loss carryforwards	7,657	6,125
New York State investment tax credits	1,180	2,164
Other, net	4,310	5,422
	<u>18,904</u>	<u>18,166</u>
Valuation allowance for deferred tax assets	(8,787)	(13,014)
Net deferred tax assets	<u>10,117</u>	<u>5,152</u>
Depreciation	(1,354)	(1,665)
Offshore Singapore earnings subject to local tax	(3,056)	(3,186)
Total deferred tax liabilities	<u>(4,410)</u>	<u>(4,851)</u>
Net deferred tax	<u>\$ 5,707</u>	<u>\$ 301</u>

Net deferred tax assets are included in non-current "Other assets" on the Consolidated Balance Sheets. In addition, "Prepaid expenses and other current assets" on the Consolidated Balance Sheets include a French income tax refund of \$1,811, which the Company expects to receive in the 2010 fiscal year first quarter.

At March 1, 2009, the Company had gross tax-affected unrecognized tax benefits of \$702, all of which, if recognized, would impact the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Unrecognized Tax Benefits
Balance as of March 2, 2008	\$ 952
Gross increases—tax positions in prior period	—
Gross decreases—tax positions in prior period	(250)
Gross increases—current period tax positions	—
Gross decreases—current period tax positions	—
Lapse of statute of limitations	—
<b>Balance as of March 1, 2009</b>	<u><b>\$ 702</b></u>

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons, including adding or reducing amounts for current year tax positions, expiration of statutes of limitation on open income tax returns, changes in management's judgment about the level of uncertainty, status of tax examinations, and legislative activity. The Company does not expect the unrecognized tax benefits to significantly decrease during the 2010 fiscal year.

A list of open tax years by major jurisdiction follows:

United States	2004–2009
Arizona	2003–2009
California	2003–2009
New York	2004–2009
France	2004–2009
Singapore	2004–2009

The Company had approximately \$180 and \$140 of accrued interest and penalties as of March 1, 2009 and March 2, 2008, respectively. The Company's policy is to include applicable interest and penalties related to unrecognized tax benefits as a component of income tax expense.

## 8. Stock-Based Compensation

As of March 1, 2009, the Company had a 1992 Stock Option Plan and a 2002 Stock Option Plan, and no other stock-based compensation plan. Both Stock Option Plans have been approved by the Company's stockholders and provide for the grant of stock options to directors and key employees of the Company. All options granted under such Plans have exercise

## Notes to Consolidated Financial Statements (continued)

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(In thousands, except share, per share and option amounts)

prices equal to the fair market value of the underlying common stock of the Company at the time of grant, which pursuant to the terms of the Plans, is the reported closing price of the common stock on the New York Stock Exchange on the date preceding the date the option is granted. Options granted under the Plans become exercisable 25% one year from the date of grant, with an additional 25% exercisable each succeeding anniversary of the date of grant and expire 10 years from the date of grant. The authority to grant additional options under the 1992 Stock Option Plan expired on March 24, 2002, and options to purchase a total of 1,800,000 shares of common stock were authorized for grant under the 2002 Stock Option Plan. At March 1, 2009, 2,029,333 shares of common stock of the Company were reserved for issuance upon exercise of stock options under the 1992 Stock Option Plan and the 2002 Stock Option Plan and 1,046,606 shares were available for future grant under the 2002 Stock Option Plan. Options to purchase 146,850 and 168,150 shares of common stock were granted during the 2009 fiscal year and 2008 fiscal year, respectively.

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

The compensation expense for stock options includes an estimate for forfeitures and is recognized over the vesting term using the ratable method. Prior to the Company's adoption of SFAS 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS 123R requires that such benefits be recorded as a financing cash inflow rather than as a reduction of taxes paid.

The future compensation expense affecting earnings before income taxes for options outstanding at March 1, 2009 will be \$2,026.

The weighted average fair value for options was estimated at the dates of grants using the Black-Scholes option-pricing model to be \$3.22 for fiscal year 2009, \$10.30 for fiscal year 2008 and \$10.84 for fiscal year 2007, with the following assumptions: risk free interest rate of 2.75%–4.00% for fiscal year 2009, 4.75% for fiscal year 2008 and 4.0%–5.0% for fiscal year 2007; expected volatility factors of 27.5%–32.5%, 32.1%–32.4% and 34.4%–58.8% for fiscal years 2009, 2008 and 2007, respectively; expected dividend yield of 1.18%–1.77% for fiscal year 2009, 1.06% for fiscal year 2008 and 1.0%–1.6% for fiscal year 2007; and estimated option terms of 4.7–5.6 years for fiscal year 2009, 5.2–5.4 years for fiscal year 2008 and 4.0–5.6 years for fiscal year 2007.

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

Information with respect to options follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, February 26, 2006	1,003,454	\$20.80
Granted	174,700	25.35
Exercised	(80,236)	17.85
Terminated or expired	(31,291)	26.07
Balance, February 25, 2007	1,066,627	\$21.61
Granted	168,150	30.29
Exercised	(152,086)	17.74
Terminated or expired	(41,952)	25.27
Balance, March 2, 2008	1,040,739	\$23.50
Granted	146,850	26.36
Exercised	(123,649)	18.07
Terminated or expired	(81,213)	26.72
<b>Balance March 1, 2009</b>	<b>982,727</b>	<b>24.35</b>
<b>Exercisable March 1, 2009</b>	<b>644,742</b>	<b>\$22.82</b>

At March 1, 2009, 982,727 stock options were outstanding having a weighted average remaining contract term of 5.53 years and an aggregate intrinsic value of \$0. At March 1, 2009, 644,742 stock options were exercisable having a weighted average remaining contract term of 3.94 years and an aggregate intrinsic value of \$0.

A summary of the status of the Company's nonvested options at March 1, 2009, and changes during the fiscal year then ended, is presented below:

	Shares Subject to Options	Weighted Average Grant Date Fair Value
Nonvested, beginning		
of year	361,372	\$9.90
Granted	146,850	3.22
Vested	(116,875)	9.55
Terminated	(53,362)	9.69
Nonvested, end of year	<u>337,985</u>	\$7.16

The total values realized (the market value of the underlying shares on the date of exercise, less the exercise price, times the number of shares acquired) from the exercise of options during the 2009, 2008 and 2007 fiscal years were \$1,259,

\$1,889 and \$1,153, respectively. Stock options available for future grant under the 2002 Stock Option Plan at March 1, 2009 and March 2, 2008 were 1,046,606 and 223,193, respectively.

## 9. Stockholders' Equity

a. *Stockholders' Rights Plan*—On July 20, 2005, the Board of Directors renewed the Company's stockholders' rights plan on substantially the same terms as its previous rights plan which expired in July 2005. In accordance with the Company's stockholders' rights plan, a right (the "Right") to purchase from the Company a unit consisting of one one-thousandth (1/1000) of a share (a "Unit") of Series B Junior Participating Preferred Stock, par value \$1.00 per share (the "Series B Preferred Stock"), at a purchase price of \$150 (the "Purchase Price") per Unit, subject to adjustment, is attached to each outstanding share of the Company's common stock. The Rights expire on July 20, 2015. Subject to certain exceptions, the Rights will become exercisable 10 business days after a person acquires 20 percent or more of the Company's outstanding common stock or commences a tender offer that would result in such person's owning 20 percent or more of such stock. If any person acquires 20 percent or more of the Company's outstanding common stock, the rights of holders, other than the acquiring person, become rights to buy shares of the Company's common stock (or of the acquiring company if the Company is involved in a merger or other business combination and is not the surviving corporation) having a market value of twice the Purchase Price of each Right. The Company may redeem the Rights for \$.01 per Right until 10 business days after the first date of public announcement by the Company that a person acquired 20 percent or more of the Company's outstanding common stock.

b. *Reserved Common Shares*—At March 1, 2009, 2,029,333 shares of common stock were reserved for issuance upon exercise of stock options.

c. *Accumulated Other Comprehensive Income*—Accumulated balances related to each component of other comprehensive income were as follows:

	March 1, 2009	March 2, 2008
Currency translation adjustment	\$1,568	\$7,227
Unrealized gains (losses) on investments	54	209
Accumulated balance	<u>\$1,622</u>	<u>\$7,436</u>

d. *Dividends Declared*—On July 19, 2007, the Company announced that its Board of Directors had declared a special cash dividend of \$1.50 per share, which was paid August 22, 2007 and was in addition to the Company's regular quarterly cash dividends of \$0.08 per share.

## 10. Earnings Per Share

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

The following table sets forth the calculation of basic and diluted earnings per share for the last three fiscal years:

	2009	2008	2007
Net earnings from continuing operations	\$18,514	\$34,679	\$39,791
Gain from discontinued operations	16,486	—	—
Net earnings	<u>\$35,000</u>	<u>\$34,679</u>	<u>\$39,791</u>
Weighted average common shares outstanding for basic EPS	20,441,354	20,305,199	20,175,422
Net effect of dilutive options	44,762	59,004	141,418
Weighted average shares outstanding for diluted EPS	<u>20,486,116</u>	<u>20,364,203</u>	<u>20,316,840</u>
Basic earnings per share:			
Net earnings from continuing operations	\$ 0.90	\$ 1.71	\$ 1.97
Gain from discontinued operations	0.81	—	—
Basic earnings per share	<u>\$ 1.71</u>	<u>\$ 1.71</u>	<u>\$ 1.97</u>
Diluted earnings per share:			
Net earnings from continuing operations	\$ 0.90	\$ 1.70	\$ 1.96
Gain from discontinued operations	0.81	—	—
Diluted earnings per share	<u>\$ 1.71</u>	<u>\$ 1.70</u>	<u>\$ 1.96</u>

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Common stock equivalents, which were not included in the computation of diluted earnings per share because either the effect would have been antidilutive or the options' exercise prices were greater than the average market price of the common stock, were 123,503, 10,885 and 3,619 for the fiscal years 2009, 2008 and 2007, respectively.

**11. Discontinued Operations and Pension Liability**

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

In the 2009 fiscal year fourth quarter, the Company recognized a gain of \$16,486 related to the reversal of these liabilities as a result of the Company's judgment that the incurrence of such liabilities is remote based on certain legal proceedings in Germany.

Liabilities for discontinued operations as of March 1, 2009 were nil. Liabilities for discontinued operations as of March 2, 2008 consisted of the following:

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

**12. Realignment and Severance Charges**

In the 2009 fiscal year fourth quarter, the Company recorded one-time pre-tax charges of \$5,688 related to the closure of the Company's New England Laminates Co., Inc. electronic materials business unit located in Newburgh, New York and the closure of the Company's Neltec Europe SAS electronic materials business unit located in Mirebeau, France and related

to an asset impairment and workforce reduction at the Company's Nelco Products Pte. Ltd. electronic materials and advanced composite materials business unit in Singapore. The charges for the closure of the business units included a non-cash asset impairment charge of \$650 and were net of the recapture of non-cash cumulative currency translation adjustments of \$3,957. In the 2009 fiscal year third quarter, the Company recorded a pre-tax charge of \$570 related to restructurings at certain of its North American and European business units. The Company paid \$3,045 of these charges during the 2009 fiscal year and expects to pay the remaining \$3,213 during the 2010 fiscal year.

In the 2008 fiscal year fourth quarter, the Company recorded a charge of \$1,362 for employment termination benefits and other expenses resulting from a restructuring and workforce reduction at the Company's Neltec Europe SAS business unit. The Company paid \$626 of these charges during the 2008 fiscal year and paid the remaining \$736 during the 2009 fiscal year.

During the 2004 fiscal year, the Company recorded charges related to the realignment of its North America volume printed circuit materials operations. The charges were for employment termination benefits of \$1,258, which were fully paid in fiscal year 2004, and lease and other obligations of \$7,292. All costs other than the lease obligations were settled prior to fiscal year 2007. The future lease obligations are payable through September 2013. The remaining balances on the lease obligations relating to the realignment were \$3,209 and \$3,706 as of March 1, 2009 and March 2, 2008, respectively. The Company applied \$497 and \$443 of payments against this liability during the 2009 and 2008 fiscal years, respectively.

**13. Insurance Arrangement Termination Charge**

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

termination of the insurance arrangement involved a payment of \$1,335 by the Company to Mr. Shore in January 2007. Such termination and payment resulted in a net cash cost to the Company of \$685, after the Company's receipt of a portion of the cash surrender value of the life insurance policies. The Company recorded a pre-tax charge of \$1,316 in the 2007 fiscal year in connection with this termination and recognized a \$499 tax benefit relating to this insurance termination charge.

#### 14. Employee Benefit Plans

a. *Profit Sharing Plan*—The Company and certain of its subsidiaries have a non-contributory profit sharing retirement plan covering their regular full-time employees. The plan may be modified or terminated at any time, but in no event may any portion of the contributions revert back to the Company. The Company's estimated contributions are accrued at the end of each fiscal year and paid to the plan in the subsequent fiscal year. The Company's actual contributions to the plan were \$833 and \$900 for fiscal years 2008 and 2007, respectively. The contribution for fiscal year 2009 has not been paid. Contributions are discretionary and may not exceed the amount allowable as a tax deduction under the Internal Revenue Code.

b. *Savings Plan*—The Company also sponsors a 401(k) savings plan, pursuant to which the contributions of employees of certain subsidiaries were partially matched by the Company in the amounts of \$210, \$222 and \$247 in fiscal years 2009, 2008 and 2007, respectively.

#### 15. Commitments

The Company conducts certain of its operations in leased facilities, which include several manufacturing plants, warehouses and offices. The leases on facilities are for terms of up to 10 years, the latest of which expires in 2015. Many of the leases contain renewal options for periods ranging from one to ten years and require the Company to pay real estate taxes and other operating costs. The latest land lease expiration is 2054.

These non-cancelable operating leases have the following payment schedule.

Fiscal Year	Amount
2010	\$2,335
2011	1,935
2012	1,359
2013	966
2014	679
Thereafter	1,480
	\$8,754

Rental expenses, inclusive of real estate taxes and other costs, were \$2,721, \$2,465 and \$2,047 for fiscal years 2009, 2008 and 2007, respectively.

In addition, the Company has commitments to purchase equipment for its development and manufacturing facility in Newton, Kansas of \$3,483.

#### 16. Contingencies

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

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

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

## Notes to Consolidated Financial Statements (continued)

Three years ended March 1, 2009

(In thousands, except share, per share and option amounts)

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

The total costs incurred by the Company and its subsidiaries in connection with these sites, including legal fees incurred by the Company and its subsidiaries and their assessed share of remediation costs and excluding amounts paid or reimbursed by insurance carriers, were approximately \$117, \$11 and \$13 in fiscal years 2009, 2008 and 2007, respectively. The recorded liabilities included in accrued liabilities for environmental matters were \$844, \$1,577 and \$1,757 for fiscal years 2009, 2008 and 2007, respectively.

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

Included in cost of sales are charges for actual expenditures and accruals, based on estimates, for certain environmental matters described above. The Company accrues estimated costs associated with known environmental matters, when such costs can be reasonably estimated and when the outcome appears probable. The Company believes that the ultimate disposition of known environmental matters will not have a material adverse effect on the liquidity, capital resources, business or consolidated results of operations or financial position of the Company. However, one or more of such environmental matters could have a significant negative impact on the Company's consolidated results of operations or financial position for a particular reporting period.

c. *Acquisition*—The Company is obligated to pay up to an additional \$5,500 over five years depending on the achievement of specified earn-out objectives in connection with the acquisition by the Company's wholly owned subsidiary, Park Aerospace Structures Corp., of substantially all the assets and business of Nova Composites, Inc., a manufacturer of composite parts and the tooling for such parts, located in Lynnwood, Washington, in addition to a cash purchase price of \$4,500 paid at the closing of the acquisition on April 1, 2008. The Company is in the process of determining the additional amount, if any, up to \$1,100, payable for the first year.

### 17. Geographic Regions

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

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

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

	Fiscal Year		
	2009	2008	2007
Sales:			
North America	\$103,772	\$120,953	\$137,897
Europe	22,804	30,533	37,363
Asia	73,486	90,366	82,117
Total sales	<u>\$200,062</u>	<u>\$241,852</u>	<u>\$257,377</u>
Long-lived assets:			
North America	\$ 41,423	\$ 25,069	\$ 25,600
Europe	1,112	4,552	4,659
Asia	21,113	26,747	25,331
Total long-lived assets	<u>\$ 63,648</u>	<u>\$ 56,368</u>	<u>\$ 55,590</u>

## 18. Customer and Supplier Concentrations

a. *Customers*—Sales to Sanmina-SCI Corporation were 13.6%, 13.4% and 16.7% of the Company's total worldwide sales for fiscal years 2009, 2008 and 2007, respectively. Sales to TTM Technologies Inc. ("TTM") were 12.1%, 10.8% and 10.7% of the Company's total worldwide sales for fiscal years 2009, 2008 and 2007, respectively. The sales to TTM during the 2007 fiscal year included sales to Tyco Printed Circuit Group L.P., which was acquired by TTM during the Company's 2007 fiscal year.

While no other customer accounted for 10% or more of the Company's total worldwide sales in fiscal years 2009, 2008 and 2007, and the Company is not dependent on any single customer, the loss of a major printed circuit materials customer or of a group of customers could have a material adverse effect on the Company's business or consolidated results of operations or financial position.

b. *Sources of Supply*—The principal materials used in the manufacture of the Company's high-technology printed circuit materials and advanced composite materials and parts are specially manufactured copper foil, fiberglass cloth and synthetic reinforcements, and specially formulated resins and chemicals. Although there are a limited number of qualified suppliers of these materials, the Company has nevertheless identified alternate sources of supply for each of such materials. While the Company has not experienced significant problems in the delivery of these materials and considers its relationships with its suppliers to be strong, a disruption of the supply of material from a principal supplier could adversely affect the Company's business. Furthermore, substitutes for these materials are not readily available and an inability to obtain essential materials, if prolonged, could materially adversely affect the Company's business.

## 19. Recently Issued Accounting Pronouncements

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

## 20. Acquisition

On April 1, 2008, the Company's wholly owned subsidiary, Park Aerospace Structures Corp., acquired substantially all the assets and business of Nova Composites, Inc. located in Lynnwood, Washington for a cash purchase price of \$4,500 paid at the closing of the acquisition and up to an additional \$5,500 payable over five years depending on the achievement of specified earn-out objectives. Park Aerospace Structures Corp. manufactures aircraft composite parts and the tooling for such parts. Park's composite parts product line is marketed and sold as Park's Nova™ product line.

The allocation of the purchase price is as follows:

Current assets	\$ 181
Fixed assets	174
Intangibles	<u>4,457</u>
Total assets acquired	4,812
Current liabilities assumed	<u>(84)</u>
Total Purchase Price	<u>\$4,728</u>

## Selected Quarterly Financial Data (Unaudited)

*(In thousands, except per share amounts)*

	Quarter			
	First	Second	Third	Fourth
<b>Fiscal 2009:</b>				
Net sales	\$59,800	\$55,599	\$49,166	\$35,497
Gross profit	14,573	10,953	9,786	8,112
Net earnings from continuing operations	7,557	4,937	2,934	3,086
Discontinued operations	—	—	—	16,486
Net Earnings	7,557	4,937	2,934	19,572
Basic earnings per share:				
Net earnings from continuing operations	\$ 0.37	\$ 0.24	\$ 0.14	\$ 0.15
Discontinued operations	\$ —	\$ —	\$ —	\$ 0.81
Net earnings per share	\$ 0.37	\$ 0.24	\$ 0.14	\$ 0.96
Diluted earnings per share:				
Net earnings from continuing operations	\$ 0.37	\$ 0.24	\$ 0.14	\$ 0.15
Discontinued operations	\$ —	\$ —	\$ —	\$ 0.81
Net earnings per share	\$ 0.37	\$ 0.24	\$ 0.14	\$ 0.96
Weighted average common shares outstanding:				
Basic	20,366	20,458	20,471	20,471
Diluted	20,430	20,520	20,512	20,483
<b>Fiscal 2008:</b>				
Net sales	\$57,077	\$60,541	\$63,653	\$60,581
Gross profit	14,109	16,435	16,076	15,834
Net earnings	7,411	9,160	8,777	9,331
Basic earnings per share:				
Net earnings per share	\$ 0.37	\$ 0.45	\$ 0.43	\$ 0.46
Diluted earnings per share:				
Net earnings per share	\$ 0.37	\$ 0.45	\$ 0.43	\$ 0.46
Weighted average common shares outstanding:				
Basic	20,206	20,325	20,340	20,347
Diluted	20,235	20,405	20,452	20,362

Earnings per share are computed separately for each quarter. Therefore, the sum of such quarterly per share amounts may differ from the total for the years.