

HALOZYME THERAPEUTICS INC

Form 424B3

September 10, 2004

Filed Pursuant to Rule 424 (b) (3) and (c)
File No. 333-114776

HALOZYME THERAPEUTICS, INC.

PROSPECTUS SUPPLEMENT NO. 2
(TO PROSPECTUS DATED AUGUST 12, 2004)

This prospectus supplement supplements the Halozyme Therapeutics, Inc. prospectus dated August 12, 2004, as previously supplemented by the Prospectus Supplement dated August 18, 2004, relating to the sale of up to 29,508,664 shares of our common stock by certain selling security holders. This Prospectus Supplement No. 2 should be read in conjunction with the prospectus and the previous supplement dated August 18, 2004, and this Prospectus Supplement No. 2 is qualified by reference to the prospectus and the previous supplement dated August 18, 2004, except to the extent that the information provided by this Prospectus Supplement No. 2 supersedes the information contained in the prospectus.

SEE RISK FACTORS BEGINNING ON PAGE 5 OF THE PROSPECTUS TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE MAKING A DECISION TO PURCHASE OUR COMMON STOCK.

The shares offered or sold under this prospectus have not been approved by the Securities and Exchange Commission or any state securities commission nor have any of these organizations determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 2 is September 10, 2004.

The sections of the prospectus, dated August 12, 2004, titled **Selling Security Holders** and **Plan of Distribution** are superseded in their entirety by the following:

SELLING SECURITY HOLDERS

The shares are being offered by certain selling security holders. The selling security holders may from time to time offer and sell pursuant to this prospectus up to an aggregate of 29,508,664 shares of our common shares now owned by them or issuable to them upon the exercise of warrants. The selling security holders may, from time to time, offer and sell any or all of the shares that are registered under this prospectus. Because the selling security holders are not obligated to sell their shares, and because the selling security holders may also acquire publicly traded shares of our common stock, we cannot estimate how many shares the selling security holders will own after the offering.

Except for Mark Wilson, who currently serves as our Vice President of Business Development, none of the selling security holders has ever held an office, been a director or have had any other material relationship with Global, Halozyne or its predecessor.

Pursuant to the stock purchase agreements with certain selling security holders, all expenses incurred with respect to the registration of the common stock will be borne by us, but we will not be obligated to pay any underwriting fees, discounts, commissions or other expenses incurred by them in connection with the sale of such shares.

The following table sets forth, with respect to the selling security holders: (i) the number of shares of common stock beneficially owned as of August 12, 2004 and prior to the offering contemplated hereby, and (ii) the percentage of shares of common stock beneficially owned as of August 12, 2004.

Security Holders	Shares of Common Stock Being Registered	Shares of Common Stock Issuable Upon Exercise of Warrants	Total Shares of Common Stock Equivalents Being Registered	Shares of Common Stock Beneficially Owned But NOT Being Registered	Total Shares of Common Stock Beneficially Owned	Total Beneficial Ownership%
Adam K. Stern	40,000	20,000	60,000		60,000	0.15%
Anthony Salandra	68,798	61,298	130,096		130,096	0.33%
Arianna Sheree Lynch	2,407		2,407		2,407	0.01%
Asia Pacific Imports	50,000	25,000	75,000		75,000	0.19%
Autry Qualified Interest Trust	200,000	100,000	300,000		300,000	0.76%
Baybridge Capital Corp.	512,349	187,425	699,774		699,774	1.77%
BioGrowth, Inc.	512,349	187,425	699,774		699,774	1.77%
Bonanza Master Fund, LTD	600,000	300,000	900,000		900,000	2.27%
Brean Murray & Co. Inc.	50,000	364,284	414,284		414,284	1.04%
Cantonal Corporation	300,001	150,000	450,001	45,000	495,001	1.25%
Centrum Bank AG	200,000	100,000	300,000		300,000	0.76%
Cimarron Biomedical Investors	200,000	100,000	300,000		300,000	0.76%
Cindy Ullman	5,000	2,500	7,500		7,500	0.02%
Colleen Paffie	8,800		8,800		8,800	0.02%
Curtis Leahy	405,000		405,000		405,000	1.03%
Darren Blanton	562,788	442,788	1,005,576		1,005,576	2.52%
David Hochman	10,000	5,000	15,000		15,000	0.04%

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Dr. Donald Cramer	2,500	1,250	3,750	3,750	0.01%
Dr. Leonard Makowka	10,000	5,000	15,000	15,000	0.04%

Security Holders	Shares of Common Stock Being Registered	Shares of Common Stock Issuable Upon Exercise of Warrants	Total Shares of Common Stock Equivalents Being Registered	Shares of Common Stock Beneficially Owned But NOT Being Registered	Total Shares of Common Stock Beneficially Owned	Total Beneficial Ownership%
Equine Consultants Ltd.	107,500		107,500		107,500	0.27%
Erietta Papakosta	100,000	50,000	150,000		150,000	0.38%
Forest Hill Select Fund, LP	320,000	160,000	480,000		480,000	1.21%
Franklin H. Nyi	80,000	40,000	120,000		120,000	0.30%
Garfield Associates, LLC	20,000	10,000	30,000		30,000	0.08%
Gene Salkind, MD	160,000	80,000	240,000	150,000	390,000	0.99%
Gibralt Capital Corporation	400,000	200,000	600,000		600,000	1.51%
Grant Bettingen, Inc.	41,298		41,298		41,298	0.10%
Harvest International	107,596	107,596	215,192		215,192	0.54%
Harvey Anderson	53,798	53,798	107,596		107,596	0.27%
Harvey Grossman	8,800		8,800		8,800	0.02%
Henri Talerman	80,000	40,000	120,000		120,000	0.30%
Hyde Family Trust	80,000	40,000	120,000		120,000	0.30%
Jacqueline Autry	40,000	20,000	60,000		60,000	0.15%
Janelle Noelle Lynch	2,407		2,407		2,407	0.01%
Jardine, McManus, Murphy & Moore, LTD	30,000		30,000		30,000	0.08%
Jason Daggett	37,905		37,905		37,905	0.10%
Jeffrey Geddes	8,800		8,800		8,800	0.02%
Jerome Morgan	8,800	4,400	13,200		13,200	0.03%
Jesse Grossman	1,243,225	633,885	1,877,110		1,877,110	4.69%
Jesse Grossman Accountancy Corp. Retirement Trust	474,890	211,570	686,460		686,460	1.73%
John Paul DeJoria	80,000	40,000	120,000		120,000	0.30%
John S. Lemak	80,000	40,000	120,000		120,000	0.30%
Jonathan Spanier	1,209,423	661,886	1,871,309		1,871,309	4.67%
Jonathan Spanier Custodian for Esme Spanier under CUTMA, age 21	50,000		50,000		50,000	0.13%
Keith Granirer	7,500	3,750	11,250		11,250	0.03%
Ken Rickel	445,192	330,192	775,384		775,384	1.95%
Ken Y. Leung	80,000	40,000	120,000		120,000	0.30%
Kerry McVey	53,798	53,798	107,596		107,596	0.27%
Kimberly Craig Woodworth	20,000	10,000	30,000		30,000	0.08%
Kingsbridge Capital	150,000	75,000	225,000		225,000	0.57%
Laura Stone	8,800	4,400	13,200	1,315	14,515	0.04%

Security Holders	Shares of Common Stock Being Registered	Shares of Common Stock Issuable Upon Exercise of Warrants	Shares of Common Stock Total Shares of Common Stock Equivalents Being Registered	Shares of Common Stock Beneficially Owned But NOT Being Registered	Total Shares of Common Stock Beneficially Owned	Total Beneficial Ownership%
Lawrence Diamant	3,500	1,750	5,250		5,250	0.01%
Lincoln Associates, LLC	20,000	10,000	30,000		30,000	0.08%
Linda May Stone	40,000	20,000	60,000	100	60,100	0.15%
Lore E. Stone	24,000	12,000	36,000		36,000	0.09%
Louis F. Burke PC Retirement Trust	20,000	10,000	30,000		30,000	0.08%
Louis Spanier	25,000		25,000		25,000	0.06%
Marc Rose	208,000	104,000	312,000		312,000	0.79%
Mark Emalfarb Custodian for Ashley Emalfarb	8,000	4,000	12,000		12,000	0.03%
Mark Emalfarb Custodian for Hailey Emalfarb	8,000	4,000	12,000		12,000	0.03%
Mark Wilson	50,000		50,000		50,000	0.13%
Matthew Markin	80,000	40,000	120,000	18,500	138,500	0.35%
Michael Clofine	53,798	53,798	107,596		107,596	0.27%
Michael P. Marcus	80,000	40,000	120,000		120,000	0.30%
Michael Stone	577,394	369,394	946,788		946,788	2.38%
Nadine Smith	319,193	209,596	528,789		528,789	1.33%
Odyssey Holdings Ltd. Oppenheimer & Co. Inc. Custodian for Jonathan Spanier IRA Rollover	512,349	187,425	699,774		699,774	1.77%
Patricia Fox	474,890	211,570	686,460		686,460	1.73%
Paul Geddes	8,800		8,800		8,800	0.02%
Paul Rosenberg	8,800		8,800		8,800	0.02%
Paula Rubino	53,798	53,798	107,596		107,596	0.27%
Peter Geddes	8,800		8,800		8,800	0.02%
Peter Geddes Custodian for Avery Geddes under CUTMA, age 21	1,579,118	737,758	2,316,876	85,500	2,402,376	6.08%
Peter Geddes Custodian for Campbell Geddes under CUTMA, age 21	20,000		20,000		20,000	0.05%
Peter Geddes Custodian for Lily Geddes under CUTMA, age 21	50,000	25,000	75,000		75,000	0.19%
Peter Geddes Custodian for Zachary Geddes under CUTMA, age 21	50,000	25,000	75,000		75,000	0.19%
	20,000		20,000		20,000	0.05%

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Peter Graffman	75,000	12,500	87,500	87,500	0.22%
Peter Kosa	100,000	50,000	150,000	150,000	0.38%
Ram Trading, Ltd.	1,000,000	500,000	1,500,000	1,500,000	3.76%

Security Holders	Shares of Common Stock Being Registered	Shares of Common Stock Issuable Upon Exercise of Warrants	Total Shares of Common Stock Equivalents Being Registered	Shares of Common Stock Beneficially Owned But NOT Being Registered	Total Shares of Common Stock Beneficially Owned	Total Beneficial Ownership%
Richard Genovese	1,242,404	836,394	2,078,798	400,027	2,478,825	6.16%
Roth Capital Partners, LLC		300,000	300,000		300,000	0.76%
Saiph T Corporation	12,500		12,500		12,500	0.03%
Sandor Capital Master Fund, L.P.	250,000	125,000	375,000		375,000	0.95%
Sandy Geddes	8,800		8,800		8,800	0.02%
Sean Fitzpatrick	25,000	12,500	37,500		37,500	0.10%
Sean Dignan	2,000		2,000		2,000	0.01%
Shai Z. Stern	120,000	60,000	180,000	50,000	230,000	0.58%
Spectrum Advisors, Ltd.	332,596	157,596	490,192	3,000	493,192	1.25%
Stephanie Spanier	50,000		50,000		50,000	0.13%
Steven S. Vender	45,000	22,500	67,500	5,000	72,500	0.18%
TBG America Inc.	80,000	40,000	120,000		120,000	0.30%
The Ward Family Foundation	120,000	60,000	180,000		180,000	0.46%
University Finance, Inc.	889,033	725,406	1,614,439		1,614,439	4.02%
Vertical Ventures, LLC	200,000	100,000	300,000		300,000	0.76%
Vitel Ventures Corp.	657,426	328,713	986,139	32,248	1,018,387	2.56%
Whitney & Clarkia Wilson Trust	50,000		50,000	50,000	100,000	0.25%
William F. Miller III	113,798	30,000	143,798		143,798	0.36%
Winnie Huang	40,000	20,000	60,000		60,000	0.15%
Total	19,046,721	10,461,943	29,508,664	840,690	30,349,354	76.21%

Subject to applicable exceptions set forth by the Securities and Exchange Commission, transferees, pledgees, donees or successors to the selling security holders named in the prospectus may not offer and sell securities pursuant to the prospectus unless we supplement or amend the prospectus to reflect the required information concerning such transferees, pledgees, donees or successors.

PLAN OF DISTRIBUTION

The selling security holders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell all or any part of their shares of common stock offered hereby on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling security holders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales;

broker-dealers may agree with the selling security holders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling security holders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this Prospectus. The selling security holders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities, and may sell or deliver shares in connection with these trades. The selling security holders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling security holder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the selling security holders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling security holders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling security holders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling security holders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. Any selling security holders that are broker-dealers or broker-dealer affiliates will be deemed to be underwriters within the meaning of the Securities Act in connection with any sales of the shares by them. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Of the selling security holders, Brean Murray & Co., Grant Bettingen, Inc. and Roth Capital Partners, LLC are each broker-dealers. Additionally, Curtis Leahy and Sean Dignan, who are both registered representatives of Grant Bettingen, Inc., are affiliates of a broker-dealer.

Because selling security holders may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act, the selling security holders will be subject to the prospectus delivery requirements of the Securities Act and the rules promulgated thereunder. We have informed the selling security holders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales in the market.

We are required to pay all fees and expenses (excluding selling expenses) incident to the registration of the shares being registered herein, including fees and disbursements of counsel to the selling security holders. We have agreed to indemnify certain of the selling security holders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

After being notified by a selling security holder that any material arrangement has been entered into with a broker-dealer or underwriter for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker, dealer or underwriter, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling security holder and of the participating broker-dealer(s) or underwriter(s), (ii) the number of shares involved, (iii) the price at which such shares were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s) or

underwriter(s), where applicable, (v) that such broker-dealer(s) or underwriter(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus and (vi) other facts material to the transaction. Individuals and entities who receive shares from the selling security holders as a gift or in connection with a pledge may sell up to 500 of such shares pursuant to this prospectus.

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Total liabilities of discontinued operations

\$ 641

\$11,237

4.

Goodwill

Changes to goodwill during the six months ended December 31, 2006 were as follows (in thousands):

Balance at June 30, 2006	\$73,272
Additions	305
Dispositions	--
Translation Adjustment	<u>(509)</u>
Balance at December 31, 2006	<u>\$73,068</u>

During the six months ended December 31, 2006, the Company recorded an additional \$281,000 in connection with the acquisition of Innovent and the related costs to relocate and consolidate the Netherlands based operations to Germany.

5.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first in, first out method. Inventories at December 31, 2006 and June 30, 2006 are comprised of the following (in thousands):

	December 31, <u>2006</u>	June 30, <u>2006</u>
Raw materials	\$42,581	\$35,184
Work in process	21,166	20,352
Finished goods	<u>21,701</u>	<u>20,215</u>
Total	<u>\$85,448</u>	<u>\$75,751</u>

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying Condensed Statements of Consolidated Income and were as follows for the three- and six-month periods ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Quarter	\$6,158	\$6,456
Year-to-date	\$13,016	\$13,360

6.

Debt

Debt is comprised of the following (in thousands):

	December 31, <u>2006</u>	June 30, <u>2006</u>
Bank credit agreements	\$39,000	\$ 64,000
Institutional investors note purchase agreements		
5.94% to 6.80% (due 2007-2013)	46,429	50,000
Other 3.62% to 7.25% (due 2007-2019)	<u>3,958</u>	<u>3,602</u>
Total	89,387	117,602
Less current portion	<u>(4,229)</u>	<u>(3,873)</u>
Total long-term debt	<u>\$85,158</u>	<u>\$113,729</u>

The Company has a five year \$150 million revolving credit facility (the facility) with nine participating banks, which expires in December 2010. Proceeds under the facility may be used for general corporate purposes or to provide financing for acquisitions. The agreement contains certain covenants including limitations on indebtedness and liens.

Borrowings under the agreement bear interest at a rate equal to the sum of a base rate or a Eurodollar rate, plus an applicable percentage based on the Company's consolidated leverage ratio, as defined by the agreement. The effective interest rate at December 31, 2006 was 6.075%. Borrowings under the agreement are not collateralized. As of December 31, 2006, the Company had the ability to borrow an additional \$110.0 million under the agreement.

The Company's loan agreements contain certain provisions relating to the maintenance of certain financial ratios and

restrictions on additional borrowings and investments. The most restrictive of these provisions requires that the Company maintain a minimum ratio of earnings to funded debt, as defined, on a trailing twelve months basis. At December 31, 2006, the Company was in compliance with all debt covenants.

Debt is due as follows (in thousands):

2007	\$ 658
2008	3,571
2009	28,571
2010	42,571
2011	3,571
Thereafter	10,445

7.

Retirement Benefits

In the fiscal year ended June 30, 2006, the Company recorded a net pension and post retirement expense of \$7.6 million. The Company expects to report a net pension and post retirement expense of approximately \$6.7 million in the current fiscal year. Pension and other post-retirement expense for the three- and six-month periods ending December 31, 2006 and 2005 were as follows (in thousands):

U.S. Plans:

	Pension Benefits				Other Post Retirement Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	December 31,		December 31,		December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service cost	\$ 1,101	\$ 1,347	\$ 2,202	\$ 2,694	\$ 5	\$ 5	\$ 11	\$ 10
Interest cost	3,065	2,962	6,130	5,924	32	34	64	68
Expected return on plan assets	(4,067)	(4,050)	(8,134)	(8,100)	--	--	--	--
Amortization of prior service costs	43	1	86	122	--	--	--	--
Curtailment	--	--	334	--	--	--	--	--
Recognized actuarial loss	1,011	61	2,022	2,292	(14)	(11)	(28)	(22)
Amortization of transition (asset)/obligation	<u>1</u>	<u>1,146</u>	<u>2</u>	<u>2</u>	<u>56</u>	<u>56</u>	<u>113</u>	<u>112</u>
Net periodic benefit cost	<u>\$ 1,154</u>	<u>\$ 1,467</u>	<u>\$ 2,642</u>	<u>\$ 2,934</u>	<u>\$ 79</u>	<u>\$ 84</u>	<u>\$160</u>	<u>\$168</u>

Foreign Plans:

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Service cost	\$ 45	\$ 218	\$ 90	\$ 436

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Interest cost	458	406	916	812
Expected return on plan assets	(375)	(313)	(750)	(626)
Amortization of prior service costs	217	(13)	434	(26)
Recognized actuarial loss	<u>7</u>	<u>166</u>	<u>14</u>	<u>332</u>
Net periodic benefit cost	<u>\$ 352</u>	<u>\$ 464</u>	<u>\$ 704</u>	<u>\$ 928</u>

The six months includes a curtailment charge of \$334,000 recorded as a result of the disposition of the Consumer Group. Contributions to pension plans in the first six months of fiscal 2007 were approximately \$3.4 million. Contributions based on current actuarial evaluations are expected to total \$3.7 million for all of fiscal 2007, including planned voluntary contributions. Cash contributions in subsequent years will depend upon a number of factors including the investment performance of the plan assets and changes in employee census data affecting the Company's projected benefit obligations.

8.

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		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Basic Average shares outstanding	12,219	12,258	12,219	12,246
Effect of dilutive securities				
Stock options				
and unvested stock awards	<u>179</u>	<u>328</u>	<u>198</u>	<u>319</u>
Diluted Average shares outstanding	<u>12,398</u>	<u>12,586</u>	<u>12,417</u>	<u>12,565</u>

Income available to common stockholders is the same for computing both basic and diluted earnings per share. Options to purchase 3,190 and 72,470 shares of common stock were not included in the computation of diluted earnings per share for the three months ended December 31, 2006 and 2005, respectively. Options to purchase 3,190 and 77,470 shares of common stock were not included in the computation of diluted earnings per share for the six months ended December 31, 2006 and 2005, respectively. Such options have been excluded because the options exercise prices were greater than the average market price of the common stock on those dates and, as a result, their inclusion would have been antidilutive.

9.

Restructuring

The Company periodically incurs costs associated with activities to close underutilized facilities, relocate operations or other exit related activities. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, these charges are recorded when a liability has been incurred or a severance plan was initiated. A summary of the charges is as follows (in thousands):

Six Months Ended December 31,

**Involuntary
Employee
Severance
and Benefit
Costs Shutdown
Costs Total**

Expense Fiscal 2007

Cash expended	\$100	\$ 60	\$160
Accrual/non-cash	<u>25</u>	<u>105</u>	<u>130</u>
Total expense	<u>\$125</u>	<u>\$165</u>	<u>\$290</u>

Expense Fiscal 2006

Cash expended	\$208	\$368	\$576
Accrual/non-cash	<u>73</u>	<u>139</u>	<u>212</u>
Total expense	<u>\$281</u>	<u>\$507</u>	<u>\$788</u>

Six Months Ended

December 31,

	<u>2006</u>	<u>2005</u>
<u>Accrued Balances</u>		
Balance, beginning of period	\$ 105	\$ 301
Payments	(265)	(912)
Additional accrual	<u>290</u>	<u>788</u>
Balance, end of period	<u>\$ 130</u>	<u>\$ 177</u>

The restructuring costs related to the following segments:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Food Service Equipment Group	\$ --	\$ 418	\$ --	\$ 470
Air Distribution Products Group	--	119	--	233
Hydraulics Products Group	--	--	--	--
Engraving Group	--	77	--	85
Engineered Products	<u>184</u>	<u>--</u>	<u>290</u>	<u>--</u>
Total expense	<u>\$ 184</u>	<u>\$ 614</u>	<u>\$ 290</u>	<u>\$ 788</u>

10.

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 its business. We are currently party to a contract dispute relating to a technology licensing agreement. The dispute arose over whether the Company had the right to terminate the licensing agreement. This dispute is currently in discovery and will be heard by an arbitrator in the near future. We expect that the outcome will be favorable and the ultimate resolution will not be material to the Company, however, we expect the matter will increase legal costs over the next six months.

Liabilities are recorded when the amount can be reasonably estimated and the liability is likely to arise. Management has evaluated each matter based, in part, upon the advice of its independent environmental consultants and in-house personnel. Management has considered such matters and believes the ultimate resolution will not be material to the Company's financial position, results of operations or cash flows.

11.

Comprehensive Income

Total comprehensive income and its components for the three and six months ended December 31, 2006 and 2005 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income:	\$4,818	\$5,362	\$16,949	\$10,791
Other comprehensive gains (losses):				
Foreign currency translation adjustment	<u>(18)</u>	<u>1,797</u>	<u>358</u>	<u>3,317</u>
Comprehensive income	<u>\$4,800</u>	<u>\$7,159</u>	<u>\$17,307</u>	<u>\$14,108</u>

The components of accumulated other comprehensive losses are as follows (in thousands):

	December 31,	June 30,
	<u>2006</u>	<u>2006</u>
Foreign currency translation adjustment	\$ 10,852	\$ 10,494
Additional minimum liability (net of \$17.8 million tax)	<u>(31,494)</u>	<u>(31,494)</u>
Accumulated other comprehensive loss	<u>\$(20,642)</u>	<u>\$(21,000)</u>

12.Income Taxes

The provision for income taxes for continuing operations differs from that computed using Federal income tax rates for the following reasons:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Statutory tax rate	35.0%	35.0%	35.0%	35.0%
Non-U.S.	(3.0)	(1.8)	(1.6)	(1.5)
State taxes	0.7	2.5	1.2	2.5
Other including change in contingency	<u>(7.6)</u>	<u>(1.5)</u>	<u>(4.0)</u>	<u>(1.5)</u>
Effective income tax rate	<u>25.1%</u>	<u>34.2%</u>	<u>30.6%</u>	<u>34.5%</u>

The retroactive extension of the R&D Tax Credit from January 1, 2006 through December 31, 2007 was signed into law on December 20, 2006. The annual estimated tax rate was re-measured during the current quarter because the tax law was changed to reinstate the credit. The impact, \$238,000, was recognized in the current quarter, representing a 370 basis point reduction in the effective income tax rate for the three months ended December 31, 2006.

13.Industry Segment Information

The Company is composed of five business segments. Net sales include only transactions with unaffiliated customers and include no intersegment sales. Operating income by segment below excludes interest expense and income (in thousands).

Three Months Ended December 31,**Six Months Ended December 31,**

Segment:	<u>Net Sales</u>		<u>Income from Operations</u>		<u>Net Sales</u>		<u>Income from Operations</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	Food Service Equipment Group	\$59,606	\$58,40	\$ 3,296	\$ 3,274	\$125,221	\$124,131	\$ 8,253
Air Distribution Products Group	28,011	32,215	1,665	3,064	57,812	67,661	3,849	6,080
Hydraulics Products Group	8,025	10,077	955	1,682	18,275	20,033	2,703	3,157
Engraving Group	21,731	19,094	1,879	1,892	43,148	38,163	4,684	3,829
Engineered Products Group	21,895	18,381	2,652	1,699	44,302	38,063	4,653	3,622
Restructuring			(184)	(614)			(290)	(788)
Corporate and other			(2,354)	(2,665)			(5,757)	(8,045)
Total	<u>\$139,268</u>	<u>\$138,170</u>	<u>\$ 7,909</u>	<u>\$ 8,332</u>	<u>\$288,758</u>	<u>\$288,051</u>	<u>\$18,095</u>	<u>\$18,754</u>

14.Subsequent Events

Subsequent to the end of the second quarter in fiscal 2007, we completed two acquisitions in furtherance of our strategy of growth in profitable businesses. In January 2007, we acquired substantially all the assets of American Foodservice Company (AFS), a leading manufacturer with expertise in stainless steel fabrication, millwork and solid surface stonework. With annual sales of approximately \$21 million, AFS will enable us to capture demand for high-end, custom-fabricated foodservice equipment across a spectrum of new cafeteria and commissary applications in markets including corporate headquarters, healthcare facilities and hospitals, colleges and universities, and casinos and hotels.

Also in January 2007, we completed the purchase of all the outstanding stock of Associated American Industries, Inc. (AAI). With annual sales of \$72 million, AAI is a leader in hot side food service equipment and has brands with global recognition and a stellar reputation among customers in the food service market. AAI s APW Wyott brand manufactures primarily counter top products used in cooking, toasting, warming and merchandising food for applications in quick service restaurants, convenience stores, small restaurants and concession areas. In addition to APW Wyott, AAI s brands include Bakers Pride, which provides a wide selection of quality deck ovens, pizza ovens, conveyor ovens and counter top ranges, griddles and char broilers to meet the needs of the restaurant, pizza, supermarket and convenience store market segments, and BevLes, which produces strong, durable heated proofer and holding cabinets for the restaurant and baking market segments. The addition of AAI will compliment our existing hot side business, BKI, while providing us with opportunities to cross market to new customers our existing portfolio of products. This acquisition will also provide us a sizeable presence in the hot food preparation, storage and merchandising equipment market.

The total purchase price for the acquisitions was approximately \$94 million and was funded primarily through borrowings under our facility. Both acquisitions will be integrated into the Food Service Equipment segment. We have not yet completed the valuations of these businesses and anticipate completing the valuations during the third quarter of fiscal 2007.

ITEM 2

STANDEX INTERNATIONAL CORPORATION

**Management's Discussion and Analysis of
Financial Condition and Results of Operations**

Statements contained in the following Management's Discussion and Analysis 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 general and international economic conditions, including more specifically conditions in the automotive, aerospace, energy, housing and general transportation markets, specific business conditions in one or more of the industries served by the Company, lower-cost competition, the relative mix of products which impact margins and operating efficiencies, both domestic and foreign, new EPA emission regulations affecting our Hydraulics Products Group, market demand, in certain of our businesses, the impact of higher raw material and component costs, particularly steel, petroleum based products, refrigeration components and rhodium, uncertainty in the mergers and acquisitions market generally, an inability to realize the expected cost savings from the implementation of lean enterprise manufacturing techniques, the completion of the ramp-up and improved operations performance of manufacturing operations at the Company's new plant in Mexico, and the inability to achieve the savings expected from the sourcing of raw materials from and implementation of manufacturing in China and the inability to achieve synergies contemplated by the Company. 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 producer of a variety of products and services for diverse market segments. We have five reporting segments: Food Service Equipment Group, Air Distribution Products (ADP) Group, Engraving Group, Hydraulics Products Group and Engineered Products Group. Because these segments serve different markets, the performance of

each is affected by different external and economic factors.

We believe that our diversification has helped to reduce the cyclical nature of earnings that affects many companies that focus principally on only one or two market segments. Therefore, we intend to continue to operate in selected market segments that may not directly relate to one another. However, through our focused diversity strategy, we are seeking to build those businesses which offer the best opportunities for future growth and profitability, through both organic growth and acquisitions.

As part of our strategy, we are focusing our resources on those businesses where synergies can be leveraged to enhance the performance of the individual businesses. Consistent with this strategy, we committed to a plan in fiscal 2006 to divest the businesses within the Consumer Products Group. We completed this divestiture process in the first quarter of fiscal 2007, resulting in the recognition of a \$10.3 million gain in discontinued operations during the first quarter of fiscal 2007.

Subsequent to the end of the second quarter in fiscal 2007, we completed two acquisitions in furtherance of our strategy of growth in profitable businesses. In January 2007, we acquired substantially all the assets of American Foodservice Company (AFS), a leading manufacturer with expertise in stainless steel fabrication, millwork and

solid surface stonework. AFS will enable us to capture demand for high-end, custom-fabricated foodservice equipment across a spectrum of new cafeteria and commissary applications in markets including corporate headquarters, healthcare facilities and hospitals, colleges and universities, and casinos and hotels. Also in January 2007, we completed the purchase of all the outstanding stock of Associated American Industries, Inc. (AAI). AAI is a leader in hot side food service equipment and has brands with global recognition and a stellar reputation among customers in the food service market. AAI s APW Wyott brand manufactures primarily counter top products used in cooking, toasting, warming and merchandising food for applications in quick service restaurants, convenience stores, small restaurants and concession areas. In addition to APW Wyott, AAI s brands include Bakers Pride, which provides a wide selection of quality deck ovens, pizza ovens, conveyor ovens and counter top ranges, griddles and char broilers to meet the needs of the restaurant, pizza, supermarket and convenience store market segments, and BevLes, which produces strong, durable heated proofer and holding cabinets for the restaurant and baking market segments. The total purchase price for the acquisitions was approximately \$94 million and was funded primarily through additional borrowings under our \$150 million revolving credit facility.

In addition to our strategic objectives, we are continually looking to reduce our operating costs and to better reach new customers and markets not served by our existing operations. We are achieving these goals through sourcing products and materials from China and other lower cost providers, transferring manufacturing activities to lower cost countries such as Mexico and China, making capital expenditures to increase automation and implementing lean enterprise throughout our production facilities. In fiscal 2006, we completed construction of a manufacturing facility in Mexico and commenced manufacturing activities there in the third quarter of fiscal 2006. Upon completion of the facility, we relocated manufacturing activities to that facility from two locations, one in Tennessee and the other in Colorado. Both properties were sold during fiscal year 2006. The Company also relocated the manufacturing activities of Kool Star immediately following the close of that acquisition to our facility in Mexico.

In China, we established two new manufacturing locations, one to capitalize on the market for the Engraving Group and the second to establish a lower cost assembly operation for the Engineered Products Group. Production output by the end of the first quarter exceeded our expectations, above the breakeven mark after operating for only one quarter.

A detailed discussion by segment is set forth below. We monitor a number of key performance indicators including net sales, income from operations, backlog and gross profit margin. A discussion of these key performance indicators is included within the discussion below. Unless otherwise noted, references to years are to fiscal years.

Consolidated Results from Continuing Operations (in thousands):

**Three Months Ended
December 31,**

**Six Months Ended
December 31,**

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	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net sales	\$139,268	\$138,170	\$288,758	\$288,051
Gross profit margin	27.6%	28.8%	28.2%	28.7%
Other operating income/(expense)	(42)	669	1,071	662
Restructuring expense	(184)	(614)	(290)	(788)
Income from operations	7,909	8,332	18,095	18,754
Backlog as of December 31	89,624	94,713	89,624	94,713

Net Sales

	Three Months Ended December 31,	Six Months Ended December 31,
	<u>2006</u>	<u>2006</u>
Net sales, prior period	\$138,170	\$288,051
Components of change in sales:		
Effect of acquisitions	3,000	7,300
Effect of exchange rates	1,600	2,400
Organic sales change	<u>(3,502)</u>	<u>(8,993)</u>
Net sales, current period	<u>\$139,268</u>	<u>\$288,758</u>

Net sales for the quarter increased \$1.1 million when compared to the same period of fiscal 2006, a less than 1% increase. A further discussion by segment follows.

Gross Profit Margin

Our consolidated gross profit margin decreased to 28% for the quarter ended December 31, 2006, versus 29% in the same quarter of last year. With the exception of the Engineered Products Group, margins declined across all of our segments when compared to the same period one year earlier. The largest decline occurred in the ADP Group, where margins were pressured due to volume declines and material cost increases, discussed more fully below in the segment performance.

Other Operating Income/(Expense) and Restructuring

We include restructuring charges and certain other operating expenses and income as separate line items. Other operating income (expense) includes gains or losses on the sale of assets. During the first quarter of fiscal 2007, we recorded a gain of approximately \$1.1 million associated with the sale of excess land connected to our corporate offices. We also incurred restructuring charges of \$184,000 and \$290,000 in the three and six months ended December 31, 2006, respectively, largely in connection with the consolidation of manufacturing activities into Ohio for our Engineered Products Group.

Income from Operations

For the three months ended December 31, 2006, income from operations decreased 5.1%, or \$423,000 when

compared to the same period one year earlier. Improvements in income from operations occurred in the Engineered Products Groups, but this was offset by decreases in all but the Food Service Equipment Group.

For the six months ended December 31, 2006, income from operations decreased \$659,000 when compared to the same period one year earlier, a 3.5% change. Improvements in the Engraving Products and Engineered Products Groups were offset by declines in the remaining segments. A detailed explanation by segment follows.

Income Taxes

Our effective income tax rate for the three months ended December 31, 2006 was 25.1%, a decrease from 34.2% in the same period in fiscal 2006. For the six-month period, our effective income tax rate was 30.6%, a decrease from 34.5% in the same period in fiscal 2006. This change is more fully explained in the Notes to Condensed Consolidated Financial Statements.

Backlog

For the three months ended December 31, 2006, backlog decreased \$5.1 million, a 5.4% decrease from the same period one year earlier. All segments except the Engraving Products and Engineered Products Groups reported lower backlog for the current year second quarter. Sales declines resulting from quality and service issues with our Master-Bilt branded products, the housing market declines affecting the ADP Group and the truck market declines impacting our Hydraulics Products Group have all contributed to the lower backlog in the current period.

Segment Analysis**Net Sales**

The following table presents net sales by business segment (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Food Service Equipment Group	\$ 59,606	\$ 58,403	\$125,221	\$124,131
Air Distribution Products Group	28,011	32,215	57,812	67,661
Hydraulics Products Group	8,025	10,077	18,275	20,033
Engraving Group	21,731	19,094	43,148	38,163
Engineered Products Group	<u>21,895</u>	<u>18,381</u>	<u>44,302</u>	<u>38,063</u>
Total	<u>\$139,268</u>	<u>\$138,170</u>	<u>\$288,758</u>	<u>\$288,051</u>

Food Service Equipment Group

Net sales for the Group for the three months increased 2.1%, or \$1.2 million from the same period one year earlier.

Acquisitions accounted for substantially all of the increase, adding \$1.1 million, while the effects of foreign exchange rates on sales added an additional \$600,000. When removing the effect of acquisitions and foreign exchange, sales decreased \$500,000 when compared to the same period one year earlier. The sales decline is entirely attributable to lower sales of our Master-Bilt refrigerated cabinets and walk-in business, the sales of which were impacted by quality and service issues. Aggressive measures have been taken to address these issues, and sales are expected to rebound during the fourth quarter. In addition to the quality and service issues, Master-Bilt implemented a new ERP system that led to the loss of approximately eight shipping days. This lower performance offset strong sales performances in our other walk-in and cabinet business, our display case and pump businesses. These businesses all posted double digit sales increases when compared to the same period one year earlier. In the case of the pump business, sales were lower than normal in last year's second quarter, due to the negative impact of the closure and relocation of that business to Mexico from Tennessee.

Net sales for the Group for the first half of fiscal 2007 increased \$1.1 million, or less than 1.0% over the same period one year earlier. Acquisitions added \$3.0 million while the effects of foreign exchange rates added an additional \$900,000 in the six month period. Organic sales for the six months ended December 31, 2006 decreased \$2.7 million, or 2.2%. Similar to the factors which led to the decrease in sales for the current quarter, sales of our Master-Bilt

refrigerated cases and walk-in units have decreased largely due to service and quality issues. Further, in the first six months of fiscal 2006, sales benefited from the completion of several large rollouts with national accounts in the U.S. and the U.K. affecting our Master-Bilt walk-in coolers and freezers and our BKI branded products. This business did not repeat in fiscal 2007. Demand for refrigerated cabinets and walk-in coolers and freezers across our other brands remained strong, especially cabinets in our scientific line of products. In addition, the sales performance in our pump business improved as noted above.

Air Distribution Products Group

Net sales decreased \$4.2 million, or 13.0%, from the second quarter of fiscal 2006. The decrease is attributable to the continued slowdown in new home construction in the principal markets served by ADP. ADP is pursuing opportunities to capture market share in areas not principally served by us in the past. These include pursuing additional big box retail locations for distribution of our products and seeking further geographical penetration with several national wholesalers, leveraging our nationwide manufacturing capabilities. Current outlooks indicate that housing starts in the third quarter will continue to be lower than those in the prior year.

Net sales for the Group for the first half of fiscal 2007 decreased \$9.9 million, or 14.6%, from the first half of fiscal 2006. As noted in the quarter, the slowdown in new home construction is the driving factor to the sales decline.

Hydraulics Products Group

Net sales decreased \$2.1 million, or 20.4%, from the second quarter of fiscal 2006. The decrease was primarily attributable to sales declines in the domestic market. Effective January 1, 2007, new Federal regulations requiring the reduction in emissions of Class VIII heavy trucks were enacted. These regulations require changes to existing diesel engine technology used in heavy trucks that will result in higher fuel consumption and a higher purchase cost for the trucks. This impacted the purchasing behavior of trucks, in particular the demand for long-haul trucks. During the quarter, we experienced a drop in demand for our cylinders as truck chassis manufacturers shifted output to the long-haul trucks, limiting the number of chassis available to the dump trailer and truck manufacturers that represent the Group's principal customer base. The new regulations are expected to impact sales into the remainder of fiscal 2007.

Net sales for the six months ended December 31, 2006 decreased \$1.8 million, or 8.8%, from the first six months of fiscal 2006. The decline is entirely attributable to the performance in the current quarter discussed above.

Engraving Group

Net sales of the Engraving Group increased by \$2.6 million, or 13.8%, when compared to the second quarter of fiscal 2006. This increase is attributable to several factors, the largest of which is the effect of the acquisition of Innovent, which added \$1.9 million of sales in the second quarter of fiscal 2007. The improvement is also attributable to the increased sales performance in the United States and Chinese markets. These positive performances were offset by several of the mold texturization businesses in the European market, which were impacted by a delay in the delay in the awarding of automotive work. Net sales across many of the Group's core product offerings, including rolls and plate engraving, and embossing equipment businesses continued to perform stronger when compared to the same period in fiscal 2007, benefiting from a large equipment order being completed in the quarter.

Net sales for the six months ended December 31, 2006 increased \$5.0 million, a 13.1% increase from the first six months of fiscal 2006. Acquisitions added \$4.3 million while the remaining increase is attributable to the performance of all the businesses for the reasons noted in the above quarter.

Engineered Products Group

Net sales of the Engineered Products Group increased \$3.5 million, or 19.1%, when compared to the same period one year earlier. Our metal spinning businesses accounted for \$2.8 million of the sales growth, benefiting from strong demand in the aviation and energy industries, the two principal markets served by that business unit. Our electronics businesses accounted for the remainder of the increased sales, attributable to strong demand in sensors for the automotive sector, the effect of foreign exchange rates and the effect of price increases implemented to offset the cost of raw materials.

Net sales for the six months ended December 31, 2006 increased \$6.2 million, or 16.4%, over the same period one year earlier. Strong performances within the metal spinning businesses as discussed above were the primary factors leading to the increased sales.

Income from Operations

The following table presents income from continuing operations by business segment (in thousands):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Food Service Equipment Group	\$ 3,296	\$ 3,274	\$ 8,253	\$10,899
Air Distribution Products Group	1,665	3,064	3,849	6,080
Engraving Group	1,879	1,892	4,684	3,829
Hydraulic Products Group	955	1,682	2,703	3,157
Engineered Products Group	2,652	1,699	4,653	3,622
Restructuring	(184)	(614)	(290)	(788)
Corporate and Other Operating Expenses	<u>(2,354)</u>	<u>(2,665)</u>	<u>(5,757)</u>	<u>(8,045)</u>
Total	<u>\$ 7,909</u>	<u>\$ 8,332</u>	<u>\$18,095</u>	<u>\$18,754</u>

Food Service Equipment Group

Income from operations for the quarter ended December 31, 2006 were flat with that noted in the same period one year earlier, increasing only \$22,000, or less than 1.0%. Our Master-Bilt branded refrigerated cabinets and walk-in coolers experienced sales declines during the quarter as discussed above. In response to the decreased sales, we continued to take steps to control costs while maintaining an appropriate utilization of the facility. We believe that the reduction in sales volume is short term and sales will improve over the next several quarters. This decrease was offset by the positive performance of our other businesses in the Group with the increased sales volume discussed above as well as the benefit of cost improvements and price increases during the quarter.

Income from operations for the six months ended December 31, 2006 decreased \$2.6 million, a 24.3% decrease over the same period one year earlier. The combination of decreased sales volumes discussed above, higher material costs and the increased costs associated with the quality and service issues within Master-Bilt all contributed to the decline in income from operations. The decrease is also attributable to our BKI brand's operating income during the first quarter of fiscal 2007, which declined with the decrease in sales volume, a change in sales mix to lower margin items and one-time costs associated with several management position transitions.

Air Distribution Products Group

Income from operations of the ADP Group decreased \$1.4 million, or 45.7% when compared with the same quarter of last year. With sales declines discussed above of \$4.2 million and margin deteriorations due to material price increases, ADP took several cost saving steps including headcount reductions to offset the decline in sales. In response to the continued outlook and the inability to pass the material price increases fully through to customers, ADP is evaluating other cost savings strategies including the use of different materials that will provide the same reliability to our customers but reduce costs. ADP is also evaluating the use of different steels among the various classifications of customers to better meet the need of those customers going forward.

Income from operations of the ADP Group decreased \$2.2 million, or 36.7% when compared with the same period of last year. The lower sales volume and material price changes accounted for the decreases during the first half of fiscal 2007.

Engraving Group

Income from operations was essentially unchanged from the prior year, decreasing slightly by \$13,000, or less than 1.0%, when compared to the same quarter in the prior year. The positive performance of our Innovent acquisition was completely offset by decreases in our mold texturization businesses. Due to sales delays discussed above in the mold texturization businesses and the high amount of fixed costs associated with these business, income from operations were depressed during the quarter. We expect these delays to be temporary and they are not expected to cause any additional pressure in the remaining quarters of fiscal 2007.

Income from operations for the six months ended December 31, 2006 increased \$855,000, or 22.3%, when compared to the same period one year earlier. A combination of the Innovent acquisition for the first half of fiscal 2007 and the use of technologies in the manufacturing process in our mold texturization businesses during the first quarter of fiscal 2007 contributed to this improved performance in the first half.

Hydraulics Products Group

Income from operations decreased \$727,000, or 43.2% when compared to the same period one year earlier. The sales declines of \$2.1 million during the quarter drove the income from operations down.

Income from operations for the six months ended December 31, 2006 decreased \$454,000, or 14.4%, when compared to the same period one year earlier. The factors noted above in the quarter were also largely responsible for the decrease in income from operations for the six-month period.

Engineered Products Group

Income from operations increased \$953,000, or 56.1% when compared to the same period one year earlier. The improved performance is largely attributable to the performance of our metal spinning businesses, the sales increase of which was discussed above. Our electronics business experienced improvements during the quarter as well, resulting from a combination of sales growth, price increases and cost improvement initiatives as well. During the quarter, the electronics business completed the consolidation of its New York facility into its Ohio facility which will reduce overhead costs and will provide for better control of the operation of the business. In addition, our new manufacturing facility in China continues to perform ahead of our plan in terms of cost recovery. We expected the facility to break even after approximately six months of operation, but it reached breakeven in half that time.

Income from operations for the six months ended December 31, 2006 increased \$1.0 million, or 28.5%, when compared to the same period one year earlier. The factors noted above in the quarter were also largely responsible for the increase in income from operations for the six-month period.

Corporate and Other Operating Expenses

Corporate and other operating expenses decreased \$311,000, or 11.7%, when compared to the same period one year earlier. Included in the prior year quarter performance is a gain on the disposition of properties of \$670,000. Excluding the gain, expenses decreased \$981,000. The decrease is attributable largely to an adjustment made in the current year associated with performance based equity awards. We issue executives and key members of management performance based awards that are based upon three year growth targets. With the downturn in several of the segments in the current year, we determined that the goals for the performance periods ended June 30, 2007 would no longer be achieved, resulting in the reversal of the expense recorded associated with the awards to date. We evaluate these awards each quarter.

Corporate and other operating expenses for the first half of fiscal 2007 decreased \$2.3 million, or 28.4%, when compared to the first half of fiscal 2006. Gains on the sale of assets increased approximately \$400,000 due in large part to the gain of \$1.1 million on the sale of excess corporate land. Excluding this change, corporate expenses decreased \$1.9 million. The decrease is largely due to the adjustment made in the current year associated with performance based equity awards discussed above. In addition, decreased pension costs, decreases in other stock-based compensation and a decrease in professional fees all contributed to the decline.

Discontinued Operations

In March 2006, we entered into a plan to dispose of certain assets of our USECO product lines. USECO, which was part of our Food Service Equipment Group, manufactures and sells rethermalization systems for meal deliveries to institutions, including governmental institutions, and under sink food disposals. We have determined that the product lines of USECO do not strategically fit with the other products offered by the Food Service Equipment Group. We also determined that the markets that this business serves are not growing. We continue to actively market the businesses and have committed to a plan to sell the businesses of USECO. During the second quarter of fiscal 2007, discontinued operations included the gain on the sale of a portion of USECO business of approximately \$541,000 offset by losses from the USECO operations.

The results from discontinued operations during the six months include the gains recognized upon the completion of the sales of the Standard Publishing, the Berean Christian Stores and a component of the USECO businesses. As previously discussed, these businesses no longer strategically fit with our other operating segments, providing us no opportunities to leverage cost structures or achieve any synergies. We also determined that our capital resources could be better allocated among those businesses in our other operating segments that offered us opportunities for growth.

In July 2006, we sold substantially all the assets of the Standard Publishing business in an all cash deal. We recognized a pre-tax gain of \$10.1 million in this transaction. In August 2006, we sold substantially all the assets of the Berean Christian Stores business in an all cash deal resulting in the recognition of a pre-tax gain of \$200,000. In connection with Berean, we were party under a number of operating leases for existing stores and one closed store.

The store leases in this transaction were assigned to the purchaser of the business for the remaining initial terms of the lease at the stated lease costs. For the one closed location, we recognized a liability of \$285,000 representing the difference between the expected sub-lease rental income and the rental costs.

MATERIAL CHANGES IN FINANCIAL CONDITION

Cash Flows

Six Months Ended December 31, 2006

For the six months ended December 31, 2006, operating activities from continuing operations generated \$12.3 million in cash, as compared to the generation of \$7.5 million in cash for the same period one year earlier. The source of cash is attributable to several factors. Net working capital levels for continuing operations (defined as accounts receivable plus inventories less accounts payable) increased \$3.4 million when compared period over period, taxes paid increased more than \$3 million when compared period over period and accrued expenses decreased over \$2.4 million in the six month period, primarily due to the timing of payments. These uses of cash were offset by the higher earnings and higher depreciation and amortization when compared to the same period one year earlier. Discontinued operations used \$7.1 million from operating activities, while the completion of the sale of the Consumer Products Group and a portion of USECO provided \$31.1 million in proceeds. In addition, the sale of assets generated an additional \$1.3 million in proceeds. These funds were used to fund capital expenditures of \$4.2 million, pay dividends of \$5.1 million and pay down debt by \$28.2 million.

Liquidity and Capital Resources

Our primary cash requirements include working capital, interest and mandatory debt payments, capital expenditures, operating lease payments, pension plan contributions and dividends. We expect to spend between \$7 million and \$10 million on capital expenditures in fiscal 2007. The Company expects that depreciation will be approximately \$13 million for fiscal year 2007. The primary sources of cash for each of the Company's requirements are cash flows from continuing operations and borrowings under our revolving credit facility.

In addition, we anticipate that any cash needed for future acquisition opportunities would be obtained from borrowings under the revolving credit facility or other sources of liquidity available to us. We have available borrowing capacity of up to \$110.0 million as of December 31, 2006 under the revolving credit facility. In January 2007, we acquired substantially all the assets of American Foodservice Company (AFS) and purchased all the outstanding stock of Associated American Industries, Inc. (AAI). The total purchase price for the acquisitions was approximately \$94 million and was funded primarily through borrowings under our facility.

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

Borrowings under the revolving credit facility bear interest at a rate equal to the sum of a base rate or a Eurodollar rate plus an applicable margin, which is based on our consolidated total leverage ratio, as defined in the revolving credit facility. The effective rate interest rates for borrowings outstanding were 6.075% and 6.24%, respectively, at December 31, 2006 and June 30, 2006. The annual facility fee in effect on our Revolving Credit Facility at December 31, 2006 was 0.175%.

The following table sets forth the Company's capitalization at December 31, 2006 and June 30, 2006:

	December 31,	June 30,
	<u>2006</u>	<u>2006</u>
Short-term debt	\$ 4,229	\$ 3,873
Long-term debt	<u>85,158</u>	<u>113,729</u>
Total debt	89,387	117,602

Less cash	<u>31,108</u>	<u>32,590</u>
Total net debt	58,279	85,012
Stockholders equity	<u>211,697</u>	<u>200,295</u>
Total capitalization	<u>\$269,976</u>	<u>\$285,307</u>

The Company has an insurance program in place for certain retired executives. Current executives and new hires are not eligible for this program. The underlying policies have a cash surrender value of \$21.8 million and are reported net of loans of \$10.9 million for which the Company has the legal right of offset. These policies have been purchased to fund supplemental retirement income benefits for certain retired executives. The aggregate value of future obligations was approximately \$2.5 million and \$2.8 million at December 31, 2006 and June 30, 2006, respectively.

The Company has a revolving credit agreement with nine participating banks. The agreement provides the Company with the ability to borrow up to \$150 million at competitive interest rates, with an option to the Company to increase the facility up to \$225 million. The agreement will expire in December 2010. As such, borrowings outstanding under this facility have been classified as long-term liabilities. The Company believes that these resources, along with the cash flow generated from operations, will be sufficient to meet its anticipated cash funding needs for the foreseeable future.

The revolving credit facility contains customary affirmative and negative covenants. Among other restrictions, they require that the Company meet specified financial tests, including minimum levels of earnings from operations before interest, taxes, depreciation, and amortization (EBITDA), and various debt to EBITDA ratios. The covenants also limit, but do not preclude, the Company's ability to incur additional debt, merge with other entities, create or become subject to liens and sell major assets. At December 31, 2006, the Company was in compliance with the applicable financial covenants, and based upon its current plans and outlook, believes that it will continue to be in compliance with these covenants during the coming twelve-month period.

The Company is contractually obligated under various operating leases for real property. No significant leases were consummated in the first six months of fiscal 2007.

Other Matters

Inflation Certain of the Company's 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. The Company monitors the inflation rate and makes 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 the maximum exposure for the Company.

Foreign Currency Translation The Company's primary functional currencies used by its non-U.S. subsidiaries are the Euro and the British Pound Sterling. During the last six-month period, both these currencies have experienced increases relative to the U.S. dollar.

Environmental Matters The Company is party to various claims and legal proceedings, generally incidental to its business. The Company does not expect the ultimate disposition of these matters will have a material adverse effect on its financial statements.

Seasonality Historically, the fourth quarter has been the best quarter for our consolidated financial results. The fourth quarter performance of the Food Service Equipment and ADP Groups have historically been enhanced by increased activity in the construction of food retail outlets and the home building industry, respectively.

Critical Accounting Policies

The Condensed Consolidated Financial Statements include accounts of the Company and all 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, giving due consideration to materiality. 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. We have listed in our Annual Report on Form 10-K for the year ended June 30, 2006 a number of accounting policies which we believe to be the most critical. Nothing has changed in respect to those disclosures.

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 Chief Financial Officer 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) or speculation is strictly prohibited. The Company has no majority owned subsidiaries that are excluded from the consolidated financial statements. Further, the Company has no interests or relationships with any special purpose entities.

Exchange Risk

The Company is exposed to both transactional risk and translation risk associated with exchange rates. Regarding transactional risk, the Company mitigates certain of its foreign currency exchange rate risk by entering into forward foreign currency contracts from time to time. These 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.

Our primary translation risk was with the Euro and the British Pound Sterling. We do not hedge our translation risk. As a result, fluctuations in currency exchange rates can affect our stockholders' equity.

Interest Rate

The Company's interest rate exposure is limited primarily to interest rate changes on its variable rate borrowings. From time to time, the Company will use interest rate swap agreements to modify our exposure to interest rate movements. At December 31, 2006, the Company has no outstanding interest rate swap agreements. A hypothetical 1% point increase in interest rates would cost the Company approximately \$117,000 in additional interest expense on

an annual basis.

The Company also has \$46.4 million of long-term debt at fixed interest rates as of December 31, 2006. There would be no immediate impact on the Company's interest expense associated with its long-term debt due to fluctuations in market interest rates. There has been no significant change in the exposure to changes in interest rates from June 30, 2006 to December 31, 2006.

Concentration of Credit Risk

The Company has a diversified customer base. As such, the risk associated with concentration of credit risk is inherently minimized. As of December 31, 2006, 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 commodities, primarily steel. 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. Standex considers its relationship with its suppliers to be excellent and we have not been impacted by any allocations or shortages of materials that may have affected other companies. There can be no assurances that we will not experience any supply shortage.

In recent periods, the ADP, Engineered Products, Hydraulics Products and Food Service Equipment Groups experienced price increases for steel products, other metal commodities and petroleum based products. Among those items impacted were the prices of galvanized steel strip, stainless steel and carbon steel sheet material, copper wire, refrigeration components and foam insulation. These are key elements in the products manufactured in these segments. Wherever possible, the affected divisions implement price increases to offset the increases to material costs. The implemented price increases in the Food Service Equipment Group did not fully offset the higher material costs. As a result, additional price increases are being implemented or planned to be implemented. While these higher prices are expected to be accepted by our customers there can be no certainty that the price increases implemented will in fact be accepted by our customers. ADP has been unable to implement additional price increases to cover current and expected increases in costs. The ultimate acceptance of these price increases is impacted by our affected divisions' respective competitors and the timing of their price increases.

ITEM 4. CONTROLS AND PROCEDURES

The management of the Company including Roger L. Fix as Chief Executive Officer and Christian Storch as Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures. Under the rules promulgated by the Securities and Exchange Commission, disclosure controls and procedures are defined as those controls or other procedures of an issuer that are designed to ensure that information required to be disclosed by an issuer in the reports issued or submitted by it under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Based on the evaluation of the Company's disclosure controls and procedures, it was determined that such controls and procedures were effective as of the end of the period covered by this report.

Further, there were no significant changes in the internal controls or in other factors that could significantly affect these controls during the quarterly period ended December 31, 2006 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(e)

The following table provides information about purchases by the Company during the quarter ended December 31, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities¹Quarter Ending December 31, 2006

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
October 1, 2006				
October 31, 2006	18,961	\$28.60	18,961	840,236
November 1, 2006				
November 30, 2006	2,959	29.75	2,959	837,277
December 1, 2006				
December 31, 2006	<u>1,323</u>	<u>30.29</u>	<u>1,323</u>	<u>835,954</u>
Total	<u>23,243</u>	<u>\$28.84</u>	<u>23,243</u>	<u>835,954</u>

¹The 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 4. Submission of Matters to a Vote of Security Holders

(a)

The Company held its Annual Meeting of Stockholders on October 31, 2006. Two matters were voted upon at the meeting: the election of one director to hold office for a one-year term ending on the date of the Annual Meeting of Stockholders in 2007 and three directors to serve for three-year terms ending at the Annual Meeting to be held in 2009; and to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2007.

The name of each director elected at the meeting and the number of votes cast as to each matter are as follows:

Proposal I (Election of Directors)

Nominee

For

Withheld

H Nicholas Muller III

9,948,409

410,913

Charles H. Cannon, Jr.

9,997,576

361,746

Christian Storch

9,865,950

493,372

Edward J. Trainor

9,732,146

627,176

Proposal II (Ratification of Deloitte & Touche LLP as Independent Public Accountants)

For

Against

Abstain

No Vote

10,248,061

95,518

15,743

-0-

ITEM 6. EXHIBITS

(a)

Exhibits

10.1

First Amendment to Employment Agreement between the Company and Duane Stockburger dated December 31, 2006.

10.2

Employment Agreement between the Company and John Abbott dated December 11, 2006.

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

STANDEX INTERNATIONAL CORPORATION

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.

STANDEX INTERNATIONAL CORPORATION

Date: February 8, 2007

/s/ CHRISTIAN STORCH

Christian Storch
Vice President/CFO

Date: February 8, 2007

/s/ TIMOTHY S. O'NEIL

Timothy S. O'Neil
Chief Accounting Officer