BANK OF NOVA SCOTIA
Form 424B2
June 04, 2018

Pricing Supplement dated May 31, 2018 to the

Prospectus dated February 1, 2017 and

Prospectus Supplement dated February 13, 2017

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-215597

The Bank of Nova Scotia
$3,000,000
Callable Step-Up Rate Notes
Due June 4, 2025

- 100% repayment of principal at maturity, subject to the credit risk of the Bank
- Semi-annual interest payments
- Callable by the Bank quarterly on any Call Payment Date on or after the second anniversary of issuance
- Interest Rate that increases over the 7-year stated term of the Notes

The Callable Step-Up Rate Notes due June 4, 2025 (the "Notes") offered hereunder are unsubordinated and unsecured obligations of The Bank of Nova Scotia and are subject to investment risks including possible loss of the Principal Amount invested due to the credit risk of The Bank of Nova Scotia. As used in this pricing supplement, the "Bank," "we," "us" or "our" refers to The Bank of Nova Scotia.

The Notes will not be listed on any securities exchange or automated quotation system.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NOTES OR PASSED UPON THE ACCURACY OR THE ADEQUACY OF THIS DOCUMENT, THE ACCOMPANYING PROSPECTUS OR PROSPECTUS SUPPLEMENT.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE NOTES ARE NOT INSURED BY THE CANADA DEPOSIT INSURANCE CORPORATION PURSUANT TO THE CANADA DEPOSIT INSURANCE CORPORATION ACT, THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION, OR ANY OTHER GOVERNMENTAL AGENCY OF CANADA, THE UNITED STATES OR ANY OTHER JURISDICTION.

Scotia Capital (USA) Inc. ("SCUSA"), our affiliate, has agreed to purchase the Notes from us for distribution to other registered broker-dealers or has offered the Notes directly to investors. SCUSA or any of our affiliates or agents may use this pricing supplement in market-making transactions in the Notes after their initial sale. Unless we, SCUSA or another of our affiliates or agents selling such Notes to you informs you otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement and "Supplemental Plan of Distribution (Conflicts of Interest)" on page S-23 of the accompanying prospectus supplement.

Investment in the Notes involves certain risks. You should refer to "Additional Risk Factors" beginning on page P-7 in this pricing supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement.

	Per Note	Total
Price to public	100.00%	$3,000,000.00
Underwriting commissions[1]	0.50%	$15,000.00
Proceeds to The Bank of Nova Scotia	99.50%	$2,985,000.00

We will deliver the Notes in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about June 4, 2018 against payment in immediately available funds.

Scotia Capital (USA) Inc.

[1] SCUSA or one of our affiliates has agreed to purchase the Notes at the Principal Amount and, as part of the distribution of the Notes, has agreed to pay discounts and underwriting commissions of $5.00 (0.50%) per $1,000 Principal Amount of the Notes in connection with the distribution of the Notes. See "Supplemental Plan of Distribution (Conflicts of Interest)" herein.

SUMMARY

The information in this “Summary” section is qualified by the more detailed information set forth in this pricing supplement, the accompanying prospectus and the accompanying prospectus supplement, each filed with the SEC. See “Additional Terms of Your Notes” in this pricing supplement.

Issuer:	The Bank of Nova Scotia (the “Issuer” or the “Bank”)
Type of Note:	Callable Step-Up Rate Notes
CUSIP/ISIN:	064159LP9 / US064159LP94
Minimum Investment:	$1,000
Denominations:	$1,000 and integral multiples of $1,000 in excess thereof
Principal Amount:	$1,000 per Note
Currency:	U.S. Dollars
Trade Date:	May 31, 2018
Pricing Date:	May 31, 2018
Original Issue Date:	June 4, 2018
Maturity Date:	June 4, 2025. If such day is not a Business Day, the Maturity Date will be determined according to the Following Business Day Convention.
Business Day:	Any day which is neither a legal holiday nor a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York or Toronto.
Interest Payment:	With respect to each Interest Payment Date, for each $1,000 Principal Amount of Notes, the Interest Payment will be calculated as $1,000 × 1/2 × Interest Rate. Each Interest Payment is paid semi-annually and is calculated on a 30/360 unadjusted basis; (i)“30/360” means that Interest Payment is calculated on the basis of twelve 30-day months and (ii) “unadjusted” means that if a scheduled Interest Payment Date is not a Business Day, the Interest Payment period will not be adjusted, the Interest Payment will be paid on the first following Business Day with full force and effect as if made on such scheduled Interest Payment Date, and no interest on such postponed payment will accrue during the period from and after the scheduled Interest Payment Date. As a result, each Interest Payment period will consist of 180 days (six 30-day months) and Interest Payments will accrue based on 180 days of a 360-day year. See "Payment at Maturity” and “Interest Payments” on page P-6 of this pricing supplement.

Interest Rate:	Period beginning on	Period ending on and excluding	Annual Interest Rate
	June 4, 2018	June 4, 2021	3.50% per annum
	June 4, 2021	June 4, 2023	4.00% per annum
	June 4, 2023	June 4, 2025	5.00% per annum

Interest Payment Dates:	The fourth calendar day of each June and December, commencing on December 4, 2018 and ending on the Maturity Date. If these days are not Business Days, Interest Payments will actually be paid on the dates determined according to the Following Business Day Convention.
Day Count Fraction:	30/360, unadjusted, Following Business Day Convention.
Following Business Day Convention:	If any date of payment is not a Business Day, such payment will be made on the first following Business Day.
First Call Date:	June 4, 2020
Call Provision:	The Notes are redeemable quarterly at our option, in whole, but not in part, on any Call Payment Date, from and including the First Call Date, upon notice by us to DTC through the trustee on or before the corresponding Call Notice Date, at an amount that will equal the Principal Amount of your Notes, together with any accrued and unpaid interest to the applicable Call Payment Date. If the Notes are called prior to the Maturity Date, you will be entitled to receive only the Principal Amount of the Notes and any accrued and unpaid Interest Payment in respect of Interest Payment Dates occurring on or before the Call Payment Date. In this case, you will lose the opportunity to continue to be paid Interest Payments in respect of Interest Payment Dates ending after the Call Payment Date.
Call Notice Date:	10 Business Days prior to the corresponding Call Payment Date.
Call Payment Dates:	The fourth calendar day of each March, June, September and December, commencing on the First Call Date. If any of these days are not Business Days, Call Payment Dates will be determined according to the Following Business Day Convention.
Survivor's Option:	Not Applicable
Form of Notes:	Book-entry
Calculation Agent:	Scotia Capital Inc., an affiliate of the Bank The Calculation Agent will make all determinations regarding the amount payable on your Notes. All determinations made by the Calculation Agent shall be made in its sole discretion and, absent manifest error, will be final and binding on you and us, without any liability on the part of the Calculation Agent. We may change the Calculation Agent for your Notes at any time without notice and the Calculation Agent may resign as Calculation Agent at any time upon 60 days' written notice to

the Bank.

Status:	The Notes will constitute direct, unsubordinated and unsecured obligations of the Bank ranking pari passu with all other direct, unsecured and unsubordinated indebtedness of the Bank from time to time outstanding (except as otherwise prescribed by law). Holders will not have the benefit of any insurance under the provisions of the Canada Deposit Insurance Corporation Act, the U.S. Federal Deposit Insurance Act or under any other deposit insurance regime of any jurisdiction.

Tax Redemption:	The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price equal to the Principal Amount thereof together with accrued and unpaid interest to the date fixed for redemption, if it is determined that changes in tax laws or their interpretation will result in the Bank (or its successor) becoming obligated to pay, on the next Interest Payment Date, additional amounts with respect to the Notes. See "Tax Redemption" in this pricing supplement.
Listing:	The Notes will not be listed on any securities exchange or quotation system.
Use of Proceeds:	General corporate purposes
Clearance and Settlement:	Depository Trust Company

ADDITIONAL TERMS OF YOUR NOTES

You should read this pricing supplement together with the prospectus dated February 1, 2017, as supplemented by the prospectus supplement dated February 13, 2017, relating to our Senior Note Program, Series A, of which these Notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the accompanying prospectus supplement. In the event of any conflict, this pricing supplement will control. The Notes may vary from the terms described in the accompanying prospectus and prospectus supplement in several important ways. You should read this pricing supplement, including the documents incorporated herein, carefully. This pricing supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the accompanying prospectus supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the SEC website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website at http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000009631):

Prospectus dated February 1, 2017:
http://www.sec.gov/Archives/edgar/data/9631/000119312517027656/d338678d424b3.htm

Prospectus Supplement dated February 13, 2017:
http://www.sec.gov/Archives/edgar/data/9631/000110465917008642/a17-4372_1424b3.htm

The Bank of Nova Scotia has filed a registration statement (including a prospectus, and a prospectus supplement) with the SEC for the offering to which this pricing supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at www.sec.gov, or accessing the links above. Alternatively, The Bank of Nova Scotia, any agent or any dealer participating in this offering will arrange to send you the prospectus and the prospectus supplement if you so request by calling 1-416-866-3672.

PAYMENT AT MATURITY

If the Notes have not been called by us, as described elsewhere in this pricing supplement, we will pay you the Principal Amount of your Notes on the Maturity Date, plus the final Interest Payment.

In the event that the stated Maturity Date is not a Business Day, then relevant repayment of principal will be made on the first following Business Day under the Following Business Day Convention.

INTEREST PAYMENTS

We describe payments as being based on a "Day Count Fraction" of "30/360, unadjusted, Following Business Day Convention".

This means that the number of days in the Interest Payment period will be based on a 360-day year of twelve 30-day months ("30/360") and that the number of days in each Interest Payment period will not be adjusted if an Interest Payment Date falls on a day that is not a Business Day ("unadjusted").

If any Interest Payment Date falls on a day that is not a Business Day (including the Interest Payment Date that is also the Maturity Date), the relevant Interest Payment will be made on the first following Business Day under the Following Business Day Convention.

ADDITIONAL RISK FACTORS

An investment in the Notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read “Risk Factors” beginning on page S-2 of the accompanying prospectus supplement and on page 6 of the accompanying prospectus.

You should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with your advisers, of the suitability of the Notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying prospectus and prospectus supplement.

Your Investment is Subject to Reinvestment Risk in the Event We Elect to Call the Notes.

We have the ability to call the Notes prior to the Maturity Date. In the event we decide to exercise the Call Provision, the amount of interest payable would be less than the amount of interest payable if you held the Notes until the Maturity Date. There is no guarantee that you would be able to reinvest the proceeds from an investment in the Notes at a comparable return for a similar level of risk following our exercise of the Call Provision. We may choose to call the Notes early or choose not to call the Notes early, in our sole discretion. In addition, it is more likely that we will call the Notes prior to maturity if a significant decrease in U.S. interest rates or a significant decrease in the volatility of U.S. interest rates would result in greater interest payments on the Notes than on instruments of comparable maturity, terms and credit worthiness then trading in the market.

The Notes are Subject to Interest Rate Risk.

The Notes are an investment in a fixed interest rate. Fixed interest rate instruments are generally more sensitive to market interest rate changes. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. This risk may be particularly acute because market interest rates are currently at historically low levels. Therefore, an increase in market interest rates will adversely affect the value of your Notes.

The Step-Up Feature Presents Different Investment Considerations than Fixed Rate Notes.

You will most likely not earn the highest scheduled interest rates on the Notes if interest rates remain the same or fall during the term of the Notes. This is due, in part, to the fact that we are likely to exercise the Call Provision before the realization of such highest scheduled interest rates. Therefore, when determining whether to invest in the Notes, you should not focus on the highest interest rate, which is only applicable to the last Interest Rate period of the stated term of your Notes, and instead focus on, among other things, the annual applicable interest rate to the First Call Date and the Call Provision.

The Notes are Not Ordinary Debt Securities.

The Notes have certain investment characteristics that differ from traditional fixed income securities. Specifically, the performance of the Notes will not track the same price movements as traditional interest rate products. A person should reach a decision to invest in the Notes after carefully considering, with his or her advisors, the suitability of the Notes in light of his or her investment objectives and the information set out in the above terms of the offering. The Bank does not make any recommendation as to whether the Notes are a suitable investment for any person.

Your Investment is Subject to the Credit Risk of The Bank of Nova Scotia.

The Notes are senior unsecured debt obligations of The Bank of Nova Scotia and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus and prospectus supplement, the Notes will rank on par with all of the other unsecured and unsubordinated debt obligations of The Bank of Nova Scotia, except such obligations as may be preferred by operation of law. Any payment to be made on the Notes, including the return of the Principal Amount at maturity or on the Call Payment Date, as applicable, depends on the ability of The Bank of Nova Scotia to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of The Bank of Nova Scotia may affect the market value of the Notes and, in the event The Bank of Nova Scotia were to default on its obligations, you may not receive the amounts owed to you under the terms of the Notes.

The Price at Which the Notes May Be Sold Prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased.

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) volatility of the level of interest rates and the market's perception of future volatility of the level of interest rates, (ii) changes in interest rates generally, (iii) any actual or anticipated changes in our credit ratings or credit spreads, and (iv) time remaining to maturity. In particular, because the terms of the Notes permit us to redeem the Notes prior to maturity, the price of the Notes may be impacted by the Call Provision feature of the Notes. Additionally, the Interest Rates of the Notes reflect not only our credit spread generally but also the Call Provision feature of the Notes and thus may not reflect the rate at which a note without such call feature and increasing interest rate might be issued and sold.

Depending on the actual or anticipated level of interest rates, the market value of the Notes may decrease and you may receive substantially less than 100% of the issue price if you sell your Notes prior to maturity.

The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices.

Assuming no change in market conditions or any other relevant factors, the price, if any, at which SCUSA or any other party is willing to purchase the Notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the Notes and the cost of hedging our obligations under the Notes that are included in the original issue price. The cost of hedging includes the projected profit that we and/or our affiliates may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from values determined by pricing models used by SCUSA as a result of dealer discounts, mark-ups or other transaction costs.

The Notes Lack Liquidity.

The Notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the Notes. SCUSA or any other dealer may, but is not obligated to, make a market in the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which SCUSA, if they choose to make a market in the Notes, is willing to purchase the Notes from you. If at any time SCUSA or any other dealer were not to make a market in the Notes, it is likely that there would be no secondary market for the Notes. Accordingly, you should be willing to hold your Notes to maturity.

We, our Subsidiaries or Affiliates may Publish Research that Could Affect the Market Value of the Notes. We also expect to Hedge Our Obligations under the Notes.

We or one or more of our affiliates may, at present or in the future, publish research reports with respect to movements in interest rates generally. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities may affect the market value of the Notes. In addition, we or one or more affiliates expect to hedge our obligations under the Notes and may realize a profit from that expected hedging activity even if investors do not receive a favorable investment return under the terms of the Notes or in any secondary market transaction.

There Are Potential Conflicts of Interest Between You and the Calculation Agent.

The Calculation Agent will, among other things, determine the amount of your payment for any Interest Payment Date on the Notes. Our affiliate, Scotia Capital Inc., will serve as the Calculation Agent. We may change the Calculation Agent after the Original Issue Date without notice to you. For additional information as to the Calculation Agent's role, see "Summary—Calculation Agent" herein. The Calculation Agent will exercise its judgment when performing its functions and may take into consideration the Bank's ability to unwind any related hedges. Since this discretion by the Calculation Agent may affect payments on the Notes, the Calculation Agent may have a conflict of interest if it needs to make any such decision.

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

Pursuant to the terms of a distribution agreement, SCUSA, an affiliate of The Bank of Nova Scotia, has agreed to purchase the Notes from The Bank of Nova Scotia for distribution to other registered broker-dealers or has agreed to offer the Notes directly to investors.

SCUSA or one of our affiliates has agreed to purchase the Principal Amount of the Notes and, as part of the distribution of the Notes, has agreed to pay discounts and underwriting commissions of $5.00 (0.50%) per $1,000 Principal Amount of the Notes in connection with the distribution of the Notes.

In addition, SCUSA or another of its affiliates or agents may use the accompanying prospectus and prospectus supplement to which this pricing supplement relates and this pricing supplement in market-making transactions after the initial sale of the Notes. While SCUSA may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the section titled "Supplemental Plan of Distribution (Conflicts of Interest)" in the accompanying prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

Conflicts of Interest

Because SCUSA is an affiliate of the Bank, SCUSA has a "conflict of interest" in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. SCUSA is not permitted to sell the Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

SCUSA and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. SCUSA and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, SCUSA and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. SCUSA and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Additionally, because an affiliate of the dealer from which you purchase the Notes is to conduct hedging activities for us in connection with the Notes, such affiliate may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the Notes to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the dealer to sell the Notes to you in addition to the compensation they would receive for the sale of the Notes.

Prohibition of Sales to European Economic Area Retail Investors.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation"), for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

RECENT DEVELOPMENTS

Bail-in Regulations

On June 22, 2016, legislation came into force amending the Bank Act (Canada) (the “Bank Act”) and the Canada Deposit Insurance Corporation Act (Canada) (the “CDIC Act”) and certain other federal statutes pertaining to banks to create a bail-in regime for Canada’s domestically systemically important banks, which include the Bank. On April 18, 2018, the Government of Canada published regulations under the CDIC Act and the Bank Act providing the final details of conversion, issuance and compensation regimes for bail-in instruments issued by domestic systemically important banks, including the Bank (collectively, the “Bail-In Regulations”). Pursuant to the CDIC Act, in circumstances where the Superintendent of Financial Institutions has determined that the Bank has ceased, or is about to cease, to be viable, the Governor in Council may, upon a recommendation of the Minister of Finance that he or she is of the opinion that it is in the public interest to do so, grant an order directing CDIC to convert all or a portion of certain shares and liabilities of the Bank into common shares of the Bank (a “Bail-In Conversion”).

The Bail-In Regulations prescribe the types of shares and liabilities that will be subject to a Bail-In Conversion. In general, any senior debt with an initial or amended term to maturity (including explicit or embedded options) greater than 400 days, that is unsecured or partially secured and has been assigned a CUSIP or ISIN or similar identification number would be subject to a Bail-In Conversion. Shares, other than common shares, and subordinated debt would also be subject to a Bail-In Conversion, unless they are non-viability contingent capital. Notwithstanding the above, any shares and liabilities issued before the date the Bail-In Regulations come into force, including the Notes, would not be subject to a Bail-In Conversion, unless, in the case of a liability, including the Notes, the terms of such liability are, on or after that day, amended to increase its principal amount or to extend its term to maturity and the liability, as amended, meets the requirements to be subject to a Bail-In Conversion.

The Bank Recapitalization (Bail-in) Conversion Regulations and the Bank Recapitalization (Bail-in) Issuance Regulations will come into force on September 23, 2018, and the Compensation Regulations came into force on March 26, 2018.

EVENTS OF DEFAULT AND ACCELERATION

If the Notes have become immediately due and payable following an event of default (as defined in the accompanying prospectus) with respect to the Notes, the Calculation Agent will determine (i) your Principal Amount and (ii) any accrued but unpaid interest payable based upon the then applicable Interest Rate calculated on the basis of a 360-day year consisting of twelve 30-day months.

If the Notes have become immediately due and payable following an event of default, you will not be entitled to any additional payments with respect to the Notes. For more information, see “Description of the Debt Securities We May Offer—Events of Default” beginning on page 27 of the accompanying prospectus.

TAX REDEMPTION

The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price equal to the Principal Amount thereof together with accrued and unpaid interest to the date fixed for redemption, upon the giving of a notice as described below, if:

as a result of any change (including any announced prospective change) in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Canada (or the jurisdiction of organization of the successor to the Bank) or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), and which in the written opinion to the Bank (or its successor) of legal counsel of recognized standing has resulted or will result (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which interest is due, additional amounts with respect to the Notes; or

on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in Canada (or the jurisdiction of organization of the successor to the Bank) or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to the Bank (or its successor), or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion to the Bank (or its successor) of legal counsel of recognized standing, will result (assuming, in the case of any announced prospective change, that such change, amendment, application, interpretation or action is applied to the Notes by the taxing authority and that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which interest is due, additional amounts with respect to the Notes; and, in any such case, the Bank (or its successor), in its business judgment, determines that such obligation cannot be avoided by the use of reasonable measures available to it (or its successor).

In the event the Bank elects to redeem the Notes pursuant to the provisions set forth in the preceding paragraph, it shall deliver to the trustees a certificate, signed by an authorized officer, stating (i) that the Bank is entitled to redeem such Notes pursuant to their terms and (ii) the Principal Amount of the Notes to be redeemed.

Notice of intention to redeem such Notes will be given to holders of the Notes not more than 45 nor less than 30 days prior to the date fixed for redemption and such notice will specify, among other things, the date fixed for redemption and, on or promptly after the redemption date, it will give notice of the redemption price.

CERTAIN CANADIAN INCOME TAX CONSEQUENCES

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires, as beneficial owner, Notes, including entitlements to all payments thereunder, pursuant to this pricing supplement and who, at all relevant times, for purposes of the application of the Income Tax Act (Canada) and the Income Tax Regulations (collectively, the “Act”) is not, and is not deemed to be, resident in Canada, deals at arm’s length with the Bank and with any transferee resident (or deemed to be resident) in Canada to whom the purchaser disposes of the Notes, does not use or hold the Notes in a business carried on in Canada, is not a “specified shareholder” and is not a person who does not deal at arm’s length with a “specified shareholder” (as defined for purposes of subsection 18(5) of the Act) of the Bank and does not receive any payment of interest on the Notes in respect of a debt or other obligation to pay an amount to a person with whom the Bank does not deal at arm’s length (a “Non-Resident Holder”). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based upon the current provisions of the Act and an understanding of the current administrative practices and assessing policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into

P-12

account all specific proposals to amend the Act publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "Proposals") and assumes that all Proposals will be enacted in the form proposed. However, no assurance can be given that the Proposals will be enacted as proposed or at all. This summary does not otherwise take into account any changes in law or in administrative practices or assessing policies, whether by legislative, administrative or judicial action, nor does it take into account any provincial, territorial or foreign income tax considerations, which may differ from those discussed herein.

This summary is of a general nature only and is not intended to be legal or tax advice to any particular purchaser. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers of Notes should consult their own tax advisors with respect to their particular circumstances.

No Canadian withholding tax will apply to interest or principal paid or credited to a Non-Resident Holder by the Bank or to proceeds received by a Non-Resident Holder on the disposition of a Note, including on a redemption, payment on maturity, repurchase or purchase for cancellation.

No other tax on income or gains will be payable by a Non-Resident Holder on interest or principal, or on proceeds received by a Non-Resident Holder on the disposition of a Note, including on a redemption, payment on maturity, repurchase or purchase for cancellation.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax consequences to U.S. Holders of the purchase, beneficial ownership and disposition of the Notes.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of a Note that is:

- an individual who is a citizen or a resident of the United States, for U.S. federal income tax purposes;
- a corporation (or other entity that is treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons, for U.S. federal income tax purposes, have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States for U.S. federal income tax purposes by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one third of the days present in the immediately preceding year, and one sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may materially and adversely affect the U.S. federal income tax consequences described herein. In addition, this summary addresses only U.S. Holders that purchase Notes at initial issuance, and own Notes as capital assets and not as part of a "straddle," "hedge," "synthetic security," or a "conversion transaction" for U.S. federal income tax purposes or as part of some other integrated investment. This summary does not discuss all of the tax consequences (such as any alternative minimum tax consequences or any consequences to taxpayers subject to special accounting rules under Section 451(b) of the Code) that may be relevant to particular investors or to investors subject to special treatment under the U.S. federal income tax laws (such as banks, thrifts or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; regulated investment companies or real estate investment trusts; small business investment companies; S corporations; partnerships; or investors that hold their Notes through a partnership or other entity treated as a partnership for U.S. federal income tax purposes; U.S. Holders whose functional currency is not the U.S. dollar; certain former citizens or residents of the

United States; retirement plans or other tax-exempt entities, or persons holding the Notes in tax-deferred or tax-advantaged accounts; persons that purchase or sell the Notes as part of a wash sale for tax purposes; or "controlled foreign corporations" or "passive foreign investment companies" for U.S. federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder, or any state, local or non-U.S. tax consequences of the purchase, ownership or disposition of the Notes. Persons considering the purchase of Notes should consult their tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of Notes arising under the laws of any other taxing jurisdiction.

General

The Notes should be treated as indebtedness for U.S. federal income tax purposes, and the balance of this summary assumes that the Notes are treated as indebtedness for U.S. federal income tax purposes.

We intend to take the position that solely for purposes of determining whether the Notes are issued with original issue discount, we are deemed to exercise the Call Provision prior to each Interest Rate step-up and, as a result, Interest Payments on the Notes will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's normal method of accounting for tax purposes. Pursuant to the terms of the Notes, you agree to treat the Notes consistent with our treatment for all U.S. federal income tax purposes.

Pursuant to this treatment, upon the taxable disposition of a Note, you should generally recognize taxable gain or loss equal to the difference between (1) the amount realized on such taxable disposition (other than amounts attributable to accrued but untaxed interest) and (2) your adjusted tax basis in the Note. Your adjusted tax basis in a Note generally will equal your cost of the Note. Because the Note is held as a capital asset, such gain or loss will generally constitute capital gain or loss. Capital gain of a non-corporate U.S. Holder is generally taxed at preferential rates where such holder has a holding period of greater than one year. The deductibility of a capital loss realized on the taxable disposition of a Note is subject to limitations.

In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, your Notes should be treated as described above. However, the U.S. federal income tax treatment of the Notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service (the "IRS") regarding the tax treatment of the Notes, and the IRS or a court may not agree with the tax treatment described in this pricing supplement. We urge you to consult your tax advisor as to the tax consequences of your investment in the Notes.

Medicare Tax on Net Investment Income

U.S. Holders that are individuals, estates or certain trusts are subject to an additional 3.8% tax on all or a portion of their "net investment income," or "undistributed net investment income" in the case of an estate or trust, which may include any income or gain with respect to the Notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds $200,000 for an unmarried individual, $250,000 for a married taxpayer filing a joint return (or a surviving spouse), $125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust. The 3.8% Medicare tax is determined in a different manner than the regular income tax. You should consult your tax advisor as to the consequences of the 3.8% Medicare tax to your investment in the Notes.

Specified Foreign Financial Assets

Certain U.S. Holders that own "specified foreign financial assets" in excess of an applicable threshold may be subject to reporting obligations with respect to such assets with their tax returns, especially if such assets are held outside the custody of a U.S. financial institution. You are urged to consult your tax advisor as to the application of this reporting obligation to your ownership of the Notes.

Backup Withholding and Information Reporting

Interest paid on the Notes, and proceeds received from a taxable disposition of the Notes, will be subject to information reporting unless you are an "exempt recipient" and may also be subject to backup withholding if you fail to provide certain identifying information (such as an accurate taxpayer number) or meet certain other conditions. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

You should consult your tax advisors as to the federal, state, local and other tax consequences of acquiring, holding and disposing of the Notes and receiving payments under the Notes.

CERTAIN ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing, or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we, SCUSA, and certain of our other subsidiaries and affiliates may be each considered a party in interest within the meaning of ERISA, or a disqualified person (within the meaning of Section 4975 of the Code), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also "Plans"). Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the Notes are acquired by or with the assets of a Plan with respect to which we or any of our affiliates is a party in interest or a disqualified person, unless the Notes are acquired under an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions ("PTCEs") issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding, or disposition of the Notes. Those exemptions include PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain arm's-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the "Service Provider Exemption").

Because SCUSA and the Bank each may be considered a party in interest or disqualified person with respect to many Plans, the Notes may not be purchased, held, or disposed of by any Plan, any entity whose underlying assets include plan assets by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing plan assets of any Plan, unless such purchase, holding, or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding, or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Notes that either (a) it is not and will not be a Plan or a Plan Asset Entity and is not purchasing such Notes on behalf of or with plan assets of any Plan or any plan subject to similar laws or (b) its purchase, holding, and disposition will not constitute or result in a non-exempt prohibited transaction due to the application of a statutory or administrative exemption or such purchase, holding, and disposition will not otherwise be prohibited under ERISA or Section 4975 of the Code or a violation of any similar laws.

Further, any person acquiring or holding the Notes on behalf of any plan or with any plan assets shall be deemed to represent on behalf of itself and such plan that (x) the plan is paying no more than, and is receiving no less than, adequate consideration within the meaning of Section 408(b)(17) of ERISA and/or Section 4975(f)(10) of the Code in connection with the transaction or any redemption of the Notes, (y) none of us or any SCUSA directly or indirectly exercises any discretionary authority or control or renders investment advice or otherwise acts in a fiduciary capacity with respect to the assets of the plan within the meaning of ERISA and/or Section 4975 of the Code and (z) in making the foregoing representations and warranties, such person has applied sound business principles in determining whether fair market value will be paid, and has made such determination acting in good faith.

The fiduciary investment considerations summarized above generally apply to employee benefit plans maintained by private-sector employers and to individual retirement accounts and other arrangements subject to Section 4975 of the Code, but generally do not apply to governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA). However, these other plans may be subject to similar provisions under applicable federal, state, local, foreign, or other regulations, rules, or laws ("similar laws").The fiduciaries of plans subject to similar laws should also consider the foregoing issues in general terms as well as any further issues arising under the applicable similar laws.

In addition, any purchaser that is a Plan or a Plan Asset Entity or that is acquiring the Notes on behalf of a Plan or a Plan Asset Entity, including any fiduciary purchasing on behalf of a Plan or Plan Asset entity, will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Notes that (a) none of us, SCUSA or any of our other affiliates is a "fiduciary" (under Section 3(21) of ERISA, or under any final or proposed regulations thereunder, or with respect to a governmental, church, or foreign plan under any similar laws) with respect to the acquisition, holding or disposition of the Notes, or as a result of any exercise by us or our affiliates of any rights in connection with the Notes, (b) no advice provided by us or any of our affiliates has formed a primary basis for any investment decision by or on behalf of such purchaser in connection with the Notes and the transactions contemplated with respect to the Notes, and (c) such purchaser recognizes and agrees that any communication from us or any of our affiliates to the purchaser with respect to the Notes is not intended by us or any of our affiliates to be impartial investment advice and is rendered in its capacity as a seller of such Notes and not a fiduciary to such purchaser. Purchasers of the Notes have exclusive responsibility for ensuring that their purchase, holding, and disposition of the Notes do not violate the prohibited transaction rules of ERISA or the Code or any similar regulations applicable to governmental or church plans, as described above.

This discussion is a general summary of some of the rules which apply to benefit plans and their related investment vehicles. This summary does not include all of the investment considerations relevant to Plans and other benefit plan investors such as governmental, church, and foreign plans and should not be construed as legal advice or a legal opinion. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Notes on behalf of or with "plan assets" of any Plan or other benefit plan investor consult with their legal counsel prior to directing any such purchase.

USE OF PROCEEDS AND HEDGING

We will use the net proceeds we receive from the sale of the Notes for the purposes we describe in the accompanying prospectus supplement under "Use of Proceeds". We or our affiliates may also use those proceeds in transactions intended to hedge our obligations under the Notes as described below.

In anticipation of the sale of the Notes, we or our affiliates expect, but are not required, to enter into hedging transactions involving purchases of securities or over-the-counter derivative instruments linked to the applicable reference rate(s) prior to or on the Pricing Date. From time to time, we or our affiliates may enter into additional hedging transactions or unwind those we have entered into.

We or our affiliates may acquire a long or short position in securities similar to the Notes from time to time and may, in our or their sole discretion, hold or resell those similar securities. We or our affiliates may close out our or their hedge on or before the Maturity Date.

The hedging activity discussed above may adversely affect the market value of the Notes from time to time. See "Additional Risk Factors" and "Supplemental Plan of Distribution (Conflicts of Interest)" herein for a discussion of these adverse effects.

VALIDITY OF THE NOTES

In the opinion of Cadwalader, Wickersham & Taft LLP, as special counsel to the issuer, when the notes offered by this pricing supplement have been executed and issued by the issuer and authenticated by the trustee pursuant to the indenture and delivered, paid for and sold as contemplated herein, the notes will be valid and binding obligations of the issuer, enforceable against the issuer in accordance with their terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, receivership or other laws relating to or affecting creditors' rights generally, and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by Canadian law, Cadwalader, Wickersham & Taft LLP has assumed, without independent inquiry or investigation, the validity of the matters opined on by Osler, Hoskin & Harcourt LLP, Canadian legal counsel for the issuer, in its opinion expressed below. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and, with respect to the Securities, authentication of the Securities and the genuineness of signatures and certain factual matters, all as stated in the opinion of Cadwalader, Wickersham & Taft LLP dated January 18, 2017 filed with the Securities and Exchange Commission as Exhibit 5.3 to the Registration Statement on Form F-3 on January 18, 2017.

In the opinion of Osler, Hoskin & Harcourt LLP, the issue and sale of the notes has been duly authorized by all necessary corporate action of BNS in conformity with the Indenture, and when the notes have been duly executed, authenticated and issued in accordance with the Indenture, the notes will be validly issued and, to the extent validity of the notes is a matter governed by the laws of the Province of Ontario, or the laws of Canada applicable therein, and will be valid obligations of BNS, subject to the following limitations (i) the enforceability of the Indenture may be limited by the Canada Deposit Insurance Corporation Act (Canada), the Winding-up and Restructuring Act (Canada) and bankruptcy, insolvency, reorganization, receivership, moratorium, arrangement or winding-up laws or other similar laws affecting the enforcement of creditors' rights generally; (ii) the enforceability of the Indenture may be limited by equitable principles, including the principle that equitable remedies such as specific performance and injunction may only be granted in the discretion of a court of competent jurisdiction; (iii) pursuant to the Currency Act (Canada) a judgment by a Canadian court must be awarded in Canadian currency and that such judgment may be based on a rate of exchange in existence on a day other than the day of payment; and (iv) the enforceability of the Indenture will be subject to the limitations contained in the Limitations Act, 2002 (Ontario), and such counsel expresses no opinion as to whether a court may find any provision of the Indenture to be unenforceable as an attempt to vary or exclude a limitation period under that Act. This opinion is given as of the date hereof and is limited to the laws of the Province of Ontario and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustees' authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated January 18, 2017, which has been filed as Exhibit 5.2 to BNS's Form F-3 filed with the SEC on January 18, 2017.

---

sale-leaseback accounting, the transaction was considered a normal leaseback; therefore the realized gain was deferred and is being recognized in proportion to the lease payments expensed over the initial 10-year lease term. The deferred gain is classified as other non-current liabilities on the balance sheet. The minimum annual lease payments are approximately:

Fiscal Year		
For the remainder of fiscal year 2008	$	280,000
2009		560,000
2010		560,000
2011		560,000
2012 and thereafter		3,492,000
Total	$	5,452,000

8) Retirement Benefits

The Company adopted certain provisions of FASB No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans- an amendment of FASB Statements No. 87, 88, 106 and 123(R)* (SFAS 158), on June 30, 2007. The Company changed its measurement date to June 30, effective July 1, 2007.

The effect of adopting the change in measurement date provisions of SFAS 158 as of July 1, 2007 were as follows:

(In thousands)	Before Application of SFAS 158 Measurement Date Provision	Effect of Adoption	After Application of SFAS 158 Measurement Date Provision
Prepaid pensions asset	$ 8,256	$ 5,041	$ 13,297
Non-current liability for post-retirement benefits	19,463	(10,926)	8,537
Deferred tax assets	23,694	(5,838)	17,856
Accumulated other comprehensive income (loss)	41,218	(11,056)	30,162
Retained earnings	426,171	(927)	425,244
Total stockholders' equity	204,431	10,129	214,560

Net Periodic Benefit Cost for the three and six months ended December 31, 2007 and 2006 included the following components:

	Pension Benefits U.S. Plans			
	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2007	2006	2007	2006
Service cost	$ 1,388	$ 1,101	$ 2,775	$ 2,202
Interest cost	3,076	3,065	6,153	6,130
Expected return on plan assets	(4,192)	(4,067)	(8,385)	(8,134)
Recognized net actuarial loss	549	1,011	1,097	2,022

Amortization of prior service cost		49		43		97		86
Amortization of transition obligation (asset)		1		1		1		2
Curtailment		-		-		-		334
Net periodic benefit cost	$	871	$	1,154	$	1,738	$	2,642

	Pension Benefits Non-U.S. Plans							
	Three Months Ended December 31,				Six Months Ended December 31,			
(In thousands)	2007		2006		2007		2006	
Service cost	$	47	$	5	$	88	$	11
Interest cost		516		32		1,022		64
Expected return on plan assets		(511)		-		(1,019)		-
Recognized net actuarial loss		164		(14)		327		(28)
Amortization of prior service cost		(17)		-		(32)		-
Amortization of transition obligation (asset)		-		56		-		113
Curtailment		-		-		-		-
Net periodic benefit cost	$	199	$	79	$	386	$	160

	Other Post-Retirement Benefits U.S. Plans			
	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 3	$ 45	$ 6	$ 90
Interest cost	31	458	62	916
Expected return on plan assets	-	(375)	-	(750)
Recognized net actuarial loss (gains)	(23)	7	(46)	14
Amortization of prior service cost	-	217	-	434
Amortization of transition obligation	56	-	112	-
Curtailment	-	-	-	-
Net periodic benefit cost	$ 67	$ 352	$ 134	$ 704

The six months ending December 31, 2006 includes a curtailment charge of $334,000 recorded as a result of the disposition of the Consumer Group. There were no contributions to the defined benefit plan for the quarter ended December 31, 2007, and $2.7 million for the quarter ended December 31, 2006. There were no contributions to pension plans for the six months ending December 31, 2007, and $3.4 million for the six months ending December 31, 2006. Current benefits for the U.S. salaried employee plan and Standex Supplemental Retirement Plan (SERP) were frozen at December 31, 2007 and an enhanced 401K plan was introduced, including increased employer contributions for eligible employees.

9)

Income Taxes

The Company's effective tax rate for the three months ended December 31, 2007, was 33.5% compared with 25.1% for the same period last year. The higher effective tax rate is primarily due to the impact of the benefit related to the retroactive extension of the R&D credit recorded during the second quarter of fiscal 2007. The Company's effective tax rate for the six months ended December 31, 2007, was 34.8% compared with 30.6% for the same period in the prior year. The higher effective tax rate is primarily due to the impact of the benefit related to the retroactive extension of the R&D credit recorded during the second quarter of fiscal 2007 and a decrease in the statutory tax rate in Germany on deferred tax assets from prior periods recorded during the first quarter of fiscal 2008.

The Company has adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of July 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, by prescribing the minimum recognition threshold and measurement attribute a tax position taken or expected to be taken on a tax return is required to meet before being recognized in the financial statements. As a result of the implementation of FIN 48, the Company did not recognize any change in its liability for unrecognized tax benefits.

At the adoption date of July 1, 2007 the total amount of gross unrecognized tax benefits was approximately $2.8 million. If these benefits were recognized in a future period, the entire amount of unrecognized tax benefit would impact the Company s effective tax rate. The total amount of gross unrecognized tax benefits at December 31, 2007, was approximately $3.1 million. The increase is primarily attributable to tax positions taken in the current year.

The Company s policy is to include interest expense and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated condensed statements of income. At the date of adoption and at December 31, 2007, the Company has approximately $447,000 and $547,000, respectively, accrued for interest expense on unrecognized tax benefits.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as the income tax of multiple state and non-U.S. jurisdictions. The Company's U.S. tax returns for the years ended June 30, 2004, and June 30, 2005, are currently under audit with the IRS. At this time, the Company does not know when the audit will be completed. The final outcome of the examination is not yet determinable; however, we do not expect that any adjustments as a result of the examination would have a material effect on our financial position.

Within the next twelve months, the statute of limitations will close in various U.S., state and non-U.S. jurisdictions. As a result, it is reasonably expected that net unrecognized tax benefits from these various jurisdictions would be recognized within the next twelve months. The recognition of these tax benefits is not expected to have a material impact to the Company's financial statements. The Company does not reasonably expect any other significant changes in the next twelve months. The following tax years, in the major tax jurisdictions noted, are open for assessment or refund:

Country	**Years Ending June 30,**
United States	2004 to 2007
Canada	2003 to 2007
Ireland	2003 to 2007
Portugal	2003 to 2007
United Kingdom	2006 to 2007

10) Earnings Per Share

A reconciliation of the number of shares used in the computation of basic and diluted earnings per share is shown below:

	Three Months Ended December 31,		**Six Months Ended December 31,**	
(In thousands)	**2007**	**2006**	**2007**	**2006**
Weighted average common stock issued and outstanding, end of period	12,288	12,219	12,272	12,219
Weighted average dilutive common stock equivalents	57	179	120	198
Weighted average common stock and dilutive common stock equivalents outstanding	12,345	12,398	12,392	12,417

Potentially Dilutive Common Stock Equivalents

Options to purchase shares of common stock with exercise prices in excess of the average market price of common shares are not included in the computation of diluted earnings per share. During the three months ended December 31, 2007 and 2006 there were 61,600 and 3,200 outstanding options, respectively, not included in the diluted earnings per share computation. During the six months ended December 31, 2007 and 2006, options to purchase 11,400 and 3,200 shares of common stock, respectively, were outstanding, but were not included in the computation of diluted

earnings per share because the options exercise prices were greater than the average market price of the common shares.

In addition 126,000 performance stock units are excluded from the diluted earnings per share calculation as the performance criteria have not been met as of December 31, 2007.

11)

Comprehensive Income (Loss)

Total comprehensive income and its components for the three and six months ended December 31, 2007, and 2006, were as follows:

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2007	**2006**	**2007**	**2006**
Net income:	$ 5,512	$ 4,818	$ 11,433	$ 16,949
Other comprehensive gains:				
Change in fair value of pension assets and liabilities	674	-	1,088	-
Foreign currency translation adjustment	406	(18)	3,251	358
Comprehensive income	$ 6,592	$ 4,800	$ 15,772	$ 17,307

The components of accumulated other comprehensive income (loss) are as follows:

(in thousands)	December 31, 2007	June 30, 2007
Foreign currency translation adjustment	$ 17,935	$ 14,684
Unrealized pension losses (net of tax benefit of $16,839 and $23,904 as of December 31 and June 30, 2007, respectively)	(29,074)	(41,217)
Accumulated other comprehensive loss	$ (11,139)	$ (26,533)

12)

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.

Liabilities are recorded when the amount can be reasonably estimated and the loss is deemed probable. Management has evaluated each matter based, in part, upon the advice of its in-house legal personnel and independent environmental consultants. 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.

13)

Industry Segment Information

Our reportable segments are strategic business units or divisions that offer different products. These units have separate financial information that is evaluated by management. The Company is composed of five business segments. There are no intersegment sales for the periods presented. Information concerning the operations in these reportable segments is as follows:

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

	2007	2006	2007	2006
Net Sales:				
Food Service Equipment Group	$ 94,918	$ 59,606	$ 191,879	$ 125,221
Air Distribution Products Group	23,164	28,011	50,514	57,812
Hydraulics Products Group	7,855	8,025	16,857	18,275
Engraving Group	23,631	21,731	44,034	43,148
Engineered Products Group	22,677	21,895	44,481	44,302
Total	$ 172,245	$ 139,268	$ 347,765	$ 288,758
Income from Operations				
Food Service Equipment Group	$ 8,206	$ 3,296	$ 17,854	$ 8,253
Air Distribution Products Group	1	1,665	398	3,849
Hydraulics Products Group	1,025	955	2,244	2,703
Engraving Group	2,628	1,879	3,899	4,684
Engineered Products Group	3,487	2,652	6,401	4,653
Corporate and other	(4,070)	(2,354)	(8,673)	(5,757)
Restructuring	-	184)	-	(290)
Total	11,277	7,909	22,123	18,095
Other non-operating income and expenses	(2,987)	(1,537)	(5,509)	(2,578)
Income from continuing operations before income taxes	$ 8,290	$ 6,372	$ 16,614	$ 15,517

14)

Discontinued Operations

On September 27, 2007, the Company sold certain land, buildings and improvements related to the former Standard Publishing business, which is being accounted for as a discontinued operation, for net proceeds of $1.6 million in cash. The Company recorded a gain on the disposal of $605,000 (net of taxes of $302,000) in the three months ended September 30, 2007.

In March 2006, we entered into a plan to dispose of certain assets of our USECO product lines. During the second quarter of fiscal 2007, we were able to complete the sale of the under-sink food disposals product line resulting in a gain on the sale of a portion of USECO business of approximately $541,000 (net of taxes of $17,000) offset by losses from the USECO operations. In addition to the gain recognized on the sale of the under-sink food disposals product line the results from discontinued operations during the six months ended December 31, 2006 include the gains recognized upon the completion of the sales of the Standard Publishing and the Berean Christian Stores. In the first half of fiscal 2007, we recognized a gain on disposal of the Standard Publishing and Berean Christian Stores businesses totaling $6.9 million (net of taxes of $3.9 million). Substantially all of the assets of the Standard Publishing and Berean Christian Stores businesses were sold in July 2006 and August 2006, respectively. Accordingly, we reported income from discontinued operations of approximately $6.2 million (net of taxes) in the first half of fiscal 2007.

The following summarizes the activities associated with discontinued operations:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	**2007**	**2006**	**2007**	**2006**
Net sales	$ -	$ 468	$ -	$ 4,516
Income/(Loss) from discontinued operations	-	(758)	-	(1,167)
Income tax (provision)/benefit	-	265	-	422
Gain on disposal, net of tax of $0 and $17 for the three months ended December 31 and $302 and $3,935 for the six months ended December 31	-	541	605	6,935
Net income from discontinued operations	$ -	$ 48	$ 605	$ 6,190

The Company had accrued liabilities related to discontinued operations, primarily accrued rent and warranty costs, of $786,000 and $821,000 at December 31, 2007 and June 30, 2007, respectively.

15) New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. FAS 157

becomes effective for us on July 1, 2008. Upon adoption, the provisions of FAS 157 are to be applied prospectively with limited exceptions. We are currently evaluating the potential impact of FAS 157 on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115 (FAS 159). FAS 159 permits companies to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of FAS 159 on our financial position and results of operations.

In December 2007, the FASB issued SFAS 141 (Revised 2007), Business Combinations (FAS 141R). FAS 141R will change the accounting for business combinations. Under FAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the potential impact of FAS 141R on our financial position and results of operations beginning for fiscal year 2010.

Item 2. 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 our business and the results of our 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 us, the ongoing downturn in the new residential construction market, lower-cost competition, the relative mix of products which impact margins and operating efficiencies, both domestic and non-U.S., 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 move of production to Mexico and China, and the inability to achieve the savings expected from the sourcing of raw materials from China and the inability to achieve synergies contemplated by us. 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 we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Overview

We are a leading manufacturer of a variety of products and services for diverse industrial market segments. We have five reporting segments: Food Service Equipment Group, Air Distribution Products Group (ADP), Engraving Group, Hydraulics Products Group and Engineered Products Group. Through the execution of our focused diversity strategy, we have moved from a company comprised of a mix of consumer and industrial businesses to one that is now exclusively a manufacturer of products sold to commercial and industrial customers. Our objective is to identify those of our businesses which hold the greatest potential for profitable growth, and direct our resources to supporting both organic growth and acquisition initiatives in those businesses. In fiscal 2007, we made two significant acquisitions in the Food Service Equipment Group which have broadened our presence in the diverse food service equipment sector. In addition, we are seeking to expand our markets to geographic locations where we have not previously had a presence, for example in Turkey and the Czech Republic, where we have established mold texturizing operation, and in China, where our Electronics division is manufacturing product for our North American customer base, as well as the domestic Chinese market.

In addition, we continue to focus on operational excellence where our objectives are to reduce our operating costs and continuously improve the management of our working capital. For example, we are sourcing an increasing percentage of our raw materials and components from lower cost producers, primarily offshore, relocating manufacturing operations to lower cost countries such as Mexico and China, and implementing lean manufacturing processes throughout our operations.

We continue to face difficult economic conditions in two of the markets we serve new residential construction and heavy construction vehicles. The timing of recovery in these markets is still not clear, so a focus on cost reduction and efforts to increase market share are ongoing to mitigate the effects of conditions in these markets.

There are a number of key external factors other than general business and economic conditions that can impact the performance of our businesses. The key factors affecting each business are described below in the segment analysis.

There are several items that affect the comparability of our performance information between the periods discussed in this report including the impact of acquisitions in fiscal 2007 and the impact of the divestitures.

We monitor a number of key performance indicators including net sales, gross profit margin, selling, general and administrative expenses, income from operations, backlog and liquidity. A discussion of these key performance indicators is included within the discussion below. Unless otherwise noted, references to years are to fiscal years.

Results from Continuing Operations:

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Net Revenues

The following table presents segment net revenues and segment net revenues expressed as a percentage of total net revenues for the three months ended December 31, 2007 and 2006:

	Three Months Ended December 31,					
	2007		2006			
(in thousands)	Net Revenues	% Net Revenues	Net Revenues	% Net Revenues	$ Change	% Change
Net Revenues:						
Food Service Equipment Group	$ 94,918	55.1%	$ 59,606	42.8%	$ 35,312	59.2%
Air Distribution Products Group	23,164	13.4%	28,011	20.1%	(4,847)	-17.3%
Hydraulics Products Group	7,855	4.6%	8,025	5.8%	(170)	-2.1%
Engraving Group	23,631	13.7%	21,731	15.6%	1,900	8.7%
Engineered Products Group	22,677	13.2%	21,895	15.7%	782	3.6%
Total Net Revenues	$ 172,245	100.0%	$ 139,268	100.0%	$ 32,977	23.7%

(In thousands)	**Three Months Ended December 31, 2007**
Net sales, prior period	$ 139,268
Components of change in sales:	
Effect of acquisitions	25,417
Effect of exchange rates	2,318
Organic sales change	5,242
Net sales, current period	$ 172,245

Net sales for the three months ended December 31, 2007, increased $33.0 million, or 23.7%, to $172.2 million from $139.3 million for the three months ended December 31, 2006. The increase in net sales is due to the sales from our acquisitions within the Food Service Equipment Group and good organic sales growth within Food Service, offset by sales declines in the ADP and Hydraulics Products Groups. The recent Food Service Equipment Group acquisitions

of Associated American Industries, Inc. (AAI or APW Wyott) and American Foodservice Company (AFS) accounted for approximately $25.4 million of the increase in revenues during the quarter. Disregarding the effects of acquisitions and exchange rates, net sales for the three months ended December 31, 2007 increased $5.2 million, or 3.8%, when compared to the three months ended December 31, 2006. Sales were lower in the ADP and Hydraulics Products Groups, due to continued downturns in new residential construction and the heavy construction vehicle market, respectively. Sales in the Engraving Group increased as several automotive OEM texturizing projects which had been delayed for several quarters were processed during the quarter. Net sales for the Engineered Products Group were slightly above the same period last year due to sales growth at the Spincraft business relating to the tooling and hardware for NASA s Orion rocket program.

Food Service Equipment Group

Net sales in the second quarter of fiscal 2008 increased $35.3 million, or 59.2%, over the same period one year earlier. Acquisitions accounted for $25.4 million of the increase, while the effects of foreign exchange rates added an additional $461,000. When removing the effect of acquisitions and the foreign exchange rate impact, sales increased $9.4 million, or 15.8%, when compared with the same period one year earlier. Strong sales improvements totaling $8.4 million were noted in our walk-in cooler and refrigerated cabinet businesses, due in part to the improved sales performance at Master-Bilt where we have successfully addressed quality and delivery issues that had impacted sales in the prior year quarter. General strong demand by key customers across the Group s businesses also contributed to the sales improvements. BKI, a division within the Food Service Equipment Group, also recorded strong sales growth with increased sales to the supermarket and grocery store market businesses in the United Kingdom totaling $1.3 million.

Air Distribution Products Group

Net sales decreased $4.8 million, or 17.3%, from the second quarter of fiscal 2007. The decrease is the result of a continuing downturn in new residential home construction markets that the Group serves. Housing starts on a nationwide basis continued their downward trend. ADP is continuing to pursue opportunities to capture market share including sales growth in the big box retail locations and seeking further geographical penetration with several national wholesalers by leveraging its nationwide manufacturing capabilities.

Hydraulics Products Group

Net sales decreased $170,000, or 2.1%, for the three months ended December 31, 2007 when compared with the three months ended December 31, 2006. Conditions in the domestic dump truck and dump trailer market continued to be depressed, due to general economic conditions and to the continuing impact of new regulations from the U.S. Environmental Protection Agency (EPA) which took effect January 1, 2007. Improvement in the Group s export business partially offset a slight decline in domestic sales.

Engraving Group

Net sales increased by $1.9 million, or 8.7%, when compared to the same period one year ago. When removing the effect of foreign exchange rate impact, sales increased $617,000, or 2.8%. North America sales improved $2.2 million as several automotive OEM projects that had been delayed for several quarters were processed during the quarter. Net sales were also favorably impacted by increased sales volume at the Group s China and Singapore facilities. These improvements were slightly offset by weaker sales in the Roll, Plate and Machinery business totaling $1.4 million which was impacted by a slowdown in our customers capital spending and the general economic conditions in the automotive and housing markets. Net sales for the Group s international operations have increased $1.1 million due to improved sales to both automotive and non-automotive customers.

Engineered Products Group

Net sales increased $782,000, or 3.6%, for the three months ended December 31, 2007 when compared with the three months ended December 31, 2006. Spincraft continued to experience robust demand across its energy, aviation and aerospace end-user markets. In anticipation of the contracts we have been awarded during the past year, the Group initiated the installation of several major machine tools during the first quarter of fiscal 2008 to support the sales growth we are experiencing in this business. The installation of this equipment continued during the second quarter and we expect that all of the equipment will be put into operation during the third fiscal quarter.

During the quarter Spincraft entered into a sales contract for tooling and hardware for NASA s Orion rocket program for $8.2 million Spincraft s portion of the project will have five deliverable milestones and is expected to last through the second quarter of fiscal 2009. The first two milestones were completed during the three months ended December 31, 2007 and approximately $2.3 million of revenue was recognized.

Net sales of the Electronics business unit totaling $11.5 million were flat when compared with the same period one year earlier. Electronics experienced sales declines in the security, HVAC, automotive, and white goods markets related to the housing downturn, offset with sales growth in its aerospace and industrial businesses.

Gross Margin

Our gross profit margin increased to 29.8% for the second quarter of fiscal 2008 from 27.6% in the same quarter of the prior year. Gross profit for the three months ended December 31, 2007 increased $12.8 million to $51.3 million compared to $38.5 million for the three months ended December 31, 2006. Acquisitions within the Food Service Equipment Group contributed $8.5 million of the increase in gross profit. With the exception of ADP, gross profit margins increased in each segment. The decline in ADP is primarily the result of pressure on margins due to volume declines and material cost increases.

Operating Expenses

The following table summarizes significant items included in our selling, general and administrative expenses along with the impact from acquisitions for the three months ended December 31, 2007 and 2006:

(in thousands)	December 31, 2007	Effect from Acquisitions	December 31, 2007 (Net of Acquisitions)	December 31, 2006
Employee compensation and benefits	$ 22,452	$ 3,689	$ 18,763	$ 17,942
Depreciation and amortization	1,456	759	697	738
Freight out	5,868	819	5,049	4,701
Professional Fees	2,014	202	1,812	1,339
Other	8,219	1,433	6,786	5,656
Totals relating to selling, general and administrative expense	$ 40,009	$ 6,902	$ 33,107	$ 30,376
Selling, general and administrative expenses as a percentage of applicable net revenues	23.2%	27.2%	22.5%	21.8%

The $9.6 million increase in selling, general and administrative expense from last year was due primarily to the effect of the acquisitions made by the Food Service Equipment Group, which accounted for 71.6% of the increase.

Executives and key members of management were issued performance based awards that were based upon three year financial performance targets. Given the downturn in several of the segments in fiscal 2007, a determination was made that the goals for the

performance periods ended June 30, 2007 would unlikely be achieved, resulting in the reversal during the three months ended December 31, 2006 of $1.5 million in expense associated with the awards to date. The reversal accounted for most of the remainder of the increase.

As a percentage of net revenue, selling, general and administrative expense in the second quarter was 22.5%, net of acquisitions, compared to 21.8% last year. Other selling, general and administrative expenses includes such expenses as repairs and maintenance fees, advertising and communication costs, travel and entertainment expense and other operating expenses.

Income from Operations

The following table presents segment income from operations in dollars and expressed as a percentage of net revenue for the respective segments for the three months ended December 31, 2007 and 2006.

	Three Months Ended December 31,					
	2007		2006			
(in thousands)	Income from Operations	% of Segment Revenue	Income from Operations	% of Segment Revenue	$ Change	% Change
Income from Operations:						
Food Service Equipment Group	$ 8,206	8.6%	$ 3,296	5.5%	$ 4,910	149.0%
Air Distribution Products Group	1	0.0%	1,665	5.9%	(1,664)	-100.0%
Hydraulics Products Group	1,025	13.0%	955	11.9%	70	7.3%
Engraving Group	2,628	11.1%	1,879	8.6%	749	39.9%
Engineered Products Group	3,487	15.4%	2,652	12.1%	835	31.5%
Subtotal	15,347	8.9%	10,447	7.5%	4,900	46.9%
Corporate and Other	(4,070)	-	(2,354)	-	(1,716)	72.9%
Restructuring	-	-	(184)	-	184	-100.0%
Total Income from Operations	$ 11,277	-	$ 7,909	-	$ 3,368	42.6%

Income from operations for the second quarter of fiscal 2008 was $11.3 million, or 42.6% higher than the $7.9 million reported for the same period a year ago. Improvements in operating income were realized in all of our segments with the exception of ADP. An explanation by segment follows.

Food Service Equipment Group

Income from operations for the second quarter of fiscal 2008 increased $4.9 million, or 149.0%, when compared to the same period one year earlier. Approximately $1.6 million of the increase was due to the acquisitions of AAI and AFS. Excluding the effect of acquisitions, income from operations increased $3.3 million, or 100.5%, due to increased sales volume across the Group s businesses as well as cost reductions and improved productivity.

Air Distribution Products Group

Income from operations decreased $1.7 million, or 100.0%, from the same period one year earlier primarily due to a combination of higher material costs and volume decreases. In response to the continued weak residential construction outlook and the inability to pass the material price increases fully through to its customers, ADP continues to focus efforts on actions to increase market share and reduce material costs, such as the cost of galvanized steel.

Management s assessment of goodwill related to the ACME/Alco Manufacturing acquisition is that a triggering event has not occurred. The company performs its annual assessment for goodwill impairment in the fourth quarter of each year.

Hydraulics Products Group

Income from operations increased $70,000, or 7.3%, as profitability improved on flat sales due to cost reductions and improved productivity.

Engraving Group

Income from operations increased by $749,000, or 39.9%, when compared to the same quarter in the prior year. Increased sales to automotive OEM s in both North America and the international operations were the primary contributor to the growth in operating income as the business benefited from higher margin programs and improved facility utilization. The growth in income from

operations was offset partially by lower sales from the Roll, Plate, and Machinery division where market conditions and our customers lower capital spending have negatively impacted sales volume.

Engineered Products Group

Income from operations increased $835,000, or 31.5%, when compared to the same period one year earlier. This increase is primarily due to the new sales contract for NASA s Orion rocket program signed during the quarter. The positive effect of the Chinese operation in our electronics business also helped to improve income from operations.

Corporate and Other

Corporate expenses of approximately $4.1 million in the second quarter of fiscal 2008 were $1.7 million more when compared to the same quarter in the prior year of $2.4 million. The increase in expense was primarily due to a $1.5 million adjustment relating to the reversal of performance stock awards when management determined that the goals for the performance period ended June 30, 2007 were unlikely to be achieved.

Non-Operating Income and Expense

The following table presents interest expense incurred in connection with debt borrowings for the periods presented and other non-operating miscellaneous income or expense:

	Three Months Ended December 31,			
(in thousands)	2007	2006	$ Change	% Change
Interest expense	$ 2,739	$ 1,548	$ 1,191	76.9%
Other non-operating (income) expense	$ 248	$ (11)	$ 259	-2354.5%

The increase in interest expense incurred in the three months ended December 31, 2007, as compared with the three months ended December 31, 2006, related to an increase in our overall debt in connection with our credit facility. The debt level year over year increased to fund the acquisitions of AAI and AFS in January 2007.

Income Taxes

The following table presents the income tax provision and effective tax rates for the three months ended December 31, 2007 and 2006:

	Three Months Ended December 31,	
(in thousands)	2007	2006
Income tax provision		

	$ 2,778	$ 1,602
Effective tax rate	33.5%	25.1%

The effective tax rate in the three months ended December 31, 2007 was higher than the effective tax rate in the three months ended December 31, 2006 primarily due to the benefit related to the retroactive extension of the R&D tax credit. The annual estimated tax rate was re-measured during the second quarter of fiscal 2007 because the tax law was changed to reinstate the credit. The impact of $238,000 was recognized in the second quarter of fiscal 2007. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes to federal, foreign or state tax laws, future expansion into areas with varying foreign, state or local income tax rates, and the deductibility of certain costs and expenses by jurisdiction.

Six Months Ended December 31, 2007 Compared to Six Months Ended December 31, 2006

Net Revenues

The following table presents segment net revenues and segment net revenues expressed as a percentage of total net revenues for the six months ended December 31, 2007 and 2006:

	Six Months Ended December 31,					
	2007		2006			
(in thousands)	Net Revenues	% Net Revenues	Net Revenues	% Net Revenues	$ Change	% Change
Net Revenues:						
Food Service Equipment Group	$ 191,879	55.2%	$ 125,221	43.4%	$ 66,658	53.2%
Air Distribution Products Group	50,514	14.5%	57,812	20.0%	(7,298)	-12.6%
Hydraulics Products Group	16,857	4.8%	18,275	6.3%	(1,418)	-7.8%
Engraving Group	44,034	12.7%	43,148	14.9%	886	2.1%
Engineered Products Group	44,481	12.8%	44,302	15.4%	179	0.4%
Total Net Revenues	$ 347,765	100.0%	$ 288,758	100.0%	$ 59,007	20.4%

(In thousands)	**Six Months Ended December 31, 2007**
Net sales, prior period	$ 288,758
Components of change in sales:	
Effect of acquisitions	51,285
Effect of exchange rates	4,422
Organic sales change	3,300
Net sales, current period	$ 347,765

Net sales for the six months ended December 31, 2007 increased $59.0 million, or 20.4%, to $347.8 million from $288.8 million for the six months ended December 31, 2006. The increase in net sales is due to the sales from our acquisitions within the Food Service Equipment Group and good organic sales growth within the Food Service, offset by sales declines in the ADP and Hydraulics Products Groups. The Food Service Equipment Group acquisitions of AAI and AFS completed in January 2007 contributed approximately $51.3 million in revenues. Disregarding the effects of acquisitions and foreign exchange rate impact, net sales for the six months ended December 31, 2007 increased $3.3 million, or 1.1%, when compared to the six months ended December 31, 2006. Sales were negatively

impacted in the ADP and Hydraulics Products Groups due to continued recessionary conditions in new residential construction and the heavy construction vehicle market, respectively. Net sales for the Engineered Products Group were above the same period in the prior year due to sales growth at the Spincraft business relating to the tooling and hardware for NASA s Orion rocket program

Food Service Equipment Group

Net sales in the six months ended December 31, 2007 increased $66.7 million, or 53.2%, over the same period one year earlier. Acquisitions accounted for $51.3 million of the increase year over year, while the effects of foreign exchange rates on sales added an additional $933,000. When removing the effect of acquisitions and foreign exchange rate impact, organic sales increased for the six months ended December 31, 2007, $14.4 million, or 11.5%, when compared with the six months ended December 31, 2006. An increase of $12.6 million was posted in our walk-in cooler and refrigerated cabinet businesses generally due to strong demand by key customers. BKI also had recorded good sales growth with increased sales in the supermarket and grocery store markets within the United Kingdom totaling $2.5 million. An increase in sales was also noted in the pump business totaling $768,000.

Air Distribution Products Group

Net sales for the six months ended December 31, 2007, decreased $7.3 million, or 12.6%, when compared with the six months ended December 31, 2006. The decrease is the result of an ongoing downward trend in the new residential home construction markets that we serve. ADP is continuing to pursue opportunities to capture market share including sales growth in the big box retail locations and seeking further geographical penetration with several national wholesalers by leveraging its nationwide manufacturing capabilities.

Hydraulics Products Group

Net sales decreased $1.4 million, or 7.8%, from $18.3 million for the six month period ending December 31, 2006, to $16.9 million for the six month period ending December 31, 2007. The decrease was attributable to the continuing weak market conditions in the dump truck and dump trailer business.

Engraving Group

Net sales increased by $886,000, or 2.1%, when compared to the same period one year ago. When removing the effect of foreign exchange rate impact, sales decreased $1.5 million, or 3.5%. The overall net decrease is attributed to delays of several new platform projects by the group s OEM automotive customers in North America and weaker demand in the Roll, Plate and Machinery business unit. During the second quarter of fiscal 2008 orders for the new platform projects came on line. This improvement is expected to continue in the second half of the fiscal year. The Group s international operations increased sales at both automotive OEM and non-automotive customers.

Engineered Products Group

Net sales increased $179,000, or 0.4%, when compared to the same period one year earlier. Last year s sales were positively affected by a non-recurring shipment of $1.2 million. We continue to see robust demand across our energy, aviation and aerospace end-user markets. In anticipation of the contracts we have been awarded during the past year, the Group initiated the installation of several major machine tools during the first half of fiscal 2008 to support the sales growth we are experiencing in this business. The installation of this equipment continued during the second quarter and we expect that all of the equipment will be put into operation during the third fiscal quarter.

During the second quarter of fiscal 2008, Spincraft entered into a sales contract for tooling and hardware for NASA s Orion rocket program for $8.2 million. The first two deliverable milestones were completed during the six months ended December 31, 2007, and approximately $2.3 million of revenue was recognized. The next deliverable milestone is expected to be completed during the beginning of the fourth quarter.

For the six months ended December 31, 2007, net sales for the Electronics business totaled $23.7 million were flat when compared with the six months ended December 31, 2006. Lower sales to the automotive, security, HVAC and white goods markets were offset by higher sales to aerospace and control businesses.

Gross Margin

Gross margin as a percent of net sales for the six months ended December 31, 2007, increased 23.7% to $100.9 million from $81.5 million for the same period last year. The $19.4 million increase in gross margin was due primarily to the increase in revenue in the Food Service Equipment Group. Acquisitions within the Food Service Equipment Group accounted for $17.1 million of the increase. The Engineered Products segment also increased their gross profit margin during the first half of fiscal 2008 when compared with the first half of fiscal 2007. Gross profit margin decreased in the ADP, Engraving and Hydraulics Product segments. Gross profit margin was 29.0% of net revenues for the six months ended December 31, 2007 compared with 28.2% of net revenues for the six months ended December 31, 2006.

Operating Expenses

The following table summarizes significant items included in our selling, general and administrative expenses for the six months ended December 31, 2007 and 2006:

December 31,

(in thousands)	December 31, 2007	Effect from Acquisitions	2007 (Net of Acquisitions)	December 31, 2006
Employee compensation and benefits	$ 44,069	$ 7,424	$ 36,645	$ 38,484
Depreciation and amortization	2,825	1,507	1,318	1,503
Freight out	11,653	1,693	9,960	9,967
Professional Fees	3,832	390	3,442	2,758
Other	16,379	2,576	13,803	10,429
Totals relating to selling, general and administrative expense	$ 78,758	$ 13,590	$ 65,168	$ 63,141
Selling, general and administrative expenses as a percentage of applicable net revenues	22.6%	26.5%	22.0%	21.9%

The $15.6 million increase in selling, general and administrative expense from last year related primarily to our acquisitions of AAI and AFS in January 2007. The impact from those acquisitions to compensation and benefits was $7.4 million, or 47.5% of the total increase. The reversal of expense for $1.5 million recorded in the first half of fiscal 2007 for performance-based awards for the period ended June 30, 2007, also impacted the change in selling, general and administrative expenses which relates to employee compensation and benefits.

As a percentage of net revenue, selling, general and administrative expense in the first half of fiscal 2008 increased to 22.0%, net of acquisitions, from 21.9% for the same period in the prior year. Other selling, general and administrative expenses include such expenses as repairs and maintenance fees, advertising and communication costs, travel and entertainment expense and other operating expenses.

Income from Operations

The following table presents segment income from operations in dollars and expressed as a percentage of net revenues for the respective segments for the six months ended December 31, 2007 and 2006:

	Six Months Ended December 31,					
	2007		2006			
(in thousands)	Income from Operations	% of Segment Revenue	Income from Operations	% of Segment Revenue	$ Change	% Change
Income from Operations:						
Food Service Equipment Group	$ 17,854	9.3%	$ 8,253	6.6%	$ 9,601	116.3%
Air Distribution Products Group	398	0.8%	3,849	6.7%	(3,451)	-89.7%
Hydraulics Products Group	2,244	13.3%	2,703	14.8%	(459)	-17.0%
Engraving Group	3,899	8.9%	4,684	10.9%	(785)	-16.8%
Engineered Products Group	6,401	14.4%	4,653	10.5%	1,748	37.6%
Subtotal	30,796	8.9%	24,142	8.4%	6,654	27.6%
Corporate and Other	(8,673)	-	(5,757)	-	(2,916)	50.7%
Restructuring	-	-	(290)	-	290	-100.0%
Total Income from Operations	$ 22,123	-	$ 18,095	-	$ 4,028	22.3%

Income from operations for the first half of fiscal 2008 was $22.1 million, or 22.3% higher than the $18.1 million reported for the same period a year ago. Improvements in operating income were realized in the Food Service

Equipment Group and the Engineered Products Groups, with decreases in the other segments. An explanation by segment follows.

Food Service Equipment Group

Income from operations for the first half of 2008 increased $9.6 million, or 116.3%, when compared to the same period one year earlier. Approximately $3.5 million of the increase was due to the acquisitions of AAI and AFS. Excluding the effect of acquisitions, income from operations increased $6.1 million, or 73.5%, due to increased sales demand across the group as well as cost reductions and improved productivity.

Air Distribution Products Group

Income from operations decreased $3.5 million, or 89.7%, from the same period one year earlier primarily due to volume decreases and also due to higher material costs. In response to the continued weak residential construction outlook and the inability to pass the material price increases fully through to its customers, ADP continues to focus efforts on actions to increase market share and reduce material costs, such as the cost of galvanized steel.

Management s assessment of goodwill related to the ACME/Alco Manufacturing acquisition is that a triggering event has not occurred. The company performs its annual assessment for goodwill impairment in the fourth quarter of each year.

Hydraulics Products Group

Income from operations decreased $459,000, or 17.0%, when compared to the same period one year earlier due to lower volume in the dump truck and dump trailer business which was due to weak market conditions coupled with the impact of the January 1, 2007 EPA emission regulations.

Engraving Group

Income from operations decreased by $785,000, or 16.8%, when compared to the first half of the prior fiscal year. Delays in the commencement of programs by the North American automotive customers caused income from operations to be lower in the first half of fiscal 2008. Those programs did commence in the second quarter. Lower profitability in North America was partially offset by improved performance in our international business. Improved sales volume and productivity improvements benefitted the profitability of the international engraving operations.

Engineered Products Group

Income from operations increased $1.7 million, or 37.6%, when compared to the same period one year earlier. The increase can be attributed to the new sales contract for NASA s Orion rocket program signed during the quarter and the completion of the first two deliverable milestones of a five milestone contract. Profitability at the electronics business benefitted from price increases, cost reductions and the sourcing of products from our new Chinese facility.

Corporate and Other

Corporate expenses of approximately $8.7 million in the first half of fiscal 2008 were $2.9 million more when compared to the same six month period in the prior year of $5.8 million. The increase was primarily due to the $1.5 million reversal of expense that occurred during the first half of fiscal 2007 as well as the gain of approximately $1.1 million associated with the sale of excess land from our corporate offices in the first half of fiscal 2007. Excluding these two prior year gains, corporate expenses increased $298,000.

Non-Operating Income and Expense

The following table presents interest expense incurred in connection with debt borrowings for the periods presented and other non-operating miscellaneous income or expense:

	Six Months Ended December 31,			
(in thousands)	2007	2006	$ Change	% Change
Interest expense	$ 5,414	$ 3,370	$ 2,044	60.7%
Other non-operating (income) expense	$ 95	$ (792)	$ 887	-112.0%

The increase in interest expense incurred in the six months ended December 31, 2007, as compared with the six months ended December 31, 2006, related to an increase in our overall debt in connection with our credit facility. The debt level year over year increased to fund the acquisitions of AAI and AFS during January 2007. The effective annual interest rate on our debt was 6.3% in the six months ended December 31, 2007 and 6.1% in the six months ended December 31, 2006.

Income Taxes

The following table presents the income tax provision and effective tax rates for the six months ended December 31, 2007 and 2006:

	Six Months Ended December 31,	
(in thousands)	2007	2006
Income tax provision	$ 5,786	$ 4,758

Effective tax rate	34.8%	30.6%

The effective tax rate in the six months ended December 31, 2007, was higher than the effective tax rate in the six months ended December 31, 2006 primarily due to the benefit related to the retroactive extension of the R&D tax credit. The annual estimated tax rate was re-measured during the second quarter of fiscal 2007 due to the tax law being changed to reinstate the credit. The effective tax rate also increased due to the decrease in the statutory tax rate in Germany on deferred tax assets recorded in prior periods. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes to federal, foreign or state tax laws, future expansion into areas with varying foreign, state or local income tax rates, and the deductibility of certain costs and expenses by jurisdiction.

Results from Discontinued Operations:

As more fully discussed in our Annual Report on Form 10-K for the year ended June 30, 2007, we are accounting for three former businesses (USECO, Standard Publishing and Berean Christian Stores) as discontinued operations.

In the first half of fiscal 2008, we sold certain land, buildings and improvements related to the Standard Publishing business for $1.6 million and realized a gain on disposal of approximately $605,000 (net of taxes of $302,000). The gain on disposal was reported in discontinued operations.

In March 2006, we entered into a plan to dispose of certain assets of our USECO product lines. During the first half of fiscal 2007, we were able to complete the sale of the under-sink food disposals product line resulting in a gain on the sale of a portion of the USECO business of approximately $541,000 (net of taxes of $17,000) offset by losses from the USECO operations. In the first half of fiscal 2007, we also recorded gains on the disposals of the Standard Publishing and Berean Christian Stores businesses totaling $6.9 million (net of taxes of $3.9 million). Operating losses related to these discontinued businesses of $745,000 (net of taxes of $422,000) were also recorded. Substantially all of the assets of the Standard Publishing and Berean Christian Stores businesses were sold in July 2006 and August 2006, respectively. Accordingly, we reported income from discontinued operations of approximately $6.2 million (net of taxes) in the first half of fiscal 2007. 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.

Backlog

The following table presents backlog aged by segment at December 31, 2007 and 2006:

	December 31, 2007				December 31, 2006			
(in thousands)	< 90 days	91 - 180 days	181 days - 1 year	Total	< 90 days	91 - 180 days	181 days - 1 year	Total
Backlog:								
Food Service Equipment Group	$ 35,359	$ 3,071	$ 1,912	$ 40,342	$ 22,880	$ 829	$ 52	$23,761
Air Distribution Products Group	1,720	-	-	1,720	1,591	-	-	1,591
Hydraulics Products Group	3,132	330	75	3,537	2,752	78	107	2,937
Engraving Group	7,499	585	-	8,084	10,865	1,264	-	12,129
Engineered Products Group	33,053	17,489	10,154	60,696	23,056	12,338	13,812	49,206
Total Backlog	$ 80,763	$ 21,475	$ 12,141	$ 114,379	$ 61,144	$ 14,509	$ 13,971	$89,624

Backlog at December 31, 2007, increased $24.8 million, or 27.6%, compared to December 31, 2006. Approximately $14.9 million of the increase relates to the businesses acquired in fiscal 2007. The Engineered Products Groups reported higher backlog due to the new sales contract for NASA s Orion rocket program. Hydraulics Products Group also reported higher backlog while the Engraving Group reported much lower backlog. Backlog in ADP was approximately the same as the prior year.

Liquidity and Capital Resources

The following table summarizes our sources and uses of cash during the six months ended December 31, 2007 and 2006:

	Six Months Ended December 31,	
(in thousands)	2007	2006
Net cash provided by operating activities	$ 16,600	$ 5,172
Net cash provided by investing activities	3,598	28,149
Net cash used for financing activities	(26,291)	(35,147)
Effect of exchange rate	623	344
Net change in cash and cash equivalents	$ (5,470)	$ (1,482)

Our cash and cash equivalents balance decreased $5.5 million from $24.1 million as of June 30, 2007, to $18.6 million as of December 31, 2007 for the reasons discussed below. The growth of our business is currently funded primarily through cash flow from operations and borrowings under our credit facility. For the six months ended December 31, 2007, cash provided by operating activities was $16.6 million compared to $5.2 million in the prior year period. In the six months ended December 31, 2007, we were able to repay $22.2 million of our credit facility borrowings as a result of the strong operating cash flows in the period. The Company intends to use cash flows generated from operations to repay amounts outstanding under the credit facility, complete acquisitions, fund capital expenditures and pay dividends.

Contributing to the increase in operating cash flow was a 20.4% increase in net revenues from $288.8 million in the six months ended December 31, 2006, to $347.8 million in the six months ended December 31, 2007. Net working capital levels for continuing operations (defined as accounts receivable plus inventories less accounts payable) were $135.0 million at December 31, 2007 compared to $131.4 million at June 30, 2007. Days sales outstanding for the quarter were 52 days, a decrease of 2 days from 54 days as of June 30, 2007. Inventory days on hand as of December 31, 2007 increased 5 days to 71 days compared with 66 days as of June 30, 2007, as a result of slower inventory movement during the second quarter of fiscal 2008.

Net cash flows used for investing activities in the six months ended December 31, 2007 were $3.6 million, or a decrease of $24.6 million from the $28.1 million cash provided by investing activities in the prior year period. Discontinued operations generated $23.9 million of net cash flow from operating and investing activities in the six months ended December 31, 2006, due to the sales of the Standard Publishing and the Berean Christian Stores businesses. Compared to the prior year period, purchases of property, plant and equipment increased $1.6 million from $4.2 million in the six months ended December 31, 2006 to $5.8 million in the six months ended December 31, 2007. We are investing in fixed assets that are beneficial to the growth of our individual segments and to the Company as a whole. The sale and leaseback of certain land and improvements by Standex Air Distribution Products, Inc. (ADP), one of our subsidiaries, contributed $7.2 million in investing cash flow. Investing activities from discontinued operations generated net cash of $1.6 million from the sale of certain land, buildings and improvements related to our former Standard Publishing business.

Net cash used for financing activities in the six months ended December 31, 2007, was $26.3 million, an improvement of $8.9 million from the $35.1 million used for financing activities in the six months ended December 31, 2006. We repaid $22.2 million in amounts of debt outstanding in the six months ended December 31, 2007 compared with $28.2 million repaid in the six months ended December 31, 2006. We also borrowed $1.6 million against our line of credit to fund working capital requirements as of December 31, 2007. Our short-term debt totaling $30.1 million is primarily from one of our private placement loans coming due in the second quarter of fiscal 2009. As of December 31, 2007, we had $100.0 million outstanding under our revolving Credit Facility. The available credit facility balance of $50.0 million will be available to fund acquisitions, capital expenditures, and for other general corporate purposes.

The revolving credit facility provides us with the ability to borrow up to $150 million at competitive interest rates and the option to increase the facility up to $225 million. The revolving credit facility contains customary affirmative and negative covenants. Among other restrictions, they require that we meet specified financial tests, including minimum net worth levels and minimum coverage and leverage ratios. The covenants also limit, but do not preclude, our ability to incur additional debt, merge with other entities, create or become subject to liens and sell major assets.

Borrowings under the revolving credit facility accrue 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 interest rates for all borrowings outstanding were 6.3% and 6.4%, respectively, at December 31, 2007 and June 30, 2007. At December 31, 2007, the revolving credit facility carried a commitment fee of 0.2% per annum.

In September 2007, we executed an amendment to the revolving credit facility which (i) extended the maturity date to September 11, 2012 and (ii) modified the interest coverage and leverage ratio tests to reflect the recent acquisitions. Accordingly, borrowings outstanding under this facility have been classified as long-term liabilities.

In September 2007, we also executed an amendment of our outstanding note purchase agreements with institutional investors which conformed the interest coverage and leverage ratio tests to the revolving credit facility to reflect the recent acquisitions.

At December 31, 2007, we were in compliance with the financial covenants of our debt agreements, and based upon our current plans and outlook, believe that we will continue to be in compliance with these covenants during the

coming twelve-month period.

The following table sets forth our capitalization at December 31, and June 30, 2007:

	2007	2007
Short-term debt	$ 30,121	$ 4,162
Long-term debt	117,586	164,158
Total debt	147,707	168,320
Less cash	18,587	24,057
Net debt	129,120	144,263
Stockholders' equity	225,995	204,431
Total capitalization	$ 355,115	$ 348,694

We sponsor a number of defined benefit and defined contribution retirement plans. We have evaluated the current and long-term cash requirements of these plans. Our operating cash flows from continuing operations are expected to be sufficient to cover required contributions under ERISA and other governing regulations. Current benefits for the U.S. salaried employee plan and Standex Supplemental Retirement Plan (SERP) were frozen at December 31, 2007 and an enhanced 401K plan was introduced, including increased employer contributions for eligible employees.

We have 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 $23.4 million at December 31, 2007 and are reported net of loans of $11.2 million for which we have the legal right of offset. These policies have been purchased to fund supplemental retirement income benefits for certain retired executives. The aggregate present value of future obligations was approximately $1.9 million at December 31 and June 30, 2007.

We are contractually obligated under various operating leases for real property. As noted above, in connection with the sale of certain land and improvements on September 24, 2007, ADP entered into a lease for a major portion of those assets, including its manufacturing facility. The lease includes an initial term of ten years and provides ADP with two five-year renewal options.

The Company is a guarantor of certain assigned leases to Berean Christian Bookstores, one of our discontinued operations. The total guarantee approximated $9.0 million at December 31, 2007, compared to $9.9 million at June 30, 2007. We do not expect to make any payments as a result of these guarantees.

We believe that our ending cash and cash equivalents balance as of December 31, 2007, of approximately $18.6 million coupled with cash flow generated by operations and available credit facility funds, will be sufficient to meet working capital, planned capital expenditure investments, future acquisitions for our segment growth, and other investing and financing needs, including the payment of dividends to shareholders. We expect to spend between $11.0 million and $13.0 million on capital expenditures in fiscal 2008 and expect that depreciation and amortization expense in fiscal 2008 will approximate $17.0 million to $18.0 million. We anticipate that any cash needed for future acquisition opportunities and payments of short-term debt would be obtained from borrowings under the revolving Credit Facility or other sources of liquidity available to us. We believe that these resources, along with the cash flow generated from operations, will be sufficient to meet our anticipated funding needs for the foreseeable future.

Other Matters

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

Foreign Currency Translation - The primary functional currencies used by our non-U.S. subsidiaries are the Canadian Dollar, Euro and the British Pound Sterling. During the last twelve-month period, all of these currencies have appreciated relative to the U.S. Dollar.

Environmental Matters - We are party to various claims and legal proceedings, generally incidental to our business. We do not expect the ultimate disposition of these matters will have a material adverse effect on our financial statements. *Seasonality* - Historically, the fourth quarter of the fiscal year has been the strongest 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. However, ADP s historical pattern is being impacted by the recessionary conditions in the residential construction market.

Critical Accounting Policies

The consolidated condensed financial statements include the accounts of Standex International Corporation and all of its subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying unaudited consolidated condensed 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. Our Annual Report on Form 10-K for the year ended June 30, 2007, lists a number of accounting policies which we believe to be the most critical.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Risk Management

We are exposed to market risks from changes in interest rates, commodity prices and changes in non-U.S. 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. We have no majority-owned subsidiaries that are excluded from the consolidated financial statements. Further, we have no interests in or relationships with any special purpose entities.

Exchange Rate Risk

We are exposed to both transactional risk and translation risk associated with exchange rates. Regarding transactional risk, we mitigate certain of our foreign currency exchange rate risk by entering into forward foreign currency contracts from time to time. The contracts are used as a hedge against anticipated foreign cash flows, such as dividend and loan payments, and are not used for trading or speculative purposes. The fair value of the forward foreign currency exchange contracts is sensitive to changes in foreign currency exchange rates, as an adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts. However, any such losses or gains would generally be offset by corresponding gains and losses, respectively, on the related hedged asset or liability.

Our primary translation risk is 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

Our interest rate exposure is limited primarily to interest rate changes on our variable rate borrowings. From time to time, we use interest rate swap agreements to modify our exposure to interest rate movements. At December 31, 2007, we had no outstanding interest rate swap agreements. A hypothetical 100 basis point increase in interest rates would cost the Company approximately $1.0 million in additional interest expense on an annual basis at current debt levels.

We also had $42.9 million of long-term debt at fixed interest rates as of December 31, 2007. There would be no immediate impact on our interest expense associated with the long-term debt due to fluctuations in market interest rates.

There has been no significant change in the exposure to interest rate fluctuations from June 30, 2007 to December 31, 2007.

Concentration of Credit Risk

We have a diversified customer base. As such, the risk associated with concentration of credit risk is inherently minimized. As of December 31, 2007, no one customer accounted for more than 5% of our consolidated outstanding receivables or of our sales.

Commodity Prices

We are 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. We consider our relationship with our 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.

Our ADP, Engineered Products, Hydraulics Products and Food Service Equipment Groups have been experiencing price increases for steel products, other metal commodities and petroleum based products. Among the items impacted

were the prices of galvanized steel strip, stainless steel and carbon steel sheet material, copper wire, refrigeration components and foam insulation. Those materials 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 ADP and Food Service Equipment Groups did not fully offset the higher material costs. ADP has been unable to implement additional price increases sufficient to cover current and expected increases in costs. The ultimate acceptance of price increases is impacted by our affected divisions respective competitors and the timing of their price increases.

Item 4. Controls and Procedures

Our management, including Roger L. Fix as Chief Executive Officer and Sean Valashinas as Chief Accounting Officer, has evaluated the effectiveness of our 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 our 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 was no change in the internal controls over financial reporting during the quarterly period ended December 31, 2007, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

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

(e)

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
October 1, 2007 - October 31, 2007	9,490	$ 22.13	9,490	771,989
November 1, 2007 - November 30, 2007	120	20.18	120	771,869
December 1, 2007 - December 31, 2007	3,252	19.97	3,252	768,617
Total	12,862	$ 21.56	12,862	768,617

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

Item 4. Submission of Matters to a Vote of Security Holders

(a)

The Company held its Annual Meeting of Stockholders on October 30, 2007. Three matters were voted upon at the meeting: the election of three directors to hold office for three-year terms ending at the Annual Meeting to be held in 2010; the approval of an amendment to the Company s Employee Stock Purchase Plan to increase the number of shares available for purchase by 200,000 and to ratify the appointment by the Audit Committee of the Board of

Directors of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending June 30, 2008.

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	9,169,665	1,026,074
William Fenoglio	9,843,166	352,573
Deborah Rosen	8,757,421	1,438,318

Proposal II (Amendment to the Employee Stock Purchase Plan to increase the number of shares available for purchase by 200,000)

For	**Against**	**Abstain**

No Vote

8,962,278

143,429

37,836

1,052,196

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

For	**Against**	**Abstain**	**No Vote**
10,027,002	149,720	19,017	-0-

Item 6. Exhibits

(a)

Exhibits

31.1

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

31.2

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

32

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

ALL OTHER ITEMS ARE INAPPLICABLE

SIGNATURES

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

STANDEX INTERNATIONAL CORPORATION

Date:	February 6, 2008	/s/ ROGER L. FIX Roger L. Fix President/CEO (Chief Executive Officer)
Date:	February 6, 2008	/s/ SEAN C. VALASHINAS Sean C. Valashinas Chief Accounting Officer