INTERNATIONAL BANCSHARES CORP
Form 10-K
February 24, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number: 0-09439

INTERNATIONAL BANCSHARES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Texas (State or other jurisdiction of Incorporation or organization)	**74-2157138** (I.R.S. Employer Identification No.)
1200 San Bernardo Avenue **Laredo, Texas 78042 - 1359** (Address of principal executive office and Zip Code)	**(956) 722-7611** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock ($1.00 par value)
(Title of Class)

Indicate by check mark if the Registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes o No ý

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and

(2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K Section 229.405 of this chapter is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2013 was $1,501,098,000 based on the closing sales price per share of the Registrant's common stock on such date as reported by NASDAQ.

As of February 19, 2014, there were 67,208,261 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the designated parts of this Form 10-K: (a) Annual Report to security holders for the fiscal year ended December 31, 2013 (in Parts I and II) and (b) Proxy Statement relating to the Company's 2014 Annual Meeting of Shareholders (in Part III).

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Special Cautionary Notice Regarding Forward Looking Information

Certain matters discussed in this report, excluding historical information, include forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by these sections. Although International Bancshares Corporation (the "Company") believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. The words "estimate," "expect," "intend," "believe" and "project," as well as other words or expressions of a similar meaning are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. Such statements are based on current expectations, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors.

Risk factors that could cause actual results to differ materially from any results that are projected, forecasted, estimated or budgeted by the Company in forward-looking statements include, among others, the following possibilities:

Local, regional, national and international economic business conditions and the impact they may have on the Company, the Company's customers, and such customers' ability to transact profitable business with the Company, including the ability of its borrowers to repay their loans according to their terms or a change in the value of the related collateral.

Volatility and disruption in national and international financial markets.

Government intervention in the U.S. financial system.

The Company relies, in part, on external financing to fund the Company's operations from the FHLB, the Fed and other sources and the unavailability of such funds in the future could adversely impact the Company's growth strategy, prospects and performance.

Changes in consumer spending, borrowings and savings habits.

Changes in interest rates and market prices, which could reduce the Company's net interest margins, asset valuations and expense expectations, including, without limitation, the repeal of federal prohibitions on the payment of interest on demand deposits.

Changes in the capital markets utilized by the Company and its subsidiaries, including changes in the interest rate environment that may reduce margins.

Changes in state and/or federal laws and regulations to which the Company and its subsidiaries, as well as their customers, competitors and potential competitors, are subject, including, without limitation, the impact of the Consumer Financial Protection Bureau as a new regulator of financial institutions, changes in the accounting, tax and regulatory treatment of trust preferred securities, as well as changes in banking, tax, securities, insurance and employment, environmental and immigration laws and regulations and the risk of litigation that may follow.

Changes in U.S. Mexico trade, including, without limitation, reductions in border crossings and commerce resulting from the Homeland Security Programs called "US-VISIT," which is derived from Section 110 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996.

The reduction of deposits from nonresident alien individuals due to the new IRS rules requiring U.S. financial institutions to report to the IRS deposit interest payments made to nonresident alien individuals.

The loss of senior management or operating personnel.

Increased competition from both within and outside the banking industry.

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The timing, impact and other uncertainties of the Company's potential future acquisitions including the Company's ability to identify suitable potential future acquisition candidates, the success or failure in the integration of their operations and the Company's ability to maintain its current branch network and to enter new markets successfully and capitalize on growth opportunities.

Changes in the Company's ability to pay dividends on its Common Stock.

Additions to the Company's loan loss allowance as a result of changes in local, national or international conditions which adversely affect the Company's customers, including, without limitation, lower real estate values or environmental liability risks associated with foreclosed properties.

Greater than expected costs or difficulties related to the development and integration of new products and lines of business.

Increased labor costs and effects related to health care reform and other laws, regulations and legal developments impacting labor costs.

Impairment of carrying value of goodwill could negatively impact our earnings and capital.

Changes in the soundness of other financial institutions with which the Company interacts.

Political instability in the United States or Mexico.

Technological changes or system failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

Acts of war or terrorism.

Natural disasters.

Reduced earnings resulting from the write down of the carrying value of securities held in our securities available-for-sale portfolio following a determination that the securities are other-than-temporarily impaired.

The effect of changes in accounting policies and practices as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standards setters.

The costs and effects of regulatory developments, including the resolution of regulatory or other governmental inquiries and the results of regulatory examinations or reviews.

The effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions, as well as the effect of any other regulatory or legal developments that limit overdraft services.

The reduction of income and possible increase in required capital levels related to the adoption of new legislation, including, without limitation, the Dodd-Frank Regulatory Reform Act and the implementing rules and regulations, including the Federal Reserve's rule that establishes debit card interchange fee standards and prohibits network exclusivity arrangements and routing restrictions that is negatively affecting interchange revenue from debit card transactions as well as revenue from consumer services.

The possible increase in required capital and liquidity levels related to the implementation of capital and liquidity rules of the federal banking agencies that address or are impacted by the Basel III capital and liquidity standards.

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The enhanced due diligence burden imposed on banks related to the banks' inability to rely on credit ratings under Dodd-Frank which may result in a limitation on the types of securities certain banks will be able to purchase as a result of the due diligence burden.

The Company's success at managing the risks involved in the foregoing items, or a failure or circumvention of the Company's internal controls and risk management, policies and procedures.

Forward-looking statements speak only as of the date on which such statements are made. It is not possible to foresee or identify all such factors. The Company makes no commitment to update any forward-looking statement, or to disclose any facts, events or circumstances after the date hereof that may affect the accuracy of any forward-looking statement, unless required by law.

Item 1. *Business*

General

The Company is a financial holding company with its principal corporate offices in Laredo, Texas. Four bank subsidiaries provide commercial and retail banking services through main banking and branch facilities located in communities in South, Central and Southeast Texas and the State of Oklahoma. The Company was originally incorporated under the General Corporation Law of the State of Delaware in 1979. Effective June 7, 1995, the Company's state of incorporation was changed from Delaware to Texas. The Company was organized for the purpose of operating as a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHCA"), and as such, is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "FRB"). As a registered bank holding company, the Company may own one or more banks and may engage directly, or through subsidiary corporations, in those activities closely related to banking which are specifically permitted under the BHCA and by the FRB. Effective March 13, 2000, the Company became certified as a financial holding company. As a financial holding company, the Company may engage in a broad list of financial and non-financial activities. The Company's principal assets at December 31, 2013 consisted of all the outstanding capital stock of four Texas state banking associations (the "Banks" or "bank subsidiaries"). All of the Company's bank subsidiaries are members of the Federal Deposit Insurance Corporation (the "FDIC").

The bank subsidiaries are in the business of gathering funds from various sources and investing these funds in order to earn a return. Funds gathering primarily takes the form of accepting demand and time deposits from individuals, partnerships, corporations and public entities. Investments principally are made in loans to various individuals and entities as well as in debt securities of the U.S. Government and various other entities whose payments are guaranteed by the U.S. Government. Historically, the bank subsidiaries have primarily focused on providing commercial banking services to small and medium sized businesses located in their trade areas and international banking services. In recent years, the bank subsidiaries have also emphasized consumer and retail banking, including mortgage lending, as well as branches situated in retail locations and shopping malls; however, during the fourth quarter of 2011 the Company closed fifty-five in-store branches as a result of reduced levels of revenue resulting from regulatory changes limiting interchange fee income. The branches were closed in order to align the Company's expenses with the reduced levels of revenue.

The Company's philosophy focuses on customer service as represented by its motto, "We Do More." The Banks maintain a strong commitment to their local communities by, among other things, appointing selected members of the communities in which the Banks' branches are located to local advisory boards (the "local boards"). The local boards direct the operations of the branches, with the supervision of the lead Bank's board of directors, and assist in introducing prospective customers to the Banks as well as developing or modifying products and services to meet customer needs. The Banks function largely on a decentralized basis and the Company believes that such decentralized structure enhances the commitment of the Banks to the communities in which their branches are located. In contrast to many of their principal

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competitors, the credit decisions of the Banks are made locally and promptly. The Company believes that the knowledge and expertise afforded by the local boards are key components to sound credit decisions. Expense control is an essential element in the Company's profitability. The Company has centralized virtually all of the Banks' back office support and investment functions in order to achieve consistency and cost efficiencies in the delivery of products and services.

On July 28, 1980, the Company acquired all of the outstanding shares of its predecessor, International Bank of Commerce ("IBC"), which is today the flagship bank of the Company, representing the majority of the Company's banking assets. IBC was chartered under the banking laws of Texas in 1966 and has its principal place of business at 1200 San Bernardo Avenue, Laredo, Webb County, Texas. It is a wholly-owned subsidiary of the Company. Since the acquisition of the flagship bank in 1980, the Company has formed three banks: (i) Commerce Bank, a Texas state banking association which commenced operations in 1982, located in Laredo, Texas ("Commerce Bank"); (ii) International Bank of Commerce, Brownsville, a Texas state banking association which commenced operations in 1984, located in Brownsville, Texas ("IBC-Brownsville"); and (iii) International Bank of Commerce, Zapata, a Texas state banking association which commenced operations in 1984, located in Zapata, Texas ("IBC-Zapata").

Historically, the Company has acquired various financial institutions and banking assets in its trade area. The community-focus of the subsidiary banks and the involvement of the local boards resulted in the Company becoming aware of acquisition possibilities in the ordinary course of its business. The Company's decision to pursue an acquisition is based on a multitude of factors, including the ability to efficiently assimilate the operations and assets of the acquired entity, the cost efficiencies to be attained and the growth potential of the market. While the Company has not acquired a financial institution in a number of years, the Company will continue to consider potential acquisition transactions based on the analysis of such factors.

The Company also has five direct non-banking subsidiaries. They are (i) IBC Life Insurance Company, a Texas chartered subsidiary which reinsures a small percentage of credit life and accident and health risks related to loans made by bank subsidiaries, (ii) IBC Trading Company, an export trading company which is currently inactive, (iii) IBC Subsidiary Corporation, a second-tier bank holding company incorporated in the State of Delaware, (iv) IBC Capital Corporation, a company incorporated in the State of Delaware for the purpose of holding certain investments of the Company and (v) Premier Tierra Holdings, Inc., a liquidating subsidiary formed under the laws of the State of Texas. The Company owns a fifty percent interest in Gulfstar Group I and II, Ltd. and related entities, which are involved in investment banking activities. The Company also owns a controlling interest in four merchant banking entities.

Website Access to Reports

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge on or through the Company's internet website, www.ibc.com, as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Additionally, the Company has posted on its website a code of ethics that applies to its directors and executive officers (including the Company's chief executive officer and financial officer). The Company's website also includes the charter for its Audit Committee and the Company's Excessive or Luxury Expenditure Policy. The Company's website will also include the Proxy Statement relating to the Company's 2014 Annual Meeting of Shareholders upon filing of the definitive Proxy Statement with the SEC.

Services and Employees

The Company, through its bank subsidiaries, IBC, Commerce Bank, IBC-Zapata and IBC-Brownsville, is engaged in the business of banking, including the acceptance of checking and savings deposits and the making of commercial, real estate, personal, home improvement, automobile and other

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installment and term loans. Certain of the bank subsidiaries are very active in facilitating international trade along the United States border with Mexico and elsewhere. The international banking business of the Company includes providing letters of credit, making commercial and industrial loans, and providing a nominal amount of currency exchange. Each bank subsidiary also offers other related services, such as credit cards, travelers' checks, safety deposit, collection, notary public, escrow, drive-up and walk-up facilities and other customary banking services. Additionally, each bank subsidiary makes available certain securities products through third party providers. The bank subsidiaries also make banking services available during traditional and nontraditional banking hours through their network of automated teller machines, and through their 211 facilities situated in retail locations, shopping malls and other convenient locations. Additionally, IBC introduced IBC Bank Online, an Internet banking product, in order to provide customers online access to banking information and services 24 hours a day.

The Company owns U.S. service mark registrations for "INTERNATIONAL BANK OF COMMERCE," "INTERNATIONAL BANK OF COMMERCE CENTRE," "OVERDRAFT COURTESY," "IBC," "IBC CONNECTION," "IBC ELITE," "IBC ELITE ADVANTAGE," "IBC BANK," "BIZ RITE CHECKING," "GOT YOU COVERED," "FREE BEE," "IT'S A BRIGHTER CHRISTMAS," "MINITROPOLIS," WE DO MORE RX," "WE'VE GOT IT," a design mark depicting a bee character, a design mark depicting the United States and Mexico, and a design mark depicting "IBC" with the United States and Mexico. In addition, the Company owns Texas service mark registrations for "RITE CHECKING," "THE CLUB," "WALL STREET INTERNATIONAL," "INTERNATIONAL BANK OF COMMERCE," "WE DO MORE," a composite mark depicting "CHECK'N SAVE" with a design, a composite mark depicting "WALL STREET INTERNATIONAL," with a design and a design mark depicting the United States and Mexico. The Company also owns Oklahoma service mark registrations for "CHECK 'N SAVE," "RITE CHECKING," "THE CLUB," and "WE DO MORE." The Company regularly investigates the availability of service mark registrations related to certain proprietary products.

No material portion of the business of the Company may be deemed seasonal and the deposit and loan base of the Company's bank subsidiaries is diverse in nature. There has been no material effect upon the Company's capital expenditures, earnings or competitive position as a result of Federal, State or local environmental regulation.

As of December 31, 2013, the Company and its subsidiaries employed approximately 2,712 persons full-time and 511 persons part-time.

Competition

The Company is one of the largest independent Texas bank holding companies. The primary market area of the Company is South, Central and Southeast Texas, an area bordered on the east by the Galveston area, to the northwest by Round Rock, to the southwest by Del Rio and to the southeast by Brownsville, as well as the State of Oklahoma. The Company has increased its market share in its primary market area over the last several years through strategic acquisitions. The Company, through its bank subsidiaries, competes for deposits and loans with other commercial banks, savings and loan associations, credit unions and non-bank entities, which non-bank entities serve as an alternative to traditional financial institutions and are considered to be formidable competitors. The percentage of bank-related services being provided by non-bank entities has increased dramatically during the last several years.

The Company and its bank subsidiaries do a large amount of business for customers domiciled in Mexico, with an emphasis in Northern Mexico. Deposits from persons and entities domiciled in Mexico comprise a large and stable portion of the deposit base of the Company's bank subsidiaries. Such deposits comprised approximately 28%, 28% and 29% of the bank subsidiaries' total deposits for the three years ended December 31, 2013, 2012 and 2011, respectively.

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Under the Gramm-Leach-Bliley Act of 1999 ("GLBA"), effective March 11, 2000, banks, securities firms and insurance companies may affiliate under an entity known as a financial holding company which may then serve its customers' varied financial needs through a single corporate structure. GLBA has significantly changed the competitive environment in which the Company and its subsidiaries conduct business. The financial services industry is also likely to become even more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Supervision and Regulation

GENERAL-THE COMPANY. In addition to the generally applicable state and Federal laws governing businesses and employers, the Company and its bank subsidiaries are further extensively regulated by special Federal and state laws governing financial institutions. These laws comprehensively regulate the operations of the Company's bank subsidiaries and include, among other matters, requirements to maintain reserves against deposits; restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon; restrictions on the amounts, terms and conditions of loans to directors, officers, large shareholders and their affiliates; restrictions related to investments in activities other than banking; and minimum capital requirements. The descriptions are qualified in their entirety by reference to the full text of the applicable statutes, regulations and policies. With few exceptions, state and Federal banking laws have as their principal objective either the maintenance of the safety and soundness of the Federal deposit insurance system or the protection of consumers, rather than the specific protection of shareholders of the Company. Further, the earnings of the Company are affected by the fiscal and monetary policies of the FRB, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. These monetary policies influence to a significant extent the overall growth of bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. The nature of future monetary policies and the effect of such policies on the future earnings and business of the Company cannot be predicted.

The Dodd-Frank Act

On July 21, 2010, sweeping financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Bureau of Consumer Financial Protection (the "CFPB"), responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of banks from availing themselves of such preemption.

- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

- Require each federal bank regulatory agency to seek to make its capital requirement for banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Require financial holding companies, such as the Company, to be well-capitalized and well-managed. Bank holding companies and banks must also be well-capitalized and well-managed in order to acquire banks located outside their home state.

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Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund ("DIF") and increase the floor of the size of the DIF.

Impose comprehensive regulation of over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.

Require publicly-traded bank holding companies with $10 billion in assets or more, like the Company, to create a risk committee responsible for the oversight of risk management of the enterprise. On December 20, 2011, the FRB proposed a rule requiring each publicly-traded bank holding company with total consolidated assets of $10 billion or more to establish a risk committee of its board of directors, to be chaired by an independent director, with at least one member with risk management expertise. The FRB is expected to issue a final rule in 2014, which will be applicable to the Company.

Require stress testing of certain financial institutions. On June 15, 2011, the FRB published for comment proposed guidance ("Stress Testing Guidance Proposal") that would require bank holding companies with over $10 billion in total consolidated assets to conduct stress testing as a part of overall institution risk management. The Stress Testing Guidance Proposal includes stress testing capital and non-capital related aspects of financial condition, provides an overview of how a banking organization should develop a structure for stress testing, outlines general principles for a satisfactory stress testing framework, and describes how stress testing should be used at various levels within a banking organization. The Stress Testing Guidance Proposal also discusses the importance of stress testing in liquidity planning and the importance of strong internal governance and controls in an effective stress-testing framework. On October 9, 2012, the FRB issued its final stress testing rule for bank holding companies with over $10 billion in total consolidated assets. The FRB's rule was effective on November 15, 2012; however, the rule delayed implementation for bank holding companies with total consolidated assets between $10 billion and $50 billion, such as the Company, until October 2013. The Company was required to commence conducting the stress testing described in the Stress Testing Guidance Proposal in late 2013. On January 17, 2012, the FDIC issued a similar proposal that would require state nonmember banks with over $10 billion in assets to conduct annual stress tests, report the results to the FDIC, and make the results available to the public. On October 9, 2012, the FDIC issued its final rule which became effective on October 15, 2012; however, the rule delays implementation for state nonmember banks with total consolidated assets between $10 billion and $50 billion until October 2013. At this time, none of the subsidiary banks of the Company would meet the $10 billion asset threshold required to conduct the bank stress tests under the FDIC's final rule.

Implement corporate governance revisions, including executive compensation and proxy access by shareholders that apply to all public companies, not just financial institutions.

Make permanent the $250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provided unlimited federal deposit insurance for non-interest bearing demand transaction accounts at all insured depository institutions until December 31, 2012.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts. In July 2011, the FRB issued a final rule, effective July 21, 2011, repealing Regulation Q, which had prohibited the payment of interest on demand deposits.

Amend the Electronic Fund Transfer Act ("EFTA") to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. In June 2011, the FRB issued a final rule, effective October 1, 2011, which established the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction at 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The FRB also approved an interim final rule that allows for an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements appropriate fraud-prevention policies and procedures.

Increase the authority of the FRB to examine the Company and its non-bank subsidiaries.

Permit interstate de novo branching without the need to acquire an existing bank.

Require extensive new restrictions and requirements relating to residential mortgage transactions. The CFPB has already issued final mortgage lending rules relating to mortgage loan origination standards, borrower ability to repay, mandatory escrow accounts for higher priced mortgage loans, qualified mortgages, integrated disclosures, mortgage loan appraisals, force-placement of hazard insurance and expanded Home Mortgage Disclosure Act ("HMDA") collection and reporting requirements.

Eliminate the use of credit ratings in bank regulations, including capital regulations. On November 18, 2011, the OCC proposed guidance on due diligence requirements in determining whether investment securities are eligible for investment and on January 11, 2012, the FDIC and the other Federal bank agencies proposed a rule to modify the agencies' market risk capital rules by incorporating into the rules various alternatives and complex methodologies for calculating specific risk capital requirements for debt and securitization positions that do not rely on credit ratings.

Establish a Whistleblower Incentives and Protection Program for public company employees. On May 25, 2011, the SEC approved final rules whereby whistleblowers may receive 10% to 30% of the SEC-levied sanctions when a whistleblower voluntarily provides original information to the SEC and the sanctions levied against the culpable party exceed $1 million in an enforcement proceeding.

On October 23, 2013, the federal bank agencies and the SEC proposed joint standards for assessing the diversity policies and practices of each agency's respective regulated entities, implementing Section 342 of the Dodd-Frank Act, which requires each agency to establish an Office of Minority and Women Inclusion and to develop diversity assessment standards for all the entities regulated by the agencies. The agencies propose uniform standards in the following four areas: (1) organizational commitment to diversity and inclusion, (2) workforce profile and employment practices, (3) procurement and business practices (supplier diversity), and (4) practices to promote transparency of organizational diversity and inclusion. The proposal stresses that assessments should take into consideration an entity's size and other characteristics such as total assets, number of employees, revenues, governance structures, and the number of members and/or customers, contract volume, geographic location, and community characteristics. The agencies are expected to issue a final rule sometime in 2014. Once the final rule is issued, it is likely that regulated entities will need to adjust their existing policies and practices to conform.

Requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule." In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, which were due by February 13, 2012. On December 10, 2013, the federal financial regulatory agencies issued final rules which prohibit insured depository institutions and companies affiliated with insured depository institutions from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments, for their own account. The final rules also impose limits on banking entities' investments in, and other relationships with,

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hedge funds or private equity funds. Like Section 619 of the Dodd-Frank Act, the final rules provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds. The final rules also clarify that certain activities are not prohibited, including acting as agent, broker or custodian. The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. The conformance period begins on July 21, 2015, giving banking entities an additional year to comply. However, the final rule's reporting requirements will be phased in starting on June 30, 2014 for banking entities with $50 billion or more in trading assets and liabilities; on April 30, 2016 for banking entities with at least $25 billion, but less than $50 billion, in trading assets and liabilities; and on December 31, 2016 for banking entities with at least $10 billion, but less than $25 billion, in trading assets and liabilities. The Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company and its subsidiaries, as the Company does not engage in the businesses prohibited by the Volcker Rule.

Authorizes the Federal Reserve Board to adopt enhanced supervision and prudential standards generally for bank holding companies with total consolidated assets of $50 billion or more (often referred to as "systemically important financial institutions" or "SIFI"), and authorizes the FRB to establish such standards either on its own or upon the recommendations of the Financial Stability Oversight Council ("FSOC"), a new systemic risk oversight body created by Dodd-Frank. The FSOC has the authority to veto a financial rule of the CFPB if the rule would threaten the safety and soundness of the entire U.S. banking system. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing such enhanced supervision and prudential standards. Most of the proposed SIFI rules will not apply to the Company because the Company has total consolidated assets in an amount less than $50 billion. Two aspects of the proposed SIFI rules requirements for annual stress testing of capital and certain corporate governance provisions requiring, among other things, that each bank holding company establish a risk committee of its board of directors, apply to bank holding companies with total consolidated assets of $10 billion or more, including the Company.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that require revisions to the capital requirements of the Company could require the Company to seek other sources of capital in the future. Some of the rules that have been adopted or proposed to comply with the Dodd-Frank Act are discussed further below.

EMERGENCY ECONOMIC STABILIZATION ACT. On October 3, 2008, the President signed into law the Emergency Economic Stabilization Act of 2008 or ("EESA"), which, among other measures, authorized the Secretary of the Treasury to establish the Troubled Asset Relief Program ("TARP"). Under TARP, the Treasury created a capital purchase program ("CPP"), pursuant to which it provided access to capital that serves as Tier 1 capital to financial institutions through a standardized program to acquire preferred stock (accompanied by warrants) from eligible financial institutions. On December 23, 2008, the Company sold $216 million of Series A Preferred Stock to the Treasury under the CPP (the "Series A Preferred Stock") and a warrant to purchase 1,326,238 shares of Company Common Stock at a price per share of $24.43 and with a term of ten years (the "Warrant" or "Warrants"). As of November 28, 2012, the Company had repurchased all of the Series A Preferred Stock and exited the TARP Program. On June 12, 2013, the U.S. Treasury sold the Warrant to a third party. As of December 31, 2013, none of the Warrant had been exercised. The Warrant expires on December 23, 2018.

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On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "ARRA"). ARRA was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn brought about by the subprime mortgage crisis and the resulting credit crunch. ARRA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, healthcare, and infrastructure, including the energy structure. ARRA also includes numerous non-economic recovery related items, including a limitation on executive compensation of certain of the most highly-compensated employees and executive officers of financial institutions, such as the Company, during the period that they participated in the TARP Capital Purchase Program.

FRB APPROVALS. The Company is a registered bank holding company within the meaning of the BHCA, and is subject to supervision by the FRB and to a certain extent the Texas Department of Banking (the "DOB"). The Company is required to file with the FRB annual reports and other information regarding the business operations of itself and its subsidiaries. It is also subject to examination by the FRB. Under the BHCA, a bank holding company is, with limited exceptions, prohibited from acquiring direct or indirect ownership or control of any voting stock of any company which is not a bank or bank holding company, and must engage only in the business of banking, managing, controlling banks, and furnishing services to or performing services for its subsidiary banks. One of the exceptions to this prohibition is the ownership of shares of any company provided such shares do not constitute more than 5% of the outstanding voting shares of the company and so long as the FRB does not disapprove such ownership. Another exception to this prohibition is the ownership of shares of a company the activities of which the FRB has specifically determined to be so closely related to banking, managing or controlling banks as to be a proper incident thereto.

The BHCA and the Change in Bank Control Act of 1978 require that, depending on the circumstances, either FRB approval must be obtained or notice must be furnished to the FRB and not disapproved prior to any person or company acquiring "control" of a bank holding company, such as the Company, subject to certain exceptions for certain transactions. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more but less than 25% of any class of voting securities where the bank holding company, such as the Company, has registered Securities under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act").

As a bank holding company, the Company is required to obtain approval prior to merging or consolidating with any other bank holding company, acquiring all or substantially all of the assets of any bank or acquiring ownership or control of shares of a bank or bank holding company if, after the acquisition, the Company would directly or indirectly own or control 5% or more of the voting shares of such bank or bank holding company.

THE USA PATRIOT ACT. Combating money laundering and terrorist financing is a major focus of financial institution regulatory policy. The USA PATRIOT Act of 2001 substantially expanded the responsibilities of U.S. financial institutions with respect to countering money laundering and terrorist activities. The implementing regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Also, the USA PATRIOT Act requires the bank regulatory agencies to consider the record of a bank or bank holding company in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions. The Company has a program in place to monitor and enforce its policies on money laundering, corruption and bribery as well as its policies on prohibiting the use of Company assets to finance or otherwise aid alleged terrorist groups. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

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NONRESIDENT ALIEN DEPOSITS. In January 2011, the IRS published a notice of proposed rulemaking to provide guidance on the reporting requirements for interest on deposits paid to nonresident alien individuals. Rules currently in effect require reporting of U.S. bank deposit interest only if the interest is paid to a U.S. person or nonresident alien individual who is a resident of Canada. The proposed rule, however, would extend the reporting requirements to include bank deposit interest paid to nonresident alien individuals who are residents of any foreign country. On May 14, 2012, the IRS issued its final rule which became effective on January 1, 2013. Under the final rule, U.S. banks are required to report on the interest they pay to nonresident alien individuals, and the IRS will share the information with tax authorities in other countries with whom the United States has an agreement regarding the exchange of tax information. Implementation of the final rule could lead to deposit withdrawals by individuals who were not previously subject to the reporting requirement.

OFFICE OF FOREIGN ASSETS CONTROL REGULATION. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC administered sanctions take many forms, including without limitation, restrictions on trade or investment and the blocking of certain assets related to the designated foreign countries and nationals. Blocked assets, which may include bank deposits, cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with the OFAC sanctions could have serious legal and reputational consequences.

GRAMM-LEACH-BLILEY. The Gramm-Leach-Bliley Act of 1999 ("GLBA") eliminates the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers. GLBA provides for a new type of financial holding company structure under which affiliations among these entities may occur. Under GLBA, a financial holding company may engage in a broad list of financial activities and any non-financial activity that the FRB determines is complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. In addition, GLBA permitted certain non-banking financial and financially related activities to be conducted by financial subsidiaries of banks.

Under GLBA, a bank holding company may become certified as a financial holding company by filing a declaration with the FRB, together with a certification that each of its subsidiary banks is well capitalized, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 ("CRA"). The Company has elected to become a financial holding company under GLBA and the election was made effective by the FRB as of March 13, 2000. During the second quarter of 2000, IBC established an insurance agency subsidiary which acquired two insurance agencies. A financial holding company that has a securities affiliate registered under the Act or a qualified insurance affiliate may make permissible merchant banking investments. As of December 31, 2013, the Company has made 35 merchant banking investments.

The FRB and the Secretary of the Treasury have regulations governing the scope of permissible merchant banking investments. The investments that may be made under this authority are substantially broader in scope than the investment activities otherwise permissible for bank holding companies, and are referred to as "merchant banking investments" in "portfolio companies." Before making a merchant banking investment, a financial holding company must either be or have a securities affiliate registered under the Exchange Act or a qualified insurance affiliate. The merchant banking investments may be made by the financial holding company or any of its subsidiaries, other than a depository institution or subsidiary of a depository institution. The regulations place restrictions on the ability of a financial holding company to become involved in the routine management or operation of any of its portfolio companies. The regulation also generally limits the ownership period of merchant banking investments to no more than ten years.

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The FRB, the Office of the Comptroller of the Currency (the "OCC"), and the FDIC have rules governing the regulatory capital treatment of equity investments in non-financial companies held by banks, bank holding companies and financial holding companies. The rule applies a graduated capital charge on covered equity investments which would increase as the proportion of such investments to Tier 1 Capital increases.

PREEMPTION. At the beginning of 2004, the OCC issued final rules clarifying when federal law overrides state law for national banks and their operating subsidiaries and confirming that only the OCC has the right to examine and take enforcement action against those institutions. However, the Dodd-Frank Act limits the applicability of the preemption doctrine so that state laws affecting national banks are preempted only in certain circumstances. In May 2011, the OCC first proposed new regulations to implement the Dodd-Frank Act's preemption provision. On July 20, 2011, the OCC issued its final preemption rule wherein it concluded that the Dodd-Frank Act does not create a new, stand-alone preemption standard, but rather, incorporates the conflict preemption legal standard and the reasoning that supports it in the Supreme Court's *Barnett* decision. The OCC confirmed that precedent consistent with the standard set forth in *Barnett Bank v. Nelson,* 417 U.S. 25 (1996), including existing OCC regulations, are "preserved," including federal preemption over state consumer protection laws. The OCC also confirmed its belief that the procedural requirement applicable to an OCC determination that a state consumer financial law is preempted, apply prospectively and do not invalidate prior precedent. The OCC determined that its existing preemption rules conformed with *Barnett Bank.* The OCC did make modifications to its rules to clarify that *Barnett Bank* is controlling. Finally, the OCC clarified that a state attorney general or chief law enforcement officer may enforce any applicable law against a national bank (as opposed to a non-preempted state law) and to seek relief if, and as, authorized by that law. Since Texas state chartered banks have parity with national banks as to their powers (discussed further herein), the preemption rule has significance for the Company's bank subsidiaries.

FINANCIAL PRIVACY. In accordance with GLBA, the federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. Pursuant to the rules, financial institutions must provide disclosure of privacy policies to consumers and in some instances allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Additional regulations were adopted to implement the provisions of the Fair Access to Credit Transactions Act ("FACTA"), which requires certain disclosures and consents to share certain information among bank affiliates. These privacy provisions affect how customer information is transmitted through diversified financial companies and conveyed to outside vendors.

NASDAQ LISTING STANDARDS. The Company is traded on the NASDAQ Stock Market. The Company must comply with the listing standards of the NASDAQ Stock Market. In addition to other matters, the listing standards address disclosure requirements and standards relating to board independence and other corporate governance matters.

INTERSTATE BANKING. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Banking Act"), rewrote federal law governing the interstate expansion of banks in the United States. Under the Interstate Banking Act, adequately capitalized, well managed bank holding companies with FRB approval may acquire banks located in any State in the United States, provided that the target bank meets the minimum age (up to a maximum of five years, which is the maximum Texas has adopted) established by the host State. Under the Interstate Banking Act, an anti-concentration limit will bar interstate acquisitions that would give a bank holding company control of more than ten percent (10%) of all deposits nationwide or thirty percent (30%) of any one State's deposits, or such higher or lower percentage established by the host State. The anti-concentration limit in Texas has been set at twenty percent (20%) of all federally insured deposits in Texas. As allowed by the Interstate Banking Act, the Company acquired LFIN, including its Oklahoma financial institution, during 2004. The Dodd-Frank Act changes the requirements for interstate branching by permitting de novo interstate branching if, under the laws of the state where the new branch is to be established, a state bank chartered in that state would be permitted to establish a branch.

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FRB ENFORCEMENT POWERS. The FRB has certain cease-and-desist and divestiture powers over bank holding companies and non-banking subsidiaries where their actions would constitute a serious threat to the safety, soundness or stability of a subsidiary bank. These powers may be exercised through the issuance of cease-and-desist orders or other actions. In the event a bank subsidiary experiences either a significant loan loss or rapid growth of loans or deposits, the Company may be compelled by the FRB to invest additional capital in the bank subsidiary. Further, the Company would be required to guaranty performance of the capital restoration plan of any undercapitalized bank subsidiary. The FRB is also empowered to assess civil money penalties against companies or individuals who violate the BHCA in amounts up to $1,000,000 per day, to order termination of non-banking activities of non-banking subsidiaries of bank holding companies and to order termination of ownership and control of a non-banking subsidiary. Under certain circumstances the Texas Banking Commissioner may bring enforcement proceedings against a bank holding company in Texas.

COMPANY DIVIDENDS. The Company is subject to regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The FRB is authorized to determine under certain circumstances relating to the financial condition of a bank holding company, that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In addition, in the current financial and economic environment, the FRB has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

CROSS-GUARANTEE PROVISIONS. The Financial Institutions Reform Recovery and Enforcement Act of 1989 ("FIRREA") contains a "cross-guarantee" provision which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of a commonly controlled depository institution.

SOURCE OF STRENGTH DOCTRINE. FRB policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codifies this policy as a statutory requirement and the federal financial regulatory agencies are expected to issue a rule implementing this statutory requirement in 2014. Under this requirement, the Company is expected to commit resources to support its subsidiary banks, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding Company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

GENERAL BANK SUBSIDIARIES. All of the bank subsidiaries of the Company are state banks subject to regulation by, and supervision of, the Texas DOB and the FDIC.

DEPOSIT INSURANCE. All of the bank subsidiaries of the Company are examined by the FDIC, which currently insures the deposits of each member bank up to applicable limits. Deposits of each of the bank subsidiaries are insured by the FDIC through the DIF to the extent provided by law. The FDIC uses a risk-based assessment system that imposes premiums based upon a matrix that takes into account a bank's capital level and supervisory rating.

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by 7 basis points for the first quarter of 2009 assessment, which resulted in annualized assessment rates for institutions, such as the subsidiary banks in Risk Category 1 ("Risk Category 1 institutions"), ranging from 12 to 14 basis points (basis points representing cents per $100 of assessable deposits). In February 2009, the FDIC issued final rules to amend the DIF restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. The initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates rate from 7 to 24 basis points.

In November 2009, the FDIC issued a rule that required all deposit institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates scheduled to take place on January 1, 2011, and maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for non-interest bearing transaction accounts. The separate coverage for non-interest bearing transaction accounts became effective on December 31, 2010 and terminated on December 31, 2012.

In February 2011, the FDIC issued a final rule effective April 1, 2011 that set a target size for the insurance fund and changed the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as required by the Dodd-Frank Act. The rule finalizes a target size for the DIF at 2 percent of insured deposits. It also implements a lower assessment rate schedule when the fund reaches 1.15 percent and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. The final rule creates a risk-based scorecard assessment system for banks with more than $10 billion in assets. The scorecards include financial measures that the FDIC believes are predictive of long-term performance. In September 2011, the FDIC issued new guidelines that reflect the methodology it now uses to determine assessment rates for large and highly complex institutions. A "large institution" is defined as an insured depository institution with assets of $10 billion or more, and a "highly complex institution" is defined as an insured depository institution with assets of $50 billion or more. Total scores are determined according to the April 1, 2011 final rule. While none of the Company's subsidiary banks currently meet the definition of a large institution under the new guidelines, the Company cannot provide any assurance as to the effect of any further change in its deposit insurance premium rate, should such a change occur, as such changes are dependent upon a variety of factors, some of which are beyond the Company's control.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or uninsured condition to continue operations, or has violated any applicable law, regulation, rule or order of condition imposed by the FDIC.

CAPITAL ADEQUACY. The Company and its bank subsidiaries are currently required to meet certain minimum regulatory capital guidelines utilizing total capital-to-risk-weighted assets and Tier 1 Capital elements. The guidelines make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations, consider off-balance sheet exposure in assessing capital adequacy, and encourage the holding of liquid, low-risk assets. At least one-half of the minimum total capital must be comprised of Core Capital or Tier 1 Capital elements. Tier 1 Capital of the Company is comprised of common shareholders' equity and permissible amounts related to the trust preferred securities. The deductible core deposit intangibles and goodwill booked in connection with all the financial institution acquisitions of the Company after February 1992 are deducted from the sum of core capital elements when determining the capital ratios of the Company.

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In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets ("leverage ratio") equal to three percent for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least four to five percent. The Company's leverage ratio at December 31, 2013 was 11.61%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the FRB will continue to consider a "tangible tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. The FRB has not advised the Company of any specific minimum leverage ratio or tangible Tier 1 leverage ratio applicable to it. For a bank holding company to be considered "well-capitalized" under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%.

Each of the Company's bank subsidiaries is subject to similar capital requirements adopted by the FDIC. Each of the Company's bank subsidiaries had a leverage ratio in excess of five percent as of December 31, 2013. As of that date, the federal banking agencies had not advised any of the bank subsidiaries of any specific minimum leverage ratio applicable to it.

In March 2005, the FRB issued a final rule that would continue to allow the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the final rule, after a five-year transition period ending March 31, 2009, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill, less any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Supplementary Capital or Tier 2 capital, subject to restrictions. Tier 2 capital includes among other things, perpetual preferred stock, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for probable loan and lease losses, subject to limitations. Bank holding companies with significant international operations will be expected to limit trust preferred securities to 15% of Tier 1 capital elements, net of goodwill; however

A. De Greef-Safft

$375,000

$386,250

3%

P. Burns

*

$300,000

*

R. McGovern

*

$240,000

*

* Mr. Burns and Mr. McGovern joined the Company in July and August 2015, respectively. The Committee set each of Mr. Burns   and Mr. McGovern s base salary at $300,000 and $240,000, respectively, based in part upon survey data provided by Meridian and in part on the base salary received by each in his previous position prior to joining the Company.

Annual Incentive Bonus

Executives may receive annual bonuses based partly upon the financial performance of the Company (or the business unit headed by an executive with primary responsibilities at the divisional rather than the corporate level) during a particular fiscal year and partly upon their success in meeting individual strategic goals established by the Committee at the beginning of the fiscal year. The amount of an executive s annual incentive bonus opportunity and the criteria used to determine whether the opportunity is realized are determined through a detailed performance planning process which the Company refers to as its Balanced Performance Plan (BPP) process.

BPP Process

The BPP process generally takes place over two meetings of the Committee during the first quarter of the fiscal year, the first being the July meeting, which coincides with the meeting of the Board of Directors at which the Company s preliminary results for the previous year are reviewed and discussed, and its operating budget for the upcoming year is presented. The Committee then conducts an additional review of the proposed BPP for the upcoming year at a second meeting generally held in late August or early September, after the financial results for the prior year and the operating budget for the upcoming year are finalized. This two-step process provides the Committee with an ample opportunity to conduct a deliberative and interactive process that results in the establishment of goals that it is confident correlate to the overall objectives set for the Company by the Board of Directors for the upcoming fiscal year.

At its August/September meeting, the Committee determines the extent to which the financial and strategic goals applicable to each executive for the previous year were met, and establishes the amount of bonus to be paid. The Committee also formally approves the financial and strategic performance goals for the upcoming year under both the annual and long-term incentive components of the executive compensation program.

Determination of Annual Incentive Bonus Targets

The BPP process begins each year by setting a percentage of the executive s base salary as a target bonus amount. In establishing the percentage, the Committee uses the information contained in the Survey Data to assist it in its determinations. For fiscal 2016, the target bonus amount as a percentage of base salary was as follows for each of the named executives:

Executive	Target Bonus as Percentage of Base Salary
D. Dunbar	90%
T. DeByle	55%
D. Rosen	50%
A. De Greef-Safft	55%
P. Burns	55%
R. McGovern	40%

After establishing a target bonus amount for each executive, the Committee determines what percentage of that amount to allocate to the attainment of the financial performance measures, and what percentage to the strategic goals. The Committee determined that for fiscal 2016, for corporate executives, other than Mr. Burns, 70% of an executive s target bonus should be tied to the achievement of the financial performance goals and 30% to meeting the strategic goals. The Committee determined for divisional executives and Mr. Burns, due to their highly strategic roles, that such percentages should be 60% and 40%, respectively. Actual bonus achievement can range between 0% and 200% of target. Actual bonus achievement with respect to strategic goals can range between 0% and 100% of that portion of target attributable to the strategic goals depending upon actual performance against the preset goals. With respect to financial performance goals, actual bonus achievement can range between 0% and 243% of that portion of target attributable to such goals for executives other than Ms. De Greef-Safft and Mr. Burns. Based on the 60/40 weighting of their performance to strategic goals, Ms. De Greef-Safft and Mr. Burns actual achievement for financial performance goals can range from 0% to 267% such that the maximum bonus opportunity equals 200% of target, as is the case with all executives.

The Committee then establishes the specific financial measures and individual strategic goals used to determine whether and to what extent the target bonus is achieved and the weighting to be given to each of the goals selected. For fiscal 2016, three financial and three to five strategic goals were established, and a portion of the target bonus is attributable to success in meeting each goal. The Committee next determined threshold, target and superior performance levels for the financial goals for minimum, target and maximum achievement, and set the percent achievement for those performance levels at 50%, 100% and 243% (or 267% for Ms. De Greef-Safft and Mr. Burns). Target financial performance levels are tied directly to the approved fiscal year budget. In establishing the threshold and superior performance levels, the Committee sets the threshold performance level high enough so that achieving it is not guaranteed and sets the superior performance level high enough so that achieving it is difficult and represents an outstanding accomplishment that would be highly likely to significantly enhance shareholder value. For fiscal 2016, the financial goals for corporate executives (other than Ms. De Greef-Safft) and their respective threshold, target and superior performance goals were as set forth below:

Goal (1)	Weighting	Threshold	Target	Superior
Achieve $777.0 million in Sales	15%	$745.9 M	$777.0 M	$800.6 M
Achieve $4.62/share Diluted Earnings from Continuing Operations	30%	$4.12	$4.62	$4.88
Achieve Operating Cash Flow of $67.9 million from Continuing Operations (2)	25%	$59.8 M	$67.9 M	$73.1 M

(1)

The Committee has also established guidelines regarding the reservation of the right to adjust the financial targets and/or results for bonus determination purposes during or at the end of a fiscal year, to reflect the impact of special events either not factored into the operating plan budget established at the beginning of a fiscal year (on which the bonus targets are based), or not indicative of operating performance during the year. The Committee believes such adjustments are appropriate in order for executives to execute the Company s long-term growth strategies to deliver strong financial results.

(2)

Operating cash flow is a non-GAAP financial measure which is determined by adding three items from the Company s audited financial statements 1) income from operations, 2) depreciation and amortization, and 3) change in net working capital (defined as net receivables plus inventories, less accounts payable), that occurred since the end of fiscal 2015, and subtracting capital expenditures from the total of the foregoing three items.

The BPP process for divisional executives mirrors that for corporate executives, except that almost all of the financial and strategic goals established for them are tied directly to the objectives of the divisions which they head. For fiscal 2016, the three financial goals set for the Food Service Equipment segment, which applies to the bonus for Ms. De Greef-Safft, and their respective threshold, target and superior performance goals were as set forth below:

Goal (1)	**Weighting**	**Threshold**	**Target**	**Superior**
Achieve $419.2 million in Sales	5%	$400.0M	$419.2 M	$438.4 M
Achieve Earnings before interest and Taxes, EBIT of 12.01% of Sales	40%	10.04%	12.01%	13.02%
Achieve Operating Cash Flow of $50.3 million from Continuing Operations	10%	$40.1M	$50.3 M	$56.6 M

(1)

In addition, one corporate level goal, diluted earnings per share for the Company at a weighting of 5%, applies to the bonus for Ms. De Greef-Safft.

In approving these particular goals, the Committee made a specific determination that they represent financial objectives that correlate to the creation of shareholder value and are appropriate measures against which to judge executive performance. In differentiating among the financial performance goals, the Committee determined that achieving a specified level of earnings per share (or EBIT in the case of Ms. De Greef-Safft) was the Company s most important financial objective, followed by operating cash flow, then sales. The weighting reflects the Committee s belief that for fiscal 2016 earnings and, to only a slightly lesser extent, operating cash flow, were the most important factors in enhancing shareholder value.

The strategic goals established by the Committee for fiscal 2016 are different for each of the named executives. The strategic goals established for Mr. Dunbar were (i) to further implement the Company s Value Creation System by adopting standard work promoting implementation across the entire company of the four pillars of the Value Creation System: Standex Growth Disciplines, Operational Excellence (OPEX), Talent Management and BPP; (ii) to continue execution of our acquisition strategy to make accretive acquisitions that build out our strategic platforms and assure that recent acquisitions hit their targeted performance; (iii) to continue divestiture of non-core businesses; (iv) to implement a plan to achieve target EBIT and develop a strategy to create a more differentiated and profitable Food Service platform; and (v) to reposition the Engineering Technologies segment by adding capacity to support aviation wins, using OPEX tools to improve operational performance and restructuring to adapt to lower oil and gas and medical business revenues.

For the four named executives who head corporate staff functions, strategic goals were established by the Committee which were tied to the completion of specific projects in their functional areas that were deemed important to the Company, and initiatives that would improve productivity and significantly lower the cost structures of the departments which they head, resulting in better processes and reduced corporate costs. The strategic goals for Ms. De Greef-Safft are related to the growth and profitability of the Food Service Equipment segment.

Results for 2016

Set forth in the following table are the results for the three financial performance metrics used to determine the amount of annual incentives bonuses in fiscal 2016:

Metric	**Result**	**% Weighted Achievement**
Sales	$734.1 M	0
Diluted Earnings Per Share from Continuing Operations	$4.50	88
Operating Cash Flow million from Continuing Operations	$72.0M	213

The $4.50 used for annual incentive calculation purposes is greater than the Company s actual reported earnings per share of $4.06 for fiscal 2016 in large part due to the adjustments for non-cash charges associated with the divestiture of its roll, plate and machinery business and non-cash losses associated with the sale of unused real estate that were not included in the results used to calculate bonuses. The operating cash flow results exceeded the target goal established by the Committee at the beginning of the fiscal year, while earnings per share were above threshold target goal, but fell below its target level and sales failed to reach the threshold performance target. Based upon these results, each corporate executive, other than Mr. Burns, is entitled to a bonus based upon financial performance of 113.81% of his or her target bonus for the financial goals which equates to 79.7% of his total target bonus. Due to the different weighting of his performance and strategic goals, the results for Mr. Burns equates to 68.4% of his total target bonus.

Performance of the Food Service Equipment segment, on which Ms. De Greef-Safft s annual incentive bonus is based, was as follows:

Metric	Result	% Weighted Achievement
Sales	$381.9M	0
EBIT	10.51%	62
Operating Cash Flow	$47.3M	86

The results were below the target level in all three categories and sales were below the threshold target goal. As a result, Ms. De Greef-Safft is entitled to a bonus based upon financial performance of 62.9% of her target bonus for the financial goals which equates to 37.8% of her total target bonus.

With respect to each executive s strategic goals for the year, the Committee met with Mr. Dunbar to evaluate the performance of each executive in meeting those goals. In determining the extent to which each strategic goal was met, the Committee examined the difficulty of reaching the goal, the work performed to achieve it, and any factors that arose during the year that made achievement of the goal more or less difficult. Following its evaluation, the Committee determined that Mr. Dunbar had achieved 83% of his strategic goals by continuing to develop the Value Creation System by (a) completing market tests and increasing laneway growth; (b) setting in place OPEX transition plans for the Company s top 15 sites, and improving site assessment scores and (c) developing plans for all of the Company s leaders. In addition, he continued the execution of the Company s acquisition strategy, assured recent acquisitions hit their targets and divested a non-core business; set in place an OpEx and Strategic Plan that delivered margin improvements and repositioned the Engineering Technologies segment, adding the Wisconsin facility and improving the OPEX tools for improved performance. The Committee determined that the other named executives achieved between 87% and 98% of his or her individual strategic goals which equates to between 26% and 39% of his or her total target bonus.

Combining the scores of the financial and strategic goals, each named executive (other than Ms. Rosen, who did not receive a bonus due to her retirement prior to the end of the fiscal year) is entitled to the following bonus:

Executive	Percentage of Target Bonus
D. Dunbar	104.7%
T. DeByle	106.7%
A. De Greef-Safft	72.6%
P. Burns	107.4%
R. McGovern	105.7%

Deferral of Annual Incentive Bonus

The Company provides an incentive for its executives to defer up to 50% of their annual bonuses into the receipt of discounted restricted stock units pursuant to the Management Stock Purchase Program (MSPP), a component of the 2008 Long Term Incentive Plan. Those restricted stock units vest three years after they are purchased, and shares equal to the number of restricted stock units are delivered to the executives. Restricted stock units purchased under the MSPP are valued at the time of purchase at a 25% discount from the lower of the closing price of the Company s stock on the last day of the fiscal year or the date on which the underlying bonus would otherwise be paid (which is generally on or shortly prior to the 75th day after the last day of the fiscal year). While the annual bonus is designed primarily to motivate an executive to meet annual performance goals established under the BPP process, the restricted stock unit deferral option adds an additional long-term motivational component to the bonus. For fiscal 2016, the named executives elected to defer the following percentages of their annual incentive bonuses into the receipt of restricted stock units under the MSPP:

Mr. Dunbar	40%
Mr. DeByle	50%
Ms. Rosen	0%

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Ms. De Greef-Safft

50%

Mr. Burns

20%

Mr. McGovern

30%

The directors of the Company are also permitted to defer all or a portion of the annual cash retainer earned by them into the receipt of discounted restricted stock units under the MSPP.

Long Term Incentive Program

Executives are provided with incentives to remain in the employ of the Company and to align their interests with those of the Company s shareholders through the granting of annual equity-based awards. In establishing the total value of an executive s award, the Committee uses the information contained in the Survey Data and the recommendations of Meridian to assist it in its determination. For fiscal 2016, the target long-term incentive awards as a percentage of base salary were as follows for each of the named executives:

Name	Target Award as a % of Base Salary
David A. Dunbar	200%
Thomas D. DeByle	125%
Deborah A. Rosen	75%
Anne De Greef-Safft	100%
Paul C. Burns	55%
Ross McGovern	40%

The total value of the award for each named executive for fiscal 2016 is described under Estimated Possible Payouts-Equity Incentive Plan on page 30 of this proxy statement.

The form, terms and rationale for each component of such equity awards are summarized in the following table:

Component	Design	Purpose
Restricted Stock	Vests after three years, provided that the executive remains employed at time of vesting. Dividends accrue over the vesting	Retention of executive, and alignment with shareholder interests

	period and are paid in cash immediately upon full vesting	
Performance Share Units	Convertible into shares of stock, depending upon performance of the Company over a one-year period against two pre-established financial metrics. For 2016, the metrics were EBITDA and average return on operating assets. Shares earned are paid in three equal installments, provided the executive remains employed at the time an installment is to be paid.	Motivates executives to meet financial performance criteria that the Committee has determined impact the longer-term performance of the Company and aligns executives interests with those of shareholders, through satisfaction of the awards in shares of stock

As described in more detail under Components of Executive Compensation Program-Changes for Fiscal 2017 on page 12 of this proxy statement, the Committee adopted a three-year performance management period for its performance share units beginning in fiscal 2017, which shares are paid out at the end of the three-year period.

For fiscal 2016, 67% of the total long-term incentive award for Mr. Dunbar was made in performance share units, and 60% of the award made to the other named executives was made in performance share units. This reflects the Committee s determination that the portion of an executive s compensation which is directly tied to the meeting of performance goals should be higher for those executives in the strongest position to impact actual performance

Performance Share Units Targets

For the fiscal 2016 performance period, the performance goals and their threshold, target and superior performance levels were as set out below.

Goal	Weighting	Threshold	Target	Superior
EBITDA (1)	66 2/3%	$90.3 M	$106.3 M	$114.0 M
Average Return on Operating Assets (2)	33 1/3%	35.5%	41.2%	43.8%

(1)

EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure determined by adding three items from the Company s audited financial statements 1) income from continuing operations before income taxes, 2) interest expense, and 3) depreciation and amortization; and

(2)

Average Return on Operating Assets (determined by averaging return on operating assets at the beginning and end of the fiscal year).

The Committee selected EBITDA because of its direct correlation to profitability and cash flow, which are critical to the Company s ability to complete acquisitions, invest in its core businesses, continue to return cash to shareholders in the form of dividends and improve overall liquidity. The Committee selected average return on operating assets as a second performance measure, because it provides a means of determining whether the Company has invested the earnings of the business so as to best optimize the Company's return on assets. The Committee also gave EBITDA twice the weighting of average return on operating assets, due to the importance of liquidity to the Company s longer-term success.

Performance Share Unit Results for 2016

The Company s EBITDA and Average Return on Operating Assets (ROA) for fiscal 2016 for purposes of determining performance share unit payouts was as follows:

Goal	Target	Result
EBITDA	$106.3 M	$97.2 M
ROA	41.2%	40.5%

EBITDA was between the threshold and the target performance level while ROA was slightly below the target level performance. Actual reported results for both EBITDA and ROA were lower, but consistent with its authority to adjust results for incentive compensation purpose by excluding the gains and losses associated with anticipated events that do not reflect the operating performance of the Company, the Committee has excluded the impact of the sale of the Company s Cheyenne facility and the divestiture of its roll, plate and machinery business in Sandston, Virginia from the calculations of EBITDA and ROA for the purpose of determining the number of shares of stock granted pursuant to the award of performance share units.

Based on these results, shares equal to 79.03% of the target performance share units awarded to each executive will be delivered. Delivery will be made in three equal annual installments, with the first made on the date on which the Committee certified the results under the plan (August 25, 2016), and the remaining two installments made as of the next two fiscal year ends, provided that the executive remains employed by the Company on those two dates.

Perquisites and Other Benefits

We provide a limited number of perquisites to certain named executives, including Mr. Dunbar, designed to be competitive and assist in the attraction and retention of highly qualified executives and also to facilitate the performance of the executive's responsibilities. The perquisites consist of a car allowance, and reimbursement of the cost of automobile operating expenses, including the cost of gasoline, auto insurance, and repairs. Mr. Dunbar is reimbursed for tax return preparation and counseling. We own no aircraft, nor do our executives fly on private aircraft for business purposes. We do not provide any country club or other club memberships to our executives. No gross ups are provided for any attributed income relating to perquisites received by the executives.

Executives participate in the same employee benefit plans and arrangements as do nearly all salaried employees. Such plans and arrangements include a defined benefit pension plan (which has been frozen since December 31, 2007 and in which Ms. Rosen is the only named executive who has a benefit), a 401(k) plan with a Company match of up to 4% of an employee s base salary up to the IRS compensation limit and additional Company contributions equal to a percentage of an employee s base salary, with the exact percentage based in part on the employee s age (these additional contributions are designed to make employees at least partially whole for the inability to accrue additional benefits under the frozen defined benefit pension plan). In addition, we provide medical, dental, life insurance and long-term disability arrangements that are similar to those provided by similarly-situated companies, and which provide for cost sharing between employees and the Company.

We have a supplemental defined benefit pension plan to provide unfunded, non-qualified pension benefits to executives whose compensation exceeds the maximum permitted by the IRS to be taken into account under a tax-qualified deferred benefit pension plan ($265,000 in 2016). That plan was also frozen effective December 31, 2007, and Ms. Rosen is the only named executive with a benefit under it. Because of their compensation levels, most employees did not qualify for benefits under this plan. The total pension to be received from both the tax-qualified and non-qualified defined benefit plans is determined under a formula that is the same for all plan participants, including Ms. Rosen.

As part of the freezing of accruals under the defined benefit pension plan, we established, as of January 1, 2008, a non-qualified deferred compensation plan designed to meet two goals. First, it allows participants whose compensation exceeds the IRS limits permitted to be taken into account under a tax-qualified 401(k) plan ($265,000 in 2016) to make tax-deferred contributions and receive Company matching contributions as if the non-discrimination limitations which apply to tax-qualified 401(k) plans did not exist. The percentage of an employee s compensation which is matched under the non-qualified deferred compensation plan is the same as the percentage of compensation which is matched under the tax-qualified 401(k) plan. In addition, employees eligible to participate in the non-qualified deferred compensation plan because their base salary and annual incentive compensation exceeds the IRS limit described previously ($265,000 in 2016) may defer additional amounts of their base salaries and annual incentive bonuses under the plan. In no event, however, can the total amount deferred in any one year exceed 50% of base salary and 100% of the annual bonus paid under the plan. The purpose of these changes is to allow individuals to partially make up from the Company s defined contribution plan the loss of future accruals under the frozen defined benefit plans.

Employment Agreements

We have entered into employment agreements with each of the named executives. Under those agreements, the executives shall be employed for a period of approximately three years (January 20, 2014 through December 31, 2016) in the case of Mr. Dunbar, and one year in the case of the other named executives. The length of the agreements is based upon the Committee s assessment of appropriate terms to attract and retain qualified executive talent, and of what is appropriate to maintain competitiveness. The agreement for Mr. Dunbar renews automatically for additional three-year periods, except that either party may give 30 days notice of its desire to terminate the agreement. The agreements for the other named executives have one-year terms, and will renew automatically for successive one-year periods, except that either party may give 30 days notice of its desire to terminate the agreement. In the event of involuntary termination for a reason other than death or material breach of the agreement, Mr. Dunbar will receive base salary continuation for two years, and the other named executives will receive base salary continuation for one year. Mr. Burns agreement provided for the granting of 6,021 restricted stock units, which award vests in four installments as follows: 2007 on July 27, 2016, 2,007 on July 27, 2017, 1,338 on July 27, 2018 and 669 on July 27, 2019, provided that he is employed on the vesting date; and a signing bonus of $100,000, which was paid to Mr. Burns upon his hiring. Mr. McGovern s agreement provided for the granting of restricted stock in an amount valued at $100,000, which was granted on September 1, 2015 and is based upon the Company s closing stock price on such date, which award vests in three equal installments on September 1, 2016, September 1, 2017 and September 1, 2018, provided that he is employed on the vesting date; and a signing bonus of $50,000, which was paid to Mr. McGovern upon his hiring. The signing awards for Messrs. Burns and McGovern were granted as compensation to such executives as compensation for incentive forfeited in connection with their departure from previous employers.

Each agreement contains a non-compete provision which precludes the executive from competing against the Company for two years, in the case of Mr. Dunbar, and one year, in the case of the other named executives, after the agreement is terminated, regardless of the reason for the termination. The agreements also contain a non-poaching provision, which restricts the ability of an executive who takes a position outside the Company to hire employees of the Company. Such provisions are considered by the Committee to be a benefit to the Company, because they ensure that those who know the most about the Company, its businesses, its employees, and the markets that the Company serves cannot use that knowledge to adversely impact the Company after their employment ends.

In the event of a change in control of the Company, the agreements further provide for the payment of severance and other benefits in the event the executive's employment is terminated, or the executive resigns for certain specified good reasons, including a significant diminishing of his or her job duties or reporting relationship, or a diminution in base salary or incentive compensation opportunity, in either case following a change in control. Upon such a termination or resignation, severance for Messrs. Dunbar and DeByle will be based upon three additional years of salary and bonus, while the amount for Messrs. Burns and McGovern and Ms. De Greef-Safft will be based upon one additional year. The amount of bonus used to calculate the lump sum payment is the higher of the executive s target bonus for the year in which the change in control occurs or the most recent annual bonus paid to him or her. The amounts reflect the determination of the Committee at the time the agreements were entered into of what was appropriate to ensure that executives involved in negotiating and completing any change in control transaction will act in the best interest of shareholders, without regard to the personal dislocation that they would likely face as a result of the transaction. These amounts are paid only upon termination or resignation for specified good reasons following a change in control and not upon the change in control itself. Such a double trigger provision, requiring both a change in control and a subsequent termination or resignation for the executive to be entitled to the amounts paid under the agreement, has been determined to be appropriate by the Committee. The Committee sees no reason for the change in control event itself to trigger any right to additional compensation or benefits, if the executive s employment status is not significantly impacted by the change in control. There is no gross-up provided with respect to any amounts paid under the agreements.

Tax and Accounting Aspects of Compensation

The tax deductibility by a corporation of compensation in excess of $1 million paid to the named executives other than the CFO is limited by Section 162(m) of the Internal Revenue Code. "Performance-based" compensation, as defined in the Code, may be excluded from the $1 million limit if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals set out in writing within 90 days after the beginning of the plan year to which the goals apply, and if the compensation is paid under a plan approved by Stockholders. The Company's 2008 Long Term Incentive Plan was approved by stockholders at the Company s 2008 Annual Meeting of Stockholders and an amendment to this plan was approved by stockholders at the Company s 2011 Annual Meeting of Stockholders. Shareholders are being asked to approve the material terms of the performance goals under the 2008 Long Term Incentive Plan at this year s Annual Meeting of Stockholders, as described under Proposal 3 Approval of Performance Goals under the 2008 Long Term Incentive Plan, As Amended on page 51 of this proxy statement.

The Company does not have a specific policy regarding executive compensation and Section 162(m), and the Committee may choose to provide compensation that is not deductible under Section 162(m) on occasion if it determines such action to be in the best business interest of the Company. Notwithstanding the absence of a specific policy, the Committee s intent in fiscal 2016 was to structure the executive compensation program so that all compensation would be deductible, except to the extent that the combined total of base compensation, the value of perquisites and the grant date value of restricted stock issued under the 2008 Long-Term Incentive Plan exceeds $1 million.

Clawback Provision

The 2008 Long Term Incentive Plan contains a provision which authorizes the Board of Directors to recover excess annual and long-term incentive compensation paid under the Plan to the Chief Executive Officer, Chief Financial Officer, or any other executive, in the event that the Company s financial results for any reporting period require restatement downward due to misconduct, as determined by the Board of Directors, on the part of any such executives.

Stock Ownership Guidelines

The Committee has adopted stock ownership guidelines for its directors and executives, including the named executives, out of a belief that those individuals should have at least a minimum level of stock ownership to align their interests with those of the Company s stockholders. With the assistance of Meridian, the Committee reviewed the Company s stock ownership guidelines in October, 2015 and adopted new guidelines. Under the new guidelines, Mr. Dunbar is required to own stock equal to at least five times his base salary, and the other named executives are required to own stock equal to at least two times their base salaries. In addition, to further the Company s commitment to ensure that the interests of executives are aligned with those of shareholders, the revised guidelines provide that Vice Presidents, Group Presidents and Division Presidents are required to hold share units with a value equal to one times annual base salary. Until such time as a named executive officer has attained the applicable share ownership guideline, he or she is expected to retain at least 50% of the share units awarded to him or her, net of amounts required to pay taxes and exercise prices. Stock owned outright and unvested restricted stock are considered owned by the executive. The share ownership guidelines level will be recalculated whenever an executive receives an increase in pay. To determine whether the guidelines are met, shares owned will have a deemed value determined annually as the average stock price of the Company s common stock in the fourth quarter of the prior fiscal year. The Committee monitors compliance with the stock ownership requirements on an ongoing basis and the named executives are presently in compliance with the guidelines.

Policy Concerning Transactions Involving Company Securities

The Company has a policy applicable to all officers, directors and employees, that prohibits certain transactions involving the Company s securities, including engaging in short-term speculative transactions involving the Company s securities including hedging transactions and buying or selling put or call options, holding the Company s securities in a margin account, or engaging in short sales of the Company s securities. In addition, the policy prohibits the pledging of Company securities without first providing at least two weeks advance notice of the proposed pledge, with an explanation of the purpose of the pledge, and obtaining advance approval for the proposed pledge transaction. No named executive officers or directors have entered into agreements pledging any shares of Company common stock for any purpose since the updating of the policy.

Risk Considerations in Compensation Programs

In August 2016, the Committee conducted its annual review of the Company s compensation policies and practices to assess whether they contain incentives that can lead to excessive or inappropriate risk taking by executives. Following that review, the Committee has concluded that the Company s compensation programs, when considered both separately and taken as whole, are not reasonably likely to have a material adverse effect on the Company. The principal factors that led to this conclusion are as follows:

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The annual incentive compensation achievable by an executive is capped at 200% of the executive s target bonus, thus reducing any incentive to generate an inordinately high level of performance in any one year at the expense of future performance.

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Executives may defer up to fifty (50%) percent of their annual incentive compensation into restricted stock units, which vest and become payable in stock three years after the date the annual incentive compensation is paid.

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Long-term incentive compensation is paid entirely in shares of stock. Restricted stock granted under the plan requires that an executive remain employed for three years before the stock vests. Shares paid pursuant to the award of performance share units are paid in three annual installments, and are paid

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only if the executive continues to be employed by the Company at the time an installment of shares is to be delivered. Furthermore, as described in more detail under Components of Executive Compensation Program-Changes for Fiscal 2017 on page 12 of this proxy statement, the Committee adopted a three-year performance management period for its performance share units beginning in fiscal 2017, which shares are paid out at the end of the three-year period and requires the employee to remain employed at such time of payment. As a result of the foregoing, any future deterioration in the Company s stock price would adversely impact the executive which keeps the executive s interests aligned with those of the shareholders.

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The long-term incentive plan is based solely on total corporate, rather than business unit performance, which motivates business unit heads to focus on total corporate performance, and not just the performance of their own business units. In addition, the performance measures used to determine the amount of any long-term incentive payment differ from those used to determine the amount of any annual incentive bonus, thus reducing the ability of an executive to engage in conduct designed to inflate his or her incentive compensation payout.

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The Board of Directors is empowered to claw back the portion of any annual or long-term incentive compensation paid to any executive, which is attributable to financial results that must be restated, or to other fraud or misconduct on the part of the executive.

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The absence of any guaranteed bonuses or large equity grants that are not specifically tied to corporate performance.

.

Executives are subject to stock ownership requirements, which require that they maintain ownership of a specified amount of Company stock during the course of their employment.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on that review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

Charles H. Cannon, Jr., Chairman

Thomas E. Chorman

Jeffrey S. Edwards

H. Nicholas Muller, III

COMPENSATION TABLES AND NARRATIVE DISCUSSION

2016 SUMMARY COMPENSATION TABLE

The following table sets forth compensation information for the Company's chief executive officer, chief financial officer, former vice president/chief legal officer and three other individuals who served as the most highly compensated executive officers of the Company (the "named executive officers") during the fiscal years ending June 30, 2016, June 30, 2015 and June 30, 2014.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($) (2)	Stock Awards ($) (3)	Non-Equity Incentive Plan Compen-sation ($) (4)	Change In Pension Value and Non-Qualified Deferred Compen-sation Earnings ($) (5)	All Other Compen-sation ($) (6)	Total ($)
David Dunbar (1)	2016	751,537	0	1,987,958	428,021	(749)	92,082	3,258,849
President/CEO	2015	726,248	0	1,860,398	296,881	3,318	85,246	2,972,091
	2014	320,833	636,354(7)	2,648,042	121,560	0	283,641	4,010,430
Thomas D. DeByle	2016	381,393	0	620,640	112,726	(1,084)	60,212	1,173,887
Vice President/CFO/	2015	370,725	0	611,744	79,188	10,911	47,216	1,119,784
Treasurer	2014	361,675	0	609,316	173,426	30,196	54,853	1,229,466
Deborah A. Rosen(8)	2016	274,126	0	230,703	0	151,694	76,765	733,288
Vice President/CLO	2015	335,250	0	302,617	106,133	138,865	91,099	973,964
	2014	321,125	0	193,860	283,197	217,923	74,707	1,090,812
Anne De Greef-Safft(9)	2016	383,438	0	535,473	77,115	1,375	35,314	1,032,715
	2015	163,460	44,952(10)	438,826	0	0	14,216	661,454

President Food Service Group								
Paul C. Burns (11) VP Strategy & Business Development	2016	280,768	100,000(12)	661,370	141,768	0	74,678	1,258,584
Ross McGovern(13) Vice President/ Human Resources	2016	210,000	111,600(14)	236,406	2,811	0	10,083	570,900

Footnotes to Summary Compensation Table

(1)

Mr. Dunbar became employed by the Company as President/CEO on January 20, 2014.

(2)

Since the payment of each executive's annual non-equity incentive bonus is dependent on meeting or exceeding certain targets and performance criteria, all annual non-equity cash incentive payments are reported under the column headed "Non-Equity Incentive Plan Compensation."

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(3)

This column represents the aggregate grant date fair value of three separate awards: (a) restricted stock units (RSUs) purchased with the portion of the executive s annual incentive bonus which the executive elects to use to purchase RSUs under the terms of the Management Stock Purchase Program (MSPP); (b) shares of time-based restricted stock, and (c) performance share units (PSUs). In addition, a time based restricted stock award granted to each of Mr. Burns and Mr. McGovern as of the date on which he commenced employment with the Company is included in this column. The award has a fair value of $450,009 for Mr. Burns and $99,976 for Mr. McGovern.

With respect to (a) above, the MSPP permits prior to the beginning of the fiscal year in which the annual incentive bonus is earned (or prior to the commencement of his employment, in the case of Messrs. Burns and McGovern), executives elect to use up to 50% of their annual incentive bonuses to purchase RSUs. For FY 2016, Mr. Dunbar elected to use 40% of his bonus to purchase RSUs, Mr. DeByle and Ms. De Greef-Safft elected to use 50%; Mr. McGovern elected 30%; Mr. Burns elected 20% and Ms. Rosen elected 0%. Under the MSPP, RSUs will be purchased at a 25% discount from the lower of the closing price of the Company s stock on the last day of the fiscal year in which the bonus was earned or the date on which the cash portion of the annual incentive bonus is paid, which is generally on or shortly prior to the 75th day after the end of the fiscal year. The amounts in this column which are attributable to purchases under the MSPP are computed in accordance with FASB ASC Topic 718, and assume a probable outcome at the target performance level with respect to the satisfaction of financial performance measures, and at the maximum fulfillment of the executive s strategic objectives. If the superior financial performance target had been reached, and if each executive had fulfilled all of his or her strategic objectives, the amounts set forth in the table attributable to MSPP purchases would have been as follows:

FY 2016, Mr. Dunbar - $ 765,674; Mr. DeByle - $ 296,776; Ms. Rosen - $0; Ms. De Greef-Safft - $ 298,412; Mr. Burns - $ 92,686; and Mr. McGovern - $ 80,874.

FY 2015, Mr. Dunbar - $780,670; Mr. DeByle - $291,082; Ms. Rosen - $96,308; and Ms. De Greef-Safft - $127,590.

FY 2014, Mr. Dunbar - $396,084; Mr. DeByle - $290,686; and Ms. Rosen - $0

Ms. De Greef-Safft was not employed by the Company in FY 2014. Messrs. Burns and McGovern were not employed by the Company in FY 2015 and FY 2014.

With respect to the awards of time-based restricted stock noted in (b) above, the column includes the grant date fair value of such awards for FY 2016, FY 2015 and FY 2014, respectively. Grant date fair value is calculated by multiplying the number of shares of stock awarded times the closing price of the Company s stock on the date awarded, in accordance with FASB ASC Topic 718. The dollar amounts in this column specifically attributable to grants of time-based restricted stock are set forth in the Grants of Plan-Based Awards table on page 29 of this proxy statement.

With respect to the awards of PSUs noted in (c) above, the column includes the grant date fair value of such awards for FY 2016, FY 2015 and FY 2014, respectively. Grant date fair value is calculated by multiplying the number of PSUs awarded times the closing price of the Company stock on the date of the award, in accordance with FASB ASC Topic 718. In determining the grant date fair value of the PSUs, a probable outcome at the target performance level is assumed. PSU payouts can range from zero to a maximum of 200% of target performance. For FY 2016, payouts equal to 79.03% of target performance were earned. For FY 2015, payouts equal to 115.24% of target performance were earned. For FY 2014, payouts equal to 132.97% of target performance were earned. The maximum PSU payouts for each of the past three fiscal years, determined as of the date on which the PSUs were granted, assuming achievement of the superior performance target, are as follows:

FY 2016, Mr. Dunbar - $2,028,894; Mr. DeByle - $576,285; Ms. Rosen - $314,531; Ms. De Greef-Safft - $463,500; Mr. Burns - $198,000; and Mr. McGovern - $115,200.

FY 2015 Mr. Dunbar - $ 1,969,800; Mr. DeByle - $ 559,500; Ms. Rosen - $ 305,370; and Ms. De Greef-Safft - $0;

FY 2014 Mr. Dunbar - $1,641,500; Mr. DeByle - $436,680; and Ms. Rosen - $232,632.

Ms. De Greef-Safft was not employed by the Company in FY 2014. Messrs Burns and McGovern were not employed by the Company in FY 2015 and FY 2014. The superior performance target was not achieved in any of the past three years. The dollar amounts in this column specifically attributable to grants of PSUs are set forth in the Grants of Plan-Based Awards table on page 29 of this proxy statement.

Assumptions used in the calculation of the above amounts are disclosed in the Stock Based Compensation and Purchase Plans Note to the Company s audited financial statements for fiscal year end June 30, 2016, included in the

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Company's Annual Report on Form 10-K, filed with the SEC on August 25, 2016, except that the fair value of RSUs purchased under the MSPP for FY 2016 is based upon the following assumptions: risk-free interest rates, 0.71%; expected volatility of underlying stock, 44.5%; expected quarterly dividends per share, $0.14; and annual rate of quarterly dividends, 0.68%.

(4)

The amount shown in this column represents the portion of each executive s annual incentive bonus which was paid in cash. The amount of the executive s target annual incentive bonus which is used to purchase RSUs under the MSPP is disclosed in the Stock Awards column.

(5)

The amount shown is the aggregate change in the actuarial present value of each named executive s accumulated benefit under the Company s defined benefit plans (including supplemental plans) from July 1, 2015 to June 30, 2016 (see Pension Benefits on page 36 of this proxy statement for a complete discussion of the Company s defined benefit plans). Messrs. Dunbar, DeByle, Burns, and McGovern and Ms. De Greef-Safft, do not participate in the pension plan, as they began employment with the Company subsequent to the December 31, 2007 freezing of the pension plan.

(6)

Included in this column are (i) accrued dividends that were paid during the fiscal year on previously awarded restricted stock (including RSUs acquired through the MSPP) that vested during the fiscal year. Such dividends accrued during the three-year vesting period and were not factored into the grant date fair value reported in the Stock Awards column of the table. The dividend totals for each named executive are as follows: Mr. Dunbar, $7,856; Mr. DeByle, $9,419; Ms. Rosen, $8,163; Ms. De Greef-Safft, $851; Mr. Burns, $0 and Mr. McGovern, $0. Further shown are (ii) the contribution made by the Company to each named executive s 401(k) and non-qualified defined contribution plan accounts, which was $62,317 for Mr. Dunbar; $26,989 for Mr. DeByle; $43,357 for Ms. Rosen; $21,168 for Ms. De Greef-Safft; $13,308; for Mr. Burns and $9,300 for Mr. McGovern. Also shown is (iii) the dollar value of life insurance premiums paid by the Company during the year for the benefit of each named executive, which was $8,118 for Mr. Dunbar; $9,401 for Mr. DeByle; $10,364 for Ms. Rosen; $3,213 for Ms. De Greef-Safft; $935 for Mr. Burns and $633 for Mr. McGovern. Also included are (iv) perquisites provided to each named executive. The only perquisites that exceeded $10,000 were automobile allowances of $13,641 for Mr. Dunbar; $14,253 for Mr. DeByle; $13,731 for Ms. Rosen; and $10,082 for Ms. De Greef-Safft and for Mr. Burns relocation reimbursement costs of $56,770, including $21,315 for tax gross-up. No other perquisites exceeding $10,000 were provided to any named executive. None of the perquisites provided to any named executive exceed the greater of $25,000 or 10% of the aggregate value of all perquisites received by a named executive.

(7)

Based upon the terms pursuant to which he became employed by the Company, Mr. Dunbar received a gross cash payment of $500,000 at the time of commencement of his employment. In addition, he is entitled to a minimum bonus at the performance target level set for him by the Compensation Committee, pro-rated for the portion of the year during which he was employed. The amount of $136,354, which represents 50% of his target bonus, is included in the Bonus column because Mr. Dunbar elected to use 50% of this amount to purchase RSUs pursuant to the terms of the MSPP. That portion is reported in the Stock Awards column. In addition, any bonus payments over and above the target amount are reported in the Stock Awards and Non-Equity Incentive Plan Compensation columns, as appropriate.

(8)

Ms. Rosen retired from the Company on April 15, 2016.

(9)

Ms. De Greef-Safft became employed by the Company on January 26, 2015.

(10)

Based upon terms pursuant to which she became employed by the Company, Ms. De Greef-Safft is entitled to a minimum bonus at the performance target level set forth in her agreement, prorated for the portion of the year during which she was employed. The amount of $44,952, which represents 50% of her target bonus, is included in the Bonus Column because Ms. De Greef-Safft elected to use 50% of this amount to purchase RSUs pursuant to the terms of the MSPP. That portion is reported in the Stock Awards column.

(11)

Mr. Burns became employed by the Company on July 27, 2015.

(12)

Based upon the terms pursuant to which he became employed by the Company, Mr. Burns received a gross cash payment of $100,000 at the time of commencement of his employment.

(13)

Mr. McGovern became employed by the Company on August 17, 2015.

(14)

Based upon the terms pursuant to which he became employed by the Company, Mr. McGovern received a gross cash payment of $50,000 at the time of commencement of his employment. In addition, he is entitled to a minimum bonus at the performance target set forth in his agreement prorated for the portion of the year during which he was employed. The amount of $61,600, which represents 70% of his target bonus is included in the Bonus Column because Mr. McGovern elected to use 30% of this amount to purchase RSUs pursuant to the terms of the MSPP. That portion is reported in the Stock Awards column. In addition, any bonus payments over and above the target amount are reported in the Stock Awards and Non-Equity Incentive Plan Compensation columns, as appropriate.

2016 GRANTS OF PLAN-BASED AWARDS

The following table shows information concerning grants of plan-based awards made during fiscal 2016 to the named executives, all of which are made pursuant to the Company s shareholder-approved 2008 Long Term Incentive Plan. A more detailed description of the awards is set forth in the narrative disclosure which follows the table and the footnotes to the table.

			Possible Payouts Under Non-Equity Incentive Plan Awards (in dollars) (2)			Estimated Possible Payouts Under Equity Incentive Plan Awards (in shares except where dollars are shown) (3)				
Name	Grant Date	Date of Compen-sation Committee Action (1)	Minimum	Target	Superior	Threshold	Target	Superior	All Other Stock Awards # of Shares	Fair Value Of Stock Awards (4)
David	9/09/15		$0	$408,807	$817,614	$0	$272,538	$545,076		
Dunbar	9/01/15					6,621	13,242	26,484		$1,014,470
	9/01/15								6,522	$499,650
Thomas D.	9/09/15		$0	$105,647	$211,294	$ 0	$105,647	$211,294		
DeByle	9/01/15					1,881	3,761	7,522		$288,130
	9/01/15								2,507	$192,061
Deborah A.	9/09/15		$0	$174,740	$349,480	$ 0	$0	$0		
Rosen	9/01/15					1,027	2,053	4,106		$157,280
	9/01/15								1,369	$104,879
Anne De	9/01/15		$0	$106,219	$212,438	$106,219	$212,438	$424,876		
Greef-Safft	9/01/15					1,526	3,052	6,104		$231,745
	9/01/15								2,017	$154,522
Paul C.	7/27/15								6,021	$450,009
Burns	9/09/15		$0	$132,000	$264,000	$0	$33,000	$66,000		
	9/01/15					646	1,292	2,584		$98,980
	9/01/15								862	$66,038
Ross	9/09/15		$0	$0	$61,600	$26,400	$26,400	$52,800		
McGovern	9/01/15					376	752	1,504		$57,611
	9/01/15								501	$38,382
	9/01/15								1,305	$99,976

Footnotes to 2016 Grants of Plan-Based Awards Table

(1)

The date of the Compensation Committee action was the same as the date of grant for all plan-based awards, except that for (i) the September 9, 2015 grants, which were approved at the September 1, 2015 Compensation Committee meeting and (ii) Mr. Burns July 27, 2015 grant. Pursuant to his employment agreement, Mr. Burns was granted a time-based restricted stock award as of the date on which he commenced employment with the Company.

(2)

The amounts set forth below with respect to this award represent the percentage of the executive s annual incentive bonus which he or she has elected to receive in cash. With respect to Mr. McGovern s, the cash portion of his annual incentive bonus for fiscal 2016 was established in accordance with the terms pursuant to which he became employed by the Company, and was therefore reported in the Bonus column of the Summary Compensation Table on page 26 of this proxy statement, rather than as Non-Equity Incentive Plan Compensation. As a result, only the excess of any cash bonus over $61,600 would be treated as a non-equity incentive plan award.

(3)

The dollar amounts set forth below represent the percentage of the annual incentive bonus, if any, which he or she has elected to receive in RSUs under the MSPP, except that for Mr. McGovern, the Threshold and Target amounts reflect the minimum amount that she would receive in accordance with the terms under which she became employed by the Company. The share amounts represent the shares of common stock which could be earned pursuant to PSUs awarded to the executive.

(4)

The amounts set forth in this column represent the grant date fair value determined in accordance with FASB ASC Topic 718. In determining the fair value of possible future payouts under the equity incentive plan awards, it was assumed that the target performance was achieved.

Possible Payouts Under Non-Equity Incentive Plan Awards

The amounts set forth under this heading are the amounts of annual incentive bonus that would be paid out in cash to each of the named executives for fiscal 2016 if the minimum, target and superior financial performance targets established in the Balanced Performance Plan (BPP) applicable to each named executive were met, and the executive fulfilled all of his or her strategic objectives. A more detailed description of those targets is contained under the section of the Compensation Discussion and Analysis headed Annual Incentive Bonus on page 15 of this proxy statement. The target bonus payout (including both the portion paid in cash and the portion paid in RSUs under the MSPP--see the discussion below under Estimated Possible Payouts Equity Incentive Plan) for Mr. Dunbar represents 90% of base salary, while the target bonus payout for Messrs. DeByle and Burns and Ms. De Greef-Safft is 55% of base salary. For Ms. Rosen, the target bonus is 50% of base salary and for Mr. McGovern, the target bonus is 40% of base salary. No bonus attributable to the financial performance goals will be paid unless a threshold performance target established by the Compensation Committee for a particular goal is met. If that occurs, 50% of the target bonus amount attributable to that goal (which is the percentage of the target bonus equal to the weighting given to that goal--see the discussion under Annual Incentive Bonus on page 15 of this proxy statement) will be paid. A bonus could be paid based upon success in meeting one or more of the strategic objectives, notwithstanding that none of the threshold financial performance targets are achieved.

Estimated Possible Payouts-Equity Incentive Plan

The amounts set forth under this heading show three separate non-equity incentive awards. First, the dollar amount of an executive s annual incentive bonus that will be used to purchase restricted stock units (RSUs) under the Management Stock Purchase Program (MSPP) component of the annual incentive bonus plan, depending upon the extent to which the financial performance criteria established by the Committee are met, is disclosed. The three amounts set forth are based on the assumption that (i) minimum performance criteria are not met, (ii) target performance is reached, and (iii) the superior performance target is achieved. The RSUs purchased with the applicable dollar amounts will be bought at a 25% discount from the lower of the closing price of the Company s stock on the last day of the fiscal year for which the bonus is earned or the date on which the shares are purchased, which is generally on or shortly prior to the 75^{th} day after the last day of such fiscal year. Delivery to the executives of shares converted from the RSUs on a one for one basis will occur three years after the date of purchase, unless the executive dies, becomes disabled or retires prior to the end of the three-year period, in which case the RSUs will immediately vest and be paid in shares of stock. Dividends on the RSUs, which are payable at the same rate as for all issued and outstanding stock of the Company, will accrue and be paid to the executives upon vesting.

Second, the amount set forth under this heading shows the number of shares of Company stock that will be delivered to the named executives if the Company's performance goals established under the performance share unit (PSU) component of the 2008 Long Term Incentive Plan reach specified threshold, target and superior performance levels at the end of the performance period which began on July 1, 2015 and ends on June 30, 2016. The levels are disclosed in the subsection of the Compensation Discussion and Analysis headed Performance Share Units under the section headed 2008 Long Term Incentive Program on page 19 of this proxy statement. No shares will be delivered unless the threshold performance level is reached. Similarly, in no event will a greater number of shares than the number shown for attaining the superior performance level be delivered, even if actual performance exceeds that level. Shares earned under the awards will be paid in three equal annual installments, with the first installment paid as of the date when the Compensation Committee certifies the extent to which the performance goals were met for the performance period, and the remaining two installments paid as of the next two anniversary dates of the end of the performance period. Executives who are not employed by the Company at the time when shares are earned (or the anniversary date thereafter, where applicable) shall forfeit their right to those shares.

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The number of shares to be delivered pursuant to the PSU awards if target performance is met, plus the number of shares of time-based restricted stock awarded to the named executives (see the All Other Stock Awards subsection below) on the same date (awards of both were made on the day they are approved by the Compensation Committee), have a grant date fair value, based upon the closing stock price on the date the awards were made of 200% of base salary for Mr. Dunbar, 125% for Mr. DeByle, 75% for Ms. Rosen, 100% for Ms. De Greef-Safft, 55% for Mr. Burns and 40% for Mr. McGovern.

All Other Stock Awards

The amounts set forth under this heading disclose shares of time-based restricted stock awarded to the named executives under the long-term incentive program. These shares will vest three years from the date of the award. During the three-year period, executives shall have voting rights and shall accrue dividends on the shares, which shall be paid in cash at the end of the three-year period. Executives will forfeit the right to receive the shares if their employment terminates prior to the end of the three-year period, unless termination is the result of death, disability or retirement, in which case all restricted stock awarded to the executive will immediately vest as of the date of such occurrence. The grant date fair value of these shares is the closing price of the Company s stock on the date when they are granted times the number of shares granted.

In addition, an award of time-based restricted stock was made to each of Mr. Burns and Mr. McGovern as of July 27, 2015 and September 1, 2015, respectively, pursuant to their respective commencement of employment with the Company. Mr. Burns award, which was valued at $450,009, will be paid as follows: 2007 shares on July 27, 2016; 2,007 shares on July 27, 2017; 1,338 shares on July 27, 2018 and 669 shares on July 27, 2019, provided that Mr. Burns remains employed as of such date. Mr. McGovern s award, which was valued at $99,976, will be paid in on September 1, 2018, provided that Mr. McGovern remains employed as of such date.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information with respect to outstanding equity awards at June 30, 2016 to the named executive officers other than Ms. Rosen. Ms. Rosen retired on April 15, 2016 and all unvested shares to which she was entitled accelerated vesting became vested as of that date. As of June 30, 2016 she held no unvested shares. The Company has not awarded stock options since fiscal year 2003, and there are no outstanding option awards to report.

	Stock Awards			
	Number of Shares or Units of Stock that have Not Vested	**Market Value of Shares or Units that have Not Vested**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or other rights that have Not Vested**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or other rights that have Not Vested**
Name	**(#)(1)**	**($) (2)**	**(#) (3)**	**($) (4)**
David Dunbar				

	39,405	$2,814,995	8,796	$181,725
Thomas D. DeByle	15,778	$963,259	3,410	$70,451
Anne De Greef-Safft	7,774	$597,414	3,428	$70,822
Paul C. Burns	7,564	$625,013	1,065	$22,003
Ross McGovern	2,202	$181,951	929	$19,193

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(1)

The following table sets forth the vesting dates for the unvested shares awarded to each named executive:

	David Dunbar	**Thomas D. DeByle**	**Anne De Greef-Safft**	**Paul C. Burns**	**Ross McGovern**
7/27/16 (a)	0	0	0	2,007	0
8/29/16 (b)	6,614	2,672	0	0	0
9/06/16 (c)	0	2,221	0	0	0
1/26/17 (d)	0	0	1,697	0	0
6/30/17 (e)	5,057	1,436	0	0	0
6/30/17 (f)	3,488	990	796	340	198
7/27/17 (a)	0	0	0	2,007	0
9/02/17 (g)	6,484	2,493	0	0	0
9/09/17 (h)	4,360	3,110	0	0	0
1/26/18 (d)	0	0	1,696	0	0
6/30/18 (f)	3,489	992	798	341	198
7/27/18 (a)	0	0	0	1,338	0
9/01/18 (i)	0	0	0	0	1,305
9/01/18 (j)	6,522	2,507	2,017	862	501
9/09/18 (k)	3,391	1,357	770	0	0
7/27/19(a)	0	0	0	669	0
TOTAL	39,405	15,778	7,774	7,564	2,202

(a)

These are shares of restricted stock granted to Mr. Buns at the time of his commencement of employment on July 27, 2015.

(b)

These are shares of restricted stock granted to the executives on August 29, 2013 (as of January 20, 2014 in the case of Mr. Dunbar).

(c)

These amounts represent RSUs that were purchased by executives with the portion of their annual incentive bonuses for fiscal year 2013 which they elected to use to purchase RSUs under the MSPP. The RSUs were purchased on September 6, 2013, when the cash portion of the fiscal 2013 bonus was paid.

(e)

These are shares of restricted stock granted to Ms. De Greef-Safft at the time of her commencement of employment on January 26, 2015.

(i)

These shares were earned pursuant to a PSU award made on September 2, 2014. The PSUs are converted into shares of common stock, the number of which depends upon the extent to which financial performance for the fiscal year ended June 30, 2015 met targets set by the Compensation Committee on September 2, 2014. The shares earned as of the end of the performance period vest in three installments, the first on the last day of the performance period, and the second two on the first and second anniversary dates thereafter.

(f)

These shares were earned pursuant to a PSU award made on September 1, 2015 The PSUs are converted into shares of common stock, the number of which depends upon the extent to which financial performance for the fiscal year ended June 30, 2015 met targets set by the Compensation Committee on September 1, 2015. The shares earned as of the end of the performance period vest in three installments, the first on the last day of the performance period, and the second two on the first and second anniversary dates thereafter.

(g)

These are shares of restricted stock granted to the executives on September 2, 2014.

(c)

These amounts represent RSUs that were purchased by executives with the portion of their annual incentive bonuses for fiscal year 2014 which they elected to use to purchase RSUs under the MSPP. The RSUs were purchased on September 9, 2014, when the cash portion of the fiscal 2014 bonus was paid.

(i)

These are shares of restricted stock granted to Mr. McGovern per his employment agreement on September 1, 2015.

(j)

These are shares of restricted stock granted to the executives on September 1, 2015.

(h)

These amounts represent RSUs that were purchased by executives with the portion of their annual incentive bonuses for fiscal year 2015 which they elected to use to purchase RSUs under the MSPP. The RSUs were purchased on September 9, 2015, when the cash portion of the fiscal 2015 bonus was paid.

(2)

The value shown in this column is calculated by multiplying each named executive's aggregate shares as shown in the immediately preceding column by the closing price of the Company's stock on June 30, 2016 ($82.63), reduced by the amount paid pursuant to the MSPP for RSUs purchased using a portion of the executive s annual incentive bonuses for fiscal years 2013, 2014, and 2015. (See footnotes (c), (h) and (k) to the table set forth above under footnote (1)).

(3)

In accordance with SEC regulations, the number shown in this column represents the number of RSUs that would be earned by each executive under the MSPP for FY 2016 if the superior financial performance target under the annual incentive bonus plan was met, and if the executive fulfilled all of his or her strategic objectives. The number of shares is determined using 75% of the closing price of the Company s stock on the last day of fiscal 2016 ($82.63). The annual incentive bonus actually earned by each executive is determined after the end of the fiscal year, when the Compensation Committee determines the extent to which the financial performance targets were met and the extent to which each executive met his or her strategic objectives. Once the annual incentive bonus is determined, RSUs are purchased with the percentage of such bonus that each executive elected prior to the beginning of the fiscal year to use to purchase stock under the MSPP. The shares are purchased at a 25% discount from the lower of the closing stock price on the last day of the fiscal year or the date on which the shares are purchased (which is generally on or shortly prior to the 75th day following the last day of the fiscal year). The actual number of shares purchased will be reflected in the table for the next fiscal year.

(4)

The value shown in this column is calculated by multiplying each executive s aggregate shares as shown in the immediately preceding column by the closing price of the Company s stock on June 30, 2016 ($82.63), reduced by the amount paid pursuant to the MSPP for RSUs purchased using a portion of the executive s annual incentive bonus for fiscal year 2016.

The following table contains information regarding each named executive officer s participation in the company s Deferred Compensation Plan (the Plan). A description of the Plan and its material features follows the table.

NON-QUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions In FY 2015 ($) (1)	Registrant Contributions In FY 2015 ($) (2)	Aggregate Earnings In FY 2015 ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance At 6/30/15 ($)
David Dunbar	49,067	49,067	(749)	0	201,534
Thomas D. DeByle	13,459	13,459	(1,084)	0	220,904
Deborah A. Rosen	10,476	34,883	687	0	469,713
Anne De Greef-Safft	31,165	8,934	1,375	0	41,474

Paul C. Burns	0	0	0	0	0
Ross McGovern	0	0	0	0	0

(1)

The amount shown in this column is included in the amount shown in the Summary Compensation Table in the column captioned Salary.

(2)

The amount shown in this column is included in footnote (6)(ii) to the Summary Compensation Table and is included in the column of that table captioned All Other Compensation.

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STANDEX DEFERRED COMPENSATION PLAN

Effective January 1, 2008, the Retirement Plans Committee of our Board of Directors formally adopted the Standex Deferred Compensation Plan (the Plan). The Plan was adopted in conjunction with the freezing on December 31, 2007 of the Standex Retirement Plan, a tax-qualified defined benefit pension plan, and the Standex Supplemental Retirement Plan, a non-qualified defined benefit pension plan which is designed to provide pension benefits based on compensation in excess of the compensation limit, such that a participant will be entitled to a total pension calculated in accordance with the formulas contained in the Standex Retirement Plan, without regard to the compensation limit.

The Plan, a top hat plan under the regulations of the U.S. Department of Labor, is an unfunded plan maintained for the purpose of permitting a select group of management or highly compensated employees, as defined in the Employee Retirement Income Security Act of 1974, to defer up to 50 percent of their base salaries and 100 percent of their annual bonuses, except that no portion of their compensation up to the compensation limit under Section 401(a)(17) (the compensation limit) of the Internal Revenue Code (the Code) may be deferred under the Plan. That compensation limit for 2016 is $265,000. For each Plan Year (January 1 December 31), the Company shall make a matching contribution on behalf of each participant who defers compensation equal to:

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100% of the amount the participant elects to defer that does not exceed 3% of the participant s compensation (total salary plus annual incentive paid during the Plan Year) (Compensation); plus

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50% of the participant s deferrals that exceed 3% but do not exceed 5% of the participant s Compensation.

The Company also makes two types of employer contributions to the participant s account, also in accordance with the formulas contained in the Standex Retirement Savings Plan, without regard to the compensation limit: a 1% contribution on all earnings in excess of the compensation limit, and an age-based contribution. The age-based contribution is limited to those who worked at a location offering the Standex Retirement Plan, who were at least age 40 and actively employed on December 31, 2007. This age-based contribution will be contributed entirely to the Standex Deferred Compensation Plan for a select group of employees due to statutory limitations imposed by nondiscrimination testing requirements.

Age as of 12/31/2014	Contribution as a % of Compensation
Under 40 years	0%
40 - 44	1%
45 49	3%
50 54	6%

55 and older	7%

Each year by December 31st, participants can elect to defer salary that would otherwise be paid during the next calendar year and to defer any annual incentive payment. All deferral elections are irrevocable.

Participants shall obtain a return on amounts deferred which equals the investment performance of specific investments selected by participants from an array of investment options offered under the Plan. The options are substantially similar to those offered under the Company s Retirement Savings Plan, a 401(k) plan offered to a broad range of salaried employees. All of the named executives are eligible to participate in the Plan. Participants are 100% vested in all amounts deferred and in all amounts credited to the participant s account attributable to Company contributions.

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The amounts deferred will not be set aside in separate accounts for each of the participants in the Plan, but the total amounts deferred by all participants will be deposited into a grantor trust established under subpart E, part 1, subchapter J, chapter 1, subtitle A of the Code. The assets of the grantor trust will be subject to the claims of the Company s general creditors in the event of the insolvency of the Company, but would not otherwise be available to the Company.

Distribution of all amounts deferred, including investment gains and losses and Company matching contributions, will be made in accordance with the distribution elections made by participants prior to the actual deferral of any compensation. A participant may elect the timing and form for the payment of benefits, provided that account balances of $10,000 or less will be distributed in a lump sum. Generally, a participant will receive disbursements of deferred amounts upon termination of service, or at a scheduled in-service withdrawal date chosen by the participant. Upon termination of service, distributions of a participant s account may be made in annual, quarterly or monthly installments over a specified number of years or in a single lump sum. The Plan is intended to comply with Section 409A of the Code. Under Section 409A, the payment date of deferred compensation will be delayed for six months for any named executive. Participants are permitted to withdraw amounts deferred for unforeseen emergencies and, if this occurs, the participant s deferral election for the remainder of the Plan year will be cancelled. Distributions of the remaining vested balance of each participant s account shall automatically be paid as a lump sum payment upon the occurrence of a change in control.

STOCK VESTED DURING THE FISCAL YEAR

The following table sets forth certain information with respect to shares of restricted stock, restricted stock units purchased through the Management Stock Purchase Program (MSPP), and stock earned pursuant to the award of performance share units which vested during the fiscal year ended June 30, 2016, with respect to the named executives.

Name	**Number of Shares Acquired On Vesting (#)**	**Value Realized On Vesting ($) (1)**
David Dunbar	21,030	$1,595,385
Thomas D. DeByle	11,773	$906,516
Deborah A. Rosen	12,360	$965,391
Anne De Greef-Safft	1,697	$120,911
Paul C. Burns	0	0
Ross McGovern	0	0

(1)

The value realized represents the fair market value of the Company s shares on the vesting date.

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PENSION BENEFITS

Ms. Rosen is a participant in the Standex Retirement Plan and the Standex Supplemental Retirement Plan. Messrs. Dunbar, DeByle, Burns and McGovern and Ms. De Greef-Safft first became employed by the Company after January 1, 2008, the date on which the two plans were frozen as to future benefit accruals and new participants.

Both the Retirement Plan and the Supplemental Retirement Plan were frozen as of December 31, 2007, such that no additional pension benefits will be accrued for service after that date, and no employees who first became employed by the Company after that date will become participants in the Plan. As of January 1, 2008, the Standex Retirement Savings Plan was enhanced. A description of the enhancement is set forth under Standex Deferred Compensation Plan beginning on page 34 of this proxy statement.

The Standex Retirement Plan is a tax-qualified defined benefit pension plan which covers the majority of our salaried employees who first became employed by the Company prior to January 1, 2008. The plan provides a retirement benefit that is determined under a benefit formula. For Ms. Rosen, the formula is 1.35% times years of service times average compensation. Average compensation is equal to a participant s average monthly compensation during the three consecutive calendar years prior to calendar year 2008 during which the participant s compensation is the highest. For this purpose, compensation includes base salary and annual bonus, and compensation in any year is limited by the compensation limit under Section 401(a)(17) of the Internal Revenue Code (the Code) ($265,000 for 2016). The normal retirement benefit is payable at age 65 in the form of a single life annuity. Other forms of payment which may be elected, all of which are actuarially equivalent to the normal retirement benefit, are qualified 50%, 66 2/3% and 100% joint and survivor annuities and a ten-year certain and continuous annuity. Participants who have at least ten years of service may commence receipt of the pension benefit as early as age 55, in which case their benefit will be reduced by 3% for each year their benefit begins before age 65. Payments from the Retirement Plan are made from a separate trust, the assets of which may be used only to provide pension benefits to plan participants.

The Standex Supplemental Retirement Plan is a non-qualified plan, which restores the pension benefits which would otherwise have been payable under the Retirement Plan, but for the compensation limits imposed under the Internal Revenue Code. The benefit formula is the same as that in the Retirement Plan. Benefits under the Supplemental Retirement Plan will be payable as a temporary life annuity for not longer than 10 years or as a temporary joint and 100% survivor annuity for not longer than 10 years. In addition, the pension benefit will commence beginning as of the later of age 55 or six months after termination of employment. The pension benefit payable from the Supplemental Retirement Plan is made from the general assets of the Company.

The present value of Ms. Rosen s accumulated benefits, updated to reflect her actual benefit election and commencement date, is shown in the Pension Benefits Table below and has been calculated using the same assumptions as are used in determining the SFAS 87 pension disclosure. Also, the present value is determined using a 4.0% discount rate and the RP-2014 Healthy Mortality table, with separate rates for males and females projected generationally using an adjusted form of Scale MP-2014, over a 15-year convergence period from 2007 to 2022 with an ultimate improvement rate of .75% (up to age 85), and with no pre-retirement mortality.

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PENSION BENEFITS TABLE

Name	Plan Name	# Years of Benefit Service	Present Value of Accumulated Benefits	Payment During Fiscal 2016
Deborah A. Rosen	Retirement Plan	23	$928,251	$4,322
	Supplemental Retirement Plan	23	$600,481	$0

Messrs. Dunbar, DeByle, Burns and McGovern and Ms. De Greef-Safft became employed by the Company after December 31, 2007, when accruals under the above plans were frozen, and as a result, they are not accruing benefits under those plans.

Certain Post-Termination Payments and Employment Agreements

We have entered into employment agreements with our named executive officers. The agreement with Ms. Rosen expired when she retired from employment on April 15, 2016. The agreement for Mr. Dunbar provides for continuing employment in his present capacity, or a substantially equivalent position, through December 31, 2016, unless he dies, becomes disabled, or materially breaches the agreement. Mr. Dunbar s agreement shall automatically renew for additional three-year periods unless notice of an intent not to renew is given by either party at least thirty days prior to the end of the initial or any renewal term. The agreements for the other named executives are one year in duration, except for Mr. Burns and Mr. McGovern s initial terms of approximately eleven months, and will renew automatically for successive one-year terms, except that either party may give thirty days notice of its desire to terminate the agreement. The agreements provide for continuation of certain compensation and benefits upon the occurrence of certain specified events during the periods when the agreements are in effect. Those occurrences, and the compensation and benefits which shall be paid following such events, are described in the paragraphs below. In addition, the terms of the stock awards made to the executives provide for accelerated vesting of the awards upon termination for certain specified reasons. Those situations are also described below.

Acceleration of Stock Awards

In the event of the death, long-term disability or retirement of the executive (retirement means termination of employment after reaching age 55 with ten or more years of service, or reaching age 65, regardless of the number of years of service), under the terms of the awards made to the executive, the unvested restricted stock awarded, consisting of time-based restricted stock awarded under the long-term incentive program, and restricted stock units purchased under the MSPP with a portion of the executive s annual incentive bonus, will immediately vest. The number of unvested shares that would become vested if the executive s employment terminated due to death, disability or retirement, and the value of such shares as of June 30, 2016, is as follows:

	Number of Unvested Shares	Value on June 30, 2016
David Dunbar	20,887	$1,725,893
Thomas D. DeByle	14,360	$1,186,567
Anne De Greef-Safft	6,180	$510,653
Paul C. Burns	6,883	$568,742
Ross McGovern	1,806	$149,230

An executive who is granted performance share units and who dies, retires or becomes disabled during the performance period for which any shares are earned will be entitled to a pro rata portion of the first installment of shares the executive would have earned pursuant to the grant, had he or she continued to be employed through the entire performance period, equal to the percentage of the performance period during which he or she was employed. As an example, an executive who died, became disabled or retired on December 31 would be entitled to 50% of whatever number of shares would have been delivered as a first installment of the number of shares earned as of the end of the performance period. The shares will be delivered to the executive (or to his or her estate in the event of death) at the same time as such shares would have been delivered had he or she remained employed through the entire performance period. In such a case, the executive shall not be entitled to the second and third installments, which otherwise would have been delivered on the next two anniversary dates after delivery of the first installment.

In the event of death, retirement or disability during either of the two fiscal years following the performance period for which any shares are earned pursuant to a grant of performance share units, the executive shall be entitled to a pro rata portion of the installment of shares which is scheduled to vest at the end of that year, based on the portion of the year in which the executive remained employed. Delivery of the shares shall be made at the same time as such shares would have been delivered had the executive been employed at the end of the year. Installments that would vest at the end of the following fiscal year are forfeited. Executives shall not be entitled to a pro rata portion of an installment upon voluntary or involuntary termination for a reason other than death, disability or retirement, except following a change in control of the Company.

Employment Agreements Death, Voluntary Termination or Material Breach

In the event of the executive s death, voluntary termination of employment, or involuntary termination due to a material breach of the agreement, which means 1) an act of dishonesty which is intended to enrich the executive at the Company s expense, or 2) the willful, deliberate and continuous failure of the executive to perform his or her duties after being properly demanded to do so, the executive shall not be entitled under the employment agreement to any salary or benefits continuation beyond the date of termination. The same applies to termination of the executive s employment due to a disability which the Company determines renders him or her unable to perform the services required under the agreement, except that termination for such reason will not be effective until the disability has continued for a period of at least six months.

Employment Agreements Involuntary Termination

In the event of the involuntary termination of an executive's employment, for a reason other than death, disability, a material breach or following a change in control, the agreements provide that the executive shall continue to receive his or her then current base pay for a period of one year (except that payment shall be made for two years, in the case of Mr. Dunbar, with the amount which equals twice the compensation limit set forth in section 401(a)(17) of the Code ($265,000 for 2016) payable over a two-year period, and the remainder payable in a lump sum immediately upon termination). In addition, medical and dental insurance coverage shall be continued for Mr. Dunbar for up to one year. At the base salaries of the named executives as of June 30, 2016, and the cost of continuing medical and dental coverage to Mr. Dunbar for one year at current costs, the amounts payable to each executive in such circumstances would be as follows:

	Severance Pay	Medical and Dental Coverage
David Dunbar	$1,514,100	$19,404
Thomas D. DeByle	$384,190	$0
Anne De Greef-Safft	$386,250	$0
Paul C. Burns	$300,000	$0
Ross McGovern	$240,000	$0

Employment Agreements Change in Control

The employment agreements also provide for the making of certain payments to the named executives in the event of the involuntary termination of the executive's employment after a change in control of the Company (which is defined to mean a transaction reportable under Item 6(e) of Schedule 14A of Regulation 14A of the Securities Exchange Act of 1934), or the executive's resignation following a change in control for specified good reasons, including adverse changes in the executive's general area of responsibility or reporting relationship, title or place of employment, or diminution of the executive's base salary, incentive compensation opportunity or benefits. The compensation and benefits to which Mr. Dunbar is entitled following such an event are as follows: (a) immediate lump sum payment equal to three times the sum of (i) current base salary, and (ii) the higher of target annual incentive bonus as of the date immediately prior to the change in control or the annual incentive bonus most recently paid (including the portion used to purchase restricted stock units under the MSPP); (b) immediate 100% vesting in all unvested equity benefits, including all time-based restricted stock (which includes any increase in the value of restricted stock units purchased under the MSPP with a portion of an executive s annual bonus over the price paid for such units) and performance share units; and (c) continuation at the employer's expense of all life insurance and medical plan benefits for three years, as if he was still an employee during the three-year period. In the event that the payment to which Mr. Dunbar is entitled upon such an event triggers an excise tax payable under sections 280G and 4999 of the Code, the amount of the payment will be reduced to the maximum amount that can be paid without triggering the excise tax payment requirement.

The compensation and benefits payable to Messrs. Burns and McGovern and Ms. De Greef-Safft under their agreements shall be the same, except that the lump sum severance payment shall be based on one year s salary and bonus and medical benefits and life insurance shall be continued for one year. Mr. DeByle s agreement is the same as those of Mr. Burns and Mr. McGovern and Ms. De Greef-Safft, except that it provides for a lump sum severance payment equal to three years base salary plus three times the most recent annual bonus paid to him. No right to an excise tax gross-up is provided in any executive s agreement.

An executive who is eligible to retire and commence receipt of a pension under the Company s defined benefit pension plans as soon as his or her employment terminates (or six months thereafter, if such payments are determined to be subject to Section 409A of the Code) would be able to receive both severance and pension payments.

If termination were to have occurred on June 30, 2016, upon a change in control occurring on the same date, here is the value of what each of the named executives would have received:

	Severance	Acceleration Of Unvested Stock Awards (1)	Benefits (2)
David Dunbar	$4,315,185	$4,100,057	$69,249
Thomas D. DeByle	$1,786,455	$1,500,602	$22,212
Anne De Greef-Safft	$598,688	$683,184	$16,193
Paul C. Burns	$465,000	$661,618	$20,981
Ross McGovern	$328,500	$203,270	$20,665

(1)

This amount represents the value received upon acceleration of the vesting of all unvested restricted stock, restricted stock units, and unvested shares earned pursuant to previously-granted performance share units under the Company s 2008 Long Term Incentive Plan. The amounts do not include the price paid for restricted stock units purchased pursuant to the MSPP with a portion of the executive s annual incentive bonuses, because the executive would be entitled to the price paid for those shares as of June 30, 2016 without a change in control event.

(2)

The amounts represent the compensation cost to the Company of providing continued medical and life insurance benefits to the named executives for three years after June 30, 2016, based on 2016 premium costs and assuming medical cost levels over the three-year period (one year in the case of Messrs. DeByle, Burns and McGovern and Ms.

De Greef-Safft), using the medical inflation methodology which the Company has used in valuing the cost of its retiree medical benefit obligations under FAS 106. The Company does not provide retiree medical benefits to its salaried retirees.

OTHER INFORMATION CONCERNING THE COMPANY

BOARD OF DIRECTORS AND ITS COMMITTEES

Five meetings of the Board of Directors were held during the fiscal year ended June 30, 2016. Each incumbent director of the Company attended at least 75% of the meetings held during the year by the Board and all committees on which the director served. The Board operates pursuant to Corporate Governance Guidelines which set forth the policies and procedures for the effective performance of management duties by the Board of Directors. These Guidelines can be found on the Company s website at www.standex.com under the Governance tab. Please see page 55 for information about the procedure for requesting a copy.

Compensation Committee

The Board has a Compensation Committee consisting of Messrs. Cannon (Chairman), Chorman, Edwards and Muller, all of whom are independent under NYSE standards. During fiscal 2016, the Committee held five meetings, and communicated regularly in the interim. Each of the Committee members attended all meetings. The Company charges the Compensation Committee with discharging the responsibilities of the Board of Directors relating to compensation of the Company s CEO and senior management; administering the Amended and Restated 2008 Long Term Incentive Plan; and reviewing and approving executive and senior management compensation in relation to the short and long term goals of the Company.

The Committee operates pursuant to a written Charter, which may be reviewed on the Company s website at www.standex.com under the Governance tab. Please see page 55 for information about the procedure for requesting a copy.

The Committee has the authority to retain consultants or other legal or accounting advisors from time to time in the Committee s discretion to assist in the evaluation of executive and senior management compensation. Such engagements shall be on such terms as the Committee deems appropriate. The Chief Executive Officer and the Vice President of Human Resources assist the Committee to a limited extent in determining or recommending the amount or form of executive and director compensation, as described on page 14 of this proxy statement.

For further information regarding the Committee s processes and procedures for the consideration and determination of executive and director compensation, please see the Compensation Discussion and Analysis, beginning on page 11 of this proxy statement.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee (Messrs. Cannon, Chorman, Edwards or Muller) were at any time during fiscal 2016 or in any prior period an officer or employee of the Company, nor did they serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company s Compensation Committee or Board of Directors.

Audit Committee

Messrs. Cannon, Chorman, Fenoglio, Fickenscher, and Hansen served during fiscal year 2016 on the Company s Audit Committee. From July through October of the fiscal year, Mr. Fenoglio served as Chair of the Committee. Mr. Hansen has been designated Chair for periods after October, 2015. All of these directors are independent as defined by the SEC and NYSE rules, and all have been designated as audit committee financial experts as defined by the NYSE rules. During fiscal 2016, the Committee met on four occasions. Each of the Committee members attended all of the meetings of the Committee. The Audit Committee reviews, both prior to and after the audit, the Company s financial reporting function, the scope and results of the audit performed (or to be performed) by the independent auditor of the Company and the adequacy of the Company s internal controls, and reports thereon to the Board of Directors.

During the 2014 fiscal year, the Committee, in consultation with executive financial management at the Company, invited a competitive process to review the appointment of the Company s independent registered public accounting firm for the upcoming fiscal year. As a result of this process and following careful deliberation, on August 29, 2014, the Committee notified the Company s prior independent auditor, Deloitte & Touche LLP, that it had determined to dismiss Deloitte & Touche LLP as the Company s independent registered public accounting firm, effective immediately. On the same date, the Committee authorized entering into an engagement letter with Grant Thornton LLP. Grant Thornton officially became the Company s independent registered public accounting firm on September 4, 2014, as reflected in the Company s Form 8-K filed on the same day.

The Committee operates pursuant to a Charter, which may be found on the Company s web site at www.standex.com under the Governance tab. The report of the Committee for the past fiscal year appears below. Please see page 55 for information about the procedure for requesting a copy.

Audit Committee Report

The Audit Committee of the Board of Directors (the Committee) is entirely made up of independent directors as defined in the NYSE listing standards. It operates pursuant to a written charter, which may be reviewed on the Company s website at www.standex.com under the Governance tab.

The Committee reviews Standex s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements and for the public reporting process. The independent auditor is responsible for expressing opinions on the conformity of the Company s audited financial statements with U.S. generally accepted accounting principles and on management s assessment of the effectiveness of the Company s internal control over financial reporting. The Audit Committee s responsibility is to monitor and oversee these processes on behalf of the Board of Directors.

The Audit Committee pre-approves all audit and non-audit services performed by the independent auditor, as well as respective fees. The Audit Committee will periodically grant general pre-approval of certain audit and non-audit services. Any other services must be specifically approved by the Audit Committee. In periods between Audit Committee meetings, the Audit Committee may delegate authority to one member to pre-approve additional services, and such pre-approvals are then communicated to the full Audit Committee.

In this context, the Committee has reviewed and discussed with management and the independent auditor the audited financial statements, management s assessment of the effectiveness of the Company s internal control over financial reporting, and the auditor s evaluation of the Company s internal control over financial reporting. The Committee has discussed with the independent auditor the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended and adopted PCAOB Rule 3200T, *Communication With Audit Committees*. In addition, the Committee has received from the independent auditor the written disclosures required by the PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence* and by applicable requirements of the Public Company Accounting Oversight Board, and discussed with it the independence from the Company and its management. Finally, the Committee has considered whether the independent auditor s provision of non-audit services to the Company is compatible with maintaining the auditor s independence.

In reliance on the reviews and based upon the discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended June 30, 2016, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Thomas J. Hansen, Chairman

Charles H. Cannon, Jr.

Thomas E. Chorman

William R. Fenoglio

Gerald H. Fickenscher

Corporate Governance/Nominating Committee Report

The Corporate Governance/Nominating Committee of the Board of Directors is comprised of Messrs. Chorman, Edwards, Fickenscher, Hogan and Muller, all of whom the Board determined to be independent within the meaning given to that term under the rules of the NYSE. From July through October of the fiscal year, Mr. Muller served as Chair. For all periods after October, Mr. Chorman has been designated as Chair. The Corporate Governance/Nominating Committee is responsible for developing, reviewing, maintaining and recommending to the Board principles and guidelines of corporate governance for the operations of the Board and ensuring the Board s compliance with applicable regulations and standards of the SEC and NYSE. In this responsibility, the Committee is guided by the Corporate Governance Guidelines, which are periodically reviewed. The Guidelines are accessed at www.standex.com under the Governance tab. Please see page 55 for information about the procedures for requesting a copy.

The Committee also recommends to the Board candidates for consideration for Board membership; for annual election of Company officers; and for membership on the standing committees of the Board.

The Committee Charter describes its duties and responsibilities in greater detail. Stockholders and others may access the Charter through the Governance tab of the Company s website at www.standex.com. Please see page 55 for information about the procedures for requesting a copy.

During fiscal year 2016, the Committee held four meetings, and communicated regularly during the interim. Each of the Committee members attended all of the meetings of the Committee.

Process for Identifying and Evaluating Candidates for Director, and Diversity Considerations

The Corporate Governance/Nominating Committee considers candidates for Board membership suggested by its members and other directors, as well as management and shareholders. The Committee may also retain a third party executive search firm to identify candidates. When such a search firm is engaged, the Committee sets the fees and scope of engagement. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Committee in writing using the procedures described below under *Communications with Directors,* attaching any supporting material the shareholder considers appropriate. Nominees recommended by shareholders are subject to the same evaluation process described herein as all other prospective candidates.

The Committee will review and evaluate each candidate it believes merits serious consideration, taking into account all available information concerning the candidate, the qualifications for Board membership established by the Committee and described below, the existing composition and mix of talent and expertise on the Board, and other factors it deems relevant.

The Committee evaluates each prospective candidate against the standards and qualifications set forth in the Company s Corporate Governance Guidelines (found at the Company s website), as well as by criteria of preferred experiences and qualities established by the Committee that would best assist the Company at the particular time in question. The Committee strives to identify nominees whose character, demonstrated teamwork, judgment and experience will best enable them to execute the strategic plan of the Company, in the interests of shareholders. The qualifications the Committee prefers include various professional experience requirements (including familiarity with manufacturing, international business and financial accounting and controls) and personal qualities (including integrity and judgment), as well as the capacity and desire to make a significant time commitment to the Board, and a commitment to become a meaningful shareholder.

In addition, as part of this process, the Committee developed a Board self-evaluation questionnaire which measures the current configuration of the Board relating to skills, experience and background. The matrix further probes the areas for improvement, Board structure and committee configuration. This annual self-evaluation assists in the evaluation of the future needs of the Board, and the qualifications to be sought in potential Board candidates. This matrix is examined in relation to the ongoing execution of corporate strategy, to aid the Committee in identifying candidates who can assist the Company with the successful performance of its strategic goals. The Committee updates the matrix annually, as well as before any search for director candidates, based on expected retirements, any gaps in current needs, and the strategic direction of the Company.

Directors submit completed questionnaires to the Chief Legal Officer, who summarizes the results without attribution, and forwards the summary to the Committee chairman, who analyzes the data and reports the results to the Board and to each Committee. The full Board discusses summaries of the assessments and Committee evaluations with a view to enhancing the overall performance of the Board.

The Committee considers all of the above-mentioned factors and weighs whether a candidate s experience, character and commitment would complement the other directors skills and abilities as they relate to service on the Board. In this way, the Committee seeks diversity of perspective and insight, considering how each individual director can contribute to and enhance the overall effectiveness of the Board. Thus, diversity is reviewed in a comprehensive context, rather than on the basis of categorical allotment. The Committee is mindful of this diversity consideration throughout the year, and assesses its effectiveness through the annual director evaluations described above. The Committee is particularly mindful that it must seek and retain director candidates whose skills complement the needs presented by the domestic and international, multi-product, engineered manufacturing operations of the Company, the analytical financial expertise associated with such operations, and the strategic plans of the Company.

In connection with this evaluation, if warranted, the Committee decides whether to interview the prospective nominee and invites the President/CEO/Chairman of the Board, the Lead Director and any interested Committee member to meet with prospective candidates. The Committee Chairman conducts due diligence and checks each candidate s references. After completing this evaluation and interview process, the Committee forwards all pertinent materials and makes a recommendation to the full Board in advance of a meeting in which the Committee will propose a candidate for Board action. The Board then acts on the appointment of the candidate or nomination for consideration of shareholders.

Code of Business Conduct and Ethics

The Company has both a Code of Business Conduct and a Code of Ethics for Senior Financial Management, both of which may be found on the Company s website under the Governance tab at www.standex.com. Please see page 55 for information about the procedure for requesting a copy. Further, the Company continues to utilize an on-line interactive compliance training program which encompasses a wide variety of subject matters, including Code of Conduct; preventing discrimination and harassment; Foreign Corrupt Practices Act (FCPA); Sarbanes-Oxley essentials; conflict minerals; and fraud

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awareness and detection. New training courses are assigned regularly to employees to ensure ongoing awareness of governance and ethical issues. Further, the programs can be customized by Company divisions to pinpoint issues that may arise in the ordinary course of business.

The Code of Business Conduct applies to all employees, officers and directors of the Company and provides that, in the conduct of all corporate activities, integrity and ethical conduct is expected. In addition, the Code of Business Conduct addresses and provides guidance on a number of business-specific issues, including but not limited to insider trading and conflicts of interest.

The Code of Ethics for Senior Financial Management applies to all officers, directors and employees who have supervisory financial duties. The Code of Ethics is intended to assist in the complete and accurate reporting of all financial transactions in compliance with applicable laws, rules and regulations.

Waivers of the requirements of the Company s Codes, if granted by the Board or the Corporate Governance/Nominating Committee, will be posted on the Company s website. No waivers were granted in fiscal 2016 or for any prior period since the Codes were adopted in 2003. Compliance is monitored by the Company s Corporate Governance Officer and the Committee, in communication with the Board and senior corporate management, as appropriate.

Executive Sessions of Independent Directors and Oversight of CEO Performance

Under the Board s Corporate Governance Guidelines, the independent directors of the Board meet in regularly scheduled executive sessions with no management directors or management present. Thomas Hansen has been designated by the independent directors as the Lead Director for such executive sessions. The Committee has adopted a list of duties to be performed by the Lead Director that are intended to encompass the important tasks of this position (see Appendix A, Corporate Governance Guidelines, found under the Governance tab at www.standex.com). The Committee believes that naming a Lead Director and enumerating the considerable responsibilities of this role promotes independent, objective oversight, and maintains an efficient communication structure between the President/CEO and the Board.

A number of Board and Committee processes and procedures provide substantial independent oversight of the performance of the CEO. These include an annual detailed evaluation of the CEO s performance against pre-determined goals, which evaluation measures numerous performance and personal bench marks (such as communication with the Board, for example); regular executive sessions of the independent directors (called and chaired by the Lead Director); and full independence of each member of the Audit, Compensation and Corporate Governance/Nominating Committees.

If any shareholder wishes to communicate any matter to the executive sessions of independent directors please forward an email regarding such communication to boardofdirectors@standex.com.

Director Attendance Policy

It is the policy of the Board, pursuant to its Corporate Governance Guidelines, that each director has a duty to attend, whenever possible, all meetings of the Board and of each Committee on which the director serves and to review in advance all meeting materials, all of which are sent electronically to each director, and are placed on a secure server for director access. In addition, each director is expected to attend the Annual Meeting of Shareholders.   In fiscal 2016, all directors attended the Annual Meeting.

Shareholder Communications with Directors

The Board of Directors welcomes input and suggestions from shareholders and all interested parties. The Board of Directors will regard all appropriate communication seriously and will promptly address it. The

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Board has adopted the following procedure for shareholders and other interested parties to contact members of the Board, its committees and the non-management directors as a group. Correspondence, addressed to any individual director, group or committee chair or the Board as a whole, should be sent to the Corporate Governance Officer, Standex International Corporation, 11 Keewaydin Drive, Suite 300, Salem, NH 03079. All parties may also communicate electronically by sending an email to boardofdirectors@standex.com. The message line should specify the individual director, committee or group that the shareholder wishes to contact.

All communication will be distributed to the Board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communication. The Corporate Governance Officer shall use discretion in declining to forward communication unrelated to the duties and responsibilities of the Board, including but not limited to communication in the nature of advertisements or promotions, employment inquiries or resumes, surveys or other forms of mass mailings. However, all communication, regardless of its nature, will be catalogued, archived and periodically reported to the Board for its information and use.

Board Leadership Structure and Role in Risk Oversight

The Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure, in order to best serve shareholders interests by ensuring an efficient, high-functioning Board. Part of this duty is determining whether the role of Chairman of the Board should be held by the CEO, or another member of the Board of Directors. This decision should be based on a thorough review of the particular composition of the Board, the individuals serving as CEO and Lead Director, and the strategic needs and opportunities of the Company as they evolve from time to time.

During the fiscal year, the Board undertook to examine a number of factors in connection with this inquiry, including the specific constitution of the Board; the capabilities and qualifications of the CEO; the responsibilities and activities of the Lead Director; the ease and candor of communication among all Board members and the CEO; the existing policies and practices that provide independent oversight of management; the ability to attract and retain qualified individuals for Board service; corporate governance practices in the industry and the Company s peer group; and such other factors as the Board may determine.

After carefully considering all facets of the determination, the Committee unanimously decided to recommend to the Board the appointment of current CEO David Dunbar as Chairman, beginning on the date of the Annual Meeting on October 27, 2016. On that date, current Chairman Roger L. Fix will resign from this role, but will continue to serve as a Director. The Board believes that this structure will add substantial strategic perspective to the Chairman s role, and will provide continuity of Board leadership.

Recognizing that the optimal Board leadership structure may vary as changing circumstances warrant, the Board shall review this determination annually, consistent with the Corporate Governance Guidelines. Maintaining a certain flexibility regarding this decision will allow the Board to review whether the execution of Company strategy, the independent oversight of senior management, and the best interests of shareholders are being optimally accomplished by having the Chairman s role held by the CEO. In the event that the Board determines that a separate leadership structure is in the best interests of shareholders and the Company, a change shall be considered.

The Board conducts risk oversight of the Company by relying on its Committee membership to receive and analyze reports and data from various Company and external sources (discussed below), and to report to the full Board for discussion and action, where necessary.

In order to conduct risk oversight of the Company, the Audit Committee regularly receives reports regarding the material risks presented by and to Company operations, and the measures being taken to manage such risk. The Corporate Risk Manager reports regularly to the Audit Committee. The Audit Committee reports as appropriate to the full Board, which monitors material risks that may impact the Company. In addition, the Board administers its risk oversight function through periodic reporting at Board meetings by members of senior management, including but not limited to the Chief Financial Officer and the President, Food Service Equipment Group. The Committee is also aided by the comprehensive enterprise risk management report provided annually by the manager of the Company s internal audit department. These presentations provide the Board with the opportunity to communicate directly and in detail with management about risks and opportunities being addressed at the operational level. Further, the Corporate Governance Officer reports to the Audit Committee quarterly, in conjunction with the corporate governance program.

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Since fiscal 2012, the Corporate Governance/Nominating Committee has mandated that each committee of the Board review its Charter annually to assess whether the risk oversight roles and responsibilities of each committee are being appropriately discharged. This exercise was undertaken in fiscal 2016. Each committee s Charter can be found on the Company web site at www.standex.com under the Governance tab.

CORPORATE GOVERNANCE/NOMINATING COMMITTEE

Thomas E. Chorman, Chairman

Jeffrey S. Edwards

Gerald H. Fickenscher

Daniel B. Hogan

H. Nicholas Muller, III

Directors Compensation

The elements of non-employee director compensation for fiscal 2016 are as follows:

- a $50,000 annual cash retainer, payable quarterly, all or a portion of which may be deferred and used to purchase RSUs pursuant to the MSPP;

- an annual restricted stock grant equal to $65,000 and valued as of the date of the Annual Meeting of Shareholders, which stock vests three years after the date of grant;

- a $16,000 cash payment per year for the Chairman of the Audit Committee;

- a $10,000 cash payment per year for the Chairman of the Compensation Committee;

-

an $8,000 cash payment per year for the Chairman of the Corporate Governance/Nominating Committee;

•

an $8,000, $5,000 and $3,000 cash payment per year to each member of the Audit, Compensation and Corporate Governance/Nominating Committee, respectively; and

•

a $50,000 cash payment per year for any non-employee Chairman of the Board, all or a portion of which may be deferred and used to purchase RSUs pursuant to the MSPP; and

•

$16,000 cash payment per year for the lead independent director.

The elements of directors compensation remained the same in fiscal 2016 as in fiscal 2015. In fiscal 2014, the elements set forth above were implemented by the Committee based upon a competitive peer assessment regarding director compensation conducted by the Committee s former independent compensation consultant. During fiscal 2016, the Committee did not believe that a subsequent independent review was necessary. For fiscal 2017 the annual cash retainer paid to non-employee directors will increase from $50,000 to $60,000, and the value of the annual restricted stock award made to non-employee directors will increase from $65,000 to $100,000. The increase is the result of a competitive assessment of the compensation paid to our directors made by the Compensation Committee, with the assistance of Meridian. The frame of reference for the assessment was a review of the compensation paid to directors of the Company s peer group adopted for fiscal 2017. See page 12 of this proxy statement, Components of Executive Compensation Program Changes for Fiscal 2017 , for a detailed description of the Company s peer group

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Under the Company s Stock Ownership guidelines, the Company requires each non-employee director to own Company Common Stock with a value of at least five times the annual cash retainer paid to each director. Until such time as a director has attained the applicable share ownership guideline, he is expected to retain at least 50% of the share units awarded to him, net of amounts required to pay taxes and exercise prices. The valuation of the Common Stock used to determine compliance with the ownership requirement is set each fiscal year and shall be based on the Company s average stock price during the fourth quarter of the prior fiscal year. All directors are presently in compliance with the guidelines.

The Company does not have per meeting fees for non-employee directors, believing that no incentives for meeting attendance should be necessary.

As an employee director, Mr. Dunbar does not receive director compensation for his service to the Board.

No retirement plan benefits or perquisites are provided to directors of the Company. Directors are not granted stock options, as the Company does not grant stock options to any person.

The following table presents the compensation the Company provided to non-employee directors for their services during fiscal 2016:

Director	**Fees Earned Or Paid In Cash ($) (1)**	**Stock Awards ($) (2)(3)**	**All Other Compensation ($) (4)**	**Total ($)**
Charles H. Cannon, Jr.	15,413	135,214	3,065	153,692
Thomas E. Chorman	68,766	65,000	1,480	135,246
Jeffrey S. Edwards	16,405	112,052	0	128,457
William R. Fenoglio	26,587	135,214	3,065	164,866
Gerald H. Fickenscher	61,000	65,000	1,480	127,480
Roger L. Fix	100,000	65,000	0	165,000
Thomas J. Hansen	13,413	135,214	445	149,072
Daniel B. Hogan	21,750	108,890	1,914	135,554
H. Nicholas Muller, III	41,492	90,448	1,842	133,782

Footnotes to Table:

(1)

This column represents the cash paid to each director pursuant to the annual cash retainer, plus fees earned for serving as Chairman of the Board, lead independent director, or as a member of or Chairman of any Committees of the Board. All or a portion of the annual cash retainer may be used, at the election of the director, to purchase restricted stock units pursuant to the MSPP. RSUs purchased under the MSPP are disclosed in the Stock Awards column.

(2)

This column represents the aggregate grant date fair value of two separate awards: (1) RSUs purchased with the portion of the director s annual cash retainer which the director elects to use to purchase RSUs under the terms of the MSPP; and (2) shares of time-based restricted stock. With respect to (1) above, the MSPP requires that prior to the beginning of the fiscal year in which the annual cash retainer is earned, directors may elect to use all or a portion of their annual cash retainer to purchase RSUs. Under the MSPP, RSUs will be purchased at a 25% discount from the lower of the closing price of the Company s stock on the last day of the fiscal year in which the cash retainer was earned or the date on which the cash portion of the annual incentive bonus is paid to an executive of the Company,

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which is generally on or shortly prior to the 75th day after the end of the fiscal year. The amounts in this column which are attributable to purchases under the MSPP are computed in accordance with FASB ASC Topic 718, using the same assumptions as are referenced in footnote (2) to the Summary Compensation Table found on page 26 of this proxy statement.

With respect to the awards of time-based restricted stock noted in (2) above, the column includes the grant date fair value of such awards for FY 2016. Grant date fair value is calculated by multiplying the number of shares of stock awarded times the closing price of the Company s stock on the date awarded, in accordance with FASB ASC Topic 718. At June 30, 2016, the aggregate number of outstanding shares of unvested restricted stock and RSUs held by each director was as follows: Mr. Cannon: 5,066; Mr. Chorman: 2,471; Mr. Edwards: 2,210; Mr. Fenoglio: 5,066; Mr. Fickenscher: 2,471; Mr. Fix: 1,783; Mr. Hansen: 4,051; Dr. Hogan: 2,940; and Dr. Muller: 3,156.

(3)

Upon the retirement of any director as a result of reaching the mandatory retirement age for service as a director, or upon a change in control of the Company, the non-vested installments of the annual restricted stock grants shall be subject to acceleration and immediate vesting.

(4)

Included in this column are the dividend equivalents that accrued during the three year vesting period for both the restricted stock grants and the restricted stock units purchased pursuant to the MSPP that vested during the fiscal year. The dividend equivalents are paid upon vesting.

PROPOSAL 2 ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934, we are asking our shareholders to approve a non-binding, advisory resolution on the compensation of the executive officers (the named executive officers) whose compensation is specifically set forth in the Summary Compensation Table and other related tables of this proxy statement (which are found beginning on page 26 of this proxy statement). The advisory vote does not address any specific element or the level of the compensation payable to any named executive officer, but rather asks shareholders to approve the total compensation payable to the named executive officers. Notwithstanding that the vote is advisory only, we will carefully evaluate the outcome of the vote and will take it into account in assessing any future changes to our compensation philosophy and programs.

The Board of Directors recommends that shareholders vote to approve the total compensation of our named executive officers, because of its belief that our executive compensation program is an important factor in driving the creation of shareholder value. The program ties a significant portion of the compensation of our named executive officers to the actual financial performance of the Company and pays a large portion of such compensation in the form of equity that cannot be immediately sold. We urge shareholders to read the Compensation Discussion and Analysis which begins on page 11 of this proxy statement, immediately following the Executive Compensation heading, and the compensation tables which follow it. They provide a thorough description of the entire program and the compensation paid under it. Here is a summary of several important facts to consider in evaluating our executive compensation:

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The program is designed 1) to attract and retain highly talented executives who have the ability to manage a diverse set of businesses that serve a variety of markets and are subject to differing business strategies, and 2) to provide those executives with incentives to meet specific financial, operational and strategic performance goals that are determined by the Compensation Committee of the Board of Directors as likely to create and sustain shareholder value.

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A significant portion of the compensation payable under the program is variable, and depends upon the performance of the Company (or in the case of non-corporate executives, the business unit of the Company for which they are responsible) over both the short and longer term.

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A significant portion of the compensation is payable in the form of Company stock, which serves to closely align the interests of our executives with those of our shareholders.

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To avoid a focus on short-term results at the expense of longer-term corporate performance, the stock payable is either forfeited if the executive leaves our employment within three years after it is granted, or is paid to the executive in equal installments over a three-year period, only if the executive remains employed at the time each installment is to be paid. This practice serves both to retain executives in the employ of the Company, and motivates them to act in the long-term interests of the Company. In addition, executives are subject to stock ownership guidelines, which limit their ability to sell shares of stock which they receive while they are employed by the Company.

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We do not provide guaranteed or minimum bonuses to our executives (except in connection with the inception of employment as set forth in any named executive officer s employment contract), and we provide only a very limited number of perquisites.

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Both the amounts and forms of our compensation are determined by an independent committee of the Board of Directors, which receives independent advice from Meridian Compensation Partners, LLC, a nationally recognized compensation consultant that performs no other services for the Company.

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The Board of Directors has the right to recover any incentive compensation paid to any executive if the Company is required to restate any financial results downward as a result of misconduct on the part of that executive.

The compensation paid to our executives for fiscal 2016 was consistent with our pay-for-performance philosophy.

The Board believes that the total compensation paid to our named executive officers is aligned with both the performance of the Company and the interests of our shareholders. As a result, the Board recommends that shareholders approve the following non-binding, advisory resolution:

RESOLVED, that the shareholders of Standex International Corporation approve, on an advisory basis, the compensation of the Company s named executive officers as described in this Proxy Statement, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, all under the heading titled Executive Compensation.

The Board of Directors unanimously recommends a vote FOR the foregoing Proposal.

PROPOSAL 3 APPROVAL OF PERFORMANCE GOALS UNDER THE AMENDED AND RESTATED 2008 LONG TERM INCENTIVE PLAN

United States tax laws generally do not allow publicly held companies to obtain tax deductions for compensation of more than $1 million paid in any year to the chief executive officer and any of their three other most highly paid executive officers (other than the chief financial officer) unless such payments are performance-based as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended. One of the requirements for compensation to be performance-based under those laws is that the Company must obtain shareholder approval every five years of the material terms of performance goals for such compensation. In accordance with Internal Revenue Service rules, the material terms that the stockholders approve constitute the framework for our Compensation Committee to establish programs and awards under which compensation provided by the Company may qualify as performance-based compensation for purposes of the tax laws. Under the tax rules, the Compensation Committee must be comprised solely of two or more independent directors, which criteria is met by the Company. The material terms of the performance goals, which were approved by shareholders when the 2008 Long Term Incentive Plan was amended and restated in 2011, remain unchanged, and approval of this proposal does not represent an enhancement to executive compensation.

The Board is requesting shareholder approval of the material terms of performance goals in this proposal to enable the Company to continue to have a shareholder-approved arrangement under which the Company may receive tax deductions under applicable IRS rules until the 2021 Annual Meeting. The goals pertain to specified forms of compensation that may be awarded to the executives of the Company during the next five years under the Amended and Restated 2008 Long Term Incentive Plan: (1) cash bonuses; (2) restricted stock units; (3) restricted stock; and (4) performance share awards.

The Company generally takes into account the deductibility of compensation under Section 162(m) when granting awards. In addition to the shareholder approval sought herein, the technical operational requirements of Section 162(m) must also be satisfied in order for compensation paid under the Amended and Restated 2008 Long Term Incentive Plan to be exempt. The Company regularly monitors its compliance with such technical requirements.

Material Terms of the Performance Criteria

As defined in the tax rules, stockholders must approve each of the material terms of performance goals if the Company is to obtain tax deductions for the specified forms of performance-based compensation for executives whose total annual compensation exceeds $1 million, including (i) the employees eligible to receive compensation, (ii) the description of the business performance criteria on which the performance goals are based and (iii) the maximum amount of performance-based compensation that can be paid to an employee. Each of these aspects is discussed below.

Group of Employees Covered

The group of employees eligible to receive performance-based compensation includes the officers, directors, employees of and consultants and advisors to the Company or its affiliates, including the executive officers required to file reports under Section 16 of the Securities Exchange Act of 1934, as amended. Although the tax laws limit deductibility only for compensation paid to the chief executive officer and the three other most highly paid executive officers (other than the chief financial officer), the Company may grant performance-based compensation to all senior management in the event that any of them becomes a covered employee during the time he or she holds an award covered by this proposal.

Performance Criteria

The 2008 Long Term Incentive Plan provides that the performance criteria used to determine the vesting of awards may include any or all of the following: sales or revenues; earnings, including but not limited to reported earnings; earnings from continuing operations; operating income; and earnings either before or after specific items set forth in the Company s income statement, such as interest, taxes, and/or depreciation; cash flow, including but not limited to operating cash flow and free cash flow; return on equity; return on capital; return on assets; return on investment; gross or net margin; working capital; productivity; operating efficiency; organic growth rates; growth and diversification through acquisitions and similar business strategies; diversification; globalization; strategic objectives, such as, without limitation, management and organizational development and reward systems, technology implementation and supply chain management, cost reduction goals and stock price, any of which may be measured in absolute terms, or as compared to a defined benchmark, or as compared to the results of another corporation or group of corporations.

Per-Person Maximum Limits

The maximum share award that can be granted to any eligible participant for any calendar year is 150,000 shares, and the maximum performance cash award that can be made to any individual is $2.5 million.

Vote Required for Approval

A quorum being present, the affirmative vote of a majority of the votes cast is necessary to approve the material terms of the performance goals under the 2008 Long Term Incentive Plan.

The Board recommends a vote FOR the approval of the material terms of the performance goals under the Amended and Restated 2008 Long Term Incentive Plan.

PROPOSAL 4 APPROVAL OF AN AMENDMENT TO THE BYLAWS OF THE COMPANY TO ALLOW THE BOARD OF DIRECTORS TO FIX THE NUMBER OF DIRECTORS, FROM TIME TO TIME, WITHIN THE EXISTING RANGE OF SEVEN TO FIFTEEN DIRECTORS.

The Company is asking shareholders to approve an amendment to Article III, Section 1 of the Bylaws of the Company. In order for this proposal to be approved, the Company s Certificate of Incorporation (which can be accessed under the Governance tab at www.standex.com) requires the affirmative vote of eighty percent (80%) of issued and outstanding shares entitled to vote at the Annual Meeting.

The Board of Directors views the one-word change as an administrative efficiency (in the general nature of housekeeping), which will allow the Board to carry out its duties in a productive and effectual manner. The full text of the Bylaws can be found at www.standex.com under the Governance tab. The current provision on which shareholders are being asked to vote reads as follows:

Section 1. Number and Term of Office. The Board of Directors shall be composed of not less than seven nor more than fifteen directors, as fixed by the *stockholders* from time to time. (emphasis added)

This provision was put into place several decades ago, and no longer represents industry norm and governance practices.

The Company is requesting that shareholders approve the following language, to become effective on the date of the Annual Meeting:

Section 1. Number and Term of Office. The Board of Directors shall be composed of not less than seven nor more than fifteen directors, as fixed by the *Board of Directors* from time to time. (emphasis added)

The Company believes that the proposed amended language allows for more efficient management of the Board of Directors, in that the Board will be able to administer the number of directors from time to time within the existing numerical parameters set by the Bylaws. For decades, the number of directors has been set between seven and fifteen. Approval of the amendment will not change these limits. The effect of the amendment, the Company believes, will simply allow the Board the routine flexibility to most efficiently manage its ranks, to allow the Board to react appropriately to any unanticipated retirements, and to accommodate new directors who may join the Board during a mid-year election cycle, who may offer the Company a particular set of skills and abilities that that Board deems valuable at a given time. The proposed language also reflects the current norm in corporate governance practices.

For all of these reasons, the Board unanimously recommends a vote FOR this proposal.

PROPOSAL 5 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors has selected Grant Thornton LLP (Grant Thornton) to serve as the Company s independent registered public accounting firm for the 2017 fiscal year. Grant Thornton was appointed on September 4, 2014. At no time during the two years prior to Grant Thornton s engagement did the Company consult Grant Thornton regarding either the application of accounting principles to any transaction or audit

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opinion, or any matter that was the subject of review (whether such subject was a disagreement or reportable event with Deloitte & Touche, the Company s previous independent auditors).

It is expected that representatives of Grant Thornton will be present at the Annual Meeting of Stockholders where they will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

Deloitte & Touche LLP (Deloitte), and its two predecessor firms, had served as the Company s auditors since 1955. However, in fiscal 2014, the Audit Committee of the Company initiated a competitive process to review the appointment of the Company s independent auditor for the 2015 fiscal year. Following careful deliberation, the Audit Committee authorized the dismissal of Deloitte on August 28, 2014, effective on August 28, 2014. The Company communicated the dismissal on August 29, 2014 and filed a Form 8-K announcing the dismissal on September 4, 2014.

The Company provided Deloitte with a copy of the disclosure outlined therein and requested that Deloitte furnish a letter to the SEC stating whether it agreed with such disclosures. Deloitte did issue a letter of agreement on September 4, 2014, which was filed as an exhibit with the Company s 8-K on September 4, 2014.

For the fiscal year ending June 30, 2014 and June 30, 2105, there were no disagreements between the Company and Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

For the fiscal years ending June 30, 2014, Deloitte s report on the Company s financial statements contained no adverse opinion or a disclaimer of opinion; and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

Shareholders are being asked to ratify the appointment of Grant Thornton, and the Board unanimously recommends a For vote in connection with this resolution. While ratification by the shareholders of this appointment is not required by law or by the Company s articles of incorporation or bylaws, we believe that such ratification is desirable as a matter of good corporate governance.

The Board of Directors recommends a vote FOR the ratification of the selection of the Independent Auditors.

INDEPENDENT AUDITORS FEES

The following table summarizes the aggregate fees for independent auditor services incurred by the Company for each of the last two fiscal years. For fiscal years 2016 and 2015, the independent auditor was Grant Thornton, LLP:

($ in thousands)	**2016**	**2015**
Audit Fees to Grant Thornton LLP (a)	1,024	942

Audit Fees to Deloitte & Touche (a) (c)	0	345
Audit Related Fees (b)	255	55
Tax Fees	18	2
All Other Fees (c)	67	25
Total	1,364	1,369

(a)

Fees for audit services performed as related to fiscal years 2016 and 2015 consisted substantially of the following:

Audit of the Company s annual financial statements

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Transitional services in connection with the auditor change from Deloitte & Touche, LLC to Grant Thornton, LLC in 2014.

Reviews of the Company s quarterly financial statements

(b)

Fees for audit related services performed in 2016 and 2015 consisted substantially of the following:

International audits took place in 2016 in Germany, the United Kingdom, Mexico, Ireland, Portugal, Malaysia and India. International audits in the United Kingdom, Ireland, Germany, Portugal and Mexico were conducted in 2015.

(c)

Fees reported in this row represent the aggregate fees for professional services performed by Deloitte & Touche, LLP during fiscal 2016 and 2015 for transitional and carryover services to effectuate the transition of the Company s appointed auditor from Deloitte & Touche, LLC to its current independent auditor, Grant Thornton, LLP.

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In considering the nature of the services provided by the independent auditor, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Company management and the independent auditor to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the U.S. Securities and Exchange Commission to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

Pre-Approval Policy

The services performed by the independent auditor in fiscal 2016 were approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee in 2003 and most recently amended in 2016.

As required by the policy, annually the Audit Committee is provided a description of the services to be provided for each category and fees to be incurred. The policy describes the permitted audit, audit-related, tax, and other services that the independent auditor may perform, and the Audit Committee approves the established level of fees for the respective fiscal year. Any subsequent requests for audit, audit-related, tax and other services not previously submitted and approved by the Audit Committee for specific pre-approval may not commence until such approval has been granted.

A quarterly status of the actual services performed to date is provided to the Audit Committee by the independent auditor. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant specific pre-approval between meetings, as necessary, has been delegated to the Chairman of the Audit Committee for services not to exceed $50,000. The Chairman must update the Audit Committee at the next regularly scheduled meeting of any services that were granted such specific pre-approval.

REQUESTING DOCUMENTS

Both this Proxy Statement and the Annual Report on Form 10-K may be reviewed on line at: http://www.envisionreports.com/SXI and also at the Company s website at www.Standex.com/Investors/FY2015AnnualMaterials. Shareholders may obtain print or emailed copies, free of charge, of this Proxy Statement, Form 10-K, the Company s Codes of Conduct, Committee Charters or the Corporate Governance guidelines by writing to Standex International Corporation, Investor Relations Department, 11 Keewaydin Drive, Suite 300, Salem, NH 03079. Shareholders may also call the Company s Shareholder Services Administrator at 603-893-9701 to request copies. In the alternative, print copies may be requested by e-mailing the request to investorrelations@standex.com. Requests for copies may be made orally or in writing. All requests will be fulfilled within three (3) business days of receipt. Copies will be sent via first class mail.

OTHER PROPOSALS

Management does not know of any other matters which may come before the meeting. However, if any other matters are properly presented at the meeting, it is the intention of the persons named in the accompanying proxy to vote, or otherwise act, in accordance with their judgment on such matters.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to the Securities Exchange Act of 1934, the Company s executive officers, directors and persons who own more than 10% of the Company s Common Stock are required to file reports of ownership and changes in ownership in the Common Stock of the Company (called a Form 4) under Section 16(a) with the

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Securities and Exchange Commission and the New York Stock Exchange, with copies of those reports filed with the Company.

Based solely upon a review of the copies of the reports furnished to the Company for the fiscal year 2016, the Company advises that all Form 4s were filed on a timely basis.

STOCKHOLDER PROPOSALS

Any stockholder desiring to submit a proposal for consideration at the 2017 Annual Meeting of Stockholders must submit such proposal to the Company, in writing, at its executive offices, 11 Keewaydin Drive, Suite 300, Salem, NH 03079, no later than May 11, 2017.

In order for a shareholder to bring other business before a shareholder meeting, the Company by-laws require that timely notice should be received by the Company no earlier than May 11, 2017 but no later than June 12, 2017.

By the Board of Directors

Alan J. Glass, *Secretary*

September 8, 2016

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