STR HOLDINGS, INC.
Form 10-Q
August 11, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(mark one)

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

For the Quarterly Period Ended June 30, 2017

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 001–34529

STR Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27–1023344**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Water Street, Enfield, Connecticut	**06082**
(Address of principal executive offices)	(Zip Code)

(860) 272–4235

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non–accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b–2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non–accelerated filer o	Smaller reporting company x Emerging growth company filer o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES o NO 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 x

At July 31, 2017, there were 19,453,821 shares of Common Stock, par value $0.01 per share, outstanding.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STR Holdings, Inc. and Subsidiaries

Three and Six Months Ended June 30, 2017

	PAGE NUMBER
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	2
Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (unaudited)	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	25
Item 4. Controls and Procedures	25
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 5. Other Information	26
Item 6. Exhibits	27
SIGNATURE	28

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STR Holdings, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

All amounts in thousands except share and per share amounts

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$13,404	$ 12,379
Bank acceptance notes	148	3,360
Accounts receivable, trade, less allowances for doubtful accounts of $2,322 and $2,640 in 2017 and 2016, respectively	2,470	2,989
Inventories, net	2,128	1,847
Prepaid expenses	1,098	972
Other current assets	1,000	1,095
Total current assets	20,248	22,642
Property, plant and equipment, net	8,221	7,974
Assets held for sale (Note 8)	5,823	6,090
Other long-term assets	179	140
Total assets	$34,471	$ 36,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$1,303	$ 1,500
Accrued liabilities (Note 9)	2,756	2,617
Income taxes payable	996	993
Due to factor	533	381
Total current liabilities	5,588	5,491
Total liabilities	5,588	5,491
COMMITMENTS AND CONTINGENCIES (Note 10)		
Stockholders' Equity		
Preferred stock, $0.01 par value, 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized; 19,383,016 and 19,381,776 issued and outstanding, respectively, in 2017 and 19,239,587 and 19,238,347 issued and outstanding, respectively, in 2016	189	187

Treasury stock, 1,240 shares at cost	(57)	(57)
Additional paid–in capital	231,853	231,627
Accumulated deficit	(197,302)	(193,971)
Accumulated other comprehensive loss, net	(5,800)	(6,431)
Total stockholders’ equity	28,883	31,355
Total liabilities and stockholders’ equity	$ 34,471	$ 36,846

See accompanying notes to these condensed consolidated financial statements.

2

STR Holdings, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

All amounts in thousands except share and per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$3,057	$6,691	$6,770	$13,114
Cost of sales	3,695	6,631	7,905	13,455
Gross (loss) profit	(638)	60	(1,135)	(341)
Selling, general and administrative expenses	1,299	1,782	3,280	3,691
Research and development expense	236	314	550	641
(Recovery) provision for bad debt expense	(215)	934	(380)	1,359
Operating loss	(1,958)	(2,970)	(4,585)	(6,032)
Interest (expense) income, net	(3)	52	(7)	41
Other income (expense), net (Note 8)	1,632	(1,699)	1,206	(1,699)
(Loss) gain on disposal of fixed assets	(16)	2	(13)	2
Foreign currency transaction loss	(64)	(199)	(75)	(287)
Loss before income tax (benefit) expense	(409)	(4,814)	(3,474)	(7,975)
Income tax (benefit) expense	(125)	199	(143)	(15)
Net loss	$(284)	$(5,013)	$(3,331)	$(7,960)
Other comprehensive income (loss):				
Foreign currency translation (net of tax effect of $205, $0, $257 and $0, respectively)	501	(303)	631	94
Other comprehensive income (loss)	501	(303)	631	94
Comprehensive income (loss)	$217	$(5,316)	$(2,700)	$(7,866)
Net loss per share (Note 4):				
Basic	$(0.02)	$(0.27)	$(0.18)	$(0.44)
Diluted	$(0.02)	$(0.27)	$(0.18)	$(0.44)
Weighted–average shares outstanding (Note 4):				
Basic	18,913,427	18,380,904	18,839,391	18,307,545
Diluted	18,913,427	18,380,904	18,839,391	18,307,545

See accompanying notes to these condensed consolidated financial statements.

STR Holdings, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

All amounts in thousands

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES		
Net loss	$(3,331)	$(7,960)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	753	950
Stock–based compensation expense	252	280
Gain (loss) on disposal of property, plant and equipment	13	(2)
(Recovery) provision for bad debt expense	(380)	1,359
Impairment of assets held for sale	267	1,708
Proceeds from insurance claim	1,475	—
Provision for deferred taxes	(302)	(49)
Changes in operating assets and liabilities:		
Accounts receivable	1,010	(1,325)
Income tax receivable	—	8,252
Inventories, net	(170)	1,872
Other current assets	1,624	(1,485)
Accounts payable	(274)	(42)
Accrued liabilities	233	896
Income taxes payable	2	8
Other, net	(23)	1,374
Total net cash provided by operating activities	1,149	5,836
INVESTING ACTIVITIES		
Capital investments	(410)	(174)
Proceeds from sale of fixed assets	—	16
Total net cash used in investing activities	(410)	(158)
FINANCING ACTIVITIES		
Shared services arrangement with Zhenfa	—	56
Factoring arrangement	111	123
Total net cash provided by financing activities	111	179
Effect of exchange rate changes on cash	175	249
Net change in cash and cash equivalents	1,025	6,106
Cash and cash equivalents, beginning of period	12,379	7,703
Cash and cash equivalents, end of period	$13,404	$13,809

See accompanying notes to these condensed consolidated financial statements.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 1—BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information and quarterly reports on the Form 10-Q. Accordingly, they do not include all of the information and the notes required for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016, included in STR Holdings, Inc.'s (the "Company") Annual Report on Form 10–K filed with the SEC on March 9, 2017. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and in the opinion of management, reflect all adjustments, consisting of only normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results.

The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's estimates.

On December 1, 2016, the Company was notified by the OTCQX that the Company did not meet the OTCQX Requirements for Continued Qualification found in Section 3.2 of the OTCQX Rules for U.S. Companies due to the Company failing to maintain a market capitalization of at least $5,000 for at least one of every 30 consecutive calendar days. The OTCQX granted the Company a 60 day extension beginning on January 3, 2017 with a re-evaluation on or after February 28, 2017. The Company's market capitalization did not return to at least $5,000, and following that re-evaluation the Company's stock began trading on the OTCQB market effective April 3, 2017.

NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As of June 30, 2017, the Company does not expect this ASU to have a significant impact on its financial statements or disclosures.

NOTE 3—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD.

The Company has entered into certain definitive agreements with Zhenfa Energy Group Co., Ltd., a Chinese limited liability company (“Zhenfa”) and its affiliate, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation (“Zhenfa U.S.”).

Purchase Agreement

On August 11, 2014, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Zhenfa U.S., pursuant to which Zhenfa U.S. acquired approximately 51% of the Company’s then outstanding shares of common stock (the “Transaction”) on December 15, 2014 (the “Closing Date”).

The Company also entered into a guarantee agreement (the “Guarantee Agreement”) with Zhenfa pursuant to which Zhenfa agreed to guarantee all obligations of Zhenfa U.S. under the Purchase Agreement, including but not limited to, the payment of the purchase price and the performance of all covenants and agreements of Zhenfa U.S in the Purchase Agreement.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 3—TRANSACTION WITH ZHEN FA NEW ENERGY (U.S.) CO., LTD. AND ZHENFA ENERGY GROUP CO., LTD. (Continued)

In connection with the closing of the Transaction, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with Zhenfa U.S. that, among other things, requires the Company to register the shares acquired by Zhenfa U.S. in the Transaction, at the Company’s expense, upon the request of Zhenfa U.S. or certain transferees of Zhenfa U.S.

Sales Service Agreement

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., an operating subsidiary of the Company, entered into a Sales Service Agreement (the “ Sales Service Agreement”) with Zhenfa whereby Zhenfa agreed, among other things, to assist the Company in a number of endeavors, including, without limitation, marketing and selling the Company’s products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. The Sales Service Agreement also provided the Company a two-year option, which expired on December 15, 2016, to lease a Zhenfa-owned manufacturing facility rent free for a period of five years. The Sales Service Agreement became effective on the Closing Date for an initial term of two years, and automatically extends for one year periods unless terminated earlier by either party. The Sales Service Agreement may also be terminated by either party at such time as Zhenfa and its affiliates own less than 10% of the outstanding common stock of the Company.

NOTE 4—LOSS PER SHARE

The calculation of basic and diluted net loss per share for the periods presented is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic and diluted net loss per share				
Numerator:				
Net loss	$(284)	$(5,013)	$(3,331)	$(7,960)

Denominator:				
Weighted–average shares outstanding	18,913,427	18,380,904	18,839,391	18,307,545
Add:				
Dilutive effect of stock options	—	—	—	—
Dilutive effect of restricted common stock	—	—	—	—
Weighted–average shares outstanding with dilution	18,913,427	18,380,904	18,839,391	18,307,545
Net loss per share:				
Basic	$(0.02)	$(0.27)	$(0.18)	$(0.44)
Diluted	$(0.02)	$(0.27)	$(0.18)	$(0.44)

Due to the net loss for the three and six months ended June 30, 2017 and 2016, the computation of dilutive weighted-average common shares outstanding does not include any stock options or any shares of unvested restricted common stock as these potential awards are anti-dilutive.

Because the effect would be anti-dilutive, there were 1,121,332 stock options outstanding that were not included in the computation of diluted weighted-average shares outstanding for each of the three and six months ended June 30, 2017. Similarly, there were 1,176,887 stock options outstanding that were not included in the computation of diluted weighted-average shares outstanding for each of the three and six months ended June 30, 2016.

NOTE 5—BANK ACCEPTANCE NOTES

Customers in China may settle their accounts with bank acceptance notes, which are draft instruments that are guaranteed to be paid at maturity by the issuing bank. Upon receipt of the bank acceptance note, the Company can elect to hold the instrument until maturity and receive full face value, discount it with the bank for a fee, or transfer it at full face value to suppliers who will accept the note as settlement of the Company's accounts payable balance with them.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 5—BANK ACCEPTANCE NOTES (Continued)

Bank acceptance notes consist of the following:

	June 30, 2017	December 31, 2016
Balance as of beginning of period	$3,360	$92
Received from customers	837	7,030
Converted to cash	(3,106)	—
Paid to suppliers	(1,025)	(3,756)
Foreign exchange impact	82	(6)
Balance as of end of period	$148	$3,360

All of the bank acceptance notes as of June 30, 2017 mature prior to December 31, 2017. Due to the short time to maturity, the Company believes the bank acceptance notes’ carrying value approximates fair value. As of June 30, 2017, the annual effective discount rate for all of the bank acceptance notes was 5.5%.

NOTE 6—INVENTORIES

Inventories consist of the following:

	June 30, 2017	December 31, 2016
Finished goods	$511	$ 470
Raw materials	1,690	1,812
Reserve	(73)	(435)
Inventories, net	$2,128	$ 1,847

NOTE 7—LONG-LIVED ASSETS

Impairment Testing

In accordance with ASC 360-Property, Plant and Equipment, the Company assesses the impairment of its long-lived assets whenever changes in events or circumstances indicate that the carrying value of such assets may not be recoverable. During each reporting period, the Company assessed if the following factors were present, which would cause an impairment review: overall negative solar industry conditions; a significant or prolonged decrease in net sales generated under its trademarks; loss of a significant customer or a reduction in demand for customers' products; a significant adverse change in the extent to or manner in which the Company used its trademarks or proprietary technology; such assets becoming obsolete due to new technology or manufacturing processes entering the markets or an adverse change in legal factors; and the market capitalization of the Company's common stock.

At June 30, 2017 and December 31, 2016, the Company recorded valuation allowances against its deferred tax assets. The valuation allowances were recorded since the Company had three consecutive years of taxable losses and determined that its history of actual net losses was evidence that should be given more weight than future projections. The Company determined the recording of valuation allowances against deferred tax assets to be an indicator to test its long-lived assets, which consist solely of property, plant and equipment, for impairment. The Company assessed the specific recoverability of its property, plant and equipment using updated real estate appraisals and other data for its other fixed assets, mainly production equipment. Based upon this analysis, the Company believes its property, plant and equipment carrying value was recoverable and depreciable lives were appropriate as of June 30, 2017. If the Company experiences a significant reduction in future sales volume, further average selling price ("ASP") reductions, lower profitability, a cessation of operations at any of its facilities, or negative changes in U.S. or Spain real estate markets, the Company's property, plant and equipment may be subject to future impairment or accelerated depreciation.

NOTE 8—ASSETS HELD FOR SALE

In July 2015, the Company announced a restructuring plan that included the closure of its Johor, Malaysia facility effective August 2, 2015. Subsequent to the announcement, the Company engaged advisors and was actively trying to sell its land-use right, building and other fixed assets located at the facility. In the first six months of 2016, the Company received and ultimately accepted an offer for RM25,000 (approximately $5,823 as of June 30, 2017) for the land-use right and building, subject to completion of definitive documentation. In November 2016, the formal purchase and sale agreement was executed. Closing of the transaction is subject to customary conditions to closing of transactions of this type, including the approval of the Johor Port Authority.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 8—ASSETS HELD FOR SALE (Continued)

In accordance with ASC 360-Property, Plant and Equipment, the Company assessed the asset group attributed to the sale for impairment. Based upon the Company's assessment of the status of the Malaysia property, plant and equipment, all of the requirements (including the held for sale requirements) set forth in ASC 360-10-45-9 were met and the assets were classified on the condensed consolidated balance sheet as of June 30, 2017 and December 31, 2016 as assets held for sale. An impairment loss of $267, related to the foreign currency fluctuation of the Malaysian Ringgit, was recorded in the Company's condensed consolidated statement of comprehensive loss in other expense, net during the first half of 2017. An impairment loss of $1,708 was recorded in the Company's condensed consolidated statement of comprehensive loss during the second quarter of 2016.

NOTE 9—ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2017	December 31, 2016
Product performance (see Note 10)	$—	$ 21
Salaries and wages	364	310
Accrued bonus	375	270
Professional fees	321	535
Restructuring severance and benefits (see Note 11)	115	269
Environmental (see Note 10)	57	57
Accrued franchise tax	16	66
Client deposits	1,142	922
Accrued income tax	159	—
Other	207	167
Total accrued liabilities	$2,756	$ 2,617

NOTE 10—COMMITMENTS AND CONTINGENCIES

The Company is a party to claims and litigation in the normal course of its operations. Management believes that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Product Performance

The Company provides a short-term warranty that it has manufactured its products to the Company's specifications. On limited occasions, the Company incurs costs to service its products in connection with specific product performance matters that do not meet the Company's specifications. Anticipated future costs are recorded as part of cost of sales and accrued liabilities for specific product performance matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

On isolated occasions, the Company has also offered limited short-term performance warranties relating to its encapsulants not causing module power loss. The Company's encapsulants are validated by long-term performance testing during product development prior to launch and during customer certification prior to mass production. The Company has operated its solar business since the 1970s and over 20 GW of solar modules incorporating its encapsulants have been installed in the field with no reported module power performance issues caused by the Company's encapsulants and no related warranty claims to date. Based on this fact pattern, the Company has not accrued any warranty liability associated for this potential liability as its occurrence is deemed to be remote. If the Company was to ever receive a warranty claim for such matter, the Company would assess the need for a warranty accrual at that time.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 10—COMMITMENTS AND CONTINGENCIES (Continued)

The Company has accrued for specific product performance matters incurred in 2017 and 2016 that are based on management's best estimate of ultimate expenditures that it may incur for such items. The Company's product performance liability that is recorded in accrued liabilities in the condensed consolidated balance sheets was $0 and $21 as of June 30, 2017 and December 31, 2016, respectively.

Environmental

During 2010, the Company performed a Phase II environmental site assessment at its 10 Water Street, Enfield, Connecticut location. During its investigation, the site was found to contain a presence of volatile organic compounds. The Company has been in contact with the Department of Environmental Protection and has engaged a licensed contractor to remediate this circumstance. Based on ASC 450-Contingencies, the Company has accrued the estimated cost to remediate. The Company's environmental liability that is recorded in accrued liabilities in the condensed consolidated balance sheets was $57 as of June 30, 2017 and December 31, 2016.

Solaria

In October 2016, a complaint was filed by Solaria Energia y Medio Ambiente S.A. ("Solaria") against the Company and its Spanish subsidiary, Specialized Technology Resources España S.A. ("STR Spain"), in the Court of the First Instance No. 8 in Oviedo, Spain, relating to a product quality claim in connection with a non-encapsulant product that STR Spain purchased from a vendor in 2005 and 2006 and resold to Solaria. The Company stopped selling this product in 2006. Solaria is seeking approximately €3.3 million, plus interest, in damages.

A trial was held on April 6, 2017 in Oviedo, Spain, and the Company is currently awaiting a ruling from the court. The Company has product liability insurance coverage for claims of this nature, excluding the original product cost but including defense costs. The Company believes it has meritorious defenses and does not believe a loss is probable or can be reasonably estimated. As such, no accrual relating to this complaint was recorded as of June 30, 2017 and December 31, 2016.

NOTE 11—COST-REDUCTION ACTIONS

In June 2016, the Company eliminated certain positions at its Spain facility, effective July 5, 2016. The Company recorded $121 of severance and benefits in cost of sales and $108 of severance and benefits in selling, general and administrative expenses during 2016.

On March 7, 2017 the Company made the decision to wind down its China manufacturing operations substantially by the end of the second quarter of 2017. The decision is consistent with ongoing efforts to reorganize its encapsulant business to better align with customer geography, to reduce losses related to unprofitable locations and to convert assets to cash for potential redeployment into more profitable endeavors. In connection with the restructuring, the Company does not expect any significant asset impairment charges and recorded $93 of severance charges and benefits in cost of sales and $48 of severance charges and benefits in selling, general and administrative expenses during the first six months of 2017. The Company anticipates finalizing the sale of certain production and testing equipment from the China facility to its tolling partner in India in the third quarter.

The restructuring accrual consists of $115 for severance and benefits as of June 30, 2017. A rollforward of the severance and other exit cost accrual activity is as follows:

	June 30, 2017	June 30, 2016
Balance as of beginning of year	$ 269	$ 268
Additions	143	194
Reductions	(177)	(24)
Reversals	(120)	—
Balance as of end of period	$ 115	$ 438

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 12—FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis in the financial statements. The hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value

and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1-quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2-unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and
- Level 3-unobservable inputs that are not corroborated by market data.

The following table provides the fair value measurements of applicable financial assets and liabilities as of June 30, 2017:

	Financial assets and liabilities at fair value as of June 30, 2017		
	Level 1	Level 2	Level 3
Money market funds (1)	$ 4,461	$ —	$ —
Bank acceptance notes (2)	$ 148	$ —	$ —
Non-recurring fair value measurements (3)	$ —	$ —	$ 5,823
Total	$ 4,609	$ —	$ 5,823

The following table provides the fair value measurements of applicable financial assets and liabilities as of December 31, 2016:

	Financial assets and liabilities at fair value as of December 31, 2016		
	Level 1	Level 2	Level 3

Money market funds (1)	$ 7,429	$ —	$ —
Bank acceptance notes (2)	$ 3,360	$ —	$ —
Non-recurring fair value measurements (3)	$ —	$ —	$ 6,090
Total	$ 10,789	$ —	$ 6,090

____

(1) Included in cash and cash equivalents on the Company's Condensed Consolidated Balance Sheets. The carrying amount of money market funds is a reasonable estimate of fair value due to the short-term maturity.
(2) Refer to Note 5 for further information
(3) Included in assets held for sale on the Company's Condensed Consolidated Balance Sheets. Refer to Note 8 for further information.

NOTE 13—FACTORING ARRANGEMENT

In October 2015, the Company's wholly owned Spanish subsidiary, Specialized Technology Resources España S.A., entered into a factoring agreement to sell, with recourse, certain European, U.S. and other foreign company-based receivables to Eurofactor Hispania S.A.U., which was later acquired by Credit Agricole Leasing and Factoring sucursal en España during the first quarter of 2017. Under the current terms of the factoring agreement, the maximum amount of outstanding advances at any one time is €1,500 (approximately $1,714 as of June 30, 2017), which is subject to adjustment based on the level of eligible receivables, restrictions on concentrations of receivables and the historical performance of the receivables sold. The annual discount rate is 2% plus EURIBOR for Euro denominated receivables and 2% plus LIBOR for all other currencies. The term of the agreement is for one year, which will be automatically extended unless terminated by either party with 90 days prior written notice. As of June 30, 2017 and December 31, 2016 the Company has recorded $533 and $381, respectively, as due to factor on the Condensed Consolidated Balance Sheets.

10

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 14—INCOME TAXES

There is no provision or benefit for federal, foreign or state income taxes for the three and six months ended June 30, 2017 other than income tax benefit of $125 and $143, respectively, resulting from an intra-period tax allocation between operations and other comprehensive income.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Based on the Company's history of operating losses, the Company has concluded that it is more likely than not that the benefit of its deferred tax assets will not be realized. Accordingly, the Company has provided a full valuation allowance for deferred tax assets as of June 30, 2017 and December 31, 2016.

There was no provision or benefit for federal, foreign or state income taxes for the three and six months ended June 30, 2016 other than income tax expense of $199 and income tax benefit of $15, respectively, resulting from an intra-period tax allocation between operations and other comprehensive income.

During the second quarter of 2016, the Company received an income tax refund of $8,252 from the Internal Revenue Service resulting from a 2014 federal net operating loss carryback.

NOTE 15—STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the six months ended June 30, 2017 are as follows:

	Common Stock		Treasury Stock		Additional Paid–In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Issued	Amount	Acquired	Amount	Capital	Loss	Deficit	Equity
Balance at December 31, 2016	18,669,927	$ 187	1,240	$ (57)	$ 231,627	(6,431)	$ (193,971)	$ 31,355
Stock-based compensation	265,833	2	—	—	226	—	—	228

Net loss	—	—	—	—	—	—	(3,331)	(3,331)
Foreign currency translation, net of tax	—	—	—	—	—	631	—	631
Balance at June 30, 2017	18,935,760	$ 189	1,240	$ (57)	$ 231,853	(5,800)	$ (197,302)	$ 28,883

Common Stock

The Company's Board of Directors has authorized 200,000,000 shares of common stock, $0.01 par value. At June 30, 2017, there were 19,383,016 shares issued and 19,381,776 shares outstanding of common stock. Each share of common stock is entitled to one vote per share. Included in the 19,381,776 shares outstanding are 18,935,760 shares of common stock and 446,016 shares of unvested restricted common stock.

NOTE 16—STOCK-BASED COMPENSATION

On November 6, 2009, the Company's Board of Directors approved the Company's 2009 Equity Incentive Plan (the "2009 Plan") which became effective on the same day. Effective May 14, 2013, the 2009 Plan was amended to increase the number of shares subject to the 2009 Plan. As a result, a total of 4,133,133 shares of common stock are reserved for issuance under the 2009 Plan. The 2009 Plan is administered by the Board of Directors or any committee designated by the Board of Directors, which has the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. The 2009 Plan provides for the grant of stock options, including incentive stock options and nonqualified stock options (collectively, "options"), stock appreciation rights, shares of restricted stock, or "restricted stock," rights to dividend equivalents and other stock-based awards (collectively, the "awards"). The Board of Directors or the committee will, with regard to each award, determine the terms and conditions of the award, including the number of shares subject to the award, the vesting terms of the award, and the purchase price for the award. Awards may be made in assumption of or in substitution for outstanding awards previously granted by the Company or its affiliates, or a company acquired by the Company or with which it combines. Options outstanding generally vest over a three or four-year period and expire ten years from the date of grant. There were 1,088,140 shares available for grant under the 2009 Plan as of June 30, 2017.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 16—STOCK-BASED COMPENSATION (Continued)

The following table summarizes the options activity under the Company's 2009 Plan for the six months ended June 30, 2017:

	Options Outstanding				
	Number of Shares	Weighted–Average Exercise Price	Weighted–Average Remaining Contractual Term (in years)	Weighted–Average Grant–Date Fair Value	Aggregate Intrinsic Value(1)
Balance at December 31, 2016	1,121,332	$ 1.52	—	$ 0.99	$ (1,480)
Options granted	—	$ —	—	$ —	$ —
Exercised	—	$ —	—	$ —	$ —
Canceled/forfeited	—	$ —	—	$ —	$ —
Balance at June 30, 2017	1,121,332	$ 1.52	7.61	$ 0.99	$ (1,480)
Vested and exercisable as of June 30, 2017	747,552	$ 1.52	7.61	$ 0.99	$ (987)
Vested and exercisable as of June 30, 2017 and expected to vest thereafter	1,109,961	$ 1.52	7.61	$ 0.99	$ (1,465)

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $0.20 of the Company's common stock on June 30, 2017.

As of June 30, 2017, there was $216 of unrecognized compensation cost related to outstanding stock option awards. This amount is expected to be recognized over a weighted-average remaining vesting period of less than one year. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from its expectations. The Company did not receive any proceeds related to the exercise of stock options for the three and six months ended June 30, 2017.

The following table summarizes the restricted common stock activity of the Company for the six months ended June 30, 2017:

	Unvested Restricted Shares	
	Number of Shares	Weighted–Average Grant–Date Fair Value
Unvested at December 31, 2016	568,420	$ —
Granted	427,639	$ —
Vested	(265,833)	$ 0.16
Canceled	(284,210)	$ —
Unvested at June 30, 2017	446,016	$ —
Expected to vest after June 30, 2017	446,016	$ —

As of June 30, 2017, there was $37 of unrecognized compensation cost related to unvested restricted shares. This amount is expected to be recognized over a weighted-average remaining vesting period of less than one year. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from its expectations.

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 16—STOCK-BASED COMPENSATION (Continued)

Stock-based compensation expense was included in the following Condensed Consolidated Statements of Comprehensive Loss categories for operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Selling, general and administrative expense	$ 132	$ 121	$ 252	$ 280
Total stock-based compensation expense	$ 132	$ 121	$ 252	$ 280

NOTE 17—REPORTABLE SEGMENT AND GEOGRAPHICAL INFORMATION

ASC 280-10-50 Disclosure about Segments of an Enterprise and Related Information, establishes standards for the manner in which companies report information about operating segments, products, geographic areas and major customers The method of determining what information to report is based on the way that management organizes the operating segment within the enterprise for making operating decisions and assessing financial performance. Since the Company has one product, sells to global customers in one industry, procures raw materials from similar vendors and expects similar long-term economic characteristics, the Company has one reporting segment and the information as to its operation is set forth below.

Adjusted EBITDA is the main metric used by the management team and the Board of Directors to plan, forecast and review the Company's segment performance. Adjusted EBITDA represents net loss before interest income and expense, income tax expense, depreciation, stock-based compensation expense, restructuring and certain non-recurring income and expenses from the results of operations.

The following tables set forth information about the Company's operations by its reportable segment and by geographic area:

Operations by Reportable Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reconciliation of Adjusted EBITDA to Net Loss				
Adjusted EBITDA	$ (1,606)	$ (2,371)	$ (3,633)	$ (4,886)
Depreciation	(413)	(476)	(753)	(950)
Interest (expense) income, net	(3)	52	(7)	41
Income tax benefit (expense)	125	(199)	143	15
Restructuring	113	(192)	(24)	(194)
Stock–based compensation	(132)	(121)	(252)	(280)
Proceeds received from insurance claim	1,475	—	1,475	—
Impairment of assets held for sale	173	(1,708)	(267)	(1,708)
(Loss) gain on disposal of fixed assets	(16)	2	(13)	2
Net Loss	$ (284)	$ (5,013)	$ (3,331)	$ (7,960)

Operations by Geographic Area

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Sales				
Spain	$ 2,042	$ 2,568	$ 3,754	$ 6,415
China	983	4,122	2,974	6,687
United States	32	1	42	12
Total Net Sales	$ 3,057	$ 6,691	$ 6,770	$ 13,114

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 17—REPORTABLE SEGMENT AND GEOGRAPHICAL INFORMATION (Continued)

Long-Lived Assets by Geographic Area

	June 30, 2017	December 31, 2016
Long-Lived Assets		
United States	$1,388	$ 1,448
Spain	6,275	5,990
China	557	535
Hong Kong	1	1
Total Long-Lived Assets	$8,221	$ 7,974

Foreign sales are based on the country in which the sales originated. Net sales to one of the Company's major customers that exceeded 10% of the Company's consolidated net sales for the three and six months ended June 30, 2017 were $683 and $1,330, respectively. Net sales to three of the Company's major customers that exceeded 10% of the Company's consolidated net sales for the three months ended June 30, 2016 were $3,066. Net sales to one of the Company's major customers that exceeded 10% of the Company's consolidated net sales for the six months ended June 30, 2016 were $2,512.

Accounts receivable from one customer amounted to $271 and accounts receivable from two customers amounted to $597 as of June 30, 2017 and December 31, 2016, respectively.

NOTE 18—RELATED PARTY TRANSACTION

Huhui Supply Agreement

The Company's Chinese subsidiary, Specialized Technology Resources Solar (Suzhou) Co. Ltd. ("STR China") entered into a supply agreement (the "Huhui Supply Agreement") dated as of December 31, 2014 with Zhangjiagang Huhui Segpv Co. Ltd ("Huhui"), a solar module manufacturer and an affiliate of Zhenfa. Pursuant to the Huhui Supply

Agreement, STR China agreed to supply Huhui with the Company's encapsulant products and Huhui agreed (i) to purchase not less than 535 MW worth of encapsulants (the “Minimum Amount”) during each contract year, (ii) to pay the Company a deposit equal to 10% of the Minimum Amount, and (iii) not to purchase encapsulant products from other encapsulant manufacturers. The initial term of the Huhui Supply Agreement was for one year; however, such initial term was extended for an additional six months due to failure by Huhui to purchase the Minimum Amount at the end of the first year anniversary of the effective date of the Huhui Supply Agreement. The Huhui Supply Agreement further provides that Huhui’s obligations are contingent (unless otherwise provided in the agreement) upon (i) the delivery by STR China of an initial shipment of products in accordance with the specifications and (ii) the qualification of the products by Huhui during a sample production run of not less than 30 days. As of June 30, 2017, Huhui had not commenced the sample production run. The Huhui Supply Agreement shall automatically renew for additional one year terms if either party fails to notify the other party at least 90 days prior to the end of the then current term that it is electing to terminate the agreement. The Company believes that the terms and conditions set forth in the Huhui Agreement at that time were fair and reasonable to the Company. The Company received $1,148 as a deposit from Huhui during the year ended December 31, 2015, which is included in accrued liabilities on the Condensed Consolidated Balance Sheets. During the three and six months ended June 30, 2017 the Company did not record any sales to this customer.

NOTE 19—SUBSEQUENT EVENT

As previously disclosed, on November 18, 2016, Specialized Technology Resources (Malaysia) SDN BHD (“STR Malaysia”), a wholly owned subsidiary of STR Holdings, Inc., a Delaware corporation (the “Company”), entered into a Purchase and Sale Agreement (the “Agreement”) with Tiong Nam Logistics Solutions SDN BHD (the “Purchaser”) to sell the Company’s Johor, Malaysia facility. Closing of the transaction is subject to customary conditions for transactions of this type, including the approval of the Johor Port Authority within one year of the execution of the Agreement (the “Condition Period”).

STR Holdings, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

All amounts in thousands except share amounts, per share amounts or unless otherwise noted

NOTE 19—SUBSEQUENT EVENT (Continued)

On July 31, 2017, the Company received a notice from the Purchaser purporting to terminate the Agreement, alleging that the Johor Port Authority is seeking to impose unacceptable conditions on the approval of the transfer of the facility to the Purchaser. The Company has responded to the Purchaser disputing the validity of the purported termination on the grounds that the Condition Period has not yet expired and the Company is continuing to seek to work with the Johor Port Authority to remove the condition objected to by the Purchaser. The Company cannot assure that it will be successful in obtaining the required approval of the Johor Port Authority for the transaction within the Condition Period, or that the Purchaser will proceed with the transaction if such approval is obtained.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of our operations should be read together with our Condensed Consolidated Financial Statements and the related Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A,—Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016, as amended by Form 10-K/A filed with the SEC on April 28, 2017.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to inherent risks and uncertainties. These forward-looking statements present our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business and are based on assumptions that we have made in light of our industry experience and perceptions of historical trends, current conditions, expected future developments and other factors management believes are appropriate under the circumstances. However, these forward-looking statements are not guarantees of future performance or financial or operating results. Forward-looking statements include, but are not limited to, the statements regarding the following: (1) incurring substantial losses for the foreseeable future and our inability to achieve or sustain profitability in the future; (2) the potential impact of pursuing strategic alternatives, including dissolution and liquidation of our Company, winding up our operations in China, restructuring our business to align with our customers' geography; (3) our reliance on a single product line and any contemplated pursuits of new market sectors; (4) our securing net sales to new customers, growing net sales to existing key customers and increasing our market share; (5) customer concentration in our business and our relationships with and dependence on key customers; (6) the outsourcing arrangements and reliance on third parties for the manufacture of a portion of our encapsulants; (7) technological changes in the solar energy industry or our failure to develop and introduce or integrate new technologies could render our encapsulants uncompetitive or obsolete; (8) competition; (9) our failure to manufacture product in China negatively affecting our ability to sell to Chinese solar module manufacturers; (10) excess capacity in the solar supply chain; (11) demand for solar energy in general and solar modules in particular; (12) our operations and assets in China being subject to significant political and economic uncertainties; (13) limited legal recourse under the laws of China if disputes arise; (14) our ability to adequately protect our intellectual property, particularly during the outsource manufacturing of our products; (15) our lack of credit facility and our inability to obtain credit; (16) a significant reduction or elimination of government subsidies and economic incentives or a change in government policies that promote the use of solar energy; (17) volatility in commodity costs; (18) our customers' financial profile causing additional credit risk on our accounts receivable; (19) our dependence on a limited number of third-party suppliers for raw materials for our encapsulants and other significant materials used in our process; (20) potential product performance matters and product liability; (21) our substantial international operations and shift of business focus to emerging markets; (22) the impact of changes in foreign currency exchange rates on financial results, and the geographic distribution of revenues; (23) losses of financial incentives from government bodies in certain foreign jurisdictions; (24) compliance with the qualifications of the OTCQB; (25) the ability to realize synergies from the transaction with Zhenfa Energy Group Co., Ltd. ("Zhenfa"); and (26) the other risks and uncertainties described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and

Results of Operations" and in subsequent periodic reports on Form 10-K, 10-Q and 8-K. You are urged to carefully review and consider the disclosure found in our filings, which are available on http://www.sec.gov or http://www.strsolar.com. Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove to be incorrect, actual results may vary materially from those projected in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statement contained in this Quarterly Report, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

STR Holdings, Inc. and its subsidiaries ("we", "us", "our" or the "Company") commenced operations in 1944 as a plastics and industrial materials research and development company. Based upon our expertise in polymer science, we evolved into a global provider of encapsulants to the solar industry. Encapsulant is a critical component used to protect and hold solar modules together.

We were the first to develop ethylene-vinyl acetate ("EVA") based encapsulants for use in commercial solar module manufacturing. Our initial development effort was conducted while under contract to the predecessor of the U.S. Department of Energy in the 1970s. Since that time, we have expanded our solar encapsulant business, by investing in research and development and global production capacity.

In September 2011, we sold our Quality Assurance ("QA") business, which provided consumer product development, inspection, testing and audit services that enabled our retail and manufacturing clients to determine whether products met applicable safety, regulatory, quality, performance and social standards, to Underwriters Laboratories, Inc. ("UL") for $275.0 million in cash, plus assumed cash. Information about our divestiture of the QA business is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 4, Discontinued Operations, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the year ended December 31, 2016, as amended by Form 10-K/A filed with the SEC on April 28, 2017.

Recent Developments and Strategy

Strategic Focus

We continue to operate at a substantial net loss. We incurred net losses of approximately $3.3 million for the six months ended June 30, 2017 and $15.9 million for the year ended December 31, 2016.

Our business unit in China ("STR China") incurred a loss of approximately $5.8 million during 2016, including a bad debt expense of $1.5 million. In light of continued poor financial results of STR China, we have decided to conduct an orderly wind down of our China manufacturing operations to eliminate operating losses related to this business unit. Given that our China factory has been manufacturing encapsulants for sale outside of China, we are currently working to accommodate production by working with a tolling partner in the primary export market, namely India. We anticipate finalizing the sale of certain production and testing equipment from the China facility to our tolling partner in India in the third quarter.

We continue to explore options for reorganizing of our encapsulant business to better align with customer geography, to reduce the cash burn related to unprofitable locations and to convert assets to cash for potential redeployment into more profitable endeavors, and possible business opportunities in potentially more profitable parts of the solar supply-chain, as well as other strategic alternatives. We cannot assure that we will be able to successfully pursue any such potential transactions. If we are successful in pursuing any such transactions, we may be required to expend significant funds, incur debt or other obligations or issue additional securities, any of which could significantly dilute our current stockholders and may negatively affect our operating results and financial condition. We cannot assure that any such strategic transactions, or any financing in connection therewith, would be available on favorable terms,

if at all, or that we will realize any anticipated benefits from any such transactions that we complete. In the event that we are not successful in restructuring our encapsulant business or pursuing opportunities in the downstream solar market or other strategic transactions, we also intend to consider alternatives, including without limitation, the acquisition of another business, the divestiture of all or certain of our assets, joint ventures and other transactions outside the ordinary course of business.

If we are not successful in executing on our strategic plans to reorganize our encapsulant business and achieve profitability, we may decide to wind down or cease any or all of our operations.

In addition, any further wind-down or dissolution of us may be a lengthy and complex process, yield unexpected results and delay any potential distributions to our stockholders. Such process may also require the further expenditure of our resources, such as legal, accounting and other professional fees and expenses and other related charges, which would decrease the amount of assets available for distributions to our stockholders.

Recent Developments

Manufacturing Facility Fire

During October 2016, a fire damaged a portion of our production facility located in Shajiabang, Jiangsu, China. No employee injuries have been reported. As of the date of this report, the facility has been restored to operational condition. Subsequently, we have continued with our wind down of our manufacturing operations in China and in early July we vacated the facility and relocated key personnel to temporary offices. During the fourth quarter of 2016, we recorded a $0.9 million loss on disposal of fixed assets. During the second quarter of 2017, our China subsidiary received interim payments totaling RMB10.0 million (approximately $1.5 million as of June 30, 2017) from our local China insurance carrier related to the existing fire insurance claim. These payments do not represent a final settlement, and we continue to work with our agents and the carrier to finalize the claim.

Compliance With OTCQB Marketplace Listing Standards

Our common stock trades on the OTCQB Marketplace ("OTCQB") under the symbol "STRI." On December 1, 2016, we were notified by the OTCQX that the Company did not meet the OTCQX Requirements for Continued Qualification found in Section 3.2 of the OTCQX Rules for U.S. Companies due to the Company failing to maintain a market capitalization of at least $5.0 million for at least one of every 30 consecutive calendar days. The OTCQX granted us a 60 day extension beginning on January 3, 2017 with a re-evaluation on or after February 28, 2017. Our market capitalization did not return to at least $5.0 million, and following that re-evaluation our stock began trading on the OTCQB market effective April 3, 2017.

2014 Transaction with Zhenfa

In 2014, we entered into certain definitive agreements with Zhenfa and its indirect wholly-owned subsidiary, Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation ("Zhenfa U.S.").

Purchase Agreement

On August 11, 2014, we entered into a Stock Purchase Agreement (the "Purchase Agreement") with Zhenfa U.S., pursuant to which Zhenfa U.S. acquired approximately 51% of our then outstanding shares of common stock (the "Transaction") on December 15, 2014 (the "Closing Date").

Sales Service Agreement

In connection with the execution of the Purchase Agreement, Specialized Technology Resources, Inc., our wholly owned subsidiary, entered into a sales service agreement (the "Sales Service Agreement") with Zhenfa, whereby Zhenfa agreed, among other things, to assist us in a number of endeavors, including, without limitation, marketing and selling our products in China, acquiring local raw materials, hiring and training personnel in China, and complying with Chinese law. The Sales Service Agreement also provided us an option to lease a Zhenfa-owned manufacturing facility rent free for a period of five years, which expired on December 15, 2016. The Sales Service Agreement became effective on the date of Closing, for an initial term of two years, and automatically renews for one year periods unless terminated earlier. The Sales Service Agreement may also be terminated by either party at such time as Zhenfa and its affiliates own less than 10% of our outstanding Common Stock.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosures of contingent assets and liabilities. We continually evaluate our estimates, including those related to bad debts, valuation of inventory, long-lived assets, product performance matters, income taxes, stock–based compensation and deferred tax assets and liabilities. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. The accounting policies we believe to be most critical to understand our financial results and condition and that require complex and subjective management judgments are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies" in our Annual Report on Form 10–K filed with the Securities and Exchange Commission on March 9, 2017, as amended by Form 10-K/A filed with the SEC on April 28, 2017.

There have been no changes in our critical accounting policies during the quarter ended June 30, 2017.

RESULTS OF OPERATIONS

Condensed Consolidated Results of Operations

The following tables set forth our condensed consolidated results of operations for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$3,057	$6,691	$6,770	$13,114
Cost of sales	3,695	6,631	7,905	13,455
Gross (loss) profit	(638)	60	(1,135)	(341)
Selling, general and administrative expenses	1,299	1,782	3,280	3,691
Research and development expense	236	314	550	641
(Recovery) provision for bad debt expense	(215)	934	(380)	1,359
Operating loss	(1,958)	(2,970)	(4,585)	(6,032)
Interest (expense) income, net	(3)	52	(7)	41
Other income (expense), net (Note 8)	1,632	(1,699)	1,206	(1,699)
(Loss) gain on disposal of fixed assets	(16)	2	(13)	2
Foreign currency transaction loss	(64)	(199)	(75)	(287)
Loss before income tax benefit	(409)	(4,814)	(3,474)	(7,975)
Income tax (benefit) expense	(125)	199	(143)	(15)
Net loss	$(284)	$(5,013)	$(3,331)	$(7,960)

Net Sales

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Net sales	$3,057	100.0%	$6,691	100.0%	$(3,634)	(54.3)%	$6,770	100.0%	$13,114	100.0%	$(6,344)	(48.4)%

The decrease in net sales for the three months ended June 30, 2017 compared to the corresponding period in 2016 was driven by an approximate 55% decrease in sales volume partially offset by a less than 1% increase in our average selling price (“ASP”). Net sales to one of our major customers that exceeded 10% of our consolidated net sales for the three months ended June 30, 2017 were $0.7 million. Net sales to three of our major customers that exceeded 10% of our consolidated net sales for the three months ended June 30, 2016 were $3.1 million.

The volume decline was primarily driven by an 18% volume decrease in Spain and a 73% volume decrease in China, partially offset by sales to customers in India (serviced primarily from China).

The decrease in net sales for the six months ended June 30, 2017 compared to the corresponding period in 2016 was driven by an approximate 8% decrease in our ASP and an approximate 44% decrease in sales volume. The volume decline was driven by the factors mentioned above.

On a sequential basis, net sales decreased by $0.7 million, or 17.7%, compared to the three months ended March 31, 2017. This decrease was primarily driven by a 25% decrease in sales volume, offset by a 9% increase in ASP. The sequential volume decrease was primarily driven by the wind-down of our China facility.

Cost of Sales

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Cost of sales	$3,695	120.9%	$6,631	99.1%	$(2,936)	(44.3)%	$7,905	116.8%	$13,455	102.6%	$(5,550)	(41.2)%

The decrease in our cost of sales for the three months ended June 30, 2017 compared to the corresponding period in 2016 was primarily driven by the 55% decrease in sales volume partially offset by an approximate 2% increase in raw material cost per unit. The higher raw material cost per unit was primarily driven by a 1% increase in resin costs, as well as 18% decrease in paperless sales mix. Direct labor decreased by $0.3 million, associated with the sales volume decrease. Overhead costs decreased by $0.5 million primarily due to continued cost-reduction actions.

The decrease in our cost of sales for the six months ended June 30, 2017 compared to the corresponding period in 2016 was primarily driven by the 44% decrease in sales volume, combined with an approximate 7% decrease in raw material cost per unit. The lower raw material cost per unit was primarily driven by a 4% decrease in resin costs partially offset by a 7% decrease in paperless sales mix. Direct labor decreased by $0.5 million, associated with the sales volume decrease. Overhead costs decreased by $1.1 million primarily due to continued cost-reduction actions.

Gross (Loss) Profit

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Gross (loss) profit	$(638)	(20.9)%	$60	0.9%	$(698)	(1,163.3)%	$(1,135)	(16.8)%	$(341)	(2.6)%	$(794)	(232.8)%

Gross loss, as a percentage of net sales, declined for the three months ended June 30, 2017 compared to the corresponding period in 2016 mainly as a result of a decrease in sales volume combined with an increase in raw material prices.

Gross loss, as a percentage of net sales, declined for the six months ended June 30, 2017 compared to the corresponding period in 2016 mainly as a result of a decline in ASP and volume and lower absorption of fixed costs that more than offset our decrease in raw material costs as described above.

Selling, General and Administrative Expenses ("SG&A")

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
SG&A	$1,299	42.5%	$1,782	26.6%	$(483)	(27.1)%	$3,280	48.4%	$3,691	28.1%	$(411)	(11.1)%

SG&A decreased by $0.5 million for the three months ended June 30, 2017 compared to 2016. This decrease was primarily driven by a $0.2 million decrease in labor and benefits and annual incentive compensation expense and a $0.3 million decrease in restructuring expense.

SG&A decreased by $0.4 million for the six months ended June 30, 2017 compared to 2016. This decrease was primarily driven by $0.2 million in lower labor and benefits and a $0.2 million reduction in restructuring expense.

SG&A expenses for the three months ended June 30, 2017 were $1.3 million compared to $2.0 million for the three months ended March 31, 2017. The sequential decrease was driven by reductions in labor and benefits, annual incentive compensation expense, professional fees and restructuring charges.

Research and Development Expense ("R&D")

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
R&D	$236	7.7%	$314	4.7%	$(78)	(24.8)%	$550	8.1%	$641	4.9%	$(91)	(14.2)%

Research and development expense decreased modestly by less than $0.1 million for the three and six months ended June 30, 2017 compared to the corresponding periods in the prior year, as our research and development staffing and activity has remained relatively consistent during the two periods. Our research and development cost as a percentage of sales, however, increased year over year as a result of our decreased sales.

(Recovery)Provision for Bad Debt Expense

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
(Recovery) provision for bad debt expense	$(215)	(7.0)%	$934	14.0%	$(1,149)	(123.0)%	$(380)	(5.6)%	$1,359	10.4%	$(1,739)	(128.0)%

The recovery for bad debt expense recorded during the three and six months ended June 30, 2017 primarily related to receiving cash for previously aged accounts receivable that were reserved for under our policy, primarily in China.

Other Income (Expense), net

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Other income (expense), net	$1,632	53.4%	$(1,699)	(25.4)%	$3,331	196.1%	$1,206	17.8%	$(1,699)	(13.0)%	$2,905	171.0%

In July 2015, we announced a restructuring plan that included the closure of our Malaysia facility, effective August 2, 2015. During the first six months of 2016, we received and accepted an offer of RM25.0 million (approximately $5.8 million as of June 30, 2017) for the land-use right and building. We entered into a definitive Purchase and Sale Agreement on November 18, 2016. As a result of the pending sale (subject to the approval of the Johor Port Authority), a gain on assets held for sale of $0.2 million and a loss on assets held for sale of $0.3 million, related to the foreign currency fluctuation of the Ringgit, was recorded during the three and six months ended June 30, 2017, respectively.

Foreign Currency Transaction (Loss) Gain

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Foreign currency transaction (loss) gain	$(64)	(2.1)%	$(199)	(3.0)%	$135	67.8%	$(75)	(1.1)%	$(287)	(2.2)%	$212	73.9%

The foreign currency transaction impact was a loss of less than $0.1 million for the three months ended June 30, 2017 compared to a loss of $0.2 million in the corresponding 2016 period. This change was primarily the result of volatility in the Euro spot exchange rate versus the U.S. Dollar.

The foreign currency transaction loss for the six months ended June 30, 2017 was less than $0.1 million compared to a loss of $0.3 million for the six months ended June 30, 2016.

Our primary foreign currency exposures are intercompany loans, U.S. dollar cash balances in foreign locations and some U.S. dollar denominated accounts receivable at our Spain and China facilities.

Income Tax Expense (Benefit)

	Three Months Ended June 30,						Six Months Ended June 30,					
	2017		2016		Change		2017		2016		Change	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	%
Income tax expense (benefit)	$(125)	(4.1)%	$199	3.0%	$(324)	162.8%	$(143)	(2.1)%	$(15)	(0.1)%	$(128)	(853.3)%

During the three and six months ended June 30, 2017, we recorded an income tax benefit of $0.1 million and $0.1 million, respectively, resulting in an effective tax rate of 30.6% and 4.1%, respectively. The income tax benefit was primarily related to the allocation of tax expense between operations and other comprehensive income when applying the exception to the ASC 740 intra-period allocation rule. The projected annual effective tax rate, excluding the intraperiod allocation, is 0.0% as compared to the U.S. federal statutory rate of 35.0%. The annual effective tax rate is principally driven by changes in valuation allowances.

During the three and six months ended June 30, 2016, we recorded an income tax expense of $0.2 million and income tax benefit of less than $0.1 million, respectively, resulting in an effective tax rate of (4.1)% and 0.2%, respectively. The income tax benefit was primarily related to the allocation of tax expense between operations and other comprehensive income when applying the exception to the ASC 740 intra-period allocation rule. The projected annual effective tax rate, excluding the intraperiod allocation, is 0.0% as compared to the U.S. federal statutory rate of 35.0%. The annual effective tax rate is principally driven by changes in valuation allowances.

During the second quarter of 2016, we received an income tax refund of $8.3 million from the Internal Revenue Service resulting from a 2014 federal net operating loss carryback.

Segment Results of Operations

We report our business in one reported segment. We measure segment performance based on net sales and Adjusted EBITDA. See Note 17-Reportable Segment and Geographical Information located in the Notes to the Condensed Consolidated Financial Statements for a definition of Adjusted EBITDA and further information. Net sales for our segment is described in further detail above. The discussion that follows is a summary analysis of net sales and the primary changes in Adjusted EBITDA.

The following tables set forth information about our operations by reportable segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reconciliation of Adjusted EBITDA to Net Loss				
Adjusted EBITDA	$(1,606)	$(2,371)	$(3,633)	$(4,886)
Depreciation	(413)	(476)	(753)	(950)
Interest income (expense), net	(3)	52	(7)	41
Income tax (expense) benefit	125	(199)	143	15
Restructuring	113	(192)	(24)	(194)
Stock–based compensation	(132)	(121)	(252)	(280)

Proceeds received from insurance claim	1,475	—	1,475	—
Impairment of assets held for sale	173	(1,708)	(267)	(1,708)
Gain on disposal of fixed assets	(16)	2	(13)	2
Net Loss	$(284)	$(5,013)	$(3,331)	$(7,960)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	Change		2017	2016	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
Net Sales	$3,057	$6,691	$(3,634)	(54.3)%	$6,770	$13,114	$(6,344)	(48.4)%
Adjusted EBITDA	$(1,606)	$(2,371)	$765	32.3 %	$(3,633)	$(4,886)	$1,253	25.6 %
Adjusted EBITDA as % of Segment Net Sales	(52.5)%	(35.4)%			(53.7)%	(37.3)%		

Adjusted EBITDA as a percentage of net sales declined for the three months ended June 30, 2017 compared to 2016 driven by lower sales volume partially offset by improved SG&A, R&D and bad debt.

Adjusted EBITDA as a percentage of net sales declined for the six months ended June 30, 2017 compared to 2016 driven by lower sales volume partially offset by improved SG&A, R&D and bad debt.

Adjusted EBITDA for the second quarter of 2017 was $(1.6) million compared to $(2.0) million from the first quarter of 2017. The sequential improvement was primarily due to decreased SG&A, R&D and bad debt expense partially offset by unfavorable foreign currency impact.

Cost-Reduction Actions

In June 2016, we eliminated certain positions at our Spain facility, effective July 5, 2016. In connection with this, we recorded $0.1 million of severance and benefits in cost of sales and $0.1 million of severance and benefits in selling, general and administrative expenses during 2016.

In light of continued difficulties in the China market, on March 7, 2017 we made the decision to wind down our China manufacturing operations substantially by the end of the second quarter of 2017. In early July we vacated our Chinese facility and relocated key personnel to temporary offices. The decision was consistent with ongoing efforts to reorganize our encapsulant business to better align with customer geography, to reduce losses related to unprofitable locations and to convert assets to cash for potential redeployment into more profitable endeavors. In connection with the restructuring, the Company does not expect any significant asset impairment charges and recorded $0.1 million of severance charges and benefits in cost of sales and less than $0.1 million of severance and benefits in selling, general and administrative expenses during the first six months of 2017.

A roll-forward of the severance and other exit cost accrual activity was as follows:

	June 30, 2017	June 30, 2016
Balance as of beginning of year	$ 0.3	$ 0.3
Additions	0.1	0.2
Reductions	(0.2)	(0.1)
Reversals	(0.1)	—
Balance as of end of period	$ 0.1	$ 0.4

The restructuring accrual consisted of $0.1 million and $0.4 million for severance and benefits as of June 30, 2017 and 2016, respectively.

Financial Condition, Liquidity and Capital Resources

We have funded our operations primarily through our existing cash balance. As of June 30, 2017, our principal source of liquidity was $13.4 million of cash and $0.1 million of Chinese bank acceptance notes. Our principal needs for liquidity have been, and for the foreseeable future we expect will continue to be, for working capital and capital investments. We also expect to receive proceeds from our sale of our Johor, Malaysia facility, as discussed below. With respect to China, payment terms are currently longer in China than in many other locations, which result in

delayed cash receipts from certain of our customers. Additionally, evolving China currency control regulations may limit our access to the $5.3 million of cash and $0.1 million of bank acceptance notes located in China for use outside the country. Although we believe that our available cash will be sufficient to meet our liquidity needs, including capital investments (mainly equipment upgrades and information technology needs), through at least the next 12 months, if we are unable to collect our accounts receivable or fail to receive payment in a timely fashion, or obtain bank acceptance notes from our customers, or fail to receive payment on the sale of our Malaysia property, our financial condition and results of operations will be negatively affected.

We incurred bad debt expense of $2.6 million during 2016 and filed lawsuits against three customers of STR China for non-payment during 2016. Other customers in China are significantly behind terms. Even if STR China is able to prevail in court in China, we cannot assure that we will be paid timely, if at all. We have rejected orders from multiple customers in China, with whom we were successful in securing technical qualification, due to their failure to meet certain credit metrics or in some cases, a poor history of payment to us.

In October 2015, our wholly owned Spanish subsidiary, Specialized Technology Resources España S.A., entered into a factoring agreement to sell, with recourse, certain European, U.S. and other foreign company-based receivables to Eurofactor Hispania S.A.U., who was later acquired by Credit Agricole Leasing & Factoring sucursal en España during the first quarter of 2017. Under the current terms of the factoring agreement, the maximum amount of outstanding advances at any one time is €1.5 million (approximately $1.7 million as of June 30, 2017), which is subject to adjustment based on the level of eligible receivables, restrictions on concentrations of receivables and the historical performance of the receivables sold. The annual discount rate is 2% plus EURIBOR for Euro-denominated receivables and 2% plus LIBOR for all other currencies. The term of the agreement is for one year, which will be automatically extended unless terminated by either party with 90 days prior written notice. As of June 30, 2017 €1.0 million ($1.2 million as of June 30, 2017) was available under the factoring agreement based upon receivables outstanding.

In connection with our continued efforts to return our encapsulant business to profitability, on July 24, 2015 our Board approved a restructuring of our encapsulant business, which included the shut-down of our Malaysia manufacturing facility, effective August 2, 2015. We are in the process of selling the Johor, Malaysia facility and its production and ancillary equipment. In connection with the shut-down and sale of the Malaysia facility, we incurred approximately $1.3 million of associated non-recurring costs during the second half of 2015. In 2016, in connection with the potential sale of the Malaysia facility (specifically, the land-use right and building), an analysis of the asset group was performed and an impairment of assets held for sale of $1.7 million was recorded. Effective November 18, 2016, we entered into an agreement to sell our rights to the facility for RM25.0 million (approximately $5.8 million as of June 30, 2017). Closing of the transaction is subject to customary conditions to closing of transactions of this type, including the approval of the Johor Port Authority. We cannot assure that we will be able to close the sale of our Malaysia real estate on a timely basis or on favorable terms or that the costs of closure of that facility will not be higher than anticipated. On July 31, 2017, we received a notice from Tiong Nam Logistics Solutions SDN BHD (the “Purchaser”) purporting to terminate the Agreement, alleging that the Johor Port Authority is seeking to impose unacceptable conditions on the approval of the transfer of the facility to the Purchaser. We have responded to the Purchaser disputing the validity of the purported termination on the grounds that the one year condition period has not yet expired and we are continuing to seek to work with the Johor Port Authority to remove the condition objected to by the Purchaser. We cannot assure that we will be successful in obtaining the required approval of the Johor Port Authority for the transaction within the one year condition period, or that the Purchaser will proceed with the transaction if such approval is obtained.

We remain open to exploring possible business opportunities in potentially more profitable parts of the solar supply chain, alternate geographic markets, as well as other strategic alternatives. We cannot assure that we will be able to successfully pursue any such potential opportunities. If we are successful in pursuing any such opportunities, we may be required to expend significant funds, incur debt or other obligations or issue additional securities, any of which could significantly dilute our current stockholders and may negatively affect our operating results and financial condition. We cannot assure that any such strategic opportunities or related transactions, or any financing in connection therewith, would be available on favorable terms, if at all, or that we will realize any anticipated benefits from any such transactions that we complete. In the event that we are not successful in restructuring our encapsulant business or pursuing opportunities in the downstream solar market or other strategic transactions, we also intend to consider alternatives, including, without limitation, the acquisition of another business, the divestiture of all or certain of our assets, joint ventures and other transactions outside the ordinary course of business.

If we are not able to fund our working capital needs, we will have to slow our projected growth, which may further impede or delay our attempt to return to profitability. We expect to fund our cash requirements with our existing cash and bank acceptance notes, leveraging our European factoring facility and other potential working capital financing arrangements.

Our cash and cash equivalents balance is located in the following geographies:

	June 30, 2017
China	$ 5,326
United States	5,243
Spain	1,519
Malaysia	1,234
Hong Kong	82
Consolidated	$ 13,404

Due to, among other things, the difficulty repatriating cash to the U.S., we may have limited access to the $5.3 million of cash and $0.1 million of bank acceptance notes located in China for use outside the country.

We do not permanently re-invest our Malaysia subsidiary's earnings. Based upon the Malaysia subsidiary's liabilities to us, we expect the undistributed earnings of our Malaysia subsidiary will be repatriated to the U.S. in a tax-free manner. We do not permanently re-invest our Spain earnings, so this cash balance is available for dividend repatriation (less any applicable withholding taxes). We have not elected to permanently re-invest our Hong Kong and China earnings and plan to utilize our cash located in Hong Kong and China to fund working capital requirements and wind down costs. Our goal is to achieve and maintain self-sufficiency in each of our manufacturing locations to meet local cash requirements. We cannot assure that we will continue to fund the manufacturing operations in any location, if such operations would require investment of additional cash from other jurisdictions.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities was $1.1 million for the six months ended June 30, 2017 compared to net cash provided by operating activities of $5.8 million for the six months ended June 30, 2016. Net loss plus and minus non-cash adjustments ("cash loss") improved by approximately $2.5 million for the six months ended June 30, 2017 compared to the same period in 2016. This improvement was driven by the receipt of the $1.5 million partial payment related to the insurance claim from the fire at out China facility.

Cash Flow from Investing Activities

Net cash used in investing activities was $0.4 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively. The 2017 capital investments related to the restoration and repairs to the building and equipment at our China facility following the fire in 2016 and are included in the related insurance claim. In the first six months of 2017, our China subsidiary received interim payments totaling RMB10.0 million (approximately $1.5 million as of June 30, 2017) from our local China insurance carrier related to the existing fire insurance claim. These payments do not represent a final settlement, and we continue to work with our agents and the carrier to finalize the claim. We expect remaining 2017 consolidated capital expenditures to be less than $0.1 million.

Cash Flow from Financing Activities

Net cash provided by financing activities was $0.1 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively, primarily due to funds received by our Spanish subsidiary related to the factoring agreement.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet financing arrangements.

Effects of Inflation

Inflation generally affects us by increasing costs of raw materials, labor and equipment. During the first six months of 2017, we were not materially affected by inflation.

Recently Issued Accounting Standards

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As of June 30, 2017, we do not expect this ASU to have a significant impact on its financial statements or disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are not required to provide this Item 3 because we are a smaller reporting company.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chairman, President and Chief Executive Officer and our Vice President, Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer and our Vice President, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chairman, President and Chief Executive Officer and our Vice President, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second fiscal quarter of our fiscal year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are and have been a party to litigation that arises in the ordinary course of our business.

In October 2016, a complaint was filed by Solaria Energia y Medio Ambiente S.A. (“Solaria”) against the Company and its Spanish subsidiary, Specialized Technology Resources España S.A. (“STR Spain”), in the Court of the First Instance No. 8 in Oviedo, Spain, relating to a product quality claim in connection with a non-encapsulant product that STR Spain purchased from a vendor in 2005 and 2006 and resold to Solaria. The Company stopped selling this product in 2006. Solaria is seeking approximately €3.3 million (approximately $3.8 million), plus interest, in damages.

A trial was held on April 6, 2017, in Oviedo, Spain. The Company is currently awaiting a ruling from the court.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “*Item 1A. Risk Factor*s” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could

materially affect our business, financial position and results of operations. There have been no material changes to the risk factors as disclosed in Part I, “*Item 1A. Risk Factor*s” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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

	STR HOLDINGS, INC. (Registrant)	
Date: August 11, 2017	/s/ Thomas D. Vitro	
	Name:	Thomas D. Vitro
	Title:	*Vice President, Chief Financial Officer and Chief Accounting Officer* (Duly Authorized Officer and Principal Financial Officer)