



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 10-Q

(mark one)

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

For the Quarterly Period Ended June 30, 2018

Or

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

(State or other jurisdiction of incorporation or organization)

27-1023344

(I.R.S. Employer Identification No.)

10 Water Street, Enfield, Connecticut

(Address of principal executive offices)

06082

(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 NO

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 NO

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

Accelerated filer

Non-accelerated filer

Smaller reporting company
Emerging growth company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

At July 31, 2018, there were 20,101,221 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, 2018

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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, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,710	\$ 13,499
Bank acceptance notes	—	904
Accounts receivable, trade, less allowances for doubtful accounts of \$1,734 and \$1,725 in 2018 and 2017, respectively	1,588	1,199
Inventories, net	1,357	1,110
Prepaid expenses	859	748
Other current assets	738	767
Total current assets	<u>16,252</u>	<u>18,227</u>
Property, plant and equipment, net	7,767	8,728
Assets held for sale (Note 7)	6,155	6,155
Other long-term assets	78	76
Total assets	<u>\$ 30,252</u>	<u>\$ 33,186</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,451	\$ 971
Accrued liabilities (Note 8)	1,349	2,307
Income taxes payable	898	896
Due to factor	397	454
Total current liabilities	<u>4,095</u>	<u>4,628</u>
Deferred tax liabilities	969	698
Total liabilities	<u>5,064</u>	<u>5,326</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
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; 20,039,461 and 20,038,221 issued and outstanding, respectively, in 2018 and 19,919,529 and 19,918,289 issued and outstanding, respectively, in 2017	200	195
Treasury stock, 1,240 shares at cost	(57)	(57)
Additional paid-in capital	232,315	232,149
Accumulated deficit	(201,827)	(199,072)
Accumulated other comprehensive loss, net	(5,443)	(5,355)
Total stockholders' equity	<u>25,188</u>	<u>27,860</u>
Total liabilities and stockholders' equity	<u>\$ 30,252</u>	<u>\$ 33,186</u>

See accompanying notes to these condensed consolidated financial statements.

STR Holdings, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(unaudited)

All amounts in thousands except share and per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$ 2,515	\$ 3,057	\$ 6,261	\$ 6,770
Cost of sales	3,490	3,695	5,935	7,905
Gross (loss) profit	(975)	(638)	326	(1,135)
Selling, general and administrative expenses	1,380	1,299	3,072	3,280
Research and development expense	190	236	405	550
Provision (recovery) for bad debt expense	67	(215)	6	(380)
Operating loss	(2,612)	(1,958)	(3,157)	(4,585)
Interest income (expense), net	16	(3)	15	(7)
Other income, net	183	1,632	1,203	1,206
Loss on disposal of fixed assets	(383)	(16)	(383)	(13)
Foreign currency transaction loss	(106)	(64)	(162)	(75)
Loss before income tax expense (benefit)	(2,902)	(409)	(2,484)	(3,474)
Income tax expense (benefit)	172	(125)	271	(143)
Net loss	\$ (3,074)	\$ (284)	\$ (2,755)	\$ (3,331)
Other comprehensive (loss) income:				
Foreign currency translation (net of tax effect of \$(81), \$205, \$(36) and \$257, respectively)	(542)	501	(88)	631
Other comprehensive (loss) income	(542)	501	(88)	631
Comprehensive (loss) income	\$ (3,616)	\$ 217	\$ (2,843)	\$ (2,700)
Net loss per share (Note 3):				
Basic	\$ (0.16)	\$ (0.02)	\$ (0.14)	\$ (0.18)
Diluted	\$ (0.16)	\$ (0.02)	\$ (0.14)	\$ (0.18)
Weighted-average shares outstanding (Note 3):				
Basic	19,669,353	18,913,427	19,607,204	18,839,391
Diluted	19,669,353	18,913,427	19,607,204	18,839,391

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,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	\$ (2,755)	\$ (3,331)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	383	753
Stock-based compensation expense	161	252
Gain (loss) on disposal of property, plant and equipment	383	13
Provision (recovery) for bad debt expense	6	(380)
Impairment of assets held for sale	—	267
Proceeds from insurance claim	—	1,475
Provision (recovery) for deferred taxes	271	(302)
Customer forfeiture of deposit	(940)	—
Changes in operating assets and liabilities:		
Accounts receivable	(637)	1,010
Inventories, net	(269)	(170)
Other current assets	860	1,624
Accounts payable	244	(274)
Accrued liabilities	67	233
Income taxes payable	4	2
Other, net	150	(23)
Total net cash (used in) provided by operating activities	<u>(2,072)</u>	<u>1,149</u>
INVESTING ACTIVITIES		
Capital investments	(36)	(410)
Proceeds from sale of fixed assets	238	—
Total net cash provided by (used in) investing activities	<u>202</u>	<u>(410)</u>
FINANCING ACTIVITIES		
Factoring arrangement	(46)	111
Total net cash (used in) provided by financing activities	<u>(46)</u>	<u>111</u>
Effect of exchange rate changes on cash	<u>127</u>	<u>175</u>
Net change in cash and cash equivalents	(1,789)	1,025
Cash and cash equivalents, beginning of period	13,499	12,379
Cash and cash equivalents, end of period	<u>\$ 11,710</u>	<u>\$ 13,404</u>

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, 2017, included in STR Holdings, Inc.’s (the “Company”) Annual Report on Form 10-K filed with the SEC on March 16, 2018. 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.

NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS AND ADOPTION

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. The provisions of this ASU are ultimately effective for interim and annual periods beginning after December 15, 2017. The standard shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. During 2016, the FASB clarified the implementation guidance on principal versus agent, identifying performance obligations, licensing, and collectability.

The Company adopted the new revenue recognition standard (“ASC 606”) on January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with ASC 605, *Revenue Recognition*. The application of the standard had no impact on the Company’s consolidated financial statements for any periods prior to 2018. The adoption of ASC 606 represents a change in accounting principle to more closely align revenue recognition with the delivery of the Company’s products, licenses and services. ASC 606 requires an entity to evaluate revenue recognition by identifying a contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation.

Revenue is principally derived from the sale and licensing of highly engineered plastic sheet and film products. The Company receives specific purchase orders for the manufacture, sale and delivery of these products that identify the goods and/or services to be transferred, the price for those goods and other commercial terms of the order. The goods are generally purchased under EXW (or EX-Works) terms, meaning that the customer is responsible for arranging the shipping of the goods and title passes when the goods are picked up from the Company’s dock. Revenue is recognized upon the transfer of title, and there are no price concessions, volume discounts, rebates, refunds, credits, incentives, performance bonuses, royalties or other types of variable consideration.

In the specific case of the Equipment Purchase Agreement and a Technology License Agreement (the “Agreements”) signed on January 16, 2018 for an aggregate transaction price of \$6,000, the Company will purchase from a third party specialized equipment (the “Equipment”) for the production of one of the Company’s proprietary encapsulants (the “Encapsulant”), resell the Equipment to the customer, install the Equipment at a facility of the customer and train the

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 2—RECENT ACCOUNTING PRONOUNCEMENTS AND ADOPTION (Continued)

customer's personnel in the Equipment's use. Under the license agreement, the Company has granted the customer the right to use the formula for the Encapsulant and certain of the Company's production techniques to make or have made the Encapsulant for use in photovoltaic (PV) modules manufactured by the customer. For revenue recognition purposes, the Company defines the following three distinct major performance obligations of the Agreements and the corresponding transaction price allocated to those performance obligations:

- Obligation 1 - \$1,750 - Price Report, Formula and Sample
- Obligation 2 - \$2,000 - Equipment, including delivery & installation (incl. training)
- Obligation 3 - \$2,250 - License (perpetual)

Obligation 1 is considered to be separate and distinct from the other two obligations, in that the information provided under this obligation represents significant standalone value to the customer and the Company's obligation to provide this information is separately identifiable from the other obligations in the agreements. Obligation 2 and Obligation 3 were also clearly identifiable, as defined by the Equipment Purchase Agreement (including delivery and installation by an agreed-upon date) and the license ("License") granted pursuant to the Technology License Agreement (with an effective start date upon the receipt of an acceptance test payment).

The Company is applying a "cost-plus" approach to Obligation 1 and Obligation 2. As the Company had never before sold any type of license, had no established specific license pricing and had no knowledge of pricing for similar licenses, the Company is using the residual approach for Obligation 3. The License is perpetual, distinct and not combined with other goods and services, and is a right to use, rather than to access, functional intellectual property.

The Company also assessed whether it was acting in a principal or agent role in each performance obligation of the Agreements. In all obligations, the Company determined it was acting in the role of principal and therefore revenue is recognized on a gross basis.

As a result, the Company recognized \$1,750 in the quarter ended March 31, 2018 upon the satisfaction of Obligation 1, its delivery of a price report, formula and sample. The total transaction price of the Agreements is expected to be recognized as revenue as follows:

	2018	2019(a)	Total
Revenue expected to be recognized during the year ended December 31	\$ 1,750	\$ 4,250	\$ 6,000

- (a) \$2,000 upon installation of the Equipment and \$2,250 upon acceptance and commencement of the License.

There are no new accounting pronouncements that the Company believes may have a material impact on its consolidated financial statements.

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—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,	
	2018	2017	2018	2017
Basic and diluted net loss per share				
Numerator:				
Net loss	\$ (3,074)	\$ (284)	\$ (2,755)	\$ (3,331)
Denominator:				
Weighted-average shares outstanding	19,669,353	18,913,427	19,607,204	18,839,391
Add:				
Dilutive effect of stock options	—	—	—	—
Dilutive effect of restricted common stock	—	—	—	—
Weighted-average shares outstanding with dilution	19,669,353	18,913,427	19,607,204	18,839,391
Net loss per share:				
Basic	\$ (0.16)	\$ (0.02)	\$ (0.14)	\$ (0.18)
Diluted	\$ (0.16)	\$ (0.02)	\$ (0.14)	\$ (0.18)

Due to the net loss for the three and six months ended June 30, 2018 and 2017, 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, 2018. Similarly, 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.

NOTE 4—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.

Bank acceptance notes consist of the following:

	June 30, 2018	December 31, 2017
Balance as of beginning of period	\$ 904	\$ 3,360
Received from customers	—	1,985
Converted to cash	(888)	(3,508)
Paid to suppliers	—	(1,162)
Foreign exchange impact	(16)	229
Balance as of end of period	\$ —	\$ 904

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—INVENTORIES

Inventories consist of the following:

	June 30, 2018	December 31, 2017
Finished goods	\$ 365	\$ 340
Raw materials	996	829
Reserve	(4)	(59)
Inventories, net	<u>\$ 1,357</u>	<u>\$ 1,110</u>

NOTE 6—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, 2018 and December 31, 2017, 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, 2018. Therefore no impairment was recorded in 2018. 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 7—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. During 2016, the Company entered into a definitive Purchase and Sale Agreement for the land-use right and the building for a purchase price of RM25,000. Closing of the transaction was subject to customary conditions to closing of transactions of this type, including the approval of the Johor Port Authority ("JPA"). On July 31, 2017, the Company received a notice from the purchaser purporting to terminate the agreement, alleging that the JPA was seeking to impose certain conditions on the approval of the transfer of the facility to the purchaser that it found unacceptable. The Company was not successful in removing those conditions, and the agreement terminated. The Company has re-launched the sale process for its Malaysia facility.

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, 2018 and December 31, 2017 as assets held for sale. An impairment loss of \$267, related to the foreign currency fluctuation of the Ringgit, was recorded in the Company's Condensed Consolidated Statement of Comprehensive (Loss) Income in other expense, net during the first half of 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 8—ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2018	December 31, 2017
Salaries and wages	\$ 323	\$ 239
Accrued bonus	210	258
Professional fees	285	319
Restructuring severance and benefits (see Note 10)	102	87
Environmental (see Note 9)	57	57
Accrued franchise tax	79	90
Client deposits	179	1,157
Other	114	100
Total accrued liabilities	\$ 1,349	\$ 2,307

NOTE 9—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.

The Company's product performance liability that is recorded in accrued liabilities in the Condensed Consolidated Balance Sheets was \$0 as of each June 30, 2018 and December 31, 2017.

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, 2018 and December 31, 2017.

Solaria

In October 2016, a complaint was filed by Solaria Energia y Medio Ambiente S.A.U. ("Solaria") against the Company and its Spanish subsidiary, Specialized Technology Resources España S.A.U. ("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

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 9—COMMITMENTS AND CONTINGENCIES (Continued)

purchased from a vendor in 2005 and 2006 and resold to Solaria. The Company stopped selling this product in 2006. Solaria is seeking approximately €3,300, 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 believes that it 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, 2018 and December 31, 2017.

NOTE 10—COST-REDUCTION ACTIONS

In March 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 was 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 and \$67 of severance charges during the first six months of 2018. The Company sold certain production and testing equipment from the China facility to its tolling partner in India during the third quarter of 2017.

In June 2018, the Company eliminated certain positions at its Spain facility, effective June 18, 2018. The Company recorded \$588 of severance and benefits in cost of sales and \$67 of severance and benefits in selling, general and administrative expenses during the second quarter of 2018.

The restructuring accrual consists of \$102 for severance and benefits as of June 30, 2018. A rollforward of the severance and other exit cost accrual activity is as follows:

	June 30, 2018	June 30, 2017
Balance as of beginning of year	\$ 87	\$ 269
Additions	722	143
Reductions	(707)	(177)
Reversals	—	(120)
Balance as of end of period	<u>\$ 102</u>	<u>\$ 115</u>

NOTE 11—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.

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 11—FAIR VALUE MEASUREMENTS (Continued)

The following table provides the fair value measurements of applicable financial assets and liabilities as of June 30, 2018:

	Financial assets and liabilities at fair value as of June 30, 2018		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds (1)	\$ 7,605	\$ —	\$ —
Bank acceptance notes (2)	—	—	—
Non-recurring fair value measurements (3)	—	—	6,155
Total	<u>\$ 7,605</u>	<u>\$ —</u>	<u>\$ 6,155</u>

The following table provides the fair value measurements of applicable financial assets and liabilities as of December 31, 2017:

	Financial assets and liabilities at fair value as of December 31, 2017		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds (1)	\$ 6,688	\$ —	\$ —
Bank acceptance notes (2)	904	—	—
Non-recurring fair value measurements (3)	—	—	6,155
Total	<u>\$ 7,592</u>	<u>\$ —</u>	<u>\$ 6,155</u>

(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 4 for further information.

(3) Included in assets held for sale on the Company's Condensed Consolidated Balance Sheets. Refer to Note 7 for further information.

NOTE 12—FACTORING ARRANGEMENT

In October 2015, the Company's wholly owned Spanish subsidiary, STR Spain, 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 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 \$1,752 as of June 30, 2018), 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, 2018 and December 31, 2017 the Company has recorded \$397 and \$454, respectively, as due to factor on the Condensed Consolidated Balance Sheets.

NOTE 13—INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law in the United States. The legislation contains several key tax provisions including the reduction of the corporate income tax rate to 21% effective January 1, 2018, a one-time transition tax on foreign earnings which have not previously been subject to tax in the United States, as well as a variety of other changes, including limitation of the tax deductibility of interest expense, limitations for the deduction for net operating losses, new taxes on certain foreign-sourced earnings, and modification or repeal of many business deductions and credits.

The SEC staff issued SAB 118 which allows companies to record provisional amounts during a one-year measurement period. At December 31, 2017, the Company has not completed its accounting for the tax effects of the

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 13—INCOME TAXES (Continued)

enactment of the TCJA; however, the Company estimated what it believes to be the effects of the TCJA on its existing deferred tax balances and the one-time transition tax, and recorded a provisional estimate for these tax effects.

During the three and six months ended June 30, 2018, the Company did not record any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the third quarter of 2018 subsequent to the Company's completion of the 2017 tax return.

The TCJA subjects a U.S. shareholder to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries for which an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy. As of June 30, 2018, the Company does not anticipate a GILTI inclusion for the taxable year. The Company will continue to assess forthcoming guidance and accounting interpretations on the effects of the TCJA and expects to complete its analysis within the measurement period in accordance with the SEC guidance.

During the three and six months ended June 30, 2018, the Company recorded an income tax expense of \$172 and \$271 resulting in an effective tax rate of (5.9%) and (10.9%), respectively. This effective tax rate for the three months ended June 30, 2018 differs from the U.S. statutory tax rate primarily due to the effect of taxes on foreign earnings.

There was 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.

NOTE 14—STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the six months ended June 30, 2018 are as follows:

	Common Stock		Treasury Stock		Additional	Accumulated Other	Accumulated	Total
	Issued	Amount	Acquired	Amount	Paid-In Capital	Comprehensive Loss	Deficit	Stockholders' Equity
Balance at December 31, 2017	19,532,573	\$ 195	1,240	\$ (57)	\$ 232,149	\$ (5,355)	\$ (199,072)	\$ 27,860
Stock-based compensation	505,648	5	—	—	166	—	—	171
Net loss	—	—	—	—	—	—	(2,755)	(2,755)
Foreign currency translation, net of tax	—	—	—	—	—	(88)	—	(88)
Balance at June 30, 2018	<u>20,038,221</u>	<u>\$ 200</u>	<u>1,240</u>	<u>\$ (57)</u>	<u>\$ 232,315</u>	<u>\$ (5,443)</u>	<u>\$ (201,827)</u>	<u>\$ 25,188</u>

Common Stock

The Company's Board of Directors has authorized 200,000,000 shares of common stock, \$0.01 par value. At June 30, 2018, there were 20,039,461 shares issued and 20,038,221 shares outstanding of common stock. Each share of common stock is entitled to one vote per share.

NOTE 15—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 were 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,

STR Holdings, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 15—STOCK-BASED COMPENSATION (Continued)

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 431,131 shares available for grant under the 2009 Plan as of June 30, 2018.

The following table summarizes the options activity under the Company's 2009 Plan for the six months ended June 30, 2018:

	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, 2017	1,121,332	\$ 1.52	—	\$ 0.99	\$ (1,402)
Options granted	—	\$ —	—	\$ —	\$ —
Exercised	—	\$ —	—	\$ —	\$ —
Canceled/forfeited	—	\$ —	—	\$ —	\$ —
Balance at June 30, 2018	<u>1,121,332</u>	<u>\$ 1.52</u>	<u>6.61</u>	<u>\$ 0.99</u>	<u>\$ (1,402)</u>
Vested and exercisable as of June 30, 2018	1,121,332	\$ 1.52	6.61	\$ 0.99	\$ (1,402)
Vested and exercisable as of June 30, 2018 and expected to vest thereafter	1,121,332	\$ 1.52	6.61	\$ 0.99	\$ (1,402)

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$0.27 of the Company's common stock on June 30, 2018.

As of June 30, 2018, there was \$0 of unrecognized compensation cost related to outstanding stock option awards. The Company did not receive any proceeds related to the exercise of stock options for the six months ended June 30, 2018.

The following table summarizes the restricted common stock activity of the Company for the six months ended June 30, 2018:

	Unvested Restricted Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2017	385,716	\$ —
Granted	119,932	\$ —
Vested	(505,648)	\$ 0.28
Unvested at June 30, 2018	<u>—</u>	<u>\$ —</u>
Expected to vest after June 30, 2018	—	\$ —

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,	
	2018	2017	2018	2017
Selling, general and administrative expense	\$ 88	\$ 132	\$ 161	\$ 252
Total stock-based compensation expense	<u>\$ 88</u>	<u>\$ 132</u>	<u>\$ 161</u>	<u>\$ 252</u>

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—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. The Company focuses on the manufacturing, sale and licensing of highly engineered plastic sheet and film products to customers throughout the world. The Company procures raw materials from multiple similar vendors and expects similar long-term economic characteristics for its products.

Operations by Geographic Area

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Sales				
Spain	\$ 1,906	\$ 2,042	\$ 3,382	\$ 3,754
China	—	983	30	2,974
India	478	—	904	—
United States	131	32	1,945	42
Total Net Sales	<u>\$ 2,515</u>	<u>\$ 3,057</u>	<u>\$ 6,261</u>	<u>\$ 6,770</u>

Long-Lived Assets by Geographic Area

	June 30, 2018	December 31, 2017
Long-Lived Assets		
United States	\$ 1,237	\$ 1,311
Spain	6,454	7,141
China	76	276
Total Long-Lived Assets	<u>\$ 7,767</u>	<u>\$ 8,728</u>

Foreign sales are based on the country in which the sales originated. Net sales to four of the Company's major customers that exceeded 10% of the Company's consolidated net sales for the three months ended June 30, 2018 were \$1,401. Net sales to two of the Company's major customers that exceeded 10% of the Company's consolidated net sales for the six months ended June 30, 2018 were \$1,444. 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, 2018 were \$683 and \$1,330, respectively. Accounts receivable from two customers amounted to \$1,072 and \$70 as of June 30, 2018 and December 31, 2017, respectively.

NOTE 17—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 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 provided that Huhui's obligations were 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 December 31, 2017, Huhui had not commenced the sample production run. The Huhui Supply Agreement automatically renewed for additional one year terms if either party failed to notify the other party at least 90 days prior to the

STR Holdings, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 17—RELATED PARTY TRANSACTION (Continued)

end of the then current term that it was 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 was included in accrued liabilities on the Condensed Consolidated Balance Sheets.

Huhui did not complete its 30 day production run as contemplated under the Supply Agreement and on March 27, 2018, following the approval of the Company's Special Committee of Continuing Directors, STR China entered into an agreement to terminate the Supply Agreement (the "Termination Agreement"). Pursuant to the Termination Agreement, Huhui agreed that STR China would retain the Deposit, and each of Huhui and STR China agreed to release the other from any liability or further obligations under the Supply Agreement. The Company recognized the full amount of the deposit as other income on the Condensed Consolidated Statement of Comprehensive Income (Loss).

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, 2017, as amended by Form 10-K/A filed with the SEC on April 28, 2018.

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) excess capacity in the solar supply chain; (10) demand for solar energy in general and solar modules in particular; (11) our operations and assets in China and India being subject to significant political and economic uncertainties; (12) limited legal recourse under the laws of China and India if disputes arise; (13) our ability to adequately protect our intellectual property, particularly during the outsource manufacturing of our products; (14) our lack of credit facility and our inability to obtain credit; (15) a significant reduction or elimination of government subsidies and economic incentives or a change in government policies that promote the use of solar energy; (16) volatility in commodity costs; (17) our customers' financial profile causing additional credit risk on our accounts receivable; (18) our dependence on a limited number of third-party suppliers for raw materials for our encapsulants and other significant materials used in our process; (19) potential product performance matters and product liability; (20) our substantial international operations and shift of business focus to India; (21) the impact of changes in foreign currency exchange rates on financial results, and the geographic distribution of revenues; (22) losses of financial incentives from government bodies in certain foreign jurisdictions; (23) the ability to successfully complete our investment in Spain on a timely basis or within budget, if at all, or that we will be able to achieve our anticipated revenue, earnings or payback from this new investment; (24) that we will be able to timely collect the full amount of the insurance proceeds that we anticipate to support this project, or that we will be able to obtain the loan we have applied for from the regional government on favorable terms if at all and (25) 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.

Recent Developments

Wind-down of China Manufacturing Operations. 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 October 2016, a fire destroyed one of our two China-based production lines and caused substantial damage to our building and some of our ancillary equipment. In light of continued poor financial results of STR China, as well as the effects of the fire, we conducted an orderly wind down of our China manufacturing operations to reduce operating losses related to this business unit. By the close of 2017, we effectively completed the wind down process, with only a small administrative team remaining in an office under a short-term lease.

India Tolling Plan. A review of our production in China revealed that our sales volume was shifting to customers in India. Moreover, our customers in India generally were more reliable in terms of payment and pricing than our customers in China. In conjunction with our wind down of manufacturing operations in China, we have entered into an agreement with a tolling partner in India. We sold our undamaged production line from STR China to this tolling partner and it is now in commercial operation making STR-formulated encapsulant products. By using a tolling partner, our goal is to continue to serve and grow our customer base in India without having to make a significant direct capital investment. We have not worked with our tolling partner in India prior to 2017 and we cannot ensure that the tolling partner will provide us with the support we anticipate or that we can otherwise successfully manage our collaboration with our tolling partner. If problems develop in our relationship with our India tolling partner, or if such party fails to perform as expected, it could lead to product defects, manufacturing and shipping delays, significant cost increases, changes in our strategies, and even failure of our initiatives, each of which may have a material adverse effect on our business, financial condition, and results of operations. We cannot assure that the India tolling plan will continue to be successful or that it is sustainable in the long term. We recently sold an additional production line to our tolling partner to enable the tolling partner to further increase its manufacturing capacity in India.

We continue to reorganize our encapsulant business to better align with customer geography, to reduce the cash burn related to unprofitable locations, 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, and to evaluate other strategic alternatives.

High-End Food Packaging. In the fourth quarter of 2017, we initiated a significant investment through our wholly-owned subsidiary in Spain to enter the high-end food packaging business. This investment, which leverages our plastics expertise, includes the purchase of new, state-of-the-art plastics processing equipment and related building improvements along with the addition of experienced staff to pursue manufacturing and sales of high-end food packaging products. As anticipated, we have received and applied certain conditional insurance proceeds to this project (see “Manufacturing Facility Fire” below), helping to offset our net capital investment. These insurance proceeds are available to the Company only if we invest in new plastics manufacturing equipment. We have been advised by our insurer that our investment qualifies for reimbursement under the terms of our policy and, accordingly, they paid our U.S. entity the amount of \$0.8 million in October 2017, to cover the cost of the deposit for the primary capital equipment. We expect them to reimburse our U.S. entity for approximately an additional \$1.8 million during 2018 as we continue to make qualifying capital investment under the packaging project. We have also applied for loans of up to €2.0 million from the regional government of Asturias, Spain to further support the project. Subject to the timely purchase and installation of equipment, we expect to begin production by 2019. The food packaging business is highly competitive having market participants with substantially more resources and experience than us. We will be a new entrant in this market and we cannot assure you that we will be successful in this new endeavor. In particular, we cannot assure that we will be able to successfully complete our investment in this new business on a timely basis or within budget, if at all, or that we will be able to achieve our anticipated revenue or earnings from this new investment. Nor can we assure that we will be able to timely collect the full amount of the insurance proceeds that we anticipate to support this project, or that we will be able to obtain the loan(s) we have applied for from the regional government on favorable terms if at all.

Alternative Transactions. In the event that we are not successful in restructuring our plastics manufacturing business, in entering into the high-end food packaging business, or in completing 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 unsuccessful in executing on our strategic plans to ultimately achieve profitability by reorganizing our plastics manufacturing business and entering the high-end packaging business, we may also decide to wind down or cease any or all of our operations.

In addition, any wind-down or dissolution 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 distribution to our stockholders.

Manufacturing Facility Fire. During the fourth quarter of 2016, we recorded a \$0.9 million loss on disposal of fixed assets attributable to our Manufacturing Facility Fire. During 2017, STR China received interim payments totaling RMB12.7 million (approximately \$1.9 million as of June 30, 2018) from our local China insurance carrier related to the existing fire insurance claim. During 2017, we also received \$0.8 million in the U.S. under the master property insurance plan related to the same claim. These payments do not represent a final settlement, and we continue to work with our agents and the carrier to finalize the claim.

Equipment Purchase Agreement and Technology License Agreement. On January 16, 2018, we entered into an equipment purchase agreement and a technology license agreement (together, the "Agreements") with a manufacturer of solar photovoltaic (PV) modules (the "Purchaser").

Under the equipment purchase agreement, the Company will purchase from a third party specialized equipment (the "Equipment") for the production of one of the Company's proprietary encapsulants (the "Encapsulant"), resell the Equipment to the Purchaser, install the Equipment at a facility of the Purchaser and train Purchaser personnel in the Equipment's use. Under the technology license agreement, the Company has granted the Purchaser the right to use the formula for the Encapsulant and certain of the Company's production techniques to make or have made the Encapsulant for use in PV modules manufactured by the Purchaser. The license granted to the Purchaser pursuant to the technology license agreement is exclusive with respect to specified types of PV modules manufactured by the Purchaser, and nonexclusive as to all other types of PV modules. The Purchaser may also sublicense its rights under the technology license agreement to licensees of its PV module manufacturing processes.

Under the Agreements, the Purchaser will pay the Company an aggregate of \$6.0 million. Billing and payment under the Agreements follows a schedule involving certain milestones relating to the qualification of the Encapsulant and installation, acceptance and operation of the Equipment. The Company received the initial payment of \$1.8 million during the first quarter of 2018, with the balance to follow during the remainder of 2018 and 2019 as milestones occur. For revenue recognition purposes under ASC 606, \$1.8 million was recorded as revenue during the first quarter of 2018 as initial performance obligations were satisfied, and the Company expects that the balance of the \$6.0 million aggregate amount will be recognized as revenue when the remaining performance obligations are fulfilled. See Note 2 to the Consolidated Financial Statements.

The Company does not expect the Agreements to impact or otherwise displace any of its existing business in the solar encapsulant market.

2014 Transaction with Zhenfa

In 2014, we entered into certain definitive agreements with Zhenfa Energy Group Co., Ltd., a Chinese limited liability company ("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 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 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.

As we have substantially discontinued operations in China, Zhenfa is not currently providing us with any material services under this agreement. Any activities with Zhenfa under the Sales Service Agreement are subject to the oversight of our Special Committee of Continuing Directors.

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 16, 2018, as amended by Form 10-K/A filed with the SEC on April 28, 2018.

There have been no changes in our critical accounting policies during the quarter ended June 30, 2018.

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, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$ 2,515	\$ 3,057	\$ 6,261	\$ 6,770
Cost of sales	3,490	3,695	5,935	7,905
Gross (loss) profit	(975)	(638)	326	(1,135)
Selling, general and administrative expenses	1,380	1,299	3,072	3,280
Research and development expense	190	236	405	550
Provision (recovery) for bad debt expense	67	(215)	6	(380)
Operating loss	(2,612)	(1,958)	(3,157)	(4,585)
Interest income (expense), net	16	(3)	15	(7)
Other income, net (Note 8)	183	1,632	1,203	1,206
Loss on disposal of fixed assets	(383)	(16)	(383)	(13)
Foreign currency transaction loss	(106)	(64)	(162)	(75)
Loss before income tax expense (benefit)	(2,902)	(409)	(2,484)	(3,474)
Income tax expense (benefit)	172	(125)	271	(143)
Net loss	\$ (3,074)	\$ (284)	\$ (2,755)	\$ (3,331)

Net Sales

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		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	\$ 2,515	100.0%	\$ 3,057	100.0%	\$ (542)	(17.7)%	\$ 6,261	100.0%	\$ 6,770	100.0%	\$ (509)	(7.5)%

The decrease in net sales for the three months ended June 30, 2018 compared to the corresponding period in 2017 was driven by an approximate 30% decrease in sales volume partially offset by a 16% increase in our average selling price (“ASP”).

The volume decline was primarily driven by a 21% decrease in Spain and a 100% decrease in China, partially offset by sales to customers in India through our tolling partner.

The decrease in net sales for the six months ended June 30, 2018 compared to the corresponding period in 2017 was driven by a \$2.3 million reduction in encapsulant sales partially offset by recognition of \$1.8 million related to completed performance obligations under the equipment purchase agreement and the technology license agreement. The decrease in encapsulant sales was primarily attributable to an approximate 45% decrease in sales volume that was partially offset by an approximate 21% increase in our ASP, relating to our discontinuance of our lower priced sales in China.

The volume decline was primarily driven by a 25% volume decrease in Spain and a 99% volume decrease in China, partially offset by sales to customers in India through our tolling partner. The increase in ASP was primarily attributable to our elimination of our lower priced and unprofitable sales in China.

On a sequential basis, net sales decreased by \$1.2 million, or 32.9%, compared to the three months ended March 31, 2018. This decrease was primarily driven by recognition of \$1.8 million related to completed performance obligations under the equipment purchase agreement and the technology license agreement during the first quarter, partially offset by a 24% increase in encapsulant sales volume and a 1% increase in ASP.

Cost of Sales

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		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	\$ 3,490	138.8%	\$ 3,695	120.9%	\$ (205)	(5.5)%	\$ 5,935	94.8%	\$ 7,905	116.8%	\$ (1,970)	(24.9)%

The decrease in our cost of sales for the three months ended June 30, 2018 compared to the corresponding period in 2017 was primarily driven by the 30% decrease in encapsulant sales volume partially offset by an approximate 15% increase in raw material cost per unit. The higher raw material cost per unit was primarily driven by a 6% increase in resin costs, as well as a 4% decrease in paperless sales mix. Direct labor increased by \$0.3 million mainly due to \$0.3 million of restructuring charges partially offset by the sales volume decrease. Overhead costs decreased by less than \$0.1 million primarily due to continued cost-reduction actions.

The decrease in our cost of sales for the six months ended June 30, 2018 compared to the corresponding period in 2017 was primarily driven by the 45% decrease in encapsulant sales volume partially offset by an approximate 14% increase in raw material cost per unit. The higher raw material cost per unit was primarily driven by a 10% increase in resin costs, as well as a 5% decrease in paperless sales mix. Direct labor increased by \$0.2 million mainly due to \$0.3 million of restructuring charges partially offset by the sales volume decrease. Overhead costs decreased by \$0.3 million primarily due to continued cost-reduction actions.

Gross (Loss) Profit

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		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	\$ (975)	(38.8)%	\$ (638)	(20.9)%	\$ (337)	(52.8)%	\$ 326	5.2%	\$ (1,135)	(16.8)%	\$ 1,461	128.7%

Gross loss, as a percentage of net sales, declined for the three months ended June 30, 2018 compared to the corresponding period in 2017 mainly as a result of \$0.6 million of restructuring charges related to eliminating certain positions at our Spain location, as well as a decrease in sales volume combined with an increase in raw material prices.

Gross profit (loss) as a percentage of net sales improved for the six months ended June 30, 2018 compared to the corresponding period in 2017 mainly as a result of recognition of \$1.8 million related to completed performance obligations under the equipment purchase agreement and the technology license agreement. This was partially offset by \$0.6 million of restructuring charges related to eliminating certain positions at our Spain facility, as well as a decrease in sales volume combined with an increase in raw material prices.

Selling, General and Administrative Expenses (“SG&A”)

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		Change	
	% of		% of				% of		% of			
	Amount	Sales	Amount	Sales	Amount	%	Amount	Sales	Amount	Sales	Amount	%
SG&A	\$ 1,380	54.9%	\$ 1,299	42.5%	\$ 81	6.2%	\$ 3,072	49.1%	\$ 3,280	48.4%	\$ (208)	(6.3)%

SG&A increased by \$0.1 million for the three months ended June 30, 2018 compared to 2017. This increase was primarily driven by a \$0.3 million increase in restructuring expense partially offset by a \$0.1 million decrease in professional fees.

SG&A decreased by \$0.2 million for the six months ended June 30, 2018 compared to 2017. This decrease was primarily driven by \$0.2 million in lower labor and benefits and a \$0.1 million reduction in non-cash stock compensation expense partially offset by \$0.2 million in increased restructuring expense.

Research and Development Expense (“R&D”)

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		Change	
	% of		% of				% of		% of			
	Amount	Sales	Amount	Sales	Amount	%	Amount	Sales	Amount	Sales	Amount	%
R&D	\$ 190	7.6%	\$ 236	7.7%	\$ (46)	(19.5)%	\$ 405	6.5%	\$ 550	8.1%	\$ (145)	(26.4)%

Research and development expense decreased by less than \$0.1 million and \$0.1 million for the three and six months ended June 30, 2018, respectively, compared to 2017, as we continued to economize these activities.

Provision (Recovery) for Bad Debt Expense

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		Change	
	% of		% of				% of		% of			
	Amount	Sales	Amount	Sales	Amount	%	Amount	Sales	Amount	Sales	Amount	%
Provision (recovery) for bad debt expense	\$ 67	2.7%	\$ (215)	(7.0)%	\$ 282	131.2%	\$ 6	0.1%	\$ (380)	(5.6)%	\$ 386	101.6%

The provision for bad debt expense recorded during the three and six months ended June 30, 2018 and June 30, 2017 primarily related the aging of accounts receivable under our policy, primarily in the U.S. The provision was partially offset by 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,					
	2018		2017		Change		2018		2017		Change	
	% of		% of				% of		% of			
	Amount	Sales	Amount	Sales	Amount	%	Amount	Sales	Amount	Sales	Amount	%
Other income (expense), net	\$ 183	7.3%	\$ 1,632	53.4%	\$(1,449)	(88.8)%	\$ 1,203	19.2%	\$ 1,206	17.8%	\$ (3)	(0.2)%

On March 27, 2018, following the approval of the Company’s Special Committee of Continuing Directors, STR China entered into an agreement to terminate the Huhui Supply Agreement (the “Termination Agreement”). Pursuant to the Termination Agreement, Huhui agreed that STR China would retain the deposit, and each of Huhui and STR China agreed to release the other from any liability or further obligations under the Supply Agreement. As a result of the Termination Agreement, we recorded other income of \$1.0 million during the first quarter of 2018.

During the three months ended June 30, 2017, our China subsidiary received interim payments of \$1.5 million 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.

In July 2015, we announced a restructuring plan that included the closure of our Malaysia facility, effective August 2, 2015. During 2016, we entered into a definitive Purchase and Sale Agreement for the land-use right and the building for a purchase price of RM25.0 million (approximately \$6.2 million as of June 30, 2018). As a result of the pending sale (which was subject to the approval of the JPA), 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 Malaysian Ringgit, was recorded during the three and six months ended June 30, 2017, respectively. As noted above, this agreement terminated prior to the consummation of the sale. The Company has re-launched the sale process for its Malaysia facility.

Foreign Currency Transaction (Loss) Gain

	Three Months Ended June 30,						Six Months Ended June 30,					
	2018		2017		Change		2018		2017		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	\$ (106)	(4.2)%	\$ (64)	(2.1)%	\$ (42)	(65.6)%	\$ (162)	(2.6)%	\$ (75)	(1.1)%	\$ (87)	(116.0)%

The foreign currency transaction impact was a loss of \$0.1 million for each of the three months ended June 30, 2018 and June 30, 2017 period. Both amounts are 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, 2018 was \$0.2 million compared to a loss of \$0.1 million for the six months ended June 30, 2017.

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,					
	2018		2017		Change		2018		2017		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)	\$ 172	6.8%	\$ (125)	(4.1)%	\$ 297	237.6%	\$ 271	4.3%	\$ (143)	(2.1)%	\$ 414	289.5%

During the three and six months ended June 30, 2018, we recorded an income tax expense of \$0.2 million and \$0.3 million, resulting in an effective tax rate of (5.9%) and (10.9%), respectively. This effective tax rate for the three months ended June 30, 2018 differs from the U.S. statutory tax rate primarily due to the effect of taxes on foreign earnings.

During the three months ended June 30, 2018, the Company did not record any measurement period adjustments to the provisional estimates recorded at December 31, 2017 relating to the Tax Cuts and Jobs Act. Final accounting for these impacts is expected in the third quarter of 2018 subsequent to the Company's completion of the 2017 tax return.

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.

Cost-Reduction Actions

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. 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, we do not expect any significant asset impairment charges and recorded \$0.1 million of severance charges during the first six months of 2017 and the first six months of 2018. The Company sold certain production and testing equipment from the China facility to its tolling partner in India during the third quarter of 2017.

In June 2018, we eliminated certain positions at our Spain facility effective June 18, 2018. We recorded \$0.6 million of severance and benefits in cost of sales and \$0.1 million of severance and benefits in selling, general and administrative expenses during the second quarter of 2018.

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

	June 30, 2018	June 30, 2017
Balance as of beginning of year	\$ 0.1	\$ 0.3
Additions	0.7	0.1
Reductions	(0.7)	(0.2)
Reversals	—	(0.1)
Balance as of end of period	<u>\$ 0.1</u>	<u>\$ 0.1</u>

The restructuring accrual consisted of \$0.1 million and \$0.1 million for severance and benefits as of June 30, 2018 and 2017, respectively.

Financial Condition, Liquidity and Capital Resources

We have funded our operations primarily through our earnings and existing cash balance. As of June 30, 2018, our principal source of liquidity was \$11.7 million of cash. 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 are also seeking to sell our Johor, Malaysia facility, as discussed herein. With respect to China, evolving currency control regulations may limit our access to the \$0.4 million of cash located in China as of June 30, 2018 for use outside the country. Although we believe that our timely available cash will be sufficient to meet our liquidity needs, including capital investments, 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, our financial condition and results of operations will be negatively affected.

Our wholly owned Spanish subsidiary, Specialized Technology Resources España S.A.U. (“STR Spain”), has 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 \$1.8 million as of June 30, 2018), 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 agreement renews annually unless terminated by either party with 90 days prior written notice. As of June 30, 2018, €1.2 million (\$1.4 million as of June 30, 2018) 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 that included the shut-down of our Malaysia manufacturing facility, effective August 2, 2015. We are seeking to sell our Johor, Malaysia facility having already sold most of its production and ancillary equipment. In connection with the shut-down and potential 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. As previously noted, we entered into an agreement to sell our rights to the facility for RM25.0 million (approximately \$6.2 million as of June 30, 2018), however that agreement terminated during 2017 prior to consummation of the transaction. We have since re-launched the sale process for our Malaysia facility.

In the fourth quarter of 2017, the Company initiated a significant investment through STR Spain to enter the high-end food packaging business. This ongoing investment, which leverages our plastics expertise, includes the purchase of new, state-of-the-art plastics processing equipment and related building improvements along with the addition of experienced staff to pursue manufacturing and sales of high-end food packaging products. We have received and applied certain conditional insurance proceeds to this project, helping to offset our net capital investment. These insurance proceeds are available to the Company only if we invest in new plastics manufacturing equipment. We have been advised by our insurer that our investment qualifies for reimbursement under the terms of our policy and, accordingly, they have paid our U.S. entity the amount of \$0.8 million in October 2017, to cover the cost of the deposit for the primary capital equipment. We expect them to reimburse our U.S. entity for an additional approximately \$1.8 million during 2018 as we continue to make qualifying capital investment under the packaging project. We have also applied for loans of up to \$2.4 million from the regional government of Asturias, Spain to further support the project. Subject to the timely purchase and installation of equipment, we expect to begin production by 2019. The food packaging business is highly competitive having market participants with substantially more resources and experience than us. We will be a new entrant in this market and we cannot assure that we will be successful in this new endeavor. In particular, we cannot assure that we will be able to successfully complete our investment in this new business on a timely basis or within budget, if at all, or that we will be able to achieve our anticipated revenue or earnings from this new investment. Nor can we assure that we will be able to timely collect the full amount of the insurance proceeds that we anticipate to support this project, or that we will be able to obtain the loan(s) we have applied for from the regional government on favorable terms if at all.

We remain open to exploring possible business opportunities, 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 sustainable profitability. We expect to fund our cash requirements with our existing cash, leveraging our European factoring facility and other potential working capital financing arrangements.

Our cash and cash equivalents balance is located in the following geographies (dollars in thousands):

	June 30, 2018
United States	\$ 10,002
Spain	1,039
Malaysia	206
China	359
Hong Kong	103
India	1
Consolidated	<u>\$ 11,710</u>

As noted above, due to, among other things, the difficulty repatriating cash to the U.S., we may have limited access to the \$0.4 million of cash 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 used in operating activities was \$2.0 million for the six months ended June 30, 2018 compared to net cash provided by operating activities of \$1.1 million for the six months ended June 30, 2017. Net loss plus and minus non-cash adjustments declined by approximately \$1.2 million for the six months ended June 30, 2018 compared to the same period in 2017. This decline was driven primarily by the receipt of the \$1.5 million partial payment related to the insurance claim from the Manufacturing Facility Fire during 2017.

Cash Flow from Investing Activities

Net cash provided by investing activities was \$0.2 million and net cash used in investing activities was \$0.4 million for the six months ended June 30, 2018, respectively. We expect remaining 2018 consolidated capital expenditures to be approximately \$4.0 million related to the high-end food packaging equipment.

Cash Flow from Financing Activities

Net cash used in financing activities was less than \$0.1 million and net cash provided by financing activities was \$0.1 million for the six months ended June 30, 2018 and 2017, 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 2018, we were not materially affected by inflation.

Recently Issued Accounting Standards

There are no new accounting pronouncements that we believe may have an impact on our consolidated financial statements.

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, 2018, 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, 2018 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, 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 \$3.9 million as of June 30, 2018), plus interest, in damages. A trial was held on April 6, 2017, in Oviedo, Asturias, Spain. The Company is currently awaiting a ruling from the court.

In 2016, the Company filed suit against CEEG (Nanjing) Renewable Energy Co., Ltd. (“NRE”), the parent company of our former customer CSUN in Nanjing Jiangning District People’s Court, China. In a hearing held on August 10, 2016, the court found NRE delinquent in making payment against bona fide invoices dating back to April of 2015 and ordered NRE to pay the Company the amount of RMB8.0 million for encapsulant sold to CSUN, RMB0.1 million for court fees, RMB0.3 million for interest and RMB0.4 million for attorney fees. Following the subsequent failure of NRE to pay according to the order of the Nanjing Jiangning District People’s Court, the Company initiated enforcement proceedings in the enforcement department of Nanjing Jiangning District People’s Court and ultimately agreed to accept installment payments managed through the court, the first of which came due on February 28, 2018 and remains unpaid. The Company has since filed an application for the resumption of enforcement, for which the court has acknowledged receipt. The court has informed the Company that it will schedule another hearing to take further actions against NRE and its Chairman, Mr. Lu Tingxiu, to compel NRE to pay the Company according to the court order currently in force.

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 Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended by Form 10-K/A filed with the SEC on April 28, 2018, 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 Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended by Form 10-K/A filed with the SEC on April 28, 2018.

Item 5. Other Information

None.

Item 6. Exhibits

<u>10.1*†</u>	<u>Amended and Restated 2009 Equity Incentive Plan</u>
<u>31.1</u>	<u>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.</u>
<u>31.2</u>	<u>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.</u>
<u>32.1</u>	<u>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.</u>
<u>32.2</u>	<u>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.</u>
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

* Filed herewith.

† Management contract or compensatory plan or arrangement.

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 10, 2018

/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)

STR Holdings, Inc.
2009 Equity Incentive Plan
(Amended and Restated dated as of February 20, 2018)

Article 1. Establishment & Purpose

1.1 Establishment. STR Holdings, Inc., a Delaware corporation (hereinafter referred to as the “Company”), establishes the 2009 Equity Incentive Plan (hereinafter referred to as the “Plan”) as set forth in this document.

1.2 Purpose of the Plan. The purpose of this Plan is to attract, retain and motivate officers and employees of, consultants to, and non-employee directors providing services to the Company and its Subsidiaries and Affiliates, and to promote the success of the Company’s business by providing them with appropriate incentives and rewards either through a proprietary interest in the long-term success of the Company or compensation based on fulfilling their performance goals.

Article 2. Definitions

Whenever capitalized in the Plan, the following terms shall have the meanings set forth below.

2.1 “Affiliate” means any entity that the Company, either directly or indirectly, is in common control with, is controlled by or controls or any entity in which the Company has a substantial direct or indirect equity interest, as determined by the Board.

2.2 “Award” means any Option, Stock Appreciation Right, Restricted Stock, Dividend Equivalent or Other Stock-Based Award that is granted under the Plan.

2.3 “Award Agreement” means either (a) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (b) a written statement issued by the Company to a Participant describing the terms and provisions of the actual grant of such Award.

2.4 “Beneficial Owner” or “**Beneficial Ownership**” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.5 “Board” means the Board of Directors of the Company.

2.6 “Change of Control” means the occurrence of any of the following events with respect to the Company, (i) any consolidation or merger with or into any other corporation, partnership, limited liability company or other entity in which the holders of capital stock of the Company immediately prior to such merger or consolidation no longer beneficially own, directly or indirectly, a majority of the outstanding capital stock or equity interest of the surviving corporation, partnership, limited liability company or other entity immediately after such merger or consolidation, (ii) the sale or transfer of the capital stock of the Company in which the holders of capital stock of the Company immediately prior to such sale or transfer no longer beneficially own, directly or indirectly, a majority of the outstanding capital stock or equity interest of the Company immediately after such sale or transfer, (iii) a sale or transfer of all or substantially all of the assets of the Company, or (iv) the license of all or substantially all of the assets of the Company where such license is substantially equivalent to a sale or transfer of all or substantially all of the assets of the Company.

2.7 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time.

2.8 “Committee” means the Board, or any committee designated by the Board to administer this Plan.

2.9 “Company” means STR Holdings, Inc., a Delaware corporation, and any successor thereto.

2.10 “**Consultant**” means any person (other than an Employee or a Director) who is engaged by the Company, a Subsidiary or an Affiliate to render consulting or advisory services to the Company or such Subsidiary or Affiliate.

2.11 “**Director**” means a member of the Board who is not an Employee.

2.12 “**Dividend Equivalent**” means any right to a dividend equivalent granted from time to time under Article 6 of the Plan.

2.13 “**Effective Date**” means the date set forth in Section 14.14.

2.14 “**Employee**” means an officer or other employee of the Company, its Subsidiaries or an Affiliate, including a member of the Board who is such an employee.

2.15 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

2.16 “**Fair Market Value**” means, as of any date of determination (i) if the Shares are listed on any established stock exchange or a national market system, its fair market value shall be the closing sales price for a share of such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable; (ii) if the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for a Share on the last market trading day prior to the day of determination; or (iii) in the absence of an established market for the Shares, the fair market value thereof shall be determined in good faith by the Board through a reasonable application of a reasonable valuation method.

2.17 “**Incentive Stock Option**” means an Option intended to meet the requirements of an incentive stock option as defined in Section 422 of the Code and designated as an Incentive Stock Option.

2.18 “**Nonqualified Stock Option**” means an Option that is not an Incentive Stock Option.

2.19 “**Other Stock-Based Award**” means any right granted under Article 10 of the Plan.

2.20 “**Option**” means any stock option granted from time to time under Article 6 of the Plan.

2.21 “**Option Price**” means the purchase price per Share subject to an Option, as determined pursuant to Section 6.2 of the Plan.

2.22 “**Participant**” means any eligible person as set forth in Section 4.1 to whom an Award is granted.

2.23 “**Plan**” means the STR Holdings, Inc. Equity Incentive Plan.

2.24 “**Restricted Stock**” means any Award granted under Article 8.

2.25 “**Restriction Period**” means the period during which Restricted Stock awarded under Article 8 of the Plan is subject to forfeiture.

2.26 “**Service**” means service as an Employee, Director or Consultant.

2.27 “**Share**” means a share of common stock of the Company, par value \$0.01 per share, or such other class or kind of shares or other securities resulting from the application of Section 12.1 hereof.

2.28 “**Stock Appreciation Right**” means any right granted under Article 7.

2.29 “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company (or any parent of the Company) if each of the corporations, other than the last corporation in each unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.30 “**Ten Percent Stockholder**” means a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a Subsidiary or Affiliate.

Article 3. Administration

3.1 Authority of the Committee. The Plan shall be administered by the Committee, which shall have full power to interpret and administer the Plan and full authority to select the Directors, Employees and Consultants to whom Awards will be granted and determine the type and amount of Awards to be granted to each such Director, Employee or Consultant, the terms and conditions of Awards granted under the Plan and the terms of Award Agreements to be entered into with Participants. Without limiting the generality of the foregoing, the Committee may, in its sole discretion, clarify, construe or resolve any ambiguity in, or interpret any provision of, any provision of the Plan or any Award Agreement, accelerate or waive vesting of Awards and exercisability of Awards, extend the term or period of exercisability of any Awards, modify the purchase price under any Award, or waive any terms or conditions applicable to any Award; provided that no action taken by the Committee shall adversely affect in any material respect the rights granted to any Participant under any outstanding Awards without the Participant’s written consent (other than pursuant to Article 11 or Article 12 hereof). Awards may, in the discretion of the Committee, be made under the Plan 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 the Company combines. The Committee shall have full and exclusive discretionary power to adopt rules, forms, instruments, and guidelines for administering the Plan as the Committee deems necessary or proper. All actions taken and all interpretations and determinations made by the Committee or by the Board (or any other committee or sub-committee thereof), as applicable, shall be final and binding upon the Participants, the Company, and all other interested individuals.

3.2 Delegation. The Committee may delegate to one or more of its members, one or more officers of the Company or any of its Subsidiaries, and one or more agents or advisors such administrative duties or powers as it may deem advisable.

Article 4. Eligibility and Participation

4.1 Eligibility. Participants will consist of such Employees, Consultants, and Directors as the Committee in its sole discretion determines and whom the Committee may designate from time to time to receive awards under the Plan. Designation of a Participant in any year shall not require the Committee to designate such person to receive an award in any other year or, once designated, to receive the same type or amount of award as granted to the Participant in any other year.

4.2 Types of Award. Awards under the Plan may be granted in any one or a combination of: (a) Options, (b) Stock Appreciation Rights, (c) Restricted Stock, (d) Dividend Equivalents and (e) Other Stock-Based Awards. Awards granted under the Plan shall be evidenced by Award Agreements (which need not be identical) that provide additional terms and conditions associated with such Awards, as determined by the Committee in its sole discretion; *provided, however*, that in the event of any conflict between the provisions of the Plan and any such Award Agreement, the provisions of the Plan shall prevail.

Article 5. Shares Subject to the Plan and Maximum Awards

5.1 Number of Shares Available for Awards.

- (a) **General.** Subject to adjustment as provided in Section 5.1(b) and Article 12, the maximum number of Shares available for issuance to Participants pursuant to Awards under the Plan shall be 4,133,333 Shares. The Shares available for issuance under the Plan may consist, in whole or in part, of authorized and unissued Shares or treasury Shares. The number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 4,133,333 Shares, subject to adjustments provided in Article 12 hereof and subject to the provisions of Sections 422 or 424 of the Code or any successor provisions. Any Shares delivered to the Company as part or full payment for the purchase price of an Award granted under this Plan or, to the extent the Committee determines that the availability of Incentive Stock Options under the Plan will not be compromised, to satisfy the Company’s withholding obligation with respect to an Award granted under this Plan, shall again be available for Awards under the Plan. The maximum number of Shares that can be granted to any one Participant, in any calendar year, shall not exceed 1,333,333 Shares.
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- (b) **Additional Shares.** In the event that any outstanding Award expires, is forfeited, cancelled or otherwise terminated without consideration (i.e., Shares or cash) therefor, the Shares subject to such Award, to the extent of any such forfeiture, cancellation, expiration, termination or settlement for cash, shall again be available for Awards under the Plan. If the Committee authorizes the assumption under this Plan, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, of awards granted under another plan, such assumption shall not reduce the maximum number of Shares available for issuance under this Plan.

Article 6. Stock Options

6.1 Grant of Options. The Committee is hereby authorized to grant Options to Participants. Each Option shall permit a Participant to purchase from the Company a stated number of Shares at an Option Price established by the Committee, subject to the terms and conditions described in this Article 6 and to such additional terms and conditions, as established by the Committee, in its sole discretion, that are consistent with the provisions of the Plan. Options shall be designated as either Incentive Stock Options or Nonqualified Stock Options, provided that Options granted to Directors and Consultants shall be Nonqualified Stock Options. An Option granted as an Incentive Stock Option shall, to the extent it fails to qualify as an Incentive Stock Option, be treated as a Nonqualified Stock Option. Neither the Committee nor the Company or any of its Affiliates shall be liable to any Participant or to any other person if it is determined that an Option intended to be an Incentive Stock Option does not qualify as an Incentive Stock Option. Options shall be evidenced by Award Agreements which shall state the number of Shares covered by such Option. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions, as the Committee shall deem advisable.

6.2 Terms of Option Grant. The Option Price shall be determined by the Committee at the time of grant, but shall not be less than 100% of the Fair Market Value of a Share on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent Stockholder, the Option Price shall not be less than 110% of the Fair Market Value of a Share on the date of grant.

6.3 Option Term. The term of each Option shall be determined by the Committee at the time of grant and shall be stated in the Award Agreement, but in no event shall such term be greater than ten years (or, in the case on an Incentive Stock Option granted to a Ten Percent Stockholder, five years).

6.4 Time of Exercise. Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which terms and restrictions need not be the same for each grant or for each Participant.

6.5 Method of Exercise. Except as otherwise provided in the Plan or in an Award Agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of this Article 6, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date payment is received by the Company pursuant to clauses (i), (ii), (iii), (iv), or (v) in the following sentence. The aggregate Option Price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant (i) in cash or its equivalent (e.g., by cashier's check), (ii) to the extent permitted by the Committee, in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee, (iii) partly in cash and, to the extent permitted by the Committee, partly in such Shares, (iv) by reducing the number of Shares otherwise deliverable upon the exercise of the Option by the number of Shares having a Fair Market Value equal to the Option Price, or (v) if there is a public market for the Shares at such time, subject to such requirements as may be imposed by the Committee, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the aggregate Option Price for the Shares being purchased. The Committee may prescribe any other method of payment that it determines to be consistent with applicable law and the purpose of the Plan.

6.6 Limitations on Incentive Stock Options. Incentive Stock Options may be granted only to employees of the Company or of a “parent corporation” or “subsidiary corporation” (as such terms are defined in Section 424 of the Code) at the date of grant. The aggregate Fair Market Value (generally determined as of the time the Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under all plans of the Company and of any parent corporation or subsidiary corporation) shall not exceed one hundred thousand dollars (\$100,000). For purposes of the preceding sentence, Incentive Stock Options will be taken into account generally in the order in which they are granted. No Incentive Stock Option may be exercised later than ten (10) years after the date it is granted. Each provision of the Plan and each Award Agreement relating to an Incentive Stock Option shall be construed so that each Incentive Stock Option shall be an incentive stock option as defined in Section 422 of the Code, and any provisions of the Award Agreement thereof that cannot be so construed shall be disregarded.

Article 7. Stock Appreciation Rights

7.1 Grant of Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Participants, including a grant of Stock Appreciation Rights in tandem with any Option at the same time such Option is granted (a “Tandem SAR”). Stock Appreciation Rights shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions, as the Committee shall deem advisable. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive, upon exercise thereof, the excess of (a) the Fair Market Value of a specified number of Shares on the date of exercise over (b) the grant price of the right as specified by the Committee on the date of the grant. Such payment may be in the form of cash, Shares, other property or any combination thereof, as the Committee shall determine in its sole discretion.

7.2 Terms of Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price (which shall not be less than 100% of the Fair Market Value of a Share on the date of grant), term, methods of exercise, methods of settlement, and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such other conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate. Unless otherwise provided in the Award Agreement, no Stock Appreciation Right shall have a term of more than 10 years from the date of grant.

7.3 Tandem Stock Appreciation Rights and Options. A Tandem SAR shall be exercisable only to the extent that the related Option is exercisable and shall expire no later than the expiration of the related Option. Upon the exercise of all or a portion of a Tandem SAR, a Participant shall be required to forfeit the right to purchase an equivalent portion of the related Option (and, when a Share is purchased under the related Option, the Participant shall be required to forfeit an equivalent portion of the Stock Appreciation Right).

Article 8. Restricted Stock

8.1 Grant of Restricted Stock. An Award of Restricted Stock is a grant by the Company of a specified number of Shares to the Participant, which Shares may be subject to forfeiture upon the occurrence of specified events. Participants shall be awarded Restricted Stock in exchange for consideration not less than the minimum consideration required by applicable law. Restricted Stock shall be evidenced by an Award Agreement, which shall conform to the requirements of the Plan and may contain such other provisions, as the Committee shall deem advisable.

8.2 Terms of Restricted Stock Awards. Each Award Agreement evidencing a Restricted Stock grant shall specify the period(s) of restriction, the number of Shares of Restricted Stock subject to the Award, the purchase price of such Shares of Restricted Stock, the performance, employment or other conditions (including the termination of a Participant’s Service whether due to death, disability or other cause) under which the Restricted Stock may become vested or may be forfeited to the Company and such other provisions as the Committee shall determine. Upon determination of the number of Shares of Restricted Stock to be granted to the Participant and payment of any purchase price, the Committee shall direct that a certificate or certificates representing the number of Shares be issued to the Participant with the Participant designated as the registered owner. The certificate(s) representing such shares shall be legended as to sale, transfer, assignment, pledge or other encumbrances during the Restriction Period and deposited by the Participant, together with a stock power endorsed in blank, with the Company, to be held in escrow during the Restriction Period. At the end of the Restriction Period, the restrictions imposed hereunder shall lapse with respect to the number of shares of Restricted Stock as determined by the Committee, and the legend shall be removed and such number of Shares delivered to the Participant (or, where appropriate, the Participant’s legal representative).

8.3 Voting and Dividend Rights. Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, Participants holding Restricted Stock granted hereunder shall have the right to exercise voting rights with respect to the Restricted Stock and shall have the right to receive dividends on such Restricted Stock.

8.4 Performance Goals. The Committee may condition the grant of Restricted Stock or the expiration of the Restriction Period upon the Participant's achievement of one or more performance goal(s) specified in the Award Agreement. If the Participant fails to achieve the specified performance goal(s), the Committee shall not grant the Restricted Stock to such Participant or the Participant shall forfeit the Award of Restricted Stock to the Company, as applicable, unless otherwise provided in the Participant's Award Agreement or the applicable stockholders agreement.

8.5 Section 83(b) Election. If a Participant makes an election pursuant to Section 83(b) of the Code concerning Restricted Stock, the Participant shall be required to promptly file a copy of such election with the Company.

Article 9. Dividend Equivalents

The Committee may grant Dividend Equivalents to Participants based on the dividends declared on Shares that are subject to any Award. The grant of Dividend Equivalents shall be treated as a separate Award. Dividend Equivalents shall be credited to a notional account maintained by the Company, as of dividend payment dates during the period between the date the Award is granted and the date the Award is exercised, vested, expired, credited or paid. Such Dividend Equivalents shall be converted to cash or Shares by such formula and at such time and subject to such limitations as may be determined by the Committee. As determined by the Committee, Dividend Equivalents granted with respect to any Option or Stock Appreciation Right may be payable regardless of whether such Option or Stock Appreciation Right is subsequently exercised.

Article 10. Other Stock-Based Awards

The Committee, in its sole discretion, may grant Awards of Shares and Awards that are valued, in whole or in part, by reference to, or are otherwise based on the Fair Market Value of, Shares (the "Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable).

Article 11. Compliance with Section 409A of the Code

11.1 General. To the extent that the Plan and/or Awards are subject to Section 409A of the Code, the Committee may, in its sole discretion and without a Participant's prior consent, amend the Plan and/or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and actions with retroactive effect) as are necessary or appropriate to (a) exempt the Plan and/or any Award from the application of Section 409A of the Code, (b) preserve the intended tax treatment of any such Award, or (c) comply with the requirements of Section 409A of the Code, Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date of the grant ("Section 409A Guidance"). This Plan shall be interpreted at all times in such a manner that the terms and provisions of the Plan and Awards are exempt from or comply with Section 409A Guidance.

11.2 Timing of Payment. All Awards that would otherwise be subject to Section 409A of the Code shall be paid or otherwise settled on or as soon as practicable after the applicable vesting date and not later than the 15th day of the third month from the end of (i) the Participant's tax year that includes the applicable payment or settlement date, or (ii) the Company's tax year that includes the applicable payment or settlement date, whichever is later; *provided, however*, that the Committee reserves the right to delay payment or specify a compliant payment date with respect to any such Award under the circumstances set forth in Section 409A Guidance; *provided, further*, that notwithstanding any contrary provision in the Plan or Award Agreement, any payment(s) that are otherwise required to be made under the Plan to a "specified employee" (as defined under Section 409A of the Code) as a result of his or her separation from service (other than a payment that is not subject to Section 409A of the Code) shall be delayed for the first six (6) months following such separation from service (or, if earlier, the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) on the payment date that immediately follows the end of such six-month period or as soon as administratively practicable thereafter.

Article 12. Adjustments

12.1 Adjustments in Capitalization. In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, combination of Shares, exchange of Shares, dividend in kind, extraordinary cash dividend, or other like change in capital structure (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Committee, to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, in its sole discretion, (a) the number and kind of Shares or other securities that may be issued under the Plan, the number and kind of Shares or other securities subject to outstanding Awards, and/or where applicable, the exercise price, base value or purchase price applicable to such Awards; (b) grant a right to receive one or more payments of securities, cash and/or property (which right may be evidenced as an additional Award under this Plan) in respect of any outstanding Award, or (c) provide for the settlement of any outstanding Award (other than a Stock Option or Stock Appreciation Right) in such securities, cash and/or other property as would have been received had the Award been settled in full immediately prior to such corporate event or transaction; *provided, however*, that in the case of an adjustment made in accordance with (b) or (c) above, the right to any securities, cash and/or property may be issued subject to the same vesting schedule as the outstanding Award being adjusted; and *provided, further*, that any adjustment pursuant to this Section 12.1 shall comply with Section 409A of the Code, to the extent applicable. Should the vesting of any Award be conditioned upon the Company's attainment of performance conditions, the Board may make such adjustments to the terms and conditions of such Awards and the criteria therein to recognize unusual and nonrecurring events affecting the Company or in response to changes in applicable laws, regulations or accounting principles.

12.2 Change of Control. Upon the occurrence of a Change of Control after the Effective Date, unless otherwise specifically prohibited under applicable laws or by the applicable rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Committee shall determine otherwise in the Award Agreement, the Committee is authorized (but not obligated) to make adjustments in the terms and conditions of outstanding Awards, including without limitation the following (or any combination thereof): (i) continuation or assumption of such outstanding Awards under the Plan by the Company (if it is the surviving company or corporation) or by the surviving company or corporation or its parent; (ii) substitution by the surviving company or corporation or its parent of awards with substantially the same terms for such outstanding Awards; (iii) accelerated exercisability, vesting and/or lapse of restrictions under all then outstanding Awards immediately prior to the occurrence of such event; (iv) upon written notice, provided that any outstanding Awards must be exercised, to the extent then exercisable, within fifteen days immediately prior to the scheduled consummation of the event, or such other period as determined by the Committee (in either case contingent upon the consummation of the event), and at the end of such period, such Awards shall terminate to the extent not so exercised within the relevant period; and (v) cancellation of all or any portion of outstanding Awards for fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, may equal the excess, if any, of the value of the consideration to be paid in the Change of Control transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no such consideration is paid, Fair Market Value of the Shares subject to such outstanding Awards or portion thereof being canceled) over the aggregate Option Price or grant price, as applicable, with respect to such Awards or portion thereof being canceled.

Article 13. Duration, Amendment, Modification, Suspension, and Termination

13.1 Duration of the Plan. Unless sooner terminated as provided in Section 13.2, the Plan shall terminate on the tenth (10th) anniversary of the Effective Date.

13.2 Amendment, Modification, Suspension, and Termination of Plan. The Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof or any Award (or Award Agreement) thereunder at any time; provided that, subject to Article 11, no such amendment, alteration, suspension, discontinuation or termination shall be made (i) without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the Plan and (ii) without the consent of the Participant, if such action would materially diminish any of the rights of any Participant under any Award theretofore granted to such Participant under the Plan; *provided, however*, the Committee may amend the Plan, any Award or any Award Agreement in such manner as it deems necessary to comply with applicable laws.

Article 14. General Provisions

14.1 No Right to Service. The granting of an Award under the Plan shall impose no obligation on the Company, any Subsidiary or any Affiliate to continue the Service of a Participant and shall not lessen or affect any right that the Company, any Subsidiary or any Affiliate may have to terminate the Service of such Participant. No Participant or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

14.2 Settlement of Awards; No Fractional Shares. Each Award Agreement shall establish the form in which the Award shall be settled. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Awards, other securities or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be rounded, forfeited or otherwise eliminated.

14.3 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan. With respect to required withholding, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares or by delivering Shares to the Company, having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction.

14.4 No Guarantees Regarding Tax Treatment. Participants (or their beneficiaries) shall be responsible for all taxes with respect to any Awards under the Plan. The Committee and the Company make no guarantees to any person regarding the tax treatment of Awards or payments made under the Plan. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any excise tax on any person with respect to any Award under Section 409A of the Code or otherwise and none of the Company, any of its Subsidiaries or Affiliates, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

14.5 Non-Transferability of Awards. Except as provided by the terms of any applicable stockholders agreement or unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant except in the event of his death (subject to the applicable laws of descent and distribution) and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate. An award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant. Any permitted transfer of the Awards to heirs or legatees of the Participant shall not be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

14.6 Conditions and Restrictions on Shares. The Committee may impose such other conditions or restrictions on any Shares received in connection with an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received for a specified period of time or a requirement that a Participant represent and warrant in writing that the Participant is acquiring the Shares for investment and without any present intention to sell or distribute such Shares. The certificates for Shares may include any legend which the Committee deems appropriate to reflect any conditions and restrictions applicable to such Shares.

14.7 Shares Not Registered. Shares and Awards shall not be issued under the Plan unless the issuance and delivery of such Shares and any Awards comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, State securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. Except as set forth in an Award Agreement, the Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any Shares or any Awards under the Plan, and accordingly any certificates for Shares or documents granting Awards may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of securities under the Plan is not required to be registered under any applicable securities laws, each Participant to whom such security would be purchased or issued shall deliver to the Company an agreement or certificate containing such representations, warranties and covenants as the Company which satisfies such requirements.

14.8 Rights as a Stockholder. Except as otherwise provided herein or in the applicable Award Agreement, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

14.9 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person, or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

14.10 Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Subsidiaries may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company or any of its Subsidiaries under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company or a Subsidiary, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company or a Subsidiary, as the case may be, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. The Plan is not subject to the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

14.11 No Constraint on Corporate Action. Nothing in the Plan shall be construed to (a) limit, impair, or otherwise affect the Company's or its Subsidiary's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets, or (b) limit the right or power of the Company or its Subsidiary to take any action which such entity deems to be necessary or appropriate.

14.12 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

14.13 Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

14.14 Effective Date. The Plan shall be effective as of November 16, 2009 (the "Effective Date"), provided that the Plan is approved by the stockholders of the Company at an annual meeting or any special meeting of stockholders of the Company within 12 months of the Effective Date, and such approval of stockholders shall be a condition to the right of each Participant to receive any Award hereunder. Any Award granted under the Plan prior to such approval of stockholders shall be effective as of the date of grant, but no such Award may be exercised or settled and no restrictions relating to any Award may lapse prior to such stockholder approval, and if stockholders fail to approve the Plan as specified hereunder, any such Award shall be cancelled.

* * *

This Plan was duly adopted and approved by the Board of Directors of the Company at a meeting of the Board of Directors duly called and held on the 20th day of February, 2018.

STR HOLDINGS, INC.

/s/ Robert S. Yorgensen

Name: Robert S. Yorgensen

Title: President and Chief Executive Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert S. Yorgensen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of STR Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2018

/s/ Robert S. Yorgensen
Name: Robert S. Yorgensen
Title: *Chairman, President and Chief Executive Officer*
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas D. Vitro, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of STR Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2018

/s/ Thomas D. Vitro

Name: Thomas D. Vitro

Title: *Vice President, Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)*

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chairman, President and Chief Executive Officer of STR Holdings, Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2018

/s/ Robert S. Yorgensen _____
Name: Robert S. Yorgensen
Title: *Chairman, President and Chief Executive Officer*
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President, Chief Financial Officer and Chief Accounting Officer of STR Holdings, Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2018

/s/ Thomas D. Vitro

Name: Thomas D. Vitro

Title: *Vice President, Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)*

