

AEROSONIC CORP /DE/  
Form 10-Q  
June 13, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 May 3, 2013**

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 1-11750

AEROSONIC CORPORATION  
(Exact name of registrant as specified in its charter)

**Delaware** (State or other jurisdiction of incorporation or organization) **74-1668471** (I.R.S. Employer Identification No.)

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1212 North Hercules Avenue  
Clearwater, Florida 33765  
(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: (727) 461-3000

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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 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 or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of June 13, 2013, the issuer had 3,000 shares of common stock outstanding.

**PART I FINANCIAL INFORMATION**

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## PART I - FINANCIAL INFORMATION

### Cautionary Note on Forward-Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q that are not statements of historical or current facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results expressed or implied by such forward-looking statements, including those set forth in our Annual Report on Form 10-K for the year ended January 31, 2013 filed with the Securities and Exchange Commission.

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or, which include terms such as “believes,” “belief,” “expects,” “intends,” “anticipates” or “plans” to be uncertain and forward-looking. Forward-looking statements are based on management’s beliefs and assumptions, using information currently available to us as to current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside of the Company’s control.

We claim the protection of the safe harbor for forward-looking statements provided for in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Except as required by applicable law, we undertake no obligation, and do not intend, to update these forward-looking statements to reflect events or circumstances that arise after the date they are made. Furthermore, as a matter of policy, we do not generally make any specific projections as to future earnings, nor do we endorse any projections regarding future performance, which may be made by others outside our company.

All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on its behalf are expressly qualified in their entirety by this Cautionary Note on Forward-Looking Statements.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## AEROSONIC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|  | May 3,<br>2013<br>(unaudited) | January 31,<br>2013 |
|--|-------------------------------|---------------------|
| <b>ASSETS</b>                                  |                               |                     |
| Current assets:                                |                               |                     |
| Accounts receivable, net                       | \$3,552,000                   | \$5,408,000         |
| Income tax receivable                          | 110,000                       | 45,000              |
| Inventories, net                               | 8,136,000                     | 8,195,000           |
| Prepaid expenses and other current assets, net | 895,000                       | 582,000             |
| Deferred income taxes                          | 1,743,000                     | 1,500,000           |
| Total current assets                           | 14,436,000                    | 15,730,000          |
| Property held for sale                         | 1,700,000                     | 1,700,000           |
| Property, plant and equipment, net             | 4,616,000                     | 4,534,000           |
| Deferred income taxes                          | 292,000                       | 292,000             |
| Goodwill                                       | 366,000                       | 366,000             |
| Other assets, net                              | 704,000                       | 702,000             |
| Total assets                                   | \$22,114,000                  | \$23,324,000        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |                               |                     |
| Current liabilities:                           |                               |                     |
| Current maturities of long-term debt           | \$1,074,000                   | \$763,000           |
| Accounts payable, trade                        | 1,724,000                     | 1,439,000           |
| Compensation and benefits                      | 856,000                       | 1,139,000           |
| Accrued sales commissions                      | 92,000                        | 280,000             |
| Deferred revenue                               | 1,545,000                     | 1,669,000           |
| Accrued expenses and other liabilities         | 1,560,000                     | 1,331,000           |
| Deferred income taxes                          | 25,000                        | 25,000              |
| Total current liabilities                      | 6,876,000                     | 6,646,000           |
| Revolving credit facility                      | 353,000                       | 903,000             |
| Long-term debt                                 | 2,946,000                     | 3,511,000           |
| Deferred income taxes                          | 224,000                       | 224,000             |
| Total liabilities                              | 10,399,000                    | 11,284,000          |
| Commitments and contingencies (Note 9)         |                               |                     |

Stockholders' equity:

|   |              |              |
|---|--------------|--------------|
| Common stock, \$.40 par value: authorized 8,000,000 shares; issued 4,451,101 shares and 4,397,252 shares at May 3, 2013 and January 31, 2013, respectively; outstanding 4,020,334 and 3,966,485 shares at May 3, 2013 and January 31, 2013, respectively. | 1,780,000    | 1,759,000    |
| Additional paid-in capital  | 6,503,000    | 6,436,000    |
| Retained earnings   | 6,595,000    | 7,008,000    |
| Less treasury stock: 430,767 shares at both May 3, 2013 and January 31, 2013, at cost   | (3,163,000 ) | (3,163,000 ) |
| Total stockholders' equity  | 11,715,000   | 12,040,000   |
| Total liabilities and stockholders' equity  | \$22,114,000 | \$23,324,000 |

The accompanying notes are an integral part of these consolidated financial statements.

## AEROSONIC CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | May 3,<br>2013     | April 27, 2012 |
| Sales, net                                   | \$7,108,000        | \$ 7,361,000   |
| Cost of sales                                | 4,643,000          | 4,503,000      |
| Gross profit                                 | 2,465,000          | 2,858,000      |
| Selling, general and administrative expenses | 3,094,000          | 2,138,000      |
| Operating (loss) income                      | (629,000 )         | 720,000        |
| Other expenses:                              |                    |                |
| Interest expense, net                        | (31,000 )          | (73,000 )      |
| Other income                                 | 4,000              | -              |
|  | (27,000 )          | (73,000 )      |
| (Loss) income before income taxes            | (656,000 )         | 647,000        |
| Income tax benefit (provision)               | 243,000            | (234,000 )     |
| Net (loss) income                            | \$(413,000 )       | \$ 413,000     |
| Basic (loss) earnings per share              | \$(0.11 )          | \$ 0.11        |
| Diluted (loss) earnings per share            | \$(0.11 )          | \$ 0.10        |
| Weighted average shares outstanding basic    | 3,840,147          | 3,774,304      |
| Weighted average shares outstanding diluted  | 3,840,147          | 4,046,103      |

The accompanying notes are an integral part of these consolidated financial statements.

## AEROSONIC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | May 3,<br>2013     | April 27, 2012 |
| Cash flows from operating activities:  |                    |                |
| Net (loss) income  | \$(413,000 )       | \$ 413,000     |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                    |                |
| Depreciation   | 120,000            | 111,000        |
| Amortization   | 4,000              | 49,000         |
| Accretion on notes receivable  | (5,000 )           | -              |
| Provision for bad debts  | 31,000             | 210,000        |
| Provision for obsolete and slow-moving inventory   | 23,000             | 60,000         |
| Provision for warranty   | -                  | 35,000         |
| Provision for contract losses  | -                  | 50,000         |
| Stock-based compensation   | 56,000             | 36,000         |
| (Benefit) provision for deferred income taxes  | (243,000 )         | 234,000        |
| Changes in assets and liabilities:   |                    |                |
| Accounts receivable  | 1,825,000          | (719,000 )     |
| Income taxes receivable  | (65,000 )          | -              |
| Inventories  | 36,000             | (448,000 )     |
| Prepaid expenses and other current assets  | (313,000 )         | (279,000 )     |
| Other assets   | (1,000 )           | -              |
| Accounts payable, trade  | 285,000            | (581,000 )     |
| Compensation and benefits  | (283,000 )         | 310,000        |
| Deferred revenue   | (124,000 )         | -              |
| Accrued expenses and other liabilities   | 41,000             | 546,000        |
| Net cash provided by operating activities  | 974,000            | 27,000         |
| Cash flows from investing activities:  |                    |                |
| Capital expenditures   | (202,000 )         | (115,000 )     |
| Net cash used in investing activities  | (202,000 )         | (115,000 )     |
| Cash flows from financing activities:  |                    |                |
| Net (decrease) increase in revolving credit facility                                     | (550,000 )         | 120,000        |
| Principal payments on long-term debt   | (254,000 )         | (189,000 )     |
| Proceeds from issuance of common stock   | 32,000             | -              |
| Net cash used in financing activities  | (772,000 )         | (69,000 )      |
| Change in cash and cash equivalents  | -                  | (157,000 )     |
| Cash and cash equivalents, beginning of period   | -                  | 157,000        |
| Cash and cash equivalents, end of period   | \$-                | \$ -           |

Supplemental disclosures of cash flow information:



Net cash paid during the period for:

|              |          |           |
|--------------|----------|-----------|
| Interest     | \$59,000 | \$ 78,000 |
| Income taxes | \$65,000 | \$ -      |

The accompanying notes are an integral part of these consolidated financial statements.

AEROSONIC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**1. Description of Business, Basis of Presentation and Recent Accounting Pronouncements**

*Description of Business*

Aerosonic Corporation (“Aerosonic”) and its wholly-owned subsidiaries, Avionics Specialties, Inc. and OP Technologies, Inc. (collectively referred to herein as the “Company”) manufacture and sell aircraft instrumentation and sensors systems, including integrated cockpit displays, digital and mechanical standby displays, sensors and probes. Our customers include government and commercial users located worldwide. The Company’s production facilities are located in Clearwater, Florida.

*Merger Agreement*

On April 19, 2013, Aerosonic entered into an Agreement and Plan of Merger (the “Merger Agreement”) with TransDigm Group Incorporated (“TransDigm”), a Delaware corporation, and Buccaneer Acquisition Sub Inc. (“Purchaser”), a Delaware corporation and indirect wholly-owned subsidiary of TransDigm. In accordance with the Merger Agreement, Purchaser commenced a cash tender offer on May 7, 2013 to purchase all of Aerosonic’s issued and outstanding shares of common stock, par value \$0.40 per share (the “Shares”), at a price of \$7.75 per Share in cash, without interest (less any applicable withholding taxes) (the “Offer Price”), upon the terms and subject to the conditions set forth in the Offer to Purchase, dated May 7, 2013 (together with any amendments or supplements thereto, the “Offer to Purchase”) and the related Letter of Transmittal (together with any amendments or supplements thereto, the “Letter of Transmittal” and, together with the Offer to Purchase, the “Offer”). On June 5, 2013, Aerosonic and TransDigm announced the completion of the Offer. The Offer expired at 12:00 midnight, New York City time, on June 4, 2013 (the “Expiration Date”). According to American Stock Transfer & Trust Company, LLC, the depository for the Offer, as of the Expiration Date, 3,553,830 Shares were validly tendered into and not properly withdrawn from the Offer, which represented approximately 88.4% of the outstanding Shares as of the Expiration Date (including 17,711 Shares tendered pursuant to guaranteed delivery procedures). On June 10, 2013, Purchaser merged with and into Aerosonic, with the Company surviving the merger and continuing as a wholly-owned indirect subsidiary of TransDigm (the “Merger”). For more information about the Offer and the Merger, see Item 1, Section 10 (Subsequent Events) of this Quarterly Report on Form 10-Q.

*Liquidity, Covenant Compliance and Management's Plans*

The Company's liquidity will depend on its ability to continue to achieve improved operating results and contain costs related to the development of new products. Sufficient liquidity is necessary to, among other things, (i) satisfy working capital requirements, (ii) fulfill necessary capital spending and (iii) meet the Company's debt obligations in fiscal year 2014 and beyond.

The Company's principal sources of capital have been cash flows from operations and borrowings under its credit facilities (the "Credit Facility") with BMO Harris Bank, N.A. ("BMO Harris Bank"). As more fully described in Note 7, the Company is required to comply with a number of financial and other covenants under the Credit Facility. The Company's failure to comply with these covenants in future periods would constitute a default under the Credit Facility, which would entitle BMO Harris Bank to terminate the Company's ability to borrow under the Credit Facility and accelerate the Company's obligations to repay outstanding borrowings. There can be no assurance that BMO Harris Bank would agree to any future waivers or modifications. The Company was in compliance with all covenants within the Credit Facility as of the compliance period ended May 3, 2013 and for all compliance periods within fiscal year 2013.

See Item 1, Section 10 (Subsequent Events) of this Quarterly Report on Form 10-Q for more information about the termination of the Credit Facility in connection with TransDigm's acceptance of the Offer and the Merger.

Failure by the Company to maintain its improved operating results or contain costs related to the development of new products could have a material adverse effect on the Company's liquidity and could require the implementation of curative measures, including raising capital, deferring planned capital expenditures and research and development efforts, reductions in force, reducing discretionary spending, and selling assets. There can be no assurance that any curative measures proposed by management will be successful to conserve liquidity. In addition, there can be no assurance that in the event additional sources of funds are needed, they will be available on acceptable terms, if at all.

### *Basis of Presentation*

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). These principles require management to make estimates and judgments that affect reported and contingent amounts of assets, liabilities, revenues and expenses, including such items as (i) inventory, (ii) restructuring and environmental costs, (iii) other miscellaneous accruals and (iv) valuation allowances for accounts receivable, inventory and deferred tax assets (including the measurement of uncertain tax positions). Actual results may differ from these estimates under different assumptions or conditions, and such differences could be material.

The accompanying consolidated financial statements include the accounts of the Company. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates on a fiscal year that ends on January 31, consisting of four quarters, each of the first three quarters ending on the Friday of each successive 13 week period. Accordingly, all references to the first quarter mean the first quarter ended on the 13<sup>th</sup> Friday of the fiscal year. For example, references to the first quarter of fiscal year 2014 mean the quarter ended May 3, 2013.

### *Unaudited Interim Financial Information*

The accompanying consolidated balance sheet as of May 3, 2013, the consolidated statements of operations for the three months ended May 3, 2013 and the consolidated statements of cash flows for the three months ended May 3, 2013 are unaudited but include all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of our financial position at such dates and our results of operations and cash flows for the periods then ended, in conformity with U.S. GAAP. The consolidated balance sheet as of January 31, 2013 has been derived from the audited consolidated financial statements at that date but, in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”), does not include all of the information and notes required by U.S. GAAP for complete financial statements. Interim results are not necessarily indicative of results that may be expected for the fiscal year ending January 31, 2014. The consolidated financial statements are prepared on a basis consistent with, and should be read in conjunction with, the consolidated financial statements and related notes for the fiscal year ended January 31, 2013 included in the Company’s Annual Report on Form 10-K filed with the SEC on May 1, 2013.

### *Adoption of New Accounting Pronouncements*

In July 2012, the FASB amended guidance on the annual testing of indefinite-lived intangible assets for impairment. Under the amended guidance, an entity has the option first to assess qualitative factors to determine whether the

existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company has determined that this new guidance did not have a material impact on its consolidated financial statements.

In February 2013, the FASB issued guidance on the Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. The guidance requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., the release due to cash flow hedges from interest rate contracts) and the income statement line items affected by the reclassification (e.g., interest income or interest expense). If a component is not required to be reclassified to net income in its entirety (e.g., the net periodic pension cost), companies would instead cross reference to the related footnote for additional information (e.g., the pension footnote). This guidance was effective for fiscal and interim reporting periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

### ***Revenue Recognition***

The Company generally recognizes revenue from sales of its products when the following have occurred: evidence of a sale arrangement exists; delivery or shipment has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectability is reasonably assured.

For fixed-price contracts, the Company may recognize revenue on a Multiple-Elements Arrangement basis. The Multiple-Elements Arrangement method requires the Company to evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. The Company makes that determination at the inception of the arrangement. In an arrangement with multiple deliverables, the delivered item(s) shall be considered a separate unit of accounting if (a) the delivered item(s) have value to the customer on a standalone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item(s) and (c) the arrangement includes a general right of return relative to the delivered item(s) and delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the buyer. The Company may also recognize its revenue under the completed contract method.

For long-term, fixed-price contracts meeting certain criteria, the Company may elect to follow the percentage-of-completion method of accounting for revenue recognition. Under this method, contract revenue is computed as that percentage of estimated total revenue that costs incurred to date bear to total estimated costs, after giving effect to the most recent estimates of costs to complete. From time to time, the Company will record costs and estimated profits in excess of billings for a contract. Revisions in costs and revenue estimates are reflected in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined without regard to the percentage-of-completion.

Periodically the Company enters into research and development contracts with customers related primarily to aircraft instruments and sensors. When the contracts provide for milestone or other interim payments, the Company will recognize revenue either under the Milestone method or the Multiple-Elements Arrangement method. Certain contracts in process during the first quarter of fiscal year 2014, presented as contracts D and E are being accounted for under the Milestone method. The Milestone method requires the Company to deem all milestone payments within each contract as either substantive or non-substantive. That conclusion is determined based upon a thorough review of each contract and the Company's deliverables committed to in each contract. For substantive milestones, the Company concludes that upon achievement of each milestone, the amount of the corresponding defined payment is commensurate with the effort required to achieve such milestone or the value of the delivered item. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of the deliverables and the payment terms within the contract. For non-substantive milestones, including advance payments, the recognition of such payments are pro-rated to the substantive milestones. Milestones may include, for example, the successful completion of design review or technical review, the submission or acceptance of technical drawings or documents, delivery of hardware, software, spares, test equipment, or completion of formal or informal testing or regulatory agency certifications. During the first quarter of fiscal year 2014, revenue recognized through the achievement of milestones amounted to \$0. Milestone considerations for contracts in process during the first quarter or at May 3, 2013 include:

| Contract D                | Milestone consideration |
|---------------------------|-------------------------|
| Milestone 1 (Substantive) | \$ 319,000              |
| Milestone 2 (Substantive) | 333,000                 |
| Milestone 3 (Substantive) | 196,000                 |
| Milestone 4 (Substantive) | 40,000                  |
|                           | \$ 888,000              |

| Contract E                    | Milestone consideration |
|-------------------------------|-------------------------|
| Milestone 1 (Non Substantive) | \$ 187,500              |
| Milestone 2 (Substantive)     | 187,500                 |
| Milestone 3 (Substantive)     | 318,750                 |
| Milestone 4 (Substantive)     | 56,250                  |
|                               | \$ 750,000              |

**2. Accounts Receivable – Allowance for Doubtful Accounts**

The allowance for doubtful accounts activity for the three months ended May 3, 2013 and April 27, 2012 was as follows:

|                      | Three Months Ended |                |
|----------------------|--------------------|----------------|
|                      | May 3,<br>2013     | April 27, 2012 |
| Beginning balance    | \$403,000          | \$ 358,000     |
| Amounts provided for | 31,000             | 210,000        |
| Ending balance       | \$434,000          | \$ 568,000     |

**3. Inventories – Reserve for Obsolete and Slow Moving Inventory**

Inventories at May 3, 2013 and January 31, 2013 consisted of the following:

|  | May 3, 2013  | January 31, 2013 |
|--|--------------|------------------|
| Raw materials                                  | \$7,503,000  | \$ 7,627,000     |
| Work in process                                | 2,716,000    | 2,619,000        |
| Finished goods                                 | 12,000       | 21,000           |
| Reserve for obsolete and slow moving inventory | (2,095,000 ) | (2,072,000 )     |
| Inventories, net                               | \$8,136,000  | \$ 8,195,000     |

The reserve for obsolete and slow moving inventory activity for the three months ended May 3, 2013 and April 27, 2012 was as follows:

|                               | Three Months Ended |                |
|-------------------------------|--------------------|----------------|
|                               | May 3,<br>2013     | April 27, 2012 |
| Beginning balance             | \$2,072,000        | \$ 2,219,000   |
| Amounts charged to operations | 23,000             | 60,000         |
| Ending balance                | \$2,095,000        | \$ 2,279,000   |

**4. Prepaid Expenses and Other Current Assets**



Included in, and making up the majority of, prepaid expenses and other current assets was \$404,000 and \$267,000 of deferred charges related to several current engineering contracts as of May 3, 2013 and January 31, 2013, respectively. The Company has been retained for the development of customer specific engineering projects. All the contracts are short-term in nature and not expected to extend beyond twelve months. As of May 3, 2013, the deferred charges consist of \$259,000 of internal engineering labor, including overhead, and \$145,000 of external engineering contract labor. As of January 31, 2013, the deferred charges consist of \$166,000 of internal engineering labor, including overhead, and \$101,000 of external engineering contract labor. The deferred charges are offset by residual interim payments from customers of \$19,000 as of both May 3, 2013 and January 31, 2013. Related to the deferred charges are accrued contract losses of \$71,000 as of both May 3, 2013 and January 31, 2013, which are included in accrued expenses and other liabilities.

## **5. Intangible Assets**

Amortization expense related to intangible assets for the three months ended May 3, 2013 and April 27, 2012 was \$0 and \$40,000, respectively. Amortization expense related to capitalized debt issue costs for the three months ended May 3, 2013 and April 27, 2012 was \$4,000 and \$9,000, respectively. Debt issue costs, in the amount of \$47,000 related to the renewal of the BMO Harris Bank debt was capitalized and is being amortized over the three-year term of the debt.

Amortization expense related to intangible assets and capitalized debt issue costs is included in selling, general and administrative expenses.

## 6. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of May 3, 2013 and January 31, 2013 consisted of the following:

|  | May 3, 2013  | January 31, 2013 |
|--|--------------|------------------|
| Environmental liability                | \$ 401,000   | \$ 404,000       |
| Contract costs provision               | 474,000      | 278,000          |
| Contract loss provision                | 71,000       | 71,000           |
| Warranty liability                     | 167,000      | 167,000          |
| Other                                  | 447,000      | 411,000          |
| Accrued expenses and other liabilities | \$ 1,560,000 | \$ 1,331,000     |

## 7. Long-Term Debt and Revolving Credit Facility

The Company is party to a Loan Agreement (the “Loan Agreement”), dated April 30, 2010, with BMO Harris Bank, the “Lender”, for a Credit Facility with a maximum amount available to the Company of \$10,100,000. The Loan Agreement provides for (a) a \$4,000,000 revolving line of credit (the “Revolving Credit Line Note”), (b) a \$3,500,000 first real estate mortgage loan (the “Real Estate Mortgage Note”), (c) a \$1,900,000 term loan (the “Equipment Term Note” and together with the Real Estate Mortgage Note, the “Bank Notes”), and (d) a \$700,000 equipment line of credit (the “Equipment Credit Line Note” and together with the Revolving Credit Line Note, the “Credit Line Notes”). The available funds received and financing available under the Loan Agreement will be and have been used for new product development, working capital and capital expenditure needs. Pursuant to a First Amendment to Amended and Restated Revolving Credit Line Note, dated June 15, 2012, the Company and the Lender agreed to extend the maturity date of the Amended and Restated Revolving Credit Line Note to June 27, 2013.

The Credit Facility is secured by substantially all assets of the Company. Details of the Credit Facility are as follows:

The Amended and Restated Revolving Credit Line Note provides a line of credit in an amount equal to the lesser of (a) the Revolving Credit Limit of \$4,000,000; or (b) a Borrowing Base determined based on eligible accounts receivable and inventory. Interest is paid monthly. The interest rate on the Amended and Restated Revolving Credit Line Note is one-month LIBOR (which was 0.19820% at May 3, 2013) plus 300 basis points. Available borrowings on the Amended and Restated Revolving Credit Line Note at May 3, 2013 were \$3,647,000.

The Real Estate Mortgage Note, which supports a \$3,500,000 first real estate mortgage loan, has a three-year term, a 15-year amortization period, and the interest rate is one-month LIBOR plus 340 basis points with a 4% floor. Interest and principal are paid monthly. The proceeds of the Real Estate Mortgage Note were used for refinancing an existing loan relating to the Clearwater, Florida property and for working capital and capital expenditure needs.

The Equipment Term Note, which supports a \$1,900,000 term loan, has a three-year term, a five-year amortization period, and the interest rate is one-month LIBOR plus 340 basis points with a 4% floor. Interest and principal are paid monthly. The proceeds of the Equipment Term Note were used for refinancing an existing loan relating to the

Earlsville, Virginia property and for working capital and capital expenditure needs. The Company must pay any proceeds from the sale of the Earlsville, Virginia property to BMO Harris Bank to be applied as a principal payment under the Equipment Term Note.

The Equipment Credit Line Note, which supports a \$700,000 equipment line of credit, has a three-year term, a five-year amortization period, and the interest rate is one-month LIBOR plus 325 basis points with a 4% floor. Interest is paid monthly. Principal payments began October 2011. Proceeds are used to purchase equipment for use in the Company's business. The Equipment Credit Line Note matures on May 1, 2014 and is presented as a current liability.

Prior to the Third Amendment, noted below, the Credit Facility contained certain financial and other restrictive covenants, including the requirement to maintain: (i) on a consolidated basis, Total Stockholders' Equity, defined as the value of total assets less total liabilities, equal to at least \$7,419,000, which amount shall increase on a quarterly basis in an amount equal to ninety percent (90%) of the Company's net income (calculated on a consolidated basis) for such quarter; (ii) on a consolidated basis, a ratio of Funded Debt, defined as all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long term debt, less the non-current portion of Subordinated Liabilities, defined as liabilities subordinated to the Company's obligations to the lender in a manner acceptable to the lender in its sole discretion, to EBITDA not exceeding 3.0:1.0; and (iii) on a consolidated basis, a Fixed Charge Coverage Ratio, defined as the ratio of (a) the sum of EBITDA plus lease expense and rent expense, minus income tax, minus dividends, withdrawals, and other distributions, to (b) the sum of cash interest expense, lease expense, rent expense, scheduled principal amortization actually paid to the lender during the measuring period (excluding any principal payments under the Amended and Restated Revolving Credit Line Note and the Investors' Notes Payable), and scheduled payments on capitalized lease obligations during the measuring period, of at least 1.20:1.0. These covenant amounts were calculated at the end of each quarterly reporting period for which the lender required financial statements.

On January 31, 2013, the Company entered into an amendment (the “Third Amendment”) to the Loan Agreement. The Amendment (a) renews to January 31, 2016, the maturity date of the Amended and Restated Revolving Credit Line Note in the amount of \$4 million; (b) renews to May 1, 2015, the maturity date of the Equipment Term Note in the amount of \$887,000, and (c) renews to January 31, 2018, the maturity date of the Real Estate Mortgage Note in the approximate amount of \$2,877,000. Except as amended to extend their respective maturities, the new notes contain the same terms and conditions as the promissory notes that they replace. The Third Amendment adjusts the Company’s requirement to retain Total Stockholders’ Equity to no less than \$8,759,000.

For the period measured as of May 3, 2013 and all periods measured during fiscal year 2013, the Company was in compliance with all covenants within the Credit Facility.

Long-term debt at May 3, 2013 and January 31, 2013 consisted of the following:

|   | May 3, 2013  | January 31, 2013 |
|---|--------------|------------------|
| Real Estate Mortgage Note               | \$2,800,000  | \$ 2,877,000     |
| Equipment Term Note                     | 760,000      | 887,000          |
| Equipment Credit Line Note              | 460,000      | 510,000          |
|   | 4,020,000    | 4,274,000        |
| Less: current maturities                | (1,074,000 ) | (763,000 )       |
| Long-term debt, less current maturities | \$2,946,000  | \$ 3,511,000     |

Interest expense on long-term debt and the Amended and Restated Revolving Credit Line Note for the three months ended May 3, 2013 and April 27, 2012 was \$31,000 and \$73,000, respectively.

See Item 1, Section 10 (Subsequent Events) of this Quarterly Report on Form 10-Q for more information about the termination of the Credit Facility in connection with TransDigm’s acceptance of the Offer and the Merger.

## 8. Stockholders’ Equity

### *(Loss) Earnings Per Share*

Basic (loss) earnings per share are based upon the Company’s weighted average number of common shares outstanding during each period. Diluted (loss) earnings per share is based upon the weighted average number of common shares outstanding during each period, assuming the issuance of common shares for all dilutive potential

common shares outstanding during the period. Potential common shares resulting from certain stock options were not included in the computation of diluted earnings per share for the three months ended April 27, 2012 as the exercise price of those options were greater than the market value of the common stock and inclusion of the potential common stock would be anti-dilutive and increase earnings per share. Potential common shares resulting from stock options were not included in the computation of diluted loss per share for the three months ended May 3, 2013, because the inclusion of the potential common stock would be anti-dilutive since the Company was in a net loss position and including such shares would reduce the net loss per share. Potential common stock shares from stock options and warrants, which were included in the computation of diluted earnings per share for the three months ended May 3, 2013 and the three months ended April 27, 2012, were accounted for using the treasury stock method. Stock options and warrants outstanding as of May 3, 2013 amounted to 600,100 shares.

## **9. Commitments and Contingencies**

### *Litigation*

From time to time, the Company may be involved in certain claims and legal actions arising in the ordinary course of business. As of May 3, 2013, there were no claims or legal actions that management believes will have a material adverse effect on the Company's financial position, results of operations, or liquidity.

*Environmental*

In preparation for the sale of the Earlysville, Virginia facility, the Company engaged an environmental consulting firm to survey the property for any possible soil or groundwater contamination. This survey revealed impacts to both shallow soils and groundwater that may have resulted from the accidental loss of solvents by a former owner of the property. During fiscal year 2013, the Company signed an administrative order on consent with the U.S. Environmental Protection Agency to provide the former owner with access to the property and the former owner of the property signed an administrative order on consent with the U.S. Environmental Protection Agency for completion of a contamination characterization study. As a result of the initial and subsequent surveys, the Company's responsibility for the remaining contamination treatment, future monitoring, oversight and other related costs is estimated at \$401,000 as of May 3, 2013. The Company has capitalized these costs as an increase to property held for sale, net, since such costs will be incurred in preparation for the sale of the Earlysville, Virginia facility and will not result in a carrying value in excess of the estimated fair value less cost to sell. Costs incurred during the three months ended May 3, 2013 totaled \$3,000 and costs incurred during the three months ended April 27, 2012 totaled \$0. At this time, the Company cannot predict how much, if any, it will incur for more costs in fiscal year 2014.

*U.S. Government Defense Budget/ Sequestration*

In August 2011, the Budget Control Act (The Act) reduced the United States defense top line budget by approximately \$490 billion through 2021. The Act further reduced the defense top line budget by an additional \$500 billion through 2021 if Congress did not enact \$1.2 trillion in further budget reductions by January 15, 2012. Should Congress in future years provide funding above the yearly spending limits of The Act, sequestration will automatically take effect and cancel any excess amount above the limits. The annual spending limits of The Act will remain in place until current law is changed. On March 1, 2013, sequestration was implemented for the U.S. government fiscal year 2013 (FY2013), canceling \$42.7 billion of planned U.S. defense budgetary spending. The Office of Management and Budget (OMB) subsequently issued a report to Congress listing illustrative cuts which equal a 7.8% reduction in FY2013 non-exempt defense discretionary funding and a 5.0% reduction in non-exempt nondefense discretionary funding. However, as noted in the OMB report, the effective reduction in funds would be approximately 13% for non-exempt defense programs and 9% for non-exempt nondefense programs if implemented over the seven-month period from March 1, 2013 to September 30, 2013.

While the OMB report and other communications with the United States Department of Defense ( U.S. DoD ) indicate that there would likely be reductions to the Company's defense business, the U.S. DoD is in the process of identifying specific program and contract reductions required by the FY2013 sequestration order. As such, at this time the Company cannot determine how sequestration will impact the Company's specific programs and contracts. Any reductions, cancellations or delays impacting existing contracts or programs could have a material effect on the Company's results of operations, financial position and/or cash flows.

*Commitments*

There have been no material changes to our purchase and lease commitments from those disclosed in our Annual Report on Form 10-K for the year ended January 31, 2013. Total rent expense under the facility lease in Charlottesville, Virginia for the three months ended May 3, 2013 and April 27, 2012 was \$0 and \$43,000, respectively. A majority of those costs are included in cost of sales while the balance is included in selling, general and administrative expenses. The lease term of the facility in Charlottesville, Virginia expired in December 2012.

On August 2, 2012, the Company entered into a stand-by letter of credit agreement with BMO Harris Bank in the amount of \$187,500 related to our commitment for the repayment of a cash advance from a certain customer upon our failure to timely perform. This agreement had no effect on reducing the amount of credit available on the Amended and Restated Revolving Credit Line Note as of May 3, 2013. As a result of the Company's timely performance during fiscal year 2013, the stand-by letter of credit is void. In addition, the Company guaranteed 10% of the contract price, or \$75,000, should the Company fail to deliver hardware. The contract subjects the Company to liquidated damages, limited to 10% of the total amount paid to the seller to date, for failure to timely deliver hardware. As of May 3, 2013, the Company expects to timely perform on the contract and avoid all contract damage.

**10. Subsequent Events**

*Termination of Credit Facility*

In connection with TransDigm's acceptance of the Offer and the Merger, on June 5, 2013, Aerosonic repaid to the Lender in full all outstanding balances under the Credit Facility, together with interest and all other amounts due in connection with such repayment, under the Loan Agreement and related loan documents.

*Tender Offer by TransDigm and Merger*

On June 5, 2013, Aerosonic and TransDigm announced the completion of the Offer. The Offer expired on the Expiration Date. According to American Stock Transfer & Trust Company, LLC, the depositary for the Offer, as of the Expiration Date, 3,553,830 Shares were validly tendered into and not properly withdrawn from the Offer, which represented approximately 88.4% of the outstanding Shares as of the Expiration Date (including 17,711 Shares tendered pursuant to guaranteed delivery procedures). On June 10, 2013, pursuant to the Merger Agreement, Purchaser exercised its “top-up” option to purchase directly from Aerosonic an additional number of Shares sufficient to enable Purchaser to effect a short-form merger under Delaware law. Accordingly, Aerosonic issued 900,000 Shares (the “Top-Up Shares”) to Purchaser, at a price of \$7.75 per Share. Purchaser paid for the Top-Up Shares by delivery of cash equal to \$360,000 (representing the aggregate par value of the Top-Up Shares) and a promissory note for the balance of the consideration due in exchange for the Top-Up Shares. The Top-Up Shares were issued without registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon an exemption from registration pursuant to Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering. On June 10, 2013, Purchaser merged with and into Aerosonic, with Aerosonic surviving the Merger and continuing as a wholly-owned indirect subsidiary of TransDigm.

Upon the effectiveness of the Merger, each outstanding Share, other than (i) Shares owned, directly or indirectly, by Parent or Purchaser or held by Aerosonic, all of which were cancelled and cease to exist, and (ii) Shares held by Aerosonic’s stockholders who properly exercise their appraisal rights under Section 262 of the Delaware General Corporation Law, was converted into the right to receive an amount of cash equal to the Offer Price, without interest (less any applicable withholding tax).

In connection with the transactions contemplated by the Merger Agreement, each of Douglas J. Hillman, P. Mark Perkins, Roy Robinson, Donald Russell and Thomas E. Whytas, Jr. has resigned or been replaced as a director. As of the June 10, 2013, Aerosonic’s directors are Raymond Laubenthal and Gregory Rufus.

On June 11, 2013, the NYSE MKT filed with the SEC a Form 25, Notification of Removal from Listing and/or Registration under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to delist and deregister the Shares. Upon effectiveness of such Form 25, Aerosonic intends to file with the SEC a Certification on Form 15 under the Exchange Act to suspend Aerosonic’s remaining reporting obligations under the Exchange Act.



## ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. OF OPERATIONS

### EXPLANATORY NOTE

Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") is provided to help provide an understanding of our business, financial condition, changes in financial condition and results of operations. The following should be read in conjunction with our unaudited Consolidated Financial Statements, the notes thereto, the other unaudited financial data included elsewhere in this Quarterly Report on Form 10-Q and our 2013 Annual Report on Form 10-K filed with the SEC on May 1, 2013. Our MD&A is organized as follows:

**Overview.** This section contains trend analysis, a summary of the challenges we encountered this fiscal quarter and steps we are taking to address these challenges. This section may contain forward-looking statements. These statements are based on our current expectations and actual results may materially differ from such expectations. Among the factors that could cause actual results to vary are those described in this "Overview" section and in "Item 1A. Risk Factors."

**Results of Operations.** This section provides an analysis of results of operations for the two fiscal quarters presented in the accompanying consolidated statements of operations.

**Liquidity and Capital Resources.** This section provides an analysis of cash flows, a discussion of outstanding debt, working capital and capital expenditures, and commitments, both firm and contingent, that existed as of May 3, 2013, and trends, demands, events and uncertainties with respect to our ability to finance our continuing operations.

**Critical Accounting Policies.** This section discusses the accounting policies (i) that require us to make estimates that are highly uncertain at the time the estimate is made, (ii) for which a different estimate which could have been made would have a material impact on our consolidated financial statements, (iii) that are the most important and pervasive policies utilized, and (iv) that are the most sensitive to material change from external factors.

### OVERVIEW

We design and manufacture aircraft instrumentation and sensor systems. These products are used for data collection and display of both primary and standby flight data. Display products are the instruments in the cockpit of an aircraft

that provide the pilot with primary and standby information about the flight situation of the aircraft, such as altitude, speed and direction. As cockpit panel space becomes more valuable in the new age of glass displays, we have maintained a strong position with Original Equipment Manufacturers (OEM) as a premier supplier of quality aircraft instrumentation in both the military and commercial aircraft marketplace. We are enhancing this position with the introduction of the digital OASIS® backup display system.

Our air data collection products include a range of conic probes (e.g., AoA, SWT and IMFP®), flush port probes as well as the air data unit within the OASIS® backup system that can be used independently of the OASIS® display unit for use with other digital display systems. We continue to expand the range of aircraft using our air data systems which now include a growing number of UAV's and next generation fighter aircraft.

This wide range of products allows us to offer multiple solutions for air data collection as well as primary and standby displays and backup instrumentation which allow our aircraft manufacturer customers to reduce their number of suppliers. Our unique capabilities in air data collection products continue to expand with the development of multiple air data system designs for domestic and international customers, including highly advanced contour flushport systems as well as new variants of our legacy probe designs. These technologies support manned aircraft and the expanding Unmanned Aerial Vehicle (UAV) markets. During fiscal years 2013 and 2012, we were awarded development contracts to modify or extend air data capabilities for products on existing airframes using these technologies.

Building on our expertise with mechanical instrumentation, we have successfully developed and marketed digital instrumentation and displays for standby redundant systems to complement our mechanical product line.

Our current market focus has been, and will continue to be, the design, development and supply of electronic and mechanical primary and standby flight control systems components and instruments. These include altimeters, airspeed indicators, angle of attack indicators, stall warning systems, air data measurement systems and standby flight display systems. These products are critical to aircraft operation, performance and safety.

In conjunction with our development and production activities, we have developed expertise in the building, testing and validation of critical test equipment, including environmental stress screening chambers and wind tunnels. We are expanding that knowledge to offer customers the ability to order turnkey solutions for their test needs.

The trend in the aerospace industry continues toward digital cockpits and away from mechanical cockpit instrumentation that was our foundation. During the first three months of fiscal year 2014, we continued to make progress in our ability to design and manufacture digital instrumentation that is integrated into cockpit flight management systems. We maintained and strengthened our commitment to research and development to further enhance our product line as we anticipate continued movement toward digital cockpits in the aerospace industry. Our new OASIS® multi-function standby display is being promoted in support of this trend. We plan to position ourselves such that we continue to offer both digital and mechanical instrumentation solutions to our customers. While we believe that this strategy will, over time, strengthen our position in the aerospace industry, we cannot guarantee that this strategy will be successful or that we will have access to the capital resources needed to fully support this strategy.

A significant amount of our business relates to the sale of our products, services and support to United States (“U.S.”) and foreign military programs. As a consequence, our sales can fluctuate materially, either favorably or unfavorably, depending upon the level of government spending on those military programs which are a major focus of our manufacturing efforts. While we have been successful in obtaining contracts to supply military needs in recent years, sudden reductions in government spending or delays in the government contract award process could have a material unfavorable effect on our current and future military sales and related cash flow. While we cannot predict the outcome of the U.S. government contract award or budget process, we expect that the majority of the military programs that we supply will be sustained at current or near current levels. Additionally, U.S. government procurement offices often require long periods of time to issue requests for proposals and to negotiate contracts. Such lengthy contract cycle times may delay the award of certain anticipated contracts of significant value to the Company. Delays of significant contract awards may have an adverse effect on the financial results of the Company.

In August 2011, the Budget Control Act reduced the U.S. DoD top line budget by approximately \$490 billion through 2021. In addition, U.S. government expenditures are subject to the potential for further reductions, generally referred to as "sequestration". Sequestration would result in additional reductions of approximately \$500 billion from the defense top line budget through 2021. The Office of Management and Budget (OMB) has estimated that sequestration would reduce non-exempt defense discretionary accounts during U.S. government fiscal year 2013 by approximately 9.4% (excluding military personnel accounts). The OMB has further stated that the budget for Overseas Contingency Operations and any unobligated balances in prior year funds would be included in aggregate reductions but has otherwise indicated that it cannot yet assess the impact of sequestration at the program, project and activity level. The U.S. DoD has indicated that such reductions might require the termination of certain, as yet undetermined, procurement programs, and other U.S. government customers, such as NASA and various intelligence agencies, may be required to take comparable actions. Any such impacts could have a material effect on our results of operations, financial position and/or cash flows. With the aforementioned fiscal challenges as a backdrop, the U.S. DoD announced a significant revision to the defense strategy in January 2012. This new strategy prioritized the Asia Pacific and Middle East regions, reduced the number of ground forces, maintained nuclear deterrence and reduced Cold War assets. Additionally, it emphasized the increasing importance of Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR); Cyber Security; Space; Special Operations; and Unmanned

Systems in implementing the nation's security posture. We have been developing organic capabilities to better serve our customers and their emerging needs in these markets, including the continued R&D efforts on both our flush port and legacy probe air data technologies.

Similarly, changes in the commercial sector of the aerospace industry can have a favorable or unfavorable impact on our future business. While we have historically invested heavily in product development for both funded and unfunded programs, OEM requirements may change such that additional product development efforts will be necessary to maintain or increase our revenue in the aerospace industry. With respect to ongoing contracts, several of our commercial customers continue to operate with reduced operations and manufacturing. While this may be offset by additional increases in aftermarket support, it is likely that our business will continue to be negatively affected until the economy recovers and our customers resume prior levels of production and growth. The recession in the general aviation and business jet markets has continued longer than previously expected and significant improvement is not forecasted for at least another year. Continued reductions of customer deliveries may have a significant adverse effect on our financial results.

Recognizing the risks and challenges of the current environment in both our military and commercial markets, we continue to closely monitor our operations and cost structure for opportunities to enhance our financial performance in the face of a difficult economic environment. We will continue to pursue actions we deem appropriate to counter the near-term challenges in our markets while preserving our ability to be responsive to our customers as the economy improves.

## RESULTS OF OPERATIONS

Our senior management regularly reviews the performance of our operations including reviews of key performance metrics and the status of operating initiatives. We review information on the financial performance of the operations, new business opportunities, customer relationships and initiatives, independent research and development (IR&D) activities, human resources, manufacturing effectiveness, cost reduction activities, as well as other subjects. We compare performance against budget, against prior comparable periods and against our most recent internal forecasts. We do not expect the impact of inflation and changing prices on net sales and income from continuing operations to be material.

While we believe the prospects for our financial performance to be very good over the long term, we continue to work our way through short-term challenges which may cause our financial results to vary on a quarterly basis. Our backlog of firm orders, not including options, as of May 3, 2013 is \$29.0 million, a decrease of \$1.3 million when compared to the \$30.3 million backlog as of January 31, 2013.

Our ability to enhance gross profit and operating results will require that we introduce new products and grow our business while continuing to improve manufacturing throughput and delivery performance. We are well engaged in implementing lean manufacturing principles, supported by training programs, to further develop a consistent, disciplined, and innovative engineering and production culture. We complement these initiatives with a marketing and sales strategy that builds on our market presence and core competencies in sensor, air data computation, and display technologies.

We believe that our recent and planned future investments in support of our customers will produce strong returns as our markets continue their recovery. Because of our improved operating metrics, as well as direct customer feedback with respect to quality and delivery performance, we are far better positioned to win new business. We believe that our improved systems, focused value-stream teams, and growing capabilities will enable us to far more reliably fulfill commitments to our customers, suppliers, and stockholders.

*Three months ended May 3, 2013 and April 27, 2012:*

Net sales for the first quarter of fiscal year 2014 decreased \$253,000, or 3.4%, to \$7,108,000 when compared to \$7,361,000 for the first quarter of fiscal year 2013. During the first quarter of fiscal year 2014, the net sales decreased from the prior year on sales of development services and spares, partially offset by increased sales of repairs, sensor products, and mechanical products. Our net sales continue to be impacted by the ongoing recession in the business jet and general aviation markets.

Cost of sales for the first quarter of fiscal year 2014 increased \$140,000, or 3.1%, to \$4,643,000 when compared to \$4,503,000 for the first quarter of fiscal year 2013. Gross profit as a percentage of sales for the first quarter of fiscal year 2014 was 34.7% versus 38.8% for the first quarter of fiscal year 2013. The three-month comparative decrease in gross profit as a percent of sales was primarily due to (a) decreased variable margin due to the lower sales volume and (b) favorable pricing on certain customer orders, particularly in spares and repairs, during the first quarter of fiscal year 2013.

Selling, general and administrative expenses for the first quarter of fiscal year 2014 were \$3,094,000, an increase of \$956,000 from the first quarter of fiscal year 2013 of \$2,138,000. The increase in expenses was primarily due to (a) a \$557,000 increase in independent research and development (IR&D) spending and (b) \$374,000 of costs incurred relating the pending acquisition of the Company.

We reported an operating loss during the first quarter of fiscal year 2014 of (\$629,000), or 8.8% of net sales, compared to operating income of \$720,000, or 9.8% of net sales, in the prior year's first quarter. This decrease in operating income is primarily attributable to the lower net sales and decreased gross margin percentage as described above, further impacted by the higher selling, general and administrative costs.

Interest expense, net, decreased \$42,000 for the first quarter of fiscal year 2014 when compared to the first quarter of fiscal year 2013 primarily due to lower interest expense on reduced debt levels.

Loss before income taxes was (\$656,000) in the first quarter of fiscal year 2014 versus income before income taxes of \$647,000 in the first quarter of fiscal year 2013. For the quarter ended May 3, 2013, net loss was (\$413,000) or (\$0.11) basic and diluted loss per share, versus net income of \$413,000, or \$0.11 basic and \$0.10 diluted earnings per share for the quarter ended April 27, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of capital have been cash flow from operations and borrowings under the Credit Facility described below. As of both May 3, 2013 and January 31, 2013, we had \$0 in cash and cash equivalents. In addition, as of May 3, 2013, we had \$3,647,000 available under our Credit Facility, compared to \$3,097,000 available as of January 31, 2013.

Our cash provided by operating activities was \$974,000 for the three months ended May 3, 2013, an increase in cash provided of \$947,000 compared to cash provided of \$27,000 for the three months ended April 27, 2012. This net increase in cash provided by operating activities is primarily attributable to increases in cash provided by operating activities of:

\$2,544,000 from decreased accounts receivables of \$1,825,000, net of a \$31,000 provision for bad debts at May 3, 2013 compared to increased accounts receivables of \$719,000, net of a \$210,000 provision for bad debts, at April 27, 2012,

\$866,000 from increased accounts payable at May 3, 2013 of \$285,000 compared to decreased accounts payable at April 27, 2012 of \$581,000 and

\$484,000 from decreased inventory of \$36,000 at May 3, 2013 compared to increased inventory at April 27, 2012 of \$448,000;

Partially offset by increases in cash used in operating activities of:

\$826,000 from decreased operating net loss in fiscal year 2014 of \$413,000 when compared to operating net income in fiscal year 2013 of \$413,000,

\$593,000 for decreased accrued compensation and benefits of \$283,000 as of May 3, 2013 when compared to increased accrued compensation and benefits of \$310,000 as of April 27, 2012,

\$505,000 as presented by increased accrued expenses and other liabilities at May 3, 2013 of \$41,000, due primarily to the provision of accrued contract costs related to uncompleted engineering contracts during the first three months of fiscal year 2014, when compared to the change in accrued expenses and other liabilities at April 27, 2012 of \$546,000, due primarily to the provision of accrued contract losses related to engineering contracts in process in

fiscal year 2013 and

\$477,000 from decreased provision for deferred income taxes of \$243,000 for the three months ended May 3, 2013 compared to increased provision for deferred income taxes of \$234,000 for the three months ended April 27, 2012.

Our cash used in investing activities increased \$87,000 for the three months ended May 3, 2013 compared to the three months ended April 27, 2012 due solely to capital improvements and equipment additions of \$202,000 during the three months ended May 3, 2013 compared to capital improvements and equipment additions of \$115,000 during the three months ended April 27, 2012.

Our cash used in financing activities for the three months ended May 3, 2013 was \$772,000 compared to cash used in financing activities for the three months ended April 27, 2012 of \$69,000. The change was attributable to \$670,000 of additional payments against the Amended and Restated Revolving Credit Line Note and \$65,000 of increased long-term debt repayment.

Our days sales in accounts receivable decreased to 45 days at May 3, 2013, down from 64 days at January 31, 2013, due in large part to receipt of delayed customer payments. With increased spending on a) research and development efforts and b) merger transaction, our outstanding account payable balances with operational suppliers increased as days purchases in accounts payable increased to 35 days at May 3, 2013, up from 26 days at January 31, 2013. Due to our past payment history, we continue to be challenged to maintain favorable payment terms with certain suppliers.



Our liquidity will depend on our ability to continue to achieve improved operating results and contain costs related to the development of new products. Sufficient liquidity is necessary to, among other things, (i) satisfy working capital requirements, (ii) fulfill necessary capital spending, and (iii) meet our debt obligations in fiscal year 2014 and beyond. Our failure to improve our operating results could have a material adverse effect on our liquidity and could require the implementation of curative measures, including raising capital, deferring planned capital expenditures and research and development efforts, reductions in force, reducing discretionary spending, and selling assets. There can be no assurance that our proposed plans and actions will be successful or that unforeseen circumstances will not require us to seek additional funding sources in the future or effectuate additional plans to conserve liquidity. In addition, there can be no assurance that in the event additional sources of funds are needed, they will be available on acceptable terms, if at all.

#### *Working Capital and Capital Expenditures*

Our working capital at May 3, 2013 was \$7,560,000 compared to \$9,084,000 at January 31, 2013. This decrease in working capital of \$1,524,000 as of May 3, 2013 relates, in part, to (a) a reduction in accounts receivable of \$1,856,000, (b) a reclassification of \$311,000 of long-term debt from non-current liabilities to current liabilities as the Equipment Credit Line Note matures on May 1, 2014, (c) an increase in accounts payable of \$285,000 due to pending merger costs and (d) an increase in accrued expenses of \$229,000 also due primarily to pending merger costs. These decreases to working capital are offset, in part, by (a) an increase in prepaid expenses, due primarily to the financing of insurance premiums, (b) a decrease to accrued compensation and benefits of \$283,000, due primarily to the payout of bonus' and (c) an increase to deferred income taxes of \$243,000 due to the fiscal year 2014 first quarter operating loss.

The collection of our accounts receivable is the primary source of cash used to fund our operations. Our banking line of credit is used as an additional source of cash as necessary from time to time, and we sweep any excess cash back against the line of credit on a daily basis to minimize interest expense.

Management believes the sale of the Earlysville, Virginia facility is probable within one year. However, we have presented the property held for sale as a non-current asset as we anticipate that the terms of a sale will likely contain cash escrow provisions relating to the contamination treatment costs, thereby precluding the full conversion of the asset to cash within one year.

Our future capital requirements depend on numerous factors, including research and development, expansion of product lines and other factors. Furthermore, we may need to develop and introduce new or enhanced products, respond to competitive pressures, invest or acquire businesses or technologies or respond to unanticipated requirements or developments, which would require additional resources. Currently, our cash flow from operations alone may not be sufficient to meet these challenges.

Our capital expenditures for the first three months ended May 3, 2013 were \$202,000, compared to \$115,000 for the first three months ended April 27, 2012. Capital expenditures for the first three months ended May 3, 2013 consisted primarily of computer hardware and software acquisitions. Historically, our capital budget was intended to replace fixed asset equipment as needed and to take advantage of technological improvements that would improve productivity. We continue to replace certain critical fixtures, environmental test chambers and testing equipment that we lost in the August, 2008 fire during fiscal years 2014 and 2013. Additionally, we renovated and reconfigured our Florida production facility in those years to accommodate equipment previously located in our building destroyed in the fire.

#### *Credit Facility*

We were party to a Loan Agreement (the “Loan Agreement”) with BMO Harris Bank (the “Lender”) with a maximum amount of credit facilities (the “Credit Facility”) available to us of \$10,100,000. The Loan Agreement provided for (a) a \$4,000,000 revolving line of credit, pursuant to a revolving line of credit note in the original principal amount of up to \$4,000,000 (the “Revolving Credit Line Note”), (b) a \$3,500,000 first real estate mortgage loan, (c) a \$1,900,000 term loan and (d) a \$700,000 equipment line of credit. The Credit Facility was secured by substantially all of our assets. See Note 7 of “Notes to Consolidated Financial Statements”.

The Credit Facility was secured by substantially all assets of the Company. Details of the Credit Facility were as follows:

The Amended and Restated Revolving Credit Line Note provided a line of credit in an amount equal to the lesser of (a) the Revolving Credit Limit of \$4,000,000; or (b) a Borrowing Base determined based on eligible accounts receivable and inventory. Interest was paid monthly. The interest rate on the Amended and Restated Revolving Credit Line Note was one-month LIBOR (which was 0.19820% at May 3, 2013) plus 300 basis points. Available borrowings on the Amended and Restated Revolving Credit Line Note at May 3, 2013 were \$3,647,000.

The Real Estate Mortgage Note, which supported a \$3,500,000 first real estate mortgage loan, had a three-year term, a 15-year amortization period, and the interest rate was one-month LIBOR plus 340 basis points with a 4% floor.

Interest and principal were paid monthly. The proceeds of the Real Estate Mortgage Note were used for refinancing an existing loan relating to the Clearwater, Florida property and for working capital and capital expenditure needs.

The Equipment Term Note, which supported a \$1,900,000 term loan, had a three-year term, a five-year amortization period, and the interest rate was one-month LIBOR plus 340 basis points with a 4% floor. Interest and principal were paid monthly. The proceeds of the Equipment Term Note were used for refinancing an existing loan relating to the Earlysville, Virginia property and for working capital and capital expenditure needs.

The Equipment Credit Line Note, which supported a \$700,000 equipment line of credit, had a three-year term, a five-year amortization period, and the interest rate was one-month LIBOR plus 325 basis points with a 4% floor. Interest was paid monthly. Principal payments began October 2011. Proceeds were used to purchase equipment for use in the Company's business.

The Credit Facility contained certain financial and other restrictive covenants, including the requirement to maintain: (i) minimum Total Stockholders' Equity; (ii) a ratio of Funded Debt to EBITDA; and (iii) a Fixed Charge Coverage Ratio. See Note 7 of "Notes to Consolidated Financial Statements".

On January 31, 2013, we entered into an amendment (the "Third Amendment") to the Loan Agreement. The Amendment (a) renewed to January 31, 2016, the maturity date of the Amended and Restated Revolving Credit Line Note in the amount of \$4 million; (b) renewed to May 1, 2015, the maturity date of the Equipment Term Note in the amount of \$887,000, and (c) renewed to January 31, 2018, the maturity date of the Real Estate Mortgage Note in the approximate amount of \$2,877,000. Except as amended to extend their respective maturities, the new notes contained the same terms and conditions as the promissory notes that they replaced.

For the period measured as of May 3, 2013 and all periods measured during fiscal year 2013, we were in compliance with all covenants within the Credit Facility.

See Item 1, Section 10 (Subsequent Events) of this Quarterly Report on Form 10-Q for more information about the termination of the Credit Facility in connection with TransDigm's acceptance of the Offer and the Merger.

## **CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of those consolidated financial statements and this Quarterly Report on Form 10-Q requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure items, including disclosure of contingent assets and liabilities, at the date of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions, and as a result of trends and uncertainties identified above under “Results of Operations” and “Liquidity and Capital Resources” and in “Item 1A. Risk Factors”. Further, such differences could be material.

Set forth below is a discussion of our critical accounting policies. We consider critical accounting policies to be those (i) that require us to make estimates that are highly uncertain at the time the estimate is made, (ii) for which a different estimate which could have been made would have a material impact on our consolidated financial statements, (iii) that are the most important and pervasive policies utilized, and (iv) that are the most sensitive to material change from external factors. Additionally, the policies discussed below are critical to an understanding of the consolidated financial statements because their application places the most significant demands on our judgment, with financial reporting results relying on estimates about the effect of matters that are highly uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The impact and any associated risks related to these policies on business operations is discussed throughout this MD&A where such policies affect reported and expected financial results.

For a detailed discussion regarding the application of these and other accounting policies, see Note 1 of “Notes to Consolidated Financial Statements (Unaudited).”

### *Revenue Recognition*

The Company generally recognizes revenue from sales of its products when the following have occurred: evidence of a sale arrangement exists; delivery or shipment has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectability is reasonably assured.

For fixed-price contracts, the Company may recognize revenue on a Multiple-Elements Arrangement basis. The Multiple-Elements Arrangement method requires the Company to evaluate all deliverables in an arrangement to determine whether they represent separate units of accounting. The Company makes that determination at the inception of the arrangement. In an arrangement with multiple deliverables, the delivered item(s) shall be considered a separate unit of accounting if (a) the delivered item(s) have value to the customer on a standalone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item(s) and (c) the arrangement includes a general right of return relative to the delivered item(s) and delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. The Company may also recognize its revenue under the completed contract method.

For long-term, fixed-price contracts meeting certain criteria, the Company may elect to follow the percentage-of-completion method of accounting for revenue recognition. Under this method, contract revenue is computed as that percentage of estimated total revenue that costs incurred to date bear to total estimated costs, after giving effect to the most recent estimates of costs to complete. From time to time, the Company will record costs and estimated profits in excess of billings for a contract. Revisions in costs and revenue estimates are reflected in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined without regard to the percentage-of-completion.

Periodically, the Company enters into research and development contracts with customers. When the contracts provide for milestone or other interim payments, the Company will recognize revenue either under the Milestone method or the Multiple-Elements Arrangement method. The Milestone method requires the Company to deem all milestone payments within each contract as either substantive or non-substantive. That conclusion is determined based upon a thorough review of each contract and the Company’s deliverables committed to in each contract. For substantive milestones, the Company concludes that upon achievement of each milestone, the amount of the corresponding defined payment is commensurate with the effort required to achieve such milestone or the value of the delivered item. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of the deliverables and the payment terms within the contract. For non-substantive milestones, including advance payments, the recognition of such payments are pro-rated to the substantive milestones. Milestones may include, for example, the successful completion of design review or technical review, the submission

and acceptance of technical drawings, delivery of hardware, software, spares, test equipment or regulatory agency certifications.

*Accounts Receivable, Allowance for Doubtful Accounts and Credit Losses*

We continuously evaluate our customers and provide reserves for anticipated credit losses as soon as collection becomes compromised. While credit losses have historically been within expectations of the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that have been experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers.

*Inventories*

The Company values inventory at standard cost which generally reflects the most recent significant cost for manufactured or purchased inventory. Standards are revalued from time to time to reflect the lower of cost (using a method that approximates the first-in, first-out method "FIFO") or net realizable value. The reserve for obsolete and slow moving inventory is based upon reviews of inventory quantities on hand, usage and sales history.

*Work In Process Inventories*

We employ certain methods to estimate the value of work in process inventories for financial reporting purposes. Our practice has been to conduct cycle counts of inventory throughout the year. Generally, for items that are in process at the end of a fiscal year, we will make an estimate during the cycle counting process regarding the percentage of completion of such items in order to accurately reflect costs incurred to date on the production of the items that are still in process. These estimates are affected by the nature of the operation at which the items are located at the time a physical inventory is conducted, and are subject to judgment. This practice was employed for fiscal years 2013 and 2012.

*Manufacturing Overhead Cost Application*

We establish our inventoriable cost of manufacturing overhead by calculating our overhead costs as a percentage of direct labor and applying that percentage to direct labor that has been charged to inventory on a twelve month rolling average basis. This application percentage is reviewed and adjusted no less than annually.

*Deferred Tax Asset Valuation Allowance*

We account for income taxes in accordance with U.S. GAAP, which states that deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided against the future benefit of deferred tax assets to the extent it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized.

*Property Held for Sale*

Property held for sale is reported at the lower of its carrying amount or fair value less cost to sell. Depreciation on property held for sale is discontinued at the time the criteria, established by U.S. GAAP, are met. The Earlysville, Virginia property is presently held for sale. The property consists of a 53,000 square foot manufacturing facility on approximately 12 acres of land. In preparation for the sale of the Earlysville, Virginia facility, we engaged an environmental consulting firm to survey the property for any possible soil or groundwater contamination. This survey revealed impacts to both shallow soils and groundwater that may have resulted from the accidental loss of solvents by a former owner of the property. During fiscal year 2013, we signed an administrative order on consent with the U.S. Environmental Protection Agency to provide the former owner with access to the property and the former owner of

the property signed an administrative order on consent with the U.S. Environmental Protection Agency for completion of a contamination characterization study. As a result of the initial and subsequent surveys, our responsibility for the remaining contamination treatment, future monitoring, oversight and other related costs is estimated at \$401,000 as of May 3, 2013. We have capitalized these costs as an increase to property held for sale, net, since such costs will be incurred in preparation for the sale of the Earlysville, Virginia facility and will not result in a carrying value in excess of the estimated fair value less cost to sell. Costs incurred during the three months ended May 3, 2013 and April 27, 2012 totaled \$3,000 and \$0, respectively. At this time, we cannot predict how much, if any, we will incur for more costs in fiscal year 2014.

#### *Goodwill and Intangible Assets*

The carrying value of goodwill is reviewed at least annually for impairment and will be reviewed more frequently if current events and circumstances indicate a possible impairment. An impairment loss is charged to expense in the period identified. As current events and circumstances warrant, the Company examines the carrying value of its intangible assets with finite lives, such as capitalized software and development costs, purchased intangibles, and other long-lived assets, to determine whether there are any impairment losses. If indicators of impairment are present and future cash flows are not expected to be sufficient to recover the asset's carrying amount, an impairment loss is charged to expense in the period identified. Factors that may cause impairment include negative industry or economic trends or significant underperformance relative to historical or projected future operating results.

#### *Long-Lived Assets*

We periodically evaluate long-lived assets for potential impairment and will record an impairment charge whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of May 3, 2013 and January 31, 2013, we do not believe that any assets are impaired.

We will capitalize production costs for computer software that is to be utilized as an integral part of a product when both (a) technological feasibility is established for the software; and (b) all research and development activities for the other components of the product have been completed. Amortization is charged to expense at the greater of the expected unit sales versus units sold or the straight line method for a period of three years from the date the product becomes available for general release to customers.



*Income Taxes*

The Company and its includable subsidiaries file a consolidated U.S. federal income tax return in accordance with the provisions of the Internal Revenue Code of 1986, as amended.

The Company's accounting for income taxes represents management's best estimate of various events and transactions.

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. Valuation allowances are established when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether valuation allowances should be established as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- future taxable income exclusive of reversing temporary differences and carryforwards;
- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years and
- tax planning strategies.

We believe that we will ultimately recover a majority of the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

We re-evaluate uncertain tax positions on a regular basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

The Company classifies tax related interest and tax related penalties as a component of income taxes.

*Research and Development*

Research and development costs that are not associated with specific customer contract requirements are expensed in the period incurred and are included in selling, general and administrative expenses.

*Environmental Expenditures*

The Company assesses its property held for sale, along with any property that is being taken out of its initially intended use, for the presence of hazardous or toxic substances that would result in an environmental liability. In addition, management assesses its current property in use for any environmental issues.

Liabilities for environmental remediation costs not related to retirements of tangible long-lived assets, and arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Legal costs incurred in connection with environmental remediation are expensed as incurred. Recoveries of environmental remediation costs from third parties, which are probable of realization, are separately recorded as assets, and are not offset against the related environmental liability, in accordance with U.S. GAAP.

### *Stock-Based Compensation*

The Company adopted the fair value recognition provisions of U.S. GAAP using the modified-prospective-transition method which requires us to recognize compensation expense on a prospective basis. U.S. GAAP requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. Under this method, in addition to reflecting compensation for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro-forma disclosure in prior periods. The stock-based compensation expense is included in selling, general and administrative expenses in the consolidated statements of operations. During the three months ended May 3, 2013 and April 27, 2012, the Company recorded stock-based compensation, including director-fees expense, of \$56,000 and \$21,000, respectively.

Stock issued in payment for services provided by members of the board of directors is expensed in the period the services are provided. During both fiscal years ended May 3, 2013 and April 27, 2012, the Company recorded director-fees expense, through the issuance of stock, of \$15,000.

### *Product Warranties*

We provide for the estimated costs of warranties at the time the related revenue is recognized. We estimate the costs based on historical and projected product failure rates and historical and projected repair costs. Warranty terms and conditions vary depending upon the product sold and the customer it was sold to, but generally includes parts and labor over a period generally ranging from one to five years. We regularly reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

### *Use of Estimates*

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles require management to make estimates and judgments that affect reported and contingent amounts of assets, liabilities, revenues and expenses, including such items as (i) inventory, restructuring and environmental costs, (ii) percentage-of-completion estimates, (iii) other miscellaneous accruals and (iv) valuation allowances for accounts receivable, inventory, long-lived assets, property held for sale and deferred tax assets. Actual results may differ from these estimates under different assumptions or conditions, and such differences could be material.

### *Off-Balance Sheet Arrangements*

The Company does not maintain off-balance sheet arrangements except as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2013 nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

#### *Contractual Obligations*

There have been no material changes to our contractual obligations from that disclosed in our Annual Report on Form 10-K for the year ended January 31, 2013.

#### *Adoption of New Accounting Pronouncements*

In July 2012, the FASB amended guidance on the annual testing of indefinite-lived intangible assets for impairment. Under the amended guidance, we have the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the indefinite-lived intangible asset is impaired, then we are not required to take further action. However, if we conclude otherwise, then we are required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. This guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We have determined that this new guidance did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued guidance on the Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. The guidance requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., the release due to cash flow hedges from interest rate contracts) and the income statement line items affected by the reclassification (e.g., interest income or interest expense). If a component is not required to be reclassified to net income in its entirety (e.g., the net periodic pension cost), companies would instead cross reference to the related footnote for additional information (e.g., the pension footnote). This guidance was effective for fiscal and interim reporting periods beginning after December 15, 2012. We have determined that this new guidance did not have a material effect on our consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this Item 3.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, the Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that all material information required to be included in our reports filed or submitted under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (2) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

*Changes in Internal Controls*

There were no changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended May 3, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

**ITEM 1.**

**LEGAL PROCEEDINGS**

We are subject to legal proceedings from time to time in the ordinary course of business, none of which are currently material.

**ITEM 1A.**

**RISK FACTORS**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this Item 1A.

**ITEM 6.**

**EXHIBITS**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| 3.1                | Second Amended and Restated Certificate of Incorporation of Aerosonic Corporation, dated June 5, 2013, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed on June 11, 2013. |
| 3.2                | Second Amended and Restated Bylaws of Aerosonic Corporation, dated June 5, 2013, incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, filed on June 11, 2013.                       |
| 31.1               | Section 302 Certification.   |
| 31.2               | Section 302 Certification.   |
| 32.1               | Section 906 Certification.   |
| 32.2               | Section 906 Certification.   |
| 101.INS*           | XBRL Instance Document.  |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document.  |

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

SIGNATURES

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

Date: June 13, 2013

AEROSONIC CORPORATION

/s/ Douglas J. Hillman  
Douglas J. Hillman  
President and Chief Executive Officer

Date: June 13, 2013

AEROSONIC CORPORATION

/s/ Kevin J. Purcell  
Kevin J. Purcell  
Executive Vice President and  
Chief Financial Officer