

AEROSONIC CORP /DE/  
Form 10-Q  
June 11, 2007

**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 April 27, 2007**

**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.)

**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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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 May 18, 2007, the issuer had 3,567,515 shares of Common Stock outstanding, net of treasury shares.

**PART I**

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## **PART I FINANCIAL INFORMATION**

### **Forward-Looking Statements**

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREUNDER. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS MAY, WILL, SHOULD, EXPECT, ANTICIPATE, ESTIMATE, CONTINUE, PLANS, INTENDS AND WORDS OF SIMILAR IMPORT. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD BE INACCURATE. THEREFORE, THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS. ADDITIONALLY, ACTUAL RESULTS MIGHT BE AFFECTED BY CERTAIN FACTORS SET FORTH HEREIN IN MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE PUBLICLY ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

**Table of Contents****ITEM 1. FINANCIAL STATEMENTS**

**AEROSONIC CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	April 27, 2007	January 31, 2007
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,578,000	\$ 1,276,000
Receivables, net of allowance for doubtful accounts of \$10,000 and \$10,000	4,242,000	5,214,000
Income taxes receivable	9,000	13,000
Inventories	5,753,000	5,809,000
Prepaid expenses	335,000	332,000
Deferred income taxes	1,030,000	1,030,000
	<hr/>	<hr/>
Total current assets	13,947,000	13,674,000
Property, plant and equipment, net	3,141,000	3,340,000
Deferred income taxes	656,000	656,000
Other assets, net	64,000	65,000
	<hr/>	<hr/>
Total assets	\$ 17,808,000	\$ 17,735,000
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Long-term debt and notes payable due within one year	\$ 230,000	\$ 230,000
Accounts payable, trade	1,309,000	1,102,000
Compensation and benefits	855,000	933,000
Income taxes payable	66,000	29,000
Accrued expenses and other liabilities	1,583,000	1,692,000
	<hr/>	<hr/>
Total current liabilities	4,043,000	3,986,000
Long-term debt and notes payable due after one year	2,274,000	2,334,000
Deferred income taxes	6,000	6,000
FIN 48 Liability	225,000	-
Other liabilities	145,000	143,000
	<hr/>	<hr/>
Total liabilities	6,693,000	6,469,000
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity:		
Common stock \$.40 par value: authorized 8,000,000 shares; issued 3,998,282 shares at April 27, 2007 and at January 31, 2007; outstanding 3,567,515 shares at April 27, 2007 and 3,565,373 shares at January 31, 2007	1,602,000	1,602,000
Additional paid-in capital	4,698,000	4,686,000
Retained earnings	7,978,000	8,141,000
Less treasury stock: 430,767 shares at April 27, 2007 and at January 31, 2007, at cost	(3,163,000)	(3,163,000)

	<b>April 27, 2007</b>	<b>January 31, 2007</b>
	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	11,115,000	11,266,000
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 17,808,000	\$ 17,735,000
	<u>                    </u>	<u>                    </u>

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

Table of Contents**AEROSONIC CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

	Three months ended	
	April 27, 2007	April 28, 2006
Revenues, net	\$ 6,825,000	\$ 8,481,000
Costs and expenses:		
Cost of revenues	5,050,000	5,739,000
Selling, general and administrative expenses	1,861,000	2,131,000
Total costs and expenses	6,911,000	7,870,000
Gain on sale of property, plant and equipment	264,000	33,000
Operating income	178,000	644,000
Other income (expense):		
Interest expense, net	(40,000)	(29,000)
Miscellaneous income	-	3,000
	(40,000)	(26,000)
Income before income taxes	138,000	618,000
Income tax expense	(76,000)	(35,000)
Net income	\$ 62,000	\$ 583,000
Basic earnings per share	\$ 0.02	\$ 0.16
Diluted earnings per share	\$ 0.02	\$ 0.15
Basic weighted average shares outstanding	3,567,515	3,751,127
Diluted weighted average shares outstanding	3,579,692	3,764,352

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

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**AEROSONIC CORPORATION AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(unaudited)**

**For the Three Months Ended April 27, 2007**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
Balance at January 31, 2007	\$ 1,602,000	\$ 4,686,000	\$ 8,141,000	\$ (3,163,000)	\$ 11,266,000
Net Income	-	-	62,000	-	62,000
Effect of adoption of FIN 48	-	-	(225,000)	-	(225,000)
Equity-based compensation	-	12,000	-	-	12,000
Balance at April 27, 2007	\$ 1,602,000	\$ 4,698,000	\$ 7,978,000	\$ (3,163,000)	\$ 11,115,000

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



Table of Contents**AEROSONIC CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	<b>Three months ended</b>	
	<b>April 27, 2007</b>	<b>April 28, 2006</b>
<b>Cash flow from operating activities:</b>		
Net income	\$ 62,000	\$ 583,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation	12,000	20,000
Depreciation	127,000	184,000
Amortization	6,000	3,000
Gain on the disposal of property	(264,000)	(33,000)
Changes in operating assets and liabilities:		
Receivables	972,000	(1,154,000)
Income taxes receivable and payable	40,000	115,000
Costs less estimated losses in excess of billings	-	(94,000)
Inventories	56,000	(15,000)
Prepaid expenses	(3,000)	(138,000)
Other assets	(5,000)	(2,000)
Accounts payable, trade	207,000	(103,000)
Compensation and benefits	(78,000)	121,000
Accrued expenses and other liabilities	(106,000)	105,000
Net cash provided by (used in) operating activities	1,026,000	(408,000)
<b>Cash flow from investing activities:</b>		
Proceeds from the sale of property	385,000	58,000
Capital expenditures	(49,000)	(69,000)
Net cash provided by (used in) investing activities	336,000	(11,000)
<b>Cash flow from financing activities:</b>		
Proceeds from revolving credit facility	-	36,000
Purchase of treasury stock	-	(2,467,000)
Principal payments on long-term debt and notes payable	(60,000)	(57,000)
Net cash used in financing activities	(60,000)	(2,488,000)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,302,000</b>	<b>(2,907,000)</b>
Cash and cash equivalents at beginning of period	1,276,000	3,106,000
Cash and cash equivalents at end of period	\$ 2,578,000	\$ 199,000
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 40,000	\$ 29,000
Income taxes	\$ 40,000	\$ 30,000

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

**Table of Contents****AEROSONIC CORPORATION AND SUBSIDIARY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X of the U.S. Securities and Exchange Commission ( **SEC** ). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet at January 31, 2007 has been derived from the audited consolidated financial statements, but does not include all of the disclosures required by generally accepted accounting principles. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended January 31, 2007 (the **2007 Form 10-K** ) that the Company filed with the SEC on May 1, 2007. Operating results for the three months ended April 27, 2007 are not necessarily indicative of the results that may be expected for the year ending January 31, 2008.

The Company has a January 31 fiscal year end. Accordingly, all references in this quarterly report on Form 10-Q to the first quarter mean the first quarter ended on the last Friday of April of the referenced fiscal year. For example, references to the first quarter of fiscal year 2008 mean the first quarter ended April 27, 2007. **Note 2 Business**

The Company is principally engaged in one business segment, which is the manufacture and sale of aircraft instruments. The Company has two operating divisions in two locations. The two principal divisions are the Clearwater Instruments, which primarily manufactures both mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, and a variety of other flight instrumentation, and Avionics Specialties, Inc. ( **Avionics** ) in Earlysville, Virginia, which maintains three major product lines in the aircraft instrument segment: (1) angle of attack stall warning systems; (2) integrated multifunction probes, which are integrated air data sensors; and (3) other aircraft sensors and monitoring systems.

During the three months ended April 27, 2007, the Company had no customers that represented more than 10% of total revenues. During the three months ended April 28, 2006, sales to Korea Aerospace Industries, Ltd. and The Boeing Company represented approximately 15% and 10%, respectively, of total revenues.

On March 9, 2007, Aerosonic Corporation ( **Aerosonic** or the **Company** ) announced the consolidation of the manufacturing functions of its Earlysville, Virginia, operation into its Clearwater, Florida facility. The Earlysville location is home to Avionics Specialties, Inc., Aerosonic's wholly owned subsidiary. The consolidation is a continuation of the Company's actions to be more responsive to customers' demands while increasing efficiencies. The existing Engineering and Marketing functions will remain in the Earlysville area but will relocate to a new facility more appropriately sized for the Company's planned streamlined structure. The Company plans to sell the Earlysville facility. Avionics Specialties manufactures angle of attack stall warning systems, integrated multifunction probes, which are integrated air data sensors, and other aircraft sensors and monitoring systems. The Company will continue the manufacturing of those products at its Clearwater, Florida facility. The Company will also execute the consolidation plan in a phased approach to maintain delivery schedules and product quality.

**Note 3 Inventories**

The Company values inventory at the lower of cost (using a method that approximates the first-in, first-out method) or net realizable value. Reviews of inventory quantities on hand have been conducted to determine if usage or sales history supports maintaining inventory values at full cost or if it has instead become necessary to record a provision for slow moving, excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the subsequent twelve months and actual usage for the previous two years. During production, the Company uses standards to estimate product costs. These standards are reviewed and updated, generally monthly, by management. Differences between standard and actual costs have historically not been material.

Inventories at April 27, 2007 and January 31, 2007 consisted of the following:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Raw materials	\$ 4,554,000	\$ 4,384,000

	<b>April 27, 2007</b>	<b>January 31, 2007</b>
Work in process	1,687,000	1,880,000
Finished goods	172,000	163,000
Reserve for obsolete and slow moving inventory	(660,000)	(618,000)
	<u>\$ 5,753,000</u>	<u>\$ 5,809,000</u>

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During fiscal 2003, the Company secured a long-term fixed-price contract for the development of instrumentation for the Joint Strike Fighter ( JSF ) program. Costs and estimated losses to date on this contract as of April 27, 2007 and January 31, 2007 are as follows:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Costs incurred to date	\$ 18,152,000	\$ 18,072,000
Estimated losses	(3,237,000)	(3,245,000)
	<u>14,915,000</u>	<u>14,827,000</u>
Less billings to date	(14,939,000)	(14,927,000)
	<u>                    </u>	<u>                    </u>
Billings in excess of costs less estimated losses	\$ (24,000)	\$ (100,000)

During the quarter ended April 27, 2007, the Company continued supporting the flight testing of the A1 aircraft while furthering the development of its IMFP-based air data system.

The JSF program is a customer-funded product development program that is presently expected to generate total project revenues of approximately \$16,293,000. As of April 27, 2007, based on project progress, the Company has recognized revenues of approximately \$14,915,000 for the JSF project. The estimate for this program changes with each technological breakthrough and setback and the Company will continue to adjust its estimate to reflect the most current view of the program's costs. The revenues and costs recorded in each quarter reflect the Company's best estimate of the program's expected profitability or loss at that point in time. Billings in excess of costs less estimated losses of approximately \$24,000 at April 27, 2007 and \$100,000 at January 31, 2007 are included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheet.

**Note 5 Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities as of April 27, 2007 and January 31, 2007 were approximately \$1,583,000 and \$1,692,000, respectively.

A substantial portion of these expenses are related to amounts owed to subcontractors who participate in the Company's product development programs, as shown below:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Product development programs	\$ 704,000	\$ 944,000
Plant shutdown	227,000	-
Other accrued expenses	652,000	748,000
	<u>                    </u>	<u>                    </u>
	\$ 1,583,000	\$ 1,692,000

**Note 6 Restructuring Costs**

In accordance with Statement of Financial Accounting Standards No. 112, Employers' Accounting for Post Employment Benefits ( SFAS 112 ) and Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ( SFAS 146 ), we recognized a total of approximately \$282,000 in restructuring costs for the three months ended April 27, 2007. The following table summarizes our restructuring activity for the three months ended April 27, 2007:

	<u>Severance and Benefits</u>	<u>Facilities and Other</u>	<u>Total</u>
Balance as of January 31, 2007	\$ -	\$ -	\$ -
Severance and Benefits	238,000	-	238,000
Other	-	44,000	44,000

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	<b><u>Severance and Benefits</u></b>	<b><u>Facilities and Other</u></b>	<b><u>Total</u></b>
Total Restructuring Charges	238,000	44,000	282,000
Less: Cash Paid	11,000	44,000	55,000
Balance of non-cash restructuring charges as of April 27, 2007	\$ 227,000	\$ -	\$ 227,000

The above charges are based on estimates that are subject to change. The cash expenditures relating to workforce reductions are expected to be paid over the next few quarters. We anticipate recording additional charges related to our workforce and facility reductions over the remaining quarters in fiscal year 2007, based upon our current restructuring schedule, which is subject to change.

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