ESCO TECHNOLOGIES INC
Form 10-Q
May 08, 2013

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

FORM 10-Q

(MARK ONE)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 1-10596

ESCO TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

MISSOURI	43-1554045
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9900A CLAYTON ROAD	
ST. LOUIS, MISSOURI	63124-1186
(Address of principal executive offices)	(Zip Code)

(314) 213-7200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X 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 X	Accelerated filer ____
Non-accelerated filer ____ (Do not check if a smaller reporting company)	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 X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2013
Common stock, $.01 par value per share	26,436,497 shares

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2013	2012
Net sales	$166,178	173,863
Costs and expenses:		
Cost of sales	110,681	105,967
Selling, general and administrative expenses	45,751	47,944
Amortization of intangible assets	4,203	3,254
Interest expense, net	668	470
Other expenses (income), net	1,330	(376)
Total costs and expenses	162,633	157,259
Earnings before income taxes	3,545	16,604
Income tax expense	1,986	6,402
Net earnings	$1,559	10,202
Earnings per share:		
Basic – Net earnings	$0.06	0.38
Diluted – Net earnings	$0.06	0.38

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share amounts)

	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Net sales	$311,443	326,788
Costs and expenses:		
Cost of sales	204,719	198,688
Selling, general and administrative expenses	92,690	96,634
Amortization of intangible assets	7,703	6,407
Interest expense, net	1,231	961
Other expenses (income), net	1,258	(848)
Total costs and expenses	307,601	301,842
Earnings before income taxes	3,842	24,946
Income tax expense	2,037	9,537
Net earnings	$1,805	15,409
Earnings per share:		
Basic – Net earnings	$0.07	0.58
Diluted – Net earnings	$0.07	0.57

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Net earnings	$1,559	10,202	1,805	15,409
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,786)	1,013	(811)	(543)
Pension adjustment	-	-	(109)	-
Interest rate swap adjustment	-	-	-	2
Total other comprehensive income (loss), net of tax	(1,786)	1,013	(920)	(541)
Comprehensive income (loss)	$(227)	11,215	885	14,868

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	March 31, 2013 (Unaudited)	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$35,880	30,215
Accounts receivable, net	141,154	151,051
Costs and estimated earnings on long-term contracts, less progress billings of $15,214 and $30,534, respectively	15,523	14,567
Inventories	117,497	108,061
Current portion of deferred tax assets	22,706	22,313
Other current assets	38,699	17,237
Total current assets	371,459	343,444
Property, plant and equipment, net	80,699	75,876
Intangible assets, net	244,392	231,473
Goodwill	387,630	361,280
Other assets	21,327	21,680
Total assets	$1,105,507	1,033,753
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$51,698	50,000
Accounts payable	50,237	54,049
Advance payments on long-term contracts, less costs incurred of $39,186 and $31,534, respectively	15,967	21,700
Accrued salaries	21,111	25,717
Current portion of deferred revenue	40,149	24,920
Accrued other expenses	30,176	27,819
Total current liabilities	209,338	204,205
Pension obligations	33,984	35,480
Deferred tax liabilities	92,790	88,675
Other liabilities	22,037	9,080
Long-term debt	126,000	65,000
Total liabilities	484,149	402,440
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 10,000,000 shares	–	–
Common stock, par value $.01 per share, authorized 50,000,000 shares, issued 30,147,204 and 30,044,486 shares, respectively	302	300
Additional paid-in capital	282,328	279,392
Retained earnings	439,150	441,566
Accumulated other comprehensive loss, net of tax	(26,298)	(25,378)
	695,482	695,880
Less treasury stock, at cost: 3,714,607 and 3,453,249 common shares, respectively	(74,124)	(64,567)

Total shareholders' equity	621,358	631,313
Total liabilities and shareholders’ equity	$ 1,105,507	1,033,753

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Cash flows from operating activities:		
Net earnings	$1,805	15,409
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13,796	12,327
Stock compensation expense	2,434	2,261
Changes in current assets and liabilities	(27,470)	(16,343)
Inventory write down	5,045	-
Effect of deferred taxes	3,722	140
Change in deferred revenue and costs, net	3,811	(1,580)
Pension contributions	(1,755)	(1,340)
Other	676	(9)
Net cash provided by operating activities	2,064	10,865
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(28,247)	(1,345)
Additions to capitalized software	(7,665)	(6,751)
Capital expenditures	(10,117)	(6,152)
Net cash used by investing activities	(46,029)	(14,248)
Cash flows from financing activities:		
Proceeds from long-term debt	77,698	39,365
Principal payments on long-term debt	(15,000)	(38,000)
Dividends paid	(4,244)	(4,268)
Purchases of common stock into treasury	(9,703)	-
Proceeds from exercise of stock options	1,739	(326)
Other	(49)	68
Net cash provided (used) by financing activities	50,441	(3,161)
Effect of exchange rate changes on cash and cash equivalents	(811)	(543)
Net increase (decrease) in cash and cash equivalents	5,665	(7,087)
Cash and cash equivalents, beginning of period	30,215	34,158
Cash and cash equivalents, end of period	$35,880	27,071

See accompanying notes to consolidated financial statements.

ESCO TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements, in the opinion of management, include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required for annual financial statements by accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

The Company’s business is typically not impacted by seasonality; however, the results for the three and six-month periods ended March 31, 2013 are not necessarily indicative of the results for the entire 2013 fiscal year. References to the second quarters of 2013 and 2012 represent the fiscal quarters ended March 31, 2013 and 2012, respectively.

In preparing the financial statements, the Company uses estimates and assumptions that may affect reported amounts and disclosures. The Company regularly evaluates the estimates and assumptions related to the allowance for doubtful trade receivables, inventory obsolescence, warranty reserves, value of equity-based awards, goodwill and purchased intangible asset valuations, asset impairments, employee benefit plan liabilities, income tax liabilities and assets and related valuation allowances, uncertain tax positions, and claims, litigation and other loss contingencies. Actual results could differ from those estimates.

2. ACQUISITIONS

On December 31, 2012, the Company acquired the assets of Metrum Technologies LLC (Metrum) for a purchase price of $25 million in cash plus contingent consideration based on future revenues over the next four years. Metrum is a leading provider of wireless public network communications products for electric utility customers and also offers communications products and devices for distribution automation and demand response applications. Metrum’s operating results, since the date of acquisition, are included within Aclara Technologies LLC in the USG segment. The Company recorded approximately $25 million of goodwill, $11.2 million of amortizable identifiable intangible assets consisting primarily of customer relationships and patents / technology and contingent consideration valued at $13.7 million.

On December 21, 2012, the Company acquired the assets of Felix Tool & Engineering, Inc. (Felix Tool) for a purchase price of $1.2 million in cash. Felix Tool is engaged in the design, manufacture and sale of customized perforated tubes for filtration applications in the aerospace and fluid power industry. The purchase price was allocated to property, plant and equipment and inventory based on fair market value at the date of acquisition and there were no intangible assets recorded upon the transaction. The operating results for Felix Tool, since the date of acquisition, are included within PTI Technologies Inc. in the Filtration segment.

On December 10, 2012, the Company acquired the assets of Finepoint Marketing, Inc. (Finepoint) for a purchase price of $2.5 million. Finepoint is the electric power industry’s leading conference provider focused on medium and high voltage circuit breakers, as well as related substation and switchgear topics. The operating results for Finepoint, since the date of acquisition, are included within Doble Engineering Company in the USG segment. The Company recorded approximately $1.3 million of goodwill as a result of the transaction and $1.2 million of amortizable identifiable intangible assets consisting of customer relationships.

3. EARNINGS PER SHARE (EPS)

Basic EPS is calculated using the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the weighted average number of common shares outstanding during the period plus shares issuable upon the assumed exercise of dilutive common share options and vesting of performance-accelerated restricted shares (restricted shares) by using the treasury stock method. The number of shares used in the calculation of earnings per share for each period presented is as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Weighted Average Shares Outstanding - Basic	26,417	26,706	26,460	26,689
Dilutive Options and Restricted Shares	328	279	303	251
Adjusted Shares - Diluted	26,745	26,985	26,763	26,940

Options to purchase 124,654 shares of common stock at prices ranging from $35.69 - $45.20 were outstanding during the three-month periods ended March 31, 2012, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. The options expire at various periods through 2014. There were no options outstanding during the three-month period ended March 31, 2013 that were not included in the computation of diluted EPS. Approximately 192,000 and 232,000 restricted shares were excluded from the computation of diluted EPS for the three-month periods ended March 31, 2013 and 2012, respectively, based upon the application of the treasury stock method.

4. SHARE-BASED COMPENSATION

The Company provides compensation benefits to certain key employees under several share-based plans providing for employee stock options and/or performance-accelerated restricted shares (restricted shares), and to non-employee directors under a non-employee directors compensation plan.

Stock Option Plans

The fair value of each option award is estimated as of the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company’s stock calculated over the expected term of the option. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The expected dividend yield is based on historical dividend rates. There were no stock option grants during the first six months of fiscal 2013. Pretax compensation expense related to stock option awards was less than $0.1 million for the three and six-month periods ended March 31, 2013 and 2012, respectively.

Information regarding stock options awarded under the option plans is as follows:

	Shares	Weighted Average Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Contractual Life
Outstanding at October 1, 2012	125,816	$36.29		

Granted	--	$–		
Exercised	(50,816)	$34.68	$0.3	
Cancelled / Expired	(5,850)	$37.24		
Outstanding at March 31, 2013	69,150	$37.40	$0.2	.5 year
Exercisable at March 31, 2013	69,150	$37.40	$0.2	

Performance-Accelerated Restricted Share Awards
Pretax compensation expense related to the restricted share awards was $1.1 million and $2.1 million for the three and six-month periods ended March 31, 2013, respectively, and $1.0 million and $2.0 million for the respective prior year periods. There were 507,079 non-vested shares outstanding as of March 31, 2013.

Non-Employee Directors Plan
Pretax compensation expense related to the non-employee director grants was $0.2 million and $0.3 million for the three and six-month periods ended March 31, 2013, respectively, and $0.1 million and $0.2 million for the respective prior year periods.

The total share-based compensation cost that has been recognized in results of operations and included within selling, general and administrative expenses (SG&A) was $1.3 million and $2.4 million for the three and six-month periods ended March 31, 2013, respectively, and $1.1 million and $2.3 million for the three and six-month periods ended March 31, 2012. The total income tax benefit recognized in results of operations for share-based compensation arrangements was $0.1 million and $0.2 million for the three and six-month periods ended March 31, 2013 and $0.4 million and $0.9 million for the three and six-month periods ended March 31, 2012. As of March 31, 2013, there was $4.2 million of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a remaining weighted-average period of 1.7 years.

5. INVENTORIES

Inventories consist of the following:

(In thousands)	March 31, 2013	September 30, 2012
Finished goods	$40,706	30,250
Work in process, including long-term contracts	34,223	30,372
Raw materials	42,568	47,439
Total inventories	$117,497	108,061

6. BUSINESS SEGMENT INFORMATION

The Company is organized based on the products and services that it offers. Under this organizational structure, the Company has three reporting segments: Utility Solutions Group (USG), RF Shielding and Test (Test) and Filtration/Fluid Flow (Filtration). The USG segment’s operations consist of Aclara Technologies LLC (Aclara) and Doble Engineering Company (Doble). Aclara is a proven supplier of special purpose fixed-network communications systems for electric, gas and water utilities, including hardware and software to support advanced metering applications. Doble provides high-end, intelligent diagnostic test solutions for the electric power delivery industry and is a leading supplier of partial discharge testing instruments used to assess the integrity of high voltage power delivery equipment. Test segment operations consist of ETS-Lindgren Inc. (ETS-Lindgren). On October 1, 2012, the Company consolidated its two domestic Test segment operating companies by merging ETS-Lindgren, L.P. into Lindgren R.F. Enclosures Inc., which was renamed ETS-Lindgren Inc. ETS-Lindgren is an industry leader in providing its customers with the ability to identify, measure and contain magnetic, electromagnetic and acoustic energy. The Filtration segment's operations consist of PTI Technologies Inc. (PTI), VACCO Industries (VACCO), Crissair, Inc. (Crissair) and Thermoform Engineered Quality LLC (TEQ). The companies within this segment primarily design and manufacture specialty filtration products, including hydraulic filter elements used in commercial aerospace applications, unique filter mechanisms used in micro-propulsion devices for satellites and custom designed filters for manned and unmanned aircraft.

Management evaluates and measures the performance of its operating segments based on "Net Sales" and "EBIT", which are detailed in the table below. EBIT is defined as earnings from continuing operations before interest and taxes. The table below is presented on the basis of continuing operations and excludes discontinued operations.

(In thousands)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
NET SALES				
USG	$72,731	74,475	135,349	144,824
Test	39,821	50,483	76,116	89,837
Filtration	53,626	48,905	99,978	92,127
Consolidated totals	$166,178	173,863	311,443	326,788
EBIT				
USG	$(2,423)	9,101	(4,631)	14,067
Test	2,559	4,775	3,078	6,722
Filtration	10,894	9,468	19,695	17,704
Corporate (loss)	(6,817)	(6,270)	(13,069)	(12,586)
Consolidated EBIT	4,213	17,074	5,073	25,907
Less: Interest expense	(668)	(470)	(1,231)	(961)
Earnings before income taxes	$3,545	16,604	3,842	24,946

Non-GAAP Financial Measures

The financial measure "EBIT" is presented in the above table and elsewhere in this Report. EBIT on a consolidated basis is a non-GAAP financial measure. Management believes that EBIT is useful in assessing the operational profitability of the Company's business segments because it excludes interest and taxes, which are generally accounted for across the entire Company on a consolidated basis. EBIT is also one of the measures used by management in determining resource allocations within the Company as well as incentive compensation.

The Company believes that the presentation of EBIT provides important supplemental information to investors by facilitating comparisons with other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. However, the Company's non-GAAP financial measures may not be comparable to other companies' non-GAAP financial performance measures. Furthermore, the use of non-GAAP financial measures is not intended to replace any measures of performance determined in accordance with GAAP.

7. DEBT

The Company's debt is summarized as follows:

(In thousands)	March 31, 2013	September 30, 2012
Total borrowings	$177,698	115,000
Short-term borrowings and current portion of long-term debt	(51,698)	(50,000)
Total long-term debt, less current portion	$126,000	65,000

On May 14, 2012, the Company entered into a new $450 million five-year revolving credit facility with JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, N.A., as syndication agent, and eight other participating lenders (the "Credit Facility"). The Credit Facility replaced the Company's $330 million revolving credit facility that would otherwise have matured in November, 2012. Through a credit facility expansion option, the Company may elect to increase the size of the credit facility by entering into incremental term loans, in any agreed currency, at a minimum of $25 million each up to a maximum of $250 million aggregate.

At March 31, 2013, the Company had approximately $260 million available to borrow under the credit facility, and a $250 million increase option, in addition to $35.9 million cash on hand. At March 31, 2013, the Company had $176 million of outstanding borrowings under the credit facility and outstanding letters of credit of $13.9 million. The Company's ability to access the additional $250 million increase option of the credit facility is subject to acceptance by participating or other outside banks.

The credit facility requires, as determined by certain financial ratios, a facility fee ranging from 17.5 to 35.0 basis points per year on the unused portion. The terms of the facility provide that interest on borrowings may be calculated at a spread over the London Interbank Offered Rate (LIBOR) or based on the prime rate, at the Company's election. The facility is secured by the unlimited guaranty of the Company's material domestic subsidiaries and a 65% pledge of the material foreign subsidiaries' share equity. The financial covenants of the credit facility also include a leverage ratio and an interest coverage ratio. At March 31, 2013, the Company was in compliance with all debt covenants.

8. INCOME TAX EXPENSE

The second quarter 2013 effective income tax rate was 56.0% compared to 38.6% in the second quarter of 2012. The effective income tax rate in the first six months of 2013 was 53.0% compared to 38.2% in the prior year period. The income tax expense in the second quarter and first six months of 2013 was unfavorably impacted by an adjustment to the foreign valuation allowance increasing the second quarter and year-to-date effective tax rate by 50.1% and 46.2%, respectively. The income tax expense in the second quarter and first six months of 2013 was favorably impacted by the extension of the research credit as a result of the American Taxpayer Relief Act of 2012 reducing the second quarter and year-to-date effective tax rate by 27.6% and 25.5%, respectively. The income tax expense in the second quarter and first six months of 2012 was unfavorably impacted by a purchase accounting adjustment increasing the second quarter and year-to-date effective tax rate by 3.2% and 2.1%, respectively. The Company estimates the fiscal 2013 effective tax rate will be approximately 37%.

There was no material change in the unrecognized tax benefits of the Company during the three-month period ended March 31, 2013. The Company does not anticipate a material change in the amount of unrecognized tax benefits in the next twelve months.

9. RETIREMENT PLANS

A summary of net periodic benefit expense for the Company's defined benefit plans for the three and six-month periods ended March 31, 2013 and 2012 is shown in the following table. Net periodic benefit cost for each period presented is comprised of the following:

(In thousands)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Defined benefit plans				
Interest cost	$915	905	1,829	1,810
Expected return on assets	(1,075)	(1,021)	(2,149)	(2,042)
Amortization of:				
Prior service cost	3	3	6	6
Actuarial loss	492	363	984	726
Net periodic benefit cost	$335	250	670	500

10. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02). This ASU updates the rules on testing indefinite-lived intangible assets other than goodwill for impairment and permits the option to perform a qualitative assessment of the fair value of indefinite-lived intangible assets. This update is effective for fiscal years, and interim periods within those years, beginning after September 15, 2012 and is not expected to have a material impact on the Company's financial statements.

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

RESULTS OF OPERATIONS

The following discussion refers to the Company's results from continuing operations, except where noted. References to the second quarters of 2013 and 2012 represent the fiscal quarters ended March 31, 2013 and 2012, respectively.

OVERVIEW

In the second quarter of 2013, sales, net earnings and diluted earnings per share were $166.2 million, $1.6 million, and $0.06 per share, respectively, compared to $173.9 million, $10.2 million and $0.38 per share in the second quarter of 2012. In the first six months of 2013, sales, net earnings and diluted earnings per share were $311.4 million, $1.8 million, and $0.07 per share, respectively, compared to $326.8 million, $15.4 million and $0.57 per share in the first six months of 2012. The Company's results reflect lower sales and margins relating to project timing and product mix. Net earnings results also reflect certain previously announced write downs and restructuring charges intended to improve future operating profit. On April 17, 2013, the Company announced additional restructuring plans. Refer to the "Outlook" section below.

NET SALES

Net sales decreased $7.7 million, or 4.4% to $166.2 million in the second quarter of 2013 from $173.9 million for the second quarter of 2012. Net sales decreased $15.4 million, or 4.7%, to $311.4 million for the first six months of 2013 from $326.8 million in the first six months of 2012. The decrease in net sales in the second quarter of 2013 as compared to the prior year quarter was due to a $10.7 million decrease in the Test segment and a $1.7 million decrease in the USG segment; partially offset by a $4.7 million increase in the Filtration segment.

-Utility Solutions Group (USG)
Net sales decreased $1.7 million, or 2.3%, to $72.7 million for the second quarter of 2013 from $74.5 million for the second quarter of 2012. Net sales decreas