AEROSONIC CORP /DE/
Form 10-Q
September 10, 2012

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 July 27, 2012

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	74-1668471
(State or other jurisdiction of incorporation or organization)	(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 x 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 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 ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

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

As of September 10, 2012, the issuer had 3,844,721 shares of common stock outstanding, net of treasury shares.

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, 2012 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 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

ASSETS	July 27, 2012 (unaudited)	January 31, 2012
Current assets:		
Cash and cash equivalents	$-	$157,000
Accounts receivable, net	4,658,000	5,190,000
Inventories, net	7,696,000	6,793,000
Prepaid expenses and other current assets, net	600,000	1,802,000
Deferred income taxes	1,398,000	1,549,000
Total current assets	14,352,000	15,491,000
Property, plant and equipment, net	4,278,000	4,206,000
Property held for sale	2,062,000	2,062,000
Deferred income taxes	770,000	770,000
Intangible assets, net	13,000	94,000
Goodwill	366,000	366,000
Other assets, net	28,000	46,000
Total assets	$21,869,000	$23,035,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility	$2,747,000	$3,112,000
Current maturities of long-term debt	4,218,000	753,000
Accounts payable, trade	1,902,000	2,312,000
Compensation and benefits	931,000	618,000
Accrued sales commissions	70,000	14,000
Accrued expenses and other liabilities	1,779,000	2,498,000
Total current liabilities	11,647,000	9,307,000
Long-term debt	435,000	4,278,000
Deferred income taxes	35,000	35,000
Total liabilities	12,117,000	13,620,000
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $.40 par value: authorized 8,000,000 shares; issued 4,270,927 shares and 4,201,090		

shares at July 27, 2012 and January 31, 2012, respectively; outstanding 3,840,160 and 3,770,323		
shares at July 27, 2012 and January 31, 2012, respectively.	1,708,000	1,680,000
Additional paid-in capital	6,445,000	6,412,000
Retained earnings	4,762,000	4,486,000
Less treasury stock: 430,767 shares at both July 27, 2012 and January 31, 2012, at cost	(3,163,000)	(3,163,000)
Total stockholders' equity	9,752,000	9,415,000
Total liabilities and stockholders' equity	$21,869,000	$23,035,000

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

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AEROSONIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	July 27, 2012	July 29, 2011	July 27, 2012	July 29, 2011
Sales, net	$7,472,000	$6,421,000	$14,833,000	$13,130,000
Cost of sales	5,225,000	5,004,000	9,727,000	10,007,000
Gross profit	2,247,000	1,417,000	5,106,000	3,123,000
Selling, general and administrative expenses	2,408,000	1,638,000	4,546,000	3,726,000
Operating (loss) income	(161,000)	(221,000)	560,000	(603,000)
Other expenses:				
Interest expense, net	(66,000)	(86,000)	(139,000)	(204,000)
Other income (expenses)	6,000	(3,000)	6,000	(41,000)
Loss on extinguishment of debt	-	-	-	(25,000)
	(60,000)	(89,000)	(133,000)	(270,000)
(Loss) income before income taxes	(221,000)	(310,000)	427,000	(873,000)
Income tax benefit (provision)	83,000	143,000	(151,000)	389,000
Net (loss) income	$(138,000)	$(167,000)	$276,000	$(484,000)
Basic (loss) earnings per share	$(0.04)	$(0.04)	$0.07	$(0.13)
Diluted (loss) earnings per share	$(0.04)	$(0.04)	$0.07	$(0.13)
Weighted average shares outstanding basic	3,823,079	3,757,424	3,799,239	3,755,064
Weighted average shares outstanding diluted	3,823,079	3,757,424	4,105,617	3,755,064

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

AEROSONIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	July 27, 2012	July 29, 2011
Cash flows from operating activities:		
Net income (loss)	$276,000	$(484,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	231,000	187,000
Amortization	99,000	99,000
Accretion on long-term debt	-	26,000
Loss on extinguishment of debt	-	25,000
Provision for bad debts	236,000	108,000
Provision for obsolete and slow-moving inventory	116,000	115,000
Provision for warranty	50,000	82,000
Provision for contract losses	153,000	378,000
Stock-based compensation	61,000	103,000
Provision (benefit) for deferred income taxes	151,000	(389,000)
Changes in assets and liabilities:		
Accounts receivable	296,000	752,000
Inventories	(1,019,000)	(397,000)
Prepaid expenses and other current assets	1,202,000	(644,000)
Accounts payable, trade	(410,000)	176,000
Compensation and benefits	313,000	(10,000)
Accrued expenses and other liabilities	(866,000)	(27,000)
Net cash provided by operating activities	889,000	100,000
Cash flows from investing activities:		
Capital expenditures	(303,000)	(512,000)
Net cash used in investing activities	(303,000)	(512,000)
Cash flows from financing activities:		
Net (decrease) increase in revolving credit facility	(365,000)	1,157,000
Principal payments on notes payable	-	(600,000)
Principal payments on long-term debt	(378,000)	(307,000)
Net cash (used in) provided by financing activities	(743,000)	250,000
Change in cash and cash equivalents	(157,000)	(162,000)
Cash and cash equivalents, beginning of period	157,000	162,000
Cash and cash equivalents, end of period	$-	$-
Supplemental disclosures of cash flow information:		
Net cash paid during the period for:		

Interest	$149,000	$178,000

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

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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.

Liquidity, Covenant Compliance and Management's Plans

Although earnings during the three and six months ended July 27, 2012 increased when compared to earnings during the three and six months ended July 29, 2011, the Company's liquidity will continue to be challenged until sustained earnings can be achieved through improved operating performance. 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 2013 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 8, the Company is required to comply with a number of financial and other covenants under the Credit Facility. Although for the period measured as of January 31, 2012, April 27, 2012 and July 27, 2012, the Company was in compliance with all covenants within the Credit Facility, the Company did not comply with certain financial covenants for the periods ended January 31, 2011, July 29, 2011 and October 28, 2011. BMO Harris Bank waived non-compliance for these periods and agreed to modify certain financial covenants and other terms of the Credit Facility. However, absent a waiver or modification to 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.

Failure by the Company to sustain improved operating results 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 second quarter mean the second quarter ended on the 26th Friday of the fiscal year. For example, references to the second quarter of fiscal year 2013 mean the quarter ended July 27, 2012.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of July 27, 2012, the consolidated statements of operations for the three and six months ended July 27, 2012 and July 29, 2011, and the consolidated statements of cash flows for the six months ended July 27, 2012 and July 29, 2011 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, 2012 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, 2013. 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, 2012 included in the Company's Annual Report on Form 10-K filed with the SEC on April 30, 2012.

Reclassifications

Certain amounts in the balance sheet dated January 31, 2012 have been reclassified to conform to the six months ended July 27, 2012 presentation. Such reclassifications had no effect on net income or stockholders' equity as previously reported.

Adoption of New Accounting Pronouncements

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance allows companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is effective for the Company's fiscal year ending January 31, 2013. The Company has determined that this new guidance does not have a material impact on its consolidated financial statements.

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 will be 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 will not have a material impact on its 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 second quarter of fiscal year 2013, presented as contracts A, B and C, 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 second quarter of fiscal year 2013, revenue recognized through the achievement of milestones 6, 7, 9 and 10 of contract A amounted to $286,000 while revenue recognized through the achievement of milestone 3 of contract B amounted to $196,000.

Milestone considerations for contracts in process during the second quarter or at July 27, 2012 include:

Contract A (Completed in the second quarter)	Milestone consideration
Milestone 1 (Substantive)	$ 100,000
Milestone 2 (Substantive)	29,000
Milestone 3 (Substantive)	100,000
Milestone 4 (Substantive)	41,000
Milestone 5 (Substantive)	10,000
Milestone 6 (Substantive)	115,000
Milestone 7 (Substantive)	38,000
Milestone 8 (Substantive)	73,000
Milestone 9 (Substantive)	51,000
Milestone 10 (Substantive)	82,000
Milestone 11 (Substantive)	23,000
	$ 662,000

Contract B	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 C	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

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2. Accounts Receivable – Allowance for Doubtful Accounts

The allowance for doubtful accounts activity for the six months ended July 27, 2012 and July 29, 2011 was as follows:

	Six Months Ended	
	July 27, 2012	July 29, 2011
Beginning balance	$358,000	$ 608,000
Amounts written off	(98,000)	-
Amounts provided for	236,000	108,000
Ending balance	$496,000	$ 716,000

3. Inventories – Reserve for Obsolete and Slow Moving Inventory

Inventories at July 27, 2012 and January 31, 2012 consisted of the following:

	July 27, 2012	January 31, 2012
Raw materials	$ 7,506,000	$ 6,626,000
Work in process	2,242,000	2,005,000
Finished goods	283,000	381,000
Reserve for obsolete and slow moving inventory	(2,335,000)	(2,219,000)
Inventories, net	$ 7,696,000	$ 6,793,000

The reserve for obsolete and slow moving inventory activity for the six months ended July 27, 2012 and July 29, 2011 was as follows:

	Six Months Ended	
	July 27, 2012	July 29, 2011
Beginning balance	$2,219,000	$ 2,424,000
Inventory writen off	-	(316,000)
Amounts charged to operations	116,000	115,000
Ending balance	$2,335,000	$ 2,223,000

4. Prepaid Expenses and Other Current Assets

Included in prepaid expenses and other current assets was $120,000 and $1,332,000 of deferred charges related to several current engineering contracts as of July 27, 2012 and January 31, 2012, respectively. The Company has been retained for the development of customer specific engineering projects. All of the contracts are short-term in nature and not expected to extend beyond twelve months. As of July 27, 2012, the deferred charges consist of $118,000 of internal engineering labor, including overhead, and $2,000 of external engineering contract labor. As of January 31, 2012, the deferred charges consist of $1,332,000 of internal engineering labor, including overhead, and $0 of external engineering contract labor. Related to the deferred charges are accrued contract losses of $103,000 and $1,086,000 as of July 27, 2012 and January 31, 2012, respectively, which are included in accrued expenses and other liabilities. In addition, included in accrued expenses and other liabilities are accrued contract charges, which are not associated with contract losses, of $112,000 and $0 as of July 27, 2012 and January 31, 2012, respectively.

5. Intangible Assets

Amortization expense related to intangible assets for the three and six months ended July 27, 2012 was $40,000 and $80,000, respectively. Amortization expense related to capitalized debt issue costs for the three and six months ended July 27, 2012 was $10,000 and $19,000, respectively. Debt issue costs, in the amount of $109,000 related to 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. Notes Payable

On May 14, 2009, the Company entered into three separate unsecured notes payable, herein referred to as “Notes Payable”, with three separate private lenders, collectively “the Investors”, each containing a drawdown provision allowing the Company to borrow up to an aggregate of $2,000,000. The loan agreements initially provided for the issuance of warrants with an exercise price of $0.64 per warrant issued at the rate of one warrant for every four dollars loaned to the Company and common shares at the rate of one share for every ten dollars loaned to the Company. Additionally, any amounts borrowed are subject to 14% interest per annum, payable monthly.

On May 21, 2009, the Company borrowed an aggregate principal amount of $800,000 based upon the cash drawdown provision of each of the three unsecured loan agreements. The 200,000 warrants issued to the Investors pursuant to the $800,000 drawdown are exercisable at any time during the period after May 21, 2010 and before the warrant expiration date of April 10, 2015. The Company also issued 80,000 common shares in connection with the $800,000 cash drawdown. The aggregate amount borrowed of $800,000 was initially payable in full under each of the three Notes Payable on or before April 10, 2010.

On February 19, 2010, the Company borrowed an additional $600,000 from the Investors under the three unsecured loan agreements entered into on May 14, 2009 and also entered into amendments to each of the three unsecured loan agreements with the Investors. The note modifications (a) extended the maturity date of the subordinated notes for a period of one year from April 10, 2010 to April 10, 2011, (b) removed Aerosonic’s obligation to issue shares of its common stock upon each cash drawdown made on or after February 19, 2010, (c) revised the ratio of common shares underlying warrants issuable per each $1.00 of principal amount borrowed from “.25 shares per $1.00 of principal amount” to “.20 shares per $1.00 of principal amount” with respect to cash drawdowns made on or after February 19, 2010 and (d) deleted certain negative covenants relating to the issuance of securities. The warrant modifications (a) extended the expiration date of any warrants issued prior to February 19, 2010 for a period of five years from April 10, 2015 to April 10, 2020, (b) extended the expiration date of any warrants issued on or after February 19, 2010 from April 10, 2015 to the sixth anniversary date of the issuance of the warrant certificate and (c) revised the purchase price for any warrants issued on or after February 19, 2010 from $0.64 per share to a price equal to 50% of the volume weighted average of the selling price of the Company’s common stock on February 12, 2010 and for the 19 trading days prior to February 12, 2010, or $1.98 per share. The 120,000 warrants issued to the Investors pursuant to the additional $600,000 loan are exercisable at any time before the expiration date of February 19, 2016.

On October 13, 2010, the Company repaid $700,000 of the outstanding balance of the Notes Payable, with each Investor receiving a pro-rata portion of the aggregate repayment amount based on the Investors’ balance on that date.

On December 31, 2010, the Company repaid an additional $100,000 of the outstanding balances of the Notes Payable, with each Investor receiving a pro-rata portion of the aggregate repayment amount based on the Investors’ balance on that date.

On March 31, 2011, the Company completed repayment of the January 31, 2011 outstanding balance of the Notes Payable of $600,000, with each Investor receiving a pro-rata portion of the aggregate repayment amount based on the Investors' balance on that date.

The warrants and common shares issued under the unsecured loan agreements described above are recorded as a separate component of interest and are being accreted into the loan balances over the term of the loans. For both the three and six months ended July 27, 2012, the Company recognized accretion of $0. For the three and six months ended July 29, 2011, the Company recognized accretion of $0 and $26,000, respectively, presented as additional interest expense. In addition, as a result of the early repayments to the Investors during the three months ended April 29, 2011, the Company recognized accelerated interest accretion expense in the amount of $25,000, which is presented as loss on extinguishment of debt for the six months ended July 29, 2011.

7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of July 27, 2012 and January 31, 2012 consisted of the following:

	July 27, 2012	January 31, 2012
Environmental liability	$ 777,000	$ 788,000
Contract loss provision	103,000	1,086,000
Deferred revenue	250,000	-
Warranty liability	191,000	226,000
Other	458,000	398,000
Accrued expenses and other liabilities	$ 1,779,000	$ 2,498,000

8. Long-Term Debt, Notes Payable 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 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 Revolving Credit Line Note is one-month LIBOR (which was 0.2458% at July 27, 2012) plus 300 basis points. Available borrowings on the Revolving Credit Line Note at July 27, 2012 were $1,253,000. The Revolving Credit Line Note matures on June 27, 2013.
- 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. Prior to maturity on May 1, 2013, the Company intends to refinance the Real Estate Mortgage Note.
- 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 Earlysville, Virginia property and for working capital and capital expenditure needs. The Company must pay any proceeds from the sale of the Earlysville, Virginia property to BMO Harris Bank to be applied as a principal payment under the Equipment Term Note. Prior to maturity on May 1, 2013, the Company intends to refinance 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.

The Credit Facility contains 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 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 are calculated at the end of each quarterly reporting period for which the lender requires financial statements.

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For the periods measured as of January 31, 2012, April 27, 2012 and July 27, 2012, the Company was in compliance with all covenants within the Credit Facility.

Long-term debt and Notes Payable at July 27, 2012 and January 31, 2012 consisted of the following:

	July 27, 2012	January 31, 2012
Real Estate Mortgage Note	$2,994,000	$3,111,000
Equipment Term Note	1,077,000	1,267,000
Equipment Credit Line Note	582,000	653,000
	4,653,000	5,031,000
Less: current maturities	(4,218,000)	(753,000)
Long-term debt, less current maturities	$435,000	$4,278,000

Interest expense on long-term debt and the Amended and Restated Revolving Credit Line Note for the three and six months ended July 27, 2012 was $66,000 and $139,000, respectively. Interest and accretion expense on long-term debt and the Amended and Restated Revolving Credit Line Note for the three and six months ended July 29, 2011 was $86,000 and $204,000, respectively.

9. 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 six months ended July 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 July 27, 2012 and the three and six months ended July 29, 2011, 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 six months ended July 27, 2012, were accounted for using the treasury stock method. Stock options and warrants outstanding as of July 27, 2012 amounted to 653,100 shares.

10. 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 July 27, 2012, 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 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. As a result of the initial and subsequent surveys, contamination treatment was determined to be necessary at an estimated total cost of $777,000 as of July 27, 2012, as determined by an environmental compliance specialist, and which is included in the environmental liability. Thus, in accordance with U.S. GAAP, the Company capitalized these contamination treatment costs in its financial statements as an increase to property held for sale, since such costs will be incurred in preparation for the sale of the Earlysville, Virginia facility. Although management believes the sale of the Earlysville, Virginia facility is probable within one year; the Company has presented the property held for sale as a non-current asset. The Company anticipates 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.

The Company has had discussions with the former owner of the property concerning responsibility for contamination treatment. The former owner of the property and the Company solicited proposals in 2009 from environmental consulting firms and received a proposal from which management estimates the cost of contamination treatment to be approximately $615,000. Depending on the findings of additional studies, the scope and cost of the contamination treatment may change. Current estimates of future monitoring, oversight and other related costs are estimated between approximately $162,000 and $210,000. As of July 27, 2012, the Company signed an administrative consent order 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 consent order with the U.S. Environmental Protection Agency for completion of a contamination characterization study. The Company will reassess the accrued liability and record any appropriate adjustments in its financial statements following completion of the characterization process as required by these orders. Costs incurred during the three and six months ended July 27, 2012 to pay an environmental consulting firm to characterize contamination that may be present in the ground between the Company's property and nearby homes amounted to $11,000. Costs incurred during the three and six months ended July 29, 2011 to pay an environmental consulting firm to characterize contamination that may be present in the ground between the Company's property and nearby homes amounted to $1,000 and $8,000, respectively.

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, 2012. Total rent expense under the facility lease in Charlottesville, Virginia for the three and six months ended July 27, 2012 was $41,000 and $84,000, respectively. Total rent expense under the facility lease in Charlottesville, Virginia for the three and six months ended July 29, 2011 was $40,000 and $84,000, respectively. A majority of those costs are included in cost of sales while the balance is included in selling, general and administrative expenses.

Contract Loss Provisions

During the second quarter of fiscal year 2013, with the exception of one milestone valued at $23,000, the Company completed a longstanding customer-funded development contract related to a product for a UAV application. As a result, at July 27, 2012, the contract loss provision for this contract is $0.

The Company has recorded a $103,000 contract loss provision, during the three months ended July 27, 2012, relative to a separate customer-funded development contract, for the engineering of a modified angle of attack indicator.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 2012 Annual Report on Form 10-K filed with the SEC on April 30, 2012. 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 and two six month fiscal periods 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 July 27, 2012, 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 both primary flight data and for standby purposes in cockpits that use electronic displays for primary flight data. 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. This allows us to offer multiple products for air data collection as well as 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 six months of fiscal year 2013, 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 flows. 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.

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. Recently, we are finding that with the negative effects of the ongoing recession in the general aviation and business jet markets, these markets are taking longer to recover than previously expected. 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 analyze our operations and our cost structure for opportunities to enhance our financial performance in the face of a difficult economic environment. We will continue to evaluate our operations and implement 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 also believe the impact of inflation and changing prices on net sales and income from continuing operations are not 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 July 27, 2012 is $23.3 million. This represents a 9% decrease of $2.2 million versus the backlog as of January 31, 2012 and a 46% increase of $7.3 million versus the backlog as of July 29, 2011.

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 greatly 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 July 27, 2012 and July 29, 2011:

Net sales for the second quarter of fiscal year 2013 increased $1,051,000, or 16.4%, to $7,472,000 when compared to $6,421,000 for the second quarter of fiscal year 2012. During the second quarter of fiscal year 2013, the net sales increased from the prior year on sales of mechanical products, sensors, and repairs, partially offset by decreased sales of development services, while sales of spares were comparable. Our net sales continue to be impacted by the ongoing recession in the business jet and general aviation markets.

Cost of sales for the second quarter of fiscal year 2013 increased $221,000, or 4.4%, to $5,225,000 when compared to $5,004,000 for the second quarter of fiscal year 2012. Gross profit as a percentage of sales for the second quarter of fiscal year 2013 was 30.1% versus 22.1% for the second quarter of fiscal year 2012. The three-month comparative increase in gross profit as a percent of sales was primarily due to (a) increased variable margin due to the higher sales volume, (b) the positive impact of quality improvements and investments in lean activities over the past two years, and (c) the unfavorable impact in the prior year of costs associated with the transition of the Virginia repair station to our Florida facility.

Selling, general and administrative expenses for the second quarter of fiscal year 2013 were $2,408,000, an increase of $770,000 from the second quarter of fiscal year 2012 of $1,638,000. The increase was driven primarily by independent research and development costs relating to the OASIS™ product. In addition, increased compensation costs, bad debt provisions and outside services costs were partially offset by lower commission expense relating to international orders, reduced travel, and reduced advertising costs.

We reported an operating loss during the second quarter of fiscal year 2013 of ($161,000), or 2.2% of net sales, compared to an operating loss of ($221,000), or 3.4% of net sales, in the prior year’s second quarter. This reduced operating loss is primarily attributable to the increased net sales and improved gross margin percentage as described above, partially offset by the higher selling, general and administrative costs.

Interest expense, net, decreased $20,000 for the second quarter of fiscal year 2013 when compared to the second quarter of fiscal year 2012 primarily due to lower interest expense on reduced debt levels.

Loss before income taxes was ($221,000) in the second quarter of fiscal year 2013 versus loss before income taxes of ($310,000) in the second quarter of fiscal year 2012. For the quarter ended July 27, 2012, net loss was ($138,000) or ($0.04) basic and diluted loss per share, versus net loss of ($167,000), or ($0.04) basic and diluted loss per share for the quarter ended July 29, 2011.

Six months ended July 27, 2012 and July 29, 2011:

Net sales for the six months ended July 27, 2012 increased $1,703,000, or 13.0%, to $14,833,000 when compared to $13,130,000 for the six months ended July 29, 2011. During the first six months of fiscal year 2013, the net sales increased from the first six months of the prior fiscal year across all product groups including mechanical products, sensors, spares, repairs, and development services. 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 six months of fiscal year 2013 decreased ($280,000), or 2.8%, to $9,727,000 when compared to $10,007,000 for the first six months of fiscal year 2012. Gross profit as a percentage of sales for the first six months of fiscal year 2013 was 34.4% versus 23.8% for the first six months of fiscal year 2012. The six-month comparative increase in gross profit as a percent of sales was primarily due to (a) increased variable margin due to the higher sales volume, (b) favorable pricing on certain customer orders, particularly in spares and repairs, (c) the positive impact of quality improvements and investments in lean activities over the past two years, and (d) the unfavorable impact in the prior year of costs associated with the transition of the Virginia repair station to our Florida facility.

Selling, general and administrative expenses for the first six months of fiscal year 2013 were $4,546,000, an increase of $820,000 from the first six months of fiscal year 2012 of $3,726,000. The increase was driven primarily by independent research and development costs relating to the OASIS™ product. In addition, we incurred increased bad debt provisions as the result of the filing of a bankruptcy petition by one of our business jet customers and increased compensation costs and outside services costs, which were partially offset by lower commission expense relating to international orders, reduced travel, and reduced advertising costs.

We reported operating income during the first six months of fiscal year 2013 of $560,000, or 3.8% of net sales, compared to an operating loss of ($603,000), or 4.6% of net sales, in the prior year’s first six month period. This improvement in operating income is primarily attributable to increased net sales and improved gross margin percentage as described above, partially offset by higher selling, general and administrative costs.

Interest expense, net, decreased $65,000 for the first six months of fiscal year 2013 when compared to the first six months of fiscal year 2012 primarily due to lower interest expense on reduced debt levels.

Income before income taxes was $427,000 in the first six months of fiscal year 2013 versus a loss before income taxes of ($873,000) in the first six months of fiscal year 2012. For the six months ended July 27, 2012, net income was $276,000 or $0.07 basic and diluted earnings per share, versus a net loss of ($484,000), or ($0.13) basic and diluted loss per share for the six months ended July 29, 2011.

Liquidity and Capital Resources

Our principal sources of capital have been cash flows from operations and borrowings under the Credit Facility described below. As of July 27, 2012, we had $0 in cash and cash equivalents, compared to $157,000 as of January 31, 2012. In addition, as of July 27, 2012, we had $1,253,000 available under our Credit Facility in comparison to $888,000 available as of January 31, 2012.

Our cash provided by operating activities was $889,000 for the six months ended July 27, 2012, an increase in cash provided of $789,000 compared to cash provided of $100,000 for the six months ended July 29, 2011. This net increase in cash provided by operating activities is primarily attributable to increases in cash provided by operating activities of:

- $1,846,000 from a reduction in prepaid expenses and other current assets during the six months ended July 27, 2012 of $1,202,000, primarily attributable to the release of deferred customer-funded development contract charges, compared to an increase in prepaid expenses and other current assets of ($644,000) during the six months ended July 29, 2011,

- $760,000 from a net income of $276,000 during the six months ended July 27, 2012 compared to a net loss of ($484,000) during the six months ended July 29, 2011,

- $540,000 from a noncash provision for income taxes of $151,000 at July 27, 2012 compared to a noncash benefit for income taxes of ($389,000) at July 29, 2011,

- $323,000 from increased compensation and benefits accrual of $313,000 as of July 27, 2012 compared to a change in compensation and benefits accrual of ($10,000) at July 29, 2011 and

- $128,000 from an increased bad debt provision of $236,000 for the six months ended July 27, 2012 compared to a bad debt provision of $108,000 for the six months ended July 29, 2011;

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

- $839,000 from decreased accrued expenses and other liabilities of $866,000 at July 27, 2012, primarily attributable to the release of contract loss provision related to a customer-funded development contract compared to decreased accrued expenses and other liabilities of $27,000 at July 29, 2011,

- $622,000 from increased inventory of $1,019,000 at July 27, 2012 compared to increased inventory at July 29, 2011 of $397,000,

- $586,000 from decreased accounts payable at July 27, 2012 of ($410,000) compared to an increased accounts payable at July 29, 2011 of $176,000,

- $456,000 from decreased accounts receivable of $296,000 at July 27, 2012 compared to decreased accounts receivable of $752,000 at July 29, 2011 and

- $225,000 from a decreased contract loss provision of $153,000 for the six months ended July 27, 2012 compared to a contract loss provision of $378,000 for the six months ended July 29, 2011.

Our cash used in investing activities decreased $209,000 for the six months ended July 27, 2012 compared to the six months ended July 29, 2011 due solely to capital improvements and equipment additions of $303,000 during the six months ended July 27, 2012 compared to capital improvements and equipment additions of $512,000 during the six months ended July 29, 2011.

Our cash used in financing activities for the six months ended July 27, 2012 was ($743,000) compared to cash provided by financing activities for the six months ended July 29, 2011 of $250,000. The change was attributable to $1,522,000 of additional payments against the Amended and Restated Revolving Credit Line Note and $71,000 of increased long-term debt repayment. In addition, we completed repayment of the Notes Payable during the first quarter ended April 29, 2011 in the amount of $600,000.

Our days sales in accounts receivable decreased to 56 days at July 27, 2012, down from 64 days at January 31, 2012, due in large part to receipt of delayed customer payments. Through cash management and purchasing practices, our outstanding account payable balances with operational and production suppliers continued to decline as days purchases in accounts payable decreased to 30 days at July 27, 2012, down from 41 days at January 31, 2012. However, we continue to be challenged to maintain favorable payment terms with certain suppliers.

Our liquidity will depend on our ability to achieve budgeted operating results and to renew our Bank Notes and Revolving Credit Line Note when they mature on May 1, 2013 and June 27, 2013, respectively. 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 2013 and beyond. Although our six months ended July 27, 2012 cash flows from operations improved over the prior year, we continue to experience liquidity challenges because of a lack of sustained earnings through improved operating performance, continued demand for capital additions and investment in new product development programs during fiscal year 2013 when compared to fiscal year 2012. 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 July 27, 2012 was $2,705,000 compared to $6,184,000 at January 31, 2012. This decrease in working capital of $3,479,000 as of July 27, 2012 relates, in part, to (a) a reclassification of $3,465,000 of long-term debt from non-current liabilities to current liabilities as the Bank Notes mature on May 1, 2013, (b) a decrease to working capital associated with prepaid expenses and other current assets of $1,202,000 due primarily to the release of deferred charges related to a customer-funded development contract, (c) a reduction to accounts receivable of $532,000 and (d) an increase to accrued compensation and benefits of $313,000. These decreases to working capital are offset, in part, by (a) an increase in inventory of $903,000, due primarily to altimeter demand in raw materials inventory, (b) the pay down of accounts payable of $410,000, (c) the pay down of the Amended and Restated Revolving Credit Line Note of $365,000 and (d) a reduction to accrued expenses and other liabilities of $719,000 due primarily to the release of contract loss provisions..

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. We believe that cash collected from our accounts receivable, as further supplemented by advances under our Credit Facility, are adequate to fund our ongoing operations for the next twelve months. Prior to maturity on June 27, 2012, we renewed the Amended and Restated Revolving Credit Line Note, which now matures on June 27, 2013, with BMO Harris Bank. However, there can be no assurance that we will achieve our expected operating results and/or have access to and/or renew or refinance our Credit Facility, or that unforeseen circumstances will not require us to seek additional funding sources in the future. 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.

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 six months ended July 27, 2012 were $303,000, compared to $512,000 for the first six months ended July 29, 2011. Capital expenditures for the first six months ended July 27, 2012 consisted of $100,000 for operating and test equipment, $82,000 for purchased software and $121,000 for self-constructed assets. 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 2013 and 2012. Additionally, we renovated and reconfigured our Florida production facility in those years to accommodate equipment previously located in our building destroyed in the fire.

Notes Payable and Credit Facility

On May 14, 2009, we entered into unsecured notes payable arrangements with three investors allowing us to borrow up to an aggregate of $2,000,000. We completed repayment of the outstanding balance of these notes payable in the first quarter of fiscal year 2012. See Note 6 of "Notes to Consolidated Financial Statements (Unaudited)."

We are 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 provides 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 is secured by substantially all of our assets. See Note 8 of "Notes to Consolidated Financial Statements (Unaudited)."

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

- The 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 Revolving Credit Line Note is one-month LIBOR (which was 0.2458% at July 27, 2012) plus 300 basis points. Available borrowings on the Revolving Credit Line Note at July 27, 2012 were $1,253,000. The Revolving Credit Line Note matures on June 27, 2013.

- 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. Prior to maturity on May 1, 2013, we intend to refinance the Real Estate Mortgage Note.

- 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 Earlysville, Virginia property and for working capital and capital expenditure needs. We must pay any proceeds from the sale of the Earlysville, Virginia property to BMO Harris Bank to be applied as a principal payment under the Equipment Term Note. Prior to maturity on May 1, 2013, we intend to refinance 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 our business. The Equipment Credit Line Note matures on May 1, 2014.

The Credit Facility contains 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 8 of "Notes to Consolidated Financial Statements (Unaudited)."

For the periods measured as of January 31, 2012, April 27, 2012 and July 27, 2012, we were in compliance with all covenants within the Credit Facility.

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).” We have discussed the development and selection of the critical accounting estimates and the related disclosure included herein with the Audit Committee of the Board of Directors.

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 second quarter of fiscal year 2013, presented as contracts A, B and C, 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 second quarter of fiscal year 2013, revenue recognized through the achievement of milestones 6, 7, 9 and 10 of contract A amounted to $286,000 while revenue recognized through the achievement of milestone 3 of contract B amounted to $196,000.

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 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. As a result of the initial and subsequent surveys, the remaining contamination treatment costs are estimated at $777,000 as of July 27, 2012. We have capitalized these contamination treatment costs as an increase to property held for sale, 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. Although we believe the sale of the Earlysville, Virginia facility is probable within one year; we have presented the property held for sale as a non-current asset. 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. Costs incurred during the three and six months ended July 27, 2012 totaled $11,000. Costs incurred during the three and six months ended July 29, 2011 to pay an environmental consulting firm to characterize contamination that may be present in the ground between the Company’s property and nearby homes amounted to $1,000 and $8,000, respectively. At this time, we cannot predict how much, if any, we will incur for more costs in fiscal year 2013.

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 July 27, 2012 and July 29, 2011, 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 files 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 these 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 administration 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 and six months ended July 27, 2012, the Company recorded stock-based compensation of $10,000 and $31,000, respectively. During the three and six months ended July 29, 2011, the Company recorded stock-based compensation of $29,000 and $73,000, respectively.

In addition, stock issued in payment for services provided by members of the Board of Directors is expensed in the period the services are provided. During the three and six months ended July 27, 2012 and July 29, 2011, the Company recorded director-fees expense, through the issuance of stock, of $15,000 and $30,000, respectively.

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 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, 2012 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, 2012.

Adoption of New Accounting Pronouncements

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance allows us to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is effective for our fiscal year ending January 31, 2013. We have determined that this new guidance does not have a material impact on our consolidated financial statements.

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 will be 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 will not have a material impact 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 are 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 six months ended July 27, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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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

Exhibit No.	Description of Exhibit
10.1	First Amendment to Amended and Restated Revolving Line of Credit Note, dated June 15, 2012, between Aerosonic Corporation and BMO Harris Bank N.A., incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on June 21, 2012.
10.2	Amendment to Aerosonic Corporation 2012 Summary Compensation Table, as presented within the Company's Definitive Proxy Statement on Schedule 14A, filed on May 30, 2012, incorporated by reference to the Company's Current Report on Form 8-K, filed on June 21, 2012.
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.

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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: September 10, 2012

AEROSONIC CORPORATION

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

Date: September 10, 2012

AEROSONIC CORPORATION

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