

PERCEPTRON INC/MI
Form 10-K/A
April 03, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

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

For the fiscal year ended June 30, 2013 OR

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

For the transition period from _____ to _____.

Commission File Number: 0-20206
PERCEPTRON, INC.
(Exact Name of Registrant as Specified in Its
Charter)
Michigan 38-2381442
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
47827 Halyard Drive
Plymouth, Michigan 48170-2461
(Address of Principal Executive Offices)
(734) 414-6100
(Registrant's telephone number, including area code)

Securities
registered pursuant
to section 12(b) of
the Act:

| Title of Each Class of Common Stock | Name of Each Exchange on Which Registered |
|---|--|
| The \$0.01 par value Rights to Purchase Preferred Stock | NASDAQ Stock Market LLC (NASDAQ Global Market) |

Securities
registered pursuant
to section 12(g) of
the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting stock held as of the registrant's most recently completed second fiscal quarter by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on December 31, 2012, as reported by the NASDAQ Global Market, was approximately \$47,200,000 (assuming, but not admitting for any purpose, that all directors and executive officers of the registrant are affiliates).

The number of shares of Common Stock, \$0.01 par value, issued and outstanding as of September 20, 2013, was 8,832,608.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document, to the extent specified in this report, are incorporated by reference in Part III of this report:

| Document | Incorporated by reference in: |
|--|-------------------------------|
| Proxy Statement for 2013 Annual Meeting of Shareholders | Part III, Items 10-14 |

EXPLANATORY NOTE

Perceptron, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-K/A (“Amendment No. 2”) to the Company’s Annual Report on Form 10-K for the period ended June 30, 2013, as originally filed with the Securities and Exchange Commission (the “SEC”) on September 27, 2013 (the “Original Report”). This Amendment No. 2 is being filed solely to include a correction to the Report of Independent Registered Public Accounting Firm for Grant Thornton, LLP to add reference to the Consolidated Statements of Comprehensive Income. As a result of this Amendment No. 2, the management certifications, filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to the Original Report, have been re-executed and re-filed as of the date of this Form 10-K/A. This Amendment No. 2 does not affect any other items in the Company’s Original Report.

Except as otherwise expressly stated in the items contained in this Amendment No. 2, this Amendment No. 2 continues to speak as of the date of the Original Report and the Company has not modified or updated the disclosures contained herein to reflect events that have occurred since the filing of the Original Report. Accordingly, this Amended Report should be read in conjunction with the Company’s Original Report. The filing of this Amended Report shall not be deemed an admission that the Original Report when filed included any untrue statement of a material fact or omitted a material fact necessary to make a statement therein not misleading.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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[BDO LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Perceptron, Inc.

We have audited the accompanying consolidated balance sheet of Perceptron, Inc. (a Michigan corporation) and subsidiaries as of June 30, 2013, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the year ended June 30, 2013. These consolidated financial statements are the responsibility of Perceptron, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perceptron, Inc. and subsidiaries as of June 30, 2013, and the results of their operations and their cash flows for the year ended June 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Troy, Michigan

September 26, 2013

[GRANT THORNTON LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Perceptron, Inc.

We have audited the accompanying consolidated balance sheet of Perceptron, Inc. (a Michigan corporation) and subsidiaries as of June 30, 2012, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the two years in the period ended June 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perceptron, Inc. and subsidiaries as of June 30, 2012 and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Southfield, Michigan

September 28, 2012

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PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Amount)

| As of June 30, | 2013 | 2012 |
|--|-----------|-----------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 13,364 | \$ 12,984 |
| Short-term investments | 13,321 | 11,227 |
| Receivables: | | |
| Billed receivables, net of allowance for doubtful accounts of \$174 and \$263, respectively | 21,499 | 14,922 |
| Unbilled receivables | 506 | 550 |
| Other receivables | 261 | 510 |
| Inventories, net of reserves of \$1,124 and \$1,200, respectively | 6,783 | 5,396 |
| Deferred taxes | 1,342 | 2,456 |
| Assets of discontinued operations | - | 1,365 |
| Other current assets | 1,468 | 1,063 |
| Total current assets | 58,544 | 50,473 |
| Property and Equipment | | |
| Building and land | 6,422 | 6,398 |
| Machinery and equipment | 13,301 | 12,819 |
| Furniture and fixtures | 1,137 | 1,014 |
| | 20,860 | 20,231 |
| Less - Accumulated depreciation and amortization | (15,282) | (14,734) |
| Net property and equipment | 5,578 | 5,497 |
| Long-term Investments | | |
| Deferred Tax Asset | 725 | 2,192 |
| | 9,298 | 8,647 |

| | | |
|--------------|-----------|-----------|
| Total Assets | \$ 74,145 | \$ 66,809 |
|--------------|-----------|-----------|

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

| | | |
|--|----------|----------|
| Accounts payable | \$ 2,561 | \$ 1,519 |
| Accrued liabilities and expenses | 3,794 | 1,901 |
| Accrued compensation | 3,324 | 1,265 |
| Liabilities of discontinued operations | - | 1,443 |
| Income taxes payable | 1,075 | 610 |
| Deferred revenue | 6,496 | 7,812 |
| Total current liabilities | 17,250 | 14,550 |

Shareholders' Equity

| | | |
|--|--------|--------|
| Preferred stock, no par value, authorized 1,000 shares, issued none | - | - |
| Common stock, \$0.01 par value, authorized 19,000 shares, issued and outstanding 8,619 and 8,402, respectively | 86 | 84 |
| Accumulated other comprehensive loss | (94) | (893) |
| Additional paid-in capital | 39,442 | 38,401 |
| Retained earnings | 17,461 | 14,667 |
| Total shareholders' equity | 56,895 | 52,259 |

| | | |
|--|-----------|-----------|
| Total Liabilities and Shareholders' Equity | \$ 74,145 | \$ 66,809 |
|--|-----------|-----------|

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

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)

| Years ended June 30, | 2013 | 2012 | 2011 |
|--|-----------|-----------|-----------|
| Net Sales | \$ 60,886 | \$ 57,379 | \$ 50,847 |
| Cost of Sales | 32,766 | 33,209 | 28,225 |
| Gross Profit | 28,120 | 24,170 | 22,622 |
| Operating Expenses | | | |
| Selling, general and administrative | 14,473 | 12,983 | 13,468 |
| Engineering, research and development | 6,781 | 5,591 | 5,768 |
| Total operating expenses | 21,254 | 18,574 | 19,236 |
| Operating Income | 6,866 | 5,596 | 3,386 |
| Other Income and (Expenses) | | | |
| Interest income, net | 173 | 245 | 233 |
| Foreign currency loss | (647) | (629) | 482 |
| Gain on Redemption of Investment | 1,134 | - | - |
| Other | 5 | 163 | 2 |
| Total other income (expense) | 665 | (221) | 717 |
| Income from Continuing Operations Before Income Taxes | 7,531 | 5,375 | 4,103 |
| Income Tax Expense | (1,401) | (2,548) | (1,453) |
| Income from Continuing Operations | 6,130 | 2,827 | 2,650 |
| Discontinued Operations | | | |
| Litigation Settlement from Forest Products Business Unit net of taxes of \$520 (Note 11) | - | (1,009) | - |
| Commercial Products Business Unit net of taxes of \$41, \$1,104 and \$418, respectively | 80 | (2,151) | (824) |
| Total discontinued operations (Note 11) | 80 | (3,160) | (824) |
| Net Income (Loss) | \$ 6,210 | \$ (333) | \$ 1,826 |

| | | | |
|--|---------|-----------|---------|
| Basic Earnings (Loss) Per Common Share | | | |
| Continuing operations | \$ 0.72 | \$ 0.34 | \$ 0.30 |
| Discontinued operations | 0.01 | (0.38) | (0.09) |
| Net Income (Loss) | \$ 0.73 | \$ (0.04) | \$ 0.21 |
| Diluted Earnings (Loss) Per Common Share | | | |
| Continuing operations | \$ 0.71 | \$ 0.34 | \$ 0.29 |
| Discontinued operations | 0.01 | (0.38) | (0.09) |
| Net Income (Loss) | \$ 0.72 | \$ (0.04) | \$ 0.20 |
| Weighted Average Common Shares Outstanding | | | |
| Basic | 8,512 | 8,433 | 8,879 |
| Dilutive effect of stock options | 76 | - | 171 |
| Diluted | 8,588 | 8,433 | 9,050 |

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

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

| | 2013 | 2012 | 2011 |
|--|----------|------------|----------|
| Net Income (Loss) | \$ 6,210 | \$ (333) | \$ 1,826 |
| Other Comprehensive Income (Loss): | | | |
| Foreign currency translation adjustments | 799 | (1,999) | 2,611 |
| Comprehensive Income (Loss) | \$ 7,009 | \$ (2,332) | \$ 4,437 |

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

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(In Thousands)

| Year ended June 30, | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|
| Cash Flows from Operating Activities | | | |
| Net income (loss) | \$ 6,210 | \$ (333) | \$ 1,826 |
| (Income) loss from discontinued operations | (80) | 3,160 | 824 |
| Adjustments to reconcile net income to net cash provided from (used for) operating activities: | | | |
| Depreciation and amortization | 660 | 597 | 694 |
| Stock compensation expense | 201 | 255 | 440 |
| Deferred income taxes | 277 | 469 | 882 |
| Disposal of assets and other | 83 | 88 | (18) |
| Allowance for doubtful accounts | (92) | 142 | 154 |
| Changes in assets and liabilities | | | |
| Receivables, net | (6,038) | (661) | (1,730) |
| Inventories | (1,340) | 58 | (347) |
| Accounts payable | 1,702 | 842 | (1,776) |
| Other current assets and liabilities | 2,565 | 231 | 4,252 |
| Net cash provided from operating activities-continuing operations | 4,148 | 4,848 | 5,201 |
| Net cash provided from (used for) operating activities-discontinued operations | (835) | (1,938) | 1,002 |
| Net cash provided from operating activities | 3,313 | 2,910 | 6,203 |
| Cash Flows from Financing Activities | | | |
| Proceeds from stock plans | 842 | 204 | 326 |
| Repurchase of company stock | - | (1,348) | (3,199) |
| Payment of cash dividend | (3,416) | - | - |
| Net cash used for financing activities | (2,574) | (1,144) | (2,873) |
| Cash Flows from Investing Activities | | | |
| Purchases of short-term investments | (21,080) | (29,467) | (51,091) |
| Sales of short-term investments | 20,698 | 29,830 | 50,094 |
| Capital expenditures | (731) | (594) | (813) |
| Proceeds from sale of Commercial Products Business Unit assets (Note 11) | 838 | - | - |
| Net cash used for investing activities | (275) | (231) | (1,810) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (84) | (656) | 796 |
| Net Increase in Cash and Cash Equivalents | 380 | 879 | 2,316 |
| Cash and Cash Equivalents, July 1 | 12,984 | 12,105 | 9,789 |
| Cash and Cash Equivalents, June 30 | \$ 13,364 | \$ 12,984 | \$ 12,105 |

Supplemental Disclosure of Cash Flow Information

| | | | |
|--|-------|------|-------|
| Cash paid during the year for interest | \$ 8 | \$ 7 | \$ 12 |
| Cash paid during the year for income taxes | 1,002 | 497 | 138 |

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

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands)

| | Common Shares | Stock Amount | Accumulated Other Comprehensive Income (Loss) | Additional Paid-In Capital | Retained Earnings | Total Shareholders' Equity |
|--|------------------|-----------------|--|----------------------------------|----------------------|----------------------------------|
| Balances, June 30, 2010 | 8,961 | \$ 90 | \$ (1,505) | \$ 41,717 | \$ 13,174 | \$ 53,476 |
| Comprehensive income (loss) | | | | | | |
| Net income | | | | | 1,826 | 1,826 |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustments | | | 2,611 | | | 2,611 |
| Total comprehensive income | | | | | | 4,437 |
| Stock-based compensation | | | | 440 | | 440 |
| Stock plans | 123 | 1 | | 325 | | 326 |
| Stock repurchase | (518) | (5) | | (3,194) | | (3,199) |
| Balances, June 30, 2011 | 8,566 | \$ 86 | \$ 1,106 | \$ 39,288 | \$ 15,000 | \$ 55,480 |
| Comprehensive income (loss) | | | | | | |
| Net loss | | | | | (333) | (333) |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustments | | | (1,999) | | | (1,999) |
| Total comprehensive loss | | | | | | (2,332) |
| Stock-based compensation | | | | 255 | | 255 |
| Stock plans | 71 | - | | 204 | | 204 |
| Stock repurchase | (235) | (2) | | (1,346) | | (1,348) |
| Balances, June 30, 2012 | 8,402 | \$ 84 | \$ (893) | \$ 38,401 | \$ 14,667 | \$ 52,259 |
| Comprehensive income (loss) | | | | | | |
| Net income | | | | | 6,210 | 6,210 |
| Other comprehensive income | | | | | | |
| Foreign currency translation adjustments | | | 799 | | | 799 |
| Total comprehensive income | | | | | | 7,009 |
| Dividend | | | | | (3,416) | (3,416) |
| Stock-based compensation | | | | 201 | | 201 |

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| | | | | | | |
|-------------------------|-------|-------|---------|-----------|-----------|-----------|
| Stock plans | 217 | 2 | | 840 | | 842 |
| Balances, June 30, 2013 | 8,619 | \$ 86 | \$ (94) | \$ 39,442 | \$ 17,461 | \$ 56,895 |

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

PERCEPTRON, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Operations

Perceptron, Inc. (“Perceptron” or the “Company”) develops, produces, and sells non-contact measurement and inspection solutions for industrial applications. The Company’s products provide solutions for manufacturing process control as well as sensor and software technologies for non-contact measurement, scanning and inspection applications. The Company also offers Value Added Services such as training and customer support services.

Basis of Presentation and Principles of Consolidation

On August 30, 2012, the Company sold substantially all of the assets of its Commercial Products Business Unit (“CBU”). See also Note 11, “Discontinued Operations”. Accordingly, CBU financial information included in this Form 10-K for fiscal year 2013 and prior periods is presented as a discontinued operation.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue related to products is recognized upon shipment when title and risk of loss has passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the related receivable

is reasonably assured and customer acceptance criteria have been successfully demonstrated. Revenue related to services is recognized upon completion of the service.

The Company also has multiple element arrangements in its Automated Systems product line that may include purchase of equipment, labor support and/or training. Each element has value on a stand-alone basis. For multiple element arrangements, the Company defers from revenue recognition the greater of the relative fair value of any undelivered elements of the contract or the portion of the sales price of the contract that is not payable until the undelivered elements are completed. Delivered items are not contingent upon the delivery of any undelivered items nor do the delivered items include general rights of return.

When available, the Company allocates arrangement consideration to each element in a multiple element arrangement based upon vendor specific objective evidence (“VSOE”) of fair value of the respective elements. When VSOE cannot be established, the Company attempts to establish the selling price of each element based on relevant third-party evidence. Because the Company’s products contain a significant level of proprietary technology, customization or differentiation such that comparable pricing of products with similar functionality cannot be obtained, the Company uses, in these cases, its best estimate of selling price (“BESP”). The Company determines the BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin.

The Company’s Automated Systems products are made to order systems that are designed and configured to meet each customer’s specific requirements. Timing for the delivery of each element in the arrangement is primarily determined by the customer’s requirements and the number of elements ordered. Delivery of all of the multiple elements in an order will typically occur over a three to 15 month period after the order is received.

The Company does not have price protection agreements or requirements to buy back inventory. The Company’s history demonstrates that sales returns have been insignificant.

Research and Development

Research and development costs, including software development costs, are expensed as incurred.

Foreign Currency

The financial statements of the Company's wholly-owned foreign subsidiaries have been translated in accordance with ASC 830, "Foreign Currency Translation Matters" where the functional currency is the local currency in the foreign country. Under this standard, translation adjustments are accumulated in a separate component of shareholders' equity until disposal of the subsidiary. Gains and losses on foreign currency transactions are included in the consolidated statement of income under "Other Income and Expenses".

Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Other obligations, such as stock options and restricted stock awards, are considered to be potentially dilutive common shares. Diluted EPS assumes the issuance of potential dilutive common shares outstanding during the period and adjusts for any changes in income and the repurchase of common shares that would have occurred from the assumed issuance, unless such effect is anti-dilutive. The calculation of diluted shares also takes into effect the average unrecognized non-cash stock-based compensation expense and additional adjustments for tax benefits related to non-cash stock-based compensation expense.

Options to purchase 988,000, 909,000, and 811,000 shares of common stock outstanding in the fiscal years ended June 30, 2013, 2012 and 2011, respectively, were not included in the computation of diluted EPS because the effect would have been anti-dilutive.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. Fair value approximates carrying value because of the short maturity of the cash equivalents. At June 30, 2013, the Company had \$13.4 million in cash and cash equivalents of which \$6.3 million was held in foreign bank accounts. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Accounts Receivable and Concentration of Credit Risk

The Company markets and sells its products principally to automotive manufacturers, line builders, system integrators, original equipment manufacturers and value-added resellers. The Company's accounts receivable are principally from a small number of large customers. The Company performs ongoing credit evaluations of its customers. Accounts receivable are generally due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Changes in the Company's allowance for doubtful accounts are as follows (in thousands):

| | Beginning Balance | Costs and Expenses | Less Charge-offs | Ending Balance |
|---------------------------------|----------------------|-----------------------|---------------------|-------------------|
| Fiscal year ended June 30, 2013 | \$ 263 | \$ 69 | \$ 158 | \$ 174 |
| Fiscal year ended June 30, 2012 | \$ 314 | \$ 41 | \$ 92 | \$ 263 |
| Fiscal year ended June 30, 2011 | \$ 138 | \$ 184 | \$ 8 | \$ 314 |

Short-Term and Long-Term Investments

The Company accounts for its investments in accordance with ASC 320, "Investments – Debt and Equity Securities." Investments with a maturity of greater than three months to one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term if the Company reasonably expects the investment to be realized in cash or sold or consumed during the normal operating cycle of the business. Investments available for sale are recorded at market value using the specific identification method. Investments expected to be held to maturity or until market conditions improve are measured at amortized cost in the statement of financial position if it is the Company's intent and ability to hold those securities long-term. Each balance sheet date, the Company evaluates its investments for possible other-than-temporary impairment which involves significant

judgment. In making this judgment, management reviews factors such as the length of time and extent to which fair value has been below the cost basis, the anticipated recovery period, the financial condition of the issuer, the credit rating of the instrument and the Company's ability and intent to hold the investment for a period of time which may be sufficient for recovery of the cost basis. Any unrealized gains and losses on securities are reported as other comprehensive income as a separate component of shareholders' equity until realized or until a decline in fair value is determined to be other than temporary. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the income statement. If market, industry, and/or investee conditions deteriorate, future impairments may be incurred.

At June 30, 2013, the Company had \$9.6 million of short-term investments in time deposits or certificates of deposit, \$1.7 million in variable rate demand notes and \$2.0 million in a repurchase investment.

During fiscal 2013, a long-term investment in preferred stock was redeemed, at par, for \$2.6 million. Previously the Company had recorded an impairment charge on the carrying value of this investment in fiscal 2009. As a result of the redemption, the Company recorded a gain of \$1.1 million in fiscal 2013. At June 30, 2013, the Company holds a long-term investment in preferred stock that is not registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The investment is currently recorded at \$725,000 after consideration of impairment charges recorded in fiscal 2008 and 2009. The Company estimated that the fair market value of this investment at June 30, 2013 exceeded \$725,000 based on observable market activity and an internal valuation model which included the use of a discounted cash flow model. The fair market analysis considered the following key inputs, (i) the underlying structure of the security; (ii) the present value of the future principal discounted at rates considered to reflect current market conditions; and (iii) the time horizon that the market value of the security could return to its cost and be sold. Under ASC 820, "Fair Value Measurements", such valuation assumptions are defined as Level 3 inputs.

| Long-term Investments | Cost | Unrealized Gains (Losses) | Book Value |
|----------------------------------|----------|---------------------------------|---------------|
| June 30, 2013 Preferred Stock | \$ 3,700 | \$ (2,975) | \$ 725 |
| June 30, 2012 Preferred Stock | \$ 6,300 | \$ (4,108) | \$ 2,192 |

Inventory

Inventory is stated at the lower of cost or market. The cost of inventory is determined by the first-in, first-out (“FIFO”) method. The Company provides a reserve for obsolescence to recognize the effects of engineering change orders, age and use of inventory that affect the value of the inventory. When the related inventory is disposed of, the obsolescence reserve is reduced. A detailed review of the inventory is performed annually with quarterly updates for known changes that have occurred since the annual review. Inventory, net of reserves of \$1,124,000 and \$1,200,000 at June 30, 2013 and June 30, 2012 respectively, is comprised of the following (in thousands):

| | At June 30, | |
|-----------------|-------------|----------|
| | 2013 | 2012 |
| Component parts | \$ 2,648 | \$ 2,373 |
| Work in process | 376 | 307 |
| Finished goods | 3,759 | 2,716 |
| Total | \$ 6,783 | \$ 5,396 |

Changes in the Company’s reserves for obsolescence are as follows (in thousands):

| | Beginning Balance | Costs and Expenses | Less Charge-offs | Ending Balance |
|---------------------------------|----------------------|-----------------------|---------------------|-------------------|
| Fiscal year ended June 30, 2013 | \$ 1,200 | \$ 96 | \$ 172 | \$ 1,124 |
| Fiscal year ended June 30, 2012 | \$ 1,477 | \$ 95 | \$ 372 | \$ 1,200 |
| Fiscal year ended June 30, 2011 | \$ 1,136 | \$ 598 | \$ 257 | \$ 1,477 |

Property and Equipment

Property and equipment are recorded at cost. Depreciation related to machinery and equipment and furniture and fixtures is primarily computed on a straight-line basis over estimated useful lives ranging from 3 to 15 years. Depreciation on buildings is computed on a straight-line basis over 40 years.

When assets are retired, the costs of such assets and related accumulated depreciation or amortization are eliminated from the respective accounts, and the resulting gain or loss is reflected in the consolidated statement of income.

Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and the effects of operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefit, or future deductibility is uncertain.

Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and amounts due to banks or other lenders, approximate their fair values at June 30, 2013 and 2012. See "Short-Term and Long-Term Investments" for a discussion of long-term investments. Fair values have been determined through information obtained from market sources and management estimates.

The Company follows the provisions of ASC 820, "Fair Value Measurements and Disclosures" for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Financial instruments held by the Company at June 30, 2013 include investments classified as held for sale, mutual funds, fixed deposits, certificate of deposits, variable rate demand notes, and repurchase agreements.

ASC 820 establishes a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs), or reflect the Company's own assumptions of market participant valuation (unobservable inputs). These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.

- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable and reflect management's estimates and assumptions.

ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

The following table presents the Company's investments at June 30, 2013 and June 30, 2012 that are measured and recorded at fair value on a recurring basis consistent with the fair value hierarchy provisions of ASC 820, "Fair Value Measurements and Disclosures" (in thousands).

| Description | June 30, 2013 | Level 1 | Level 2 | Level 3 |
|--|------------------|------------|-----------|------------|
| Mutual funds | \$ 25 | \$ 25 | \$ - | \$ - |
| Fixed deposits and certificates of deposit | 9,581 | - | 9,581 | - |
| Variable rate demand notes | 1,715 | - | 1,715 | - |
| Repurchase agreements | 2,000 | - | 2,000 | - |
| Total | \$ 13,321 | \$ 25 | \$ 13,296 | \$ - |

| Description | June 30, 2012 | Level 1 | Level 2 | Level 3 |
|--|------------------|------------|-----------|------------|
| Mutual funds | \$ 64 | \$ 64 | \$ - | \$ - |
| Fixed deposits and certificates of deposit | 6,603 | - | 6,603 | - |
| Variable rate demand notes | 2,560 | - | 2,560 | - |
| Repurchase agreements | 2,000 | - | 2,000 | - |
| Total | \$ 11,227 | \$ 64 | \$ 11,163 | \$ - |

During fiscal years 2013 and 2012, the Company did not record any other-than-temporary impairments on the financial assets required to be measured on a nonrecurring basis.

Warranty

Automated Systems products generally carry a two or three-year warranty for parts and a one-year warranty for labor and travel related to warranty. Product sales to the forest products industry carry a three-year warranty for TriCam® sensors. Sales of ScanWorks® have a one-year warranty for parts; sales of WheelWorks® products have a two-year warranty for parts. The Company provides a reserve for warranty based on its experience and knowledge. Factors affecting the Company's warranty liability include the number of units sold or in service and historical and anticipated rates of claims and cost per claim. The Company periodically assesses the adequacy of its warranty liability based on changes in these factors. If a special circumstance arises requiring a higher level of warranty, the Company would make a special warranty provision commensurate with the facts.

| | Beginning Balance | Costs and Expenses | Less Charge-offs | Ending Balance |
|---------------------------------|----------------------|-----------------------|---------------------|-------------------|
| Fiscal year ended June 30, 2013 | \$ 63 | \$ 123 | \$ 123 | \$ 63 |
| Fiscal year ended June 30, 2012 | \$ 63 | \$ 146 | \$ 146 | \$ 63 |
| Fiscal year ended June 30, 2011 | \$ 63 | \$ 156 | \$ 156 | \$ 63 |

Advertising Expense

The Company charges advertising expense in the period incurred. As of June 30, 2013, 2012, and 2011, advertising expense was \$53,000, \$13,000, and \$29,000, respectively.

Self-Insurance

The Company is self-insured for health, vision and short-term disability costs up to a certain stop-loss level per claim and on an aggregate basis of a percentage of estimated annual costs. The estimated liability is based upon review by management and an independent insurance consultant of claims filed and claims incurred but not yet reported.

New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05 to provide guidance on the presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance was effective for the Company beginning July 1, 2012 and represented a change in presentation only.

In February 2013, the FASB issued guidance on disclosure requirements for items reclassified out of accumulated other comprehensive income. This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of accumulated other comprehensive income. The new guidance will be effective for the Company beginning July 1, 2013. Other than requiring additional disclosures, the Company does not anticipate material impacts on its financial statements upon adoption.

In March 2013, the FASB issued guidance on a parent’s accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The new guidance will be effective for the Company beginning July 1, 2014. The Company does not anticipate material impacts on its financial statements upon adoption.

2. Leases

The Company leases building space, office equipment and motor vehicles under operating leases. Lease terms generally cover periods from two to five years and may contain renewal options. The following is a summary, as of June 30, 2013, of the future minimum annual lease payments required under the Company’s operating leases having initial or remaining non-cancelable terms in excess of one year (in thousands):

| Year | Minimum Rentals |
|------------------------------|--------------------|
| 2014 | \$ 871,414 |
| 2015 | 571,140 |
| 2016 | 203,644 |
| 2017 | 31,523 |
| 2018 and beyond | 55,319 |
| Total minimum lease payments | \$ 1,733,040 |

Rental expenses for operating leases in the fiscal years ended June 30, 2013, 2012 and 2011 were \$955,000, \$998,000 and \$1,094,000, respectively.

3. Credit Facilities

The Company had no debt outstanding at June 30, 2013 and June 30, 2012.

The Company has a \$6.0 million secured credit agreement with Comerica Bank (“Credit Agreement”), which expires on November 1, 2014. Proceeds under the Credit Agreement may be used for working capital and capital expenditures. Security under the Credit Agreement is substantially all non-real estate assets of the Company held in the United States. Borrowings are designated as a Libor-based Advance or as a Prime-based Advance if the

Libor-based Advance is not available. Interest on Libor-based Advances is calculated at 2.35% above the Libor Rate offered at the time for the period chosen, and is payable on the last day of the applicable period. Quarterly, the Company pays a commitment fee of 0.15% per annum on the average daily unused portion of the revolving credit commitment. The Credit Agreement requires the Company to maintain a minimum Tangible Net Worth of not less than \$33.2 million. The Company was in compliance with this financial covenant at June 30, 2013. The Credit Agreement also requires the Company to have no advances outstanding for 30 days (which need not be consecutive) during each calendar year. The Credit Agreement prohibits the Company from paying dividends except for dividends of up to \$3.7 million in fiscal 2013 and for each fiscal year thereafter, the Credit Agreement allows the Company to declare and pay dividends of up to \$1.8 million provided the Company maintains a minimum Tangible Net Worth as defined in the Credit Agreement.

At June 30, 2013, the Company's German subsidiary (GmbH) had an unsecured credit facility totaling 350,000 Euros (equivalent to approximately \$455,000). The facility allows 100,000 euros to be used to finance working capital needs and equipment purchases or capital leases. The facility allows up to 250,000 euros to be used for providing bank guarantees. The 100,000 euros of borrowings bear interest at 7.15%. Any bank guarantees bear interest at 2.0%. The German credit facility is cancelable at any time by either GmbH or the bank and any amounts then outstanding would become immediately due and payable. At June 30, 2013 and 2012, GmbH had no borrowings or bank guarantees outstanding.

4. Information About Major Customers

The Company's Automated Systems sales efforts are led by account managers who develop a close consultative selling relationship with the Company's customers. The Company's principal customers for its Automated Systems products (in-line dimensional gauging, automated assembly, in-line fit and finish measurements, and near-line contour surface scanning using TriCam® and Helix® technology) have historically been automotive manufacturing companies that the Company either sells to directly or through manufacturing line builders, system integrators or original equipment manufacturers. The Company's Automated Systems products are typically purchased for

installation in connection with retooling programs undertaken by these companies. Because sales are dependent on the timing of customers' retooling programs, sales by customer vary significantly from year to year, as do the Company's largest customers.

For the fiscal years 2013, 2012 and 2011, approximately 46%, 51% and 42%, respectively, of net sales were derived from the Company's four largest automotive end user customers. The Company also sells to manufacturing line builders, system integrators or original equipment manufacturers, who in turn sell to the Company's automotive customers. For the fiscal years 2013, 2012 and 2011, approximately 7%, 13% and 11%, respectively, of net sales were to manufacturing line builders, system integrators and original equipment manufacturers for the benefit of the same four largest IBU automotive end user customers in each respective year. During the fiscal year ended June 30, 2013, direct sales to Volkswagen Group (includes Audi, SEAT and others) and General Motors accounted for approximately 24% and 13%, respectively, of the Company's total net sales. At June 30, 2013, accounts receivable from Volkswagen Group and General Motors totaled approximately \$7.5 million and \$1.2 million, respectively.

5. Contingencies

Management is currently unaware of any significant pending litigation affecting the Company other than the matter set forth below.

The Company is a party to a suit filed by 3CEMS, a Cayman Islands and People's Republic of China corporation, on or about July 19, 2013 in the U.S. District Court for the Eastern District of Michigan. The suit alleges that the Company breached its contractual obligations by failing to pay for component parts to be used to manufacture optical video scopes for the Company's discontinued Commercial Products Business Unit. 3CEMS alleges that it purchased the component parts in advance of the receipt of orders from the Company based upon instructions they claim to have received from the Company. The suit alleges damages of not less than \$4.5 million. The Company intends to vigorously defend against 3CEMS' claims.

The Company may, from time to time, be subject to other claims and suits in the ordinary course of its business.

To estimate whether a loss contingency should be accrued by a charge to income, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. Since the outcome of claims and litigation is subject to significant uncertainty, changes in these factors could materially impact the Company's financial position or results of operations.

6. 401(k) Plan

The Company has a 401(k) tax deferred savings plan that covers all eligible employees. The Company may make discretionary contributions to the plan. The Company's contribution during the fiscal years ended June 30, 2013 and June 30, 2012 were \$522,000 and \$190,000, respectively. The Company made no contributions during fiscal year 2011.

7. Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan for all employees meeting certain eligibility criteria. Under the Plan, eligible employees may purchase shares of the Company's common stock at 85% of its market value at the beginning of the six-month election period. Purchases are limited to 10% of an employee's eligible compensation and the shares purchased are restricted from being sold for one year from the purchase date. At June 30, 2013, 45,970 shares remained available under the Plan.

Activity under this Plan is shown in the following table:

| | Purchase Period Ended | | |
|---|-----------------------|----------|-----------|
| | June 30, | | |
| | 2013 | 2012 | 2011 |
| Non-cash stock based compensation expense | \$ 34,829 | \$ 6,653 | \$ 22,000 |
| Common shares purchased | 8,876 | 7,626 | 19,534 |
| Average purchase price per share | \$ 4.35 | \$ 4.22 | \$ 3.05 |

8. Stock Based Compensation

The Company uses the Black-Scholes model for determining stock option valuations. The Black-Scholes model requires subjective assumptions, including future stock price volatility and expected time to exercise, which affect the calculated values. The expected term of option exercises is derived from historical data regarding employee exercises and post-vesting employment termination behavior. The risk-free rate of return is based on published U.S. Treasury rates in effect for the corresponding expected term. The expected volatility is based on historical volatility of the Company's stock price. These factors could change in the future, which would affect the stock-based compensation expense in future periods.

The Company recognized operating expense for non-cash stock-based compensation costs in the amount of \$269,000, \$216,000 and \$372,000 for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. As of June 30, 2013, the total remaining unrecognized compensation cost related to non-vested stock based compensation amounted to \$519,000. The Company expects to recognize this cost over a weighted average vesting period of 2.8 years.

The Company received \$648,000 in cash from option exercises under all share-based payment arrangements for the twelve months ended June 30, 2013. The actual tax benefit realized, that related to tax deductions for non-qualified options exercised and disqualifying dispositions under all share-based payment arrangements, totaled approximately, \$148,000 for fiscal 2013.

The Company maintains a 2004 Stock Incentive Plan ("2004 Plan"), a 1992 Stock Option Plan ("1992 Plan") and a 1998 Global Team Member Stock Option Plan ("1998 Plan") covering substantially all company employees and certain other key persons and a Directors Stock Option Plan ("Directors Plan") covering all non-employee directors. The 2004 Plan replaced the 1992 and Directors Plans as to future grants. No further grants are permitted to be made under the terms of the 1998 Plan. Options previously granted under the 1992, Directors and 1998 Plans will continue to be maintained until all options are exercised, cancelled or expire. The 2004, 1992 and Directors Plans are administered by a committee of the Board of Directors, the Management Development, Compensation and Stock Option Committee. The 1998 Plan is administered by the President of the Company.

Awards under the 2004 Stock Incentive Plan may be in the form of stock options, stock appreciation rights, restricted stock or restricted stock units, performance share awards, director stock purchase rights and deferred stock units; or any combination thereof. The terms of the awards will be determined by the Management Development, Compensation and Stock Option Committee, except as otherwise specified in the 2004 Stock Incentive Plan. As of June 30, 2013, the Company has issued awards in the form of stock options and restricted stock. Options outstanding under the 2004 Stock Incentive Plan and the 1992 and 1998 Plans generally become exercisable at 25% per year beginning one year after the date of grant and expire ten years after the date of grant. Restricted stock grants under the 2004 Stock Incentive Plan are based on an individual achieving various levels of performance goals during the previous year and vest at one year after the date of grant, provided the recipient is still employed with the Company. At June 30, 2013, based upon the expected level of achievement of performance goals for fiscal 2013, the Company expects to grant 25,250 shares of restricted stock in the first quarter of fiscal 2014. All options outstanding under the 1992 and Directors Plans are vested and expire ten years from the date of grant. Option prices for options

granted under these plans must not be less than fair market value of the Company's stock on the date of grant.

Activity under these Plans is shown in the following tables:

| Shares subject to option | Fiscal Year 2013 | | | Fiscal Year 2012 | | |
|--|------------------|---------------------------------|---------------------------------------|------------------|---------------------------------|---------------------------------------|
| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value (1) (\$000) | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value (1) (\$000) |
| Outstanding at beginning of period | 1,162,996 | \$ 6.81 | | 1,122,919 | \$ 6.60 | |
| New Grants (based on fair value of common stock at dates of grant) | 164,000 | \$ 5.76 | | 158,000 | \$ 6.00 | |
| Exercised | (171,066) | \$ 3.79 | | (56,504) | \$ 1.54 | |
| Expired | (30,705) | \$ 8.79 | | | | |