

SPARTON CORP  
Form 10-Q  
May 05, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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 1-1000

Sparton Corporation  
(Exact name of registrant as specified in its charter)

Ohio 38-1054690  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

425 N. Martingale Road, Suite 2050, 60173-2213  
Schaumburg, Illinois (Zip code)  
(Address of principal executive offices)  
(847) 762-5800  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

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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. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 24, 2015, there were 9,910,336 shares of common stock, \$1.25 par value per share, outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

SPARTON CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

(Dollars in thousands, except share amounts)

	March 31, 2015	June 30, 2014 (a)
Assets		
Current Assets:		
Cash and cash equivalents	\$5,581	\$8,028
Accounts receivable, net of allowance for doubtful accounts of \$141 and \$126, respectively	46,332	48,697
Inventories and cost of contracts in progress, net	64,340	53,372
Deferred income taxes	4,248	3,813
Prepaid expenses and other current assets	4,957	2,654
Total current assets	125,458	116,564
Property, plant and equipment, net	29,777	28,523
Goodwill	54,688	28,189
Other intangible assets, net	25,383	20,041
Deferred income taxes — non-current	1,884	1,192
Other non-current assets	6,325	4,471
Total assets	\$243,515	\$198,980
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$—	\$900
Accounts payable	22,239	16,543
Accrued salaries and wages	8,675	7,854
Accrued health benefits	1,214	1,538
Performance based payments on customer contracts	1,217	3,196
Other accrued expenses	11,104	11,090
Total current liabilities	44,449	41,121
Long-term debt — non-current portion	80,000	40,100
Environmental remediation — non-current portion	7,147	7,644
Total liabilities	131,596	88,865
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, no par value; 200,000 shares authorized, none issued	—	—
Common stock, \$1.25 par value; 15,000,000 shares authorized, 9,910,336 and 10,129,031 shares issued and outstanding, respectively	12,388	12,661
Capital in excess of par value	15,800	19,478
Retained earnings	84,835	78,944
Accumulated other comprehensive loss	(1,104	) (968
Total shareholders' equity	111,919	110,115
Total liabilities and shareholders' equity	\$243,515	\$198,980

(a) Derived from the Company's audited financial statements as of June 30, 2014.

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(Dollars in thousands, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Net sales	\$93,065	\$83,983	\$255,732	\$243,001
Cost of goods sold	74,434	67,505	209,116	199,094
Gross profit	18,631	16,478	46,616	43,907
Operating Expense:				
Selling and administrative expenses	11,883	8,807	33,288	25,139
Internal research and development expenses	418	213	715	1,004
Amortization of intangible assets	1,458	1,089	4,209	2,323
Restructuring charges	—	—	—	188
Other operating income, net	(10	) (6	) (39	) (14
Total operating expense, net	13,749	10,103	38,173	28,640
Operating income	4,882	6,375	8,443	15,267
Other income (expense):				
Interest expense	(458	) (187	) (1,561	) (547
Interest income	—	—	2	2
Other, net	27	72	127	151
Total other expense, net	(431	) (115	) (1,432	) (394
Income before provision for income taxes	4,451	6,260	7,011	14,873
Provision for income taxes	318	2,014	1,120	4,857
Net income	\$4,133	\$4,246	\$5,891	\$10,016
Income per share of common stock:				
Basic	\$0.42	\$0.42	\$0.59	\$0.99
Diluted	\$0.42	\$0.42	\$0.59	\$0.99
Weighted average shares of common stock outstanding:				
Basic	9,764,838	10,124,587	9,874,185	10,104,029
Diluted	9,769,375	10,150,253	9,888,905	10,127,811

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)  
 (Dollars in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2015	2014	2015	2014
Net income	\$4,133	\$4,246	\$5,891	\$10,016
Other comprehensive income (loss), net of tax:				
Amortization of unrecognized net actuarial loss, net of tax benefit of \$12 and \$11 for the three months ended March 31, 2015 and 2014, respectively, and net of tax benefit of \$27 and \$34 for the nine months ended March 31, 2015 and 2014, respectively	8	21	33	62
Unrecognized loss on marketable equity securities, net of tax benefit of \$68 and \$0 for the three months ended March 31, 2015 and 2014, respectively, and net of tax benefit of \$102 and \$0 for the nine months ended March 31, 2015 and 2014, respectively	(111	) —	(169	) —
Other comprehensive (loss) income, net of tax	(103	) 21	(136	) 62
Comprehensive income	\$4,030	\$4,267	\$5,755	\$10,078
See Notes to unaudited condensed consolidated financial statements.				

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SPARTON CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (Dollars in thousands)

	For the Nine Months Ended	
	March 31, 2015	March 31, 2014
Cash Flows from Operating Activities:		
Net income	\$5,891	\$10,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,359	3,492
Amortization of intangible assets	4,318	2,418
Deferred income tax (benefit) expense	(1,039)	) 545
Stock-based compensation expense	1,718	1,287
Gross profit effect of capitalized profit in inventory from acquisitions	255	256
Excess tax benefit from stock-based compensation	(996)	) (496)
Other	446	66
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	7,216	7,426
Inventories and cost of contracts in progress	(4,362)	) 3,497
Prepaid expenses and other assets	(1,706)	) (1,196)
Performance based payments on customer contracts	(1,979)	) (13,458)
Accounts payable and accrued expenses	(664)	) 1,358
Net cash provided by operating activities	12,457	15,211
Cash Flows from Investing Activities:		
Acquisition of businesses, net of cash acquired and post-closing adjustments	(42,289)	) (35,560)
Purchase of securities available for sale	(986)	) —
Purchases of property, plant and equipment	(3,903)	) (2,253)
Proceeds from sale of property, plant and equipment	—	69
Net cash used in investing activities	(47,178)	) (37,744)
Cash Flows from Financing Activities:		
Borrowings of long-term debt	112,414	53,000
Repayment of long-term debt	(73,414)	) (28,108)
Payment of debt financing costs	(1,057)	) —
Repurchase of stock	(6,830)	) (1,559)
Proceeds from the exercise of stock options	165	121
Excess tax benefit from stock-based compensation	996	496
Net cash provided by financing activities	32,274	23,950
Net (decrease) increase in cash and cash equivalents	(2,447)	) 1,417
Cash and cash equivalents at beginning of period	8,028	6,085
Cash and cash equivalents at end of period	\$5,581	\$7,502
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$952	\$465
Cash paid for income taxes	\$3,383	\$4,734
Supplemental disclosure of non-cash investing activities:		
	\$1,490	\$—



Accounts payable recognized in relation to acquisition purchase consideration  
adjustments and holdbacks

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 (UNAUDITED)  
 (Dollars in thousands)

	Nine Months Ended March 31, 2015					Accumulated Other Comprehensive Total Loss		
	Common Stock		Capital In Excess of Par Value	Retained Earnings				
	Shares	Amount						
Balance at June 30, 2014	10,129,031	\$ 12,661	\$ 19,478	\$ 78,944	\$ (968	)	\$ 110,115	
Issuance of stock	26,793	34	(34	)	—		—	
Forfeiture of restricted stock	(15,313	) (19	) 19		—		—	
Repurchase of stock	(249,420	) (312	) (6,518	)	—		(6,830	)
Exercise of stock options	19,245	24	141		—		165	
Stock-based compensation	—	—	1,718		—		1,718	
Excess tax benefit from stock-based compensation	—	—	996		—		996	
Comprehensive income (loss), net of tax	—	—	—	5,891	(136	)	5,755	
Balance at March 31, 2015	9,910,336	\$ 12,388	\$ 15,800	\$ 84,835	\$ (1,104	)	\$ 111,919	

	Nine Months Ended March 31, 2014					Accumulated Other Comprehensive Total Loss		
	Common Stock		Capital In Excess of Par Value	Retained Earnings				
	Shares	Amount						
Balance at June 30, 2013	10,095,716	\$ 12,619	\$ 18,751	\$ 65,957	\$ (1,255	)	\$ 96,072	
Issuance of stock	96,664	121	(121	)	—		—	
Forfeiture of restricted stock	(3,344	) (4	) 4		—		—	
Repurchase of stock	(76,880	) (96	) (1,463	)	—		(1,559	)
Exercise of stock options	14,119	18	103		—		121	
Stock-based compensation	—	—	1,287		—		1,287	
Excess tax benefit from stock-based compensation	—	—	496		—		496	
Comprehensive income, net of tax	—	—	—	10,016	62		10,078	
Balance at March 31, 2014	10,126,275	\$ 12,658	\$ 19,057	\$ 75,973	\$ (1,193	)	\$ 106,495	

See Notes to unaudited condensed consolidated financial statements.

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SPARTON CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Business and Basis of Presentation

Sparton Corporation and subsidiaries (the “Company” or “Sparton”) has been in continuous existence since 1900. It was last reorganized in 1919 as an Ohio corporation. The Company is a provider of design, development and manufacturing services for complex electromechanical devices, as well as sophisticated engineered products complementary to the same electromechanical value stream. The Company serves the Medical & Biotechnology, Military & Aerospace and Industrial & Commercial markets through two reportable business segments; Manufacturing & Design Services (“MDS”) and Engineered Components & Products (“ECP”). Financial information by segment is presented in Note 14. All of the Company's facilities are certified to one or more of the ISO/AS standards, including ISO 9001, AS9100 and ISO 13485, with most having additional certifications based on the needs of the customers they serve. The Company's products and services include offerings for Original Equipment Manufacturers (“OEM”) and Emerging Technology (“ET”) customers that utilize microprocessor-based systems which include transducers, printed circuit boards and assemblies, sensors and electromechanical components, as well as development and design engineering services relating to these product sales. Sparton also develops and manufactures sonobuoys, anti-submarine warfare (“ASW”) devices used by the United States Navy as well as foreign countries friendly to the U.S. and manufactures ruggedized flat panel display systems for military panel PC workstations, air traffic control and industrial applications. Many of the physical and technical attributes in the production of these proprietary products are similar to those required in the production of the Company's other electrical and electromechanical products and assemblies.

The unaudited condensed financial statements and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The financial information presented herein should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, which includes information and disclosures not presented herein. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications of prior period amounts have been made to conform to the current year presentation. Subsequent events have been evaluated through the date these financial statements were issued. In the opinion of management, the unaudited condensed consolidated financial statements contain all of the adjustments, consisting of normal recurring adjustments, necessary to present fairly, in summarized form, the consolidated financial position, results of operations and cash flows of the Company. The results of operations for the three months and nine months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year 2015.

(2) Acquisitions

Fiscal Year 2015

Stealth.com — On March 16, 2015, the Company completed the acquisition of substantially all of the assets of Stealth.com (“Stealth”), an \$8 million USD annual revenue business, located in Woodbridge, ON, Canada in a \$16.0 CAD (\$12.6 USD) million all-cash transaction. The transaction includes a \$1.9 million CAD escrowed holdback which is available to fund any potential post-closing working capital adjustment and potential seller indemnification obligations in relation to the acquisition agreement. The acquired business, which is part of the Company's ECP segment, is a supplier of high performance ruggedized industrial grade computer systems and peripherals that include Mini PC/Small Form Factor Computers, Rackmount Server PCs, Rugged Industrial LCD Monitors, Rugged Portable PCs, Industrial Grade Keyboards and Rugged Trackballs and Mice. The initial accounting for this acquisition is not complete pending detailed analyses of the facts and circumstances that existed as of the acquisition date.

The Stealth acquisition has preliminarily resulted in approximately \$12.1 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.2 million for the three and nine months ended March 31, 2015. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

KEP Marine — On January 21, 2015, the Company completed the acquisition of certain assets of KEP Marine, a \$3 million annual revenue business and division of Kessler-Ellis Products, located in Eatontown, NJ, in a \$4.3 million all-cash transaction. The acquired business, which is part of the Company's ECP segment, designs and manufactures industrial displays, industrial computers and HMI software for the Marine market. These product lines will be consolidated into the Aydin

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Displays facility, located in Birdsboro, PA. The initial accounting for this acquisition is not complete pending detailed analyses of the facts and circumstances that existed as of the acquisition date.

The KEP Marine acquisition has preliminarily resulted in approximately \$2.8 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.1 million for the three and nine months ended March 31, 2015. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Real-Time Enterprises, Inc. — On January 20, 2015, the Company completed the acquisition of Real-Time Enterprises, Inc. ("RTEmd"), a \$4 million annual revenue business, located in Pittsford, NY, in a \$2.3 million all-cash transaction. Additional consideration of up to \$0.8 million is contingent upon RTEmd attaining certain performance thresholds during the twelve month period following the transaction. RTEmd will continue to service its current and future customers out of its Pittsford, NY location. The acquired business, which is part of the Company's MDS segment, is a leading developer of embedded software to operate medical devices and diagnostic equipment through a disciplined approach to product development and quality/regulatory services with specific product experience such as patient monitoring, medical imaging, in-vitro diagnostics, electro-medical systems, surgical applications, ophthalmology, nephrology, infusion pumps and medical imaging. The initial accounting for this acquisition is not complete pending detailed analyses of the facts and circumstances that existed as of the acquisition date. The Company has recorded a \$0.4 million liability in relation to the purchase date estimated fair value of the additional contingent consideration for this acquisition. The Company estimated the fair value of the contingent consideration using an income approach, which is based on significant inputs, primarily forecasted future operating results of the acquired businesses, not observable in the market and thus representing a Level 3 measurement as defined in ASC 820. The Company adjusts the fair value of contingent consideration through operating expenses if there are changes to the inputs used in the income approach and as a result of the passage of time.

The RTEmd acquisition has preliminarily resulted in approximately \$2.5 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's MDS segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.1 million for the three and nine months ended March 31, 2015. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Argotec, Inc. — On December 8, 2014, the Company completed the acquisition of certain assets of Argotec, Inc. ("Argotec"), located in Longwood, FL in a \$0.4 million all-cash transaction. Historical revenues of this business are not material. The acquired business, which is part of the Company's ECP segment, is engaged in developing and manufacturing sonar transducer products and components for the U.S. Navy and also provides aftermarket servicing. These products have been consolidated into the Company's DeLeon Springs, FL location.

The Argotec acquisition has resulted in approximately \$0.2 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating less than \$0.1 million for the three and nine months ended March 31, 2015. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

Industrial Electronic Devices, Inc. — On December 3, 2014, the Company completed the acquisition of certain assets of Industrial Electronic Devices, Inc. ("IED"), a \$3.0 million annual revenue business, located in Flemington, NJ in a \$3.3 million all-cash transaction, of which approximately \$0.3 million remains payable in relation to a New Jersey state bulk sale holdback requirement. The transaction includes a \$0.5 million escrowed holdback which is available to fund any potential seller indemnification obligations in relation to the acquisition agreement. The acquired business, which is part of the Company's ECP segment, designs and manufactures a full line of ruggedized displays for the Industrial and Marine markets. IED's catalog spans over 600 standard, semi-custom and custom configurations,

incorporating some of the most advanced flat panel displays and touch screen technology available. These product lines will be consolidated into the Aydin Displays facility, located in Birdsboro, PA.

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The IED acquisition has resulted in approximately \$2.0 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's ECP segment. The Company believes goodwill primarily relates to strategic fit.

The Company incurred legal, professional and other costs related to this acquisition aggregating less than \$0.1 million and approximately \$0.2 million for the three and nine months ended March 31, 2015, respectively. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs. Electronic Manufacturing Technology, LLC — On July 9, 2014, the Company completed the acquisition of Electronic Manufacturing Technology, LLC ("eMT"), located in Irvine, CA. The purchase price of \$22.1 million, which included \$1.5 million of acquired cash, is subject to certain post-closing adjustments and was financed through the use of borrowings under the Company's Credit Facility. The transaction includes a \$2.4 million escrowed holdback which is available to fund any potential post-closing working capital adjustment and potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's MDS segment and which is expected to add \$25 million (unaudited) in annualized revenue, is engaged in the contract services business of manufacturing electromechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of highly reliable industrial excimer laser products, laser eye surgery sub-assemblies, target simulators for space and aviation systems, power modules for computerized tomography products, test systems for commercial aerospace OEMs and toll road antennas and control boxes.

The Company is in the process of reviewing the preliminary valuations of certain working capital items. The following table represents the preliminary allocation of the total consideration to assets acquired and liabilities assumed in the acquisition of eMT based on Sparton's preliminary estimate of their respective fair values at the acquisition date (in thousands):

Total purchase consideration:

Cash	\$20,000
Additional cash consideration for post closing working capital adjustment	1,600
Estimated additional consideration payable in relation to post closing income tax adjustment	469
Total purchase consideration	\$22,069

Assets acquired and liabilities assumed:

Cash	\$1,505
Accounts receivable, net	4,444
Inventory	4,090
Other current assets	26
Property, plant and equipment	584
Customer relationships	5,950
Non-compete agreements	2,730
Tradenames	80
Goodwill	6,959
Other long term assets	30
Accounts payable	(3,636)
Other current liabilities	(693)
Total assets acquired and liabilities assumed	\$22,069

The eMT acquisition has resulted in approximately \$7.0 million of goodwill, which is expected to be deductible for tax purposes and has been assigned entirely to the Company's MDS segment. The Company believes goodwill primarily relates to strategic fit, resulting synergies and the acquired workforce that this business brings to existing operations. The fair values of acquired identifiable intangible assets have been determined to be Level 3 under the fair value hierarchy and have been estimated based on projected future cash flows and customer attrition rates, discounted using an estimated weighted average cost of capital. The customer relationships are being amortized using an accelerated methodology over ten years. The non-compete agreements are being amortized using a straight-line

methodology over five years. Trade names and trademarks are being amortized using a straight-line methodology over one year.

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Included in the Company's Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2015 are net sales of approximately \$5.5 million and \$18.6 million, respectively, and income before provision for income taxes of approximately \$0.5 million and \$2.1 million, since the July 9, 2014 acquisition of eMT.

The Company incurred legal, professional and other costs related to this acquisition aggregating approximately \$0.1 million and approximately \$0.7 million for the three and nine months ended March 31, 2015, respectively. These costs were recognized as selling and administrative expenses and reflected as non-segment corporate and other unallocated costs.

## Fiscal Year 2014

**Aubrey Group, Inc. —** On March 17, 2014, the Company completed the acquisition of Aubrey Group, Inc. ("Aubrey"), located in Irvine, CA, in a \$5.0 million all-cash transaction after settlement of an approximate \$0.2 million post-closing working capital adjustment during the first quarter of fiscal 2015. Additional consideration of approximately \$0.6 million was paid at closing for cash of the business in excess of net customer deposits held by Aubrey. The transaction was financed through the use of borrowings under the Company's Credit Facility.

The acquired business, a design and manufacturing company, which is part of the MDS segment, develops new products for OEMs in the Medical and Biotechnological markets. Inventors, entrepreneurs and industry leading OEMs utilize Aubrey's design and engineering teams to develop innovative solutions in a timely manner, delivering its clients' new products into the marketplace faster and more cost effectively.

**Beckwood Services, Inc. —** On December 11, 2013, the Company completed the acquisition of Beckwood Services, Inc. ("Beckwood"), located in Plaistow, NH, in a \$15.3 million all-cash transaction financed through the use of cash on hand and borrowings under the Company's Credit Facility. The transaction includes an approximate \$1.5 million escrowed holdback which is available to fund potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's MDS segment, develops electronic or electro-mechanical controls and electronic assemblies. Their customer profile includes international Fortune 1000 manufacturers of industrial control systems, analytical instruments, measuring and detecting equipment and military, defense and Homeland Security equipment.

**Aydin Displays, Inc. —** On August 30, 2013, the Company completed the acquisition of certain assets and liabilities of Aydin Displays, Inc. ("Aydin Displays" or "Aydin"), located in Birdsboro, PA, in a \$15.5 million all-cash transaction, after settlement of a \$0.5 million working capital adjustment during the third quarter of the Company's fiscal 2014 year. The transaction was financed through the use of borrowings under the Company's Credit Facility. The transaction includes an approximate \$1.2 million escrowed holdback which is available to fund potential seller indemnification obligations in relation to the acquisition agreement.

The acquired business, which is part of the Company's ECP segment, develops enhanced flat panel display and touch-screen solutions with application-critical performance criteria including ruggedization, high resolution, color accuracy, response/refresh times, sunlight readability and other criteria such as magnetic interference and emanations security for the Military & Aerospace and Civil Marine markets. These products are currently specified in the U.S. Navy P8A Poseidon ASW aircraft behind-the-cockpit control center, the command and control centers of many U.S. Navy ships, Federal Aviation Administration air traffic control systems and cockpit command centers for various civil marine applications. The acquired business will continue to operate as Aydin Displays.

**Pro Forma Results —** The following table summarizes, on a pro forma basis, the combined results of operations of the Company and the acquired businesses of eMT, IED, Argotec, RTEmd, KEP and Stealth as though the acquisitions had occurred as of July 1, 2013 and Aydin, Beckwood and Aubrey as though the acquisitions had occurred as of July 1, 2012. The pro forma amounts presented are not necessarily indicative of either the actual consolidated results had the acquisition occurred as of July 1, 2013 and 2012, respectively, or of future consolidated operating results (in thousands, except per share amounts).

For the Three Months Ended    For the Nine Months Ended