

AMERICAN SCIENCE & ENGINEERING, INC.

Form 10-Q

February 05, 2014

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**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 December 31, 2013**

**OR**

**o** **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 1-6549**

## American Science and Engineering, Inc.

(Exact name of Registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of

incorporation or organization)

**829 Middlesex Turnpike**  
**Billerica, Massachusetts**  
(Address of principal executive offices)

**04-2240991**  
(I.R.S. Employer

Identification No.)

**01821**  
(Zip Code)

**(978) 262-8700**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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 ☐  
(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 Securities Exchange Act of 1934). Yes ☐ No ☒

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The number of shares of the registrant's common stock, \$0.66 2/3 par value, outstanding as of January 30, 2014 was 7,863,186.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

<b>(In thousands, except share and per share amounts)</b>	<b>December 31, 2013</b>	<b>March 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 65,965	\$ 40,418
Restricted cash and investments	14,753	12,618
Short-term investments, at fair value	86,428	108,546
Accounts receivable, net of allowances of \$285 and \$351 at December 31, 2013 and March 31, 2013, respectively	22,591	28,477
Unbilled costs and fees	2,484	4,875
Inventories, net	50,144	48,051
Prepaid expenses and other current assets	7,519	8,829
Deferred income taxes	1,582	3,155
<b>Total current assets</b>	<b>251,466</b>	<b>254,969</b>
Building, equipment and leasehold improvements, net	13,972	16,451
Restricted cash and investments	397	899
Deferred income taxes	8,004	8,325
Other assets, net	683	805
<b>Total assets</b>	<b>\$ 274,522</b>	<b>\$ 281,449</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,913	\$ 8,371
Accrued salaries and benefits	8,722	9,974
Accrued warranty costs	426	397
Accrued income taxes		2,094
Deferred revenue	11,410	15,770
Customer deposits	33,131	16,199
Current portion of lease financing liability	1,505	1,489
Other current liabilities	9,231	14,194
<b>Total current liabilities</b>	<b>73,338</b>	<b>68,488</b>
Lease financing liability, net of current portion	1,783	2,914
Deferred revenue	3,423	5,535
Other long-term liabilities	272	267
<b>Total liabilities</b>	<b>78,816</b>	<b>77,204</b>
<b>Stockholders' equity:</b>		
Preferred stock, no par value, 100,000 shares authorized; no shares issued		
Common stock, \$0.66 2/3 par value, 20,000,000 shares authorized 7,860,457 and 7,980,202 shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively	5,240	5,320
Capital in excess of par value	33,551	41,458
Accumulated other comprehensive income (loss), net	20	(4)

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Retained earnings		156,895		157,471
<b>Total stockholders' equity</b>		<b>195,706</b>		<b>204,245</b>
<b>Total liabilities and stockholders' equity</b>	\$	274,522	\$	281,449

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

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## AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Net sales and contract revenues:</b>				
Net product sales and contract revenues	\$ 23,164	\$ 27,383	\$ 66,652	\$ 78,176
Net service revenues	14,609	23,420	58,021	66,224
Total net sales and contract revenues	37,773	50,803	124,673	144,400
<b>Cost of sales and contract revenues:</b>				
Cost of product sales and contract revenues	12,803	19,414	39,697	50,031
Cost of service revenues	8,102	8,689	29,755	29,199
Total cost of sales and contract revenues	20,905	28,103	69,452	79,230
<b>Gross profit</b>	16,868	22,700	55,221	65,170
<b>Expenses:</b>				
Selling, general and administrative expenses	8,396	8,280	22,718	21,173
Research and development costs	6,139	5,242	15,725	18,862
Total operating expenses	14,535	13,522	38,443	40,035
<b>Operating income</b>	2,333	9,178	16,778	25,135
<b>Other income (expense):</b>				
Interest and investment income	107	131	276	513
Interest expense	(13)	(10)	(42)	(49)
Other, net	(83)	(67)	(226)	(305)
Total other income	11	54	8	159
<b>Income before provision for income taxes</b>	2,344	9,232	16,786	25,294
Provision for income taxes	786	3,139	5,624	8,600
<b>Net income</b>	\$ 1,558	\$ 6,093	\$ 11,162	\$ 16,694
<b>Other comprehensive income:</b>				
Unrealized gain (loss) on available for sale securities (net of tax)	(10)	(27)	24	(23)
<b>Comprehensive income</b>	\$ 1,548	\$ 6,066	\$ 11,186	\$ 16,671
<b>Income per share Basic</b>	\$ 0.20	\$ 0.74	\$ 1.42	\$ 1.97
<b>Income per share Diluted</b>	\$ 0.20	\$ 0.73	\$ 1.41	\$ 1.95
<b>Weighted average shares Basic</b>	7,850	8,247	7,837	8,488
<b>Weighted average shares Diluted</b>	7,889	8,307	7,873	8,542
<b>Dividends declared per share</b>	\$ 0.50	\$ 0.50	\$ 1.50	\$ 1.50

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

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## AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	For the Nine Months Ended	
	December 31, 2013	December 31, 2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,162	16,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,942	3,821
Provisions for contracts, inventory and accounts receivable reserves	1,233	3,503
Amortization of bond premium	1,192	2,151
Deferred income taxes	1,894	152
Other		(59)
Stock compensation expense (credit)	1,527	(85)
Changes in assets and liabilities:		
Accounts receivable	5,952	(14,907)
Unbilled costs and fees	2,391	(859)
Inventories	(3,392)	453
Prepaid expenses and other assets	1,432	684
Accounts payable	542	(892)
Accrued income taxes	(2,094)	879
Customer deposits	16,932	9,580
Deferred revenue	(6,472)	81
Accrued expenses and other liabilities	(6,181)	(296)
Net cash provided by operating activities	30,060	20,900
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(47,805)	(99,719)
Proceeds from sales and maturities of short-term investments	68,755	150,514
Purchases of property and equipment, net	(1,463)	(2,500)
Net cash provided by investing activities	19,487	48,295
<b>Cash flows from financing activities:</b>		
Increase in restricted cash and investments	(1,633)	(1,384)
Proceeds from exercise of stock options	2,889	1,079
Repurchase of shares of common stock	(12,306)	(45,347)
Repayment of leasehold financing liability	(1,115)	(1,003)
Payment of common stock dividend	(11,749)	(12,760)
Reduction of income taxes paid due to the tax benefit from employee stock option exercises	(86)	
Net cash used for financing activities	(24,000)	(59,415)
Net increase in cash and cash equivalents	25,547	9,780
Cash and cash equivalents at beginning of period	40,418	24,369
Cash and cash equivalents at end of period	\$ 65,965	\$ 34,149

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



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**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL**

The condensed consolidated financial statements include the accounts of American Science and Engineering, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013, or fiscal 2013, as filed with the Securities and Exchange Commission on June 7, 2013.

The unaudited condensed consolidated financial statements, in the opinion of management, include all necessary adjustments, consisting solely of normal recurring adjustments, to present fairly the Company's financial position, results of operations and cash flows. These results are not necessarily indicative of the results to be expected for the entire year.

**Nature of Operations**

The Company develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security and other targeted markets. The Company provides maintenance, warranty, engineering, and training services related to these products. The Company has one reporting segment, X-ray screening products.

**Significant Accounting Policies**

For systems that are produced in a standard manufacturing operation and have shorter order to delivery cycles, the Company recognizes sales when title passes and when other revenue recognition criteria (such as transfer of risk and customer acceptance) are met. Revenues on cost reimbursable and custom long-term fixed price contracts are generally recorded as costs are incurred using the percentage of completion method.

Occasionally, the Company receives requests from customers to hold product being purchased for a valid business purpose. The Company recognizes revenue for such arrangements provided the transaction meets, at a minimum, the following criteria: a valid business purpose for the arrangement exists; risk of ownership of the purchased product has transferred to the buyer; there is a fixed delivery date that is reasonable and consistent with the buyer's business purpose; the product is ready for shipment; the Company has no continuing performance obligation in

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regards to the product and the product has been segregated from the Company's inventories and cannot be used to fill other orders received. There was no product being held under such arrangements at December 31, 2013 or March 31, 2013.

The other significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in its Form 10-K for the year ended March 31, 2013. There have been no changes to the Company's critical accounting policies during the three or nine months ended December 31, 2013.

### **Stock Repurchase Program**

On August 2, 2012, the Board of Directors announced the approval of the Company's fourth Stock Repurchase Program which authorized the Company to repurchase up to \$35.0 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. On May 7, 2013, the Board of Directors announced the approval of its fifth Stock Repurchase Program which authorizes the Company to repurchase up to another \$35.0 million of shares of its common stock from time to time on the open market or in privately negotiated transactions.

The Company completed its purchases under the August 2012 Stock Repurchase Program in May 2013. During the three months ended December 31, 2013, the Company made no additional share repurchases. As of December 31, 2013, the maximum dollar value of shares that may still be purchased under the May 2013 Stock Repurchase Program was \$35,000,000.

Table of Contents**Dividends**

(In thousands)	Three Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	December 31,		December 31,		December 31,		December 31,	
	2013		2012		2013		2012	
Dividends declared	\$	0.50	\$	0.50	\$	1.50	\$	1.50
Dividends paid	\$	0.50	\$	0.50	\$	1.50	\$	1.50

On February 5, 2014, the Company declared a cash dividend of \$0.50 per share. The dividend will be paid on March 3, 2014 to all shareholders of record at the close of business on February 18, 2014. Future dividends will be declared at the discretion of the Board of Directors and will depend upon such factors as the Board of Directors deems relevant.

**Concentrations of Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, restricted cash, short-term investments and accounts and unbilled receivables. At times, the Company maintains cash balances in excess of insured limits. The Company maintains its cash and cash equivalents with major financial institutions. The Company's credit risk is managed by investing its cash in investment grade corporate debentures/bonds, U.S. government agency bonds, commercial paper, U.S. treasury bills, money market funds, and certificates of deposit.

**2. ACCOUNTING FOR STOCK-BASED COMPENSATION**

The Company accounts for stock-based awards made to its employees and Board of Directors in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) 718, *Compensation - Stock Compensation*, which requires the measurement and recognition of all compensation costs for stock-based awards made to employees and the Board of Directors based upon fair value over the requisite service period for awards expected to vest.

The Company recognized \$886,000 and \$19,000 of stock-based compensation costs for the three months ended December 31, 2013 and December 31, 2012, respectively. The Company recognized \$1,527,000 and \$(85,000) of stock-based compensation costs (credits) for the nine months ended December 31, 2013 and December 31, 2012, respectively. The credits for the nine months ended December 31, 2012 include a reversal of certain incentive compensation plan costs previously accrued, which were terminated as a result of the announced retirement of the Company's former Chief Executive Officer in September of 2012. The income tax benefit recognized related to the compensation costs for the three months ended December 31, 2013 and December 31, 2012 was approximately \$297,000 and \$6,000, respectively. The income tax (expense) benefit recognized related to the compensation costs (credits) for the nine months ended December 31, 2013 and December 31, 2012 was approximately \$512,000 and \$(29,000), respectively.

The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations and comprehensive income:

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Cost of revenues	\$ 329	\$ (26)	\$ 546	\$ 118
Selling, general and administrative	557	45	981	(203)
Total share-based compensation expense (credits) before tax	\$ 886	\$ 19	\$ 1,527	\$ (85)

### Stock Option and Other Compensation Plans

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company had the following stock plans outstanding as of December 31, 2013: the 1998 Non-Qualified Option Plan, the 1999 Combination Plan, the 2000 Combination Plan, the 2002 Combination Plan, the 2003 Stock Plan for Non-Employee Directors and the 2005 Equity and Incentive Plan. There are 3,480,000 shares authorized for issuance pursuant to equity awards under these plans. Vesting periods are at the discretion of the Board of Directors and typically range from one to three years. Certain of the options granted vest upon the achievement of certain performance based goals as well as service time incurred. Options under these plans are granted at fair market value and have a term of ten years from the date of grant.

### Stock Options

The following tables summarize stock option activity for the nine months ended December 31, 2013:

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	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
<b>Options outstanding at March 31, 2013</b>	315,162	\$ 56.72	4.08	
Grants				
Exercises	(62,724)	46.05		\$ 1,060,000
Cancellations	(5,345)	43.66		
<b>Options outstanding at December 31, 2013</b>	247,093	\$ 59.71	3.53	
<b>Options exercisable at December 31, 2013</b>	245,279	\$ 59.70		

Information related to the stock options outstanding as of December 31, 2013 is as follows:

Range of Exercise Prices	Number of Shares	Weighted- Average Remaining Contractual Life (years)	Weighted- Average Exercise Price (\$)	Exercisable Number of Shares	Exercisable Weighted- Average Exercise Price (\$)
\$11.58 - \$20.00	10,750	0.32	\$ 15.80	10,750	\$ 15.80
\$20.01 - \$30.00	10,900	0.70	28.50	10,900	28.50
\$30.01 - \$40.00	8,629	0.92	39.06	8,629	39.06
\$40.01 - \$50.00	11,200	1.91	47.16	11,200	47.16
\$50.01 - \$60.00	39,807	1.93	53.42	39,807	53.42
\$60.01 - \$70.00	109,626	3.75	64.54	107,812	64.59
\$70.01 - \$75.82	56,181	6.13	74.87	56,181	74.87
\$11.58 - \$75.82	247,093	3.53	\$ 59.71	245,279	\$ 59.70

The Company deems the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of stock-based awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock-based award; (2) the expected future stock volatility over the expected term; (3) a risk-free interest rate; and (4) the expected dividend yield. The expected term represents the expected period of time that the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company's common stock and the risk-free interest rate is based on the U.S. Zero-Bond rate. The expected dividend yield is based on the assumption that the Company would continue paying dividends on its common stock at the same rate for the foreseeable future.

There were no options granted in the three or nine month periods ended December 31, 2013 or December 31, 2012.

As of December 31, 2013, there was no remaining unrecognized compensation cost related to options granted. Non-vested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

#### Restricted Stock and Restricted Stock Units

The Company has instituted long-term incentive plans for certain key employees. These plans call for the issuance of restricted stock, restricted stock units, restricted stock options, and/or cash incentives which vest or are paid upon the achievement of certain performance-based goals as well as service time incurred. Restricted stock and restricted stock units may also be granted to other employees with vesting periods that range from one to three years. In addition, annually the non-employee directors are granted restricted stock. Restricted stock shares granted to our non-employee directors vest on a pro-rata basis on service time performed over a one-year period. The fair values of the restricted stock and restricted stock unit awards are equal to the market price per share of the Company's common stock on the date of grant.

Non-vested restricted stock and stock unit awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of December 31, 2013, there was \$3,284,000 of total unrecognized compensation costs related to non-vested restricted stock and stock unit awards granted under the Company's stock plans. These costs are expected to be recognized over a weighted average period of 1.1 years.

The following table summarizes the status of the Company's non-vested restricted stock and stock unit awards for the nine months ended December 31, 2013:

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	Number of Shares	Weighted Average Grant Date Fair Value (\$)
<b>Outstanding at March 31, 2013</b>	28,109	\$ 66.20
Granted	69,015	60.36
Vested	(17,506)	65.91
Forfeited	(4,063)	63.73
<b>Outstanding at December 31, 2013</b>	75,555	\$ 61.07

**3. INVENTORIES**

Inventories consist of material, labor and manufacturing overhead and are recorded at the lower of cost, using the weighted average cost method, or net realizable value. Excess manufacturing overhead costs attributable to idle facility expenses, freight, handling costs and wasted material (spoilage) attributable to abnormally low production volumes (levels that materially differ from budgeted production plans due primarily to changes in customer demand) are excluded from inventory and recorded as an expense in the period incurred.

The components of inventories at December 31, 2013 and March 31, 2013 were as follows:

(In thousands)	December 31, 2013	March 31, 2013
Raw materials, completed sub-assemblies, and spare parts	\$ 16,823	\$ 21,450
Work-in-process	28,945	21,129
Finished goods	4,376	5,472
Total	\$ 50,144	\$ 48,051

**4. INCOME PER COMMON AND COMMON EQUIVALENT SHARE**

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus are included in the calculation of basic earnings per share under the two-class method. Diluted earnings per share include the dilutive impact of options, and restricted stock units using the average share price of the Company's common stock for the period. For the three months ended December 31, 2013 and December 31, 2012, common stock equivalents of 83,000 and 108,000 shares, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive. For the nine months ended December 31, 2013 and December 31, 2012, common stock equivalents of 159,000 and 197,000 shares, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive.

	Three Months Ended		Nine Months Ended	
(In thousands except per share amounts)	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>Income Per Share</b>				
<b>Basic:</b>				

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Net income	\$	1,558	\$	6,093	\$	11,162	\$	16,694
Less: Distributed and undistributed earnings to unvested restricted stock units		(12)				(24)		
Distributed and undistributed earnings to common shareholders Basic		1,546	\$	6,093		11,138	\$	16,694
Weighted average number of common shares outstanding basic		7,850		8,247		7,837		8,488
Net income per share basic	\$	0.20	\$	0.74	\$	1.42	\$	1.97
<b>Diluted:</b>								
Weighted average number of common shares outstanding basic		7,850		8,247		7,837		8,488
Add dilutive effect of potential common shares		39		60		36		54
Weighted average number of common and potential common shares outstanding diluted		7,889		8,307		7,873		8,542
Net income per share diluted	\$	0.20	\$	0.73	\$	1.41	\$	1.95

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**5. LETTERS OF CREDIT**

In the normal course of business, the Company may provide certain customers and potential customers with performance guarantees, which are generally backed by standby letters of credit. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of its obligations, the probability of which management believes is low. As of December 31, 2013, the Company had outstanding \$28,505,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 75% of the outstanding letters of credit, resulting in restricted cash and investments balance of \$15,150,000 at December 31, 2013, of which \$397,000 was considered long-term restricted cash and investments due to the expiration date of the underlying letters of credit.

**6. FAIR VALUE MEASUREMENTS**

The Company has categorized its financial assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the inputs used to measure a financial instrument fall within different levels of the hierarchy, the categorization of such financial asset is based on the lowest level input that is significant to the fair value measurement of such instrument.

Financial assets are categorized based on the inputs to the valuation techniques as follows:

**Level 1** - Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date (examples include actively exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

**Level 2** - Financial assets whose values are based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Inputs other than quoted prices that are observable for substantially the full term of the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.

**Level 3** - Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's assumptions about the assumptions a market participant would use in

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pricing the asset or liability. The Company currently does not have any Level 3 financial assets or liabilities.

The following table presents the financial assets that the Company measures at fair value on a recurring basis, based on the fair value hierarchy as of December 31, 2013 and March 31, 2013:

(In thousands)	December 31, 2013	March 31, 2013
<b>Level 1 Financial Assets</b>		
Money market funds	\$ 39,414	\$ 16,549
Total Level 1 Financial Assets	39,414	16,549
<b>Level 2 Financial Assets</b>		
Corporate debentures/bonds	35,709	75,572
Government agency bonds	21,313	
Treasury bills	17,712	
Commercial paper	7,694	28,974
Certificates of deposit	4,000	4,000
Total Level 2 Financial Assets	86,428	108,546
Total cash equivalents and short-term investments	\$ 125,842	\$ 125,095

These investments are classified as available-for-sale and are recorded at their fair market values using the specific identification method. As of December 31, 2013, all of the Company's available-for-sale securities had contractual maturities of

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twenty-one months or less. The Company had no material realized gains or losses on its available-for-sale securities for the three or nine months ended December 31, 2013 and December 31, 2012, respectively. The unrealized holding gains or losses on these securities are included as a component of other comprehensive income, as disclosed in the condensed consolidated statements of operations and comprehensive income.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2013:</b>				
<b>Short-term investments:</b>				
Corporate debentures/bonds	\$ 35,695	\$ 19	\$ (5)	\$ 35,709
Government agency bonds	21,311	3	(1)	21,313
Treasury bills	17,710	5	(3)	17,712
Commercial paper	7,694			7,694
Certificates of deposit	4,000			4,000
Total short-term investments	\$ 86,410	\$ 27	\$ (9)	\$ 86,428
<b>Cash equivalents:</b>				
Money market funds	39,414			39,414
Total cash equivalents	\$ 39,414	\$	\$	\$ 39,414

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2013:</b>				
<b>Short-term investments:</b>				
Corporate debentures/bonds	\$ 75,578	\$ 14	\$ (20)	\$ 75,572
Commercial paper	28,974			28,974
Certificates of deposit	4,000			4,000
Total short-term investments	\$ 108,552	\$ 14	\$ (20)	\$ 108,546
<b>Cash equivalents:</b>				
Money market funds	16,549			16,549
Total cash equivalents	\$ 16,549	\$	\$	\$ 16,549

## 7. INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, and recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. The Company evaluates the need for a valuation allowance against its net deferred tax assets at period end based upon its three year cumulative income and its projections of future income, and records a valuation allowance against any net deferred tax assets if it is more likely than not that they will not be realized.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending March 31, 2011 through 2013 and by various state taxing authorities for the years ending March 31, 2011 through 2013. The Company was under examination by the Internal Revenue Service for the tax year ended March 31, 2011. The audit was completed during the third quarter of fiscal 2014. The examination had no material impact on the Company's financial position or results of operations.

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In April 2013, the Company received an outstanding refund from the Massachusetts Department of Revenue for tax years ending March 31, 2006 through 2008 related to its sales apportionment methodology. The Company received proceeds of approximately \$1,500,000 related to this settlement which had been recorded as a receivable at March 31, 2013.

### **8. GUARANTEES**

Certain of the Company's products carry a one-year warranty, the costs of which are accrued for at the time of shipment or delivery. Accrual rates are based upon historical experience for the trailing twelve months and management's judgment of future exposure. Warranty experience for the three and nine months ended December 31, 2013 and 2012 was as follows:

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(In thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Warranty accrual - beginning of period	\$ 345	\$ 375	\$ 397	\$ 358
Accruals for warranties issued during the period	182	160	410	436
Adjustment of preexisting accrual estimates		6	(66)	148
Warranty costs incurred during the period	(101)	(133)	(315)	(534)
Warranty accrual end of period	\$ 426	\$ 408	\$ 426	\$ 408

**9. LEASE COMMITMENTS**

In March 2005, the Company renewed its lease agreement for its corporate headquarters and manufacturing facilities in Billerica, Massachusetts. As part of the lease agreement, the Company's landlord agreed to certain renovations to the Billerica facility including the construction of additional high bay manufacturing space. The Company was responsible for a portion of the construction costs and was deemed to be the owner of the building during the construction period under FASB ASC 840, *Leases*. In January 2007, the Company amended this lease agreement to expand its lease to include the remaining available space in the building. A total of \$7,182,000 was capitalized to record the facility on its books with an offsetting credit to the lease financing liability. In addition, amounts paid for construction were capitalized to fixed assets and the landlord construction allowances of \$6,009,000 were recorded as additional lease financing liability.

At the completion of the construction of the initial renovations in February 2006, the lease was reviewed for potential sale-leaseback treatment in accordance with FASB ASC 840-40, *Leases - Sale-Leaseback Transactions*. Based on this review, it was determined that the lease did not qualify for sale-leaseback treatment in accordance with FASB ASC 840-40. As a result, the building and tenant improvement and associated lease financing liabilities remain on the Company's books. The lease financing liability is being amortized over the lease term based on the payments designated in the agreement and the building and tenant improvement assets are being depreciated on a straight line basis over the lesser of their useful lives or the lease term.

**10. COMMITMENTS AND CONTINGENCIES****Deferred Revenue**

The Company offers extended warranty and service contracts to its customers. These contracts typically cover a period of one to five years, and include advance payments that are recorded as deferred revenue. Revenue is recognized as services are performed over the life of the contract, which represents the period over which these revenues are earned. Costs associated with these extended warranty and service contracts are expensed to cost of goods sold as incurred.

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

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This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Without limiting the foregoing, the words *believes*, *anticipates*, *plans*, *expects*, *intends*, *should* and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. The factors discussed under *Item 1A. Risk Factors*, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. We expressly disclaim any obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### Overview

**Overview** American Science and Engineering, Inc. develops and manufactures X-ray inspection systems for homeland security, force protection, and other critical defense applications. We provide maintenance, warranty, engineering, and training services related to these products.

Our primary technologies are Z Backscatter technology which is used to detect explosives, illegal drugs, and other contraband even when concealed in complex backgrounds; and other technologies that expand the detection capability of our products beyond the material discrimination features of the Z Backscatter technology to include the penetration capability of high-energy transmission X-rays for dense cargos and/or other detection techniques, such as radioactive threat detection.

Net sales and contract revenues for the third quarter of fiscal year ending March 31, 2014, or fiscal 2014, decreased to \$37,773,000 compared to revenues of \$50,803,000 for the third quarter of fiscal 2013. We reported operating income of

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\$2,333,000 for the third quarter of fiscal 2014 compared to \$9,178,000 for the third quarter of fiscal 2013. Net income for the third quarter of fiscal 2014 was \$1,558,000 (\$0.20 per share, on a diluted basis) compared to net income of \$6,093,000 (\$0.73 per share, on a diluted basis) for the third quarter of fiscal 2013. These results represent a 26% decrease in revenues, a 74% decrease in net income, and a \$0.53 decrease in earnings per share when compared to results for the third quarter of fiscal 2013.

Net sales and contract revenues for the first nine months of fiscal 2014 decreased to \$124,673,000 compared to revenues of \$144,400,000 for the first nine months of fiscal 2013. We reported operating income of \$16,778,000 for the first nine months of fiscal 2014 compared to \$25,135,000 for the first nine months of fiscal 2013. Net income for the first nine months of fiscal 2014 was \$11,162,000 (\$1.41 per share, on a diluted basis) compared to net income of \$16,694,000 (\$1.95 per share, on a diluted basis) for the first nine months of fiscal 2013. These results represent a 14% decrease in revenues, a 33% decrease in net income, and a \$0.54 decrease in earnings per share when compared to results for first nine months of fiscal 2013.

**Critical Accounting Policies**

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used, which would have resulted in different financial results.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2013 are policies related to revenue recognition, inventories and related allowances for obsolete and excess inventory, and income taxes. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 7, 2013. There have been no changes to our critical accounting policies during the three month period ended December 31, 2013.

**Results of Operations**

Net sales and contract revenues for the third quarter of fiscal 2014 decreased by \$13,030,000 to \$37,773,000 compared to the revenues of \$50,803,000 for the corresponding period in the prior fiscal year. This decrease is attributable to a decrease of \$4,219,000 in product sales and contract revenues due primarily to a decrease of \$4,573,000 in Cargo Inspection System revenues as compared to the corresponding prior year period due to a reduction in the number of systems accepted in the period. In addition there was a \$710,000 decrease in Mobile Cargo Inspection System revenues. The Company had a higher number of systems delivered which was offset in the third quarter of fiscal 2014 by lower average sales price from the prior year period due to the mix of types of systems sold. These decreases were offset in part by an increase of \$1,779,000 in Parcel and Personnel Inspection System revenues as compared to the corresponding prior year period as one large multi-unit order was completed during the period. Custom Product and aftermarket spare parts revenues decreased slightly from the prior year period. Net service revenues decreased by \$8,811,000 to \$14,609,000 compared to the third quarter of fiscal 2013 due primarily to the expiration or reduction of certain large fixed price service contracts during the quarter.

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Net sales and contract revenues for the first nine months of fiscal 2014 decreased by \$19,727,000 to \$124,673,000 compared to the revenues of \$144,400,000 for the corresponding prior year period. This decrease is attributable to a decrease of \$11,524,000 in product sales and contract revenues from the prior year period due primarily to a decrease of \$7,543,000 in Mobile Cargo Inspection system revenues due to a decline in the number of systems delivered as compared to the prior year. In addition there was a decrease of \$4,864,000 in Cargo Inspection Systems revenues due to a decrease in the number of systems accepted as compared to the prior year. These decreases were offset in part by an increase of \$2,477,000 in Parcel and Personnel Inspection Systems revenues attributable primarily to the large, multi-system order delivered in the third quarter. Custom Products and aftermarket spare parts revenues declined by a total of \$1,594,000 from the prior year due to lower volume. Net service revenues decreased by \$8,203,000 to \$58,021,000 compared to the prior period due primarily to the expiration or reduction of certain large fixed price service contracts in the third quarter of the fiscal year.

Total cost of sales and contract revenues for the third quarter of fiscal 2014 decreased by \$7,198,000 to \$20,905,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues decreased by \$6,611,000 to \$12,803,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 55% of revenues versus 71% of revenues for the corresponding period in the prior year. The resultant increase in gross margin percentage from the prior year is due primarily to a reduction in the provision for inventory reserves as compared to the prior year. In the third quarter of fiscal 2013, the Company recorded \$2.9 million in inventory reserves and accruals related to the abandonment of one product development program. The cost of service revenues for the quarter ended December 31, 2013 decreased by \$587,000 to \$8,102,000 as compared to the corresponding period a year ago. Cost of service revenues increased to 55% of revenues from 37% of revenues in the corresponding period. The third quarter of fiscal 2013 margins were a record high for service due to low costs on certain fixed price contracts. The decline in margins in the third quarter of fiscal 2014 is attributable to reduced overhead absorption on lower volume, a shift in the cost makeup of certain government contracts renewed in the quarter, as well as increased material and labor costs to support fixed price contracts as compared to the prior period.

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Total cost of sales and contract revenues for the first nine months of fiscal 2014 decreased by \$9,778,000 to \$69,452,000 as compared to the corresponding period a year ago. Cost of sales and product contract revenues decreased by \$10,334,000 to \$39,697,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 60% of revenues versus 64% of revenues for the corresponding period in the prior year. The resultant increase in gross margin percentage from the prior year is primarily due to a reduction in the provision for inventory reserves as compared to the prior year period. In the nine months ended December 31, 2012, we recorded \$3.3 million in inventory reserves as compared to \$1.3 million in the first nine months of fiscal 2014. The cost of service revenues for the first nine months of fiscal 2014 increased by \$556,000 to \$29,755,000 as compared to the corresponding period a year ago. Cost of service revenues increased to 51% of revenues from 44% of revenues in the corresponding period. This decline in margin is attributable to increases in the material and labor costs to support systems under contract during the period as compared to the prior year.

Selling, general and administrative expenses for the third quarter of fiscal 2014 increased by \$116,000 to \$8,396,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 22% of revenues in the current period compared to 16% for the corresponding period in the prior year. The increase in selling, general and administrative expenses from the prior year period was primarily the result of an increase in incentive compensation expense of \$1,088,000. Offsetting this increase were decreases in consulting costs of \$579,000, decreases in marketing related costs of \$331,000, and decreases in legal fees of \$176,000 as compared to the prior period.

Selling, general and administrative expenses for the first nine months of fiscal 2014 increased by \$1,545,000 to \$22,718,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 18% of revenues in the current period compared to 15% for the corresponding period in the prior year. The increase in selling, general and administrative expenses from the prior year period was the result of an increase in incentive compensation expense of \$3,086,000 due in part to the reversal during the quarter ended September 30, 2012 of incentive accruals for the former President and Chief Executive Officer. Offsetting this increase were decreases in travel related expenses of \$240,000, decreases in marketing related costs of \$395,000, decreases in consulting costs of \$499,000 and decreases in legal fees of \$114,000 as compared to the prior year period.

Company funded research and development expenses for the third quarter of fiscal 2014 increased by \$897,000 to \$6,139,000 as compared to the corresponding period a year ago. Research and development expenses represented 16% of revenues in the current quarter compared to 10% for the corresponding period in the prior year. Research and development expenses increased as compared to the prior year period due as engineering resources completed a significant customer program and returned to research and development activities in the quarter as well as an increase in the average engineering headcount as compared to the prior year period. Research and development activities performed in the third quarter of fiscal 2014 focused on the development of new products, product options and product enhancements.

Company funded research and development expenses for the first nine months of fiscal 2014 decreased by \$3,137,000 to \$15,725,000 as compared to the corresponding period a year ago. Research and development expenses represented 13% of revenues in the current period compared to 13% for the corresponding period in the prior year. Research and development expenses decreased as compared to the prior period due to an increase in labor resources focused on customer related programs as compared to the prior period. Research and development activities performed in the period focused on the development of new products, product options and product enhancements.

Other income (expense) was \$11,000 of income for the third quarter of fiscal 2014 as compared to \$54,000 of income for the corresponding period a year ago. The decrease in other income was the result of reduced investment income due to a decline in the average investment balance as compared to the prior period.

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Other income (expense) was \$8,000 of income for the first nine months of fiscal 2014 as compared to \$159,000 of income for the corresponding period a year ago. The decrease in other income was the result of reduced investment income due to a decline in the average investment balance as compared to the prior period.

We reported pre-tax income of \$2,344,000 in the third quarter of fiscal 2014 as compared to pre-tax income of \$9,232,000 in the corresponding period due to the factors described above.

We reported pre-tax income of \$16,786,000 in the first nine months of fiscal 2014 as compared to pre-tax income of \$25,294,000 in the corresponding period due to the factors described above.

Our effective tax rate was 33.5% for third quarter and first nine months of fiscal 2014 as compared to 34% for the third quarter and first nine months of fiscal 2013. The decrease in the effective tax rate in the current year is due primarily to increases in projected manufacturing deductions for the year.

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We had net income of \$1,558,000 for the third quarter of fiscal 2014 as compared to net income of \$6,093,000 in the third quarter of fiscal 2013. We had net income of \$11,162,000 for the first nine months of fiscal 2014 as compared to net income of \$16,694,000 for the first nine months of fiscal 2013. The significant factors contributing to these results are noted in the above sections.

**Liquidity and Capital Resources**

Our sources of capital include, but are not limited to, our cash flows from operations and cash received from stock issuances related to option exercises. We believe that our operating cash flows and cash and investments on hand are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, dividends to our shareholders and performance guarantee collateralizations for the foreseeable future and also to fund stock repurchases as desired.

***Summary of Cash Activities***

Cash and cash equivalents increased by \$25,547,000 to \$65,965,000 at December 31, 2013 compared to \$40,418,000 at March 31, 2013. This increase is attributable primarily to:

- 1) net income of \$11,162,000 for the period adjusted for \$9,788,000 in non-cash expenditures which included depreciation expense, stock based compensation, deferred income taxes, amortization of bond premiums, and provisions for contract, inventory and accounts receivable reserves;
- 2) net proceeds from sales and maturities of short-term investments of \$20,950,000;
- 3) an increase of \$16,932,000 in customer deposits during the period due to the timing of milestone payments on certain fixed price contracts;
- 4) a decrease of \$5,952,000 in accounts receivable from year end;
- 5) proceeds from the exercise of stock options of \$2,889,000;
- 6) a decrease in unbilled costs and fees of \$2,391,000; and
- 7) a decrease of \$1,432,000 in prepaid expenses and other assets due primarily to the settlement of the abatement claim with the Massachusetts Department of Revenue.

Offsetting these inflows were cash outflows including:

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- 1) the repurchase of 201,192 shares of the Company's common stock for \$12,306,000 during the period;
- 2) the payment of \$11,749,000 in common stock dividends during the period as part of our quarterly dividend program;
- 3) a decrease in accrued expenses and other liabilities of \$6,181,000 due primarily to the invoicing and payment of certain project related costs accrued for at year end;
- 4) an increase of \$3,392,000 in inventory from the year end;
- 5) a decrease in deferred revenue of \$6,472,000 from year end; and
- 6) a net increase of \$1,633,000 in restricted cash and investments due to an increase in the amount of outstanding letters of credit.

In the normal course of business, we may provide certain customers and potential customers with performance guarantees, which are generally backed by standby letters of credit. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations; the probability of which management believes is low. As of December 31, 2013, we had outstanding \$28,505,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 75% of the outstanding letters of credit, resulting in a restricted cash and investments balance of \$15,150,000 at December 31, 2013 of which \$397,000 was considered long-term restricted cash and investments due to the expiration date of the underlying letters of credit.

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the quantitative and qualitative information about market risk since the end of our most recent fiscal year. For further information, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013, as filed with the Securities and Exchange Commission on June 7, 2013.

### ITEM 4 CONTROLS AND PROCEDURES

#### a) Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we reviewed and evaluated the effectiveness of our Company's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934

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as amended (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports filed and submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1A RISK FACTORS**

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. Risk Factors in our Form 10-K for the fiscal year ended March 31, 2013 as filed with the Securities and Exchange Commission on June 7, 2013. There have been no material changes from the factors disclosed in our Form 10-K for the year ended March 31, 2013, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On May 7, 2013, the Board of Directors announced the approval of a Stock Repurchase Program which authorizes us to repurchase up to \$35.0 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. We made no repurchases of equity securities in the quarter ended December 31, 2013.

**ITEM 6 EXHIBITS**

The exhibits listed on the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q are incorporated herein by reference, and are filed or furnished as part of this Quarterly Report on Form 10-Q.

The information required by Exhibit Item 11 (Statement re: Computation of Income per Common and Common Equivalent Share) may be found in Note 4 to the Unaudited Condensed Consolidated Financial Statements in this quarterly report.

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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.

AMERICAN SCIENCE AND ENGINEERING, INC.

Date: February 5, 2014

/s/ Kenneth J. Galaznik  
Kenneth J. Galaznik  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following financial information from American Science and Engineering Inc. s Quarterly Report on Form 10-Q for the quarter ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language) includes: (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended December 31, 2013 and 2012, (ii) Condensed Consolidated Balance Sheets at December 31, 2013 and March 31, 2013, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2013 and 2012, and (iv) the Notes to Condensed Consolidated Financial Statements.*

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\* Filed herewith.