Section 1: 10-Q (10-Q)

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, 2019

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)
47827 Halyard Drive, Plymouth, Michigan	**48170-2461**
(Address of Principal Executive Offices)	(Zip Code)

(734) 414-6100
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☐	**Accelerated filer**	☑
Non-accelerated filer	☐	Smaller reporting company	☑
Emerging growth company	☐		

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ **No**☑

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	PRCP	NASDAQ Global Market

As of May 6, 2019, there were 9,644,469 shares of common stock ($0.01 par value per share) are outstanding.

PERCEPTRON, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q
For the Quarter Ended March 31, 2019

	Page Number
COVER	1
INDEX	2
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosures about Market Risk	35
Item 4. Controls and Procedures	35
PART II. OTHER INFORMATION	
Item 1A. Risk Factors	36
Item 6. Exhibits	37
SIGNATURES	38

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Per Share Amount)	March 31, 2019 (unaudited)	June 30, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,429	$ 5,830
Short-term investments	741	877
Receivables:		
Billed receivables, net of allowance for doubtful accounts of $528 and $404, respectively	24,979	31,797
Unbilled receivables	6,634	-
Other receivables	424	346
Inventories, net of reserves of $1,931 and $2,115, respectively	11,905	13,829
Other current assets	2,280	1,327
Total current assets	52,392	54,006
Property and Equipment, Net	6,529	6,613
Goodwill	7,699	7,985
Intangible Assets, Net	3,165	3,820
Long-Term Investments	725	725
Long-Term Deferred Income Tax Asset	658	1,055
Total Assets	$ 71,168	$ 74,204
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit and short-term notes payable	$ 17	$ 175
Accounts payable	6,642	7,592
Accrued liabilities and expenses	4,237	4,256
Accrued compensation	1,636	3,155
Current portion of taxes payable	369	526
Income taxes payable	630	768
Reserves for restructuring and other charges	-	675
Deferred revenue	6,155	8,691
Total current liabilities	19,686	25,838
Long-Term Taxes Payable	194	450
Long-Term Deferred Income Tax Liability	1,748	1,717
Other Long-Term Liabilities	573	601
Total Liabilities	$ 22,201	$ 28,606
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 9,644 and 9,554, respectively	96	96
Accumulated other comprehensive loss	(2,957)	(2,098)
Additional paid-in capital	48,915	48,110
Retained earnings (deficit)	2,913	(510)
Total Shareholders' Equity	$ 48,967	$ 45,598
Total Liabilities and Shareholders' Equity	$ 71,168	$ 74,204

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

PERCEPTRON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Net Sales	$ 15,632	$ 21,397	$ 58,627	$ 61,099
Cost of Sales	10,485	13,475	37,338	38,120
Gross Profit	5,147	7,922	21,289	22,979
Operating Expenses				
Selling, general and administrative	4,415	4,700	13,992	13,621
Engineering, research and development	1,812	2,132	6,090	5,662
Severance, impairment and other charges	-	(3)	(609)	603
Total operating expenses	6,227	6,829	19,473	19,886
Operating (Loss) Income	(1,080)	1,093	1,816	3,093
Other Income and (Expenses)				
Interest expense, net	(16)	(53)	(72)	(137)
Foreign currency (loss) gain, net	(127)	63	(178)	(16)
Other income, net	28	24	33	49
Total other (expense) and income	(115)	34	(217)	(104)
(Loss) Income Before Income Taxes	(1,195)	1,127	1,599	2,989
Income Tax Benefit (Expense)	130	(107)	(225)	(45)
Net (Loss) Income	$ (1,065)	$ 1,020	$ 1,374	$ 2,944
(Loss) Income Per Common Share				
Basic	$ (0.11)	$ 0.11	$ 0.14	$ 0.31
Diluted	$ (0.11)	$ 0.11	$ 0.14	$ 0.31
Weighted Average Common Shares Outstanding				
Basic	9,627	9,539	9,601	9,468
Dilutive effect of stock options	-	152	110	74
Diluted	9,627	9,691	9,711	9,542

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In Thousands)	2019	2018	2019	2018
Net (Loss) Income	$ (1,065)	$ 1,020	$ 1,374	$ 2,944
Other Comprehensive (Loss) Income:				
Foreign currency translation adjustments	(93)	884	(859)	2,290
Comprehensive (Loss) Income	$ (1,158)	$ 1,904	$ 515	$ 5,234

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

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

(In Thousands)	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Cash Flows from Operating Activities		
Net income	$ 1,374	$ 2,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,692	1,701
Stock compensation expense	533	791
Asset impairment and related inventory write-down	-	(59)
Deferred income taxes	186	(593)
Loss on disposal of assets	15	14
Allowance for doubtful accounts	124	121
Changes in assets and liabilities:		
Receivables	1,216	3,594
Inventories	339	(3,237)
Accounts payable	(783)	(1,010)
Accrued liabilities and expenses	(1,406)	(105)
Deferred revenue	(462)	(431)
Other assets and liabilities	(2,200)	(1,136)
Net cash provided by operating activities	628	2,594
Cash Flows from Investing Activities		
Purchases of short-term investments	(2,199)	(4,569)
Sales of short-term investments	2,431	3,686
Capital expenditures	(809)	(481)
Capital expenditures - intangibles	(311)	(322)
Net cash used for investing activities	(888)	(1,686)
Cash Flows from Financing Activities		
Payments on lines of credit and short-term borrowings, net	(155)	(137)
Proceeds from stock plans	329	471
Cash payment for shares surrendered upon vesting of restricted stock units to cover taxes	(55)	(19)
Net cash provided by financing activities	119	315
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(150)	271
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(291)	1,494
Cash, Cash Equivalents and Restricted Cash, July 1	5,996	3,943
Cash, Cash Equivalents and Restricted Cash, March 31	$ 5,705	$ 5,437
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 73	$ 211
Cash paid during the period for income taxes	$ 553	$ 605

	March 31, 2019	June 30, 2018
Cash and Cash Equivalents	$ 5,429	$ 5,830
Restricted Cash included in Short-term Investments	276	166
Total Cash, Cash Equivalents and Restricted Cash	$ 5,705	$ 5,996

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

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

(In Thousands)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Common Stock				
Beginning balance	$ 96	$ 95	$ 96	$ 94
Issued	-	1	-	2
Ending balance	96	96	96	96
Accumulated Other Comprehensive (Loss) Income				
Beginning balance	(2,864)	(1,315)	(2,098)	(2,721)
Other comprehensive (loss) income	(93)	884	(859)	2,290
Ending balance	(2,957)	(431)	(2,957)	(431)
Additional Paid-In Capital				
Beginning balance	48,753	47,336	48,110	46,688
Stock-based compensation	39	137	533	533
Stock plans	123	455	272	707
Ending balance	48,915	47,928	48,915	47,928
Retained Earnings (Deficit)				
Beginning balance	3,978	(2,302)	(510)	(4,226)
Adoption of ASC 606 - modified retrospective transition method	-	-	2,049	-
Net (loss) income	(1,065)	1,020	1,374	2,944
Ending balance	2,913	(1,282)	2,913	(1,282)
Total Shareholders' Equity	$ 48,967	$ 46,311	$ 48,967	$ 46,311

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

1. Accounting Policies

Perceptron, Inc. ("Perceptron" "we", "us" or "our") develops, produces and sells a comprehensive range of automated industrial metrology products and solutions to manufacturers for dimensional gauging, dimensional inspection and 3D scanning. Our products provide solutions for manufacturing process control as well as sensor and software technologies for non-contact measurement, scanning and inspection applications. We also offer value added services such as training and customer support.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and within the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. Our Consolidated Financial Statements include the accounts of Perceptron and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In our opinion, these statements include all normal recurring adjustments necessary for a fair presentation of the financial statements for the periods presented. The results of operations for any interim period are not necessarily indicative of the results of operations for a full fiscal year. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements in our 2018 Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Use of Estimates

Management is required to make certain estimates and assumptions under U.S. GAAP during the preparation of these Consolidated Financial Statements. These estimates and assumptions may affect the reported amounts of assets and liabilities as well as the 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.

Reclassification

Certain prior period amounts have been reclassified in the Consolidated Statements of Cash Flow due to the adoption of Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18).

2. New Accounting Pronouncements

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02 *Leases* (ASU 2016-2), which establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. In January 2018, the FASB issued Accounting Standards Update No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which permits an entity to elect an optional transition practical expedient to not evaluate land easements under Topic 842. A modified retrospective transition approach was originally required for lessees with capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements,* which created an optional transition method to adopt ASU 2016-02. The optional method is a modified retrospective approach whereby an entity can initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to their opening balance of retained earnings. In March 2019, the FASB issued ASU 2019-01 *Leases (Topic 842): Codification Improvements,* which clarified three specific issues related to Topic 842. We have commenced a detailed analysis of ASU 2016-02 (as amended) and have noted that not all of the items that we have been including in prior Annual Reports on Form 10-K as a "lease" meet the definition of a lease under Topic 842. Furthermore, we have determined that we will use the modified retrospective approach as our transition method. We believe that our Consolidated Balance Sheet will be impacted as we record a ROU and lease liability for all leases that meet the new definition. In addition, our disclosures will be enhanced as we provide the required level of detail related to our leasing activities.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (ASU 2016-13), which requires the measurement of all expected credit losses for financial assets held at the reporting date to be based on historical experience, current conditions as well as reasonable and supportable forecasts. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses (ASU 2018-19)*. ASU 2018-19 clarifies that receivables arising from operating leases are not within the scope of ASU 2016-13. ASU 2016-13, as amended, is effective for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update 2018-02—*Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02), which allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 is effective for Perceptron on July 1, 2019 and is not expected to have a significant impact on our consolidated financial statements or disclosures.

In July 2018, the FASB issued Accounting Standards Update No. 2018-09 — *Codification Improvements* (ASU 2018-09), which clarifies, corrects and makes minor improvements on a wide variety of Topics in the Codification. The amendments make the Codification easier to understand and apply by eliminating inconsistencies and providing clarifications. The transition and effective dates are based on the facts and circumstances of each amendment, including some amendments that will be effective upon issuance of the update and many of them will be effective for annual periods beginning after December 31, 2018. For the amendments that were effective upon issuance of the Update, there was no material impact to our consolidated financial statements or disclosures. We are currently evaluating the impact of the remaining amendments of ASU 2018-09 on our consolidated financial statements and disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 – *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirement for Fair Value Measurement* (ASU 2018-13), which changes the disclosures related to, among other aspects of fair value, unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurement and the narrative description of measurement uncertainty. ASU 2018-13 is effective for Perceptron on July 1, 2020. We are currently evaluating the impact of the adoption of ASU 2018-13 on our disclosures.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 – *Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (ASU 2018-15)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing costs incurred to develop or obtain inter-use software. ASU 2018-15 is effective for Perceptron on July 1, 2020. We are currently evaluating the impact of the adoption of ASU 2018-15 on our consolidated financial statements and disclosures.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than were required under previous U.S. GAAP. In March 2016, the FASB issued the final guidance to clarify the principal versus agent guidance (i.e., whether an entity should report revenue gross or net). In April 2016, the FASB issued final guidance to clarify identifying performance obligation and the licensing implementation guidance. In May 2016, FASB updated implementation of certain narrow topics within ASU 2014-09. Finally, in December 2016, the FASB issued several technical corrections and improvements, which clarified the previously issued standards and corrected unintended application of previous guidance. These standards (collectively "ASC 606") were effective for annual periods beginning after December 15, 2017 (as amended in August 2015, by ASU 2015-14, *Deferral of the Effective Date*), and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the applications of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

We adopted the new standard effective July 1, 2018 using the modified retrospective transition method only for the contracts that were open as of June 30, 2018 with the cumulative effect recorded to the opening balance of retained earnings as of the date of adoption. Results for reporting periods beginning July 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, *Revenue Recognition*. Under ASC 606, certain of our services are recognized over time instead of at a point in time upon completion of those services as recognized under superseded guidance. Additionally, for our contracts with multiple performance obligations in which the payment terms do not correspond with

performance, we are no longer required to limit the revenue recognized for satisfied performance obligations to the amount for which payment is not delayed until the satisfaction of additional performance obligations. Instead, we record revenue for each of the performance obligations as control transfers to the customer, which generally accelerates the revenue recognized for such contracts compared to revenue recognized under superseded guidance. We also capitalize amounts related to certain commissions paid which qualify as costs to obtain a contract. The revenues associated with our Measurement Solutions and Value Added Services that were impacted beginning at July 1, 2018, which were included in the modified transition method adjustment, aggregated to $3.8 million. The net impact on retained earnings associated with these revenues was an increase of $2,049,000. We have also implemented new business processes and internal controls in order to recognize revenue in accordance with the new standard. See Note 5 "Revenue from Contracts with Customers" for the further details regarding the impact of the adoption of this Standard.

The following table summarizes the cumulative effect of the changes to our unaudited Consolidated Balance Sheet as of July 1, 2018 from the adoption of ASC 606:

	At June 30, 2018	ASC 606 Adjustments	Opening Balance at July 1, 2018
Assets			
Unbilled receivables	$ -	$ 1,864	$ 1,864
Inventories	13,829	(1,350)	12,479
Other current assets	1,327	49	1,376
Liabilities and Shareholders' Equity			
Deferred revenue	8,691	(1,976)	6,715
Long-Term Deferred Income Tax Liability	1,717	490	2,207
Retained earnings (deficit)	(510)	2,049	1,539

Under the modified retrospective method of adoption, we are required to disclose in the first year of adoption the hypothetical impact to our financial statements as if we had continued to follow our accounting policies under ASC 605 for the period. See Note 5 "Revenue from Contracts with Customers" for a summary of the impact as of and for the three and nine months ended March 31, 2019.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. In February 2018, the FASB issued Accounting Standards Update No. 2018-03 —*Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2018-03), which contains technical corrections and improvements related to ASU 2016-01. We adopted both ASU 2016-01 and ASU 2018-03 on July 1, 2018. Adoption of these standards did not have a material impact on our consolidated financial statements or disclosures.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. We adopted ASU 2016-15 on July 1, 2018. Adoption of this standard did not have a material impact on our Consolidated Statement of Cash Flow.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which requires that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted ASU 2016-16 on July 1, 2018. Adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which requires a company to present their Statement of Cash Flow including amounts generally described as restricted cash or restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted ASU 2016-18 on July 1, 2018. We hold restricted cash in short-term bank guarantees to provide financial assurance that we will fulfill certain customer obligations in China. These balances are part of "Short-term investments" on our Consolidated Balance Sheet. The activity in this account is no longer considered an investing activity on our Consolidated Statement of Cash Flow.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted ASU 2017-01 on July 1, 2018. Adoption of this standard did not have a material impact on our consolidated financial statements.

In February 2017, the FASB issued Accounting Standards Update No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (ASU 2017-05), which clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of Accounting Standards Update No. 2014-09, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. We adopted ASU 2017-05 on July 1, 2018. Adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* (ASU 2017-09), which provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, *Compensation—Stock Compensation*, to a change to the terms or conditions of a share-based payment award. We adopted ASU 2017-09 on July 1, 2018. Adoption of this standard did not have a material impact on our consolidated financial statements.

3. Goodwill

Goodwill represents the excess purchase price over the fair value of the net amounts assigned to assets acquired and liabilities assumed in connection with our acquisitions. Under the FASB's Accounting Standards Codification ("ASC") Topic 350, *Intangibles – Goodwill and Other*, we are required to test goodwill for impairment annually or more frequently, whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit with goodwill below its carrying amount. Application of the goodwill impairment test requires judgment, including assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. The qualitative events or circumstances that could affect the fair value of a reporting unit could include economic conditions; industry and market considerations, including competition; increases in raw materials, labor, or other costs; overall financial performance such as negative or declining cash flows; relevant entity-specific events such as changes in management, key personnel, strategy, or customers; sale or disposition of a significant portion of a reporting unit; and regulatory or political developments.

Companies have the option to evaluate goodwill based upon these qualitative factors, and if it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, then no further goodwill impairment tests are necessary. If the qualitative review indicates it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if we choose not to perform a qualitative assessment, a quantitative impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. During the fourth quarter of fiscal 2018, we elected to complete a quantitative goodwill impairment test which resulted in no impairment.

The quantitative goodwill impairment test contains estimates regarding future revenue growth and expense levels. To the extent that actual results do not meet projected results, it could result in a material impairment to goodwill which could negatively impact our results of operations.

Goodwill is recorded on the local books of Coord3 and NMS. Foreign currency effects will impact the balance of goodwill in future periods. Our goodwill balance was $7,699,000 and $7,985,000 as of March 31, 2019 and June 30, 2018, respectively, with the decrease due to the differences in foreign currency rates at March 31, 2019 compared to June 30, 2018.

4. Intangibles

We acquired intangible assets in addition to goodwill in connection with the acquisitions of Coord3 and NMS in the third quarter of fiscal 2015. Furthermore, we continue to develop intangibles, primarily software. These assets are susceptible to shortened estimated useful lives and changes in fair value due to changes in their use, market or economic changes, or other events or circumstances. We evaluate the potential impairment of these intangible assets whenever events or circumstances indicate their carrying value may not be recoverable. Factors that could trigger an impairment review include historical or projected results that are less than the assumptions used in the original valuation of an intangible asset, a change in our business strategy or our use of an intangible asset or negative economic or industry trends.

If an event or circumstance indicates that the carrying value of an intangible asset may not be recoverable, we assess the recoverability of the asset by comparing the carrying value of the asset to the sum of the undiscounted future cash flows that the asset is expected to generate over its remaining economic life. If the carrying value exceeds the sum of the undiscounted future cash flows, we compare the fair value of the intangible asset to the carrying value and record an impairment loss for the difference. We generally estimate the fair value of our intangible assets using the income approach based on a discounted cash flow model. The income approach requires the use of many assumptions and estimates including future revenues and expenses, discount factors, income tax rates, the identification of groups of assets with highly independent cash flows, and assets' economic lives. Volatility in the global economy makes these assumptions and estimates more judgmental. Actual future operating results and the remaining economic lives of our intangible assets could differ from those used in assessing the recoverability of these assets and could result in an impairment of intangible assets in future periods. Through March 31, 2019, there are no indications of potential impairment of these intangible assets.

Our intangible assets are as follows (in thousands):

	March 31, 2019 Gross Carrying Amount	Accumulated Amortization	March 31, 2019 Net Carrying Amount	June 30, 2018 Gross Carrying Amount	Accumulated Amortization	June 30, 2018 Net Carrying Amount
Customer/Distributor Relationships	$ 3,206	$ (2,618)	$ 588	$ 3,329	$ (2,219)	$ 1,110
Trade Name	2,490	(1,017)	1,473	2,586	(862)	1,724
Software	1,798	(694)	1,104	1,490	(504)	986
Other	-	-	-	124	(124)	-
Total	$ 7,494	$ (4,329)	$ 3,165	$ 7,529	$ (3,709)	$ 3,820

Amortization expense was $306,000 and $312,000 for the three months ended March 31, 2019 and 2018, respectively. Amortization expense was $877,000 and $874,000 for the nine months ended March 31, 2019 and 2018, respectively.

The estimated amortization of the remaining intangible assets by year is as follows (in thousands):

Years Ending June 30,	Amount
2019 (excluding the nine months ended March 31, 2019)	334
2020	901
2021	474
2022	474
2023	430
after 2023	552
	$ 3,165

5. Revenue from Contracts with Customers

Revenue Accounting Policy

The FASB has issued ASC 606 which supersedes the revenue recognition requirements in ASC 605 and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

We adopted ASC 606 as of July 1, 2018 using the modified retrospective transition method. The cumulative effect of initially applying the new standard was recorded as an adjustment to the opening balance of retained earnings within our Consolidated Balance Sheet. The adjustment to retained earnings was the result of changing the timing of our revenue for several performance obligations and the number of performance obligations in our contracts with multiple performance obligations, as well as ceasing the deferral of revenue on satisfied performance obligations for the portion of the sales price of the contract that is not payable until additional performance obligations are satisfied. The revenues associated with our Measurement Solutions and Value Added Services that were impacted beginning July 1, 2018 which were included in the modified transition method adjustment aggregated $3.8 million. The net impact on retained earnings associated with these revenues was an increase of $2,049,000. For all adjustments and changes as a result of adopting ASC 606 for the current period, please refer to the section "*Financial Statement Impact of Adopting ASC 606*" below. In accordance with the modified retrospective transition method, the historical information within the financial statements has not been restated and continues to be reported under the accounting standard in effect for those periods. As a result, we have disclosed the accounting policies in effect prior to July 1, 2018, as well as the policies applied starting July 1, 2018.

Periods prior to July 1, 2018

Revenue is recognized in accordance with ASC 605. Revenue related to products and services is recognized upon shipment when title and risk of loss has passed to the customer or upon completion of the service, 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, if any, have been successfully demonstrated.

We also have multiple element arrangements in our Measurement Solutions product line which may include elements such as: equipment, installation, labor support and/or training. Each element has value on a stand-alone basis and the delivered elements do not include general rights of return. Accordingly, each element is considered a separate unit of accounting. When available, we allocate 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, we attempt to establish the selling price of each element based on relevant third-party evidence. Our products contain a significant level of proprietary technology, customization or differentiation; therefore, comparable pricing of products with similar functionality cannot be obtained. In these cases, we utilize our best estimate of selling price ("BESP"). We determine the BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, internal costs, geographies and gross margin.

For multiple element arrangements, we defer 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. As part of this evaluation, we limit the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, including a consideration of payment terms that delay payment until those future deliveries are completed.

Some multiple element arrangements contain installment payment terms with a final payment ("final buy-off") due upon the completion of all elements in the arrangement or when the customer's final acceptance is received. We recognize revenue for each completed element of a contract when it is both earned and realizable. A provision for final customer acceptance generally does not preclude revenue recognition for the delivered equipment element because we rigorously test equipment prior to shipment to ensure it will function in our customer's environment. The final acceptance amount is assigned to specific element(s) identified in the contract, or if not specified in the contract, to the last element or elements to be delivered that represent an amount at least equal to the final payment amount.

Our Measurement Solutions 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. We do not have price protection agreements or requirements to buy back inventory. Our history demonstrates that sales returns have been insignificant.

Periods commencing July 1, 2018

Revenue is recognized when or as our customer obtains control of promised goods or services in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To achieve this principle, we analyze our contracts under the following five steps:

- Identify the contract with the customer
- Identify the performance obligation(s) in the contract
- Determine the transaction price
- Allocate the transaction price to performance obligation(s) in the contract
- Recognize revenue when or as we satisfy a performance obligation

We have contracts with multiple performance obligations in our Measurement Solutions product line such as: equipment, installation, labor support and/or training. Each performance obligation is distinct and we do not provide general rights of return for transferred goods and services. Accordingly, each performance obligation is considered a separate unit of accounting. Our Measurement Solutions are designed and configured to meet each customer's specific requirements. Timing for the delivery of each performance obligation in the arrangement is primarily determined by the customer's requirements. Delivery of all of performance obligations in an order will typically occur over a three to 15-month period after the order is received. For the equipment performance obligation, we typically recognize revenue when we ship or when the equipment is received by our customer, depending on the specific terms of the contract with our customer. We have elected to treat shipping and handling costs as an activity necessary to fulfill the performance obligation to transfer product to the customer and not as a separate performance obligation. For the installation, labor support and training performance obligations, we generally recognize revenue over time as we perform because of the continuous transfer of control to the customer. Because control transfers over time, based on labor hours, revenue is recognized based on the extent of progress toward completion of the performance obligation. We do not have price protection agreements or requirements to buy back inventory. Our history demonstrates that sales returns have been insignificant.

Disaggregated Revenue

We manage our business under three operating segments: Americas, Europe and Asia. All of our operating segments rely on our core technologies and sell the same products, primarily in the global automotive industry. The segments also possess similar economic characteristics, resulting in similar long-term expected financial performance. In addition, we sell to substantially the same customers in all of our operating segments. Accordingly, our operating segments are aggregated into one reportable segment.

The following tables summarizes our revenue disaggregated by geography, based on our shipping location (in thousands):

Geographic Region:	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
Americas Sales	$ 4,376	$ 19,747
Europe Sales	8,013	25,666
Asia Sales	3,243	13,214
Total Net Sales	$ 15,632	$ 58,627

We have three major product lines: Measurement Solutions, 3D Scanning Solutions and Value Added Services. Sales by our product lines are as follows (in thousands):

Product Lines	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
Measurement Solutions	$ 13,849	$ 53,257
3D Scanning Solutions	773	2,485
Value Added Service	1,010	2,885
Total Net Sales	$ 15,632	$ 58,627

Our revenues can be disaggregated between two categories (1) Goods transferred at a point in time, which typically includes the equipment performance obligation of our Measurement Solutions and contracts that include a single performance obligation and (2) Services transferred over time, which include installation, labor support and training performance obligations.

The following table summarizes these two categories for the three and nine months ended March 31, 2019 (in thousands):

Timing of Revenue Recognition	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
Goods transferred at a point of time	$ 11,613	$ 43,394
Services transferred over time	4,019	15,233
Total Net Sales	$ 15,632	$ 58,627

Remaining Performance Obligations/Backlog

Backlog represents orders or bookings we have received but have not yet been filled, that is, our unsatisfied performance obligations as of the reporting date. Although most of the backlog is subject to cancellation by our customers, we expect to fill substantially all of the orders. Our history demonstrates that cancellations have not been significant.

The estimated recognition of our Backlog by year is as follows (in thousands):

Years Ending June 30,	Amount
2019 (excluding the nine months ended March 31, 2019)	$ 16,309
2020	16,894
2021	2,506
2022	15
2023	-
after 2023	-
Total Backlog	$ 35,724

Contract Balances

The timing of revenue recognition, billings and cash collections results in “Billed receivables”, “Unbilled receivables” and “Deferred revenue” on our Consolidated Balance Sheets. Our collections are typically 45 to 90 days after invoicing, depending on region and individual contracts with our customers, which does not always align with the timing of revenue recognition. In addition, we defer certain costs incurred to obtain a contract, primarily related to sales commissions.

Billed receivables, net – Billed receivables, net includes amounts billed and currently due from our customers. The amounts due are stated at their net estimated realizable value. Billed receivables are stated net of an allowance for doubtful accounts. Billed receivables outstanding longer than the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, our customers’ current ability to pay their outstanding balance due to us, the condition of the general economy and the industry as a whole. We write-off billed receivables when they become uncollectible and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Unbilled receivables – Our unbilled receivables include unbilled amounts typically resulting from our Measurement Solutions as we recognize revenue when or as performance obligations are satisfied; however, the revenue amount exceeds the amount billed to the customer and the right to payment is not solely due to the passage of time. Amounts may not exceed their net realizable value.

Deferred revenues – We record deferred revenues when billings are issued in advance of our satisfaction of specific performance obligations.

Our Unbilled receivables and Deferred revenues are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Impairment losses recognized on our Billed and Unbilled receivables were $65,000 in the three months ended March 31, 2019. Impairment losses recognized on our Billed and Unbilled receivables were $170,000 in the nine months ended March 31, 2019.

Deferred commissions – Our incremental direct costs of obtaining a contract, which consist primarily of sales commissions, are deferred and amortized based on the timing of revenue recognition over the period of contract performance. As of March 31, 2019, capitalized commissions of $203,000 were included in “Other current assets” on our Consolidated Balance Sheet. Commission expense recognized during the three and nine months ended March 31, 2019 was $136,000 and $694,000, respectively, is included in “Selling, general and administrative expense” in our Consolidated Statement of Operations.

Current balances of our contract balances are as follows (in thousands):

Balance Sheet Account	**March 31, 2019**	**July 1, 2018**	**Increase / (Decrease)**
Unbilled receivables	$ 6,634	$ 1,864	$ 4,770
Deferred revenue	(6,155)	(6,715)	560
Net Unbilled receivables / (Deferred revenue)	$ 479	$ (4,851)	$ 5,330

The change in our net Unbilled receivables / (Deferred revenue) from July 1, 2018 to March 31, 2019 was primarily due to the amount of revenue recognized as we satisfied performance obligations during the nine months ended March 31, 2019, partially offset by the amount and timing of invoicing during that same timeframe related to our Measurement Solutions and 3D Scanning Solutions. During the nine months ended March 31, 2019, we recognized revenue of $4,990,000 that was included in “Deferred revenue” at July 1, 2018.

Financial Statement Impact of Adopting ASC 606

The following table summarizes the cumulative effect of the changes to our unaudited Consolidated Balance Sheet as of March 31, 2019 from the adoption of ASC 606 (in thousands, except per share amount):

	As reported March 31, 2019 (unaudited)	ASC 606 Adjustments	Balances without adoption of ASC 606
ASSETS			
Current Assets			
Cash and cash equivalents	$ 5,429	$ -	$ 5,429
Short-term investments	741	-	741
Receivables:			
Billed receivables, net	24,979	-	24,979
Unbilled receivables, net	6,634	(6,634)	-
Other receivables	424	-	424
Inventories, net	11,905	4,134	16,039
Other current assets	2,280	(251)	2,029
Total current assets	52,392	(2,751)	49,641
Property and Equipment, Net	6,529	-	6,529
Goodwill	7,699	-	7,699
Intangible Assets, Net	3,165	-	3,165
Long-Term Investments	725	-	725
Long-Term Deferred Income Tax Asset	658	-	658
Total Assets	$ 71,168	$ (2,751)	$ 68,417
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Line of credit and short-term notes payable	$ 17	$ -	$ 17
Accounts payable	6,642	-	6,642
Accrued liabilities and expenses	4,237	-	4,237
Accrued compensation	1,636	-	1,636
Current portion of taxes payable	369	-	369
Income taxes payable	630		630
Reserves for restructuring and other charges	-	-	-
Deferred revenue	6,155	2,936	9,091
Total current liabilities	19,686	2,936	22,622
Long-Term Taxes Payable	194	-	194
Long-Term Deferred Income Tax Liability	1,748	(1,320)	428
Other Long-Term Liabilities	573	-	573
Total Liabilities	$ 22,201	$ 1,616	$ 23,817
Shareholders' Equity			
Preferred stock	-	-	-
Common stock	96	-	96
Accumulated other comprehensive loss	(2,957)	119	(2,838)
Additional paid-in capital	48,915	-	48,915
Retained earnings (deficit)	2,913	(4,486)	(1,573)
Total Shareholders' Equity	$ 48,967	$ (4,367)	$ 44,600
Total Liabilities and Shareholders' Equity	$ 71,168	$ (2,751)	$ 68,417

The following tables summarize the effect of adopting ASC 606 on our unaudited Consolidated Statement of Operations for the three and nine months ended March 31, 2019 (in thousands):

	As reported Three Months Ended March 31, 2019	ASC 606 Adjustments	Balances without adoption of ASC 606
Net Sales	$ 15,632	$ (3,254)	$ 12,378
Cost of Sales	10,485	(1,463)	9,022
Gross Profit	5,147	(1,791)	3,356
Operating Expenses			
Selling, general and administrative	4,415	2	4,417
Engineering, research and development	1,812	-	1,812
Severance, impairment and other charges	-	-	-
Total operating expenses	6,227	2	6,229
Operating Loss	(1,080)	(1,793)	(2,873)
Other Income and (Expenses)			
Interest expense, net	(16)	-	(16)
Foreign currency gain, net	(127)	-	(127)
Other income (expenses), net	28	-	28
Total other income and (expenses)	(115)	-	(115)
Loss Before Income Taxes	(1,195)	(1,793)	(2,988)
Income Tax Benefit	130	381	511
Net Loss	$ (1,065)	$ (1,412)	$ (2,477)

	As reported Nine Months Ended March 31, 2019	ASC 606 Adjustments	Balances without adoption of ASC 606
Net Sales	$ 58,627	$ (5,831)	$ 52,796
Cost of Sales	37,338	(2,784)	34,554
Gross Profit	21,289	(3,047)	18,242
Operating Expenses			
Selling, general and administrative	13,992	202	14,194
Engineering, research and development	6,090	-	6,090
Severance, impairment and other charges	(609)	-	(609)
Total operating expenses	19,473	202	19,675
Operating Income (Loss)	1,816	(3,249)	(1,433)
Other Income and (Expenses)			
Interest expense, net	(72)	-	(72)
Foreign currency loss, net	(178)	-	(178)
Other income (expenses), net	33	-	33
Total other income and (expenses)	(217)	-	(217)
Income (Loss) Before Income Taxes	1,599	(3,249)	(1,650)
Income Tax (Expense) Benefit	(225)	830	605
Net Income (Loss)	$ 1,374	$ (2,419)	$ (1,045)

6. Short-Term and Long-Term Investments

We account for our investments in accordance with ASC 320, *"Investments – Debt and Equity Securities*". Investments with a term to maturity between three months to one year are considered short-term investments. Our investments are recorded at fair value. Upon adoption of ASU 2016-01 effective July 1, 2018, changes in the fair value of our equity securities are recognized in net income. Prior to the adoption of ASU 2016-01, unrealized gains and losses on available-for-sale equity investments were recorded in other comprehensive income, and at each balance sheet date, we evaluated our investments for possible other-than-temporary impairment, which involved significant judgment. In making this judgment, we reviewed factors such as the length of time and extent to which fair value had been below the cost basis, the anticipated recovery period, the financial condition of the issuer, the credit rating of the instrument and our ability and intent to hold the investment for a period of time which may be sufficient for recovery of the cost basis. Any losses determined to be other-than-temporary were charged as an impairment loss and recorded in earnings.

As of March 31, 2019 and June 30, 2018, we held restricted cash in short-term bank guarantees. The restricted cash provides financial assurance that we will fulfill certain customer obligations in China. The cash is restricted as to withdrawal or use while the related bank guarantee is outstanding. Interest is earned on the restricted cash and recorded as interest income. As of March 31, 2019 and June 30, 2018, we had short-term bank guarantees of $276,000 and $166,000, respectively.

At March 31, 2019, we held a long-term investment in preferred stock that is not registered under the Securities Act of 1933, as amended and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The preferred stock investment is currently recorded at $725,000 after consideration of impairment charges recorded in fiscal years 2008 and 2009. We estimated that the fair market value of this investment at March 31, 2019 exceeded $725,000 based on 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 and Disclosures"* ("ASC 820") such valuation assumptions are defined as Level 3 inputs.

The following table presents our Short-Term and Long-Term Investments by category at March 31, 2019 and June 30, 2018 (in thousands):

	March 31, 2019	
	Cost	Fair Value or Carrying Value
Short-Term Investments		
Bank Guarantees	$ 276	$ 276
Mutual Funds	13	13
Time/Fixed Deposits	452	452
Total Short-Term Investments	$ 741	$ 741
Long-Term Investments		
Preferred Stock	$ 3,700	$ 725
Total Long-Term Investments	3,700	725
Total Investments	$ 4,441	$ 1,466

	June 30, 2018	
	Cost	Fair Value or Carrying Value
Short-Term Investments		
Bank Guarantees	$ 166	$ 166
Mutual Funds	23	23
Time/Fixed Deposits	688	688
Total Short-Term Investments	$ 877	$ 877
Long-Term Investments		
Preferred Stock	$ 3,700	$ 725
Total Long-Term Investments	$ 3,700	$ 725
Total Investments	$ 4,577	$ 1,602

7. Financial Instruments

For a discussion on our fair value measurement policies for Financial Instruments, refer to Note 1 in our Consolidated Financial Statements, “Summary of Significant Accounting Policies – Financial Instruments”, of our Annual Report on Form 10-K for fiscal year ended June 30, 2018.

We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The following table presents our investments at March 31, 2019 and June 30, 2018 that are measured and recorded at fair value on a recurring basis consistent with the fair value hierarchy provisions of ASC 820 (in thousands). The fair value of our short-term investments approximates their cost basis.

Description	March 31, 2019	Level 1	Level 2	Level 3
Mutual Funds	$ 13	$ 13	$ -	$ -
Time/Fixed Deposits and Bank Guarantees	728	-	728	-
Preferred Stock	725	-	-	725
Total	$ 1,466	$ 13	$ 728	$ 725

Description	June 30, 2018	Level 1	Level 2	Level 3
Mutual Funds	$ 23	$ 23	$ -	$ -
Time/Fixed Deposits and Bank Guarantees	854	-	854	-
Preferred Stock	725	-	-	725
Total	$ 1,602	$ 23	$ 854	$ 725

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

8. Inventory

Inventory is stated at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. We provide a reserve for obsolescence to recognize inventory impairment for the effects of engineering change orders, and for age and use of inventory that affect the value of the inventory. The reserve for obsolescence creates a new cost basis for the impaired inventory. When inventory that has previously been impaired is sold or disposed of, the related obsolescence reserve is reduced resulting in the reduced cost basis being reflected in cost of goods sold. 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 $1,931,000 and $2,115,000 at March 31, 2019 and June 30, 2018, respectively, is comprised of the following (in thousands):

	At March 31, 2019	At June 30, 2018
Component Parts	$ 5,345	$ 5,156
Work in Process	1,686	3,525
Finished Goods	4,874	5,148
Total	$ 11,905	$ 13,829

9. Property and Equipment

Our property and equipment consisted of the following as of March 31, 2019 and June 30, 2018 (in thousands):

	At March 31, 2019	At June 30, 2018
Building and Land	$ 7,658	$ 7,844
Machinery and Equipment	14,633	14,578
Furniture and Fixtures	1,176	1,060
	23,467	23,482
Less: Accumulated Depreciation	(16,938)	(16,869)
	$ 6,529	$ 6,613

Depreciation expense was $252,000 and $250,000 for the three months ended March 31, 2019 and 2018, respectively. Depreciation expense was $815,000 and $827,000 for the nine months ended March 31, 2019 and 2018, respectively.

10. Warranty

Our In-Line and Near-Line Measurement Solutions generally carry a one to 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. We provide a reserve for warranty based on our experience and knowledge. Our Off-Line Measurement Solutions generally carry a 12-month warranty after the machine passes the acceptance test or a 15-month warranty from the date of shipment, whichever date comes first, on parts only. We provide a reserve for warranty based on our experience and knowledge.

Factors affecting our warranty reserve include the number of units sold or in service as well as historical and anticipated rates of claims and cost per claim. We periodically assess the adequacy of our warranty reserve based on changes in these factors. If a special circumstance arises which requires a higher level of warranty, we make a special warranty provision commensurate with the facts. Changes to our warranty reserve are as follows (in thousands):

	Nine Months Ended March 31,	
	2019	2018
Beginning Balance at July 1,	$ 391	$ 548
Accruals - Current Year	509	712
Settlements/Claims (in cash or in kind)	(642)	(863)
Effects of Foreign Currency	(2)	7
Ending Balance at March 31,	$ 256	$ 404

11. Credit Facilities

We had approximately $17,000 and $175,000 outstanding under our line of credit and short-term notes payable at March 31, 2019 and June 30, 2018, respectively.

On December 4, 2017, we entered into a Loan Agreement (the "Loan Agreement") with Chemical Bank ("Chemical"), and related documents, including a Promissory Note. The Loan Agreement is an on-demand line of credit and is cancelable at any time by either Perceptron or Chemical and any amounts outstanding would be immediately due and payable. The Loan Agreement is guaranteed by our U.S. subsidiaries. The Loan Agreement allows for maximum permitted borrowings of $8.0 million. The borrowing base is calculated at the lesser of (i) $8.0 million or (ii) the sum of 80% of eligible accounts receivable balances of U.S. customers and subject to limitations, certain foreign customers, plus the lesser of 50% of eligible inventory or $3.0 million. At March 31, 2019, our available borrowing under this facility was approximately $3.5 million. Security for the Loan Agreement is substantially all of our assets in the U.S. Interest is calculated at 2.65% above the 30 day LIBOR rate. We are not allowed to pay cash dividends under the Loan Agreement. We had no borrowings outstanding under the Loan Agreement at March 31, 2019 or June 30, 2018.

Prior to December 4, 2017, we were party to an Amended and Restated Credit Agreement with Comerica Bank. On December 4, 2017, in connection with entering into the Loan Agreement, we repaid in full and terminated our Amended and Restated Credit Agreement with Comerica Bank and related documents. There were no prepayment fees payable in connection with the repayment of the loan.

During the third quarter of fiscal 2016, our Italian subsidiary, Coord3, exercised an option to purchase their current manufacturing facility. The total remaining principal payment of €15,000 (equivalent to approximately $17,000) payable during the fourth quarter of fiscal 2019 at a 7.0% annual interest rate is recorded in 'Line of credit and short-term notes payable' on our Consolidated Balance Sheet at March 31, 2019.

Our Brazilian subsidiary ("Brazil") has a credit line and overdraft facility with their current local bank. Brazil can borrow a total of B$300,000 (equivalent to approximately $76,000). The Brazil facility is cancelable at any time by either Brazil or the bank and any amounts then outstanding would become immediately due and payable. The monthly interest rate for the facility is 12.85%. We had no borrowings under these facilities at March 31, 2019 and June 30, 2018, respectively.

12. Severance, Impairment and Other Charges

During the third quarter of fiscal 2016, we announced a financial improvement plan that resulted in a reduction in global headcount of approximately 11%. This plan was implemented to re-align our fixed costs with our near-term to mid-term expectations for our business. In addition, during the first quarter of fiscal 2017, we decided to terminate production and marketing of a specific product line due to limitations in its design. Since this decision was made, we have written off $290,000, net related to inventory and impaired certain customer receivable balances in the amount of $127,000. By the second quarter of fiscal 2018, we had substantially completed the plan that was announced; we incurred total pre-tax cash and non-cash charges relating to the original restructuring plan, as well as the additional charges from the terminated product line, of $3,531,000.

In January 2018, a judge in a trade secrets case brought by Perceptron granted the defendants' motions for recovery of their attorney fees (see Note 17, "Commitments and Contingencies" for further discussion relating to this matter). A charge in the amount of $675,000 was recorded as a liability in the second quarter of fiscal 2018. We appealed this court decision. In January 2019, we settled with the defendants and ended our appeal in return for a net payment due to them in the amount of $66,000. As a result, in the second quarter of fiscal 2019, we adjusted our accrual.

The charges recorded as Severance, Impairment and Other Charges are as follows (in thousands):

	Three Months March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Severance and Related Costs	$ -	$ -	$ -	$ (13)
Court Award	-	-	(609)	675
Impairment	-	-	-	(42)
Inventory Write-Off	-	(3)	-	(17)
Total	$ -	$ (3)	$ (609)	$ 603

For the three months ended March 31, 2018, the decrease of the inventory write-off was due to finding other uses for some of the inventory originally designated as impaired.

Severance expense for the nine months ended March 31, 2018 was associated with adjustments at our China (income of $15,000) and U.S. (expense of $2,000) locations as we reached final settlements related to several individuals impacted by the reduction in force. The decrease in the impairment for the nine months ended March 31, 2018 was due to a collection of an accounts receivable balance that was previously written off. The decrease of the inventory write-off was due to finding other uses for some of the inventory originally designated as impaired.

The following table reconciles the activity for the Reserves for Restructuring and Other Charges (in thousands):

	Nine Months Ended March 31,	
	2019	2018
Beginning Balance at July 1,	$ 675	$ 1,113
Accruals - Severance Related	-	(13)
Accruals / Adjustments - Court Award	(609)	675
Payments	(66)	(849)
Ending Balance at March 31,	$ -	$ 926

13. Current and Long-Term Taxes Payable

We acquired current and long-term taxes payable as part of the purchase of Coord3. The tax liabilities represent income and payroll related taxes that are payable in accordance with government authorized installment payment plans. These installment plans require varying monthly payments through January 2021.

14. Other Long-Term Liabilities

Other long-term liabilities at March 31, 2019 and June 30, 2018 include $573,000 and $601,000, respectively for long-term contractual and statutory severance liabilities acquired as part of the purchase of Coord3 that represent amounts that will be payable to employees upon termination of employment.

15. Stock-Based Compensation

We maintain a 2004 Stock Incentive Plan (“2004 Plan”) covering substantially all company employees, non-employee directors and certain other key persons. The 2004 Plan is administered by a committee of our Board of Directors: The Management Development, Compensation and Stock Option Committee (“MDCSOC”).

Awards under the 2004 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 are determined by the MDCSOC, except as otherwise specified in the 2004 Plan.

Stock Options

Options outstanding under the 2004 Plan generally become exercisable at 25% or 33.3% per year beginning one year after the date of grant and expire ten years after the date of grant. Option prices from options granted under these plans must not be less than the fair market value of our stock on the date of grant. We use 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 our stock price. These factors could change in the future, which would affect the stock-based compensation expense in future periods.

We recognized operating expense for non-cash stock-based compensation costs related to stock options in the amount of $59,000 and $342,000 in the three and nine months ended March 31, 2019, respectively. We recognized operating expense for non-cash stock-based compensation costs related to stock options in the amount of $78,000 and $275,000 in the three and nine months ended March 31, 2018, respectively. As of March 31, 2019, the total remaining unrecognized compensation cost related to non-vested stock options amounted to approximately $169,000. We expect to recognize this cost over a weighted average vesting period of 1.3 years.

We granted 8,000 stock options in both the three and nine months ended March 31, 2019. We granted zero and 100,000 stock options in the three and nine months ended March 31, 2018, respectively. The estimated fair value as of the date options were granted during the periods presented, using the Black-Scholes option-pricing model, is shown in the table below.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Weighted average estimated fair value per share of options granted during the period	$ 3.91	NA	$ 3.91	$ 3.96
Assumptions:				
Dividend Yield	-	NA	-	-
Common Stock Price Volatility	43.50%	NA	43.50%	49.01%
Risk Free Rate of Return	2.56%	NA	2.56%	1.81%
Expected Option Term (In Years)	6.6	NA	6.6	5.4

We received approximately $124,000 and $318,000 in cash from option exercises under our share-based payment arrangements for the three and nine months ended March 31, 2019, respectively. We received $441,000 cash from option exercises under our share-based payment arrangements for both the three and nine months ended March 31, 2018.

Restricted Stock and Restricted Stock Units

Our restricted stock and restricted stock units under the 2004 Plan generally have been awarded by four methods, as follows:

(1) Awards that are earned based on achieving certain individual and financial performance goals during the initial fiscal year with either a subsequent one-year service vesting period or with a one-third vesting requirement on the first, second and third anniversaries of the issuance, provided the individual's employment has not terminated prior to the vesting date and are freely transferable after vesting;
(2) Awards that are earned based on achieving certain revenue and operating income results with a subsequent one-third vesting requirement on the first, second and third anniversaries of the issuance provided the individual's employment has not terminated prior to the vesting date and are freely transferable after vesting;
(3) Awards to non-management members of our Board of Directors with a subsequent one-third vesting requirement on the first, second and third anniversaries of the issuance provided the service of the non-management member of our Board of Directors has not terminated prior to the vesting date and are freely transferable after vesting, and
(4) Awards that are granted with a one-third vesting requirement on the first, second and third anniversaries of the issuance provided the individual's employment has not terminated prior to the vesting date and are freely transferable after vesting, including restricted stock units granted as part of the Fiscal Year 2018 and Fiscal Year 2019 Long-Term Incentive Compensation Plan.

The grant date fair value associated with granted restricted stock is calculated in accordance with ASC 718 *"Compensation – Stock Compensation"*. Compensation expense related to restricted stock awards is based on the closing price of our Common Stock on the grant date authorized by our MDCSOC, multiplied by the number of restricted stock and restricted stock unit awards expected to be issued and vested and is amortized over the combined performance and service periods. The non-cash stock-based compensation expense recorded for restricted stock and restricted stock unit awards for the three and nine months ended March 31, 2019 was $47,000 and $191,000, respectively. The non-cash stock-based compensation expense recorded for restricted stock and restricted stock unit awards for the three and nine months ended March 31, 2018 was $27,000 and $159,000, respectively. As of March 31, 2019, the total remaining unrecognized compensation cost related to the restricted stock and restricted stock unit awards is approximately $334,000. We expect to recognize this cost over a weighted average vesting period of 2.0 years.

A summary of the status of restricted stock and restricted stock unit awards outstanding at March 31, 2019 is presented in the table below.

	Nonvested Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2018	77,570	$ 7.77
Granted	51,650	7.21
Vested	(24,857)	7.71
Forfeited or Expired	-	-
Non-vested at March 31, 2019	104,363	$ 7.50

Performance Stock Units

During the second quarter of fiscal 2019, our MDCSOC granted certain employees Performance Share Units ("PSUs") as part of the Fiscal Year 2019 Long-Term Incentive Compensation Plan. The Performance Measures were defined by the Committee as a specific Target level of Revenue and Operating Income Before Incentive Compensation for each of the following: plan year 2019 (October 1, 2018 to September 30, 2019), fiscal year 2020 and fiscal year 2021. Up to one-third of the PSUs can be earned each year, determined based upon actual performance levels achieved in that year. One half of the award earned each year is based upon the achievement of the two Performance Targets in that year, provided that a minimum level of Operating Income Before Incentive Compensation is achieved for that year. The actual award level for each year can range from 50% to 150% (for Revenue Target) or 75% to 200% (for Operating Income Target) of the target awards depending on actual performance levels achieved in each year compared to that year's target. If Operating Income Before Incentive Compensation is less than 75% of the targeted Operating Income Before Incentive Compensation for the year, then no PSU's will vest for that year and the PSU's vesting that year will expire.

During the second quarter of fiscal 2018, our MDCSOC granted certain employees PSUs as part of the Fiscal Year 2018 Long-Term Incentive Compensation Plan. For fiscal 2018, actual Revenue and Operating Income Before Incentive Compensation exceeded the Fiscal Year 2018 Targets, resulting in 161.5% of the target level of PSU's vesting.

The non-cash stock-based compensation expense recorded for performance share unit awards during the first half of fiscal 2019 was fully reversed in the third quarter of fiscal 2019, because at this time we estimate that the level of actual performance as measured against the Operating Income Before Incentive Compensation target levels will be less than 75% for the fiscal year 2019, the threshold performance level for the vesting of these awards in fiscal 2019. The non-cash stock-based compensation expense recorded for performance share unit awards for the three and nine months ended March 31, 2018 was $33,000 and $100,000, respectively. As of March 31, 2019, the total remaining unrecognized compensation cost related to performance share unit awards is approximately $355,000. We expect to recognize this cost over a weighted average vesting period of 1.6 years.

A summary of the status of the PSUs outstanding at March 31, 2019 is presented in the table below.

	Nonvested Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2018	39,350	$ 7.95
FY 2018 Performance results	8,054	7.95
Granted	51,650	7.21
Vested	(21,170)	7.95
Forfeited or Expired	-	-
Non-vested at March 31, 2019	77,884	$ 7.46

16. 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 account the average unrecognized non-cash stock-based compensation expense and additional adjustments for tax benefits related to non-cash stock-based compensation expense. Furthermore, we exclude all outstanding options to purchase common stock from the computation of diluted EPS in periods of net losses because the effect is anti-dilutive.

Options to purchase 76,300 and 20,910 shares of common stock outstanding in the three months ended March 31, 2019 and 2018, respectively, were not included in the computation of diluted EPS because the effect would have been anti-dilutive. Options to purchase 110,576 and 63,365 shares of common stock outstanding in the nine months ended March 31, 2019 and 2018, respectively, were not included in the computation of diluted EPS because the effect would have been anti-dilutive.

17. Commitments and Contingencies

We may, from time to time, be subject to litigation and other claims in the ordinary course of our business. We accrue for estimated losses arising from such litigation or claims if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. To estimate whether a loss contingency should be accrued by a charge to income, we evaluate, 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 litigation and claims is subject to significant uncertainty, changes in the factors used in our evaluation could materially impact our financial position or results of operations.

We are currently unaware of any significant pending litigation affecting us other than the matters set forth below.

In May 2017, a judge in a trade secrets case brought by Perceptron, granted the defendants' motions for summary disposition. In January 2018, the judge granted defendants' motions for recovery of their attorney fees in the amount of $675,000, plus interest. In the second quarter of fiscal 2018, we recorded a charge in the amount of $675,000 relating to this matter. We appealed this court's decision to grant summary disposition and the award of the attorney fees. In January 2019, we settled with the defendants and ended our appeal in return for a net payment due to them in the amount of $66,000. As a result, in the second quarter of fiscal 2019, we adjusted our accrual and paid the settlement amount in the third quarter of fiscal 2019 (see Note 12 "Severance, Impairment and Other Charges" for further discussion).

In the third quarter of fiscal 2018, the Canadian Revenue Agency ("CRA") completed a Goods and Services Tax/Harmonized Sales Tax Returns (GST/HST) audit. Based on this audit, the CRA preliminarily proposed to assess us approximately CAD $1,218,000 (equivalent to approximately $923,000) in taxes plus interests and penalties related to sales from 2013 through 2018. CRA has indicated that we are entitled to invoice our customers to recover this amount and our customers are required to remit payment. Our response to the CRA preliminary assessment was delivered in April 2018. In June 2018, we received the final assessment, which confirmed the preliminary assessment. In August 2018, we filed a formal appeal request and posted a surety bond as security for this claim. We have not recorded an accrual related to this preliminary audit finding because we are disputing several of the CRA's conclusions and because, we expect to ultimately receive the funds from our customers (excluding any interest or penalties), although there may be a timing difference between when we must pay the CRA and when we collect the funds from our customers.

18. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted by the U.S. The Act implements comprehensive tax legislation which, among other changes, reduces the federal statutory corporate tax rate from 35% to 21% and implements a territorial tax system that eliminates the ability to credit certain foreign taxes. Additionally, in December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which addressed how a company recognized provisional amounts when a company did not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period, as defined in SAB 118, ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but could not extend beyond one year.

Due to our June 30 fiscal year end, the lower United States income tax rates were phased in, resulting in a blended rate for our fiscal year 2018 and a 21% rate for years starting with our fiscal year 2019. Based on the provisions of the Act, we re-measured our U.S. deferred tax assets and related valuation allowance and adjusted our estimated annual federal income tax rate to incorporate the lower corporate tax rate into our tax provision for the quarter the Act was enacted as the change represents a discrete item for purposes of income tax accounting. The re-measurement of U.S. deferred tax assets and related valuation allowance at the lower enacted corporate tax rate resulted in a net change of zero.

Furthermore, the new Act repealed the Alternative Minimum Tax ("AMT") on corporations. Any AMT credit carryforwards can be used to offset regular tax for any tax year and is refundable, subject to limitation in 2018 - 2021. With this change, we expect to be able to use or monetize the AMT credit within stated limitation period, and therefore, the valuation allowance recorded against the credit was removed in the second quarter of fiscal 2018.

The Act also imposed a tax on the untaxed foreign earnings of foreign subsidiaries of U.S. companies by deeming those earnings to be repatriated (the "Transition Tax"). Generally, foreign earnings held in the form of cash and cash equivalents are taxed by the U.S. at a 15.5% rate and the remaining earnings are taxed at an 8% rate. The Transition Tax generally may be paid in installments over an eight-year period. At the date of enactment, we were not in a position to present either a final or provisional estimate with respect to the Transition Tax. As of June 30, 2018, we estimated the impact of the Transition Tax by incorporating assumptions made based upon our then-current interpretation and analysis of the Act. We completed our evaluation and related calculations during the second quarter of fiscal 2019, which confirmed our previous conclusion that our foreign tax credits would completely offset any Transition Tax calculated. As a result, we have not made any cash payments related to the Transition Tax.

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

SAFE HARBOR STATEMENT

Certain statements in this report, including statements made in this Management's Discussion and Analysis of Financial Condition and Results of Operations, may be "forward-looking statements" within the meaning of the Securities Exchange Act of 1934, including our expectation as to our fiscal year 2019 and future results, operating data, new order bookings, revenue, expenses, net income and backlog levels, trends affecting our future revenue levels, the rate of new orders, the timing of revenue and net income increases from new products which we have recently released or have not yet released, the timing of the introduction of new products and our ability to fund our fiscal year 2019 and future cash flow requirements. We may also make forward-looking statements in our press releases or other public or shareholder communications. Whenever possible, we have identified these forward-looking statements by words such as "target," "will," "should," "could," "believes," "expects," "anticipates," "estimates," "prospects," "outlook," "guidance" or similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. While we believe that our forward-looking statements are reasonable, you should not place undue reliance on any such forward-looking statements, which speak only as of the date made. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. Factors that might cause such a difference include, without limitation, the risks and uncertainties discussed from time to time in our periodic reports filed with the Securities and Exchange Commission, including those listed in "Item 1A: Risk Factors" of our Annual Report on Form 10-K for our fiscal year 2018. Except as required by applicable law, we do not undertake, and expressly disclaim, any obligation to publicly update or alter our statements whether as a result of new information, events or circumstances occurring after the date of this report or otherwise.

EXECUTIVE SUMMARY

Perceptron, Inc. ("Perceptron", "we", "us" or "our") develops, produces and sells a comprehensive range of automated industrial metrology products and solutions to manufacturing organizations for dimensional gauging, dimensional inspection and 3D scanning. Our primary operations are in North America, Europe and Asia. All of our products rely on our core technologies and are divided into the following:

- In-Line and Near-Line Measurement Solutions - engineered metrology systems for industrial automated process control and assembly using fixed and robot mounted laser scanners. We also provide Value Added Services including training, field service, calibration, launch support services, consulting services, maintenance agreements and repairs related to our In-Line and Near-Line Measurement Solutions.
- Off-Line Measurement Solutions - tailored metrology products for industrial gauging and dimensional inspection using standalone robot-mounted laser scanners and Coordinate Measuring Machines ("CMM"). We also provide Value Added Services including training, calibration, maintenance agreements and repairs related to our Off-Line Measurement Solutions.
- 3D Scanning Solutions - laser scanner products that target the digitizing, reverse engineering, inspection and original equipment manufacturers wheel alignment sectors.

The largest end-use sector we serve is the automotive industry. New automotive tooling programs represent the most important selling opportunity for our In-Line and Near-Line Measurement Solutions. The number and timing of new vehicle tooling programs vary based on the plans of the individual automotive manufacturers. The existing installed base of In-Line and Near-Line Measurement Solutions also provides a continuous revenue stream in the form of system additions, upgrades and modifications as well as Value Added Services such as customer training and support.

Our Off-Line Measurement and 3D Scanning Solutions are utilized by a wide variety of targeted industrial customers, with the automotive industry representing the largest source of customers for industrial metrology products.

While we experienced softness in our bookings due to macro headwinds in our key industry segment and delayed customer order timing, primarily in the Americas region, during the third quarter of fiscal 2019, we believe that our new products are starting to gain traction, especially in our Europe and Asia regions. Backlog of $19.5 million in our Europe region, reflecting an increase from March 2018 of $0.6 million, is evidence of continued strength in customer demand in that region. We remain committed to the implementation of our strategic plan and the operational performance improvements made to-date have positioned us well for additional long-term growth opportunities. Furthermore, due to the lower bookings and backlog levels, we took actions to reduce fixed and variable costs during the third quarter and we expect to complete these actions during the fourth quarter of fiscal 2019.

Results for reporting periods beginning July 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, Revenue Recognition. See Note 2 of the Notes to the Consolidated Financial Statements, "New Accounting Pronouncements" contained in this Quarterly Report on Form 10-Q for further discussion. As a result, the results of operations for periods prior to and after July 1, 2018 are not directly comparable to one another. Under the modified retrospective transition method we used to adopt ASC 606, we are required to disclose in the first year of adoption, the hypothetical impact to our financial statements as if we had continued to follow revenue recognition rules under ASC 605 for the period. See Note 5 of the Notes to the Consolidated Financial Statements, "Revenue from Contracts with Customers" contained in this Quarterly Report on Form 10-Q for a summary of the impact as of and for the three and nine months ended March 31, 2019.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Overview – We reported a net loss of $1.1 million, or $(0.11) per diluted share, for the third quarter of fiscal 2019 compared with net income of $1.0 million, or $0.11 per diluted share, for the third quarter of fiscal 2018.

Our quarterly results vary from quarter to quarter and are dependent upon delivery and installation schedules determined by our customers. These schedules are subject to change by the customer and are not controlled by us.

Bookings – Bookings represent new orders received from our customers. We expect the level of new orders to fluctuate from quarter to quarter and do not believe new order bookings during any particular period are indicative of our future operating performance.

Bookings by geographic location were (in millions):

	Three Months Ended March 31,					
	2019		2018		Increase/(Decrease)	
Geographic Region						
Americas	$ 3.3	25.0%	$ 10.3	42.7%	$ (7.0)	(68.0%)
Europe	5.9	44.7%	9.4	39.0%	(3.5)	(37.2%)
Asia	4.0	30.3%	4.4	18.3%	(0.4)	(9.1%)
Totals	$ 13.2	100.0%	$ 24.1	100.0%	$ (10.9)	(45.2%)

The decrease in bookings in the third quarter of fiscal 2019 as compared to the third quarter of fiscal 2018 of $10.9 million, including an unfavorable currency impact of $0.5 million, is primarily due to a decrease of $8.0 million in our In-Line and Near-Line Measurement Solutions, a decrease of $2.0 million in our Off-Line Measurement Solutions, a decrease of $0.5 million in our 3D Scanning Solutions and a decrease of $0.4 million in our Value Added Services. On a geographic basis, the $7.0 million decrease in our Americas region is primarily due to a decrease of $6.6 million in our In-Line and Near-Line Measurement Solutions, a decrease of $0.2 million in our Off-Line Measurement Solutions, a decrease of $0.1 million in our Value Added Services and a decrease of $0.1 million in our 3D Scanning Solutions. The $3.5 million decrease in our Europe region is primarily due to a decrease of $1.9 million in our In-Line and Near-Line Measurement Solutions, a decrease of $1.0 million in our Off-Line Measurement Solutions, a decrease of $0.5 million in our 3D Scanning Solutions and a decrease of $0.1 million in our Value Added Services. The $0.4 million decrease in our Asian region is primarily due to a decrease of $0.8 million in our Off-Line Measurement Solutions and a decrease of $0.2 million in our Value Added Services, partially offset by an increase of $0.5 million in our In-Line and Near-Line Measurement Solutions and an increase of $0.1 million in our 3D Scanning Solutions.

Backlog – Backlog represents orders or bookings we have received but have not yet been filled, that is, our unsatisfied performance obligations as of the reporting date. We believe that the level of backlog during any particular period is not necessarily indicative of our future operating performance. Although most of the backlog is subject to cancellation by our customers, we expect to fill substantially all of the orders in our backlog. See Note 5 of the Notes to the Consolidated Financial Statements, "Revenue from Contracts with Customers" contained in this Quarterly Report on Form 10-Q for our current expectation on the timing of the revenue recognition for our current backlog level.

Backlog by geographic location was (in millions):

	As of March 31,				
	2019		2018		Increase/(Decrease)	
Geographic Region						
Americas	$ 7.9	22.1%	$ 20.2	39.5%	$ (12.3)	(60.9%)
Europe	19.5	54.6%	18.9	36.9%	0.6	3.2%
Asia	8.3	23.3%	12.1	23.6%	(3.8)	(31.4%)
Totals	$ 35.7	100.0%	$ 51.2	100.0%	$ (15.5)	(30.3%)

The current quarter ending backlog decreased by $15.5 million compared to the ending backlog at March 31, 2018. As a result of our adoption of ASC 606 as of July 1, 2018, our total backlog decreased by $3.8 million. See Note 5 of the Notes to the Consolidated Financial Statements, "Revenue from Contracts with Customers" contained in this Quarterly Report on Form 10-Q for further discussion on how the timing of our net sales have been impacted by the change in revenue recognition rules. The decrease in our backlog was primarily due to a decrease of $12.7 million in In-Line and Near-Line Measurement Solutions, a decrease of $3.0 million in our Off-Line Measurement Solutions and a decrease of $0.2 million in our Value Added Services, partially offset by an increase of $0.4 million in our 3D Scanning Solutions. On a geographic basis, the $12.3 million decrease in our Americas region is due to a decrease of $12.0 million in our In-Line and Near-Line Measurement, a decrease of $0.2 million in our Off-Line Measurement Solutions and a decrease of $0.1 million in our Value Added Services. The $3.8 million decrease in our Asian region is primarily due to a decrease of $2.1 million in our Off-Line Measurement Solutions and a decrease of $1.7 million in our In-Line and Near-Line Measurement Solutions. The $0.6 million increase in our Europe region is primarily due to an increase of $1.0 million in our In-Line and Near-Line Measurement Solutions and an increase of $0.4 million in our 3D Scanning Solutions, partially offset by a decrease of $0.7 million in our Off-Line Measurement Solutions and a decrease of $0.1 million in our Value Added Services.

A summary of our operating results is shown below (in millions):

	Three Months Ended March 31,			
	2019	% of Sales	2018	% of Sales
Americas Sales	$ 4.4	28.2%	$ 8.1	37.8%
Europe Sales	8.0	51.3%	10.1	47.2%
Asia Sales	3.2	20.5%	3.2	15.0%
Net Sales	**$ 15.6**	**100.0%**	**$ 21.4**	**100.0%**
Cost of Sales	**10.5**	**67.3%**	**13.5**	**63.1%**
Gross Profit	**5.1**	**32.7%**	**7.9**	**36.9%**
Operating Expenses				
Selling, General and Administrative	4.4	28.2%	4.7	22.0%
Engineering, Research and Development	1.8	11.5%	2.1	9.8%
Severance, Impairment and Other Charges	-	0%	-	0.0%
Operating (Loss) Income	**(1.1)**	**(7.0%)**	**1.1**	**5.1%**
Other Income and (Expenses), net				
Interest Expense, net	-	0.0%	-	0.0%
Foreign Currency Gain (Loss), net	(0.1)	(0.7%)	-	0.0%
Other Income and (Expense), net	-	0.0%	-	0.0%
(Loss) Income Before Income Taxes	**(1.2)**	**(7.7%)**	**1.1**	**5.1%**
Income Tax Benefit (Expense)	0.1	**0.6%**	**(0.1)**	**(0.4%)**
Net (Loss) Income	**$ (1.1)**	**(7.1%)**	**$ 1.0**	**4.7%**

Sales – Net sales of $15.6 million for the third quarter of our fiscal year 2019 decreased $5.8 million, or (27.1%), including an unfavorable currency impact of $0.9 million, when compared to the same period a year ago. See Note 5 of the Notes to the Consolidated Financial Statements, "Revenue from Contracts with Customers" contained in this Quarterly Report on Form 10-Q for further discussion on how our net sales have been impacted by the change in revenue recognition rules that we adopted as of July 1, 2018. The decrease is primarily due to a decrease of $4.9 million in our In-Line and Near-Line Measurement Solutions and a decrease of $1.1 million in our Off-Line Measurement Solutions, partially offset by an increase of $0.2 million in our 3D Scanning Solutions. On a geographic basis, the decrease of $3.7 million in our Americas region is primarily due to a decrease of $3.5 million in our In-Line and Near-Line Measurement Solutions, a decrease of $0.1 million in our Off-Line Measurement Solutions and a decrease of $0.1 million in our 3D Scanning Solutions. The decrease of $2.1 million in our Europe region is primarily due to a decrease of $1.4 million in our In-Line and Near-Line Measurement Solutions and a decrease of $0.7 million in our Off-Line Measurement Solutions. There was no material change in our Asian region primarily due to an increase of $0.3 million in our 3D Scanning Solutions, offset by a decrease of $0.3 million in our Off-Line Measurement Solutions.

Gross Profit –Gross profit percentage was 32.7% in the third quarter of fiscal 2019 compared to 36.9% in the same period a year ago. The lower gross profit percentage in the third quarter of fiscal 2019 was primarily due to the level and mix of revenue as well as the timing of certain expenses in cost of goods sold in fiscal 2018 under prior accounting rules, partially offset by lower warranty costs in the third quarter of fiscal 2019.

Selling, General and Administrative (SG&A) Expenses – SG&A expenses were approximately $4.4 million in the third quarter of fiscal 2019, a decrease of $0.3 million compared to the same period a year ago. The decrease is primarily due to a decrease of employee-related expenses of $0.8 million, including a reduction of the accrual related to our short-term incentive compensation plan due to our estimate that the level of our actual performance for fiscal year 2019 will not meet the targets set to earn this incentive compensation and a decrease in our Board of Directors fees due to a change in the composition of the Board. These decreases are partially offset by increases in legal and audit fees, other third party expenses and building-related expenses.

Engineering, Research and Development (R&D) Expenses – Engineering, research and development expenses were approximately $1.8 million in the third quarter of fiscal 2019, a decrease of $0.3 million compared to the third quarter of fiscal 2018. The decrease is primarily due to decreases in employee-related costs of $0.2 million including a reduction of the accrual related to our short-term incentive compensation plan due to our estimate that the level of our actual performance for fiscal year 2019 will not meet the targets set to earn this incentive compensation, as well as a decrease of $0.1 million related to specialized supplies utilized in the development of our products.

Foreign Currency Gain (Loss), net – Foreign Currency Gain (Loss), net was a loss of $0.1 million in the third quarter of fiscal 2019 compared to an immaterial gain in third quarter of fiscal 2018. The net loss in the third quarter of fiscal 2019 was primarily related to the changes in value of the Euro in relation to the US Dollar.

Income Taxes – Our effective tax rate for the third quarter of fiscal year 2019 was 10.9% compared to 9.5% in the third quarter of fiscal year 2018. We have previously established full valuation allowances against our U.S. Federal, Germany, Japan, Singapore and Brazil net deferred tax assets. The effective tax rates in fiscal 2019 and fiscal 2018 were impacted by not recognizing tax expense on pre-tax income or tax benefits on pre-tax losses in some of the jurisdictions where we have previously established full valuation allowances against our net deferred tax assets.

Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

Overview – We reported net income of $1.4 million, or $0.14 per diluted share, for the first nine months of fiscal 2019 compared with a net income of $2.9 million, or $0.31 per diluted share, for the first nine months of fiscal 2018.

Bookings – Bookings represent new orders received from our customers. We expect the level of new orders to fluctuate from quarter to quarter and do not believe new order bookings during any particular period are indicative of our future operating performance.

Bookings by geographic location were (in millions):

	Nine Months Ended March 31,					
	2019		2018		Increase/(Decrease)	
Geographic Region						
Americas	$ 9.9	19.6%	$ 26.8	39.8%	$ (16.9)	(63.1%)
Europe	27.2	53.7%	26.8	39.8%	0.4	1.5%
Asia	13.5	26.7%	13.7	20.4%	(0.2)	(1.5%)
Totals	$ 50.6	100.0%	$ 67.3	100.0%	$ (16.7)	(24.8%)

The decrease in bookings in the first nine months of fiscal 2019 as compared to the first nine months of fiscal 2018 of $16.7 million, including an unfavorable currency impact of $2.4 million, is primarily due to a decrease of $13.0 million in our In-Line and Near-Line Measurement Solutions, a decrease of $4.6 million in our Off-Line Measurement Solutions and a decrease of $0.3 million in our Value Added Services, partially offset by an increase of $1.2 million in our 3D Scanning Solutions. On a geographic basis, the $16.9 million decrease in our Americas region is primarily due to a decrease of $15.8 million in our In-Line and Near-Line Measurement Solutions, a decrease of $0.8 million in our Off-Line Measurement Solutions, a decrease of $0.2 million in our 3D Scanning Solutions and a decrease of $0.1 million in our Value Added Services. The $0.2 million decrease in our Asian region is primarily due to a decrease of $1.6 million in our Off-Line Measurement Solutions and a decrease of $0.1 million in our Value Added Services, partially offset by an increase of $0.9 million in our In-Line and Near-Line Measurement Solutions and an increase of $0.6 million in our 3D Scanning Solutions. The $0.4 million increase in our Europe region is primarily due to an increase of $1.9 million in our In-Line and Near-Line Measurement Solutions and an increase of $0.8 million in our 3D Scanning Solutions, partially offset by a decrease of $2.2 million in our Off-Line Measurement Solutions and a decrease of $0.1 million in our Value Added Services.

A summary of our operating results is shown below (in millions):

	Nine Months Ended March 31,			
(in million)	**2019**	**% of Sales**	**2018**	**% of Sales**
Americas Sales	$ 19.7	33.6%	$ 26.1	42.7%
Europe Sales	25.7	43.9%	24.3	39.8%
Asia Sales	13.2	22.5%	10.7	17.5%
Net Sales	**$ 58.6**	**100.0%**	**$ 61.1**	**100.0%**
Cost of Sales	**37.3**	**63.7%**	**38.1**	**62.4%**
Gross Profit	**21.3**	**36.3%**	**23.0**	**37.6%**
Operating Expenses				
Selling, General and Administrative	14.0	23.9%	13.6	22.3%
Engineering, Research and Development	6.1	10.4%	5.7	9.2%
Severance, Impairment and Other Charges	(0.6)	(1.1%)	0.6	1.0%
Operating Income	**1.8**	**3.1%**	**3.1**	**5.1%**
Other Income and (Expenses), net				
Interest Expense, net	-	0.0%	(0.1)	(0.2%)
Foreign Currency Gain (Loss), net	(0.2)	(0.4%)	-	0.0%
Other Income and (Expense), net	-	0.0%	-	0.0%
Income Before Income Taxes	**1.6**	**2.7%**	**3.0**	**4.9%**
Income Tax Expense	**(0.2)**	**(0.3%)**	**(0.1)**	**(0.2%)**
Net Income	**$ 1.4**	**2.4%**	**$ 2.9**	**4.7%**

Sales – Net sales of $58.6 million for the first nine months of our fiscal year 2019 decreased $2.5 million, or (4.1%), including an unfavorable currency impact of $1.9 million, when compared to the same period a year ago. The decrease is primarily due to a decrease of $2.8 million in our In-Line and Near-Line Measurement Solutions and a decrease of $0.6 million in our Value Added Services, partially offset by an increase of $0.5 million in our 3D Scanning Solutions and an increase of $0.4 million in our Off-Line Measurement Solutions. On a geographic basis, the decrease of $6.4 million in our Americas region is primarily due to a decrease of $4.7 million in our In-Line and Near-Line Measurement Solutions, a decrease of $0.8 million in our Off-Line Measurement Solutions, a decrease of $0.6 million in our 3D Scanning Solutions and a decrease of $0.3 million in our Value Added Services. The increase of $2.5 million in our Asian region is primarily due to an increase of $1.7 million in our Off-Line Measurement Solutions, an increase of $0.7 million in our 3D Scanning Solutions and an increase of $0.2 million in our In-Line and Near-Line Measurement Solutions, partially offset by a decrease of $0.1 million in our Value Added Services. The increase of $1.4 million in our Europe region is primarily due to an increase of $1.7 million in our In-Line and Near-Line Measurement Solutions and an increase of $0.4 million in our 3D Scanning Solutions, partially offset by a decrease of $0.5 million in our Off-Line Measurement Solutions and a decrease of $0.2 million in our Value Added Services.

Gross Profit –Gross profit percentage was 36.3% in the first nine months of fiscal 2019 compared to 37.6% in the same period a year ago. The lower gross profit percentage in the first nine months of fiscal 2019 was primarily due to the level and mix of revenue and the timing of certain expenses in cost of goods sold in fiscal 2018 under prior accounting rules, partially offset by lower warranty costs in fiscal 2019.

Selling, General and Administrative (SG&A) Expenses – SG&A expenses were approximately $14.0 million in the first nine months of fiscal 2019, an increase of $0.4 million compared to the same period a year ago. The increase is primarily due to an increase in our legal and audit fees, other third party expenses, building-related expenses and advertising and marketing costs, partially offset by decreases in employee-related costs of $0.2 million, including a reduction of the accrual related to our short-term incentive compensation plan due to our estimate that the level of actual performance for fiscal year 2019 will not meet the targets set to earn this incentive compensation and a decrease of $0.1 million in depreciation and amortization.

Engineering, Research and Development (R&D) Expenses – Engineering, research and development expenses were approximately $6.1 million in the first nine months of fiscal 2019, an increase of $0.4 million compared to the same period of fiscal 2018. The increase is primarily due to increases in employee-related costs of $0.3 million as well as an increase of $0.1 million related to specialized supplies utilized in the development of our products.

Severance, Impairments and Other Charges – Severance, impairments and other charges for the first nine months of fiscal 2019 was due to an adjustment recorded in the second quarter of fiscal 2019 to an accrual we originally recorded in the second quarter of fiscal 2018 related to the trade secrets case brought by us. The $0.6 million charge in the first nine months of fiscal 2018 was primarily due to the charge we recorded related to the trade secrets case brought by us, partially offset by an adjustment related to severance at our Chinese location, a collection of an accounts receivable balance that was previously written off, as well as a reduction in the inventory write-off due to finding other uses for some of the inventory originally designated as impaired. In January 2019, we settled with the defendants and ended our appeal in return for a net payment due to them in the amount of $0.1 million and adjusted our prior accrual for this case. We have incurred $3.5 million of expense related to the financial improvement plan that commenced in March 2016, and we have substantially completed the plan that was announced. See Note 12 of the Notes to the Consolidated Financial Statements, “Severance, Impairment and Other Charges” contained in this Quarterly Report on Form 10-Q for further discussion.

Interest Expense, net – Net interest expense was immaterial for the first nine months of fiscal 2019 compared to a net expense of $0.1 million in the first nine months of fiscal 2018. The improvement was primarily due to less usage of the U.S. credit facility during the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018, as well as the continued pay-down of liabilities incurred in the acquisition of Coord3.

Foreign Currency Gain (Loss), net – Foreign Currency Gain (Loss), net was a loss of $0.2 million in the first nine months of fiscal 2019 compared to an immaterial loss in first nine months of fiscal 2018. The loss in the first nine months of fiscal 2019 was primarily related to the changes in the value of the Euro in relation to the US Dollar.

Income Taxes – Our effective tax rate for the first nine months of fiscal 2019 was 14.1% compared to 1.5% in the first nine months of fiscal 2018. We have previously established full valuation allowances against our U.S. Federal, Germany, Japan, Singapore and Brazil net deferred tax assets. The effective tax rate in fiscal 2019 was impacted by a one-time withholding tax required to be recognized in our China location in the amount of $0.2 million. The effective tax rate for fiscal 2018 is impacted by not recognizing tax expense on pre-tax income in some of the jurisdictions where we have previously established full valuation allowances against our net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund product development and capital expenditures as well as support working capital requirements. In general, our principal sources of liquidity are cash and cash equivalents on hand, cash flows from operating activities and borrowings under available credit facilities.

Cash on Hand. Our cash and cash equivalents were $5.4 million at March 31, 2019, compared to $5.8 million at June 30, 2018.

Cash Flow. The $0.3 million decrease in cash, cash equivalents and restricted cash from June 30, 2018 to March 31, 2019 was primarily related to $0.9 million of cash used for investing activities and $0.1 million unfavorable impact from changes in exchange rates, partially offset by $0.6 million of cash provided by operations and $0.1 million of cash provided by financing activities.

Cash used for investing activities in the first nine months of fiscal 2019 is due to capital expenditures, including development of intangibles of $1.1 million partially offset by net sales of short-term investments of $0.2 million.

During the nine-month period ended March 31, 2019, cash provided by operations resulted from our net income of $1.4 million and $2.6 million in adjustments from non-cash items, partially offset by cash outflows related to working capital changes of $3.4 million. The cash used for working capital items included cash utilized for other assets and liabilities of $2.2 million, net payments of accrued liabilities and expenses of $1.4 million, a decrease in accounts payable of $0.8 million and cash used for deferred revenue of $0.5 million, partially offset by cash provided by accounts receivable of $1.2 million and cash provided by net inventory reductions of $0.3 million.

- The change in other assets and liabilities relates primarily to the timing of several prepaid assets, including our corporate insurance coverage which renews on July 1st each year, and the settlement in the trade secrets case (see Note 12 of the Notes to the Consolidated Financial Statements "Severance, Impairment and Other Charges" contained in this Quarterly Report on Form 10-Q for further discussion).
- The change in accrued expenses and liabilities is primarily due to payments of our annual short-term incentive compensation made in the first quarter of fiscal 2019 that related to fiscal year 2018 performance.
- The change in payables is due to the timing of payments made to our suppliers, as well as a decrease in inventory purchases.
- The change in deferred revenue, excluding the impact of adopting ASC 606, is due to the revenue we recognized for completed performance obligations offset by lower invoicing levels to our customers.
- The change in receivables primarily relates to our adoption of ASC 606 as we can now recognize revenue when or as performance obligations are satisfied and when the revenue exceeds the amount billed to the customer, we recognize an "Unbilled receivable".
- The change in inventory is primarily due to a higher balance of inventory at June 30, 2018 related to increased purchases we made in late fiscal 2018 in support of the development and launch of new products.

Cash provided by financing activities in the first nine months of fiscal 2019 was primarily due to cash received from proceeds on our stock compensation plan of $0.3 million, partially offset by cash paid on our short-term borrowings of $0.2 million.

Working Capital Reserves. We provide a reserve for obsolescence to recognize inventory impairment for the effects of engineering change orders as well as the age and usage of inventory that affect the value of the inventory. The reserve for obsolescence creates a new cost basis for the impaired inventory. When inventory that has previously been impaired is sold or disposed, the related obsolescence reserve is reduced resulting in the reduced cost basis being reflected in cost of goods sold. A detailed review of the inventory is performed annually with quarterly updates for known changes that have occurred since the annual review. During the nine-month period ended March 31, 2019, we decreased our reserve for obsolescence by $0.2 million.

We determine our allowance for doubtful accounts by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, our customer's current ability to pay their outstanding balance due to us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. During the nine-month period ended March 31, 2019, we increased our allowance for doubtful accounts by $0.1 million.

Investments. At March 31, 2019, we had short-term investments totaling $0.8 million and a long-term investment recorded at $0.7 million compared to short-term investments totaling $0.9 million and a long-term investment recorded at $0.7 million at June 30, 2018. See Note 6 of the Notes to the Consolidated Financial Statements, "Short-Term and Long-Term Investments" contained in this Quarterly Report on Form 10-Q for further information on our investments and their current valuation. The market for our long-term investment is currently illiquid.

Credit Facilities. We had an immaterial amount and $0.2 million outstanding under our line of credit and short-term notes payable at March 31, 2019 and June 30, 2018, respectively.

On December 4, 2017, we entered into a Loan Agreement (the "Loan Agreement") with Chemical Bank ("Chemical"), and related documents, including a Promissory Note. The Loan Agreement is an on-demand line of credit and is cancelable at any time by either Perceptron or Chemical and any amounts outstanding would be immediately due and payable. The Loan Agreement is guaranteed by our U.S. subsidiaries. The Loan Agreement allows for maximum permitted borrowings of $8.0 million. The borrowing base is calculated at the lesser of (i) $8.0 million or (ii) the sum of 80% of eligible accounts receivable balances of U.S. customers and, subject to limitations, certain foreign customers, plus the lesser of 50% of eligible inventory or $3.0 million. At March 31, 2019, our available borrowing under this facility was approximately $3.5 million. Security for the Loan Agreement is substantially all of our assets in the U.S. Interest is calculated at 2.65% above the 30 day LIBOR rate. We are not allowed to pay cash dividends under the Loan Agreement. We had no borrowings outstanding under our Loan Agreement at March 31, 2019.

Prior to December 4, 2017, we were party to an Amended and Restated Credit Agreement with Comerica Bank. On December 4, 2017, in connection with entering into the Loan Agreement, we repaid in full and terminated our Amended and Restated Credit Agreement with Comerica Bank and related documents. There were no prepayment fees payable in connection with the repayment of the loan.

During the third quarter of fiscal 2016, our Italian subsidiary, Coord3, exercised an option to purchase their current manufacturing facility. The total remaining principal payment of less than $0.1 million is payable during the fourth quarter of fiscal 2019 at a 7.0% annual interest rate and is recorded in "Short-term notes payable" on our Consolidated Balance Sheet at March 31, 2019.

Our Brazilian subsidiary ("Brazil") has a credit line and overdraft facility with their current local bank. Brazil can borrow a total of B$0.3 million (equivalent to approximately $0.1 million). The Brazil facility is cancelable at any time by either Brazil or the bank and any amounts then outstanding would become immediately due and payable. The monthly interest rate for the facility is 12.85%. We had no borrowings under these facilities at March 31, 2019 and June 30, 2018, respectively.

Commitments and Contingencies. In May 2017, a judge in a trade secrets case brought by Perceptron granted the defendants' motions for summary disposition and in January 2018 granted their motion for recovery of their attorney fees in the amount of $0.7 million, plus interest. In the second quarter of fiscal 2018, we recorded a charge in the amount of $0.7 million relating to this matter. We appealed this court's decision to grant summary disposition and the award of attorney fees. In January 2019, we settled with the defendants and ended our appeal in return for a net payment due to them in the amount of $0.1 million. As a result, in the second quarter of fiscal 2019, we adjusted our accrual and paid the settlement amount in the third quarter of fiscal 2019 (see Note 12, of the Notes to the Consolidated Financial Statements, "Severance, Impairment and Other Charges" contained in this Quarterly Report on Form 10-Q).

In the third quarter of fiscal 2018, the Canadian Revenue Agency (CRA) completed a Goods and Services Tax/Harmonized Sales Tax Returns (GST/HST) audit. Based on this audit, the CRA has preliminarily proposed to assess us approximately C$1.2 million (equivalent to approximately $0.9 million) in taxes related to sales from 2013 through 2018. CRA has indicated that we are entitled to invoice our customers to recover this amount and our customers are required to remit payment. In addition, we will be charged interest and penalties if this preliminary finding is finalized. Our response to the CRA was delivered in April 2018. In June 2018, we received the final assessment, which confirmed the preliminary assessment. In August 2018, we filed a formal appeal request and posted a surety bond as security for this claim. We did not record an accrual related to this preliminary audit finding because we are disputing several of the CRA's conclusions and because, we expect to ultimately receive the funds from our customers (excluding any interest or penalties), although there may be a timing difference between when we must pay the CRA and when we collect the funds from our customers.

See Note 17, of the Notes to the Consolidated Financial Statements, "Commitments and Contingencies" contained in this Quarterly Report on Form 10-Q. See Item 3, "Legal Proceedings" and Note 14, of the Notes to the Consolidated Financial Statements, "Commitments and Contingencies" contained in our Annual Report on Form 10-K for fiscal year 2018 for a discussion of certain other contingencies relating to our liquidity, financial position and results of operations. See also, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies - Litigation and Other Contingencies" of our Annual Report on Form 10-K for fiscal year 2018.

Capital Spending. We spent $0.8 million on capital equipment and $0.3 million on intangible projects in the first nine months of fiscal 2019 compared to $0.5 million on capital equipment and $0.3 million on intangible projects in the first nine months of fiscal 2018. We continue to closely analyze all potential capital projects and review the project's expected return on investment.

Capital Resources and Outlook. Information in this "Outlook" section should be read in conjunction with the "Safe Harbor Statement," cautionary statements and discussion of risk factors included elsewhere in this report and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

At March 31, 2019, we had $6.2 million in cash, cash equivalents and short-term investments of which $5.5 million, or approximately 89%, was held in foreign bank accounts. We have not been repatriating our foreign earnings. On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted by the U.S. The Act implements comprehensive tax legislation which, among other changes, imposes a tax on the untaxed foreign earnings of foreign subsidiaries of U.S. companies by deeming those earnings to be repatriated (the "Transition Tax"). Foreign earnings held in the form of cash and cash equivalents are taxed at a 15.5% rate and the remaining earnings are taxed at an 8% rate. In calculating the Transition Tax, we must calculate the cumulative earnings and profits and related tax pools of each of our non-U.S. subsidiaries back to 1987. We have the option to either pay any such Transition Tax over an eight-year period or to use our net operating loss carry forwards included in our existing deferred tax assets to offset the taxable income resulting from the Transition Tax. In addition, as a result of the Act and the payment of any Transition Tax due, we may be in a position to repatriate our past and future foreign earnings to the U.S. in a more cost-effective manner than under prior law, which could positively impact our liquidity in the U.S. Any such repatriation may be subject to taxation under foreign laws or the laws of the State of Michigan.

We have estimated the impact of the Transition Tax and determined that our foreign tax credits completely offset any Transition Tax, and therefore, we did not make any cash payments related to the Transition Tax. See Note 18, of the Notes to the Consolidated Financial Statements, "Income Taxes," and Item 1A, "Risk Factors titled "A change in our effective tax rate can have a significant adverse impact on our business", contained in our Annual Report on Form 10-K for fiscal year 2018 for further discussion.

Our current outlook for the remainder of fiscal 2019 is based on our internal projections about the market and related economic conditions, estimated foreign currency exchange rate effects, as well as our understanding of our key customers' plans for their retooling projects. If our key customers' plans differ from our understanding, this could have an adverse impact on our outlook.

We believe our sales for the fourth quarter of fiscal 2019 will be in the range of $15.5 million to $18.5 million. For our full fiscal year 2019, we anticipate revenue to be down approximately 10% compared to our fiscal 2018 revenue.

Based on our business plan, we believe our level of cash, cash equivalents, short-term investments, credit facilities and expected cash flows in each jurisdiction is sufficient to fund our fiscal 2019 cash flow requirements. We continue to expect capital spending including development of intangible assets to be less than $2.0 million during fiscal 2019, although there is no binding commitment to do so. Furthermore, the level of our capital spending is dependent on our continued financial strength.

We will continue to evaluate business opportunities that fit our strategic plans. There can be no assurance that we will identify opportunities that fit our strategic plans or that we will be able to enter into agreements with identified business opportunities on terms acceptable to us. We anticipate that we would finance any such business opportunities from available cash on hand, borrowing from existing credit facilities, additional sources of financing identified at that time, or issuance of additional shares of our stock, as circumstances warrant.

CRITICAL ACCOUNTING POLICIES

A summary of critical accounting policies is presented in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" of our Annual Report on Form 10-K for fiscal year 2018, which are unchanged as of March 31, 2019 except for our policies on Revenue Recognition.

Revenue Recognition

The Company adopted ASC 606 as of July 1, 2018 using the modified retrospective transition method.

Revenue is recognized when or as our customer obtains control of promised goods or services in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To achieve this principle, we analyze our contracts under the following five steps:

- Identify the contract with the customer
- Identify the performance obligation(s) in the contract
- Determine the transaction price
- Allocate the transaction price to performance obligation(s) in the contract
- Recognize revenue when or as we satisfy a performance obligation

We have contracts with multiple performance obligations in our Measurement Solutions product line such as: equipment, installation, labor support and/or training. Each performance obligation is distinct and we do not provide general rights of return for transferred goods and services. Accordingly, each performance obligation is considered a separate unit of accounting. Our Measurement Solutions are designed and configured to meet each customer's specific requirements. Timing for the delivery of each performance obligation in the arrangement is primarily determined by the customer's requirements. Delivery of all of performance obligations in an order will typically occur over a three to 15-month period after the order is received. For the equipment performance obligation, we typically recognize revenue when we ship or when the equipment is received by our customer, depending on the specific terms of the contract with our customer. For the installation, labor support and training performance obligations, we generally recognize revenue over time as we perform because of the continuous transfer of control to the customer. Because of control transferring over time, revenue is recognized based on the extent of progress toward completion of the performance obligation. We do not have price protection agreements or requirements to buy back inventory. Our history demonstrates that sales returns have been insignificant.

NEW ACCOUNTING PRONOUNCEMENTS

For a discussion of new accounting pronouncements, see Note 2, of the Notes to the Consolidated Financial Statements, "New Accounting Pronouncements" contained in this Quarterly Report on Form 10-Q.

MARKET RISK INFORMATION

Our primary market risk is related to foreign exchange rates. The foreign exchange risk is derived from our operations outside the U.S., which are primarily located in Germany, Italy and China. We may, from time to time, have interest rate risk in connection with the investment of our available cash balances.

Foreign Currency Risk. We have foreign currency exchange risk in our international operations arising from the time between sales commitment and delivery for contracts entered into in currencies other than the U.S. Dollar. For sales backlog entered into in currencies other than the U.S. Dollar, the currency rate risk exposure is predominantly less than one year with the majority in the 120 to 150-day range. At March 31, 2019, our backlog in currencies other than the U.S. Dollar was approximately 79% or $28.3 million, compared to 62% or $31.5 million at March 31, 2018. We are most vulnerable to changes in U.S. Dollar/Euro, U.S. Dollar/Chinese Yuan, U.S. Dollar/Brazilian Real and U.S. Dollar/Japanese Yen exchange rates.

The potential change in our net income that would result from a hypothetical 10% adverse change in quoted foreign currency exchange rates related to the translation of foreign denominated revenues and expenses into U.S. Dollars for both the three and nine months ended March 31, 2019, would have been an immaterial amount. This sensitivity analysis assumes there are no changes other than the exchange rates. This analysis has inherent limitations, including that it disregards the possibility that (i) the exchange rates of multiple foreign currencies may not always move in the same direction or the percentage relative to the value of the U.S. Dollar and (ii) changes in exchange rates may impact the volume of sales.

Interest Rate Risk. We invest our cash and cash equivalents in high quality, short-term investments, primarily with terms of three months or less. Based on our outstanding credit facilities and invested cash balances at March 31, 2019, a 1% increase in interest rates would have an immaterial impact on our interest expense and a 1% decrease in interest rates would have an immaterial effect on our interest income. As a result, we do not currently hedge these interest rate exposures.

Uncertainties in Credit Markets. At March 31, 2019, we hold a long-term investment in preferred stock that is not registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Our long-term investment is subject to risk due to a decline in value of the investment. The investment is currently recorded at $0.7 million, after consideration of impairment charges recorded in fiscal years 2008 and 2009.

Based on our current business plan, cash and cash equivalents and our short-term investments of $6.2 million at March 31, 2019 as well as the existing availability on our credit facilities, we do not currently anticipate that the lack of liquidity in this long-term investment will affect our ability to operate or fund our currently anticipated fiscal 2019 cash flow requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required pursuant to this item is incorporated by reference herein from Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Information.”

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the “1934 Act”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2019, our disclosure controls and procedures were effective. Rule 13a-15(e) of the 1934 Act defines “disclosure controls and procedures” as controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act 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.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes made to the risk factors listed in “Item 1A - Risk Factors” of our Annual Report on Form 10-K for fiscal year 2018.

ITEM 6. EXHIBITS

10.59*	Amendment No. 1 to Credit Agreement and Waiver, dated February 20, 2019, between the Company and Chemical Bank.
31.1*	Certification by the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934.
32.1*	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a – 14(b) of the Securities Exchange Act of 1934.
101.INS*	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed Herewith

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.

Perceptron, Inc.
(Registrant)

Date: May 9, 2019

By: /s/ David L. Watza
David L. Watza
President, Chief Executive Officer and Chief Financial Officer
(Principal Executive and Financial Officer)

Date: May 9, 2019

By: /s/ Michelle O. Wright
Michelle O. Wright
Corporate Controller and Chief Accounting Officer
(Principal Accounting Officer)

(Back To Top)

Section 2: EX-10.59 (EX-10.59)

Exhibit 10.59

AMENDMENT NO. 1 TO CREDIT AGREEMENT AND WAIVER

This Amendment No. 1 to Credit Agreement and Waiver ("Amendment") is dated as of February 20, 2019, and effective as of January 31, 2019, by and between **PERCEPTRON, INC.** ("Borrower") and **CHEMICAL BANK** ("Bank").

Recitals

A. Borrower and Bank entered into that certain Credit Agreement dated December 4, 2017 (the "Agreement").

B. Borrower and Bank desire to amend the Agreement and waive compliance with certain covenants all as set forth below.

The parties agree as follows:

1. Section 8.1(c) of the Agreement is amended to read in its entirety as follows:

"(c) (i) within thirty (30) days after and as of the end of each fiscal quarter of Borrower and (ii) within thirty (30) days after and as of the end of each month in which an Advance is made under the Revolving Credit; Borrower shall provide to Bank a Borrowing Base Certificate, each such Borrowing Base Certificate to be accompanied by (A) a report of the aging of accounts receivable and accounts payable and (B) an inventory report, in each case in form and detail reasonably acceptable to Bank;"

2. Borrower did not comply with Section 8.1(c) of the Agreement for the months ending July 31, 2018, August 31, 2018, October 31, 2018 and November 30, 2018 (the "Covenant Exceptions"). Bank hereby waives compliance with Section 8.1(c) of the Agreement for the months ending July 31, 2018, August 31, 2018, October 31, 2018 and November 30, 2018 and any Event of Default under the Agreement resulting from the Covenant Exceptions. This waiver shall not be deemed to amend or alter in any respect the terms and conditions of the Agreement (including without limitation all conditions and requirements for advances and any financial covenants), the Notes or any of the other Loan Documents, or to constitute a waiver or release by the Bank of any right, remedy, Default or Event of Default under the Agreement, the Notes or any of the other Loan Documents, except to the extent specifically set forth above. Furthermore, this waiver shall not affect in any manner whatsoever any rights or remedies of the Bank with respect to any other non-compliance by the Borrowers, or either of them, with the Agreement or the other Loan Documents whether in the nature of a Default or Event of Default, and whether now in existence or subsequently arising.

3. Borrower hereby represents and warrants that, after giving effect to the amendment and waivers contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within its corporate powers and authorities, have been duly authorized, are not in contravention of law or the terms of its Articles of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority; and this Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the representations and warranties of Borrower as set forth in the Agreement are true and correct on and as of the date hereof with the same force and effect as if made on and as of the date hereof; and (c) no Event of Default, or condition or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, has occurred and is continuing under the Agreement as of the date hereof.

4. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the Agreement.

5. As a condition of the above amendments, Borrower waives, discharges, and forever releases Bank, and Bank's employees, officers, directors, attorneys, stockholders and successors and assigns, from and of any and all claims, causes of action, allegations or assertions that Borrower has or may have had at any time up through, and including, the date of this Amendment, against any or all of the foregoing, regardless of whether any such claims, causes of action, allegations or assertions are known to Borrower or whether any such claims, causes of action, allegations or assertions arose as a result of Bank's actions or omissions in connection with the Agreement, including any amendments, or modifications thereto, or otherwise.

6. This Amendment shall be effective as of the date hereof upon (a) execution by Borrower and Bank of this Amendment, and (b) execution of the Affirmation of Guaranties set forth below.

7. Borrower is responsible for all costs incurred by Bank, including without limit reasonable attorneys' fees, with regard to the preparation and execution of this Amendment and any documents, instruments or agreements executed in connection herewith.

8. This Amendment may be executed in counterparts, each of which counterpart shall constitute one and the same original.

9. This Amendment is not an agreement to any further or other amendment of the Agreement.

10. Except as modified hereby, all of the terms and conditions of the Agreement shall remain in full force and effect.

[Remainder of Page Intentionally Left Blank]

WITNESS the due execution hereof on the day and year first above written.

CHEMICAL BANK

By: /s/ Robert A. Rosati
Robert A. Rosati
Its: Senior Vice President

PERCEPTRON, INC.

By: /s/ David L. Watza
David L. Watza
Its: President, Chief Executive Officer
and Chief Financial Officer

AFFIRMATION OF GUARANTIES

The undersigned, Guarantors under certain Guaranties each dated December 4, 2017 (“Guaranties”) made by the undersigned in favor of Chemical Bank (“Bank”) with respect to the liabilities and obligations of Perceptron, Inc. (“Borrower”) to Bank, (i) affirm their obligations to Bank under their Guaranties and acknowledge that their Guaranties remain in full force and effect in accordance with their terms, subject to no setoff, defense or counterclaim, and (ii) confirm that this Affirmation is not required by the terms of their Guaranties and need not be obtained in connection with any prior or future waivers or amendments or extensions of additional credit to Borrower.

Dated: February 20, 2019

GUARANTORS:

PERCEPTRON SOFTWARE TECHNOLOGY, INC.

By: /s/ David L. Watza

Its: President, Chief Executive Officer and Chief Financial Officer

PERCEPTRON GLOBAL, INC.

By: /s/ David L. Watza

Its: President, Chief Executive Officer and Chief Financial Officer

(Back To Top)

Section 3: EX-31.1 (EX-31.1)

EXHIBIT 31.1

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, David L. Watza, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Perceptron, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed

under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ David L. Watza
David L. Watza
President, Chief Executive Officer and Chief Financial Officer

(Back To Top)

Section 4: EX-32.1 (EX-32.1)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Perceptron, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Watza, President, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David L. Watza
David L. Watza
President, Chief Executive Officer and Chief Financial Officer
May 9, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)