SI TECHNOLOGIES INC
Form 10-Q
December 15, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Commission file number 0-12370

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly period ended October 31, 2004

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

Commission file number 0-12370

SI TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3381440**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

14192 Franklin Avenue, Tustin, CA 92780

(Address of principal executive offices) (Zip Code)

714-505-6483

Registrant s telephone number, including area code

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

None

Securities registered pursuant to Section 12 (g):

Common Stock, par value $.01 per share

(Title of Class)

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in A Rule 12b-2 of the Exchange Act. Yes ¨ No x

The number of shares outstanding of the registrant s common stock as of November 30, 2004 was 4,126,996.

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SI TECHNOLOGIES, INC.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

SI TECHNOLOGIES, INC.

Consolidated Balance Sheets

(in thousands)

	October 31, 2004 (Unaudited)	July 31, 2004
ASSETS		
Current assets:		
Cash	$ 188	$ 211
Trade accounts receivable, less allowance for doubtful accounts of $438 and $423, respectively	5,605	5,447
Inventories, net	9,222	8,973
Other current assets	327	275
Total current assets	15,342	14,906
Property and equipment, net	1,238	1,228
Deferred income taxes	1,509	1,509
Other assets		
Goodwill	7,053	7,002
Other intangibles, net	40	56
Other assets	285	285
TOTAL ASSETS	$ 25,467	$ 24,986
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving lines of credit	$ 6,688	$ 7006
Current maturities of long-term debt	600	983
Accounts payable	3,822	3,390
Accrued liabilities	2,151	1,762
Total current liabilities	13,261	13,141
Long-term debt, less current maturities	2,599	2,733
Other liabilities	33	50
Stockholders equity		
Preferred stock, par value $0.01 per share; authorized, 2,000,000 shares; none outstanding		
Common stock, par value $.01 per share; authorized 10,000,000 shares; 4,126,996 issued and outstanding	41	41
Additional paid-in capital	11,343	11,343

Accumulated deficit	(2,058)	(2,447)
Accumulated other comprehensive income	248	125
Total stockholders equity	9,574	9,062
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 25,467	$ 24,986

See accompanying condensed notes to consolidated financial statements

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SI TECHNOLOGIES, INC.

Consolidated Statements of Income

(in thousands except share and per share data)

(Unaudited)

	For the three months ended October 31, 2004	2003
Net sales	$ 9,405	$ 8,577
Cost of sales	5,878	5,817
Gross profit	3,527	2,760
Operating expenses:		
Selling, general and administrative	2,308	2,112
Research, development and engineering	397	478
	2,705	2,590
Income from operations	822	170
Interest expense	(170)	(233)
Other income (expense), net	(35)	33
Income (loss) before income tax benefit (provision)	617	(30)
Income tax benefit (provision)	(228)	11
Net income (loss)	$ 389	$ (19)
Income per common share-basic	$ 0.09	$
Income per common share-diluted	$ 0.09	$
Weighted average shares outstanding basic	4,126,996	4,026,996
Weighted average shares outstanding-diluted	4,404,324	4,026,996

See accompanying condensed notes to consolidated financial statements

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SI TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the three months ended October 31, 2004	2003
Cash flows from operating activities:		
Net income (loss)	$ 389	$ (19)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	98	120
Deferred lease cost	(17)	(109)
Provision for doubtful accounts	23	11
Changes in operating assets and liabilities:		
Trade accounts receivable	(41)	287
Inventories	(124)	649
Other current assets	(181)	12
Accounts payable	281	(559)
Accrued liabilities	551	227
Net cash provided by operating activities	979	619
Cash flows from investing activities:		
Purchase of equipment	(83)	(6)
Net cash used in investing activities	(91)	(6)
Cash flows from financing activities:		
Net repayments on line of credit	(430)	(505)
Payments on long-term debt	(517)	(193)
Net cash used in financing activities	(949)	(699)
Effect of translation adjustments on cash	30	32
Net decrease in cash	(23)	(54)
Cash at beginning of period	211	284
Cash at end of period	$ 188	$ 230
Cash paid during period for:		
Interest	$ 156	$ 233

See accompanying condensed notes to consolidated financial statements

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SI TECHNOLOGIES, INC.

Condensed Notes to Consolidated Financial Statements

October 31, 2004

(In thousands except share and per share data)

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of SI Technologies, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements reflect all adjustments, consisting of only normal recurring adjustments which, in the opinion of management, are necessary to fairly present the financial position results of operations and the cash flows of the Company for the periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year ending July 31, 2005. This Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended July 31, 2004.

Note 2. Equity Compensation Plan Information

The Company accounts for stock-based employee compensation under the requirements of APB Opinion No. 25, which does not require compensation to be recorded if the consideration to be received is at least equal to fair value of the Company s common stock at the measurement date. Non-employee stock-based transactions and stock warrants are accounted for under the requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, which requires compensation to be recorded based on the fair value of the securities issued or the services received, whichever is more reliably measurable.

The following table shows the pro forma effect of stock based compensation on net income had the Company used the fair value method of accounting for stock options:

	For the three months ended October 31,	
	2004	**2003**
Net Income (loss), as reported	$ 389	$ (19)
Deduct total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(9)	(45)

Pro Forma net income (loss)	$ 380	$ (64)
Income (loss) per share:		
Basic:		
As reported	$ 0.09	$
Pro forma	$ 0.09	$ (.02)
Diluted:		
As reported	$ 0.09	$
Pro forma	$ 0.09	$ (.02)

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Note 3. Earnings per share

Basic earnings per share is computed by dividing the net income attributable to the common stockholders by the weighted average number of shares outstanding during the period. There is no adjustment in the net income attributable to common stockholders. Diluted earnings per share reflect the potential dilution that could occur from common shares issuable through stock options (277,328 equivalent shares for the three months ended October 31, 2004). Common shares issuable through stock options for the three months ended October 31, 2003 have been excluded, as this inclusion would have been antidilutive.

Note 4. Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market and consist of the following at:

	October 31, 2004 (Unaudited)	July 31, 2004
Raw Materials	$ 4,251	$ 4,238
Work in Process	1,192	827
Finished Goods	4,868	4,997
	10,311	10,062
Less reserve for excess and obsolete inventories	(1,089)	(1,089)
	$ 9,222	$ 8,973

Note 5. Goodwill

Changes in the Company s goodwill relates to foreign currency translation fluctuations with respect to the Company s European operations.

Note 6. Industry And Geographic Area Segment Information

The Company applies the principles of SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. The Company operates in two operating segments resulting in two reportable business segments (1) industrial measurement, and (2) industrial automation. The Company s reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations. The accounting policies of the segments are the same as those described in the Company s Annual Report on Form 10-K, Note A Summary of Significant Accounting Policies.

For the three month period ended October 31, 2004, of the Company s sales 52% were within the United States, 4% were within Canada, 8% were within Pacific Rim and 36% to Europe. No single customer or control group represents more than 10% of total sales during the period. As of October 31, 2004, $4.7 million of the Company s assets were held outside the United States.

Included in the industrial measurement segment are industrial sensors and controls products consisting of a wide range of National Type Evaluation (NTEP) and International Organization of Legal Metrology (IOLM) approved, load cells, transducers, translators and sensors. The products measure forces such as pressure, weight, mass and torque when matched with microprocessor controlled digital electronics. Weighing systems products constitute the combination of load cells and microprocessor-controlled digital electronics that in combination provide for an integrated system providing weight data in both dynamic and static industrial weighing applications.

The industrial automation segment consists of load handling, moving and positioning equipment and systems for applications in manufacturing, construction and other environments in which heavy bulky materials are being transported and positioned.

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Segment Information 2004 (Unaudited)

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended October 31, 2004:			
Net sales	$ 7,529	$ 1,876	$ 9,405
Cost of sales	4,702	1,176	5,878
Gross profit	2,827	700	3,527
Gross profit %	38%	37%	37%
Operating expenses	2,128	577	2,705
Operating profit	$ 699	$ 123	822
Interest expense			(170)
Other income, net			(35)
Income before provision for taxes			617
Income tax provision			(228)
Net income			$ 389
Depreciation and amortization	$ 89	$ 8	$ 97
Assets	$ 21,757	$ 3,710	$ 25,467

Segment Information 2003 (Unaudited)

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended October 31, 2003:			
Net sales	$ 6,949	$ 1,628	$ 8,577
Cost of sales	4,905	912	5,817
Gross profit	2,044	716	2,760
Gross profit %	29%	44%	32%
Operating expenses	1,943	647	2,590
Operating profit	$ 101	$ 69	170
Interest expense			(233)
Other income, net			33

Loss before income taxes			(30)
Income tax benefit			11
Net loss			$ (19)
Depreciation and amortization	$ 110	$ 10	$ 120
Assets	$ 22,310	$ 3,555	$ 25,865

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Preliminary Note Regarding Forward-Looking Statement

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included in this report. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements contained in this report that are not historical in nature, particularly those that utilize terminology such as; may, will, should, expects, anticipates, estimates, believes or plans, or comparable terminology, are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements.

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Letter of Intent to be Acquired by Vishay Intertechnology, Inc.

SI has signed a non-binding letter of intent which contemplates the acquisition of SI by Vishay Intertechnology, Inc. (Vishay). As described in the letter of intent, Vishay would acquire all of the equity of SI in exchange for approximately $17.65 million in cash subject to reduction on a dollar for dollar basis if SI s outstanding bank indebtedness exceeds $12 million at the closing.

The transaction is subject to satisfactory completion of due diligence by Vishay, the execution of a definitive purchase agreement approved by the Boards of Directors of SI and Vishay, approval of the SI shareholders, and other material conditions. SI has agreed not to solicit or engage in negotiations for an acquisition by any other person/company.

No assurance can be given that SI will complete a transaction with Vishay.

Overview

We develop, design, manufacture and market high-performance industrial sensors, weighing, and factory automation systems. Our products are used in a wide variety of industries including aerospace, aviation, food processing and packaging, forestry manufacturing, mining, transportation, warehousing, distribution, and waste management.

We categorized our products into two market applications: Industrial measurement, and industrial automation. Our industrial measurement products measure forces such as pressure weight, mass and torque when matched with microprocessor controlled digital electronics. Our industrial automation products are load handling, moving/positioning, and systems for applications in manufacturing, construction and other environments in which heavy bulky materials are being transported and positioned.

Results of Operations-three months ended October 31, 2004 vs. October 31, 2003

Sales

Net sales increased by approximately 10% to $9.4 million for the quarter ended October 31, 2004 from $8.6 million for the same period in the prior fiscal year. A general improvement in the global economy, and an exchange rate gain of approximately $234,000 at the Company s European operations, were the contributing items for the increase in net sales.

Gross Profit

Gross profit in the first quarter increased by approximately 28% to $3.5 million from $2.8 million of gross profit reported for the same period in the prior fiscal year. The increase in gross profit was due to volume of sales, and the continuing transfer of manufacturing to outsourced contract manufacturer which has resulted in lower cost. The outsourcing continues to improve on quality which reduces rework cost. Gross margin in industrial automation declined $16,000 due to change in product mix.

Selling, General and Administrative Expenses

Selling, general and administrative/other expenses increased approximately 9% to $2.3 million in the quarter ended October 31, 2004 as compared to $2.1 million for the same period in the prior fiscal year. The increases were primarily due to additional sales personnel in Europe, severance and salary increases.

Research, Development and Engineering Expenses

Research, development and engineering expenses decreased by approximately 17% to $397,000 for the quarter ended October 31, 2004, as compared to $478,000 for the same period in the prior fiscal year. This mainly was the result of reclassifying personnel from engineering to manufacturing for incoming inspection. No significant changes are expected in the future.

Interest Expense

For the three month period ended October 31, 2004, interest expense was $170,000 as compared to $233,000 in the prior year s period. This decrease was primarily due to a reduction in debt.

Other Income or Expense

Other expense for the quarter ended October 31, 2004 was $35,000 compared to other income of $33,000 in the prior year period. Expenses incurred in 2004 include $30,000 for expense incurred regarding the due diligence. The remainder of the difference was a change in classification.

Income Tax Provision or Benefit

For the three months ended October 31, 2004 the tax provision was $228,000 as compared to a benefit of $11,000 in the prior year s period. The tax benefit in the prior year period was for valuation allowance adjustments, and the tax provision for the current year period is the statutory tax rates.

Inflation

Historically, the impact of inflation has been negligible, as the Company has been able to offset the effects through efficiency improvements.

Liquidity and Capital Resources

At October 31, 2004 the Company s cash position was $188,000 compared to $211,000 at July 31, 2004. Cash required in excess of that provided for general corporate purposes is provided by borrowings under the Company s line of credit. Working capital increased to $2.1 million at October 31, 2004 from $1.8 million at July 31, 2004.

The Company s existing capital resources consist of cash balances and funds available under its line of credit, which are increased or decreased by cash provided by or used in operating activities. Cash provided by operating activities for the three months ended October 31, 2004 was $979,000 as compared with $619,000 provided by operations in the same period in the prior fiscal year. Cash provided by or used in operating activities consists of net income, primarily increased or decreased by the collection of trade accounts receivable, inventories and accounts payable. The Company s trade accounts receivable are generally collectable within 60 days.

The Company s cash requirements consist of its general working capital needs, capital expenditures, and obligations under its leases and notes payable. Working capital requirements include the salary costs of employees and related overhead and the purchase of material and components.

In March 2004, the Company agreed upon an extension to the principal credit agreement with its bank to January 2, 2005. The Company is current with all provisions of the current debt agreement and had excess borrowing capacity of $2.1 million with a borrowing base of 80% of eligible accounts receivables, 90% of eligible foreign accounts receivables and 50% of eligible inventory (not to exceed $3.625 million) at October 31, 2004. The credit agreement provides for a revolving line of credit up to a maximum of $6.0 million with interest at prime (4.75% at

October 31, 2004) plus 2.75%, a total of 7.5%. Monthly payments on the line are interest only with principal due January 2, 2005. Monthly payments on the note payable of $3.2 million are $56,000 plus interest at prime plus 1.75%. The line and term note are secured by substantially all of the Company s assets and are cross-collateralized and cross-defaulted. The Company is required to maintain certain levels of earnings before interest, taxes, depreciation and amortization, tangible net worth and fixed charge coverage and, may not pay any cash dividends. The Company has requested an extension of the above credit facility to April 1, 2005.

The Company also maintains a revolving line of credit with a bank to support the Company s European operations for 2.3 million Euros, secured by certain of the Company s inventories and receivables. As of October 31, 2004, there was a balance outstanding of 1.6 million Euros or $2.0 million.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and our use of estimates as reported in our annual report on Form 10-K for the year ended July 31, 2004.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

Market risk represents the potential loss that may impact our financial position, results of operations or cash flows due to adverse changes in the financial markets. The Company is exposed to market risk from changes in the base rates on our variable rate debt.

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The domestic bank revolving line of credit and term debt (totaling $7.918 million at October 31, 2004) bear interest at a variable rate of prime (4.75% at October 31, 2004) plus an additional amount, as defined in each respective debt agreement.

The Company s Breda operation procures significant product under contract using U.S. dollars as the method of payment. These products are in turn sold in Euros. Should the exchange rate between the U.S. dollar and the Euro change, the effect could reduce the Company s gross profit. The exchange rate at October 31, 2004 was 1 Euro to 1.2737 U.S. dollars. The exchange rate since 2001 has ranged from $.8409 to $1.2737, therefore this volatile issue could materially effect the financial statements in the future.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

No changes in the Company s internal control over financial reporting were identified in connection with the evaluation that has materially affected or is reasonably likely to materially affect the Company s internal control over financial reporting.

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PART II-OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits to Part II

Exhibit 31.1	-	Certificate of Chief Executive Officer of SI Technologies, Inc. pursuant to Exchange Act Rule 13a-14(a).
Exhibit 31.2	-	Certificate of Chief Financial Officer of SI Technologies, Inc. pursuant to Exchange Act Rule 13a-14(a).
Exhibit 32.1	-	Certificate of Chief Executive Officer of SI Technologies, Inc. pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.
Exhibit 32.2	-	Certificate of Chief Financial Officer of SI Technologies, Inc. pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

Sept. 2, 2004-4.01- Changes in Registrant s Certifying Accountants.

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.

SI TECHNOLOGIES, INC.

	By:	/s/ Marvin Moist
December 15, 2004		Marvin Moist President and Chief Executive Officer
	By:	/s/ Howard F. George
December 15, 2004		Howard F. George Vice President and Chief Financial Officer

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