SI TECHNOLOGIES INC
Form 10-Q
March 17, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 January 31, 2005

¨ **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 March 3, 2005 was 4,164,496.

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SI TECHNOLOGIES, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SI TECHNOLOGIES, INC.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	January 31, 2005 (Unaudited)	July 31, 2004
ASSETS		
Current assets:		
Cash	$ 447	$ 211
Trade accounts receivable, less allowance for doubtful accounts of $374 and $423, respectively	5,150	5,447
Inventories, net	9,965	8,973
Other current assets	530	275
Total current assets	16,092	14,906
Property and equipment, net	1,224	1,228
Deferred income taxes	1,509	1,509
Other assets		
Goodwill	7,002	7,002
Other intangibles, net	53	56
Other assets	270	285
TOTAL ASSETS	$ 26,150	$ 24,986
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving lines of credit	$ 7,118	$ 7006
Current maturities of long-term debt	3,030	983
Accounts payable	4,178	3,390
Accrued liabilities	2,197	1,762
Deferred revenue	53	
Total current liabilities	16,576	13,141
Long-term debt, less current maturities		2,733
Other liabilities	17	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; issued 4,164,496 shares in 2005, issued 4,126,996 shares in 2004	42	41

Additional paid-in capital	11,384	11,343
Accumulated deficit	(2,161)	(2,447)
Accumulated other comprehensive income	292	125
Total stockholders equity	9,557	9,062
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 26,150	$ 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 January 31		For the six months ended January 31	
	2005	2004	2005	2004
Net sales	$ 9,470	$ 8,478	$ 18,875	$ 17,054
Cost of sales	6,103	5,516	11,981	11,251
Gross profit	3,367	2,962	6,894	5,803
Operating expenses:				
Selling, general and administrative	2,798	2,261	5,138	4,373
Research, development and engineering	463	437	860	915
	3,261	2,698	5,998	5,288
Income from operations	106	264	896	515
Interest expense	(179)	(218)	(349)	(452)
Other expense, net	(90)	(36)	(93)	(84)
Income (loss) before income tax benefit (expense)	(163)	10	454	(21)
Income tax benefit (expense)	60	(4)	(168)	8
Net income (loss)	$ (103)	$ 6	$ 286	$ (13)
Income (loss) per common share-basic	$ (0.02)	$ 0.00	$ 0.07	$ 0.00
Income (loss) per common share-diluted	$ (0.02)	$ 0.00	$ 0.07	$ 0.00
Weighted average shares outstanding basic	4,134,913	4,026,996	4,130,954	4,026,996
Weighted average shares outstanding-diluted	4,134,913	4,249,236	4,269,619	4,138,116

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 six months ended January 31, 2005	For the six months ended January 31, 2004
Cash flows from operating activities:		
Net income (loss)	$ 286	$ (13)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	209	244
Loss on sales of fixed assets		21
Deferred lease cost	(33)	(166)
Provision for doubtful accounts	50	48
Changes in operating assets and liabilities:		
Trade accounts receivable	247	581
Inventories	(992)	250
Other current assets	(255)	(75)
Accounts payable	788	127
Accrued liabilities	437	90
Deferred revenue	53	
Net cash provided by operating activities	790	1,107
Cash flows from investing activities:		
Purchase of equipment	(166)	(59)
Decrease in other assets	15	
Net cash used in investing activities	(151)	(59)
Cash flows from financing activities:		
Stock option granted to consultant		26
Stock option exercised	41	
Net advances/(repayments) on line of credit	112	(677)
Payments on long-term debt	(686)	(486)
Net cash used in financing activities	(533)	(1,137)
Effect of translation adjustments on cash	130	99
Net increase in cash	236	10
Cash at beginning of period	211	284
Cash at end of period	$ 447	$ 294

Cash paid during period for:		
Interest	$ 355	$ 439
Income taxes	$ 2	$

See accompanying condensed notes to consolidated financial statements

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Condensed Notes to Consolidated Financial Statements

January 31, 2005

(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:

	Three Months ended January 31		**Six Months ended January 31**	
	2005	**2004**	**2005**	**2004**
Net income (loss), as reported	$ (103)	$ 6	$ 286	$ (13)
Deduct total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(9)	(23)	(18)	(33)
Pro forma net income (loss)	$ (112)	$ (17)	$ 268	$ (46)
Income (loss) per share:				

Basic:				
As reported	$ (0.02)	$ 0.00	$ 0.07	$ 0.00
Pro forma	$ (0.03)	$ 0.00	$ 0.06	$ (0.01)
Diluted:				
As reported	$ (0.02)	$ 0.00	$ 0.07	$ 0.00
Pro forma	$ (0.03)	$ 0.00	$ 0.06	$ (0.01)

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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 (for the three months ended January 31, 2005, 290,381 equivalent shares were excluded from the diluted earnings per share calculation as they were 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:

	January 31, 2005	July 31, 2004
	(Unaudited)	
Raw Materials	$ 4,783	$ 4,238
Work in Process	1,335	827
Finished Goods	4,939	4,997
	11,057	10,062
Less reserve for excess and obsolete inventories	(1,092)	(1,089)
	$ 9,965	$ 8,973

Note 5. 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 year ended July 31, 2004.

For the six month period ended January 31, 2005, of the Company s sales 45% were within the United States, 6% were within Canada, 12% were within Pacific Rim and 37% to Europe. No single customer or control group represents more than 10% of total sales during the period. As of January 31, 2005, $5 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 2005 (Unaudited)

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended January 31, 2005:			
Net sales	$ 7,442	$ 2,028	$ 9,470
Cost of sales	4,717	1,386	6,103
Gross profit	2,725	642	3,367
Gross profit %	37%	32%	36%
Operating expenses	2,555	706	3,261
Operating profit	$ 170	$ (64)	106
Interest expense			(179)
Other expense, net			(90)
Loss before income taxes			(163)
Income tax benefit			60
Net loss			$ (103)
Depreciation and amortization	$ 99	$ 10	$ 109
Assets	$ 22,290	$ 3,860	$ 26,150

	Industrial Measurement	Industrial Automation	SI Consolidated
Six months ended January 31, 2005:			
Net sales	$ 14,971	$ 3,904	$ 18,875
Cost of sales	9,419	2,562	11,981
Gross profit	5,552	1,342	6,894
Gross profit %	37%	34%	37%
Operating expenses	4,715	1,283	5,998
Operating profit	$ 837	$ 59	896
Interest expense			(349)
Other expense, net			(93)
Income before income taxes			454
Income tax expense			(168)
Net income			$ 286

Depreciation and amortization	$ 191	$ 18	$ 209

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Segment Information 2004 (Unaudited)

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended January 31, 2004:			
Net sales	$ 6,812	$ 1,666	$ 8,478
Cost of sales	4,500	1,016	5,516
Gross profit	2,312	650	2,962
Gross profit %	34%	39%	35%
Operating expenses	2,043	655	2,698
Operating profit	$ 269	$ (5)	264
Interest expense			(218)
Other income, net			(36)
Income before income taxes			10
Income tax expense			(4)
Net income			$ 6
Depreciation and amortization	$ 68	$ 14	$ 82
Assets	$ 22,531	$ 3,385	$ 25,916

	Industrial Measurement	Industrial Automation	SI Consolidated
Six months ended January 31, 2004:			
Net sales	$ 13,760	$ 3,294	$ 17,054
Cost of sales	9,323	1,928	11,251
Gross profit	4,437	1,366	5,803
Gross profit %	32%	41%	34%
Operating expenses	3,986	1,302	5,288
Operating profit	$ 451	$ 64	515
Interest expense			(452)
Other expense, net			(84)
Loss before income taxes			(21)
Income tax benefit			8

Net loss			$ (13)
Depreciation and amortization	$ 225	$ 19	$ 244

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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Definitive purchase agreement to be Acquired by Vishay Intertechnology, Inc.

As described in the definitive purchase agreement, Vishay intends to 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 date of closing. The definitive purchase agreement has been approved by both the Board of Directors of SI and Vishay. Approval by SI s shareholders has yet to be obtained.

SI has agreed not to solicit or engage in negotiations to be acquired by any other person/company during the time it has been in negotiations with Vishay.

No assurance can be given that SI will complete a transaction with Vishay, however management expects the transaction to close in May 2005.

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.

Critical Accounting Policies

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.

Results of Operations-three months ended January 31, 2005 vs. January 31, 2004

Sales

Net sales increased by approximately 12% to $9.5 million for the quarter ended January 31, 2005 from $8.5 million for the same period in the prior fiscal year. A general improvement in the global economy resulting in increased sales volume, and an exchange rate gain of approximately $243,000 at the Company s European operations, were the contributing items for the increase in sales. Both segments had increases in sales in the current quarter over the prior year period. Net sales were not significantly affected by price changes.

Gross Profit

Gross profit in the second quarter increased by approximately 14% to $3.4 million from $3.0 million of gross profit reported for the same period in the prior fiscal year. The increase in gross profit was due to sales volume and product mix, and an exchange rate gain of approximately $79,000 at the Company s European operations all in the industrial measurement segment. Gross profit in the industrial automation segment offset the increase slightly by $8,000 due to product mix. Also offsetting the gross margin increase was the rental expense at the Tustin, California facility. The Tustin California facility is in the industrial measurement segment, and the rent has increased because the lease is short term (month to month) in anticipation of the acquisition by Vishay.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased approximately 24% to $2.8 million in the quarter ended January 31, 2005 as compared to $2.3 million for the same period in the prior fiscal year. The increases were primarily due to due diligence expenses of approximately $285,000 for legal, appraisal and travel fees incurred for the pending acquisition of the company by Vishay Intertechnology, Inc. Other expenses were for severance and salary increases, plus an increase in outside auditor fees of $90,000. Also, increases associated with additional sales personnel in Europe of approximately $30,000, and the effect of a foreign currency exchange rate increase of $67,000.