SI TECHNOLOGIES INC
Form 10-Q/A
May 05, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Quarter Ended January 31, 2003 **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 incorporation or organization)	**(IRS Employer Identification Number)**

14192 Franklin Avenue, Tustin, California 92780

(Address of principal executive offices) (Zip Code)

714-505-6483
(Fax: 714-505-6484)

Registrant s telephone number, including area code

Check 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
x o
(APPLICABLE ONLY TO CORPORATE ISSUERS)

Indicate the number of shares outstanding of the issuer s common stock as of the latest practicable date. 3,579,935 shares of Common Stock, par value $.01, on March 20, 2003

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SI TECHNOLOGIES, INC.
Consolidated Balance Sheets
(In Thousands Except Share Data)

	January 31, 2003	July 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash	$ 208	$ 238
Trade accounts receivable, less allowance for doubtful accounts of $164 and $251 respectively	5,572	5,570
Inventories, net	11,981	9,665
Other current assets	813	842
Total current assets	18,574	16,315
Property and equipment, net	1,889	1,968
Deferred income taxes	735	446
Intangible and other assets, net	7,069	7,053
	$ 28,267	$ 25,782
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving lines of credit	$ 8,007	$ 7,300
Current maturities of long-term debt	2,048	2,148
Accounts payable	4,676	3,307
Accrued liabilities	2,629	2,435
Total current liabilities	17,360	15,190
Long-term debt, less current maturities	3,702	4,039
Other liabilities	229	360
Total Liabilities	21,291	19,589
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; 3,579,935 issued and outstanding	36	36
Additional paid-in capital	10,377	10,377
Accumulated deficit	(3,328)	(3,995)
Accumulated other comprehensive loss	(109)	(225)
Total stockholders equity	6,976	6,193
	$ 28,267	$ 25,782

See condensed notes to consolidated financial statements

SI TECHNOLOGIES, INC.
Consolidated Statements of Operations
(In Thousands Except Share Data)
(Unaudited)

	For the three months ended January 31		For the six months ended January 31	
	2003	2002	2003	2002
Net sales	$ 8,230	$ 8,014	$ 16,066	$ 16,551
Cost of sales	5,178	5,231	9,979	10,790
Gross profit	3,052	2,783	6,087	5,761
Operating expenses:				
Selling, general and administrative	2,159	1,950	4,294	3,843
Research, development and engineering	353	302	693	722
Amortization of intangibles	8	90	16	185
	2,520	2,342	5,003	4,750
Earnings from operations	532	441	1,084	1,011
Interest expense	(243)	(212)	(503)	(489)
Other income (expense), net	47	(63)	81	(3)
Earnings before income tax expense (benefit)	336	166	662	519
Income tax expense (benefit)	(17)		(6)	
NET INCOME	$ 353	$ 166	$ 668	$ 519
Income per common and common equivalent share-basic	$ 0.10	$ 0.05	$ 0.19	$ 0.15
Income per common and common equivalent share-diluted	$ 0.10	$ 0.05	$ 0.19	$ 0.15
Weighted average shares outstanding basic	3,579,935	3,579,935	3,579,935	3,579,935
Weighted average shares outstanding-diluted	3,642,759	3,579,935	3,607,119	3,579,935

See condensed notes to consolidated financial statements

SI TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows
(In Thousands Except Share Data)
(Unaudited)

	For the six months ended January 31	
	2003	2002
Cash flows from operating activities:		
Net income	$ 668	$ 519
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	326	573
Deferred lease cost	(130)	(126)
Deferred income taxes	(289)	
Changes in operating assets and liabilities:		
Trade accounts receivable	(3)	467
Inventories	(2,317)	(777)
Other current assets	298	244
Accounts payable	1,369	994
Accrued liabilities and customer advances	(72)	(922)
Net cash provided by (used in) operating activities	(150)	972
Cash flows from investing activities:		
Purchase of property and equipment	(181)	(80)
Net cash used in investing activities	(181)	(80)
Cash flows from financing activities:		
Net borrowings on line of credit	707	(252)
Payments on long-term debt	(437)	(689)
Net cash provided by (used in) financing activities	270	(941)
Effect of translation adjustments on cash	31	(10)
Net decrease in cash	(30)	(59)
Cash at beginning of period	238	380
Cash at end of period	$ 208	$ 321
Cash paid during period for:		
Interest	$ 503	$ 509

See condensed notes to consolidated financial statements

SI TECHNOLOGIES, INC.
Condensed Notes to Consolidated Financial Statements
(In Thousands Except Share Data)
(Unaudited)

Note 1. Financial Statements
The unaudited consolidated financial statements of SI Technologies, Inc. and its subsidiaries (the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. 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 of the Company at January 31, 2003 and the results of operations and cash flows for the three months and six months ended January 31, 2003 and 2002. 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. 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, 2003. This Form 10-Q should be read in conjunction with the Company s Annual Report and Form 10-K for the year ended July 31, 2002.

Note 2. Significant Accounting Policies

SI Technologies, Inc. designs, manufactures and markets high performance industrial sensors, weighing and factory automation equipment, and related products. SI products incorporate devices, equipment and systems for the handling, inspection and measurement of goods and materials. Key markets served by SI include aerospace/aviation, food, forestry, manufacturing, mining, transportation/distribution and waste management. Additional disclosure regarding components of the Company s businesses is in Note 5- Segment Information.

A. *Principles of Consolidation*

The consolidated financial statements include the accounts of SI Technologies, Inc. and its subsidiaries; AeroGo, Inc., Allegany Technology, Inc., Evergreen Weigh, Inc., NV Technology, Inc., Revere Transducers, Inc., Revere Transducers Europe B.V., AeroGo Export, Inc., and IDEAutomation International, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

B. *Revenue Recognition and Accounts Receivable*

The Company recognizes revenue only when all of the four following criteria are met: 1) Persuasive evidence of an arrangement exists, usually in the form of a written purchase order; 2) Delivery has occurred (or a shipment has been made, depending upon the terms of the purchase order) or services have been rendered; 3) The Company s price to the buyer is fixed or determinable, usually evidenced by a written purchase order; and 4) Collectability is reasonably assured, based on credit evaluation and history with the customer.

Additionally, on long-term contracts, sales are recorded based on the percentage that incurred costs bear to the total estimated costs at completion. Estimated cost to complete is based on the budget, incurred cost, risk assessment of the cost, and is then adjusted for normal/historical variance of project actual versus budget. Estimated losses are recorded in total when they become evident. Such billings are generally made and collected in the subsequent year. These contracts are generally billed and collected based on contractual milestones throughout the project.

Accounts receivables are reviewed regularly by management and written off against the uncollectable reserve when it is determined that the account can not reasonably be expected to be collected. Reserve balances are determined by management through analysis of past payment history and current financial status of the customers.

C. *Inventories*

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Uncompleted contracts are included in inventory at the accumulated cost of each contract not in excess of realizable value. Quantities on hand are evaluated compared to recent usage and recent changes in sales trends. Reserves for obsolescence and excess quantities are established based upon this evaluation.

D. *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Estimated service lives of property and equipment are as follows:

Machinery and equipment	2 to 10 years
Buildings	35 years
Leasehold improvements	2 to 10 years

The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, while accelerated methods are used for tax purposes.

E. *Intangible Assets*

Intangible assets primarily represent the excess costs of acquiring subsidiaries over the fair value of net assets acquired at the date of acquisition. The Company adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS 142) effective August 1, 2002. In accordance with SFAS 142, the Company no longer amortizes goodwill. The Company has preliminarily completed its initial impairment test of goodwilland management has determined that none of the goodwill recorded as of August 1, 2002 was impaired. The fair value of the subsidiaries was determined using an estimate of future cash flows of the subsidiaries and a risk adjusted discount rate to compute a net present value of future cash flows.

As of January 31, 2003, the Company had the following amounts related to intangible assets (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Goodwill	$ 8,572	$ 1,586	$ 6,986
Other intangible assets	844	761	83
	$ 9,416	$ 2,347	$ 7,069

The balance of other intangible assets is estimated to be amortized as follows or the years ended July 31, 2003 $23, 2004-2007 $15.

The following is reconciliation of reported net income adjusted for adoption of SFAS No. 142 for the six months ended January 31, 2003 and 2002:

	2003	2002
Reported net income	$ 668	$ 519
Addback goodwill amortization		160
Adjusted net income	$ 668	$ 679
Basic earnings per share:		
Reported net income	$ 0.19	$ 0.15
Goodwill amortization		0.04
Adjusted net income	$ 0.19	$ 0.19
Diluted earnings per share:		
Reported net income	$ 0.19	$ 0.15
Goodwill amortization		0.04

Adjusted net income	$ 0.19	$ 0.19

F. *Impairment of long lived assets*

The Company continually monitors events or changes in circumstances that could indicate that the carrying amount of long-lived assets to be held and used, including goodwill and intangible assets, may not be recoverable. The determination of recoverability is based on an estimate of discounted future cash flows resulting from the use of the asset and its eventual disposition. When impairment is indicated for a long-lived asset, the amount of impairment loss is the excess of net book value over fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

The Company does not believe any impairment has occurred related to its long-lived assets at January 31, 2003.

G. *Product Warranty*

Product warranty costs are estimated and accrued at the time sales are recorded and are based upon actual operating history and changes in product mix. When specific warranty risks are identified, specific reserves are estimated and accrued.

H. *Comprehensive Income*

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year end exchange rates. Revenue and expense accounts are translated at average exchange rates for the appropriate fiscal year. Aggregate exchange gains and losses arising from the translation of foreign assets and liabilities are included in stockholders equity. Transaction gains and losses are included in income and have not been significant in amount.

I. *Use of Estimates*

In preparing the Company s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Note 3. Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") approved for issuance SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement provides financial accounting and reporting guidance for costs associated with exit or disposal activities and nullifies EITF Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Early application is encouraged. Previously issued financial statements should not be restated. The provisions of EITF Issue 94-3 continue to apply for an exit activity initiated under an exit plan that met the criteria in EITF Issue 94-3 before the Statement s initial application. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. Management believes implementation of this standard will not have a material effect upon the Company s financial statements.

In December 2002, the FASB has issued SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123.* The disclosure requirements of Statement 123, *Accounting for Stock-Based Compensation,* which apply to stock compensation plans of all companies, are amended to require certain disclosures about stock-based employee compensation plans in an entity s accounting policy note. Those disclosures include a tabular format of pro forma net income ands, if applicable, earnings per share under the fair value method if the intrinsic value method is used in any period presented. Pro forma information in a tabular format is also required in the notes to interim financial information if the intrinsic value method is used in any period presented.

Before amendment by Statement 148, Statement 123 required entities changing to the fair value method of accounting for stock-based employee compensation to account for the changes in method prospectively. The Board decided to provide a choice among three transition methods (the prospective method originally required by Statement 123, the modified prospective method and the retroactive restatement method) for entities voluntarily adopting the fair value method in periods beginning before December 16, 2003. Statement 123 s original prospective transition method will not be available to entities changing to the fair value method in fiscal years beginning after December 15, 2003.

The amendments to the disclosures and the transition provisions of Statement 123 are effective for the fiscal years ending after December 15, 2002. The disclosaure requirement for interim financial information is effective for interim periods beginning after December 15, 2002. Management believes implementation of this standard will not have a material effect upon the Company s financial statements.

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, 2003 (Unaudited)	July 31, 2002
Raw Materials	$ 5,954	$ 4,767
Work in Process	1,468	1,162
Finished Goods	5,168	4,349
	12,590	10,278
Less reserve for excess and obsolete inventories	(609)	(613)
	$ 11,981	$ 9,665

Note 5. Segment Information

The Company operates 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.

Included in the industrial measurement segment are industrial sensors and control products consisting of a wide range of NTEP and OIML approved, EX, Factory Mutual and IP rated load cells, transducers, translators and sensors. When matched with microprocessor-controlled digital electronics, they measure forces such as pressure, weight, mass and torque. 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.

Segment Information

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended January 31, 2003:			
Net sales	$ 6,395	$ 1,835	$ 8,230
Cost of sales	4,057	1,121	5,178
Gross profit	2,338	714	3,052
Gross profit%	37%	39%	37%
Operating expenses	2,016	504	2,520
Earnings from operations	322	210	532
Interest expense			(243)
Other income, net			47
Earnings before income tax expense			336
Income tax benefit			(17)
Net income			$ 353
Assets	$ 23,662	$ 4,605	$ 28,267

Three months ended January 31, 2002:			
Net sales	$ 6,021	$ 1,993	$ 8,014
Cost of sales	4,029	1,202	5,231
Gross profit	1,992	791	2,783
Gross profit %	33%	40%	35%
Operating expenses	1,702	640	2,342
Earnings from operations	290	151	441
Interest expense			(212)
Other expense net			(63)
Net income			$ 166
Assets	$ 20,103	$ 5,308	$ 25,411

	Industrial Measurement	Industrial Automation	SI Consolidated
Six months ended January 31, 2003:			
Net sales	$ 12,821	$ 3,245	$ 16,066
Cost of sales	8,073	1,906	9,979
Gross profit	4,748	1,339	6,087
Gross profit%	37%	41%	38%
Operating expenses	4,002	1,001	5,003
Earnings from operations	746	338	1,084
Interest expense			(503)
Other income, net			81
Earnings before income tax benefit			662
Income tax benefit			(6)
Net income			$ 668

Six months ended January 31, 2002:			
Net sales	$ 12,703	$ 3,848	$ 16,551
Cost of sales	8,588	2,202	10,790
Gross profit	4,115	1,646	5,761
Gross profit%	32%	43%	35%
Operating expenses	3,469	1,281	4,750
Earnings from operations	646	365	1,011
Interest expense			(489)
Other expense, net			