

SI TECHNOLOGIES INC
Form 10-Q
June 14, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarter Ended April 30, 2002

Commission File Number 0-12370

SI TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3381440

(IRS Employer Identification Number)

14192 Franklin Avenue, Tustin, California

(Address of principal executive offices)

92780

(Zip Code)

714-505-6483

(FAX 714-505-6484)

Registrant's telephone number, including area code

SAME

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

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

(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 June 12, 2002, 2002.

ITEM 1. FINANCIAL STATEMENTS

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

	<u>April 30,</u> 2002	<u>July 31,</u> 2001
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash	\$ 489	\$ 380
Trade accounts receivable, less allowance for doubtful accounts of \$306 and \$289 respectively	5,526	5,980
Inventories, net	9,967	8,584
Other current assets	591	899
	<u>16,573</u>	<u>15,843</u>
Total current assets	16,573	15,843
Property and equipment, net	2,223	2,655
Intangible assets, net	6,943	7,175
Other assets	198	237
	<u>\$ 25,937</u>	<u>\$ 25,910</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 10,143	\$ 14,514
Accounts payable	3,647	3,249
Customer advances	29	70
Accrued liabilities	2,399	3,187
	<u>16,218</u>	<u>21,020</u>
Total current liabilities	16,218	21,020
Long term debt, less current maturities	4,216	
Other liabilities	425	569
Commitments and contingencies		
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	(4,952)	(5,668)
Accumulated other comprehensive loss	(383)	(424)
	<u>5,078</u>	<u>4,321</u>
Total stockholders' equity	5,078	4,321
	<u>\$ 25,937</u>	<u>\$ 25,910</u>

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 April 30		For the nine months ended April 30	
	2002	2001	2002	2001
Net sales	\$ 7,759	\$ 8,377	\$ 24,310	\$ 27,892
Cost of sales	5,068	5,728	15,858	18,605
Gross profit	2,691	2,649	8,452	9,287
Operating expenses:				
Selling, general and administrative	1,919	2,278	5,762	6,907
Research, development and engineering	289	426	1,011	1,225
Amortization of intangibles	90	112	275	338
Restructuring charge		3,480		3,480
Goodwill impairment loss		2,000		2,000
	2,298	8,296	7,048	13,950
Earnings (loss) from operations	393	(5,647)	1,404	(4,663)
Interest expense	(201)	(377)	(690)	(1,249)
Other income	57	28	54	27
Earnings (loss) before income tax (expense) benefit	249	(5,996)	768	(5,885)
Income tax (expense) benefit	(52)	506	(52)	355
NET INCOME (LOSS)	\$ 197	\$ (5,490)	\$ 716	\$ (5,530)
Earnings (loss) per common and common equivalent share-basic	\$ 0.05	\$ (1.55)	\$ 0.20	\$ (1.56)
Earnings (loss) per common and common equivalent share-diluted	\$ 0.05	\$ (1.55)	\$ 0.20	\$ (1.56)
Weighted average shares outstanding-basic	3,579,935	3,547,123	3,579,935	3,547,123
Weighted average shares outstanding-diluted	3,595,707	3,547,123	3,589,333	3,547,123

See condensed notes to consolidated financial statements.

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

	For the nine months ended April 30	
	2002	2001
Cash flows from operating activities:		
Net income (loss)	\$ 716	\$ (5,530)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Restructuring charge		3,480
Goodwill impairment loss		2,000
Depreciation and amortization	842	1,237
Deferred lease cost	(144)	(154)
Deferred income taxes		(468)
Changes in operating assets and liabilities:		
Trade accounts receivable	378	865
Inventories	(1,383)	(1,227)
Other current assets	384	(87)
Accounts payable	398	435
Accrued liabilities and customer advances	(830)	(74)
	361	477
Cash flows from investing activities:		
Change in intangibles and other assets		(213)
Purchase of property and equipment	(108)	(237)
	(108)	(450)
Cash flows from financing activities:		
Net borrowings on line of credit	879	1,686
Payments on long-term debt	(1,034)	(1,160)
	(155)	526
Effect of exchange rate changes on cash	11	(61)
	109	492
Cash at beginning of period	380	112
	489	604
Cash at end of period		
	\$ 489	\$ 604
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 650	\$ 1,124
Income taxes	\$	\$

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 the Company and its subsidiaries 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 April 30, 2002 and the results of operations for the three and nine months ended April 30, 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, 2002. This Form 10-Q should be read in conjunction with the Company's Annual Report and Form 10-KSB for the year ended July 31, 2001.

The unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. The Company had net income of \$716 for the nine months ended April 30, 2002 and incurred a net loss of \$(7,128) for the year ended July 31, 2001. The Company also has working capital of \$355 as of April 30, 2002 compared to a deficit of \$(5,177) as of July 31, 2001.

Management has taken steps to revise its operations and financial performance as described more fully in Note 8 concerning Restructuring Charges. The Company has also signed a term sheet (see Note 6) to amend its bank credit agreement, which has been formally approved by the bank. The Company's ability to continue operations is dependent upon the success of future operations.

Note 2. Significant Accounting Policies

Revenue Recognition

The Company satisfies the four criteria of SEC Staff Accounting Bulletin No. 101 by recognizing 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) Collectibility 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.

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. The reserve for excess and obsolete inventory is evaluated based on historical usage, as well as other strategic factors such as criticality to production and long lead time items.

Note 3. Recent Accounting Pronouncements

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On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, "Business Combinations", and SFAS 142, "Goodwill and Intangible Assets." SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows:

All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interests method of accounting is prohibited except for transactions initiated before July 1, 2001.

Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability.

Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective August 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.

Effective August 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.

All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

The Company will continue to amortize goodwill and intangible assets recognized prior to July 1, 2001 under its current method until July 31, 2002. Effective August 1, 2002, annual and quarterly goodwill amortization of \$320 and \$80 and annual and quarterly amortization of \$28 and \$7 relating to intangible assets with indefinite lives will no longer be recognized. By October 31, 2002 the Company will have completed a transitional fair value based impairment test of goodwill as of August 1, 2002. By October 31, 2002 the Company will also have completed a transitional impairment test of all intangible assets with indefinite lives. Impairment losses, if any, resulting from the transitional testing will be recognized in the quarter ended October 31, 2002, as a cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Statement 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 retains the fundamental provisions for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving previous implementation issues under the old literature. SFAS 144 is effective for

financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Management does not expect the adoption of SFAS No. 144 to have a material impact on 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 consisted of the following at:

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	April 30, 2002	July 31, 2001
	(Unaudited)	
Raw Materials	\$ 5,237	\$ 4,354
Work in Progress	1,033	977
Finished Goods	4,568	4,427
	<u>10,838</u>	<u>9,758</u>
Less reserve for excess and obsolete inventories	(871)	(1,174)
	<u>\$ 9,967</u>	<u>\$ 8,584</u>

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.

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Segment Information

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended April 30, 2002:			
Net sales	\$ 6,097	\$ 1,662	\$ 7,759
Cost of sales	4,116	952	5,068
Gross profit	1,981	710	2,691
Gross profit %	32%	43%	35%
Operating expenses	1,697	601	2,298
Operating profit	284	109	393
Interest expense			(201)
Other income			57
Earnings before income tax expense			249
Income tax expense			(52)

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	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Net income			\$ 197
Assets	\$ 21,012	\$ 4,925	\$ 25,937
	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Three months ended April 30, 2001:			
Net sales	\$ 6,494	\$ 1,883	\$ 8,377
Cost of sales	4,671	1,057	5,728
Gross profit	1,823	826	2,649
Gross profit %	28%	44%	32%
Operating expenses	7,676	620	8,296
Operating profit (loss)	(5,853)	206	(5,647)
Interest expense			(377)
Other income			28
Loss before income tax benefit			(5,996)
Income tax benefit			506
Net loss			\$ (5,490)
Assets	\$ 23,551	\$ 5,735	\$ 29,286

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Segment Information

	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Nine months ended April 30, 2002:			
Net sales	\$ 18,801	\$ 5,509	\$ 24,310
Cost of sales	12,704	3,154	15,858
Gross profit	6,097	2,355	8,452
Gross profit %	32%	43%	35%
Operating expenses	5,167	1,881	7,048
Operating profit	930	474	1,404
Interest expense			(690)
Other income			54

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	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Earnings before income tax expense			768
Income tax expense			(52)
Net income			\$ 716
Assets	\$ 21,012	\$ 4,925	\$ 25,937
	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Nine months ended April 30, 2001:			
Net sales	\$ 21,650	\$ 6,242	\$ 27,892
Cost of sales	15,130	3,475	18,605
Gross profit	6,520	2,767	9,287
Gross profit %	30%	44%	33%
Operating expenses	11,925	2,025	13,950
Operating profit (loss)	(5,405)	742	(4,663)
Interest expense			(1,249)
Other income			27
Loss before income tax benefit			(5,885)
Income tax benefit			355
Net loss			\$ (5,530)
Assets	\$ 23,551	\$ 5,735	\$ 29,286

Note 6. Debt

In November 2001, the Company signed a term sheet to amend its principal credit agreement with its bank. The term sheet was formally approved by the lender in March 2002, and the amended credit agreement is expected to be finalized in July 2002. The terms provide for a revolving line of credit up to a maximum of \$6,500 with interest at prime plus 2.75%. Monthly payments on the line will be interest only with principal due November 30, 2002. Borrowings outstanding under the line of credit at April 30, 2002 were \$7,461.

The new credit agreement will provide a new term note for \$1,500 with interest at prime plus 3.25%. Monthly payments on the new term note will be \$25 plus interest with principal due November 30, 2002. Monthly payments on the existing note payable of \$4,938 will be reduced to \$60 plus interest at prime plus 1.75%, with the remaining terms of the existing note unchanged. The line and both notes will be secured by substantially all of the Company's assets and will be cross-collateralized and cross-defaulted. The Company will be required to maintain certain levels of earnings before interest, taxes, depreciation and amortization, tangible net worth, fixed charge coverage, annual capital expenditures and may not pay any cash dividends under terms of the term sheet. The Company was in compliance with all covenants of the term sheet at April 30, 2002. The Company continues to make the scheduled principal and interest payments under the existing credit agreement until the

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amended credit agreement is finalized.

The Company's European revolving line of credit for up to a maximum of \$1,970 bears interest at 6.75% with interest only payable quarterly. The line is secured by certain of the Company's trade accounts receivable, inventories and equipment. Borrowings outstanding under the line of credit at April 30, 2002 were \$1,960.

Current maturities of long-term debt were \$10,143 as of April 30, 2002 and consisted of \$1,960 owed on the Company's European line of credit, \$722 of the Company's U.S. term note, and the entire balance of the Company's U.S. revolving line of credit of \$7,461.

Note 7. Comprehensive Income

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on period end exchange rates. Revenue and expense accounts are translated at average exchange rates for the appropriate fiscal period. 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 are not significant. As a result of translation adjustments, the Company's comprehensive income (loss) for the three months ended April 30, 2002 and April 30, 2001 was \$261 and (\$5,567), respectively, vs. reported net income (loss) of \$197 and \$(5,490) for those same periods. Additionally, the Company's comprehensive income (loss) for the nine months ended April 30, 2002 and April 30, 2001 was \$757 and (\$5,803), respectively, vs. reported net income (loss) of \$716 and (\$5,530) for those same periods.

Note 8. Restructuring Charge

During the quarter ended April 30, 2001, the Company began implementing a restructuring plan involving consolidation of two of its subsidiaries, Allegany Technology and Revere Transducers. Approved by the Company's Board of Directors on May 7, 2001, this plan to consolidate operations was necessitated by worsening revenue trends in some of the Company's key markets and consists of several elements, including: (1) reduction of manufacturing capacity by abandoning and/or downsizing facilities, (2) disposing of redundant assets, (3) termination of approximately 50 employees, and (4) outsourcing a significant portion of the combined operation's higher volume products. A restructuring charge of \$3,480 was recorded as of April 30, 2001. The restructuring charge was increased by \$364 in the fourth quarter ended July 31, 2001 to accrue for the additional disposition of fixed assets and employee severance costs arising from management's decision to further utilize

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offshore manufacturing sources. No additional charges have been recorded for the nine months ended April 30, 2002. The components of the restructuring charge were as follows:

Restructuring Category:	Year ended July 31, 2001
Write-down of redundant and abandoned assets	\$ 2,168
Abandoned facilities costs, primarily lease payments	1,225
Employee termination costs	379
Other	72
Total restructuring charge	\$ 3,844

The Company has substantially completed implementation of the restructuring plan as of April 30, 2002. The initial financial benefits of plan implementation have been partially offset by certain incremental expenses that were not included in the restructuring charge. These expenses included production inefficiencies in operations being transitioned, employee travel, relocation and training expense, and expenditures for software and professional services related to integrating information systems.

As of April 30, 2002, the Company has completed the transfer of all operations from the Cumberland, Maryland facility to the Tustin, California facility as scheduled. The Company's off-shore partners have begun regular shipment of production quantities of strategic components and parts. The Company continues to develop additional off-shore partners for the manufacture of selected components and parts, as well as engineering services. Finally, the Company continues the process of searching for a suitable sub-tenant for the existing facility. In previous reports the Company identified April 30, 2002 as an expected completion date for this facility change. However, given the current economic environment which has substantially weakened the local commercial real estate market, forecasting a reliable completion date at this time is not

possible. As of April 30, 2002, the Company has a remaining accrual of \$816 attributable to the restructuring, of which \$775 is for lease payments on abandoned facilities.

Note 9. Income Tax Expense

The Company had net deferred tax assets of \$1,915 at July 31, 2001. A valuation allowance of \$1,915 was recorded as of July 31, 2001 due to the Company's continued tax losses and the degree of uncertainty surrounding the recovery of the deferred tax assets through future taxable income.

For the three and nine months ended April 30, 2002, no income tax expense was recognized domestically because of the valuation allowance related to the Company's deferred tax assets. All income tax expense for the three and nine months ended April 30, 2002 is related to the Company's foreign operations.

Note 10. Basic and Diluted Earnings (Loss) Per Common and Common Equivalent Share

For the three and nine months ended April 30, 2002, there was no effect of dilutive securities on earnings per common and common equivalent share. For the three and nine months ended April 30, 2001, the effect of dilutive securities on loss per common and common equivalent share was anti-dilutive.

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

(Amounts in Thousands)

General

SI Technologies, Inc. and Subsidiaries ("SI" or the "Company") is a designer, manufacturer and marketer of high-performance industrial sensors, weighing and factory automation systems, and related products. Acquisitions over the past five years have diversified the Company's revenue base and positioned SI Technologies as an integrator of technologies, products and companies that are enabling SI to become a leading global provider of devices, equipment and systems that handle, measure and inspect goods and materials. SI products are used throughout the world in a wide variety of industries, including aerospace, agriculture, aviation, food processing and packaging, forestry, manufacturing, mining, transportation/distribution and waste management.

Products and Services

Industrial Measurement

The Company's industrial sensor and control products consist of a wide range of NTEP and OIML approved, EX, Factory Mutual and IP rated load cells, transducers, translators and sensors. These devices, representing a core SI technology, are electromechanical components that convert a physical force to an electrical signal. When matched with microprocessor-controlled digital electronics, they measure forces such as pressure, weight, mass and torque. Commercially, the products are used for measurement, inspection and control. SI sensor and control products are principally used in electronic weighing equipment; batching, blending, mixing, fill-by-weight and product inspection operations and, machinery operation and control systems. SI controls/instrumentation is normally designed as an integral part of a complete weighing system. In recent years, SI instrumentation has been expanded to provide users with the ability to acquire, record in memory and download to management information systems operational information other than weight information. In this expanded capacity, SI instrumentation becomes a critical link between operations and management information systems.

SI designs and manufactures dynamic and static electronic weighing equipment and systems for use in a wide array of industrial applications. As a result of the uniqueness of the Company's combined sensor, weighing and automation system technologies, SI is one of few manufacturers in the industry who design and manufacture all three of the primary components of an electronic scale. These components are the load-handling structure, sensors and instrumentation. Many manufacturers of conventional scale systems manufacture only load-handling structures, outsourcing to industry suppliers their sensor and instrumentation requirements. The Company utilizes its expertise and manufacturing know-how in each of these critical components to competitive advantage and believes its broad expertise can be exploited through its acquisition/integration growth strategy.

Industrial Automation

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SI's industrial automation products consist of load handling, moving and positioning equipment and systems. These products often utilize highly specialized air-bearing movement systems to move loads of any weight efficiently and with extreme precision. Air bearings are air-cushion devices that are used to "float" heavy loads on a thin film of air. Additionally, the Company manufactures systems utilizing water bearings for use in large outdoor applications where water is used as the flotation medium rather than air. These products, marketed under the trade names *AeroCaster*, *AeroGo*, *AeroPallets*, *AeroPlanks* and *AirShuttle* are the world leaders in practical and efficient methods of movement, transfer, location, rotation and alignment of materials and products weighing from several hundred pounds to more than 6,000 tons.

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The Company's industrial automation product line comprises two distinct categories. The first is a standard product line of rugged, industrial, off-the-shelf air-cushion devices that allow a single person to easily and safely move loads weighing from a few hundred pounds to many tons. Standard products routinely move manufacturing fixtures, printing press bulky paper rolls, jet engines, and other heavy loads. The other category of the product line consists of engineered products. Engineered products and specialized systems designed and manufactured by the Company in recent years are currently moving 100,000-pound dies, launching ships, moving 4,500-ton stadium sections, transporting aerospace booster rockets and moving large assemblies in and out of assembly line operations in numerous heavy equipment manufacturing facilities.

Results of Operations

Sales

Net sales decreased by 7% to \$7,759 for the quarter ended April 30, 2002 and by 13% to \$24,310 for the nine months ended April 30, 2002, as compared to \$8,377 and \$27,892, respectively, for the same periods in the prior fiscal year. The decrease in sales is attributable to a continued weakening of the capital equipment markets, primarily in North America and Europe. While the Company believes it has maintained market share in its principal markets, comprised of forestry, waste, steel, aerospace, freight and general manufacturing, they are all impacted by the recession and accordingly have reduced spending on capital equipment.

Gross Profit

Gross profit in the third quarter and the nine months' year to date increased by 2% to \$2,691 and decreased 9% to \$8,452, when compared to the gross profit reported for the same periods in the prior fiscal year of \$2,649 and \$9,287, respectively. Gross profit as a percentage of sales was 35% in this year's third quarter and 35% year to date, which represented increases from the same periods of the prior fiscal year of 3% and 2%, respectively. Lower sales volume was offset by the benefits of the cost reductions and outsourcing of manufacturing in the Company's restructuring plan, as well as reductions in the reserve for excess and obsolete inventories due to quantity decreases in inventory items previously reserved. These factors have resulted in higher gross profit percentages in the current fiscal year. The offsets were greater than the sales volume decrease in the third quarter resulting in a gross profit dollar increase, but the offsets were less than the sales volume decrease in the nine months' year to date resulting in a gross profit dollar decrease.

Gross inventory increased by 11%, or \$1,080 for the nine months ended April 30, 2002. The principal reason for this increase is the significant products received from the Company's off-shore manufacturing partners as a result of the restructuring plan. These products were necessary to ensure the smooth transition of production availability. Management has adjusted future purchases now that the production transition has been substantially completed and expects gross inventory to decrease in future periods.

Selling, General and Administrative Expenses

SG & A expenses decreased approximately 16% to \$1,919 in the quarter ended April 30, 2002 and approximately 17% to \$5,762 in the nine months ended April 30, 2002, as compared to \$2,278 and \$6,907 for the same periods last year. SG & A expense reductions are primarily the result of integrating sales and administrative organizations in connection with the Company's restructuring plan. Lower sales volumes also contributed to lower selling expenses during both periods by reducing commissions. SG & A as a percentage of sales decreased by 2% and 1% for the three and nine months ended April 30, 2002, and is expected to be maintained at approximately the same current percentage of sales levels in future periods.

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Research, Development and Engineering Expenses

RD & E expenditures decreased by 32% to \$289 for the quarter ended April 30, 2002, as compared to \$426 for the same period last year and by 17% to \$1,011 for the nine months ended April 30, 2002, when compared to \$1,225 in the prior year. RD & E expense reductions are attributable to the consolidation of operations under the Company's restructuring plan. The Company expects future RD & E expenses to remain approximately flat in future periods.

Interest Expense

For the three months and nine months ended April 30, 2002, lower interest rates helped decrease interest expense to \$201 and \$690, respectively, as compared to \$377 and \$1,249 for the same periods in the prior fiscal year.

Income Tax Expense

Income tax expense for the three and nine months ended April 30, 2002 was \$52 and \$52, compared to an income tax benefit of \$506 and \$355 for the same periods in the prior year. The effective tax rate for the Company in all periods differs from the U.S. federal corporate income tax rate, primarily due to the impact of non-deductible intangible asset amortization, state income taxes and valuation allowances related to deferred tax assets.

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

In November 2001, the Company signed a term sheet to amend its principal credit agreement with its bank. The term sheet was formally approved by the lender in March 2002, and the amended credit agreement is expected to be finalized in July 2002. The terms provide for a revolving line of credit up to a maximum of \$6,500 with interest at prime plus 2.75%. Monthly payments on the line will be interest only with principal due November 30, 2002. Borrowings outstanding under the line of credit at April 30, 2002 were \$7,461.

The new credit agreement will provide a new term note for \$1,500 with interest at prime plus 3.25%. Monthly payments on the new term note will be \$25 plus interest with principal due November 30, 2002. Monthly payments on the existing note payable of \$4,938 will be reduced to \$60 plus interest at prime plus 1.75%, with the remaining terms of the existing note unchanged. The line and both notes will be secured by substantially all of the Company's assets and will be cross-collateralized and cross-defaulted. The Company will be required to maintain certain levels of earnings before interest, taxes, depreciation and amortization, tangible net worth, fixed charge coverage, annual capital expenditures and may not pay any cash dividends under terms of the term sheet. The Company was in compliance with all covenants of the term sheet at April 30, 2002. The Company continues to make the scheduled principal and interest payments under the existing credit agreement until the amended credit agreement is finalized.

At April 30, 2002 the Company's cash position was \$489 compared to \$380 at July 31, 2001. Cash available in excess of that required for general corporate purposes is used to reduce borrowings under the Company's line of credit. Working capital improved to \$355 at April 30, 2002 from a deficit of \$(5,177) at July 31, 2001. The significant improvement in working capital is due principally to the Company's compliance with the covenants of the term sheet, which allows a portion of the long-term debt to be classified as a long-term obligation. The significant working capital deficit at July 31, 2001

was principally caused by the Company's violation of certain of its debt covenants, which required that all long-term debt be classified as current obligations.

The Company's existing capital resources consist of cash balances and funds available under its lines of credit, which are increased or decreased by cash provided by or used in operating activities. The Company had no amounts available under its lines of credit at April 30, 2002. Cash provided by operating activities for the nine months ended April 30, 2002 was \$361 as compared with \$477 for the same period in the prior fiscal year.

QuickLinks

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

Part II. Other Information

Item 6 Exhibits and Reports on Form 8-K

Signatures