

SI TECHNOLOGIES INC  
Form 10-Q  
March 18, 2002

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## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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### FORM 10-Q

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

For the Quarter Ended January 31, 2002

Commission File Number 0-12370

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### SI TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**14192 Franklin Avenue, Tustin, California**

(Address of principal executive offices)

**714-505-6483**

(FAX 714-505-6484)

Registrant's telephone number, including area code

**95-3381440**

(IRS Employer Identification Number)

**92780**

(Zip Code)

**SAME**

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

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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 March 13, 2002.

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#### ITEM 1. *Financial Statements*

SI TECHNOLOGIES, INC.

Consolidated Balance Sheets

(In Thousands Except Share Data)

	January 31, 2002	July 31, 2001
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 321	\$ 380
Trade accounts receivable, less allowance for doubtful accounts of \$285 and \$289 respectively	5,350	5,980
Inventories, net	9,361	8,584
Other current assets	818	899
	<u>15,850</u>	<u>15,843</u>
Total current assets	15,850	15,843
Property and equipment, net	2,344	2,655
Intangible assets, net	7,008	7,175
Other assets	209	237
	<u>25,411</u>	<u>25,910</u>
	\$ 25,411	\$ 25,910
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	9,078	14,514
Accounts payable	4,243	3,249
Customer advances	57	70
Accrued liabilities	2,278	3,187
	<u>15,656</u>	<u>21,020</u>
Total current liabilities	15,656	21,020
Long term debt, less current maturities	4,495	
Other liabilities	443	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	(5,149)	(5,668)
Accumulated other comprehensive loss	(447)	(424)
	<u>4,817</u>	<u>4,321</u>
Total stockholders' equity	4,817	4,321
	<u>\$ 25,411</u>	<u>\$ 25,910</u>
	\$ 25,411	\$ 25,910

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	
	2002	2001	2002	2001
Net sales	\$ 8,014	\$ 9,622	\$ 16,551	\$ 19,515
Cost of sales	5,231	6,234	10,790	12,877
<b>Gross profit</b>	<b>2,783</b>	<b>3,388</b>	<b>5,761</b>	<b>6,638</b>
Operating expenses:				
Selling, general and administrative	1,950	2,321	3,843	4,629
Research, development and engineering	302	397	722	799
Amortization of intangibles	90	114	185	226
	<b>2,342</b>	<b>2,832</b>	<b>4,750</b>	<b>5,654</b>
<b>Earnings from operations</b>	<b>441</b>	<b>556</b>	<b>1,011</b>	<b>984</b>
Interest expense	(212)	(424)	(489)	(872)
Other expense	(63)	(5)	(3)	(1)
<b>Earnings before income tax expense</b>	<b>166</b>	<b>127</b>	<b>519</b>	<b>111</b>
Income tax expense		(108)		(151)
<b>NET INCOME (LOSS)</b>	<b>\$ 166</b>	<b>\$ 19</b>	<b>\$ 519</b>	<b>\$ (40)</b>
<b>Earnings (loss) per common and common equivalent share basic</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>	<b>\$ 0.15</b>	<b>\$ (0.01)</b>
<b>Earnings (loss) per common and common equivalent share diluted</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>	<b>\$ 0.15</b>	<b>\$ (0.01)</b>
<b>Weighted average shares outstanding basic</b>	<b>3,579,935</b>	<b>3,547,123</b>	<b>3,579,935</b>	<b>3,547,123</b>
<b>Weighted average shares outstanding diluted</b>	<b>3,584,471</b>	<b>3,547,123</b>	<b>3,581,990</b>	<b>3,547,123</b>

See condensed notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(In Thousands Except Share Data)

(Unaudited)

	For the Six Months Ended January 31	
	2002	2001
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 519	\$ (40)
<b>Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	573	806
Deferred lease cost	(126)	(102)
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable and unbilled revenue	467	(427)
Inventories	(777)	(1,385)
Other current assets	244	57
Accounts payable	994	756
Accrued liabilities and customer advances	(922)	(135)
Net cash provided by (used in) operating activities	972	(470)
<b>Cash flows from investing activities:</b>		
Change in intangibles and other assets	2	(129)
Purchase of property and equipment	(82)	(203)
Net cash used in investing activities	(80)	(332)
<b>Cash flows from financing activities:</b>		
Net borrowings (payments) on line of credit	(252)	1,713
Payments on long-term debt	(689)	(815)
Net cash provided by (used in) financing activities	(941)	898
Effect of translation adjustments on cash	(10)	(25)
Net increase (decrease) in cash	(59)	71
Cash at beginning of period	380	112
Cash at end of period	\$ 321	\$ 183
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 509	\$ 660
Income taxes	\$	\$

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 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 January 31, 2002 and the results of operations for the three and six months ended January 31, 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 \$519 for the six months ended January 31, 2002 and incurred a net loss of \$(7,128) for the year ended July 31, 2001. The Company also has working capital of \$194 as of January 31, 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 6 concerning Restructuring Charges. The Company has also signed a term sheet (see Note 4) 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. Inventories**

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

	<u>January 31, 2002</u>	<u>July 31, 2001</u>
	(Unaudited)	
Raw Materials	\$ 5,405	\$ 4,354
Work in Progress	1,333	977
Finished Goods	3,748	4,427
	<u>10,486</u>	<u>9,758</u>
Less reserve for excess and obsolete inventories	(1,125)	(1,174)
	<u>\$ 9,361</u>	<u>\$ 8,584</u>

**Note 3. 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.

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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

	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
<b>Three months ended January 31, 2002:</b>			
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
Operating profit	290	151	441
Interest expense			(212)
Other expense			(63)
Net income			\$ 166
Assets	\$ 20,103	\$ 5,308	\$ 25,411

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	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
<b>Three months ended January 31, 2001:</b>			
Net sales	\$ 7,396	\$ 2,226	\$ 9,622
Cost of sales	5,018	1,216	6,234
Gross profit	2,378	1,010	3,388
Gross profit %	32%	45%	35%
Operating expenses	2,104	728	2,832
Operating profit	274	282	556
Interest expense			(424)
Other expense			(5)
Earnings before income tax expense			127
Income tax expense			(108)
Net income			\$ 19
Assets	\$ 28,212	\$ 6,067	\$ 34,279

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	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
<b>Six months ended January 31, 2002:</b>			
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
Operating profit	646	365	1,011
Interest expense			(489)
Other expense			(3)
Net income			\$ 519
Assets	\$ 20,103	\$ 5,308	\$ 25,411

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	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
<b>Six months ended January 31, 2001:</b>			
Net sales	\$ 15,156	\$ 4,359	\$ 19,515
Cost of sales	10,459	2,418	12,877
Gross profit	4,697	1,941	6,638
Gross profit %	31%	45%	34%
Operating expenses	4,249	1,405	5,654
Operating profit	448	536	984
Interest expense			(872)
Other expense, net			(1)
Earnings before income tax expense			111
Income tax expense			(151)
Net loss			\$ (40)
Assets	\$ 28,212	\$ 6,067	\$ 34,279

**Note 4. 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. 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. 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 will be reduced to \$66 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 January 31, 2002. The Company continues to make the

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scheduled principal and interest payments under the existing credit agreement until the 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.

Current maturities of long-term debt were \$9,078 as of January 31, 2002 and consisted of \$1,698 owed on the Company's European line of credit, \$788 of the Company's U.S. \$5,283 term note, and the entire balance of the Company's U.S. revolving line of credit of \$6,592.

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### Note 5. *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 January 31, 2002 and January 31, 2001 was \$86 and (\$54), respectively, vs. reported net income of \$166 and \$19 for those same periods. Additionally, the Company's comprehensive income (loss) for the six months ended January 31, 2002 and January 31, 2001 was \$496 and (\$236), respectively, vs. reported net income (loss) of \$519 and (\$40) for those same periods.

### Note 6. *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 offshore manufacturing sources. No additional charges have been recorded for the six months ended January 31, 2002. The components of the restructuring charge were as follows:

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

The Company expects to complete implementation of the restructuring plan by April 30, 2002. The initial financial benefits of plan implementation will be partially offset by certain incremental expenses that may not be included in the restructuring charge. These expenses include 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 January 31, 2002, the Company has completed the transfer of all operations from the Cumberland, Maryland facility to the Tustin, California facility as scheduled. Following the placement of initial orders in the past quarter, the Company's off-shore partners have begun regular shipment of production quantities of strategic components and parts. The Company continues to develop additional

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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 January 31, 2002, the Company has a remaining accrual of \$873 attributable to the restructuring. This balance is principally for lease payments on abandoned facilities.

### **Note 7. *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 six months ended January 31, 2002, no income tax expense was recognized because of the valuation allowance related to the Company's deferred tax assets.

### **Note 8. *Basic and Diluted Earnings (Loss) Per Common and Common Equivalent Share***

For the three months ended January 31, 2002 and 2001, respectively, and the six months ended January 31, 2002, there was no effect of dilutive securities on earnings per common and common equivalent share. For the six months ended January 31, 2001, the effect of dilutive securities on loss per common and common equivalent share was anti-dilutive.

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## **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**

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 17% to \$8,014 for the quarter ended January 31, 2002 and by 15% to \$16,551 for the six months ended January 31, 2002, as compared to \$9,622 and \$19,515, 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*

As a result of the lower sales volume noted above, gross profit in the second quarter and the six months' year to date decreased by 18% to \$2,783 and 13% to \$5,761, when compared to the gross profit reported for the same periods in the prior fiscal year of \$3,388 and \$6,638, respectively. Gross profit as a percentage of sales was 35% in this year's second quarter and 35% year to date, which represented increases from the same periods of the prior fiscal year of 0% and 1%, respectively. The gross profit dollar decrease resulting from the lower sales volume was partially offset by the initial benefits of the cost reductions and outsourcing of manufacturing in the Company's restructuring plan.

#### *Selling, General and Administrative Expenses*

SG & A expenses decreased approximately 16% to \$1,950 in the quarter ended January 31, 2002 and approximately 17% to \$3,843 in the six months ended January 31, 2002, as compared to \$2,321 and \$4,629 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 remained consistent, and is expected to be maintained at approximately the same current percentage of sales levels in future periods.

#### *Research, Development and Engineering Expenses*

RD & E expenditures decreased by 24% to \$302 for the quarter ended January 31, 2002, as compared to \$397 for the same period last year and by 10% to \$722 for the six months ended January 31, 2002, when compared to \$799 in the prior year. RD & E expense reductions are attributable to the consolidation of operations under the Company's restructuring plan. Due to the completion of consolidation activities in the second fiscal quarter, the Company expects future RD & E expenses to remain approximately flat in future periods.

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*Interest Expense*

For the three months and six months ended January 31, 2002, lower interest rates helped decrease interest expense to \$212 and \$489, respectively, as compared to \$424 and \$872 for the same periods in the prior fiscal year.

*Income Tax Expense*

Income tax expense for the three and six months ended January 31, 2001 was \$0 and \$0, compared to \$108 and \$151 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. 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. 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 will be reduced to \$66 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 January 31, 2002.

At January 31, 2002 the Company's cash position was \$321 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 \$194 at January 31, 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 deficit in working capital 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 line of credit, which are increased or decreased by cash provided by or used in operating activities. Cash provided by operating activities for the six months ended January 31, 2002 was \$972 as compared with (\$470) for the same period in the prior fiscal year.

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. The Company anticipates capital expenditures of approximately \$200 in fiscal 2002 as compared to \$306 in fiscal 2001.

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The Company believes that cash flow from operations and funds available under its bank facilities will be sufficient to meet the Company's working capital needs and principal payments on long-term debt.

*Information Regarding Forward-Looking Statements*

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This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in the preceding discussion regarding the Company's financial position, business strategy and plans of management for future operations are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

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### Part II. Other Information

#### ITEM 4. *Submission of Matters to a Vote of Security Holders*

- (a) The annual meeting of shareholders was held January 17, 2002 at the Company's headquarters in Tustin, California. At the annual meeting the shareholders elected the directors as nominated.

<u>Director</u>	<u>For</u>	<u>Withheld</u>
Edward A. Alkire	3,097,206	18,899
Rick A. Beets	3,096,156	19,949
Ralph Crump	3,097,856	18,249
S. Scott Crump	3,097,756	18,349
Bryant Riley	3,097,856	18,249
D. Dean Spatz	3,097,756	23,899
Heinz Zweipfennig	3,097,856	18,249

#### ITEM 6. *Exhibits and Reports on Form 8-K*

- (a) Exhibits to Part II

None

- (b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter.

The items omitted are either inapplicable or are items to which the answer is negative.

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### 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.

