

SI TECHNOLOGIES INC
Form 10-Q
June 14, 2004
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Commission file number 0-12370

FORM 10-Q

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

For the Quarterly period ended April 30, 2004

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

Commission file number 0-12370

SI TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-3381440
(I.R.S. Employer
Identification Number)

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

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 No

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

The number of shares outstanding of the registrant's common stock as of May 15, 2004 was 4,126,996.

Table of Contents

SI TECHNOLOGIES, INC.

	<u>INDEX</u>	<u>PAGE NO.</u>
PART I.	<u>FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets April 30, 2004 and July 31, 2003</u>	3
	<u>Consolidated Statements of Income Three and Nine Months Ended April 30, 2004 and 2003</u>	4
	<u>Consolidated Statements of Cash Flow Nine Months Ended April 30, 2004 and 2003</u>	5
	<u>Condensed Notes to Consolidated Financial Statements</u>	6-9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9-12
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	12
Item 4.	<u>Controls and Procedures</u>	12-13
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	14
Item 2.	<u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	14
Item 3		
through 5.	N/A	14
Item 6.	<u>Exhibits and Reports on Form 8-K</u>	14
	<u>SIGNATURE</u>	15

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements**

SI TECHNOLOGIES, INC.

Consolidated Balance Sheets

(in thousands)

	<u>April 30, 2004</u>	<u>July 31, 2003</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash	\$ 243	\$ 284
Trade accounts receivable, less allowance for doubtful Accounts of \$325 and \$296, respectively	5,565	5,516
Inventories, net	9,553	10,234
Other current assets	354	337
	<u>15,715</u>	<u>16,371</u>
Total current assets	15,715	16,371
Property and equipment, net	1,321	1,679
Deferred income taxes	1,509	1,509
Other assets		
Goodwill	7,002	7,002
Other intangibles, net	88	91
Other assets	250	291
	<u>25,885</u>	<u>26,943</u>
TOTAL ASSETS	\$ 25,885	\$ 26,943
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving lines of credit	\$ 7,445	\$ 8,242
Current maturities of long-term debt	1,367	1,898
Accounts payable	3,494	3,050
Accrued liabilities	1,687	1,557
	<u>13,993</u>	<u>14,747</u>
Total current liabilities	13,993	14,747
Long-term debt, less current maturities	2,868	3,366
Other liabilities	198	408
Stockholders equity		
Preferred stock, par value \$0.01 per share; authorized, 2,000,000 shares; none outstanding		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; 4,126,996-2004; 4,026,996 2003 issued and outstanding	41	40
Additional paid-in capital	11,343	11,163
Accumulated deficit	(2,579)	(2,798)

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

Accumulated other comprehensive income	21	17
Total stockholders' equity	8,826	8,422
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,885	\$ 26,943

See accompanying condensed notes to consolidated financial statements

Table of Contents

SI TECHNOLOGIES, INC.

Consolidated Statements of Income

(in thousands except share and per share data)

(Unaudited)

	For the three months ended April 30,		For the nine months ended April 30,	
	2004	2003	2004	2003
Net sales	\$ 9,288	\$ 8,663	\$ 26,342	\$ 24,729
Cost of sales	5,909	5,786	(1) 17,160	15,765
Gross profit	3,379	2,877	9,182	8,964
Operating expenses:				
Selling, general and administrative	2,372	2,044	6,741	6,338
Research, development and engineering	404	432	1,319	1,125
Amortization of intangibles	2	8	6	24
	2,778	2,484	8,066	7,487
Income from operations	601	393	1,116	1,477
Interest expense	(198)	(235)	(650)	(738)
Other income (expense), net	(109)	61	(1) (193)	142
Income before income tax benefit (provision)	294	219	273	881
Income tax benefit (provision)	(63)	24	(55)	29
Net income	\$ 231	\$ 243	\$ 218	\$ 910
Income per common share-basic	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.25
Income per common share-diluted	\$ 0.05	\$ 0.07	\$ 0.05	\$ 0.25
Weighted average shares outstanding basic	4,044,774	3,599,456	4,032,922	3,586,442
Weighted average shares outstanding-diluted	4,206,358	3,664,301	4,210,473	3,621,394

(1) Reclassification of custom freight expenses in 2nd quarter between cost of sales and other income (expense)

See accompanying condensed notes to consolidated financial statements

Table of Contents

SI TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the nine months ended	
	April 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 218	\$ 910
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	364	496
Loss on sale of equipment	30	
Deferred lease cost	(210)	(196)
Deferred income taxes		(384)
Provision for doubtful accounts	68	34
Changes in operating assets and liabilities:		
Trade accounts receivable	(117)	(206)
Inventories	682	(2,358)
Other current assets	24	25
Accounts payable	442	1,329
Accrued liabilities and customer advances	133	3
Net cash provided by (used in) operating activities	1,634	(347)
Cash flows from investing activities:		
Proceeds from sale of equipment	101	
Purchase of equipment	(132)	(209)
Net cash (used in) investing activities	(31)	(209)
Cash flows from financing activities:		
Stock options granted to consultant	26	
Proceeds from sale of common stock	156	540
Net (repayments) borrowings on line of credit	(797)	654
Payments on long-term debt	(1,030)	(730)
Net cash provided by (used in) financing activities	(1,645)	464
Effect of translation adjustments on cash	1	13
Net (decrease) in cash	(41)	(79)
Cash at beginning of period	284	238

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

Cash at end of period	<u>\$ 243</u>	<u>\$ 159</u>
Cash paid during period for:		
Interest	<u>\$ 610</u>	<u>\$ 734</u>

See accompanying condensed notes to consolidated financial statements

Table of Contents**SI TECHNOLOGIES, INC.****Condensed Notes to Consolidated Financial Statements****April 30, 2004****(In thousands except share and per share data)**

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of SI Technologies, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements reflect all adjustments, consisting of only normal recurring adjustments which, in the opinion of management, are necessary to fairly present the financial position results of operations and the cash flows of the company for the periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year ending July 31, 2004. 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, 2003.

Note 2. Equity Compensation Plan Information

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

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

	For the three		For the nine	
	months ended		months ended	
	April 30,		April 30,	
	2004	2003	2004	2003
Net Income, as reported	\$ 231	\$ 243	\$ 218	\$ 910
Deduct total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(21)	45	(192)	(75)

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

Pro Forma net income	\$ 210	\$ 288	\$ 26	\$ 835
Income per share:				
Basic:				
As reported	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.25
Pro forma	\$ 0.05	\$ 0.08	\$ 0.00	\$ 0.23
Diluted:				
As reported	\$ 0.05	\$ 0.07	\$ 0.05	\$ 0.25
Pro forma	\$ 0.05	\$ 0.08	\$ 0.00	\$ 0.23

Table of Contents**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 (177,551 and 34,835 equivalent shares in 2004 and 2003 respectively, and 161,584 and 64,125 for the three months ended April 30, 2004 and 2003 respectively).

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:

	<u>April 30, 2004</u>	<u>July 31, 2003</u>
	<u>(Unaudited)</u>	
Raw Materials	\$ 4,434	\$ 4,769
Work in Process	1,126	1,257
Finished Goods	4,874	4,810
	<u>10,434</u>	<u>10,836</u>
Less reserve for excess and obsolete inventories	(881)	(602)
	<u>\$ 9,553</u>	<u>\$ 10,234</u>

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 three operating segments, two of which are combined, 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.

As of April 30, 2004, approximately 59% of the sales are within the United States, 5% are within Canada, 6% to Pacific Rim and 30% of sales are to European customers. No single customer or control group represents more the 10% of total sales. As of April 30, 2004, \$5.1 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.

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

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.

Table of Contents**Segment Information 2004 (Unaudited)**

	Industrial Measurement	Industrial Automation	SI Consolidated
Three months ended April 30, 2004:			
Sales	\$ 7,320	\$ 1,968	\$ 9,288
Cost of goods sold	4,661	1,248	5,909
Gross profit	2,659	720	3,379
Gross profit %	36%	37%	36%
Operating expenses	2,179	599	2,778
Operating profit	\$ 480	\$ 121	601
Interest expense			(198)
Other income, net			(109)
Income before provision for taxes			294
Income tax provision			(63)
Net income			\$ 231
Depreciation and amortization	\$ 111	\$ 9	\$ 120
Assets	\$ 22,203	\$ 3,682	\$ 25,885
	Industrial Measurement	Industrial Automation	SI Consolidated
Nine months ended April 30, 2004:			
Sales	\$ 21,081	\$ 5,261	\$ 26,342
Cost of goods sold	13,985	3,175	17,160
Gross profit	7,096	2,086	9,182
Gross profit %	34%	40%	35%
Operating expenses	6,375	1,691	8,066
Operating profit	\$ 721	\$ 395	1,116
Interest expense			(650)
Other expense, net			(193)
Income before provision for taxes			273
Income tax provision			(55)
Net income			\$ 218
Depreciation and amortization	\$ 336	\$ 28	\$ 364



Table of Contents**Segment Information 2003 (Unaudited)**

	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Three months ended April 30, 2003:			
Sales	\$ 6,796	\$ 1,867	\$ 8,663
Cost of goods sold	4,639	1,147	5,786
Gross profit	2,157	720	2,877
Gross profit %	32%	39%	33%
Operating expenses	1,977	507	2,484
Operating profit	\$ 180	\$ 213	393
Interest expense			(235)
Other income, net			61
Income before benefit for taxes			219
Income tax benefit			24
Net income			\$ 243
Depreciation and amortization	\$ 159	\$ 11	\$ 170
Assets	\$ 23,834	\$ 4,610	\$ 28,444
	<u>Industrial Measurement</u>	<u>Industrial Automation</u>	<u>SI Consolidated</u>
Nine months ended April 30, 2003:			
Sales	\$ 19,617	\$ 5,112	\$ 24,729
Cost of goods sold	12,712	3,053	15,765
Gross profit	6,905	2,059	8,964
Gross profit %	35%	40%	36%
Operating expenses	5,979	1,508	7,487
Operating profit	\$ 926	\$ 551	1,477
Interest expense			(738)
Other income, net			142
Income before benefit for taxes			881
Income tax benefit			29
Net income			\$ 910
Depreciation and amortization	\$ 454	\$ 42	\$ 496

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. These risks and uncertainties include our ability to hire and retain qualified management, technology and other personnel; and impact of competition from existing and new technologies and companies.

Table of Contents

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.

We expect demand for our products to continue, but the near term outlook for our markets remain clouded by uncertain economic conditions and competition. Therefore, we are in process of searching for a facility in Southern California that is smaller than the one currently being leased in conjunction with the continuing outsourcing of certain high volume, low margin component products to manufacturing partners in low labor cost countries. We believe a recovery in global capital spending will allow us to leverage our more efficient operating structure into greater sales and profitability.

Results of Operations-three months ended April 30, 2004 vs. April 30, 2003

Sales

Net sales increased by approximately 7% to \$9.3 million for the quarter ended April 30, 2004 from \$8.7 million for the same period in the prior fiscal year. A general global economy betterment, and an exchange rate gain at the Company's European operations were the contributing items for the sales increase for the quarter over the prior year's quarter.

Gross Profit

Gross profit in the third quarter increased by approximately 17% to \$3.4 million from \$2.9 million of gross profit reported for the same period in the prior fiscal year. Increase of gross profit for the quarter as compared to the prior year were due to volume of sales, and the continuing transfer of manufacturing to outsourced contract manufacturer which has resulted in lower cost. The outsourcing continues to improve on quality which reduces rework cost. Offsetting the increase in gross profit was an increase in our reserve for excess and obsolete inventory of \$187,000 for the three month period

Selling, General and Administrative/Other Expenses

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

Selling, general and administrative/other expenses increased approximately 25% to \$2.5 million in the quarter ended April 30, 2004 as compared to \$2.0 million for the same period in the prior fiscal year. The quarter had increases in expenses mainly due to audit and tax fees, bank charges, consulting fees and insurance.

Research, Development and Engineering Expenses

Research, development and engineering expenses decreased by approximately 6% to \$404,000 for the quarter ended April 30, 2004, as compared to \$432,000 for the same period in the prior fiscal year. This was the result of reclassifying personnel from engineering to manufacturing for incoming inspection.

Interest Expense

For the three month period ended April 30, 2004, interest expense was \$198,000 as compared to \$235,000 in the prior year's period. The main cause for the decrease in both periods was reduction in debt.

Income Tax Expense

The provision for income taxes for the three months ended April 30, 2004 was \$63,000 as compared to a tax benefit of \$24,000 in the prior year. The tax benefit in the prior year period was for valuation allowance adjustments, and the tax provision for the current year period is the statutory tax rates less adjustments mainly from foreign sales tax credits.

Table of Contents

Net Income

Reflecting all of the matters discussed above, net income was \$231,000 (or \$0.06 per share basic, and \$0.05 per share diluted) for the quarter ended April 30, 2004.

Comparison of the Nine Months Ended April 30, 2004 to the Nine Months Ended April 30, 2003

Sales

For the nine months ended April 30, 2004, net sales were \$26.3 million, an increase of 7%, or \$1.6 million from the prior year's period. A general global economy uptick, and an exchange rate gain at the Company's European operations were the contributing items for the sales increase for the nine months over the prior year period.

Gross Profit

For the nine months ended April 30, 2004, gross profit was \$9.2 million, an increase of 2% or \$200,000 over the prior year's period. The increase was due primarily to volume of sales, and the continuing transfer of manufacturing to outsourced contract manufacturers which has resulted in lower cost. The outsourcing continues to improve on quality which reduces rework cost, offsetting the increase in gross profit was an increase in our reserve for excess and obsolete inventory of \$279,000.

Selling, General and Administrative/Other Expenses

For the nine months these expenses increased to \$6.7 million as compared to \$6.3 million for the same period in the prior year. The increase was due to a severance fee of \$125,000 during the second quarter, plus increases in expenses mainly due to audit and tax fees, bank charges, consulting fees and insurance.

Research, Development and Engineering Expenses

For the nine months, the expenses were \$1.3 million as compared to \$1.1 million in the prior year's period. The increase was attributable to personnel increases to support manufacturing activities; however, the third quarter reclassification of personnel mentioned above offset this increase.

Interest Expense

Edgar Filing: SI TECHNOLOGIES INC - Form 10-Q

For the nine months ended, interest was \$650,000 as compared to \$738,000 in the prior year's period, reflecting the effect of lower outstanding debt.

Income Tax Expense

For the nine months, the tax provision was \$55,000 as compared to a benefit of \$29,000 in the prior period. The tax benefit in the prior year period was for valuation allowance adjustments, and the tax provision for the current year period is the statutory tax rates less adjustments for mainly foreign sales tax credits.

Net Income

Reflecting all of the matters discussed above, net income was \$218,000 (or \$0.06 per share basic, and \$0.05 per share diluted) for the nine months ended April 30, 2004.

Inflation

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

Liquidity and Capital Resources

At April 30, 2004 the Company's cash position was \$243 thousand compared to \$284 thousand at July 31, 2003. Cash required in excess of that provided for general corporate purposes is provided by borrowings under the Company's line of credit. Working capital increased to \$1.7 million at April 30, 2004 from \$1.6 million at July 31, 2003.

Table of Contents

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 nine months ended April 30, 2004 was \$1.6 million as compared with \$347 thousand used by operations in the same period in the prior fiscal year. Cash provided by or used in operating activities consists of net income, primarily increased or decreased by the collection of trade accounts receivable, inventories and accounts payable. The Company's trade accounts receivable are generally collectable within 60 days. The increase in cash provided by operations for the nine months ended April 30, 2004 of \$1.9 million was mainly offset by debt payment over the prior year period.

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

In March 2004, the Company agreed upon an extension to the principal credit agreement with its bank to July 31, 2004. The Company is current with all provisions of the current debt agreement and had excess borrowing capacity of \$.3 million at April 30, 2004. The credit agreement provides for a revolving line of credit up to a maximum of \$6 million with interest at prime (4% at April 30, 2004) plus 2.75%. Monthly payments on the line are interest only with principal due July 31, 2004. The credit agreement continues the \$1.5 million term note (balance at April 30, 2004 of \$.7 million, however as of May 3, 2004 the balance is \$.5 million) with interest at prime 4% at April 30, 2004 plus 3.25%. Monthly payments are \$175 thousand principal plus interest with the balance due July 31, 2004. Monthly payments on the second note payable of \$3.9 million are \$56 thousand plus interest at prime plus 1.75%. The line and both notes are secured by substantially all of the Company's assets and are cross-collateralized and cross-defaulted. The Company is required to maintain certain levels of earnings before interest, taxes, depreciation and amortization, tangible net worth and fixed charge coverage and, may not pay any cash dividends. The Company plans to extend the credit facility at renewal.

The Company also maintains a revolving line of credit with a bank to support the Company's European operations for 2.3 million Euros, secured by certain of the Company's inventories and receivables. As of April 30, 2004, there was a balance outstanding of 1.4 million Euros or \$1.8 million.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and our use of estimates as reported in our annual report on Form 10-K for the year ended July 31, 2003.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

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

The domestic bank revolving line of credit and term debt bear interest at a variable interest rate equal to prime plus an additional amount, as defined in each respective debt agreement. At April 30, 2004, the interest rate on our revolving line of credit was 6.75%, and the interest rate on our term loans were 5.75% and 7.25%. We do not believe the risk associated with interest rate fluctuations related to these financial instruments poses a risk to the Company.

Item 4. Controls and Procedures

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

Table of Contents

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

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

Table of Contents

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in various legal matters in the normal course of business. Management does not believe any matter exists at April 30, 2004, which would result in any significant adverse effect to the financial statements.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On April 14, 2004, Rick A. Beets, a member of the Board of Directors, exercised a stock option for 100,000 shares of Common Stock with an exercise price of \$1.5625 per share. The total consideration paid to the Company upon the exercise of the stock option was \$156,250. This issuance of the Common Stock upon the exercise of the stock option was exempt from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), pursuant to section 4(2) of the 1933 Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits to Part II

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

(b) Reports on Form 8-K

None

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SI TECHNOLOGIES, INC.

By: /s/ Marvin Moist

June 14, 2004

 Marvin Moist
President and Chief Executive Officer

By: /s/ Howard F. George

June 14, 2004

 Howard F. George
Vice President and Chief Financial Officer