

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**  
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FILER

**SCIENTIFIC TECHNOLOGIES INC**

CIK: **708250** | IRS No.: **770170363** | State of Incorpor.: **OR** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-12254** | Film No.: **02645734**  
SIC: **3827** Optical instruments & lenses

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HAYWARD CA 94544

Business Address  
6550 DUMBARTON CIRCLE  
FREMONT CA 94555  
5104719717

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(MARK ONE)

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

For the quarterly period ended March 31, 2002 or

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 0-12254

**SCIENTIFIC TECHNOLOGIES INCORPORATED**

(Exact name of registrant as specified in its charter)

Oregon

(State or Other Jurisdiction of Incorporation or Organization)

77-0170363

(I.R.S. Employer Identification Number)

**6550 Dumbarton Circle  
Fremont, CA 94555**

(Address of principal executive offices including zip code)

**(510) 608-3400**

(Registrant's telephone number, including area code)

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Check whether the issuer (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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ],

Common stock outstanding as of April 30, 2002 was 9,675,507 shares.

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**SCIENTIFIC TECHNOLOGIES INCORPORATED**  
**Report On Form 10-Q For The**  
**Quarter Ended March 31, 2002**  
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**PART I -- FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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SCIENTIFIC TECHNOLOGIES INCORPORATED

CONSOLIDATED BALANCE SHEET

(in thousands)

<u>Assets</u>	<u>Mar. 31, 2002</u>	<u>Dec. 31, 2001</u>
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 758	\$ 1,033
Accounts and notes receivable, net	7,173	6,454
Inventories	9,107	9,125
Deferred income taxes	2,081	2,081

Receivable from Parent	411	--
Other current assets	<u>568</u>	<u>531</u>
Total current assets	20,098	19,224
Intangible assets	11,077	11,389
Property and equipment, net	3,451	3,537
Other assets	<u>151</u>	<u>50</u>
Total noncurrent assets	<u>14,679</u>	<u>14,976</u>
Total assets	<u>\$34,777</u>	<u>\$34,200</u>

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable	\$ 2,037	\$ 1,886
Accrued expenses	<u>3,281</u>	<u>2,648</u>
Total current liabilities	5,318	4,534

Long-term liability	<u>432</u>	<u>432</u>
Total liabilities	<u>5,750</u>	<u>4,966</u>
Shareholders' equity:		
Common stock; \$.001 par value; 100,000 shares authorized; shares issued and outstanding - 9,676	10	10
Capital in excess of par value	5,637	5,637
Retained earnings	<u>23,380</u>	<u>23,587</u>
Total shareholders' equity	<u>29,027</u>	<u>29,234</u>
Total liabilities and shareholders' equity	<u>\$34,777</u>	<u>\$34,200</u>

The accompanying notes are an integral part of these financial statements.

SCIENTIFIC TECHNOLOGIES INCORPORATED

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited, in thousands, except per share data)

	<u>For the three months ended</u>	
	<u>Mar.31, 2002</u>	<u>Mar.31, 2001</u>
Sales	\$11,048	\$14,323
Cost of goods sold	<u>6,194</u>	<u>7,852</u>
Gross profit	<u>4,854</u>	<u>6,471</u>
Operating expenses:		
Selling, general and administrative	3,773	3,988
Research and development	1,248	1,499
Amortization of intangible assets	<u>169</u>	<u>128</u>

Total operating expenses	<u>5,190</u>	<u>5,615</u>
Income (loss) from operations	(336)	856
Interest and other income, net	<u>2</u>	<u>80</u>
Income (loss) before income taxes	(334)	936
Provision (benefit) for income taxes	<u>(127)</u>	<u>356</u>
Net income (loss)	\$ <u>(207)</u>	\$ <u>580</u>
Net income (loss) per common share		
Basic and diluted	\$ <u>(0.02)</u>	\$ <u>0.06</u>



Shares used to compute net income (loss) per common share:		
Basic and diluted	<u>9,676</u>	<u>9,673</u>

The accompanying notes are an integral part of these financial statements.

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SCIENTIFIC TECHNOLOGIES INCORPORATED  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 (Unaudited, in thousands)

For the three months ended

	<u>Mar. 31, 2002</u>	<u>Mar. 31, 2001</u>
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Cash flows from operating activities:

Net income (loss)	\$ (207)	\$ 580
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Adjustments to reconcile net income (loss) to cash provided by operating activities:

Depreciation and amortization	651	494
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Changes in assets and liabilities:

Accounts receivable, net	(719)	333
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Inventories, net	18	(556)
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Other assets	(38)	(214)
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Accounts payable	151	(128)
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Payable to Parent	(411)	94
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Accrued liabilities	<u>633</u>	<u>115</u>
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Cash flows provided by operating activities	<u>78</u>	<u>718</u>
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Cash flows from investing activities:

Purchase of property, plant and equipment	(253)	(289)
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Investment in affiliate	(100)	--
Sale of short-term investments	--	<u>84</u>
Cash flows used in investing activities	<u>(353)</u>	<u>(205)</u>
Change in cash and cash equivalents	(275)	513
Cash and cash equivalents at beginning of period	<u>1,033</u>	<u>4,048</u>
Cash and cash equivalents at end of period	<u>\$ 758</u>	<u>\$ 4,561</u>

Supplemental disclosure of cash flow information:

Cash received from (paid to) Parent for income taxes	<u>\$ 127</u>	<u>\$ (356)</u>
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The accompanying notes are an integral part of these financial statements.

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SCIENTIFIC TECHNOLOGIES INCORPORATED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements for the three months ended March 31, 2002 and 2001 are unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial

information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of Scientific Technologies, Inc. (the "Company") and its subsidiaries for all periods presented.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

The results of operations are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with the Company's consolidated financial statements and the notes thereto included in its 2001 Annual Report on Form 10-K.

## 1. INVENTORIES

Inventories consisted of the following: (In thousands)

	<u>Mar. 31, 2002</u>	<u>Dec. 31, 2001</u>
Raw Materials	\$5,427	\$5,665
Subassemblies	818	1,042
Work in Process	658	475
Finished Goods	<u>2,204</u>	<u>1,943</u>
	<u>\$9,107</u>	<u>\$9,125</u>

## 2. NET INCOME (LOSS) PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted income per common share computations is provided below.

(In thousands)

	Income (loss)	Shares	(Per share) Amount
<u>Three months ended March 31, 2002</u>			
Basic earnings per share calculation	\$ (207)	9,676	\$ (0.02)
Effect of dilutive securities Stock options	-	-	-
	<hr/>	<hr/>	<hr/>
Diluted earnings per share calculation	\$ (207)	9,676	\$ (0.02)
	<hr/>	<hr/>	<hr/>
<u>Three months ended March 31, 2001</u>			
Basic earnings per share calculation	\$ 580	9,650	\$ 0.06
Effect of dilutive securities Stock options	-	23	-
	<hr/>	<hr/>	<hr/>
Diluted earnings per share calculation	\$ 580	9,673	\$ 0.06
	<hr/>	<hr/>	<hr/>

### 3. COMPREHENSIVE INCOME

For the three months ended March 31, 2002 and 2001, there is no significant difference between net income and comprehensive income.

### 4. SEGMENT REPORTING AND OTHER INFORMATION

Financial information for each product is as follows: In thousands

**Three months ended**

**March 31,**

<b><u>Safety Products</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Sales	\$ 9,281	\$11,765
Group operating profit	99	704

**Three months ended**

**March 31,**

<b><u>Automation Products</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Sales	\$ 1,767	\$ 2,558
Group operating profit (loss)	(435)	152

**At**

**Mar. 31    Dec. 31**

<b><u>Total Assets</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Safety Products	\$13,172	\$15,687
Automation Products	<u>21,605</u>	<u>16,731</u>
Total	<u>\$34,777</u>	<u>\$32,418</u>

The Company operates principally in the United States. The Company's operations in Germany are insignificant to the Company as a whole. Sales to foreign customers represented less than 10% of total sales in the first quarter of 2002.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This interim report on Form 10-Q contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Such statements include expectations, beliefs, intentions or strategies regarding future operating results, future expenditures, future cash requirements, and future industry conditions that involve risks and uncertainties. The Company's actual results could differ materially from those projected in such forward-looking statements as a result of many factors, including, without limitation, those set forth under this section, the section entitled "Business Factors" below and elsewhere in this report on Form 10-Q.

### Results of Operations

(Amounts in thousands, except percentages)

Scientific Technologies Incorporated designs, manufactures and distributes automation safeguarding and specialty sensor products for the industrial control market. The Company's products include safety light guards, profiling scanners, factory automation sensors, controls, components, microcomputers, fiber optics, power monitoring devices, safety mats, pressure, displacement and velocity transducers, digital pressure gauges and comparators and other electronic equipment supplied to industrial automation, commercial and defense customers.

Sales for the three months ended March 31, 2002 declined 23% to \$11,048 from \$14,323 in the comparable period in 2001. This was primarily the result of continued sluggishness of the U.S. economy which adversely affected markets served by both the Automation Products and Safety Products Groups of STI, including, the capital goods, industrial automation, semiconductor equipment and machine tooling markets. Partially offsetting the decrease in sales resulting from the depressed economy, our consolidated sales for the periods ended March 31, 2002 included sales by Dunn Sales Inc. (DSI) which was acquired in June 2001.

Gross margin as a percentage of sales for the first quarter of 2002 was 44% compared to 45% for the first quarter of 2001. The slightly lower gross margin was primarily the result of a reduction in the number of units sold.

Selling, general and administrative expenses for the three months ended March 31, 2002 were reduced 5% to \$3,773 from \$3,988 in the same period of 2001. The first quarter of 2002 was positively impacted by the continuing cost reduction measures initiated in April 2001, which offset increased selling, general and administrative expenses associated with the DSI operations. As a percent of sales for the three months ended March 31, 2002, selling, general and administrative expenses were 34% compared to 28% for 2001.

Research and development expenses for the first quarter of 2002 were reduced 17% to \$1,248 compared to \$1,499 in the first three months of 2002. This was also the result of the above mentioned cost reductions. As a percent of sales for the three months ended March 31, 2002, research and development expenses were 11% compared to 10% for the same period of 2001.

### Liquidity and Capital Resources

At March 31, 2002, our working capital remained essentially flat at \$14,780 compared to \$14,690 reported at December 31, 2001.

Available bank borrowings were \$6,100, all of which were unused at March 31, 2002. The Company believes that cash from operations, together with its cash resources and available bank borrowings, will be sufficient to fund its working capital requirements for the next twelve months.

### Critical Accounting Policies

A discussion of our critical accounting policies is set forth in our 2001 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on April 1, 2002, as amended. There were no material changes in any of our critical accounting estimates or judgments during the first quarter of 2002."

### Business Factors

Because of the variety of factors and uncertainties affecting our operating results, past financial performance and historic trends may not be a reliable indicator of future performance. These factors, as well as other factors affecting our operating performance, may result in significant volatility in our common stock price. Among the factors which could affect our future business, financial condition or operating results are the following:

#### Our operating results may fluctuate.

We have experienced fluctuations in annual and quarterly operating results and anticipate that these fluctuations will continue. These fluctuations are caused by a number of factors, including the level and timing of customer orders, fluctuations in complementary third party products with which our products are sold, the mix of products sold and the timing of operating expenditures. Our operating results have been, and could continue to be negatively impacted by generally adverse economic conditions throughout the high technology sector. In particular, our PSI-Tronix subsidiary has experienced decreases in sales due to the current market conditions in the semiconductor industry.

#### The seasonality inherent in our business could cause our operating results to fluctuate.

The industrial manufacturing equipment industry in which we compete has historically been subject to seasonality. This is also true with respect to European markets in which we compete where business activity declines due to vacations taken in the summer months. This seasonality, combined with other factors such as the variability in our operating results described above, renders quarter-to-quarter comparisons of our results of operations unreliable as indicia of our overall performance.

#### The market for our products is highly competitive.

The market for industrial sensors is highly competitive. Many competitors have substantially greater name recognition and technical, marketing and financial resources than we have. Competitive pressures could reduce market acceptance of our products and result in price reductions, decreased revenues and increases in expenses.

#### Our business could suffer if we do not respond to rapid technological change and new product development demands of our customers.

The market for our products is characterized by rapidly changing technology, evolving industry standards, changes in customer needs and frequent new product introductions. Our future success will depend on our ability to enhance current products, develop new products and respond to emerging industry standards, all on a timely and cost-effective basis. The introduction of new products also requires that we manage the transition from older products in order to minimize disruption of customer orders, avoid excessive levels of older product inventories and ensure that adequate supplies of new products can be delivered to meet customer demands.

#### Our sales are dependent on indirect distribution channels.

A majority of our sales are through third party distributors, system integrators and original equipment manufacturers. These resellers are not required to offer our products exclusively. We cannot assure you that a reseller will continue to offer our products. In addition many of our resellers are privately owned firms which may not be well capitalized. If our ability to sell products through these third parties is impaired, our results of operations would likely suffer.

#### Our international sales are subject to risks.



Our international sales may be disrupted by currency fluctuations or other events beyond our control, including political or regulatory changes. If our international sales were disrupted for any reason, our revenue levels would decline.

Our business could suffer if we are unable to protect and enforce our intellectual property rights.

We rely on a combination of patent, trademark and trade secret laws and contractual restrictions to establish and protect proprietary rights in our products and services. There can be no assurance that our patents, trademarks, or contractual arrangements or other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or defer independent third party development of similar technologies. Moreover, there can be no assurance that the technology licenses granted to us from our parent company will continue to be available. The loss of any of our proprietary technology could require us to obtain technology of lower quality or performance standards or at greater cost, which could materially adversely affect our business, results of operations and financial condition. Furthermore, the laws of certain foreign countries may not protect our products, services or intellectual property rights to the same extent as do the laws of the United States.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The market risk inherent in our investments represents the potential loss arising from adverse changes in interest rates. We are exposed to market risk in the area of interest rate changes impacting the fair value of our investment securities. Our policy is to invest primarily in money market accounts and short-term investments held at financial institutions. We do not have any derivative instruments in our investment portfolio. Due to their highly liquid nature, our investments are subject to minimal credit and market risk.

**PART II - OTHER INFORMATION**

Items 1 - 5

are not applicable for this reporting period.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following documents are filed as a part of this Report:

Exhibit 3.1 - Articles of Incorporation, as amended, are incorporated by reference to the

Registrant's Form 10-K for the year ended December 31, 1988, Exhibit 3.1.

Exhibit 3.3 - By-Laws are incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 1985, Exhibit 3.

Exhibit 4.1 - 1997 Employee Stock Purchase Plan is incorporated by reference to the Registrant's Registration Statement on Form S-8 dated October 2, 1998.

Exhibit 4.2 - 1997 Stock Plan is incorporated by reference to the Registrant's Registration Statement on Form S-8 dated October 2, 1998.

Exhibit 21.1 - Subsidiaries of the Registrant is incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 2001, Exhibit 21.1.

Exhibit 23.1 - Consent of Independent Accountants is incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 2001, Exhibit 23.1.

Exhibit 24.1 - Power of Attorney is incorporated by reference to the Registrant's Form 10-K for the year ended December 31, 2001, Exhibit 24.1.

- No Reports on Form 8-K were filed during the first quarter of 2002.

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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.

SCIENTIFIC TECHNOLOGIES INCORPORATED

Registrant

Date: May 14, 2002

/s/ Joseph J. Lazzara

		Joseph J. Lazzara
		President and Chief Executive Officer (Principal Executive and Financial officer)

Date: May 14, 2002

/s/ Richard O. Faria

		Richard O. Faria
		Vice-President, Finance & Administration (Principal Accounting Officer)

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