

MFIC CORP
Form 10-Q
August 04, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

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 0-11625

MFIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation or organization)

04-2793022
(I.R.S. Employer
Identification No.)

Edgar Filing: MFIC CORP - Form 10-Q

30 Ossipee Road, P.O. Box 9101, Newton, Massachusetts 02464

(Address of Principal Executive Offices) (Zip Code)

617-969-5452

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark 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

Registrant had 7,488,835 shares of common stock, par value \$.01 per share, outstanding on July 30, 2003.

MFIC CORPORATION

Edgar Filing: MFIC CORP - Form 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2003 (unaudited) and December 31, 2002

Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2003 and June 30, 2002 (unaudited)

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2003 and June 30, 2002 (unaudited)

Notes to Condensed Consolidated Financial Statements

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

ITEM 4. Disclosure Controls and Procedures

PART II. OTHER INFORMATION

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

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

PART I. FINANCIAL INFORMATION
FINANCIAL STATEMENTS
ITEM 1.

MFIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

Edgar Filing: MFIC CORP - Form 10-Q

	June 30, 2003 (unaudited)	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 83,097	\$ 84,956
Accounts receivable (less allowance for doubtful accounts of \$60,611 at June 30, 2003 and \$45,233 at December 31, 2002)	2,182,937	2,458,108
Inventories	4,122,817	3,898,098
Prepaid expenses	164,835	192,518
Other current assets	187,591	166,030
Note receivable - current	16,429	16,429
Total current assets	6,757,706	6,816,139
Property		
Furniture, fixtures and office equipment	314,375	288,472
Machinery and equipment	374,833	397,359
Leasehold improvements	149,949	133,522
Total property	839,157	819,353
Less: accumulated depreciation & amortization	(487,415)	(379,680)
Net property and equipment	351,742	439,673
Note receivable - long term	62,976	71,190
Goodwill	2,100,000	2,100,000
Patents, licenses and other intangible assets (net of accumulated amortization of \$301,885 at June 30, 2003 and \$299,985 at December 31, 2002)	57,878	59,778
Total assets	\$ 9,330,302	\$ 9,486,780

See notes to condensed consolidated financial statements.

MFIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

	June 30, 2003	December 31, 2002
	(unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Line of credit	\$ 2,778,382	\$ 2,681,987
Accounts payable and accrued expenses	1,519,085	1,899,113
Accrued interest - related party	7,912	14,980
Accrued compensation and vacation pay	132,263	158,119
Customer advances	116,527	320,224
Current portion of long term debt - related party	75,000	75,000
Current portion of note payable	95,004	95,004
Total current liabilities	4,724,173	5,244,427
Term note - net of current portion	11,233	58,735
Long term debt - net of current portion - related party	43,750	81,250
Stockholders' Equity		
Common stock, par value \$.01 per share, 20,000,000 shares authorized; 7,720,987 and 7,705,064 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	77,210	77,051
Additional paid-in-capital	12,949,827	12,945,520
Accumulated deficit	(7,788,190)	(8,232,502)
Less: Treasury stock, at cost, 260,446 shares at both June 30, 2003 and December 31, 2002, respectively	(687,701)	(687,701)
Total stockholders' equity	4,551,146	4,102,368
Total liabilities and stockholders' equity	\$ 9,330,302	\$ 9,486,780

See notes to condensed consolidated financial statements.

MFIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30, 2003 (unaudited)	Three months ended June 30, 2002 (unaudited)	Six months ended June 30, 2003 (unaudited)	Six months ended June 30, 2002 (unaudited)
Revenues	\$ 4,155,283	\$ 3,644,754	\$ 7,942,466	\$ 7,226,074
Cost of goods sold	2,178,830	2,093,738	4,271,152	4,004,113
Gross profit	1,976,453	1,551,016	3,671,314	3,221,961
Operating expenses:				
Selling	869,639	770,657	1,584,760	1,502,783
Research and development	281,374	182,654	491,971	442,456
General and administrative	542,183	498,511	1,092,181	1,031,684
Total operating expenses	1,693,196	1,451,822	3,168,912	2,976,923
Income from operations	283,257	99,194	502,402	245,038
Interest income	2,411	1,137	4,500	2,934
Interest expense	(31,028)	(44,900)	(62,591)	(92,294)
Net income before cumulative effect of accounting change	254,640	55,431	444,311	155,678
Cumulative effect of accounting change				(2,661,409)
Net income (loss)	\$ 254,640	\$ 55,431	\$ 444,311	\$ (2,505,731)
Weighted average number of common and common equivalent shares outstanding:				
Basic	7,460,541	7,427,739	7,457,887	7,408,554
Diluted	7,596,056	7,486,236	7,577,542	7,408,554
Net income per share prior to cumulative effect of accounting change:				
Basic	\$ 0.03	\$ 0.01	\$ 0.06	\$ 0.02
Diluted	\$ 0.03	\$ 0.01	\$ 0.06	\$ 0.02
Cumulative effect of accounting change	\$	\$	\$	\$ (0.36)
Net income (loss) per share after cumulative effect of accounting change:				
Basic	\$ 0.03	\$ 0.01	\$ 0.06	\$ (0.34)
Diluted	\$ 0.03	\$ 0.01	\$ 0.06	\$ (0.34)

See notes to condensed consolidated financial statements.

MFIC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2003	Six months ended June 30, 2002
Cash flows from operating activities:		
Net income (loss)	\$ 444,311	\$ (2,505,731)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Change in accounting principle: Impairment of Goodwill		2,661,409
Depreciation and amortization	130,100	145,599
Gain on sale of fixed assets	(23,500)	(19,143)
Bad debt expense	15,378	12,388
Changes in assets and liabilities:		
Trade and other receivables	259,793	(41,726)
Inventories	(224,719)	(176,428)
Prepaid expenses	27,683	(111,298)
Other current assets	(21,561)	45,762
Current liabilities	(616,649)	69,950
Net cash (used in) provided by operating activities:	(9,164)	80,782
Cash flows from investing activities:		
Proceeds from sale of fixed assets	23,500	55,125
Purchase of fixed assets	(40,268)	(73,922)
Net cash used in investing activities	(16,768)	(18,797)
Cash flows from financing activities:		
Payment of subordinated debt related party	(37,500)	(43,750)
Proceeds from line of credit	96,395	110,622
Payments on term note	(47,502)	(47,502)
Proceeds from notes receivable	8,214	
Issuance of common stock under employee stock purchase plan	4,466	5,425
Issuance of restricted common stock		11,668
Net cash provided by financing activities	24,073	36,463
Net (decrease) increase in cash and cash equivalents	(1,859)	98,448
Cash and cash equivalents at beginning of period	84,956	87,386
Cash and cash equivalents at end of period	\$ 83,097	\$ 185,834

See notes to condensed consolidated financial statements.

MFIC CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

MFIC Corporation (MFIC or the Company), through its wholly-owned subsidiary, Microfluidics Corporation (Microfluidics Division), as well as its operating division, Morehouse-COWLES, specialize in producing and marketing a broad line of proprietary fluid materials processing systems used for a variety of grinding, mixing, milling, and blending applications across a variety of industries and for use in numerous applications within those industries. Microfluidizer[®] materials processor systems are produced at the Microfluidics Division, while dispersers, dissolvers, colloid mills, horizontal media and vertical media mills are produced at the Morehouse-COWLES Division. The Morehouse-COWLES Division also sells and distributes grinding media. The Company also maintains a wholly-owned subsidiary, MediControl Corporation (MediControl), which has been inactive since 1996.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Microfluidics and MediControl. All significant intercompany transactions and balances have been eliminated in consolidation.

BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

The condensed consolidated financial statements, in the opinion of management, include all adjustments necessary to present fairly the Company's financial position and the results of operations. These results are not necessarily indicative of the results to be expected for the entire year.

SIGNIFICANT ACCOUNTING POLICIES

Edgar Filing: MFIC CORP - Form 10-Q

The significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in its Form 10-K for the year ended December 31, 2002. The Company has made no changes to these policies during this quarter.

2. INVENTORIES

The components of inventories on the following dates were:

	June 30, 2003		December 31, 2002	
Raw Material	\$	2,577,544	\$	2,507,487
Work in Progress		526,392		417,434
Finished Goods		1,018,881		973,177
Total	\$	4,122,817	\$	3,898,098

3. EARNINGS (LOSS) PER SHARE

Basic and diluted net earnings per share is presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*, for all periods presented. In accordance with SFAS No. 128, basic net income per common share was determined by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share (EPS) reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, unless the effects of dilution would be anti-dilutive.

	Three months ended		Six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Shares for computation of basic net income per share	7,460,541	7,427,739	7,457,887	7,408,554
Effect of dilutive stock options and options and warrants	135,515	58,497	119,655	
Shares for computation of diluted net income per share	7,596,056	7,486,236	7,577,542	7,408,554

4. LINE OF CREDIT

At December 31, 2002, the Company was not in compliance with certain covenants of its Revolving Line of Credit Agreement (the Agreement). The Company received a waiver of these violations for the year ended December 31, 2002. On February 19, 2003, the Company and PNC Bank entered into a third amendment to the original Agreement extending the credit facility for an additional year until February 28, 2004, with no change to the revised covenants agreed upon under the second amendment to the Agreement of March 29, 2002, which the Company was in compliance with on June 30, 2003.

Due to the subjective acceleration clause, and the lock-box arrangement, the Revolving Credit Line is classified as a current liability in the consolidated balance sheet. At June 30, 2003, the outstanding balance on the Revolving Credit Line was \$2,778,382, having an interest rate of 4.50%. The balance outstanding on the term loan was \$106,237, at an interest rate of 4.75%.

5. STOCK BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for its stock option plans. During the first quarter of fiscal 2003, the Company adopted the disclosure provisions of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. The following table illustrates the effect on net earnings and earnings per share had the Company adopted the fair value based method of accounting for stock-based employee compensation for all periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net earnings (loss), as reported	\$ 254,640	\$ 55,431	\$ 444,311	\$ (2,505,731)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,641	85,180	5,008	170,359
Pro forma net earnings (loss)	\$ 251,999	\$ (29,749)	\$ 439,303	\$ (2,676,090)
Earnings per share:				
Basic as reported	\$ 0.03	\$ 0.01	\$ 0.06	\$ (0.34)
Basic pro forma	\$ 0.03	\$ 0.00	\$ 0.06	\$ (0.39)
Diluted as reported	\$ 0.03	\$ 0.01	\$ 0.06	\$ (0.34)