

MFIC CORP
Form 10-Q
May 11, 2005

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(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, 2005

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)

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Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

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

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

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

Registrant had 9,679,209 shares of Common Stock, par value \$.01 per share, outstanding on May 6, 2005.

MFIC CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1.

MFIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2005 (Unaudited)	December 31, 2004
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 2,001,480	\$ 2,028,114
Accounts receivable, less allowance for doubtful accounts of \$16,203 at March 31, 2005 and \$13,203 at December 31, 2004	1,662,790	2,056,522
Inventories, net	2,233,744	1,888,138
Note receivable NuSil	100,000	100,000
Note receivable current		25,000
Prepaid expenses	243,241	227,607
Other current assets	27,181	45,167
Deferred income taxes	527,000	450,000
TOTAL CURRENT ASSETS	6,795,436	6,820,548
<i>Property and Equipment, at cost:</i>		
Furniture, fixtures and office equipment	540,632	451,341
Machinery and equipment	373,168	368,374
Leasehold improvements	88,550	85,795
	1,002,350	905,510
Less: Accumulated depreciation and amortization	(550,654)	(511,170)
Net property and equipment	451,696	394,340
Patents, licenses and other assets (net of accumulated amortization of \$19,247 at March 31, 2005 and \$18,297 at December 31, 2004)	76,463	77,413
TOTAL ASSETS	\$ 7,323,595	\$ 7,292,301

See notes to condensed consolidated financial statements.

MFIC CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND STOCKHOLDERS EQUITY	March 31, 2005 (Unaudited)	December 31, 2004
<i>Current Liabilities:</i>		
Line of credit	\$ 252,500	\$
Accounts payable	169,852	120,841
Accrued expenses	177,913	355,627
Accrued compensation and vacation pay	127,262	132,970
Customer advances	739,371	775,327
Current portion of term note payable	250,000	250,000
Current portion of long-term debt-equipment	38,507	
Current portion of long-term debt related party		6,250
TOTAL CURRENT LIABILITIES	1,755,405	1,641,015
Long-term debt, net of current portion-equipment	40,919	
Term note	500,004	562,503
<i>Stockholders Equity:</i>		
Common Stock, par value \$.01 per share, 20,000,000 shares authorized; 9,939,655 and 9,921,984 shares issued; 9,679,209 and 9,661,538 shares outstanding at March 31, 2005 and December 31, 2004, respectively	99,396	99,220
Additional paid-in capital	16,629,452	16,485,828
Deferred compensation	(89,250)	
Accumulated deficit	(10,924,630)	(10,808,564)
Less: Treasury Stock, at cost, 260,446 shares at March 31, 2005 and December 31, 2004, respectively	(687,701)	(687,701)
TOTAL STOCKHOLDERS EQUITY	5,027,267	5,088,783
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 7,323,595	\$ 7,292,301

See notes to condensed consolidated financial statements.

MFIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31, (Unaudited)	
	2005	2004
Revenues	\$ 2,536,469	\$ 2,251,452
Cost of goods sold	1,148,929	1,012,873
Gross profit	1,387,540	1,238,579
Operating expenses:		
Research and development	421,075	199,129
Selling	614,095	545,624
General and administrative	538,018	532,976
Total operating expenses	1,573,188	1,277,729
Loss from continuing operations	(185,648)	(39,150)
Interest expense	(15,470)	(16,863)
Interest income	8,052	830
Net loss from continuing operations before income tax benefit	(193,066)	(55,183)
Income tax benefit	77,000	
Net loss from continuing operations	(116,066)	
Loss from discontinued operations		(231,380)
Net loss	(116,066)	(286,563)
Weighted average number of common and common equivalent shares outstanding:		
Basic	9,678,292	8,468,537
Diluted	9,678,292	8,468,357
Basic amounts per common share:		
Basic net loss per share from continuing operations	\$ (0.01)	\$ (0.01)
Basic net loss per share from discontinued operations	\$	\$ (0.02)
Basic, as reported	\$ (0.01)	\$ (0.03)
Diluted amounts per common share:		
Diluted net loss per share from continuing operations	\$ (0.01)	\$ (0.01)
Diluted net loss per share from discontinued operations	\$	\$ (0.02)
Diluted, as reported	\$ (0.01)	\$ (0.03)

See notes to condensed consolidated financial statements.

MFIC CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, (Unaudited)	
	2005	2004
Cash flows from operating activities:		
Net loss	\$ (116,066)	\$ (286,563)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income tax benefit	(77,000)	
Depreciation and amortization	43,584	18,951
Provision for obsolete inventory	20,000	15,000
Bad debt expense	3,000	6,000
Share based payments	29,750	
Changes in assets and liabilities:		
Trade and other receivables	390,732	21,271
Inventories	(365,606)	(629,236)
Prepaid expenses	(15,634)	80,223
Other current assets	39,836	12,420
Current liabilities	(170,367)	150,933
Net cash used in operating activities:	(217,771)	(611,001)
Cash flows from investing activities:		
Proceeds from sale of assets available for sale net		622,023
Purchase of property and equipment	(96,840)	(32,716)
Net cash (used in) provided by investing activities	(96,840)	589,307
Cash flows from financing activities:		
Proceeds from private placement (net of closing costs of \$508,507)		3,058,033
Proceeds from term loan Banknorth		1,000,000
Proceeds from notes payable equipment	88,711	
Principal payments on bank line of credit PNC		(2,425,613)
Principal payment of subordinated debt-related party	(6,250)	(18,750)
Principal payments on term loan Banknorth	(62,499)	(58,735)
Principal payments on notes payable equipment	(9,285)	
Proceeds from line of credit Banknorth	252,500	18,585
Proceeds from exercise of stock options	17,902	165,526
Proceeds from issuance of common stock under employee stock purchase plan	6,898	10,465
Net cash provided by financing activities:	287,977	1,749,511
Net (decrease) increase in cash and cash equivalents	(26,634)	1,727,817
Cash and cash equivalents beginning of period	2,028,114	50,270
Cash and cash equivalents end of period	\$ 2,001,480	\$ 1,778,087

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), operates in one segment, 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.

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiary, Microfluidics. 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 generally accepted accounting principles 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.

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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

The significant accounting policies followed by the Company and its subsidiary in preparing its consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2004. The Company has made no changes to these policies during this quarter.

Stock Based Compensation

As allowed by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company has elected to account for stock-based compensation at intrinsic value with disclosure of the effects of fair value accounting on net income and earnings per share on a pro forma basis. At March 31, 2005, the Company had one stock incentive plan. The Company accounts for awards issued to employees under the plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, no compensation expense has been recognized for its stock option plans. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	Three Months Ended March 31,	
	2005	2004
Net loss, as reported	\$ (116,066)	\$ (286,563)
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	58,619	46,404
Pro forma net loss	\$ (174,685)	\$ (332,967)
Earnings per share:		
Basic as reported	\$	