

Edgar Filing: MFIC CORP - Form 10-Q

MFIC CORP
Form 10-Q
May 15, 2001

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, 2001

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.)

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

(Address of Principal Executive Offices)

02464

(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 7,366,667 shares of Common Stock, par value \$.01 per share, outstanding on May 8, 2001.

MFIC CORPORATION

Edgar Filing: MFIC CORP - Form 10-Q

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Consolidated Balance Sheets as of March 31, 2001 (unaudited) and December 31, 2000

Consolidated Statements of Operations (unaudited)
for the three months ended March 31, 2001
and March 31, 2000

Consolidated Statements of Cash Flows (unaudited)
for the three months ended March 31, 2001 and
March 31, 2000

Notes to 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

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

Exhibit Index

ITEM 1. PART I. FINANCIAL INFORMATION
FINANCIAL STATEMENTS
MFIC CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2001 (Unaudited)

Current Assets:	
Cash and cash equivalents	\$111,167

Edgar Filing: MFIC CORP - Form 10-Q

Accounts receivable (less allowance for doubtful accounts of \$55,570 at March 31, 2001 and December 31, 2000)	3,394,647
Other receivables	529
Accounts receivable-related party	9,700
Inventories	4,000,465
Prepaid expense	173,006
Other current assets	69,200
Assets held for sale	213,142
Advances	104,007
Total current assets	8,075,863
Property	
Furniture, fixtures and office equipment	438,507
Machinery and equipment	568,740
Leasehold improvements	213,255
	1,220,502
Less: accumulated depreciation and amortization	(698,733)
Net property	521,769
Assets held for sale	
Goodwill (net of accumulated amortization of \$1,087,050 at March 31, 2001, and \$981,050 at December 31, 2000)	5,077,409
Patents, licenses and other intangible assets (net of accumulated amortization of \$590,796 at March 31, 2001 and \$567,321 at December 31, 2000)	94,302
Total assets	\$13,769,343 =====

(See notes to consolidated financial statements)

Edgar Filing: MFIC CORP - Form 10-Q

MFIC CORPORATION CONSOLIDATED BALANCE SHEETS (CONTINUED)

March 31, 2001
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$1,446,839
Accrued expenses	318,587
Accrued interest - related party	65,168
Accrued compensation and vacation pay	88,409
Customer advances	334,741
Current portion of long term debt-related party	75,000
Current portion of note payable	95,004
Line of credit	2,891,866
Total current liabilities	5,315,614
Long term debt, net of current portion-related party	218,750
Term note, net of current portion	284,992
Notes payable, other	350,000
Stockholders' equity:	
Common stock, par value \$.01 per share, 20,000,000 shares authorized; 7,627,116 and 7,588,948 shares issued at March 31, 2001 and at December 31, 2000, respectively	76,271
Additional paid-in-capital	12,907,704
Accumulated deficit	(4,696,287)
Less: Treasury stock, at cost, 260,446 and 250,219 shares at March 31, 2001 and December 31, 2000, respectively	(687,701)
Total stockholders' equity	7,599,987
Total liabilities and stockholders' equity	\$13,769,343 =====

(See notes to consolidated financial statements)

Edgar Filing: MFIC CORP - Form 10-Q

MFIC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31, (Unaudited) 2001
Revenues	\$4,449,624
Cost of goods sold	2,222,538
Gross profit on revenues	2,227,086
Operating expenses:	
Research and development	175,736
Selling	696,653
General and administrative	775,117
Total operating expenses	1,647,506
Income from operations	579,580
Interest income	--
Interest expense	82,525
Net income before income taxes and extraordinary item	497,055
Income tax provision	--
Net income before extraordinary item	497,055
Gain on subordinated debt restructuring	--
Net income (loss)	\$497,055 =====

Edgar Filing: MFIC CORP - Form 10-Q

Weighted average number of common and common equivalent shares outstanding:	
-----	-----
Basic	7,366,670
-----	-----
Diluted	7,593,936
-----	-----
Basic amounts per common share	
-----	-----
Net income per share before extraordinary gain	\$0.07
-----	-----
Extraordinary gain per share	--
-----	-----
Basic net income per share	\$0.07
-----	-----
Diluted amounts per common share:	
-----	-----
Net income per share before extraordinary gain	\$0.07
-----	-----
Extraordinary gain per share	--
-----	-----
Diluted net income per share	\$0.07
-----	-----

(See notes to consolidated financial statements)

6

MFIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months e

20

-----	-----
Cash flows from operations:	
-----	-----
Net income	
-----	-----
Reconciliation of net income to cash flows from operations	
-----	-----
Depreciation and amortization	
-----	-----
Extraordinary gain on debt restructuring	
-----	-----
Gain on sale of fixed assets	
-----	-----

Edgar Filing: MFIC CORP - Form 10-Q

Bad debt expense

Increase (decrease) in cash due to change in:

Trade and other receivables

Inventories

Prepaid expenses

Other current assets

Current liabilities

Net cash (used from) provided by operations

Cash flows from investing activities

Proceeds from sales of fixed assets

Purchase of capital equipment

Net cash provided by (used for) investing activities

Cash flows from financing activities:

Payment of subordinated debt-related party

Payments on term note

Net proceeds from National Bank of Canada line of credit

Payment on Comerica line of credit

Proceeds from term note

Paydown in connection with debt refinancing

Lease termination payment in connection with debt refinancing

Issuance of restricted common stock

Issuance of common stock under employee stock purchase plan

7

MFIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Thr

Edgar Filing: MFIC CORP - Form 10-Q

Net cash provided by (used for) financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

8

MFIC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, ("generally accepted accounting principles") for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2001 and 2000 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

2. EARNINGS PER SHARE

Basic net income per share (EPS) is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for 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. For 2001, 1,339,925 shares were excluded because the effect of such options would be anti-dilutive. For 2000, 1,725,482 shares were excluded because the effect would be anti-dilutive.

9

MFIC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: MFIC CORP - Form 10-Q

(unaudited)

3. INVENTORIES

The components of inventories on the following dates were:

	March 31, 2001	December 31, 2000
Raw Material	\$2,781,607	\$2,781,607
Work in Progress	233,461	233,461
Finished Goods	985,397	985,397
Total	\$4,000,465	\$4,000,465

4. TAXES

The Company has a federal net operating loss tax (NOL) carryforward of approximately \$4,695,000 and research and development tax credit carryforwards of approximately \$172,000 expiring at various dates beginning in 2001 through 2019. Ownership changes may result in future limitations on the utilization of net operating losses and research and development tax credit carryforwards.

Based on the financial results known at March 31, 2001, the Company has established a valuation allowance against a deferred tax asset due to the uncertainty of earning sufficient taxable income to realize the benefit of these assets.

5. NEW ACCOUNTING PRONOUNCEMENTS

In June, 1998, The Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended to be effective for fiscal years beginning after June 15, 2000 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The standard was effective for the Company on January 1, 2001. In June, 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133." The standard

10

clarifies certain elements of SFAS No. 133. The implementation of SFAS No. 133 did not have an impact on the Company's financial statements.

11

Edgar Filing: MFIC CORP - Form 10-Q

6. SETTLEMENT AGREEMENT, & DEBT RESTRUCTURING AND REFINANCING

On December 20, 1999 the Company signed an agreement in principle (the "Agreement In Principle") with J.B. Jennings and Bret A. Lewis, the former owners of the Epworth Mill and Morehouse-COWLES businesses (the "Sellers"), Lake Shore Industries, Inc., and JLJ Properties, Inc., entities owned and controlled by the Sellers. The Agreement In Principle set forth understandings among the parties concerning restructuring of the Company's subordinated debt and resolution of various disputes. On January 17, 2000 a definitive settlement agreement incorporating these subject matters was executed between the parties (the "Settlement Agreement"). Pursuant to this Settlement Agreement, Seller's subordinated loans totaling \$775,000 would be restructured upon the closing of a new senior loan facility. Such restructuring included all outstanding and unpaid interest and setoffs to such notes provided for under the terms of the August 14, 1998 Asset Purchase Agreement. At such closing \$500,000 of this debt would be converted to 500,000 shares of Common Stock at a per share price of \$1.00. The Company retained the right to repurchase such shares for a 3 year period at a per share price of \$1.75. The remaining \$300,000 would be structured as a new subordinated promissory note with annual interest at 10%, with interest only being paid in the first year, and the principal together with interest then being amortized over 4 years starting in the second year. A disputed lease between the Company and one of the Seller's entities for property located in South Haven, Michigan, which was the subject of a suit to terminate filed by the Company, was voluntarily dismissed in return for the payment by the Company of a total of \$58,000. The initial payment in the amount of \$30,000 was paid on January 19, 2000 upon execution of the Settlement Agreement and the balance on February 28, 2000. The Company dismissed with prejudice by joint stipulation its lawsuit to terminate the lease. The Company and the Sellers executed a mutual release of liability related to the August 14, 1998 Asset Purchase Agreement.

12

ON FEBRUARY 28, 2000 (THE "CLOSING DATE") THE COMPANY ENTERED INTO A REVOLVING CREDIT AND TERM LOAN AGREEMENT WITH NATIONAL BANK OF CANADA (THE "LENDER") PROVIDING THE COMPANY WITH A \$4,475,000 THREE-YEAR REVOLVING CREDIT AND TERM LOAN FACILITY (THE "CREDIT FACILITY").

The Credit Facility is comprised of: (i) a \$4 million three year revolving line of credit ("Revolving Credit Line") with advances thereunder bearing interest at an interest rate equal to the prime rate (the "Prime Rate" for United States borrowings from the National Bank of Canada as publicly announced from time to time) plus one-half percent (.50%). All borrowings under the Revolving Credit Line are evidenced by a \$4 million promissory note having a maturity date of February 28, 2003 (the "Revolving Note"), and (ii) a \$475,000 term promissory note, amortized over a five year period but having a maturity date of February 28, 2003 and bearing interest at an interest rate equal to the Prime Rate plus three quarters of one percent (.75%). As of March 31, 2001 the revolving line of credit had an interest rate of 8.5% per annum, and the term note has an interest rate of 8.75%. Loans under the Credit Facility are secured by a collateral pledge to the Lender of substantially all the assets of the Company and its subsidiaries. The Company's Microfluidics Corporation subsidiary has guaranteed the Company's obligations to the Lender under the Credit Facility. The Company has pledged to the Lender all shares of Microfluidics Corporation owned by the

Edgar Filing: MFIC CORP - Form 10-Q

Company.

As one of the Lender's conditions precedent to the closing of the Finance Facility, the Company's Chairman, Irwin Gruverman, made at the closing of the Credit Facility a \$250,000 purchase of restricted Common Stock of the Company. Pursuant to an agreement with the Company approved by the Company's Board of Directors on December 30, 1999, Mr. Gruverman paid \$.25 per share for his stock purchase and resultantly received 1,000,000 MFIC restricted shares of Common Stock.

The Credit Facility includes restrictive financial and non-financial covenants. The covenants include prohibition from paying dividends and limits capital expenditures to \$200,000 per year. In addition, the financial covenants include quarterly calculations of tangible net worth, liabilities to worth ratio, net income, and debt service coverage. The Credit Facility also contains a subjective acceleration clause and a lock-box arrangement, whereby remittances from the Company's customers reduce the outstanding amount of the Revolving Credit Line.

At December 31, 2000, the Company was in violation of the tangible net worth, liabilities to worth ratio, and net income covenants. The Company had received a waiver of these violations from the Lender as of December 31, 2000, but is required to meet such covenants thereafter. 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.

13

At March 31, 2001, the outstanding balance on the Revolving Credit Line was \$2,891,866, and the balance outstanding on the term loan was \$379,996.

The Company notified the National Bank of Canada that it was in violation of the tangible net worth and liabilities to worth ratio covenants contained in the Credit Facility for the quarter ended March 31, 2001. On April 13, 2001, the Company received a waiver of these violations from the National Bank of Canada, but is required to meet all covenant requirements thereafter. As a result of the waiver and management's expectations of future compliance, the non-current portion of the term promissory Note has been classified as a non-current liability.

In connection with the closing of the Credit Facility, and pursuant to a Settlement Agreement dated January 17, 2000 with the Company's subordinated debt holders, the subordinated debt of the Company was restructured in the following manner. The outstanding August 14, 1998 \$500,000 subordinated promissory note, having a remaining \$475,000 principal balance together with accrued interest at the Closing Date in the approximate amount of \$77,500, and accrued interest on the August 14, 1998 \$300,000 subordinated note were converted to 500,000 shares of MFIC restricted common stock (the "Conversion Shares"). The fair market value of the Company's Common Stock on the date of the Agreement In Principle was \$0.31 per share. MFIC was granted the right for a three-year period to repurchase the Conversion Shares at purchase price of \$1.75 per share. The August 14, 1998 \$300,000 subordinated note was replaced with a new \$300,000 subordinated promissory note dated February 28, 2000 (the "2000 Subordinated Note"). The 2000 Subordinated Note has a maturity date of February 28, 2005 and bears interest at a rate of ten percent (10%) per annum. The note is payable interest only in its first year and then is payable in equal quarterly installments of principal together with outstanding interest thereon until maturity.

As a result of the debt restructuring and refinancing, the Company recorded an extraordinary gain of approximately \$195,000 in the first quarter of 2000.

7. NOTE PAYABLE, OTHER

In a letter dated June 16, 2000, J.M. Huber Corporation ("Huber") informed MFIC Corporation that it purportedly was revoking its acceptance of seven model LV-40 Zinger(R) horizontal media mills that Huber had purchased from MFIC's Epworth Mill Division in 1998. The notice of revocation was accompanied by a claim for the repayment of the full purchase price of \$384,948 and for incidental and consequential damages as a result of alleged breaches of express and implied warranties in the amount of \$2,790,350. The Company denied any liability. At the request of Huber and as an accommodation, the Company, in both 2000 and 1999 performed certain services which, the Company believed, were accepted by Huber as a cure for problems encountered by Huber with the performance of this equipment. On October 20, 2000, the Company entered into a settlement agreement with Huber pursuant to which, the Company paid \$100,000 to Huber upon execution of the agreement, and executed a promissory note for \$350,000 payable two years from the execution date, with interest payable quarterly in arrears at 10% per annum. Huber has transferred all interest in the seven Media Mills to the Company, and shipped the equipment to the Company for reconditioning and resale. The Company recorded a loss on this transaction of \$250,000 in the year ended December 31, 2000.

8. SUBSEQUENT EVENTS

On September 30, 2000, the Company ceased operations of the Ball Mill repair business and decided to sell its Ball Mill operation conducted at the Epworth Mill Division through a broker. On March 19, 2001, the Company reached an agreement to sell the operation for \$200,000 in cash and notes. On April 26, 2001, the sale was finalized, which resulted in a loss on the sale of the ball mill assets of approximately \$13,000.

MFIC CORPORATION

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

1. RESULTS OF OPERATIONS

Total Company revenues for the quarter ended March 31, 2001 were \$4,449,624, as compared to revenues of \$3,732,919 for the three months ended March 31, 2000, representing an increase of \$716,705, or 19%. The increase during this period is due to an increase in sales of machines of approximately \$1,064,000, offset by a decrease in sales of parts and repairs of approximately \$347,000.

Cost of goods sold for the three months ended March 31, 2001 was \$2,222,538 or 50% of revenue, compared to \$1,981,050 or 53% of revenue, for the three months ended March 31, 2000. The increase in cost of goods sold in absolute dollars for the three months ended March 31, 2001, reflects the overall increase in sales.

Edgar Filing: MFIC CORP - Form 10-Q

The decrease in cost of goods sold as a percentage of revenue was attributable to higher gross margins on sales of machines. The Company's major product lines have different profit margins, as well as multiple profit margins within each product line. In the course of the periods compared, there may be significant changes in the cost of revenues as a percentage of revenue depending on the mix of product sold.

Total operating expenses for the three months ended March 31, 2001 were \$1,647,506 or 37% of revenue, as compared to \$1,610,523 or 43% of revenue, for the three months ended March 31, 2000 which is an increase of approximately \$37,000 or 2%.

Research and development expenses for the three months ended March 31, 2001 were \$175,736 compared to \$186,132 for the three months ended March 31, 2000, a decrease of \$10,396 or 6%. The decrease in research and development expenses was primarily due to the reduction of expenses of approximately \$16,000 at the Epworth Mill Division operation, due to the transfer of the division's engineering operations to the Morehouse-COWLES Division in October of Fiscal 2000.

Selling expenses for the three months ended March 31, 2001 decreased approximately \$28,000 or 4%, compared to the three months ended March 31, 2000 from \$724,699 to \$696,653. The decrease is primarily attributable to decreases in both consulting and travel expenses of approximately \$12,000 each, and the reduction in selling expenses of approximately \$86,000 at the Epworth Mill

16

Division, offset by an increase in commissions of approximately \$79,000, and an increase in advertising expenses of approximately \$17,000.

For the three months ended March 31, 2001, general and administrative expenses increased by approximately \$75,000 from \$699,692 to \$775,117. The increase in general and administrative expenses is principally due to an increase in professional fees of approximately \$51,000 and an increase in payroll expenses of approximately \$81,000, partially offset by a decrease of approximately \$62,000 caused by the shutdown of the Epworth Mill Division.

Interest expense for the three months ended March 31, 2001 decreased \$7,661 or 8%, to \$82,525 from \$90,186 for the three months ended March 31, 2000. The decrease is due to a reduction in the interest rate paid as a result of the refinancing in February, 2000.

2. LIQUIDITY AND CAPITAL RESOURCES

The Company used cash of \$332,583 and generated cash of \$438,455 from operations for the three months ended March 31, 2001 and 2000, respectively. For the three months ended March 31, 2001, the Company's principal operating cash requirements were to fund its increase in receivables and decrease in current liabilities, offset by a decrease in prepaid expenses and net income from operations. For the three months ended March 31, 2000, the Company's principal operating cash requirements were to fund its' increase in inventories and prepaid expenses, offset by an increase in current liabilities, and net income from operations.

The Company generated cash of \$10,394 and used cash of \$22,996 for investing activities for the three months ended March 31, 2001 and 2000, respectively. Net cash provided by investing activities for the three months ended March 31, 2001 included proceeds from the sale of fixed assets, offset by the purchase of capital equipment. Net cash used by investing activities for the three months ended March 31, 2000 consisted of the proceeds from the sale of fixed assets

Edgar Filing: MFIC CORP - Form 10-Q

offset by the purchase of capital equipment. As of March 31, 2001, the Company had no material commitments for capital expenditures.

The Company generated cash of \$147,001 for the three months ended March 31, 2001, consisting of proceeds from the line of credit, and proceeds from the issuance of common stock, offset by payments of both the term note and subordinated debt. The Company used cash of

17

\$495,201 for the three months ended March 31, 2000, consisting of the proceeds from the refinancing of the line of credit, and proceeds from the issuance of common stock offset by the repayment of the previous line of credit.

As of March 31, 2001, the Company had \$111,167 in cash and cash equivalents, compared to \$286,355 as of December 31, 2000.

On February 28, 2000, the Company entered into a revolving credit and term loan agreement (the "Credit Facility") with National Bank of Canada (the "Bank"), providing the Company with a \$4,475,000 three-year revolving credit and term loan facility.

As discussed in Note 6 to the accompanying financial statements, the Company notified the bank that it was in violation of the tangible net worth and liabilities to worth ratio covenants contained in the Credit Facility for the quarter ended March 31, 2001. On April 13, 2001, the Company received a waiver of these violations from the Bank, but is required to meet all covenant requirements thereafter. The Company's ability to continue planned operations is dependent upon access to financing under its Credit Facility, which is potentially impacted by the Company's ability to achieve future compliance with the financial covenants. Given the terms of the financial covenants and historical results, it is at least reasonably possible that the Company will be in violation of the financial covenants in the future. Management of the Company is executing plans for a return to profitability, including the recent reorganization of its Epworth Mill Division and the concentration of manufacturing operations in an effort to improve costs and marketing leverage; however, there can be no assurance that the Company will be successful in implementing these plans.

Assuming that there is no significant change in the Company's business, the Company believes that cash flows from operations, together with the Credit and term loan Facility, and the existing cash balances, will be sufficient to meet its working capital requirements for at least the next twelve months.

18

3. NEW ACCOUNTING PRONOUNCEMENTS

In June, 1998, The Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended to be effective for fiscal years beginning after June 15, 2000 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 requires that all companies record derivatives on the balance sheet as assets or liabilities,

Edgar Filing: MFIC CORP - Form 10-Q

measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The standard is effective for the Company on January 1, 2001. In June, 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133." The standard clarifies certain elements of SFAS No. 133. The implementation of SFAS No. 133 did not have a material impact on the Company's financial statements.

4. BUSINESS OUTLOOK

The Company believes that this report may contain forward-looking statements that are subject to certain risks and uncertainties including statements to achieve revenue growth, to maintain and/or increase operating profitability, and to attain net income profitability. Such statements are based on the Company's current expectations and are subject to a number of factors and uncertainties that could cause actual results achieved by the Company to differ materially from those described in the forward-looking statements. The Company cautions investors that there can be no assurance that the actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including but not limited to, the following risks and uncertainties: (i) whether the performance advantages of the Company's Microfluidizer(R) or Zinger(R) materials processing equipment will be realized commercially or that a commercial market for the equipment will continue to develop, and (ii) whether the Company will have access to sufficient working capital through continued and improving cash flow from sales and ongoing borrowing availability, the latter being subject to the Company's ability to comply with the covenants and terms of the Company's loan agreement with its senior lender.

19

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's fixed rate debt is not exposed to cash flow or interest rate changes but is exposed to fair market value changes in the event of refinancing this fixed rate debt.

The Company had approximately \$3,272,000 of variable rate borrowings outstanding under its revolving credit agreement. A hypothetical 10% adverse change in interest rates for this variable rate debt would have an approximate \$8,200 negative effect on the Company's earnings and cash flows on a quarterly basis.

20

MFIC CORPORATION PART II- OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits

Edgar Filing: MFIC CORP - Form 10-Q

Exhibit 11 Statement regarding computation of Per Share Earnings

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.

MFIC CORPORATION

/s/ Irwin J. Gruverman

Irwin J. Gruverman
Chief Executive Officer
(Principal Executive Officer)

Date: May 11, 2001