

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

(Mark One)

☒ Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934 (Fee Required)  
For the fiscal year ended December 31, 2002

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee required)  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-12254

SCIENTIFIC TECHNOLOGIES INCORPORATED

Incorporated in Oregon

IRS Employer Identification Number: 77-0170363

Address of principal executive offices:  
6550 Dumbarton Circle, Fremont, CA 94555  
Telephone: (510) 608-3400

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:

<u>Title of Class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.001 Par Value	NASDAQ National Market System

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, based on the closing sales price of Common Stock on June 30, 2002 as reported by the NASDAQ Market System, was approximately \$4,779,356. Such amount excludes shares held by registrant's current directors and officers and by each person who owns 5% or more of the outstanding Common Stock in that such persons may be deemed to be "affiliates" as that term is defined pursuant to the Rules and Regulations of the Securities Exchange Act of 1934. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's Common Stock outstanding as of March 3, 2003 was 9,692,327 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy statement to be filed with the Securities and Exchange Commission in connection with the Company's 2003 Annual Meeting of Shareholders ("the Proxy Statement") are incorporated by reference in Part III of this Form 10K.

## **PART I**

### **Item 1. BUSINESS**

*This Annual Report contains forward-looking statements that involve risks and uncertainties. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Factors that could affect our actual results include the level and timing of customer orders, the mix of products sold, fluctuations in sales of complementary third party products with which our products are sold, the timing of operating expenditures, general economic conditions in the U.S. and abroad, particularly in Asia and Europe, competition, our ability to introduce successful new products and other factors. You should carefully read the factors discussed in this Annual Report under the caption “Factors That May Affect Future Results.”*

*These forward-looking statements reflect management’s view only as of the date of this Annual Report. You should also carefully consider the risk factors described in other documents that we file from time to time with the Securities and Exchange Commission.*

#### **Overview**

Scientific Technologies Incorporated designs, manufactures and distributes electrical and electronic industrial controls such as machine safety and automation sensing products. Our product lines include safety light curtains, safety interlock switches, safety relays, profiling scanners, factory automation sensors, controls, fiber optics, power monitoring, safety mats, safety contact strips, non-contact ultrasonic sensors and controllers, pressure transducers and other electronic equipment supplied to industrial automation, commercial and defense customers. We were incorporated in Oregon in 1979.

Eighty-six percent (86%) of our capital stock is currently held by our parent corporation, Scientific Technology Incorporated, a California corporation.

We are organized into two product groups, Safety Products and Automation Products, within two business segments. This structure was initiated in 2000 to allow us to better target our products based on each group’s area of specialization, customer-focused applications and products. This organization is intended to facilitate more efficient integration of new products and acquisitions.

Scientific Technology, Scientific Technologies, Datricon, STI, the STI logo, OptoSwitch, OptoData, OptoSafe and Fiberlens, are registered trademarks of our parent company, Scientific Technology Incorporated. Aegis, MiniSafe, FlexSafe, MicroSafe, BeamSafe, FastScan, SpectraData, PartScan, MiniProtect, OptoShield and ValuScan are trademarks of the Company. This Annual Report on Form 10-K also refers to trademarks and service marks of other companies and entities.

Our corporate Internet address is [www.sti.com](http://www.sti.com). At this website, we make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on

Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The information found on our website is not part of this Form 10-K. In addition to our website, the SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

## **Products**

### **1. Safety Products Group:**

a. Safety Light Curtains. Our leading product group, which accounted for over 80% of our sales in 2002, 2001 and 2000, is a family of optical guarding products, also called presence sensing devices or safety light curtains, used to safeguard personnel in manufacturing environments against injury caused by robots and moving machinery. We offer several product variations, providing customers with a complete line of optical guarding solutions.

Safety light curtains are devices that emit a "curtain" of harmless infrared light beams in front of the hazard area. When any of the beams are blocked, the light curtain sends a stop signal to the guarded machine. Light curtains are extremely versatile and can guard areas that are more than 100 feet wide. By the use of mirrors, the light beams can be diverted around corners to enclose a machine. Safety light curtains are available with different light beam spacings, which makes them suitable for many applications.

We manufacture and market a family of miniaturized light guards called the MiniSafe, designed for inclusion in systems offered by original equipment manufacturers, or OEMs, and other applications where space is limited. MiniSafe light curtains are available in four-inch increments ranging from four inches to 82.6 inches in coverage height. The operating distance, the distance between the transmitter and receiver, is up to 100 feet. These products are offered in various configurations with many optional features to meet a wide variety of machine guarding applications

Applications for safety light curtains are found in a variety of manufacturing environments. Our customers use safety light curtains to guard a wide variety of hazardous applications including automotive assembly lines, robot work cells, semiconductor production equipment, metal stamping and forming, food processing, aircraft manufacturing, photographic film production, tire manufacturing and home appliance production.

The MicroSafe MC4700 series light curtain was introduced in 2001. This product features an ultra-compact transmitter and receiver that offers protected heights from 100 to 1,798 millimeters. Superior response time and excellent resolution, allow the MC4700 to be mounted closer to the danger points of hazardous operation. The MC4700 includes individual beam indicators, adjustable mounting brackets, exact channel select, floating blanking, auxiliary outputs, restart interlocks, two digit display diagnostic, and a simple 3-box design. Designed for use in locations in which space is limited, the small size of the MicroSafe allows it to be integrated with the support framing used on many automated industrial machines.

The MegaSafe MG4600 series was introduced in 2001. The MG4600 Series comes with a complete features set, and is designed to meet the stringent safeguarding requirements for automotive applications. The MG4600 is available in 20 mm, 30 mm and 50 mm resolution, provides protected heights from 17.13 inches (435 mm) to 82.52 inches (2086 mm) depending on

system resolution, and offers a 65 foot (20 meter) sensing range. Control reliable circuitry eliminates the need for a separate controller, and patented individual beam indicators simplify alignment. Additional features include field-replaceable safety relays and weld shield, floating blanking to block up to two beams anywhere in the zone, and exact channel select to permanently block selected beams where machine parts will obstruct a portion of the zone.

The FlexSafe is a segmented safety light curtain that offers greater flexibility and machine guarding for unusually shaped applications. Instead of a single transmitter and receiver, the FlexSafe is offered with two or more segments comprising each transmitter and receiver. The respective transmitter and receiver segments are connected with flexible cables to facilitate fitting to the machinery.

The DuoSafe controller allows the customer to configure two independent safety light curtains to achieve common or discrete outputs. The DuoSafe provides further application flexibility for customers when selecting their safeguarding solution.

Selected models of the safety light curtain products are certified by independent laboratories to comply with safety and electrical standards, including those standards required in the European Union. Products which pass the stringent European safety certifications carry the CE test mark.

b. Mechanical Safety Interlocks and Safety Relays. We have a relationship with EJA Engineering, Ltd., a manufacturer of mechanical safety interlocks based in the United Kingdom. EJA is a subsidiary of Rockwell International. STI distributes these products under the STI brand on a private label arrangement. Safety interlock switches are utilized on hinged, sliding, or lift-off guards and barriers that are often installed with our safety light curtains. When the guard is opened, the power supply to the machine is disconnected. Safety relays are electromechanical devices which often serve as a safety interface between the mechanical safety interlocks and the machine's control system. The function and application of safety interlocks are complementary to our range of safety products. STI has been distributing interlock switch products manufactured by EJA since 1993. EJA is a distributor of our product line in the United Kingdom.

c. Safety Mats and Controllers. Our safety mats are designed for use in industrial environments where safety enhancements or zone detection is required. The mats are sensitive to foot or vehicular traffic. Safety mats are used with a mat controller, which is the interface between the safety mat and the control system of the guarded machine.

Our UM Series mat and safety mat controller were tested and certified by an independent test agency to an international safety mat standard. These products carry the European CE test mark. The UM Series and the associated controller was introduced to our sales channel during 2000.

Also during 2000, shipments commenced on two new safety mat controllers, the MC3 and MC4. These products offer selection of either an industry standard DIN enclosure (MC3) or a rugged industrial style metal enclosure (MC4) with auto selection input voltages. Both controllers are third party certified and CE marked to international standards for safety mat systems.

In 2001, we introduced and commenced shipments of the MC6 Safety Mat Controller, capable of providing up to six individual mat zones.

d. Safety Contact Strips. Safety contact strips are used in edges of guards, doors and gates at possible pinch, crushing or shear points. The contact strips are pressure sensitive devices and operate similar to safety mats, and use an appropriate controller. The system, comprised of the contact strips and controller are also third party certified to international standards and carry the CE mark.

e. Optical Profiling Scanners. In today's industrial environment, non-contact, on-the-move sensing is vital to control automated processes and improve industrial productivity. To meet this need, we have developed a line of optical profiling scanner products. These scanners provide non-contact sensing for a variety of customer applications.

We manufacture a family of high speed, microprocessor-based profiling scanners designed to provide an economical way to measure the physical size of various objects. The modular design of these scanners enables the user to select among various output and programming functions, including infrared beam spacings, size of the scanned area and single or multiple axes. Software is included for a variety of scanning applications and can be customized to meet a customer's specific needs.

We also manufacture and sell the Vehicle Scanner Series of high speed, profiling scanners utilized in automated highway toll collection systems. These scanners are used for vehicle detection, separation and classification, providing imaging information to a host computer, which determines the appropriate toll to be charged in an automatic fare collection application. STI Vehicle Scanners have been selected or installed on a number of bridges and toll roads both in the United States and internationally. Domestic locations include the Triborough and Verrazano Narrows bridges in New York, a number of bridges in the San Francisco Bay Area, including the Golden Gate Bridge and the Oakland-San Francisco Bay Bridge, and toll roads in Pennsylvania, Colorado, Florida, Maine, New Jersey and Kansas. International locations include France, Belgium, Singapore and Brazil.

f. Dunn Sales, Inc. We acquired Dunn Sales, Inc. ("DSI") in June 2001 for \$4.0 million and accounted for the acquisition using the purchase method of accounting. DSI is located in Anaheim, California, and offers both safety and machinery services. DSI provides safety services such as: safeguarding equipment installations, machine safety assessments, and the design and custom fabrication of guarding solutions. Furthermore, DSI specializes in machinery services including the repair, rebuilding, relocation, sales, installation and service of fabricating machinery. Over the past decade, DSI has become one of the largest and most recognized independent fabricating machinery service, sales and maintenance companies domiciled in the western United States. DSI serves customers in a variety of industries, including metal fabrication, aerospace, electronics and food processing.

To cover this diversified industrial market, we market these products primarily to end-users and original equipment manufacturers through more than 575 worldwide distributor locations. STI Safety Product Group distributors are primarily in two groups, Automation Safety Partners ("ASP") and Automation Safety Distributors ("ASD"). We created the ASP program to meet the rising expectations of our customers and the demands required for STI to be a single source safety solution provider. In order to become an ASP, an organization must commit to a number of requirements, including an extensive training program for their STI product specialists, joint marketing programs, demonstration equipment and safety seminars for their

local customers. A smaller number of distributors that do not meet the requirements of the ASP program are classified as ASDs and have a different discount structure for the purchase of STI products.

## 2. Automation Products Group:

a. Photoelectric and Fiberoptic Sensors. We manufacture and/or market a variety of photoelectric and fiberoptic sensors used for detecting the presence or absence of objects in a wide range of factory automation applications.

Fiberoptic sensors utilize flexible glass or plastic fiberoptic cable to traverse the light beam from the solid state light source to the receiving electronics. This cable is very small, and is resistant to high temperatures, corrosive chemicals or repeated flexing. Fiberoptic sensors are often used in confined spaces and in environments in which standard photoelectric sensors typically would not survive.

b. Control Components, Power Monitoring and Defense Electronics. We manufacture and market a variety of sensors and relays for commercial and defense customers. Such products include custom magnetic components, current sensors, RPM sensors, voltage sensors, current monitors, time delay relays, flashers, phase sequence relays and indicators, DC to DC converters, and isolation transformers.

We are qualified as a supplier of a variety of military-specified sensors and controls. Many of these products are selected for use on military and general aviation aircraft and ground support systems. Products are sold to original equipment manufacturers, government agencies and end users.

We market and sell these products directly to end customers or specialty resellers.

c. Level and Flow Sensors. We market a variety of level and flow sensing products imported from several manufacturers. The principal provider of these products is Nohken, one of the largest level control manufacturers in Japan. We are the US distributor of the Nohken products. These products provide point level detection of solids, liquids and solids/liquids, as well as contiguous measurement of continuous flow of solids and liquids, in a wide variety of environments.

d. Non-contact Ultrasonic Sensors and Controllers. Our Automation Sensors Division produces over 75 types of specialized ultrasonic sensors and controller systems as well as custom designed products. These products fall into two categories: Sensor/Controller Systems, which are used for monitoring, displaying or controlling level in tanks or bins, open channel flow, tank volume, obstacle avoidance and product dimensioning; Self-Contained Sensor Systems, in which all electronics are located within the sensor, requiring no separate controller or transmitting unit. These products are used for linear position measurements in industrial and level applications, as well as dimensioning and sorting, measurement of roll diameter, loop control, monitoring liquids and bulk solids and level gauging.

e. Pressure Transducers, Digital Pressure Gauges, Displacement and Velocity Transducers, and Pressure Comparators. In March 2000, we acquired substantially all of the assets and assumed some liabilities of PSI-Tronix, Inc., a privately-held company located in Tulare, California. We paid approximately \$8.7 million in cash and accounted for this acquisition using

the purchase method of accounting. PSI-Tronix products are used in a variety of factory automation, aerospace, medical, semiconductor, oil and gas markets and applications. PSI-Tronix's engineering, manufacturing, administration and sales operations are located in a 25,000 square foot facility in Tulare. In November, 2002, we announced our intention to relocate the Tulare operation to Logan, Utah, where it will be combined with the Automation Sensors Division. We anticipate this relocation taking place in the first half of 2003. A small assembly operation will remain in Tulare, to be relocated at a later time.

Our mission to provide tailored solutions for measurement applications is reflected in the structure, operations, and channels to market of our Automation Products Group. Rather than utilizing a traditional geography-based sales channel, for this product group we define sales territories by vertical markets in order to develop intimate application, market, and product knowledge within these markets. The current market focus includes semiconductor manufacturing, textiles, aerospace industries, hydraulic equipment OEMs, petro-chemical, and water/waste-water management. In order to satisfy another important step in maximizing resource utilization in our Automation Products Group, we focus our product development efforts in custom and modified products for specific volume OEM customers. This is in sharp contrast to a more traditional, capital intensive effort to cover every possible product range.

#### **Sources and availability of components**

We maintain an inventory of components and parts for our manufacturing activities. Although there are many sources for most of the components needed, we purchase some products, components and sub-assemblies from sole sources, which may be the only available supplier or may enable us to obtain pricing or supply efficiencies. In the event of supply interruptions from these vendors, we believe that we could obtain most sole source components from alternate suppliers; however, this would require us to transfer tooling or designs, or to redesign our products to facilitate use of alternate source components. We could incur delays by switching to an alternate source, which could have an adverse effect on our business, financial condition and results of operations.

We also derive revenue from the distribution of products from third party manufacturers, including revenues pursuant to our relationship with EJA (See "Business - Products - Safety Automation Products - Mechanical Safety Interlocks and Safety Relays"). In the event such arrangements are terminated or third party products otherwise become unavailable, our results of operations could be adversely affected.

#### **Research and development**

In order to meet the changing needs of our customers, we engage in research and development both to introduce new products and to improve existing products. In addition, we modify products as necessary to meet original equipment manufacturers' requirements. At December 31, 2002, there were approximately 29 employees engaged in research and development activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results - Technological Change and New Product Development."

In 2002, 2001, and 2000, we spent \$4,653,000, \$5,429,000, and \$5,159,000, respectively, on engineering, research and development. In addition to new products and enhancements to

existing products, our research and development efforts are directed towards qualifying our light curtains, scanners and sensors for sale in foreign countries and qualifying products that we import for sale in the U.S. We anticipate that the level of research and development expenditures may be higher in 2003.

### **Patents and trademarks**

We hold fourteen US patents and nine US registered trademarks. In addition, we have been licensed by our parent company to use three patents for its products and six US registered trademarks, including the use of its logo "STI". Products are marketed under the following US registered trademarks: "DUOSAFE," "OPTOFENCE," "MINISAFE," "OPTOSAFE," "FIBERLENS," "BEAMSAFE," "SPECTRADATA," "FLEXSAFE" and "MICROSAFE". We have filed for additional patent protection on certain of our technologies.

We cannot assure you that these patents or trademarks or other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology. Because of the rapid rate of technology change in the electronics industry, we believe our success in the future depends on the quality of our products and services and the technical skills of our personnel to adapt to technological developments, rather than solely on our patents.

Because many customers place large orders for delivery throughout the year and because of the possibility of customer changes and cancellation of orders, our backlog as of any particular date may not be representative of our sales for any succeeding fiscal period. At February 28, 2003, our backlog was \$895,000 compared to \$819,000 at February 28, 2002.

### **Competition**

The industry in which we operate is competitive and subject to rapid technological change. Many of our competitors are significantly larger and possess greater financial and other resources.

Our competitors include, among others, Honeywell, Rockwell Automation, Eaton Corporation, Banner Engineering, Sick Optic-Electronic, Inc., Cutler Hammer, Danaher Controls, Link Controls and Omron. Competitors of the control components power monitoring and defense product lines include several of the above-mentioned firms and also SCI Systems, Inc., Technitrol, Logitek, Hi-G and Xentek. Certain of our suppliers, including Rockwell/EJA, also compete with us. The Dattricon line's competitors include Mizar, Pro-Log, and Ziatech. In addition, we face indirect competition from present and potential end users who from time to time evaluate the "make or buy" decision of whether to manufacture their own components or purchase them from outside sources.

Competition is based primarily upon product quality, performance and price. We believe that we generally compete favorably with respect to these factors. To maintain our competitive position, we will continue to devote substantial resources to the development of new products and improvements to current products. See "Business - Research and Development."

### **Foreign operations**

We have no foreign manufacturing operations. STI Scientific Technologies GmbH, a wholly owned German subsidiary, was established in 1995 as our European sales office. Our products are also sold in foreign countries by distributors and independent sales

representatives. Foreign sales represented less than 10% of sales in each of 2002, 2001 and 2000.

### **Customers**

No customer represented more than 10% of sales in 2002 or 2001. NCC Electronics, an independent distributor, represented 10% of sales in 2000. Aggregate sales to both government agencies and government contractors represented less than 5% of sales in 2002, 2001 and 2000.

### **Costs and effects of compliance with environmental laws**

Compliance with environmental protection laws or similar ordinances is not expected to have any material affect on our business.

### **Employees**

At December 31, 2002, we employed approximately 356 full time employees. Included in this total were the common manufacturing, support and administrative staff that we share with our parent and its other subsidiaries at the Dumbarton Circle facility in Fremont, California.

None of the employees are represented by unions, and there has never been a disruption of operations due to a labor dispute.

Many of our employees are skilled in technical and engineering disciplines and our future success will depend, in part, upon our ability to attract and retain such employees. We believe that relations with our employees are good.

## **Item 2. PROPERTIES**

We own no real estate. Our manufacturing operations, corporate headquarters, administrative, engineering and sales offices are located in a 95,000 square foot facility in Fremont, California. The facility is owned by an affiliate of our parent and we lease approximately 85,000 square feet, 89% of the total.

The Automation Sensors Division is located in a 25,000 square foot in Logan, Utah. This facility is owned by our parent company.

PSI-Tronix is located in a 25,000 square foot facility in Tulare, California.

Dunn Sales is located in an 8,585 square foot facility in Anaheim, California.

See Note 12 of Notes to Consolidated Financial Statements for information regarding lease commitments.

We maintain insurance policies for property, casualty, fire, business interruption, workers compensation, and general liability and product liability. There can be no assurance that in the future, we will continue to be able to obtain such insurance on commercially and economically feasible terms. In the event we were to suffer a claim not covered by insurance or if insurance coverage is insufficient, such claim could have an adverse effect on our operations or financial condition.

## **Item 3. LEGAL PROCEEDINGS**

From time to time, we are subject to various legal proceedings that arise in the ordinary course of our business. Although we cannot predict the outcomes of these proceedings with certainty, our management does not believe that the disposition of these

matters will have a material adverse effect on our financial position, results of operations or cash flows.

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **PART II**

#### **Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS**

##### **Market Information**

Our Common Stock is traded on the NASDAQ National Market under the symbol STIZ. The stock tables in most daily newspapers list our Common Stock under "SciTech".

##### **Price of Common Stock**

2002	High	Low	2001	High	Low
1st Quarter	\$4.90	\$ 3.65	1st Quarter	\$9.83	\$ 5.04
2nd Quarter	4.75	3.10	2nd Quarter	6.63	4.96
3rd Quarter	4.45	2.25	3rd Quarter	6.32	2.90
4th Quarter	6.55	3.90	4th Quarter	6.37	3.45

The closing sales price of our Common Stock on March 3, 2003 was \$4.11 per share.

##### **Holders**

There were 871 shareholders of record on March 21, 2003.

##### **Dividends**

In 2001, regular annual dividends of \$.0525 per share were paid on April 2 and July 5. No dividends were paid in 2002. We cannot assure you that the Company's financial performance or cash requirements will allow it to pay dividends to its shareholders in the future.

##### **Equity Compensation Plan**

Please see Item 12 of this Annual Report on Form 10-K for disclosure relating to our equity compensation plans. Such information is incorporated by reference to our 2003 proxy statement.

## **Item 6. SELECTED FINANCIAL DATA**

### **i) FIVE YEAR CONSOLIDATED FINANCIAL DATA**

	Year Ended December 31,				
	(In thousands except per share data)				
<u>Statement of operations data</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net sales	\$51,207	\$49,053	\$60,146	\$49,925	\$44,224
Income (loss) from operations	744	(2,474)	8,745	6,834	6,340
Net income (loss)	472	(1,425)	5,631	4,505	4,422
Basic income (loss) per common share	\$ .05	\$ (.15)	\$ .58	\$ .47	\$ .46
Diluted income (loss) per common share	\$ .05	\$ (.15)	\$ .58	\$ .47	\$ .46
	December 31,				
<u>Balance sheet data</u>					
Cash and cash equivalents	\$ 2,620	\$ 1,033	\$ 4,048	\$ 3,362	\$ 2,577
Total assets	37,892	34,200	37,028	32,536	29,821
Shareholders' equity	29,750	29,234	31,591	27,849	25,458
Dividends declared per share	--	\$ .11	\$ .20	\$ .19	\$ .18

### **ii) QUARTERLY CONSOLIDATED FINANCIAL DATA (UNAUDITED)**

(In thousands, except per share data)

<b>2002</b>	<u>First</u> <u>Quarter</u>	<u>Second</u> <u>Quarter</u>	<u>Third</u> <u>Quarter</u>	<u>Fourth</u> <u>Quarter</u>
Sales	\$ 11,229	\$12,829	\$13,034	\$14,115
Gross profit	4,854	5,606	5,783	5,964
Net income (loss)	(207)	143	348	188
Basic net income (loss) per common share	\$ (.02)	\$ .02	\$ .04	\$ .02
Diluted net income (loss) per common share	\$ (.02)	\$ .02	\$ .04	\$ .02
<b>2001</b>	<u>First</u> <u>Quarter</u>	<u>Second</u> <u>Quarter</u>	<u>Third</u> <u>Quarter</u>	<u>Fourth</u> <u>Quarter</u>
Sales	\$14,554	\$ 11,788	\$11,987	\$10,724
Gross profit	6,471	4,089	5,301	3,863
Net income (loss)	580	(959)	167	(1,213)
Basic net income (loss) per common share	\$ .06	\$ (.10)	\$ .02	\$ (.13)
Diluted net income (loss) per common share	\$ .06	\$ (.10)	\$ .02	\$ (.13)

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The discussion and analysis below contains trend analysis and other forward-looking statements including statements regarding anticipated future sales, margin and expense levels, future tax rates, future cash flow and working capital requirements. Actual results could differ materially from those projected in the forward looking statements as a result of the risk factors set forth under "Factors that May Affect Future Results" and elsewhere in this report. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto. All references to years are to fiscal years unless otherwise noted.*

### **Results of Operations**

#### **Sales**

Sales in 2002 increased 4% to \$51.2 million from \$49.1 million in 2001. Sales by our Safety Products Group increased 9% over 2001. This was the result of increased unit sales as well as the full year effect of sales by Dunn Sales, Inc., which was acquired in June 2001. The full year effect of sales by DSI accounted for 3% of the 9% growth in sales by the Safety Products Group. The Automation Products Group continued to be negatively impacted by economic conditions in the semiconductor industry and as a result reported a 14% decline in its sales.

Sales in 2001 declined 18% to \$49.1 million from \$60.1 million recorded in 2000. Unit shipments of both the Safety and Automation Products Groups were negatively impacted by the economic downturn in the first half of 2001 and the economic impact of the events of September 11. The Safety Products Group's lower sales were partially offset by the sales associated with Dunn Sales.

The Company is organized into two product groups - the Safety Products Group ("SPG") and the Automation Products Group ("APG"). Group sales for the years ended December 31, 2002, 2001 and 2000 were:

	2002	%	2001	%	2000	%
SPG	\$43,493	85%	\$40,085	82%	\$49,569	82%
APG	\$ 7,714	15%	\$ 8,968	18%	\$10,577	18%

The table below summarizes operating costs and expenses as a percentage of sales for the most recent three years.

	2002	2001	2000
Sales	100%	100%	100%
Gross margin	43	40	50
Operating expenses:			
Selling, general and administrative	31	33	25
Research and development	9	11	9
Amortization of intangibles	1	1	1
Total operating expenses	41	45	35
Income (loss) from operations	2	(5)	15
Interest and other income, net	--	--	--

Income (loss) before taxes	2	(5)	15
Provision (benefit) for income taxes	1	(2)	6
Net income (loss)	1%	(3)%	9%

### **Gross profit**

2002 = \$22.2 million  
2001 = \$19.7 million  
2000 = \$29.9 million  
Increase in 2002 = 13%  
Decrease in 2001 = 34%

Our gross margin was 43% of sales in 2002, 40% of sales in 2001 and 50% of sales in 2000. As a result of the higher level of shipments in 2002, which reflected less fixed cost per unit, our gross profit increased 13% over 2001.

Our Gross profit declined 34% in 2001 from 2000. While we experienced sales declines in all of our product lines during 2001, higher margin products suffered proportionately greater losses than our lower margin products. Also in 2001, reduced factory activity resulted in underabsorbed manufacturing overhead. Gross margin in 2001 was positively influenced by the addition of PSI-Tronix's products, which carry a relatively lower cost of sales.

### **Selling, general and administrative expenses**

2002 = \$16.1 million  
2001 = \$16.1 million  
2000 = \$15.4 million  
Change in 2002 = 0%  
Increase in 2001 = 5%

As a result of the cost reduction measures initiated in 2001 and continued in 2002, we were able to keep our selling, general and administrative expenses at 2001 levels in absolute dollars in spite of a 4% increase in sales. Selling, general and administrative expenses were 31% and 33% of sales in 2002 and 2001 compared to 25% of sales in 2000. Total selling, general and administrative expenses were higher in 2001 due to increased costs associated with the DSI operations and bad debt expense resulting from the failure of two of our distributors. We anticipate that selling, general and administrative expenses will increase in the foreseeable future but may fluctuate as a percentage of sales.

### **Research and development expenses**

2002 = \$4.7 million  
2001 = \$5.4 million  
2000 = \$5.2 million  
Decrease in 2002 = 13%  
Increase in 2001 = 4%

Product creation, development and enhancement have always been and continue to be an important factor in our long-term success. Investments in this area enable us to serve the factory automation market with increasingly sophisticated sensors and manufacturing control products. As a result of the above mentioned cost reduction measures and a lowering

of our reliance on outside contractors, we were able to reduce our research and development expenditures by 13% from the 2001 level. During 2001, we made a concerted effort to maintain our research and development efforts in spite of the reduced revenue and profit levels we experienced in that year. During 2001, we increased our development efforts with the acquisition of PSI-Tronix. In 2002 and 2001, we introduced a number of new products and product enhancements. Consistent with our dedication to the development of new products, we anticipate that the level of research and development expenses will increase in the future, although such expenses may fluctuate as a percentage of sales. To date, all product development costs have been expensed as incurred.

### **Income Taxes**

Our effective income tax rate was 38% in 2002 and 2000. As a result of the losses sustained in 2001, we recorded an income tax benefit of 38% of the loss for the year. We expect that our effective tax rate for 2003 will be reasonably consistent with 2002 and 2000. See Notes 1 and 5 of Notes to Consolidated Financial Statements.

### **Liquidity and Capital Resources**

Our working capital needs have been met through funds generated from operating activities. During 2002, operating funds were provided by net income adjusted for depreciation and amortization, increased accounts payable and accrued expenses and decreased inventories. These operating funds were used to offset increases in accounts receivable and for the acquisition of fixed assets. Working capital amounted to \$16.7 million at December 31, 2002, a 14% increase from the \$14.7 million at December 31, 2001. The bank line of credit of \$6.1 million was renewed in 2002 and extended to June 30, 2003. We have the option to convert up to \$1.0 million of the credit line into a five-year term note. Secured by qualified receivables, fixed assets and inventories, borrowing under this credit line bears interest at the bank's prime rate. At December 31, 2002, none of the line of credit had been utilized.

We made certain capital expenditures during 2002, primarily for production, quality assurance, research and development equipment, information systems and software. Consistent with our operations historically and our current plans for growth, we plan to make additional capital expenditures during 2003, primarily for production, quality assurance and research and development equipment. While we had no formal commitments at December 31, 2002, it is anticipated that capital expenditures in 2003 will be in excess of \$1.5 million, predicated on our profitability and cash resources.

We believe that cash flow from operations and available bank borrowings will be sufficient to meet anticipated working capital requirements through at least 2003. While we continue to evaluate financing alternatives from time to time, we have no current plans to raise additional outside capital. At December 31, 2002, future minimum payments under our leases due in the years 2003 through 2007 were approximately \$1,260,000, \$1,192,000, \$1,124,000, \$1,031,000 and \$1,075,000, respectively.

### **Relationship with Parent**

Intercompany transactions between us and our parent company include charges by our parent for management services provided to us, dividend payments to our parent and other cash transfers. Our parent files a consolidated tax return including our accounts. Our tax provision or benefit is calculated on a stand-alone basis. Our income taxes payable or receivable calculated on that basis are paid to or received from our parent.

### **Critical Accounting Policies**

#### **Revenue Recognition**

Revenue from product sales to customers is recognized upon shipment if a signed purchase order exists, the price is fixed or determinable, collection of the resulting receivable is considered probable and product returns can be reasonably estimated. Subsequent to the sale of the products, we have no obligation to provide any modification or customization, upgrades, enhancements or postcontract customer support. Upon shipment, we provide for the estimated costs that may be incurred for product warranties. We estimate sales returns and warranty costs based on historical experience and the best information we have at the time we report our financial statements. Actual results could differ from these estimates.

Installation and engineering service revenue is recognized when services are rendered, or an identifiable portion of the contract is completed, no significant post-delivery obligations exist and collection is probable.

#### **Inventories**

We value our inventory at the lower of the actual cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our historical consumption and our estimated forecast of product demand and production requirements. As demonstrated during 2001, demand for our products can fluctuate significantly. In addition, our industry is characterized by technological change, new product development, and product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have misstated the provision required for excess and obsolete inventory. In the future, if our inventory is determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination. Likewise, if our inventory is determined to be undervalued, we may have over-reported our costs of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

#### **Accounts Receivable**

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by

our review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we had in the past. A significant change in the liquidity or financial position of any one of our customers could have an adverse impact on the collectability of our accounts receivable and our future operating results.

### **Valuation of Long-Lived Assets**

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review the recoverability of our long-lived assets, such as fixed assets, goodwill, intangible assets and investments, when events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between the estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-termed assets.

### **Factors that May Affect Future Results**

Because of the variety of factors and uncertainties affecting our operating results, past financial performance and historical 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 are also negatively impacted by generally adverse economic conditions throughout the high technology sector. In particular, our PSI-Tronix subsidiary continues to experience low sales volume due to the recent 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 technological change and new product development demands of our customers.**

The market for our products is characterized by changing technology, evolving industry standards, changes in customer needs and new product introductions. Our future success will depend on our ability to respond to emerging industry standards, enhance current products, develop new products, and achieve market acceptance of those products, 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 independent distributors.**

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, as was demonstrated by the failure of two of our distributors during 2001. 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, 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.

**Our operations may be negatively impacted as a result of deteriorating global economic and political conditions.**

Our business may suffer as a result of general economic and political conditions in the U.S. and abroad. Over the past two years, there has been a rapid and severe downturn in the U.S. market and global economy. We expect that this negative trend will continue, however, the duration and future severity are uncertain. This uncertainty has significantly increased due to recent terrorist activity, such as the attacks in the U.S. on September 11, 2001, and the recent military activity in Afghanistan, Iraq and the Middle East. Additional terrorist acts or acts of war could cause damage or disruption to us or to our suppliers and our customers. Fears of global recession, war, and terrorism may continue to have seriously detrimental effects on the U.S. and global economies. Such conditions could further dampen consumer confidence and cause our customers to slow or cease spending on our products. If these events continue, our operations may be negatively impacted.

**Item 7A. 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.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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

	<b><u>Page</u></b>
(1) Financial Statements	
Report of Independent Accountants	19
Consolidated Balance Sheet - December 31, 2002 and 2001	20
Consolidated Statement of Operations - Years ended December 31, 2002, 2001 and 2000	21
Consolidated Statement of Cash Flows - Years ended December 31, 2002, 2001 and 2000	22
Consolidated Statement of Shareholders' Equity - Years ended December 31, 2002, 2001 and 2000	23
Notes to Consolidated Financial Statements	24

(2) Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not required or applicable, or the information required to be set forth therein is included in the Financial Statements or notes thereto.

## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and  
Shareholders of Scientific Technologies Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Scientific Technologies Incorporated (a subsidiary of Scientific Technology Incorporated) and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
San Jose, California  
March 12, 2003

**Scientific Technologies Incorporated**  
**Consolidated Balance Sheet**  
(In thousands, except per share data)

	December 31, <u>2002</u>	<u>2001</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 2,620	\$ 1,033
Accounts receivable, net	7,636	6,454
Receivable from Parent	384	-
Inventories	8,719	9,125
Deferred income taxes	2,380	2,081
Prepaid expenses and other assets	<u>835</u>	<u>581</u>
Total current assets	22,574	19,274
Property and equipment, net	3,725	3,537
Goodwill and other intangible assets, net	<u>11,593</u>	<u>11,389</u>
Total assets	<u>\$37,892</u>	<u>\$34,200</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities		
Accounts payable	\$ 2,942	\$ 1,886
Accrued expenses	2,836	2,648
Current portion of capital lease with Parent	<u>60</u>	<u>-</u>
Total current liabilities	5,838	4,534
Capital lease with Parent	240	-
Deferred income taxes	<u>2,064</u>	<u>432</u>
Total liabilities	<u>8,142</u>	<u>4,966</u>
Commitments and contingencies (Note 12)		
Shareholders' equity		
Common stock; \$.001 par value; 100,000		
shares authorized; 9,687 and 9,676		
shares issued and outstanding	10	10
Capital in excess of par value	5,681	5,637
Retained earnings	<u>24,059</u>	<u>23,587</u>
Total shareholders' equity	<u>29,750</u>	<u>29,234</u>
Total liabilities and shareholders' equity	<u>\$37,892</u>	<u>\$34,200</u>

The accompanying notes are an integral part of these financial statements

**Scientific Technologies Incorporated**  
**Consolidated Statement of Operations**  
(In thousands, except per share data)

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Sales	\$51,207	\$49,053	\$60,146
Cost of goods sold	<u>29,000</u>	<u>29,329</u>	<u>30,214</u>
Gross profit	<u>22,207</u>	<u>19,724</u>	<u>29,932</u>
Operating expenses:			
Selling, general and administrative	16,110	16,111	15,387
Research and development	4,653	5,429	5,159
Amortization of acquired intangibles	<u>700</u>	<u>658</u>	<u>641</u>
Total operating expenses	<u>21,463</u>	<u>22,198</u>	<u>21,187</u>
Income (loss) from operations	744	(2,474)	8,745
Interest and other income, net	<u>17</u>	<u>176</u>	<u>337</u>
Income (loss) before income taxes	761	(2,298)	9,082
Provision (benefit) for income taxes	<u>289</u>	<u>(873)</u>	<u>3,451</u>
Net income (loss)	<u>\$ 472</u>	<u>\$(1,425)</u>	<u>\$ 5,631</u>
Basic and diluted net income (loss) per share	<u>\$ .05</u>	<u>\$ (.15)</u>	<u>\$ .58</u>
Shares used to compute net income (loss) per share	<u>9,698</u>	<u>9,659</u>	<u>9,667</u>

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

**Scientific Technologies Incorporated**  
**Consolidated Statement of Cash Flows**  
(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:			
Net income (loss)	\$ 472	\$(1,425)	\$5,631
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	2,631	2,266	1,766
Changes in assets and liabilities:			
Accounts receivable, net	(1,182)	2,727	1,136
Receivable from Parent	(384)	--	--
Inventories	406	369	(305)
Prepaid expense and other assets	(254)	(170)	238
Accounts payable	1,056	(1,020)	(45)
Deferred income taxes	(167)	(209)	(588)
Accrued expenses	<u>188</u>	<u>(25)</u>	<u>301</u>
Cash flows provided by operating activities	<u>2,766</u>	<u>2,513</u>	<u>8,134</u>
Cash flows from investing activities:			
Purchases of property and equipment	(1,223)	(1,010)	(1,620)
Acquisition of PSI-Tronix	--	--	(8,742)
Acquisition of Dunn Sales	--	(3,992)	--
Sale of short-term investments	<u>--</u>	<u>406</u>	<u>4,803</u>
Cash flows used in investing activities	<u>(1,223)</u>	<u>(4,596)</u>	<u>(5,559)</u>
Cash flows from financing activities:			
Issuance of common stock, net	44	84	44
Dividends	<u>--</u>	<u>(1,016)</u>	<u>(1,933)</u>
Cash flows provided by (used in) financing activities	<u>44</u>	<u>(932)</u>	<u>(1,889)</u>
Change in cash and cash equivalents	1,587	(3,015)	686
Cash and cash equivalents at beginning of year	<u>1,033</u>	<u>4,048</u>	<u>3,362</u>
Cash and cash equivalents at end of year	<u>\$ 2,620</u>	<u>\$ 1,033</u>	<u>\$ 4,048</u>
Supplemental disclosure of cash flow information:			
Cash paid to (received from) Parent for income taxes	<u>\$ 289</u>	<u>\$ (873)</u>	<u>\$ 3,451</u>
Supplemental disclosure of non-cash activities:			
Capital lease with Parent	<u>\$ 300</u>	<u>\$ --</u>	<u>\$ --</u>
Deferred tax liability related to acquisition of Dunn Sales	<u>\$ 1,500</u>	<u>\$ --</u>	<u>\$ --</u>

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

**Scientific Technologies Incorporated**  
**Consolidated Statement of Shareholders' Equity**  
(In thousands)

	<u>Common Stock</u>			<u>Capital</u>	
				<u>In</u>	
	<u>Shares</u>	<u>Par</u>	<u>Of par</u>	<u>Excess</u>	
		<u>Value</u>	<u>Value</u>	<u>Retained</u>	<u>Total</u>
				<u>Earnings</u>	
Balances at December 31, 1999	9,633	\$10	\$5,509	\$22,330	\$27,849
Issuance of common stock	36	-	160	-	160
Repurchase of common stock	(19)	-	(116)	-	(116)
Net income for the year	-	-	-	5,631	5,631
Dividends paid	-	-	-	(1,933)	(1,933)
Balances at December 31, 2000	9,650	10	5,553	26,028	31,591
Issuance of common stock	33	-	116	-	116
Repurchase of common stock	(7)	-	(32)	-	(32)
Net loss for the year	-	-	-	(1,425)	(1,425)
Dividends paid	-	-	-	(1,016)	(1,016)
Balances at December 31, 2001	9,676	10	5,637	23,587	29,234
Issuance of common stock	22	-	69	-	69
Repurchase of common stock	(11)	-	(25)	-	(25)
Net income for the year	-	-	-	472	472
Balances at December 31, 2002	<u>9,687</u>	<u>\$10</u>	<u>\$5,681</u>	<u>\$24,059</u>	<u>\$29,750</u>

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

**Scientific Technologies Incorporated**  
**Notes to Consolidated Financial Statements**

**NOTE 1-THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

Scientific Technologies Incorporated (the "Company") develops, manufactures and markets safety light curtains, industrial sensors, optical profilers, microcomputers and power monitoring devices for factory automation applications. In addition, the Company provides safeguarding equipment installation, rebuilding, repair and maintenance of fabricating machinery. A majority of the Company's outstanding common stock is held by Scientific Technology Incorporated, a California corporation (the "Parent").

The Company operates in two business segments - the development, manufacture and marketing of industrial safety products and the development, manufacture and marketing of industrial automation products. The Company operates in an industry characterized by significant competition.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

**Cash and Cash Equivalents and Short-Term Investments**

The Company invests primarily in money market accounts held at financial institutions and considers all highly liquid investments with an original maturity of less than 90 days to be cash equivalents. Accordingly, these investments are subject to minimal credit and market risk.

Short-term investments consist of highly liquid investments, which mature in less than one year and are classified as "held-to-maturity." Interest income is accrued as earned.

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out) or market.

**Property and Equipment**

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives, which

range from three to ten years. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated life of the improvements.

### **Goodwill and Other Intangible Assets**

Intangible assets include tradenames, customer relationships, product lines, technologies and a covenant not to compete acquired as part of the acquisitions of Dunn Sales, Inc., PSI-Tronix, Inc. and Lundahl Instruments, Inc. Intangible assets are generally amortized on a straight-line basis over a period of two to fifteen years. Goodwill is not amortized and is subject to impairment testing at the reporting unit level at least annually and more frequently upon the occurrence of certain events. A reporting unit is the same level as or one level below an operating segment.

### **Long-Lived Assets**

The Company periodically evaluates the recoverability of its long-lived assets based upon the expected undiscounted cash flows attributable to such assets, and recognizes impairment from the carrying value of long-lived assets, if any, based on the fair value of such assets. No losses from impairment have been recognized for any of the periods presented.

### **Fair Value of Financial Instruments**

The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company's financial instruments, including cash, cash equivalents, short-term investments, trade accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the short maturities.

### **Revenue Recognition**

Revenue from product sales to customers is recognized upon shipment if a signed purchase order exists, the price is fixed or determinable, collection of the resulting receivable is considered probable and product returns can be reasonably estimated. Subsequent to the sale of the products, the Company has no obligation to provide any modification or customization, upgrades, enhancements or postcontract customer support. Upon shipment, the Company provides for the estimated costs that may be incurred for product warranties.

Installation and engineering service revenue is recognized when services are rendered or when an identifiable portion of the contract is completed, no significant post-delivery obligations exist and collection is probable.

### **Shipping and Handling**

All amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and are classified as revenue. Costs incurred for shipping and handling are included in cost of sales.

### **Research and Development**

Research and development costs are expensed as incurred.

### **Advertising Costs**

Advertising costs are recorded as expenses when incurred. Advertising costs for the years ended December 31, 2002, 2001 and 2000 were \$590,000, \$609,000 and \$707,000.

### **Stock-based compensation**

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, or APB No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of its stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company provides additional pro forma disclosures as required under SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure".

SFAS No. 148, issued in December 2002, amends SFAS No. 123 in December 2002 to require that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. The following table sets forth the effect on the Company's net income (loss) and net income (loss) per share as if the Company had recorded compensation costs based on the estimated grant date fair value as defined by SFAS No. 123 for all granted stock-based awards (in thousands, except per share amounts).

	<b>Years Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
Net income (loss), as reported	\$ 472	\$(1,425)	\$5,631
Add: Stock-based employee compensation expense included in reported net income (loss)	-	-	-
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards	<u>81</u>	<u>205</u>	<u>111</u>
Pro forma net income (loss)	<u>\$ 391</u>	<u>\$(1,630)</u>	<u>\$5,520</u>
Net income (loss) per share - basic and diluted:			
As reported	<u>\$ 0.05</u>	<u>\$( 0.15)</u>	<u>\$ 0.58</u>
Pro forma	<u>\$ 0.04</u>	<u>\$( 0.17)</u>	<u>\$ 0.57</u>

### **Income Taxes**

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company is included in the consolidated tax return of the Parent, but provides for income taxes on a separate return basis pursuant to a tax sharing arrangement, which limits the Company's tax liability to the amount payable to the Parent. Income taxes payable are recorded as a reduction to the receivable from Parent account or as an increase to the payable to Parent account.

### **Comprehensive Income**

Comprehensive income is defined to include all changes in shareholders' equity during a period from non-owner sources. There were no significant differences between the Company's net income (loss) and its total comprehensive income (loss) for any of the periods presented.

### **Reclassifications**

The Company has reclassified certain prior years' information to conform to the current financial statements.

### **Recent Accounting Pronouncements**

In June 2002, the Financial Accounting Standards Board, or FASB, issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company does not expect adoption of SFAS No. 146 to have a material effect on its consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, ("FIN No. 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN No. 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN No. 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company does not expect its adoption of FIN 45 to have a material impact on its consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. The Company has adopted the disclosure requirements and believes that the adoption of the remaining provisions of this standard will have no material impact on its financial statements.

In January 2003, the FASB issued Interpretation No. 46 ("FIN No. 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests.

FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. The Company does not expect its adoption of FIN 46 to have a material impact on its consolidation financial statements.

## **NOTE 2 - RELATED PARTY TRANSACTIONS**

The Parent provides certain management, marketing and sales services to the Company. The costs are allocated to the Company based on the percentage of the Company's sales to total sales of the Parent and its subsidiaries. The amounts allocated to the Company for 2002, 2001 and 2000 were \$806,000, \$1,005,000, and \$1,071,000, respectively.

The Company leases approximately 85,000 square feet in a 95,000 square foot facility owned by an affiliate of the Parent. The Company also leases another 25,000 square feet in another facility owned by the Parent. The lease terms are for ten years. Overhead costs are allocated primarily on the basis of square footage utilized.

The Company utilizes a receivable from/payable to Parent account to record activity including cash received, cash disbursed and amounts owed to the Parent for allocated charges and dividends. The net effect of transactions with the Parent resulted in a receivable from Parent of \$384,000 at December 31, 2002 and a zero balance at December 31, 2001. In addition, the Company is party to a capital lease of \$300,000 at December 31, 2002 under which the Parent is the lessor. At December 31, 2002, future minimum payments under this lease due in the years 2003 through 2006 were approximately \$60,000 each and \$22,000 in 2007.

## **NOTE 3 - ACQUISITIONS**

### **Dunn Sales, Inc.**

On June 8, 2001, the Company acquired all of the outstanding common stock of Dunn Sales, Inc. ("DSI"), for a cash payment of \$3,992,000. DSI is a leading provider of safeguarding equipment installation, rebuilding, repair and maintenance of fabricating machinery. The transaction was accounted for as a purchase and accordingly, the results of DSI operations are included in the Company's financial statements from the date of acquisition. In 2002, based on a reassessment of deferred tax liabilities related to the acquisition, \$1,500,000 was recorded to deferred tax liabilities and goodwill. The total purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values on the date of acquisition as follows (in thousands):

		Amortization period
Working capital	\$ 140	
Equipment	96	
Technology	1,985	15 years
Customer relationships	1,061	7
Tradename	710	5
	<u>3,992</u>	
Goodwill/deferred tax liability	<u>1,500</u>	
	<u>\$5,492</u>	

### **PSI-Tronix, Inc.**

On March 16, 2000, the Company acquired substantially all of the assets of PSI-Tronix, Inc. for a cash payment of \$8,742,000. PSI-Tronix designs, develops and manufactures pressure transducers, digital pressure gauges, displacement and velocity transducers and pressure comparators for use in a variety of factory, aerospace, medical, semiconductor and oil and gas market applications. The acquisition was accounted for by the Company using the purchase method and, accordingly, the results of operations of PSI-Tronix are included in the Company's financial statements from the date of acquisition. The total purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values on the date of acquisition as follows (in thousands):

		Amortization period
Working capital	\$1,402	
Equipment	478	
Technology	3,631	15 years
Customer relationships	1,953	7
Product lines	<u>1,278</u>	12
	<u>\$8,742</u>	

### Pro-forma consolidated amounts

The following unaudited pro-forma consolidated amounts give effect to the acquisition of DSI as if the acquisition had occurred on January 1, 2001 and the acquisition of PSI-Tronix as if the acquisition had occurred on January 1, 2000 (in thousands, except per share data):

	2001	2000
Sales	\$50,322	\$64,805
Net income (loss)	\$ (1,025)	\$ 5,485
Basic and diluted net income (loss) per share	\$ (.11)	\$ 0.62
Shares used to compute net income per share	9,659	9,667

### NOTE 4 - BALANCE SHEET DATA

	December 31,	
	2002	2001
	(In thousands)	
<b>Accounts receivable:</b>		
Accounts receivable	\$ 8,181	\$ 7,115
Less: allowance for doubtful accounts	<u>(545)</u>	<u>(661)</u>
	<u>\$ 7,636</u>	<u>\$ 6,454</u>
<b>Allowance for doubtful accounts:</b>		
Balance at beginning of year	\$ 661	\$ 545
Addition	409	577
Utilized	<u>(525)</u>	<u>(461)</u>
Balance at end of year	<u>\$ 545</u>	<u>\$ 661</u>
<b>Inventories:</b>		
Finished goods	\$ 2,159	\$ 1,943
Work in process	1,043	475
Subassemblies	1,016	1,042
Raw materials	<u>4,501</u>	<u>5,665</u>
	<u>\$ 8,719</u>	<u>\$ 9,125</u>

	December 31,	
	2002	2001
	(In thousands)	
<b>Property and equipment:</b>		
Equipment	\$ 9,995	\$ 9,045
Furniture and fixtures	1,686	1,234
Leasehold improvements	<u>523</u>	<u>402</u>
	12,204	10,681
Less: accumulated depreciation and amortization	<u>(8,479)</u>	<u>(7,144)</u>
	<u>\$ 3,725</u>	<u>\$ 3,537</u>
<b>Accrued expenses:</b>		
Accrued compensation	\$ 1,610	\$ 1,345
Accrued commissions	194	146
Warranty reserve	241	278
Accrued income tax	227	270
Accrued marketing expenses	--	284
Other	<u>564</u>	<u>325</u>
	<u>\$ 2,836</u>	<u>\$ 2,648</u>

**Goodwill and other intangible assets:**

		December 31, 2002		December 31, 2001	
		Gross		Gross	
	Life	Carrying	Accumulated	Carrying	Accumulated
	(Years)	Amount	Amortization	Amount	Amortization
Technology	15	\$ 7,146	(1,252)	\$ 7,146	(776)
Customer relationships	7	3,476	(1,152)	3,476	(630)
Tradename	5	710	(156)	710	(17)
Product lines	12	1,596	(275)	1,596	(155)
Covenant not to compete	2	<u>50</u>	<u>(50)</u>	<u>50</u>	<u>(11)</u>
Total amortized intangible assets		12,978	<u>\$(2,885)</u>	12,978	<u>\$(1,589)</u>
Goodwill		<u>1,500</u>		<u>--</u>	
Total		<u>\$14,478</u>		<u>\$12,978</u>	

The Company incurred amortization expense of \$1,296,000 and \$948,000 in 2002 and 2001 respectively, of which \$596,000 and \$290,000 were included in cost of goods sold. The Company will incur amortization expense of approximately \$1,257,000 each in 2003, 2004 and 2005, \$1,193,000 in 2006 and \$820,000 in 2007.

**Debt:**

The Company has a \$6,100,000 line of credit with a bank, of which no amount was outstanding at December 31, 2002 or 2001. The line bears interest at the bank's prime rate (4.25% at December 31, 2002), is secured by accounts receivable, inventories and fixed assets, and expires on June 30, 2003. The Company's Bank line of credit as amended, contains covenants which require the Company to meet specific financial tests. The financial tests for 2002 were as follows: (1) a requirement of profitability on an annual basis and (2) a minimum tangible net worth requirement of \$16,500,000. At December 31, 2002, the Company was in compliance with the covenants.

**NOTE 5 - INCOME TAXES**

The provision (benefit) for income taxes was as follows:

	Year Ended December 31		
	2002	2001	2000
Current tax expense (benefit)	(In thousands)		
Federal	\$ 451	\$(637)	\$3,237
State	<u>8</u>	<u>(27)</u>	<u>802</u>
	459	(664)	4,039
Deferred tax expense (benefit)			
Federal	(36)	(209)	(588)
State	<u>(134)</u>	<u>--</u>	<u>--</u>
	<u>(170)</u>	<u>(209)</u>	<u>(588)</u>
Total provision for income taxes	<u>\$ 289</u>	<u>\$(873)</u>	<u>\$3,451</u>

The provision (benefit) for income taxes differs from the amount of tax determined by applying the applicable federal statutory income tax rate to pretax income as a result of the following differences:

	2002	2001	2000
Statutory U.S. tax rate	34%	(34)%	34%
State income taxes, net of federal benefit	6	(1)	6
Research and development and other credits	(27)	(7)	(2)
Nondeductible expenses	<u>25</u>	<u>4</u>	<u>--</u>
Effective tax rate	<u>38%</u>	<u>(38)%</u>	<u>38%</u>

	December 31,	
	2002	2001
Deferred tax assets (liabilities) consist of the following:	(In thousands)	
Short-term deferred tax asset		
Inventory reserve	\$ 964	\$ 846
Other reserves and accruals	739	803
Net operating loss	35	37
Research & development tax credit and others	<u>642</u>	<u>95</u>
Gross deferred tax assets	<u>2,380</u>	<u>2,081</u>
Long-term deferred tax liability		
Depreciation and amortization	(734)	(432)
Gross up of goodwill	<u>(1,330)</u>	<u>--</u>

Gross deferred tax liability	(2,064)	(432)
Net deferred tax assets	\$ <u>316</u>	\$ <u>1,649</u>

## NOTE 6 - INCOME ( LOSS) PER SHARE

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

	(In Thousands)		(Per Share)
	Income	Shares	Amount
2002			
Basic earnings per share calculation	\$ 472	9,683	\$.05
Effect of dilutive securities			
stock options	<u>-</u>	<u>15</u>	<u>-</u>
Diluted earnings per share calculation	\$ <u>472</u>	<u>9,698</u>	\$ <u>.05</u>
2001			
Basic earnings per share calculation	\$(1,425)	9,659	\$(.15)
Effect of dilutive securities			
stock options	<u>-</u>	<u>-</u>	<u>-</u>
Diluted earnings per share calculation	\$ <u>(1,425)</u>	<u>9,659</u>	\$ <u>(.15)</u>
2000			
Basic earnings per share calculation	\$ 5,631	9,640	\$.58
Effect of dilutive securities			
stock options	<u>-</u>	<u>27</u>	<u>-</u>
Diluted earnings per share calculation	\$ <u>5,631</u>	<u>9,667</u>	\$ <u>.58</u>

The number of common stock equivalents excluded from the earnings per share calculation because they would be antidilutive total to 657,000 in 2002, 523,000 in 2001 and 461,000 in 2000.

## NOTE 7 - DIVIDENDS

During 2002, the Company paid no dividends. During 2001, the Company paid quarterly dividends of \$.0525 per share for the first two quarters of the year on April 3 and July 5. During 2000, the Company paid quarterly dividends of \$.05 per share.

## NOTE 8 - STOCK OPTION PLAN AND EMPLOYEE STOCK PURCHASE PLAN

### Stock Option Plan

The 1997 Stock Option Plan (the “Plan”) provides for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options (“ISO”) may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options (“NSO”) and stock purchase rights may be granted to Company employees and consultants. The Company has reserved 1,000,000 shares of common stock for issuance under the Plan. No person will be eligible to receive more than 250,000 shares in any fiscal year.

Options under the Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair market value of the shares on the date of grant, provided, however, that (i) the exercise price of an ISO shall not be less than 100% of the estimated fair market value of the shares on the date of grant, and (ii) the exercise price of an ISO granted to a 10% or more Shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. Most options granted under the Plan through December 31, 2002 vest over a five-year period.

Activity under the Plan is set forth below:

	<b>Available for Grant</b>	<b>Number of Shares Outstanding</b>	<b>Weighted Average Exercise Price</b>
<b>Balance at December 31, 1999</b>	641,476	230,898	\$6.43
Granted	(345,600)	345,600	\$6.07
Exercised	--	(1,334)	\$4.36
Cancelled	<u>88,732</u>	<u>(88,732)</u>	\$5.42
<b>Balance at December 31, 2000</b>	384,608	486,432	\$6.36
Granted	(67,566)	67,566	\$4.73
Exercised	--	(6,200)	\$1.21
Cancelled	<u>24,800</u>	<u>(24,800)</u>	\$6.20
<b>Balance at December 31, 2001</b>	341,842	522,998	\$6.17
Granted	(203,900)	203,900	\$3.99
Exercised	--	(4,000)	\$1.28
Cancelled	<u>51,000</u>	<u>(51,000)</u>	\$1.94
<b>Balance at December 31, 2002</b>	<u>188,942</u>	<u>671,898</u>	\$5.87

Information relating to stock options outstanding and exercisable at December 31, 2002 is as follows:

<b>Exercise Price</b>	<b>Options Outstanding</b>			<b>Option Vested and Exercisable</b>	
	<b>Number outstanding</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$2.75 - \$3.99	218,400	9.0	\$ 3.94	12,500	\$ 3.25
\$4.10-\$5.74	74,500	7.0	\$ 4.72	56,325	\$ 4.64
\$6.00-\$6.80	264,000	7.5	\$ 6.04	165,600	\$ 6.06
\$7.01-\$7.87	103,998	4.6	\$ 8.02	98,432	\$ 7.55
\$8.61-\$11.48	11,000	3.6	\$ 10.00	11,000	\$ 10.00
	<u>671,898</u>			<u>343,857</u>	

### Employee Stock Purchase Plan

The Company has reserved 600,000 shares of Common Stock for issuance under the 1997 Employee Stock Purchase Plan (the "Purchase Plan"). Employees generally will be eligible to participate in the Purchase Plan if they are customarily employed by the Company for more than 20 hours per week and more than five months in a calendar year and are not (and would not become as a result of being granted an option under the Purchase Plan) 5% Shareholders of the Company. Under the Purchase Plan, eligible employees may choose each year to have up to 15% of their eligible annual compensation withheld to purchase our common stock. Each offering period commences on the first trading day of each calendar quarter, or on such other date as the Board shall determine. The price at which the common stock is purchased under the Purchase Plan is 85% of the lesser of the closing price of the Company's common stock on the first day of the applicable offering period or on the last day of that purchase period. The Purchase Plan will terminate after a period of ten years unless terminated earlier as permitted by the Purchase Plan. During the years ended December 31, 2002, 2001 and 2000, 15,091, 22,958 and 23,082 shares of common stock were purchased under this plan at a weighted-average price of \$2.68, \$5.77 and \$5.03, respectively.

### Fair Value Disclosures

This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Employee Stock Purchase Plan, collectively called options) as defined by SFAS No. 123. The fair value of options reported below has been estimated at the date of grant using the Black-Scholes option-pricing model for 2002, 2001 and 2000 using the following assumptions:

	Stock Options			Stock Purchase Plan		
	2002	2001	2000	2002	2001	2000
Risk-free interest rates	4.3 - 5.1%	4.0 - 4.9%	6.5 - 6.6%	0.9% - 1.8%	5.4% - 6.6%	5.3% - 6.2%
Expected lives (in years)	5	5	5	0.25	0.25	0.25
Expected dividend yield	1.9%	1.0%	3.0%	1.9%	1.0%	3.0%
Expected stock price volatility	43.1%	47.8%	33.4%	43.1%	47.8%	33.4%

The weighted-average estimated fair value of options granted during the year 2002, 2001 and 2000 were \$1.43, \$1.78 and \$2.29, respectively. The weighted-average estimated fair value of employee stock purchase rights granted under the Employee Stock Purchase Plan were \$0.57, \$1.10 and \$1.31 in 2002, 2001 and 2000, respectively. The effect on earnings per share of using the fair value of options is disclosed in Note 1 above.

### NOTE 9 – RETIREMENT SAVINGS PLAN

The Company adopted a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. The plan allows employer's matching contributions equal to 50% of employees' contributions subject to a maximum of 6% of employees' compensation. Contributions to the plan may be made at the discretion of the Board of Directors. The Company made no contributions in 2002 and contributed \$219,000 and \$313,000 in 2001 and 2000, respectively.

### NOTE 10 - SEGMENT INFORMATION

In 2000, with the acquisition of PSI-Tronix, the Company organized itself into two business segments: Safety Products Group, whose products include safety light curtains, safety interlocks and relays, safety mats and controllers, safety contact strips, and optical profiling scanners, and installation services, and Automation Products Group, whose products include photoelectric and fiberoptic sensors, control components, power monitoring electronics, defense electronics, industrial control microcomputers, peripherals and software, level and flow sensors, non-contact ultrasonic sensors and controllers, pressure transducers, digital pressure gauges, displacement and velocity transducers and pressure comparators. Financial information for each product group for the years ended December 31, 2002, 2001 and 2000 follows:

	Safety Products	Automation Products
<u>2002</u>		
Sales	\$43,493	\$ 7,714
Group operating profit (loss)	\$ 2,419	\$ (1,675)
Total assets	\$28,646	\$ 9,246
Capital expenditures	\$ 1,101	\$ 122
Depreciation and amortization	\$ 1,517	\$ 1,114
<u>2001</u>		
Sales	\$40,085	\$ 8,968
Group operating profit (loss)	\$ (846)	\$ (1,628)
Total assets	\$25,526	\$ 8,674
Capital expenditures	\$ 859	\$ 151
Depreciation and amortization	\$ 1,920	\$ 346
<u>2000</u>		
Sales	\$49,569	\$10,577
Group operating profit	\$ 6,311	\$ 2,434
Total assets	\$27,602	\$ 9,426
Capital expenditures	\$ 1,436	\$ 184
Depreciation and amortization	\$ 1,063	\$ 703

#### **NOTE 11 - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade accounts receivable. The Company places its cash and cash equivalents in a variety of money market accounts. The Company further limits its exposure to these investments by placing such investments with various high quality financial institutions. The Company routinely performs evaluations of these financial institutions. The Company offers credit terms on the sale of its products to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. No customer accounted for more than 10% of accounts receivable at December 31, 2002, 2001 or 2000.

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 2002, 2001 and 2000.

## **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Company leases certain office and manufacturing space and other equipment under noncancellable operating leases. At December 31, 2002, future minimum payments under these leases due in the years 2003 through 2007 were approximately \$1,260,000, \$1,192,000, \$1,124,000, \$1,031,000 and \$1,075,000 respectively. Of these amounts \$1,026,000 in each year was related to lease agreements with the Parent or an affiliate of the Parent.

Rent expense under operating lease agreements was approximately \$1,123,000 in 2002, \$1,007,000 in 2001, and \$997,000 in 2000. Of these amounts, \$974,000, \$900,000 and \$853,000 were related to lease agreements with the Parent or an affiliate of the Parent.

From time to time, the Company is involved in litigation in the normal course of business. Management believes that the outcome of matters to date will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company offers warranties on certain products and records a liability for the estimated future costs associated with warranty claims, which is based upon historical experience and the Company's estimate of the level of future costs. A reconciliation of the changes in the Company's warranty liability for the year ended December 31, 2002 follows (in thousands):

Warranty accrual at the beginning of the year	\$278
Accruals for warranties issued during the year	122
Expenses incurred during the year	(159)
Warranty accrual at the end of the year	<u>\$241</u>

As permitted under Oregon law the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving at the Company's request in such capacity. The indemnification term is for the period that the officer or director is serving in such capacity or is subject to any possible claim or action by reason of the fact that the Indemnitee was serving in that capacity. The maximum potential amount of future payments the Company could be unlimited; however the Company has a director and officer insurance policy that limits the Company's exposure and enables the Company to recover a portion of any future amounts paid. As a result of the insurance policy coverage, the Company believes that the estimated fair value of these agreements is minimal.

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **PART III**

Certain information required by Part III is omitted from this Report in that the registrant will file a definitive Proxy Statement for its 2002 Annual Meeting of Shareholders pursuant to Regulation 14A (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference.

#### **Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this Item concerning the Company's directors and the Company's executive officers is incorporated by reference to the sections entitled "Nominees" and "Management", respectively, appearing in the Company's Proxy Statement for its 2002 Annual Meeting of Shareholders.

#### **Item 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the sections entitled "Executive Compensation" and "Report of the Compensation Committee" appearing in the Proxy Statement for its 2002 Annual Meeting of Shareholders.

#### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this Item is incorporated by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the Proxy Statement for its 2002 Annual Meeting of Shareholders.

#### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item is incorporated by reference to the sections entitled "Certain Relationships and Related Transactions" appearing in the Proxy Statement for its 2002 Annual Meeting of Shareholders.

#### **Item 14. CONTROLS AND PROCEDURES**

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) *Changes in internal controls.* There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### **PART IV**

## **Item 15 EXHIBITS LIST AND REPORTS ON FORM 8-K.**

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

### **1. FINANCIAL STATEMENTS**

Reference is made to the index appearing in Item 8(a) of this report.

### **2. EXHIBITS AND EXHIBIT INDEX:**

- Exhibit 2.1 - Asset Purchase Agreement by and among PSI-Tronix Technologies, Inc., Scientific Technologies Incorporated, PSI-Tronix, Inc. and Melvin R. Heier and Donna Mae Heier, Trustees of the Heier Family Trust Dated 6/27/89 dated as of March 16, 2000 is incorporated by reference to the Registrant's Form 8-K/A dated May 30, 2000, Exhibit 2.1.
- 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 10.1 - Lease agreement dated February 21, 1995 for 6550 Dumbarton Circle, Fremont, California 94555, is incorporated by reference to the Registrant's Form 10-KSB for the year ended December 31, 1994, Exhibit 10.4.
- Exhibit 10.2 - Bank agreement dated November 29, 1994 with Bank of The West is incorporated by reference to the Registrant's Form 10-KSB for the year ended December 31, 1994, Exhibit 10.3.
- Exhibit 10.3 - Amendment dated June 28, 2002 to Bank Agreement dated November 29, 1994 with Bank of the West.
- Exhibit 10.4 - Lease agreement dated June 1, 2002 with Scientific Technology Incorporated for 1025 W. 1700 N., Logan Utah 84321
- Exhibit 21.1 - Subsidiaries of the Registrant.
- Exhibit 23.1 - Consent of PricewaterhouseCoopers LLP, Independent Accountants.
- Exhibit 24.1 - Power of Attorney (included on page 36).
- Exhibit 99.1 - Certification Of Chief Executive Officer And Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant

To Section 906 Of The Sarbanes-Oxley Act Of 2002

All other exhibits for which provision is made in Regulation S-K of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(b) No Reports on Form 8-K were filed during the last quarter of 2002.

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **SCIENTIFIC TECHNOLOGIES INCORPORATED**

Dated: March 31, 2003

By /s/ Anthony R. Lazzara  
Anthony R. Lazzara, Chairman of the Board

### **POWER OF ATTORNEY**

**KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Anthony R. Lazzara and Joseph J. Lazzara, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Anthony R. Lazzara</u>	Chairman of the Board	<u>March 31, 2003</u>
<u>/s/ Joseph J. Lazzara</u> Joseph J. Lazzara	President, Chief Executive Officer, Treasurer, Director (Principal Executive Officer)	<u>March 31, 2003</u>
<u>/s/ James A. Lazzara</u> James A. Lazzara	Vice President, Secretary and Director	<u>March 31, 2003</u>
<u>/s/ James A. Ashford</u> James A. Ashford	Vice President and Director	<u>March 31, 2003</u>
<u>/s/ Richard S. Baldwinson</u> Richard S. Baldwinson	Director	<u>March 31, 2003</u>
<u>/s/ Carl H. Frei</u> Carl H. Frei	Director	<u>March 31, 2003</u>
<u>/s/ Bernard J. Ploshay</u> Bernard J. Ploshay	Director	<u>March 31, 2003</u>
<u>/s/ Richard O. Faria</u> Richard O. Faria	Vice President and Chief Financial Officer (Principal Financial Officer)	<u>March 31, 2003</u>

I, Joseph J. Lazzara certify that:

1. I have reviewed this annual report on Form 10-K of Scientific Technologies Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ Joseph J. Lazzara  
President and Chief Executive Officer

I, Richard O. Faria certify that:

1. I have reviewed this annual report on Form 10-K of Scientific Technologies Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ Richard O. Faria  
Vice President and Chief Financial Officer

**SCIENTIFIC TECHNOLOGIES INCORPORATED**

**EXHIBITS**

**TO**

**Annual Report on Form 10-K  
Year ended December 31, 2002**

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### **EXHIBIT 10.3**

#### **NINTH AMENDMENT TO LOAN AND SECURITY AGREEMENT**

THIS NINTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "EIGHTH Amendment") is dated as of May 25, 2002 and is entered into between **SCIENTIFIC TECHNOLOGIES INCORPORATED WHICH WILL DO BUSINESS IN CALIFORNIA AS OREGON SCIENTIFIC TECHNOLOGIES**, an Oregon corporation (the "Borrower"), and **BANK OF THE WEST**, a California banking corporation (the "Bank").

#### **RECITALS:**

A. Borrower and Bank have entered into that certain Loan and Security Agreement dated November 29, 1994, that certain First Amendment to Loan and Security Agreement dated as of May 31, 1995, that certain Second Amendment to Loan and Security Agreement dated as of May 31, 1996, that certain Third Amendment to Loan and Security Agreement dated as of May 31, 1997, that certain Fourth Amendment to Loan and Security Agreement dated as of June 9, 1998 and that certain Fifth Amendment to Loan and Security Agreement dated as of June 30, 2000, and that certain Sixth Amendment to Loan and Security Agreement dated as of June 30, 2000, that certain Seventh Amendment to Loan and Security Agreement dated as of October 6, 2000, and Eighth Amendment to Loan and Security Agreement dated as of June 28, 2001 (collectively, the "Loan Agreement") and that certain Equipment Purchase Line Note dated December 6, 1994 (the "Equipment Purchase Line Note");

B. Borrower and Bank intend to further amend the Loan Agreement and/or the Equipment Purchase Line Note as provided by this Eighth Amendment.

#### **AMENDMENT:**

NOW, THEREFORE, Borrower and Bank hereby agree as follows:

**1. Definitions.** This Ninth Amendment shall modify and, to the extent inconsistent with, amend the Loan Agreement. Any capitalized term not specifically defined herein shall have the meaning assigned to it in the loan Agreement.

**2. Draw Period Amendment.** The last sentence of Section 3.1(a) of the Loan Agreement is hereby deleted in its entirety and is replaced with the following:

For the purpose of this Agreement, "Draw Period" shall mean the period between the date of this Loan and Security Agreement and the earlier of: (i) June 30, 2003 or (ii) the date on which the aggregate of all advances made pursuant to this Section 3.1 equals One Million and 00/100 Dollars (\$1,000,000.00).

**3. Credit Facility Term Amendment.** The second sentence of the first paragraph of Section 4.1 of the Loan Agreement is hereby deleted in its entirety and is replaced with the following:

Borrower's right to obtain advances under Section 2.1 and to enter into foreign exchange contracts under the FX Facility provided by Section 14.1 shall remain in full force and effect until June 30, 2003, and shall continue on a month-to-month basis thereafter until terminated by either party on thirty (30) days prior written notice to the other.

**4. Identification of Permitted Liens.** Notwithstanding anything to the contrary contained in the Loan Agreement (including, without limitation Section 9.7 of the Loan Agreement), Borrower shall be authorized and empowered to grant purchase money liens without Bank's consent, so long as each purchase

money lien is secured solely by the asset acquired in such purchase and such lien does not extend to include a lien on any of Borrower's other assets.

**5. Modification of Profitability Covenant.** The provisions of Subsection 10.13(c) of the Loan Agreement shall be modified to require that Borrower shall maintain profitability on an annual fiscal year.

**6. Addition of Tangible Net Worth Covenant.** Add a new Subsection 10.13(d), which shall read in its entirety as follows.

Borrower shall maintain a Tangible Net Worth in an amount not less than Sixteen Million Five Hundred Thousand Dollars (\$16,500,000).

For the purposes of the Loan Agreement as modified and amended by this Ninth Amendment, the term "Tangible Net Worth" means net worth as determined in accordance with generally accepted accounting principles consistently applied, increased by debt subordinated to Bank and decreased by the following: patents, licenses, goodwill, capitalized research and development costs, subscription lists, organization expenses and monies due from affiliates (including officers, directors, shareholders, parents, partners, joint venturers, subsidiaries and commonly held companies).

For the purposes of the Loan Agreement as modified and amended by this Ninth Amendment, the term "debt subordinated to Bank" shall mean any loans, debts or other obligations ("Third Party Debts") owing by Borrower to any third parties (including, without limitation, any shareholders or affiliates of Borrower) and/or security interests ("Third Party Security") in the assets of Borrower (including, without limitation, the Collateral) in favor of any third parties (including, without limitation, any shareholder or affiliates of Borrower), which has been subordinated to Borrower's Obligation to Bank under the Loan Agreement, as modified and amended by this Ninth Amendment, and to Bank's security interests in the Collateral.

Such subordination shall be on terms and conditions acceptable to Bank in its sole and absolute discretion. With respect to Third Party Debt, such subordination shall include (at a minimum) an agreement by the holder of the Third Party Debt to suspend payments by Borrower of any principal, interest or other amount due under the Third Party debt until the Loan Agreement, as modified and amended by this Ninth Amendment, has been terminated and all of Borrower's Obligations to Bank have been paid off and satisfied. With respect to Third Party Security Interests, such subordination shall include (at a minimum) an agreement by the Beneficiary of the Third Party Security Interest to (i) subordinate the priority of its lien to the lien in favor of Bank and (ii) refrain from exercising any rights or remedies with respect to the property encumbered and hypothecated by such Third Party Security Interest until all Obligations owing by Borrower to Bank have been paid, performed and satisfied. All monies due from affiliates (including officers, directors, shareholders, parents, partners, joint venturers, subsidiaries and commonly held companies) shall be excluded from Borrower's assets for all purposes hereunder.

**7. Conditions Precedent.** Bank's duties to extend and renew the Obligations and to make Advances in accordance with this Ninth Amendment shall be subject to (i) there being no outstanding and uncured defaults under the Loan Agreement, the Equipment Purchase Line Note or any other obligation owing by Borrower to Bank; (ii) the satisfaction of each of the conditions precedent set forth in Article 6 of the Loan Agreement, each of which is incorporated herein by this reference; and (iii) the payment to Bank of a fee in the amount of Seven Thousand Five Hundred Dollars (\$7,500), which fee shall represent an unconditional and non-refundable payment to Bank in consideration of Bank's agreement to enter into this Ninth Amendment; and (iv) the execution and delivery of this Ninth Amendment and such other documents as Bank may request.

**8. Filing of perfection, Continuation and Other Documents.** By executing this Ninth Amendment, Bank is hereby authorized to file any and all financing statements, continuation financing statements, fixture filings, landlord waivers, security agreements, chattel mortgages, assignments, deeds of trust, assignment of leases, endorsements of certificates of title, affidavits, reports, notices, schedules of

Accounts, schedules of Inventory, and letters of authority and all other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and maintain perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Agreement, as modifies and amended by this Ninth Amendment.

**9. Ratification of Warranties and Representations.** Except as amended by this Ninth Amendment, Borrower hereby ratifies, reaffirms, and remakes as of the date hereof each and every representation and warranty contained in the Loan Agreement, the Equipment Purchase Line Note, or in any document executed and delivered in connection therewith.

**10. Continued Force and Effect.** Except as amended by this Ninth Amendment, all of the Terms and conditions of the Loan Agreement (and each and every document or instrument executed and delivered in connection therewith) is and shall remain in full force and effect.

IN WITNESS WHEREOF, Borrower has executed and delivered this Ninth Amendment to Bank on the date first above written at Walnut Creek, California.

"BORROWER"

**SCIENTIFIC TECHNOLOGIES INCORPORATED WHICH  
WILL DO BUSINESS IN CALIFORNIA AS OREGON  
SCIENTIFIC TECHNOLOGIES**, an Oregon corporation

By: /s/Joseph J. Lazzara

Its: President and Chief Executive Officer

IN WITNESS WHEREOF, Bank hereby accepts this Ninth Amendment to be effective as of the date first above written in Walnut Creek, California.

"BANK"

**BANK OF THE WEST**,  
a California banking corporation

By: /s/Georgia R. Turner

Its: Vice President

#### **EXHIBIT 10.4**

THIS LEASE (hereinafter "Agreement" or "Lease"), is made and entered into as of this 1st day of June, 2002, by and between SCIENTIFIC TECHNOLOGY, INC., a California corporation (hereinafter referred to as "Landlord") and SCIENTIFIC TECHNOLOGIES, INC., Automation Sensors Division, an Oregon corporation (hereinafter referred to as "Tenant").

#### **RECITALS:**

A. Landlord is the owner of that certain real property more fully described on Exhibit "A", attached hereto and by this reference incorporated herein.

B. The Property is located at 1025 W. 1700 N., Logan, Cache County, Utah and consists of ground and improvements, including a newly constructed building containing 25,000 square feet. The land and improvements are collectively called the "Property" herein.

C. Tenant is desirous of leasing the Property from Landlord, and Landlord is desirous of leasing the Property to the Tenant.

D. Landlord and Tenant have communicated to one another the above-described circumstances, and have heretofore negotiated the terms of this Agreement and desire to memorialize the same by this instrument.

NOW, THEREFORE, in consideration of the above premises, the covenants and promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Landlord and Tenant hereby agree as follows:

#### **ARTICLE I - LEASE**

1.01. Lease of Property. In consideration of the rents, covenants and agreements hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby rents from Landlord, the Property, together with all improvements and fixtures presently associated therewith.

1.02. Term. The term of this Lease shall be for a total period of five (5) years, commencing on the date of this Agreement and ending five years from the date hereof, plus any additional periods that the parties may agree upon pursuant to Paragraph 1.03, below.

1.03. Additional Periods. Tenant and Landlord shall have the right to negotiate for additional periods or extensions of this Lease on terms agreeable to the parties.

1.04. Lease Payments. Tenant agrees to pay, and Landlord agrees to accept as lease payments \$10,500.00 on June 1, 2002 and \$10,500.00 on the 1st day of each month thereafter throughout the lease term. This represents \$.42/square foot/month based on the 25,000 square foot building.

1.05. Rent Increase. The monthly rent described in paragraph 1.04 shall be increased, effective on the first day of the next month, by the percentage increase, if any, which has occurred in the Consumer Price Index between June 1, 2002 and November 30, 2004. Such percentage increase shall be determined by using the Consumer Price Index (CPI) for All Urban Consumers as issued by the Bureau of Labor Statistics of the United States Department of Labor, or its successor, published for "All Items" "U.S. City Average" (1982-84 = 100). The index numbers to be used for the purposes of this Section shall be those in effect for the dates described above and if such Index shall be converted to a different standard reference base or shall otherwise be revised, the percentage increase shall be made with the use of such conversion factors, formula or tables as may be published for such purpose. Each one (point) percent (1%) in the CPI shall result in a one percent (1%) increase in the rental amount due.

1.06. Delinquent Payment. On any payment due hereunder which is not made on the due date thereof or within fifteen (15) days thereafter, the Tenant agrees to pay a late charge of five percent (5%) of the unpaid amount of such installment to cover the additional expense of handling and processing such delinquent payment or payments. Said late charge shall be paid at the time the delinquent amount is paid in addition to and as a condition to Landlord accepting such delinquent payment. In addition, such unpaid amount shall bear interest at the rate of one percent (1%) per month from the date delinquent until paid.

## ARTICLE II - RIGHTS AND DUTIES OF TENANT

### 2.01. Use Of The Leased Property.

a. Tenant may use the Property for any legal use so long as such use does not waste or pollute the Property.

b. The Tenant shall not do or permit anything to be done in or about, or bring or keep anything in the Property which will, in any way or to any extent adversely affect any fire, liability or other insurance policy carried with respect to the building, conflict with or violate any law, statute, ordinance, rule, regulation or requirement of any governmental unit, agency or authority (whether existing or enacted as promulgated in the future, known or unknown, foreseen or unforeseen) or damage the structural soundness of the Building, or any part thereof.

c. Tenant will keep the Property and every part thereof in a clean, neat, and orderly condition, free of objectionable noise, odors, or nuisances, will in all respects and at all times fully comply with all health and policy regulations, and will not suffer, permit, or commit any waste.

2.02. Improvements by Tenant. All repairs to and improvements on the Property shall be made by the Tenant at the Tenant's expense. The Tenant shall not make any alterations or improvements in or to the Property without the prior written consent of the Landlord, which consent shall not be unreasonably withheld. All fixed alterations and improvements made or added to the Property, such as carpets, cabinets and other attached equipment and fixtures (excluding trade fixtures, phone system and related accessories and other equipment used in Tenant's business or subleased) shall belong to the Landlord at the expiration or termination of this Lease.

### 2.03. Repair and Maintenance.

- a. Subject to 2.03e below, tenant hereby accepts the Property in the condition it is in at the beginning of this Lease. Tenant shall at all times during the term hereof, and any extensions thereof, keep the Property in good repair and condition, ordinary wear and tear excepted.
- b. The Landlord shall not be liable for any damage or injury by water, which may be sustained by Tenant or other person or for any other damage or injury resulting from the carelessness, negligence, or improper conduct on the part of any other Tenant or agents, or employees, or by reason of the breakage, leakage or obstruction of the water or sewer, pipes, or other leakage in or about the said building or caused by weight of snow or ice or any other damage caused by the elements.
- c. Except as specifically otherwise provided, Tenant is responsible for all upkeep on the Property and is solely responsible for glass breakage, regardless of cause. Tenant must provide all snow removal.
- d. Tenant agrees to keep and maintain at its own expense in good condition and repair all heating, air conditioning, plumbing and electrical services and equipment.
- e. The parties acknowledge that with a new building there may be some "punch list" items or other problems requiring correction. Landlord agrees to diligently complete and/or remedy or correct any such problems so that the building and its services operate as intended.

2.04. Utility Costs and License. Tenant agrees to pay all utility charges, including, but not limited to, electricity, gas, water, and telephone, and to pay for fire and general hazard insurance on all property belonging to Tenant on the Property and to pay all license fees and other costs of operation of its business. In the event of a default by the Tenant in this covenant, the Landlord shall have the right to pay and discharge any obligations on which Tenant remains in default for more than thirty (30) days, and the amount so paid by the Landlord shall be payable to Landlord on demand and shall bear interest from the date paid until reimbursed to the Landlord at the rate of one percent (1%) per month. This is an optional remedy with Landlord, and the election of such remedy by Landlord shall not constitute a waiver by Landlord of Landlord's rights to proceed against Tenant for default as elsewhere herein provided. In the event Landlord elects this remedy, the act of default by Tenant shall be Tenant's failure to pay on demand.

2.05. Assignment and Subletting. Tenant may sublet all or any part of the Property for any legal use as permitted in this Lease, with the prior written consent of Landlord. Tenant must provide written notice to Landlord of any subtenants, the nature of their use and duration of their tenancy within ten (10) days of signing a sublease or granting possession, whichever first occurs.

2.06. Regulations. Tenant covenants and agrees to make no unlawful use of the Property and to comply with all of the statutes, ordinances, rules, orders, regulations and requirements of federal, state and municipal or other governmental authorities, and to acquire, at its own expense, all necessary licenses and permits in connection with the Property and Tenant's business activities thereon.

### 2.07. Insurance and Indemnity.

- a. Landlord shall not at any time or to any extent whatsoever be liable, responsible, or in any way accountable for any loss, injury, death, or damage to persons or property, from any cause or causes whatsoever except for Landlord's or Landlord's agent's negligence, which at any time may be suffered or sustained by Tenant or by any person whosoever at any time using, occupying or visiting the Property or

be in, on or about the same or the sidewalks and driveways adjacent and Tenant agrees to indemnify and save Landlord harmless from any and all claims, liabilities, losses, damages, costs, and expenses whatsoever arising out of any such loss, injury, death, or damage.

b. Tenant shall, at all times during the term of this Agreement, maintain in full force and effect, and pay all premiums for, public liability insurance with a reputable insurance company or companies acceptable to Landlord covering Tenant's activities on the Property. The general liability limits of said policy or policies shall not be less than \$1,000,000.00 per person and per occurrence. Said insurance shall name the Landlord as an additional insured.

c. All insurance policies of Tenant shall be issued by companies and in forms satisfactory to Landlord and shall expressly provide that the insurance company shall notify the Landlord in writing at least thirty (30) days prior to any lapse or cancellation. Each such policy or a duplicate or appropriate evidence shall be delivered to Landlord. Tenant agrees if Tenant does not procure such insurance and keep the same in full force and effect, Landlord, at its option and subject to its right of reimbursement, may take out the necessary insurance and pay the premium. Tenant waives its right of subrogation against Landlord for any reason whatsoever, and any insurance policies herein required to be procured by Tenant shall contain an express waiver of any right of subrogation by the insurer against Landlord.

d. Tenant shall be responsible to provide fire and casualty insurance on Tenant's personal property.

e. Tenant shall procure insurance insuring the Landlord against loss or damage to the Property, and improvements and fixtures belonging to Landlord by reason of fire and other casualties (Broad Form) with a qualified insurance company or companies qualified in an amount and of such coverage as are satisfactory to and approved by Landlord. The proceeds of such insurance in case of loss or damage shall be paid to Landlord to be applied on account of the obligation of Landlord to repair and/or rebuild the building pursuant to Article 5.03. Any proceeds not required for such purpose shall be the sole property of Landlord.

2.08. Subordination. Upon request of Landlord, Tenant will subordinate its rights to the lien of any mortgage or mortgages, or lien or other security interest resulting from any other method of financing or refinancing, now or hereafter in force against the land and/or building. The provisions of this paragraph notwithstanding, so long as Tenant is not in default, this Lease shall remain in full force and effect for the full term and shall not be terminated as a result of any foreclosure or sale or transfer in lieu of such proceedings pursuant to a mortgage or other instrument to which Tenant has subordinated its right.

2.09. Amendment. Tenant agrees that from time to time it shall, if so requested by Landlord and if doing so will not substantially and adversely affect Tenant's economic interests under this Lease, join with Landlord in amending the terms of this Lease so as to meet the reasonable needs or requirements of any lender which is considering furnishing or which has furnished any of the financing for the property.

2.10. Tenant's Certificate. Tenant shall, within fifteen (15) days after the date of this Lease, and thereafter at Landlord's request, execute and deliver to Landlord a written declaration which shall: (1) ratify this Lease; (2) express the beginning date and termination date hereof; (3) certify that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended (except by such writings as shall be stated); (4) state that all conditions under this Lease to be performed by Landlord have been satisfied, or state which conditions remain unsatisfied; (5) state that there are no defenses or offsets against the enforcement of this Lease by the Landlord, or stating those claimed by Tenant; (6) state the amount of advance rental, if any, (or none if such is the case) paid by Tenant; (7) state the date to which

rental has been paid; (8) state the amount of security deposited with Landlord; and (9) state such other information as Landlord may reasonably request. Landlord's mortgage lenders and/or purchasers shall be entitled to rely upon such declaration.

2.11. Landlord's Certificate. Landlord shall, within fifteen (15) days after the date of this Lease, and thereafter at Tenant's request, execute and deliver to Tenant a written declaration which shall: (1) ratify this Lease; (2) express the beginning date and termination date hereof; (3) certify that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended (except by such writings as shall be stated); (4) state that all conditions under this Lease to be performed by Tenant have been satisfied, or state which conditions remain unsatisfied; (5) state that there are no defenses or offsets against the enforcement of this Lease by the Tenant, or stating those claimed by Landlord; (6) state the amount of advance rental, if any, (or none if such is the case) paid by Tenant; (7) state the date to which rental has been paid; (8) state the amount of security deposited with Landlord; and (9) state such other information as Tenant may reasonably request. Tenant's lenders and/or purchasers shall be entitled to rely upon such declaration.

2.12. Attornment. In the event of the sale or assignment of Landlord's interest in the Property, or in the event of any proceedings brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage or other security instrument made by Landlord covering the Property, Tenant shall attorn to the assignee or purchaser and recognize such purchaser as Landlord under this Lease.

2.13. Hazardous Substances. Tenant shall not cause or permit any Hazardous Substances to be used, stored, generated or disposed of in, on or about the Property. Tenant shall indemnify and hold harmless Landlord from any and all claims, damage, fines, judgments, penalties, costs, expenses or liabilities (including, without limitation, any and all sums paid for settlement of claims, attorneys' fees, consultant and expert fees) arising during or after the Term, if any, from or in connection with the use, storage, generation or disposal of hazardous substances in, on or about the Property. The indemnification contained herein shall survive any expiration or termination of the Term. As used herein, "Hazardous Substances" means any substance which is toxic, ignitable, reactive, or corrosive or which is regulated by Environmental Laws.

### ARTICLE III - EMINENT DOMAIN

3.01. Total Taking. If the whole of the Property shall be taken or condemned by any competent authority for any public use or purpose or if so much thereof shall be taken so that Tenant would be unable to continue normal business operations, then the Lease term hereby granted shall cease on the day prior to the vesting of title in such authority and lease payments hereunder shall be paid and adjusted as of that date; any prepaid rental shall be prorated as of the date of such termination and returned to Tenant.

3.02. Partial Taking. If a portion of the Property shall be taken and, as a result thereof, there shall be such a major change in the character of the Property as to prevent Tenant from using the same in substantially the same manner as theretofore used, then and in that event Tenant, within fifteen (15) days after the date of such vesting of title, may either cancel and terminate this Agreement as of the date when that part of the Property so taken shall be required for such public purpose, or said Tenant may continue to occupy the remaining portion. In the event Tenant shall remain in possession and occupancy of the remaining portion of the Property, all the terms and conditions of this Agreement shall remain in full force and effect with respect to such remaining portion, except that the lease payments reserved to be paid hereunder shall be equitably adjusted according to the amount and value of such remaining space; and provided, further, that Landlord shall, at Landlord's own expense, promptly and with all reasonable

diligence, do such work as to make the remainder of the Property usable by Tenant and this Agreement shall continue for the balance of its term, subject to the terms and conditions herein stated.

3.03. Condemnation Award. The entire award of damages or compensation for the Property taken via eminent domain, or the amount paid pursuant to private purchase in lieu thereof, whether such condemnation or sale be total or partial, shall belong to Landlord, except that damages awarded for any loss of Tenant's shall belong to Tenant. Tenant may interpose and prosecute, in any condemnation proceeding, a claim for the value of any trade fixtures installed in the Property by Tenant, and in the case of a partial condemnation of the Property, the cost, loss or damages sustained by Tenant as the result of the alterations, modifications or repairs which may reasonably be required by Tenant in order to place the remaining portion of the Property, not so condemned, in a suitable condition for Tenant's further occupancy.

#### ARTICLE IV - EVENTS OF DEFAULT; REMEDIES

4.01. Default by Tenant. Upon the occurrence of any of the following events Landlord shall have the remedies set forth in paragraph 4.02.

A. Tenant fails to pay any rental or any other sum due hereunder within fifteen (15) days after the same shall be due.

B. Tenant fails to perform any other term, condition, or covenant to be performed by it pursuant to this Agreement within thirty (30) days after the written notice of such default shall have been given to Tenant by Landlord.

C. Tenant shall become bankrupt or insolvent or file any debtor proceedings or have taken against such party in any court pursuant to state or federal statute, a petition in bankruptcy or insolvency, reorganization, or appointment of a receiver or trustee; and such proceeding shall not be dismissed, discontinued or vacated within thirty (30) days from the filing or appointment; or Tenant suffers this Lease to be taken under writ of restitution.

D. The doing, or permitting to be done, by Tenant of any act which creates a mechanic's lien or claim against the Ground or Building on the Property if not released or otherwise provided for by indemnification satisfactory to Landlord within thirty (30) days after written notice of such from Landlord.

#### 4.02. Remedies on Default.

a. If Tenant shall fail to cure any default under paragraph 4.01 within the time provided therein, or if a receiver be appointed for Tenant, or if Tenant for any reason be insolvent, or if a Tenant vacates or abandons the leased property, then Landlord, besides other rights or remedies it may have, shall have the immediate right of re-entry and may remove all persons and property from the property without liability to any person for damages sustained by reason of such removal. Such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant;

b. Should Landlord elect to re-enter as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease to the same extent and with all the legal incidents as if the term had expired by efflux of time, or it may from time to time relet the property for such term or terms (which may be for a term extending beyond the term of this

Lease) and at such rental and upon such other terms and conditions as Landlord, in its sole discretion, may deem advisable, with the right to make alterations and repairs to said Property;

c. Upon such re-letting (1) Tenant shall be immediately liable to pay to Landlord, in addition to any rent or other sums then due and unpaid hereunder, the cost of expense of such re-letting and of such reasonable alterations and repairs incurred by Landlord and the amount, if any, by which the rent reserved in this Lease for the period of such re-letting (up to but not beyond the term of this Lease) exceeds the sum agreed to be paid as rent for the property for such period on such reletting; or (2) at the option of Landlord, rents received by Landlord from such re-letting shall be applied first to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second to the payment of any costs and expenses of such re-letting and of such alterations and repairs; third to the payment of rent due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. If Tenant has been credited with any rent to be received by such re-letting under option (1) and such rent shall not be promptly paid to Landlord by the new Tenant, during any month be less than that to be paid during that month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly, or at Landlord's option the deficiency amount may be accelerated to the end of the lease term and declared immediately due and payable;

d. No such re-entry or taking possession of the property by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination be decreed by a court of competent jurisdiction. Notwithstanding any such re-letting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach;

e. Should Landlord at any time terminate this Lease for any breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such breach, including the cost of recovering the property and including the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term of the then reasonable rental value of the property for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord;

## ARTICLE V - RIGHTS AND DUTIES OF LANDLORD

5.01. Quiet Enjoyment. Landlord warrants and represents that it shall place and maintain Tenant in the peaceful and undisturbed possession of the Property throughout the entire term of this Agreement (including any extensions thereof) so long as Tenant pays the lease payments and performs all of its covenants as specified herein.

5.02. Taxes and Other Assessments. Tenant shall pay all real property taxes and assessments of any kind and nature which are or which may be assessed against the Property during the term of this Lease.

5.03. Fire And Other Casualty. In the event the building is rendered untenable by fire or other casualty during said term so that the same may be rebuilt within 120 days thereafter, then Landlord may rebuild said building and the rental hereunder shall abate during such period of rebuilding. If said rebuilding cannot be made and completed within 120 days then Landlord or Tenant shall have the right and option to terminate this Lease. In the event the building is rendered partially untenable by fire or other casualty during said term so that the same may be rebuilt within 120 days thereafter, then Landlord

shall rebuild said building and the rental hereunder shall abate during such period of repair in the proportion that the portion of the leased building rendered untenable bears to the entire leased building.

5.04. Entry by Landlord. Landlord or its agents shall have the right to enter and inspect the Property upon reasonable notice to Tenant and at reasonable times and in such a manner so as not to interfere with Tenant's business, to examine the Property and to show the Property to prospective purchasers or lessees of the Property.

## ARTICLE VI - MISCELLANEOUS

6.01. Time. Time is and shall be of the essence of this Lease.

6.02. Waiver. The waiver by Landlord of any breach of any term, covenants or condition herein contained shall not be deemed to be a waiver of such term, condition or covenant, or any subsequent breach of the same, or any other term, covenant or condition herein contained.

6.03. Entire Agreement. This Agreement contains the entire Agreement between the parties, and no representations, inducements, promises or agreements, oral or otherwise, between the parties not embodied herein shall be of any force and effect.

6.04. Force Majeure. In the event that either party hereto shall be delayed or hindered in, or prevented from, the performance of any act required hereunder, by reason of strikes, lockouts, labor trouble, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrections, war, natural disaster, or other reason of a like nature, not the fault of the party delayed in performing work or doing acts required under the term of this Agreement, then performance of such act shall be excused for the period of the delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay.

6.05. Delivery of Property. Tenant agrees to deliver up the Property to Landlord at the expiration of this Agreement in as good a condition as when the same was entered into by Tenant, reasonable wear and tear excepted.

6.06. Default. If either party defaults in any of the covenants or agreements contained herein, the defaulting party shall pay all costs and expenses, including a reasonable attorney's fee, incurred by the other party in enforcing its rights arising under this Agreement.

6.07. Notices. Any notices sent to the parties may be sent to them at the following addresses by certified or registered mail:

Landlord: Scientific Technology, Inc.  
6550 Dumbarton Circle  
Fremont, CA 94555

Tenant: Scientific Technologies, Inc.  
Automation Sensors Division  
1025 W. 1700 N.  
Logan, UT 84321

6.08. Headings and Paragraph Numbers. Headings and paragraph numbers have been inserted solely for convenience and reference and shall not be construed to effect the meaning, construction of effect of this Agreement.

6.09. Invalid Provision. If any provisions of this Agreement shall be determined to be void or unenforceable, such determination shall not effect the validity of any remaining portion of this Agreement, and any remaining portion shall remain in full force and effect as if this Agreement had been executed with the invalid portion eliminated.

6.10. Binding. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their agents, successors-in-interest, assigns and transferees.

6.11. Authority of Signatories. Each person executing this Agreement individually and personally represents and warrants that he is duly authorized to execute and deliver the same on behalf of the corporation for which he is signing and that this Agreement is binding upon said corporation in accordance with its terms.

6.12. Holdover. If Tenant shall hold over following the expiration of the term of this Lease, such holding shall be on a month-to-month tenancy under the terms of this Lease.

6.13. Net Lease. This Lease shall be deemed and construed to be a net lease, and in no circumstances and under no conditions, whether now existing or hereafter arising, or whether within or beyond the present contemplation of the parties, shall the Landlord be required to make any payment of any kind whatsoever or be under any obligation or liability hereunder, except as herein expressly set forth.

Dated this 1<sup>st</sup> day of June, 2002

LANDLORD:

SCIENTIFIC TECHNOLOGY, INC.

By /s/ Joseph J. Lazzara  
Its Executive Vice President

Dated this 1<sup>st</sup> day of June, 2002

TENANT:

SCIENTIFIC TECHNOLOGIES, INC.

By /s/James M. Vella  
Its Vice President

**EXHIBIT 21.1**

## **SCIENTIFIC TECHNOLOGIES INCORPORATED**

Annual Report on Form 10-K  
Year ended December 31, 2002

### **Subsidiaries of the Registrant.**

STI Scientific Technologies GmbH, a German corporation  
Lundahl Instruments, Inc., a Utah corporation  
PSI-Tronix Technologies Incorporated, a California corporation  
Dunn Sales Incorporated, a California corporation

## **CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of Scientific Technologies Incorporated of our report dated March 12, 2003 relating to the financial statements, which report appears in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP  
San Jose, California  
March 28, 2003

**EXHIBIT 99.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**  
**PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph J. Lazzara, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Scientific Technologies Incorporated on Form 10-K for the fiscal year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Scientific Technologies Incorporated.

By: /s/ Joseph J. Lazzara  
Name: Joseph J. Lazzara  
Title: Chief Executive Officer

I, Richard O. Faria, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Scientific Technologies Incorporated on Form 10-K for the fiscal year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Scientific Technologies Incorporated.

By: /s/ Richard O. Faria  
Name: Richard O. Faria  
Title: Chief Financial Officer