WSI INDUSTRIES, INC.
Form 10-Q
June 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended May 29, 2005

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 0-619

WSI Industries, Inc.
(Exact name of registrant, as specified in its charter)

| | |
|---|---|
| Minnesota | 41-0691607 |
| (State or other jurisdiction of incorporation of organization) | (I. R. S. Employer Identification No.) |
| Monticello, Minnesota | 55362 |
| (Address of principal executive offices) | (Zip Code) |

(763) 295-9202
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

2,557,629 Common Shares were outstanding as of June 22, 2005.

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WSI INDUSTRIES, INC.

AND SUBSIDIARIES

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Part I. Financial Information

Item 1. Financial Statements

WSI INDUSTRIES, INC
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | MAY 29, 2005 (unaudited) |
|---|---|
| ASSETS | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | $ 469,988 |
| Accounts receivable | 1,933,625 |
| Inventories | 1,124,134 |
| Prepaid and other current assets | 101,684 |
| Deferred tax assets | 122,921 |
| Total Current Assets | 3,752,352 |
| Property, Plant and Equipment -- Net | 3,874,661 |
| Deferred tax assets | 1,635,265 |
| Intangible assets, net | 2,394,351 |
| | $ 11,656,629 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES: | |
| Trade accounts payable | $ 1,055,271 |
| Accrued compensation and employee withholdings | 405,346 |
| Miscellaneous accrued expenses | 66,516 |
| Current portion of long-term debt | 311,087 |
| Total Current Liabilities | 1,838,220 |
| Long term debt, net of current portion | 2,810,022 |
| STOCKHOLDERS' EQUITY: | |
| Common stock, par value $.10 a share; authorized 10,000,000 shares; issued and outstanding 2,557,629 shares | 255,763 |

| | |
|---|---|
| Capital in excess of par value | 1,837,441 |
| Retained earnings | 4,915,183 |
| Total Stockholders' Equity | 7,008,387 |
| | $ 11,656,629 |

See notes to condensed consolidated financial statements

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WSI INDUSTRIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | 13 weeks ended | | 39 w |
|---|---|---|---|
| | May 29, 2005 | May 30, 2004 | May 29, 2005 |
| Net sales | $ 4,244,285 | $ 3,147,009 | $ 11,772,801 |
| Cost of products sold | 3,471,359 | 2,722,484 | 9,808,795 |
| Gross margin | 772,926 | 424,525 | 1,964,006 |
| Selling and administrative expense | 461,596 | 315,368 | 1,492,838 |
| Interest and other income | (5,988) | (3,652) | (12,644 |
| Interest expense | 46,140 | 17,895 | 128,339 |
| Earnings from operations before income taxes | 271,178 | 94,914 | 355,473 |
| Income tax expense | 97,624 | 34,169 | 127,970 |
| Net earnings | $ 173,554 | $ 60,745 | $ 227,503 |
| Basic earnings per share | $ .07 | $ .02 | $ .09 |
| Diluted earnings per share | $ .07 | $ .02 | $ .09 |
| Cash dividend per share | $ .0375 | $ .0375 | $ .1125 |

Weighted average number of

| | | | |
|---|---|---|---|
| common shares | 2,557,629 | 2,557,189 | 2,557,629 |
| Weighted average number of common and dilutive potential common shares | 2,639,010 | 2,627,420 | 2,629,243 |

See notes to condensed consolidated financial statements.

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WSI INDUSTRIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | 39 weeks end | |
|---|---|---|
| | May 29, 2005 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 227,503 | $ |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 499,549 | |
| Amortization | 4,960 | |
| Loss on disposal of equipment | 1,125 | |
| Deferred taxes | 127,970 | |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (176,343) | |
| Increase in inventories | (200,911) | |
| Increase in prepaid expenses | (8,291) | |
| Increase in accounts payable and accrued expenses | 322,450 | |
| Net cash provided by operations | 798,012 | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (79,855) | ( |
| Net cash used in investing activities | (79,855) | ( |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Stock options exercised | - | |
| Issuance of long-term debt | - | |
| Payments of long-term debt | (255,199) | |
| Deferred financing costs | - | |
| Dividends paid | (287,736) | |

| | | |
|---|---|---|
| Net cash provided by (used in) financing activities | (542,935) | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 175,222 | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 294,766 | |
| CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD | $ 469,988 | $ |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $ 128,822 | $ |
| Income taxes | $ 2,205 | $ |
| Noncash investing and financing activities: | | |
| Acquisition of machinery through capital lease | $ 456,570 | $ |

See notes to condensed consolidated financial statements.



WSI INDUSTRIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

The condensed consolidated balance sheet as of May 29, 2005, the condensed consolidated statements of operations for the thirteen and thirty-nine weeks ended May 29, 2005 and May 30, 2004 and the condensed consolidated statements of cash flows for the thirty-nine weeks then ended, respectively, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made.

The condensed consolidated balance sheet at August 29, 2004 is derived from the audited consolidated balance sheet as of that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2004 annual report to shareholders. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Reclassification: Certain prior year items have been reclassified to conform to the current year presentation.

2. INVENTORIES

Inventories consist primarily of raw material, work-in-progress (WIP) and finished goods. The following table breaks out the values in each category net of the inventory valuation allowances of $162,483 and $409,249 at May 29, 2005 and August 29, 2004, respectively.

| | May 29, 2005 | August 29, 2004 |
|---|---|---|
| Raw material | $ 358,488 | $ 277,359 |
| WIP | 324,232 | 359,432 |
| Finished goods | 441,414 | 286,432 |
| | $ 1,124,134 | $ 923,223 |

The reduction in the inventory valuation allowance came as a result of the disposing of obsolete inventory. Since the inventory disposed of had been previously reserved for and thus had minimal net book value, there was no material effect on the gross margin in the financial statements when the Company disposed of this inventory.

3. GOODWILL AND INTANGIBLE ASSETS:

Under Statements of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets are deemed to have indefinite lives and are not amortized, but are subjected to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their useful lives.

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The Company adopted the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. The Company performed its annual impairment test in the fourth quarter of fiscal 2004 and has determined no charge is warranted.

Goodwill and other intangible assets resulting from acquisitions of business and the formation of the Company consist of the following:

| | May 29, 2005 | August 29, 2004 |
|---|---|---|
| Goodwill | $2,713,264 | $2,713,264 |
| Less accumulated amortization | 344,812 | 344,812 |

| | | |
|---|---|---|
| | $2,368,452 | $2,368,452 |
| Deferred financing | $ 33,063 | $ 33,063 |
| Less accumulated amortization | 7,164 | 2,204 |
| | $ 25,899 | $ 30,859 |
| | $2,394,351 | $2,399,311 |

4. EARNINGS PER SHARE:

The following table sets forth the computation of basic and diluted earnings per share:

| | Thirteen weeks ended | | T |
|---|---|---|---|
| | May 29, 2005 | May 30, 2004 | |
| Numerator for basic and diluted earnings per share: | | | |
| Net earnings | $ 173,554 | $ 60,745 | $ |
| Denominator | | | |
| Denominator for basic earnings per share -- weighted average shares | 2,557,629 | 2,557,189 | |
| Effect of dilutive securities: | | | |
| Employee and non-employee options | 81,381 | 70,231 | |
| Dilutive common shares Denominator for diluted earnings Per share | 2,639,010 | 2,627,420 | |
| Basic earnings per share | $ .07 | $ .02 | $ |
| Diluted earnings per share | $ .07 | $ .02 | $ |

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5. DEBT AND LINE OF CREDIT:

In January, 2005, the Company renewed its revolving credit agreement in the maximum amount of $1 million with its bank. Interest on the renewed agreement is at the bank's prime rate. No balance remains outstanding on the revolver at May 29, 2005 as the Company paid off the $100,000 balance remaining at the end of its fiscal second quarter ended February 27, 2005. The credit agreement is secured by all assets of the Company and expires December 31, 2005. It contains restrictive provisions concerning yearly capital expenditures, maximum debt to net worth and minimum current ratios, as well as a minimum debt service coverage ratio. At May 29, 2005, the Company was in compliance with these provisions.

The Company purchased a new manufacturing facility and office located in Monticello, Minnesota on May 3, 2004. In order to facilitate the purchase, the Company entered into two mortgage agreements. The first mortgage was with its bank for $1,360,000 with a monthly payment of $8,307 based on a 25-year amortization schedule. Interest is at 5.37% with a provision to adjust the rate after 5 years to the monthly five-year Treasury yield plus 2.5%. The entire principal balance is due May 1, 2014.

The second mortgage is with the City of Monticello Economic Development Authority (MEDA) for $350,000 with a monthly payment of $1,483 based on a 25-year amortization schedule. Interest is at 2.0%. The entire balance is due on May 1, 2009. The indebtedness to the bank is secured pursuant to a mortgage and security agreement and fixture financing statement and the debt to MEDA is secured by a mortgage.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

and

RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.

The Company believes that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so the Company consider these to be its critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates the Company uses in applying the critical accounting policies. Within the context of these critical accounting policies, the Company is not currently aware of any reasonably likely event that would result in materially different amounts being reported.

Allowance for Excess and Obsolete Inventory:

Inventories, which are composed of raw materials, work in process and finished goods, are valued at the lower of cost or market by comparing the cost of each item in inventory to its most recent sales price or sales order price. Any excess of cost over the net realizable value of inventory components is included in the allowance for obsolete inventory.

In addition, the Company determines the reserve for excess and obsolete inventory by analyzing the sales history of its inventory, sales orders on hand and indications from the Company's customers as to the future of various parts or programs. If, in the Company's determination, the inventory value has become impaired, the Company establishes an obsolescence reserve at the amount the Company estimates as the ultimate net realizable value for that inventory. The obsolescence reserve remains on the Company's books until the inventory is disposed of or sold. Actual customer requirements in any future periods are inherently uncertain and thus may differ from our estimates. If actual or expected customer requirements were significantly lower than the established reserves, the Company would record an increase to the obsolescence allowance in the period in which the Company made such a determination. The Company performs its lower of cost or market testing as well as its excess or obsolete inventory analyses, quarterly.

The Company's allowance for obsolete inventory consists of the following at May 29, 2005 and August 29, 2004:

| | May 29, 2005 | August 29, 2004 |
|---|---|---|
| Obsolete finished goods | $87,678 | $258,845 |
| Obsolete work-in-process | 8,740 | 90,020 |
| Cost exceeding market value | 66,065 | 60,384 |
| | $162,483 | $409,249 |



The Company disposed of a substantial portion of its obsolete inventory during fiscal 2005. Since the inventory disposed of had been previously reserved for and thus had minimal net book value, there was no material effect on the gross margin in the financial statements when the Company disposed of this inventory. The Company has no specific timeline to dispose of its remaining obsolete inventory and intends to sell this obsolete inventory from time to time, as market conditions allow.

Goodwill Impairment:

The Company evaluates the valuation of its goodwill according to the provisions of SFAS 142 to determine if the current value of goodwill has been impaired. The Company believes that its stock price is not necessarily an indicator of the Company's value given its limited trading volume and its wide price fluctuations. The Company follows the guidance provided by SFAS 142 and utilizes a present value technique to measure fair value by estimating future cash flows. The major assumptions in this analysis include: (a) sales estimates for the Company in part provided with guidance from the Company's customers; and (b) material and labor costs of the Company's major programs. The Company constructs a discounted cash flow analysis based on these assumptions to estimate the fair value of the Company (which is the only reporting unit). The result of the analysis performed in the fiscal 2004 fourth quarter did not show an impairment of goodwill. If the Company has changes in events or circumstances, including reductions in anticipated cash flows generated by our operations, goodwill could become impaired which would result in a charge to earnings.

Deferred Taxes:

The Company accounts for income taxes using the liability method. Deferred income taxes are provided for temporary difference between the financial reporting and tax bases of assets and liabilities. A valuation allowance would be set up should the realization of any deferred taxes become less likely than not to occur. The valuation allowance is analyzed periodically by the Company and may result in income tax expense different than statutory rates. The Company has not established a valuation allowance as it believes it is more likely than not that it will fully realize the benefit of its tax assets. Currently, the Company's deferred tax assets have two major components which relate to the Company's NOL and the Company's AMT tax credit carryforwards. The Company's AMT tax credit carryforward does not expire. The Company's NOL carryforward has $870,000 expiring in fiscal year 2009, $415,000 in fiscal 2011 and $2.8 million expiring in fiscal 2021 and after. The Company believes that its current rate of growth will be sufficient to fully utilize its NOL carryforwards before they expire. However, a significant loss of a customer or a change in the Company's business could affect the realization of the deferred tax assets. If a major program were discontinued, the Company would immediately assess the impact of the loss of the program on the realization of the deferred tax assets.

Revenue Recognition:

The Company considers its revenue recognition policy to fall under the guidance of FASB's conceptual framework for revenue recognition. The Company recognizes revenue only after: (a) The Company has received a purchase order identifying price and delivery terms or services to be rendered; (b) shipment has occurred, or in the case of services, after the service has been completed; (c) the Company's price is fixed as evidenced by the purchase order; and (d) collectibility is reasonably assured. The Company continually monitors its accounts receivable for any delinquent or slow paying accounts. The Company believes that based upon its past history with minimal bad debt write-offs, that all accounts are collectible upon shipment or delivery of services. Credit losses customers have been minimal and within management's expectations. Based on management's evaluation of uncollected accounts receivable, bad debts are provided for on the allowance method. Accounts are considered delinquent if they are 120 days past due. If an uncollectible account should arise during the year, it would be written-off at the point it was determined to be uncollectible. The Company mitigates its credit risk by performing periodic credit checks and actively pursuing past due accounts. The



Company refers to "net sales" in its consolidated statements of operations as the Company's sales are sometimes reduced by product returned by its customers.

Results of Operations:

Net sales were $4,244,000 for the quarter ending May 29, 2005, an increase of 35% or $1,097,000 from the same period of the prior year. Year-to-date sales in fiscal 2005 were $11,773,000 compared to $8,569,000 in the prior year. The increase in sales for the quarter, as well as the nine months, came primarily from a new program related to the Company's recreational vehicle market, although the Company's fiscal 2005 third quarter was also positively affected by overall sales increases from its previously existing recreational vehicle market programs.

Sales from the Company's recreational vehicle market amounted to $3,702,000 and $2,551,000 for the quarters ended May 29, 2005 and May 30, 2004, respectively. Year-to-date sales for the Company's recreational vehicle market were $9,994,000 and $6,823,000 for the nine months ended May 29, 2005 and May 30, 2004, respectively.

Sales from the Company's aerospace and defense markets amounted to $441,000 and $400,000 for the quarter ended May 29, 2005 and May 30, 2004, respectively. Year-to-date sales for the Company's aerospace and defense markets were $1,269,000 and $1,164,000 for the nine months ended May 29, 2005 and May 30, 2004, respectively. The Company believes these increases are not as a result of significant change in a customer or product requirement, but rather as a result from a general increase in the level of the Company's aerospace and defense business with its current customers.

Sales from the Company's other revenue markets amounted to $101,000 and $196,000 for the quarter ended May 29, 2005 and May 30, 2004, respectively. Year-to-date sales for the Company's other revenue markets were $510,000 and $582,000 for the nine months ended May 29, 2005 and May 30, 2004, respectively. The Company's other revenue markets consist primarily of computer components and small engine parts, with the decrease in the Company's sales during the quarter ended May 29, 2005 coming primarily from a decrease in its computer components business.

Gross margin increased to 18% for the quarter ending May 29, 2005 versus 13% in the year ago period. The increase in gross margin is attributable to efficiencies related to higher levels of volume. Year-to-date gross margins were 17% and 15% for the nine-month periods ending May 29, 2005 and May 30, 2004, respectively, with the current year's margin also positively affected by the higher levels of volume.

No significant sales of obsolete inventory items occurred during the first three fiscal quarters of 2005. Correspondingly, no significant gross margin was realized from any of those sales. However, during the fiscal 2005 second quarter, the Company disposed of all but $8,740 of its obsolete WIP inventory. During the Company's fiscal 2005 third quarter, the Company disposed of all but $87,678 of its obsolete finished goods inventory. The total amounts disposed amounted to approximately 15% of the gross inventory value. Since the inventory disposed of had been previously reserved for and thus had minimal net book value, there was no material effect on the financial statements when the Company disposed of this inventory.

During the last quarter of fiscal 2004 and the first two quarters of fiscal 2005, the Company moved its office and manufacturing operations from its former site in Osseo, Minnesota to its current location in Monticello, Minnesota. During this time, the Company recorded relocation costs, as well as the costs associated with leasing and maintaining the Osseo facility, as selling and administrative cost. These costs amounted to $340,000 for the nine months ended May 29, 2005 with no material costs being incurred after the Company's fiscal 2005 second quarter ended February 27, 2005.

Selling and administrative expense of $462,000 for the quarter ending May 29, 2005 was $146,000 higher than in the prior year period due primarily to higher compensation and benefit costs. Year-to-date selling and administrative expense of $1,493,000 was $536,000 higher than the comparable prior year period due to the higher compensation costs as well as the $340,000 of relocation costs mentioned above.

Interest expense in the third quarter of fiscal 2005 was $46,000, which was $28,000 more than the third quarter of fiscal 2004 amount of $18,000. The increase is attributable to increased levels of debt due to mortgages on the Company's new building of approximately $1.7 million that did not exist in the prior year, as well as new capitalized leases for equipment purchases that have occurred in the last 12 months. Year-to-date interest expense for fiscal 2005 also increased as compared to the same period of the prior year for the same reasons.

The Company recorded income tax expense at an effective tax rate of 36% for the quarter and nine months ended May 29, 2005 and May 30, 2004, respectively.

Liquidity and Capital Resources

On May 29, 2005, working capital was $1,914,000 compared to $1,756,000 at August 29, 2004. The increase in working capital is attributed to the 37% increase in the Company's sales during the first nine months of fiscal 2005. The ratio of current assets to current liabilities at February 27, 2005 was 2.04 to 1.0 compared to 2.16 to 1.0 at August 29, 2004. The Company's cash balance increased $175,000 during the first nine months of fiscal 2005 with $798,000 in cash flow from operations being used to pay down $255,000 in long-term debt, $288,000 in dividends as well as to purchase $80,000 in equipment.

As discussed in the Notes to Consolidated Financial Statements, the Company renewed its $1,000,000 revolving credit facility with its bank. Interest on the new agreement is at the bank's prime rate. At May 29, 2005, the Company did not have a balance owing under this revolving line of credit agreement.

The Company paid quarterly dividends of $.0375 per share of its common stock in each of the first three quarters of fiscal 2005 and 2004. The dividend payments for the first nine months of fiscal 2005 and fiscal 2004 totaled $288,000 and $287,000, respectively.

It is the Company's belief that its internally generated funds, as well as its line of credit, will be sufficient to enable the Company to meet its working capital requirements during the remainder of calendar 2005.

Cautionary Statement:

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements made with the approval of an authorized executive officer that are not historical or current facts are "forward-looking statements." These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

The following important factors, among others, in some cases have affected and in the future could affect the Company's actual results and could cause the Company's actual financial performance to differ materially from that expressed in any forward-looking statement: (i) the Company's ability to obtain additional manufacturing programs and retain current programs; (ii) the loss of significant business from any one of its



current customers could have a material adverse effect on the Company; (iii) the Company was dependent upon one customer for 79% of its revenues in fiscal year 2004 and expects that a significant portion of its future revenue will be derived from this customer; (iv) a significant downturn in the industries in which the Company participates could have an adverse effect on the demand for Company services; (v) our sales are concentrated in a limited number of highly competitive industries, each with a limited number of customers; (vi) the prices of our products are subject to downward pressure from customers and market pressure from competitors; (vii) the Company's ability to curtail its costs and expenses for new manufacturing programs, commensurate with expected revenues; (viii) the Company's ability to comply with covenants of its credit facility; (ix) fluctuations in operating results due to, among other things, changes in customer demand for our product, in our manufacturing costs and efficiencies of our operations; and (x) a trend among our customers toward outsourcing manufacturing to foreign operations.

The foregoing list should not be construed as exhaustive and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

## ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer, Michael J. Pudil, and Chief Financial Officer, Paul D. Sheely, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, they have concluded that these controls and procedures are effective.

(b) Changes in Internal Controls over Financial Reporting.

There have been no changes in internal control financial reporting that occurred during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II. OTHER INFORMATION:

## ITEM 6. EXHIBITS:

A. The following exhibits are included herein:

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act

Exhibit 32 Certification pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WSI INDUSTRIES, INC.

Date: June 22, 2005

/s/ Michael J. Pudil

Michael J. Pudil, President & CEO

Date: June 22, 2005

/s/ Paul D. Sheely

Paul D. Sheely, Vice President, Finance & CFO