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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ [X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Quarterly Period Ended June 30, 2003

☐ [] 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 000-22400

STRATEGIC DIAGNOSTICS INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

56-1581761
(I.R.S. employer
identification no.)

111 Pencader Drive
Newark, Delaware
(Address of principal executive offices)

19702
(Zip Code)

Registrant's telephone number, including area code: (302) 456-6789

Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report: None

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 ☐ []

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

As of June 30, 2003 there were 18,944,772 outstanding shares of the
Registrant's common stock, par value \$.01 per share.

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STRATEGIC DIAGNOSTICS INC.

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Item 1. Financial Statements

PART I

STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (in thousands, except share and per share data) (unaudited)

<TABLE>		
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	June 30,	December
31,	2003	2002
--	-----	-----
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,337	\$
2,098		
Receivables, net	4,617	

3,956			
Inventories	6,651		
6,821			
Deferred tax asset	884		
1,009			
Other current assets	824		
499			
--	-----	-----	
Total current assets	16,313		
14,383			
--	-----	-----	
Property and equipment, net	3,778		
4,013			
Other assets	17		
40			
Deferred tax asset	7,514		
7,664			
Intangible assets, net	6,984		
7,066			
--	-----	-----	
Total assets	\$ 34,606	\$	
33,166			
	=====		
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 945	\$	
1,024			
Accrued expenses	1,520		
665			
Current portion of long term debt	395		
211			
--	-----	-----	
Total current liabilities	2,860		
1,900			
--	-----	-----	
Long-term debt	1,089		
1,212			
--	-----	-----	
Stockholders' Equity			
Preferred stock, \$.01 par value, 20,920,648 shares authorized, no shares issued or outstanding	-		
-			
Common stock, \$.01 par value, 35,000,000 shares authorized, 18,944,772 and 18,937,330 issued and outstanding at June 30, 2003 and December 31, 2002, respectively	190		
190			
Additional paid-in capital	35,324		
35,312			
Accumulated deficit	(4,862)		
(5,408)			
Cumulative translation adjustments	5		
(40)			
--	-----	-----	
Total stockholders' equity	30,657		
30,054			
--	-----	-----	

--	-----	-----	-----	-----
Income tax expense (benefit) (596)	98	(381)	275	
--	-----	-----	-----	-----
Net income (loss) (920)	211	(547)	546	
--	-----	-----	-----	-----
Basic net income (loss) per share (0.05)	\$ 0.01	\$ (0.03)	\$ 0.03	\$
=====	=====	=====	=====	
Shares used in computing basic net income (loss) per share 17,869,000	18,942,000	17,870,000	18,941,000	
=====	=====	=====	=====	
Diluted net income (loss) per share (0.05)	\$ 0.01	\$ (0.03)	\$ 0.03	\$
=====	=====	=====	=====	
Shares used in computing diluted net income (loss) per share 17,869,000	19,591,000	17,870,000	19,542,000	
=====	=====	=====	=====	

</TABLE>

The accompanying notes are an integral part of these statements.

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STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(in thousands)
(unaudited)

<TABLE>

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Cumulative		Additional		
Translation	Common	Paid-In	Accumulated	
Adjustments	Stock	Capital	Deficit	
--	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
Balance, December 31, 2002 (40) \$ 30,054	\$ 190	\$ 35,312	\$ (5,408)	\$
Employee stock purchase plan	-	10	-	
-				

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Exercises of stock options	-	2	-
- 2			
Currency translation adjustment	-	-	-
45 45			
Net income	-	-	546
- 546			

Total comprehensive income
591

	-----	-----	-----	-----
Balance, June 30, 2003	\$ 190	\$ 35,324	\$ (4,862)	\$
5 \$ 30,657				
	-----	-----	-----	-----

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The accompanying notes are an integral part of these statements.

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STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)

<TABLE>

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	Six Months Ended June 30,	
	2003	2002
	-----	-----
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net income (loss)	\$ 546	\$ (920)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	415	454
Deferred income tax provision	275	(596)
Gain on sale/disposal of assets	-	(374)
(Increase) decrease in:		
Receivables	(661)	405
Inventories	170	447
Other current assets	(325)	(293)
Other assets	23	119
Increase (decrease) in:		
Accounts payable	(79)	(481)
Accrued expenses	855	(569)
	-----	-----
Net cash used in operating activities	1,219	(1,808)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(98)	(781)
	-----	-----
Net cash used in investing activities	(98)	(781)
Cash Flows from Financing Activities:		
Proceeds from exercise of incentive stock options	2	168
Proceeds from employee stock purchase plan	10	26

Proceeds from issuance of long and short term debt	372	1,947
Proceeds from sale/disposal of assets	-	596
Repayments on financing obligations	(311)	(1,135)
	-----	-----
Net cash provided by financing activities	73	1,602
Effect of exchange rate changes on cash	45	-
Net increase (decrease) in cash and cash equivalents	1,239	(987)
Cash and cash equivalents, beginning of period	2,098	2,379
	-----	-----
Cash and cash equivalents, end of period	\$ 3,337	\$ 1,392
	=====	=====
Supplemental Cash Flow Disclosure:		
Cash paid for taxes	4	3
Cash paid for interest	34	49
	=====	=====
Non-cash investing and financing activity:		
Note receivable in connection with the sale of assets	-	300
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements

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STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (in thousands, except share and per share data) (unaudited)

1. BACKGROUND:

Business

Strategic Diagnostics Inc. and its subsidiaries (the "Company") develop, manufacture and market immunoassay and bioluminescence-based test kits for rapid and cost-effective detection of a wide variety of substances in the food safety and water quality markets and provides antibody and immunoreagent research, development and production services.

Basis of Presentation and Interim Financial Statements

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission regarding financial reporting. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. In the opinion of management, the accompanying financial statements include all adjustments (all of which are of a normal recurring nature) necessary for a fair presentation of the results of operation.

Revenue Recognition

Product related revenues are composed of the sale of immunoassay-based test kits and the sale of certain antibodies and immunochemical reagents. Revenue from sales of immunoassay-based test kits and certain antibodies and immunochemical

reagents are recognized upon the shipment of the product and transfer of title or when related services are provided. For the six months ended June 30, 2003 and 2002, revenues from these sales represented 77% and 84% of total Company revenues, respectively.

Revenues from sales of certain antibodies and immunochemical reagents are recognized under the percentage of completion method and are recorded based on the percentage of costs or time incurred through the reporting date versus the estimate for the complete contract or project. For the six months ended June 30, 2003 and 2002, revenues from these sales represented 22% and 14% of total Company revenues, respectively.

Contract revenues are recognized upon the completion of contractual milestones. For the six months ended June 30, 2003 and 2002 these sales represented 1% and 2% of total Company revenues, respectively.

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New Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Standard No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" and Statement of Financial Accounting Standard No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and is related to certain derivatives embedded in other contracts and for hedging activities under Statement of Financial Accounting Standard 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and is to be applied prospectively. SFAS No. 149 currently has not had an impact on our financial position, results of operations or cash flows.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for how companies classify and measure, in their statement of financial position, certain financial instruments with characteristics of both liabilities and equities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 currently has not had an impact on our financial position, results of operations or cash flows.

Use of Estimates

The preparation of the consolidated financial statements requires the management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. These estimates include those made in connection with assessing the valuation of accounts receivable, inventories and deferred tax assets. Actual results could differ from those estimates.

2. BASIC AND DILUTED INCOME (LOSS) PER SHARE:

Basic earnings (loss) per share (EPS) is computed by dividing net income or loss available for common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS, except that the dilutive effect of converting or exercising all potentially dilutive securities is also included in the denominator. The Company's calculation of diluted EPS includes the dilutive effect of converting preferred stock and exercising stock options and warrants into common shares. Basic loss

per share excludes potentially dilutive securities.

In the three and six months ended June 30, 2002, the effect of approximately 390,000 and 675,000 equivalent shares, respectively, of stock options and warrants were excluded from the diluted

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shares calculation, because they were anti-dilutive. Listed below are the basic and diluted share calculations.

<TABLE>

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
--	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Average common shares outstanding 17,868,924	18,942,221	17,870,014	18,940,536	
Shares used in computing basic net income (loss) per share 17,868,924	18,942,221	17,870,014	18,940,536	
=====	=====	=====	=====	
Stock options	647,592	-	600,147	
-				
Warrants	1,040	-	1,040	
-				
--	-----	-----	-----	-----
Shares used in computing diluted net income (loss) per share 17,868,924	19,590,853	17,870,014	19,541,723	
=====	=====	=====	=====	

</TABLE>

3. STOCK-BASED COMPENSATION

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123. Under the Company's employee share option plans, the Company grants employee and outside directors stock options at an exercise price equal to the fair market value at the date of grant. No compensation expense is recorded with respect to such stock option grants. Compensation expense with respect to stock awards granted to all others is measured based upon the fair value of such awards and is charged to expense over the vesting period. The following table illustrates the effect on net

income or loss and earnings or loss per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

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Ended	Three Months Ended		Six Months	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
2002				

<S>	<C>	<C>	<C>	<C>
Net income (loss), as reported	\$ 211	\$ (547)	\$ 546	\$
(920)				
Add: Stock-based employee compensation expense				
included in reported net income, net of related				
tax effects	-	-	1	
1				
Deduct: Total stock-based employee compensation				
expense determined under fair value based method				
for all awards, net of related tax effects	(178)	(128)	(319)	
(256)				

Pro forma net income (loss)	\$ 33	\$ (675)	\$ 228	\$
(1,175)				
=====				
Earnings (loss) per share:				
Basic--as reported	\$ 0.01	\$ (0.03)	\$ 0.03	\$
(0.05)				
=====				
Basic--pro forma	\$ -	\$ (0.04)	\$ 0.01	\$
(0.07)				
=====				
Diluted--as reported	\$ 0.01	\$ (0.03)	\$ 0.03	\$
(0.05)				
=====				
Diluted--pro forma	\$ -	\$ (0.04)	\$ 0.01	\$
(0.07)				
=====				

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4. INVENTORIES:

The Company's inventories, which consist primarily of test kit components, bulk serum and antibody products, are valued at the lower of cost or market. Cost is determined using the first in, first out method. At June 30, 2003 and December 31, 2002, inventories consisted of the following:

June 30, 2003 December 31, 2002

Raw materials	\$ 3,213	\$ 2,969
Work in progress	751	911
Finished goods	2,687	2,941
	-----	-----
	\$ 6,651	\$ 6,821
	=====	=====

5. INTANGIBLE ASSETS:

	June 30, 2003	December 31, 2002
	-----	-----
Goodwill	\$ 5,168	\$ 5,168
Other	2,730	2,730
Less - accumulated amortization	(914)	(832)
	-----	-----
Net intangible assets	\$ 6,984	\$ 7,066
	=====	=====

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6. DEBT:

On May 5, 2000, the Company entered into a financing agreement with a commercial bank. This agreement provides for a \$4,000 term loan, all of which had been paid on or before December 31, 2002, and for a revolving line of credit with availability of up to \$5,000, based on eligible assets, none of which was outstanding and approximately \$2,935 of which was available at June 30, 2003.

The revolving line of credit bears a variable interest rate of between 1.75% and 2.75% over LIBOR depending upon the ratio of the Company's funded debt to EBITDA, and is subject to a borrowing base determined by the Company's eligible accounts receivable. The Company's annual effective rate of interest on this line of credit, taking into account the variable interest rate and LIBOR, was approximately 4.07% at June 30, 2003.

On December 13, 2001 the Company entered into an agreement with a commercial bank to finance the construction of new facilities at its Windham, Maine location. This agreement provides for up to \$1,500 in financing, \$1,299 of which was outstanding at June 30, 2003, and is repayable over seven years, with principal payments having begun on October 1, 2002. The loan bears a variable interest rate of between 2.0% and 3.0% over LIBOR depending upon the ratio of the Company's funded debt to EBITDA. Payments are due monthly, with equal amortization of principal payments plus interest. The Company's annual effective rate of interest on this loan at June 30, 2003 was approximately 4.32%.

Under the terms of the above financing, the Company is required to meet certain quarterly financial covenants. The Company was in breach of certain of these financial covenants for all four quarters during 2002, and has received a waiver and suspension of these loan covenants for all four quarters of 2002. The loan covenants were modified to a minimum quick ratio (cash and cash equivalents plus accounts receivable divided by total current liabilities) of 2.25 and a minimum tangible net worth ratio (total stockholders' equity less intangible assets) of \$22,500 for the first three quarters of 2003. Beginning with the fourth quarter of 2003, the original provisions of the loan agreement regarding financial covenants will be operative, namely a ratio of EBITDA to current maturities of debt plus interest and cash paid for taxes and a ratio of funded debt to EBITDA. The Company was in compliance with the minimum quick ratio and minimum tangible net worth requirements at June 30, 2003 and expects to be in compliance with the relevant financial covenants at the applicable measurement dates throughout 2003.

As of June 30, 2003, the outstanding balance on all of the Company's commercial bank debt was approximately \$1,299. This indebtedness is secured by

substantially all of the Company's assets.

In March 2003, the Company entered into an agreement to finance its 2003 insurance premiums with a commercial lender. The agreement provides for \$329 in insurance premium financing, of which approximately \$185 was outstanding at June 30, 2003. Payments are due in nine equal monthly payments ending November 1, 2003. This insurance premium loan bears a fixed annual interest rate of 5.82%.

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7. GAIN ON SALE AND DISPOSAL OF ASSETS:

In March 2002, the Company sold most of the remaining assets of its antibody production facility near San Diego, California. The Company received proceeds of \$600 for the sale of the property, which included a \$300 cash payment and a one-year note from the purchaser for the remaining \$300. The note carried an interest rate of 5% annually, and was payable in three monthly installments of interest only payments, with the balance being paid over an additional nine months of principal and interest payments. The note was repaid in full in August 2002. The Company recorded a gain on sale of \$131, which represents the amount the Company received above the carrying value of the assets sold.

In March 2002, the Company reached an agreement with its insurance carrier in settlement of costs related to a building fire on its Maine property. The Company has received proceeds of \$359 and is carrying an additional \$19 on its balance sheet in accounts receivable as an amount due for the balance of the insurance settlement. The Company recorded a gain on disposal of \$243, which represents the amount the Company received above its investment in the assets destroyed.

8. ACQUISITIONS:

On July 8, 2002, the Company purchased certain assets of Molecular Circuitry, Inc. ("MCI"). The purchased assets consist primarily of various proprietary media technology that will be used in combination with the Company's new diagnostic tests for food-borne pathogens including Salmonella and E. coli. The assets purchased also include the sales and marketing rights to the ruminant feed test product line that the Company and MCI had been jointly developing in collaboration with McDonald's Corporation.

In consideration for these and other related assets, the Company issued to MCI 600,000 unregistered shares of the Company's common stock with a value of \$4.17 per share or \$2,502 in the aggregate, computed by averaging the closing price of the Company's common stock for the period beginning on the two business days before the acquisition and ending two business days after the acquisition. In addition the Company will also pay MCI a continuing royalty for ten years on sales of specified products and/or components of products, which will be charged to operations if and when incurred.

The assets of MCI were valued by AUS Consultants Valuation Services of New Jersey (AUS). AUS determined the value of the assets purchased to be \$261 in laboratory equipment (tangible assets) and approximately \$2,280 for the intellectual and property rights to the MCI developed Express Media, Chromagenic Media and Ruminant Feed Test product lines (intangible assets).

The intangible assets were valued using the income approach. This method estimates market value as the present value of future economic benefits to be derived from the exploitation of these assets or product lines. This methodology requires a forecast of net cash flow from each product line, an estimate of the relative risk of achieving that income stream, and an estimate as to the duration of the income. An economic life of twenty years was used in the above calculations utilizing a discount rate of approximately 25%.

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

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements reflecting the current expectations of Strategic Diagnostics Inc. and its subsidiaries (the "Company"). When used in this Form 10-Q, the words "anticipate", "enable", "estimate", "intend", "expect", "believe", "potential", "may", "will", "should", "project" and similar expressions as they relate to the Company are intended to identify said forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainties, which may cause actual results to differ from those anticipated at this time. Such risks and uncertainties include, without limitation, changes in demand for products, delays in product development, delays in market acceptance of new products, retention of customers, attraction and retention of management and key employees, adequate supply of raw materials, the successful integration and consolidation of the Maine production facilities, inability to obtain or delays in obtaining third party approvals, including American Organization of Analytical Chemists Research Institute ("AOAC"), or required government approvals, the ability to meet increased market demand, competition, protection of intellectual property, non-infringement of intellectual property, seasonality, the ability to obtain financing and other factors more fully described in the Company's public filings with the U.S. Securities and Exchange Commission.

Background

The Company develops, manufactures and markets immunoassay and bioluminescence-based test kits for rapid and cost-effective detection of a wide variety of substances in the food safety and water quality markets, and also provides antibody and immunoreagent research, development and production services.

Since its inception, the Company and its predecessors have, in addition to conducting internal research and development of new products, entered into research and development agreements with multiple partners that have led to the introduction of various products to the food safety, water quality and other markets. The Company believes that its competitive position has been enhanced through the combination of talent, technology and resources resulting from the relationships it developed and the acquisitions it concluded during the past five years. These relationships and acquisitions have enabled the Company to achieve meaningful economies of scale for the unique products it offers through the utilization of its consolidated facilities in Newark, Delaware, for the manufacture of test kits and antibodies, its facility located in Oceanside, California, for the manufacture of instruments, and its facility located in Windham, Maine for the manufacture of antibodies.

On July 8, 2002, the Company purchased certain assets of Molecular Circuitry, Inc. (MCI). The purchased assets consist primarily of various proprietary growth media technology that are used in combination with the Company's diagnostic tests for food-borne pathogens, including Salmonella and E. coli. The assets purchased also include the sales and marketing rights to the ruminant feed

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test product line that the Company and MCI had been jointly developing in collaboration with McDonald's Corporation. In consideration for these and other related assets, the Company issued to MCI 600,000 unregistered shares of the Company's common stock with a value of \$4.17 per share, or approximately \$2.5 million in the aggregate. The per share price was computed by averaging the closing price of the Company's common stock on the Nasdaq National Market for

the period beginning two business days before the acquisition and ending two business days after the acquisition, plus an additional \$40,000 in transaction-related costs. In addition, the Company will pay MCI a continuing royalty for 10 years on sales of specified products and/or components of products, which royalty will be charged to operations if and when incurred.

On September 28, 2001, the Company acquired AZUR Environmental (AZUR), a privately-held manufacturer of proprietary rapid test systems, including the Microtox(R) toxicity test system, which measures toxicity in drinking and process water. Mentioned in more than 500 peer-reviewed scientific articles and with more than 1,700 instruments sold worldwide, the Microtox(R) toxicity test system has been approved in regulations or standards in Canada, eight European countries, and has been submitted to the U.S. Environmental Protection Agency for approval. Under the terms of the merger agreement with AZUR, the Company issued 700,000 shares of Series C preferred stock, with a fair market value of approximately \$3.0 million in the aggregate, as determined by an independent valuation firm. On November 2, 2001 the 700,000 Series C preferred shares were automatically converted into 700,000 shares of the Company's common stock in accordance with their original terms.

With the 1999 acquisitions of HTI BioProducts, Inc. and certain assets of Atlantic Antibodies, the Company formed Strategic BioSolutions (SBS), which has since become one of the largest producers of antibodies in the United States. The mission of Strategic BioSolutions is to supply monoclonal and polyclonal antibodies, immunochemical reagents and related services to medical diagnostic and pharmaceutical companies, as well as research institutions.

Results of Operations

Three Months Ended June 30, 2003 vs. June 30, 2002

Net revenues for the second quarter of 2003 were \$6.4 million versus \$5.6 million in the second quarter of 2002, an increase of \$841,000 or 13%.

Food safety revenues in the second quarter of 2003 increased 4%, to \$1.3 million from \$1.2 million in the second quarter of 2002. Food pathogen test sales, lead by E. Coli, grew significantly during the quarter, both as a result of existing customers expanding their orders and new customers adopting the technology. Salmonella product evaluations are ongoing and early indications are that the Company's product has been able to demonstrate value where on-site rapid time-to-results are critical. The Company is continuing its efforts to bring automation for the high-end of its target market. To this end, the Company and Bayer HealthCare, LLC have signed an agreement for the Company to distribute a version of a Bayer instrument that will be modified to read the Company's immunoassay test strips. Overall, the Company expects pathogen product sales to increase in the second half of the year and beyond.

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Sales of the Company's products to detect genetically modified (GM) traits declined in the second quarter 2003 compared to the second quarter 2002, due to the continued reduction in StarLink(TM) sales. Comparing the second quarter 2003 to the first quarter 2003, the rate of decline in Starlink(TM) sales has slowed to the mid single digits, and it is expected these sales will continue to decline at a similar rate for the balance of 2003. Sales of grain, non-Starlink(TM) tests continue to grow. The Company has seen the introduction of new commercial products by its partners, including traits to protect corn crops from the corn rootworm, a pest more prevalent than the European corn bore and herbicide resistant corn. The Company has developed, validated and begun to sell tests to detect these traits. While the Company expects small volumes in the first year, it anticipates sales will grow as these products gain acceptance in 2004 and thereafter. The USDA Grain Inspection Packers and Stockyards Administration (GIPSA) recently certified the performance claims of the Company's TraitChek(TM) lateral flow strip tests for the detection of Cry1F

Herculex(TM) I and Cry3Bb YieldGard(R) Rootworm, and the Company continues to maintain its leadership position with the most comprehensive set of on-site rapid immunoassay-based analytical methods.

Also in June 2003, the European Union adopted new labeling regulations that may result in additional demand for the testing of grain produced in the U.S. for export. These new regulations are expected to motivate food manufacturers to re-evaluate corporate policies with regard to GM traits in food and feed, and may require additional testing to verify the presence or absence of GM traits.

In May 2003, the first case of "mad cow" disease was identified in North America. As a result, policy concerning mad cow disease is in a rapid state of change. Regulatory and commercial policy evaluations have been started to establish best practices for the prevention of contamination of the beef supply. While these conditions are likely to result in demand for testing, virtually all of the Company's sales activities are currently centered on supporting policy evaluations in North America. Separately, the Company is also concentrating its efforts to bring its FeedCheck(TM) products to the European market. The Company is actively promoting the features and benefits of its technology to the feed and food industries there and the Company is encouraged by the industry's willingness to evaluate its technology and products.

Water quality revenues increased 17% to \$2.1 million in the second quarter 2003 compared to \$1.8 million in the second quarter 2002. The Company continues to work with drinking water utilities as they assess their vulnerability to chemical contamination. The Company's participation in the EPA's Environmental Technology Verification (ETV) program to formally evaluate Microtox(R) for drinking water protection, and the Company's collaboration with the U.S. Navy to further evaluate and develop the capabilities of the Deltatox(R) system for toxin detection, are ongoing with results expected in the fourth quarter of 2003.

The development of the Microtox(R) system for use in the food and beverage industry remains an exciting opportunity, but is currently in the early stages of product evaluation. A key validation among four important food companies has been initiated and the Company expects these to be completed by the early fourth quarter of 2003. Predicting the incremental impact of these evaluations on the second half 2003 results, if any, is very difficult, but the food industry appears

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to be interested in the Company's technology for screening the quality of water used in their production processes.

Antibody revenues increased 24% to \$3.0 million in the second quarter of 2003 compared to \$2.4 million in the second quarter 2002. This increase continues to reflect the benefits of the consolidation of the production facilities completed in 2002, which has attracted additional business. The Company expects antibody revenue for the second half of 2003 to remain at the pace experienced in the first half of 2003.

The Company did not record any contract and other revenues in the second quarter 2003 compared to \$105,000 in the second quarter 2002, as the Company continued to place greater emphasis on devoting research and development resources on internal projects.

Gross profits (total revenues less manufacturing costs) increased \$895,000, or 34%, to \$3.6 million in the second quarter of 2003 compared to \$2.7 million in the same quarter of 2002, and gross margin percentages increased to 55% in the second quarter 2003 as compared to 48% for the same quarter in 2002. The increase in gross profits was primarily driven by the increase in product sales for the quarter and six months and lower manufacturing expenses.

Manufacturing expenses decreased \$54,000, or 2%, to \$2.9 million for the second quarter of 2003 compared to the second quarter of 2002. The decrease was primarily driven by benefits realized from the consolidation of the California antibody production facility into the Maine location, which was completed in 2002, and by the Company's initiatives taken in the fourth quarter 2002 and early in the first quarter 2003 to leverage its manufacturing capacity and improve production yields.

Research and development expenses decreased \$270,000, or 30% to \$618,000 in the second quarter of 2003 compared to \$888,000 in the second quarter 2002, primarily due to higher expenses in the prior year associated with the development efforts of the Company's food pathogen and animal feed test.

During the second quarter 2003, Bayer AG notified SDI of its termination of the Supply Agreement between Bayer and SDI. Bayer informed the Company that the device, developed by SDI and used by Bayer in its clinical study, as presently designed, does not meet the anticipated commercial requirements, principally due to the short shelf life of the screening test. Efforts to lengthen the shelf life would require modifications to Bayer's product development protocol, which could result in a substantial delay in the preparation of Bayer's New Drug Application. The Company does not expect that this will have a material financial impact on its results of operations for the year.

Selling, general and administrative expenses decreased \$66,000, or 2% to \$2.6 million for the second quarter of 2003 compared to \$2.7 million in the second quarter 2002, primarily due to the actions taken by the Company in late 2002 and early 2003 to streamline its operations and the effect of the consolidation of its antibody facilities in Maine, which was completed in 2002. Included in the selling, general and administrative expenses of \$2.6 million for the second quarter

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2003 is a \$315,000 provision for severance and related expenses associated with the Company's termination of its former CEO in May 2003.

Interest expense decreased 35% to \$11,000 in the second quarter of 2003 from \$17,000 in the second quarter of 2002. This decrease is primarily attributable to the lower levels of outstanding debt during the 2003 period.

Income before taxes totaled \$309,000 in the second quarter 2003 compared to a loss before taxes of \$928,000 in the second quarter 2002. Net income totaled \$211,000 in the second quarter 2003 compared to a net loss of \$547,000 in the second quarter 2002.

Six Months Ended June 30, 2003 vs. June 30, 2002

Net revenues for the six months ended June 30, 2003 were \$12.9 million versus \$11.3 million in the six months ended June 30, 2002, an increase of \$1.6 million or 12%. Food safety revenues in the six months ended June 30, 2003 increased 13%, to \$3.0 million from \$2.7 million in the six months ended June 30, 2002, as the Company saw stronger demand for both food pathogen and GM trait tests. Water quality revenues increased 12% to \$3.8 million in the second quarter 2003 compared to \$3.4 million in the second quarter 2002, as the Company saw higher sales of the Microtox toxicity screening systems and the Company's pollutant and pesticide tests. Antibody revenues increased 21% to \$6.0 million in the six months ended June 30, 2003 compared to \$5.0 million in the second quarter 2002, which reflects the results of several new or expanded relationships established in 2002 as customers and prospects had the opportunity to validate manufacturing and quality procedures at our expanded manufacturing facilities in Maine. Contract and other revenues in the second quarter 2003 decreased to \$115,000 in the six months ended June 30, 2003 compared to \$282,000 in the second quarter 2002, as the Company continued to place greater emphasis on devoting research and development resources on internal projects.

Gross profits (total revenues less manufacturing costs) increased \$1.9 million, or 36%, to \$7.2 million in the six months ended June 30, 2003 compared to \$5.3 million in the same quarter of 2002, and gross margin percentages increased to 56% for the six months ended June 30, 2003 compared to 47% for the six months ended June 30, 2002. The increase in gross profits was primarily driven by the increase in product sales and lower manufacturing expenses for the six months ended June 30, 2003, when compared to the six months ended June 30, 2002.

Manufacturing expenses decreased \$312,000, or 5%, to \$5.7 million for the six months ended June 30, 2003 compared to \$6.0 million for the six months ended June 30, 2002. The decrease was primarily driven by benefits realized from the consolidation of the California antibody production facility into the Maine location, which was completed in 2002, and by the Company's initiatives taken in the fourth quarter 2002 and early in the first quarter 2003 to leverage its manufacturing capacity and improve production yields.

Research and development expenses decreased \$310,000, or 19%, to \$1.3 million for the six months ended June 30, 2003 compared to \$1.6 million for the six months ended June 30, 2002, primarily due to higher expenses in the prior year associated with the development efforts of the Company's food pathogen and animal feed test.

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Selling, general and administrative expenses decreased \$502,000, or 9%, to \$5.0 million for the six months ended June 30, 2003 compared to \$5.5 million for the six months ended June 30, 2002, primarily due to the actions taken by the Company in late 2002 and early 2003 to streamline its operations and the effect of the consolidation of its antibody facilities in Maine, which was completed in 2002. Included in the selling, general and administrative expenses of \$5.0 million for the six months ended June 30, 2003 is a \$315,000 provision for severance and related expenses associated with the Company's termination of its former CEO in May 2003.

Interest expense decreased 30% to \$23,000 in the six months ended June 30, 2003 from \$33,000 in the six months ended June 30, 2002. This decrease is primarily attributable to the lower levels of outstanding debt during the 2003 period.

Income before taxes totaled \$821,000 for the six months ended June 30, 2003 compared to a loss before taxes of \$1.5 million for the six months ended June 30, 2002. Net income totaled \$546,000 for the six months ended June 30, 2003 compared to a net loss of \$920,000 for the six months ended June 30, 2002.

Liquidity and Capital Resources

Net cash provided by operating activities of \$1.2 million for the six months ended June 30, 2003 compared favorably to net cash used in operating activities of \$1.8 million in the six months ended June 30, 2002. The improvement was primarily the result of the turnaround from a pretax loss in the six months ended June 30, 2002 of \$1.5 million to a pretax income of \$821,000 in the first six months of 2003.

The Company's working capital, current assets less current liabilities, increased to \$13.5 million at June 30, 2003, compared to \$12.5 million at December 31, 2002. Outstanding debt increased \$61,000 from \$1.4 million at December 31, 2002 to \$1.5 million on June 30, 2003, primarily due the Company entering into an agreement to finance its 2003 insurance premiums with a commercial lender, less scheduled repayments under both the premium financing arrangement and the Company's bank term debt.

On May 5, 2000, the Company entered into a financing agreement with a commercial bank. This agreement provides for a \$4 million term loan, all of which had been paid on or before December 31, 2002, and for up to a \$5 million revolving line

of credit, none of which was outstanding and approximately \$2.2 million of which was available at December 31, 2002. On December 13, 2001 the Company entered into an agreement with a commercial bank to finance the construction of new facilities at its Windham, Maine location. This agreement provided for up to \$1.5 million in financing, of which approximately \$1.3 million was outstanding at June 30, 2003, and is repayable over seven years, with principal payments beginning on October 1, 2002. Under the terms of the financings, the Company is required to meet certain quarterly financial covenants. The Company was in breach of certain of these financial covenants for all four quarters during 2002, and has received a waiver and suspension of these loan covenants for all four quarters of 2002. Also, the loan covenants have been modified to a quick ratio and tangible net worth ratio for the first three quarters of 2003. Beginning with the fourth quarter of 2003, the original provisions of the loan

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agreement regarding financial covenants will be operative, namely a ratio of EBITDA to current maturities of debt plus interest and cash paid for taxes and a ratio of funded debt to EBITDA. At June 30, 2003, the Company met the quick ratio and tangible net worth ratio with respect to this indebtedness and expects to be in compliance with the various financial covenants throughout 2003.

The Company believes it has, or has access to sufficient resources to meet its operating requirements for the foreseeable future. The Company's ability to meet its long-term capital requirements will depend on a number of factors, including compliance with existing and new loan covenants, the success of its current and future products, the focus and direction of its research and development program, competitive and technological advances, future relationships with corporate partners, government regulation, the Company's marketing and distribution strategy and the success of the Company's plan to make future acquisitions. Accordingly, no assurance can be given that the Company will be able to meet the future liquidity requirements that may arise from these inherent and similar uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has exposure to changing interest rates, and is currently not engaged in hedging activities. Interest on approximately \$1.3 million of outstanding indebtedness is at a variable rate of between 2% to 3% over the published London Interbank Offered Rate (LIBOR), based upon the Company's ratio of funded debt to EBITDA, and was 3% over LIBOR on average for the year. At the Company's current level of indebtedness, each 1% change in the variable interest rate will have an effect of \$13,000 on the Company's annual interest expense charges.

The Company conducts operations in United Kingdom. The consolidated financial statements of the Company are denominated in U.S. dollars and changes in exchange rates between foreign countries and the U.S. dollar will affect the translation of financial results of foreign subsidiaries into U.S. dollars for purposes of recording the Company's consolidated financial results. Historically, the effects of translation have not been material to the consolidated financial results.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us

in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 5. Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of stockholders on April 29, 2003. At the meeting, the following Class I Directors were elected for a term of two years:

Directors -----	Shares Voted For -----	Shares Withheld -----
Richard C. Birkmeyer	17,463,532	68,052
Morton Collins	17,463,698	67,886
Kathleen E. Lamb	17,463,698	67,886
Grover C. Wrenn	16,667,531	864,053

Richard J. Defieux, Herbert Lotman, Timothy S. Ramey and Stephen L. Waechter constitute the Class II directors whose terms continued after the annual meeting. On July 7, 2003, Richard C. Birkmeyer resigned from the Company's Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certifications of the Chief Executive Officer of Strategic Diagnostics Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).

31.2 Certifications of the Chief Financial Officer of Strategic Diagnostics Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934 (filed herewith).

32.1 Certifications of the Chief Executive Officer of Strategic Diagnostics Inc. required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (filed herewith)

32.2 Certifications of the Chief Financial Officer of Strategic Diagnostics Inc. required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (filed herewith)

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(b) Reports on Form 8-K

On April 24, 2003, the Company filed a report on Form 8-K pursuant to Item 7 and Item 9 announcing first quarter 2003 financial results.

On May 20, 2003, the Company filed a report on Form 8-K pursuant to Item 7 and Item 9 announcing the termination of Richard C. Birkmeyer as President and Chief Executive Officer.

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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.

STRATEGIC DIAGNOSTICS INC.

Date:	August 14, 2003 -----	/s/ Arthur A. Koch, Jr. ----- Arthur A. Koch, Jr. President, Chief Executive Officer (Principal Executive Officer)
Date:	August 14, 2003 -----	/s/ Stanley J. Musial ----- Stanley J. Musial Vice President - Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

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