

CLARION TECHNOLOGIES INC/DE/  
Form 10-K  
March 25, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 25, 2004

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 0-24690

CLARION TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

91-1407411

(I.R.S. Employer Identification No.)

38 W. Fulton, Suite 300, Grand Rapids, Michigan

(Address of principal executive offices)

49503

(Zip Code)

Registrant's telephone number, including area code: (616) 454-0055.

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

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

Common Stock, \$.001 PAR VALUE

Name of Each Exchange or

Over-the-Counter Bulletin Board

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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.

(Mark One)

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

As of June 26, 2004, the aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing sales price for the registrant's common stock as reported on the OTC Bulletin Board, was \$10,469,834.

As of March 25, 2005, the number of shares outstanding of registrant's common stock was 45,301,917.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These include statements about our business outlook, assessment of market and economic conditions, strategies, future plans, anticipated costs and expenses, capital spending, and any other statements that are not historical. The accuracy of these statements is subject to a number of risks, uncertainties, and assumptions that may cause our actual results to differ materially from our expectations. In addition to the specific factors that may be described in connection with any particular forward-looking statement, factors that could cause actual results to differ from our expectations, include, among other things:

The activity of our competitors and the impact of such activity on production capacity and customer demand across custom injection molding markets;

Changes in general economic conditions, including the levels of interest rates and consumer spending;

Market demand for our products, which may be tied to the relative strength of various business segments. For instance, the level of automotive sales may affect customer demand for injection molded parts;

The performance of our manufacturing operations and the amount of capital required to maintain these operations;

Changes in the banking markets, which can affect the cost of our financing activities;

The effect of changes in government regulations, tax requirements and new accounting policies;

Changes in the price or availability of raw materials, including energy and resin;

Acts of war or terrorist activities; and

Fires, floods, and other catastrophic events beyond our control.

We cannot determine which, if any, of these factors might affect the expectations we have made in this filing. We undertake no obligation to update any of the forward-looking statements within this filing after the date of this report.

**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS.**

**BUSINESS DEVELOPMENT**

We are a full-service custom injection molder, providing services to a diverse base of customers in the automotive and consumer goods industries.

In 1998, we developed a business strategy that focused on the highly fragmented plastic injection-molding industry with the intent of creating, primarily through acquisitions, a significant full-service custom injection molder to the automotive, heavy truck, and consumer goods industries. Between 1997 and the end of fiscal 2000, we completed six acquisitions that added injection molding plants, assets and services to our operations. During fiscal 2002, we exited the heavy truck industry with the sale of our Montpelier, Ohio facility. During fiscal 2003, we acquired machinery and equipment in Pella, Iowa and began operating two facilities in that location. These two facilities were leased on a short term basis. In 2004, we began leasing a larger facility in Ames, Iowa to accommodate additional business. The Ames location will allow us to exit both Pella facilities by the middle of 2005. In addition, in response to customer requirements, we expect to begin operating a facility in Mexico in 2005. This facility will be in close proximity to our customer.

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During 2004, we continued to grow our business as our revenues grew over 20% from 2003 levels. We generated this increase by growing our relationship with our key customers and by adding additional manufacturing capacity in Iowa to accommodate additional business. We also continued to adjust our cost structure to reduce manufacturing costs, including improving our efficiency in the use of raw materials and scrap, and reducing or maintaining our overall overhead costs. We believe our current cost structure has positioned the Company to be the lowest cost manufacturer to our current customer base which provides a further competitive advantage.

While we have expanded our operations into Iowa, in order to take advantage of important new sales opportunities, we have attempted to further improve our cost structure by disposing of our South Haven, Michigan facility and consolidate those operations with our Caledonia, Michigan operations. The sale of the South Haven facility was completed on January 31, 2005 for a total sales price of approximately \$1,600,000. We will lease that facility for the balance of 2005 as we transition those operations to our Caledonia facility.

On December 27, 2002, we completed a restructuring with our senior subordinated lenders in which principal and related accrued interest totaling \$37,770,000 were converted into 37,770 shares of Series A Preferred Stock. The remaining outstanding principal and related accrued interest totaling \$10,000,000 were converted into new senior subordinated notes in the aggregate principal amount of \$10,000,000 due June 30, 2007. Our senior subordinated debt now bears interest at the rate of 15% per annum, rather than 12% per annum. According to the terms of these notes as amended in April 2004, payment of that interest is deferred until the Company maintains the fixed charge ratio stipulated in the amendment for four consecutive quarters. Deferred and accrued interest are capitalized.

On April 14, 2003, we refinanced our senior debt. The \$14,500,000 term loan portion of our new senior credit facility matures on April 30, 2007, and the \$10,000,000 revolving line of credit matures on April 14, 2005. At December 25, 2004, our outstanding senior debt consisted of \$6,850,000 outstanding on the revolving line of credit and \$11,133,000 outstanding on the term loan. We fully expect that our revolving line of credit will be renewed in the ordinary course of business.

The terms of our Electrolux note were also modified on April 14, 2003; as of that date, the outstanding amount was \$4,300,000. At December 25, 2004, the outstanding principal amount of the Electrolux note was \$1,200,000. The Electrolux note will mature on September 30, 2005, bears interest at 12% per annum and is payable monthly.

Our common stock is registered with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. The Sarbanes-Oxley Act of 2002 (Act) provided for certain changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets. As of December 25, 2004, we have complied with all requirements of the Act.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge through our website at [www.clariontechnologies.com](http://www.clariontechnologies.com) as soon as reasonably practicable after filing with the SEC.

Our principal corporate offices are located at 38 W. Fulton, Suite 300, Grand Rapids, Michigan 49503, and our telephone number at these offices is 616-454-0055. References in this document to fiscal 2004, fiscal 2003 and fiscal 2002 refer to our fiscal years ended December 25, 2004, December 27, 2003, and December 28, 2002, respectively.

## **BUSINESS OF THE ISSUER**

### **General**

We are a full-service custom injection molder, providing mold design and engineering services, mold manufacturing, injection molding, and post-molding assembly to a diverse base of customers in the automotive and consumer goods industries. We produce injection molded plastic products for our customers on a contract basis and do not sell proprietary products to the general marketplace.

### **Business Strategy**

Our strategy is to grow the business primarily through internal growth that may be complemented by strategic acquisitions. We believe that internal growth will be accomplished by expanding sales and increasing throughput in our current injection molding plants or in new facilities located in close proximity to our significant customers. Our goal for increasing sales is to provide injection molded products and services that meet and exceed industry standards. We are focusing on being the low cost quality producer while providing niche products and value added services, allowing our customers to concentrate on their primary product strategies. Our growth is focused on expanding our relationship with our current large customers as well as pursuing new customers in order to diversify our sales base.

### **Business**

We manufacture complex, highly engineered thermoplastic parts and provide post-molding secondary services with respect to those parts. Thermoplastic parts are manufactured out of plastic resins that are capable of softening or fusing when heated and hardening again when cooled. We manufacture parts primarily for the following industries:

Automotive

Consumer Goods

We manufacture only custom parts based on customer specifications and, therefore, are generally the exclusive source of supply for the product being sold to the customer, although customers generally use additional molders for other parts. In addition, we offer value added post-molding secondary services to our customers, including assembly and on-line packaging.

Certain developments in markets served by us have created growth opportunities for suppliers of plastic parts. Efforts to reduce weight, enhance design flexibility and reduce costs have resulted in the substitution of plastic for wood, glass, paper, metal and other materials in numerous applications. In addition, original equipment manufacturers are continuing to outsource not only the manufacture, but the assembly of plastic parts to qualified suppliers. Original equipment manufacturers are consolidating their purchases with larger, integrated component suppliers that possess full-service capabilities for all functions from mold design through post-molding assembly and finishing operations. We believe that our technical expertise with respect to plastic resins and injection molding technology, and our capacity for full service, high-quality response to the needs of customers will enable us to grow as a result of these market dynamics.

### **Markets and Products**

We produce plastic parts for our customers that operate principally in the automotive and consumer goods markets. The majority of our sales are made to companies domiciled in the United States. The following table summarizes each of our markets as a percentage of total sales for the fiscal years stated:

**% of Sales**

|                | <b>Fiscal 2004</b> | <b>Fiscal 2003</b> | <b>Fiscal 2002</b> |
|----------------|--------------------|--------------------|--------------------|
| Automotive     | 25%                | 32%                | 48%                |
| Consumer Goods | 75%                | 68%                | 50%                |

The products we produce include automotive interior and exterior trim parts, components of door panels, office chair components and home appliance parts such as parts for refrigerators. We also provide program management, industrial design, engineering, prototyping and tooling from concept through delivery of complete assemblies. In the automotive market, many of the products that we supply to customers require our value added services such as assembly.

**Operations**

We are primarily a company that provides our customers with plastic injection molding, post-molding assembly and finishing operations. Through the outsourcing of certain services, we also provide our customers with complex rapid prototyping, design and engineering services. We also provide certain of these services directly. By outsourcing certain services, we can cost effectively provide the ability to produce concept models, appearance models, engineering prototypes and pre-production samples. We believe, therefore, that we provide our customers with full service solutions, including access to modern design and machining equipment, including CAD/CAM systems, translators and plotters, electrical discharge machining equipment and miscellaneous support equipment.

We have eight manufacturing facilities located in the United States that are full service custom injection molding plants with post-molding secondary operations. Our current facilities collectively house 174 horizontal injection-molding machines with capacities ranging from 55 tons to 1,500 tons of clamping force. Each machine utilizes a computerized process controller that continuously monitors key process parameters on a real time basis and signals the operator if any parameter falls outside predetermined statistical limits. The injection molding process is supported by automated systems for raw material drying, conveying and regrinding. All of our plants have received TS 16949 certification with the exception of our Iowa facilities which started production in December of 2003.

We offer our customers value added post-molding secondary services, including ultrasonic inserting and welding, heat staking, solvent bonding, finishing, machining, assembly and on-line packaging. These important services support customers' requirements for subassembled components, which provide cost savings and manufacturing efficiencies.

**Sales and Marketing**

We currently market our services on a regional basis through direct sales activities. We occasionally utilize independent manufacturer's representative organizations. Our strategy is to grow our existing customer base through innovative solutions and value added services. In addition, we intend to continue to develop products for manufacturers in our target industries.

Our engineering staff assists our sales efforts in the design and manufacture of products to customer specifications, including providing full service design, build and management for the development of tooling, parts and assembly. We believe our program management focus promotes our early involvement with customer engineering to enable maximum benefit in product and tooling design to insure superior manufacturing and part quality standards.

**Customers**

In fiscal 2004, we had two customers, Electrolux Home Products, Inc. (Electrolux) and Plastech Extended Enterprises, Inc., each of which accounted for more than 10% of our consolidated net sales, and together which accounted in the aggregate for approximately 78% of consolidated net sales. The loss of Electrolux as a customer would have a material adverse effect on the Company's results of operations and financial condition. Because of the importance of new vehicle sales by the major automotive manufacturers to our operations, our business is affected by general business conditions in this industry. Our operations are also dependent to a certain degree on the general economic climate in the appliance and other markets in which we sell product. Our customers generally place orders for goods based on their production requirements for the following three to four months, with a non-binding estimate of requirements over six to eight months. Management believes that the relatively long production cycles for our customers make these estimates reliable.

## Competition

The national plastic injection-molding industry is highly fragmented and characterized by intense competition. Our actual competitive market, however, is regional due to the significant impact of freight costs. Within the regions where we operate, there are many suppliers of plastic injection molded components. We believe that none of our competitors have a dominant position in the market, although several of them have, or may have, greater financial and other resources than we do.

We believe that our primary strengths include our competitive cost structure, our ability to maintain superior product quality and our ability to deliver finished products on a just-in-time or scheduled lead time basis as a direct result of our physical location to our customers.

## Suppliers and Raw Materials

The primary raw materials used to produce the majority of our products are plastic resins, primarily polycarbonate, polyethylene and polystyrene. We select our suppliers primarily on the basis of quality, price, technical support and service. However, in many instances, the customer specifies the suppliers that we must use. Virtually all of the plastic resins used in our operations are manufactured within the United States. Although the plastics industry has from time to time experienced shortages of plastic resins, to date we have not experienced any difficulties with shortages. We believe that there are adequate vendor sources available to meet our raw material needs.

Our financial performance is dependent to a substantial extent on the plastic resin market. The primary plastic resins used by us are produced from petrochemical feedstock mostly derived from natural gas liquids. Supply and demand cycles in the petrochemical industry, which are often impacted by OPEC policies, can cause substantial price fluctuations. Consequently, plastic resin prices may increase as a result of changes in natural gas liquid prices and the capacity, supply and demand for resin and petrochemical feedstock from which they are produced.

We are not a significant purchaser of plastic resin in the United States and, therefore, are not able to achieve significant discounts from market prices for volume purchases. However, a common arrangement with some of our largest customers is to purchase raw materials under contracts with terms that have been negotiated by that customer.

In many instances we have been able to pass through changes in the cost of our raw materials to customers in the form of price increases. However, there is no assurance that we will be able to continue such pass throughs, or that the timing of such pass throughs will coincide with our increased costs. To the extent that increases in the cost of plastic resin cannot be passed on to customers, or that the duration of time lags associated with a pass through becomes significant, such increases may have an adverse impact on our gross profit margins and our overall profitability.

## Working Capital

We do not believe that we or the plastic injection molding industry in general have any special practices or special conditions affecting working capital items that are significant for understanding our business.

## Backlog

We have understandings with several of our major customers whereby the customers discuss long-range quantities and sales expectations for periods up to 12 months. Quantity expectations are given to us and once a part is approved for production, we begin production and fully expect that we will continue such production for the life of the product. The customer will typically provide volume indications for the next six to eight weeks with a purchase order for quantities for the next 30 days. While we fully expect that our customers intend to have us provide production for the products for which we have production indications, the customers rarely give irrevocable commitments. Accordingly, due to the close cooperation and collaboration with the customer, we believe that there will be continuing involvement with our customers in the production of their products. We do not, however, consider our open orders at any time to be fully indicative of future business activity.

**Environmental and Safety Matters**

Our operations are subject to certain federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. While historically we have not had to make significant capital expenditures for environmental compliance, we cannot predict with any certainty our future capital expenditures for environmental compliance because of continually changing compliance standards and technology.

We routinely monitor environmental compliance at all of our manufacturing facilities. The cost of such compliance is not significant. We are not currently subject to any environmental proceedings. During fiscal 2004, we did not make any significant capital expenditures for environmental control facilities, nor do we anticipate any such expenditures in the near future. Actions by federal, state and local governmental agencies concerning environmental matters could result in laws or regulation that could increase the cost of producing the products manufactured by us or otherwise adversely affect the demand for our products.

We do not have insurance coverage for environmental liabilities and do not anticipate obtaining such coverage in the future.

**Patents, Trademarks, Licenses, Etc.**

We do not own any patents, registered trademarks or licenses, although we claim certain common law trademark rights. In general, we rely on our technological capabilities, manufacturing quality control and know-how, rather than patents, in the conduct of our business.

**Seasonality**

Our business is not especially seasonal, however, production output is affected by holidays, vacations and available workdays. Our business may be subject to significant quarterly and annual fluctuations.

**Research and Development**

Our research and development costs during the last three fiscal years have not been significant.

**Employees**

As of March 25, 2005, we had approximately 675 full-time employees. None of our employees are represented by a union. We believe that our future success will depend on our ability to continue recruiting, retaining and motivating qualified personnel at all levels within the Company. We consider our relations with employees to be good.

**ITEM 2. PROPERTIES.**

The following table provides information regarding our principal facilities at March 5, 2005.



| <u>Location</u>            | <u>Square<br/>Footage</u> | <u>Leased/Owned</u> | <u>Description of Use</u> |
|----------------------------|---------------------------|---------------------|---------------------------|
| Caledonia, Michigan        | 86,000                    | Leased              | Manufacturing             |
| Greenville, Michigan       | 130,000                   | Owned               | Manufacturing             |
| Greenville, Michigan       | 60,000                    | Leased              | Manufacturing             |
| Grand Rapids, Michigan     | 1,000                     | Leased              | Executive office          |
| South Haven, Michigan      | 110,000                   | Leased              | Manufacturing             |
| Anderson, South Carolina   | 131,000                   | Owned               | Manufacturing             |
| Ames, Iowa                 | 125,000                   | Leased              | Manufacturing             |
| Pella, Iowa (2 facilities) | 67,000                    | Leased              | Manufacturing             |

Our buildings, machinery and equipment have been well maintained, are in good operating condition, and are adequate for current production requirements. Our facilities are currently not fully utilized and, therefore, can absorb additional business.

Effective January 31, 2005, we sold our South Haven facility for approximately \$1,600,000. Under the terms of that transaction, we agreed to lease that facility until the end of calendar 2005. Monthly lease costs are approximately \$13,900 until May, 2005, at which time the monthly lease cost is reduced to \$10,400 for the balance of the year.

### ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in certain claims and litigation arising in the normal course of business, including certain other litigation involving claims alleging damages under various contractual arrangements. After taking into consideration legal counsel's evaluation of these claims and actions, the Company is currently of the opinion that their outcome will not have a significant effect on the Company's consolidated financial position or future results of operations and cash flows.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2004.

### ADDITIONAL ITEM EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our executive officers:

| <u>Name</u>     | <u>Age</u> | <u>Position</u>                       |
|-----------------|------------|---------------------------------------|
| William Beckman | 57         | President                             |
| John Brownlow   | 41         | Vice President of Sales               |
| Thomas Wallace  | 50         | Chief Operating Officer               |
| Edmund Walsh    | 35         | Treasurer and Chief Financial Officer |

**William Beckman** has served as our President since December 1999. From February 1999 until November 1999, Mr. Beckman served as Chief Executive Officer of Clarion Plastics Technologies, Inc., a wholly owned subsidiary of the Company. From October 1997 until January 1999, Mr. Beckman served as Chief Financial Officer of Johnson Controls Interiors, an automotive supplier of interior parts. Prior to October 1997, Mr. Beckman served as Vice President - Finance of Johnson Controls Interiors as well as Prince Corporation. Prince Corporation was an automotive supplier of interior parts that was acquired by Johnson Controls, Inc. in 1996.

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**John Brownlow** has served as our Vice President of Sales since September 2001. From June 2001 to September 2001, Mr. Brownlow served briefly as Plant Manager for the Company's Caledonia Manufacturing Facility. Mr. Brownlow served as the Director of Corporate Purchasing from November 2000 until March 2001. Mr. Brownlow started with the Company in June 2000 as the Managing Director of the Heavy Truck Business Unit. Prior to his employment with the Company, Mr. Brownlow served as General Manager of Progressive Metal Manufacturing in Ferndale, MI.

**Thomas Wallace** has served as our Chief Operating Officer since January 2001. From August 2000 until December 2000, Mr. Wallace served as General Manager of Joint Ventures for Johnson Controls, Inc. and served as their General Manager for Interiors-Europe from October 1996 to August 2000. Prior to Johnson Controls' acquisition of Prince Corporation in 1996, Mr. Wallace served in various leadership positions at Prince Corporation.

**Edmund Walsh** has served as our Treasurer since April 2002 and as Chief Financial Officer since September 2001. From May 2001 until September 2001, Mr. Walsh served as Operations Controller. From August 1999 to May 2001, Mr. Walsh served as Senior Business Analyst at Steelcase Inc. From June 1992 to August 1999, Mr. Walsh served in various financial positions at Johnson Controls, Inc. and Prince Corporation.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We consider our Common Stock to be thinly traded, therefore, any reported bid or sale price may not reflect a true market-based valuation. The following table sets forth the range of high and low bid prices for our Common Stock for the periods indicated:

|                | <u>High</u> | <u>Low</u> |
|----------------|-------------|------------|
| Fiscal 2003    |             |            |
| First Quarter  | \$ 0.52     | \$ 0.29    |
| Second Quarter | 0.44        | 0.27       |
| Third Quarter  | 0.92        | 0.35       |
| Fourth Quarter | 0.90        | 0.57       |
| Fiscal 2004    |             |            |
| First Quarter  | \$ 0.68     | \$ 0.51    |
| Second Quarter | 0.73        | 0.53       |
| Third Quarter  | 0.61        | 0.35       |
| Fourth Quarter | 0.40        | 0.22       |

The foregoing quotations represent inter-dealer prices without retail mark-up, mark-down or commission and may not represent actual transactions.

We have never declared or paid any cash dividends on our Common Stock. We do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. In addition, our Senior Loan Agreement and our Senior Subordinated Loan Agreement both prohibit the payment of dividends on our Common Stock.

As of March 25, 2005, we have issued and have outstanding 1,950,250 shares of Series B Convertible Preferred Stock and 38,570 shares of Series A Convertible Preferred Stock. Dividends accrue at the rate of 10.0% and 15.0% per annum, respectively, and are cumulative. In fiscal 2003 and fiscal 2004, no dividends were paid. As of December 25, 2004, we have accrued \$11,404,000 and \$10,956,000 of dividends on the Series B Preferred Stock and Series A Preferred Stock, respectively. The dividends on the Series B Preferred Stock are payable in either cash or Common Stock, at our option. The dividends are payable in cash only for the Series A Preferred Stock. However, our Senior Loan Agreement and Senior Subordinated Loan Agreement prohibit dividend payments of any kind. The Series B Preferred Stock has a mandatory redemption date of June 30, 2008 for 50% of the shares, and June 30, 2009 for the remaining 50% of the shares, subject to any existing contractual agreements that may prohibit such redemption. The Series A Preferred Stock has a mandatory redemption date of June 30, 2007 or earlier under certain circumstances, including defaults. Our loan agreements currently prohibit such redemptions.

As of March 25, 2005, the number of stockholders of record of Common Stock was approximately 551.

During the fiscal year ended December 25, 2004, we issued unregistered shares of our Common Stock in the following transactions:

On February 19, we issued 99,984 shares of Common Stock in connection with a warrant exercise. The exercise price was \$0.0001 per share and was paid in stock. The warrants were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, and there were no underwriters involved in the transaction.

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On May 11, we issued 33,333 shares of Common Stock in connection with a lease agreement for one of our manufacturing facilities. The securities were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. There were no underwriters involved in the transaction.

During the fourth quarter of fiscal 2004, we did not repurchase any equity securities. Our Board has not approved any plan that provides for the repurchase of our Common Stock.

Information concerning our equity compensation plans is presented in the table titled "Equity Compensation Plan Information" in Item 12. Security Ownership of Certain Beneficial Owners and Management of this Form 10-K.

### **ITEM 6. SELECTED FINANCIAL DATA**

The following table provides our selected historical consolidated financial information. The consolidated statement of operations data set forth below with respect to the fiscal years ended December 25, 2004, December 27, 2003 and December 28, 2002 and the consolidated balance sheet data at December 25, 2004 and December 27, 2003 are derived from, and are qualified by reference to, the audited Consolidated Financial Statements included in Item 8 of this report and should be read in conjunction with those financial statements and notes thereto. The consolidated operating statement data set forth below with respect to fiscal years ended December 29, 2001 and December 30, 2000 and the consolidated balance sheet data at December 28, 2002, December 29, 2001 and December 30, 2000 are derived from audited consolidated financial statements of the Company not included in this report.

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All results and data in this section reflect continuing operations, which excludes discontinued operations unless otherwise noted. See Note 10 to our Consolidated Financial Statements.

|  | 2004        | 2003       | Fiscal Year<br>2002 | 2001        | 2000        |
|--|-------------|------------|---------------------|-------------|-------------|
| <b>Operations Statement Data:</b>  |             |            |                     |             |             |
| Net sales  | \$ 117,698  | \$ 97,668  | \$ 80,630           | \$ 90,573   | \$ 107,189  |
| Gross profit   | 11,469      | 11,937     | 10,456              | 1,638       | 14,739      |
| Selling, general and administrative expenses (C)                         | 6,992       | 7,144      | 7,859               | 11,081      | 12,396      |
| Restructuring and impairment charges (credits) (A)                       | 1,490       | (207)      | (713)               | 7,431       | 2,299       |
| Other expense  | (4,709)     | (4,226)    | (10,764)            | (11,031)    | (7,894)     |
| Income (loss) from continuing operations                                 | (1,722)     | 774        | (7,454)             | (27,905)    | (7,850)     |
| Income (loss) from discontinued operations                               | -           | -          | 209                 | (7,238)     | (1,686)     |
| Net income (loss)  | (1,722)     | 774        | (7,245)             | (35,143)    | (9,536)     |
| Net loss from continuing operations attributable to common shareholders: |             |            |                     |             |             |
| Income (loss) from continuing operations                                 | (1,722)     | 774        | (7,454)             | (27,905)    | (7,850)     |
| Preferred stock dividends declared                                       | (9,063)     | (7,408)    | (2,852)             | (2,483)     | (2,204)     |
| Accretion of preferred stock to mandatory redemption value               | (908)       | (832)      | (2,013)             | (1,343)     | -           |
|  | \$ (11,693) | \$ (7,466) | \$ (12,319)         | \$ (31,731) | \$ (10,054) |
| Weighted average shares outstanding                                      | 45,205,131  | 44,635,386 | 42,667,050          | 23,667,418  | 21,625,351  |
| Loss per share from continuing operations, basic and diluted             | (0.26)      | (0.17)     | (0.28)              | (1.34)      | (0.46)      |
| <b>Balance Sheet Data:</b>   |             |            |                     |             |             |
| Total assets   | \$ 70,622   | \$ 67,703  | \$ 63,644           | \$ 70,443   | \$ 91,306   |
| Property, plant and equipment, net                                       | 24,461      | 26,699     | 25,682              | 26,175      | 33,876      |
| Working capital deficit (B)  | (11,339)    | (13,000)   | (14,852)            | (81,846)    | (420)       |
| Long-term debt, net of current portion                                   | 20,527      | 25,307     | 26,528              | 226         | 65,924      |
| Current portion of debt and revolving line of credit                     | 13,965      | 11,343     | 11,162              | 72,618      | 1,580       |
| Mandatorily redeemable common stock                                      | 2,550       | 2,550      | 2,550               | 2,550       | 2,550       |
| Redeemable preferred stock (B)   | 55,516      | 54,608     | 53,407              | 16,941      | -           |
| Shareholders' equity (deficit)   | (67,543)    | (55,930)   | (48,603)            | (36,618)    | 16,671      |
| <b>Financial Ratios:</b>   |             |            |                     |             |             |
| Income (loss) from continuing operations as a percent of net sales       | (1.5%)      | 0.8%       | (9.2%)              | (30.8%)     | (7.3%)      |
| Current ratio  | 0.65        | 0.54       | 0.46                | .18         | .98         |
| <b>Other Data:</b>   |             |            |                     |             |             |
| Preferred stock dividends declared                                       | 9,063       | 7,408      | 2,852               | 2,483       | 2,204       |

(A) See Note 9 to our Consolidated Financial Statements.

(B) See Note 2 to our Consolidated Financial Statements.

(C) Includes goodwill amortization expense of approximately \$713,000 and \$791,000 for fiscal year 2001 and 2000, respectively.

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

During fiscal 2004, we were able to increase revenue over 20% by growing our relationship with our key customers. We believe our cost structure, manufacturing capabilities, quality and delivery have resulted in increased sales to our core customers. Due to our performance with our key customers we were awarded several significant new programs in 2004. We were awarded a large program from a key consumer goods customer located in Iowa that created the need for the Ames, Iowa facility that we began leasing in the third quarter of 2004. This program began production in early 2005 and is expected to reach full volume by the middle the year. We expect this program to be a good starting point for continued growth in business in Iowa. We were also awarded other programs during 2004 that will begin generating revenue in 2005. Our objective is to grow our business and leverage our current overhead cost structure. We believe our current cost structure has positioned the Company to be the lowest cost manufacturer in our core markets.

On December 27, 2002, we completed a restructuring with our senior subordinated lenders in which principal and related accrued interest totaling \$37,770,000 was converted into 37,770 shares of Series A Preferred Stock. The remaining outstanding principal and related accrued interest totaling \$10,000,000 were converted into a new senior subordinated note in the principal amount of \$10,000,000. On April 14, 2003, we refinanced our senior debt and modified the terms of certain of our subordinated debt. The \$14,500,000 term loan portion of our new senior credit facility matures on April 30, 2007 and the \$10,000,000 line of credit matures on April 14, 2005. We expect that our revolving line of credit will be renewed in the ordinary course of business. The terms of the senior credit facility allow us to make payments on our subordinated debt, subject to certain limitations. See Note 2 to our Consolidated Financial Statements.

The Company adopts all new accounting pronouncements in accordance with Generally Accepted Accounting Principles when required. See Note 1 to our Consolidated Financial Statements for new accounting pronouncements disclosed by the Company.

**RESULTS OF OPERATIONS**

The table below outlines the components of our Consolidated Statement of Operations as a percentage of net sales:

|   | <b>Fiscal year ended<br/>December 25, 2004</b> | <b>Fiscal year ended<br/>December 27, 2003</b> | <b>Fiscal year ended<br/>December 28, 2002</b> |
|---|--|--|--|
| Net sales   | 100.0%   | 100.0%   | 100.0%   |
| Cost of sales   | 90.3%  | 87.8%  | 87.0%  |
| Gross profit  | 9.7%   | 12.2%  | 13.0%  |
| Selling, general and administrative expenses                    | 5.9%   | 7.3%   | 9.7%   |
| Restructuring and impairment charges (credits)                  | 1.3%   | (0.2%)   | (0.9%)   |
| Operating income (loss)   | 2.5%   | 5.1%   | 4.2%   |
| Other income (expense)  | (4.0%)   | (4.3%)   | (13.4%)  |
| Income (loss) from continuing operations<br>before income taxes | (1.5%)   | 0.8%   | (9.2%)   |
| Provision for income taxes                                      | 0.0%   | 0.0%   | 0.0%   |
| Income (loss) from continuing operations                        | (1.5%)   | 0.8%   | (9.2%)   |
| Discontinued operations   | 0.0%   | 0.0%   | 0.3%   |
| Net income (loss)   | (1.5%)   | 0.8%   | (8.9%)   |

## Net Sales

Net sales of \$117,698,000 for fiscal 2004 were \$20,030,000 (20.5%) higher than net sales of \$97,668,000 for fiscal 2003. The increase is primarily driven by additional and new business from an existing major consumer goods customer (\$16,790,000). Additionally, we were awarded a large new program with a key customer in the consumers goods market that will begin production in early 2005. Based on these successes, we expect continued expansion in this market. Netted against these increases was an overall net decrease in the automotive market (\$6,350,000). The decline occurred with various customers and reflects reduced sales volumes by domestic OEM's and normal program expirations. We have several new program launches that begin production in 2005 that will offset program expirations and volume declines in the coming year; consequently we expect to maintain our level of automotive business in the coming year. In addition, \$9,140,000 of revenue for fiscal 2004 was from tooling purchased by customers for new programs versus \$1,510,000 for fiscal 2003. Because we outsource all production of tooling, this revenue results in minimal, if any, gross profit. Tooling projects will continue based on customer needs. We expect total revenue levels to continue to increase due to a long-term supply agreement with a major consumer goods customer and opportunities in our other core markets for new business that we are currently pursuing.

Net sales for fiscal 2003 were \$97,668,000, an increase of \$17,038,000, or 21.1%, over net sales of \$80,630,000 for fiscal 2002. The increase was due to the growth in business with customers in the consumer goods market (\$27,511,000), primarily under our long-term supply agreement with a key customer (\$23,147,000). Additionally, we have grown the consumer goods portion of our business with other key customers with significant future opportunities. Due to softer market demand and the normal expiration of certain automotive programs, we experienced a decline in the automotive portion of our business (\$9,846,000). The decline occurred with various customers and is consistent with general softness and normal program expirations. Despite this overall decline, we were able to increase our business with a key customer over 25% (\$1,147,000).

## Gross Profit

Gross profit as a percentage of net sales in fiscal 2004 was 9.7% compared to 12.2% in fiscal 2003. This decrease can primarily be attributed to additional tooling revenue in 2004, which generates minimal, if any, gross profit as a percent of net sales. This increase in tooling sales accounts for approximately one full percent point of sales of our gross margin deterioration. Also, we experienced start-up expenses as we prepared the Ames, Iowa facility for the new program launch that begins in 2005 (\$1,185,000). The launch activity in the organization (such as people costs, travel, equipment preparation and repair) accounted for \$817,700 of the decrease in gross margin. In 2005 we expect gross margin as a percent of net sales to return to 2003 levels as we rationalize our manufacturing footprint and begin production of the new programs. Our shift in revenue mix toward higher consumer sales, in itself, is not expected to have a significant impact on our gross margin in the future.

Gross profit as a percentage of net sales in fiscal 2003 was 12.2% compared to 13.0% in fiscal 2002. Increases in material costs (3.7%) as a percent of sales was primarily driven by product mix changes, including increasing our production of products that have a higher material content. Labor increased slightly (1.6%) which is reflective of wage and benefit cost increases. Overhead costs decreased (9.6%) from 2002, which is attributable to leveraging fixed costs over a larger revenue stream. Additionally, our gross profit was negatively impacted due to start up costs associated with a new product launch in the automotive market; these launch activities added approximately \$552,000 of expense during the first nine months of the year. Our gross margin performance for the year was negatively impacted by the extended downtime of our core customer base in the fourth quarter, specifically the holiday weeks of Thanksgiving and Christmas. The unexpected decrease in revenue during that time did not allow for the absorption of fixed costs. Also, we experienced some significant medical expenses (\$212,000 during the fourth quarter and \$486,000 for the year) at one of our operations. This operation has been converted to fully insured coverage (from self funded) and the risk of unexpected medical expenses does not exist going forward.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) decreased from \$7,114,000 in fiscal 2003 to \$6,875,000 in fiscal 2004. SG&A decreased as a percentage of sales for fiscal 2004 as compared with the same period in 2003. This decrease was largely due to the reversal of certain accrued consulting expenses (\$345,000) in the fourth quarter. In addition, we were able to decrease (\$202,000) and or maintain staffing and spending levels to better align with our business needs. Offsetting the decreases were expenses incurred in 2004 for preparing to conduct business in Mexico (\$308,000). Our near-term objective is to decrease SG&A as a percent of sales, even if the total expense increases to accommodate additional business.

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SG&A decreased from \$7,859,000 in fiscal 2002 to \$7,144,000 in fiscal 2003. The \$715,000 (9.1%) decrease is attributable to a reduction in professional fees (\$593,000), corporate taxes (\$110,000), directors' fees (\$127,000) and depreciation and amortization (\$338,000). Offsetting these decreases were increases in salaries (\$104,000), general liability insurance (\$200,000), office rent (\$83,000) and bad debt expense (\$66,000). The result of increasing net sales, slightly lower gross margin, decreased SG&A and decreased restructuring and impairment credits is that our operating income increased to 5.1% as a percentage of net sales versus 4.2% in 2002.

### Restructuring and Impairment Charges (Credits)

In fiscal 2004, we determined that an asset impairment charge in the amount of \$1,607,000 was required to adjust the net carrying value of our South Haven facility to its fair value. \$887,000 was recorded in the third quarter and \$720,000 was recorded in the fourth quarter of fiscal 2005. This impairment charge was necessary under the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and was subsequently sold in January 2005. Fair value was determined to be the selling price of the facility.

Throughout fiscal 2002, the U.S. economy experienced a slowdown in manufacturing activity. In particular, several of the industries we served, such as the domestic automotive and heavy truck market, endured dramatic reductions in orders. In response to these conditions, management took aggressive actions to consolidate existing operations, cut overhead costs and reduce excess capacity. These actions have resulted in the write down of the carrying value of certain assets and the recognition of various costs anticipated to execute these actions.

On March 16, 2001, we announced the closing of one of our facilities in Greenville, Michigan. The plant closing resulted in the transfer of employees and related production to our other facilities located in Western Michigan. Management accrued a pre-tax charge of \$2,000,000 related to the closing to cover various exit costs (\$485,000) and anticipated non-cash losses on the sale of the property, plant, and certain equipment (\$1,515,000) during fiscal 2001. At the end of July 2001, the closing activities were substantially completed. In June 2002, we recorded a reversal adjustment of \$24,000 related to the sale of certain equipment at this facility which had been previously reserved. In September 2002 and November 2002, we recorded reversal adjustments of \$318,000 and \$133,000, respectively, related to equipment being transferred and used in the operations of other facilities which had been previously reserved. In December 2002, an impairment charge of \$190,000 was recorded as additional equipment not previously reserved was deemed impaired. In March 2003, management determined that our Cedar Street facility will not be sold and will be returned to active use to provide additional manufacturing space to accommodate increased orders from a significant consumer goods customer. Accordingly, the remaining reserve of \$207,000 associated with this anticipated sale was reversed in the first quarter of 2003.

In May 2002, we reached a settlement agreement with the lessor of our former Technology Center concerning the early termination of our lease. As a result of the settlement, accrued exit costs were reduced by \$428,000 in the first quarter of 2002.

### Other Income (Expense), Net

Other income (expense), net increased \$483,000 (11.4%) to \$4,709,000 in fiscal 2004 from \$4,226,000 in fiscal 2003. The increase is primarily due to slightly increased interest expense in 2004, higher loss on sales of property, plant and equipment in 2004, and a gain recognized on extinguishment of debt in 2003.

Other income (expense), net decreased \$6,538,000 (60.7%) to \$4,226,000 in fiscal 2003 from \$10,764,000 in fiscal 2002. The decrease is primarily due to reduced interest expense as a result of the debt restructuring executed in December 2002, gain recognized on extinguishment of debt in 2003, and overall lower principal balances in 2003 compared to 2002.

### Discontinued Operations

In an effort to reduce both operating losses and long-term debt, we sold the assets related to our Montpelier manufacturing facility that served the heavy truck industry on April 29, 2002. We received \$12,780,000 in cash, \$800,000 in notes (bearing interest at 7.0% and due on or before April 28, 2005), plus the assumption of certain liabilities. Assets sold included approximately \$3,312,000 of receivables, \$593,000 of inventory, and \$11,402,000 of net fixed assets. Liabilities assumed by the buyer consisted primarily of approximately \$2,331,000 of payables and accruals. The buyer purchased certain of these working capital items at their net carrying value as determined as of the closing date. We incurred a loss of \$97,000 on the sale, the proceeds of which were used to pay certain debt obligations under the Amended Senior Credit Agreement.



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Income from discontinued operations for fiscal 2002 was \$209,000, representing the operations of our former Montpelier facility and the loss on the sale of the Montpelier facility of \$97,000.

### Net Income (Loss)

We recorded a net loss of \$1,722,000 in fiscal 2004 compared to net income of \$774,000 in fiscal 2003. As discussed above, this decrease is primarily a result of an asset impairment of \$1,607,000 recorded in 2004. Net loss attributable to common shareholders, after considering preferred stock dividend requirements and accretion of preferred stock to mandatory redemption value, was \$11,693,000 (\$0.26 per share) in fiscal 2004 compared to \$7,466,000 (\$0.17 per share) in fiscal 2003.

We recorded net income of \$774,000 in fiscal 2003 compared to a net loss of \$7,245,000 in fiscal 2002. Net loss attributable to common shareholders, after considering preferred stock dividend requirements and accretion of preferred stock to mandatory redemption value, was \$7,466,000 (\$0.17 per share) in fiscal 2003 compared to \$12,110,000 (\$0.28 per share) in fiscal 2002. As discussed above, this improvement is a result of decreased interest expense resulting from the debt restructuring executed in December 2002 and the increase in net sales.

### LIQUIDITY AND CAPITAL RESOURCES

Our liquidity position is stable, but we have a deficit in working capital and shareholders' equity. However, in fiscal 2004, negative working capital decreased from \$13,000,000 to \$11,339,000 due to the net effects of increases in accounts receivable, accounts payable, and current portion of long term debt, a decrease in other current liabilities, a reclassification of fixed assets as held for sale, and a reclassification of shares subject to redemption to long term liabilities.

Our sources of ongoing liquidity include cash flows from our operations, cash available from our existing credit lines, potential debt and equity investments, and sales of our non-core assets. We continually reduce our operating expenses, and are structuring our overall operations and resources around higher margin products and services.

On April 14, 2003, we refinanced our senior debt and modified the terms of certain of our subordinated debt. The \$14,500,000 term loan portion of our new senior credit facility matures on April 30, 2007 and the \$10,000,000 line of credit matures on April 14, 2005. We expect that our revolving line of credit will be renewed in the ordinary course of business. See Note 2 to our Consolidated Financial Statements. At December 25, 2004, our senior debt was outstanding in the amount of \$19,254,000.

Our senior subordinated debt outstanding in the principal amount of \$10,000,000 at December 25, 2004, is provided by William Blair Mezzanine Capital Fund III, LP, Craig Wierda, one of our directors, and William Beckman and Thomas Wallace, our President and Chief Operating Officer, respectively, and is due June 30, 2007. Subordinated debt in the amount of \$1,200,000 at December 25, 2004, has been provided by Electrolux, which according to the terms established on April 14, 2003, is payable in monthly installments. Certain additional principal payments will be made if we receive additional new business from Electrolux or if we meet certain performance targets. The Electrolux note will mature no later than September 30, 2005. We also have a note payable in the amount of \$1,000,000 to a seller in our acquisition of Drake Products Corporation (that occurred in fiscal 2000), and notes payable to William Blair, Craig Wierda and Thomas Wallace, in the principal amounts of \$1,311,000, \$1,311,000 and \$136,000, respectively.

Our Senior Loan Agreement and Senior Subordinated Loan Agreement contain numerous restrictive covenants, including covenants related to targets for earnings before interest, taxes, depreciation, and amortization (EBITDA), fixed charge coverage ratios, total liabilities to tangible capital fund ratios, working capital levels as well as limits on capital expenditures. At December 25, 2004, we were in technical default with respect to certain of these covenants and, therefore, we obtained a waiver of those defaults. We expect to be in compliance going forward. The defaults under the senior Subordinated Loan Agreement also triggered technical defaults under the terms of our Series A Preferred Stock, described below. Those defaults have also been waived through March 25, 2005, and we expect to be in compliance going forward as the covenants have also been amended effective March 25, 2005.

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We have outstanding Series A Preferred Stock that has a mandatory redemption value of \$38,570,000 on June 30, 2007 and outstanding Series B Preferred Stock that has a mandatory redemption value of \$19,503,000, 50% due on June 30, 2008 and 50% on June 30, 2009, subject, however, to any contractual agreements that may prohibit such redemptions. Series A Preferred Stock has a cumulative dividend rate of 15%, and Series B Preferred Stock has a cumulative dividend rate of 10%. Based on the current terms of our Senior Loan Agreement and Senior Subordinated Loan Agreement, dividend payments of any kind on preferred stock are prohibited through at least June 30, 2005; subsequent to that date, if certain financial ratios are not met on a quarterly basis, dividends will continue to be prohibited. Dividends on the Series A Preferred Stock and the Series B Preferred Stock are accrued on both the preferred stock and on outstanding dividends quarterly. We have accrued \$22,360,000 of preferred stock dividends that remained unpaid at December 25, 2004. The Series A Preferred Stock may be converted into common stock at any time at a conversion ratio of 571 common shares for each share of preferred stock.

Our contractual obligations as of December 25, 2004 were as follows (in thousands):

| Contractual Obligations                                    | Payments due by period |                  |                  |                  |                 |
|--|------------------------|------------------|------------------|------------------|-----------------|
|  | Total                  | 2005             | 2006-2007        | 2008-2009        | Thereafter      |
| <b>Long-Term Debt (1):</b>                                 |                        |                  |                  |                  |                 |
| Senior Loan Agreement:                                     |                        |                  |                  |                  |                 |
| Revolving credit debt (2)                                  | \$ 6,850               | \$ 6,850         | -                | -                | -               |
| Term debt (3)  | 11,133                 | 1,600            | \$ 9,533         | -                | -               |
| Capital expenditure line of credit (4)                     | 1,271                  | 1,271            | -                | -                | -               |
| Senior Subordinated Loan Agreement (5)                     | 10,000                 | -                | 10,000           | -                | -               |
| Other subordinated promissory notes (5)                    | 5,109                  | 3,958            | 1,151            | -                | -               |
| Other liabilities  | 167                    | -                | 116              | \$ 22            | \$ 29           |
| <b>Capital lease obligations</b>                           | 751                    | 287              | 456              | 8                | -               |
| <b>Operating lease obligations</b>                         | 9,275                  | 1,193            | 1,956            | 1,666            | 4,460           |
| <b>Common shares subject to redemption</b>                 | 2,550                  | -                | 2,550            | -                | -               |
| <b>Series A preferred shares subject to redemption (5)</b> | 38,570                 | -                | 38,570           | -                | -               |
| <b>Series B preferred shares subject to redemption (5)</b> | 19,503                 | -                | -                | 19,503           | -               |
| <b>TOTAL</b>   | <b>\$ 105,179</b>      | <b>\$ 15,159</b> | <b>\$ 64,332</b> | <b>\$ 21,199</b> | <b>\$ 4,489</b> |

- (1) All of our tangible and intangible assets collateralize borrowings under our Senior Loan Agreement and our Senior Subordinated Loan Agreement.
- (2) As of December 25, 2004, our revolving credit facility was scheduled to mature on April 14, 2005, and allowed for aggregate borrowings of \$10,000,000 at the prime rate plus 0.50% (5.75% at December 25, 2004), or at our option, 1, 2, 3, or 6-month LIBOR plus 3.25%, subject to certain borrowing base limitations related to accounts receivable and inventory. In addition, an unused facility fee of 0.375% per annum is payable on the unused portion of the credit line. At December 25, 2004, subject to borrowing base limitations, there were \$853,000 of available borrowings under this facility.

The payments are classified in accordance with the terms of the agreement. However, the balance has been treated as due currently in the consolidated financial statements as it is a working capital facility.

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- (3) Our term debt matures on April 14, 2007. The term loan bears interest at the prime rate plus 0.75% or, at our option, 1, 2, 3 or 6-month LIBOR plus 3.5%, plus an applicable margin, at our option. The interest rate at December 25, 2004 was 5.59%.
- (4) Our capital expenditure line of credit allows draws up to a maximum amount of \$3,000,000 and is scheduled to mature on April 30, 2005. At December 25, 2004, the interest rate was 5.75%. The balance has been treated as due currently in the consolidated financial statements as it is considered a working capital facility.
- (5) Certain of these agreements were restructured during fiscal 2002. See Note 2 to our Consolidated Financial Statements. Under the terms of our Senior Loan Agreement, the senior lender requires the subordinated debt holders, other than Electrolux and Drake, and preferred shareholders to forego interest and dividend payments, respectively, through at least June 30, 2005. The interest and dividends were accrued through December 25, 2004 and continue to accrue. The Senior Loan Agreement and Senior Subordinated Loan Agreement prohibit the payment of dividends on common stock as well. Beginning in fiscal 2001, subordinated debt holders and preferred shareholders agreed to defer interest and any dividend payments through the maturity date of the senior debt, unless approved by the senior lenders. The Electrolux note was modified in April 2003. This note will be paid in monthly installments and will mature no later than September 30, 2005. The Drake note was modified in September 2003. This note currently bears interest only and matures August 1, 2007.

Investing activities in fiscal 2004 included capital expenditures of \$4,692,000 and cash receipts of \$1,048,000 from the sale of property. During fiscal 2003, investing activities consisted mainly of capital expenditures of \$4,308,000 and cash receipts of \$738,000 from a note receivable.

Financing activities used \$2,960,000 of net cash in fiscal 2004 as compared to \$1,755,000 in fiscal 2003. In fiscal 2004 and 2003, financing activities primarily included repayment of subordinated debt and payment of deferred financing costs.

Our primary cash requirements are for operating costs, working capital needs, capital expenditures and debt service obligations. Capital expenditures are expected to be approximately \$3,200,000 in fiscal 2005, which includes amounts to complete projects that were included in construction in progress at December 25, 2004. As of December 25, 2004, we had no contractual commitments to purchase goods or services.

### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

### CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires that we adopt and follow certain accounting policies. Certain amounts presented in the financial statements have been determined based upon estimates and assumptions. Management has discussed the development, selection and disclosure of the estimates and assumptions with our audit committee. Although we believe that our estimates and assumptions are reasonable, actual results could differ.

We have included below a discussion of our critical accounting policies that we believe are affected by our more significant judgments and estimates used in the preparation of our financial statements, how we apply such policies and how results differing from our estimates and assumptions would effect the amounts presented in our financial statements. Other accounting policies also have a significant effect on our financial statements, and some of these policies also require the use of estimates and assumptions. Note 1 to the consolidated financial statements discusses our significant accounting policies.

#### *Revenue Recognition*

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*, as amended. Accordingly, revenue is recognized based on the terms of the customer purchase order that indicates when title to the product and risk of ownership passes to the customer, as well as when collectibility is presumed and there is persuasive evidence of an arrangement at a fixed or determinable sales price. Tooling revenue is recognized when the tool has been completed or certified in accordance with purchase order specifications and has been tendered for delivery to the customer. Sales are shown net of returns, which have not historically been significant.

*Inventories*

Estimated inventory allowances for slow-moving and obsolete inventories are based on current assessments of future demands, market conditions and related management initiatives. If market conditions or customer requirements change and are less favorable than those projected by management, additional inventory allowances may be required.

*Impairment of Goodwill*

Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest impairment exists. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected future cash flows. Changes in these estimates may result in the recognition of an impairment loss. The annual testing of goodwill was performed during the fourth quarter of the current fiscal year. An independent valuation company assisted the Company in estimating the fair value and this analysis resulted in no impairment charge for fiscal 2004. The estimate of future discounted cash flows is subjective and requires certain assumptions related to future events that are not assured. If actual future events unfavorably deviate from these assumptions, additional impairment losses may be apparent.

*Impairment of Long-Lived Assets*

To evaluate the recoverability of long-lived assets, we estimate the undiscounted cash flows associated with these assets over their remaining lives and compare it to their net carrying value of the assets. If the sum of expected future cash flows is less than the net carrying value of the assets, an impairment loss is recognized for the excess of the net carrying value over estimated fair value. The estimate of future undiscounted cash flows is subjective and requires certain assumptions related to future events that are not assured. If actual future events unfavorably deviate from these assumptions, additional impairment losses may be apparent. In addition, the fair values of the related assets can change over time and affect the impairment analysis.

*Deferred Program Costs*

We defer certain costs incurred in connection with various long-term supplier contracts to ready related tooling and equipment for production. These costs are recouped through the price charged for the products and are recognized over the production period. If customers reduce future production requirements, these deferred program costs would be amortized over fewer units or perhaps written off entirely if the related program was cancelled.

*Accruals for Loss Contingencies*

From time to time, we must evaluate accruals for loss contingencies based on our assessment of the probable outcome of such matters. These contingencies generally involve settlement of litigation and other contractual matters. Our evaluation of these matters is subjective and requires estimation after consideration of the pertinent facts and circumstances. To the extent that the actual outcome of these contingencies differs from our subjective assessment of them, additional adjustments might be required that affect earnings.

*Deferred Income Tax Assets*

We provide deferred income taxes based on enacted income tax rates in effect on the dates temporary differences between the financial reporting and tax basis of assets and liabilities reverse. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the enactment date. To the extent that available evidence about the future raises doubt about the realization of a deferred tax asset, a valuation allowance is established. We currently have significant deferred income tax assets that have been fully reserved until such time that it is more likely than not that we will sustain profitable operations and other tax strategies can be implemented.

## TAX CONSIDERATIONS

We have completed our analysis of our equity transactions and determined the effect such transactions have had on our ability to utilize the Net Operating Loss ( NOL ) carryforwards for income tax purposes. At December 25, 2004, the Company had approximately \$64,000,000 of NOL carryforwards for federal income tax reporting purposes. Of this amount, approximately \$53,000,000 is attributable to losses that were incurred prior to a change in ownership as defined by Internal Revenue Code rules and, accordingly, the NOL carryforward is limited to this amount. The amount that can be utilized each year is fixed; however, annual limitation amounts not previously utilized carry over to subsequent years and can be utilized to the extent of the total unexpired NOL carryforward amount. The maximum amount that can be utilized in fiscal 2004 is limited to approximately \$987,000. The \$53,000,000 of pre-change of control net operating loss carryforwards expire as follows, if not previously utilized: \$100,000 in 2019, \$12,700,000 in 2020, \$28,000,000 in 2021 and \$12,200,000 in 2022. The remaining net operating loss carryforwards of \$11,000,000 begin to expire in 2023, if not previously utilized.

## INFLATION

We do not believe that sales of our products are affected materially by inflation, although there can be no assurance that inflation will not affect sales in the future. We do believe that our financial performance could be adversely affected by inflation in the plastic resin market. The primary plastic resins we use are produced from petrochemical feedstock mostly derived from natural gas liquids. Supply and demand cycles in the petrochemical industry, which are often impacted by OPEC policies, can cause substantial price fluctuations. Consequently, plastic resin prices may increase as a result of changes in natural gas liquid prices and the capacity, supply and demand for resin and petrochemical feedstock from which they are produced.

In many instances we have been able to pass through changes in the cost of our raw materials to customers in the form of price increases. However, there is no assurance that we will be able to continue such pass throughs, or that the timing of such pass throughs will coincide with our increased costs. To the extent that increases in the cost of plastic resin cannot be passed on to customers, or that the duration of time lags associated with a pass through becomes significant, such increases may have an adverse impact on our gross profit margins and our overall profitability.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The interest rates under our Senior Loan Agreement can fluctuate based on the prime lending rate or LIBOR. Accordingly, increases in interest rates would result in higher debt service requirements and adversely affect earnings. A 1% increase in interest rates could result in our incurring an additional \$180,000 in annual interest expense under our Amended Senior Credit Agreement.

## CERTAIN FACTORS

Described below are certain risks that we face. Our business, operating results or financial condition could be materially adversely affected by, and the trading price of our common stock could decline due to, any of these risks.

This Report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the factors described below and elsewhere in this Report. You should not place undue reliance on these forward-looking statements.

### **We are dependent on certain key customers. The loss of any such customer would have a material adverse effect on our results of operations and financial condition.**

Our revenues are substantially dependent on our primary customer, Electrolux. Electrolux accounted for approximately 68% of our consolidated net sales in fiscal 2004. We expect that our reliance on this customer will continue for the foreseeable future. The loss of Electrolux as a customer would have a material adverse impact on the Company's results of operations and financial conditions.

**Our success is dependent on continued growth in the automotive and consumer goods industries, and our revenues will be reduced if there are reductions in such growth.**

Our revenues are heavily dependent on customers in the automotive and consumer goods industries. We expect that this will be true for the foreseeable future. During calendar year 2004, the U.S. economy continued to experience a slowdown in manufacturing activity during the first three quarters of the year with only slight increases during the fourth quarter. In particular, the automotive industry continues to experience reductions in orders. If the rate of growth continues to slow or if we experience contraction, our business and results of operations could be adversely affected. Even if sales by our major customers become strong, our results of operations may be less than we anticipate if sales to other customers do not grow or grow slower than anticipated. Similarly, unfavorable market reaction to the industry in general or the results of operations reported by our customers may cause a corresponding decline in the results of our operations.

**We have incurred significant net losses in two of the prior three years and are highly leveraged. We must be successful in achieving our operating initiatives to reduce costs and improve future profitability.**

We have incurred significant net losses in two of the prior three years and are highly leveraged. Current market conditions in the automotive market indicate that minimal growth in overall unit sales for original equipment manufacturers can be expected in fiscal 2004. This anticipated stagnation in original equipment manufacturer sales could result in adverse financial conditions that may be experienced throughout the supply chain within these industries, and therefore, could negatively affect our operations in fiscal 2004. We are aggressively pursuing several operating initiatives to reduce costs and improve profitability, which if not successful, could have a negative impact on our current liquidity position.

**Capital investments may be necessary to achieve our growth plans, which may reduce earnings and negatively affect the value of our common stock.**

Our growth plans may require capital investments, in particular, in relation to organic growth with our current customers. Our ability to meet these capital requirements depends on numerous factors such as the availability of funds from operations and access to additional debt and equity financing. No assurance can be given that the necessary funds will be available. The amended senior and subordinated debt facilities place limits on capital expenditures during the terms of the related agreements. Moreover, incurrence of additional debt financing may involve restrictive covenants that could negatively affect our ability to operate the combined business in the desired manner, and raising additional equity may not be possible, or if possible, would likely be dilutive to shareholders. The failure to obtain funds necessary for the realization of our growth plans could prevent us from realizing our growth strategy and, in particular, could force us to forego acquisition opportunities that may arise in the future. This could, in turn, have a negative impact on our competitive position.

**We must keep pace with rapid technological change, market conditions and industry developments to maintain or grow our revenues.**

Our future success will depend in part on our ability to enhance our current product offerings to keep pace with customer needs. We may not be successful in developing and marketing products in a timely manner that respond to the technological advances by others, and our products may not adequately or competitively address the needs of the changing marketplace.

**Our operating results may suffer because of competition in the plastic injection molding industry.**

The plastic injection molding industry is highly competitive and is served by numerous companies. Several of these competitors may have equal or significantly greater financial, technical and marketing resources, generate greater revenues and have greater name recognition than we do. We believe that the principal competitive factors in our market include integrated operations, short lead-time mold delivery, product quality, pricing and expertise in new and evolving technologies. We may not be able to compete effectively on these or other bases, and, as a result, we may not be able to maintain our current customer relationships or develop new customer relationships.

**We may face costs for compliance with and clean-up under environmental laws and regulations, which would reduce profit margins and earnings.**

We are subject to various environmental laws and regulations in the jurisdictions in which we operate, governing, among other things, different forms of production discharges and emissions. The risk of environmental costs and liabilities is inherent in industrial operations, including the plastic parts industry. We could incur costs and liabilities in the future including those resulting from the adoption of increasingly strict environmental laws, regulations and enforcement policies which might result in substantially increased costs and liabilities in the future. Higher regulatory, environmental and similar costs would reduce our profit margins and earnings. We do not have insurance coverage for environmental liabilities and do not anticipate obtaining coverage in the future.

**Our business operations could be significantly disrupted if we lose members of our management team.**

We believe that our success depends to a significant degree upon the continued contributions of our executive officers and other key personnel, both individually and as a group. Our future performance will be substantially dependent on our ability to retain and motivate them.

**We are a supplier of parts rather than end products. Accordingly, our success is dependent on the outsourcing by our customers of the design, engineering and manufacture of plastic parts for our current revenues and future growth and on our continued access to certain design and engineering services.**

If existing outsourcing from our current customers ceased, our business, including our results of operations and financial condition, would be adversely affected. Furthermore, our growth is dependent on the continued trend by original equipment manufacturers, particularly in the automotive industry, to outsource their manufacturing needs for plastic and related parts. If original equipment manufacturers or companies providing them with assembled products were to perform more manufacturing services themselves, our revenues might decline and our business and results of operations would be harmed.

**Consumer preferences or technological advances could reduce the utilization of plastic injection molded parts which would have an adverse effect on us.**

Consumer trends and preferences have significant influence on the choice of materials utilized in the manufacture of some of the parts we supply. For example, chrome or other metals can be substituted for plastic strictly as a marketing decision unrelated to functionality of the part. If either consumer demand for non-plastic parts or new technological developments leading to lower cost substitutes for plastic parts cause our customers to switch to non-plastic materials, our sales and/or revenues could decrease and our costs, as a percent of sales, could increase. Furthermore, we could find it necessary to expand into the production of non-plastic parts to maintain our market share. This could give rise to new production or operational risks, which could include risks associated with using new or unfamiliar technology. Such risks, even if inherent in the adoption of any new technology or production processing, could affect our costs of production, efficiency, quality control or the integration of such new operations with our existing operations.

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|   | <u>Page</u> |
|---|-------------|
| Report of Independent Registered Public Accounting Firm | 22          |
| Consolidated Balance Sheets                             | 23          |
| Consolidated Statements of Operations                   | 25          |
| Consolidated Statements of Shareholders' Deficit        | 26          |
| Consolidated Statements of Cash Flows                   | 27          |
| Notes to Consolidated Financial Statements              | 28          |

**Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Clarion Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Clarion Technologies, Inc. and subsidiaries as of December 25, 2004 and December 27, 2003, and the related consolidated statements of operations, shareholders' deficit, and cash flows for each of the three years in the period ended December 25, 2004. Our audits also included the financial statement schedule as of and for the years ended December 25, 2004 and December 27, 2003, as listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clarion Technologies, Inc. and subsidiaries as of December 25, 2004 and December 27, 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2004, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein as of and for the years ended December 25, 2004 and December 27, 2003.

/s/ BDO Seidman, LLP

Grand Rapids, Michigan  
February 11, 2005



**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

|  | <b>December 25,<br/>2004</b> | <b>December 27,<br/>2003</b> |
|--|------------------------------|------------------------------|
| <b>ASSETS</b>  |                              |                              |
| Current assets:  |                              |                              |
| Cash and cash equivalents  | \$ 109                       | \$ 107                       |
| Accounts receivable, net of allowances of \$160                                | 13,960                       | 10,090                       |
| Inventories  | 4,909                        | 4,553                        |
| Prepaid expenses and other current assets                                      | 798                          | 668                          |
| Assets held for sale   | 1,479                        | -                            |
|  | 21,255                       | 15,418                       |
| Property, plant and equipment:   |                              |                              |
| Land   | 644                          | 778                          |
| Buildings and improvements   | 9,046                        | 13,148                       |
| Machinery and equipment  | 35,425                       | 33,672                       |
| Furniture and office equipment   | 3,428                        | 3,253                        |
| Construction in progress   | 1,880                        | 249                          |
|  | 50,423                       | 51,100                       |
| Less accumulated depreciation  | (25,962)                     | (24,401)                     |
|  | 24,461                       | 26,699                       |
| Other assets:  |                              |                              |
| Goodwill   | 24,521                       | 24,521                       |
| Deferred program costs, net of accumulated amortization of \$2,557 and \$2,065 | 71                           | 736                          |
| Deferred financing costs, net of accumulated amortization of \$640 and \$535   | 263                          | 315                          |
| Other long-term assets   | 51                           | 14                           |
|  | 24,906                       | 25,586                       |
| Total other assets   | 24,906                       | 25,586                       |
|  | \$ 70,622                    | \$ 67,703                    |

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CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share data)

|  | <u>December 25,<br/>2004</u> | <u>December 27,<br/>2003</u> |
|--|------------------------------|------------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>   |                              |                              |
| Current liabilities:   |                              |                              |
| Revolving line of credit   | \$ 6,850                     | \$ 7,051                     |
| Accounts payable   | 16,467                       | 10,876                       |
| Accrued payroll and benefits   | 506                          | 517                          |
| Accrued interest   | 44                           | 45                           |
| Other current liabilities  | 1,612                        | 3,087                        |
| Mandatorily redeemable common stock  | -                            | 2,550                        |
| Current portion of long-term debt  | 7,115                        | 4,292                        |
|  | <hr/>                        | <hr/>                        |
| Total current liabilities  | 32,594                       | 28,418                       |
| Long-term liabilities:   |                              |                              |
| Long-term debt, net of current portion   | 20,527                       | 25,307                       |
| Mandatorily redeemable common stock  | 2,550                        | -                            |
| Accrued dividends  | 22,360                       | 13,297                       |
| Accrued interest   | 4,451                        | 1,951                        |
| Other liabilities  | 167                          | 52                           |
|  | <hr/>                        | <hr/>                        |
| Total long-term liabilities  | 50,055                       | 40,607                       |
| Total liabilities  | 82,649                       | 69,025                       |
| Convertible redeemable Series A preferred stock, \$1,000 par value:<br>3,000,000 shares authorized; 38,570 shares issued and outstanding;<br>being accreted to mandatory redemption value of \$1,000 per share |                              |                              |
|  | 36,366                       | 35,556                       |
| Convertible redeemable Series B preferred stock, \$0.001 par value:<br>3,000,000 shares authorized; 1,950,250 shares issued and outstanding;<br>being accreted to mandatory redemption value of \$10 per share |                              |                              |
|  | 19,150                       | 19,052                       |
| Shareholders' deficit:   |                              |                              |
| Common stock, \$0.001 par value: 100,000,000 shares authorized;<br>45,270,204 and 45,034,317 shares issued and outstanding   | 45                           | 45                           |
| Additional paid-in capital   | 33,416                       | 34,107                       |
| Accumulated deficit  | (100,949)                    | (90,066)                     |
| Accumulated other comprehensive loss   | (55)                         | (16)                         |
|  | <hr/>                        | <hr/>                        |
| Total shareholders' deficit  | (67,543)                     | (55,930)                     |
|  | <hr/>                        | <hr/>                        |
|  | \$ 70,622                    | \$ 67,703                    |
|  | <hr/>                        | <hr/>                        |

See notes to consolidated financial statements.

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CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

|  | Fiscal year ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 25,<br>2004 | December 27,<br>2003 | December 28,<br>2002 |
| Net sales  | \$ 117,698           | \$ 97,668            | \$ 80,630            |
| Cost of sales  | 106,229              | 85,731               | 70,174               |
| Gross profit   | 11,469               | 11,937               | 10,456               |
| Selling, general and administrative expenses                                     | 6,992                | 7,144                | 7,859                |
| Restructuring and impairment charges (credits)                                   | 1,490                | (207)                | (713)                |
| Operating income   | 2,987                | 5,000                | 3,310                |
| Other income (expenses):   |                      |                      |                      |
| Interest expense   | (4,515)              | (4,463)              | (10,838)             |
| Gain on extinguishment of debt   | -                    | 332                  | -                    |
| Other, net   | (193)                | (95)                 | 74                   |
| Income (loss) from continuing operations before income taxes                     | (1,722)              | 774                  | (7,454)              |
| Provision for income taxes   | -                    | -                    | -                    |
| Income (loss) from continuing operations   | (1,722)              | 774                  | (7,454)              |
| Income from discontinued operations (including loss on disposal of \$97 in 2002) | -                    | -                    | 209                  |
| Net income (loss)  | \$ (1,722)           | \$ 774               | \$ (7,245)           |
| Basic and Diluted EPS calculation:   |                      |                      |                      |
| Numerator:   |                      |                      |                      |
| Income (loss) from continuing operations   | \$ (1,722)           | \$ 774               | \$ (7,454)           |
| Preferred stock dividends declared   | (9,063)              | (7,408)              | (2,852)              |
| Accretion of preferred stock to mandatory redemption value                       | (908)                | (832)                | (2,013)              |
| Net loss from continuing operations attributable to common shareholders          | \$ (11,693)          | \$ (7,466)           | \$ (12,319)          |
| Net loss attributable to common shareholders                                     | \$ (11,693)          | \$ (7,466)           | \$ (12,110)          |
| Average common shares outstanding (basic and diluted)                            | 45,205               | 44,635               | 42,667               |
| Loss per common share (basic and diluted):                                       |                      |                      |                      |
| Loss from continuing operations  | \$ (0.26)            | \$ (0.17)            | \$ (0.28)            |
| Income from discontinued operations  | -                    | -                    | -                    |
| Net loss per share of common stock   | \$ (0.26)            | \$ (0.17)            | \$ (0.28)            |

**Fiscal year ended**

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See notes to consolidated financial statements.

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CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT  
THREE FISCAL YEARS IN THE PERIOD ENDED DECEMBER 25, 2004  
(In thousands)

|   | COMMON<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | ACCUMULATED<br>DEFICIT | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>LOSS | TOTAL       |
|---|-----------------|----------------------------------|------------------------|---|-------------|
| Balances at<br>December 29, 2001  | \$ 24           | \$ 34,583                        | \$ (71,225)            | \$ -  | \$ (36,618) |
| Net loss  | -               | -                                | (7,245)                | -   | (7,245)     |
| Issuance of capital stock<br>and stock options:                             |                 |                                  |                        |   |             |
| For services rendered   | -               | 96                               | -                      | -   | 96          |
| For cash  | 20              | 9                                | -                      | -   | 29          |
| Accretion of redeemable<br>preferred stock to mandatory<br>redemption value | -               | -                                | (2,013)                | -   | (2,013)     |
| Preferred stock<br>dividends declared                                       | -               | -                                | (2,852)                | -   | (2,852)     |
| Balances at<br>December 28, 2002  | 44              | 34,688                           | (83,335)               | -   | (48,603)    |
| Comprehensive income:   |                 |                                  |                        |   |             |
| Net income  | -               | -                                | 774                    | -   | 774         |
| Other comprehensive loss  | -               | -                                | -                      | (16)  | (16)        |
| Total comprehensive income  | -               | -                                | -                      | -   | 758         |
| Issuance of capital stock<br>and stock options:                             |                 |                                  |                        |   |             |
| For services rendered   | -               | 126                              | -                      | -   | 126         |
| For cash  | 1               | 29                               | -                      | -   | 30          |
| Accretion of redeemable<br>preferred stock to mandatory<br>redemption value | -               | (736)                            | (97)                   | -   | (833)       |
| Preferred stock<br>dividends declared                                       | -               | -                                | (7,408)                | -   | (7,408)     |
| Balances at<br>December 27, 2003  | 45              | 34,107                           | (90,066)               | (16)  | (55,930)    |
| Comprehensive income:   |                 |                                  |                        |   |             |
| Net loss  | -               | -                                | (1,722)                | -   | (1,722)     |
| Other comprehensive loss  | -               | -                                | -                      | (39)  | (39)        |
| Total comprehensive loss  | -               | -                                | -                      | -   | (1,761)     |
| Issuance of capital stock<br>and stock options:                             |                 |                                  |                        |   |             |
| For services rendered   | -               | 78                               | -                      | -   | 78          |
| For cash  | -               | 41                               | -                      | -   | 41          |
| Accretion of redeemable<br>preferred stock to mandatory<br>redemption value | -               | (810)                            | (98)                   | -   | (908)       |
| Preferred stock<br>dividends declared                                       | -               | -                                | (9,063)                | -   | (9,063)     |

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|                                  | <b>COMMON<br/>STOCK</b> | <b>ADDITIONAL<br/>PAID-IN<br/>CAPITAL</b> | <b>ACCUMULATED<br/>DEFICIT</b> | <b>ACCUMULATED<br/>OTHER<br/>COMPREHENSIVE<br/>LOSS</b> | <b>TOTAL</b>      |
|----------------------------------|-------------------------|---|--------------------------------|---|-------------------|
|                                  | <u>          </u>       | <u>          </u>                         | <u>          </u>              | <u>          </u>                                       | <u>          </u> |
| Balances at<br>December 25, 2004 | \$ 45                   | \$ 33,416                                 | \$ (100,949)                   | \$ (55)   | \$ (67,543)       |
|                                  | <u>          </u>       | <u>          </u>                         | <u>          </u>              | <u>          </u>                                       | <u>          </u> |

See notes to consolidated financial statements.

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CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

|   | Fiscal year ended    |                      |                      |
|---|----------------------|----------------------|----------------------|
|   | December 25,<br>2004 | December 27,<br>2003 | December 28,<br>2002 |
| <b>OPERATING ACTIVITIES:</b>  |                      |                      |                      |
| Income (loss) from continuing operations  | \$ (1,722)           | \$ 774               | \$ (7,454)           |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities: |                      |                      |                      |
| Depreciation and amortization   | 3,935                | 4,612                | 6,459                |
| Restructuring and impairment charges (credits)  | 1,490                | (207)                | (713)                |
| Stock and stock options issued for services rendered  | 78                   | 126                  | 96                   |
| Other, net  | 374                  | 430                  | 1                    |
| Changes in operating assets and liabilities:  |                      |                      |                      |
| Accounts receivable   | (3,870)              | (2,641)              | 3,430                |
| Inventories   | (356)                | (2,064)              | 76                   |
| Other operating assets  | (167)                | 113                  | (377)                |
| Accounts payable  | 5,630                | 3,254                | (6,651)              |
| Other operating liabilities   | 1,214                | 964                  | 7,196                |
| Net cash provided by operating activities from continuing operations  | 6,606                | 5,361                | 2,063                |
| Net cash used in operating activities from discontinued operations  | -                    | -                    | (817)                |
| Net cash provided by operating activities   | 6,606                | 5,361                | 1,246                |
| <b>INVESTING ACTIVITIES:</b>  |                      |                      |                      |
| Capital expenditures  | (4,692)              | (4,308)              | (850)                |
| Proceeds from note receivable   | -                    | 738                  | 61                   |
| Proceeds from sale of property  | 1,048                | 30                   | 39                   |
| Net cash used in investing activities from continuing operations  | (3,644)              | (3,540)              | (750)                |
| Net cash provided by investing activities from discontinued operations  | -                    | -                    | 12,768               |
| Net cash (used in) provided by investing activities   | (3,644)              | (3,540)              | 12,018               |
| <b>FINANCING ACTIVITIES:</b>  |                      |                      |                      |
| Net change in revolving credit borrowings   | (201)                | 552                  | (3,439)              |
| Proceeds from long-term debt  | 2,834                | 14,440               | -                    |
| Repayments of long-term debt  | (5,581)              | (16,446)             | (10,518)             |
| Proceeds from issuance of capital stock   | 41                   | 30                   | 29                   |
| Payment of debt financing costs   | (53)                 | (331)                | (305)                |
| Net cash used in financing activities   | (2,960)              | (1,755)              | (14,233)             |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>2</b>             | <b>66</b>            | <b>(969)</b>         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <b>107</b>           | <b>41</b>            | <b>1,010</b>         |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <b>\$ 109</b>        | <b>\$ 107</b>        | <b>\$ 41</b>         |

See notes to consolidated financial statements.



CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Clarion Technologies, Inc. and subsidiaries (collectively, the Company or Clarion) produce plastic injection molded parts for customers in the automotive and consumer goods industries throughout North America.

As decisions about the use of Company assets are made by reviewing the Company's operations as a whole, and not by the various industry lines that our customers comprise, the Company is deemed to be one reportable segment that is engaged in the manufacture of plastic injection molded parts.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions have been eliminated.

**Fiscal Year**

The Company's fiscal year ends on the last Saturday of December. All years presented herein are 52-week periods.

**Use of Estimates**

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates and assumptions.

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

The Company has classified checks disbursed but not yet presented for payment as accounts payable. The amounts at December 25, 2004 and December 27, 2003, were approximately \$1,559,000 and \$1,032,000, respectively.

**Accounts Receivable**

Accounts receivable are customer obligations generally due under normal trade terms. The allowance for credit losses is determined by reviewing known customer exposures and applying historical credit loss experience to the current receivable accounts with consideration given to the current condition of the economy, assessment of the financial position of the customer, and overall trends in receivables aged beyond their contractual terms. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Management monitors credit exposure regularly and assesses the adequacy of the allowance for credit losses quarterly.

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The Company estimates inventory allowances for slow-moving and obsolete inventories based on current assessments of future demands, market conditions and related management initiatives. The components of inventories are as follows (in thousands):

|                 | <b>December 25,<br/>2004</b> | <b>December 27,<br/>2003</b> |
|-----------------|------------------------------|------------------------------|
| Raw materials   | \$ 2,185                     | \$ 2,098                     |
| Work in process | 1,163                        | 708                          |
| Finished goods  | 1,561                        | 1,747                        |
| Total           | <b>\$ 4,909</b>              | <b>\$ 4,553</b>              |

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Expenditures for significant renewals and improvements are capitalized. Repairs and maintenance costs are charged to expense as incurred. Depreciation expense, including amounts attributable to assets under capital leases, is recognized over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives are five and 40 years for improvements and buildings, respectively. Estimated useful lives range from three to ten years for machinery and equipment and for furniture, office equipment and software. Depreciation expense was \$2,917,000, \$3,146,000, and \$3,451,000 in fiscal 2004, 2003 and 2002, respectively. The estimated cost to complete construction in process at December 25, 2004 is \$1,098,000.

**Goodwill**

Goodwill represents the excess of cost over the estimated fair value of assets acquired. Goodwill is not amortized but is tested for impairment at least annually. There were no goodwill impairment charges in fiscal 2004 and 2003 resulting from these annual impairment tests, which were performed with the assistance of an independent valuations firm during the fourth quarter of each fiscal year.

**Impairment of Long-Lived Assets**

The Company has adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. When events indicate potential impairment, the Company reviews the recoverability of its long-lived assets by determining whether net carrying values can be recovered through undiscounted future operating cash flows over the remaining lives of the assets. If the sum of the expected future cash flows is less than the net carrying value of the assets, an impairment loss is recognized for the excess of the net carrying value over estimated fair value.

**Deferred Program Costs**

Deferred program costs represent expenses incurred in connection with various long-term customer supply contracts to ready related tooling and equipment for production. These costs are recouped through the price charged for the products and are recognized over the production period. If customers reduce future production requirements, these deferred program costs would be amortized over fewer units or perhaps written off entirely if the related program was cancelled. Amortization expense was \$664,732, \$941,031, and \$772,285 in fiscal 2004, 2003, and 2002, respectively. Amortization expense is not expected to be significant in fiscal 2005.

### **Deferred Financing Costs**

Deferred financing costs are being amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Amortization expense was \$104,892, \$149,981, and \$594,314 in fiscal 2004, 2003, and 2002, respectively. Amortization expense is not expected to be significant in fiscal 2005.

### **Self-Insurance**

The Company is self-insured for losses relating to certain employee medical benefits and short-term disability claims. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of claims. Self-insured losses are accrued based upon the Company's estimate of the aggregate liability for uninsured claims incurred using its historical experience.

### **Revenue Recognition**

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*, as amended. Accordingly, revenue is recognized based on the terms of the customer purchase order that indicates when title to the product and risk of ownership passes to the customer, as well as when collectibility is presumed and there is persuasive evidence of an arrangement at a fixed or determinable sales price. Tooling revenue is recognized when the tool has been completed or certified in accordance with purchase order specifications and has been tendered for delivery to the customer. Sales are shown net of returns, which have not historically been significant.

### **Shipping and Handling Costs**

Costs incurred related to the shipping and handling of products are included in costs of sales. Revenues received for shipping and handling costs charged to customers are included in net sales.

### **Income Taxes**

For financial statement and income tax purposes, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Deferred income tax expense is measured by the net change in deferred income tax assets and liabilities during the year. To the extent that available evidence about the future raises doubt about the realization of a deferred income tax asset, a valuation allowance is established. We currently have significant deferred income tax assets that have been fully reserved until such time that it is more likely than not that we will sustain profitable operations and other tax strategies can be implemented.

### **Earnings (Loss) Per Share**

Basic earnings (loss) per share (EPS) is computed by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding in each year. Diluted EPS assumes the exercise of all potentially dilutive stock options and warrants.

The denominator for computation of diluted EPS is the same as basic EPS for all years presented because the assumed exercise of all common stock equivalents is antidilutive as a result of the net loss attributable to common shareholders incurred during each year. Potentially dilutive securities outstanding during each period were as follows:

|                                   | Fiscal year ended |            |            |
|-----------------------------------|-------------------|------------|------------|
|                                   | 2004              | 2003       | 2002       |
| Potentially dilutive shares:      |                   |            |            |
| Stock options                     | 1,503,875         | 1,604,875  | 2,532,525  |
| Warrants                          | -                 | 100,000    | 975,000    |
| Convertible preferred shares:     |                   |            |            |
| Series A                          | 22,040,000        | 22,040,000 | 21,582,758 |
| Series B                          | 11,135,928        | 11,135,928 | 11,135,928 |
| Total potentially dilutive shares | 34,679,803        | 34,880,803 | 36,226,211 |

### Financial Instruments and Concentration of Credit Risk

The Company's estimate of the fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying amounts at December 25, 2004 and December 27, 2003. It is not practical to estimate the fair value of debt because a quoted market price does not exist and it would be difficult to estimate fair value without incurring excessive costs.

The Company sells its products through production programs with various significant customers. Sales to Electrolux in fiscal 2004, 2003, and 2002 amounted to 67.7%, 67.2%, and 49.2% of net sales, respectively. Sales to Plastech were 10.9%, 15.8%, and 15.7% of net sales in fiscal 2004, 2003, and 2002, respectively. The Company's four largest customers, including Electrolux Home Products, Inc., Plastech Extended Enterprises, Inc. (the exclusive supplier to Johnson Controls, Inc.), Intier Automotive Interiors/Dakota Integrated Systems, LLC, and Lear Corporation, represented 89.6% and 84.2% at December 25, 2004 and December 27, 2003, respectively, of total accounts receivable. The Company routinely assesses the financial strength of its customers in order to manage its concentration of credit risk and generally does not require collateral or other security on accounts receivable.

### Interest Rate Swap Agreement

The Company is exposed to various market risks, which include changes in interest rates. In accordance with the terms of the Senior Credit Agreement discussed in Note 2, the Company has entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its term note and revolving credit facility. Interest rate swap agreements are contracts to exchange floating rates for fixed rate interest payments over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of interest rate swap agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense. The Company does not use derivative financial instruments for trading purposes.

As amended, the interest rate swap agreement essentially fixes the interest rate on an initial notional amount of principal of \$14,000,000, which decreases with each monthly settlement at a rate corresponding to the Company's actual principal payments on the term debt (a notional amount of approximately \$13,203,000 at December 25, 2004). The interest rate swap agreement expires in 2008, and management currently has no intent to renew the agreement or enter into similar agreements in the near future. The fair value of the swap agreement at December 25, 2004 was approximately \$(55,000) and is recorded as other long-term liability on the balance sheet. Changes in the fair value of the swap agreement are reported as a component of other comprehensive income.

The counterparty to the Company's interest rate swap agreement is a commercial bank with which the Company has other financial relationships. While the Company is exposed to credit loss in the event of nonperformance by the counterparty, the Company does not anticipate nonperformance by the counterparty, and no material loss would be expected from such nonperformance. Fluctuations in interest rates are similarly not expected to have a material impact on the Company's future operating results.

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The Company has formally documented the relationship between the interest rate swap and the variable rate long-term borrowings, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking the derivative that has been designated as a cash flow hedge to the specific liability on the balance sheet. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivative used in the hedging transaction is highly effective in offsetting changes in the cash flows of the hedged item. If the Company determines that the derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company will discontinue hedge accounting prospectively.

### Stock-Based Compensation

The Company accounts for stock-based employee and non-employee Director compensation using the intrinsic value method under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and interpretations. Accordingly, no compensation expense is recorded if the current market price of the underlying stock does not exceed the exercise price at the date of grant.

The following table illustrates the effect on net loss and net loss per share attributable to common shareholders as if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), to stock-based employee compensation and non-employee Director compensation.

|   | Fiscal year ended |            |             |
|---|-------------------|------------|-------------|
|   | 2004              | 2003       | 2002        |
| Net loss attributable to common shareholders  | \$ (11,693)       | \$ (7,466) | \$ (12,110) |
| Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards | (125)             | (399)      | (526)       |
| Pro forma net loss attributable to common shareholders  | \$ (11,818)       | \$ (7,865) | \$ (12,637) |
| Earnings per share:   |                   |            |             |
| Basic and diluted, as reported  | \$ (0.26)         | \$ (0.17)  | \$ (0.28)   |
| Basic and diluted, pro forma  | \$ (0.26)         | \$ (0.18)  | \$ (0.29)   |

For purposes of the SFAS 123 pro forma disclosures, the fair value of each option grant was estimated on the date of grant using the Black-Scholes model with the following assumptions:

|   | Fiscal year ended |              |              |
|---|-------------------|--------------|--------------|
|   | 2004              | 2003         | 2002         |
| Dividend yield                              | 0.0               | 0.0          | 0.0          |
| Volatility, as a percent                    | 54% to 64%        | 69% to 124%  | 93% to 132%  |
| Risk-free interest rate                     | 4.7% to 5.3%      | 4.5% to 5.3% | 4.8% to 6.0% |
| Expected life in years after vest           | 4 to 9            | 4 to 9       | 4 to 9       |
| Forfeitures are accounted for as they occur |                   |              |              |

### Comprehensive Income

The Company's total comprehensive income is comprised of all changes in shareholders' deficit during the period other than from transactions with shareholders. Other comprehensive losses in fiscal 2004 and 2003 relate solely to changes in the fair value of the Company's interest rate swap agreement.

**New Accounting Standards**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, *Inventory Costs - An amendment of ARB No. 43, Chapter 4*. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred and not included in overhead. Further, SFAS 151 requires that allocation of fixed production overheads to conversion costs should be based on normal capacity of the production facilities. The provisions in SFAS 151 will be effective for inventory costs incurred beginning in the first quarter of fiscal 2006 and must be applied prospectively. The Company believes that its current accounting policies closely align to the new rules and the adoption of this statement will not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS 123(R), *Share-Based Payment*, to revise SFAS 123, *Accounting for Stock-Based Compensation*, in several areas. SFAS 123(R) requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. The cost is recognized over the requisite service period (usually the vesting period) for the estimated number of instruments where service is expected to be rendered. SFAS 123(R) will be effective beginning in the third quarter of fiscal 2005. The Company does not expect the consolidated financial statements to be materially impacted from adopting SFAS 123(R).

**Reclassifications**

Certain amounts previously reported in prior fiscal years have been reclassified to conform with the current year's presentation.

**2. LONG-TERM DEBT**

Long-term debt consists of the following obligations (in thousands):

|  | <b>December 25,<br/>2004</b> | <b>December 27,<br/>2003</b> |
|--|------------------------------|------------------------------|
|  | <hr/>                        | <hr/>                        |
| Senior credit facility:  |                              |                              |
| Revolving credit facility  | \$ 6,850                     | \$ 7,051                     |
| Term debt  | 11,133                       | 12,133                       |
| Capital expenditure line of credit   | 1,271                        | 1,442                        |
| Senior and other subordinated term notes, net of<br>unaccreted discount of \$622 and \$871 in 2004 and<br>2003, respectively | 9,378                        | 9,129                        |
| Other subordinated promissory notes  | 5,109                        | 6,490                        |
| Capital lease obligations  | 751                          | 405                          |
|  | <hr/>                        | <hr/>                        |
|  | 34,492                       | 36,650                       |
| Less current portion   | 13,965                       | 11,343                       |
|  | <hr/>                        | <hr/>                        |
|  | \$ 20,527                    | \$ 25,307                    |
|  | <hr/>                        | <hr/>                        |

The Company refinanced its senior debt on April 14, 2003 and increased the limits on its revolving credit facility on March 12, 2004. The revolving credit facility matures on April 14, 2005, and allows for aggregate borrowings of \$10,000,000 at the prime rate plus 0.50% (5.75% at December 25, 2004) or, at the Company's option, 1, 2, 3 or 6-month LIBOR plus 3.25%, subject to certain borrowing base limitations related to accounts receivable and inventory. At December 25, 2004, there were \$853,000 of available borrowings under this revolving credit facility. The Company expects that the revolving line of credit will be renewed before the maturity date during the ordinary course of business at substantially the same terms. In addition, an unused facility fee of 0.375% per annum is payable on the unused portion of the credit line. The term debt matures on April 14, 2007 and bears interest at the prime rate plus 0.75% or, at the Company's option, 1, 2, 3 or 6-month LIBOR plus 3.5% plus an applicable margin. The interest rate on the term debt at December 25, 2004 was 5.59%. The facility permits draws to be made on a capital expenditure line of credit in the maximum amount of \$3,000,000 that matures on April 30, 2005. The interest rate on the capital expenditure line of credit at December 25, 2004 was 5.75%.

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On December 27, 2002, the senior subordinated debt and related accrued interest were restructured and replaced with 37,770 shares of Series A Preferred Stock of the Company and new senior subordinated debt of \$10,000,000. See Note 6 for a description of the Series A Preferred Stock. The restructured senior subordinated debt is due June 30, 2007, and is currently accruing interest at 15% because the interest payments are precluded under the terms of the Senior Loan Agreement.

The restructuring was accounted for in accordance with SFAS No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring* and EITF 02-04, *Determining Whether a Debtor's Modification or Exchange of Debt Instruments is Within the Scope of FASB No. 15*. Accordingly, the remaining related unamortized deferred debt issue costs and debt discount remained recorded and no gain or loss was recorded. The net book value of the restructured debt and accrued interest was allocated to the Series A Preferred Stock and the new senior subordinated debt. The Company is accreting the amount allocated to the Series A Preferred Stock of \$34,453,000 to its mandatory redemption price of \$37,770,000 using the effective interest method. The amount allocated to the new Senior Subordinated Debt of \$8,880,000 is being accreted to its face value of \$10,000,000 using the effective interest method.

In 2003, the Company and the former owners of Drake (now known as A&M Holdings, Inc.) entered into a settlement that is described in more detail in Note 8. In conjunction with this settlement, William Blair and Craig Wierda purchased Company notes payable to A&M Holdings, Inc. in the principal amount of \$2,067,500 along with related accrued interest of \$670,000. The purchased notes and related accrued interest were replaced with two new subordinated promissory notes (Settlement Notes), each in the principal amount of \$1,379,000. These Settlement Notes bear interest at 18% and are due June 30, 2005. In September 2003, Blair and Wierda transferred \$136,000 in principal amount of these notes to Thomas Wallace, an officer of the Company. The settlement also included a provision requiring the Company to issue a total of 800 shares of Series A Preferred Stock to the holders of the Settlement Notes because they were not paid in full by September 2, 2003; accordingly, the Company issued these preferred shares pro rata and recognized expense of \$368,000.

Other subordinated promissory notes at December 25, 2004 consisted principally of: (i) the Settlement Notes described above, (ii) an unsecured note in the original principal amount of \$1,000,000 issued in connection with the acquisition of Drake Products Corporation that requires periodic payments of interest only at 12% and matures on August 1, 2007 and (iii) a secured note of \$1,200,000 due to Electrolux, payable monthly with interest at 12% and maturing on September 30, 2005.

As part of the settlement noted above, the Company was required to take title to equipment and assume a \$700,000 liability (the Equipment Note) due on the related equipment. This Equipment Note was due February 16, 2004, but the Company agreed to pay it in full no later than January 1, 2004. Interest on the note in the amount of \$35,000 was prepaid in January 2003, and the Equipment Note was paid in full in December 2003.

As of December 25, 2004, the Senior Loan Agreement required the subordinated debt holders and preferred shareholders to forego interest and dividend payments, respectively, through June 30, 2005, unless approved by the Company's senior lender. Interest and dividends, therefore, have been accrued through December 25, 2004. The Senior Loan Agreement and Senior Subordinated Loan Agreement also prohibit the payment of dividends on common stock.

Principal maturities of long-term debt and capital lease obligations are as follows: fiscal 2005 \$13,965,000; fiscal 2006 \$1,904,000; fiscal 2007 \$19,237,000; fiscal 2008 \$6,000; fiscal 2009 \$2,000.

Interest paid on debt was \$1,250,000, \$1,466,000, and \$2,295,000 in fiscal 2004, 2003, and 2002, respectively.

The Company's Senior Loan Agreement and Senior Subordinated Loan Agreement contain numerous restrictive covenants, including covenants related to targets for earnings before interest, taxes, depreciation, and amortization (EBITDA), fixed charge coverage ratios, total liabilities to tangible capital fund ratios, working capital levels, as well as limits on capital expenditures. At December 25, 2004, the Company was in technical default with respect to certain of these covenants and therefore has obtained a waiver for these obligations totaling \$29,832,000. The Company expects to be in compliance going forward. The defaults under the senior Subordinated Loan Agreement also triggered technical defaults under the terms of our Series A Preferred Stock, described below. Those defaults have also been waived, covenants have been amended, and we expect to be in compliance going forward as the covenants have been amended effective March 25, 2005.

**3. LEASES**

The Company leases certain office and production facilities and equipment under lease agreements through 2015. Total assets recorded related to capital lease agreements are as follows (in thousands):

|                               | <b>December 25,<br/>2004</b> | <b>December 27,<br/>2003</b> |
|-------------------------------|------------------------------|------------------------------|
| Equipment                     | \$ 1,449                     | \$ 921                       |
| Less accumulated depreciation | (448)                        | (339)                        |
|                               | <b>\$ 1,001</b>              | <b>\$ 582</b>                |

In June 2004, the Company sold one of its Greenville, Michigan facilities for \$1,000,000 and subsequently leased it back for a term of two years. The sale resulted in a loss of \$164,000, which was recognized in the second quarter of fiscal 2004. The subsequent lease is classified as an operating lease. Accordingly, rent expense will be recognized over the life of the lease agreement.

In September 2004, the Company entered into a ten-year operating lease for an additional manufacturing location in Ames, Iowa. The facility contains approximately 124,000 of industrial manufacturing square footage, and will accommodate additional business obtained from customers in the consumer goods and appliance market. The additional business is expected to begin production over the next several months. The lease includes optional renewal terms extending through September 2024.

The following is a schedule of future minimum rental payments required under capital and operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 25, 2004 (in thousands):

| <b><u>Fiscal year ended</u></b>         | <b><u>Capital</u></b> | <b><u>Operating</u></b> |
|---|-----------------------|-------------------------|
| 2005                                    | \$ 330                | \$ 1,193                |
| 2006                                    | 327                   | 984                     |
| 2007                                    | 173                   | 972                     |
| 2008                                    | 6                     | 846                     |
| 2009                                    | 3                     | 820                     |
| 2010 and thereafter                     | -                     | 4,460                   |
| Total minimum lease payments            | <b>839</b>            | <b>\$ 9,275</b>         |
| Less amounts representing interest      | (88)                  |                         |
| Present value of minimum lease payments | <b>\$ 751</b>         |                         |

Rent expense for all operating leases was \$1,251,000, \$1,363,000, and \$1,332,000 in fiscal 2004, 2003, and 2002, respectively.



**4. INCOME TAXES**

The following table reconciles the U.S. federal statutory rate to the Company's effective income tax rate:

|   | <b>Fiscal year ended</b> |             |             |
|---|--------------------------|-------------|-------------|
|   | <b>2004</b>              | <b>2003</b> | <b>2002</b> |
| Statutory rate  | (34.0)%                  | (34.0)%     | (34.0)%     |
| Change in net deferred income tax assets, including effect of change in valuation allowance | 34.0                     | 34.0        | 34.0        |
| Other   | -                        | -           | -           |
| Effective income tax rate   | -%                       | -%          | -%          |

The primary components of the Company's deferred income tax assets and liabilities are as follows (in thousands):

|  | <b>December 25,<br/>2004</b> | <b>December 27,<br/>2003</b> |
|--|------------------------------|------------------------------|
| Deferred income tax assets:                            |                              |                              |
| Net operating losses                                   | \$ 21,762                    | \$ 18,968                    |
| Accounts receivable and inventory valuation allowances | 119                          | 109                          |
| Employee benefits                                      | 117                          | 220                          |
| Other accrued liabilities and asset impairment charges | 1,551                        | 1,238                        |
| Total deferred income tax assets                       | 23,549                       | 20,535                       |
| Less valuation allowance                               | 17,192                       | 15,981                       |
| Net deferred income tax assets                         | 6,357                        | 4,554                        |
| Deferred income tax liabilities:                       |                              |                              |
| Accumulated depreciation                               | (3,027)                      | (1,757)                      |
| Goodwill   | (3,330)                      | (2,797)                      |
| Total deferred income tax liabilities                  | (6,357)                      | (4,554)                      |
| Net deferred income taxes                              | \$ -                         | \$ -                         |

A valuation allowance has been established against net deferred income tax assets due to the uncertainty that such income tax benefits will be realized and to reflect the limitation of the Company's Net Operating Loss ( NOL ) due to its change in ownership. We currently have significant deferred income tax assets that have been fully reserved until such time that it is more likely than not that we will sustain profitable operations and other tax strategies can be implemented.

At December 25, 2004, the Company had approximately \$64,000,000 of NOL carryforwards for federal income tax reporting purposes. Of this amount, approximately \$53,000,000 is attributable to losses that were incurred prior to a change in ownership as defined by Internal Revenue Code rules and, accordingly, the NOL carryforward is limited to this amount. The amount that can be utilized each year is fixed; however, annual limitation amounts not previously utilized carry over to subsequent years and can be utilized to the extent of the total unexpired NOL carryforward amount. The maximum amount that can be utilized in fiscal 2004 is limited to approximately \$987,000. The \$53,000,000 of pre-change of control net operating loss carryforwards expire as follows, if not previously utilized: \$100,000 in 2019, \$12,700,000 in 2020, \$28,000,000 in 2021 and \$12,200,000 in 2022. The remaining net operating loss carryforwards of \$11,000,000 begin to expire in 2023, if not previously utilized.

**5. EMPLOYEE BENEFIT AND STOCK PLANS**

The Company maintains a 401(k) retirement savings plan for the benefit of substantially all full-time employees. Participant contributions are matched by the Company as defined in the plan. The Company's matching contributions to the plan were \$198,000, \$47,000 and \$18,000 in fiscal 2004, 2003, and 2002, respectively.

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In June 2000, the Company's shareholders approved a noncompensatory stock purchase plan whereby 400,000 shares of common stock has been reserved for purchase by eligible employees through a payroll deduction program. The purchase price of the stock is 85% of the average closing price of the last 30 trading days of the respective quarter. The stock purchase plan expires on June 30, 2010, and may be amended by the Board of Directors at any time. At December 25, 2004, 313,606 shares have been purchased under the plan.

The Company also has two stock option plans that were approved by the shareholders. A total of 2,750,000 shares of Clarion common stock have been approved for issuance under the plans. The plans permit options to be granted to officers, directors and other key employees. Options granted may either be incentive stock options or nonqualified stock options. Incentive stock options awarded under the plans may not be granted at a price less than the fair market value on the date of grant. Nonqualified options awarded under the plans may not be granted at a price less than 85% of the fair market value on the date of grant. Conditions of vesting are determined at the time of grant. The maximum option term may not exceed ten years from the date of grant.

In addition to the two stock option plans discussed above, the Company issues nonqualified stock options from time to time that fall outside of these approved plans. The Board of Directors determines the terms of the options at the time of issuance. As of December 25, 2004, a total of 700,000 options were outstanding relating to these separate issuances.

Each calendar year the Company's directors are granted options for the purchase of 12,000 shares of common stock. The options are granted quarterly in the amount of 3,000 shares each. The option exercise price is required to equal the market value of our common stock on the date of grant. Each option is exercisable for ten years following the date of grant and vests the year after the date of grant. In addition, the Company reimburses directors for out-of-pocket expenses incurred to attend board of directors and committee meetings. Total options granted to directors in fiscal 2004 and 2003 were 84,000 and 76,000, respectively.

The following table summarizes all stock option activity pertaining to the Company's common stock:

|                                  | Shares      | Weighted Average<br>Exercise Price |
|----------------------------------|-------------|------------------------------------|
| Outstanding at December 29, 2001 | 3,562,150   | \$ 2.96                            |
| Granted                          | 358,500     | 0.69                               |
| Expired or canceled              | (1,388,125) | \$ 2.45                            |
| Outstanding at December 28, 2002 | 2,532,525   | \$ 2.92                            |
| Granted                          | 196,000     | 0.45                               |
| Exercised                        | (6,000)     | 0.26                               |
| Expired or canceled              | (1,117,650) | 3.11                               |
| Outstanding at December 27, 2003 | 1,604,875   | \$ 2.49                            |
| Granted                          | 84,000      | 0.47                               |
| Expired or canceled              | (85,000)    | 4.01                               |
| Outstanding at December 25, 2004 | 1,603,875   | \$ 2.43                            |

Shares available for future grants were 1,846,125 at December 25, 2004 and 1,845,125 at December 27, 2003, under the Company's two shareholder approved stock option plans.

The weighted-average grant date fair value for stock options granted was \$0.47, \$0.45 and \$0.31 in fiscal 2004, 2003, and 2002, respectively.

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The following table summarizes information about outstanding and exercisable options at December 25, 2004:

| Range of Exercise Prices | Options Outstanding |  |                                  | Options Exercisable |                                  |
|--------------------------|---------------------|--|----------------------------------|---------------------|----------------------------------|
|                          | Shares              | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Prices | Shares              | Weighted Average Exercise Prices |
| \$0.15 - \$1.75          | 881,000             | 4.0  | \$ 0.77                          | 797,000             | \$ 0.80                          |
| 2.00 - 3.75              | 410,000             | 1.2  | 2.33                             | 410,000             | 2.33                             |
| 4.00 - 6.00              | 237,875             | 0.9  | 5.22                             | 177,875             | 5.50                             |
| 9.00 - 12.00             | 75,000              | 1.8  | 11.00                            | 75,000              | 11.00                            |
|                          | 1,603,875           | 2.7  | 2.30                             | 1,459,875           | 2.32                             |

The number of options exercisable was 1,459,875 at December 25, 2004, and 1,388,875 at December 27, 2003, with weighted average exercise prices of \$2.32 and \$2.69, respectively.

The Company accounts for its stock options in accordance with APB 25 and related interpretations. Accordingly, no compensation expense is recorded if the current market price of the underlying stock does not exceed the exercise price at the date of grant. See Note 1 for a pro forma disclosure of the impact stock options would have had on operations had the Company applied the fair value accounting provisions of SFAS 123.

### 6. PREFERRED AND COMMON STOCK

During 1999, the Company authorized 3,000,000 shares of preferred stock of which 2,500,000 shares are designated as convertible preferred stock with a par value of \$0.001 per share. The Company has issued 1,950,250 of the 2,500,000 designated shares. On December 27, 2002, with the approval of the holders of the preferred stock given on December 16, 2002, this series of preferred stock was named Series B Convertible Preferred Stock.

Since its initial issuance, the holders of the Series B Preferred Stock have approved various amendments to its terms, including changes to the dividend rate and conversion ratio. The table set forth below indicates the time periods in which certain dividend rates and conversion ratios were in effect.

| Period                                    | Dividend Rate | Conversion Ratio<br>(shares of common stock/shares of preferred stock) |
|---|---------------|--|
| February 14, 2000 until<br>April 15, 2001 | 14%           | 2 for 1  |
| April 16, 2001 until<br>March 31, 2002    | 12%           | 3.33 for 1   |
| April 1, 2002 until<br>December 26, 2002  | 12%           | 5.00 for 1   |
| December 27, 2002 until<br>present        | 10%           | 5.71 for 1   |

Dividends are payable in either cash or Company common stock, at the option of the Company. However, the Senior Loan Agreement requires the preferred stockholders to forego any dividend payments of any kind. Conversion occurs at the option of the holder. The Company may at any time redeem all or any portion of the Series B Preferred Stock for \$10.00 per share plus all accrued and unpaid dividends thereon. The Series B Preferred Stock has a mandatory redemption date of June 20, 2008, for 50% of the shares, and June 30, 2009 for the remaining 50%, subject to any existing contractual agreements that may prohibit such redemption. Holders of the convertible preferred stock have voting rights and preference over common stockholders in dividends and liquidation rights. The Series B Preferred Stock currently has a liquidation value of \$10.00 per share.



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On December 16, 2002, the holders of the Series B Preferred Stock approved the issuance of a second, senior series of preferred stock which is named Series A Convertible Preferred Stock. On December 27, 2002, and September 2, 2003, the Company issued 37,770 and 800 shares, respectively, of Series A Preferred Stock with a par value of \$0.001 per share in conjunction with the debt restructuring discussed in Note 2. The dividend rate is 12%, with a default rate of 15%, payable quarterly, in cash only, commencing June 30, 2004, subject to existing restrictions under the Senior Loan Agreement. The Series A Preferred Stock may be converted into common stock at any time at a conversion rate of 571 common shares for each share of preferred stock. The stock is subject to mandatory redemption in full at June 30, 2007, or earlier in the event of certain circumstances, including defaults. The redemption value is \$1,000 per share. Holders of the Series A Preferred Stock have voting rights and preference over common stockholders and holders of Series B Preferred Stock in dividends and liquidation rights.

Dividends on the Series A Preferred Stock and the Series B Preferred Stock are accrued on both the preferred stock and on outstanding dividends quarterly.

The Company's shareholders approved a change in the par value of the Company's common stock from \$0.01 to \$0.001 per share in fiscal 1999, and also increased the number of authorized common shares from 20,000,000 to 40,000,000. Authorized shares were increased to 60,000,000 in fiscal 2001 and to 100,000,000 in fiscal 2002.

In 1999, the Company issued 850,000 shares of Clarion common stock in connection with the acquisition of Double J. Of the 850,000 Clarion shares issued in the acquisition, 425,000 shares ( Put Shares ) are subject to the terms of stock put agreements ( Put Agreements ) that require the Company to purchase some or all of the Put Shares from the holders at a price of \$6.00 per share. The maximum potential repurchase obligation of the Company is \$2,550,000. As a result of an amendment to the Put Agreements signed in November 2004, the put options expire on March 3, 2006, and are exercisable between January 15, 2006, and March 2, 2006. The Company agreed to pay the holders of the put options \$284,000 in consideration for the extended put period for the Put Agreement amendment. The Put Shares are classified as a long-term liability in the consolidated balance sheets on the line item entitled Mandatorily Redeemable Common Stock. Concurrent with the issuance of these stock put options, the Company entered into a stock put agreement with a member of the Board of Directors which requires that Director to purchase a number of shares of Clarion common stock equal to the product of (i) the aggregate purchase price paid by Clarion for the Put Shares, divided by the lesser of (ii) the closing price of the common stock on the date Clarion receives notice of its obligation to perform under the Put Agreements, or (iii) \$6.00. The Company's put option expires on March 3, 2006, and is exercisable between January 15, 2006, and March 2, 2006. In exchange for that put agreement, the Director received warrants to purchase 200,000 shares of Clarion common stock at an exercise price of \$5.00 per share. The warrants expired on September 30, 2002.

### 7. LITIGATION AND CONTINGENCIES

The Company is a party to certain litigation involving claims alleging damages under various contractual arrangements. After taking into consideration legal counsel's evaluation of these claims and actions, the Company is currently of the opinion that their outcome will not have a significant effect on the Company's consolidated financial position or future results of operations.

### 8. RELATED PARTY TRANSACTIONS

In conjunction with the settlement of the A&M lawsuit described in Note 2 above, in January 2003, William Blair and Craig Wierda purchased Company notes payable to Drake Products Corporation (now known as A&M Holdings, Inc.) in the principal amount of \$2,067,500 along with related accrued interest of \$670,000. The purchased notes and related accrued interest were replaced with two new subordinated promissory notes (Settlement Notes), each in the principal amount of \$1,379,000. These Settlement Notes bear interest at 18% and are due June 30, 2005. In September 2003, Blair and Wierda transferred \$136,000 in principal amount of these notes to Thomas Wallace, an officer of the Company. The settlement also included a provision requiring the Company to issue a total of 800 shares of Series A Convertible Preferred Stock to the holders of the Settlement Notes because they were not paid in full by September 2, 2003; accordingly, the Company issued these preferred shares pro rata and recognized expense of \$368,000.

**9. RESTRUCTURING AND IMPAIRMENT CHARGES (CREDITS)**

Throughout fiscal 2001 and 2002, the U.S. economy experienced a slowdown in manufacturing activity. In particular, several of the industries served by the Company, such as the domestic automotive and heavy truck markets, endured dramatic reductions in orders. In response to these conditions, management took aggressive actions to consolidate existing operations, cut overhead costs and reduce excess capacity. These actions have resulted in the need to write down the value of certain assets and to recognize various costs anticipated to execute these actions.

On March 16, 2001, the Company announced the closing of our Cedar Street facility in Greenville, Michigan. The plant closing resulted in the transfer of employees and related production to our other facilities located in Western Michigan. Management accrued a pre-tax charge of \$2,000,000 related to the closing to cover various exit costs (\$485,000) and anticipated non-cash losses on the sale of the property, plant, and certain equipment (\$1,515,000) during fiscal 2001. At the end of July 2001, the closing activities were substantially completed. In June 2002, the Company recorded a reversal adjustment of \$24,000 related to the sale of certain equipment at this facility which had been previously reserved. In September 2002 and November 2002, the Company recorded reversal adjustments of \$318,000 and \$133,000, respectively, related to equipment being transferred and used in the operations of other facilities which had been previously reserved. In December 2002, an impairment charge of \$190,000 was recorded as additional equipment not previously reserved was deemed impaired. In March 2003, management determined that our Cedar Street facility will not be sold and was returned to active use to provide additional manufacturing space to accommodate increased orders from a significant consumer goods customer. Accordingly, the remaining reserve of \$207,000 associated with this anticipated sale was reversed in the first quarter of 2003.

In May 2002, the Company reached a settlement agreement with the lessor of the Company's former Technology Center concerning the early termination of the Company's lease. As a result of the settlement, accrued exit costs were reduced by \$428,000 in the first quarter of 2002.

In fiscal 2004, we determined that an asset impairment charge in the amount of \$1,607,000 was required to adjust the net carrying value of our South Haven facility to its fair value. This impairment charge was necessary under the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and the facility was subsequently sold in January 2005. Fair value was determined to be the selling price of the facility.

Changes in the balances of the Company's restructuring liabilities were as follows:

|                              |    |           |
|------------------------------|----|-----------|
| Balance at December 28, 2002 | \$ | 370,000   |
| Reversal of exit costs       |    | (207,000) |
| Payment of exit costs        |    | (46,000)  |
|                              |    | <hr/>     |
| Balance at December 27, 2003 |    | 117,000   |
| Reversal of exit costs       |    | (117,000) |
|                              |    | <hr/>     |
| Balance at December 25, 2004 | \$ | -         |
|                              |    | <hr/>     |

**10. DISCONTINUED OPERATIONS**

On April 29, 2002, the Company sold the assets related to its Montpelier manufacturing facility that served the heavy truck industry. The Company received \$12,780,000 in cash, \$800,000 in notes (bearing interest at 7.0% and due on or before April 28, 2005), plus the assumption of certain liabilities. Assets sold included approximately \$3,312,000 of receivables, \$593,000 of inventory, and \$11,402,000 of net fixed assets. Liabilities assumed consisted primarily of approximately \$2,331,000 of payables and accruals. The buyer purchased certain of these working capital items at their net carrying value as determined as of the closing date. The Company incurred a loss of \$97,000 on the sale and used the proceeds from the sale to pay certain debt obligations under the Amended Senior Credit Agreement. In accordance with SFAS No. 144, the operations of this facility have been segregated as discontinued operations and include the amounts indicated in the following tables (in thousands).

|                   | December 25,<br>2004 | Fiscal year ended<br>December 27,<br>2003 | December 28,<br>2002 |
|-------------------|----------------------|---|----------------------|
| Net sales         | -                    | -   | \$ 5,557             |
| Net income (loss) | -                    | -   | 209                  |

**11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The Company's unaudited quarterly results of operations are as follows (in thousands, except per share data):

|                     | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total      |
|---------------------|------------------|-------------------|------------------|-------------------|------------|
| <b>Fiscal 2004</b>  |                  |                   |                  |                   |            |
| Net sales           | \$ 29,594        | \$ 28,127         | \$ 30,592        | \$ 29,385         | \$ 117,698 |
| Gross profit        | 3,745            | 3,409             | 2,915            | 1,400             | 11,469     |
| Net income (loss)   | 811              | 494               | (747)            | (2,280)           | (1,722)    |
| Net loss per share: |                  |                   |                  |                   |            |
| Basic               | (0.04)           | (0.03)            | (0.08)           | (0.11)            | (0.26)     |
| Diluted             | (0.04)           | (0.03)            | (0.08)           | (0.11)            | (0.26)     |
| <b>Fiscal 2003</b>  |                  |                   |                  |                   |            |
| Net sales           | \$ 22,180        | \$ 25,483         | \$ 26,136        | \$ 23,869         | 97,668     |
| Gross profit        | 3,198            | 3,578             | 3,269            | 1,892             | 11,937     |
| Net income (loss)   | 602              | 754               | 424              | (1,006)           | 774        |
| Net loss per share: |                  |                   |                  |                   |            |
| Basic               | (0.03)           | (0.03)            | (0.04)           | (0.07)            | (0.17)     |
| Diluted             | (0.03)           | (0.03)            | (0.04)           | (0.07)            | (0.17)     |

As discussed in Note 9, the Company recorded an asset impairment charge in the amount of \$1,607,000 to adjust the net carrying value of the real property at its South Haven, Michigan, facility to fair value. \$887,000 was recorded in the third quarter and \$720,000 was recorded in the fourth quarter of fiscal 2004. The Company recorded adjustments to other nonrecurring charges (credits) of \$(207,000) in the first quarter of fiscal 2003.

**12. SUBSEQUENT EVENTS**

Effective January 31, 2005, the Company sold its manufacturing facility in South Haven, Michigan, for \$1,600,000, which resulted in no gain or loss. The Company is currently leasing this facility under a short-term lease arrangement with the purchaser.

In the first quarter of fiscal 2005, the Company had a key customer forced into a no build situation for approximately five weeks. This situation was caused due to a fire at the manufacturing location of one of their suppliers. This caused an immediate decrease in sales for the Company that will negatively impact profits in the first quarter. As of the beginning of March, this customer was running normal production volumes.

**13. OPERATING CONSIDERATIONS AND MANAGEMENT PLANS**

As shown in the financial statements, the Company has incurred significant net losses in two of the past three years and is highly leveraged. The Company is also experiencing liquidity constraints and has a deficit position in working capital and shareholders' equity.

The Company has been proactively addressing its current liquidity and operational issues in an effort to improve cash flows. On April 14, 2003, the Company refinanced its senior debt and modified the terms of certain portions of its subordinated debt. The term loan portion of the Senior Loan Agreement matures in four years and the line of credit matures on April 14, 2005. The terms of the Senior Loan Agreement allow the Company to make payments on its subordinated debt, subject to certain limitations. In addition, since fiscal 2001, subordinated debt holders and preferred shareholders have agreed to defer interest and dividend payments through the maturity date of the senior debt, unless approved by the Company's senior lender. The Company's senior lender is allowing payments on the Company's Electrolux note and Drake note. See Note 2 herein.



The Company has implemented several operating initiatives and successfully reduced costs and improved profitability. The Company has positioned itself to increase sales and profitability, including the successful completion of a supplier agreement that was entered into in May 2002, which increases sales each year through 2005. Also, the Company has been successful in obtaining additional business from other customers and expects to have increased growth in 2005. The increase in business coupled with the changes in cost structure are expected to have a positive impact on profitability in 2005.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15d, and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting: There were no changes in the Company's internal control over financial reporting during the Company's fourth fiscal quarter ended December 25, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required to be furnished by Items 401, 405 and 406 of regulation S-K is included in our definitive Proxy Statement for our 2004 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates (the "2004 Proxy Statement") and is incorporated herein by reference. Reference is made to the additional item under Part I of this report regarding our executive officers.

**ITEM 11. EXECUTIVE COMPENSATION.**

Information required to be furnished by Item 402 of Regulation S-K is included in our 2004 Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information required to be furnished by Items 201(d) and 403 of Regulation S-K is included in our 2004 Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Information required to be furnished by Item 404 of Regulation S-K is included in our 2004 Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required to be furnished by Item 9(e) of Schedule 14A of Regulation S-K is included in our 2004 Proxy Statement and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. Financial Statements.

The Registrant's consolidated financial statements, for the fiscal years ended December 25, 2004, December 27, 2003, and December 28, 2002, together with the Reports of Independent Auditors are filed as part of this Form 10-K report. See ITEM 8: Financial Statements and Supplementary Data.

2. Financial Statement Schedules.

|   | <b><u>Page</u></b> |
|---|--------------------|
| Schedule II--Valuation and Qualifying Accounts. | 45                 |

All other schedules are not submitted because they are not applicable or because the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits.

Reference is made to the Exhibit Index which is found on the last page of the body of this Form 10-K Annual Report preceding the exhibits.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

CLARION TECHNOLOGIES, INC.

Date: March 25, 2005

/s/ William Beckman

William Beckman  
President

In accordance with the Securities Exchange Act of 1934, this report has been signed below on the 25th day of March 2005, by the following persons on behalf of the Registrant and in the capacities indicated. The persons named below each hereby appoint William Beckman and Edmund Walsh as his attorney-in-fact to sign in his name and on his behalf, and to file with the Commission any and all amendments to this report on Form 10-K to the same extent and with the same effect as if done personally.

/s/ William Beckman

William Beckman, President  
(Principal Executive Officer)

/s/ Edmund Walsh

Edmund Walsh, Chief Financial Officer  
(Principal Financial Officer)

/s/ Jack D. Rutherford

Jack D. Rutherford, Director

Anthony Wauterlek, Director

/s/ Frederick A. Sotok

Frederick A. Sotok, Director

/s/ Kenneth La Grand

Kenneth La Grand, Director

Craig A. Wierda, Director

Frank T. Steck, Director

/s/ Steven W. Olmstead

Steven W. Olmstead, Director

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**  
**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**

| Description                     | Balance at<br>Beginning<br>of Period | Additions             |   | Balance at End<br>of Period |
|---------------------------------|--------------------------------------|-----------------------|---|-----------------------------|
|                                 |                                      | Charged to<br>Expense | Uncollectible<br>Accounts<br>Written Off,<br>Net of<br>Recoveries |                             |
| Year Ended December 25, 2004    |                                      |                       |   |                             |
| Deducted from assets accounts:  |                                      |                       |   |                             |
| Allowance for doubtful accounts | \$ 160,000                           | -                     | -   | \$ 160,000                  |
| Year Ended December 27, 2003    |                                      |                       |   |                             |
| Deducted from assets accounts:  |                                      |                       |   |                             |
| Allowance for doubtful accounts | \$ 170,000                           | \$ 66,000             | \$ 76,000   | \$ 160,000                  |
| Year Ended December 28, 2002    |                                      |                       |   |                             |
| Deducted from assets accounts:  |                                      |                       |   |                             |
| Allowance for doubtful accounts | \$ 559,000                           | \$ 32,000             | \$ 421,000  | \$ 170,000                  |

45

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| <u>EXHIBIT<br/>NUMBER</u> | <u>DESCRIPTION</u>   |
|---------------------------|--|
| 3(a)                      | Certificate of Incorporation (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)  |
| 3(b)                      | Certificate of Amendment of Certificate of Incorporation amending Article IV (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)  |
| 3(c)                      | Bylaws of the Company (filed as exhibit to Form 8-K dated October 27, 1998 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 4(a)                      | Specimen of Common Stock Certificate (filed as exhibit to Form 10-SB dated August 12, 1994 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 4(b)                      | Certificate of Designations of Clarion Technologies, Inc. for Series A Convertible Preferred Stock (filed as an exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)  |
| 4(c)                      | Certificate of Designations of Clarion Technologies, Inc. for Series B Convertible Preferred Stock (filed as an exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)  |
| 10(a)                     | Amended and Restated Credit Agreement dated April 14, 2003, by and among Clarion Technologies, Inc., its subsidiaries party thereto, and Bank One, NA (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference) |
| 10(b)                     | First Amendment to Amended and Restated Credit Agreement dated September 26, 2003 (filed as exhibit to Form 10K dated March 5, 2004 (Commission File No. O-24690) and incorporated herein by reference)  |
| 10(c)                     | Second Amendment to Amended and Restated Credit Agreement dated January 26, 2004 (filed as exhibit to Form 10K dated March 5, 2004 (Commission File No. O-24690) and incorporated herein by reference)   |
| 10(d)                     | Third Amendment to Amended and Restated Credit Agreement dated March 12, 2004 (filed as exhibit to Form 10K dated March 5, 2004 (Commission File No. O-24690) and incorporated herein by reference)  |
| 10(e)                     | Fourth Amendment to Amended and Restated Credit Agreement dated April 14, 2004   |
| 10(f)                     | Fifth Amendment to Amended and Restated Credit Agreement dated April 23, 2004  |
| 10(g)                     | Sixth Amendment to Amended and Restated Credit Agreement dated July 30, 2004   |
| 10(h)                     | Waiver and Seventh Amendment to Amended and Restated Credit Agreement dated November 9, 2004   |
| 10(i)                     | Waiver and Eighth Amendment to Amended and Restated Credit Agreement dated March 25, 2005.   |
| 10(j)                     | Revolving Note dated March 12, 2004, issued pursuant to the Amended and Restated Credit Agreement (filed as exhibit to Form 10K dated March 5, 2004 (Commission File No. O-24690) and incorporated herein by reference)  |
| 10(k)                     | Term Note dated April 14, 2003, issued pursuant to the Amended and Restated Credit Agreement (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)  |

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| <u>EXHIBIT<br/>NUMBER</u> | <u>DESCRIPTION</u>   |
|---------------------------|--|
| 10(l)                     | Capex Note dated April 14, 2003, issued pursuant to the Amended and Restated Credit Agreement (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 10(m)                     | Exchange Agreement dated as of December 27, 2002, between Clarion Technologies, Inc. and each of the holders of notes named therein (filed as an exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 10(n)                     | Amended and Restated Senior Subordinated Loan Agreement dated as of December 27, 2002, between Clarion Technologies, Inc. and its subsidiary companies party thereto, William Blair Mezzanine Capital Fund III, L.P., and other Lenders party thereto (filed as an exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)                           |
| 10(o)                     | Waiver, Consent and First Amendment to Amended and Restated Senior Subordinated Loan Agreement dated April 14, 2003, between Clarion Technologies, Inc. and its subsidiary companies party thereto, William Blair Mezzanine Capital Fund III, L.P., and other Lenders party thereto (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference) |
| 10(p)                     | Second Amendment to Amended and Restated Senior Subordinated Loan Agreement, dated April 23, 2004  |
| 10(q)                     | Consent and Third Amendment to Amended and Restated Senior Subordinated Loan Agreement, dated August 2, 2004   |
| 10(r)                     | Fourth Amendment to Amended and Restated Senior Subordinated Loan Agreement, dated November 8, 2004  |
| 10(s)                     | Waiver and Fifth Amendment to Amended and Restated Senior Subordinated Loan Agreement, dated March 25, 2005  |
| 10(t)                     | Senior Subordinated Notes dated December 27, 2002, issued pursuant to the Amended and Restated Senior Subordinated Loan Agreement (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 10(u)                     | Put Agreements dated as of December 27, 2002, between Clarion Technologies, Inc. and William Blair Mezzanine Capital Fund III, L.P. (filed as an exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)   |
| 10(v)                     | Amended and Restated Registration Rights Agreement dated as of December 27, 2002 between Clarion Technologies, Inc., William Blair Mezzanine Capital Fund III, L.P. and other Lenders party thereto (filed as exhibit to Form 8-K dated December 27, 2002 (Commission File No. 0-24690) and incorporated herein by reference)  |
| 10(w)                     | Supply Agreement between Clarion Technologies, Inc. and Electrolux Home Products, Inc. dated May 1, 2002 (filed as exhibit to Form 10-Q for the quarter ended June 29, 2002 (Commission File No. 0-24690) and incorporated herein by reference)  |

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### EXHIBIT NUMBER

### DESCRIPTION

10(x) Lease Agreement between Clarion Technologies, Inc. and Cougar Development, LLC dated October 13, 2000, as amended (filed as exhibit to Form 10K/A dated April 28, 2003 (Commission File No. 0-24690) and incorporated herein by reference)

The following material contracts identified with \* preceding the exhibit number are agreements or compensation plans with or relating to executive officers, directors or related parties.

- \*10(y) Clarion House, Inc. 1998 Stock Option Plan (filed as exhibit to Form 10-KSB for the year ended December 31, 1998 (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(z) Clarion Technologies, Inc. 1999 Stock Incentive Plan (filed as exhibit to Form 10-KSB for the year ended December 31, 1999 (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(aa) First Amendment to the Clarion Technologies, Inc. 1999 Stock Incentive Plan (filed as exhibit to Proxy Statement for 2000 Annual Meeting of Shareholders (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(bb) Clarion Technologies, Inc. 2000 Employees Stock Purchase Plan (filed as appendix to Proxy Statement for 2000 Annual Meeting of Shareholders (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(cc) Clarion Technologies, Inc. Director Deferred Stock Purchase Plan (filed as exhibit to Form 10-K for the year ended December 29, 2001 (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(dd) Employment Agreement, dated March 1, 1999, between Clarion Plastics Technologies, Inc., Clarion Technologies, Inc. and William Beckman (filed as exhibit to Form 10-KSB for the year ended December 31, 1999 (Commission File No. 0-24690) and incorporated herein by reference)
- \*10(ee) Amendment to Employment Agreement dated as of August 1, 2003 between Clarion Technologies, Inc. and William Beckman
- 21 Subsidiaries of the Registrant
- 23 Consent of Independent Registered Public Accounting Firm
- 24 Power of Attorney (included on page 44)
- 31(a) Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 31(b) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 32(a) Certification of President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 32(b) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

**EXHIBIT 23**

**EXHIBIT 23 Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-36356 and 333-36358) of Clarion Technologies, Inc. of our report dated February 11, 2005, relating to the Consolidated Financial Statements and Schedule which appears in this Form 10-K.

/s/ BDO Seidman, LLP

Grand Rapids, Michigan

March 25, 2005



EXHIBIT 31(a)

CERTIFICATE OF THE  
CHIEF EXECUTIVE OFFICER OF  
CLARION TECHNOLOGIES, INC.

I, William Beckman, certify that:

1. I have reviewed this annual report on Form 10-K of Clarion Technologies, Inc.;
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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting; and
6. The registrant's other certifying officer and I have indicated in this annual report whether 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.

CLARION TECHNOLOGIES, INC.

By: /s/ William Beckman

William Beckman  
Its: President

Date: March 25, 2005

EXHIBIT 31(b)

CERTIFICATE OF THE  
CHIEF FINANCIAL OFFICER OF  
CLARION TECHNOLOGIES, INC.

I, Edmund Walsh, certify that:

1. I have reviewed this annual report on Form 10-K of Clarion Technologies, Inc.;
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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting; and
6. The registrant's other certifying officer and I have indicated in this annual report whether 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.

CLARION TECHNOLOGIES, INC.

By: /s/ Edmund Walsh

Edmund Walsh  
Its: Chief Financial Officer

Date: March 25, 2005

**EXHIBIT 32(a)**

**EXHIBIT 32(a) CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Clarion Technologies, Inc. (the Company) on Form 10-K for the fiscal year ended December 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, William Beckman, President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

CLARION TECHNOLOGIES, INC.

By: /s/ William Beckman

William Beckman  
President  
Date: March 25, 2005

**EXHIBIT 32(b)**

**EXHIBIT 32(b) CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Clarion Technologies, Inc. (the Company) on Form 10-K for the fiscal year ended December 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Edmund Walsh, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Edmund Walsh

Edmund Walsh  
Chief Financial Officer  
Date: March 25, 2005