

Edgar Filing: PSC INC - Form 10-Q

PSC INC
Form 10-Q
May 09, 2001

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 30, 2001

OR

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

Commission File No. 0-9919

PSC INC.
(Exact name of Registrant as Specified in Its Charter)

New York

(State or other jurisdiction of
incorporation or organization)

16-0969362

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

4800 SW Meadows Rd. Suite 300, Portland, Oregon

(Address of principal executive offices)

97035

(Zip Code)

503-534-3550

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 12 months preceding (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

As of May 3, 2001, there were 12,458,071 shares of common stock outstanding.

=====

PSC INC. AND SUBSIDIARIES

Edgar Filing: PSC INC - Form 10-Q

INDEX

PART I: FINANCIAL INFORMATION

Item 1	Financial Statements	Page Number

	Consolidated Balance Sheets as of March 30, 2001 (Unaudited) and December 31, 2000	3-4
	Consolidated Statements of Operations and Accumulated Deficit for the three months ended: March 30, 2001 (Unaudited) and March 31, 2000 (Unaudited)	5
	Consolidated Statements of Cash Flows for the three months ended: March 30, 2001 (Unaudited) and March 31, 2000 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7-12
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	13-15
Item 3	Quantitative and Qualitative Disclosures About Market Risk	15

PART II: OTHER INFORMATION

Item 1	Legal Proceedings	16
Item 2	Changes in Securities	16
Item 3	Defaults upon Senior Securities	16
Item 4	Submission of Matters to a Vote of Security Holders	16
Item 5	Other Information	16
Item 6	Exhibits and Reports on Form 8-K	16

2

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

PSC INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except per share data)

March 30, 2001

(Unaudited)

December 31, 2000

ASSETS

Edgar Filing: PSC INC - Form 10-Q

CURRENT ASSETS:	
Cash and cash equivalents	\$ 3,282
Accounts receivable, net of allowance for doubtful accounts of \$1,249 and \$793, respectively	38,465
Inventories	22,562
Prepaid expenses and other	3,372

TOTAL CURRENT ASSETS	67,681
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$29,635 and \$28,692, respectively	15,015
INTANGIBLE AND OTHER ASSETS, net of accumulated amortization of \$42,424 and \$39,515, respectively	85,392

TOTAL ASSETS	\$168,088
	=====

See accompanying notes to the Consolidated Financial Statements.

3

PSC INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except per share data)
(Continued)

	March 30, 2001	December
	-----	-----
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 7,215	
Accounts payable	26,957	
Accrued expenses	11,819	
Accrued payroll and related employee benefits	6,032	

TOTAL CURRENT LIABILITIES	52,023	
LONG-TERM DEBT, less current maturities	122,544	
OTHER LONG-TERM LIABILITIES	1,964	
SHAREHOLDERS' EQUITY/(DEFICIT):		
Series A convertible preferred shares, par value \$.01; 110 shares authorized, issued and outstanding (\$11,000 aggregate liquidation value)	1	
Series B preferred shares, par value \$.01; 175 authorized, no shares issued and outstanding	-	
Undesignated preferred shares, par value \$.01; 9,715 authorized, no shares issued and outstanding	-	

Edgar Filing: PSC INC - Form 10-Q

Common shares, par value \$.01; 40,000 authorized		126
12,461 and 12,313 shares issued and outstanding		74,004
Additional paid-in capital		(77,567)
Accumulated deficit		(3,650)
Accumulated other comprehensive loss		(1,357)
Less treasury stock repurchased at cost, 180 shares		-----
 TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)		 (8,443) -----
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)		 \$168,088 =====

See accompanying notes to the Consolidated Financial Statements.

4

PSC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
(All amounts in thousands, except per share data)

	Three Months Ended	
	March 30, 2001	March
	(Unaudited)	(Un
NET SALES	\$ 50,474	
COST OF SALES	31,022	
Gross profit	----- 19,452	
OPERATING EXPENSES:		
Engineering, research and development	4,889	
Selling, general and administrative	14,161	
Severance and other costs	513	
Amortization of intangibles resulting from business acquisitions	2,764	
Loss from operations	----- (2,875)	
INTEREST AND OTHER INCOME/(EXPENSE):		
Interest expense	(4,332)	
Interest income	62	
Gain on asset sale	3,164	
Other income	50	
	----- (1,056)	
Loss before income tax provision/(benefit)	----- (3,931)	
Income tax provision/(benefit)	509	
Net loss	----- (\$4,440) =====	=====

Edgar Filing: PSC INC - Form 10-Q

NET LOSS PER COMMON AND COMMON	
EQUIVALENT SHARE:	
Basic	(\$0.36)
Diluted	(\$0.36)
WEIGHTED AVERAGE NUMBER OF COMMON AND	
COMMON EQUIVALENT SHARES OUTSTANDING:	
Basic	12,280
Diluted	12,280
ACCUMULATED DEFICIT:	
Accumulated deficit, beginning of period	(\$73,127)
Net loss	(4,440)

Accumulated deficit, end of period	(\$77,567)
	=====

See accompanying notes to the Consolidated Financial Statements.

5

PSC INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (All amounts in thousands)

	Three Months March 30, 2001
	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	(\$4,440)
Adjustments to reconcile net loss to net cash	
Provided by operating activities:	
Depreciation and amortization	4,213
Gain on disposition of assets	(3,164)
Loss on royalty settlement	-
Deferred tax assets	-
(Increase)/decrease in assets:	
Accounts receivable	939
Inventories	(576)
Prepaid expenses and other	1,028
Increase/(decrease) in liabilities:	
Accounts payable	1,181
Accrued expenses	659
Accrued payroll and related employee benefits	(906)

Net cash (used in)/provided by operating activities	(1,066)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures, net	(300)
Net cash paid for business	-
Proceeds from sale of assets	3,800
Additions to intangible and other assets	(681)

Net cash provided by/(used in) investing activities	2,819

Edgar Filing: PSC INC - Form 10-Q

CASH FLOWS FROM FINANCING ACTIVITIES:	
Additions to long-term debt	-
Payments of long-term debt	(2,850)
Additions/(Reductions) to other long-term liabilities, net	(49)
Exercise of options and issuance of common shares	98
Tax benefit from exercise or disposition of stock options	-

Net cash (used in)/provided by financing activities	(2,801)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	
	(1,131)

NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(2,179)
CASH AND CASH EQUIVALENTS:	
Beginning of period	5,461

End of period	\$ 3,282
	=====

See accompanying notes to the Consolidated Financial Statements.

6

PSC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
(All amounts in thousands, except per share data)
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared by the Company without audit. In the opinion of management, these financial statements include all adjustments necessary to present fairly the Company's financial position as of March 30, 2001, the results of operations for the three months ended March 30, 2001 and March 31, 2000 and its cash flows for the three months ended March 30, 2001 and March 31, 2000. The results of operations for the three months ended March 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2000 annual report on Form 10-K.

(2) INVENTORIES

Inventories are stated at the lower of cost or market using the first-in, first-out method. Inventory costs include material, direct labor and overhead and consist of the following:

	March 30, 2001	December 31, 2000
	-----	-----
Raw materials	\$12,150	\$12,078
Work-in-process	4,854	4,699

Edgar Filing: PSC INC - Form 10-Q

Finished goods	5,558	5,509
	\$22,562	\$22,286
	=====	=====

(3) LONG-TERM DEBT

Long-term debt consists of the following:

	March 30, 2001	December 31, 2000
	-----	-----
Term loan	\$ 64,695	\$ 67,500
Senior revolving credit	34,000	34,000
Subordinated term loan	29,682	29,667
Subordinated promissory note	938	938
Other	444	504
	-----	-----
	129,759	132,609
Less: current maturities	7,215	7,580
	-----	-----
	\$122,544	\$125,029
	=====	=====

7

PSC INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
 (All amounts in thousands, except per share data)
 (Unaudited)

(4) ACQUISITION

On January 19, 2000, the Company acquired all of the outstanding shares of Percon, a manufacturer of wireless and batch portable data terminals, decoders, input devices and data management software, for approximately \$57.0 million. The acquisition was accounted for under the purchase method of accounting and accordingly, the results of Percon's operations are included in the 2000 consolidated statements of operations since the date of acquisition. The excess purchase price over the fair value of net assets acquired was approximately \$46.0 million and is being amortized on a straight-line basis over 10 years.

The following unaudited pro forma condensed results of operations combine the operations of the Company with those of Percon as if the acquisition was consummated on January 1, 2000. The pro forma information is presented after giving effect to certain adjustments for amortization of goodwill, incremental interest expense on acquisition financing and the related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results that would have been achieved during the periods indicated and are not intended to be indicative of future results.

	Pro Forma Three Months Ended	
	-----	-----
	March 30, 2001	March 31, 2000
	-----	-----
Net sales	\$50,474	\$62,198

Edgar Filing: PSC INC - Form 10-Q

Loss from operations	(2,875)	(2,597)
Net loss	(4,440)	(4,559)
Net loss per common and common equivalent share:		
Basic	(\$0.36)	(\$0.38)
Diluted	(\$0.36)	(\$0.38)
Weighted average number of common and common equivalent shares outstanding:		
Basic	12,280	12,022
Diluted	12,280	12,022

(5) ASSET SALE

As part of the Company's overall restructuring plans, the Company sold its verification and imager product lines on February 16, 2001 for \$3.8 million. The gain realized on the sale was approximately \$3.2 million.

In connection with the sale, the Company was required to use 50% of the net cash proceeds to repay amounts borrowed under its senior credit facilities.

8

PSC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
(All amounts in thousands, except per share data)
(Unaudited)

(6) SEVERANCE AND OTHER COSTS

During the first quarter of 2001, the Company recorded a pretax charge of \$0.5 million for employee severance and benefit costs associated with the elimination of positions resulting primarily from its plans to consolidate the Webster, New York operations with its Eugene, Oregon operations.

As of December 31, 2000, the amount of the severance accruals was approximately \$2.7 million. As of March 30, 2001, the amount of the severance accruals was approximately \$2.1 million, which relates to current contractual obligations.

(7) SHAREHOLDERS' EQUITY

Other comprehensive loss reports changes in equity that result from transactions and economic events other than transactions with owners. Other comprehensive loss is the total of net loss and all other non-owner changes in equity.

	Three Months Ended	
	March 30, 2001	March 31, 2000
	-----	-----
Net loss	(\$4,440)	(\$3,150)
Foreign currency translation adjustment	(1,130)	(733)
	-----	-----
Comprehensive loss	(\$5,570)	(\$3,883)

Edgar Filing: PSC INC - Form 10-Q

During the three month period ended March 30, 2001, employees purchased 149 shares at approximately \$0.64 per share under the provisions of the Company's Employee Stock Purchase Plan.

Changes in the status of options under the Company's stock option plans are summarized as follows:

	January 1, 2001 to March 30, 2001 -----	Weighted Average Price -----	January 1, 2000 to December 31, 2000 -----
Options outstanding at beginning of period	3,222	\$4.00	3,221
Options granted	52	1.41	1,025
Options exercised	-	-	(78)
Options forfeited/canceled	(173)	4.15	(946)
Options outstanding at end of period	3,101 =====	\$3.95	3,222 =====
Number of options at end of period:			
Exercisable	1,900	\$4.99	1,969
Available for grant	263		255

9

PSC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
(All amounts in thousands, except per share data)
(Unaudited)

During the three month period ended March 30, 2001, 113 forfeited options were cancelled due to the expiration of the 1987 Stock Option Plan in December 1997. These options are not available for future grants.

(8) NET LOSS PER COMMON AND COMMON EQUIVALENT SHARE

Basic EPS was computed by dividing reported earnings available to common shareholders by weighted average shares outstanding during the year. Diluted EPS was the same as basic EPS for the three-month period ended March, 30, 2001.

The following options, warrants and preferred shares were not included in the computation of diluted EPS since the effect of these securities would have been antidilutive. Options to purchase 3,101 and 3,243 shares of common stock at a weighted average price of \$3.95 and \$7.84 per share were outstanding for the three months ended March 30, 2001 and March 31, 2000, respectively. Warrants and preferred shares to purchase 1,155 and 1,375 common shares at a weighted average price of \$5.68 and \$8.00 per share, respectively, were outstanding for the three months ended March 30, 2001 and

Edgar Filing: PSC INC - Form 10-Q

March 31, 2000.

	March 30, 2001			Three Months Ended
	Net loss (numerator)	Shares (denominator)	Per Share Amount	Net loss (numerator)
Basic and Diluted EPS: Net loss available to common shareholders	(\$4,440) =====	12,280 =====	(\$0.36) =====	(\$3,150) =====

10

PSC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
(All amounts in thousands, except per share data)
(Unaudited)

(9) DERIVATIVES

The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended as of January 1, 2001 and the effect was not material.

Foreign Currency Exchange Rate Risk:

The Company's exposure to foreign currency relates primarily to its international subsidiaries. Sales to certain countries are denominated in their local currency. The Company enters into foreign currency forward exchange contracts to minimize the effect of foreign currency fluctuations relating to these transactions and commitments denominated in foreign currencies. The foreign exchange contracts generally have maturities of up to 60 days and require the Company to exchange foreign currencies for U.S. dollars at maturity, at rates agreed to at the inception of the contracts. The foreign exchange contracts have not been designated as hedging instruments and the gains and losses on forward contracts are recorded in the consolidated statements of operations.

(10) SUBSEQUENT EVENTS

On March 31, 2001, the Company obtained a waiver from its senior lenders which extended the expiration date of the credit facilities until April 13, 2001, and on the same date, the Company received a waiver from its subordinated lenders which deferred interest payments on the subordinated notes until April 13, 2001.

On April 13, 2001, the Company obtained an agreement from its senior lenders

Edgar Filing: PSC INC - Form 10-Q

extending the maturity date of the credit facility to April 1, 2002. The agreement modifies certain provisions of the amended credit facilities including financial covenants and is subject to certain terms and conditions. Among other provisions, the commitment for its working capital facility was reduced from \$45.0 million to \$42.0 million, and the interest rate for the senior credit facilities was increased to prime + 2.25% from April 1, 2001 to September 30, 2001, prime + 2.50% from October 1, 2001 to December 31, 2001 and prime + 3.50% from January 1, 2002 to April 1, 2002. As of the current date, the Company has \$34.0 million outstanding under its working capital facility excluding foreign exchange contracts and is restricted from borrowing additional amounts as working capital advances except that prior to September 30, 2001, the Company will be permitted to borrow an amount not to exceed \$2.0 million to bridge the closings on certain non-core asset sales. The Company is required to use at least 50% of the net cash proceeds of the sale of certain non-core assets to repay amounts borrowed under its senior credit facilities. The Company will be required to pay from \$1.5 million to \$4.5 million in bank modification fees subject to certain terms and conditions. As of March 30, 2001, the Company had \$64.7 million outstanding under its term loan. The term loan and senior revolving credit facilities are due and payable on April 1, 2002.

11

PSC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 30, 2001 AND MARCH 31, 2000
(All amounts in thousands, except per share data)
(Unaudited)

In connection with the subordinated credit facilities, the agreement obtained on April 13, 2001 modifies certain provisions of the credit facilities including financial covenants as well as providing for repricing of the warrants to purchase 975 Common Shares of the Company held by subordinated lenders to \$1.15 per share. The Company has agreed to pay the subordinated lenders on a pro rata basis for fees up to a maximum payment of \$1.5 million based upon the average prevailing per share market price of the Company's Common Shares on the 15 trading days immediately prior to April 2, 2002, or, if the subordinated lenders elect, April 2, 2003. Such payment will be made in sequential installments of 30, 90 and 150 days after April 1, 2002 or April 1, 2003, as applicable. The Company also agreed to pay all interest being accrued from September 30, 2000 until March 31, 2002 on April 2, 2002.

The Company is required to meet certain financial covenants in relation to its amended senior and subordinated credit facilities including, but not limited to minimum earnings before interest, taxes, depreciation, amortization, and certain non-recurring charges, as defined in the agreements, maximum capital expenditures, and minimum eligible accounts receivable and inventory balances.

The Company will be seeking further amendments to its senior and subordinated credit facilities or refinancing with debt and/or equity. If the Company is unsuccessful in obtaining such further amendments or refinancing prior to April 1, 2002, management believes that the Company will be unable to pay the amounts that would be due and payable at that time.

On May 3, 2001, the Company entered into a contract to sell its Webster, New York facility. In November 2000, the Company announced the consolidation of its Webster, New York headquarters with its operations in Eugene, Oregon. As a result, the Company recorded an \$8.6 million write-down in connection with the anticipated sale of the Webster, New York facility in accordance with Statement of Financial Accounting Standards No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets

Edgar Filing: PSC INC - Form 10-Q

to Be Disposed of". SFAS No. 121 requires an impairment loss to be recognized if the carrying amount of an asset held for disposal exceeds the fair value of the asset less the cost to sell the asset. The facility now approximates fair market value less any commissions or fees to be paid upon disposal. The loss recognized in 2000 was \$7.9 million on the facility and related leasehold improvements and \$0.6 million on other assets and is included in the consolidated statements of operations. The Company expects the sale to be completed soon.

12

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

General

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements of the Company's December 31, 2000 annual report on Form 10-K.

Overview

As part of a previously announced restructuring plan to reduce debt and achieve greater profitability, certain non-core assets were identified for disposition. On February 16, 2001, the Company sold its verification and imager product lines for \$3.8 million.

Results of Operations: Three Months ended March 30, 2001 and March 31, 2000

Net Sales. Net sales during the three months ended March 30, 2001 decreased

\$10.9 million or 17.9% compared with the same period in 2000. The decrease in net sales is attributed primarily to the loss of the sales of the U-Scan(R) Express Self-Checkout System of \$10.8 million and decreased sales of handheld scanners of \$0.8 million, offset by increased sales of Mobile & Wireless products of \$1.4 million.

Gross Profit. Gross profit during the three months ended March 30, 2001

decreased \$4.1 million or 17.5% compared with the same period in 2000. As a percentage of sales, gross profit did not change. The decrease in gross profit dollars is primarily due to the loss of sales of the U-Scan(R) Express Self-Checkout System.

Engineering, Research and Development. Engineering, Research and Development

(ER&D) expenses decreased \$0.9 million or 16.0%, compared to the same period in 2000. As a percentage of sales, ER&D was 9.7% in the first quarter of 2001 versus 9.5% of net sales in the first quarter of 2000. The decrease in ER&D is primarily attributable to cost savings efforts brought about by business restructuring.

Selling, General and Administrative. Selling, General and Administrative (SG&A)

expenses decreased \$0.3 million compared to the first quarter of 2000. As a percentage of sales, SG&A was 28.1% in 2001 versus 23.5% in 2000. The dollar decrease is primarily attributable to cost savings resulting from restructuring

Edgar Filing: PSC INC - Form 10-Q

activities of \$2.4 million offset by increased legal and professional fees of \$1.8 million associated with securing recent debt waivers and amendments and increased foreign exchange losses of \$0.3 million. The percentage increase is due to costs being spread over a lower sales base.

Severance and Other Costs. During the first quarter of 2001, the Company

recorded a pretax charge of \$0.5 million for employee severance and benefit costs resulting primarily from its plans to consolidate the Webster, New York operations with its Eugene, Oregon operations. During the first quarter of 2000, the Company recorded a pretax charge of \$2.0 million associated with the acquisition of Percon and reorganization actions in connection with the Company's sales force.

Interest Expense. Interest expense increased \$0.9 million versus the comparable

period in 2000. The increase is primarily due to a 2% default penalty assessed as part of the waiver amendments reached with senior debt holders and accrued by the Company for the three months ended March 30, 2001.

13

Gain on asset sale. As part of the Company's overall restructuring plans, the

Company sold its verification and imager product lines on February 16, 2001 for \$3.8 million. The gain realized on the sale was approximately \$3.2 million. The disposition of these product lines did not have a material effect on the Company's results of operations for the three months ended March 30, 2001, nor will the disposition of these product lines materially impact the full year 2001.

Income Tax Provision/(Benefit). The Company's effective tax rate was (13.0%) in

2001 versus 29.8% in 2000 as the Company has not reflected the tax benefit associated with current operating losses by placing a full valuation allowance against its deferred tax assets.

Liquidity and Capital Resources:

Current assets decreased \$4.0 million from December 31, 2000 primarily due a decrease in cash, accounts receivable and prepaid expenses. Current liabilities increased \$0.7 million from December 31, 2000 primarily due to an increase in accounts payable and accrued expenses offset by a decrease in accrued payroll and related employee benefits. As a result, working capital decreased \$3.3 million from December 31, 2000.

Property, plant and equipment expenditures totaled \$0.3 million for the three months ended March 30, 2001 compared with \$1.3 million for the three months ended March 31, 2000. The 2001 expenditures are related to new product tooling, manufacturing equipment, and computer software and hardware.

On March 31, 2001, the Company obtained a waiver from its senior debt holders which extended the expiration date of the credit facilities until April 13, 2001 and on the same date, the Company received a waiver from the subordinated lenders which deferred interest payments until April 13, 2001.

On April 13, 2001, the Company obtained an agreement from its senior lenders extending the maturity date of the credit facility to April 1, 2002. The agreement modifies certain provisions of the amended credit facilities including financial covenants and is subject to certain terms and conditions. Among other

Edgar Filing: PSC INC - Form 10-Q

provisions, the commitment for its working capital facility was reduced from \$45.0 million to \$42.0 million, and the interest rate for the senior credit facilities was increased to prime + 2.25% from April 1, 2001 to September 30, 2001, prime + 2.50% from October 1, 2001 to December 31, 2001 and prime + 3.50% from January 1, 2002 to April 1, 2002. As of the current date, the Company has \$34.0 million outstanding under its working capital facility excluding foreign exchange contracts and is restricted from borrowing additional amounts as working capital advances except that prior to September 30, 2001, the Company will be permitted to borrow an amount not to exceed \$2.0 million to bridge the closings on certain non-core asset sales. The Company is required to use at least 50% of the net cash proceeds of the sale of the non-core assets to repay amounts borrowed under its senior credit facilities. The Company will be required to pay from \$1.5 million to \$4.5 million in bank modification fees subject to certain terms and conditions. The term loan and senior revolving credit facilities are due and payable on April 1, 2002.

In connection with the subordinated credit facilities, the agreement obtained on April 13, 2001 modifies certain provisions of the credit facilities including financial covenants as well as providing for repricing of the warrants to purchase 975 Common Shares of the Company held by subordinated lenders to \$1.15 per share. The Company has agreed to pay the subordinated lenders on a pro rata basis for fees up to a maximum payment of \$1.5 million based upon the average prevailing per share market price of the Company's Common Shares on the 15 trading days immediately prior to April 2, 2002, or if the subordinated lenders elect, April 2, 2003. Such payment will be made in sequential installments of 30, 90 and 150 days after April 1, 2002 or April 1, 2003, as applicable. The Company also agreed to pay all interest being accrued from September 30, 2000 until March 31, 2002 on April 2, 2002.

14

The Company's liquidity is dependent upon its ability to successfully generate positive cash flow from operations and complete non-core asset sales. Provided that the Company continues to meet the performance targets from its restructured operating plan, management believes the Company will generate sufficient cash flows in 2001 to meet its obligations. The Company will be required to pay up to \$6.0 million in bank fees as indicated above.

The Company will be seeking further amendments to its senior and subordinated credit facilities or refinancing with debt and/or equity. If the Company is unsuccessful in obtaining such further amendments or refinancing prior to April 1, 2002, management believes that the Company will be unable to pay the amounts that would be due and payable at that time.

In the opinion of management, inflation has not had a material effect on the operations of the Company.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

None.

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Certain statements contained in this Management's Discussion and Analysis may be forward-looking in nature, or "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Management cautions that these statements are estimates of future performance and are highly dependent upon a variety of important factors, which could cause actual results to differ materially from the estimate. These factors include the market acceptance of

Edgar Filing: PSC INC - Form 10-Q

products, competitive product offerings, the disposition of legal issues and the successful completion of non-core asset sales. Profits and available cash flows also will be affected by the Company's ability to control manufacturing and operating costs. Reference should be made to filings with the Securities and Exchange Commission for further discussion of factors that could affect the Company's future results.

15

PART II: OTHER INFORMATION

Item 1: Legal Proceedings:

The description of the Company's legal proceedings set forth in Item 3 of the Company's Annual Report on Form 10-K for the fiscal period ended December 31, 2000 is incorporated herein by reference.

Item 2: Changes in Securities: None

Item 3: Defaults upon Senior Securities: None

Item 4: Submission of Matters of Shareholders to a Vote of Security Holders:

None

Item 5: Other Information: None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Amendment to Borey Employment Agreement, dated February 2, 2001

(b) Reports on Form 8-K: None

16

SIGNATURES

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

PSC Inc.

DATE: May 8, 2001

By: /s/ Edward J. Borey

Edward J. Borey
President, Chief Executive Officer and Director

Edgar Filing: PSC INC - Form 10-Q

DATE: May 8, 2001

By: /s/ Paul M. Brown

Paul M. Brown
Vice President and Chief Financial Officer
(Principal Financial Officer)