

PEAK INTERNATIONAL LTD
Form 10-Q
August 16, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 June 30, 2004

OR

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

For the transition period from _____ to _____

Commission File Number 0-29332

PEAK INTERNATIONAL LIMITED

(Exact Name of Registrant as Specified in its Charter)

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Incorporated in Bermuda with limited liability
(State or other jurisdiction of

incorporation or organization)

44091 Nobel Drive, P.O. Box 1767, Fremont, California
(Address of principal executive offices)

None
(I.R.S. Employer

Identification Number)

94538
(Zip Code)

(510) 449-0100

(Registrant's telephone number)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 9, 2004

<u>Class</u>	<u>Outstanding at August 9, 2004</u>
Common Stock, \$0.01 Par Value	12,394,949

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Operations

(in thousands of United States Dollars, except share and per share data)

	Three Months Ended June 30,			
	2004		2003	
	(Unaudited)		(Unaudited)	
Net Sales	\$ 17,794	100.0%	\$ 15,062	100.0%
Cost of Goods Sold (Note 2)	12,474	70.1%	10,585	70.3%
Gross Profit	5,320	29.9%	4,477	29.7%
Selling and Marketing expenses (Note 3)	3,148	17.7%	2,782	18.5%
General and Administrative expenses	1,703	9.6%	1,542	10.2%
Research and Development expenses	46	0.3%	43	0.3%
Income from operations	423	2.3%	110	0.7%
Other Expenses net	(80)	(0.4)%	(59)	(0.3)%
Interest Income	33	0.2%	50	0.3%
Income Before Income Taxes	376	2.1%	101	0.7%
Income Tax Expense (Note 4)	(52)	(0.3)%	(179)	(1.2)%
Net Income (Loss)	\$ 324	1.8%	\$ (78)	(0.5)%
EARNINGS (LOSSES) PER SHARE (Note 9)				
Basic	\$ 0.03		\$ (0.01)	
Diluted	\$ 0.03		\$ (0.01)	
Weighted Average Number of Shares Outstanding				
Basic	12,361,000		12,342,000	
Diluted	12,772,000		12,342,000	

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Balance Sheets

(in thousands of United States Dollars, except share and per share data)

	June 30, 2004	March 31, 2004
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 20,156	\$ 20,303
Accounts receivable net of allowance for doubtful accounts of \$233 at June 30, 2004 and \$237 at March 31, 2004	12,821	12,393
Inventories (Note 5)	13,782	13,547
Other receivables, deposits and prepayments	1,432	1,050
Total Current Assets	48,191	47,293
Asset to be disposed of by sale (Note 15)	5,230	5,230
Property, Plant and Equipment net	29,301	28,246
Land Use Right	757	761
Deposits for Acquisition of Property, Plant and Equipment	15	969
Income taxes receivable (Note 6)	5,229	5,085
Other deposit (Note 7)	301	301
TOTAL ASSETS	\$ 89,024	\$ 87,885
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,508	\$ 5,064
Accrued payroll and employee benefits	1,440	1,480
Accrued other expenses	1,212	1,168
Income taxes payable	5,860	5,858
Total Current Liabilities	14,020	13,570
Deferred Income Taxes	1,720	1,670
Total Liabilities	15,740	15,240
Commitments and Contingencies (Note 13)		
Shareholders Equity:		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 12,382,825 shares at June 30, 2004, and 12,312,691 shares at March 31, 2004	124	123
Additional paid-in capital	26,989	26,702
Retained earnings	47,346	47,022
Accumulated other comprehensive loss	(1,175)	(1,202)
Total shareholders equity	73,284	72,645
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 89,024	\$ 87,885

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(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flows

(in thousands of United States Dollars)

	Three Months Ended	
	June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
Operating activities:		
Net income (loss)	\$ 324	\$ (78)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,679	1,545
Deferred income taxes	50	157
Loss on disposal/write-off of property, plant and equipment	29	59
Allowance for doubtful accounts	(4)	(41)
Changes in operating assets and liabilities:		
Accounts receivable	(424)	(602)
Inventories	(235)	(2)
Other receivables, deposits and prepayments	(382)	219
Income taxes receivable	(144)	(685)
Accounts payable-trade	938	1,155
Accrued payroll, employee benefits and other expenses	4	(132)
Income taxes payable	2	19
Net cash provided by operating activities	<u>1,837</u>	<u>1,614</u>
Investing activities:		
Acquisition of property, plant and equipment	(3,253)	(1,113)
Proceeds on disposal of property, plant and equipment	12	12
Decrease (Increase) in deposits for acquisition of property, plant and equipment	954	(56)
Net cash used in investing activities	<u>(2,299)</u>	<u>(1,157)</u>
Financing activities:		
Proceeds from issuance of common stock	288	55
Payment for repurchase of common stock	(2,416)	(2,416)
Net cash provided by (used in) financing activities	<u>288</u>	<u>(2,361)</u>
Net decrease in cash and cash equivalents	(174)	(1,904)
Cash and cash equivalents at beginning of period	20,303	25,928
Effects of exchange rate changes on cash and cash equivalents	27	(30)
Cash and cash equivalents at end of period	<u>\$ 20,156</u>	<u>\$ 23,994</u>
Supplemental cash flow information:		
Cash paid during the period		
Interest	\$ 144	\$ 689
Income taxes	<u>144</u>	<u>689</u>

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(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Notes to Condensed Consolidated Financial Statements

(in thousands of United States Dollars, except share and per share data, unaudited)

(1) Organization and basis of presentation

Peak International Limited (the Company) was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on January 3, 1997. The subsidiaries of the Company are principally engaged in the manufacture and sale of precision engineered packaging products, such as matrix and disk drive trays, shipping tubes, reels and carrier tapes, leadframe boxes and interleaves used in the storage and transportation of semiconductor devices and other electronic components. The Company's principal production facilities are located in the People's Republic of China (the PRC) and the Company maintains offices in Hong Kong, Malaysia, Singapore, Taiwan, and the United States of America.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intra-group balances and transactions have been eliminated on consolidation.

The accompanying condensed consolidated financial information has been prepared by the Company without being audited, in accordance with the instructions to Form 10-Q and therefore do not include all the information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known.

The unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) which in the opinion of management are required for a fair presentation of the Company's interim results. The results for interim periods are not necessarily indicative of the results that may be achieved in the entire year. These condensed consolidated financial statements and notes thereto should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2004.

(2) Cost of goods sold

Included therein was \$58 (unaudited) (2003-\$46, unaudited) write-off of machinery and molds due to technological obsolescence and capacity under-utilization for the three months ended June 30, 2004.

(3) Delivery and freight expenses

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For the three months ended June 30, 2004, the Company incurred delivery and freight expenses of approximately \$894 (unaudited) (2003 \$751, unaudited), which have been included as part of selling and marketing expenses.

(4) Income Tax Expense

Income is subject to taxation in the various countries in which the Company and its subsidiaries operate. In June 2003, the Hong Kong Legislative Council passed a bill increasing the Hong Kong corporate tax rate from 16.0% to 17.5%. The Company revalued its deferred tax liabilities at this new rate and the impact was a \$146 charge to income tax expense in the first quarter of fiscal 2004.

(5) Inventories

	June 30,	March 31,
	2004	2004
	<u> </u>	<u> </u>
	(Unaudited)	
Raw materials	\$ 7,138	\$ 7,332
Finished goods	6,644	6,215
	<u> </u>	<u> </u>
	<u>\$ 13,782</u>	<u>\$ 13,547</u>

Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

(6) Income Taxes Receivable

This represents approximately \$5,205 of tax reserve certificates purchased from the Inland Revenue Department (IRD) of Hong Kong in respect of prior year taxes that are under examination by the IRD. The placement of such certificates is a condition stipulated by the IRD.

There has been no change in the tax filing status of our Hong Kong subsidiaries since March 31, 2004.

(7) Other Deposit

This represents the security bond placed at a Taiwanese court in order to obtain an anti-injunction order in respect of a potential patent dispute in Taiwan. See Note 13(a) Litigation . Management of the Company does not expect the case to be settled within 12 months and therefore the amount was classified as a non-current asset.

(8) Stock Options

Option activity relating to the Company's stock option plan is summarized as follows (unaudited):

	Outstanding Options	
	Number of Shares	Weighted average exercise price per share
Outstanding at April 1, 2004	2,810,313	\$ 5.99
Granted	396,420	5.10
Exercised	(58,210)	3.96
Forfeited	(49,900)	7.93
Outstanding at June 30, 2004	3,098,623	5.88

	Outstanding Options	
	Number of Shares	Weighted average exercise price per share

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		price per share
Outstanding at April 1, 2003	3,537,459	\$ 5.96
Granted	8,000	3.87
Forfeited	(3,825)	8.94