

PECO II INC
Form 10-Q
May 15, 2003
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549**

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2003

OR

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

Commission File Number 000-31283

PECO II, INC.

(Exact name of Registrant as specified in its charter)

OHIO

(State or other jurisdiction of Incorporation or organization)

34-1605456

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

1376 STATE ROUTE 598, GALION, OHIO 44833

(Address of principal executive office)

(Zip Code)

Registrant's telephone number including area code:

(419) 468-7600

Indicate by check mark () whether the Registrant: (1) has filed all reports to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve 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 the latest practicable date.

CLASS

OUTSTANDING AT APRIL 30, 2003

Common Shares, without par value

21,071,989

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PECO II, INC.
PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PECO II, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 9,183	\$ 25,674
Accounts receivable	9,174	7,802
Inventories	18,463	18,738
Prepaid expenses and other current assets	1,147	1,170
Refundable and deferred income taxes	12,500	12,500
Assets held for sale	8,405	8,405
Restricted industrial revenue bond funds	10,466	137
	<u>69,338</u>	<u>74,426</u>
Property and equipment, at cost:		
Land and land improvements	254	254
Buildings and building improvements	10,365	11,462
Machinery and equipment	9,841	9,833
Furniture and fixtures	8,451	8,485
	<u>28,911</u>	<u>30,034</u>
Less-accumulated depreciation	(9,836)	(9,181)
	<u>19,075</u>	<u>20,853</u>
Other Assets:		
Goodwill and other intangibles, net	13,542	13,542
Long term notes receivable	24	35
	<u>13,566</u>	<u>13,577</u>
Total Assets	\$ 101,979	\$ 108,856
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Borrowings under line of credit	\$ 702	\$ 9,425
Current portion of long-term debt	9,425	9,425
Capital leases payable	321	316
Accounts payable	2,978	2,799
Accrued compensation expense	1,640	1,587
Other accrued expenses	6,981	7,638
Accrued income taxes	578	613
	<u>22,625</u>	<u>22,378</u>
Total current liabilities	22,625	22,378
Long-term Liabilities:		
Capital leases payable, net of current portion	611	691

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Total long-term liabilities	611	691
Shareholders' Equity:		
Common shares	2,816	2,816
Additional paid-in capital	111,335	111,335
Retained deficit	(33,004)	(25,960)
Treasury shares	(2,404)	(2,404)
Total shareholders' equity	78,743	85,787
Total Liabilities and Shareholders' Equity	\$ 101,979	\$ 108,856

The accompanying notes are an integral part of these condensed consolidated balance sheets.

Table of Contents**PECO II, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	For the Three Months Ended March 31,	
	2003	2002
Net sales:		
Product	\$ 6,148	\$ 6,547
Services	4,962	10,427
	<u>11,110</u>	<u>16,974</u>
Cost of goods sold:		
Product	6,709	8,110
Services	5,997	9,078
	<u>12,706</u>	<u>17,188</u>
Gross margin:		
Product	(561)	(1,563)
Services	(1,035)	1,349
	<u>(1,596)</u>	<u>(214)</u>
Operating expenses:		
Research, development and engineering	1,195	2,683
Selling, general and administrative	3,147	4,699
Real estate impairment	1,096	
	<u>5,438</u>	<u>7,382</u>
Loss from operations	(7,034)	(7,596)
Interest income (expense), net	17	97
	<u>(7,017)</u>	<u>(7,499)</u>
Loss before income taxes and before cumulative effect of accounting change	(7,017)	(7,499)
Provision (benefit) for income taxes	27	(2,757)
	<u>(7,044)</u>	<u>(4,742)</u>
Loss before cumulative effect of accounting change	(7,044)	(4,742)
Impairment of goodwill		(1,835)
	<u>(7,044)</u>	<u>(6,577)</u>
Net loss	\$ (7,044)	\$ (6,577)
Net loss per common share before cumulative effect of accounting change:		
Basic	\$ (0.33)	\$ (0.22)
Diluted	\$ (0.33)	\$ (0.22)
Net loss per common share:		
Basic	\$ (0.33)	\$ (0.30)

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Diluted	\$	(0.33)	\$	(0.30)
<hr/>				
Weighted average common shares outstanding:				
Basic		21,142		21,868
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Diluted		21,142		21,868
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The accompanying notes are an integral part of these condensed consolidated statements.

Table of Contents**PECO II, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Three Months Ended March 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (7,044)	\$ (6,577)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	687	866
Goodwill impairment		1,835
Loss on disposals of property and equipment	11	3
Deferred income taxes		(896)
Asset impairment	1,096	
Stock compensation expense		122
Working capital changes:		
Accounts and notes receivable	(1,361)	2,516
Inventories	275	642
Prepaid expenses and other current assets	23	136
Accounts payable, other accrued expenses and accrued income taxes	(513)	(4,998)
Accrued compensation expense		