

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

CATALINA LIGHTING INC
Form 10-Q/A
August 16, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
Amendment No. 1

(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, 2002

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 0-49881

Catalina Lighting, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Florida
(State or Other Jurisdiction of
Incorporation or Organization)

59-1548266
(I.R.S. Employer
Identification No.)

18191 N.W. 68th Avenue
Miami, Florida
(Address of Principal Executive Offices)

33015
(Zip Code)

Registrant's Telephone Number, Including Area Code: (305) 558-4777

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

The number of shares of the registrant's common stock, \$.01 par value, outstanding as of the close of business on August 5, 2002 was 4,413,460, which reflects the one-for-five reverse stock split effective April 8, 2002.

EXPLANATORY NOTE

This Amendment No. 1 (this "Amendment") to Catalina Lighting, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Form 10-Q"), is being filed solely to correct a typographical error in the Condensed Consolidated Balance Sheets for Catalina Lighting, Inc. and

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Subsidiaries (the "Balance Sheets"), whereby the dollar amount (in thousands) for "Other current assets" as of June 30, 2002 was stated inadvertently as \$14,069 instead of \$6,909. No additional typographical errors were made in the Balance Sheets, including without limitation in the dollar amount for "Total current assets" as of June 30, 2002. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment sets forth the complete text of Item 1 of which the Balance Sheets are a part. Other than the foregoing, no revisions have been made to the financial statements or any other disclosure contained in the Form 10-Q.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CATALINA LIGHTING, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (In thousands)

Assets -----	June 30, 2002 ----- (Unaudited)	Sept 2 -----
Current assets		
Cash and cash equivalents	\$ 4,041	\$
Restricted cash equivalents and short-term investments	-	
Accounts receivable, net of allowance for doubtful accounts of \$600 and \$1,423, respectively	24,793	
Inventories	39,495	
Other current assets	6,909	
	-----	-----
Total current assets	75,238	
Property and equipment, net	18,856	
Goodwill, net	28,227	
Other assets, net	8,655	
	-----	-----
Total assets	\$ 130,976 =====	\$ =====

*Condensed from audited financial statements.

See accompanying notes to condensed consolidated financial statements.
(Continued on Page 2)

CATALINA LIGHTING, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (continued) (In thousands, except share data)

June 30,

September

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Liabilities and Stockholders' Equity	2002	2001
-----	-----	-----
	(Unaudited)	*
Current liabilities		
Accounts payable	\$ 27,994	\$ 27,994
Revolving credit facilities	2,387	7,387
Term loans	2,553	2,553
Bonds payable related to assets held for sale	-	-
Current maturities of other long-term debt	480	480
Other current liabilities	13,107	12,107
	-----	-----
Total current liabilities	46,521	49,521
Revolving credit facilities	13,615	16,615
Term loans	18,101	23,101
Subordinated notes	2,746	6,746
Bonds payable	-	4,746
Other long-term debt	748	1,748
Other liabilities	5,205	5,205
	-----	-----
Total liabilities	86,936	106,936
Minority interest	1,113	1,113
	-----	-----
Commitments and Contingencies	-	-
Stockholders' equity		
Preferred stock, \$.01 par value		
authorized 1,000,000 shares; none issued		
Common stock, \$.01 par value	44	44
authorized 20,000,000 shares; issued and outstanding		
4,413,460 and 3,304,036 shares outstanding		
Additional paid-in capital	38,349	34,349
Retained earnings	6,495	6,495
Accumulated other comprehensive income (loss)	500	500
Treasury stock, at cost, 128,387 shares	(2,461)	(2,461)
	-----	-----
Total stockholders' equity	42,927	38,927
	-----	-----
	\$ 130,976	\$ 146,976
	=====	=====

* Condensed from audited financial statements

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share data)

Three Months Ended
June 30,

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

	2002	2001
Net sales	\$ 53,351	\$ 60,548
Cost of sales	42,920	52,571
Gross profit	10,431	7,977
Selling, general and administrative expenses	8,121	10,072
Litigation settlement	959	(714)
Loss on disposal of warehouse and related equipment	--	--
Operating income (loss)	1,351	(1,381)
Other expenses:		
Interest expense	(1,899)	(1,729)
Other income (expenses)	(62)	64
Total other income (expenses)	(1,961)	(1,665)
Income (loss) before income taxes	(610)	(3,046)
Income tax expense (benefit)	(201)	(629)
Net income (loss)	\$ (409)	\$ (2,417)
Weighted average number of shares outstanding		
Basic	3,371	1,472
Diluted	3,371	1,472
Earnings (loss) per share		
Basic	\$ (0.12)	\$ (1.64)
Diluted	\$ (0.12)	\$ (1.64)

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended June 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (269)	\$ (7,684)
Loss on disposal of warehouse and related equipment	1,098	-
Adjustments for non-cash items	4,981	3,644

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Change in assets and liabilities	2,613	9,641
Net cash provided by operating activities	8,423	5,601
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(599)	(4,204)
Proceeds from sale of property and equipment	8,454	95
Purchase of minority interest	--	(1,029)
Increase in Ring acquisition costs	--	(119)
Decrease (increase) in restricted cash equivalents and short-term investments	1,066	(144)
Net cash provided by (used in) investing activities	8,921	(5,401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other long-term debt	--	323
Payments on other long-term debt	(737)	(1,125)
Payments on bonds payable	(5,100)	(900)
Net proceeds from revolving credit facilities	--	4,906
Net payments on revolving credit facilities	(7,619)	--
Payments on term loans	(4,013)	(2,459)
Sinking fund redemption payments on bonds payable	(515)	(655)
Net cash used in financing activities	(17,984)	90
Effect of exchange rate changes on cash	68	33
Net (decrease) and increase in cash and cash equivalents	(572)	323
Cash and cash equivalents at beginning of period	4,613	2,309
Cash and cash equivalents at end of period	\$ 4,041	\$ 2,632

Supplemental Cash Flow Information
Nine Months Ended
June 30,

	2002	2001
(In thousands)		
Cash paid for:		
Interest	\$ 3,248	\$ 3,738
Income taxes	\$ 626	\$ 1,589

On June 14, 2002, the Company entered into a transaction whereby it converted \$6.0 million of subordinated debt into stockholders' equity.

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Catalina Lighting, Inc. and Subsidiaries (the "Company") have been prepared in accordance with the accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001 and should be read in conjunction with the consolidated financial statements and notes which appear in that report. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for complete financial statements.

In the opinion of management, the condensed consolidated financial statements include all adjustments (which consist mostly of normal, recurring accruals) considered necessary for a fair presentation. The results of operations for the three months and nine months ended June 30, 2002 may not necessarily be indicative of operating results to be expected for any subsequent quarter or for the full fiscal year due to seasonal fluctuations in the Company's business, changes in economic conditions and other factors.

Accounts Receivable

The Company provides allowances against accounts receivable for sales deductions, returns and doubtful accounts. The Company's agreements with its major customers provide for various sales allowances (i.e., deductions given the customer from purchases made from the Company), the most common of which are for volume discounts, consumer product returns and cooperative advertising. These allowances are usually defined as a percentage of the gross sales price and are recognized as a reduction of gross sales revenue at the time the related sales are recorded. If the customer agreement does not provide for the deduction of the allowance amount directly from the amount invoiced the customer at time of billing, the Company records an accrual for the amounts due. These accrued sales allowances are settled periodically either by subsequent deduction from the accounts receivable from the customer or by cash payment. For financial statement presentation purposes, these sales allowances are netted against accounts receivable and amounted to \$8,304,000 and \$10,442,000 at June 30, 2002 and September 30, 2001, respectively.

Comprehensive Loss

Comprehensive income (loss) consisted of the following:

	Three Months Ended June 30,		Nine Months Ended Ju	
	2002	2001	2002	
	(In thousands)		(In thousands)	
Net income (loss)	\$ (409)	\$ (2,417)	\$ (269)	\$
Foreign currency translation loss	1,621	(98)	976	
Change in unrealized loss on derivative instrument, net of taxes	-	10	139	
Total comprehensive income (loss)	\$ 1,212	\$ (2,505)	\$ 846	\$

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 141, "Business

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Combinations" ("SFAS 141"), was issued in July 2001. SFAS 141 addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board Opinion No. 16, "Business Combinations", and Statement of Financial Accounting No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises". All business combinations in the scope of

CATALINA LIGHTING, INC. AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements (Unaudited)

SFAS 141 are to be accounted for under the purchase method. SFAS 141 became effective June 30, 2001. The adoption of SFAS 141 did not have a material impact on the Company's financial position, results of operations or cash flows for the nine months ended June 30, 2002.

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), was also issued in July 2001. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. SFAS 142 also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. With the adoption of SFAS 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. The impairment loss is the amount, if any, by which the implied fair value of goodwill is less than carrying or book value. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Impairment loss for goodwill arising from the initial application of SFAS 142 is to be reported as resulting from a change in accounting principle. The Company is currently assessing the new standard and has not yet determined its impact on its consolidated results of operations, cash flows or financial position.

Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("SFAS 143"), was also issued in July 2001. SFAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS 143 is effective for fiscal years beginning after June 15, 2002, and early adoption is permitted. The Company is currently assessing the new standard and has not yet determined its impact on its consolidated results of operations, cash flows or financial position.

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), was issued in October 2001. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operation-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transitions" for the disposal of a "Segment of a Business" (as previously defined in that Opinion). SFAS 144 also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and early adoption is permitted. The Company is currently assessing this new standard and has not yet determined its impact on its consolidated results of operations, cash flows or financial position.

Reclassifications

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Certain amounts presented in the financial statements of prior periods have been reclassified to conform to the current period's presentation.

2. Inventories

Inventories consisted of the following:

	June 30, 2002	September 30, 2001	
	-----	-----	
	(In thousands)		
Raw materials	\$ 2,403	\$ 2,869	
Work-in-progress	650	892	
Finished goods	36,442	33,664	
	-----	-----	
Total inventories	\$ 39,495	\$ 37,425	
	=====	=====	

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Loss on Disposal of Warehouse and Related Equipment

During the three months ended March 31, 2002, the Company began actively marketing for sale its underutilized Tupelo, Mississippi distribution center, which had a carrying value of \$8.1 million as of March 31, 2002. On May 6, 2002, the building and substantially all of the equipment in the distribution center were sold to a third party, resulting in a loss on sale of \$1.1 million. This loss was recognized in the quarter ended March 31, 2002 as a loss on disposal of warehouse and related equipment. The net proceeds from the sale after the pay-off of the mortgage bonds of approximately \$3.3 million were used to pay down the Company's term loans.

4. Conversion of Subordinated Debt

On June 14, 2002, the Company entered into a transaction with Sun Catalina Holdings, LLC ("SCH"), an affiliate of Sun Capital Partners, Inc., and SunTrust Banks, Inc. ("SunTrust") whereby it issued and sold 924,572 and 184,843 shares of the Company's common stock, to SCH and SunTrust, respectively, for an aggregate purchase price of \$5,001,937 and \$1,000,000, respectively, representing a price of \$5.41 per share. As payment for their shares, SCH and SunTrust each surrendered a corresponding amount of subordinated debt and accrued interest, and the Company was released from all obligations and liabilities associated with the surrendered debt. In connection with the transaction a special committee of independent members of the Board of Directors obtained a fairness opinion from a major investment bank regarding the \$5.41 per share sale price. The amount of subordinated debt reflected in the condensed consolidated balance sheet as of June 30, 2002 consists of the following:

Original Principal	Additions of Principal for Interest Not Paid in Cash	Unamor Disc
-----	-----	-----
(In thousands)		

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Balance as of September 30, 2001	\$ 8,800	\$ 199	\$
Additions to principal for interest not paid in cash		692	
Discount amortization			
Repayment of subordinated debt	(5,400)	(602)	
Balance as of June 30, 2002	\$ 3,400	\$ 289	\$

5. Common Stock and Stock Warrants

Effective April 8, 2002, the Company announced a one-for-five reverse stock split. As a result, the number of shares of the Company's common stock authorized, and issued and outstanding, decreased from 100,000,000 to 20,000,000, and from 16,520,179 to 3,304,036, respectively. Earnings per share in the financial statements reflect the reverse stock split for all periods presented.

On January 11, 2002, the Company entered into a three-year consulting agreement with a related party, who is an executive officer of an entity under common control with the Company, whereby it issued to the consultant a warrant to purchase 64,400 shares of the Company's common stock with an exercise price of \$2.20 per share which was the market value on the date of grant. Half of the warrants vest on January 24, 2003, and the remainder vest one year later. However, if the Company terminates the consulting agreement without cause, the warrant becomes fully exercisable on the date of such termination.

During May 2002, the Company granted options valued at \$24,000 and paid \$26,000 cash to an employee of an entity under common control with the Company.

During the nine months ended June 30, 2002, the Company issued 91,000 stock options to employees and directors at prices between \$1.75 and \$25.00 per share.

CATALINA LIGHTING, INC. AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements (Unaudited)

Interest on the subordinated notes is payable quarterly in arrears in cash commencing March 31, 2003. Interest for quarters prior to the quarter ending March 31, 2003 will be added to the principal amount of the note. The note holders are also entitled to additional warrants to purchase shares of common stock at \$.05 per share for the quarters during which interest on the notes is not paid in cash. Interest was not paid on the notes for the six months ended March 31, 2002, for which the note holders received additional warrants to purchase, in the aggregate, 69,065 shares of common stock. The interest due on the remaining subordinated notes for the quarter ended June 30, 2002 was paid in cash, and no additional warrants were issued. The Company anticipates that it will continue to make cash payments for interest due. If the Company does not make such payments, it will be required to issue additional warrants for up to 17,411 shares of common stock.

6. Revolving Credit Facility

The Company has a \$75 million credit facility which funded the Company's acquisition of Ring Limited (formerly known as Ring plc) ("Ring") and provides funds through revolving facilities for the Company's U.S. and U.K. operations. The credit facility agreement requires that the Company meet certain financial covenants and minimum levels of adjusted quarterly earnings beginning with the quarter ended September 30, 2001 and quarterly debt to adjusted earnings and

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Notes to Condensed Consolidated Financial Statements (Unaudited)

Net Sales by Location of External Customers:	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
United States	\$ 17,362	\$ 25,031	\$ 46,455	\$ 60,000
United Kingdom	25,140	24,099	82,122	77,000
Canada	5,659	4,550	17,438	17,000
Other countries	5,190	6,868	17,448	20,000
	<u>\$ 53,351</u>	<u>\$ 60,548</u>	<u>\$163,463</u>	<u>\$174,000</u>

Segment Contribution (Loss):	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
United States	\$ 103	\$ (437)	\$ 108	\$ (1,000)
China	1,069	1,650	3,357	3,000
United Kingdom	362	(773)	2,554	(1,000)
Other segments	261	(948)	1,266	(1,000)
Subtotal for segments	<u>1,795</u>	<u>(508)</u>	<u>7,285</u>	<u>(1,000)</u>
Parent/administrative expenses	(2,405)	(2,538)	(7,686)	(1,000)
Income (loss) before income taxes	<u>\$ (610)</u>	<u>\$ (3,046)</u>	<u>\$ (401)</u>	<u>\$ (1,000)</u>

Interest Expense (Income) (1):	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
United States	\$ (223)	\$ (168)	\$ (400)	\$ (1,000)
China	(5)	(7)	(19)	(1,000)
United Kingdom	1,201	1,266	3,288	3,000
Other segments	72	81	207	(1,000)
Subtotal for segments	<u>1,045</u>	<u>1,172</u>	<u>3,076</u>	<u>(1,000)</u>
Parent interest expense	854	557	2,675	(1,000)
Total interest expense	<u>\$ 1,899</u>	<u>\$ 1,729</u>	<u>\$ 5,751</u>	<u>\$ (1,000)</u>

Total Assets (2):	June 30,	September 30,
	2002	2001
United States	\$ 32,380	\$ 51,550
China	43,440	45,920
United Kingdom	70,972	68,368

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

Other segments	10,297	8,836
Eliminations	(26,113)	(28,577)
	-----	-----
Total assets	\$ 130,976	\$ 146,097
	=====	=====

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Long-Lived Assets (3):

	June 30, 2002	September 30, 2001
	-----	-----
United States	\$ 1,783	\$ 10,891
China	14,153	15,329
United Kingdom	2,852	3,910
Other segments	68	97
	-----	-----
Total long-lived assets	\$ 18,856	\$ 30,227
	=====	=====

Expenditures for Additions to Long-Lived Assets:

	Nine Months Ended June 30,	
	2002	2001
	-----	-----
United States	\$ 22	\$ 102
China	249	3,754
United Kingdom	308	335
Other segments	20	13
	-----	-----
Total expenditures	\$ 599	\$ 4,204
	-----	-----

- (1) The interest expense shown for each segment includes interest charged or earned on intersegment advances.
- (2) Total assets for United States include parent/administrative assets.
- (3) Represents property and equipment, net.

Major Customers

During the three months ended June 30, 2002 and 2001, one customer (included in the United Kingdom operations) accounted for 14.7% and 16.9%, respectively, of the Company's consolidated net sales. Two additional customers (included in the United States and other operations) accounted for 13.6% and 10.5% of the Company's consolidated net sales for the three months ended June 30, 2002, compared to 13.9% and 12.2% during the same period in 2001. No other customers accounted for more than 10% of consolidated net sales during the three months ended June 30, 2002 and 2001.

During the nine months ended June 30, 2002 and 2001, one customer (included in the United Kingdom operations) accounted for 17.4% and 17.1%, respectively, of the Company's consolidated net sales. One additional customer (included in the United States and other operations) accounted for 13.7% of the Company's consolidated net sales for the nine months ended June 30, 2002, compared to

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

12.8% during the same period in 2001. No other customers accounted for more than 10% of consolidated net sales during the nine months ended June 30, 2002.

8. Commitments and Contingencies

Westinghouse License

On April 26, 1996, the Company entered into a license agreement with Westinghouse Electric Corporation to market and distribute a full range of lighting fixtures, lamps and other lighting products under the Westinghouse

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

brand name in exchange for royalty payments. The royalty payments are due quarterly and are based on a percent of the value of the Company's net shipments of Westinghouse branded products, subject to annual minimum net shipments. Originally, subject to the minimum sales conditions discussed below, the agreement would terminate on September 30, 2002, with the Company having options to extend the agreement for two additional five-year terms. Either party had the right to terminate the agreement if the Company did not meet the minimum net shipments of \$30 million for fiscal 2001 and \$60 million for fiscal 2002. Effective as of October 1, 2001, the Company and Westinghouse signed an amendment to the license agreement that eliminates the minimum net shipments requirement but also eliminates the Company's option to extend the license agreement upon the agreement's expiration on September 30, 2002. Net sales of Westinghouse branded products amounted to \$8.6 million and \$13.3 million for the nine months ended June 30, 2002 and 2001, respectively. The Company does not intend to sell Westinghouse labeled goods after September 30, 2002 and does not believe that the loss of the Westinghouse license will have a material effect on the Company's financial condition or results of operations.

Litigation

During the past few years, the Company has received a number of claims relating to halogen torchieres sold by the Company to various retailers. The Company maintains primary product liability insurance coverage of \$1 million per occurrence and \$5 million in the aggregate, as well as umbrella insurance policies providing an aggregate of \$75 million in excess umbrella insurance coverage. The primary insurance policy requires the Company to self-insure for up to \$10,000 per incident. Based on experience, the Company has accrued \$302,000 for this contingency as of June 30, 2002. No assurance can be given that the number of claims will not exceed historical experience, that claims will not exceed available insurance coverage or that the Company will be able to maintain the same level of insurance.

On September 15, 1999, the Company filed a complaint entitled Catalina Lighting, Inc. v. Lamps Plus, Civil Action 99-7200, in the U.S. District Court for the Southern District of Florida. In the complaint, the Company requested declaratory relief regarding claims of trade dress and patent infringement made by Lamps Plus against a major customer of the Company. Lamps Plus filed an Answer and Counterclaim against the Company and its customer on October 6, 1999, alleging patent infringement and trade dress. The trade dress claim was dismissed with prejudice before trial in March 2001. In April 2001, a jury returned a verdict finding liability against the Company on the patent infringement claim, and in June 2001 the Court entered a judgment of approximately \$1.6 million for damages and interest thereon. The Company appealed the judgment entered by the Court and posted a surety bond in the amount of \$1.8 million for the appeal (for which the Company posted \$1.5 million

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

in cash collateral). In a decision published on June 28, 2002, the Court of Appeals affirmed the finding of liability against the Company but reduced the lower court's award of damages. The final judgment including related costs is reflected in the financial statements as a \$959,000 litigation settlement. Subsequent to June 28, 2002, the Company received the cash collateral for the surety bond net of the judgment amount.

Kmart Bankruptcy

On January 22, 2002, Kmart Corporation filed a Chapter 11 bankruptcy petition with the U.S. Bankruptcy Court for the Northern District of Illinois. The Company's sales to Kmart amounted to \$10.7 million for the year ended September 30, 2001 and \$3.2 million and \$8.4 million for the nine months ended June 30, 2002 and 2001, respectively. The Company has no outstanding receivables from Kmart for the period prior to January 22, 2002, and has resumed shipments subsequent to the bankruptcy filing. The Company is continuing to assess the effect of the bankruptcy proceedings on future sales to Kmart.

Pension Plan

Ring has a defined benefit pension plan which covers 22 current employees and approximately 750 members formerly associated with Ring. The plan is administered externally, and the assets are held separately by professional investment managers. The plan is funded by contributions at rates recommended by an actuary. The

CATALINA LIGHTING, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Company reviews the plan on a periodic basis, and in the future it may determine to continue the plan or terminate the plan. If the Company were to terminate the plan, it is anticipated that this would require accelerated payments based on the "Minimum Funding Requirement" ("MFR") shortfall. The most recent estimate as of March 2002 placed the MFR shortfall at approximately \$3.2 million. The U.K. government announced that it intends to abolish the MFR and to replace it with funding standards individually tailored to the circumstances of plans and employers. Based on current information, it appears that this change is not likely to occur before April 2003. Should the Company not terminate its U.K. pension plan prior to that date, the cost to terminate the plan under the new rules could be significantly greater than the current \$3.2 million deficit under the MFR method. The accrued liability for the U.K. pension at June 30, 2002 was \$4.4 million.

IRS Audit

The Internal Revenue Service has started its field work in its examination of the Company's 1999 tax return. To date, no adjustments have been proposed. Management believes that adequate provision for taxes has been made for the years under examination and those not yet examined.

* * * * *

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.

Edgar Filing: CATALINA LIGHTING INC - Form 10-Q/A

CATALINA LIGHTING, INC.

/s/ Eric Bescoby

Eric Bescoby
Chief Executive Officer

/s/ Lynn Skillen

Lynn Skillen
Chief Financial Officer
(Chief Accounting Officer)

Date: August 15, 2002