

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 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

34-1605456

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(State or other jurisdiction of Incorporation or organization)

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

1376 STATE ROUTE 598, GALION, OHIO
(Address of principal executive office)

44833
(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.

<u>CLASS</u>	<u>OUTSTANDING AT JUNE 30, 2003</u>
Common Shares, without par value	21,241,354

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Table of Contents**PECO II, INC.****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****PECO II, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

<u>ASSETS</u>	June 30, 2003 <u>(Unaudited)</u>	December 31, 2002
Current Assets:		
Cash and cash equivalents	\$ 16,268	\$ 25,674
Accounts receivable	7,664	7,802
Inventories	11,264	18,738
Prepaid expenses and other current assets	710	1,170
Refundable and deferred income taxes		12,500
Assets held for sale	12,988	8,405
Restricted industrial revenue bond funds	10,607	137
	<u>59,501</u>	<u>74,426</u>
Property and equipment, at cost:		
Land and land improvements	254	254
Buildings and building improvements	4,595	11,462
Machinery and equipment	9,809	9,833
Furniture and fixtures	7,725	8,485
	<u>22,383</u>	<u>30,034</u>
Less accumulated depreciation	(13,309)	(9,181)
Property and equipment, net	9,074	20,853
Other Assets:		
Goodwill and other intangibles, net	7,842	13,542
Long term notes receivable	13	35
	<u>7,855</u>	<u>13,577</u>
Total Assets	\$ 76,430	\$ 108,856
	<u><u>76,430</u></u>	<u><u>108,856</u></u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Borrowings under line of credit	\$	\$
Current portion of long-term debt	9,425	9,425
Capital leases payable	266	316

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Accounts payable	2,186	2,799
Accrued compensation expense	1,604	1,587
Other accrued expenses	5,791	7,638
Accrued income taxes	577	613
	<u> </u>	<u> </u>
Total current liabilities	19,849	22,378
	<u> </u>	<u> </u>
Long-term Liabilities:		
Capital leases payable, net of current portion	586	691
	<u> </u>	<u> </u>
Total long-term liabilities	586	691
Shareholders' Equity:		
Common shares	2,816	2,816
Additional paid-in capital	111,027	111,335
Retained deficit	(55,809)	(25,960)
Treasury shares	(2,039)	(2,404)
	<u> </u>	<u> </u>
Total shareholders' equity	55,995	85,787
	<u> </u>	<u> </u>
Total Liabilities and Shareholders' Equity	\$ 76,430	\$ 108,856
	<u> </u>	<u> </u>

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)

(In thousands, except for per share data)

	<u>For the Three Months</u> <u>Ended June 30,</u>		<u>For the Six Months</u> <u>Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net sales:				
Product	\$ 3,922	\$ 6,448	\$ 10,071	\$ 12,995
Services	5,937	10,037	10,898	20,464
	<u>9,859</u>	<u>16,485</u>	<u>20,969</u>	<u>33,459</u>
Cost of goods sold:				
Product	4,770	8,623	11,488	16,733
Inventory impairment	8,633		8,633	
Services	6,413	7,849	12,410	16,927
	<u>19,816</u>	<u>16,472</u>	<u>32,531</u>	<u>33,660</u>
Gross margin:				
Product	(9,481)	(2,175)	(10,050)	(3,738)
Services	(476)	2,188	(1,512)	3,538
	<u>(9,957)</u>	<u>13</u>	<u>(11,562)</u>	<u>(201)</u>
Operating expenses:				
Research, development and engineering	1,038	3,246	2,233	5,929
Selling, general and administrative	2,817	5,471	5,955	10,170
Impairment of product segment machinery and equipment	3,300		3,300	
Impairment of service segment goodwill and other intangibles	5,700		5,700	
Real estate impairment			1,096	
	<u>12,855</u>	<u>8,717</u>	<u>18,284</u>	<u>16,099</u>
Loss from operations	(22,812)	(8,704)	(29,846)	(16,300)
Interest income (expense), net	34	110	51	207
Loss before income taxes and before cumulative effect of accounting change	(22,778)	(8,594)	(29,795)	(16,093)
Provision (benefit) for income taxes	27	(2,911)	54	(5,668)
Loss before cumulative effect of accounting change	(22,805)	(5,683)	(29,849)	(10,425)
Impairment of manufacturing segment goodwill				(1,835)

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Net loss	<u>\$ (22,805)</u>	<u>\$ (5,683)</u>	<u>\$ (29,849)</u>	<u>\$ (12,260)</u>
Net loss per common share before cumulative effect of accounting change:				
Basic	<u>\$ (1.08)</u>	<u>\$ (0.26)</u>	<u>\$ (1.41)</u>	<u>\$ (0.48)</u>
Diluted	<u>\$ (1.08)</u>	<u>\$ (0.26)</u>	<u>\$ (1.41)</u>	<u>\$ (0.48)</u>
Net loss per common share:				
Basic	<u>\$ (1.08)</u>	<u>\$ (0.26)</u>	<u>\$ (1.41)</u>	<u>\$ (0.56)</u>
Diluted	<u>\$ (1.08)</u>			