

CATALINA LIGHTING INC
Form 10-Q
February 14, 2005
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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 December 31, 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 0-49881

Catalina Lighting, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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Florida
(State or Other Jurisdiction of

Incorporation or Organization)

18191 N.W. 68th Avenue

Miami, Florida
(Address of Principal Executive Offices)

59-1548266
(I.R.S. Employer

Identification No.)

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 .

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

The number of shares of the registrant's common stock, \$.01 par value, outstanding as of the close of business on February 2, 2005 was 4,420,459.

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CATALINA LIGHTING, INC. AND SUBSIDIARIES

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Table of Contents**CATALINA LIGHTING, INC. AND SUBSIDIARIES****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****CATALINA LIGHTING, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(In thousands)**

	December 31, 2004	September 30, 2004
	(Unaudited)	
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 2,455	\$ 3,169
Restricted cash	1,490	
Accounts receivable, net of allowance for doubtful accounts of \$910 and \$784, respectively	37,446	32,252
Inventories	42,329	40,565
Other current assets	5,021	4,664
Total current assets	88,741	80,650
Property and equipment, net	15,365	15,438
Goodwill	22,506	22,506
Other assets, net	16,739	16,350
Total assets	\$ 143,351	\$ 134,944

(Continues on Page 2)

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

	December 31, 2004	September 30, 2004
	(Unaudited)	
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 29,646	\$ 30,297
Revolving credit facilities	4,295	4,383
Term loans	5,073	5,070
Other current liabilities	14,065	13,884
	<u>53,079</u>	<u>53,634</u>
Total current liabilities	53,079	53,634
Revolving credit facilities	29,038	22,452
Term loans	440	431
Subordinated notes	2,875	2,825
Accrued pension and other liabilities	11,526	10,914
	<u>96,958</u>	<u>90,256</u>
Total liabilities	96,958	90,256
Minority interest	1,292	1,139
Stockholders equity		
Preferred stock, \$.01 par value; authorized 1,000,000 shares; none issued		
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 4,548,846 shares; outstanding 4,420,459	45	45
Additional paid-in capital	39,467	39,445
Retained earnings	6,754	6,658
Deferred compensation	(55)	(62)
Accumulated other comprehensive income (loss)	1,351	(76)
Treasury stock, at cost, 128,387 shares	(2,461)	(2,461)
	<u>45,101</u>	<u>43,549</u>
Total stockholders equity	45,101	43,549
Total liabilities and stockholders equity	<u>\$ 143,351</u>	<u>\$ 134,944</u>

See accompanying notes to condensed consolidated financial statements.

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CATALINA LIGHTING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three Months Ended December 31,	
	2004	2003
Net sales	\$ 55,965	\$ 56,227
Cost of sales	44,048	43,918
Gross profit	11,917	12,309
Selling, general and administrative expenses	7,769	8,504
Operating income	4,148	3,805
Other expenses:		
Interest expense	(1,298)	(759)
Net foreign currency loss	(1,045)	(59)
Other expenses	(66)	(10)
Total other expenses	(2,409)	(828)
Income before income taxes	1,739	2,977
Income tax provision	1,643	1,042
Net income	\$ 96	\$ 1,935
Weighted average number of shares outstanding		
Basic	5,684	5,571
Diluted	5,802	5,905
Earnings per share		
Basic	\$ 0.02	\$ 0.35
Diluted	\$ 0.02	\$ 0.33

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 96	\$ 1,935
Adjustments for non-cash items:		
Loss on foreign currency exchange	1,432	73
Amortization to interest expense	412	308
Depreciation and other amortization	569	669
Deferred income taxes	(12)	(718)
Gain on disposition of property and equipment	(19)	(40)
Non-cash compensation	7	178
Change in assets and liabilities	(5,730)	(3,697)
Net cash used in operating activities	<u>(3,245)</u>	<u>(1,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(364)	(412)
Proceeds from sale of property and equipment, net	21	97
Net cash used in investing activities	<u>(343)</u>	<u>(315)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on other long-term debt	(6)	(34)
Net borrowings on revolving credit facilities	4,982	17,661
Net payments on term loans	(319)	(8,588)
Payment of financing fees	(500)	
Changes in restricted cash	(1,446)	(3,089)
Proceeds from exercise of stock options		76
Net cash provided by financing activities	<u>2,711</u>	<u>6,026</u>
Effect of exchange rate changes on cash	<u>163</u>	<u>74</u>
Net decrease in cash and cash equivalents	(714)	4,493
Cash and cash equivalents at beginning of period	<u>3,169</u>	<u>2,899</u>
Cash and cash equivalents at end of period	<u>\$ 2,455</u>	<u>\$ 7,392</u>

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Table of Contents**CATALINA LIGHTING, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Continued)****(Unaudited)****(In thousands)****Supplemental Disclosure of Cash Flow Information**

	Three Months Ended December 31,	
	2004	2003
Cash paid for:		
Interest	\$ 873	\$ 498
Income taxes	\$ 1,063	\$ 1,532

Effective December 1, 2002, the Company entered into a two-year consulting agreement with the individual who served as its Chief Executive Officer from July 2001 through November 2002. Concurrently with entering into this agreement, the Company amended the terms of the stock options granted to this individual and as a result was to incur compensation expense of approximately \$295,000 during the term of the consulting agreement on a straight-line basis. During the quarter ended December 31, 2003, the Company determined that the consultant had delivered all the anticipated benefit from the agreement. Consequently, the remaining deferred compensation was expensed in full in the first quarter of the fiscal year ended September 30, 2004. Compensation expense for the three months ended December 31, 2004 and 2003 amounted to \$0 and \$172,000, respectively.

In November 2002, the Company issued 50,000 options to purchase shares of common stock to its new Chief Executive Officer at an exercise price of \$2.31 per share below the market price on the date of grant, resulting in compensation of \$116,000 that will be recognized over the four-year vesting period. Compensation expense for each of the three months ended December 31, 2004 and 2003 amounted to \$7,000. The unamortized balance of approximately \$55,000 at December 31, 2004 is presented as deferred compensation in the accompanying balance sheet.

See accompanying notes to condensed consolidated financial statements.

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CATALINA LIGHTING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

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, 2004 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 for complete financial statements.

In the opinion of management, the condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the three months ended December 31, 2004 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.

Restricted Cash

At December 31, 2004, the Company had \$1.5 million of restricted cash, which is held by the lender under our credit facility until swept and applied against the loan balance.

Risks and Concentrations

The United Kingdom segment has two large customers, one of which it shares with the China Manufacturing and Distribution segment. These customers composed the following percentages of consolidated net sales for the periods described below:

Three Months Ended December 31,	
2004	2003
<hr/>	<hr/>

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Customer of both UK and China segments	15.0%	16.2%
Customer of UK segment	12.7%	11.8%

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Notes to Condensed Consolidated Financial Statements (continued)

(Unaudited)

Stock-Based Compensation

The Company accounts for stock-based compensation issued to its employees using the intrinsic value method. Accordingly, compensation for stock options granted is measured as the excess, if any, of the fair value of the Company's common stock at the date of grant over the exercise price of the options. Had the compensation cost been determined based on the fair value of the stock options at the grant date, the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three Months Ended December 31,	
	2004	2003
Net income - as reported	\$ 96	\$ 1,935
Add: stock-based employee compensation expense included in reported net income	7	5
Less: stock-based employee compensation determined under the fair value method	(112)	(84)
Net (loss) income - pro forma	\$ (9)	\$ 1,856
Basic earnings per share - as reported	\$ 0.02	\$ 0.35
Basic (loss) earnings per share - pro forma	\$ (0.00)	\$ 0.33
Diluted earnings per share - as reported	\$ 0.02	\$ 0.33
Diluted (loss) earnings per share - pro forma	\$ (0.00)	\$ 0.31

There were 5,000 and 50,000 options granted during the three months ended December 31, 2004 and 2003, respectively. The above table represents the effects of options vesting during the three month periods, but issued in prior periods.

For purposes of the above pro forma disclosures, the weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants for the three months ended December 31, 2004 and 2003, respectively: no dividend yield; expected volatility between 86% and 87%; risk-free interest rate between 3.7% and 3.1%; and an expected five-year holding period for options granted. The weighted average fair value at date of grant of options granted during the three months ended December 31, 2004 and 2003 was \$5.50 and \$8.38 per option, respectively.

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Notes to Condensed Consolidated Financial Statements (continued)