

CATALINA LIGHTING INC
Form 10-Q
May 17, 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 March 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)

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 .

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 May 3, 2004 was 4,316,059.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

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

	March 31,	September 30,
	2004	2003
	<u> </u>	<u> </u>
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 6,563	\$ 2,899
Restricted cash equivalents and short-term investments	1,332	
Accounts receivable, net of allowance for doubtful accounts of \$918 and \$880, respectively	31,427	29,273
Inventories	35,531	34,392
Other current assets	5,380	5,032
	<u> </u>	<u> </u>
Total current assets	80,233	71,596
Property and equipment, net	15,631	16,665
Goodwill	28,282	28,282
Other assets, net	15,436	10,732
	<u> </u>	<u> </u>
Total assets	<u>\$ 139,582</u>	<u>\$ 127,275</u>

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CATALINA LIGHTING, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (continued)

(In thousands, except share data)

	March 31, 2004	September 30, 2003
	(Unaudited)	
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 28,250	\$ 27,416
Revolving credit facilities	3,427	
Term loans	5,085	
Current maturities of other long-term debt	22	702
Other current liabilities	14,845	14,648
	<u>51,629</u>	<u>42,766</u>
Total current liabilities	51,629	42,766
Revolving credit facilities	22,081	11,747
Term loans	474	12,284
Subordinated notes	2,726	3,038
Accrued pension and other liabilities	10,106	8,434
	<u>87,016</u>	<u>78,269</u>
Total liabilities	87,016	78,269
Minority interest	1,015	1,211
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 4,441,496 shares and 4,420,760 shares, respectively; outstanding 4,313,109 shares and 4,292,373 shares, respectively	44	44
Additional paid-in capital	39,146	38,604
Retained earnings	13,836	12,613
Deferred compensation	(76)	(262)
Accumulated other comprehensive income (loss)	1,062	(743)
Treasury stock, at cost, 128,387 shares	(2,461)	(2,461)
	<u>51,551</u>	<u>47,795</u>
Total stockholders equity	51,551	47,795
Total liabilities and stockholders equity	\$ 139,582	\$ 127,275

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		Six Months Ended	
	March 31,		March 31,	
	2004	2003	2004	2003
Net sales	\$ 51,496	\$ 49,942	\$ 107,723	\$ 106,112
Cost of sales	42,271	39,079	86,189	83,538
Gross profit	9,225	10,863	21,534	22,574
Selling, general and administrative expenses	8,445	7,941	16,949	15,208
Operating income	780	2,922	4,585	7,366
Other expenses:				
Interest expense	(1,198)	(1,039)	(1,957)	(2,072)
Net foreign currency (loss) gain	(599)	207	(658)	75
Other expenses	(79)	(29)	(89)	(4)
Total other expenses	(1,876)	(861)	(2,704)	(2,001)
(Loss) income before income taxes	(1,096)	2,061	1,881	5,365
Income tax (benefit) provision	(384)	721	658	1,878
Net (loss) income	\$ (712)	\$ 1,340	\$ 1,223	\$ 3,487
Weighted average number of shares outstanding				
Basic	5,577	5,555	5,574	5,555
Diluted	5,577	5,787	5,897	5,799
(Loss) earnings per share				
Basic	\$ (0.13)	\$ 0.24	\$ 0.22	\$ 0.63
Diluted	\$ (0.13)	\$ 0.23	\$ 0.21	\$ 0.60

See accompanying notes to condensed consolidated financial statements.

CATALINA LIGHTING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended	
	March 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,223	\$ 3,487
Adjustments for non-cash items:		
Exchange loss (gain)	731	(182)
Amortization to interest expense	846	645
Depreciation and other amortization	1,307	1,665
Deferred income tax benefit	(2,292)	(1,105)
Gain on disposition of property and equipment	(53)	(19)
Non-cash compensation	251	100
Change in assets and liabilities	(888)	(927)
Net cash provided by operating activities	1,125	3,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,212)	(678)
Proceeds from sale of property and equipment, net	2,231	217
Net cash provided by (used in) investing activities	1,019	(461)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on other long-term debt	(1,194)	(244)
Net borrowings (payments) on revolving credit facilities	12,795	(3,850)
Net payments on term loans	(6,985)	(1,597)
Payment of financing fees	(2,298)	
Changes in restricted cash	(1,103)	
Proceeds from exercise of stock options	92	
Net cash provided by (used in) financing activities	1,307	(5,691)
Effect of exchange rate changes on cash	213	193
Net increase (decrease) in cash and cash equivalents	3,664	(2,295)
Cash and cash equivalents at beginning of period	2,899	2,657
Cash and cash equivalents at end of period	\$ 6,563	\$ 362

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

	Six Months Ended March 31,	
	2004	2003
Cash paid for:		
Interest	\$ 1,291	\$ 1,479
Income taxes	\$ 2,507	\$ 730

In March 2004, warrants to purchase 5,486 shares at \$0.05 per share were exercised and warrants to purchase 23 shares were canceled in a cashless exercise.

Effective January 1, 2004, the Company amended the terms of stock options previously granted to the individual who formerly served as its Chief Financial Officer, and as a result recorded compensation expense of \$64,500 during the three months ended March 31, 2004.

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 previously granted 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. Compensation expense for the three months ended March 31, 2004 and 2003 amounted to \$0 and \$36,000, respectively. Compensation expense for the six months ended March 31, 2004 and 2003 amounted to \$172,000 and \$49,000, 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 the three months ended March 31, 2004 and 2003 amounted to \$7,000. Compensation expense for the six months ended March 31, 2004 and 2003 amounted to \$14,000 and \$11,000, respectively.

Effective November 1, 2002, the Company amended the terms of stock options previously granted to the individual who formerly served as its Chief Financial Officer, and as a result recorded compensation expense of \$40,000 during the three months ended December 31, 2002.

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

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, 2003 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 accounti