PEAK INTERNATIONAL LTD
Form 10-Q
August 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2007

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 0-29332

PEAK INTERNATIONAL LIMITED

(Exact Name of Registrant as Specified in its Charter)

Incorporated in Bermuda with limited liability	**None**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Flat E & F, 19/F., CDW Building, 388 Castle Peak

Road, Tsuen Wan, New Territories, Hong Kong
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: (852) 3193-6000

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 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 x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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 July 13, 2007
Common Stock, $0.01 Par Value	12,423,306

PART I

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

Condensed Consolidated Statements of Operations

(in thousands of United States Dollars, except share and per share data)

	Three Months Ended June 30, 2007 (Unaudited)		Three Months Ended June 30, 2006 (Unaudited)	
Net Sales	$ 12,001	100.0%	$ 18,653	100.0%
Cost of Goods Sold	11,358	94.6%	13,818	74.1%
Gross Profit	643	5.4%	4,835	25.9%
Selling and Marketing (Note 4)	1,917	16.0%	2,261	12.1%
General and Administrative (Note 4)	1,356	11.3%	1,580	8.5%
Research and Development	191	1.6%	36	0.2%
(Loss) Income from operations	(2,821)	(23.5)%	958	5.1%
Other expenses net	(96)	(0.8)%	(55)	(0.3)%
Interest income net	187	1.6%	117	0.6%
(Loss) Income before income taxes	(2,730)	(22.7)%	1,020	5.4%
Income tax expense	(1)	(0.0)%	(82)	(0.4)%
Net (Loss) Income	$ (2,731)	(22.8)%	$ 938	5.0%
(LOSS) EARNINGS PER SHARE (Note 5)				
Basic	$ (0.22)		$ 0.08	
Diluted	$ (0.22)		$ 0.08	
Weighted Average Number of Shares Outstanding				
Basic	12,423,000		12,420,000	
Diluted	12,423,000		12,425,000	

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Balance Sheets

(in thousands of United States Dollars, except share and per share data)

	June 30, 2007 (Unaudited)	March 31, 2007 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,980	$ 20,366
Restricted cash (Note 12)	983	1,128
Accounts receivable net of allowance for doubtful accounts of $366 at June 30, 2007 and $427 at March 31, 2007	9,932	9,279
Inventories (Note 2)	10,796	10,959
Other receivables, deposits and prepayments	760	852
Total Current Assets	42,451	42,584
Property, plant and equipment net	18,296	19,278
Land use right	698	703
Deposits for acquisition of property, plant and equipment	74	60
Other deposit (Note 3)	301	301
TOTAL ASSETS	$ 61,820	$ 62,926
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable:		
-trade	$ 5,047	$ 3,689
-property, plant and equipment	165	78
Accrued payroll and employee benefits	1,273	1,165
Accrued other expenses	1,931	1,990
Income taxes payable	2	95
Total Current Liabilities	8,418	7,017
Deferred income taxes		
Total Liabilities	8,418	7,017
Commitments and Contingencies (Note 9)		
Shareholders Equity:		
Common stock, $0.01 par value; authorized 100,000,000 shares; issued and outstanding 12,423,306 shares at June 30, 2007 and at March 31, 2007	124	124
Additional paid-in capital	27,822	27,707
Retained earnings	26,600	29,331
Accumulated other comprehensive loss	(1,144)	(1,253)
Total Shareholders Equity	53,402	55,909
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 61,820	$ 62,926

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flows

(in thousands of United States Dollars)

	Three Months Ended June 30, 2007 (Unaudited)	Three Months Ended June 30, 2006 (Unaudited)
Operating activities:		
Net (loss) / income	$ (2,731)	$ 938
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,614	1,658
Deferred income taxes		80
Loss on disposal/write-off of property, plant and equipment	36	23
Allowance for doubtful accounts	(61)	40
Non-cash share-based compensation	115	165
Changes in operating assets and liabilities:		
Accounts receivable	(592)	(1,878)
Inventories	163	(8)
Other receivables, deposits and prepayments	92	(81)
Accounts payable-trade	1,358	581
Accrued payroll, employee benefits and other expenses	49	(35)
Income taxes payable	(93)	2
Cash held in an escrow for terms of sale agreement for disposal of a subsidiary (Note 11)	641	641
Cash held in another escrow for funding of certain contingent obligations under existing contracts with senior management (Note 12)	(496)	413
Net cash provided by operating activities	95	2,539
Investing activities:		
Acquisition of property, plant and equipment	(576)	(1,318)
Increase in deposits for acquisition of property, plant and equipment	(14)	(107)
Net cash used in investing activities	(590)	(1,425)
Financing activities:		
Net cash provided by (used in) financing activities		
Net (decrease) increase in cash and cash equivalents	(495)	1,114
Cash and cash equivalents at beginning of period	20,366	17,441
Effects of exchange rate changes on cash and cash equivalents	109	93
Cash and cash equivalents at end of period	$ 19,980	$ 18,648
Supplemental cash flow information:		
Cash paid during the period for:		
Income taxes	$ 94	$

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Notes to Condensed Consolidated Financial Statements

(in thousands of United States Dollars, except share and per share data, unaudited)

(1) Organization and basis of presentation

Peak International Limited (the Company) was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on January 3, 1997. The subsidiaries of the Company are principally engaged in the manufacture and sale of precision-engineered packaging products, such as matrix and disk drive trays, reels and carrier tapes used in the storage and transportation of semiconductor devices and other electronic components. The Company s principal production facilities are located in the People s Republic of China (the PRC). The Company maintains sales offices in Hong Kong, the PRC, Malaysia, Singapore, Taiwan, and the United States, whereby direct sales are made to customers, and representative offices in the PRC, the Philippines, South Korea, and Italy, that provide customers with technical information.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intra-group balances and transactions have been eliminated on consolidation.

The accompanying condensed consolidated financial information has been prepared by the Company without being audited, in accordance with the instructions to Form 10-Q and therefore does not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known.

The unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) which in the opinion of management are required for a fair presentation of the Company s interim results. The results for interim periods are not necessarily indicative of the results that may be achieved in the entire year. These condensed consolidated financial statements and notes thereto should be read together with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended March 31, 2007.

New Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on our consolidated financial statements.

In June 2006, the FASB ratified the provisions of Emerging Issues Task Force (EITF) Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF Issue No. 06-3 requires that the presentation of taxes within revenue-producing transactions between a seller and a customer, including but not limited to sales, use, value added, and some excise taxes, should be on either a gross (included in revenue and cost) or a net (excluded from revenue) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The adoption of EITF Issue No. 06-3 during the first quarter of our 2008 fiscal year did not have a material impact on our consolidated results of operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. We adopted FIN 48 on April 1, 2007. On that date, we had no uncertain tax positions. We recognize interest and penalties, if any, as part of our provision for income taxes in our Consolidated Statements of Operations. In May 2007, the FASB issued FASB Staff Position, or FSP, No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 to amend FIN No. 48 by providing that previously unrecognized tax benefits can be recognized when the tax positions are effectively settled upon examination by a taxing authority. According to FSP FIN 48-1, an enterprise s tax position will be considered effectively settled if the taxing authority has completed its examination, the enterprise does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 must be applied upon the initial adoption of FIN No. 48. Enterprises that did not apply FIN No. 48 in a manner consistent with the provisions of FSP FIN 48-1 would be required to retrospectively apply its provisions to the date of the initial adoption of FIN No. 48. FSP FIN 48-1 did not have a material impact on our initial adoption of FIN No. 48.

Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

(2) Inventories

The components of inventories were as follows:

	June 30, 2007 (Unaudited)	March 31, 2007 (Audited)
Raw materials	$ 5,217	$ 5,146
Finished goods	5,579	5,813
	$ 10,796	$ 10,959

(3) Other Deposit

This represents the security bond placed at a Taiwanese court in order to obtain an anti-injunction order in respect of a potential patent dispute in Taiwan. See Note 9(a) Litigation. Management of the Company does not expect the case to be settled within 12 months and therefore the amount was classified as a non-current asset as of June 30, 2007.

Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

(4) Non-cash Share-based Compensation

Prior to April 1, 2006, the Company accounted for share-based employee compensation, including stock options, using the method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations (APB 25). Under APB 25, stock options are granted at market price and no compensation cost is recognized, and a disclosure is made regarding the pro forma effect on net earnings assuming compensation cost had been recognized in accordance with Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In December 2004, the FASB issued SFAS 123R, which requires companies to measure and recognize compensation expense for all share-based payments at fair value. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires that such transactions be accounted for using prescribed fair-value-based methods. SFAS 123R permits public companies to adopt its requirements using one of two methods: (a) a modified prospective method in which compensation costs are recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted or modified after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date or (b) a modified retrospective method which includes the requirements of the modified prospective method described above, but also permits companies to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for all periods presented or prior interim periods of the year of adoption. Effective April 1, 2006, the Company adopted SFAS 123R using the modified prospective method. No share-based employee compensation cost has been reflected in net income prior to the adoption of SFAS 123R. Results for prior periods have not been restated.

The following table presents the share-based compensation expense recognized in accordance with SFAS 123R during the quarters ended June 30, 2007 and 2006:

	June 30, 2007 (Unaudited)	June 30, 2006 (Unaudited)
The components of non-cash share-based compensation were as follows:		
Selling and Marketing	$ 19	$ 70
General and Administrative	96	95
	$ 115	$ 165

The total value of the stock options awards is expensed ratably over the service period of the employees receiving the awards. As of June 30, 2007, total unrecognized compensation cost related to stock-based options and awards was $0.6 million and the related weighted-average period over which it is expected to be recognized is approximately 1.6 years.

Stock Option Plans

At June 30, 2007, the Company had two active share-based employee compensation plans, the 1997 Stock Option Plan and the 1998 Stock Option Plan. Stock option awards granted from these plans are granted at the fair market value on the date of grant, and vest over a period determined at the time the options are granted, generally ranging from zero to three years, and generally have a maximum term of ten years. The Company did not issue any shares under the 1997 and 1998 Stock Option Plans during the three months ended June 30, 2007.

For all stock options, the Company recognizes compensation cost on a straight-line basis over the requisite service period. When the options are exercised, the Company issues common stock from its treasury shares.

Notes to Condensed Consolidated Financial Statements (continued)

(in thousands of United States Dollars, except share and per share data, unaudited)

The following is a summary of stock option activity within the Company s share-based compensation plans and charges for the three months ended June 30, 2007:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Options outstanding:				
Balance at April 1, 2007	1,448,065	$ 4.30		
Granted				
Exercised				
Forfeited	(60,333)	5.92		
Balance at June 30, 2007	1,387,732	4.23	2.82	$ 8
Exercisable at June 30, 2007	926,190	$ 4.76	2.78	$ 3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter of fiscal 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2007. This amount changes based on the fair market value of the Company s stock.

No options were exercised during the three months ended June 30, 2007.

The weighted average fair value of stock option awards granted and the key assumptions used in the Black-Scholes valuation model to calculate the fair value are as follows: