

PEAK INTERNATIONAL LTD
Form 10-Q/A
June 13, 2006

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 December 31, 2005

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
(State or other jurisdiction of

incorporation or organization)

None
(I.R.S. Employer

Identification Number)

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q/A

38507 Cherry Street,

Unit G, Newark,

California

(Address of principal executive offices)

94560

(Zip Code)

(510) 449-0100

(Registrant's telephone number)

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 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

Indicate by check mark whether the registrant is a shell company (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 February 7, 2006

Class	Outstanding at February 7, 2006
Common Stock, \$0.01 Par Value	12,420,389

EXPLANATORY NOTE

We are filing this Amendment No. 1 to Form 10-Q to amend our Form 10-Q for the quarter ended December 31, 2005, filed with the Securities and Exchange Commission on February 13, 2006 (the Original Report) to revise Part I, Item 1 (Financial Statements) to amend the Condensed Consolidated Statements of Operations from Item 1 in order to reclassify the gain on disposal of a subsidiary and the accompanying Note 14. See Note 14 to our Condensed Consolidated Financial Statements included in the Original Report for additional information. In accordance with the rules of the Securities and Exchange Commission, this Amended Report sets forth the complete text of Item 1 as amended to reclassify the gain on disposal of a subsidiary.

This amendment does not alter any part of the content of the Original Report, except for the changes and additional information noted herein. This amendment contains only the section to the Original Report that is being amended, and those unaffected parts or exhibits are not included herein. This amendment continues to speak as of the date the Original Report was filed, and we have not updated the disclosure contained herein to reflect events that have occurred since the filing of the Original Report. The filing of this amendment is not a representation that any statements contained in the Original Report or this amendment are true or complete as of any date subsequent to the date of the Original Report. Accordingly, this amendment should be read in conjunction with our Original Report and our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report.

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 December 31,			
	2005 (Unaudited)		2004 (Unaudited)	
Net Sales	\$ 17,185	100.0%	\$ 16,785	100.0%
Cost of Goods Sold (Note 2)	12,690	73.8%	16,858	100.4%
Gross Profit (Loss)	4,495	26.2%	(73)	(0.4)%
Selling and Marketing (Note 3)	2,605	15.2%	3,028	18.0%
General and Administrative	1,816	10.6%	1,690	10.1%
Research and Development	33	0.2%	37	0.2%
Income (Loss) from operations	41	0.2%	(4,828)	(28.7)%
Other Income net	107	0.6%	212	1.3%
Interest Income	68	0.4%	68	0.4%
Income (Loss) Before Income Taxes	216	1.2%	(4,548)	(27.0)%
Income Tax (Expense) Benefit (Note 4)	(4)	%	378	2.3%
Net Income (Loss)	\$ 212	1.2%	\$ (4,170)	(24.7)%
EARNING (LOSS) PER SHARE (Note 8)				
Basic	\$ 0.02		\$ (0.34)	
Diluted	\$ 0.02		\$ (0.34)	
Weighted Average Number of Shares Outstanding				
Basic	12,420,000		12,408,000	
Diluted	12,421,000		12,408,000	

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Operations

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

	Nine Months Ended December 31,			
	2005		2004	
	(Unaudited)		(Unaudited)	
Net Sales	\$ 49,226	100.0%	\$ 51,366	100.0%
Cost of Goods Sold (Note 2)	42,379	86.1%	43,321	84.3%
Gross Profit	6,847	13.9%	8,045	15.7%
Selling and Marketing (Note 3)	7,901	16.1%	9,212	17.9%
General and Administrative	5,213	10.6%	5,064	9.9%
Research and Development	108	0.2%	122	0.2%
Gain on disposal of subsidiary (Note 14)	(2,189)	(4.5)%		0.0%
Loss from operations	(4,186)	(8.5)%	(6,353)	(12.3)%
Other Income (Expense) net	(184)	(0.4)%	48	0.1%
Interest Income	285	0.6%	145	0.3%
Loss Before Income Taxes	(4,085)	(8.3)%	(6,160)	(11.9)%
Income Tax Benefit (Note 4)	529	1.1%	817	1.6%
Net Loss	\$ (3,556)	(7.2)%	\$ (5,343)	(10.3)%
LOSS PER SHARE (Note 8)				
Basic	\$ (0.29)		\$ (0.43)	
Diluted	\$ (0.29)		\$ (0.43)	
Weighted Average Number of Shares Outstanding				
Basic	12,420,000		12,388,000	
Diluted	12,420,000		12,388,000	

(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)

	December 31, 2005 (Unaudited)	March 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 18,855	\$ 22,301
Restricted cash (Note 15)	3,783	
Accounts receivable net of allowance for doubtful accounts of \$281 at December 31, 2005 and \$257 at March 31, 2005	13,318	12,578
Inventories (Note 5)	12,919	13,739
Other receivables, deposits and prepayments	807	1,121
Income taxes receivable		3
Total Current Assets	49,682	49,742
Asset to be disposed of by sale (Note 14)		5,230
Property, Plant and Equipment net	22,939	24,611
Land Use Right	727	742
Deposits for Acquisition of Property, Plant and Equipment	52	33
Other deposit (Note 6)	301	301
TOTAL ASSETS	\$ 73,701	\$ 80,659
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable:		
-trade	\$ 6,854	\$ 8,288
-property, plant and equipment	407	210
Accrued payroll and employee benefits	3,755	1,562
Accrued other expenses	2,084	5,786
Income taxes payable	97	127
Total Current Liabilities	13,197	15,973
Deferred Income Taxes	268	875
Total Liabilities	13,465	16,848
Commitments and Contingencies (Note 12)		
Shareholders' Equity:		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 12,420,388 shares at December 31, 2005 and at March 31, 2005	124	124
Additional paid-in capital	27,135	27,135
Retained earnings	34,257	37,813
Accumulated other comprehensive loss	(1,280)	(1,261)
Total shareholders' equity	60,236	63,811
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 73,701	\$ 80,659

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flows

(in thousands of United States Dollars)

	Nine Months Ended December 31,	
	2005 (Unaudited)	2004 (Unaudited)
Operating activities:		
Net loss	\$ (3,556)	\$ (5,343)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,819	5,103
Deferred income taxes	(607)	(488)
Loss on disposal/write-off of property, plant and equipment	385	82
Allowance for doubtful accounts	24	(20)
Gain on disposal of a subsidiary	(2,189)	
Changes in operating assets and liabilities:		
Accounts receivable	(764)	781
Inventories	820	550
Other receivables, deposits and prepayments	41	(352)
Income taxes receivable	3	5,062
Accounts payable-trade	(1,434)	1,838
Accrued payroll, employee benefits and other expenses	2,647	5,684
Income taxes payable	(30)	(5,732)
Cash held in escrow for funding of certain contingent obligations under existing contracts with senior management	(2,501)	
Net cash (used in) provided by operating activities	(2,342)	7,165
Investing activities:		
Net proceeds on disposal of a subsidiary	2,254	
Net proceeds on disposal of property, plant and equipment	15	
Acquisition of property, plant and equipment	(3,335)	(4,543)
Decrease in deposits for acquisition of property, plant and equipment	(19)	791
Net cash (used in) investing activities	(1,085)	(3,752)
Financing activities:		
Proceeds from issuance of common stock		394
Net cash provided by financing activities		394
Net (decrease) increase in cash and cash equivalents	(3,427)	3,807
Cash and cash equivalents at beginning of period	22,301	20,303
Effects of exchange rate changes on cash and cash equivalents	(19)	
Cash and cash equivalents at end of period	\$ 18,855	\$ 24,110
Supplemental cash flow information:		
Cash paid during the period		
Income taxes	\$ 105	341

(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, leadframe boxes and interleaves used in the storage and transportation of semiconductor devices and other electronic components. In March 2005, the Company exited the production and sale of shipping tubes. The Company's principal production facilities are located in the People's Republic of China (the PRC) and the Company maintains offices in Hong Kong, Malaysia, Singapore, Taiwan, and the United States of America.

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.

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, 2005.

New Accounting Standards

In May 2005, the FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections*, which requires entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS No.154 supersedes APB Opinion No.20, *Accounting Changes*, which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No.154 also makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. SFAS No.154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, which would be fiscal 2007, beginning April 1, 2006 for the Company. The adoption of SFAS No.154 is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No.107. SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of Statement 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis (MD&A) subsequent to adoption of Statement 123(R). In December 2004, the FASB issued FASB Statement No.123 (revised 2004), *Share-Based Payment*, or Statement 123(R), which is a revision of FASB Statement No.123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB Opinion No.25, *Accounting for Stock Issued to Employees* or Opinion 25. Generally, the approach in Statement 123(R) is similar to the approach described in the unrevised Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. In April 2005, the SEC deferred the effective date of Statement 123(R) so that companies may now adopt its provisions at the beginning of their first annual period beginning after June 15, 2005 which would be fiscal 2007, beginning April 1, 2006 for the Company. As permitted by the unrevised Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method, under which the Company generally does not record compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of

Statement 123(R) cannot be predicted at this time because it will

depend, in part, on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net loss and loss per share in Note 10 to our Condensed Consolidated Financial Statements.

In December 2004, the FASB issued SFAS No.153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No.29. SFAS No.153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No.153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, which would be our second quarter of fiscal 2006. The adoption of SFAS No.153 is not expected to have a material effect on our consolidated financial position or results of operations.

(2) Cost of goods sold

Included therein was \$64 (unaudited) and \$372 (unaudited) respectively (2004-\$58 and 166, unaudited) write-off of machinery and molds due to technological obsolescence for the quarter and for the nine months ended December 31, 2005.

In April 2005, the PRC tax authorities began an investigation into the withholding and payment of income taxes by the factory in Shenzhen (Factory) that is operated pursuant to a processing agreement with an unaffiliated party for certain current and former employees of the Company, its affiliates or other companies who performed services at the Factory but may not have paid income taxes in the PRC and for whom the Factory may not have withheld and paid income taxes. The PRC tax authorities will likely seek to collect unpaid income taxes on salaries and expense allowances of certain current and former employees of the Company, its affiliates or other companies who performed services in the PRC based on the worker s relationship with the Factory and interest and penalties on such amounts. Since some of these claims are based on income earned over several years, the amount of such taxes, accrued interest and penalties could be substantial. The Company does not believe that it is liable for such claims, but in the event the PRC tax authorities determine payments for back taxes, interest and penalties are owed, the potential consequences include substantial monetary claims against the Factory or the seizure of the Factory and the Company s assets at the Factory and the termination of substantially all of the Company s production operations. In the event the PRC authorities asserted claims for such taxes against the Factory, the Company may make such payments on a voluntary basis in order to avoid the seizure of the Factory or the Company s assets at the Factory and to keep it operational. The Company engaged tax advisors to assist the Company in assessing the Factory s and the Company s obligations with respect to the withholding and payment of income taxes by the Factory. In addition to the amount of \$2,003 that was estimated and accrued for during the six months ended September 30, 2005, upon completion of the assessment, the tax advisors concluded that the additional amount of unpaid income tax for certain former employees stationed at or employed by the Factory that could be estimated with a reasonable basis was approximately \$180. At this point, the Company does not believe the Factory has sufficient assets to pay such amounts. As a result, the Company anticipates it may have to pay such amount and has accrued \$180 as additional manufacturing costs for the quarter ended December 31, 2005. Penalties on the above unpaid income tax and liability for income and other taxes, interest and penalties for certain other individuals associated with the Factory could not be reasonably estimated. Accordingly, the Company has not accrued for these in the quarter ended December 31, 2005. See note 12(b) Contingencies.

(3) Delivery and freight expenses

For the quarter and for the nine months ended December 31, 2005, the Company incurred delivery and freight expenses of approximately \$858 (unaudited) and \$2,320 (unaudited) (2004 \$893 and \$2,656, unaudited) respectively, which have been included as part of selling and marketing expenses.

(4) Income Tax (Expenses) Benefit

Income is subject to taxation in the various countries in which the Company and its subsidiaries operate.

(5) Inventories

	December 31, 2005 (Unaudited)	March 31, 2005
Raw materials	\$ 5,395	\$ 8,394
Finished goods	7,524	5,345
	\$ 12,919	\$ 13,739

(6) 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 12(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.

(7) Stock Options

Option activity relating to the Company's stock option plan is summarized as follows (unaudited):

	Outstanding Options Weighted	
	Number of Shares	average exercise price per share
Outstanding at April 1, 2005	2,362,679	\$ 5.48
Granted	216,000	3.41
Exercised		
Forfeited	(30,798)	4.98
Outstanding at June 30, 2005	2,547,881	5.36
Granted	28,000	3.01
Exercised		
Forfeited	(318,914)	5.77
Outstanding at September 30, 2005	2,256,967	5.27
Granted	57,000	2.99
Exercised		
Forfeited	(50,938)	3.67
Outstanding at December 31, 2005	2,263,029	5.25

	Outstanding Options Weighted	
	Number of Shares	average exercise price per share
Outstanding at April 1, 2004	2,810,313	\$ 5.99
Granted	396,420	5.10
Exercised	(58,210)	3.96
Forfeited	(49,900)	7.93
Outstanding at June 30, 2004	3,098,623	5.88
Granted		
Exercised	(2,559)	3.52
Forfeited	(382,335)	7.33
Outstanding at September 30, 2004	2,713,729	5.68
Granted	50,000	3.98
Exercised	(1,750)	3.48
Forfeited	(31,236)	7.11
Outstanding at December 31, 2004	2,730,743	5.63

(8) Earning (Loss) Per Share

The following is a reconciliation of the numerator and the denominator of the basic earning (loss) per share:

	Three Months Ended December 31,	
	2005 (Unaudited)	2004 (Unaudited)
Numerator:		
Net income (loss)	\$ 212	\$ (4,170)
Denominator:		
Weighted average number of shares outstanding		
Basic	12,420,388	12,408,176
Assumed exercise of stock options	293	
Diluted	12,420,681	12,408,176

	Nine Months Ended December 31,	
	2005 (Unaudited)	2004 (Unaudited)
Numerator:		
Net loss	\$ (3,556)	\$ (5,343)
Denominator:		
Weighted average number of shares outstanding		
Basic	12,420,388	12,388,475
Assumed exercise of stock options		
Diluted	12,420,388	12,388,475

For the quarter ended December 31, 2004 and nine months ended December 31, 2005 and 2004, exercise of all outstanding stock options would have been anti-dilutive and such stock options were therefore not included in the computation of diluted loss per share.

(9) Comprehensive Income (Loss)

The Company's comprehensive income (loss) consists of the following:

	Three Months Ended	
	December 31, 2005 (Unaudited)	2004 (Unaudited)
Net income (loss):	\$ 212	\$ (4,170)
Other comprehensive loss:		
Foreign currency translation	(22)	(41)
Comprehensive income (loss)	\$ 190	\$ (4,211)
	Nine Months Ended	
	December 31, 2005 (Unaudited)	2004 (Unaudited)
Net loss:	\$ (3,556)	\$ (5,343)
Other comprehensive loss:		
Foreign currency translation	(19)	
Comprehensive loss	\$ (3,575)	\$ (5,343)
	December 31, 2005 (Unaudited)	March 31, 2005 (Unaudited)
Accumulated other comprehensive loss		
Foreign currency translation	\$ (1,280)	\$ (1,261)

(10) Employee Stock Purchase and Option Plans

During the quarter ended December 31, 2005, the Company issued options for 50,000 and 7,000 shares under the 1998 Stock Option Plan at an exercise price of \$3.065 and \$2.460 per share respectively to employees of the Company. The Company did not issue any shares under the 1997 Stock Option Plan nor 2000 Employee Stock Purchase Plan to employees of the Company during the quarter ended December 31, 2005.

The Company accounts for stock-based compensation awarded to employees using the intrinsic value method prescribed in Accounting Principles Board Opinions (APB) No. 25 Accounting for Stock Issued to Employees and related interpretations.

No stock-based employee compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

If the Company had accounted for its stock option plans and the stock purchase plan by recording compensation based on the fair value at grant date for such awards consistent with the method of Statement of Financial Accounting Standards (SFAS) No. 123 Accounting for Stock-Based Compensation, the Company's net income (loss) and earning (loss) per share would have been decreased as follows:

Three months ended
December 31,

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q/A

	2005	2004
	(Unaudited)	(Unaudited)
Net income (loss), as reported	\$ 212	\$ (4,170)
Add: compensation expenses recognized under SFAS no. 123, net of tax	\$ (147)	\$ (264)
Pro forma net income (loss)	\$ 65	\$ (4,434)
Pro forma earning (loss) per share		
- Basic	\$ 0.01	\$ (0.36)
- Diluted	\$ 0.01	\$ (0.36)

Nine months ended

	December 31,	
	2005 (Unaudited)	2004 (Unaudited)
Net loss, as reported	\$ (3,556)	\$ (5,343)
Add: compensation expenses released under SFAS no. 123, net of tax	\$ 82	\$ 402
Pro forma net loss	\$ (3,474)	\$ (4,941)
Pro forma loss per share		
- Basic	\$ (0.28)	\$ (0.40)
- Diluted	\$ (0.28)	\$ (0.40)

(11) Share Repurchase

In September 2000, the Board of Directors of the Company authorized the repurchase by the Company of up to \$10,000 of its common stock at prices not to exceed 150% of the Company's net asset value per share. Common stock repurchased will be cancelled immediately. The excess of purchase price over par value is charged to additional paid-in capital.

There was no repurchase of shares for the quarter and nine months ended December 31, 2005 and 2004.

(12) Commitments and Contingencies

(a) Litigation

R.H. Murphy Co., Inc. (Murphy) is the owner of U.S. Reexamined Patent 5,400,904 C1 and certain corresponding foreign patents, which patents are directed to specific features in trays used to carry integrated circuits. Murphy previously notified the Company and certain of its customers that it believed these patents were infringed by certain integrated circuit trays that the Company provided to its customers, and indicated that licenses to these patents were available. On January 17, 2006, a decision was reached in R.H. Murphy vs Illinois Tool Works in the United States District Court for the District of Massachusetts finding Murphy's patent invalid. While it is possible that R.H. Murphy may appeal this decision, or may proceed against the Company in Taiwan or other jurisdictions, the Company does not expect R.H. Murphy to assert any claim against Peak for infringement of this patent.

(b) Contingencies

In April 2005, the PRC tax authorities began an investigation into the withholding and payment of income taxes by the factory in Shenzhen (Factory) that is operated pursuant to a processing agreement with an unaffiliated party for certain current and former employees of the Company, its affiliates or other companies who performed services at the Factory but may not have paid income taxes in the PRC and for whom the Factory may not have withheld and paid income taxes. The PRC tax authorities will likely seek to collect unpaid income taxes on salaries and expense allowances of certain current and former employees of the Company, its affiliates or other companies who performed services in the PRC based on the worker's relationship with the Factory and interest and penalties on such amounts. Since some of these claims are based on income earned over several years, the amount of such taxes, accrued interest and penalties could be substantial. The Company does not believe that it is liable for such claims, but in the event the PRC tax authorities determine payments for back taxes, interest and penalties are owed, the potential consequences include substantial monetary claims against the Factory or the seizure of the Factory and the Company's assets at the Factory and the termination of substantially all of the Company's production operations. In the event the PRC authorities asserted claims for such taxes against the Factory, the Company may make such payments on a voluntary basis in order to avoid the seizure of the Factory or the Company's assets at the Factory and to keep it operational. The Company engaged tax advisors to assist the Company in assessing the Factory's and the Company's obligations with respect to the withholding and payment of income taxes by the Factory. In addition to the amount of \$2,003 that was estimated and accrued for during the six months ended September 30, 2005, upon completion of the assessment, the tax advisors concluded that the additional amount of unpaid income tax for certain former employees stationed at or employed by the Factory that could be estimated with a reasonable basis was approximately \$180. The Company does not believe the Factory has sufficient assets to pay such amounts. As a result, the Company anticipates it may have to pay such amounts and has accrued \$180 as

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q/A

additional manufacturing costs for the quarter ended December 31, 2005. At present, the potential penalty for the unpaid income and other taxes and interest, as well as the amount of tax payable and interest thereon for some other current and former employees of the Company, its affiliates or other companies, cannot be estimated with reasonable particularity and therefore no impact to the financial statements has been reflected in these respects.

(c) Commitments

At December 31, 2005, the Company had commitments for capital expenditures of approximately \$259.

(13) Segment Information

	Hong Kong & the PRC	United States	Other Asian countries	Eliminations	Consolidated
Quarter ended December 31, 2005 (unaudited)					
Net sales to third parties	\$ 9,257	\$ 1,150	\$ 6,778	\$	\$ 17,185
Transfer between geographic areas	8,617		1,101	(9,718)	
Total net sales	\$ 17,874	\$ 1,150	\$ 7,879	\$ (9,718)	\$ 17,185
Income (Loss) before tax	\$ 352	\$ 130	\$ (162)	\$ (104)	\$ 216
Quarter ended December 31, 2004 (unaudited)					
Net sales to third parties	\$ 8,067	\$ 1,018	\$ 7,700	\$	\$ 16,785
Transfer between geographic areas	8,160		780	(8,940)	
Total net sales	\$ 16,227	\$ 1,018	\$ 8,480	\$ (8,940)	\$ 16,785
(Loss) Income before tax	\$ (4,460)	\$ 97	\$ 95	\$ (280)	\$ (4,548)
Nine months ended December 31, 2005 (unaudited)					
Net sales to third parties	\$ 25,510	\$ 3,465	\$ 20,251	\$	\$ 49,226
Transfer between geographic areas	23,427		3,053	(26,480)	
Total net sales	\$ 48,937	\$ 3,465	\$ 23,304	\$ (26,480)	\$ 49,226
(Loss) Income before tax	\$ (4,022)	\$ 339	\$ (576)	\$ 174	\$ (4,085)
Nine months ended December 31, 2004 (unaudited)					
Net sales to third parties	\$ 25,620	\$ 3,105	\$ 22,641	\$	\$ 51,366
Transfer between geographic areas	24,285		2,067	(26,352)	
Total net sales	\$ 49,905	\$ 3,105	\$ 24,708	\$ (26,352)	\$ 51,366
(Loss) Income before tax	\$ (5,964)	\$ 135	\$ (232)	\$ (99)	\$ (6,160)

(14) Asset to be disposed of by sale/Other income

A former subsidiary (the *Subsidiary*) of the Company owned an industrial building under construction in the PRC. In view of its production needs and the market conditions, the completion of the building under construction was delayed. During the fourth quarter of the year ended March 31, 2001, management reassessed the fair value of the building given the downturn in the industrial property market in which the building is located and a provision of \$759 was recorded to reduce the carrying value of the building.

During the quarter ended June 30, 2002, the industrial building under construction and the related land use right in the PRC, which has an assigned period for 50 years commencing May 1993, were reclassified as *asset to be disposed of by sale* following management's decision to dispose of the property as a general purpose industrial building. As a result, the property has been written down to its fair market value less costs to sell pursuant to SFAS No. 144 *Accounting for the Impairment of Disposal of Long-Lived Assets*, resulting in an asset impairment charge of \$13,378 during the year ended March 31, 2003. The net book value of the property and the land use right were \$4,071 and \$1,159 respectively as of March 31, 2005, 2004 and 2003.

The Company entered into a contract with an independent third party (the *Purchaser*) for the sale of the *Subsidiary*, which held title to this building and the associated land use rights in the PRC. The sale was completed on April 13, 2005 for approximately \$7,692 in cash. Approximately \$1,282 of the sale proceeds is held in escrow as restricted cash (see note 15, *Restricted Cash*). A net gain on disposal of approximately \$2,189 was recognized in the quarter ended June 30, 2005.

The escrow fund extends over two consecutive years, commencing with the completion of the sale on April 13, 2005, as follows:

The year ended April 13, 2006; and

The year ending April 13, 2007.

In accordance with the terms of the sale agreement, immediately following the year ended April 13, 2006, one half of the full amount established and held in escrow and classified as restricted cash was released to the Company without any reduction or offsets.

During the year ending April 13, 2007, the remaining escrow fund shall be distributed in the following order:

First, towards payment of any tax or duty payable in respect of the remaining escrow fund for which the Company or the escrow agent is or are or may be properly become liable and towards payment of any bank or other charges during the year; and

Secondly, by payment to the *Purchaser* of any amount of the remaining escrow fund in or towards satisfaction of such amount payable by the Company as stated in any final judgment or award made or ordered during the year in respect of any litigation, arbitration or other legal proceedings the subject matter of a claim, and if applicable, by payment to the *Purchaser* of an amount equivalent to the interest that would have been earned on such amount during the year.

On or immediately after April 13, 2007, the remaining escrow fund shall be closed and be distributed:

First, by payment to the *Purchaser* of such amount, if any, which has been agreed to by the Company in compensation for any claim, and an amount equivalent to the interest that would have been earned on such amount since the completion of the sale on April 13, 2005; and

Secondly, by payment of the balance to the Company.

The Company is liable to compensate the *Purchaser* for any breach of warranties that include the Company being the legal and beneficial owner of the shares of the *Subsidiary*, free and clear of encumbrances or third party right, before they were sold to the *Purchaser*, and that no legal proceedings have been initiated or are outstanding against the *Subsidiary* and there are no unfulfilled or unsatisfied judgment or court orders against the *Subsidiary*. If the *Purchaser* and the Company shall not have reached agreement as to the amount to which the *Purchaser* is entitled

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q/A

by way of compensation in respect of any of the aforesaid claims, the matter in dispute will be determined by an independent solicitor of appropriate experience and standing. The sale agreement is governed by and construed in accordance with the laws of Hong Kong and the parties agree to submit to the exclusive jurisdiction of the courts of Hong Kong. The Company is not aware of any potential claim or encumbrance in connection with the sale agreement and no such claim or encumbrance has been alleged by the Purchaser or any other party.

(15) Restricted cash

Apart from \$1,282 of the sale proceeds held in escrow as restricted cash in note 14, Asset to be disposed of by sale/Other income, on October 14, 2005, the Company entered into escrow arrangements appointing an independent third party as an escrow agent (Escrow Agent) for a total of \$2,501 deposited as restricted cash by the Company. In September 2005, a shareholder of the Company stated its intention to replace the Company's senior management and effect a merger of the Company with another corporation. The escrows were set up to ensure that obligations of the Company to the officers under their employment contracts would be honored in the future. The Company has deposited an amount equal to estimated severance payments and anticipated administrative costs in the escrows. Funds in escrow will not be available for use by the Company until March 15, 2007 or earlier in accordance with the provisions of the escrow agreements. In November 2005, the shareholder reported that it no longer planned to effect such changes.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

Date: June 13, 2006

PEAK INTERNATIONAL LIMITED

/s/ Dean Personne

Name: Dean Personne

Title: Chief Executive Officer

Date: June 13, 2006

/s/ John Supan

Name: John Supan

Title: Interim Chief Financial Officer

Date: June 13, 2006

/s/ Katie Fung

Name: Katie Fung

Title: Principal Accounting Officer