

Edgar Filing: PSC INC - Form 8-K

PSC INC  
Form 8-K  
February 20, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K  
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 18, 2003

PSC INC.  
(Exact Name of Registrant as Specified in its Charter)

NEW YORK ----- (State or other jurisdiction of incorporation)	0-9919 ----- (Commission File Number)	16-0969362 ----- (I.R.S. Employer Identification No.)
111 S.W. FIFTH AVENUE, SUITE 4100, PORTLAND, OREGON ----- (Address of principal executive offices)		97204 ----- (Zip Code)

(503) 553-3920  
(Registrant's telephone number, including area code)

Not applicable  
(Former name or former address; if changed  
since last report.)

Item 5. Other Events

As previously reported, on November 22, 2002, PSC Inc. (the "Company") filed a voluntary bankruptcy petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Since the November 22, 2002 petition date, the Company has operated as a debtor in possession and is in compliance with all bankruptcy reporting requirements.

As a result of the Chapter 11 proceeding, each month the Company is required to file with the Bankruptcy court a schedule of monthly income and expenses, along with selected balance sheet data (the "Monthly Operating Statement"). On February 18, 2003, the Registrant filed a Monthly Operating Statement with the Bankruptcy Court covering the period of January 1, 2003 to January 24, 2003. This Monthly Operating Statement is filed as Exhibit 99.1 to this Current Report.

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The financial data included in the Monthly Operating Statement is not audited. The Monthly Operating Statement is in a format prescribed by applicable bankruptcy laws. There can be no assurance that, from the perspective of an investor or potential investor in the Company's securities, the Monthly Operating Statement is complete. The Monthly Operating Statement also contains information for periods different from those required in the Company's reports pursuant to the Securities Exchange Act of 1934, as amended ("the Exchange Act"). This information might not be indicative of the Company's financial condition or operating results for the period that would be reflected in the Company's financial statements or in its reports pursuant to the Exchange Act. Results set forth in any Monthly Operating Statement should not be viewed as indicative of future results.

Item 7. Financial Statements and Exhibits.

(c) EXHIBITS.  
-----

EXHIBIT NO. -----	DESCRIPTION -----
99.1	PSC Inc. Monthly Operating statement for the period from January 1, 2003 to January 24, 2003

FORWARD LOOKING STATEMENTS

Certain statements in this Form 8-K are forward-looking statements that involve risk and uncertainties, which may cause actual results to differ materially from the statements made including market potential, regulatory clearances, business growth and other risks listed from time to time in the Company's Securities and Exchange Commission filings. These forward-looking statements represent the Company's judgment, as of the date of this release, and the Company disclaims any intent or obligation to update these forward-looking statements.

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 hereunto duly authorized.

PSC INC.

By: /s/EDWARD J. BOREY  
-----  
Name: Edward J. Borey  
Title: President, Chief Executive  
Officer and Director

Dated: February 19, 2003

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
99.1	PSC Inc. Monthly Operating statement for the period from January 1, 2003 to January 24, 2003

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MONTHLY OPERATING REPORT

DEBTOR:

PSC

CASE #:

02-15876

JOINTLY ADMINIS

REPORTING PERIOD:

JANUARY,

Monthly Operating Report Prepared By Debtor

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Debtor: PSC Inc. 02-15876 (SMB)  
PSC Scanning, Inc. 02-15877 (SMB)

Address: 111 SW Fifth Avenue, Suite 4100  
Portland, OR 97204

Debtors' Attorneys: Schulte Roth & Zabel LLP  
919 Third Avenue  
New York, NY 10022

CERTIFICATION:

The undersigned, having reviewed the attached report and being familiar with the Debtors' financial affairs, verifies under the penalty of perjury, that the information contained therein is complete, accurate and truthful to the best of my knowledge.

-----  
Signature of Authorized Individual

-----  
Date

Paul M. Brown

Vice President and Chi

-----  
Printed Name of Authorized Individual

-----  
Title of Authorized In

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Indicated if this is an amended statement by checking here:

AMENDED STATEMENT:

PSC INC.  
CASE #: 02-15876 (SMB)  
REPORTING PERIOD: JANUARY, 2003  
\$ AMOUNTS IN THOUSANDS

		----- UNAUDITED -----
		December 31, 2002
		-----
CONSOLIDATED STATEMENT OF OPERATIONS (MOR-1)	(a)	
Sales to third parties		\$ 15,529
Cost of Sales		11,261
		-----
GROSS PROFIT		4,268
		-----
Operating Expenses		
Sales & Marketing		3,526
Engineering, R&D		1,089
General & Administrative		1,304
Debt Restructuring Fees		450
Foreign Curr. (Gain) Loss		(212)
Write-off of Debt Discount		
Write-off of Goodwill		-
		-----
Total Operating Expenses		5,955
		-----
OPERATING PROFIT (LOSS)		(1,687)
		-----
Other (Income) Expense		
Other (Income) Expense		(1,788)
Interest Expense		77
		-----
Other (Income) Expense		(1,711)
		-----
INCOME (LOSS) BEFORE TAXES		\$ 24
Tax Provision (Benefit)		338
		-----
NET INCOME (LOSS)		\$ (314)
		=====

Notes:

- (a) This Statement of Operations is for the PSC Inc., on a consolidated basis. All foreign subsidiaries included in this statement are excluded from the Chapter 11 filing of the debtors.
- (b) Reporting period for December, 2002 is actually from November 22, 2002 (the petition filing date) to December 31, 2002. The reporting period for January is January 1, 2003 to January 24, 2003

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Schedule: MOR-1

PSC INC.  
 Case #: 02-15876 (SMB)  
 Reporting Period: January, 2003  
 \$ Amounts in thousands

	UNAUDITED	UNAUDITED
Consolidated Balance Sheet (MOR-2)	11/22/02 (Petition Date)	12/31/02
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,328	3,308
Accounts Receivable - net	29,643	29,012
Inventories - net	22,891	20,121
Prepaid Expenses and Other	2,832	3,960
Total current assets	57,694	56,401
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	-	-
Buildings & Improvements	29	54
Office Furniture	13,966	14,117
Production Equipment	17,629	17,719
Leasehold Improvements	921	926
Total property, plant and equipment	32,545	32,816
Less: Accumulated Depreciation	(23,961)	(24,337)
NET PROPERTY, PLANT AND EQUIPMENT	8,584	8,479
<b>OTHER ASSETS</b>		
Intangibles from Acquisitions	102	50
Other Intangibles	14,751	15,119
Other Assets	(358)	86
Less: Accumulated amortization	(5,593)	(5,742)
Total other assets	8,902	9,513
TOTAL ASSETS	75,180	74,393

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Schedule: MOR-2

PSC INC.  
 Case #: 02-15876 (SMB)  
 Reporting Period: January, 2003  
 \$ Amounts in thousands

UNAUDITED                      UNAUDITED

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Consolidated Balance Sheet (MOR-2)

11/22/02  
(Petition Date)

12/31/02

LIABILITIES & SHAREHOLDERS' EQUITY

LIABILITIES (POST-PETITION)

CURRENT LIABILITIES

DIP Financing Arrangement	-	
Accounts Payable	-	
Note Payable	-	
Accrued Expenses	-	
Accrued Interest	-	
Deferred Revenue	-	
Accrued Warranty	-	
Accrued Taxes/VAT	-	
Accrued Royalties	-	
Accrued Payroll and Commissions	-	
Accr. Acq. Related Restructuring Costs	-	
Intercompany payable (receivable)	-	

TOTAL CURRENT LIABILITIES

-

1

LONG-TERM LIABILITIES

Deferred Revenue	-	
LT Warranty Accrual	-	
Other LT Liabilities (includes warrants)	-	

TOTAL LONG-TERM LIABILITIES

-

TOTAL LIABILITIES (POST-PETITION)

-

1

LIABILITIES (PRE-PETITION)

CURRENT LIABILITIES

Secured debt	93,462	9
Priority debt	29,268	2
Note Payable	1,651	
Accounts Payable	17,226	
Accrued Expenses	8,543	
Accrued Interest	14,128	1
Deferred Revenue	884	
Accrued Warranty	1,519	
Accrued Taxes/VAT	(457)	
Accrued Royalties	1,637	
Accrued Payroll and Commissions	2,983	
Accr. Acq. Related Restructuring Costs	-	
Intercompany payable (receivable)	-	

TOTAL CURRENT LIABILITIES

170,844

15

LONG-TERM LIABILITIES

Deferred Revenue	550	
LT Warranty Accrual	1,557	
Other LT Liabilities (includes warrants)	489	

TOTAL LONG-TERM LIABILITIES

2,596

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TOTAL LIABILITIES (PRE-PETITION)	173,440	16
	-----	-----
TOTAL LIABILITIES	173,440	17
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred Stock	1	
Common Shares	129	
Additional Paid-in Capital	73,078	7
Cumulative Translation Adjustment	(3,277)	(
Retained earnings - prepetition	(166,834)	(16
Retained earnings - postpetition	-	
Less: Treasury Shares	(1,357)	(
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	(98,260)	(9
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS, EQUITY	75,180	7
	=====	=====

(a) The Consolidated Balance Sheet is for the PSC Inc., on a consolidated basis. All foreign subsidiaries included in this statement are excluded from the Chapter 11 filing of the debtors.

PSC INC.  
Case #: 02-15876 (SMB)  
Reporting Period: January, 2003

\$ Amounts in thousands

	-----	UNAUDITED	-----
CONSOLIDATED STATEMENT OF CASHFLOWS (MOR-3)	(b)	12/31/02	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss)			(3
Adjustments to reconcile net income to net cash:			
Depreciation			3
Amortization			
Change in fair value of warrants			
(INCREASE) DECREASE IN ASSETS:			
Accounts receivable			6
Inventories			2,7
Prepaid expenses and other			(1,1
INCREASE (DECREASE) IN LIABILITIES:			
Accounts payable			(6,4
Accrued expenses			1,7
Accrued payroll & commissions			(3
Other Long-term liabilities			(1
			-----
Net Cash Provided by/(Used in) Operating Activities			(2,7
			-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures, net			(2
Proceeds from sale of assets			
Write-off of goodwill			
Write-off of discount related to sub-debt			
Addition to intangible assets & other long-term assets, net			(7

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Net Cash Provided by/(Used in) Investing Activities	(9)
-----	
CASH FLOWS FROM FINANCING ACTIVITIES	
Additions to Debtor-In-Possession Financing Arrangement	4,0
Additions (Payments) of long-term debt	4,0
-----	
Net Cash Provided by/(Used in) Financing Activities	4,0
-----	
Effect of Exchange Rate Changes on Cash & Cash Equivalents	6
-----	
Net Increase (Decrease) in Cash & Cash Equivalents	9
CASH AND CASH EQUIVALENTS, beginning of period	2,3
-----	
CASH AND CASH EQUIVALENTS, end of period	3,3
=====	

Notes:

- (a) This Statement of Cashflows is for the PSC Inc., on a consolidated basis. All foreign subsidiaries included in this statement are excluded from the Chapter 11 filing of the debtors.
- (b) Reporting period for December, 2002 is actually from November 22, 2002 (the petition filing date) to December 31, 2002. The reporting period for January is January 1, 2003 to January 24, 2003

PSC INC.  
CASE #: 02-15876 (SMB)  
REPORTING PERIOD: JANUARY, 2003  
\$ AMOUNTS IN THOUSANDS

	-----	UNAUDITED	-----
SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS (MOR-4)	(a), (b)	12/31/02	-----
Cash Receipts			-----
Accounts Receivable Collections		10,394	
Cash Repatriations From International Subsidiaries		3,681	
Additions to Post-Petition Debt		4,000	
Other Cash Receipts		-	
		-----	
Total Cash Receipts		18,075	-----
OPERATING DISBURSEMENTS	(c)		-----
Payroll and Payroll Taxes		2,638	
Accounts Payable And Accrued Liabilities		11,774	
Consulting and Professionals In The Normal Course		201	
Royalty Payments		921	



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Director & Officer Liability Insurance Payments	307
Rents	221
Capital Expenditures	468
DIP Interest	
	-----
TOTAL OPERATING DISBURSEMENTS	16,530
	-----
BANKRUPTCY-RELATED FEES AND EXPENSES	
	-----
Payments To Professionals	-
US Trustee Fees	-
Court Costs	-
Other Costs	-
	-----
TOTAL BANKRUPTCY-RELATED FEES AND EXPENSES	-
	-----
TOTAL CASH DISBURSEMENTS	16,530
	-----
Net Change In Cash	1,545
Beginning Cash Balance, US Bank Accounts	(282)
	-----
ENDING CASH BALANCE, US BANK ACCOUNTS	1,263
	=====
RECONCILIATION TO BALANCE SHEET:	
Cash - US Bank Accounts	1,263
Cash - International Bank Accounts (Not In Chapter 11)	2,045
	-----
TOTAL CASH PER BALANCE SHEET	3,308
	=====

(a) This schedule of Cash Receipts And Disbursements is related to US-only disbursements that are treated in accordance with the Chapter 11 provisions. International revenues and expenses are excluded. Note that Cash Repatriations From International Subsidiaries is the net cash swept from foreign cash collections, after local disbursements.

(b) Reporting period for December, 2002 is actually from November 22, 2002 (the petition filing date) to December 31, 2002. Reporting period for January, 2003 is actually January 1 to January 24, 2003.

(c) Includes payment of Court-approved Pre-Petition items.

PSC INC.  
CASE #: 02-15876 (SMB)  
REPORTING PERIOD: JANUARY, 2003

\$ AMOUNTS IN THOUSANDS		-----	-----	-----
		PSC Inc.	PSC Scanning	TOTAL
		Only	Only	UNAUDITED
		-----	-----	-----
SCHEDULE OF CASH RECEIPTS & DISBURSEMENTS	(a), (b)	12/31/02	12/31/02	12/31/02
(MOR-4A)		-----	-----	-----

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Cash Receipts

-----			
Accounts Receivable Collections	-	10,394	10,394
Cash Repatriations From International Subsidiaries	-	3,681	3,681
Additions to Post-Petition Debt	-	4,000	4,000
Other Cash Receipts	-	-	-
		-----	-----
Total Cash Receipts		18,075	18,075
		-----	-----

OPERATING DISBURSEMENTS (c)

-----			
Payroll and Payroll Taxes	91	2,547	2,638
Accounts Payable And Accrued Liabilities	72	11,702	11,774
Consulting and Professionals In The Normal Course	214	(13)	201
Royalty Payments	-	921	921
Director & Officer Liability Insurance Payments	-	307	307
Rents	17	204	221
Capital Expenditures	-	468	468
DIP Interest			
		-----	-----
TOTAL OPERATING DISBURSEMENTS	394	16,136	16,530
		-----	-----

BANKRUPTCY-RELATED FEES AND EXPENSES

-----			
Payments To Professionals			-
US Trustee Fees			-
Court Costs			-
Other Costs			-
			-----

TOTAL BANKRUPTCY-RELATED FEES AND EXPENSES -

TOTAL CASH DISBURSEMENTS 16,530

Net Change In Cash 1,545  
 Beginning Cash Balance, US Bank Accounts (282)

ENDING CASH BALANCE, US BANK ACCOUNTS 1,263

RECONCILIATION TO BALANCE SHEET:  
 Cash - US Bank Accounts 1,263  
 Cash - International Bank Accounts (Not In Chapter 11) 2,045

TOTAL CASH PER BALANCE SHEET 3,308

(a) This schedule of Cash Receipts And Disbursements is related to US-only disbursements that are treated in accordance with the Chapter 11 provisions. International revenues and expenses are excluded. Note that Cash Repatriations From International Subsidiaries is the net cash swept from foreign cash collections, after local disbursements.

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(c) Includes payment of Court-approved Pre-Petition items.

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PSC, INC.  
PSC Inc.  
Case #: 02-15876 (SMB)  
Reporting Period: January, 2003  
\$ Amounts in thousands

		----- UNAUDITED -----
SCHEDULE OF ACCOUNTS PAYABLE (MOR-5)		12/31/02 -----
Trade Accounts Payable		
US Pre-Petition Accounts Payable		7,870
US Post-Petition Accounts Payable		4,945
Foreign Subsidiary Accounts Payable		593
		-----
TOTAL CONSOLIDATED ACCOUNTS PAYABLE		13,408 =====

INTERCOMPANY TRADE ACCOUNTS		(a)	----- Payable (Receivable) -----
PSC Inc. (debtor)			9,715
PSC Scanning, Inc (debtor)			(19,765)
PSC UK			(233)
PSC France			686
PSC Italy			2,551
PSC Germany			3,559
PSC Australia			10
PSC Japan			268
Consolidation Eliminations			3,209
			-----
TOTAL INTERCOMPANY TRADE ACCOUNTS			- =====

Note:

(a) All cash flows within subsidiaries flow from the foreign subsidiaries to the domestic debtors. There are no cash disbursements from the debtors to non-debtor subsidiaries.

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CASE #: 02-15876 (SMB)

REPORTING PERIOD: JANUARY, 2003

SCHEDULE OF SALES AND USE TAXES (MOR-6)

JURISDICTION	SALES & USE TAX LIABILITY				PAY M
	12/31/02 BALANCE	COLLECTED	DISCOUNT	TOTAL COLLECTIONS	
Canada	1,518	(3,147)		3,147	(2)
Arkansas	208	(322)		322	
Arizona	(7,386)	(253)		253	
California	(1,692)	(1,252)		1,252	
Colorado	212	(170)		170	
Florida	1,382	(415)		415	(1)
Georgia	1,085	(2,069)		2,069	(1)
Hawaii/adj to be made	(22)			-	
Illinois	1,678	(1,215)		1,215	(1)
Indiana	(9,162)	(278)		278	
Louisiana/adj to be made	(6)			-	
Massachusetts	(665)	27		(27)	
Maryland	126	(27)		27	
Michigan	820	(310)		310	
Minnesota	3,866	(11)		11	
Minnesota/adj to be made	1,305			-	
North Carolina	11,372	(893)		893	(11)
New Jersey	(6,693)	14		(14)	
New York	1,266	681		(681)	(1)
Ohio	(1,322)	(2,530)		2,530	
Oklahoma	(46)			-	
Pennsylvania	1,143	(2,283)		2,283	(1)
Tennessee	(877)	(1,392)		1,392	
Texas	3,120	(1,329)		1,329	(3)
Virginia	1,275	(135)		135	(1)
Washington	(616)	(148)		148	
Posting errors to be adj	76			-	
Total	1,967	(17,458)	-	17,458	(26)

(a) Reporting period for December, 2002 is actually from November 22, 2002 (the petition filing date) to December 31, 2002. The reporting period for January, 2003 is actually from January 1, 2003 to January 24, 2003.

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CASE #: 02-15876 (SMB)

REPORTING PERIOD: JANUARY, 2003

SCHEDULE OF PAYROLL & PAYROLL TAXES (MOR-7)

JURISDICTION	GROSS SALARY/WAGES PAID			EMPLOYEE PAYROLL TAXES WITHHELD			EMPLOYER PAYROLL TAXES CO	
	1/3/03	1/17/03	TOTAL	1/3/03	1/17/03	TOTAL	1/3/03	1/17/03
	1,097,614	1,111,575	2,209,189					
Federal				23,168	128,616	251,784		
EIC						-		
Social Security				66,091	66,946	133,036	66,091	66,091
Medicare				15,457	15,657	31,113	15,457	15,457
FUTA						-	8,353	7,714
California				1,516	1,328	2,844	1,456	
Colorado				127	111	238	101	
Florida						-	149	
Georgia				1,773	1,616	3,388		
Indiana				82	70	152	74	
Massachusetts				112	95	208	43	
Maryland						-		
North Carolina				147	121	268	52	
New Jersey				188	151	339	188	
Nevada						-	103	
New York				699	610	1,309	495	
Ohio				2,366	2,246	4,612	820	
Oregon				51,474	50,930	102,404	23,810	23,810
Pennsylvania				472	1,155	1,627	272	
Texas						-	105	
Utah				147	124	271	3	
Washington						-	98	
Canada	5,575	5,335	10,910	1,901	1,750	3,650	427	
Total	1,103,189	1,116,910	2,220,100	265,719	271,525	537,244	118,095	116,095

(a) Reporting period for December, 2002 is actually from November 22, 2002 (the petition filing date) to December 31, 2002. The reporting period for January, 2003 is actually from January 1, 2003 to January 24, 2003.

PSC INC.

CASE #: 02-15876 (SMB)

Reporting Period: January, 2003

SCHEDULE OF PROPERTY TAXES (MOR-8)

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Jurisdiction	Location	Asset Description	1/1 - 1/24 EXPENSED	ACCRUED LIABILIT
Boulder County	Boulder, CO	Tooling (scrapped in 2001)	3,925	
Miami Dade County	Miami, CA	office furniture/equip	222	
Citicorp Vendor Finance	Philadelphia, PA	2 photo copiers	132	
Siemens Financial	Chicago, IL	Manufacturing Equip.	25,881	
Clark County	Vancouver, WA	Tooling	18,490	
Clark County	Vancouver, WA	Refund of prior payments		
Nielsen Family Partnership	Eugene, OR	Building Rent	5,911	
Sonoma County	Sonoma, CA		239	
Lane County	Eugene, OR	various asset classes		27,102
TOTAL			54,800	27,102

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Schedule: MOR-8

PSC INC.

CASE #: 02-15876 (SMB)

REPORTING PERIOD: JANUARY, 2003

SCHEDULE OF INCOMETAXES (MOR-9)

	12/31/2002 TAX LIABILITY	TAX REFUNDS	TAX DUE	TAX WITHHELD	TAX PAYMEN
Federal Income Tax	-	-	-	-	-
State Income Tax	-	-	-	-	-
Pennsylvania Refund	-	-	-	-	-
NY State Refund	-	-	-	-	-
Foreign Income Tax	-	-	-	-	-
TOTAL	-	-	-	-	-

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Schedule: MOR-9

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PSC INC.  
CASE #: 02-15876 (SMB)  
REPORTING PERIOD: JANUARY, 2003  
\$ AMOUNTS IN THOUSANDS

SCHEDULE OF ACCOUNTS RECEIVABLE (MOR-9)

US  
Europe  
Asia  
Total Accounts Receivable

Allowance For Doubtful Accounts

Net Accounts Receivable

PSC INC.

Case #: 02-15876 (SMB)  
Reporting Period: January, 2003

DEBTOR QUESTIONNAIRE (MOR-10)

	January 24, 2003	
	Yes	No
-----		
Must be completed each month		
-----		
1. Have any assets been sold or transferred outside the normal course of business this period? If yes, provide an explanation below.		X
2. Have any funds been disbursed for any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		X
3. Have all postpetition tax returns been timely filed? If no, provide an explanation below.	X	
4. Are workers compensation and general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	X	
5) All insurance policies are fully paid for the current period.	X	
6) All amounts relating to workers compensation and disability insurance have been paid for the current period.	X	

PSC INC.  
CASE #: 02-15876 (SMB)

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REPORTING PERIOD: JANUARY, 2002

### NOTES TO FINANCIALS

#### 1. THE COMPANY

The accompanying financial statements are comprised of the accounts of PSC Inc. (a New York corporation) (the Company) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain schedules have been provided to provide direct cash receipts and disbursement information that relates solely to the debtors.

On November 22, 2002, PSC Inc. and PSC Scanning, Inc. (both US corporations) (the debtors) filed for protection from creditors under Chapter 11, of the US Bankruptcy Code. The Company filed a Plan of Reorganization outlining its anticipated treatment of various creditor classes on the same date. At the time of the filing, the debtors had negotiated a Debtor-In-Possession financing arrangement (DIP financing) to provide up to \$20 million in working capital for the period of reorganization, subject to certain performance covenants. This DIP financing was subsequently approved by the Bankruptcy Court. As of January 24, 2002, the Company was in compliance with all performance covenants.

#### 2. SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, inventories, warranty obligations, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of our consolidated financial statements.

The Company reports its results from operations on a fiscal month reporting basis. As such, the first and second month of each quarter is a 4-week month and the third month of each quarter is a 5-week month. At yearend, the last month of the year is extended or reduced so that the year end falls on the last day of the calendar year. Management believes that this reporting policy facilitates effective management of the business. However, for monthly reporting purposes, comparability of monthly results can be affected by the differences in the length of the reporting period.

REVENUE RECOGNITION. Our policy is to recognize revenue upon delivery of our products to our customers and the fulfillment of all contractual terms and

conditions, pursuant to the guidance provided by Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), issued by the Securities and Exchange Commission.

Revenue related to the sales of the Company's scanning products is generally recognized when products are shipped or services are rendered, the risk of loss



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has passed to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured. Some distributors and dealer agreements allow for return of product and/or price protection under certain conditions within limited time periods. The Company maintains a reserve for sales returns and price adjustments based on historical experience and other qualitative factors. Estimated sales returns and price protection amounts are reserved for against revenue in the month in which it is recognized. These estimates have not differed materially from actual results. Service and maintenance sales are recognized over the contract term.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS.** Our policy is to maintain allowances for estimated losses resulting from the inability of our customers to make required payments. Credit limits are established through a process of reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer when determining or modifying their credit limits. We regularly evaluate the collectibility of our trade receivable balances based on a combination of factors. When a customer's account balance becomes past due, we initiate dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation to us, such as in the case of a bankruptcy filing, deterioration in the customer's operating results or financial position or other material events impacting their business, we record a specific allowance to reduce the related receivable to the amount we expect to recover given all information presently available.

We also record an allowance for all other customers based on certain other factors including the length of time the receivables are past due and historical collection experience with individual customers. If the financial conditions of those customers were to deteriorate, however, resulting in their inability to make payments, we may need to record additional allowances, which would result in additional selling, general and administrative expenses being recorded for the period in which such determination was made.

**INVENTORY RESERVES.** As a designer and manufacturer of bar code verification products, we are exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage. These factors include, but are not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures in products and prices, and the availability of key components from our suppliers. Our policy is to establish inventory reserves when conditions exist that suggest that our inventory may be in excess of anticipated demand, or is obsolete based upon our assumptions about future demand for our products and market conditions. We regularly evaluate the ability to realize the value of our inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, product end of life dates, estimated current and future market values and new product introductions. Purchasing requirements and alternative usage avenues are explored within these processes to mitigate inventory exposure. When recorded, our reserves are intended to reduce the carrying value of our inventory to its net realizable value.

**PRODUCT WARRANTIES.** Our products are sold with warranty provisions that require us to remedy deficiencies in quality or performance of our products over a specified period of time at no cost to our customers. Our policy is to establish

warranty reserves at levels that represent our estimate of the costs that will be incurred to fulfill those warranty requirements at the time that revenue is recognized. We believe that our recorded liability at December 31, 2002, is adequate to cover our future cost of materials, labor and overhead for the servicing of our products sold through that date. If actual product failures, or

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material or service delivery costs differ from our estimates, our warranty liability would need to be revised accordingly.

INCOME TAXES. The Company has recorded a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. The Company has assessed the valuation allowance based upon our estimate of future taxable income covering a relatively short time horizon given the volatility in the markets we serve and our historic operating results. External market data is considered in this evaluation. The availability of tax planning strategies to utilize our recorded deferred tax assets is also considered.

DEBT. Prepetition senior secured and subordinated unsecured debt was acquired from the Company's prior lenders by affiliates of Littlejohn & Co., LLC (Littlejohn), a private investment firm based in Greenwich, Connecticut. Littlejohn makes control equity investments in mid-sized companies that can benefit from operational or financial restructuring. Immediately following the debt purchase, and agreement with the terms of an arrangement between Littlejohn and the Company, the debtors filed a petition from protection from creditors under Chapter 11 of the US Bankruptcy Code. Simultaneously with the filing of the bankruptcy petition, the debtors also filed a Plan of Reorganization (the Plan) which, among other provisions, contemplates that all pre-petition debt will be converted to equity upon confirmation of the Plan.

As an integral part of the arrangement between Littlejohn and the Company, a DIP financing arrangement was agreed upon, to provide working capital financing during the period of reorganization, for amounts up to \$20 million. The DIP financing arrangement provides that the Company maintain certain financial and non-financial performance covenants, including minimum revenue, cash receipts and cash disbursements results and well as cash flow and EBITDA performance measurements. In addition, there are certain non-financial performance measures related to progressing efficiently through the reorganization process. The DIP financing arrangement expires on March 31, 2003.

GOODWILL. In November 2002, in conjunction with the filing of the Chapter 11 reorganization, all goodwill was determined to be impaired. The write-off resulted in a charge of \$63 million recorded in November 2002.