

CLARION TECHNOLOGIES INC/DE/

Form 10-Q

August 13, 2002

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

### QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2002

Commission file number 0-24690

### CLARION TECHNOLOGIES, INC.

(Name of registrant as specified in its charter)

<b>Delaware</b>	<b>91-1407411</b>
(State of Incorporation)	(I.R.S. Employer Identification No.)
<b>38 W. Fulton, Suite 400, Grand Rapids, Michigan 49503</b>	
(Address of principal executive offices)	

Issuer's telephone number: **(616) 233-6680**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the past 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

The number of shares outstanding of registrant's common stock was 44,142,011 as of August 13, 2002.

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(In thousands, except per share data)

	Second Quarter Ended		Year to Date Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Net sales	\$ 22,206	\$ 22,322	\$ 40,863	\$ 40,863
Cost of sales	18,297	24,321	34,613	34,613
Gross profit (loss)	3,909	(1,999)	6,250	(1,999)
Operating expenses:				
Selling, general and administrative expenses	1,923	3,111	3,919	3,111
Impairment and other nonrecurring charges	(24)	878	(452)	878
	1,899	3,989	3,467	4,009
Operating income (loss)	2,010	(5,988)	2,783	(1,999)
Interest expense	(2,700)	(2,693)	(5,613)	(2,693)
Other income (expense), net	8	(5)	24	(5)
Loss from continuing operations before income tax provision	(682)	(8,686)	(2,806)	(4,703)
Income tax provision	-	-	-	-
Loss from continuing operation	(682)	(8,686)	(2,806)	(4,703)
Discontinued operations:				
Income (loss) from discontinued operations (including loss on disposal of \$97 in 2002)	(81)	(5,267)	176	(5,267)

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Net loss	\$ (763)	\$ (13,953)	\$ (2,630)	\$ (1
	=====	=====	=====	=====
Net loss	\$ (763)	\$ (13,953)	\$ (2,630)	\$ (1
Accretion of preferred stock to mandatory redemption value	(496)	-	(978)	
Preferred stock dividends	(696)	(465)	(1,372)	(
	-----	-----	-----	-----
accrued Loss attributable to common shareholders	\$ (1,955)	\$ (14,418)	\$ (4,980)	\$ (2
	=====	=====	=====	=====
Average shares outstanding (basic and diluted)	43,556	23,547	41,246	
	=====	=====	=====	=====
Loss per share (basic and diluted):				
Loss from continuing operations	(.04)	(.39)	(.12)	
Loss from discontinued operations	-	(.22)	-	
	-----	-----	-----	-----
Net loss	\$ (.04)	\$ (.61)	\$ (.12)	\$
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)

	June 29, 2002	December 2
	-----	-----
	(UNAUDITED)	(AUDIT
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 416	\$
Accounts receivable, net of allowance of \$405 and \$558, respectively	10,027	
Inventories	3,091	
Prepaid expenses and other current assets	342	
current assets of discontinued operations	-	
	-----	-----
Total current assets	13,876	
Property, plant and equipment, net	25,321	
Property, plant and equipment of discontinued operations, net	-	
	-----	-----

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Total property, plant, and equipment	25,321	
Other assets:		
Goodwill	24,521	
Deferred program costs, net of ACCUMULATED amortization of \$1,194 and \$887, respectively	2,331	
Deferred financing costs, net of ACCUMULATED amortization of \$1,707 and \$1,291, respectively	581	
Notes receivable, net	792	
Building and equipment held for sale	1,200	
Long-term assets of discontinued operations	-	
	-----	-----
	\$ 68,622	\$
	=====	=====

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities:

Accounts payable	\$ 9,292	\$
Accrued liabilities and dividends payable	16,899	
Revolving line of credit	8,312	
Current portion of long-term debt	20,010	
Current liabilities of discontinued operations	-	
	-----	-----

Total current liabilities	54,513	1
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Long-term debt, net of current portion	35,196	
Other liabilities	27	
	-----	-----

Total liabilities	89,736	1
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Redeemable common stock	2,550	
Redeemable preferred stock	17,919	

Shareholders' deficit:

Common stock	44	
Additional paid-in capital	34,578	
Accumulated deficit	(76,205)	
	-----	-----

Total shareholders' deficit	(41,583)	(
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	\$ 68,622	\$
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In thousands)

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	Year to Date Ended	
	June 29, 2002	June 30, 2001
	-----	-----
OPERATING ACTIVITIES:		
Net loss	\$ (2,630)	\$ (3,410)
Depreciation and amortization	3,410	(591)
Impairment and other nonrecurring charges and adjustments	(591)	(2,947)
Changes in operating assets and liabilities, net of effects of 2002 sale of manufacturing operations	(2,947)	97
loss on sale of manufacturing operations	97	(1)
Other, net	(1)	-----
	-----	-----
Cash used in operating activities	(2,662)	-----
INVESTING ACTIVITIES:		
Capital expenditures	(372)	-----
Proceeds from sale of manufacturing operations	12,780	-----
Other	9	-----
	-----	-----
Cash provided by (used in) investing activities	12,417	-----
FINANCING ACTIVITIES:		
Net change in revolving credit borrowings	(1,625)	-----
Proceeds from long-term borrowings	-	-----
Payment of deferred financing costs	(203)	-----
Repayments of long-term debt	(8,536)	-----
Proceeds from issuance of capital stock	15	-----
	-----	-----
Cash provided by (used in) financing activities	(10,349)	-----
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(594)	-----
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,010	-----
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 416	\$ -----
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 2,272	\$ -----
Income taxes paid	-	-----
Capital lease obligations Incurred	470	-----

See accompanying notes to condensed consolidated financial statements.

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**CLARION TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. OPERATIONS AND BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Clarion Technologies, Inc. and Subsidiaries (collectively referred to as Clarion or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 29, 2001.

The Company sold its Montpelier facility in April 2002. The prior period balance sheet and income statement has been reclassified to present comparable information and to reflect the results of operations of Montpelier as discontinued operations. (See Note 5)

The Company has classified checks disbursed but not yet presented for payment as accounts payable. The amounts at June 29, 2002, and December 29, 2001, were \$1,501,000 and \$894,000, respectively.

The Company has been proactively addressing its current liquidity and operational issues in an effort to improve cash flows. On June 12, 2002, the Company negotiated an amendment to its senior credit agreement ( Amended Senior Credit Agreement ) whereby the banks agreed to: (i) forbear with respect to previously existing defaults, (ii) adjust certain financial and other covenants; and (iii) modify debt service requirements related to the revolving credit and term debt facilities, including extending the due date of the debt to April 30, 2003. In addition, subordinated debt holders waived previously existing defaults and deferred interest payments until April 30, 2003. As a result of these actions, the Company was permitted to reclassify certain debt to long-term in accordance with the terms of the related loan agreements. In addition, as indicated above, the Company sold its Montpelier facility in April 2002, which decreased operating losses and related cash outflows. The Company is presently in discussions with subordinated debt holders to restructure certain existing debt to equity.

The Company operates in a single geographic location, North America, and in a single reportable business segment, plastic injection molding. The accounting policies of this reportable business segment are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

**2. NEW ACCOUNTING STANDARDS**

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead annually test goodwill for impairment. In addition, SFAS 142 requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15,

2001, to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test within six months of the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142. The goodwill impairment test, which was completed with the assistance of an independent valuations firm, had no impact on the Company's financial position and results of operations. The reassessment of useful lives assigned to other intangibles did not impact earnings in the first or second quarter of fiscal 2002. The non-amortization provisions of the standard increased net earnings by \$161,000 during the second quarter and \$322,000 for the six-month period ended June 29, 2002.

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The following is a reconciliation of the reported net loss to the adjusted net loss which excludes goodwill amortization for the 2001 periods:

	Second Quarter Ended		Year to Date Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Reported net loss	\$ (763,000)	\$ (13,953,000)	\$ (2,630,000)	\$ (19,100,000)
Add back:				
Goodwill amortization	-	182,000	-	4,000
Adjusted net loss	\$ (763,000)	\$ (13,771,000)	\$ (2,630,000)	\$ (18,600,000)

The effect on basic and diluted earnings per share of eliminating goodwill amortization for the second quarter and year-to-date for 2001 was an increase of \$0.01 and \$0.02, respectively.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The Company adopted the standard effective December 30, 2001. The adoption of SFAS 144 had no significant impact on the Company's financial results, except that it permitted the Company to report the sale of its former Montpelier facility as discontinued operations. (See Note 5.)

### 3. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The components of inventories are as follows:

	June 29, 2002	December 29, 2001
Raw materials	\$1,496,000	\$1,502,000
Work in process	216,000	66,000
Finished goods	1,379,000	1,013,000
Inventory related to continuing operations	3,091,000	2,581,000
Inventory related to discontinued operations	-	784,000
Total	\$3,091,000	\$3,365,000

#### 4. IMPAIRMENT AND OTHER NONRECURRING CHARGES AND ADJUSTMENTS

On March 16, 2001, the Company announced the closing of one of its facilities in Greenville, Michigan. The plant closing resulted in the transfer of employees and related production to other Company facilities located in Western Michigan. Management accrued nonrecurring pre-tax charges of \$1,500,000 and \$500,000 in the first and fourth quarters of fiscal 2001, respectively, related to the closing to cover various exit costs (\$500,000) and anticipated non-cash losses on the sale of the property, plant, and certain equipment (\$1,500,000). At the end of July 2001, the closing activities were substantially completed. The closed facility and certain equipment are considered assets held for sale and are recorded at fair value less costs to sell (\$1,200,000) at June 29, 2002. In June 2002, the Company recorded a \$24,000 adjustment related to the sale of certain equipment at this facility which had been previously reserved.

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During the second quarter of fiscal 2001, the Company announced its decision to relocate certain functions previously located in its Technical Center and to outsource the manufacture of tooling. Specifically, these actions included the relocation of engineering, program management, and sales personnel to the Company's manufacturing facilities in order to provide integrated support to the manufacturing operations. In addition, many of the tool makers and equipment previously used in the manufacture of tooling were moved directly into the manufacturing facilities. The Company continues to manage new tooling programs for its customers, but outsources the actual tool manufacturing. Management accrued a nonrecurring pre-tax charge of \$878,000 related to these actions to cover various exit costs (\$465,000) and anticipated non-cash losses on the disposition of certain furniture, fixtures, and equipment (\$413,000), which non-cash losses were incurred during the remainder of fiscal 2001. These relocation activities were completed by the end of the third quarter of fiscal 2001.

During the second quarter of 2001, as a result of the current operating and industry conditions, the Company performed an analysis of the expected future cash flows related to its manufacturing facilities and determined that an asset impairment charge in the amount of \$5,055,000 was required to adjust the net carrying value of the assets of one of its facilities, including goodwill, to fair value under the provisions of Statement of Financial Accounting Standards No. 121. This non-cash charge was related to the Montpelier facility that was sold in FY 2002. This charge has been included in discontinued operations.

As of June 29, 2002, \$278,000 of exit costs have been charged against the initial liabilities associated with the aforementioned restructuring activities. In May 2002, the Company reached a settlement agreement with the lessor of the Company's former Technology Center concerning the early termination of the Company's lease. As a result of the settlement, accrued exit costs were reduced by \$428,000 in the first quarter of fiscal 2002.

Changes in the balances of the Company's restructuring liabilities were as follows:

Balance at December 29, 2001	\$1,417,000
Reversal of exit costs	(512,000)
Payment of exit costs	(247,000)
	-----
Balance at June 29, 2002	\$658,000
	=====



**5. DISCONTINUED OPERATIONS**

In an effort to reduce both operating losses and long-term debt, the Company sold the assets related to its Montpelier manufacturing facility that served the heavy truck industry on April 29, 2002. The Company received \$12,780,000 in cash, \$800,000 in notes (bearing interest at 7.0% and due on or before April 28, 2005), plus the assumption of certain liabilities. Assets sold included approximately \$3,312,000 of receivables, \$593,000 of inventory, and \$11,402,000 of net fixed assets. Liabilities assumed consisted primarily of approximately \$2,331,000 of payables and accruals. The buyer purchased certain of these working capital items at their net carrying value as determined as of the closing date. The Company incurred a loss of \$97,000 on the sale, the proceeds of which were used to pay certain debt obligations under the Amended Senior Credit Agreement. In accordance with SFAS No. 144, the balance sheet and operations of this facility have been segregated as discontinued operations and include the amounts indicated in the following table.

	Second Quarter Ended		Year to Date Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Net sales	\$ 1,642,000	\$ 4,636,000	\$ 5,551,000	\$ 8,400,000
Net income (loss)	(81,000)	(4,759,000)	176,000	(5,800,000)
		June 29, 2002	December 29, 2001	
Current assets:				
Accounts receivable		\$ -	\$ 2,033	
Inventory		-	784	
Prepaid expenses and other		-	112	
Total current assets		-	2,929	
Long term assets:				
Property, plant, and equipment, net		\$ -	\$ 11,675	
Other long term assets		-	143	
Total long term assets		-	11,818	
Current liabilities:				
Accounts payable		\$ -	\$ 1,896	
Accrued payroll and benefits		-	98	
Other current liabilities		-	118	
Total current liabilities		-	2,112	

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**6. LONG-TERM DEBT**

On June 12, 2002, the Company reached agreements with its senior lenders to extend the maturity date of the debt owed to each of them and make certain principal and interest payments. The senior lenders agreed to forbear with respect to previously existing defaults and subordinated debt holders waived previously existing defaults and deferred

interest payments until April 30, 2003. The maturity date of the senior debt was extended from June 28, 2002, to April 30, 2003. In addition, the Company's mezzanine lenders have agreed to defer interest payments on their debt through April 30, 2003. Total interest deferred was \$7,997,000 at June 29, 2002.

## **7. COMMITMENTS AND CONTINGENCIES**

The Company is involved in certain claims and litigation arising in the normal course of business.

The Company is a defendant in a suit filed by the former owners of Drake Products Corporation against the Company for breach of contract related to employment and consulting agreements. The Company has filed a counter suit to this claim stating that dismissal under the contracts was with cause and results in no remaining liability. Although the Company believes it has meritorious defenses against the claim, approximately \$1,900,000 would be due under the contracts through January 2005 if the Company is held liable. No amounts have been accrued under the employment and consulting contracts since the date of termination.

In addition to the above matter, the Company is a party to certain other litigation involving claims alleging damages under various contractual arrangements. After taking into consideration legal counsel's evaluation of these claims and actions, the Company is currently of the opinion that their outcome will not have a significant effect on the Company's consolidated financial position or future results of operations.

## **8. COMMON STOCK**

At the annual meeting of stockholders held on June 25, 2002, the holders of the Company's preferred and common stock approved a Board of Directors proposal to amend the Company's Certificate of Incorporation to increase the authorized common stock from 60,000,000 shares to 100,000,000 shares, each share with a par value of \$.001.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **OVERVIEW**

The following information should be read in conjunction with the accompanying Condensed Consolidated Financial Statements of the Company and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

The Company is a full-service custom injection molder, providing rapid prototyping and design models, mold design and engineering services, mold manufacturing, injection molding and post-molding assembly to a diverse base of customers in the automotive, office furniture and consumer goods industries. Clarion's business strategy is to grow the business primarily through internal growth that may be complemented by strategic acquisitions.

The Company sold its Montpelier facility in April 2002. The prior period income statement has been reclassified to present comparable information and to reflect the results of operations of Montpelier as discontinued operations.

**RESULTS OF OPERATIONS**

The table below summarizes the components of the Company's Condensed Consolidated Statements of Operations as a percentage of net sales:

	Second Quarter Ended		Year to Date Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	82.4%	109.0%	84.7%	109.0%
Gross profit (loss)	17.6%	(9.0%)	15.3%	(9.0%)
Selling, general and administrative expenses	8.7%	13.9%	9.6%	13.9%
Impairment and other nonrecurring charges	(0.1%)	3.9%	(1.1%)	3.9%
Operating income (loss)	9.0%	(26.8%)	6.8%	(26.8%)
Interest expense	(12.1%)	(12.1%)	(13.7%)	(12.1%)
Other income (expense), net	-	-	-	-
Loss from continuing operations before income tax provision	(3.1%)	(38.9%)	(6.9%)	(38.9%)
Income tax provision	-	-	-	-
Loss from continuing operations	(3.1%)	(38.9%)	(6.9%)	(38.9%)
Income (loss) from discontinued operations	(0.3%)	(23.6%)	0.4%	(23.6%)
Net loss	(3.4%)	(62.5%)	(6.5%)	(62.5%)

*Net sales*

Net sales of \$22,206,000 in the second quarter of 2002 were \$116,000 (0.5%) lower than net sales of \$22,322,000 in the second quarter of 2001. Net sales for the first two quarters of 2002 were \$40,863,000, a decrease of \$6,478,000 (13.7%) from net sales of \$47,341,000 for the same period in the prior year. The decreases for the second quarter and year-to-date are primarily related to the loss of tooling revenue due to lower amounts of new projects and a reduction of a selected portion of consumer goods sales. This trend in tooling revenue is expected to continue as the number of projects requiring tooling development has decreased. This overall decrease was offset in part by improved pricing arrangements with significant customers and increases in sales to our consumer goods customers, which are expected to continue to increase due to the long-term supply agreement with a major customer, which the Company entered into in April 2002.

*Gross profit*

Gross profit, as a percentage of 2002 net sales, was 17.6% for the second quarter and 15.3% for the first two quarters, compared to negative 9.0% and negative 0.2% in the corresponding periods of 2001. The improvement was attributable to improved pricing arrangements with significant customers and operating initiatives that have decreased

our overall cost structure, specifically labor and scrap costs. Also, during the second quarter of 2001, the Company experienced significant launch costs during a major consumer products model changeover.

*Selling, general and administrative expenses*

Selling, general and administrative expenses ( SG&A ) for the second quarter of 2002 decreased \$1,188,000 or 38.1% to \$1,923,000 from \$3,111,000 for the same period in the prior year. SG&A decreased \$2,214,000 or 36.1% to \$3,919,000 in fiscal 2002 from \$6,133,000 in fiscal 2001. The decreases are attributable to a focused effort to control costs and the continued elimination and consolidation of administrative positions as well as other restructuring activities completed in fiscal 2001.

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*Impairment and other nonrecurring charges*

On March 16, 2001, the Company announced the closing of one of its facilities in Greenville, Michigan. The plant closing resulted in the transfer of employees and related production to other Company facilities located in Western Michigan. Management accrued a nonrecurring pre-tax charge of \$1,500,000 related to the closing to cover various exit costs (\$500,000) and anticipated non-cash losses on the sale of the property, plant, and certain equipment (\$1,000,000) in the first quarter of 2001. At the end of July 2001, the closing activities were substantially completed. The closed facility and certain equipment are considered assets held for sale and are recorded at fair value less costs to sell (\$1,200,000) at June 29, 2002 and December 29, 2001. In June 2002, the Company recorded a \$24,000 adjustment related to the sale of certain equipment at this facility which had been previously reserved.

During the second quarter of fiscal 2001, the Company announced its decision to relocate certain functions previously located in its Technical Center and to outsource the manufacture of tooling. Specifically, these actions included the relocation of engineering, program management, and sales personnel to the Company's manufacturing facilities in order to provide integrated support to the manufacturing operations. In addition, many of the tool makers and equipment previously used in the manufacture of tooling were moved directly into the manufacturing facilities. The Company continues to manage new tooling programs for its customers, but outsources the actual tool manufacturing. Management accrued a nonrecurring pre-tax charge of \$878,000 related to these actions to cover various exit costs (\$465,000) and anticipated non-cash losses on the disposition of certain furniture, fixtures, and equipment (\$413,000), which non-cash losses were incurred during the remainder of fiscal 2001. These relocation activities were completed by the end of the third quarter of fiscal 2001.

As of June 29, 2002, \$278,000 of exit costs have been charged against the initial liabilities associated with the fiscal 2001 restructuring activities. In May 2002, the Company reached a settlement agreement with the lessor of the Company's former Technology Center concerning the early termination of the Company's lease. As a result of the settlement, accrued exit costs were reduced by \$428,000 in the first quarter of fiscal 2002.

*Interest expense*

Interest expense for the second quarter of 2002 was \$2,700,000, an increase of \$7,000 (0.3%) from the second quarter of 2001. Interest expense for the first two quarters of 2002 was \$5,613,000, an increase of \$683,000 (13.9%) over interest expense for the same period in the prior year. The increase in interest expense reflects increased average debt balances in the first six months of 2002 relative to the comparable period in 2001.

*Discontinued operations*

Loss from discontinued operations for the second quarter of 2002 was \$81,000, a decrease of \$5,186,000 (98.5%) from the second quarter of 2001. Income from discontinued operations for the first two quarters of 2002 was \$176,000, an increase of \$5,645,000 (103.2%) from the same period in the prior year. These amounts represent the operations of the former Montpelier facility, which operated primarily in the heavy truck industry. This facility was sold during the second quarter of 2002. The year to date and second quarter of 2002 amounts include a loss on the sale of the Montpelier facility of \$97,000. The year to date and second quarter of 2001 amounts included nonrecurring charges of \$5,055,000 related to the valuation of Montpelier assets.

*Net loss*

The Company recorded a net loss of \$763,000 for the second quarter of 2002 and a net loss of \$2,630,000 for the first two quarters of 2002, compared to net losses of \$13,953,000 and \$19,113,000 in the same periods of 2001, respectively. This improvement is a result of decreased launch costs and improved pricing arrangements with significant customers. Further, as described above in the discussion of selling, general and administrative expenses, 2002 results are favorably affected by the absence of the significant one-time charges incurred in the corresponding periods of 2001.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company has been proactively addressing its current liquidity and operational issues, in an effort to improve cash flows. On June 12, 2002, the Company negotiated an amendment to its senior credit agreement ( Amended Senior Credit Agreement ) whereby the banks agreed to: (i) forbear with respect to previously existing defaults, (ii) adjust certain financial and other covenants; and (iii) modify debt service requirements related to the revolving credit and term debt facilities, including extending the due date of the debt to April 30, 2003. In addition, subordinated debt holders waived previously existing defaults and deferred interest payments until April 30, 2003. The Company is presently in discussions with subordinated debt holders to restructure certain existing debt to equity.

At June 29, 2002, the Company had negative working capital of \$40,637,000 compared to negative \$84,066,000 at December 29, 2001. The increase in working capital is mainly attributable to a \$42,671,000 decrease in the current maturities of long-term debt resulting from the reclassification of the Company's mezzanine and subordinated debt from current to long-term. Cash used in operations declined by \$378,000 resulting from a decline in net loss incurred offset primarily by the Company's use of cash in an effort to become more current in accounts payable, which is reflected in the change in operating assets and liabilities.

As described in Item 1, the Company sold the Montpelier facility for \$12,780,000. The proceeds from the sale of this facility were used to pay down existing debt, which resulted in debt being reduced by \$10,161,000 for the six months ended June 29, 2002.

**TAX CONSIDERATIONS**

The Company has net operating loss ( NOL ) carryforwards of approximately \$60 million for income tax purposes that are available to offset future taxable income. The NOL carryforwards expire in 2006 through 2021. However, there are federal tax laws that restrict or eliminate NOL carryforwards when certain changes of control occur. A 50%

change of control, which is calculated over a rolling three-year period, may cause the Company to lose some or all of its NOL carryforward benefits. Due to the significant number of equity transactions that have occurred in recent years the Company believes there may have been changes in control that might limit the future tax benefits from utilizing our NOL carryforwards.

## **INFLATION**

The Company does not believe that sales of its products are affected materially by inflation, although there can be no assurance that inflation will not affect sales in the future. The Company does believe that its financial performance could be adversely affected by inflation in the plastic resin market. The primary plastic resins used by the Company are produced from petrochemical feedstock mostly derived from natural gas liquids. Supply and demand cycles in the petrochemical industry, which are often impacted by OPEC policies, can cause substantial price fluctuations. Consequently, plastic resin prices may increase as a result of changes in natural gas liquid prices and the capacity, supply and demand for resin and petrochemical feedstock from which they are produced.

In many instances the Company has been able to pass through changes in the cost of its raw materials to customers in the form of price increases. However, there is no assurance that the Company will be able to continue such pass throughs, or that the timing of such pass throughs will coincide with the Company's increased costs. To the extent that increases in the cost of plastic resin cannot be passed on to customers, or that the duration of time lags associated with a pass through becomes significant, such increases may have an adverse impact on gross profit margins and the overall profitability of the Company.

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## **CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION**

The statements contained in this document or incorporated by reference that are not historical facts are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on management's current expectations or beliefs and are subject to a number of risks and uncertainties. In particular, any statement contained herein regarding the consummation and benefits of future acquisitions, as well as expectations with respect to future sales, operating efficiencies, and product expansion are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company, which may cause actual results, performance or achievements to differ materially from those described in the forward looking statements. Factors which may cause actual results to differ materially from those contemplated by the forward-looking statements, include, among other things: overall economic and business conditions; the demand for the Company's goods and services; competitive factors in the industries in which the Company competes; increases in production or material costs that cannot be recouped in product pricing; changes in government regulations; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions; the ability to achieve anticipated synergies and other cost savings in connection with acquisitions; and the timing, impact and other uncertainties of future acquisitions. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's primary market risk exposure is a change in interest rates in connection with its outstanding variable rate short-term and long-term debt. An increase in interest rates of 1% could result in the Company incurring an

additional \$231,000 in annual interest expense. Conversely, a decrease in interest rates of 1% could result in the Company saving \$231,000 in annual interest expense. The Company does not expect such market risk exposure to have a material adverse effect on the Company. The Company does not enter into market risk sensitive instruments for trading purposes.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is involved in certain claims and litigation arising in the normal course of business.

The Company is a defendant in a suit filed by the former owners of Drake against the Company for breach of contract related to employment and consulting agreements. The Company has filed a counter suit to this claim stating that dismissal under the contracts was with cause and results in no remaining liability. Although the Company believes it has meritorious defenses against the claim, approximately \$1,900,000 would be due under the contracts through January 2005 if the Company is held liable. No amounts have been accrued under the employment and consulting contracts since the date of termination.

In May 2002, the Company paid \$80,000 to settle a claim by the lessor of the Company's former Technology Center related to the early termination of the lease at the facility.

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In addition to the above matters, the Company is a party to certain other litigation involving claims alleging damages under various contractual arrangements. After taking into consideration legal counsel's evaluation of these claims and actions, the Company is currently of the opinion that their outcome will not have a significant effect on the Company's consolidated financial position or future results of operations.

### **ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

During the second quarter ended June 29, 2002, the Company did not issue any unregistered shares of its Common Stock.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Refer to Liquidity and Capital Resources Section within Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item II and Note 6 to the Condensed Consolidated Financial Statements in Part I, Item I.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At the annual meeting of stockholders held on June 25, 2002, the stockholders of the Company took the following actions:

- 1.

The holders of the Company's preferred and common stock elected the following five directors for terms of office expiring at the annual meeting of stockholders in the year 2003:

NAME	FOR	WITHHOLD
Steven W. Olmstead	38,956,048	2,007,679
Jack D. Rutherford	40,768,973	194,754
Frederick A. Sotok	39,254,348	1,709,379
Frank T. Steck	40,149,973	813,754
Craig A. Wierda	38,954,258	2,009,469

2. The holders of the Company's preferred and common stock approved a Board of Directors proposal to amend the Company's Certificate of Incorporation to increase the authorized common stock from 60,000,000 shares to 100,000,000 shares, each share with a par value of \$.001. 38,864,974 shares were voted in favor of this proposal, while 2,098,753 shares voted against the proposal or abstained from voting.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- (a) The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

10.1 Supply Agreement between the Company and Electrolux Home Products, Inc. dated May 1, 2002.

10.2 Sixth Amendment to Credit Agreement between the Company and certain Lenders, dated June 12, 2002

10.3 Fourth Amendment to Senior Subordinated Loan Documents between the Company and certain Loan Parties, dated June 12, 2002

99.1 Certificate of the Chief Executive Officer of Clarion Technologies, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

99.2 Certificate of the Chief Financial Officer of Clarion Technologies, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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- (b) Reports on Form 8-K

On April 29, 2002, pursuant to Item 5, the Company reported that it had entered into an agreement for the sale of certain of its assets and real property located in Montpelier, Ohio and used in its business of manufacturing and selling custom injection molded interior and exterior plastic components and related value added work by the



heavy truck, automotive and related industries. No financial statements were filed as part of this report.

On May 1, 2002, pursuant to Item 5, the Company reported that it had entered into a long term Supply Agreement with a major customer and additionally had extended its debt maturity dates to April 30, 2003 and deferred interest payments with its mezzanine lenders until April 30, 2003. No financial statements were filed as part of this report.

On June 26, 2002, pursuant to Item 4, the Company reported that it had dismissed Ernst & Young, LLP as its independent auditors and had engaged BDO Seidman, LLP as its new independent auditors. No financial statements were filed as part of this report.

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**SIGNATURES**

In accordance with Section 13 or 15(d) 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.

CLARION TECHNOLOGIES, INC.

Date: August 13, 2002

/s/ Edmund Walsh  
Edmund Walsh, Chief Financial Officer

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EXHIBIT LIST

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