

AVIALL INC
Form 10-Q
November 03, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-12380

AVIALL, INC.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	65-0433083 (I.R.S. Employer Identification No.)
2750 Regent Boulevard DFW Airport, Texas (Address of principal executive offices)	75261-9048 (Zip Code)
(972) 586-1000 (Registrant's telephone number, including area code)	

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock, par value \$0.01 per share, outstanding at October 25, 2004 was 32,482,240.

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

AVIALL, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Share Data)

(Unaudited)

	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Net sales	\$ 294,707	249,449	892,287	751,787
Cost of sales	247,772	207,938	748,110	625,549
Gross profit	46,935	41,511	144,177	126,238
Selling and administrative expenses	28,784	25,041	86,036	74,399
Impairment loss				1,707
Operating income	18,151	16,470	58,141	50,132
Loss on extinguishment of debt				17,315
Interest expense	4,169	4,938	12,721	16,410
Earnings before income taxes	13,982	11,532	45,420	16,407
Provision for income taxes	3,961	3,366	11,957	5,035
Net earnings	10,021	8,166	33,463	11,372
Less preferred stock dividends				(2,016)
Less noncash reduction for conversion of preferred stock				(24,335)
Net earnings (loss) applicable to common shares	\$ 10,021	8,166	33,463	(14,979)
Basic net earnings (loss) per share	\$ 0.31	0.26	1.05	(0.70)
Weighted average common shares	32,105,401	31,095,455	31,913,426	24,105,082
Diluted net earnings (loss) per share	\$ 0.30	0.25	1.00	(0.70)
Weighted average common and potentially dilutive common shares	33,820,849	32,524,974	33,516,655	30,626,755

See accompanying notes to consolidated financial statements.

AVIALL, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

(Unaudited)

	<i>September 30,</i>	<i>December 31,</i>
	<i>2004</i>	<i>2003</i>
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,029	23,424
Receivables	155,142	139,279
Inventories	294,109	327,860
Prepaid expenses and other current assets	3,636	2,501
Deferred income taxes	19,075	19,075
	<u> </u>	<u> </u>
Total current assets	535,991	512,139
	<u> </u>	<u> </u>
Property and equipment	32,373	32,029
Goodwill	46,843	46,843
Intangible assets	47,929	51,908
Deferred income taxes	26,415	35,749
Other assets	12,206	12,524
	<u> </u>	<u> </u>
Total assets	\$ 701,757	691,192
	<u> </u>	<u> </u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 1,888	3,293
Revolving line of credit		509
Accounts payable	112,338	138,437
Accrued expenses	38,832	39,567
	<u> </u>	<u> </u>
Total current liabilities	153,058	181,806
	<u> </u>	<u> </u>
Long-term debt	202,598	203,411
Other liabilities	8,327	5,891
Commitments and contingencies		
Shareholders' equity:		
Common stock (\$0.01 par value per share, 80,000,000 shares authorized; 34,517,364 shares and 33,950,107 shares issued at September 30, 2004 and December 31, 2003, respectively)	345	339
Additional paid-in-capital	443,089	439,080
Accumulated deficit	(71,836)	(105,299)
Treasury stock, at cost (2,035,124 shares and 2,012,743 shares at September 30, 2004 and December 31, 2003, respectively)	(28,218)	(27,867)
Unearned compensation - restricted stock	(956)	(1,519)
Accumulated other comprehensive loss	(4,650)	(4,650)
	<u> </u>	<u> </u>
Total shareholders' equity	337,774	300,084
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 701,757	691,192



See accompanying notes to consolidated financial statements.

AVIALL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	<i>Nine Months Ended September 30,</i>	
	<u>2004</u>	<u>2003</u>
<i>Operating activities:</i>		
Net earnings	\$ 33,463	11,372
Loss on extinguishment of debt		17,315
Impairment loss		1,707
Depreciation and amortization	13,200	13,747
Deferred income taxes	9,702	3,299
Paid-in-kind interest		405
Compensation expense on restricted stock awards	510	474
Changes in:		
Receivables	(15,863)	(12,580)
Inventories	33,751	44,874
Accounts payable	10,440	12,899
Accrued expenses	(735)	(1,372)
Other, net	982	(2,701)
Net cash provided by operating activities	<u>85,450</u>	<u>89,439</u>
<i>Investing activities:</i>		
Capital expenditures	(6,866)	(6,143)
Purchase of distribution rights	(1,339)	(7,200)
Sales of property, plant and equipment	113	
Net cash used for investing activities	<u>(8,092)</u>	<u>(13,343)</u>
<i>Financing activities:</i>		
Cash overdrafts	(36,539)	(18,933)
Issuance of common stock	4,069	854
Debt repaid	(2,671)	(83,810)
Debt issuance cost paid	(752)	(7,818)
Net change in revolving credit facility	(509)	(140,301)
Purchase of treasury stock	(351)	
Debt proceeds		200,078
Other		(1)
Net cash used for financing activities	<u>(36,753)</u>	<u>(49,931)</u>
Change in cash and cash equivalents	40,605	26,165
Cash and cash equivalents, beginning of period	23,424	4,997
Cash and cash equivalents, end of period	<u>\$ 64,029</u>	<u>31,162</u>
<i>Cash paid for interest and income taxes:</i>		

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Interest	\$	7,831	9,770
Income taxes	\$	1,420	274
<i>Noncash investing and financing activities:</i>			
Property and equipment acquired with debt	\$	121	1,224
Conversion of redeemable preferred stock into common stock	\$		46,385
Noncash reduction in retained earnings due to conversion of redeemable preferred stock	\$		24,335
Dividends on redeemable preferred stock	\$		2,015

See accompanying notes to consolidated financial statements.

AVIALL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three- and nine-month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE 2 - STOCK-BASED COMPENSATION

We account for our stock-based compensation plans in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, or APB 25, Accounting for Stock Issued to Employees, and related interpretations. All options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant. Therefore, no compensation cost related to these plans is included in net earnings. We also make the appropriate disclosures as required by Statement of Financial Accounting Standards No. 123, or SFAS 123, Accounting for Stock-Based Compensation, and Statement of Financial Accounting Standards No. 148, or SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FAS 123. Awards of restricted stock are valued at the market price of our common stock on the date of grant and recorded as unearned compensation within shareholders' equity. The unearned compensation is amortized to compensation expense over the vesting period of the restricted stock.

The following table illustrates the effect on net earnings and earnings per share, or EPS, if we had applied the fair-value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except share data):

Three Months Ended September 30, Nine Months Ended September 30,

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net earnings, as reported	\$ 10,021	8,166	33,463	11,372
Preferred stock dividends				(2,016)
Noncash reduction for conversion of preferred stock				(24,335)
Net earning (loss) available for distribution	10,021	8,166	33,463	(14,979)
Undistributed earnings allocated to participating preferred stockholders				(1,847)
Net earnings (loss) for purposes of computing basic net EPS	10,021	8,166	33,463	(16,826)
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(478)	(474)	(1,379)	(1,069)
Pro forma net earnings (loss) for purposes of computing basic net EPS	\$ 9,543	7,692	32,084	(17,895)

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Earnings (loss) per share:					
Basic - as reported	\$	0.31	0.26	1.05	(0.70)
Basic - pro forma	\$	0.30	0.25	1.01	(0.74)
Diluted - as reported	\$	0.30	0.25	1.00	(0.70)
Diluted - pro forma	\$	0.28	0.24	0.95	(0.74)

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2004, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. FAS 106-2, or FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Beginning in 2006, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or Medicare Act, introduces a federal subsidy to sponsors of healthcare benefit plans in certain circumstances and a prescription drug benefit to eligible participants under Medicare. FSP 106-2 provides guidance on the accounting for the effects of the Medicare Act. We adopted FSP 106-2 as of July 1, 2004. The adoption of this statement had no effect on our consolidated financial position and results of operations. The accumulated postretirement benefit obligation and net postretirement benefit cost for 2004 do not reflect the effects of the Medicare Act.

NOTE 4 - SEGMENT INFORMATION

The following tables present information by operating segment (in thousands):

Three Months Ended September 30, Nine Months Ended September 30,

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net Sales				
Aviall Services	\$ 287,592	242,464	870,886	730,778
ILS	7,115	6,985	21,401	21,009
Total net sales	<u>\$ 294,707</u>	<u>249,449</u>	<u>892,287</u>	<u>751,787</u>
Profit				
Aviall Services	\$ 19,415	17,165	62,020	52,685
ILS	2,475	2,703	7,726	5,773
Reportable segment profit	<u>21,890</u>	<u>19,868</u>	<u>69,746</u>	<u>58,458</u>
Loss on extinguishment of debt				(17,315)
Corporate	(3,739)	(3,398)	(11,605)	(8,326)
Interest expense	(4,169)	(4,938)	(12,721)	(16,410)
Earnings before income taxes	<u>\$ 13,982</u>	<u>11,532</u>	<u>45,420</u>	<u>16,407</u>

NOTE 5 - EARNINGS PER SHARE

A reconciliation of the numerator and denominator of the basic and diluted net EPS calculations for net earnings follows:

<i>Numerator (In Thousands)</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Net earnings	\$ 10,021	8,166	33,463	11,372
Preferred stock dividends				(2,016)
Noncash reduction for conversion of preferred stock				(24,335)
Net earnings (loss) available for distribution	10,021	8,166	33,463	(14,979)
Undistributed earnings allocated to participating preferred stockholders				(1,847)
Net earnings (loss) for purposes of computing basic net EPS	10,021	8,166	33,463	(16,826)
Preferred stock dividends				2,016
Noncash reduction for conversion of preferred stock				24,335
Undistributed earnings allocated to participating preferred stockholders				1,847
Net earnings for purposes of computing diluted net EPS	\$ 10,021	8,166	33,463	11,372
<i>Denominator</i>				
Weighted average common shares outstanding for purposes of computing basic net EPS	32,105,401	31,095,455	31,913,426	24,105,082
Effect of dilutive securities:				
Stock options	1,134,910	799,167	1,025,573	412,291
Restricted stock rights	318,170	362,124	315,308	346,728
Warrants	262,368	268,228	262,348	637,077
Convertible redeemable preferred stock				5,125,577
Weighted average common shares outstanding for purposes of computing diluted net EPS	33,820,849	32,524,974	33,516,655	30,626,755

For the three- and nine-month periods ended September 30, 2004 and the three month period ended September 30, 2003, basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net earnings by the weighted average number of common and dilutive potential common shares outstanding during the period.

For the nine month period ended September 30, 2003, basic EPS is computed by allocating net earnings available for distribution to the common and participating preferred shareholders using the two-class method prescribed by Statement of Financial Accounting Standards No. 128, or SFAS 128, Earnings per Share. Net earnings are reduced by dividends to preferred stockholders to arrive at net earnings available for distribution. Net earnings available for distribution are then allocated between the common and participating preferred stockholders based on the weighted average common and preferred shares outstanding, on an as-converted basis. Diluted EPS is computed by dividing net earnings by the weighted average number of common and dilutive potential common shares outstanding during the period.

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Diluted EPS was not dilutive, or lower than basic, for the nine month period ended September 30, 2003 and is therefore presented equal to basic EPS.

NOTE 6 - INCOME TAXES

Our income tax expense for the third quarter of 2004 was \$4.0 million, and our effective tax rate was 28.3%. Tax expense for the third quarter of 2004 includes a \$0.2 million net adjustment to our tax reserves and includes an increase in our estimate for Extraterritorial Income, or ETI, exclusion. Our income tax expense for the first nine months of 2004 was \$12.0 million, and our effective tax rate was 26.3%. The provision for income taxes for the nine month period ended September 30, 2004 includes the \$0.2 million net adjustment to our tax reserves and a \$2.8 million benefit from the release of a valuation allowance for certain state tax net operating loss, or NOL, carryforwards. Based on our recent earnings history, it appears more likely than not that a majority of the NOL carryforwards in certain states will be utilized prior to expiration. Without the release of these state tax NOL carryforwards, our provision for taxes for the nine month period ended September 30, 2004 would have been \$14.8 million, and our effective tax rate would have been 32.5%.

NOTE 7 - PENSION PLANS AND POSTRETIREMENT BENEFITS

The following table sets forth the components of net pension expense for all our plans (in thousands):

	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Service cost	\$ 615	549	1,845	1,409
Interest cost	969	939	2,907	2,711
Expected return on plan assets	(963)	(910)	(2,889)	(2,730)
Transition obligation amortization	35	52	105	52
Prior service cost amortization	1	1	3	3
Net loss recognition	117	16	351	48
Net pension expense	\$ 774	647	2,322	1,493

The following table sets forth the components of net postretirement benefit income for all our plans (in thousands):

	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Service cost	\$			
Interest cost	23	25	68	74
Net amortization and deferral	(33)	(32)	(100)	(96)
Net postretirement benefit income	\$ (10)	(7)	(32)	(22)

In the third quarter of 2004, we made a \$6.0 million discretionary contribution related to 2003.

NOTE 8 - GUARANTOR AND NONGUARANTOR FINANCIAL STATEMENTS

Our senior unsecured notes, or the Senior Notes, are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis by each direct and indirect domestic subsidiary of Aviall, Inc., or Aviall, each a guarantor subsidiary. Each guarantor subsidiary is directly or indirectly 100% owned by Aviall. The Senior Notes are not guaranteed by any direct or indirect foreign subsidiary of Aviall, each a nonguarantor subsidiary.

The consolidating financial information presents the consolidating balance sheets as of September 30, 2004 and December 31, 2003, the related statements of operations for the three- and nine-month periods ended September 30, 2004 and 2003 and the statements of cash flows for the nine month periods ended September 30, 2004 and 2003 with separate columns for:

- a) Aviall, the parent;
- b) the guarantor subsidiaries on a combined basis;
- c) the nonguarantor subsidiaries on a combined basis; and
- d) total consolidated amounts.

The information includes elimination entries necessary to consolidate Aviall, the parent, with the guarantor and nonguarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor and nonguarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements for the guarantor and nonguarantor subsidiaries are not presented because management believes such financial statements would not be meaningful to investors.

Pursuant to the terms of our senior secured credit facility, or the Credit Facility, no subsidiary of Aviall other than Aviall Services may pay cash dividends to Aviall, other than to fund limited repurchases or redemptions of outstanding securities. In addition, Aviall Services may pay cash dividends to Aviall for the purpose of funding (i) ordinary operating expenses and scheduled debt service and (ii) payments by Aviall of taxes in respect of Aviall and its subsidiaries, up to the amount that would be payable by Aviall Services, on a consolidated basis, if it were the taxpayer. Additionally, the Credit Facility restricts intercompany loans made to Aviall from its direct and indirect subsidiaries, with the exception of intercompany loans made to fund limited repurchases or redemptions of outstanding securities and loans made by Aviall Services to fund required payments under the Senior Notes. The net assets of consolidating subsidiaries subject to these restrictions were \$721.7 million and \$707.4 million at September 30, 2004 and December 31, 2003, respectively.

CONSOLIDATED STATEMENT OF OPERATIONS

<i>(In Thousands)</i>	<i>Three Months Ended September 30, 2004</i>				
	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Net sales	\$	276,726	34,143	(16,162)	294,707
Cost of sales		236,308	27,626	(16,162)	247,772
Gross profit		40,418	6,517		46,935
Selling and administrative expenses		26,655	2,129		28,784
Operating income		13,763	4,388		18,151
Interest expense (income)	(4,442)	8,587	24		4,169
Equity in (earnings) loss of subsidiaries	(7,187)	(3,171)		10,358	
Earnings (loss) before income taxes	11,629	8,347	4,364	(10,358)	13,982
Provision for income taxes	1,608	1,160	1,193		3,961
Net earnings (loss)	\$ 10,021	7,187	3,171	(10,358)	10,021

CONSOLIDATED STATEMENT OF OPERATIONS

<i>(In Thousands)</i>	<i>Nine Months Ended September 30, 2004</i>				
	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Net sales	\$	841,148	98,572	(47,433)	892,287
Cost of sales		715,841	79,702	(47,433)	748,110
Gross profit		125,307	18,870		144,177
Selling and administrative expenses		76,582	9,454		86,036
Operating income		48,725	9,416		58,141
Interest expense (income)	(12,931)	25,470	182		12,721
Equity in (earnings) loss of subsidiaries	(25,213)	(6,694)		31,907	
Earnings (loss) before income taxes	38,144	29,949	9,234	(31,907)	45,420
Provision for income taxes	4,681	4,736	2,540		11,957
Net earnings (loss)	\$ 33,463	25,213	6,694	(31,907)	33,463

CONSOLIDATED STATEMENT OF OPERATIONS*Three Months Ended September 30, 2003*

<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Net sales	\$	237,347	26,098	(13,996)	249,449
Cost of sales		200,863	21,071	(13,996)	207,938
Gross profit		36,484	5,027		41,511
Selling and administrative expenses	8	22,004	3,029		25,041
Impairment loss					
Operating (expense) income	(8)	14,480	1,998		16,470
Interest expense (income)	(4,466)	9,344	60		4,938
Equity in (earnings) loss of subsidiaries	(5,322)	(1,410)		6,732	
Earnings (loss) before income taxes	9,780	6,546	1,938	(6,732)	11,532
Provision for income taxes	1,614	1,224	528		3,366
Net earnings (loss)	\$ 8,166	5,322	1,410	(6,732)	8,166

CONSOLIDATED STATEMENT OF OPERATIONS*Nine Months Ended September 30, 2003*

<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Net sales	\$	713,997	77,792	(40,002)	751,787
Cost of sales		602,395	63,156	(40,002)	625,549
Gross profit		111,602	14,636		126,238
Selling and administrative expenses	13	65,979	8,407		74,399
Impairment loss		1,707			1,707
Operating (expense) income	(13)	43,916	6,229		50,132
Loss on extinguishment of debt		17,315			17,315
Interest expense (income)	(15,612)	31,703	319		16,410
Equity in (earnings) loss of subsidiaries	(1,420)	(4,419)		5,839	
Earnings (loss) before income taxes	17,019	(683)	5,910	(5,839)	16,407
Provision (benefit) for income taxes	5,647	(2,103)	1,491		5,035
Net earnings (loss)	\$ 11,372	1,420	4,419	(5,839)	11,372

CONSOLIDATED BALANCE SHEET

	<i>September 30, 2004</i>				
<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Assets					
Current assets:					
Cash and cash equivalents	\$ (24)	55,251	8,802		64,029
Receivables		129,952	25,190		155,142
Inventories		281,247	12,862		294,109
Prepaid expenses and other current assets		3,476	160		3,636
Deferred income taxes		19,036	39		19,075
Total current assets	(24)	488,962	47,053		535,991
Property and equipment		31,762	611		32,373
Investment in subsidiaries	768,657	37,487		(806,144)	
Intercompany receivables		244,260		(244,260)	
Goodwill		44,904	1,939		46,843
Intangible assets		47,929			47,929
Deferred income taxes		26,033	382		26,415
Other assets	6,748	5,456	2		12,206
Total assets	\$ 775,381	926,793	49,987	(1,050,404)	701,757
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	\$	1,878	10		1,888
Revolving line of credit					
Accounts payable	2	111,276	1,060		112,338
Accrued expenses	7,380	25,758	5,694		38,832
Total current liabilities	7,382	138,912	6,764		153,058
Long-term debt	200,000	2,586	12		202,598
Intercompany payables	230,225		14,035	(244,260)	
Other liabilities		8,327			8,327
Commitments and contingencies					
Shareholders' equity					
Common stock	345	33	7,542	(7,575)	345
Additional paid-in-capital	443,089	862,358	9,918	(872,276)	443,089
Retained earnings (accumulated deficit)	(71,836)	(80,773)	11,716	69,057	(71,836)
Treasury stock, at cost	(28,218)				(28,218)
Unearned compensation - restricted stock	(956)				(956)
Accumulated other comprehensive income	(4,650)	(4,650)		4,650	(4,650)
Total shareholders' equity	337,774	776,968	29,176	(806,144)	337,774
Total liabilities and shareholders' equity	\$ 775,381	926,793	49,987	(1,050,404)	701,757

CONSOLIDATED BALANCE SHEET

	<i>December 31, 2003</i>				
<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
Assets					
Current assets:					
Cash and cash equivalents	\$	21,187	2,237		23,424
Receivables		118,972	20,307		139,279
Inventories		315,896	11,964		327,860
Prepaid expenses and other current assets		2,344	157		2,501
Deferred income taxes		19,036	39		19,075
Total current assets		477,435	34,704		512,139
Property and equipment		31,226	803		32,029
Investment in subsidiaries	748,125	30,793		(778,918)	
Intercompany receivables		262,513		(262,513)	
Goodwill		44,904	1,939		46,843
Intangible assets		51,908			51,908
Deferred income taxes		35,376	373		35,749
Other assets	7,376	5,147	1		12,524
Total assets	\$ 755,501	939,302	37,820	(1,041,431)	691,192
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	\$	3,282	11		3,293
Revolving line of credit			509		509
Accounts payable	34	137,548	855		138,437
Accrued expenses	3,567	32,756	3,244		39,567
Total current liabilities	3,601	173,586	4,619		181,806
Long-term debt	200,000	3,391	20		203,411
Intercompany payables	251,816		10,697	(262,513)	
Other liabilities		5,891			5,891
Commitments and contingencies					
Shareholders' equity					
Common stock	339	33	7,542	(7,575)	339
Additional paid-in-capital	439,080	862,357	9,918	(872,275)	439,080
Retained earnings (accumulated deficit)	(105,299)	(101,306)	5,024	96,282	(105,299)
Treasury stock, at cost	(27,867)				(27,867)
Unearned compensation - restricted stock	(1,519)				(1,519)
Accumulated other comprehensive income	(4,650)	(4,650)		4,650	(4,650)
Total shareholders' equity	300,084	756,434	22,484	(778,918)	300,084
Total liabilities and shareholders' equity	\$ 755,501	939,302	37,820	(1,041,431)	691,192

CONSOLIDATED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2004

<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
<i>Operating activities:</i>					
Net earnings (loss)	\$ 33,463	25,213	6,694	(31,907)	33,463
Depreciation and amortization	758	12,231	211		13,200
Deferred income taxes		9,721	(19)		9,702
Compensation expense on restricted stock awards	510				510
Changes in:					
Receivables		(10,980)	(4,883)		(15,863)
Inventories		34,649	(898)		33,751
Intercompany receivables and payables	(21,591)	18,253	3,338		
Accounts payable	(34)	10,253	221		10,440
Accrued expenses	3,813	(6,998)	2,450		(735)
Other, net	4,680	(3,702)	4		982
Net cash provided by (used for) operating activities	21,599	88,640	7,118	(31,907)	85,450
<i>Investing activities:</i>					
Capital expenditures		(6,846)	(20)		(6,866)
Purchase of distribution rights		(1,339)			(1,339)
Investment in subsidiaries	(25,213)	(6,694)		31,907	
Sales of property, plant and equipment		113			113
Net cash provided by (used for) investing activities	(25,213)	(14,766)	(20)	31,907	(8,092)
<i>Financing activities:</i>					
Debt issue costs paid	(130)	(622)			(752)
Issuance of common stock	4,069				4,069
Purchase of treasury stock	(351)				(351)
Net change in revolving credit facility			(509)		(509)
Cash overdrafts	2	(36,525)	(16)		(36,539)
Debt repaid		(2,663)	(8)		(2,671)
Net cash provided by (used for) financing activities	3,590	(39,810)	(533)		(36,753)
Change in cash and cash equivalents	(24)	34,064	6,565		40,605
Cash and cash equivalents, beginning of period		21,187	2,237		23,424
Cash and cash equivalents, end of period	\$ (24)	55,251	8,802		64,029

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Nine Months Ended September 30, 2003</i>					
<i>(In Thousands)</i>	<i>Parent</i>	<i>Guarantor Subsidiaries</i>	<i>Nonguarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated Total</i>
<i>Operating activities:</i>					
Net earnings (loss)	\$ 11,372	1,420	4,419	(5,839)	11,372
Loss on extinguishment of debt		17,315			17,315
Impairment loss		1,707			1,707
Depreciation and amortization	243	13,355	149		13,747
Deferred income taxes		3,304	(5)		3,299
Paid-in-kind interest		405			405
Compensation expense on restricted stock awards	474				474
<i>Changes in:</i>					
Receivables		(13,254)	674		(12,580)
Inventories		45,109	(235)		44,874
Intercompany receivables and payables	(213,174)	218,970	(5,796)		
Accounts payable	74	12,750	75		12,899
Accrued expenses	3,800	(6,600)	1,428		(1,372)
Other, net	5,545	(8,150)	(96)		(2,701)
Net cash provided by (used for) operating activities	(191,666)	286,331	613	(5,839)	89,439
<i>Investing activities:</i>					
Purchase of distribution rights		(7,200)			(7,200)
Capital expenditures		(5,495)	(648)		(6,143)
Investment in subsidiaries	(1,420)	(4,439)	20	5,839	
Sales of property, plant and equipment		1	(1)		
Net cash provided by (used for) investing activities	(1,420)	(17,133)			