BALTEK CORP
Form 10-Q
August 14, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

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 2-44764

BALTEK CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-2646117
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10 Fairway Court, P.O. Box 195, Northvale, NJ 07647
(Address of principal executive offices)
(Zip Code)

(201) 767-1400
(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report)

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 [X] No [ ]

Common shares of stock outstanding as of August 10, 2002: 2,390,383 shares

BALTEK CORPORATION AND SUBSIDIARIES

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BALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, except per share data)

	June 30, 2002 (Unaudited)	December 2001
ASSETS		
Current Assets:		
Cash	$ 1,156	$ 573
Accounts receivable, net	8,094	6,745
Inventories	17,979	18,865
Prepaid expenses	505	671
Other	2,604	2,244
Assets of discontinued operations offered for sale (Note 3)	2,356	9,986
Total current assets	32,694	39,084
Property, plant and equipment, net	5,917	5,729

Timber and timberlands	9,967	9,963
Other assets	1,003	1,006
Total Assets	$ 49,581	$ 55,782
LIABILITIES		
Current Liabilities:		
Notes payable	$ 8,100	$ 8,700
Accounts payable	2,277	2,232
Income tax payable	311	274
Accrued salaries, wages and bonuses payable	514	587
Accrued expenses and other liabilities	2,633	2,651
Current portion of long term debt	102	113
Current portion of obligation under capital lease	--	82
Liabilities of discontinued operations offered for sale (Note 3)	175	224
Total current liabilities	14,112	14,863
Long-term debt	257	302
Union employee termination benefits	240	210
Total Liabilities	14,609	15,375
STOCKHOLDERS' EQUITY		
Preferred stock, $1.00 par; 5,000,000 shares authorized and unissued	--	--
Common stock, $1.00 par; 10,000,000 shares authorized, 2,523,261 issued	2,523	2,523
Additional paid-in capital	2,157	2,157
Retained earnings	31,380	36,380
Accumulated other comprehensive loss	(113)	(147
Treasury stock, at cost: 132,878 and 66,439 shares at June 30, 2002 and December 31, 2001, respectively	(975)	(506
Total Stockholders' Equity	34,972	40,407
Total Liabilities and Stockholders' Equity	$ 49,581	$ 55,782

See notes to consolidated financial statements

BALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Dollars in Thousands, except per share data)

	Three Months Ended June 30, 2002	2001
Net Sales	$ 16,561	$ 15,
Cost of products sold	11,666	10,
Selling, general and administrative expense	3,862	3,
Operating income	1,033	1,
Other Income (Expense):		

Interest expense	(156)	(
Foreign exchange gain (loss)	258	(
Other, net	9	
Total	111	(
Income from continuing operations before income tax	1,144	
Income tax provision	365	
Income from continuing operations	779	
Discontinued Operations (Note 3) :		
Loss from operations of discontinued seafood segment (including loss on disposal of $6,000 in 2002)	(6,387)	(
Income tax benefit	(123)	(
Loss on discontinued operations	(6,264)	(
Net income (loss)	$ (5,485)	$
Basic and diluted earnings (loss) per common share:		
Earnings from continuing operations	$ 0.33	$ 0
Loss from discontinued operations	(2.62)	(0
Net earnings (loss)	$ (2.29)	$ 0
Average shares outstanding	2,390,383	2,456,

See notes to consolidated financial statements.

BALTEK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in Thousands, except per share data)

	Six Months Ended June 30, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(5,000)	$ 564
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,677	1,319
Loss on disposal of discontinued operations	6,000	--
Foreign exchange (gain) loss	(212)	159
Changes in assets and liabilities, net of the effect of foreign currency translation:		
Accounts receivable	(145)	(543)
Income taxes	40	(233)
Inventories	988	956
Prepaid expenses and other current assets	(204)	(692)
Other assets	(10)	100
Accounts payable and accrued expenses	(151)	(22)

Other	27	51
Net cash provided by operating activities	3,010	1,659
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net acquisitions of property, plant and equipment	(895)	(1,246)
Increase in timber and timberlands	(565)	(719)
Net cash used in investing activities	(1,460)	(1,965)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in notes payable, net	(600)	475
Payments of long-term debt	(56)	(28)
Principal payments under capital lease	(82)	(233)
Purchase of treasury stock	(470)	(505)
Net cash used in financing activities	(1,208)	(291)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	241	(286)
NET INCREASE (DECREASE) IN CASH	583	(883)
CASH, BEGINNING OF PERIOD	573	1,338
CASH, END OF PERIOD	$ 1,156	$ 455
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 314	$ 425
Income taxes	$ 533	$ 665

See notes to consolidated financial statements.

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BALTEK CORPORATION and subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented, have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year. The accompanying consolidated financial statements should be read in conjunction with the accounting policies and notes to consolidated financial statements included in the Company's 2001 Annual Report on Form 10-K.

As discussed in Note 3, the Company has announced its intention to sell its shrimp operations in Ecuador and has recorded a loss on disposal to reduce the assets underlying the shrimp operations to their estimated fair value, less costs to sell. The assets and liabilities of these operations have been segregated and reported separately in the accompanying balance sheets. For purposes of comparability, December 31, 2001 amounts have been reclassified to conform with the current period presentation. The operations of the seafood segment, including the seafood import business, have been reported as discontinued operations in the accompanying statement of operations. The financial results of the seafood import business have been included in the loss from discontinued operations in the accompanying consolidated statements of operations for the three and six month periods For purposes of comparability, prior period amounts have been reclassified to conform with the current period presentation.

2. INVENTORIES

Inventories are summarized as follows (amounts in thousands):

	June 30, 2002	December 31, 2001
Raw materials...............................	$ 7,059	$ 8,901
Work-in-process.............................	4,740	4,009
Finished goods..............................	6,180	5,955
	$17,979	$18,865

3. DISCONTINUED OPERATIONS -- SEAFOOD SEGMENT

Although the Company had made progress combating the effects of the white spot virus, production levels at the shrimp farms in Ecuador in 2002 continued to be well below optimum amounts. Generally, production yields were approximately 30%-40% of pre-virus levels. Selling prices for shrimp products continued to be at very low levels in 2002, due in part to a strong supply of shrimp from Southeast Asia and the Indian Subcontinent. The combination of the virus and depressed selling prices has had a negative effect on financial results. The seafood segment, which included the import business which we terminated in 2001, reported significant operating losses in 2000, 2001 and 2002.

In June 2002, the Company therefore announced its intention to sell its shrimp operation in Ecuador, which it expects to complete within 12 months. Based on its evaluation of current economic and industry conditions, the Company recorded a charge to earnings of $6 million in the quarter ended June 30, 2002 to reduce the assets underlying the shrimp operation to their currently estimated fair value. The charge was based on an estimate of cash proceeds, net of costs to sell, to be realized from the sale of this business. The amounts ultimately realized by the Company could differ materially from the amounts assumed in arriving at the estimated loss from disposal of the business. There were no direct tax benefits associated with the impairment charge.

A summary of the major balance sheet components of the operations offered for sale is as follows (amounts in thousands):

	June 30, 2002	December 31, 2001
Assets:		
Fixed assets	$ 991	$ 7,401
Accounts receivable	---	1,115
Inventory	966	1,068
Other	399	402
	$ 2,356	$ 9,986
Liabilities:		
Accounts payable and other	$ 175	$ 245

Included in the above amounts are assets and liabilities of the seafood import business of $1,115,000 and $21,000, respectively, at December 31, 2001.

Results from discontinued operations for the three and six months ended June 30, 2002 and 2001 is as follows (amounts in thousands):

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Mont[hs] Ended June [30,] 2002	
Net sales	$ 625	$ 6,089	$ 1,515	$
Pretax loss:				
Loss from discontinued operations	$ (387)	$ (490)	$ (792)	$
Loss on disposal	(6,000)	---	(6,000)	
Pretax loss	$ (6,387)	$ (490)	$ (6,792)	$

The Company has revised the financial covenant terms of its loan agreement with its domestic bank. At June 30, 2002, the Company was in compliance with the revised covenants.

4. COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) for the three and six months ended June 30, 2002 and 2001 was as follows (amounts in thousands):

Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	E[nded] 20[02]

Net income (loss)	$(5,485)	$ 218	$(5,
Other comprehensive income (loss):			
Cumulative effect of adopting SFAS No.133	--	--	
Change in fair value of interest rate swap	(8)	(27)	
Total comprehensive income (loss)	$(5,493)	$191	$(4,

5. SUBSEQUENT EVENT

On August 6, 2002 President Bush signed the Trade Act of 2002 (the "Act"). The Act provided for the renewal of the Andean Trade Preference Act through December 31, 2006. In addition to providing for duty free treatment of balsa exported from Ecuador, the Act also provided that any duty paid between December 4, 2001 and August 6, 2002 will be refunded. Through June 30, 2002 the Company estimates that $257,000 was paid in duty that will now be refunded. The refund due will be recorded in the Company's third quarter financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Discontinued Operations

Although the Company had made progress combating the effects of the white spot virus, production levels at the shrimp farms in Ecuador in 2002 continued to be well below optimum amounts. Generally, production yields were approximately 30%-40% of pre-virus levels. Selling prices for shrimp products continued to be at very low levels in 2002, due in part to a strong supply of shrimp from Southeast Asia and the Indian Subcontinent. The combination of the virus and depressed selling prices has had a negative effect on financial results. The seafood segment, which included the import business which we terminated in 2001, reported significant operating losses in 2000, 2001 and 2002.

In June 2002, the Company therefore announced its intention to sell its shrimp operation in Ecuador, which it expects to complete within 12 months. Based on its evaluation of current economic and industry conditions, the Company recorded a charge to earnings of $6 million in the quarter ended June 30, 2002 to reduce the assets underlying the shrimp operation to their currently estimated fair value. The charge was based on an estimate of cash proceeds, net of costs to sell, to be realized from the sale of this business. The amounts ultimately realized by the Company could differ materially from the amounts assumed in arriving at the estimated loss from disposal of the business. There were no direct tax benefits associated with the impairment charge.

The Company's shrimp operations incurred operating losses during the six months ended June 30, 2002 of approximately $792,000, including depreciation of $491,000. As a result of additional cost reduction measures recently implemented by the Company, the operating losses are expected to decrease in the third quarter. The Company believes that the core material operations will generate sufficient cash flow to meet the cash requirements of the shrimp operations until the sale of those operations is completed. Until the shrimp operations are sold, the Company intends to limit capital expenditures to those required to maintain critical equipment. The impairment charge recorded in the second quarter to reduce the value of the shrimp assets to their estimated fair value is a non-cash charge and has no effect on the Company's cash position or liquidity. Since the shrimp operations were experiencing net cash outflows in

2002, the Company expects that its overall cash flow will improve after the shrimp operations are sold.

Liquidity and Capital Resources

The primary sources of liquidity historically have been and are expected to continue to be cash flow generated from operations and available borrowings under short-term lines of credit. The Company's domestic line of credit provides for borrowings up to $16.5 million, subject to an adequate receivables and inventory borrowing base. The Company also continues to have lines of credit in Ecuador and Europe totaling approximately $4.7 million. In September 2001, the Company decided to discontinue its seafood import business. Primarily as a result of that decision, average borrowing requirements were lower in the first six months of 2002 compared to the same period in 2001 and are expected to be lower for all of 2002 compared to peak levels in 2001.

Typically, there is at least a five-year period between when plantation land, already cleared and prepared, is seeded and when the balsa is harvested. Because of the long-term period between seeding and harvest, the Company evaluates the adequacy of its current plantation lands to meet future, longer-term demand for its balsa products. This evaluation also considers the cost and availability of land in 2002 and in the future. The Company will continually evaluate demand and adjust its land purchase program to meet these projections. Long-term financing is usually not available in Ecuador and, because of credit tightening due to the deteriorating economic conditions in other South American countries, the Company may not be able to finance land purchases.

The Company continues to invest in capital expenditures in its core materials segment that position Baltek for long-term growth. Our plant and equipment expenditures are intended to increase plant capacity, improve productivity and reduce costs and give us the capability to manufacture new products. Such expenditures have historically been financed by cash flow from operations.

Future capital expenditures, including those for machinery and equipment and plantation lands, are expected to be funded by a combination of cash generated from operations and outside financing, if available. In July 2002, the Company entered into an informal agreement which commits the Company to purchase 471 hectares (approximately 1,163 acres) of plantation land for a purchase price of approximately $920,000. The transaction is expected to be completed during the third quarter. The Company intends to seek a long-term loan to finance the purchase of the land. The Company has no other material commitments for capital expenditures.

Excluding the assets and liabilities of discontinued operations, the Company had working capital of $16.4 million at June 30, 2002 and $14.4 million at December 31, 2001. Working capital increased, reflecting higher receivables due to improved sales and the paydown of notes payable, net of lower inventories due to a program implemented in 2002 designed to reduce inventory levels in the U.S. and improve turnover. The Company believes that future cash flow from operations and funds available under its existing domestic and foreign credit facilities will provide sufficient resources to meet the Company's needs in 2002.

Results of Operations for the Three and Six Months
Ended June 30, 2002 and 2001

Core material sales were $16,561,000 for the three months ended June 30, 2002, a $1,161,000 increase (7.5%) from 2001 second quarter sales of $15,400,000. Sales for the six month period ended June 30, 2002 were $31,753,000, a $1,526,000 increase (5%) from sales of $30,227,000 for the first six months of 2001. Domestic sales of core materials were lower in the second quarter of 2002 compared to the prior period, but approximately the same for the six months ended June 30, 2002 compared to the same period in 2001. Sales in Europe increased in the quarter and six months ended June 30, 2002, compared to the same period in 2001. During the second quarter we continued to see reports within the boating industry of improving wholesale and retail sales; however we believe the soft U.S. economy continues to negatively effect demand from the boating industry (the Company's largest end user group). The increase in European core material sales resulted from higher shipments to manufacturers of windmill blades. We believe that the wind energy market will grow at about 25% annually for the next five years and that recent technology trends in the industry continue to favor the use of core materials, including balsa.

Many of the Company's end user markets, including boating, are highly cyclical. Demand within those industries is dependent upon, among other factors, discretionary income, inflation, interest rates and consumer confidence. Fluctuating interest rates and other changes in economic conditions make it difficult to forecast short or long range trends.

The Company's gross profit margin as a percent of sales was 29.6% in the second quarter of 2002, compared to 31.2% in the second quarter of 2001. For the six month period ended June 30, 2002, the gross margin percentage was 31.3%, compared to 33.1% for the first six months of 2001. In December 2001, the Andean Trade Preference Act ("ATPA") expired and, as a result, products exported from Ecuador, Bolivia, Columbia and Peru were no longer duty free. The duty rate on balsa exported from Ecuador was 3.3%. During the first six months of 2002 the Company paid duty on exports from Ecuador, which reduced the gross margin by approximately 1%. On August 6, 2002 President Bush signed the Trade Act of 2002 (the "Act"). The Act provided for the renewal of the Andean Trade Preference Act through December 31, 2006. In addition to providing for duty free treatment of balsa exported from Ecuador, the Act also provided that any duty paid between December 4, 2001 and August 6, 2002 will be refunded. Through June 30, 2002 the Company estimates that $257,000 was paid in duty that will now be refunded. The refund due will be recorded in the Company's third quarter financial statements. The gross margin also decreased in 2002 due to a combination of higher operating costs in Ecuador and variations in the mix of products sold.

Selling, general and administrative expenses ("SG&A") for the three and six month periods ended June 30, 2002 increased approximately $247,000 and $163,000 compared to the three and six month periods ended June 30, 2001, respectively. As a percentage of sales, SG&A were 23.3% and 23.9% for the three and six month periods ended June 30, 2002 on higher sales, as compared to 23.5% and 24.5% in the comparable period of 2001. SG&A in dollars increased due to various increases and decreases in the components of SG&A. The largest increases during the period were in selling costs in Europe and research and development expenses in the U.S. In recognition of the relative weakness of certain of our markets in 2002, the Company continues to review all areas of costs, including SG&A, for potential savings. But at the same time, to prepare the Company for long-term success and to respond to activities of our competitors, we expect to increase certain selling expenses in 2002, particularly in Europe.

Interest expense decreased in the second quarter of 2002 as compared to 2001, from $201,000 to $156,000, and decreased for the first six months of 2002 compared to the same period in 2001, from $398,000 to $318,000. Interest rates on dollar denominated loans in Ecuador during the first six months were significantly higher than rates available to the Company in the U.S. To take advantage of the lower rates, during the first quarter of 2002, the Company shifted a portion of its borrowings from Ecuador to the U.S. The Company also benefited from lower interest rates in the U.S. in the first six months of 2002 compared to the same period in 2001. The level of borrowing in all periods is related to the Company's working capital needs and cash flows generated from operations.

The Company had a foreign exchange gain of $258,000 and $212,000 for the three and six month periods ended June 30, 2002, respectively. For the three and six month periods ended June 30, 2001, the Company had foreign exchange losses of $161,000 and $159,000, respectively. Translation gains and losses are mainly caused by the relationship of the U.S. dollar to the foreign currencies in the countries where the Company operates, and arise when remeasuring foreign currency balance sheets into U.S. dollars. The Company utilizes foreign exchange contracts to hedge certain inventory purchases. The Company does not enter into foreign currency transactions for speculative purposes. Management is unable to forecast the impact of translation gains or losses on future periods due to the unpredictability in the fluctuation of foreign exchange.

The provision for income taxes was at the rate of 32% and 37% of pre-tax earnings for the three and six month periods ended June 30, 2002 and 2001, respectively.

Sales and expenses were affected in all periods by the different exchange rates applied in remeasuring the books of accounts of the Company's foreign subsidiaries.

Forward Looking Statements

Certain statements in this quarterly report on Form 10-Q, the Annual Report on Form 10-K, the Company's press releases or in reports to stockholders constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, industries in which the Company operates, the U.S. and global economies, earnings, cash flow and operating performance and may be indicated by words or phrases such as "anticipates," "supports," "plans," "projects," "expects," "should," "forecast," "believe," "management is of the opinion" and similar words or phrases. Forward-looking statements are subject to inherent uncertainties and risks, including among others: changes in commodity prices for shrimp; environmental factors affecting yields at the Company's shrimp farms and balsa plantations; increasing price and product/service competition by domestic and foreign competitors; fluctuations in the cost and availability of raw materials; economic and political conditions in Ecuador; general industry trends and growth rates, including the continued advancement in composite materials technology and its acceptance as an alternative to conventional methods of construction; and economic conditions as they affect demand for our customers' products (the Company is a raw material supplier to original equipment manufacturers and sub-tier suppliers engaged in the fabrication of composite components and assemblies). In addition, such statements could be affected

by general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations. The list of factors presented here should not be considered to be a complete list of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements.

In light of these risks and uncertainties, actual events and results may vary significantly from those expressed or implied by such statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and readers are cautioned not to place undue reliance on such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosure of Market Risk

For quantitative and qualitative disclosures about market risks affecting Baltek, see Item 7A "Quantitative and Qualitative Disclosure About Market Risk" in Baltek's Annual Report on Form 10-K for the year ended December 31, 2001. There have been no material changes to our exposure to market risks since December 31, 2001.

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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On May 23, 2002, the Company conducted its annual meeting of shareholders. Of the 2,390,383 shares of the Company's common stock entitled to vote at the meeting, 2,256,276 shares were present at the meeting in person or by proxy.

The seven people designated by the Company's board of directors as nominees for director were elected, with voting as follows:

Nominee	Votes For	Votes Withheld
Jacques Kohn	2,242,212	14,064
Jean Kohn	2,199,597	56,679
Henri-Armand Kohn	2,199,097	57,179
Margot W. Kohn	2,241,712	14,564
William F. Nicklin	2,241,912	14,364
Bernard J. Wald	2,241,637	14,639
Benson J. Zeikowitz	2,202,597	53,679

Stockholders voted to ratify the appointment of Deloitte & Touche LLP as the independent auditors for the Company for the year ending December 31, 2002. There were 2,249,795 shares voted in favor of ratification, 5,881 votes against and 600 abstentions.

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits:

10.1.6 Fourth Amendment to Revolving Loan and Security Agreement dated

September 28, 2001 between Baltek Corporation and Crustacea Corporation, collectively, as Borrower, and Fleet National Bank, as Lender.

11 An exhibit showing the computation of per-share earnings is omitted because the computation can be clearly determined from the material contained in this Quarterly Report on Form 10-Q.

99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(B) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K dated June 19, 2002, reporting in Item 5 that it had issued a press release announcing its intention to sell its shrimp operations in Ecuador.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALTEK CORPORATION
(Registrant)

Date: August 14, 2002

/s/ Jacques Kohn

Jacques Kohn
President and Chief Executive Officer

Date: August 14, 2002

/s/ Ronald Tassello

Ronald Tassello
Chief Financial Officer and Treasurer