

PEAK INTERNATIONAL LTD
Form 10-Q
February 12, 2008

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 December 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 0-29332

PEAK INTERNATIONAL LIMITED

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

Incorporated in Bermuda with limited liability
(State or other jurisdiction of

None
(I.R.S. Employer

incorporation or organization)
Flat E & F, 19/F., CDW Building, 388 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong

Identification Number)

(Address of principal executive offices)

(Zip Code)

(852) 3193-6000

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 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 Par Value

Outstanding at February 6, 2008
12,423,306

PART I

FINANCIAL INFORMATION

Item 1. *Financial Statements*

Condensed Consolidated Statements of Operations

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

	Three Months Ended December 31,			
	2007 (Unaudited)		2006 (Unaudited)	
Net Sales	\$ 12,364	100.0%	\$ 13,621	100.0%
Cost of Goods Sold	12,477	100.9%	11,785	86.5%
Gross (Loss) Profit	(113)	(0.9)%	1,836	13.5%
Selling and Marketing (Note 4)	2,106	17.0%	2,040	15.0%
General and Administrative (Note 4)	1,668	13.5%	1,674	12.3%
Research and Development	206	1.7%	22	0.2%
Loss from operations	(4,093)	(33.1)%	(1,900)	(13.9)%
Other expenses net	(93)	(0.7)%	(5)	(0.0)%
Interest income net	128	1.0%	183	1.3%
Loss before income taxes	(4,058)	(32.8)%	(1,722)	(12.6)%
Income tax (expense) benefit	(46)	(0.4)%	196	1.4%
Net Loss	\$ (4,104)	(33.2)%	\$ (1,526)	(11.2)%
LOSS PER SHARE (Note 5)				
Basic	\$ (0.33)		\$ (0.12)	
Diluted	\$ (0.33)		\$ (0.12)	
Weighted Average Number of Shares Outstanding				
Basic	12,423,000		12,420,000	
Diluted	12,423,000		12,420,000	

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Operations

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

	Nine Months Ended December 31,			
	2007 (Unaudited)		2006 (Unaudited)	
Net Sales	\$ 36,551	100.0%	\$ 48,091	100.0%
Cost of Goods Sold	35,703	97.7%	38,796	80.7%
Gross Profit	848	2.3%	9,295	19.3%
Selling and Marketing (Note 4)	6,052	16.6%	6,482	13.5%
General and Administrative (Note 4)	4,513	12.3%	4,969	10.3%
Research and Development	611	1.7%	86	0.2%
Loss from operations	(10,328)	(28.3)%	(2,242)	(4.7)%
Other expenses net	(324)	(0.9)%	(171)	(0.4)%
Interest income net	468	1.3%	465	1.0%
Loss before income taxes	(10,184)	(27.9)%	(1,948)	(4.1)%
Income tax (expense) benefit	(21)	(0.0)%	217	0.5%
Net Loss	\$ (10,205)	(27.9)%	\$ (1,731)	(3.6)%
LOSS PER SHARE (Note 5)				
Basic	\$ (0.82)		\$ (0.14)	
Diluted	\$ (0.82)		\$ (0.14)	
Weighted Average Number of Shares Outstanding				
Basic	12,423,000		12,420,000	
Diluted	12,423,000		12,420,000	

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Balance Sheets

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

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 16,880	\$ 20,366
Restricted cash (Note 12)	983	1,128
Accounts receivable net of allowance for doubtful accounts of \$309 at December 31, 2007 and \$427 at March 31, 2007	10,400	9,279
Inventories (Note 2)	9,973	10,959
Other receivables, deposits and prepayments	810	852
Total Current Assets	39,046	42,584
Property, plant and equipment net	16,762	19,278
Land use right	688	703
Deposits for acquisition of property, plant and equipment	72	60
Deferred income taxes	35	
Other deposit (Note 3)	301	301
TOTAL ASSETS	\$ 56,904	\$ 62,926
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable:		
-Trade	\$ 7,118	\$ 3,689
-Property, plant and equipment	428	78
Accrued payroll and employee benefits	1,314	1,165
Accrued other expenses	1,839	1,990
Income taxes payable	32	95
Total Current Liabilities	10,731	7,017
Commitments and Contingencies (Note 9)		
Shareholders' Equity:		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 12,423,306 shares at December 31, 2007 and at March 31, 2007	124	124
Additional paid-in capital	28,056	27,707
Retained earnings	19,126	29,331
Accumulated other comprehensive loss	(1,133)	(1,253)
Total shareholders' equity	46,173	55,909
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 56,904	\$ 62,926

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Condensed Consolidated Statements of Cash Flows

(in thousands of United States Dollars)

	Nine Months Ended December 31,	
	2007 (Unaudited)	2006 (Unaudited)
Operating activities:		
Net loss	\$ (10,205)	\$ (1,731)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,789	5,092
Deferred income taxes	(35)	(221)
Loss on disposal/write-off of property, plant and equipment	138	75
Allowance for doubtful accounts	(118)	323
Non-cash share-based compensation	349	484
Changes in operating assets and liabilities:		
Accounts receivable	(1,003)	1,573
Inventories	986	539
Other receivables, deposits and prepayments	42	(96)
Accounts payable - trade	3,429	(1,847)
Accrued payroll, employee benefits and other expenses	(2)	(123)
Income taxes payable	(63)	(17)
Cash held in an escrow for terms of sale agreement for disposal of a subsidiary (Note 11)	641	641
Cash held in another escrow for funding of certain contingent obligations under existing contracts with senior management (Note 12)	(496)	413
Net cash (used in) provided by operating activities	(1,548)	5,105
Investing activities:		
Acquisition of property, plant and equipment	(2,046)	(3,794)
(Increase) Decrease in deposits for acquisition of property, plant and equipment	(12)	100
Net cash used in investing activities	(2,058)	(3,694)
Net (decrease) increase in cash and cash equivalents	(3,606)	1,411
Cash and cash equivalents at beginning of period	20,366	17,441
Effects of exchange rate changes on cash and cash equivalents	120	3
Cash and cash equivalents at end of period	\$ 16,880	\$ 18,855
Supplemental cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 119	\$ 21

(See accompanying notes to Unaudited Condensed Consolidated Financial Statements)

Notes to Condensed Consolidated Financial Statements

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

(1) Organization and basis of presentation

Peak International Limited (the Company) was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on January 3, 1997. The subsidiaries of the Company are principally engaged in the manufacture and sale of precision-engineered packaging products, such as matrix and disk drive trays, reels and carrier tapes used in the storage, transportation and automated handling of disk drive components, and semiconductor devices, as well as wafer fab and precision medical products. The Company's principal production facilities are located in the People's Republic of China (the PRC). The Company maintains sales offices in Hong Kong, the PRC, Malaysia, Singapore, Taiwan, and the United States, whereby direct sales are made to customers, and representative offices in the PRC, the Philippines, South Korea, and Italy, that provide customers with technical information.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intra-group balances and transactions have been eliminated on consolidation.

The accompanying condensed consolidated financial information has been prepared by the Company without being audited, in accordance with the instructions to Form 10-Q and therefore does not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses as of and for the reporting periods. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known.

The unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) which in the opinion of management are required for a fair presentation of the Company's interim results. The results for interim periods are not necessarily indicative of the results that may be achieved for the entire year. These condensed consolidated financial statements and notes thereto should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007.

New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, a replacement of FASB Statement No. 141. The statement is to be applied prospectively for fiscal years beginning on or after December 15, 2008; therefore it applies to future business combinations. The statement requires more assets acquired and liabilities assumed in future business combinations to be measured at fair value as of the acquisition date. The additional fair value measurements of SFAS No. 141(R) replace the cost-allocation process of SFAS No. 141, Business Combinations, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. In addition, expenses incurred for all acquisition-related costs are to be expensed and liabilities related to contingent consideration are to be re-measured to fair value each subsequent reporting period. The Company will adopt SFAS No. 141(R) at the beginning of its 2010 fiscal year, or April 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (continued)

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

New Accounting Standards (continued)

In June 2006, the FASB ratified the provisions of Emerging Issues Task Force (EITF) Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF Issue No. 06-3 requires that the presentation of taxes within revenue-producing transactions between a seller and a customer, including but not limited to sales, use, value added, and some excise taxes, should be on either a gross (included in revenue and cost) or a net (excluded from revenue) basis. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. The adoption of EITF Issue No. 06-3 during the first nine months of the Company's 2008 fiscal year did not have a material impact on its consolidated results of operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. The Company adopted FIN 48 on April 1, 2007. On that date, the Company had no uncertain tax positions. The Company recognizes interest and penalties, if any, as part of its provision for income taxes in its Consolidated Statements of Operations. In May 2007, the FASB issued FASB Staff Position, or FSP, No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 to amend FIN No. 48 by providing that previously unrecognized tax benefits can be recognized when the tax positions are effectively settled upon examination by a taxing authority. According to FSP FIN 48-1, an enterprise's tax position will be considered effectively settled if the taxing authority has completed its examination, the enterprise does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 must be applied upon the initial adoption of FIN No. 48. Enterprises that did not apply FIN No. 48 in a manner consistent with the provisions of FSP FIN 48-1 would be required to retrospectively apply its provisions to the date of the initial adoption of FIN No. 48. FSP FIN 48-1 did not have a material impact on the Company's initial adoption of FIN No. 48.

(2) Inventories

The components of inventories were as follows:

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
Raw materials	\$ 4,626	\$ 5,146
Finished goods	5,347	5,813
	\$ 9,973	\$ 10,959

(3) Other Deposit

This represents the security bond placed at a Taiwanese court in order to obtain an anti-injunction order in connection with a potential patent dispute in Taiwan. See Note 9(a) Litigation . Management of the Company does not expect the case to be settled within 12 months and therefore the amount was classified as a non-current asset as at December 31, 2007.

(4) Non-cash Share-based Compensation

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

Prior to April 1, 2006, the Company accounted for share-based employee compensation, including stock options, using the method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations (APB 25). Under APB 25, stock options are granted at market price and no compensation cost is

Notes to Condensed Consolidated Financial Statements (continued)**(in thousands of United States Dollars, except share and per share data, unaudited)**

recognized, and a disclosure is made regarding the pro forma effect on net earnings assuming compensation cost had been recognized in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). In December 2004, the FASB issued SFAS 123R, which requires companies to measure and recognize compensation expense for all share-based payments at fair value. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires that such transactions be accounted for using prescribed fair-value-based methods. SFAS 123R permits public companies to adopt its requirements using one of two methods: (a) a modified prospective method in which compensation costs are recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted or modified after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date or (b) a modified retrospective method which includes the requirements of the modified prospective method described above, but also permits companies to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for all periods presented or prior interim periods of the year of adoption. Effective April 1, 2006, the Company adopted SFAS 123R using the modified prospective method. No share-based employee compensation cost has been reflected in net income prior to the adoption of SFAS 123R. Results for prior periods have not been restated.

The following table presents the share-based compensation expense recognized in accordance with SFAS 123R during the quarters and the nine months ended December 31, 2007 and 2006:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The components of non-cash share-based compensation were as follows:				
Selling and Marketing	\$ 29	\$ 30	\$ 70	\$ 151
General and Administrative	88	72	279	333
	\$ 117	\$ 102	\$ 349	\$ 484

The total value of the stock options awards is expensed ratably over the service period of the employees receiving the awards. As of December 31, 2007, total unrecognized compensation cost related to stock-based options and awards was \$0.5 million and the related weighted-average period over which it is expected to be recognized is approximately 2.5 years.

Stock Option Plans

At December 31, 2007, the Company had two active share-based employee compensation plans, the 1997 Share Option Plan and the 1998 Share Option Plan. Stock option awards granted from these plans are granted at the fair market value on the date of grant, and vest over a period determined at the time the options are granted, generally ranging from zero to three years, and generally have a maximum term of ten years. During the quarter and the nine months ended December 31, 2007, the Company issued options for an aggregate of 105,000 and 490,000 shares, respectively, under the 1998 Share Option Plan at weighted-average exercise prices of \$2.50 and \$2.49 per share, respectively, to directors and employees of the Company. The Company did not issue any shares under the 1997 Share Option Plan during the quarter and the nine months ended December 31, 2007.

Notes to Condensed Consolidated Financial Statements (continued)

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

For all stock options, the Company recognizes compensation cost on a straight-line basis over the requisite service period. When the options are exercised, the Company issues common stock from its treasury shares.

The following is a summary of stock option activity within the Company's share-based compensation plans and charges for the quarter and the nine months ended December 31, 2007:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Options outstanding:				
Balance at April 1, 2007	1,448,065	\$ 4.30		
Granted	490,000	2.49		
Exercised				
Forfeited	(459,495)	4.96		
Outstanding at December 31, 2007	1,478,570	\$ 3.49	2.98	\$
Exercisable at December 31, 2007	807,572	\$ 4.12	2.65	\$

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of fiscal 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. This amount changes based on the fair market value of the Company's stock.

No options were exercised during the quarter and the nine months ended December 31, 2007.

The weighted average fair value of stock option awards granted and the key assumptions used in the Black-Scholes valuation model to calculate the fair value are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Weighted average fair value of options granted	\$ 0.88	\$	\$ 0.88	\$ 1.32
Key assumptions used in determining the fair value:				
Weighted average risk-free interest rate	3.91%		4.10%	5.02%
Expected life of options (in years)	3.00		3.00	3.00
Expected volatility of underlying stocks	46.0%		46.2%	58.1%
Expected dividend yield				

* The risk-free interest rate is based on the U.S. Treasury zero-coupon yield with a maturity that approximates the expected life of the options.

** The expected life of the options represents the weighted average period for option contractual terms.

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

The expected volatility of underlying stocks is measured using historical daily price changes of the Company's common stock over the expected life of the options.

Notes to Condensed Consolidated Financial Statements (continued)

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected volatility of underlying stocks. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

(5) Loss Per Share

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator:				
Net loss	\$ (4,104)	\$ (1,526)	\$ (10,205)	\$ (1,731)
Denominator:				
Weighted average number of shares outstanding				
Basic	12,423,306	12,420,389	12,423,306	12,420,389
Assumed exercise of stock options				
Diluted	12,423,306	12,420,389	12,423,306	12,420,389

For the quarter and for the nine months ended December 31, 2007 and December 31, 2006, exercise of all outstanding stock options would have been anti-dilutive and such stock options were therefore not included in the computation of diluted loss per share.

(6) Comprehensive Loss

Comprehensive loss is defined as the aggregate change in shareholders' equity excluding changes in ownership interests. The Company's comprehensive loss consists of the following:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net loss	\$ (4,104)	\$ (1,526)	\$ (10,205)	\$ (1,731)
Other comprehensive (loss) income:				
Foreign currency translation	23	(97)	120	3
Comprehensive loss	\$ (4,081)	\$ (1,623)	\$ (10,085)	\$ (1,728)

Notes to Condensed Consolidated Financial Statements (continued)

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

(7) Employee Stock Purchase Plan

Under SFAS 123R, the Company's 2000 Employee Stock Purchase Plan (the 2000 ESPP) is considered compensatory. During the quarter and the nine months ended December 31, 2007, the Company did not issue any shares under the 2000 ESPP. On January 1, 2005, the Company suspended the offering periods under the 2000 ESPP.

(8) Share Repurchase

In September 2000, the Board of Directors authorized the repurchase, at management's discretion, of up to \$10,000 of the Company's common stock at prices not to exceed 150% of the Company's net asset value per share (the 2000 Share Repurchase Plan). Common stock repurchased would be cancelled immediately. The excess of purchase price over par value was charged to additional paid-in capital. In November 2007, the Board of Directors formally terminated the 2000 Share Repurchase Plan.

There was no repurchase of shares for the quarter and for the nine months ended December 31, 2007 and 2006.

(9) Commitments and Contingencies

(a) Litigation

R.H. Murphy Co., Inc. (Murphy) is the owner of U.S. Re-examined Patent 5,400,904 C1 and certain corresponding foreign patents, which are directed to specific features in trays used to carry integrated circuits. Murphy has notified the Company and certain of the Company's customers that it believes these patents are infringed by certain integrated circuit trays that the Company provided to the Company's customers, and indicated that licenses to these patents are available. The Company does not believe that any valid claim of these patents is infringed, and is proceeding consistent with that belief. Below is a summary of the Company's actions taken against Murphy.

The Company applied for a preliminary injunction order so that the Company can continue to sell trays in Taiwan without being interrupted by Murphy and its three distributors in Taiwan and the Taiwan Taichung District Court granted the preliminary injunction order in June 2002. On July 8, 2002, the Company placed a security bond of approximately \$301 at the Taiwan Taichung District Court for a compulsory execution of the preliminary injunction order. Murphy and its three local distributors filed an appeal with the Taiwan High Court, Taichung Branch against the grant of the order by the district court, and in December 2002, the High Court revoked the order issued by the district court. In January 2003, the Company filed a re-appeal with the Taiwanese Supreme Court, and the Supreme Court revoked the High Court's ruling and dismissed Murphy and its local distributors' appeal filed with the High Court. The grant of the preliminary injunction order has now become final and, accordingly, it is unlikely that Murphy or its local distributors will be able to obtain preliminary injunctive relief against the Company or its Taiwan customers while the underlying litigation is pending. In October 2002, the Company filed a civil suit against Murphy with the Taiwan Taichung District Court seeking permanent relief in connection with the preliminary injunction order. The Taiwan High Court, Taichung Branch dismissed the Company's claims on January 2, 2007. The Company filed an appeal on January 26, 2007 with the Supreme Court to contest the decision issued by the Taiwan High Court, which is still pending with the Supreme Court. A security bond for the court cost of approximately \$13 was placed with the Taiwan Taichung District Court in connection with the underlying civil suit. If the Company's effort to receive permanent relief is not successful, the Company may be required to forfeit the bonds and Murphy and its distributors in Taiwan may assert patent infringement claims against the Company, which, if successful, could prevent the Company from selling certain of its products in Taiwan and could result in monetary damages. In December 2001 and July 2003, the Company also filed two cancellation actions with the Taiwanese Intellectual Property Office (IPO) to invalidate Murphy's patent. The IPO rejected the cancellation actions, and the Company filed an administrative appeal and further filed an administrative suit for each of the cases; the two cases are now pending before the Supreme Administrative Court. In February 2002, the Company also filed a complaint for unfair competition with the Fair Trade Commission (FTC) against Murphy. The FTC dismissed the action and

Notes to Condensed Consolidated Financial Statements (continued)

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

the Company filed an administrative appeal which was dismissed. The Company filed an administrative suit and the Taipei High Administrative Court rendered a judgment favorable to the Company, ruling that Murphy violated the Fair Trade Act. The FTC then filed an appeal, which was dismissed by the Supreme Administrative Court. On March 16, 2007, the FTC filed a petition for retrial with the Supreme Administrative Court. At present, the outcome of this patent dispute cannot be predicted with reasonable particularity and no impact to the financial statements has been reflected in this respect.

(b) Commitments

At December 31, 2007, the Company had commitments for capital expenditures of approximately \$315.

(10) Segment Information

	Hong Kong & the PRC	United States	Other Asian countries	Eliminations	Consolidated
Three months ended December 31, 2007 and 2006					
Quarter ended December 31, 2007					
Net sales to third parties	\$ 7,215	\$ 712	\$ 4,437	\$	\$ 12,364
Transfer between geographic areas	5,331		92	(5,423)	
Total net sales	\$ 12,546	\$ 712	\$ 4,529	\$ (5,423)	\$ 12,364
(Loss) Income before tax	\$ (3,900)	\$ 34	\$ (275)	\$ 83	\$ (4,058)
Quarter ended December 31, 2006					
Net sales to third parties	\$ 6,995	\$ 694	\$ 5,932	\$	\$ 13,621
Transfer between geographic areas	5,732		319	(6,051)	
Total net sales	\$ 12,727	\$ 694	\$ 6,251	\$ (6,051)	\$ 13,621
(Loss) Income before tax	\$ (2,169)	\$ (177)	\$ 187	\$ 437	\$ (1,722)
Nine months ended December 31, 2007 and 2006					
Nine months ended December 31, 2007					
Net sales to third parties	\$ 20,973	\$ 1,782	\$ 13,796	\$	\$ 36,551
Transfer between geographic areas	15,624		931	(16,555)	
Total net sales	\$ 36,597	\$ 1,782	\$ 14,727	\$ (16,555)	\$ 36,551
(Loss) Income before tax	\$ (9,686)	\$ 49	\$ (924)	\$ 377	\$ (10,184)
Nine months ended December 31, 2006					

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

Net sales to third parties	\$ 24,370	\$ 3,958	\$ 19,763	\$	\$ 48,091
Transfer between geographic areas	21,426		3,184	(24,610)	
Total net sales	\$ 45,796	\$ 3,958	\$ 22,947	\$ (24,610)	\$ 48,091
(Loss) Income before tax	\$ (2,997)	\$ 260	\$ 392	\$ 397	\$ (1,948)

Notes to Condensed Consolidated Financial Statements (continued)

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

(11) Cash Held in an Escrow for Terms of Sale Agreement for Disposal of a Subsidiary

A former subsidiary of the Company (Warden) owned certain land use rights and an incomplete industrial building in Shenzhen, the PRC. The incomplete industrial building was originally purchased with the intention of completing the facility for expansion of the Company's existing production facilities, but this plan was subsequently abandoned. During the fourth quarter of the year ended March 31, 2001, management reassessed the fair value of the building given the downturn in the industrial property market in which the building was located and a provision of \$759 was recorded to reduce the carrying value of the building.

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

The Company entered into a contract with an independent third party for the sale of Warden. The sale was completed on April 13, 2005 for approximately \$7,692 in cash, with approximately \$1,282 of the sale proceeds held in escrow as restricted cash. A net gain on disposal of approximately \$2,189 was recognized in the first quarter of fiscal 2006.

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

The year ended April 13, 2006; and

The year ended April 13, 2007.

In accordance with the terms of the sale agreement, immediately following the years ended April 13, 2006 and 2007, approximately \$641 and \$641, respectively, each representing one half of the full amount established and held in escrow and classified as restricted cash, were released to the Company without any reduction or offsets.

(12) Restricted Cash

On October 14, 2005, the Company entered into escrow arrangements appointing an independent third party as an escrow agent (Escrow Agent) for a total of \$2,501 deposited as restricted cash by the Company. In September 2005, a shareholder of the Company stated its intention to replace the Company's senior management and effect a merger of the Company with another corporation. The escrows were set up to ensure that obligations of the Company to the officers under their employment contracts would be honored in the future. The Company deposited an amount equal to estimated severance payments and anticipated administrative costs in the escrows. During fiscal 2006, severance payments of \$1,600 were paid to the former Chief Executive Officer and the former Vice President and General Counsel. During fiscal 2007, severance payments of \$170 were paid to two other former senior executives of the Company and \$243 was released back to the Company as free cash as a result of the resignation of a former senior executive of the Company. The remaining funds of \$487 in these escrows, which were due to be available for use by the Company on March 15, 2007, were extended beyond March 31, 2007. On April 16, 2007, the Company entered into escrow arrangements with the Escrow Agent to increase the funds by \$496 to \$983 as top-up adjustments for increases in compensation of the remaining senior executives and to include three senior executives who had not been covered in the previous escrow arrangement.

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

The following management's discussion and analysis of financial condition and results of operations is based upon and should be read together with the consolidated financial statements of the Company and notes thereto included in this Quarterly Report on Form 10-Q for the quarter ended December 31, 2007 (Quarterly Report) and the Annual Report on Form 10-K for the year ended March 31, 2007 (the 2007 Annual Report).

All references to the Company, Peak, we, us or our herein are references to Peak International Limited, a company incorporated under Bermuda law on January 3, 1997, and, unless the context otherwise requires, its subsidiaries and predecessors. All references to Peak (HK) herein are to Peak Plastic & Metal Products (International) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company and, unless the context otherwise requires, its subsidiaries and predecessors. References in this Quarterly Report to our historical business and operations assume that the corporate reorganization in 1997 (the Restructuring) by which, among other things, Peak (HK) became a wholly-owned subsidiary of the Company and the Company acquired its other subsidiaries, had already occurred as of the times to which the references relate. Any discrepancies in the tables included in this Quarterly Report between the amounts indicated and the totals thereof are due to rounding. All references to US Dollars , US\$ or \$ herein are to United States dollars, and references to HK Dollars or HK\$ are to Hong Kong dollars. We refer to our fiscal year ended March 31, 2006 as fiscal 2006 , our fiscal year ended March 31, 2007 as fiscal 2007 , our fiscal year ending March 31, 2008 as fiscal 2008 and our fiscal year ending March 31, 2009 as fiscal 2009 .

Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. The forward-looking statements reflect our view at the time of this Quarterly Report with respect to future events and financial performance. We intend for the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. Examples of forward-looking statements include statements regarding our beliefs and expectations regarding:

the benefits of our recycling business,

our distribution capabilities,

the benefits of our products,

the benefits of our in-house tooling facilities,

our ability to meet our cash requirements for fiscal 2008 and fiscal 2009 from our existing cash and cash equivalents and cash flows from operations,

our plans to expand capacity and replace fixed assets,

the lack of a contractual obligation on our part to pay taxes and other amounts owed by the main production facilities located in Shenzhen in the People's Republic of China at which our products are manufactured and the assessment of any penalties on such amounts,

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

our expected financial position, business and financing plans for the next 12 months,

the sufficiency of our existing cash and cash equivalents and anticipated cash flow from operations to meet our anticipated cash needs in the ordinary course of business for at least the next 12 months,

the compliance of our operations in the PRC with the applicable PRC legal and regulatory requirements relating to environmental matters and custom duties,

intellectual property rights of third parties,

our critical accounting policies, and

the validity of lawsuits against us.

Such forward-looking statements are identified by use of forward-looking words such as anticipate, believe, plan, estimate, expect, and into words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including but not limited to, economic conditions in the semiconductor, disk drive, wafer fab, electronic, medical and other industries, any future economic downturn, demand for our products, our dependence on significant customers, technology developments affecting our products, our ability to raise additional capital if necessary, the price and availability of raw materials, fluctuations in currency markets, the outcome of lawsuits by and against us, difficulties related to working in the PRC, including regional government and processing partner relations and contracts, foreign currency exchange laws, taxation and health issues, and amounts we may have to pay for back taxes and social insurance contributions to the PRC tax authorities. Actual results could differ materially from those contemplated by the forward-looking statements as a result of these factors and those set forth below under Item 1A of Part II Risk Factors in this Quarterly Report and in our 2007 Annual Report. These forward-looking statements speak only as of the date hereof, and except as required by applicable law, we assume no obligation to update any forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard hereto or any change in events, conditions or circumstances on which any such statement is based. Investors are cautioned not to place undue reliance on these forward-looking statements.

Results of Operations

Net Sales. Net sales decreased by approximately 9.2% to \$12.4 million in the third quarter of fiscal 2008 from \$13.6 million in the same quarter of fiscal 2007. Except for an increase in sales of tapes, all major product categories recorded a decrease in sales. Net sales of semiconductor trays decreased by 8.7% in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007, reflecting a 2.3% decrease in sales volume and a 6.5% decrease in average selling price. Net sales of tapes increased by 14.2% in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007, reflecting a 16.2% increase in sales volume and a 1.7% decrease in average selling price. Net sales of reels decreased by 4.5% in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007, reflecting a 4.3% decrease in sales volume and a 0.2% decrease in average selling price. Net sales of disk drive trays decreased by 76.5% in the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007, reflecting a 91.2% decrease in sales volume and a 166.0% increase in average selling price primarily due to product sales mix. Our disk drive tray sales and new product sales have generally been to a few major customers or to subcontractors supporting those customers. These sales are largely dependent on the introduction of new products by those customers. New product introductions are difficult to forecast with respect to both timing and demand. As a result, sales of our disk drive trays and new products have, and will in the future, fluctuate dramatically with the corresponding fluctuations in the introduction of new products.

Net sales decreased by approximately 24.0% to \$36.6 million for the nine months ended December 31, 2007 from \$48.1 million for the nine months ended December 31, 2006. Net sales of semiconductor trays decreased by 21.4% from the nine months ended December 31, 2007 to the nine months ended December 31, 2006, primarily due to a 13.2% decrease in sales volume and a 9.4% decrease in average selling price. Comparing the same nine-month periods, net sales of tapes decreased by 4.7%, reflecting a 6.2% decrease in sales volume and a 1.5% increase in average selling price, while net sales of reels decreased by 17.6%, reflecting an 18.1% decrease in volume and a 0.6% increase in average selling price. Comparing the same nine-month periods, net sales of disk drive trays decreased by 66.8% primarily due to a 66.7% decrease in sales volume. Net sales of disc caddies have decreased to nil due to the merger in the first quarter of fiscal 2007 of Seagate Technology and Maxtor Corporation, two of our historically larger customers, and their subsequent rationalization of inventory.

Gross (Loss) Profit. Gross loss for the third quarter of fiscal 2008 was \$0.1 million or 0.9% of sales, while gross profit for the third quarter of fiscal 2007 was \$1.8 million or 13.5% of sales. The gross margin for the third quarter of fiscal 2008 was unfavorably impacted by several factors. First, reduced sales resulted in a greater proportion of fixed manufacturing overhead being absorbed in cost of goods sold as a result of operating at a level well below capacity. Second, the gross margin for the third quarter of fiscal 2008 included approximately \$1.4 million of unfavorable material cost and usage variances as a result of more extensive usage of higher cost materials and the write-off of obsolete materials in line with our efforts to improve the quality of our products. Third, we wrote off \$0.5 million of finished goods that were produced more than one year ago.

Gross profit decreased to \$0.8 million for the nine months ended December 31, 2007 from \$9.3 million for the nine months ended December 31, 2006. Gross margin decreased as a percentage of sales to 2.3% for the nine months ended December 31, 2007 from 19.3% for the nine months ended December 31, 2006. The gross margin for the nine months ended December 31, 2007 was unfavorably impacted by several factors. First, the reduced sales resulted in a greater proportion of fixed manufacturing overhead being absorbed in cost of goods sold as a result of operating at a level well below capacity. Second, the gross margin for the nine months ended December 31, 2007 also included approximately \$2.4 million of unfavorable material cost and usage variances as a result of more extensive usage of higher cost materials and the write-off of obsolete materials in line with our efforts to improve the quality of our products. Third, we wrote off \$1.4 million of obsolete finished goods.

Loss from Operations. Operating loss of \$4.1 million was recorded in the third quarter of fiscal 2008 compared to \$1.9 million in the third quarter of fiscal 2007. Operating loss margin was 33.1% for the third quarter of fiscal 2008, in comparison to 13.9% for the third quarter of fiscal 2007. The increase in operating loss was primarily due to the erosion in gross margin.

Operating loss increased to \$10.3 million for the nine months ended December 31, 2007 from \$2.2 million for the nine months ended December 31, 2006. The increase in operating loss was due primarily to the decrease in gross margin, which decrease was partially offset by reductions in selling and marketing, as well as general and administrative expenses.

Selling and Marketing. Selling and marketing expenses increased slightly by 3.2% to \$2.1 million in the third quarter of fiscal 2008 from \$2.0 million in the third quarter of fiscal 2007.

Selling and marketing expenses decreased by 6.6% to \$6.1 million for the nine months ended December 31, 2007 from \$6.5 million for the nine months ended December 31, 2006, as a result of the reorganization of the sales and marketing department, as well as reduction in delivery and freight charges, consistent with the decrease in sales volume.

General and Administrative. General and administrative expenses for the third quarters of fiscal 2008 and 2007 were the same at \$1.7 million.

General and administrative expenses decreased by 9.2% to \$4.5 million for the nine months ended December 31, 2007 from \$5.0 million for the nine months ended December 31, 2006, as a result of the streamlining of operations and improvement in operation efficiencies.

Research and Development. Research and development expenses increased to \$206,000 and \$611,000 for the quarter and the nine months ended December 31, 2007, respectively, in comparison to \$22,000 and \$86,000 for the same respective periods of the previous year, primarily due to consultancy fees for the design and development of new products in new industry segments, primarily wafer fab, and including disposable medical, general electronics, and consumer applications.

Other expenses net. Other expenses net were primarily comprised of losses from foreign currency transactions due to the relative strength or weakness of the US dollar at various times compared with the other currencies that we use to conduct our business.

Interest income net. Interest income net decreased by 30.1% to \$128,000 for the third quarter of fiscal 2008 from \$183,000 for the third quarter of fiscal 2007 due to decreases both in deposits placed with banks and in interest rates for such deposits.

Interest income net increased by 0.6% to \$468,000 for the nine months ended December 31, 2007 from \$465,000 for the nine months ended December 31, 2006, primarily due to increases both in deposits placed with banks and in interest rates for such deposits in the first quarter of fiscal 2008 in comparison to the first quarter of fiscal 2007, which was offset by the decreases in the third quarter of fiscal 2008 as discussed above.

Income Tax (Expense) Benefit. Income tax expense of \$46,000 was recorded for the third quarter of fiscal 2008, compared to an income tax benefit of \$196,000 recorded in the third quarter of fiscal 2007.

A \$21,000 tax expense was recorded for the nine months ended December 31, 2007, compared with a tax benefit of \$217,000 for the nine months ended December 31, 2006.

Net Loss. We had a net loss of approximately \$4.1 million for the third quarter of fiscal 2008, compared to a net loss of \$1.5 million for the same quarter of fiscal 2007, reflecting the effects of the factors discussed above.

We had a net loss of \$10.2 million for the nine months ended December 31, 2007, compared to a net loss of \$1.7 million for the nine months ended December 31, 2006, as a result of the factors discussed above.

Loss Per Share. Diluted loss per share for the third quarter of fiscal 2008 was \$0.33, compared to diluted loss per share of \$0.12 for the same quarter of fiscal 2007, reflecting the effects of the factors discussed above.

Diluted loss per share for the nine months ended December 31, 2007 was \$0.82, compared to a diluted loss per share of \$0.14 for the same period last year, reflecting the effects of the factors discussed above.

Liquidity and Capital Resources

Our net cash used in operating activities was \$1.5 million for the nine months ended December 31, 2007, compared to net cash provided by operating activities of \$5.1 million for the nine months ended December 31, 2006. This was primarily due to operating loss of \$10.3 million for the nine months ended December 31, 2007 compared to operating loss of \$2.2 million for the nine months ended December 31, 2006.

Net cash used in investing activities was \$2.1 million for the nine months ended December 31, 2007, compared to net cash used in investing activities of \$3.7 million for the nine months ended December 31, 2006. This was primarily due to decreased acquisition of equipment during the nine months ended December 31, 2007 because we had sufficient capacity to meet our production requirements.

No net cash was provided by nor used in financing activities for the nine months ended December 31, 2007 and December 31, 2006 as there was no issuance or repurchase of common stock or other financing transactions during these periods.

As of December 31, 2007, we had commitments for capital expenditures of \$0.3 million. The actual amounts of capital expenditures may vary substantially from those budgeted or estimated for a variety of reasons, including changes in market conditions, unavailability or changes in scheduled delivery of specific equipment, changes in interest rates and other factors. In addition, we plan to continue to expand capacity as and when needed and replace our obsolete fixed assets in future periods and to fund such expansion through our current cash reserves, future cash flow from operations and new bank borrowings, as required.

As of December 31, 2007, we had no outstanding bank borrowings. Our principal source of liquidity consisted of \$16.9 million in cash and cash equivalents. We believe that our existing cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs in the ordinary course of business for at least the next 12 months. If our existing cash and cash equivalents and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional public or private equity securities or obtain debt financing. There can be no assurance that we will be able to sell additional equity securities, publicly or privately in the amounts that may be needed or at all. There can be no assurance that additional financing will be available in the amounts that may be needed, or if available, will be obtained on terms favorable to us. Additional equity or debt financing may also be dilutive to our existing shareholders.

Critical Accounting Policies

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we must make a variety of estimates that affect the reported amounts and related disclosures. We consider certain accounting policies related to share-based compensation, revenue recognition, allowance for doubtful accounts, inventory valuation, valuation of long-lived assets, deferred taxes and property, plant and equipment to be critical policies due to the estimation process involved in each. Management discusses its estimates and judgments with the Audit Committee of our Board of Directors.

For a more detailed description on the application of these and other accounting policies, see Note 2 of the Consolidated Financial Statements included in our 2007 Annual Report and elsewhere in this Quarterly Report. Reference is also made to the discussion of the application of these critical accounting policies and estimates contained in Management's Discussion and Analysis in our 2007 Annual Report. During the nine months ended December 31, 2007, there were no material changes in the application of critical accounting policies that would require an update to the information provided in our 2007 Annual Report.

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 123R, which requires companies to measure and recognize compensation expense for all share-based payments at fair value. Share-based payments include stock options and non-vested share grants. We grant options to purchase common stock to some of our employees and directors under various plans at prices equal to the market value of the stock on the dates the options were granted. We historically have accounted for stock options using the method prescribed in Accounting Principles Board (APB) 25, whereby stock options are granted at market price and no compensation cost is recognized, and disclosed the pro forma effect on net earnings assuming compensation cost had been recognized in accordance with SFAS 123. SFAS 123R, which has been effective for us since April 1, 2006, eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires that such transactions be accounted for using prescribed fair-value-based methods. SFAS 123R permits public companies to adopt its requirements using one of two methods: (a) a modified prospective method in which compensation costs are recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted or modified after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date or (b) a modified retrospective method which includes the requirements of the modified prospective method described above, but also permits companies to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for all periods presented or prior interim periods of the year of adoption. We have adopted SFAS 123R using the modified prospective method.

As part of our adoption of SFAS 123R as of April 1, 2006, we were required to recognize the fair value of share-based compensation awards as an expense. We apply the Black-Scholes option-pricing model in order to determine the fair value of stock options on the date of grant, and we apply judgment in estimating key assumptions that are important elements in the model such as the expected stock-price volatility, expected stock option life and expected forfeiture ratios. Our estimates of these important assumptions are based on historical data and judgment regarding market trends and factors. If actual results are not consistent with our assumptions and judgments used in estimating these factors, we may be required to record additional share-based compensation expense, which could be material to our results of operations.

Revenue Recognition

Our revenue is recognized when product has been shipped and title to the product has transferred to the customer. Title to the product may transfer to the customer when shipped to or received by the customer based on the specific purchase terms of the agreement. We evaluate the provision for estimated returns monthly, based on historical sales and returns. To date we have not experienced significant returns. Any increase in the level of returns could have a material and adverse effect on our financial statements.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision. We evaluate the collectability of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligation to us, we record a specific reserve for bad debts against amounts due. A provision is also made based on the aging of the receivables. If circumstances change, such as the incurrence of higher than expected defaults or an unexpected material adverse change occurs regarding a major customer's ability to meet its financial obligations to us, our estimates of the recoverability of amounts due to us could be reduced by a material amount.

Inventory Valuation

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. At each balance sheet date, inventory on hand in excess of one year's demand or usage or those that were produced more than twelve months ago, are fully reserved for a net carrying value of zero. If actual future demand or market conditions are less favorable than those projected by management, additional write-downs may be required.

Valuation of Long-lived Assets

We assess the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

significant under-performance relative to expected historical or projected future operating results;

significant changes in the manner of our use of the asset;

significant negative industry or economic trends; and

our market capitalization relative to net book value.

Upon the existence of one or more of the above indicators of impairment, we test such assets for a potential impairment. The carrying value of a long-lived asset is considered impaired when the estimated future cash flows, undiscounted, are less than the asset's carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Deferred Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes and tax bases of assets and liabilities in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

will be recovered from future taxable income, and, to the extent we believe that recovery is more unlikely than likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. Any change in the future recoverability of the deferred tax assets could significantly affect the results of our operations or cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Gains or losses on disposals are reflected in current operations. Major expenditures for betterments and renewals are capitalized. All ordinary repairs and maintenance costs are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives. The useful lives of property, plant and equipment adopted for depreciation purposes are as follows:

Buildings	10 years
Plant, machinery and equipment	5-10 years
Molds	3-5 years
Leasehold improvements, furniture, fixtures and motor vehicles	5-10 years

Item 3. *Quantitative and Qualitative Disclosures about Market Risk**Currency Exchange Rate Fluctuations*

Our sales are denominated primarily in US dollars while our cost of goods sold are generally incurred in US dollars, Hong Kong dollars and Renminbi, and our operating expenses are generally denominated in Renminbi, Hong Kong dollars, Singapore dollars, New Taiwanese dollars and US dollars. In addition, a substantial portion of our capital expenditures, primarily for the purchase of equipment, has been and is expected to continue to be denominated in US dollars, Renminbi, Japanese Yen and the Euro. Consequently, a portion of our costs and operating margins may be affected by fluctuations in exchange rates, primarily between the US dollar and other currencies. Our results of operations and financial condition could be adversely affected by fluctuations in currency exchange rates or the imposition of new or additional currency controls in the jurisdictions in which we operate. At December 31, 2007 and 2006, we had no outstanding foreign exchange contracts.

As the Hong Kong dollar is officially pegged to the US dollar and the Renminbi is controlled by the PRC government such that it trades within a limited range against the US dollar, if there are significant changes in the policies of the Hong Kong or the PRC government, fluctuations in the exchange rates of the Hong Kong dollar or the Renminbi may have a significant impact on our results of operations. Should the PRC government allow the Renminbi to have a wider trading range, resulting in a significant appreciation of the Renminbi against the US dollar, our production costs will increase and our operating margins will erode.

We had expenses in Renminbi of approximately \$3.5 million for the quarter ended December 31, 2007. If the exchange rate of US dollars were to increase by 5% against Renminbi, we would see an increase in expenses of approximately \$0.2 million per quarter. In addition, we had approximately \$16.9 million of cash and cash equivalents as of December 31, 2007, of which approximately \$1.2 million was denominated in Renminbi. If the exchange rate of US dollars were to increase by 5% against Renminbi, we would potentially suffer loss by approximately \$0.06 million in the account reflection.

We do not anticipate significant material risk from fluctuations in the exchange rate of the US dollar with regards to the Japanese Yen, the Hong Kong dollar, the Euro, the Singapore dollar and the New Taiwanese dollar.

Item 4T. Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.** We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

At the end of fiscal 2008, Section 404 of the Sarbanes-Oxley Act will require our management to provide an assessment of the effectiveness of our internal control over financial reporting, and our independent registered public accountants will be required to audit management's assessment at the end of fiscal 2009. We are in the process of performing the system and process documentation, evaluation and testing required for management to make this assessment and for our independent registered public accountants to provide their attestation report. We have not completed this process or assessment, and this process will require significant amounts of management time and resources. In the course of evaluation and testing, management may identify deficiencies that will need to be addressed and remediated.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

(b) **Changes in internal control over financial reporting.** There was no significant change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management's evaluation during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. *Legal Proceedings*

See Note 9, Commitments and Contingencies, of our unaudited condensed consolidated financial statements contained in Part I of this Quarterly Report.

Item 1A. *Risk Factors*

In addition to the other information in this Quarterly Report, the following factors should be considered carefully in evaluating our business and prospects:

Our operating results are difficult to predict and are likely to fluctuate significantly based on several factors, which can cause our stock price to decline.

Our operating results are affected by a wide variety of factors that could materially affect net sales and profitability or lead to significant fluctuations in our quarterly or annual operating results. These factors include, among others:

the price of raw materials, the majority of which are petroleum derivatives. Prices of these raw materials are significantly affected by oil prices, which are volatile;

factors relating to conditions in the semiconductor, disk drive and electronic industries including:

lower demand for products;

increased price competition;

downturns and deterioration of business conditions;

technological changes and the introduction of new products; and

changes in production processes in the semiconductor and electronic industries which could require changes in packaging products;

although we do not believe that it is our liability, the need for us to pay, and the amounts that we have previously paid and might in the future again pay, on a voluntary basis for certain tax, social insurance contributions and potential penalties on behalf of the unaffiliated PRC company that operates our main production facilities in Shenzhen, the PRC, which we refer to as the Factory, in

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

order to avoid the seizure of the Factory's assets and keep it operational, as well as claims resulting from employee lawsuits against the Factory;

our capital requirements and the availability of funding;

our expansion plan and possible disruptions caused by the installation of new equipment or the construction of new facilities;

difficulties in recycling trays manufactured using our proprietary plastic compounds;

the lack of long-term purchase or supply agreements with customers;

the loss of key personnel or the shortage of available skilled employees;

international political or economic events or developments, including those relating to Hong Kong and the PRC;

our relationship with our processing partner in the PRC and the ability of the government of the PRC to seize the assets and shut down the Factory;

production volume fluctuations and the management of our inventories;

Currency fluctuations and foreign exchange rules and regulations in the PRC;

the recurrence of SARS or other major health issues in Asia;

the outcome of our patent litigation in Taiwan; and

the imposition of fines, penalties and bonds arising from violations of rules and regulations in the PRC relating to customs regulations, foreign currency exchange rules, taxation, the withholding of taxes for employees and other laws and regulations. Unfavorable changes in the above or other factors could substantially harm our results of operations or financial condition. We believe that period to period comparisons of our results of operations will not necessarily be meaningful. You should not rely on these comparisons as an indication of our future performance. If our results of operations in one or more periods fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock may decline, possibly by a significant amount.

We depend on the health of the semiconductor, disk drive, wafer fab and electronic industries which are highly cyclical and the decline in demand for products in these industries could severely affect our net sales and financial results.

Our net sales depend on increased demand for our products from manufacturers of semiconductor, disk drive, wafer fab and electronic components. Any deterioration of business conditions in the semiconductor industry, including lower demand for semiconductor products, decreased unit volume of semiconductor products shipped, other factors resulting in decreased demand for packaging products, or increased price competition in the semiconductor industry could result in increased price pressure on suppliers to the semiconductor industry, and could have a material adverse effect on our results of operations and financial condition. The industries we serve are characterized by rapid technological change leading to more complex products, evolving industry standards, intense competition and fluctuations in demand. From time to time, demand for electronic systems, which generally include both semiconductors and electronic components, has suffered significant downturns, which in some cases have been prolonged. For example, during 2002 and 2003, demand for our products decreased as the overall economy and the electronic industry experienced a general downturn in business. These downturns have been characterized by diminished product demand, product over-capacity and accelerated erosion of average selling prices. Any future downturn in the semiconductor, disk drive, wafer fab or electronic industries may substantially harm our results of operations or financial condition.

Our customer base is concentrated and the loss of one or more of our key customers would harm our business.

Our top 10 customers together accounted for 67.4%, 69.7% and 67.8% of our net sales in fiscal 2007, fiscal 2006 and fiscal 2005, respectively. For the third quarter of fiscal 2008, our top 10 customers together accounted for 65.5% of our net sales. We do not have long-term contracts with any of our customers. Our ability to maintain close, mutually beneficial relationships with our leading customers is important to the ongoing growth and profitability of our business. Although our sales to specific customers have varied from year to year, our results of operations have been dependent on a number of significant customers and the conditions of their respective industries. Substantially all of our customers operate in the global semiconductor, disk drive, wafer fab and electronic industries which historically have been highly cyclical. Other events such as consolidation within the semiconductor industry could also materially impact our sales. For example, the merger in the first quarter of fiscal 2007 of Seagate Technology and Maxtor Corporation, two of our historically larger customers, and the subsequent rationalization of their inventory had a substantial impact on our results of operation. As a result of the concentration of our customer base, the loss or cancellation of business from, or significant changes in scheduled deliveries or decreases in the prices of products or services provided to, any of these customers could materially and adversely affect our

results of operations and financial condition. Our sales are made pursuant to purchase orders, and therefore, we generally have no agreements with or commitments from our customers for the purchase of products. Although customers typically provide us with one or two month forecasts of their requirements, these forecasts are not binding. Our customers may not maintain or increase their sales volumes or orders for our products and we may be unable to maintain or add to our existing customer base.

Our operations are concentrated in the People's Republic of China and we are subject to the risks associated with international operations, which may negatively affect our business.

As of December 31, 2007, substantially all of our fixed assets and inventories were located in Shenzhen, the PRC. Our main production facilities are located in Shenzhen, the PRC and are operated pursuant to a processing agreement with an unaffiliated PRC company, which we refer to as the Factory, that obligates it to provide all of the personnel for the operation of our facilities and to render assistance in dealing with matters relating to the import of raw materials and the export of our products. We are dependent on continued good relations with our processing partner in order to supervise the operation of the Factory and its employees. The Factory is located on land leased from the PRC government by one of our wholly-owned subsidiaries under land use certificates and agreements with a remaining term of approximately 35 years. Our assets and facilities located in the PRC and the PRC company's operation of the Factory are subject to the laws and regulations of the PRC and our results of operations in the PRC are subject to the economic and political situation in the PRC. In addition, during the third fiscal quarter of 2005, we discovered discrepancies, which were at the Factory and not at Peak, in the computation and withholding of both taxes and social insurance contributions for workers at the Factory. Upon discovery of these discrepancies, we conducted an internal review of the Factory's practices and we concluded that the Factory had a duty to correct certain of these discrepancies. While we believe we were not contractually obligated under the terms of our agreement with our processing partner to pay these amounts, we elected to voluntarily make such payment in order to avoid the seizure of the Factory's assets and keep it operational. Additional voluntary payments made by us on behalf of the Factory to the PRC tax authorities could diminish a significant portion of our current cash reserves and materially harm our operating results and business.

The operations of our production facilities in Shenzhen, the PRC may be harmed by changes in the laws and regulations of the PRC or the interpretation thereof, such as those relating to taxation, import and export tariffs, environmental regulations, land use rights, property, foreign currency exchange, labor regulations and other matters. Prior to September 2002, we exported all the products manufactured at our production facilities in Shenzhen, the PRC. Accordingly, we were not subject to certain PRC taxes and are exempt from customs duties on imported raw materials and exported products. During the fourth quarter of fiscal 2003, we finished the procedure of setting up a wholly-owned subsidiary in the PRC and hence a small portion of our products was sold locally in the PRC. This PRC subsidiary is subject to PRC taxes and customs duties on materials imported for such PRC sales. This PRC subsidiary ceased manufacturing operations in fiscal 2005.

According to customs rules in the PRC, we may be subject to classification by the PRC customs authorities in a manner that would require us to supply a substantial bond against customs duties that we would have to pay if we were importing material for ultimate sale in the PRC. We may also be subject to significantly higher administrative importation costs generally. These measures could harm our ability to manufacture products at a competitive price and our results of operations could suffer. In addition, if we are required to post a bond in connection with our exemption status from PRC duties on imported raw materials for export sales and exported products, we will experience a substantial drain of our current cash reserves. We may not be able to provide the required bond at a commercially feasible cost, or at all.

We may become subject to PRC taxes and may be required to pay customs duties in the future even under the contract processing agreement. If we are required to pay PRC taxes or customs duties, our results of operations could suffer. We believe that our operations in Shenzhen, the PRC are now in compliance with the applicable PRC legal and regulatory requirements for custom duties. However, the central or local governments of the PRC may impose new regulations or interpretations of existing laws, rules and regulations which could require additional expenditures or preclude the production of products in the PRC by Peak or our processing partner.

The economy of the PRC differs from the economies of many countries in many respects such as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, self-sufficiency, rate of inflation and balance of payments position, among others. In the past, the economy of the PRC has been primarily a planned economy subject to state plans. Since the entry of the PRC into the World Trade Organization in 2002, the PRC government has been reforming its economic and political systems. These reforms have resulted in significant economic growth and social change. We cannot assure, however, that the PRC government's policies for economic reforms will be consistent or effective. Our results of operations and financial position may be harmed by changes in the PRC's political, economic or social conditions.

We, and the Factory at which our products are manufactured, have in the past and may in the future be the subject of investigations by PRC government authorities, which can divert management's attention, lead to fines and penalties, increase our costs and harm our operating results.

We and the Factory have in the past and may in the future be the subject of investigations by PRC government authorities. Such investigations are expensive and time-consuming and could divert management's attention away from running our business. In addition, as a result of such investigations we, or the Factory, may be subject to taxes, fines or penalties, which would increase our costs and harm our operating results. In the event the Factory is unable to pay any fines or penalties assessed against it by PRC authorities, we may voluntarily pay such amounts to avoid the seizure of our assets and the closure of the Factory. For example, in April 2005, the PRC tax authorities began an investigation into the withholding and payment of income taxes by the Factory in Shenzhen for certain current and former employees of Peak, our affiliates or other companies who performed services at the Factory but had not paid income taxes in the PRC and for whom the Factory did not withhold and pay income taxes. The PRC tax authorities sought to collect unpaid income taxes on salaries and expense allowances of certain current and former employees of Peak, our affiliates or other companies who performed services in the PRC based on such worker's relationship with the Factory, and interest and penalties on such amounts. Since some of these claims were based on income earned over several years, the amount of such taxes, accrued interest and penalties was substantial. We do not believe that we were liable for such claims, but in the event the PRC tax authorities determine payments for back taxes, interest and penalties are owed, the potential consequences could have included substantial monetary claims against the Factory or the seizure of the Factory and our assets at the Factory and the termination of substantially all of our production operations. As the PRC authorities did assert claims for such taxes against the Factory, we did make payments in fiscal 2006 on a voluntary basis in order to avoid the seizure of the Factory or our assets at the Factory and keep it operational. Additional voluntary payments by us on behalf of the Factory to the PRC tax authorities could diminish a significant portion of our current cash reserves and materially harm our operating results and business. Upon final settlement of this PRC tax investigation there were no interest or penalty assessments on the above unpaid income taxes associated with the Factory. However, we and the Factory may in the future be subject to further investigations by the PRC authorities, including tax authorities, for similar or other claims, including claims for other unpaid taxes, which we may pay whether or not we are contractually required to do so in order to avoid seizure of the Factory or some or all of its or our assets.

Failure to successfully defend against intellectual property lawsuits brought against us may adversely affect our business.

As technology is an integral part of our design and product, we have, in the past, received communications alleging that our products infringe or misappropriate certain intellectual property rights held by others, and may continue to receive such communications in the future. We are currently involved in an intellectual property dispute in Taiwan with R.H. Murphy Co., Inc. If any third party were to make valid intellectual property infringement or misappropriation claims against us, we may be required to:

discontinue using disputed manufacturing process technologies;

stop selling products that contain allegedly infringing technology;

pay substantial monetary damages;

seek to develop non-infringing technologies, which may not be feasible; or

seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all.

If our products are found to infringe or misappropriate third-party intellectual property rights, we may be subject to significant liabilities and be required to change our manufacturing processes or products. This could restrict us from making, using, selling or exporting some of our products, which could in turn materially and adversely affect our business and financial condition. Our failure to develop non-infringing technologies or license intellectual property rights in a timely and cost-effective manner could materially and adversely affect our business and financial condition. In addition, any litigation, whether to enforce our patents or other intellectual property rights or to defend ourselves against claims that we have infringed the intellectual property rights of others, could, regardless of the ultimate outcome, materially and adversely affect our operating results by requiring us to incur significant legal expenses and diverting the resources of the company and the attention of management.

The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business.

We rely heavily on the services of our key employees such as (i) Dean Personne, our President and Chief Executive Officer, (ii) John Supan, our Chief Financial Officer, (iii) Splendid Zuo, our Vice President and China Country Manager, (iv) Mary Chow, our Vice President of Supply Chain Management, (v) Jerry Herrera, our Vice President of Engineering and Quality, and (vi) Wayne Moore and James Steger, our Vice Presidents of Sales. We believe our future success will depend upon our ability to retain these and other key employees and our ability to attract and retain other skilled managerial, engineering, technical and sales and marketing personnel. The competition for such personnel, particularly management and technical personnel, is intense in our industry. Despite the incentives we provide, our current employees may not continue to work for us, and if additional personnel were required for our operations, we may not be able to obtain the services of additional personnel necessary for our growth. For instance, the departure of two of our sales executives in fiscal 2007 adversely affected our sales performance. The loss of any of our key employees or our inability to attract or retain qualified personnel, including engineers, could delay the development and introduction of and have an adverse effect on our ability to sell our products as well as our overall growth.

We may engage in future mergers and/or acquisitions and we may be unable to successfully integrate these companies into our operations, which would adversely affect our business.

As part of our growth and diversification strategy, we may engage in mergers and/or acquisitions of companies and/or businesses. Our industry is very competitive, and we believe that mergers and acquisitions of companies and businesses will allow us to compete more effectively. The success of a merger or acquisition would depend on a number of factors, including:

our ability to identify suitable opportunities for merger or acquisition;

our ability to reach a merger or acquisition agreement on terms that are satisfactory to us or at all;

our ability to successfully integrate the merged or acquired company or business; and

the economic, business or other strategic objectives and goals of the merged or acquired company.

If we are unsuccessful in our mergers or acquisitions, we may not be able to implement fully our business strategy to maintain, diversify or grow our business.

We have in the past and may in the future, be party to legal proceedings that could have a negative financial impact on us.

We have in the past been involved in litigation relating to securities and employment law, and are currently involved in litigation in Taiwan related to intellectual property, and in tax and labor disputes in the PRC. While these lawsuits and disputes vary greatly in the materiality of potential liability associated with them, the uncertainty associated with substantial unresolved litigation could seriously harm our business, financial condition and reputation, whether material individually or in the aggregate. In particular, this uncertainty could harm our relationships with existing customers, our ability to obtain new customers and our ability to operate our business.

Litigation and the resolution of disputes also could result in the diversion of our management's time and attention away from business operations, which could harm our business. Negative developments with respect to the litigation could cause the price of our common stock to decline significantly. In addition, we are unable to determine the amount, if any, that we may be required to pay if such litigation is not resolved in a favorable manner. For more information about the litigation, please see Note 9 "Commitments and Contingencies" of our unaudited condensed consolidated financial statements contained in Part I of this Quarterly Report

A significant portion of our business is conducted in the Asia Pacific region. This concentration could expose us to risks inherent to doing business in the Asia Pacific region that could harm our business.

A significant portion of our net sales are derived from sales to customers in the PRC, Hong Kong, Singapore, Taiwan, the Philippines and other countries in East and Southeast Asia, or the Asia Pacific region. Accordingly, our financial condition and results of operations and the market price of shares of our common stock may be affected by:

economic and political instability;

Changes in regulatory requirements, tariffs, customs, duties and other trade barriers;

transportation delays;

fluctuations in currency exchange rates;

Currency convertibility and repatriation;

Taxation of our earnings and the earnings of our personnel;

the recurrence of SARS and other major health issues;

amounts we may pay, whether or not we are contractually required to do so, in the PRC on behalf of the Factory in Shenzhen for personal income taxes, interest and penalties that may be imposed by PRC tax authorities on the income of foreign workers who performed services in the Factory;

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

amounts we may pay, whether or not we are contractually required to do so, on behalf of the Factory as a result of employees litigation against the Factory; and

other risks relating to changes, administration or new interpretations of laws, regulations and policies in the jurisdictions in which we conduct our business.

None of these factors are within our control. In fiscal 1999, many countries in the Asia Pacific region experienced considerable currency volatility and depreciation, high interest rates, stock market volatility and declining asset values, which contributed to net foreign capital outflows, an increase in the number of insolvencies, a decline in business and consumer spending and a decrease in economic growth as compared with prior years.

Consumer demand for products that use semiconductors, disk drives, wafer fabs and electronic components generally rises as the overall level of economic activity increases and falls as such activity decreases. In addition, currency devaluations in the Asia Pacific region could result in accelerated price erosion of semiconductor and electronic products as products manufactured in countries whose currencies have devalued significantly against the US dollar become less expensive in US dollar terms. Any adverse effect on the global semiconductor, disk drive and electronic industries as a result of lower demand for products in the Asia Pacific region or accelerated product price erosion arising from currency devaluations in the Asia Pacific region could harm our financial condition or results of operations.

We are incorporated under the laws of Bermuda and there may be potential difficulties in protecting our shareholders' rights.

We are incorporated under the laws of Bermuda and our corporate affairs are governed by our Memorandum of Association and Bye-laws and by the laws governing corporations incorporated in Bermuda.

The rights of our shareholders and the responsibilities of members of our Board of Directors under Bermuda law are different from those applicable to a corporation incorporated in the United States and, therefore, our shareholders may have more difficulty protecting their interests in connection with actions by our management, members of our Board of Directors or our principal shareholder than they would as shareholders of a corporation incorporated in the United States.

Our stock price has been and will likely continue to be volatile. A decline in our stock price could result in securities class action litigation against us, which could divert management's attention and harm our business.

Our stock price has been and is likely to continue to be highly volatile. Our stock price could fluctuate significantly due to a number of factors, including:

variations in our actual or anticipated operating results;

sales of substantial amounts of our stock;

announcements about us or about our competitors, including technological innovation or new products or services;

litigation and other developments relating to patents or other proprietary rights or those of our competitors;

conditions in the semiconductor, disk drive, wafer fab and electronic industries;

governmental regulation and legislation;

international political or economic events or developments, including those relating to Hong Kong and the PRC;

Edgar Filing: PEAK INTERNATIONAL LTD - Form 10-Q

the recurrence of SARS and other major health issues;

amounts we may pay, whether or not we are contractually required to do so, in the PRC for personal income taxes, interest and penalties that may be imposed by PRC tax authorities on the income of foreign workers who performed services in the Factory;

amounts we may pay, whether or not we are contractually required to do so, on behalf of the Factory as a result of employees litigation against the Factory; and

changes in securities analysts' estimates of our performance, or our failure to meet analysts' expectations.

Many of these factors are beyond our control. In addition, the stock markets in general, and the NASDAQ Global Market in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. In the past, companies that have experienced volatility in the market prices of their stock have been the object of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

If we fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. Pursuant to the Sarbanes-Oxley Act of 2002, we will be required to furnish a report by management on our internal control over financial reporting, including management's assessment of the effectiveness of such control, for fiscal 2008. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement and we have devoted, and will in the future devote, resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls, we are continuing to work to improve our internal controls. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option grants, have recently been revised or are under review. The Financial Accounting Standards Board and other agencies have finalized changes to U.S. generally accepted accounting principles that require us, starting in our fiscal year 2007, to record a charge to earnings for employee stock option grants and other equity incentives. We have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that reduce our overall net income. For more information, please see Note 4 entitled "Non-cash Share-based Compensation". In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change makes the use of equity-related compensation less attractive to us, and therefore could make it more difficult to attract and retain employees.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

10.22* Employment Agreement, dated September 20, 2007, by and between Peak International Limited and Jerry Ang Herrera

10.23* Employment Agreement, dated January 1, 2008, by and between Peak International, Inc. and Wayne Moore

10.24* Employment Agreement, dated August 9, 2005, by and between Peak Plastics and Metal Products (International) Limited and Splendid Zuo Yi, with amendments

10.25* Employment Agreement, dated April 24, 2006, by and between Peak International Limited and Mary Chow, with amendments

10.26* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Dean Personne and Wykowski and Associates

10.27* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, John Supan and Wykowski and Associates

10.28* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Chris Buckley and Wykowski and Associates

10.29* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Splendid Zuo and Wykowski and Associates

- 10.30* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Mary Chow and Wykowski and Associates
- 31.1 Rule 13a-14(a) Certification by the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification by the Chief Financial Officer
- 32.1 Section 1350 Certification by the Chief Executive Officer
- 32.2 Section 1350 Certification by the Chief Financial Officer

* Indicates management contract or compensatory plan or arrangement.

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.

PEAK INTERNATIONAL LIMITED

Date: February 12, 2008

By

/s/ Dean Personne
Dean Personne
President and Chief Executive Officer

Date: February 12, 2008

By

/s/ John Supan
John Supan
Chief Financial Officer

EXHIBIT INDEX

Exhibit

Number Description of Document

- 10.22* Employment Agreement, dated September 20, 2007, by and between Peak International Limited and Jerry Ang Herrera
- 10.23* Employment Agreement, dated January 1, 2008, by and between Peak International, Inc. and Wayne Moore
- 10.24* Employment Agreement, dated August 9, 2005, by and between Peak Plastics and Metal Products (International) Limited and Splendid Zuo Yi, with amendments
- 10.25* Employment Agreement, dated April 24, 2006, by and between Peak International Limited and Mary Chow, with amendments
- 10.26* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Dean Personne and Wykowski and Associates
- 10.27* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, John Supan and Wykowski and Associates
- 10.28* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Chris Buckley and Wykowski and Associates
- 10.29* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Splendid Zuo and Wykowski and Associates
- 10.30* Escrow Agreement, dated April 16, 2007, by and between Peak International Limited, Mary Chow and Wykowski and Associates
- 31.1 Rule 13a-14(a) Certification by the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification by the Chief Financial Officer
- 32.1 Section 1350 Certification by the Chief Executive Officer
- 32.2 Section 1350 Certification by the Chief Financial Officer

* Indicates management contract or compensatory plan or arrangement.