NU HORIZONS ELECTRONICS CORP
Form 10-Q
January 12, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT
Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended	Commission file number
November 30, 2000	1-8798

Nu Horizons Electronics Corp.

(Exact name of registrant as specified in its charter)

Delaware	11-2621097
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
70 Maxess Road, Melville, New York	11747
(Address of principal executive offices)	(Zip Code)

(631) 396-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
-

Indicated the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Class	Outstanding Shares
Common Stock Par Value $ .0066	16,479,565

NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

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PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

-ASSETS-

	NOVEMBER 30, 2000 (unaudited)	FEBRUARY 29, 2000
CURRENT ASSETS:		
Cash	$2,544,354	$1,496,80

Accounts receivable-net of allowance for doubtful accounts of $5,537,745 and $3,447,072 for November 30, 2000 and February 29, 2000, respectively	107,775,088	64,709,03
Inventories	125,745,951	69,544,39
Prepaid expenses and other current assets	1,471,212	1,817,71
TOTAL CURRENT ASSETS	237,536,605	137,567,95
PROPERTY, PLANT AND EQUIPMENT- NET (Note 2)	9,182,211	7,319,13
OTHER ASSETS		
Cost in excess of net assets acquired-net	1,320,791	1,438,48
Other assets	1,360,994	1,211,56
	$249,400,601	$147,537,14
-LIABILITIES AND SHAREHOLDERS' EQUITY-		
CURRENT LIABILITIES:		
Accounts payable	$37,992,557	$20,558,05
Accrued expenses	8,527,886	9,337,94
Income taxes payable	1,694,168	3,623,24
TOTAL CURRENT LIABILITIES	48,214,611	33,519,24
LONG TERM LIABILITIES:		
Deferred income taxes	1,605,660	507,31
Revolving credit line (Note 3)	87,450,000	37,800,00
	89,055,660	38,307,31
MINORITY INTEREST (NOTE 5)	780,362	249,39
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value, 1,000,000 shares authorized; none issued or outstanding	-	
Common Stock, $.0066 par value, 50,000,000 shares authorized; 16,479,565 and 15,027,978 shares issued and outstanding for November 30, 2000 and February 29, 2000	108,765	99,18
Additional paid-in capital	36,644,182	29,422,67
Retained earnings	74,840,981	46,438,63
	111,593,928	75,960,49
Less: loan to ESOP	243,960	499,31
	111,349,968	75,461,18
	$249,400,601	$147,537,14

See notes to interim consolidated condensed financial statements

NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(unaudited)

FOR THE NINE MONTHS ENDED FOR THE T

	NOVEMBER 30, 2000	NOVEMBER 30, 1999	NOVEMBER 30, 2000
NET SALES	$517,176,759	$263,835,664	$190,492,2
COSTS AND EXPENSES:			
Cost of sales	404,869,753	209,993,293	149,410,8
Operating expenses	59,418,619	39,705,032	20,175,2
Interest expense	3,429,739	1,958,645	1,538,9
	467,718,111	251,656,970	171,124,9
INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST	49,458,648	12,178,694	19,367,2
Provision for income taxes	20,525,339	4,843,081	8,037,4
INCOME BEFORE MINORITY INTERESTS	28,933,309	7,335,613	11,329,8
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	530,964	222,569	283,9
NET INCOME	$ 28,402,345	$ 7,113,044	$ 11,045,8
NET INCOME PER SHARE (Note 4):			
Basic	$ 1.72	$ .54	$.
Fully diluted	$ 1.54	$ .42	$.

See notes to interim consolidated condensed financial statements

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NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	FOR THE NINE MONTHS ENDED	
	NOVEMBER 30, 2000	NOVEMBER 30, 1999
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Cash received from customers	$ 471,931,413	$ 247,484,523
Cash paid to suppliers and employees	(495,643,033)	(259,725,660)
Interest paid	(3,429,739)	(1,958,645)
Income taxes paid	(25,593,577)	(3,586,218)

Net cash (used in) operating activities	(52,734,936)	(17,786,000)
Cash flows from investing activities:		
Capital expenditures	(3,098,599)	(781,663)
Net cash (used in) investing activities	(3,098,599)	(781,663)
Cash flows from financing activities:		
Borrowings under revolving credit line	158,495,000	89,505,000
Repayments under revolving credit line	(108,845,000)	(65,905,000)
Proceeds from stock options	7,231,084	7,475
Net cash provided by financing activities	56,881,084	23,607,475
Net increase in cash and cash equivalents	1,047,549	5,039,812
Cash and cash equivalents, beginning of year	1,496,805	504,320
Cash and cash equivalents, end of period	$ 2,544,354	$ 5,544,132

See notes to interim consolidated condensed financial statements

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NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	FOR THE NINE MONTHS ENDED	
	NOVEMBER 30, 2000	NOVEMBER 30, 1999
RECONCILIATION OF NET INCOME TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Net income	$ 28,402,345	$ 7,113,044
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	1,353,219	1,136,487
Contribution to ESOP	255,356	255,348
Bad debt provision	2,179,295	774,838
Changes in assets and liabilities:		
(Increase) in accounts receivable	(45,245,346)	(16,351,141)
(Increase) in inventories	(56,201,555)	(20,264,002)
Decrease in prepaid expenses and other current assets	346,506	1,726,867
(Increase) in other assets	(149,427)	(51,804)
Increase in accounts payable and accrued expenses	16,624,446	7,121,849
(Decrease) increase in income taxes	(1,929,080)	312,170
Increase in deferred income taxes	1,098,341	217,775
Increase in minority interest	530,964	222,569

Total Adjustments	(81,137,281)	(24,899,044)
Net cash (used in) operating activities	$(52,734,936)	$(17,786,000)

See notes to interim consolidated condensed financial statements

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NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited interim consolidated condensed financial statements of Nu Horizons Electronics Corp. (the "Company"), its wholly owned subsidiaries (NIC Components Corp., Nu Horizons International Corp, Nu Horizons Eurotech Limited and Titan Logistics Corp.) and NIC Components Asia PTE. LTD. of which the company owns 70%, NIC Eurotech Limited of which the company owns 80% and Nu Visions Manufacturing, Inc of which the company owns 95%, contain all adjustments necessary to present fairly the Company's financial position at November 30, 2000 and February 29, 2000 and the results of its operations for the nine and three month periods ended November 30, 2000 and 1999 and cash flows for the nine month periods ended November 30, 2000 and 1999.

The accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended February 29, 2000, which is incorporated herein by reference. Specific reference is made to this report for a description of the Company's securities and the notes to consolidated financial statements included therein.

The results of operations for the nine and three month periods ended November 30, 2000 are not necessarily indicative of the results to be expected for the full year.

2. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consists of the following:

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
Furniture, fixtures and office equipment	$10,879,282	$ 8,802,458
Computer equipment	5,116,337	4,088,302
Assets held under capitalized leases	919,834	919,834
Leasehold improvements	1,394,161	1,394,161
	18,309,614	15,204,755
Less: accumulated depreciation and amortization	9,127,403	7,885,617
	$ 9,182,211	$ 7,319,138

3. BANK LINE OF CREDIT

On October 18, 2000 the Company entered into a new four-year unsecured revolving line of credit with six banks, which currently provides for maximum borrowings of $120,000,000 at either (i) the lead bank's prime rate or (ii) LIBOR plus 87.5 to 147.5 basis points depending on the ratio of the Company's debt to its earnings before interest, taxes, depreciation and amortization, at the option of the Company through October 18, 2004.

NU HORIZONS ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. NET INCOME PER SHARE:

Basic and diluted earnings per share have been computed in accordance with SFAS No. 128.

On September 11, 2000, the Company's Board of Directors declared a three-for-two stock split of the common stock, to be distributed on October 23, 2000 to all holders of record at the close of business on October 2, 2000. As a result of the stock split, 5,433,847 shares were distributed. All share and per share data for all periods presented have been restated to reflect this stock split.

The following average shares were used in the computation of primary and fully diluted earnings per share:

	Nine Months Ended November 30,		Three Months Ended November 30,	
	2000	1999	2000	1999
Basic	16,479,565	13,302,853	16,479,565	13,349,220
Diluted	18,436,454	17,337,472	18,436,454	17,535,289

A detailed computation of earnings per common share appears in Exhibit 11 to this Form 10-Q.

5. MINORITY INTERESTS IN SUBSIDIARIES

Represents the liability related to the 30% minority interest in NIC Components Asia PTE.LTD., the 20% minority interest in NIC Eurotech Limited and the 5% minority interest in Nu Visions Manufacturing, Inc.

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

Introduction:

Nu Horizons Electronics Corp. (the "Company") and its wholly-owned subsidiaries, NIC Components Corp. ("NIC"), Nu Horizons International Corp. ("International"), Nu Horizons Eurotech Limited, and Titan Logistics Corp., and its majority owned subsidiaries NIC Components Asia PTE. LTD. and NIC Eurotech Limited are engaged

in the distribution of high technology active and passive electronic components to a wide variety of original equipment manufacturers ("OEMs") of electronic products. Active components distributed by the Company include semiconductor products such as memory chips, microprocessors, digital and linear circuits, microwave/RF and fiberoptic components, transistors and diodes. Passive components distributed by NIC, principally to OEMs and other distributors nationally, consists of a high technology line of chip and leaded components including capacitors, resistors and related networks.

Nu Visions Manufacturing, Inc. ("NUV"), a majority owned subsidiary of the Company, located in Springfield, Massachusetts, is a contract assembler of circuit boards and related electromechanical devices for various OEMs.

The financial information presented herein includes: (i) Consolidated Condensed Balance Sheets as of November 30, 2000 and February 29, 2000; (ii) Consolidated Condensed Statements of Income for the nine and three month periods ended November 30, 2000 and 1999 and (iii) Consolidated Condensed Statements of Cash Flows for the nine month periods ended November 30, 2000 and 1999.

Results of Operations:

Sales for the nine-month period ended November 30, 2000 were $517,176,759 as compared to $263,835,664 for the comparable period of the prior year, an increase of approximately $253,341,000 or 96%. Sales for the three-month period ended November 30, 2000 were $190,492,283 as compared to $100,822,657 for the comparable period of the prior year, an increase of approximately $89,670,000 or 89%. Management attributes this increase in sales entirely to the core semiconductor distribution business which experienced substantially increased unit sales. Management believes that the ability to generate greater market penetration to a larger account base coupled with an increased focus on fewer product lines, has contributed to the substantial increase in sales performance for both the three month and nine month year to year periods. While the Company believes it can continue to successfully implement this approach, no assurances can be given in this regard.

The gross profit margins for the three and nine months ended November 30, 2000 were approximately 21.6% and 21.7% respectively as compared to 20.7% and 20.4% respectively for the comparable periods of the prior year. This substantial increase in gross margin compared to the prior periods resulted from a tightened inventory availability at the supplier level coupled with continued strong customer demand. The Company expects relative margin stability at current levels for the foreseeable future, however, no assurances can be given in this regard.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

Results of Operations (Continued):

Operating expenses have increased from approximately $39,705,000 for the nine months ended November 30, 1999 to approximately $59,418,000 for the nine months ended November 30, 2000, an increase of 50% or approximately $19,713,000. For the three months ended November 30, 2000 as compared to the three months ended November 30, 1999 operating expenses increased from approximately $14,188,000 to $20,175,000 an increase of 42%, or approximately $5,987,000. The dollar increases in operating expenses were due to increases in the following expense categories: Approximately $ 15,638,000 or 79%, of the increase for the nine-month period and approximately $4,854,000 or 81%, of the increase for the three-month period, were for personnel related costs such as commissions, salaries, travel and fringe benefits. The remaining increase of approximately $4,075,000

or 21%, for the nine-month period and approximately $1,133,000 or 19%, for the three-month period were a result of increases in various other selling, general, and administrative expenses. Management is encouraged by the fact that sales volume has increased at a greater rate than operating expenses which it believes has provided the economies of scale required to produce an enhanced bottom line performance. Management believes that this trend should continue through the remainder of the fiscal year, although no assurances can be given in this regard.

Interest expense increased from approximately $1,959,000 for the nine months ended November 30, 1999 to approximately $3,430,000 for the nine months ended November 30, 2000 and from approximately $850,000 for the three-month period ended November 30, 1999 to $1,539,000 for the three-month period ended November 30, 2000. These increases were primarily due to higher average borrowing levels resulting from an increase in the Company's inventories and accounts receivable levels needed to support the substantial increased sales activities, net of a reduction in subordinated convertible note interest due to the notes being converted to equity.

	INTEREST EXPENSE			
	FOR THE NINE MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	NOVEMBER 30, 2000	NOVEMBER 30, 1999	NOVEMBER 30, 2000	NOVEMBER 30, 1999
Revolving Bank Credit	$3,429,739	$1,521,869	$1,538,902	$ 704,694
Sub. Convert. Notes	-	436,776	-	145,592
Total Interest Expense	$3,429,739	$1,958,645	$1,538,902	$ 850,286

Net income for the nine-month period ended November 30, 2000 was $28,402,345 or $1.54 per share diluted as compared to $7,113,044 or $.42 per share diluted for the nine-month period ended November 30, 1999. Net income for the three-month period ended November 30, 2000 was $11,045,899 or $.60 per share diluted as compared to $3,376,450 or $.20 per share diluted for the corresponding period of the prior year. Management attributes the increase in earnings to increased sales volume and profit margins net of higher operating expenses for the periods in 2000 as compared to 1999.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued):

Liquidity and Capital Resources:

At November 30, 2000, the Company's current ratio was 4.9:1 as compared to 4.1:1 at the fiscal year ended February 29, 2000. Working capital increased from approximately $104,000,000 as of February 29, 2000 to approximately $190,000,000 at November 30, 2000 while cash increased from February 29, 2000 to November 30, 2000 by approximately $1,047,000. The primary reasons for the increase in working capital was the increase in accounts receivable and inventories financed primarily through long term debt during the current period. This increase was required to support the increased sales activity over the nine-month period.

On October 18, 2000, the Company entered into a new four-year unsecured revolving line of credit with six banks, which , currently provides for maximum borrowings of $120,000,000 at either (i) the lead bank's prime rate or (ii)

LIBOR plus 87.5 to 147.5 basis points depending on the ratio of the Company's debt to its earnings before interest, taxes, depreciation and amortization, at the option of the Company through October 18, 2004.

The Company anticipates that the capital resources provided by its bank line of credit will be sufficient to meet its financing requirements for at least the next twelve-month period.

Inflationary Impact:

Since the inception of operations, inflation has not significantly affected the operating results of the Company. However, inflation and changing interest rates have had a significant effect on the economy in general and therefore could affect the operating results of the Company in the future.

Other:

Except for historical information contained herein, the matters set forth above are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ from those in the forward-looking statements. Potential risks and uncertainties include such factors as the level of business and consumer spending for electronic products, the amount of sales of the Company's products, the competitive environment within the electronics industry, the ability of the Company to continue to expand its operations, the level of costs incurred in connection with the Company's expansion efforts , economic conditions in the semiconductor industry and the financial strength of the Company's customers and suppliers. Investors are also directed to consider other risks and uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

ITEM 2. Legal Proceedings

There are no material legal proceedings against the Company to which any of its property is subject.

ITEM 2. Changes in Securities

None

ITEM 3. Defaults upon Senior Securities

None

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

The Registrant held a Special Meeting of Stockholders on November 9, 2000. The following proposals were adopted by the votes indicated.

(1) Certificate of Incorporation was amended to increase the number of authorized shares of the Corporation from 21,000,000 to 51,000,000

Votes For	Votes Against	Votes Withheld
7,893,255	1,577,878	53,142

(2) 2000 Key Employee Stock Option Plan was adopted

Votes For	Votes Against	Votes Withheld
7,091,241	2,361,482	71,552

(3) 2000 Outside Directors' Stock Option Plan was adopted

Votes For	Votes Against	Votes Withheld
7,083,188	2,361,993	79,094

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports:

(a) Exhibits:

10.13 Revolving Credit Agreement dated October 18, 2000 Between the Company and six banks: Mellon Bank, N.A., European American Bank, HSBC Bank USA, Fleet Bank, The Chase Manhattan Bank and The Bank of New York

10.14 Certificate of Incorporation, as amended

11. Statement re: Computation of Per Share Earnings (See also Notes to Consolidated Financial Statements - Note 4)

ITEM 6. Exhibits and Reports: (continued)

(b) Reports on Form 8-K

None

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.

Nu Horizons Electronics Corp.
Registrant

/s/ Arthur Nadata
Date: January 11, 2001 Arthur Nadata, President and Chief Executive Officer

/s/ Paul Durando
Date: January 11, 2001 Paul Durando, Vice President-Finance and Chief Financial Officer

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBIT INDEX

To

FORM 10-Q

FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2000

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

NU HORIZONS ELECTRONICS CORP.

(Exact Name of Registrant as Specified in Its Charter)

EXHIBIT NUMBER	DESCRIPTION
10.13	Revolving Credit Agreement dated October 18, 2000 between the Company and six banks: Mellon Bank, N.A., European American Bank, HSBC Bank USA, Fleet Bank The Chase Manhattan Bank and The Bank Of New York
10.14	Certificate of Incorporation as amended
11	Computation of Per Share Earnings

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