

SPECTRUM CONTROL INC
Form 10-Q
June 30, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the Period Ended May 31, 2009

Commission File Number 0-8796

Spectrum Control, Inc.

Exact name of registrant as specified in its charter

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1196447
(I.R.S. Employer

Identification Number)

8031 Avonia Road; Fairview, Pennsylvania
(Address)

16415
(Zip Code)

Registrant's telephone number, including area code: (814) 474-2207

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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 the filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 practical date.

Class	Number of Shares Outstanding
Common, no par value	as of June 15, 2009 12,573,152

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SPECTRUM CONTROL, INC. AND SUBSIDIARIES

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Table of Contents**SPECTRUM CONTROL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Dollar Amounts in Thousands)**

	May 31, 2009	November 30, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 5,112	\$ 5,397
Accounts receivable, less allowances of \$ 872 in 2009 and \$ 933 in 2008	21,830	24,043
Inventories, net	30,867	30,638
Deferred income taxes	1,684	1,684
Prepaid expenses and other current assets	2,025	2,307
Total current assets	61,518	64,069
Property, plant and equipment, net	26,127	27,250
Other assets		
Goodwill	36,811	36,811
Other noncurrent assets	6,148	6,654
Total other assets	42,959	43,465
Total assets	\$ 130,604	\$ 134,784
Liabilities and Stockholders Equity		
Current liabilities		
Short-term debt	\$ 3,000	\$ 10,000
Accounts payable	4,584	6,541
Income taxes payable	15	36
Accrued liabilities	4,267	4,415
Current portion of long-term debt	487	487
Total current liabilities	12,353	21,479
Long-term debt	465	545
Other liabilities	903	978
Deferred income taxes	8,725	8,491
Stockholders equity		
Common stock, no par value, authorized 25,000,000 shares, issued 14,250,631 shares in 2009 and 14,248,772 shares in 2008	48,048	47,830
Retained earnings	70,978	66,604
Treasury stock, 1,677,479 shares in 2009 and 2008, at cost	(11,788)	(11,788)
Accumulated other comprehensive income	920	645
Total stockholders equity	108,158	103,291

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Total liabilities and stockholders' equity	\$ 130,604	\$ 134,784
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The accompanying notes are an integral part of the financial statements.

Table of Contents**SPECTRUM CONTROL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(Amounts in Thousands, Except Per Share Data)**

	For the Three Months Ended May 31,		For the Six Months Ended May 31,	
	2009	2008	2009	2008
Net sales	\$ 33,623	\$ 32,574	\$ 66,740	\$ 63,728
Cost of products sold	24,675	24,494	49,534	48,797
Gross margin	8,948	8,080	17,206	14,931
Selling, general and administrative expense	5,464	4,671	10,331	8,882
Income from operations	3,484	3,409	6,875	6,049
Other income (expense) :				
Interest expense	(66)	(97)	(163)	(139)
Other income and expense, net	9	15	38	256
	(57)	(82)	(125)	117
Income before provision for income taxes	3,427	3,327	6,750	6,166
Provision for income taxes	1,206	1,151	2,376	2,201
Net income	\$ 2,221	\$ 2,176	\$ 4,374	\$ 3,965
Earnings per common share :				
Basic	\$ 0.18	\$ 0.16	\$ 0.35	\$ 0.30
Diluted	\$ 0.18	\$ 0.16	\$ 0.35	\$ 0.29
Average number of common shares outstanding :				
Basic	12,571	13,234	12,571	13,298
Diluted	12,679	13,358	12,636	13,500
Dividends per common share	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Table of Contents**SPECTRUM CONTROL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollar Amounts in Thousands)**

	For the Six Months Ended May 31,	
	2009	2008
Cash Flows From Operating Activities :		
Net income	\$ 4,374	\$ 3,965
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	2,539	2,219
Amortization	405	361
Deferred income taxes	234	184
Equity-based compensation	218	124
Non-cash insurance recoveries	(75)	(343)
Changes in assets and liabilities:		
Accounts receivable	2,367	2,019
Inventories	(185)	(1,102)
Prepaid expenses and other assets	394	(1,271)
Accounts payable and accrued expenses	(2,148)	(3,029)
Net cash provided by operating activities	8,123	3,127
Cash Flows From Investing Activities :		
Purchase of property, plant and equipment	(1,914)	(1,599)
Insurance proceeds related to property, plant and equipment	500	-
Net cash used in investing activities	(1,414)	(1,599)
Cash Flows From Financing Activities :		
Net proceeds (repayment) of short-term borrowings	(7,000)	5,000
Repayment of long-term debt	(80)	(80)
Net proceeds from issuance of common stock	-	514
Purchase of common stock	-	(4,098)
Net cash provided by (used in) financing activities	(7,080)	1,336
Effect of exchange rate changes on cash	86	122
Net increase (decrease) in cash and cash equivalents	(285)	2,986
Cash and cash equivalents, beginning of period	5,397	5,183
Cash and cash equivalents, end of period	\$ 5,112	\$ 8,169

The accompanying notes are an integral part of the financial statements.

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SPECTRUM CONTROL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments which are normal, recurring and necessary to present fairly the results for the interim periods. Operating results for interim periods are not necessarily indicative of the results that may be expected for the entire year.

The condensed consolidated financial statements include the accounts of Spectrum Control, Inc. and its Subsidiaries (the Company). All significant intercompany accounts are eliminated upon consolidation.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The income tax rates utilized for interim financial statement purposes for the periods ended May 31, 2009 and 2008 are based on estimates of income and other pertinent tax matters for the entire year.

The condensed consolidated balance sheet at November 30, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Spectrum Control, Inc. and Subsidiaries annual report on Form 10-K for the fiscal year ended November 30, 2008.

Note 2 Nature of Operations

The Company designs and manufactures custom electronic components and systems and has operations in the United States, Mexico, China and Germany. The Company offers a broad line of products which are included in its four reportable business segments: Advanced Specialty Products; Microwave Components and Systems; Power Management Systems; and Sensors and Controls. Although its products are used in many industries worldwide, the Company's largest markets are military/defense, communications, and medical/industrial equipment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Revenue Recognition and Product Warranties

Revenue is recognized when all significant contractual obligations have been met, the sales price is fixed and determinable, and collection of the resulting receivable is reasonably assured. Product sales are generally recorded at the time of shipment when title passes under the terms FOB shipping point or Ex Works. Payments received from customers in advance of products shipped are recorded as deferred revenue until earned. Sales of consigned inventories are recorded when the customer has taken title and assumed the risks and rewards of ownership as specified in the customer's purchase order or sales agreement. Sales to third party distributors are made under contractual agreements which allow for limited rights of return and replacement. The contractual agreements do not provide any price protection for unsold inventory held by the distributor. Service revenues are recorded when the related services are performed. Patent licensing fees are recorded when the related technology rights are transferred.

The Company's contracts and customer purchase orders do not include any customer acceptance clauses. In addition, the Company does not normally offer or grant any discounts. The Company's product warranties generally extend for one year, and are limited to the repair and replacement value of the product. The Company does not have any other post shipment obligations. Sales returns and warranty expense are recorded as incurred and were not material in any of the periods presented herein.

Note 4 Equity-Based Compensation

The Company has two stock option plans that provide for granting to officers, directors, and employees options to purchase shares of the Company's Common Stock. Under the plans, option prices are not less than the market price of the Company's Common Stock on the date of the grant. The options become exercisable at varying dates and generally expire five years from the date of grant. At May 31, 2009, options to purchase 1,312,552 shares of Common Stock were available for grant under the Company's stock option plans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company's stock option activity for the six month period ended May 31, 2009 is as follows:

		Number of Shares Under Option	Per Share		Option Price Weighted Average	Aggregate
Outstanding	November 30, 2008	1,103,734	\$ 6.31	9.30	\$ 7.48	\$ 8,254,000
Granted during the period		297,000	5.75	6.43	5.91	1,756,000
Exercised during the period		(8,000)		6.31	6.31	(50,000)
Cancellations and forfeitures		(215,000)	8.00	8.68	8.66	(1,862,000)
Outstanding	May 31, 2009	1,177,734	\$ 5.75	9.30	\$ 6.88	\$ 8,098,000
Exercisable	May 31, 2009	529,566	\$ 6.31	7.60	\$ 6.88	\$ 3,642,000

The following table summarizes significant ranges of outstanding and exercisable stock options at May 31, 2009:

Option Price Range	Number of Shares Under Option	
	Outstanding	Exercisable
Per Share \$5.75 - 6.00	225,000	