SPECTRUM CONTROL INC
Form 10-Q
April 02, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10Q

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

For the Period Ended February 28, 2007 Commission File Number 0-8796

Spectrum Control, Inc.

Exact name of registrant as specified in its charter

Pennsylvania	25-1196447
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
8031 Avonia Road; Fairview, Pennsylvania	16415
(Address)	(Zip Code)
Registrant's telephone number, including area code:	(814) 474-2207

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 X 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 12-b-2 of the Exchange Act. (Check one):
Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes___ No_X_

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 as of March 15, 2007
Common, no par value	13,330,860

SPECTRUM CONTROL, INC. AND SUBSIDIARIES

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SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(Dollar Amounts in Thousands)	February 28, 2007	November 30, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 2,888	$ 3,501
Accounts receivable, less allowances of $ 908 in 2007 and $ 851 in 2006	24,215	22,676
Insurance recovery receivable	-	1,500
Inventories	23,056	21,754
Deferred income taxes	1,253	1,253
Prepaid expenses and other current assets	1,950	1,778
Total current assets	53,362	52,462
Property, plant and equipment, net	24,170	24,236
Other assets		
Goodwill	35,760	34,508
Other noncurrent assets	7,970	8,001
Total other assets	43,730	42,509
Total assets	$ 121,262	$ 119,207
Liabilities And Stockholders' Equity		
Current liabilities		
Short-term debt	$ 8,000	$ 9,000
Accounts payable	7,362	7,227
Income taxes payable	267	71
Accrued liabilities	4,190	4,061
Current portion of long-term debt	295	295
Total current liabilities	20,114	20,654
Long-term debt	1,067	1,131
Other liabilities	1,910	2,013
Deferred income taxes	7,146	6,810
Stockholders' equity		

Common stock, no par value, authorized 25,000,000 shares, issued 13,966,860 shares in 2007 and 13,874,767 shares in 2006	45,705	45,361
Retained earnings	48,731	46,612
Treasury stock, 676,000 shares in 2007 and 2006, at cost	(3,628)	(3,628)
Accumulated other comprehensive income	217	254
Total stockholders' equity	91,025	88,599
Total liabilities and stockholders' equity	$ 121,262	$ 119,207

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

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SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)

(Amounts in Thousands Except Per Share Data)

	For the Three Months Ended February 28,	
	2007	2006
Net sales	$ 32,887	$ 25,560
Cost of products sold	25,085	20,340
Gross margin	7,802	5,220
Selling, general and administrative expense	4,437	4,892
Income from operations	3,365	328
Other income (expense) :		
Interest expense	(167)	(41)
Other income and expense, net	165	182
	(2)	141
Income before provision for income taxes	3,363	469
Provision for income taxes	1,244	179
Net income	$ 2,119	$ 290
Earnings per common share :		
Basic	$ 0.16	$ 0.02

Diluted	$ 0.16	$ 0.02
Average number of common shares outstanding :		
Basic	13,230	13,062
Diluted	13,587	13,192
Dividends per common share	$ -	$ -

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

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SPECTRUM CONTROL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Dollar Amounts in Thousands)	For the Three Months Ended February 28,	
	2007	2006
Cash Flows From Operating Activities :		
Net income	$ 2,119	$ 290
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Depreciation	892	836
Amortization	210	196
Deferred income taxes	336	47
Equity-based compensation	7	52
Asset impairment loss	-	200
Non-cash insurance recoveries	(103)	-
Changes in assets and liabilities, excluding effects of business acquisitions:		
Accounts receivable	(1,192)	(1,932)
Inventories	(915)	(728)
Prepaid expenses and other assets	(225)	(4,518)
Accounts payable and accrued expenses	363	(496)
Net cash provided by (used in) operating activities	1,492	(6,053)
Cash Flows From Investing Activities :		
Insurance proceeds related to property, plant and equipment	1,748	-
Purchase of property, plant and equipment	(728)	(2,430)
Payment for acquired businesses, net of cash received	(2,365)	-
Net cash used in investing activities	(1,345)	(2,430)
Cash Flows From Financing Activities :		
Net proceeds (repayment) of short-term borrowings	(1,000)	2,000
Repayment of long-term debt	(64)	(60)
Net proceeds from issuance of common stock	337	-

Net cash provided by (used in) financing activities	(727)	1,940
Effect of exchange rate changes on cash	(33)	(5)
Net decrease in cash and cash equivalents	(613)	(6,548)
Cash and cash equivalents, beginning of period	3,501	8,386
Cash and cash equivalents, end of period	$ 2,888	$ 1,838

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
February 28, 2007

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 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 February 28, 2007 and 2006 are based on estimates of income and other pertinent tax matters for the entire year.

The balance sheet at November 30, 2006 has been derived from the audited 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, 2006.

Note 2 - Nature of Operations

The Company designs and manufactures control products and systems for the electronics industry, and has operations in the United States, Mexico, China and Germany. The Company offers a broad line of signal, power, microwave, and sensor products which are used to condition, regulate, transmit, receive, or govern electronic performance. Although its products are used in many industries worldwide, the Company's largest markets are military/aerospace and telecommunications equipment.

Note 3 - Revenue Recognition and Product Warranties

Product sales are generally recorded at the time of shipment when title passes under the terms FOB shipping point. 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 - Acquisition

On January 26, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of EMF Systems, Inc. ("EMF"). EMF, based in State College, Pennsylvania, designs and manufactures custom oscillator-based products. In addition to a broad line of oscillator components, EMF primarily designs and manufactures integrated microwave assemblies ("IMA"), including synthesizers and phase locked oscillators. These sophisticated products are used in numerous military and commercial applications such as military radar systems, secured communications, and commercial weather radar. The Company believes that the IMA product offerings and oscillator components included with this acquisition are a natural complement and extension to its existing Microwave Components and Systems business segment. The Company also believes that its vertical manufacturing processes, low-cost manufacturing capabilities, and established military sales channels will provide additional revenue opportunities and improved profitability for EMF products. These factors contributed to a purchase price resulting in the recognition of goodwill.

The aggregate cash purchase price for EMF was approximately $2,365,000. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their respective fair market values. Machinery and equipment values were determined by reference to undepreciated cost as of the date of acquisition, which approximates fair value. The fair market values of identifiable intangible assets were determined by estimating the present value of future cash flows. The excess of the aggregate purchase price over the fair values of the net assets acquired was recognized as goodwill. The aggregate cash purchase price, which includes legal fees and other costs directly related to the acquisition of approximately $26,000, was primarily funded by borrowings under the Company's domestic line of credit.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed is as follows (in thousands):

Accounts receivable	$ 352
Inventories	388
Prepaid expenses and other current assets	2
Machinery and equipment	100
Identifiable intangible assets	375
Accounts payable	(11)
Accrued liabilities	(93)
Goodwill	1,252
	$ 2,365

The identifiable intangible assets (consisting of customer-related intangible assets such as customer lists, sales order backlog, and noncontractual customer relationships) will be amortized to expense over estimated useful lives ranging from three to ten years, with a weighted average amortization period of approximately 8.6 years.

The goodwill acquired has been assigned to the Company's Microwave Components and Systems reportable operating segment. For tax purposes, the Company will amortize the acquired goodwill ratably over a 15 year period.

The results of operations of the acquired business have been included in the accompanying consolidated financial statements since the date of acquisition. The following unaudited pro forma consolidated financial information has been prepared as if the acquisition had occurred on December 1, 2005 (in thousands, except per share data):

	Three Months Ended February 28,	
	2007	2006
Net sales	$ 33,373	$ 26,301
Net income	2,148	323
Earnings per common share:		
Basic	0.16	0.02
Diluted	0.16	0.02

Pro forma amounts are based upon certain assumptions and estimates, and do not reflect any benefits from economies which might be achieved from combined operations. The pro forma information does not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they necessarily indicative of the results of future combined operations.

Note 5 - Asset Impairment Loss

In August 2005, the Company's ceramic manufacturing operations in New Orleans, Louisiana, were severely damaged by Hurricane Katrina and related flooding (the "Hurricane"). As a result, the Company recorded an asset impairment loss of $274,000 in the fourth quarter of fiscal year 2005 (after expected aggregate insurance proceeds of $6,000,000), and reduced the carrying value of the affected land and building to its estimated fair value of $450,000. On March 7, 2006, the Company sold the New Orleans land and building at a net selling price of approximately $250,000. Accordingly, for the three month period ended February 28, 2006, the Company reduced the carrying value of the land and building to $250,000 and recorded an additional asset impairment loss of $200,000. This asset impairment loss has been included in the Company's general and administrative expense for the three month period ended February 28, 2006.

As of November 30, 2006, the Company had received $4,500,000 of insurance proceeds for its Hurricane-related claims, and the Company had recorded an insurance recovery receivable of $1,500,000 for expected additional insurance proceeds. On January 16, 2007, the Company received insurance proceeds of $1,748,000 upon the final settlement of all related claims. Accordingly, $248,000 has been credited against the Company's general and administrative expense for the three month period ended February 28, 2007, representing the excess of the final insurance proceeds received over the previously recorded insurance recovery receivable.

Note 6 - Equity-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("SFAS No. 123R"), which requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. SFAS No. 123R applies to all awards granted after the required effective date; to awards modified, repurchased, or cancelled after that date; and all nonvested options outstanding as of the effective date.

Effective December 1, 2005, the Company adopted the provisions of SFAS No. 123R using a modified version of prospective application. Under this transition method, compensation cost is recognized from the effective date on the portion of outstanding awards for which the requisite service has not yet been rendered. The compensation cost for these awards is determined based on their grant date fair value previously calculated for pro forma disclosure under Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure".

For the three month periods ended February 28, 2007 and 2006, total equity-based compensation expense of $7,000 and $52,000, respectively, was included in general and administrative expense and deducted in arriving at income before income taxes. As a result, net income was reduced by $6,000 or less than $0.01 per share for the three month period ended February 28, 2007, and $44,000 or less than $0.01 per share for the three month period ended February 28, 2006. These amounts all relate to stock options previously granted under the Company's two stock option plans.

The Company has two plans that provide for granting to officers, directors, employees and advisors options to purchase shares of the Company's Common Stock. Under the plans, the Company may issue non-qualified options or incentive stock options. 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. Once granted, an option's exercise price and number of shares to be issued remain fixed throughout the option term. At February 28, 2007, options to purchase 1,191,499 shares of Common Stock were available for grant under the Company's stock option plans. Since November 30, 2005, no stock options have been granted by the Company. Prior to that date, the fair value of each option granted under the Company's stock options plans was estimated as of the date of grant using the Black-Scholes option pricing model.

A summary of the Company's stock option activity for the three month period ended February 28, 2007 is as follows:

	Number of Shares Under Option	Option Price		
		Per Share	Weighted Average	Aggregate
Outstanding - November 30, 2006	1,377,534	$5.05 - 8.68	$6.77	$9,331,000
Granted during the period	-	-	-	-
Exercised during the period	(120,834)	5.05 - 8.68	5.51	(666,000)
Forfeitures and expirations	(1,300)	5.25	5.25	(7,000)
Outstanding - February 28, 2007	1,255,400	$5.05 - 8.68	$6.90	$8,658,000
Exercisable - February 28, 2007	428,299	$5.05 - 8.68	$6.89	$2,953,000

The following table summarizes significant ranges of outstanding and exercisable stock options at February 28, 2007:

Option Price Range	Number of Shares Under Option	
Per Share	Outstanding	Exercisable
$5.05 - 6.00	192,500	168,334
6.01 - 8.00	830,900	134,299
8.01 - 8.68	232,000	125,666

At February 28, 2007, based upon a closing market price of $10.60 for the Company's Common Stock, the aggregate intrinsic value of all outstanding stock options was $4,649,000, including an aggregate intrinsic value of $1,587,000 for all exercisable stock options. During the three month period ended February 28, 2007, stock options were exercised for 120,834 shares. Based upon the market price of the Company's Common Stock on the date of exercise, the aggregate intrinsic value of the shares issued amounted to $729,000. At February 28, 2007, the weighted average remaining contractual life of outstanding options was 3.3 years.

At February 28, 2007, the total future equity-based compensation expense (determined using the Black-Scholes option pricing model) related to outstanding nonvested options is expected to be recognized as follows:

2007	$ 22,000
2008	1,000

$ 23,000

Note 7 - Inventories

Inventories by major classification are as follows (in thousands):

	February 28, 2007	November 30, 2006
Finished goods	$ 2,434	$ 2,419
Work - in - process	6,990	6,586
Raw materials	13,632	12,749
	$ 23,056	$ 21,754

Inventories are presented net of aggregate inventory reserves of $1,478,000 at February 28, 2007 and $1,341,000 at November 30, 2006.

Note 8 - Property, Plant and Equipment

Property, plant and equipment by major classification are as follows (in thousands):

	February 28, 2007	November 30, 2006
Land and improvements	$ 2,190	$ 2,190
Buildings and improvements	15,111	15,035
Machinery and equipment	32,774	32,030
	50,075	49,255
Less accumulated depreciation	25,905	25,019
	$ 24,170	$ 24,236

Note 9 - Goodwill

Changes in the carrying amount of goodwill for the periods ended February 28, 2007 and 2006, in total and for each reportable segment, are summarized as follows (in thousands):

	Three Months Ended February 28,	
	2007	2006
Goodwill, beginning of period	$ 34,508	$ 28,361
Goodwill acquired	1,252	371
Goodwill impairment losses	-	-

Goodwill, end of period	$ 35,760	$ 28,732

	Signal and Power Integrity Components	Microwave Components and Systems	Sensors And Controls
Three Months Ended February 28, 2007			
Goodwill, beginning of period	$ 14,243	$ 12,559	$ 7,706
Goodwill acquired	-	1,252	-
Goodwill impairment losses	-	-	-
Goodwill, end of period	$ 14,243	$ 13,811	$ 7,706
2006			
Goodwill, beginning of period	$ 14,243	$ 12,559	$ 1,559
Goodwill acquired	-	-	371
Goodwill impairment losses	-	-	-
Goodwill, end of period	$ 14,243	$ 12,559	$ 1,930

Based upon the Company's preliminary allocation of its aggregate purchase price for EMF, goodwill of $1,252,000 was recorded in the first quarter of fiscal 2007.

On October 31, 2005, the Company acquired all of the outstanding common stock of JDK Controls, Inc. ("JDK") at an aggregate cash purchase price of $4,110,000. In the first quarter of fiscal 2006, the Company finalized the allocation of this purchase price to the assets acquired and liabilities assumed. As a result of this final allocation, additional goodwill of $371,000 was recorded along with a deferred income tax liability in the same amount.

Note 10 - Other Noncurrent Assets

Other noncurrent assets by major classification are as follows (in thousands):

	February 28, 2007	November 30, 2006
Amortizable assets:		
Customer-related intangibles	$ 5,659	$ 5,284
Patents and patent rights	291	278
Debt issuance costs	205	205
	6,155	5,767
Less accumulated amortization	2,004	1,794
	4,151	3,973
Other assets:		

Prepaid environmental liability insurance (see Note 13)	3,730	3,850
Deferred charges	89	178
	3,819	4,028
Other noncurrent assets	$ 7,970	$ 8,001

For the three month periods ended February 28, 2007 and 2006, amortization of intangible assets was $210,000 and $196,000, respectively. For each of the five fiscal years ending November 30, 2011, amortization expense is expected to be as follows (in thousands):

2007	$863
2008	664
2009	508
2010	471
2011	429

Note 11 - Short-Term Debt

Short-term debt consists of the following (in thousands):

	February 28, 2007	November 30, 2006
Notes payable - domestic line of credit (1)	$ 8,000	$ 9,000
Notes payable - foreign line of credit (2)	-	-
	$ 8,000	$ 9,000

(1) The Company maintains a domestic line of credit with its principal lending institution (the "Bank") in the aggregate amount of $25,000,000, with an additional $10,000,000 expansion feature. Borrowings under the line of credit are secured by substantially all of the Company's tangible and intangible personal property, and bear interest at rates below the prevailing prime rate. During the three month period ended February 28, 2007, weighted average borrowings under the revolving line of credit amounted to $8,233,000, with an average interest rate of 6.73%, and maximum month-end borrowings of $9,000,000. During the three month period ended February 28, 2006, weighted average borrowings amounted to $522,000, with an average interest rate of 5.51%, and maximum month-end borrowings of $2,000,000. The line of credit agreement contains certain covenants, the most restrictive of which require the Company to maintain designated minimum levels of net worth and profitability, and impose certain restrictions on the Company regarding additional indebtedness. At February 28, 2007, the Company was in compliance with all debt covenants. The current line of credit agreement expires in December 2010.

(2) The Company's wholly-owned German subsidiary maintains an unsecured Euro line of credit with a German financial institution aggregating $1,316,000 (Euro 1,000,000). During the three month periods ended February 28, 2007 and 2006, no borrowings were outstanding under this line of credit arrangement. Future borrowings, if any, will bear interest at rates below the prevailing prime rate and will be payable upon demand.

Note 12 - Accrued Liabilities

Accrued liabilities by major classification are as follows (in thousands):

	February 28, 2007	November 30, 2006
Accrued salaries and wages	$ 2,671	$ 3,209
Accrued environmental remediation costs (see Note 13)	457	456
Accrued interest	38	151
Accrued other expenses	1,024	245
	$ 4,190	$ 4,061

Note 13 - Other Liabilities

Other liabilities consist of the following (in thousands):

	February 28, 2007	November 30, 2006
Accrued environmental remediation costs	$ 2,367	$ 2,469
Less current portion	457	456
	$ 1,910	$ 2,013

On December 30, 2005, the Company acquired certain land and manufacturing facilities in State College, Pennsylvania. The property, which was acquired from Murata Electronics North America ("Murata"), consists of approximately 53 acres of land and 250,000 square feet of manufacturing facilities. The acquired facilities have become the design and manufacturing center for the Company's ceramic operations, replacing the ceramic operations previously conducted by the Company in New Orleans, Louisiana.

The purchase price for the acquired property consisted of: (a) $1.00, plus (b) closing costs of $695,000 including realtor commissions, transfer taxes, and legal fees; plus (c) the assumption of, and indemnification of Murata against, all environmental liabilities related to the property. The acquired property has known environmental conditions that require remediation, and certain hazardous materials previously used on the property have migrated into neighboring third party areas. These environmental issues arose from the use of chlorinated organic solvents including tetrachloroethylene ("PCE") and trichloroethylene ("TCE"). As a condition to the purchase, the Company entered into an agreement with the Pennsylvania Department of Environmental Protection ("PADEP") pursuant to which: (a) the Company agreed to remediate all known environmental conditions relating to the property to a specified industrial standard, with the Company's costs for remediating such conditions being capped at $4,000,000; (b) PADEP released Murata from further claims by Pennsylvania under specified state laws for the known environmental conditions; and (c) the Company purchased an insurance policy providing clean-up cost cap coverage (for known and unknown pollutants) with a combined coverage limit of approximately $8,200,000, and pollution legal liability coverage (for possible third party claims) with an aggregate coverage limit of $25,000,000. The total premium cost for the insurance policy, which has a ten year term and an aggregate deductible of $650,000, was $4,762,000. The cost of the insurance is being charged to general and administrative expense on a pro rata basis over the ten year policy term, which approximates the period of remediation of the environmental liability.

Based upon estimates prepared by the Company's environmental consultants, a liability of $2,888,000 was recorded by the Company to cover probable future environmental expenditures related to the remediation, the cost of which is expected to be entirely covered by the insurance policy. As of February 28, 2007, remediation expenditures of $521,000 have been incurred and charged against the environmental liability, with all such expenditures being reimbursed by the insurance carrier. The remaining aggregate undiscounted expenditures of $2,367,000, which are anticipated to be incurred over the next nine years, principally consist of: (a) continued operation and monitoring of the existing on-site groundwater extraction, treatment, and recharge system; (b) implementation of a chemical oxidation system, subject to the results of a laboratory treatability study; (c) completion of soil investigations to determine the extent of potential soil contamination; (d) excavation and off-site disposal of soil containing contaminates above acceptable standards; and (e) implementation of soil vapor extraction systems in certain areas. Depending upon the results of future environmental testing and remediation actions, it is possible that the ultimate costs incurred could exceed the current aggregate estimate of $2,888,000. The Company expects such increase, if any, to be entirely covered by the insurance policy. Insurance recoveries for actual environmental remediation costs incurred are recorded when it is probable that such insurance reimbursement will be received and the related amounts are determinable. Such insurance recoveries are credited to the Company's general and administrative expenses.

Based on the current remediation plan developed by the Company's environmental consultants, $457,000 of the total remediation costs are expected to be incurred during the next twelve months.

Note 14 - Derivatives and Hedging Activities

From time to time, the Company enters into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on sales denominated in foreign currencies. The terms of these contracts are generally nine months or less.

At February 28, 2007 and 2006, the Company had no forward contracts outstanding.

Note 15 - Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the periods indicated:

	Three Months Ended February 28,	
	2007	2006
Numerator for basic and diluted earnings per common share (in thousands):		
Net income	$ 2,119	$ 290
Denominator for basic earnings per common share (in thousands):		