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AMERICAN TECHNICAL CERAMICS CORP
Form 10-Q
May 13, 2004

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 MARCH 31, 2004

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 1-9125

AMERICAN TECHNICAL CERAMICS CORP.

(Exact Name of Company as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

11-2113382

(I.R.S. Employer
Identification No.)

17 STEP PAR PLACE, HUNTINGTON STATION, NY

(Address of Principal Executive Offices)

11746

(Zip Code)

(631) 622-4700

(Telephone Number, Including Area Code)

Indicate by check mark whether the Company (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 Company 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 Company is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 3, 2004, the Company had outstanding 8,174,868 shares of Common Stock, par value \$0.01 per share.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (in thousands, except per share data)

MARCH 31, 2004

 (unaudited)

ASSETS

Current assets

Cash (including cash equivalents of \$1,001 and \$996, respectively)	\$4,073
Investments	3,009
Accounts receivable, net	9,276
Inventories	18,626
Deferred income taxes, net	2,065
Other current assets	1,046

TOTAL CURRENT ASSETS 38,095

Property, plant and equipment, net of accumulated depreciation and amortization of \$40,804 and \$37,213, respectively 26,006

Other assets, net 30

TOTAL ASSETS \$64,131

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Current portion of long-term related party debt	\$384
Accounts payable	1,747
Accrued expenses	4,149
Income taxes payable	250

TOTAL CURRENT LIABILITIES 6,530

Long-term related party debt, net of current portion 2,998

Deferred income taxes 3,182

TOTAL LIABILITIES 12,710

Commitments and Contingencies

Stockholders' Equity

Common Stock -- \$0.01 par value; authorized 20,000 shares; issued 8,555 and 8,503 shares, outstanding 8,141 and 8,089 shares, respectively	86
Capital in excess of par value	11,755
Retained earnings	40,756
Accumulated other comprehensive income:	
Unrealized loss on investments available-for-sale, net	1
Cumulative foreign currency translation adjustment	269

270

Less: Treasury stock, at cost (414 and 414 shares, respectively) 1,396

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Deferred compensation

50

TOTAL STOCKHOLDERS' EQUITY

51,421

\$64,131

See accompanying notes to unaudited consolidated financial statements.

2

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share data)

	For the Three Months Ended March 31,		
	2004	2003	
	----	----	
Net sales	\$ 16,109	\$ 11,930	\$
Cost of sales	10,796	8,622	
	-----	-----	
Gross profit	5,313	3,308	
	-----	-----	
Selling, general and administrative expenses	3,935	3,040	
Research and development expenses	796	694	
Other	89	93	
	-----	-----	
Operating expenses	4,820	3,827	
	-----	-----	
Income/(loss) from operations	493	(519)	
	-----	-----	
Other (income) expense:			
Interest expense	90	98	
Interest income	(12)	(22)	
Other	--	--	
	-----	-----	
	78	76	
	-----	-----	
Income/(loss) before provision for income taxes	415	(595)	
Provision for/(benefit from) income taxes	100	(296)	
	-----	-----	
Net income/(loss)	\$ 315	\$ (299)	\$
	=====	=====	=
Basic net income/(loss) per common share	\$ 0.04	\$ (0.04)	\$
	=====	=====	=
Diluted net income/(loss) per common share	\$ 0.04	\$ (0.04)	\$
	=====	=====	=
Basic weighted average common shares outstanding	8,136	8,076	
	=====	=====	
Diluted weighted average common shares outstanding	8,673	8,076	
	=====	=====	

See accompanying notes to unaudited consolidated financial statements.

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3

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended March	
	2004	2003
	----	----
	(In thousands)	
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (914)	\$ (291)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,846	4,000
Loss on disposal of fixed assets	353	469
Stock award compensation expense	109	12
Deferred income taxes	(194)	--
Realized gain on investments	2	--
Changes in operating assets and liabilities:		
Accounts receivable	(2,555)	418
Inventories	(3,482)	(417)
Other assets	(116)	1,724
Accounts payable and accrued expenses	2,028	82
Income taxes payable	(489)	629
	-----	-----
Net cash (used in)/provided by operating activities	(1,412)	6,626
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,199)	(1,168)
Purchase of investments	(2,982)	(2,491)
Proceeds from sale of investments	3,000	2,500
Proceeds from sale of fixed assets	22	--
	-----	-----
Net cash used in investing activities	(3,159)	(1,159)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(263)	(4,317)
Proceeds from the exercise of stock options	136	13
	-----	-----
Net cash used in financing activities	(127)	(4,304)
	-----	-----
Effect of exchange rate changes on cash	86	130
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(4,612)	1,293
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,685	7,129
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,073	\$ 8,422
	=====	=====
Supplemental cash flow information:		
Interest paid	\$ 277	\$ 300
Taxes paid	\$ 39	\$ ---

See accompanying notes to unaudited consolidated financial statements.

4

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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

(1) BASIS OF PRESENTATION:

The accompanying unaudited interim consolidated financial statements of American Technical Ceramics Corp. and subsidiaries (the "Company") reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of its consolidated financial position as of March 31, 2004, and the results of its operations for the three and nine month periods ended March 31, 2004 and 2003. These consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003. Results for the three and nine month periods ended March 31, 2004 are not necessarily indicative of results which could be expected for the entire year.

(2) STOCK-BASED COMPENSATION:

On April 1, 1997, the Board of Directors approved the American Technical Ceramics Corp. 1997 Stock Option Plan (the "1997 Option Plan") pursuant to which the Company may grant options to purchase up to 800,000 shares of the Company's common stock. On April 11, 2000, the Board of Directors approved the American Technical Ceramics Corp. 2000 Incentive Stock Plan (the "2000 Plan", and collectively with the 1997 Option Plan, the "Plans") pursuant to which the Company may grant options or stock awards covering up to 1,200,000 shares of the Company's common stock. Each of the Plans is administered by the Board of Directors or by a committee appointed by the Board. Options granted under the Plans may be either incentive or non-qualified stock options. The term of each incentive stock option shall not exceed ten years from the date of grant (five years for grants to employees who own 10% or more of the voting power of the Company's common stock). Options vest in accordance with a vesting schedule established by the plan administrator (traditionally 25% per year during the first four years of their term). Unless terminated earlier by the Board, the 1997 Option Plan will terminate on March 31, 2007, and the 2000 Plan will terminate on April 10, 2010.

Disposition of shares acquired pursuant to the exercise of incentive stock options under both Plans may not be made by the optionees within two years following the date that the option is granted, nor within one year after the exercise of the option, without the written consent of the Company.

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

(2) STOCK-BASED COMPENSATION (CONTINUED):

Stock option activity for the three months ended March 31, 2004 and 2003, is as follows:

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	March 31, 2004		Ma
	Shares Subject	Weighted	-----
	to Options	Average	-----
	-----	Exercise	-----
		Price	-----
		-----	-----
Outstanding, beginning of period	1,352,950	\$ 6.68	1,375,050
Granted	--	--	--
Canceled	(250)	11.40	(5,100)
Expired	--	--	(1,250)
Exercised	(14,500)	3.65	--
	-----		-----
Outstanding, end of period	1,338,200	\$ 6.71	1,368,700
	=====		=====

Stock option activity for the nine months ended March 31, 2004 and 2003, is as follows:

	March 31, 2004		Ma
	Shares Subject	Weighted	-----
	to Options	Average	-----
	-----	Exercise	-----
		Price	-----
		-----	-----
Outstanding, beginning of period	1,381,200	\$ 6.64	919,800
Granted	13,000	5.85	479,000
Canceled	(6,750)	9.93	(16,850)
Expired	(9,350)	8.08	(8,750)
Exercised	(39,900)	3.41	(4,500)
	-----		-----
Outstanding, end of period	1,338,200	\$ 6.71	1,368,700
	=====		=====

Prior to fiscal year 2004, the Company has not recognized compensation cost for these options upon grant as the exercise price was equal to or greater than the fair market value of the underlying stock at the date of grant. In July 2003, the Company adopted Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), using the prospective method as prescribed in Statement of Financial Accounting Standard No. 148 ("SFAS No. 148"). The Company applies SFAS No. 123 in accounting for employee stock-based compensation awarded or granted after June 30, 2003, and applies Accounting Principals Board Opinion No. 25, Accounting for Stock Issued to Employees ("Opinion No. 25"), in accounting for employee stock-based compensation awarded or granted prior to July 1, 2003, and makes pro-forma disclosures of net income and net income per share as if the fair value method under SFAS No. 123, as amended by SFAS No. 148, had been applied. The Company has recorded \$3 and \$7 in compensation expense for the three and nine months ended March 31, 2004, respectively, for options granted after June 30, 2003. Had compensation expense with respect to all options and awards granted under the Plans been determined based on the fair value method on the date of grant consistent with the methodology prescribed under SFAS No. 123 prior to July 1, 2003, the Company's net loss and loss per share would have approximated the pro forma amounts indicated below:

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6

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (In thousands, except per share data)

	Three Months Ended March 31	
	2004	2003
	-----	-----
Net income/(loss), as reported	\$ 315	\$ (1,000)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	30	(100)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(725)	(100)
	-----	-----
Pro forma loss	\$ (380)	\$ (1,000)
Earnings/(loss) per share:		
Basic - as reported	\$ 0.04	\$ (0.05)
Basic - pro forma	\$ (0.05)	\$ (0.05)
Diluted - as reported	\$ 0.04	\$ (0.05)
Diluted - pro forma	\$ (0.05)	\$ (0.05)

	Nine Months Ended March 31	
	2004	2003
	-----	-----
Net loss, as reported	\$ (914)	\$ (1,000)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	105	(100)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,651)	(1,000)
	-----	-----
Pro forma loss	\$ (2,460)	\$ (1,000)
Loss per share:		
Basic - as reported	\$ (0.11)	\$ (0.05)
Basic - pro forma	\$ (0.30)	\$ (0.05)
Diluted - as reported	\$ (0.11)	\$ (0.05)
Diluted - pro forma	\$ (0.30)	\$ (0.05)

The weighted-average fair value of each stock option included in the preceding pro forma amounts was estimated using the Black-Scholes option pricing model and is amortized over an expected grant life of five years.

(3) IMPACT OF NEW ACCOUNTING STANDARDS:

In January 2004, the Company adopted the Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN No. 46"). Previously, consolidation of variable interest entities was largely based on controlling voting rights. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial

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Statements", to entities where the Company is vulnerable to a majority of the entity's risk of loss or is entitled to receive a majority of the entity's residual returns even if there is no controlling voting interest. The adoption of FIN No. 46 did not have any impact on the Company's consolidated results of operations or financial position.

7

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

(4) SUPPLEMENTAL CASH FLOW INFORMATION:

During the nine months ended March 31, 2004, the Company (i) granted deferred compensation stock awards with an aggregate value of \$41 with respect to which expense shall be recognized ratably throughout fiscal year 2004 (as of March 31, 2004, \$30 has been recognized as compensation expense), (ii) granted stock options with respect to which compensation expense of \$46 will be recognized evenly over the next five years (as of March 31, 2004, \$7 has been recognized as compensation expense), (iii) recognized \$116 in compensation expense (including \$44 relating to bonuses granted to defray taxes) in connection with the grant of stock awards totaling 12 shares of common stock, and (iv) recognized a \$43 reduction of income taxes payable related to stock options exercised.

(5) INVENTORIES:

Inventories included in the accompanying consolidated financial statements consist of the following:

	March 31, 2004	June 30, 2003
	-----	-----
	(unaudited)	
Raw materials	\$ 10,088	\$ 7,055
Work-in-process	5,190	4,361
Finished goods	3,348	3,728
	-----	-----
	\$ 18,626	\$ 15,144
	=====	=====

(6) EARNINGS PER SHARE:

The following represents a reconciliation of the numerators and denominators of the basic and diluted earnings per share computation.

	For the Three Months Ended March 31,			
	2004			
	-----	-----	-----	-----
	Net Income (Numerator)	Shares (Denominator)	Per-Share Amount	Net Loss (Numerator)
	-----	-----	-----	-----
Basic EPS	\$ 315	8,136	\$ 0.04	\$ (299)
Effect of Dilutive Securities:			-----	
Stock options	---	530		---
Deferred compensation				

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stock awards	---	7	---	---
	-----	-----	-----	-----
Diluted EPS	\$ 315	8,673	\$ 0.04	\$ (299)
	=====	=====	=====	=====

Options covering 345 and 1,369 shares have been omitted from the calculation of dilutive EPS for the three months ended March 31, 2003 and 2004, respectively, because their inclusion would have been antidilutive.

8

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (In thousands, except per share data)

	For the Nine Months Ended March 31,			
	2004		2003	
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount	Net Loss (Numerator)
	-----	-----	-----	-----
Basic EPS	\$ (914)	8,116	\$ (0.11)	\$ (291)
Effect of Dilutive Securities:				
Stock options	---	---		---
Deferred compensation stock awards	---	---		---
	-----	-----	-----	-----
Diluted EPS	\$ (914)	8,116	\$ (0.11)	\$ (291)
	=====	=====	=====	=====

Options covering 1,346 and 1,369 shares have been omitted from the calculation of dilutive EPS for the nine months ended March 31, 2003 and 2004, respectively, because their inclusion would have been antidilutive.

(7) COMPREHENSIVE INCOME/(LOSS):

The Company's comprehensive income/(loss) is as follows:

	For the Three Months Ended March 31,	
	2004	2003
	-----	-----
Net income/(loss)	\$ 315	\$ (299)
Other comprehensive (loss)/income:		
Foreign currency translation adjustments	(61)	32
Unrealized losses/(gains) on investments, net of tax	3	(4)
	-----	-----
Other comprehensive (loss)/income	(58)	28
	-----	-----
Comprehensive income/(loss)	\$ 257	\$ (271)
	=====	=====

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	For the Nine Months Ended March 31,	
	2004	2003
Net loss	\$ (914)	\$ (291)
Other comprehensive income:		
Foreign currency translation adjustments	93	130
Unrealized losses/(gains) on investments, net of tax	1	(4)
Other comprehensive income	94	126
Comprehensive loss	\$ (820)	\$ (165)

9

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

(8) INDEBTEDNESS:

In April 2004, the Company entered into a \$4,000 credit facility with General Electric Capital Corporation for the purchase of equipment. The line bears interest, at the Company's option, at either a fixed rate of 3.47% above the five year Treasury Bond yield or a floating rate of 3.65% above LIBOR. Borrowings under the line will be secured by the equipment purchased thereunder. Each separate borrowing under the line will be a fully amortizing term loan with a maturity of five years from the date the funds are drawn down. The line of credit will expire on March 31, 2005.

The Company leases an administrative office, manufacturing and research and development complex located in Jacksonville, Florida (the "Jacksonville Facility") from a partnership controlled by the Company's President, Chief Executive Officer and principal stockholder under a capital lease. At June 30, 2003, the Jacksonville Facility has an aggregate cost of \$5,104 and a net book value of \$2,705. The lease is for a period of 30 years, was capitalized using an interest rate of 10.5% and expires on September 30, 2010. The lease provides for base rent of approximately \$719 per annum. The lease further provides for annual increases in base rent for years beginning after May 1, 1999, based on the increase in the Consumer Price Index ("CPI") since May 1, 1998 applied to base rent. The lease also provides for increases to the base rent in connection with any new construction at the Jacksonville Facility. Under the lease, upon any new construction being placed into use, the base rental is subject to increase to the fair market rental of the Jacksonville Facility, including the new construction. Effective October 1, 2003, the Company is obligated to pay approximately \$734 per annum under this lease. The payments due over the remaining seven years of this capital lease, including the portion related to interest, total approximately \$4,773.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
(In thousands, except per share data)

The following discussion and analysis should be read in conjunction with the consolidated financial statements, related notes and other information

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included in this Quarterly Report on Form 10-Q.

Statements in this Quarterly Report on Form 10-Q that are not historical fact may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are subject to risks and uncertainties, including, but not limited to, market and economic conditions, the impact of competitive products, product demand and market acceptance risks, changes in product mix, costs and availability of raw materials, fluctuations in operating results, delays in development of highly complex products, risks associated with international sales and sales to the U.S. military, risk of customer contract or sales order cancellations and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission, including, without limitation, those contained under the caption "Item 1. BUSINESS - CAUTIONARY STATEMENTS REGARDING FORWARD - LOOKING STATEMENTS" in the Company's Annual Report on Form 10-K. These risks could cause the Company's actual results for future periods to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Any forward-looking statement represents the Company's expectations or forecasts only as of the date it was made and should not be relied upon as representing its expectations or forecasts as of any subsequent date. The Company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, even if its expectations or forecasts change.

10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Overview

During the first two quarters of the current fiscal year, the markets served by the Company's products began to show signs of breaking out of the three year downturn. The third quarter provided strong evidence of a break through, as the Company experienced substantial increases in sales and bookings in all the major markets it serves. The wireless infrastructure and semiconductor equipment markets exhibited the strongest growth. The wireless infrastructure market has historically been the Company's largest.

The trend of orders with longer lead times that started last quarter has continued and expanded this quarter. Bookings for the quarter exceeded sales by \$2,600 due mainly to customers placing more orders for future delivery. However, the ability to deliver product rapidly remains important to securing orders.

Prices have remained relatively stable during most of the economic downturn. However, as volume from selected wireless infrastructure customers increases, we expect that price pressure in this market will increase. In addition, in order to reduce costs, many customers in the telecommunications market are outsourcing production to contract manufacturers who often attempt to renegotiate the prices previously agreed to by the customer, creating another source of price pressure.

In response to increased booking and quoting activity, the Company began increasing headcount in production and sales late last fiscal year. This initially decreased gross margins and increased operating expenses; however, the Company believes that the additions to personnel have improved lead times and customer service. This positioned the Company to take advantage of opportunities

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in the quarter ended March 31, 2004 and should continue to do so in the coming quarters as demand increases and opportunities arise in the markets the Company serves.

The Company has benefited from lower precious metal costs for the past three years. As economic conditions continue to improve, the demand for precious metals used in the Company's manufacturing processes has increased. As a result, the Company has seen a rise in the market prices of these metals and has purchased quantities of them to protect against rising prices. Given current levels of demand, additional purchases will be necessary in the near future. In response to the increased demand, the Company has committed to purchase an additional \$6.5 million of precious metals (primarily palladium and silver) over the next twelve months to lock in current prices.

During the quarter ended March 31, 2004, the Company incurred unusually high medical expense. Medical expenses for the quarter were 89%, or approximately \$800, higher than the average of the previous four quarters. In contrast, the Company's headcount has increased 15% over the past year. The increase was due primarily to an increase in claims for which the Company is self-insured. The Company believes that self-insurance is a cost effective option for providing employees with health coverage; however, it results in fluctuations in costs from period to period.

In response to growing volume, the Company will soon begin renovating the building it purchased three years ago next to its other facilities in Huntington Station, New York. The Company has also purchased the building that houses its Microcap product line in Florida which it previously leased. These actions are designed to improve flexibility for future product expansion. They will also result in an increase in capacity which will enable the Company to produce certain products in higher volumes.

11

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

During the first six months of fiscal year 2004, the Company operated at approximately 33% of its equipment capacity. During the third quarter, the Company operated above 50% of its equipment capacity.

The combination of increased capital expenditures, increased working capital requirements and unprofitable operations required the Company to draw upon cash. In response, the Company has secured a \$4 million line of credit from General Electric Capital Corporation ("GECC") to help fund future capital expenditures.

RESULTS OF OPERATIONS

KEY COMPARATIVE PERFORMANCE INDICATORS

	Three Months Ended		Nine Months En	
	March 31, 2004	March 31, 2003	March 31, 2004	Ma
Sales (\$)	16,109	11,930	42,174	
Bookings (\$)	18,721	11,818	45,181	

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Gross Margin (\$)	5,313	3,308	11,832
Gross Margin (%)	33.0	27.7	28.1
Operating Expenses (\$)	4,820	3,827	12,859
Operating Expenses (%)	29.9	32.1	30.5

SIGNIFICANT HIGHLIGHTS

Sales for the three and nine months ended March 31, 2004 increased 35% and 17%, respectively, over the comparable periods in the prior fiscal year.

Bookings for the three and nine months ended March 31, 2004 increased 58% and 21%, respectively, over the comparable periods in the prior fiscal year.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2003

Net sales for the three months ended March 31, 2004 increased 35% to \$16,109, compared to the \$11,930 recorded in the comparable period in the prior fiscal year. The increase in sales was due to increased sales volume in all of the Company's major product lines primarily as a result of strong demand from the wireless infrastructure, semiconductor equipment and military markets.

Gross margin for the three months ended March 31, 2004 was 33.0% of net sales, compared to 27.7% for the comparable period in the prior fiscal year. The increase in gross margin was primarily due to higher revenues and lower precious metal costs, partially offset by higher labor and overhead costs and lower precious metal recovery than in the comparable period last year. The increase in overhead costs was primarily due to the result of increased headcount and increased production output to keep pace with the growing sales volumes and to greater than normal medical expenses.

12

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Selling, general and administrative expenses for the three months ended March 31, 2004 increased 29% to \$3,935, compared to \$3,040 in the comparable period in the prior fiscal year. The increase was due to increased commissions, headcount and advertising and the expansion of the Company's international sales offices. As a percentage of sales, selling, general and administrative expenses decreased from 25.5% to 24.4%.

Research and development expenses for the three months ended March 31, 2004 increased 15% to \$796, compared to \$694 in the comparable period in the prior fiscal year. The Company has put additional emphasis on developing new products as well as improving the performance and manufacturing efficiency of its existing products.

Bookings for the three months ended March 31, 2004 increased 58% to \$18,721, compared to \$11,818 for the three months ended March 31, 2003. The increase was primarily due to increased orders from the wireless infrastructure and semiconductor equipment markets, although bookings levels increased from most of the major markets the Company serves. The trend of orders with longer lead times that started last quarter has continued and expanded this quarter. This trend is not a function of lack of available inventory to ship, but rather customers placing more orders for future delivery. However, the ability to deliver product rapidly remains important to securing orders.

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The backlog of unfilled orders was \$12,142 at March 31, 2004, compared to \$10,718 at March 31, 2003 and \$9,129 at June 30, 2003. The increase in backlog was primarily due to the increase in orders from the wireless infrastructure and semiconductor equipment markets, partially offset by a decrease in open orders from the military market. The Company experiences fluctuation in orders from the military market as certain of these orders are for large quantities of product for delivery over longer periods. Shipments during the quarter ended March 31, 2004 to customers in this market were against orders placed in previous quarters with long lead times.

NINE MONTHS ENDED MARCH 31, 2004 COMPARED WITH NINE MONTHS ENDED MARCH 31, 2003

Net sales for the nine months ended March 31, 2004 increased 17% to \$42,174, compared to \$35,978 in the comparable period in the prior fiscal year. The increase in net sales was primarily the result of increased sales volume in all of the Company's major product lines primarily due to strong demand from the wireless infrastructure, semiconductor equipment and military markets.

Gross margin for the nine months ended March 31, 2004 was 28.1% of net sales, compared to 30.1% for the comparable period in the prior fiscal year. The decrease in gross margin was principally due to lower material reclamation and higher labor and overhead costs, partially offset by increased sales and lower precious metal costs. Over the past four quarters, the Company has added personnel and increased production in anticipation of an economic recovery and to improve customer service and product delivery times. Initially this strategy adversely affected gross margins as sales grew at a slower pace than the rise in costs. The Company is now able to benefit from the increased sales levels while focusing on product quality, customer service and delivery.

13

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Selling, general and administrative expenses for the nine months ended March 31, 2004 increased 20% to \$10,589, compared to \$8,815 in the comparable period in the prior fiscal year. The increase was due to increased commissions, headcount, and advertising and the expansion of the Company's international sales offices.

Research and development expenses for the nine months ended March 31, 2004 increased 11% to \$2,248, compared to \$2,027 in the comparable period in the prior fiscal year. The Company has put additional emphasis on developing new products as well as improving the performance and manufacturing efficiency of its existing products.

The Company recorded other expense of \$22 for the nine months ended March 31, 2004, compared to other expense of \$384 in the comparable period in the prior fiscal year. The other expense for the nine month period ended March 31, 2003, related primarily to a pretax charge of \$436 due to the disposal of certain assets no longer used in the Company's manufacturing process.

LIQUIDITY AND CAPITAL RESOURCES

March 31, 2004	Dec. 31, 2003	June 30, 2003	March 31, 2002
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Cash and Investments \$	7,082	10,657	11,696
Working Capital \$	31,565	31,571	31,485
Quarter Ended:			
Operating Cash Flow \$	(1,736)	(189)	813
Capital Expenditures \$	1,755	576	540
Depreciation \$	1,317	1,260	1,391
Current Ratio	5.8:1	7.4:1	7.3:1
Quick Ratio	2.5:1	3.5:1	3.7:1

The Company's financial position at March 31, 2004 remains strong as evidenced by working capital of \$31,565 and stockholders' equity of \$51,421. The Company's current and quick ratios at March 31, 2004 also remain strong.

Cash, cash equivalents and investments decreased by \$4,614 from June 30, 2003, primarily as a result of capital expenditures and cash used for working capital. Accounts receivable increased by \$2,555 from June 30, 2003, primarily due to increased sales revenue and, to a lesser extent, to customers extending payment terms. Inventories increased by \$3,482 from June 30, 2003, primarily as a result of precious metal purchases during the nine months ended March 31, 2004. These purchases were made in anticipation of future production requirements and potential price increases.

Subsequent to March 31, 2004, the Company committed to purchase an additional \$6,500 of precious metals (primarily palladium and silver) over the next twelve months to protect against shortages and rising prices. The Company has benefited from lower precious metal costs for the past three years. However, as economic conditions improve, the demand for the precious metals the Company uses in its manufacturing processes is increasing throughout the electronics industry and other industries. As a result, the Company has seen a rise in the market prices of these metals.

14

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Accounts payable increased by \$722, due in part to increased purchasing activity to keep pace with higher production levels and in part to capital expenditures. Accrued expenses increased by \$1,306 during the same period due to the timing of payments relating to vacation pay and payroll taxes as well as increased commission accruals as the result of increased bookings and sales. Taxes payable decreased \$532 from June 30, 2003, primarily due to taxable losses incurred during the period.

On March 1, 2004, the Company purchased a building it was leasing to house its Microcap product line in Jacksonville Florida, for \$523.

In April 2004, the Company entered into a \$4,000 credit facility with GECC for the purchase of equipment. The line bears interest, at the Company's option, at either a fixed rate of 3.47% above the five year Treasury Bond yield or a floating rate of 3.65% above LIBOR. Borrowings under the line will be secured by the equipment purchased thereunder. Each separate borrowing under the line will be a fully amortizing term loan with a maturity of five years from the date the funds are drawn down. The line will expire on March 31, 2005.

The Company leases a facility in Jacksonville, Florida from a

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partnership controlled by the Company's President, Chief Executive Officer and principal stockholder under a capital lease. The rental payments under this lease have been adjusted several times, most recently as of October 2003, primarily to reflect fair market rental adjustments as a result of certain additions or improvements to the facility or annual increases based on the consumer price index as required by the terms of the lease. Each fair market rental adjustment has been based upon an independent appraisal of the fair market rental of the facility giving effect to the addition or improvement at issue. Effective October 1, 2003, the Company is obligated to pay approximately \$734 per annum under this lease. The payments due over the remaining seven years of this capital lease, including the portion related to interest, total approximately \$4,773.

Capital expenditures for the nine months ended March 31, 2004 totaled \$3,199, including expenditures for machinery and equipment, leasehold improvements and the purchase of a building that was previously leased by the Company. The Company intends to use cash on hand, cash generated through operations and the new line of credit with GECC to finance budgeted capital expenditures of approximately \$2,000 for the remainder of fiscal year 2004, primarily for equipment acquisitions and building renovations, including \$500 for the renovation of an existing building in New York which is not presently in use.

15

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Aggregate contractual obligations as of March 31, 2004 mature as follows:

Contractual Obligations	Total	Payments Due by Period (in 000's)		
-----	-----	Less than 1 year ----	1- 3 years -----	4- 5 years -----
Bank Debt	\$ ---	\$ ---	\$ ---	\$ ---
Capital Lease Obligations	3,382	384	1,422	1,227
Operating Leases	1,457	416	1,041	---
	-----	-----	-----	-----
Total Contractual Obligations	\$4,839	\$ 800	\$2,463	\$1,227
	=====	=====	=====	=====

The Company routinely enters into binding and non-binding purchase obligations in the ordinary course of business, primarily covering anticipated purchases of inventory and equipment. The terms of these commitments generally do not extend beyond one year. At March 31, 2004, the Company had commitments to purchase an aggregate of \$6,500 of precious metals at various times over the next twelve months.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission (the "SEC") issued disclosure guidance for "critical accounting policies." The SEC defines "critical

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accounting policies" as those that require the application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The Company's significant accounting policies are described in Note 1 to its consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended June 30, 2003. The Company believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

Allowances for Doubtful Accounts Receivable

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and a customer's current creditworthiness, as determined by its review of the customer's current credit information. The Company continuously monitors collections and payments from its customers and maintains an allowance for estimated credit losses based upon its historical experience and any specific customer collection issues that the Company has identified. While such credit losses have historically been within the Company's expectations and the allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. Should the financial position of its customers deteriorate resulting in an impairment of their ability to pay amounts due, the Company's revised estimate of such losses and any actual losses in excess of previous estimates may negatively impact its operating results.

16

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

Sales Returns and Allowances

In the ordinary course of business, the Company accepts returns of products sold for various reasons and grants sales allowances to customers. While the Company engages in extensive product quality control programs and processes, its level of sales returns is affected by, among other things, the quality of its manufacturing processes. The Company maintains an allowance for sales returns and allowances based upon historical returns and allowances granted. While such returns and allowances have historically been within the Company's expectations, actual return and allowance rates in the future may differ from current estimates, which could negatively impact its operating results.

Inventory Valuation

The Company values inventory at the lower of aggregate cost (first-in, first-out) or market. When the cost of inventory is determined by management to be in excess of its market value, such inventory is written down to its estimated net realizable value. This requires the Company to make estimates and assumptions about several factors (e.g., future sales quantities and selling prices, and percentage complete and failure rates for work in process) based upon historical experience and its projections for future periods. Changes in factors such as the level of order bookings, the product mix of order bookings and the Company's manufacturing processes could have a material impact on the Company's assessment of the net realizable value of inventory in the future.

Valuation of Deferred Tax Assets

The Company regularly evaluates its ability to recover the reported

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amount of its deferred income taxes considering several factors, including its estimate of the likelihood of the Company generating sufficient taxable income in future years during the period over which temporary differences reverse. Presently, the Company believes that it is more likely than not that it will realize the benefits of its deferred tax assets based primarily on its history of and projections for taxable income in the future, and its intention to carry back net operating losses to generate refunds of income taxes previously paid. In the event that actual results differ from its estimates or the Company adjusts these estimates in future periods, the Company may need to establish a valuation allowance against a portion or all of its deferred tax assets, which could materially impact its financial position or results of operations in future periods.

Valuation of Long-lived Assets

The Company assesses the recoverability of long-lived assets whenever the Company determines that events or changes in circumstances indicate that the carrying amount may not be recoverable. Its assessment is primarily based upon its estimate of future cash flows associated with these assets. The Company believes that the carrying amount of its long-lived assets is recoverable. However, should its operating results deteriorate, or anticipated new product launches not occur or not attain the commercial acceptance that the Company anticipates, the Company may determine that some portion of its long-lived assets are impaired. Such determination could result in non-cash charges to income that could materially affect its financial position or results of operations for that period.

17

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED) (In thousands, except per share data)

IMPACT OF NEW ACCOUNTING STANDARDS

None

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk exposure at March 31, 2004 as it relates to currency exchange rate and security price risks is consistent with the types of market risk and amount of exposures presented in its Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

Commodity price risk. The Company uses certain precious metals in the manufacturing of its products (primarily palladium, gold and silver), and is therefore subject to certain commodity price risks. The Company believes that, based upon its current levels of production and inventories of precious metals, it will need to buy additional quantities of precious metals during the next year. The price of precious metals have begun to rise due to the higher demand coming from the electronics industry and other industries. Consequently, the Company has purchased a quantity of these metals to protect against rising prices and has committed to purchasing additional amounts of palladium and silver over the next year in order to lock in current market prices. There is no guarantee that if the market price of silver or palladium were to decrease, the Company would not be required to purchase the palladium or silver at above market prices. Should the Company need to buy gold during the next year it will do so at the prevailing market price.

ITEM 4. CONTROLS AND PROCEDURES

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Evaluation of Disclosure Controls and Procedures

In response to the requirements of the Sarbanes-Oxley Act of 2002, as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), the Company's President and Chief Executive Officer and Vice President - Controller carried out an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, these officers concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries was made known to them by others within those entities, particularly during the period in which this report was being prepared.

Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation of such internal controls that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

18

PART II - OTHER INFORMATION

- ITEMS 1. THROUGH 5. Not Applicable
- ITEM 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

EXHIBIT NO.	DESCRIPTION
-----	-----

- | | |
|-------|---|
| 10(k) | - Consulting Agreement, dated January 1, 2004, between the Company and Stuart P. Litt. |
| 10(o) | - Master Loan Agreement, dated April 2, 2004, between the Company and General Electric Capital Corporation. |
| 10(r) | - Employment Agreement, dated January 1, 2004, between the Company and David Ott. |
| 31.1 | - Section 302 Certification of Principal Executive Officer. |
| 31.2 | - Section 302 Certification of Principal Accounting Officer. |
| 32.1 | - Section 906 Certification of Principal Executive Officer. |
| 32.2 | - Section 906 Certification of Principal Accounting Officer. |

(b) REPORTS ON FORM 8-K

1. On February 3, 2004, the Company furnished a report on Form 8-K together with the Company's Press Release announcing its second quarter financial results for the period ended December 31, 2003. The Form 8-K contained the information required by Item 12. "Disclosure of Results of Operations and Financial Condition".

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated:

AMERICAN TECHNICAL CERAMICS CORP.
(Company)

DATE: May 13, 2004

BY: /s/ VICTOR INSETTA

Victor Insetta
President and Director
(Principal Executive Officer)

DATE: May 13, 2004

BY: /s/ ANDREW R. PERZ

Andrew R. Perz
Vice President, Controller
(Principal Accounting Officer)