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AMERICAN TECHNICAL CERAMICS CORP  
Form 10-Q  
May 13, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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  
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AMERICAN TECHNICAL CERAMICS CORP.  
-----

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

11-2113382  
-----

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

17 STEPAP 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 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 ( )

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

As of May 5, 2003, the Registrant had outstanding 8,076,118 shares of Common Stock, par value \$.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, 2003	JUNE 30, 2002
	-----	-----
ASSETS		
	(UNAUDITED)	
Current assets		
Cash (including cash equivalents of \$472 and \$3,606, respectively)	\$ 8,422	\$ 7,129
Investments	3,002	3,025
Accounts receivable, net	5,910	6,328
Inventories	15,834	15,417
Deferred income taxes, net	2,284	2,284
Other current assets	884	2,564
	-----	-----
TOTAL CURRENT ASSETS	36,336	36,747
	-----	-----
Property, plant and equipment, net of accumulated depreciation and amortization of \$35,941 and \$32,158, respectively	27,877	29,740
Other assets, net	52	87
	-----	-----
TOTAL ASSETS	\$ 64,265	\$ 66,574
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt (including related party debt of \$346 and \$205, respectively)	\$ 371	\$ 4,276
Accounts payable	1,269	878
Accrued expenses	2,910	3,218
Income taxes payable	629	---
	-----	-----
	5,179	8,372
Long-term debt, net of current portion (including related party debt of \$3,382 and \$2,338, respectively)	3,393	2,368
Deferred income taxes	3,640	3,642
	-----	-----
TOTAL LIABILITIES	12,212	14,382
	-----	-----
Commitments and Contingencies		
Stockholders' Equity		
Common Stock -- \$.01 par value; authorized 20,000 shares; issued 8,497 and 8,492 shares, respectively	85	85
Capital in excess of par value	11,415	11,380
Retained earnings	41,880	42,171
Accumulated other comprehensive loss:		
Unrealized gain on investments available-for-sale, net	1	5
Cumulative foreign currency translation adjustment	84	(46)
	-----	-----
	85	(41)
	-----	-----

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Less: Treasury stock, at cost (421 and 418 shares, respectively)	1,408	1,403
Deferred compensation	4	---
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	52,053	52,192
	-----	-----
	\$ 64,265	\$ 66,574
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months		For the Nine Months	
	Ended March 31,		Ended March 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
Net sales	\$11,930	\$11,956	\$35,978	\$37,443
Cost of sales	8,622	9,412	25,155	28,202
	-----	-----	-----	-----
Gross profit	3,308	2,544	10,823	9,241
	-----	-----	-----	-----
Selling, general and administrative expenses	3,040	3,158	8,815	9,313
Research and development expenses	694	923	2,027	2,608
Other	93	24	384	(29)
	-----	-----	-----	-----
Operating expenses	3,827	4,105	11,226	11,892
	-----	-----	-----	-----
Loss from operations	(519)	(1,561)	(403)	(2,651)
	-----	-----	-----	-----
Other (income) expense:				
Interest expense	98	113	262	386
Interest income	(22)	(22)	(80)	(158)
Other	---	(51)	---	(157)
	-----	-----	-----	-----
	76	40	182	71
	-----	-----	-----	-----
Loss before provision for income taxes	(595)	(1,601)	(585)	(2,722)
Benefit from income taxes	(296)	(544)	(294)	(925)
	-----	-----	-----	-----
Net loss	\$ (299)	\$ (1,057)	\$ (291)	\$ (1,797)
	=====	=====	=====	=====

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Basic net loss per common share	\$ (0.04)	\$ (0.13)	\$ (0.04)	\$ (0.22)
	=====	=====	=====	=====
Diluted net loss per common share	\$ (0.04)	\$ (0.13)	\$ (0.04)	\$ (0.22)
	=====	=====	=====	=====
Basic weighted average common shares outstanding	8,076	8,058	8,073	8,045
	=====	=====	=====	=====
Diluted weighted average common shares outstanding	8,076	8,058	8,073	8,045
	=====	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended March 31,	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
	(In thousands) (unaudited)	
Net loss	\$ (291)	\$ (1,797)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,000	3,849
Loss on disposal of fixed assets	469	28
Stock award compensation expense	12	287
Realized gain on sale of investments	---	(160)
Changes in operating assets and liabilities:		
Accounts receivable	418	4,907
Inventories	(417)	1,964
Other assets	1,724	415
Accounts payable and accrued expenses	82	(3,763)
Income taxes payable	629	(2,080)
	-----	-----
Net cash provided by operating activities	6,626	3,650
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,168)	(2,926)
Purchase of investments	(2,491)	(4,325)
Proceeds from sale of investments	2,500	4,898
Proceeds from sale of fixed assets	---	29
	-----	-----
Net cash used in investing activities	(1,159)	(2,324)
	-----	-----

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CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(4,317)	(2,544)
Proceeds from the exercise of stock options	13	154
Proceeds from issuance of debt	---	2,000
	-----	-----
Net cash used in financing activities	(4,304)	(390)
	-----	-----
	-----	-----
Effect of exchange rate changes on cash	130	53
	-----	-----
	-----	-----
Net increase in cash and cash equivalents	1,293	989
	-----	-----
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,129	1,659
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,422	\$ 2,648
	=====	=====
Supplemental cash flow information:		
Interest paid	\$ 300	\$ 418
Taxes paid	\$ ---	\$ 1,165

See accompanying notes to unaudited consolidated financial statements.

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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 "Registrant") 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, 2003 and the results of its operations for the three and nine month periods ended March 31, 2003 and 2002. 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 Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002. Results for the three and nine month periods ended March 31, 2003 are not necessarily indicative of results which could be expected for the entire year.

(2) IMPACT OF NEW ACCOUNTING STANDARDS:

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 applies to costs associated with an exit activity, including restructuring costs. Companies will record a liability for exit or disposal activity as such amounts are incurred and can be measured at fair value. The Registrant adopted SFAS No. 146 in January 2003. Such adoption had no impact on its financial statements.

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In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS No. 148"), which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FASB Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS No. 148 is effective for interim periods beginning after December 15, 2002 and for annual periods ending after December 15, 2002. The Registrant has elected not to adopt the fair value based method and continues to apply the intrinsic value-based method to account for stock options. It has adopted the new disclosure requirements of SFAS No. 148.

In December 2002, the Registrant adopted the Financial Accounting Standards Board Statement of Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees, Including Indirect Guarantees of Indebtedness of Others". It requires among other things certain disclosures about warranty obligations. Although the Registrant does not generally warranty its products, return of defective product is typically accepted. The Registrant provides for estimated sales returns when the underlying sale is made. Product returns and warranty obligations have not historically been significant.

### (3) SUPPLEMENTAL CASH FLOW INFORMATION:

During the nine months ended March 31, 2003, the Registrant (i) granted, on July 1, 2002, \$16 in deferred compensation stock awards that vest ratably throughout fiscal year 2003, and (ii) adjusted a capital lease relating to its Jacksonville, Florida facility to reflect certain additions to the facility. The adjustment increased both fixed assets and the related long-term debt by \$1,437. See Note (7).

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

### (4) INVENTORIES:

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

	March 31, 2003	June 30, 2002
	-----	-----
	(unaudited)	
Raw materials	\$ 7,296	\$ 7,753
Work-in-process	4,785	3,968
Finished goods	3,753	3,696
	-----	-----
	\$ 15,834	\$ 15,417
	=====	=====

### (5) EARNINGS PER SHARE:

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

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For the Three Months Ended March 31,					
		2003			2002
	(Loss) / Income (Numerator)	SHARES (Denominator)	PER-SHARE AMOUNT	(Loss) / Income (Numerator)	SHARES (Denominator)
	-----	-----	-----	-----	-----
Basic EPS	\$ (299)	8,076	\$ (.04)	\$ (1,057)	8
			=====		
Effect of Dilutive Securities:					
Stock options	---	---		---	
Deferred compensation stock awards	---	---		---	
Diluted EPS	\$ (299)	8,076	\$ (.04)	\$ (1,057)	8
	=====	=====	=====	=====	=====

For the Nine Months Ended March 31,					
		2003			2002
	(Loss) / Income (Numerator)	SHARES (Denominator)	PER-SHARE AMOUNT	(Loss) / Income (Numerator)	SHARES (Denominator)
	-----	-----	-----	-----	-----
Basic EPS	\$ (291)	8,073	\$ (.04)	\$ (1,797)	8
			=====		
Effect of Dilutive Securities:					
Stock options	---	---		---	
Deferred compensation stock awards	---	---		---	
Diluted EPS	\$ (291)	8,073	\$ (.04)	\$ (1,797)	8
	=====	=====	=====	=====	=====

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

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

(6) COMPREHENSIVE LOSS:

The Registrant's comprehensive loss is as follows:

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	Three Months Ended		Nine Months Ended	
	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
Net loss	\$ (299)	\$ (1,057)	\$ (291)	\$ (1,797)
Other comprehensive income/(loss):				
Foreign currency translation adjustments	32	(13)	130	54
Unrealized losses on investments, net of tax	(4)	(34)	(4)	(64)
Other comprehensive income/(loss)	28	(47)	126	(10)
Comprehensive loss	\$ (271)	\$ (1,104)	\$ (165)	\$ (1,807)

(7) INDEBTEDNESS:

Prior to August 2002, the Registrant maintained two credit facilities with Bank of America, N.A., a revolving line of credit and an equipment facility. Each of these facilities was subject to certain financial covenants, including a requirement to maintain a certain level of annualized earnings before interest, taxes, depreciation and amortization (EBITDA) to current debt plus annual interest payments. As of June 30, 2002, due to the losses incurred by the Registrant during fiscal year 2002, the Registrant was not in compliance with this covenant. The Registrant held discussions with Bank of America, N.A. concerning possible amendments to the terms of the facilities which proved to be unsuccessful. Accordingly, in August 2002, the Registrant repaid the outstanding balance under the equipment facility and terminated both facilities.

The Registrant leases a facility in Jacksonville, Florida from a partnership controlled by the Registrant'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 September 2002, primarily to reflect fair market rental adjustments as a result of certain additions or improvements to the facility as required by the terms of the lease. Each such 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 September 1, 2002, the Registrant is obligated to pay approximately \$720 per annum under this lease, an increase from \$461 per annum during fiscal year 2002. The payments due over the remaining eight years of this capital lease, including the portion related to interest, total approximately \$5,393.

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

(8) STOCK BASED COMPENSATION:

On January 16, 2002, the Registrant filed a Schedule TO with the Securities and Exchange Commission, and commenced an offer to exchange outstanding options



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under its existing stock option plans having an exercise price per share of \$19.50 or more for new options. The offer expired on February 13, 2002. The Registrant accepted for exchange options to purchase an aggregate of 432 shares of Common Stock. On August 15, 2002, the Registrant issued 407 new options in exchange for the options tendered and accepted for exchange. The new options were issued at the closing price of the Registrant's Common Stock on August 15, 2002, which was \$2.35 per share.

The Registrant applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for employee stock-based compensation and makes pro-forma disclosures of net income and net income per share as if the fair value method under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", had been applied. Had compensation expense for the Registrant's stock option plans been determined based on the fair value method at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS No. 123, the Registrant's net income (loss) and earnings (loss) per share would have approximated the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
	(In millions except per share amounts)			
Reported net loss	\$ (299)	\$ (1,057)	\$ (291)	\$ (1,797)
Reported basic loss per share	(0.04)	(0.13)	(0.04)	(0.22)
Reported diluted loss per share	(0.04)	(0.13)	(0.04)	(0.22)
Adjustment to compensation expense				
for stock-based awards, net of tax	\$ (376)	\$ (594)	\$ (1,082)	\$ (1,691)
Pro forma net loss	\$ (675)	\$ (1,651)	\$ (1,373)	\$ (3,488)
Pro forma basic loss per share	(0.08)	(0.20)	(0.17)	(0.43)
Pro forma diluted loss per share	(0.08)	(0.20)	(0.17)	(0.43)

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 5 years.

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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 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

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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 Registrant'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 Registrant's Annual Report on Form 10-K. These risks could cause the Registrant's actual results for future periods to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Registrant. Any forward-looking statement represents the Registrant'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 Registrant 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.

### Overview

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Although year-to-year sales are lower for the nine months ended March 31, 2003 compared to the nine months ended March 31, 2002, sales have remained in a narrow range for the past six quarters. The decline in year-to-year comparative sales is mainly due to a weaker first quarter of fiscal year 2003 compared to the first quarter of fiscal year 2002. Bottom-line results, however, are significantly better than the comparative periods from the prior year due in large part to cost reduction efforts taken last fiscal year and to the absence of write-downs of certain inventories to net realizable value as occurred during the first half of last fiscal year. These benefits were partially offset by pretax charges of \$469 in the first nine months of fiscal year 2003 relating to the disposal of certain assets no longer used in the Registrant's manufacturing process.

The market price for palladium, a raw material used in the manufacture of the Registrant's capacitors, has decreased significantly in recent months. This decrease will benefit the Registrant in future quarters. Currently the Registrant is utilizing palladium in inventory purchased at higher costs. At current business levels, it will take three to six months to utilize the remainder of this higher-cost inventory. As such, and provided there is no material increase in the market price for palladium or material change in the usage level, the benefit of lower cost palladium will not be realized until the first half of the next fiscal year.

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

#### RESULTS OF OPERATIONS

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Three Months Ended March 31, 2003 Compared with Three Months Ended March 31,  
-----  
2002  
-----

Net sales for the three months ended March 31, 2003 were \$11,930, essentially level compared to the \$11,956 recorded in the comparable period in the prior fiscal year. Although sales have been level, the mix of products has changed somewhat from small case size capacitors and thin film products toward larger case size capacitors and to the Registrant's newer 600 series capacitors.

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Gross margin for the three months ended March 31, 2003 was 27.7% of net sales, compared to 21.3% for the comparable period in the prior fiscal year. The increase in gross margin was primarily due to lower overhead costs and higher precious metal recovery than in the comparable period last year. Lower overhead costs were the result of cost cutting measures the Registrant had taken during fiscal year 2002 in response to the industry downturn. The increased precious metal recovery was primarily due to a shift in product mix to larger case size capacitors (which use a greater amount of precious metal), as well as the timing of the recovery process.

Selling, general and administrative expenses for the three months ended March 31, 2003 decreased 4% to \$3,040, compared to \$3,158 in the comparable period in the prior fiscal year. The decrease was due to decreased bonuses and the absence of expenses associated with the Registrant's former sales office in England, which was closed during the second quarter of the prior fiscal year. These benefits were partially offset by increased professional fees and travel expenses and costs related to the recently established representative sales office in China.

Research and development expenses for the three months ended March 31, 2003 decreased 25% to \$694, compared to \$923 in the comparable period in the prior fiscal year. A reduction in research and development spending (in the form of reduced headcount and discretionary spending) was among the cost reduction measures put into place last fiscal year.

The Registrant recorded other expense of \$93 for the three months ended March 31, 2003, compared to other expense of \$24 in the comparable period in the prior fiscal year. The other expense for the current three month period related primarily to a pretax charge of \$74 due to the disposal of certain assets no longer used in the Registrant's manufacturing process.

Interest expense for the three months ended March 31, 2003 decreased 13% to \$98, compared to \$113 in the comparable period in the prior fiscal year. The Registrant retired its bank debt during the first quarter of the current fiscal year resulting in reduced interest expense. This reduction was partially offset by increased interest expense on additional capital lease obligations.

Other income was zero during the three months ended March 31, 2003. In comparison, during the three months ended March 31, 2002, the Registrant recorded a gain on the sale of investments of \$51.

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

Bookings for the three months ended March 31, 2003 were \$11,818, compared to \$11,803 for the three months ended March 31, 2002. Although bookings were essentially flat period to period, there was a shift in product mix from small case size capacitors and thin film products toward larger case size capacitors and to the Registrant's newer 600 series capacitors. Delivery times and price are key factors in obtaining orders. The Registrant believes its current levels of inventories should enable it to meet customer delivery requirements in the time frames currently required by customers.

The backlog of unfilled orders was \$10,718 at March 31, 2003, compared to \$9,745 at March 31, 2002, and \$9,325 at June 30, 2002. The increase in backlog was primarily due to the increase in orders from the military market which the Registrant expects to ship over the next several quarters. However, the

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Registrant anticipates that, in general, customers will continue to place orders with short delivery requirements for the foreseeable future resulting in backlog becoming a less important indicator of the Registrant's business.

As a result of the foregoing, net loss for the three months ended March 31, 2003 was \$299, or (\$.04) per common share and common share assuming dilution, compared to a net loss of \$1,057, or (\$.13) per common share and common share assuming dilution, for the comparable period in the prior fiscal year.

Nine Months Ended March 31, 2003 Compared with Nine Months Ended March 31, 2002  
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Net sales for the nine months ended March 31, 2003 decreased 4% to \$35,978, compared to \$37,443 in the comparable period in the prior fiscal year. The decrease in net sales was primarily the result of decreased sales volume due to the economic downturn, particularly as it has affected the telecommunications industry. Nearly the entire sales decline for the nine month period was the result of a weak first quarter of the fiscal year as compared to the first quarter of last fiscal year.

Gross margin for the nine months ended March 31, 2003 was 30.1% of net sales, compared to 24.7% for the comparable period in the prior fiscal year. The increase in gross margin was principally due to the absence of inventory write-downs to net realizable value as occurred in the comparable period last year, cost reductions and higher precious metal recovery. Cost reductions were due to measures taken last fiscal year due to the economic downturn. Increased precious metal recovery for the nine months ended March 31, 2003 was due in part to the shift in product mix and in part to the timing of the recovery process. Conversely, cost of sales for the nine months ended March 31, 2002 was negatively impacted by a charge of \$1,368 to reduce certain inventory to net realizable value.

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### 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, 2003 decreased 5% to \$8,815, compared to \$9,313 in the comparable period in the prior fiscal year. The decrease was due in part to decreased stock bonus accruals as a result of a lower market price for the Registrant's Common Stock and decreased payroll related expenses due to headcount reductions instituted throughout fiscal year 2002. In addition, during the comparable period in the prior fiscal year, the Registrant incurred severance costs of \$203 in connection with the headcount reductions in the United States and England, and professional fees in connection with closing the Registrant's sales office in England during the second quarter of last fiscal year. The effects of these costs (plus the costs associated with operating the sales office in England prior to its closure) were offset partially by increased professional fees and expenses incurred during the first nine months of the current fiscal year related to opening and operating a sales office in China.

Research and development expenses for the nine months ended March 31, 2003 decreased 22% to \$2,027, compared to \$2,608 in the comparable period in the prior fiscal year. The decrease in research and development spending was due to the cost reduction measures referred to above, partially offset by a pretax charge of \$33 relating to the disposal of certain internally designed equipment.

The Registrant recorded other expense of \$384 for the nine months ended March 31, 2003, compared to other income of \$29 in the comparable period in the

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prior fiscal year. The other expense for the current nine month period related primarily to a pretax charge of \$436 due to the disposal of certain assets no longer used in the Registrant's manufacturing process.

Interest expense for the nine months ended March 31, 2003 decreased 32% to \$262, compared to \$386 in the comparable period in the prior fiscal year. The Registrant retired its bank debt during the first quarter of the current fiscal year resulting in reduced interest expense. This reduction was partially offset by additional interest expense on expanded capital lease obligations.

Interest income for the nine months ended March 31, 2003 decreased 49% to \$80, compared to \$158 in the comparable period in the prior fiscal year. The decrease was due to a decline in cash available for investment as a result of the retiring of bank debt (partially offset by cash provided by operations in excess of capital expenditures), as well as lower prevailing interest rates during the period.

Other income was zero for the nine months ended March 31, 2003. In comparison, during the nine months ended March 31, 2002, the Registrant recorded a gain on the sale of investments of \$160.

As a result of the foregoing, the net loss for the nine months ended March 31, 2003 was \$291, or (\$.04) per common share and common share assuming dilution, compared to a net loss of \$1,797, or (\$.22) per common share and common share assuming dilution, for the comparable period in the prior fiscal year.

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

#### LIQUIDITY AND CAPITAL RESOURCES -----

The Registrant's financial position at March 31, 2003 remains strong as evidenced by working capital of \$31,157, and stockholders' equity of \$52,053. The Registrant's current ratio at March 31, 2003 was 7.0:1, compared to a current ratio of 4.4:1 at June 30, 2002. The Registrant's quick ratio at March 31, 2003 was 3.3:1, compared to 2.0:1 at June 30, 2002. The improvement in the Registrant's current and quick ratios was primarily due to the use of available cash to pay off bank debt (all of which was recorded as current liabilities at June 30, 2002), positive operating cash flow and the receipt of tax refunds.

Cash, cash equivalents and investments increased by \$1,270 to \$11,424 at March 31, 2003 from \$10,154 at June 30, 2002, primarily as a result of positive operating cash flows in excess of capital expenditures and the receipt of tax refunds, offset partially by the use of cash to retire bank debt. Accounts receivable decreased by \$418 to \$5,910 at March 31, 2003 from \$6,328 at June 30, 2002, due to lower sales in the quarter ended March 31, 2003. Inventories increased by \$417 to \$15,834 at March 31, 2003 from \$15,417 at June 30, 2002. Other current assets decreased by \$1,680 to \$884 at March 31, 2003 from \$2,564 at June 30, 2002 due to the receipt of tax refunds as the result of net operating losses incurred last fiscal year. Accounts payable and accrued expenses increased by \$83 to \$4,179 at March 31, 2003 from \$4,096 at June 30, 2002.

The Registrant leases a facility in Jacksonville, Florida from a partnership controlled by the Registrant's President, Chief Executive Officer

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and principal stockholder under a capital lease. The rental payments under this lease have been adjusted several times, most recently as of September 2002, primarily to reflect fair market rental adjustments as a result of certain additions or improvements to the facility as required by the terms of the lease. Each such 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 September 1, 2002, the Registrant is obligated to pay approximately \$720 per annum under this lease, an increase from \$461 per annum during fiscal year 2002. The payments due over the remaining eight years of this capital lease, including the portion related to interest, total approximately \$5,393.

Capital expenditures for the nine months ended March 31, 2003 totaled \$1,168, including expenditures for machinery and equipment and planned leasehold improvements, but excluding the adjustment to the capital lease discussed above. The Registrant intends to use cash on hand to finance budgeted capital expenditures of approximately \$400 for the remainder of fiscal year 2003, primarily for equipment acquisitions.

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### 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, 2003 mature as follows:

	Payments Due by Period (in 000's)				
	Total	Less than 1 year	1- 3 years	4- 5 years	After 5 years
Contractual Obligations					
Bank Debt	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Capital Lease Obligations	3,764	371	1,293	1,106	994
Operating Leases	2,341	496	1,230	615	---
Total Contractual Obligations	\$6,105	\$ 867	\$2,523	\$1,721	\$ 994
	=====	=====	=====	=====	=====

As described previously, in August 2002, the Registrant repaid the outstanding balance of its equipment line from Bank of America, N.A. Accordingly, the Registrant currently has no outstanding long-term bank debt or available committed lines of credit.

The Registrant 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 six months. None of these obligations are individually significant. The Registrant does not expect that these commitments will materially adversely affect its liquidity in the foreseeable future.

CRITICAL ACCOUNTING POLICIES

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The SEC defines "critical 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 Registrant'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, 2002. The Registrant believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

Allowances for Doubtful Accounts Receivable  
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The Registrant performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and customer's current creditworthiness, as determined by its review of the customer's current credit information. The Registrant 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 Registrant has identified. While such credit losses have historically been within the Registrant's expectations and the allowances established, the Registrant can not 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 Registrant's revised estimate of such losses may negatively impact the Registrant's operating results in the future.

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

Sales Returns and Allowances  
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In the ordinary course of business, the Registrant accepts returns of products sold for various reasons and grants sales allowances to customers. While the Registrant 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 Registrant 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 Registrant's expectations, actual return and allowance rates in the future may differ from current estimates, which could negatively impact its operating results in the future.

Inventory Valuation  
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The Registrant values inventory at the lower of aggregate cost (First-in, First-out) or market for its finished product. When the cost of inventory is determined by management to be in excess of its market value, inventory is written down to its estimated net realizable value. This requires the Registrant 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 Registrant's manufacturing processes could

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have a material impact on the Registrant's assessment of the net realizable value of inventory in the future.

### Valuation of Deferred Tax Assets

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The Registrant regularly evaluates its ability to recover the reported amount of its deferred income taxes considering several factors, including its estimate of the likelihood of the Registrant generating sufficient taxable income in future years during the period over which temporary differences reverse. Presently, the Registrant 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 projections or the Registrant adjusts these projections in future periods, the Registrant 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 and Intangible Assets

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The Registrant assesses the recoverability of long-lived assets whenever the Registrant determines that events or changes in circumstances indicate that the carrying amount may not be recoverable. Its assessment is primarily based upon an asset's usefulness in the manufacturing process or management's estimate of the future cash flows associated with the asset. The Registrant believes that the carrying amount of its long-lived assets are recoverable. However, should its operating results deteriorate, or anticipated new product launches not occur or not attain the commercial acceptance that the Registrant anticipates, the Registrant 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.

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

### IMPACT OF NEW ACCOUNTING STANDARDS

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In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 applies to costs associated with an exit activity, including restructuring costs. Companies will record a liability for exit or disposal activity as such amounts are incurred and can be measured at fair value. The Registrant adopted SFAS No. 146 in January 2003. Such adoption had no impact on its financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS No. 148"), which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FASB Statement 123 to require more prominent and more frequent



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disclosures in financial statements about the effects of stock-based compensation. SFAS No. 148 is effective for interim periods beginning after December 15, 2002 and for annual periods ending after December 15, 2002. The Registrant has elected not to adopt the fair value based method and continues to apply the intrinsic value-based method to account for stock options. It has adopted the new disclosure requirements of SFAS No. 148.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Registrant has identified two market risks relative to its business: foreign currency exchange rate risk and commodity price risk. The Registrant has managed its market risk exposures in order to minimize their potential impact on its consolidated financial condition and results of operations. Specifically:

- a) Foreign currency exchange rate risk. Certain transactions by the

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Registrant's wholly-owned subsidiary in Sweden and the Registrant's sales office in China are denominated in currencies other than U.S. Dollars. The Registrant's foreign operations incur expenses in their respective local currencies. Sales are incurred in varying currencies. The Registrant does not hedge foreign currency transactions but limits payment terms to minimize foreign currency exchange exposure. Additionally, the Registrant intends to reinvest earnings from foreign operations into the operations that generate those earnings. The Registrant has not experienced any significant impact from exchange rate fluctuation in the past, and does not anticipate a significant impact due to exchange rate fluctuation in the foreseeable future.

- b) Commodity price risk. Following substantial reductions in the price

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of palladium, prices for this precious metal, which is used in the manufacture of the Registrant's capacitors, have stabilized. The Registrant believes that, based upon its current levels of production and inventories of palladium, it will need to buy additional quantities of palladium later in the fiscal year at prevailing market prices. The Registrant believes that the price of palladium will remain stable in the near term due to the lower demand coming from the electronics industry. Should the Registrant anticipate an increase in the market price of palladium, it may revert to purchasing additional inventories of palladium to protect against future unavailability and unstable pricing.

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### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (CONTINUED)

The Registrant had identified two other market risks in its Annual Report on Form 10-K for the fiscal year ended June 30, 2002: interest rate risk and security price risk. During the quarter ended September 30, 2002, the Registrant repaid all of its outstanding bank debt. See Note 7 to Notes to Unaudited Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." Consequently, at the present time, the Registrant does not consider interest rate risk to be a market risk relative to its business. In addition, all of the securities currently held by the Registrant for investment are government securities with maturities of less than one year. Accordingly, at the present time, the Registrant does not consider security price risk to be a market risk relative to its business.

### ITEM 4. CONTROLS AND PROCEDURES

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### Evaluation of Disclosure Controls and Procedures

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In response to the requirements of the Sarbanes-Oxley Act of 2002, the Registrant reviewed and modified its "disclosure controls and procedures" (as defined in Securities Exchange Act of 1934 Rules 13a-14(c) and 15(d)-4(c)). Within 90 days prior to the date of this report (the "Evaluation Date"), the Registrant's President and Chief Executive Officer and Vice President, Controller carried out an evaluation of the effectiveness of these disclosure controls and procedures. Based on that evaluation, these officers concluded that, as of the Evaluation Date, the Registrant's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Registrant and the Registrant's consolidated subsidiaries would be made known to them by others within those entities.

### Changes in Internal Controls

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Subsequent to the Evaluation Date, there were no significant changes in the Registrant's internal controls, or to the Registrant's knowledge, in other factors that could significantly affect these controls.

## PART II - OTHER INFORMATION

ITEMS 1. THROUGH 5.      Not Applicable  
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ITEM 6.                      Exhibits and Reports on Form 8-K  
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(a)                              Exhibits  
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Unless otherwise indicated, the following exhibits were filed as part of the Registrant's Registration Statement on Form S-18 (No. 2-96925-NY) (the "Registration Statement") and are incorporated herein by reference to the same exhibit thereto:

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EXHIBIT NO.	DESCRIPTION
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3(a)(i)	- Certificate of Incorporation of the Registrant.
3(a)(ii)	- Amendment to Certificate of Incorporation. (1)
3(b)(i)	- By-laws of the Registrant.
9(a)(i)	- Restated Shareholders' Agreement, dated April 15, 1985, among Victor Insetta, Joseph Mezey, Joseph Colandrea and the Registrant.
10(b)	- Lease, dated September 1, 2002, between Stepar Leasing, LLC and the Registrant for premises at 15 Stepar Place, Huntington Station, N.Y. (12)
10(c)(i)	- Form of 1985 Employee Stock Sale Agreement between the Registrant and various employees.

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- 10(c) (ii) - Form of Employee Stock Bonus Agreement, dated as of July 1, 1993, between the Registrant and various employees. (2)
- 10(c) (iii) - Form of Employee Stock Bonus Agreement, dated as of April 19, 1994, between the Registrant and various employees. (2)
- 10(c) (iv) - Form of Employee Stock Bonus Agreement, dated as of April 20, 1995, between the Registrant and various employees. (3)
- 10(e) (i) - Second Amended and Restated Lease, dated as of May 16, 2000, between V.P.I. Properties Associates, d/b/a V.P.I. Properties Associates, Ltd., and American Technical Ceramics (Florida), Inc. (7)
- 10(g) (iii) - Profit Bonus Plan, dated April 19, 1995, and effective for the fiscal years beginning July 1, 1994. (3)
- 10(g) (iv) - Employment Agreement, dated April 3, 1985, between the Registrant and Victor Insetta, and Amendments No. 1 through 4 thereto. (1)
- 10(g) (v) - Amendment No. 5, dated as of September 11, 1998, to Employment Agreement between the Registrant and Victor Insetta. (5)
- 10(g) (vi) - Amendment No. 6, dated as of January 3, 2001, to Employment Agreement between the Registrant and Victor Insetta. (13)
- 10(h) - Employment Agreement, dated September 1, 2000, between the Registrant and Richard Monsorno. (8)

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- 10(i) - Managers Profit Bonus Plan, dated December 7, 1999, and effective January 1, 2000. (6)
- 10(k) - Consulting Agreement, dated October 2000, between the Registrant and Stuart P. Litt. (8)
- 10(m) (i) - American Technical Ceramics Corp. 1997 Stock Option Plan. (4)
- 10(m) (ii) - American Technical Ceramics Corp. 2000 Incentive Stock Plan. (6)
- 10(p) - Second Amended and Restated Employment Agreement, dated as of December 31, 2001, between the Registrant and Judah Wolf. (10)
- 10(r) - Employment Agreement, dated April 10, 2001, between the Registrant and David Ott. (9)
- 10(r) (i) - Amendment to Employment Agreement, dated as of January 1, 2001, between the Registrant and David Ott. (10)
- 10(s) - Employment Agreement, dated April 1, 2003, between the Registrant and Stephen Beyel. (13)
- 21 - Subsidiaries of the Registrant. (11)
- 99.1 - Section 302 Certification of Chief Executive Officer. (13)
- 99.2 - Section 302 Certification of Principal Accounting Officer. (13)
- 99.3 - Section 906 Certifications. (13)

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1. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993.
  2. Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1994.
  3. Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1995.
  4. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997.
  5. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
  6. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

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7. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.
8. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.
9. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001.
10. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2002.
11. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.
12. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002.
13. Filed herewith.

(b)

REPORTS ON FORM 8-K

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1. On February 13, 2003, the Registrant furnished a report on Form 8-K together with the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2002. The report on Form 8-K contained the certification required by Section 906 of the Sarbanes-Oxley Act of 2002.
2. On May 6, 2003, the Registrant furnished a report on Form 8-K together with the Registrant's Press Release announcing its third quarter financial results for the period ended March 31, 2003. The Form 8-K contained the information required by "Item 9. Regulation FD Disclosure" and Item 12. Disclosure of Results of Operations and Financial Condition," in accordance with SEC Release 33-8216.

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SIGNATURES

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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 Registrant in the capacities and on the dates indicated:

AMERICAN TECHNICAL CERAMICS CORP.  
(Registrant)

DATE: May 13, 2003

BY: /s/ VICTOR INSETTA  
-----  
Victor Insetta  
President and Director  
(Principal Executive Officer)

DATE: May 13, 2003

BY: /s/ ANDREW R. PERZ  
-----  
Andrew R. Perz  
Vice President, Controller  
(Principal Accounting Officer)