AMERICAN TECHNICAL CERAMICS CORP
Form 10-Q
February 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 DECEMBER 31, 2002

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 Registrant as specified in Its charter)

DELAWARE	11-2113382
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
17 STEPAR PLACE, HUNTINGTON STATION, NY	11746
(Address of Principal Executive Offices)	(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 February 4, 2003, the Registrant had outstanding 8,075,618 shares of Common Stock, par value $.01 per share.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	DEC. 31, 2002	JUN
ASSETS	(unaudited)	
Current assets		
Cash (including cash equivalents of $471 and $3,606, respectively)	$ 6,252	$
Investments	3,013	
Accounts receivable, net	5,633	
Inventories	15,058	
Deferred income taxes, net	2,284	
Other current assets	2,835	
TOTAL CURRENT ASSETS	35,075	
Property, plant and equipment, net of accumulated depreciation and amortization of $34,651 and $32,158, respectively	28,804	
Other assets, net	47	
TOTAL ASSETS	$ 63,926	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt (including related party debt of $337 and $205, respectively)	$ 362	$
Accounts payable	986	
Accrued expenses	3,126	
	4,474	
Long-term debt, net of current portion (including related party debt of $3,472 and $2,338, respectively)	3,490	
Deferred income taxes	3,642	
TOTAL LIABILITIES	11,606	
Commitments and Contingencies		
Stockholders' Equity		
Common Stock -- $.01 par value; authorized 20,000 shares; issued 8,497 and 8,492 shares, respectively	85	
Capital in excess of par value	11,415	
Retained earnings	42,179	
Accumulated other comprehensive loss:		
Unrealized gain on investments available-for-sale, net	5	
Cumulative foreign currency translation adjustment	52	
	57	
Less: Treasury stock, at cost (421 and 418 shares, respectively)	1,408	

Deferred compensation	8	
TOTAL STOCKHOLDERS' EQUITY	52,320	
	$ 63,926	$

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended Dec. 31, 2002	2001	For t 20
Net sales	$ 11,561	$ 11,582	$
Cost of sales	8,132	9,246	
Gross profit	3,429	2,336	
Selling, general and administrative expenses	2,813	3,135	
Research and development expenses	664	833	
Other	342	(7)	
Operating expenses	3,819	3,961	
(Loss)/ income from operations	(390)	(1,625)	
Other (income) expense:			
Interest expense	104	130	
Interest income	(21)	(76)	
Other	---	(106)	
	83	(52)	
(Loss)/ income before provision for income taxes	(473)	(1,573)	
(Benefit from)/ provision for income taxes	(143)	(535)	
Net (loss)/ income	$ (330)	$ (1,038)	$
Basic net (loss)/ income per common share	$ (0.04)	$ (0.13)	$

Diluted net (loss)/ income per common share	$ (0.04)	$ (0.13)	$
Basic weighted average common shares outstanding	8,073	8,047	
Diluted weighted average common shares outstanding	8,073	8,047	

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 Six Months Ended Decembe	
	2002	2001
	(In thousands) (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 8	$
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	2,663	
Loss on disposal of fixed assets	391	
Stock award compensation expense	8	
Realized gain on sale of investments	---	
Changes in operating assets and liabilities:		
Accounts receivable	695	
Inventories	359	
Other assets	(226)	
Accounts payable and accrued expenses	16	
Income taxes payable	---	
Net cash provided by operating activities	3,914	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(674)	
Purchase of investments	(993)	
Proceeds from sale of investments	1,000	
Proceeds from sale of fixed assets	---	
Net cash used in investing activities	(667)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(4,229)	
Proceeds from the exercise of stock options	13	

Net cash used in financing activities	(4,216)	
Effect of exchange rate changes on cash	92	
Net (decrease)/ increase in cash and cash equivalents	(877)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,129	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,252	$
Supplemental cash flow information:		
Interest paid	$ 201	$
Taxes paid	$ ---	$

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 December 31, 2002 and the results of its operations for the three and six month periods ended December 31, 2002 and 2001. 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 six month periods ended December 31, 2002 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 does not expect the adoption of SFAS No. 146 to have a material impact on its consolidated results of operations or financial position.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock Based

(In thousands, except per share data)

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 plans to continue to apply the intrinsic value-based method to account for stock options and will comply with the new disclosure requirements beginning with the third quarter of fiscal year 2003.

In December 2002, the Registrant adopted the Financial Accounting Standards Board issued Statement of Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). Fin No. 45 provides the interpretation of FASB Statements No. 5, 57 and 107 and the rescission of FASB Interpretation No. 34. The implementation of this accounting pronouncement did not have any effect on the Registrant's results of operations, financial position or cash flows.

Although the Registrant does not explicitly warranty its products, return of defective product is generally accepted. The Registrant provides for estimated sales returns when the underlying sale is made. Product returns have not historically been significant.

(3) SUPPLEMENTAL CASH FLOW INFORMATION:

During the six months ended December 31, 2002, 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).

During the six months ended December 31, 2002, the Registrant recorded a pretax charge of $391 relating to the disposal of certain assets no longer used in its manufacturing process.

(4) INVENTORIES:

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

	December 31, 2002	June 30, 2002
	(unaudited)	
Raw materials	$ 6,899	$ 7,753
Work-in-process	4,420	3,968
Finished goods	3,739	3,696
	$ 15,058	$ 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.

	For the Three Months Ended December 31,				
	2002			2001	
	(Loss)/ Income (Numerator)	Shares (Denominator)	Per-Share Amount	(Loss)/ Income (Numerator)	Shares (Denominator)
Basic EPS	$ (330)	8,073	$ (.04)	$ (1,038)	8,047
Effect of Dilutive Securities:					
Stock options	---	---		---	---
Deferred compensation stock awards	---	---		---	---
Diluted EPS	$ (330)	8,073	$ (.04)	$ (1,038)	8,047

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

(5) EARNINGS PER SHARE (CONTINUED):

	For the Six Months Ended December 31,				
	2002			2001	
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	(Loss)/ Income (Numerator)	Shares (Denominator
Basic EPS	$ 8	8,072	$ 0.00	$ (740)	8,03
Effect of Dilutive Securities:					
Stock options	---	145		---	--
Deferred compensation stock awards	---	7		---	--
Diluted EPS	$ 8	8,224	$ 0.00	$ (740)	8,03

(In thousands, except per share data)

Options covering 665 and 1,300 shares, respectively, have been omitted from the calculation of dilutive EPS for the three months ended December 31, 2002 and 2001, respectively, because their inclusion would have been antidilutive.

(6) COMPREHENSIVE INCOME/(LOSS):

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

	For The Three Months Ended December 31, 2002	2001
Net loss	$ (330)	$ (1,038)
Other comprehensive income/(loss):		
Foreign currency translation adjustments	114	(4)
Unrealized losses on investments, net of tax	(1)	(138)
Other comprehensive income/(loss)	113	(142)
Comprehensive loss	$ (217)	$ (1,180)

	For The Six Months Ended December 31, 2002	2001
Net income/(loss)	$ 8	$ (740)
Other comprehensive income/(loss)		
Foreign currency translation adjustments	98	67
Unrealized loss on investments, net of tax	---	(30)
Other comprehensive income	98	37
Comprehensive income/(loss)	$ 106	$ (703)

(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 $5,573.

(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 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.

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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 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

The Registrant experienced a loss in the second quarter of fiscal year 2003 following the first profitable quarter in a year, demonstrating the volatile nature of the electronic components industry. Sales declined compared to the first quarter of this fiscal year, due in part to the annual shutdown at the end of December resulting in a quarter with one less working week. Operating expenses declined for the same reason, albeit at a lower rate due to the fixed nature of certain expenses.

Despite lower sales levels, net results for the three and six months improved from the comparable periods in the prior fiscal year due to cost reduction and control measures put in place during the prior fiscal year. Additionally, inventory has stabilized at levels appropriate for the current business environment. As a result, there have been no write-downs of inventory to net realizable value in the current fiscal year as had occurred in the comparable periods in the prior fiscal year. These benefits were partially offset by a pretax charge of $362 relating to the disposal of certain assets no longer used in the Registrant's manufacturing process.

The trend of increased bookings continued during the second quarter of fiscal year 2003 due to strong orders from the military market. Although orders placed in recent quarters generally have required short delivery lead times, certain orders placed in the second quarter are expected to be delivered several quarters in the future.

The Registrant continues to add resources selectively where it sees opportunities for current or future growth.

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

RESULTS OF OPERATIONS

Three Months Ended December 31, 2002 Compared with Three Months Ended December 31, 2001

Net sales for the three months ended December 31, 2002 were $11,561, essentially level compared to the $11,582 recorded in the comparable period in the prior fiscal year.

Gross margin for the three months ended December 31, 2002 was 29.7% of net sales, compared to 20.2% 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 of sales for the three months ended December 31, 2001 were negatively impacted by a charge of $830 to reduce certain inventory to net realizable value. The Registrant believes that its inventory is now at levels appropriate for the current business environment.

Selling, general and administrative expenses for the three months ended December 31, 2002 decreased 10% to $2,813, compared to $3,135 in the comparable period in the prior fiscal year. The decrease was due to decreased bonuses and a lack of expenses related to the Registrant's former sales office in England, which was closed during the second quarter of the prior fiscal year.

Research and development expenses for the three months ended December 31, 2002 decreased 20% to $664, compared to $833 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 $342 for the three months ended December 31, 2002, compared to other income of $7 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 $362 due to the disposal of certain assets no longer used in the Registrant's manufacturing process.

Interest expense for the three months ended December 31, 2002 decreased 20% to $104, compared to $130 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.

Interest Income for the three months ended December 31, 2002 decreased 72% to $21, compared to $76 in the comparable period in the prior fiscal year. The decrease was due to a lower amount of cash available for investing due to the retiring of the bank debt, as well as lower prevailing interest rates during the period.

Other income was nil during the three months ended December 31, 2002. In comparison, during the three months ended December 31, 2001, the Registrant recorded a gain on the sale of investments of $109.

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 December 31, 2002 were $13,248, compared to $9,452 for the three months ended December 31, 2001. The increase is partly due to strong orders from the military market. Bookings have improved significantly across all product lines. 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 $10,814 at December 31, 2002, compared to $10,644 at December 31, 2001 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 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 December 31, 2002 was $330, or ($.04) per common share (($.04) per common share assuming dilution), compared to net loss of $1,038, or ($.13) per common share (($.13) per common share assuming dilution), for the comparable period in the prior fiscal year.

Six Months Ended December 31, 2002 Compared with Six Months Ended December 31, 2001

Net sales for the six months ended December 31, 2002 decreased 6% to $24,048, compared to $25,487 in the comparable period in the prior fiscal year. The decrease in net sales was primarily the result of decreased sales volume across all major product lines due to the economic downturn affecting the entire electronic component industry. Sales were down in all market sectors except the medical equipment sector.

Gross margin for the six months ended December 31, 2002 was 31.3% of net sales, compared to 26.3% 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 of sales for the six months ended December 31, 2001 were negatively impacted by a charge of $1,427 to reduce certain inventory to net realizable value.

Selling, general and administrative expenses for the six months ended December 31, 2002 decreased 6% to $5,775, compared to $6,155 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 in the first and fourth quarters of fiscal year 2002. In addition, during the comparable period in the prior fiscal year, the Registrant incurred severance costs of $203 in connection with 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 non-recurring 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 six months of the current fiscal year related to opening a sales office in China.

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

Research and development expenses for the six months ended December 31, 2002 decreased 21% to $1,333, compared to $1,685 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 $29 relating to the disposal of certain internally designed equipment.

The Registrant recorded other expense of $291 for the six months ended December 31, 2002, compared to other income of $53 in the comparable period in the prior fiscal year. The other expense for the current six month period related primarily to a pretax charge of $362 due to the disposal of certain assets no longer used in the Registrant's manufacturing process.

Interest expense for the six months ended December 31, 2002 decreased 40% to $164, compared to $273 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.

Interest income for the six months ended December 31, 2002 decreased 57% to $58, compared to $136 in the comparable period in the prior fiscal year. The decrease was due to a lower amount of cash available for investing due to the retiring of the bank debt, as well as lower prevailing interest rates during the period.

Other income was nil for the six months ended December 31, 2002. In comparison, during the six months ended December 31, 2001, the Registrant recorded a gain on the sale of investments of $109.

The Registrant was at breakeven for the six months ended December 31, 2002 despite lower sales than the comparable period last fiscal year, primarily due to the cost reduction measures employed by the Registrant and the absence of inventory write-downs to net realizable value as occurred in the comparable period last year.

LIQUIDITY AND CAPITAL RESOURCES

The Registrant's financial position at December 31, 2002 remains strong as evidenced by working capital of $30,601, and stockholders' equity of $52,320. The Registrant's current ratio at December 31, 2002 was 7.8:1, compared to a current ratio of 4.4:1 at June 30, 2002. The Registrant's quick ratio at December 31, 2002 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).

Cash, cash equivalents and investments decreased by $889 to $9,265 at December 31, 2002 from $10,154 at June 30, 2002, primarily as a result of retiring bank debt, offset partially by positive operating cash flows in excess of capital expenditures. Accounts receivable decreased by $695 to $5,633 at December 31, 2002 from $6,328 at June 30, 2002, due to lower sales in the quarter ended December 31, 2002. Inventories decreased by $359 to $15,058 at December 31, 2002 from $15,417 at June 30, 2002. Accounts payable and accrued expenses increased by $16 to $4,112 at December 31, 2002 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 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 $5,573.

(In thousands, except per share data)

Capital expenditures for the six months ended December 31, 2002 totaled $674, 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 $1,400 for the remainder of fiscal year 2003, primarily for equipment acquisitions.

Aggregate contractual obligations as of December 31, 2002 mature as follows:

	Payments Due by Period (in 000's)				
Contractual Obligations	Total	Less than 1 year	1- 3 years	4- 5 years	After 5 years
Bank Debt	$ ---	$ ---	$ ---	$ ---	$ ---
Capital Lease Obligations	3,852	362	1,267	1,078	1,145
Operating Leases	2,471	519	1,234	718	---
Total Contractual Obligations	$6,323	$ 881	$2,501	$1,796	$ 1,145

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

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

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.

Sales Returns and Allowances

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

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

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

Valuation of Deferred Tax Assets

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 estimates or the Registrant adjusts these estimates 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

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 its usefulness in the manufacturing process or its estimate of future cash flows associated with these assets. 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.

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 does not expect the adoption of SFAS No. 146 to have a material impact on its consolidated results of operations or financial position.

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

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 plans to continue to apply the intrinsic value-based method to account for stock options and will comply with the new disclosure requirements beginning with the third quarter of fiscal year 2003.

In December 2002, the Registrant adopted the Financial Accounting Standards Board issued Statement of Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). Fin No. 45 provides the interpretation of FASB Statements No. 5, 57 and 107 and the rescission of FASB Interpretation No. 34. The implementation of this accounting pronouncement did not have any effect on the Registrant's results of operations, financial position or cash flows.

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) <u>Foreign currency exchange rate risk.</u> With the exception of sales by the Registrant's wholly-owned subsidiary in Sweden (which are denominated in Krona), all transactions are, or are anticipated to be, denominated in U.S. Dollars. 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) <u>Commodity price risk.</u> Following substantial reductions in the price 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.

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

<u>Evaluation of Disclosure Controls and Procedures</u>

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

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 3. Not Applicable

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

At the Registrant's Annual Meeting of Stockholders held on November 21, 2002 (the "Annual Meeting"), the stockholders elected the individuals named below as directors for one-year terms. Votes were cast as follows:

	For	Withheld
Victor Insetta	7,659,954	61,255
Dov S. Bacharach	7,649,954	71,255
Chester E. Spence	7,649,954	71,255
O. Julian Garrard III	7,649,954	71,255
Stuart P. Litt	7,694,954	26,255
Thomas J. Volpe	7,659,954	61,255

The stockholders also ratified the appointment of KPMG LLP as the independent public accountants to audit the Registrant's consolidated financial statements for the fiscal year ending June 30, 2003. The holders of 7,683,184 shares of Common Stock voted to ratify the appointment, 22,205 voted against ratification and the holders of 15,820 shares of Common Stock abstained from voting on the issue.

ITEM 5. Not Applicable

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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:

EXHIBIT NO.		DESCRIPTION
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(f)	-	Purchase Agreement, dated May 31, 1989, by and among Diane LaFond Insetta and/or Victor D. Insetta, as custodians for Danielle and Jonathan Insetta, and American Technical Ceramics Corp., and amendment thereto, dated July 31, 1989. (3)
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)	-	Managers Profit Bonus Plan, dated December 7, 1999, and effective January 1, 2000. (6)
10(h)	-	Employment Agreement, dated September 1, 2000, between the Registrant and Richard Monsorno. (8)

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)
21	-	Subsidiaries of the Registrant. (11)

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.

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.

(b) REPORTS ON FORM 8-K

On November 13, 2002, the Registrant furnished a report on Form 8-K together with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002. The report on Form 8-K contained the certification required by Section 906 of the Sarbanes-Oxley Act of 2002.

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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 Registrant in the capacities and on the dates indicated:

AMERICAN TECHNICAL CERAMICS CORP.
(Registrant)

DATE: February 13, 2002 BY: /s/ VICTOR INSETTA
Victor Insetta
President and Director
(Principal Executive Officer)

DATE: February 13, 2002 BY: /s/ ANDREW R. PERZ
Andrew R. Perz
Vice President, Controller
(Principal Accounting Officer)

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I, Victor Insetta, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Technical Ceramics Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report.

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weakness in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 13, 2002

/s/ VICTOR INSETTA

President and Chief Executive Officer
(Principal Executive Officer)

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I, Andrew R. Perz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Technical Ceramics Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report.

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weakness in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 13, 2002

/s/ ANDREW R. PERZ

Vice President, Controller
(Principal Accounting Officer)