AMERICAN TECHNICAL CERAMICS CORP
Form 10-Q
November 14, 2002

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 SEPTEMBER 30, 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 ______

As of November 1, 2002, the Registrant had outstanding 8,072,118 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 share and per share data)

		SEPT. 30, 2002
ASSETS		(unaudited)
Current assets		
Cash (including cash equivalents of $469 and $3,606, respectively)	$	4,957
Investments		3,017
Accounts receivable, net		6,464
Inventories		14,912
Deferred income taxes, net		2,284
Other current assets		2,523
TOTAL CURRENT ASSETS		34,157
Property, plant and equipment, net of accumulated depreciation and amortization of $33,450 and $32,158, respectively		30,081
Other assets, net		52
TOTAL ASSETS	$	64,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$	352
Accounts payable		795
Accrued expenses		3,226
Income taxes payable, net		171
TOTAL CURRENT LIABILITIES		4,544
Long-term debt, net of current portion		3,584
Deferred income taxes		3,642
TOTAL LIABILITIES		11,770
Commitments and Contingencies		
Stockholders' Equity		
Common Stock -- $.01 par value; authorized 20,000,000 shares; issued 8,492,258 and 8,492,258 shares, respectively		85
Capital in excess of par value		11,402
Retained earnings		42,509
Accumulated other comprehensive loss:		
Unrealized gain on investments available-for-sale, net		6
Cumulative foreign currency translation adjustment		(62)
		(56)
Less: Treasury stock, at cost (421,140 and 418,140 shares, respectively)		1,408
Deferred compensation		12

TOTAL STOCKHOLDERS' EQUITY	52,520
	$ 64,290

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 Ended September 30, 2002	2001
Net sales	$ 12,487	$ 13,905
Cost of sales	8,401	9,544
Gross profit	4,086	4,361
Selling, general and administrative expenses	2,962	3,021
Research and development expenses	669	852
Operating expenses	3,631	3,873
Income from operations	455	488
Other (income) expense:		
Interest expense	60	143
Interest income	(37)	(60)
Other	(51)	(46)
	(28)	37
Income before provision for income taxes	483	451
Provision for income taxes	145	153
Net income	$ 338	$ 298
Basic net income per common share	$ 0.04	$ 0.04
Diluted net income per common share	$ 0.04	$ 0.04

Basic weighted average common shares outstanding	8,071	8,030
Diluted weighted average common shares outstanding	8,157	8,252

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 Three Months Ended Septem	
	2002	2001
	(In thousands) (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 338	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,312	
Loss on disposal of fixed assets	115	
Stock award compensation expense	4	
Changes in operating assets and liabilities:		
Accounts receivable	(136)	
Inventories	505	
Other assets	78	
Accounts payable and accrued expenses	(75)	
Income taxes payable	171	
Net cash provided by operating activities	2,312	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(331)	
Purchase of investments	(993)	
Proceeds from sale of investments	1,000	
Net cash used in investing activities	(324)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(4,145)	
Proceeds from the exercise of stock options	---	
Net cash used in financing activities	(4,145)	
Effect of exchange rate changes on cash	(15)	

Net (decrease)/ increase in cash and cash equivalents	(2,172)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,129	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,957	$
Supplemental cash flow information:		
Interest paid	$ 98	$
Taxes paid	$ ---	$

See accompanying notes to unaudited consolidated financial statements.

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 September 30, 2002 and the results of its operations for the three month periods ended September 30, 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 to Stockholders for the fiscal year ended June 30, 2002. Results for the three month period ended September 30, 2002 are not necessarily indicative of results which could be expected for the entire year.

(2) IMPACT OF NEW ACCOUNTING STANDARDS:

In July 2002, the Registrant adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial accounting requirements for retirement obligations associated with retirement of tangible long-lived assets and for the associated asset retirement costs. The adoption of SFAS No. 143 did not have any impact on the Registrant's consolidated results of operations or financial position for the quarter ended September 30, 2002.

In July 2002, the Registrant adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 establishes accounting guidelines for the impairment of long-lived assets to be held and used; to be disposed of other than by sale; and to be disposed of by sale. The adoption of SFAS No. 144 did not have any impact on the Registrant's consolidated results of operations or financial position for the quarter ended September 30, 2002.

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) or with a disposal of long-lived assets. 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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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

(3) SUPPLEMENTAL CASH FLOW INFORMATION:

During the three months ended September 30, 2002, the Registrant (i) granted $16 in deferred compensation stock awards, 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).

(4) INVENTORIES:

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

	September 30, 2002	June 30, 2002
	(unaudited)	
Raw materials	$ 7,151	$ 7,753
Work-in-process	4,179	3,968
Finished goods	3,582	3,696
	$ 14,912	$ 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 Quarter Ended September 30,				
	2002			2	
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Sh Denom
Basic EPS	$ 338	8,071	$ .04	$ 298	
EFFECT OF DILUTIVE SECURITIES:					
Stock options		79			
Deferred compensation stock awards		7			
DILUTED EPS	$ 338	8,157	$ .04	$ 298	

Options covering 914 and 867 shares, respectively, have been omitted from the calculation of dilutive EPS for the three months ended September 30, 2002 and 2001, respectively, because their inclusion would have been antidilutive.

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

(6) COMPREHENSIVE INCOME:

The Registrant's comprehensive income is as follows:

	For The Three Months Ended September 30, 2002	2001
Net income	$ 338	$ 298
Other comprehensive (loss)/ income		
Foreign currency translation adjustments	(16)	71
Unrealized gains on investments, net of tax:	1	108
Other comprehensive (loss)/income	(15)	179
Comprehensive income	$ 323	$ 477

(7) INDEBTEDNESS:

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 certain additions to the facility and market value adjustments as required by the terms of the lease based upon independent appraisals. 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 nine years of this capital lease, including the portion related to interest, total approximately $5,753.

(8) STOCK BASED COMPENSATION:

On January 16, 2002, the Board of Directors 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 432,000 shares of Common Stock. On August 15, 2002, the Registrant issued 407,000 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 returned to profitability in the first quarter of fiscal year 2003 for the first time in four quarters. The improvement was primarily the result of increased sequential quarterly sales and the impact of cost reduction measures put in place during fiscal year 2002.

The first quarter of this fiscal year continued the trend started in the third quarter of last fiscal year of slow growth in sequential quarterly sales and bookings. The wireless infrastructure and fiber optic markets continue to be very slow compared to the peak levels experienced in fiscal year 2001, while most of the other markets the Registrant serves remain steady. Shipments in the first quarter of last year were being made extensively from the existing backlog of orders. In contrast, in the first quarter of fiscal year 2003, shipments were filled from current orders as customers have been placing orders on short lead times.

During the quarter ended September 30, 2002, the Registrant used available cash on hand to pay off its outstanding bank debt of $4,047 and terminated its lines of credit. Even giving effect to this repayment, the Registrant ended the quarter with cash, cash equivalents and investments of just under $8,000. This had the effect of significantly improving the Registrant's current and quick ratios. The Registrant also took further steps to reduce inventory and control capital spending.

The Registrant leases a Jacksonville, Florida facility from an entity controlled by its President, Chief Executive Officer and principal stockholder. Effective September 1, 2002, the rental payments under this lease were adjusted upward to reflect the addition of a new manufacturing plant at the facility. The adjustment was made in accordance with the terms of the lease for the facility based upon a fair market value appraisal. The lease continues to be recorded as a capital lease and consequently increased the Registrant's long-term debt as well as fixed assets by $1,437.

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

RESULTS OF OPERATIONS

Three Months Ended September 30, 2002 Compared with Three Months Ended September 30, 2001

Net sales for the three months ended September 30, 2002 decreased 10% to $12,487, compared to $13,905 in the comparable period in the prior fiscal year. The decrease in net sales was primarily the result of decreased sales due to continued weakness in the telecommunication markets.

Gross margin for the three months ended September 30, 2002 was 33% of net sales, compared to 31% for the comparable period in the prior fiscal year. The increase in gross margin was principally due to lower labor and overhead costs as the result of cost reduction measures taken during fiscal year 2002. These measures included a reduction in headcount, reduced capital spending and general cost controls on discretionary spending. Additionally, the Registrant wrote down certain inventory to net realizable value in the first quarter of fiscal year 2002. There were no significant inventory write-downs in the first quarter of fiscal year 2003.

Selling, general and administrative expenses for the three months ended September 30, 2002 decreased 2% to $2,962, compared to $3,021 in the comparable period in the prior fiscal year. The decrease was the result of the cost reduction measures implemented during fiscal year 2002, as discussed above.

Research and development expenses for the three months ended September 30, 2002 decreased 21% to $669, compared to $852 in the comparable period in the prior fiscal year. A reduction in research and development spending was among the cost reduction measures referred to above. Additionally, certain costs for developing products and processes are now included in cost of sales to the extent these products and processes have entered into the production stage of their development.

Bookings for the three months ended September 30, 2002 were $12,233, compared to $10,157 for the three months ended September 30, 2001. Cancellations have returned to historical levels, but bookings remain low, particularly in the fiber optic and semiconductor manufacturing equipment sectors. Bookings improved in nearly all product lines as compared to the first quarter of fiscal year 2002 and have increased modestly in most product lines over the past three quarters.

The backlog of unfilled orders at September 30, 2002 was $9,035, compared to $12,545 at September 30, 2001 and $9,310 at June 30, 2002. The decrease in backlog compared to September 30, 2001 is primarily the result of customers placing orders with shorter delivery requirements. During the early part of fiscal year 2002, the Registrant was still shipping orders from backlog that had accumulated months earlier.

As a result of the foregoing, net income for the three months ended September 30, 2002 was $338, or $.04 per common share ($.04 per common share assuming dilution), compared to net income of $298, or $.04 per common share ($.04 per common share assuming dilution), for the comparable period in the prior fiscal year.

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 September 30, 2002 remains strong as evidenced by working capital of $29,613, and stockholders' equity of $52,520. The Registrant's current ratio at September 30, 2002 was 7.5:1, compared to a current ratio of 4.4:1 at June 30, 2002. The Registrant's quick ratio at September 30, 2002 was 3.2:1 as 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 $2,180 to $7,974 at September 30, 2002 from $10,154 at June 30, 2002, primarily the result of retiring the bank debt as described below, offset partially by positive operating cash flows in excess of capital expenditures. Accounts receivable increased by $136 to $6,464 at September 30, 2002 from $6,328 at June 30, 2002. Inventories decreased by $505 to $14,912 at September 30, 2002 from $15,417 at June 30, 2002. Accounts payable and accrued expenses decreased by $75 to $4,021 at September 30, 2002 from $4,096 at June 30, 2002.

The Registrant had available two credit facilities with Bank of America, N.A.: a revolving line of credit of $4,000 and an equipment line of credit of $8,500. The outstanding principal balance under both lines bore interest at 1.5% above the one month rate for U.S. Dollar deposits on the London Interbank Market ("LIBOR"). These credit facilities were 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 facility which proved to be unsuccessful. Accordingly, in August 2002, the Registrant repaid the outstanding balance of the equipment facility and terminated both the equipment facility and the revolving line of credit. The Registrant believes that cash on hand, investments and cash flow from operations will be sufficient to fund its ongoing cash requirements for the foreseeable future.

(In thousands, except per share data)

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 certain additions to the facility and market value adjustments based upon independent appraisals. 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 nine years of this capital lease, including the portion related to interest, total approximately $5,753.

Capital expenditures for the three months ended September 30, 2002 totaled $331, excluding adjustments to the capital lease discussed above, expenditures for machinery and equipment and planned leasehold improvements. The Registrant intends to use cash on hand to finance budgeted capital expenditures, primarily for equipment acquisition, of approximately $2,000 for the remainder of fiscal year 2003.

Aggregate contractual obligations as of September 30, 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	3,936	352	1,241	1,050	1,293
Operating Leases	2,610	544	1,246	820	---
Total Contractual Obligations	$6,546	$ 896	$2,487	$1,870	$ 1,293

As described previously, in July 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 cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. Should the financial position of its customers deteriorate resulting in an impairment of their ability to pay amounts due, the Registrant's revised estimate of such losses may negatively impact its 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. 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.

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.

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

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 estimate of future cash flows associated with these assets. The Registrant has not determined that there has been an indication of impairment of any of its assets. 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 July 2002, the Registrant adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial accounting requirements for retirement obligations associated with retirement of tangible long-lived assets and for the associated asset retirement costs. The adoption of SFAS No. 143 did not have any impact on the Registrant's consolidated results of operations or financial position for the quarter ended September 30, 2002.

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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) or with a disposal of long-lived assets. 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.

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

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. 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) Commodity price risk. 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. Additionally, the Registrant believes that the price of palladium will remain stable 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

Evaluation of Disclosure Controls and Procedures

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.

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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 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. (13)
10(c)(i)	-	Form of 1985 Employee Stock Sale Agreement between the

Registrant and various employees.

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. (8)

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 Victor Insetta and the Registrant, and Amendments No. 1 through 4 thereto. (1)

10(g)(v) - Amendment No. 5, dated as of September 11, 1998, to Employment Agreement between Victor Insetta and the Registrant. (5)

10(g)(vi) - Managers Profit Bonus Plan, dated December 7, 1999, and effective January 1, 2000. (7)

10(h) - Employment Agreement, dated September 1, 2000, between the Registrant and Richard Monsorno. (9)

10(k) - Consulting Agreement, dated October 2000, between the Registrant and Stuart P. Litt. (9)

10(m)(i) - American Technical Ceramics Corp. 1997 Stock Option Plan. (4)

10(m)(ii) - American Technical Ceramics Corp. 2000 Incentive Stock Plan. (7)

10(o)(i) - Loan Agreement, dated November 25, 1998, between the Registrant and NationsBank, N.A. (6)

10(o)(ii) - Amendment to Loan Agreement, dated February 4, 1999, between the Registrant and NationsBank, N.A. (7)

10(o)(iii) - Second Amendment to Loan Agreement, dated April 13, 2000, between the Registrant and Bank of America, N.A., as successor to NationsBank, N.A. (7)

10(o)(iv) - Third Amendment to Loan Agreement, dated October 26, 2000, between the Registrant and Bank of America, N.A., as successor to NationsBank, N.A. (10)

10(o)(v)	-	Fourth Amendment to Loan Agreement, dated March 30, 2001, between the Registrant and Bank of America, N.A., as successor to NationsBank, N.A. (10)
10(p)	-	Second Amended and Restated Employment Agreement, dated as of December 31, 2001 between Judah Wolf and the Registrant. (11)
10(q)	-	Mortgage Note between American Technical Ceramics Corp. and European American Bank, N.A., dated as of August 17, 2000. (8)
10(r)	-	Employment Agreement, dated April 10, 2001, between the Registrant and David Ott. (10)

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10(r)(i)	-	Amendment to Employment Agreement, dated as of January 1, 2001, between David Ott and the Registrant. (11)
21	-	Subsidiaries of the Registrant. (12)

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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 Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1998.

7. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

8. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.

9. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.

10. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001.

11. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2002.

12. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

13. Filed herewith.

(b) REPORTS ON FORM 8-K

On September 27, 2002, the Registrant furnished a report on Form 8-K together with the Registrant's Annual Report on Form 10-K for the fiscal year ended June 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: November 13, 2002 BY: /s/ VICTOR INSETTA

Victor Insetta
President and Director
(Principal Executive Officer)

DATE: November 13, 2002 BY: /s/ ANDREW R. PERZ

Andrew R. Perz
Vice President, Controller
(Principal Accounting 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 officers 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 officers 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 officers 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: November 13, 2002

/s/ ANDREW R. PERZ

Vice President, Controller
(Principal Accounting Officer)

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 officers 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 officers 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 officers 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: November 13, 2002

/s/ VICTOR INSETTA

President and Chief Executive Officer
(Principal Executive Officer)