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AMERICAN TECHNICAL CERAMICS CORP
Form 10-K
September 26, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(MARK ONE)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM
_____ TO _____

COMMISSION FILE NUMBER 1-9125

AMERICAN TECHNICAL CERAMICS CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

11-2113382

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

17 STEPAP PLACE, HUNTINGTON STATION, NY

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

11746

(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (631) 622-4700
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS ----- | NAME OF EACH EXCHANGE ON WHICH REGISTERED ----- |
|-------------------------------|----------------------------------------------------|
| COMMON STOCK, PAR VALUE \$.01 | AMERICAN STOCK EXCHANGE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO
ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED,
TO THE BEST OF THE REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION
STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY
AMENDMENT TO THIS FORM 10-K. [X]

AS OF THE LAST BUSINESS DAY OF THE REGISTRANT'S MOST RECENTLY COMPLETED

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SECOND FISCAL QUARTER ENDED DECEMBER 31, 2002, THE AGGREGATE MARKET VALUE OF THE REGISTRANT'S COMMON STOCK (BASED UPON THE CLOSING SALES PRICE OF THE REGISTRANT'S COMMON STOCK ON THE AMERICAN STOCK EXCHANGE ON SUCH DATE) HELD BY NONAFFILIATES OF THE REGISTRANT WAS APPROXIMATELY \$14,050,511. (FOR PURPOSES OF THIS REPORT, ALL OFFICERS AND DIRECTORS HAVE BEEN CLASSIFIED AS AFFILIATES, WHICH CLASSIFICATION SHALL NOT BE CONSTRUED AS AN ADMISSION OF THE AFFILIATE STATUS OF ANY SUCH PERSON.)

ON SEPTEMBER 15, 2003, THE REGISTRANT HAD OUTSTANDING 8,105,868 SHARES OF COMMON STOCK.

DOCUMENTS INCORPORATED BY REFERENCE: PORTIONS OF THE REGISTRANT'S PROXY STATEMENT RELATING TO ITS ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON NOVEMBER 19, 2003 ARE INCORPORATED INTO PART III OF THIS REPORT BY REFERENCE.

PART I

ITEM 1. BUSINESS

GENERAL

The Registrant was incorporated in New York in 1966 as Phase Industries, Inc., and changed its name to American Technical Ceramics Corp. in June 1984. The Registrant was merged into a Delaware corporation in 1985 in order to change its jurisdiction of incorporation. Unless the context indicates otherwise, references to the Registrant herein include American Technical Ceramics Corp., a Delaware corporation, and its subsidiaries, all of which are wholly-owned.

The Registrant designs, develops, manufactures and markets RF/Microwave/Millimeter-Wave ceramic capacitors, thin film products, and other passive components. The Registrant's products are focused primarily in the high reliability market for ultra-high frequency ("UHF") and microwave applications, including wireless electronics, medical electronics, semiconductor equipment, satellite equipment and fiber optics. Capacitors function within electronic circuits by storing and discharging precise amounts of electrical power. The Registrant believes that it is a leading manufacturer of multilayer capacitors ("MLCs") for UHF and microwave applications. Selling prices for the Registrant's MLCs typically range from \$.10 to \$7.50 or higher, whereas selling prices for commodity-type MLC units typically range from \$.005 to \$.05. Thin film products are ceramic substrates on which circuit patterns are printed by means of thin film processes, and are used by customers as building blocks in electronic circuits. Management believes the Registrant operates in only one industry segment - the electronic components industry.

The slowdown in the technology and telecommunications sectors that began in the first half of calendar year 2001, combined with the weakness in the global economy, continued to impact the Registrant's industry in fiscal year 2003. The markets that many of the Registrant's customers serve remained depressed, which, in turn, impacted the component industry and the Registrant's sales.

PRODUCTS

The Registrant's traditional line of MLCs are available in predominantly four physical sizes designated "A" (.055 inch cube), "B" (.110

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inch cube), "C" (.250 inch cube) and "E" (.380 inch cube); in three types of dielectrics: low-loss porcelain (the 100 series), zero temperature coefficient (the 700 series) and high dielectric constant (the 200 series); and in a variety of capacitance values. The 100 series, the Registrant's basic product line, is widely used in microwave equipment. The 700 series, because of its lower temperature coefficient, is used in tuning circuits in UHF/Microwave and lower frequency applications. The 200 series has high packaging density and is used in microcircuits where high capacitance value is needed in a small space. The Registrant's traditional line of MLC's is one of two product lines that accounts for more than 10% of the Registrant's consolidated revenue, accounting for approximately 72%, 70% and 59%, of the Registrant's revenues in fiscal years 2003, 2002 and 2001, respectively.

The Registrant's MLCs are generally designed for critical performance applications, and are characterized by a high degree of reliability, low power dissipation and ruggedness. The MLCs can be broadly classified as either commercial or "hi-rel", based primarily upon the amount of testing involved. All are subject to precise measurement of capacitance, dissipation factor and insulation resistance. The Registrant's products are used in commercial and military applications, including wireless cellular and personal communications systems (PCS), medical imaging (i.e., magnetic resonance imaging), radio frequency power sources for semiconductor manufacturing, satellite communications, numerous aerospace systems, including radar and electronic warfare, and certain high-speed digital processing equipment.

Approximately 89%, 88% and 93% of the Registrant's sales in fiscal years 2003, 2002 and 2001, respectively, were to commercial (i.e., applications other than hi-rel) customers. For fiscal years 2003, 2002 and 2001, the Registrant estimates that approximately 11%, 12% and 7% of the Registrant's sales, respectively, were sales of hi-rel products. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING -- FOREIGN SALES" and Note 9 of Notes to Consolidated Financial Statements.

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Hi-rel MLCs are principally utilized in applications such as satellites (including commercial communications satellites), high performance military aircraft, spacecraft and missiles, and other defense applications such as radar and electronic countermeasures. The Registrant produces its hi-rel MLCs to precise customer specifications and subjects each hi-rel MLC to a battery of performance and environmental tests. Such performance tests measure capacitance, dissipation factor, insulation resistance and dielectric withstanding voltage. The environmental tests are either designated by customers or specified by the military and include temperature shock tests, humidity tests and tests of life expectancy at elevated temperature and voltage levels.

For commercial applications, the Registrant produces MLCs to precise performance specifications similar to hi-rel MLCs, individually tests them for certain electrical performance characteristics and conducts additional tests on samples from production lots. However, the Registrant does not subject all such commercial MLCs to environmental tests.

The Registrant has historically pursued the high-performance MLC market in which its products are typically applied in the manufacture of high-value capital equipment and which has commanded higher unit selling prices. The MLCs required for many of these applications constitute a small part of the circuit cost and, because performance requirements are stringent and the cost of component failure high, customers have been willing to pay the price premium associated with higher performance products such as those the Registrant makes. In recent years, the Registrant has automated its manufacturing processes to enable it to produce certain of its existing MLCs for the medium - priced niche

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market driven by wireless base-station infrastructure applications.

Recently, the Registrant began marketing new capacitor products targeted toward higher volume markets. The first of these new products is the 600S which is targeted toward the high-performance, lower-priced segment of the wireless industry. The 600S capacitor is smaller (.06" x .03" rectangle) and lower-priced (approximately two-thirds the price of the lowest-priced comparable part) than the Registrant's traditional MLC's, and uses a new ceramic formulation developed by the Registrant to optimize performance for cellular and PCS operating frequencies. Sales from this product line, which was formally launched on June 16, 2000, amounted to approximately 6%, 4% and 4% of the Registrant's revenues in fiscal years 2003, 2002 and 2001, respectively.

The Registrant also offers specialized capacitors designed to perform at frequencies higher than the useful range of typical microwave MLCs. The Registrant's Microcap(R), a single layer ceramic capacitor, was developed to meet certain applications where small size is critical and which operate at frequencies extending higher than those for which MLCs are typically chosen. Manufactured and sold in both hi-rel and commercial versions, these products are used in wideband wireless data communications, satellite communications, military systems and other microwave and millimeter-wave applications. Another product tailored to the same market, the 500S Broadband Microwave Capacitor (BMC), is based on a patented construction designed to be compatible with customers' high-volume surface-mount assembly technologies. Sales of these two product types combined amounted to approximately 3%, 3% and 6% of the Registrant's revenues in fiscal years 2003, 2002 and 2001, respectively.

The Registrant has diversified its product line through the development of custom product capability based on thin film technologies. The Registrant produces metallized circuits and passive components on high-quality ceramic substrates to customers' drawings and specifications. Thin film layers deposited on the ceramic substrate may consist of a variety of materials with specific conductive, resistive, capacitive, and other properties enabling the build-up of the desired circuit pattern. As with a typical circuit board, the customer may then attach discrete components and chips to complete the circuit. Thin film products are used by the Registrant's customers in a broad range of applications, including microwave components, fiber optic repeaters and high-density packaging of devices, typically where requirements for high reliability, small size and dimensional precision are paramount. In fiscal years 2003, 2002 and 2001, thin film sales represented approximately 13%, 17% and 24% of the Registrant's revenues, respectively.

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In June 2000, the Registrant introduced a line of high power, passive resistive products. In fiscal year 2002, the Registrant added thin film resistor manufacturing capability to its resistive products line. Typically, thin film resistors offer a higher degree of reliability and are better able to handle power than their thick film counterparts. The Registrant's products, including standard resistors, terminations, attenuators and other customized products, consist of resistive and conductive layers deposited on a substrate of aluminum nitride, a base material chosen for its high thermal conductivity and its non-toxic properties. High power resistive products are used in many of the same types of equipment as the Registrant's capacitor products. Other applications for these products, which reflect an expansion of the Registrant's customer base, include RF and microwave products, including power amplifiers, up and down converters, and high power combiner/dividers. The markets for these products include the wireless and telecommunication markets, including base station and

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satellite communications, and a broad range of medical, military and other commercial applications. Resistive product sales represented less than 1% of the Registrant's revenues in each of fiscal years 2003, 2002 and 2001.

In fiscal year 2002, the Registrant offered on a limited basis certain products based upon a new high-density electronic packaging technology for radio frequency (RF) and microwave frequency broadband applications. This technology, commonly referred to as Low Temperature Co-fired Ceramic (LTCC), is based on high performance dielectric ceramic materials, some manufactured by the Registrant and others purchased from leading electronic materials manufacturers. The Registrant markets this technology under the name CCP (Co-fired Ceramic Packaging). Traditional RF and microwave circuits have been limited in size and performance by the use of only two dimensions to incorporate all RF elements and passive components, such as inductors, capacitors and resistors. LTCC technology enables the user to design circuits in the third dimension with the integration of the RF elements and passive components in the body of the electronic circuit. LTCC technology also provides the ability to design circuits with integrated RF components such as couplers, power dividers/combiners, filters and impedance transformers, and passive devices. In the fiscal years 2003 and 2002, CCP sales accounted for less than 1% of the Registrant's revenues. See "Item 1. BUSINESS -- MANUFACTURING and -- RESEARCH AND DEVELOPMENT."

MANUFACTURING

The manufacturing process for MLCs involves four primary stages. The first, or "white room" stage, includes tape casting, multi-layer lamination, dicing and firing of ceramic chips. In this phase, layers of electrically conducting material are printed onto ceramic tape in patterns, which eventually form the electrodes of the capacitor. The screen-printing technology used for the printing of such layers is referred to as "thick film". In the second, or "termination" stage, the ceramic chips are coated with silver. In the third, or "finishing" stage, the parts are then customized to specific order requirements for commercial applications. This stage includes, but is not limited to, chip plating, soldering of leads, laser marking and chip packaging. The chips are tested electrically and inspected throughout the entire process. If the customer's specifications call for a higher level of performance assurance, the parts are put through a fourth stage, the hi-rel stage, where additional testing is performed.

The Registrant currently manufactures MLCs at its facilities in Huntington Station, New York and Jacksonville, Florida. Its primary MLC manufacturing site is Huntington Station, consisting of three manufacturing facilities which aggregate approximately 54,000 square feet. Two of these facilities house the Registrant's state-of-the-art chip fabrication operations. These facilities are designed to provide optimum control of the Registrant's manufacturing processes and product quality, while substantially increasing its output capability.

In August 2000, the Registrant purchased another building next to its existing facilities in New York which will add a minimum of 22,000 additional square feet of production and production support space to the New York facility complex when such space is required to support capacity expansion.

The Registrant manufactures its 500 and 600 series capacitors at its facility in Jacksonville, Florida. During fiscal year 2003, the Registrant expanded the offering of the 600 series to include an additional case size to

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better serve the EIA (Electronic Industry Association) product standardization use by its customers. The Jacksonville facility is also the site of manufacture for the Registrant's thin film, Microcap(R) SLC, resistor and CCP product lines, and serves as the Registrant's new product technology center. The Jacksonville facilities aggregate over 99,000 square feet of space with 37,000 square feet committed to custom circuit operations.

Portions of the Jacksonville facility have been redesigned over the last few years in order to accommodate what the Registrant refers to as its "Factory of the Future". Utilizing recently developed and acquired materials, processes and equipment, the Registrant can manufacture MLC products at this facility at higher degrees of precision and control and at a substantially lower cost with accompanying high output. Moreover, the manufacturing operations at this facility are flexible, enabling the Registrant to produce ceramic structures of a wide variety of sizes, shapes and internal configurations.

As differentiated from the "thick film" technology used in MLC manufacture, the manufacture of thin film circuits involves a method for the deposition of layers of conducting and other materials using "sputtering" technology. Unlike the manufacture of capacitors, where all products flow through the same manufacturing sequences, manufacturing processes for custom thin film products vary significantly in accordance with each customer's specifications.

Microcap(R) SLCs, resistive products, CCP products, and BMCs all utilize various combinations of the production methods described in the preceding discussions. The manufacture of each of these product lines involves dedicated equipment in addition to sharing equipment used in connection with the manufacture of the product lines previously discussed.

In order to realize the potential of its expanding and diversifying product lines and to more fully integrate all facets of its operations, the Registrant is in the process of replacing its existing information system with a modern Enterprise Resource Planning System. Utilizing, commercially available information technology, the new system is intended to provide improved functionality and efficiency for better planning, control and responsiveness. During fiscal year 2002, the Registrant implemented the first phase of this system, and is currently implementing the second phase.

The Registrant utilizes a wide variety of specialized equipment for the fabrication, handling and testing of its products, including equipment that it has designed and constructed. The Registrant considers its capability to create its own unique equipment solutions tailored to the particular needs of its product lines and technologies to be a competitive advantage.

Before full market introduction of a new product, the Registrant generally establishes a production line for the product and manufactures substantial quantities to evaluate and verify its ability to consistently meet quality and performance standards. Such efforts involve the dedication of equipment, materials and labor, and, to the extent that these efforts do not result in saleable product, all costs are expensed. During fiscal years 2001 and 2002, the Registrant's resistive product line was in this phase of development. During fiscal year 2003, the Registrant completed development of the resistive product line. The resistive product line is currently shipping product to various customers and is qualified at major commercial users. During fiscal years 2003 and 2002, the Registrant's CCP product line was also in the development phase.

To complement its own manufacturing efforts and to provide a wide variety of product offerings to its customers, the Registrant has from time to time entered into arrangements with other manufacturers to produce certain products to the Registrant's specifications. These products accounted for

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approximately 5% of the Registrant's consolidated revenues in each of fiscal years 2003, 2002 and 2001.

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The historical pattern of industry price declines has largely prevented MLC producers, including the Registrant, from increasing prices and has forced the Registrant and competitors to rely on advances in productivity and efficiency in order to improve profit margins. Accordingly, the Registrant continuously looks to improve the production yields and efficiency of its manufacturing processes. The Registrant conducts continuous improvement programs targeted at streamlining manufacturing processes and increasing yields, and has established statistical process control techniques for maintaining key process steps within specified bounds and providing data to support continuous improvement. For additional information with respect to yields and efficiencies, see "Item 1. BUSINESS -- RESEARCH AND DEVELOPMENT".

During fiscal year 2002, the Registrant's manufacturing facilities were operated under ISO-9002 registration. In fiscal year 2003, the Registrant attained ISO-9001 status, a higher level certification which includes product design capability. In addition, in fiscal year 2003, the Registrant's European sales and distribution office achieved ISO-9001:2000 certification status.

CUSTOMERS AND MARKETING

The Registrant markets its products primarily to customers in the wireless base-station infrastructure, fiber optic telecommunications, military, medical, semiconductor manufacturing and aerospace industries. The customers included within these industries are manufacturers of microwave, high frequency and fiber optic systems, subsystems and equipment, including original equipment manufacturers (OEMs) and suppliers thereto, and government contractors and subcontractors. Most of the Registrant's products are used in the manufacture of capital equipment.

The Registrant promotes its products through specialized trade shows, industry trade journal advertisements, a site on the Internet's World Wide Web and catalog direct mail programs. In fiscal year 2000, the Registrant started taking orders, on a limited basis, via its web site. In fiscal year 2004, the Registrant intends to greatly expand the products it makes available for sale via its web site.

The Registrant shipped to over 2,100 customers in fiscal year 2003 as compared to approximately 1,800 and 1,900 customers in fiscal years 2002 and 2001, respectively. The top ten customers combined accounted for approximately 29% of net sales in each of fiscal years 2003, 2002 and 2001. No customer accounted for more than 10% of the Registrant's net sales in fiscal years 2003 and 2001. Sales to various divisions of General Electric Company, a major medical electronics OEM, accounted for approximately 10% of the Registrant's net sales in fiscal year 2002.

The Registrant is a qualified producer of capacitors with the Defense Logistics Agency of the United States Department of Defense. This qualified status covers several varieties and types of capacitors. Maintenance of its qualified producer status is critical in order for the Registrant to continue to sell its hi-rel military product line. To date, the Registrant has not encountered any difficulty in maintaining its status as a qualified producer, and the Registrant believes it is presently the only supplier with such qualification for some of these product types.

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The Registrant typically sells its products through a combination of logistics arrangements and a large number of individual purchase orders. Certain individual purchase orders are subject to pricing agreements. Neither pricing agreements nor logistics arrangements are firm purchase orders, but each still requires that the Registrant commit to produce semi-finished or finished goods inventory in anticipation of receiving a purchase order for immediate shipment. The supply shortage for electronic components that began during fiscal year 2000 continued into the first half of fiscal year 2001. The shortage, which was exacerbated by historically high capital expenditure spending as a percentage of revenue by telecommunications service providers, caused customers to alter their buying behaviors in an attempt to ensure a source of supply. As the shortage eased in the second half of fiscal year 2001, customers began to utilize their inventories of parts resulting in a decline in orders. In fiscal year 2002, customers reverted to their preferred method of ordering using pricing agreements and logistics arrangements with very short lead times. See "Item 1. BUSINESS -- SALES BACKLOG" and "Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS".

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Customers are invoiced simultaneously with merchandise shipments, and invoices are generally payable on a 30-day basis. Customers may also charge their purchases through the use of a credit/debit card. Sales returns are authorized and accepted by the Registrant in the normal course of business. An evaluation of the returned product is performed and typically results in either a credit or a shipment of replacement product to customers. The Registrant believes that it has provided an adequate reserve for returns in the accompanying consolidated financial statements.

In the United States, the Registrant principally sells its products through independent sales representatives who are compensated on a commission basis. In foreign countries, the Registrant historically has utilized both resellers, who purchase products from the Registrant for resale, and sales representatives. In fiscal year 2000, the Registrant established a wholly-owned subsidiary in Stockholm, Sweden. During fiscal year 2002, the Registrant elected to dissolve its subsidiary in the United Kingdom and expanded the scope of the Swedish subsidiary's activities to serving most of the Registrant's customers in Europe, thereby reducing the Registrant's reliance on resellers in this area. The Registrant continues to rely primarily on local, independently-owned resellers and independent sales representatives in all other foreign markets. See "Item 1. BUSINESS -- FOREIGN SALES" and Note 9 of Notes to Consolidated Financial Statements.

During fiscal year 2002, the Registrant established a wholly-owned subsidiary in the United States which established a representative office in the People's Republic of China to service the growing market in China.

At June 30, 2003, the Registrant utilized approximately 15 sales representative organizations in the United States and approximately 18 sales representative and reseller organizations in foreign countries, principally Europe, Canada and the Far East. The Registrant's sales representatives and resellers generally have substantial engineering expertise, which enables them to assist the Registrant in providing a high level of service to assist customers in generating product specifications and in providing applications assistance and maintaining contact with key customers. The Registrant employs regional sales managers to supervise its sales representatives and resellers and a staff of sales and applications specialists to provide direct contact with and support to customers.

FOREIGN SALES

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In fiscal years 2003, 2002 and 2001, sales to customers located outside the United States constituted 41%, 35% and 28% of net sales, respectively. The Registrant's foreign customers are located primarily in Europe, Canada and the Far East. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING" and Note 9 of Notes to Consolidated Financial Statements. Export sales were made through the Registrant's foreign sales corporation subsidiary until January 2002, at which time the subsidiary was liquidated. All foreign sales, except sales by the Registrant's wholly-owned subsidiary in Stockholm, Sweden (and, until its dissolution in fiscal year 2002, its subsidiary in Sussex, England), are denominated in United States dollars. In certain circumstances, the Registrant attempts to reduce the risk of doing business in foreign countries through the use of prepayment and by working closely with its foreign representatives and distributors in assessing business environments.

SALES BACKLOG

The Registrant's sales backlog was \$9,129,000, \$9,325,000 and \$16,153,000 at June 30, 2003, 2002 and 2001, respectively. Backlog generally consists of a combination of the Registrant's standard products and custom manufactured parts that require a longer lead time to produce. Historically, the long-term trend in customer requirements for the Registrant's standard products was toward shorter lead times. However, during fiscal year 2000 and the first half of fiscal year 2001, a supply shortage in the electronics component marketplace caused customers to change their typical buying behavior to ensure an adequate source of supply. This buying pattern changed abruptly in the latter half of fiscal year 2001, primarily as a result of the slowdown in the wireless infrastructure, fiber optic and semiconductor manufacturing equipment sectors. The Registrant experienced order cancellations and decreased bookings from its customers in these industries as they attempted to rationalize their inventory levels to the demand for their products. In fiscal year 2002, customers returned to historical patterns of ordering with shorter lead times, and this trend is expected to continue for the foreseeable future. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING".

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The Registrant offers its Quik-Pick 48 Hour System(R) program pursuant to which products are shipped within 48 hours from the time the order is placed. This program has consistently gained in popularity with its customers. In order to offer this program, the Registrant has to maintain higher inventory levels of certain products in proportion to total sales than it had in the past and higher than those maintained by some other capacitor manufacturers. The future contribution of the Quik-Pick program to the financial results of the Registrant depends critically on the Registrant's ability to accurately predict customer demand for the various products offered through the program.

RESEARCH AND DEVELOPMENT

The technology upon which the Registrant's products are based is subject to continued development of materials and processes to meet the demands of new applications and increased competition. The Registrant pursues a process-oriented strategy in which it conducts efforts aimed at developing integrated sets of materials and associated processes and equipment to provide the capability to create new or enhanced classes of products. Once a new set of technologies is established, the Registrant then seeks to develop and introduce various products using such technologies. The Registrant believes its future successes depend upon its ability to identify the requirements for future products and product enhancements, and to define, implement and successfully employ the technologies needed to meet those requirements. Accordingly, the Registrant believes that its research and development efforts are critical to

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its continued success.

The Registrant conducts most of its research and development activities at its facility in Jacksonville, Florida. Activities are focused on the development of new products and improvement of existing products. Improvements in materials and process technology, and the development of specialized production equipment, are directed toward reducing product cost, as well as enhancing performance requirements that are identified through frequent customer contacts by the Registrant's sales and technical personnel. Products are introduced after extensive in-house testing and evaluations at selected customer sites. See "Item 1. BUSINESS -- MANUFACTURING".

The Registrant often pursues programs with individual customers whom it considers to be leaders in their respective industries to develop special products to meet their specific requirements. The Registrant typically conducts such programs when it believes such products have potential applications reaching well beyond the initial customer's requirements. The Registrant's expansion of the 600S product line arose from one such program conducted in past years.

In light of the continuing downturn in the economy, the Registrant's research and development efforts remain focused on enhancements and extensions to its core product lines. For example, the Registrant continued its efforts on developing enhancements to its line of specialty higher frequency capacitors. The Registrant also continued development activities on its new resistive product line by adding thin film resistor manufacturing capability to its resistive products line. Typically thin film resistors offer a higher degree of reliability and are better able to handle power than their thick film counterparts. The thin film capability also allows for the development of finer line width and resolution, which is used in the manufacture of higher frequency termination and attenuators. See "Item 1. BUSINESS -- PRODUCTS".

The Registrant has also continued to develop the technology underlying its LTCC initiative. While the Registrant continues to believe in the long-term prospects for this technology, LTCC is an extremely complicated project that will require the development and refinement of the new processes. The initial phases of the LTCC process, renamed CCP (Co-fired Ceramic Packaging), were completed during fiscal year 2003, and the Registrant intends to continue to enhance its capabilities and expand its offering of these products during fiscal year 2004.

Expenditures for research and development were approximately \$2,766,000, \$3,644,000 and \$4,180,000 in fiscal years 2003, 2002 and 2001, respectively, representing approximately 6%, 7% and 5% of net sales, respectively. The Registrant anticipates that research and development expenditures in fiscal year 2004, expressed as a percentage of net sales, will be comparable to fiscal year 2003.

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RAW MATERIALS

The principal raw materials used by the Registrant include silver, palladium, gold, other precious metals and titanate, and other powders that are used in ceramic manufacture. Precious metals are available from many sources, although palladium is generally available only from a limited number of metal dealers who obtain their product requirements from the Republic of South Africa or the Russian Federation. The major consumers of palladium are the automotive and electronics industries.

In fiscal year 2002, in an effort to align its inventory of palladium

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with current and anticipated demand, the Registrant sold a substantial portion of its palladium inventory to one of its vendors in an arms-length transaction for approximately \$3.3 million. The Registrant believes that it maintains adequate inventories of palladium and believes it will be able to purchase additional quantities of palladium in the ordinary course of business. In addition, the Registrant's newer products are being designed to minimize or eliminate the usage of palladium. See "Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS"

COMPETITION

Competition in the broad MLC industry continues to be intense and, in general, is based primarily on price. In the UHF/Microwave market segment, where price has historically been less important, competition has been based primarily on high performance product specifications, achieving consistent product reliability, fast deliveries and high levels of customer service. The Registrant believes any competitive advantage it may have results from its ability to achieve consistent quality and reliability, fast deliveries and high levels of customer service. Potential growth of some commercial market applications may in the future increase the competitive importance of price in this market. The Registrant believes it competes in the UHF/Microwave capacitor market with several other manufacturers, both domestically and abroad, including AVX Corporation, Dover Corporation, Tekelec, Spectrum Control, Inc., Murata Manufacturing Co. Ltd and Taiyo Yuden, most of which are larger and have broader product lines and greater financial, marketing and technical resources than the Registrant. There are other large commodity-type MLC manufacturers who have attempted to develop products for the UHF/Microwave market segment. While the Registrant believes these efforts have not produced significant results to date, there can be no assurance that such efforts will not be successful in the future. New product developments may lead the Registrant into markets where there are existing competitors that may have significantly greater financial and technical resources and greater expertise in mass production techniques than the Registrant. Competition in the Registrant's other product areas is similar in nature to that of the capacitor market. The primary competition for the Registrant's thin film products are Aeroflex Inc. and Reinhardt Microtech AG. The primary competition for the Registrant's resistive products are MCE Technologies (recently acquired by Aeroflex Inc.), Anaren Inc. and EMC Corporation.

ENVIRONMENTAL COMPLIANCE

The Registrant produces hazardous waste in limited quantities in the production of its products. Accordingly, the Registrant's manufacturing operations are subject to various federal, state and local laws restricting the discharge of such waste into the environment. The Registrant recycles some of its hazardous wastes and disposes of the remainder through licensed carriers, which are required to deposit such waste at licensed waste sites. The Registrant believes that it is in material compliance with all applicable federal, state and local environmental laws and does not currently anticipate having to make material capital expenditures to remain in material compliance therewith.

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PATENTS AND PROPRIETARY INFORMATION

Although the Registrant has manufacturing and design patents and pending patent applications, and although the Registrant will continue to seek the supplemental protection afforded by patents, the Registrant generally considers protection of its products, processes and materials to be more dependent upon

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proprietary knowledge and on rapid assimilation of innovations than on patent protection. The Registrant's porcelain and ceramic formulations are considered trade secrets, which are protected by internal non-disclosure safeguards and employee confidentiality agreements. There can be no assurance that the steps taken by the Registrant to protect its rights will be adequate to deter misappropriation, or that an independent third party will not develop functionally equivalent technology.

EMPLOYEES

At June 30, 2003, the Registrant employed 335 persons at its facilities in New York, of which seven were employed on a part-time basis; 190 persons at its facilities in Florida, of which one was employed on a part-time basis; three persons in sales offices in Asia and nine persons in sales offices in Europe. Of the 537 persons employed by the Registrant, 434 were involved in manufacturing and testing activities and as support personnel, 78 were involved in selling, general and administrative activities, and 25 were involved in research and development activities. None of the Registrant's employees are covered by collective bargaining agreements. The Registrant considers its relations with its employees to be satisfactory.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K under the captions "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as statements made in press releases and oral statements that may be made by the Registrant or by officers, directors or employees of the Registrant acting on the Registrant's behalf that are not statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Registrant to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. The cautionary statements set forth below identify certain factors that could cause such differences. In addition to statements which explicitly describe risks and uncertainties, readers are urged to consider statements labeled with terms such as "believes", "belief", "expects", "plans", "anticipates", or "intends" to be uncertain and forward-looking. All cautionary statements made in this Annual Report on Form 10-K should be read as being applicable to all related forward-looking statements wherever they appear. 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 statements, whether as a result of new information, future events or otherwise, even if its expectations or forecasts change.

The Registrant's products are used in the production of a variety of highly complex electronic products manufactured for the military and for commercial use. Accordingly, demand for the Registrant's products is highly dependent upon demand for the products in which they are used. From time to time, including the present, the Registrant's results have been negatively impacted by a general decrease in demand for technology and electronic products in the United States and abroad. There can be no assurance that the demand for such products will increase or that, even if it does increase, the demand for the Registrant's products will increase. In addition, there can be no assurance that the Registrant will not receive order cancellations after orders are booked into backlog. Moreover, a majority of the Registrant's costs are fixed, and the Registrant may not be able to reduce costs if sales volumes were to decline.

The Registrant produces and ships product based upon orders received from its customers. If these orders are cancelled prior to shipment it could

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affect the Registrant's profitability. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING."

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The Registrant offers a broad variety of products to its customers. Gross margins can vary significantly from product to product and across product lines. Accordingly, a change in the mix of products sold by the Registrant during a particular period could lead to distinctly different financial results for that period as compared to other periods.

The Registrant expects that international sales will continue to constitute a substantial portion of its total sales. These sales expose the Registrant to certain risks, including, without limitation, barriers to trade, fluctuations in foreign currency exchange rates (which may make the Registrant's products less price competitive), political and economic instability, changes in monetary policy, tariff regulations and other United States and foreign laws and regulations that may apply to the export of the Registrant's products, as well as the generally greater difficulties of doing business abroad.

During fiscal year 2003, the Registrant's ten largest customers accounted for approximately 29% of net sales. The Registrant expects that sales to a relatively small number of customers will continue to account for a significant portion of its net sales for the foreseeable future. A loss of one or more of such key customers could affect the Registrant's profitability. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING."

The technology upon which the Registrant's products are based is subject to continuous development of materials and processes. The Registrant's business is in large part contingent upon the continuous refinement of its technological and engineering expertise and the development of new or enhanced products and technologies to meet the rapidly developing demands of new applications and increased competition. There can be no assurance that the Registrant will continue to be successful in its efforts to develop new or refine existing products, that such new products will meet with anticipated levels of market acceptance or that the Registrant will otherwise be able to timely identify and respond to technological improvements made by its competitors. Significant technological breakthroughs by others could also have a material adverse effect on the Registrant's business.

The Registrant's business may be adversely affected by difficulties in obtaining raw materials and other items needed for the production of its products, the effects of quality deviations in raw materials and fluctuations in prices of such materials. Palladium, a precious metal used in the production of the Registrant's capacitors, is currently available from a limited number of metal dealers who obtain product from the Republic of South Africa or the Russian Federation. In June 2002, the Registrant reduced the level of its inventories of palladium on hand. See "Item 1. BUSINESS -- RAW MATERIALS" and "Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS". Accordingly, a prolonged cessation or reduction of exports of palladium by the Republic of South Africa or the Russian Federation, or a significant increase in the price of palladium, could have a material adverse effect on the Registrant's business.

Certain raw materials used by the Registrant may fluctuate in price. To the extent that the Registrant is unable to pass on increases in the costs of such materials to its customers, this may adversely affect the gross profit margins of those products using such materials.

Competition in the MLC industry is intense and, in general, is based primarily on price. In the UHF/Microwave market segments, where price has

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historically been less important, competition has been based primarily on high performance product specifications, achieving consistent product reliability, fast deliveries and high levels of customer service. The Registrant competes with a number of large MLC manufacturers who have broader product lines and greater financial, marketing and technical resources than the Registrant. Growth of some commercial market applications has increased, and is expected to continue to increase, the competitive importance of price. There can be no assurance that the Registrant will be able to improve the productivity and efficiency of its manufacturing processes in order to respond to pricing pressures, or to successfully design new processes and products, and the failure to do so could have a material adverse effect on the Registrant's business.

The Registrant produces limited quantities of hazardous wastes in the production of its capacitors. Accordingly, the inherent risks of environmental liability and remediation costs associated with the Registrant's manufacturing operations may result in substantial unforeseen liabilities.

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The Registrant has not received any claims that its products or the technologies upon which they are based infringe the intellectual property rights of others. Any such claims in the future may result in the Registrant being required to enter into royalty arrangements, cease manufacturing the infringing products or utilizing the infringing technologies, pay damages or defend litigation, any of which could have a material adverse effect on the Registrant's business.

The Registrant's business may also be adversely affected by matters and events affecting businesses generally, including, without limitation, political and economic events, labor unrest, acts of God, war, acts of terrorism and other events outside of the Registrant's control.

ITEM 2. PROPERTIES

The Registrant's primary production facilities are located in Huntington Station, New York and Jacksonville, Florida. The Registrant's principal executive office is located in Huntington Station, New York, and its principal research and development facility is located in Jacksonville, Florida. The following table sets forth the address of each facility, its primary function, the square footage occupied by the Registrant and whether the facility is leased or owned.

| ADDRESS OF FACILITY ----- | PRIMARY FUNCTION ----- | SQUARE FOOTAGE OCCUP ----- |
|------------------------------------------------------|---------------------------|-------------------------------|
| 10 Stepar Place Huntington Station, New York | Production | 10,900 |
| 11 - 13 Stepar Place Huntington Station, New York | Future production use | 22,000 |
| 15 Stepar Place Huntington Station, New York | Production | 35,000 |
| One Norden Lane Huntington Station, New York | Production | 8,400 |
| 17 Stepar Place | | |

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| | | |
|---------------------------------------------------------------------|-----------------------------------------|--------|
| Huntington Station, New York | Corporate, sales, administration | 18,000 |
| 2201 Corporate Square Blvd. Jacksonville, Florida | Production, research and development | 99,700 |
| 8810 Corporate Square Court Jacksonville, Florida | Production | 7,500 |
| Ellipsvaegen 5 SE-141 75 Kungens Kurva, Sweden | Sales and distribution office | 3,401 |
| Leihen Mansion 2307 No. 40 Fuming Road, Futian Dist. Shenzhen | Sales office | 863 |

- (1) See "Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" and Notes 4 and 7 of Notes to Consolidated Financial Statements.

In fiscal year 2001, the Registrant purchased a 22,000 square foot facility adjacent to its existing New York facilities. This new facility is currently idle, but is expected to be used for future production and product support capacity.

In fiscal year 2002, the Registrant added approximately 38,000 square feet to its Jacksonville facilities for various purposes, including expansion of its thin film capacity and to accommodate commercial manufacture of its new resistive product line. See "Item 1. BUSINESS -- MANUFACTURING".

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In fiscal year 2003, the Registrant moved into larger space in the same Kungens Kurva facility to enable it to handle the increased activity due to the closing of the Registrant's facility in Sussex, England. See "Item 1. BUSINESS -- CUSTOMERS AND MARKETING".

ITEM 3. LEGAL PROCEEDINGS

The Registrant is not currently a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended June 30, 2003.

EXECUTIVE OFFICERS

The executive officers of the Registrant are as follows:

Victor Inetta, age 63, co-founded the Registrant in 1966 and has served as President and Chief Executive Officer and a director of the Registrant since its organization.

Richard Monsorno, age 51, has been employed by the Registrant in various capacities since 1983. In August 1996, he was appointed Senior Vice President - Technology.

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Kathleen M. Kelly, age 49, has been employed by the Registrant in various capacities since 1974. She has served as Vice President - Administration and as corporate Secretary since November 1989.

David B. Ott, age 61, joined the Registrant in June 1999 as Vice President - New York Manufacturing, and in December 2000, was appointed Senior Vice President, New York Manufacturing. From 1997 until his employment by the Registrant, he served as Chief Operating Officer of Great Lakes Industries, LLC, a manufacturer of metal and ceramic materials.

Judah Wolf, age 57, has been managing the Registrant's thin film operations in Jacksonville, Florida since 1993. In 1999, he was appointed Vice President - Thin Film Operations. In August 2001, he was appointed Senior Vice President, Thin Film Products.

Stephen Beyel, age 39, joined the Registrant as a RF Engineer in 1988. Since 1991, he has held various managerial positions within the Registrant's Sales Department. He was appointed Vice President, Sales in November 2000 and Senior Vice President, Sales in April 2003.

Andrew R. Perz, age 44, has been with the Registrant as Controller since 1998, and was appointed Vice President, Controller in November 2000. Prior to his employment by the Registrant, he held a financial management position at Lumex Inc. from July 1989 to January 1998.

Harrison Tarver, age 57, has been employed by the Registrant in various capacities since 1973, principally in positions relating to quality assurance. He was appointed Vice President, Quality Assurance in December 2000.

The officers serve at the discretion of the Board of Directors and there are no family relationships among the officers listed and any directors of the Registrant.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The Registrant's common stock is traded on the American Stock Exchange ("AMEX") under the symbol "AMK". The table below sets forth the quarterly high and low sales prices for the common stock on the AMEX for the fiscal years ended June 30, 2003 and June 30, 2002.

| Quarter Ended: ----- | FISCAL 2003 ----- | | FISCAL 2002 ----- |
|-------------------------|----------------------|--------------|----------------------|
| | High ----- | Low ----- | High ----- |
| September | \$ 5.10 | \$ 2.10 | \$ 10.85 |
| December | 6.00 | 2.75 | 10.85 |

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| | | | |
|-------|------|------|-------|
| March | 5.03 | 3.51 | 11.50 |
| June | 5.63 | 3.78 | 8.90 |

NUMBER OF STOCKHOLDERS

As of September 15, 2003, there were approximately 329 holders of record of the Registrant's common stock. The Registrant believes numerous shares are held of record by brokerage and other institutional firms for their customers.

DIVIDENDS

The Registrant has not paid any cash dividends on its common stock during the past two fiscal years. It is the present policy of the Registrant's Board of Directors to retain earnings to finance the expansion of the Registrant's operations and not to pay cash dividends on its common stock.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table details securities authorized for issuance under equity compensation plans as of June 30, 2003:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders | 1,381,200 | \$ 6.64 |

The Registrant has no securities authorized for issuance under equity compensation plans that have not been approved by security holders. In the past, the Registrant has issued treasury shares in payment of stock bonuses which were not granted pursuant to a plan approved by stockholders. See "Item 5. SALES OF UNREGISTERED SECURITIES". It is the Registrant's current intention that any future stock awards or bonuses will be made pursuant to the terms of its existing Incentive Stock Plan (which was approved by stockholders) or another plan approved by stockholders.

SALES OF UNREGISTERED SECURITIES

In March 2001 and in June 2001, the Registrant issued an aggregate of 9,750 shares, of common stock to twelve employees as a stock bonus.

In June 2001 and again in July 2002, pursuant to the terms of employment agreements between the Registrant and three key employees, the Registrant issued 1,000 shares of common stock, in each month, to each of such employees.

In June 2001, the Registrant awarded 1,000 shares of common stock to

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each of its five non-employee directors and 1,000 shares of common stock to each of six officers as stock bonuses. The shares were issued in July 2001.

In June 2002, pursuant to the terms of employment agreement between the Registrant and a key employee, the Registrant issued 2,000 shares of common stock to such employee.

In June 2002, the Registrant issued 1,000 shares of common stock to each of seven officers as stock bonuses. The bonuses were awarded in June 2001 and were contingent upon the officer remaining employed by the Registrant on June 30, 2002.

In June 2003, the Registrant issued 1,000 shares of common stock to each of seven officers as stock bonuses. The bonuses were awarded in August 2002 and were contingent upon the officer remaining employed by the Registrant on June 30, 2003.

None of the shares listed above were registered under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) thereunder or because they were issued in a transaction that did not constitute a sale requiring registration under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following information should be read in conjunction with the Consolidated Financial Statements and Notes thereto and other information set forth following Item 14. of this report. The Consolidated Financial Statements include the operations of the Registrant and its wholly-owned subsidiaries, American Technical Ceramics (Florida), Inc., American Technical Ceramics Europe AB, Phase Components Ltd. and American Technical Ceramics (China), Ltd.

FISCAL YEARS ENDED JUNE 30, (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 2003 ---- | 2002 ---- | 2001 ---- |
|------------------------------------------------|--------------|--------------|--------------|
| INCOME STATEMENT DATA: | | | |
| Net sales (1) | \$ 49,048 | \$ 49,585 | \$ 8 |
| Gross profit (1) | \$ 14,332 | \$ 9,624 | \$ 3 |
| (Loss)/income from operations | \$ (755) | \$ (6,596) | \$ 1 |
| Net (loss)/income | \$ (501) | \$ (4,243) | \$ 1 |
| Basic net (loss)/income per common share (2) | \$ (0.06) | \$ (0.53) | \$ |
| Diluted net (loss)/income per common share (2) | \$ (0.06) | \$ (0.53) | \$ |
| Cash dividends paid per common share | \$ - | \$ - | \$ |
| BALANCE SHEET DATA: | | | |
| Property, plant and equipment, | \$ 27,021 | \$ 29,740 | \$ 3 |
| Total assets | \$ 63,548 | \$ 66,574 | \$ 7 |
| Long-term debt, less current portion | \$ 3,290 | \$ 2,368 | \$ |

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| | | | |
|-----------------|-----------|-----------|------|
| Working capital | \$ 31,485 | \$ 28,375 | \$ 3 |
|-----------------|-----------|-----------|------|

(1) Amounts for periods prior to fiscal year 2001 have been restated to reflect the adoption of Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" ("EITF No. 00-10"), effective July 1, 2000.

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(2) Per share data was revised to reflect the 2-for-1 stock split of the Registrant's common stock effected in the form of a 100 percent stock dividend effective April 24, 2000.

QUARTERLY FINANCIAL DATA:

(unaudited)

(In thousands, except per share amounts)

| QUARTER ENDED | NET SALES | GROSS PROFIT | NET INCOME / (LOSS) | BASIC NET (LOSS) / INCOME PER SHARE (1) | P |
|---------------|-----------|--------------|------------------------|--------------------------------------------------|-------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Fiscal 2003 | | | | | |
| September | \$ 12,487 | \$ 4,086 | \$ 338 | \$ 0.04 | \$ |
| December | 11,561 | 3,429 | (330) | (0.04) | |
| March | 11,930 | 3,308 | (299) | (0.04) | |
| June | 13,070 | 3,509 | (210) | (0.03) | |
| Total | \$ 49,048 | \$ 14,332 | \$ (501) | \$ (0.06) | \$ |
| Fiscal 2002 | | | | | |
| September | \$ 13,905 | \$ 4,457 | \$ 298 | \$ 0.04 | \$ |
| December | 11,582 | 2,336 | (1,038) | (0.13) | |
| March | 11,956 | 2,544 | (1,057) | (0.13) | |
| June | 12,142 | 287 | (2,446) | (0.30) | |
| Total | \$ 49,585 | \$ 9,624 | \$ (4,243) | \$ (0.53) | \$ |

(1) Earnings per share amounts for each quarter are required to be computed independently. As a result, the sum may differ from the total year earnings per share amounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the Consolidated Financial Statements and Notes thereto and other information set forth following Item 15. of this Report. See also "CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS" in Part I of this Report.

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GENERAL

After reaching peak business levels in the first half of fiscal year 2001, the Registrant experienced a rapid decline in sales volume, as did the entire electronic component industry, due to a drastic slowdown in the wireless infrastructure and fiber optic markets. After bottoming out in the second quarter of fiscal year 2002, sales have rebounded modestly. However, demand from the wireless infrastructure and fiber optics markets remains depressed. Sales for fiscal year 2003 were essentially level with fiscal year 2002.

In response to the industry downturn, the Registrant instituted a series of cost reduction measures in the second half of fiscal year 2001. The measures included headcount reduction, spending control measures and the closure of the Registrant's sales office in England, among others. Additionally, certain inventory was written down to net realizable value and excess palladium was sold at a significant loss in fiscal year 2002. Current year losses have declined primarily as a result of these cost reduction measures. Most recently, the Registrant has selectively added personnel in order to improve customer service and build for the future.

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The Registrant has developed new products which, to some extent, have helped to offset the decreased business. Many of these new products sell into the same markets as the Registrant's traditional products and, as such, the benefits of the newer products has been limited. As product demand increases, the Registrant expects to benefit from sales volume improvement from traditional products and also from products that have been introduced during the past two years. Demand improvement will largely depend on increased capital expenditures in the markets the Registrant serves.

Many of the customers the Registrant serves have begun to use facilities in Asia to build their product. Production and major new technology infrastructure projects have shifted into this region. China is a growing market and the Chinese government continues to spend significant money on encouraging the growth of the electronic components industry. The Registrant has responded by opening its first sales office in the Far East in China. Based upon its experience in Europe, the Registrant believes that maintaining a local sales office will enable it to remain in close contact with its customers and strengthen relationships with the major manufacturers in the region.

The Registrant expects that bookings will be flat throughout the remainder of the calendar year and will gradually increase thereafter. The increases are anticipated to be in part from an increase in orders due to an economic recovery and in part due to sales of new product offerings which the Registrant has recently introduced. There can be no assurance, however, concerning the timing of an economic recovery, if any, or the level of acceptance of any of the Registrant's new products.

RESULTS OF OPERATIONS

FISCAL YEAR 2003 COMPARED WITH FISCAL YEAR 2002

Net sales for the fiscal year ended June 30, 2003 were \$49,048,000, a decrease of 1% from the \$49,585,000 recorded in the fiscal year ended June 30, 2002. Domestic sales decreased by 12% to \$28,697,000 in fiscal year 2003 from \$32,459,000 in fiscal year 2002. International sales increased by 19% to \$20,351,000 in fiscal year 2003 from \$17,126,000 in fiscal year 2002. Although overall sales remained at levels comparable to the prior year, there was an increase in sales of larger case size capacitors and EIA case capacitors and a

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decline in sales of thin film products. The increase in foreign sales is indicative of the Registrant's customers migrating production overseas, penetration into the Asian market and improved sales in Europe.

Orders have improved significantly from the lows experienced in the second quarter of fiscal year 2002. Total bookings in fiscal year 2003 were \$48,767,000, compared to \$42,976,000 in fiscal year 2002, representing an increase of approximately 13%. Growth has come from the military and wireless infrastructure markets offset partially by a decrease in orders from the medical electronics market.

Gross margins were 29% of net sales in fiscal year 2003, compared to 19% in fiscal year 2002. The increase in gross margins was attributable in part to cost reduction measures implemented by the Registrant in fiscal year 2002 in response to the industry downturn and increased precious metal recovery, as well as the lack of inventory write-downs to net realizable value and a loss on the sale of palladium (a precious metal used in the manufacture of certain core products) both of which occurred in fiscal 2002. In June 2002, the Registrant sold a portion of its palladium inventory to align inventory levels with anticipated demand. The Registrant believes its current level of inventory is appropriate for current sales and production levels.

Operating expenses totaled \$15,087,000, or 31% of net sales, in fiscal year 2003, compared to \$16,220,000, or 33% of net sales, in fiscal year 2002. The decrease in operating expenses from the prior fiscal year was attributable to decreased staff as a result of the cost reduction measures discussed above, lower severance costs and other restructuring costs, and decreased research and development spending. Operating expenses also decreased as a percentage of sales for the same reasons.

Net interest expense was \$250,000 in fiscal year 2003, compared to net interest expense of \$305,000 in fiscal year 2002. The decrease in net interest expense was attributable primarily to the retiring of all outstanding bank debt in the first quarter of fiscal year 2003.

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The effective income tax benefit rate for fiscal year 2003 was approximately 50%, as compared to 37% for fiscal year 2002. The increase in the effective income tax rate was primarily due to the impact of foreign tax benefits in relation to the low level of pre-tax loss.

As a result of the foregoing, the Registrant reported a net loss of \$501,000, or \$.06 per common (and diluted) share, for fiscal year 2003, compared to a net loss of \$4,243,000, or \$0.53 per common (and diluted) share, for fiscal year 2002.

FISCAL YEAR 2002 COMPARED WITH FISCAL YEAR 2001

Net sales for the fiscal year ended June 30, 2002 were \$49,585,000, a decrease of 41% from the \$84,585,000 recorded in the fiscal year ended June 30, 2001. Domestic sales decreased by 47% to \$32,459,000 in fiscal year 2002 from \$60,964,000 in fiscal year 2001. International sales decreased by 27% to \$17,126,000 in fiscal year 2002 from \$23,621,000 in fiscal year 2001. The decrease in total net sales resulted primarily from a decrease in demand for the Registrant's products in both foreign and domestic markets across virtually all product lines.

Following the dramatic decrease in orders in the second half of fiscal

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year 2001, orders remained low throughout fiscal year 2002. Although the rate of cancellations has returned to historical levels, the Registrant has not experienced any significant increase in order levels. Total bookings in fiscal year 2002 were \$42,976,000, compared to \$76,286,000 in fiscal year 2001, representing a decline of approximately 44%. Orders from customers in the wireless infrastructure, fiber optic and semiconductor manufacturing equipment markets remain significantly below the levels obtained in the first half of fiscal year 2001. These customers are heavily dependent on activity in the telecommunications industry which remains depressed. Accordingly, it is unclear when orders may be expected to increase.

The Registrant has responded to the decrease in business levels by instituting a series of cost reduction initiatives. During fiscal year 2002, the Registrant implemented a series of workforce reductions, scaled back its research and development efforts and significantly reduced capital spending. In addition, in the fourth quarter of fiscal year 2002, the Registrant sold a large portion of its palladium raw material inventory that it deemed to be excess based on anticipated business levels for \$3.3 million. The Registrant recognized a loss of \$1,360,000 (after tax), or \$.17 per share, during the fourth quarter of fiscal year 2002 as a result of this transaction.

Gross margins were 19% of net sales in fiscal year 2002, compared to 43% in fiscal year 2001. The decrease in gross margins was primarily attributable to lower sales in relation to fixed costs, the loss on the sale of palladium, inventory write-downs to net realizable value as a result of excess quantities, customer requirements and other causes, and a reduction of benefits from reclaiming activity, offset partially by the net effect of the workforce reductions and other cost controls discussed above.

Operating expenses totaled \$16,220,000, or 33% of net sales, in fiscal year 2002, compared to \$20,599,000, or 24% of net sales, in fiscal year 2001. The decrease in operating expenses from the prior fiscal year was attributable to decreased staff as a result of the cost reduction measures discussed above, lower commissions related to the lower sales volume, lower bonus accruals due to decreased profitability, and decreased research and development spending, partially offset by severance costs and other restructuring costs of approximately \$406,000. As a percentage of sales, operating expenses increased due to the lower level of sales and the fixed nature of certain expenses.

Net interest expense was \$305,000 in fiscal year 2002, compared to net interest expense of \$226,000 in fiscal year 2001. The increase in net interest expense was attributable to decreased interest income due to lower prevailing interest rates, offset partially by an increase in cash available for investing and lower interest expense on loans.

The effective income tax benefit rate for fiscal year 2002 was approximately 37%, as compared to an effective income tax rate of 35% for fiscal year 2001. The increase in the effective income tax rate was due to operating losses and the impact of certain credits.

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As a result of the foregoing, the Registrant reported a net loss of \$4,243,000, or (\$.53) per common share and per common share assuming dilution, for fiscal year 2002, compared to net income of \$10,332,000, or \$1.30 per common share (\$1.24 per common share assuming dilution), for fiscal year 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Registrant's financial position at June 30, 2003 remains strong as

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evidenced by working capital of \$31,485,000, compared to working capital of \$28,375,000 at June 30, 2002. The Registrant's current ratio at June 30, 2003 was 7.3:1, compared to 4.4:1 at June 30, 2002. The Registrant's quick ratio at June 30, 2003 increased to 3.7:1, compared to 2.0:1 at June 30, 2002. The improvement in the current and quick ratios were primarily due to the retiring of the Registrant's bank debt in July 2002 and positive cash flows from operations in excess of capital expenditures.

Cash and investments increased to \$11,696,000 at June 30, 2003, compared to \$10,154,000 at June 30, 2002. The increase in cash and investments was primarily the result of positive cash flow from operations in excess of capital expenditures and collection of tax refunds partially offset by the retiring of the bank debt. Accounts receivable increased by \$393,000 to \$6,721,000 at June 30, 2003, compared to \$6,328,000 at June 30, 2002. Inventories decreased by \$273,000 to \$15,144,000 at June 30, 2003, compared to \$15,417,000 at June 30, 2002. The Registrant continues to maintain high finished goods inventory levels to keep customer lead times to a minimum and maintain good customer service. Other current assets decreased by \$1,624,000 primarily due to the collection of income tax receivables as a result of losses incurred in fiscal 2002.

Current portion of long-term debt decreased \$3,921,000 to \$355,000, at June 30, 2003 compared to \$4,276,000 at June 30, 2002. The decrease in the current portion of long-term debt was due to the retiring of the bank debt in the first quarter of fiscal year 2003. Accounts payable increased by \$147,000 to \$1,025,000 at June 30, 2003, compared to \$878,000 at June 30, 2002. Accrued expenses decreased by \$375,000 to \$2,843,000 at June 30, 2003, compared to \$3,218,000 at June 30, 2002.

The Registrant leases its 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. See "Item 2. PROPERTIES". Effective September 1, 2002, the Registrant is obligated to pay approximately \$719,000 per annum under this lease, an increase from \$461,000 per annum during fiscal year 2002. The payments due over the remaining seven years of this capital lease, including the portion related to interest, total approximately \$5,214,000. See "Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" and Note 4 of Notes to Consolidated Financial Statements.

At June 30, 2002, the Registrant had available two credit facilities with Bank of America, N.A. ("Bank of America"): a \$4,000,000 revolving line of credit against which no borrowings were incurred, and an \$8,500,000 equipment line of credit against which the Registrant had borrowings of \$4,047,000 outstanding. Both lines bore interest at 1 1/2% above the one month LIBOR rate, or approximately 3.3% at June 30, 2002. The outstanding principal balance of the equipment line rolled over periodically into a self-amortizing term note of not less than four nor more than seven years.

Each of these credit facilities was subject to certain financial covenants, including maintenance of asset and liability percentage ratios. One such covenant required the Registrant to maintain a certain level of annualized earnings before interest, taxes, depreciation and amortization (EBITDA) to current debt plus annual interest payments. 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 concerning possible amendments to the terms of these facilities which proved to be unsuccessful. Accordingly, in July 2002, the Registrant repaid the outstanding balance of the equipment facility and terminated both of these facilities.

The Registrant is in the process of seeking a line of credit or other form of financing for planned purchases of equipment. If the Registrant is unable to secure such financing on acceptable terms, the Registrant believes that it will be able to fund such purchases from cash on hand and cash generated from operations.

Capital expenditures for the fiscal year ended June 30, 2003 totaled \$1,708,000, including expenditures for machinery and equipment and planned leasehold improvements. The Registrant intends to use cash on hand, cash generated through operations, and available credit, if any, to finance budgeted capital expenditures, primarily for equipment acquisition, of approximately \$4,700,000 in fiscal year 2004.

Aggregate contractual obligations as of June 30, 2003 mature as follows:

| Contractual Obligations | Total | Payments Due by Period (in 000's) | | |
|--------------------------------------|-----------------|-----------------------------------|-----------------|------------------|
| | | Less than 1 year | 1- 3 years | 4 years and over |
| Bank Debt | \$ --- | \$ --- | \$ --- | \$ --- |
| Capital Lease Obligations | 3,645 | 355 | 1,316 | |
| Operating Leases | 1,786 | 453 | 1,230 | |
| Total Contractual Obligations | \$ 5,431 | \$ 808 | \$ 2,546 | \$ --- |

As described above, in July 2002, the Registrant repaid the outstanding balance of its equipment line from Bank of America. 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 ("SEC") 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 "Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this report. The Registrant believes that the following accounting policies require the application of management's most difficult, subjective or complex judgments:

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ALLOWANCES FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Registrant performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and a customer's current creditworthiness, as determined by its review of the customer's current credit information. The 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 and any actual losses in excess of previous estimates may negatively impact its operating results.

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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 process. 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.

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, such 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

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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 estimate of future cash flows associated with these assets. The Registrant believes that the carrying amount of its long-lived assets is recoverable. However, should its operating results deteriorate, or anticipated new product launches not occur or not attain the commercial acceptance that the 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.

INFLATION

The Registrant does not expect the effects of inflation to have a significant impact on its liquidity or results of operations.

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ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transaction and Disclosure" ("SFAS No. 148"), - an amendment of FASB Statement No. 123", 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. The Registrant adopted the disclosure provisions of SFAS No. 148 effective, January 1, 2003. The Registrant continued to apply the intrinsic value-based method to account for stock options through fiscal year 2003.

In July 2003, the Registrant elected to transition to a fair value-based method of accounting for stock-based employee compensation. The Registrant will use the prospective method for the transition as permitted by SFAS 148. Under the prospective method, stock compensation expense for new awards will be recognized for any new option grants or stock awards granted on or after July 1, 2003 based upon the award's fair value. Outstanding stock options granted prior to July 1, 2003, will continue to be accounted for under the intrinsic value method. Stock compensation expense for new awards will be calculated using the Black-Scholes Pricing Model to estimate fair value. The adoption of this standard will increase recognized stock compensation expense to the extent stock options or awards are granted after June 30, 2003.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). Previously, consolidation of variable interest entities was largely based on controlling voting rights. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to entities where the company is vulnerable to a majority of the entity's risk of loss or is entitled to receive a majority of the entity's residual returns even if there is no controlling voting interest. The Registrant will adopt FIN No. 46 effective July 1, 2003. The Registrant is currently assessing the impact of the

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adoption of FIN No. 46 on its financial position and consolidated results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Registrant has identified three market risks relative to its business: foreign currency exchange rate risk, commodity price risk and security 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, and are anticipated to be, denominated in U.S. Dollars. At the present time, the contribution of the Swedish subsidiary to the Registrant's consolidated results of operations is not significant. See Note 9 of Notes to Consolidated Financial Statements. Accordingly, fluctuations in exchange rates would not presently have a material adverse effect on the Registrant's operations.
- b) Commodity price risk. The Registrant uses certain precious metals in the manufacturing of its products (primarily palladium and gold), and is therefore subject to certain commodity price risks. The Registrant believes that, based upon its current levels of production and inventories of palladium and gold, it will need to buy additional quantities of palladium during the next fiscal year at prevailing market prices. Additionally, the Registrant believes that the price of palladium and gold will remain stable due to the lower demand coming from the electronics industry. If prices were to begin rising significantly, the Registrant may decide to purchase a longer-term supply of the metals to protect against unstable pricing.
- c) Security price risk. The Registrant's current portfolio of marketable securities consists of U.S. Treasury notes and other government securities with varying maturities of up to three years. The Registrant believes it can effectively manage any exposure resulting from declining prices by holding any securities which decline substantially in value until maturity.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Registrant's Consolidated Financial Statements and the Notes thereto begin on page F-2 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. In response to the requirements of the Sarbanes-Oxley Act of 2002, within 90 days prior to the date of this report (the "Evaluation Date"), the Registrant's President and Chief

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

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the caption "Election of Directors" in the Registrant's Proxy Statement to be furnished in connection with its Annual Meeting of Stockholders to be held November 19, 2003 is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" in the Registrant's Proxy Statement to be furnished in connection with its Annual Meeting of Stockholders to be held November 19, 2003 is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" and the information relating to beneficial ownership of the Registrant's common stock in the table under the caption "Election of Directors" in the Registrant's Proxy Statement to be furnished in connection with its Annual Meeting of Stockholders to be held November 19, 2003 is hereby incorporated by reference. See also "Item 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS -- EQUITY COMPENSATION PLAN INFORMATION".

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" in the Registrant's Proxy Statement to be furnished in connection with its Annual Meeting of Stockholders to be held November 19, 2003 is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the caption "Principal Accounting Fees and Services" in the Registrant's Proxy Statement to be furnished in connection with its Annual Meeting of Stockholders to be held November 19, 2003 is hereby incorporated by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS

| | |
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| Index to Consolidated Financial Statements..... | F |
| Independent Auditors' Report..... | F |
| Consolidated Financial Statements | |
| Balance Sheets as of June 30, 2003 and 2002..... | F |
| Statements of Operations | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001..... | F |
| Statements of Stockholders' Equity and Comprehensive Income (Loss) | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001..... | F |
| Statements of Cash Flows | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001..... | F |
| Notes to Consolidated Financial Statements | F |

(b) REPORTS ON FORM 8-K

On September 3, 2003, the Registrant furnished a report on Form 8-K together with the Registrant's Press Release announcing it's fourth quarter financial results for the period ended June 30, 2003. The Form 8-K contained the information required by "Item 9. Regulation FD Disclosure" and "Item 12. Disclosure of Results of Operations and Financial Condition," in accordance with SEC Release 33-8216.

(C) 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. (4) |
| 3(b) (i) | - By-laws of the Registrant. |
| 9(a) (i) | - Restated Shareholders' Agreement, dated April 15, 1985, among |

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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. (19)
- 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. (3)
- 10(c) (iii) - Form of Employee Stock Bonus Agreement, dated as of April 19, 1994, between the Registrant and various employees. (3)
- 10(c) (iv) - Form of Employee Stock Bonus Agreement, dated as of April 20, 1995, between the Registrant and various employees. (4)
- 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. (13)
- 10(g) (iii) - Profit Bonus Plan, dated April 19, 1995, and effective for the fiscal years beginning July 1, 1994. (4)
- 10(g) (iv) - Employment Agreement, dated April 3, 1985, between Victor Insetta and the Registrant, and Amendments No. 1 through 4 thereto. (2)
- 10(g) (v) - Amendment No. 5, dated as of September 11, 1998, to Employment Agreement between Victor Insetta and the Registrant. (8)
- 10(g) (vi) - Amendment No. 6, dated as of January 3, 2001, to Employment Agreement between Victor Insetta and the Registrant. (20)
- 10(h) - Employment Agreement, dated September 1, 2000, between the Registrant and Richard Monsorno. (14)
- 10(i) - Managers Profit Bonus Plan, dated December 7, 1999 and effective January 1, 2000. (12)
- 10(k) - Consulting Agreement, dated October 2000, between the Registrant and Stuart P. Litt. (14)

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- 10(m) (i) - American Technical Ceramics Corp. 1997 Stock Option Plan. (7)
- 10(m) (ii) - American Technical Ceramics Corp. 2000 Incentive Stock Plan. (12)
- 10(p) - Second Amended and Restated Employment Agreement, dated as of December 31, 2001, between Judah Wolf and the Registrant. (17)
- 10(r) - Employment Agreement, dated April 10, 2001, between the Registrant and David Ott
- 10(r) (i) - Amendment to Employment Agreement, dated as of January 1, 2001, between David Ott and the Registrant. (17)

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- 10(s) - Employment Agreement, dated April 1, 2003, between the Registrant and Stephen Beyel. (20)
- 21 - Subsidiaries of the Registrant. (18)
- 23 - Consent of KPMG LLP. (21)
- 31.1 - Section 302 Certification of Chief Executive Officer. (21)
- 31.2 - Section 302 Certification of Principal Accounting Officer. (21)
- 32 - Section 906 Certifications. (21)

-
1. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1989.
 2. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993.
 3. Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1994.
 4. Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1995.
 5. Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1996.
 6. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997.
 7. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997.
 8. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998.
 9. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998.
 10. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1998.

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11. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1999.
12. Incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2000.
13. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.
14. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.

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15. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001.
16. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.
17. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2002.
18. Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.
19. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002.
20. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003.
21. Filed herewith.

(D) FINANCIAL STATEMENT SCHEDULES

Schedules have been omitted since they either are not applicable, not required or the information is included elsewhere herein.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

AMERICAN TECHNICAL CERAMICS CORP.

BY: /S/ VICTOR INSETTA

VICTOR INSETTA
President

Dated: September 25, 2003

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:

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| NAME ----- | TITLE ----- | DATE ----- |
|-------------------------------------------------------------|--------------------------------------------------------------|-------------------|
| /S/ VICTOR INSETTA ----- Victor Insetta | President and Director (Principal Executive Officer) | September 25, 200 |
| /S/ ANDREW R. PERZ ----- Andrew R. Perz | Vice President, Controller (Principal Accounting Officer) | September 25, 200 |
| /S/ STUART P. LITT ----- Stuart P. Litt | Director | September 25, 200 |
| /S/ O. JULIAN GARRARD III ----- O. Julian Garrard III | Director | September 25, 200 |
| /S/ CHESTER E. SPENCE ----- Chester E. Spence | Director | September 25, 200 |
| /S/ THOMAS J. VOLPE ----- Thomas J. Volpe | Director | September 25, 200 |
| /S/ DOV S. BACHARACH ----- Dov S. Bacharach | Director | September 25, 200 |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|--------------------------------------------------------------------|--|
| Independent Auditors' Report | |
| Consolidated Balance Sheets as of June 30, 2003 and 2002 | |

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| | |
|------------------------------------------------------------------------------------|--|
| Consolidated Statements of Operations | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001 | |
| Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001 | |
| Consolidated Statements of Cash Flows | |
| Fiscal Years Ended June 30, 2003, 2002 and 2001 | |
| Notes to Consolidated Financial Statements | |

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Independent Auditors' Report

The Board of Directors and Stockholders
American Technical Ceramics Corp.:

We have audited the accompanying consolidated balance sheets of American Technical Ceramics Corp. and subsidiaries (the "Company") as of June 30, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended June 30, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Technical Ceramics Corp. and subsidiaries as of June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

/S/ KPMG LLP

Melville, New York
September 3, 2003

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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| ASSETS | JUNE |
|------------------------------------------------------------------------------|-------|
| | ----- |
| CURRENT ASSETS | |
| Cash (including cash equivalents of \$996,000 and \$3,606,000, respectively) | \$ 8 |
| Investments | 3 |
| Accounts receivable, net | 6 |
| Inventories | 15 |
| Deferred income taxes, net | 1 |
| Other current assets | |
| | ----- |
| TOTAL CURRENT ASSETS | 36 |
| | ----- |
| PROPERTY, PLANT AND EQUIPMENT | |
| Land | |
| Buildings | 10 |
| Leasehold improvements | 5 |
| Machinery and equipment | 41 |
| Computer equipment and software | 5 |
| Furniture, fixtures and other | 1 |
| | ----- |
| | 64 |
| Less: Accumulated depreciation and amortization | 37 |
| | ----- |
| | 27 |
| | ----- |
| OTHER ASSETS | |
| | ----- |
| TOTAL ASSETS | \$ 63 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES | |
| Current portion of long-term debt | \$ |
| Accounts payable | 1 |
| Accrued expenses | 2 |
| Income taxes | |
| | ----- |
| TOTAL CURRENT LIABILITIES | 5 |
| | ----- |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 3 |
| DEFERRED INCOME TAXES | 3 |
| | ----- |
| TOTAL LIABILITIES | 11 |
| | ----- |

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Common Stock -- \$.01 par value; authorized 20,000,000 shares; issued 8,502,758 and 8,492,258 shares, outstanding 8,088,618 and 8,074,118 shares, respectively | 11 |
| Capital in excess of par value | 41 |
| Retained earnings | 41 |
| Accumulated other comprehensive income (loss): | |
| Unrealized gain on investments available-for-sale, net | |
| Cumulative foreign currency translation adjustment | ----- |
| | ----- |
| Less: Treasury stock, at cost (414,140 and 421,140 shares, respectively) | 1 |
| TOTAL STOCKHOLDERS' EQUITY | 51 |
| | ----- |
| | \$ 63 |
| | ===== |

See accompanying notes to consolidated financial statements.

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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FISCAL YEARS ENDED JUNE 30, 2003, 2002, 2001

| | 2003 ---- | 2002 ---- |
|----------------------------------------------|---------------|---------------|
| Net sales | \$ 49,048,000 | \$ 49,585,000 |
| Cost of sales | 34,716,000 | 39,961,000 |
| | ----- | ----- |
| Gross profit | 14,332,000 | 9,624,000 |
| | ----- | ----- |
| Selling, general and administrative expenses | 11,972,000 | 12,403,000 |
| Research and development expenses | 2,766,000 | 3,644,000 |
| Other | 349,000 | 173,000 |
| | ----- | ----- |
| Operating expenses | 15,087,000 | 16,220,000 |
| | ----- | ----- |
| (Loss)/income from operations | (755,000) | (6,596,000) |
| | ----- | ----- |
| Other expense (income) | | |
| Interest expense | 359,000 | 496,000 |
| Interest income | (109,000) | (191,000) |
| Other | --- | (160,000) |
| | ----- | ----- |
| | 250,000 | 145,000 |
| | ----- | ----- |

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| | | |
|----------------------------------------------------|--------------|----------------|
| (Loss)/income before provision for income taxes | (1,005,000) | (6,741,000) |
| Provision for income taxes | (504,000) | (2,498,000) |
| Net (loss)/income | \$ (501,000) | \$ (4,243,000) |
| Basic net (loss)/income per common share | \$ (0.06) | \$ (0.06) |
| Diluted net (loss)/income per common share | \$ (0.06) | \$ (0.06) |
| Basic weighted average common shares outstanding | 8,074,000 | 8,050,000 |
| Diluted weighted average common shares outstanding | 8,074,000 | 8,050,000 |

See accompanying notes to consolidated financial statements.

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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
FISCAL YEARS ENDED JUNE 30, 2003, 2002, AND 2001

| | Comprehensive Income/(Loss) | Common Stock Shares | Amount | Capital in Excess of Par Value |
|-----------------------------------------------------------------------------------------------|--------------------------------|------------------------|-----------|--------------------------------------|
| BALANCE AT JUNE 30, 2000 | | 8,369,528 | \$ 84,000 | \$10,366,000 |
| Net income | \$ 10,332,000 | --- | --- | --- |
| Tax benefit of stock options exercised | --- | --- | --- | 182,000 |
| Stock award compensation | --- | --- | --- | 369,000 |
| Exercise of stock options | --- | 81,905 | 1,000 | 343,000 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | 112,000 | | | |
| Foreign currency translation adjustment | (182,000) | | | |

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| | | | | |
|-----------------------------------------------------------------------------------------------|----------------|-----------|-----------|--------------|
| Other comprehensive loss, net of tax | (70,000) | --- | --- | --- |
| | ----- | | | |
| Comprehensive income | \$ 10,262,000 | | | |
| | ===== | | | |
| BALANCE AT JUNE 30, 2001 | | 8,451,433 | \$ 85,000 | \$11,260,000 |
| Net (loss) | \$ (4,243,000) | --- | --- | --- |
| Tax benefit of stock options exercised | --- | --- | --- | 57,000 |
| Stock award compensation expense | --- | --- | --- | (112,000) |
| Exercise of stock options | --- | 40,825 | --- | 175,000 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | (51,000) | | | |
| Foreign currency translation adjustment | 248,000 | | | |
| | ----- | | | |
| Other comprehensive Income, net of tax | 197,000 | --- | --- | --- |
| | ----- | | | |
| Comprehensive (loss) | \$ (4,046,000) | | | |
| | ===== | | | |
| BALANCE AT JUNE 30, 2002 | | 8,492,258 | 85,000 | \$11,380,000 |
| Net (loss) | \$ (501,000) | --- | --- | --- |
| Tax benefit of stock options exercised | --- | --- | --- | 2,000 |
| Stock award compensation expense | --- | --- | --- | 10,000 |
| Exercise of stock options | --- | 10,500 | --- | 26,000 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | (5,000) | | | |
| Foreign currency translation adjustment | 222,000 | | | |
| | ----- | | | |
| Other comprehensive Income, net of tax | 217,000 | --- | --- | --- |
| | ----- | | | |
| Comprehensive (loss) | \$ (284,000) | | | |
| | ===== | | | |
| BALANCE AT JUNE 30, 2003 | | 8,502,758 | 85,000 | \$11,418,000 |
| | | ===== | | ===== |

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| | Treasury Stock | Deferred Compensation | Total |
|-----------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------|---------------|
| | <hr style="border-top: 1px dashed black;"/> | | |
| BALANCE AT JUNE 30, 2000 | \$ (1,515,000) | \$ (528,000) | \$ 44,321,000 |
| Net income | --- | --- | 10,332,000 |
| Tax benefit of stock options exercised | --- | --- | 182,000 |
| Stock award compensation | 68,000 | 283,000 | 720,000 |
| Exercise of stock options | --- | --- | 344,000 |
| Other comprehensive income, net of tax: | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | | | |
| Foreign currency translation adjustment | | | |
| Other comprehensive loss, net of tax | --- | --- | (70,000) |
| Comprehensive income | | | |
| | <hr style="border-top: 1px dashed black;"/> | | |
| BALANCE AT JUNE 30, 2001 | \$ (1,447,000) | \$ (245,000) | \$ 55,829,000 |
| Net (loss) | --- | --- | (4,243,000) |
| Tax benefit of stock options exercised | --- | --- | 57,000 |
| Stock award compensation expense | 44,000 | 245,000 | 177,000 |
| Exercise of stock options | --- | --- | 175,000 |
| Other comprehensive income, net of tax: | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | | | |
| Foreign currency translation adjustment | | | |
| Other comprehensive Income, net of tax | --- | --- | 197,000 |
| Comprehensive (loss) | | | |
| | <hr style="border-top: 1px dashed black;"/> | | |
| BALANCE AT JUNE 30, 2002 | \$ (1,403,000) | --- | 52,192,000 |
| Net (loss) | --- | --- | (501,000) |
| Tax benefit of stock options exercised | --- | --- | 2,000 |
| Stock award compensation expense | 7,000 | --- | 17,000 |

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| | | | |
|-----------------------------------------------------------------------------------------------|----------------|-----|------------|
| Exercise of stock options | --- | --- | 26,000 |
| Other comprehensive income, net of tax: | | | |
| Unrealized losses on investments available-for-sale, net of reclassification adjustment | | | |
| Foreign currency translation adjustment | | | |
| Other comprehensive Income, net of tax | --- | --- | 217,000 |
| Comprehensive (loss) | | | |
| BALANCE AT JUNE 30, 2003 | \$ (1,396,000) | --- | 51,953,000 |

See accompanying notes to consolidated financial statements.

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AMERICAN TECHNICAL CERAMICS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FISCAL YEARS ENDED JUNE 30, 2003, 2002, 2001

| CASH FLOWS FROM OPERATING ACTIVITIES: | 2003 | 2002 |
|---------------------------------------------------------------------------------------------|--------------|----------------|
| | ----- | ----- |
| Net (loss)/income | \$ (501,000) | \$ (4,200,000) |
| Adjustments to reconcile net (loss)/income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,391,000 | 5,000,000 |
| Loss on disposal of fixed assets | 459,000 | |
| Stock award compensation expense | 17,000 | 1,000,000 |
| Deferred income taxes | (45,000) | 1,000,000 |
| Realized gain on sale of investments | --- | (1,000,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (393,000) | 5,200,000 |
| Inventories | 273,000 | 9,100,000 |
| Other assets | 1,682,000 | 6,000,000 |
| Accounts payable, accrued expenses and income taxes payable | 556,000 | (7,300,000) |

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| | | |
|------------------------------------------------------|--------------|--------|
| Net cash provided by operating activities | 7,439,000 | 8,7 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (1,708,000) | (3,1 |
| Purchase of investments | (5,001,000) | (4,3 |
| Proceeds from sale of investments | 5,000,000 | 4,9 |
| Proceeds from sale of fixed assets | 18,000 | 3 |
| Net cash used in investing activities | (1,691,000) | (2,2 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (4,436,000) | (3,4 |
| Proceeds from exercise of stock options | 26,000 | 1 |
| Proceeds from issuance of debt | --- | 2,0 |
| Net cash (used in)/provided by financing activities | (4,410,000) | (1,2 |
| Effect of exchange rate changes on cash | 218,000 | 2 |
| Net increase/(decrease) in cash and cash equivalents | 1,556,000 | 5,4 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 7,129,000 | 1,6 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 8,685,000 | \$ 7,1 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 397,000 | \$ 4 |
| Income taxes paid | --- | \$ 1,1 |

See accompanying notes to consolidated financial statements.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

American Technical Ceramics Corp. and its wholly-owned subsidiaries (the "Company") are engaged in the design, development, manufacture and sale of ceramic multilayer capacitors for commercial and military purposes in the United States and for export, primarily to Western Europe, Canada and the Far East. In fiscal years 2003 and 2001, no one customer accounted for more than 10% of consolidated net sales. In fiscal year 2002, sales to various divisions of General Electric Company accounted for approximately 10% of consolidated revenues. The Company operates in one industry segment - the electronic components industry.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of American Technical Ceramics Corp. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

REVENUE RECOGNITION

The Company generates revenue from product sales to original equipment manufacturers and resellers. The Company recognizes revenue when persuasive evidence of an arrangement exists (which is evidenced by written purchase arrangements), delivery has occurred and title has passed to the customer, the selling price is fixed or determinable and collectibility of the resulting receivable is reasonably assured. The Company does not perform any installation services, and does not have any post-shipment obligations. The Company typically warrants that its products will be free from defects in material and workmanship for 90 days. However, defective product may be accepted beyond this period. The Company provides for estimated sales returns when the underlying sale is made, based upon historical experience and known events or trends, in accordance with Statement of Financial Accounting Standards No. 48, "Revenue Recognition when Right of Return Exists". Historically, product returns and associated warranty costs have not been significant. The Company generally does not grant price protection.

CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, including money market accounts and certificates of deposit.

INVESTMENTS

The Company classifies its investments in debt and equity securities as available-for-sale. Accordingly, these investments are reported at fair value with unrealized holding gains and losses excluded from earnings and reported as a component of accumulated other comprehensive income/(loss) within stockholders' equity, net of tax. Classification of investments is determined at acquisition and reassessed at each reporting date. Realized gains and losses are included in the determination of net earnings at the time of sale and are derived using the specific identification method for determining cost of securities sold.

INVENTORIES

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Inventories are stated at the lower of aggregate cost (first-in, first-out) or market.

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COMPREHENSIVE INCOME

The following table sets forth the components of the change in net unrealized gains/(losses) on investments available-for-sale for the fiscal years ended June 30, 2003, 2002 and 2001:

| | 2003 | |
|-----------------------------------------------------------------------------------|------------|----|
| | ----- | |
| Unrealized holding gains arising during the period, net of tax | \$ (5,000) | \$ |
| Less: reclassification adjustment for gains included in net income, net of tax | --- | |
| | ----- | |
| Change in net unrealized (losses)/gains on investments available-for-sale | \$ (5,000) | \$ |
| | ===== | |

The deferred tax (benefit)/liability associated with unrealized holding (losses)/gains arising during the fiscal years 2003, 2002 and 2001 was (\$2,000), (\$29,000) and \$60,000, respectively. The tax benefit of the reclassification adjustments for gains on sales of investments included in net income during fiscal years 2003 and 2002 was (\$5,000) and (\$59,000), respectively.

LONG-LIVED ASSETS

Property, plant and equipment are stated at cost. Depreciation and amortization are provided primarily using the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|---------------------------------|-----------------------------------------------|
| Buildings | 30 years |
| Leasehold improvements | Lesser of the remaining lease term or 5 years |
| Machinery and equipment | 10 years |
| Furniture, fixtures and other | 3 to 8 years |
| Computer equipment and software | 3 years |

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax

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consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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FOREIGN CURRENCY TRANSLATION

The Company translates the financial statements of its foreign subsidiaries (located in England and Sweden) by applying the current exchange rate as of the balance sheet date to the assets and liabilities of the subsidiary and a weighted average rate to such subsidiary's results of operations. The resulting translation adjustment is recorded as a component of stockholders' equity.

STOCK-BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock-based compensation and makes pro-forma disclosures of net income and net income per share as if the fair value method under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," had been applied.

The average per-share fair value of stock options granted during fiscal years 2003, 2002 and 2001 was \$2.50, \$5.11 and \$7.74, respectively, as determined by the Black-Scholes option pricing model (assuming a risk-free interest rate of 3.23%, 4.19% and 5.33%, respectively, expected life of five years, expected volatility of 71.5%, 68.0% and 76.0%, respectively, and no dividends). The weighted average remaining contractual life of options outstanding as of June 30, 2003 was 6.9 years.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock-based compensation and makes pro-forma disclosures of net income and net income per share as if the fair value method under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," as amended by SFAS No. 148, had been applied. Had compensation expense for the Company's stock option plans been determined based on the fair value method at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, the Company's net income/(loss) and earnings/(loss) per share would have approximated the pro forma amounts indicated below:

| | Year Ended | |
|------------------------------------------------|--------------|--------|
| | ----- | |
| | 2003 | |
| | ----- | |
| Net (loss)/income, as reported | \$ (501,000) | \$ (4, |
| Add: Stock-based employee compensation expense | | |

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| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------|
| included in reported net income, net of related tax effects | 19,000 | |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | \$ (1,112,000) | \$ (|
| Pro forma (loss)/net income | \$ (1,594,000) | \$ (5, |
| Loss/income per share: | | |
| Basic - as reported | (0.06) | |
| Basic - pro forma | (0.20) | |
| Diluted - as reported | (0.06) | |
| Diluted - pro forma | (0.20) | |

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

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EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing income available to common stockholders (which for the Company equals its net income) by the weighted average number of common shares outstanding, and dilutive EPS adds the dilutive effect of stock options and other common stock equivalents. Antidilutive shares aggregating 1,381,000, 920,000 and 798,000, respectively, have been omitted from the calculation of dilutive EPS for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. A reconciliation between numerators and denominators of the basic and diluted earnings per share is as follows:

| | YEAR ENDED JUNE 30, 2003 | | | YEAR ENDED JUNE 30, 2002 | | | YEAR |
|--------------------------------|--------------------------|-------------------------|---------------------|--------------------------|-------------------------|---------------------|-----------|
| | INCOME (NUMERATOR) | SHARES (DENOMINATOR) | PER-SHARE AMOUNT | INCOME (NUMERATOR) | SHARES (DENOMINATOR) | PER-SHARE AMOUNT | INCOM |
| Basic EPS | (\$501,000) | 8,074,000 | (\$0.06) | (\$4,243,000) | 8,050,000 | (\$0.53) | \$10,332, |
| Effect of Dilutive Securities: | | | | | | | |
| Stock Options | -- | -- | -- | -- | -- | -- | -- |
| Stock Awards | -- | -- | -- | -- | -- | -- | -- |
| Diluted EPS | (\$501,000) | 8,074,000 | (\$0.06) | (\$4,243,000) | 8,050,000 | (\$0.53) | \$10,332, |

IMPACT OF NEW ACCOUNTING STANDARDS

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In July 2002, the Company 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 Company's consolidated results of operations or financial position.

In July 2002, the Company 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 Company's consolidated results of operations or financial position.

In January 2003, the Company adopted 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. Such adoption had no impact on the Company's consolidated results of operations or financial position.

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In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transaction and Disclosure" ("SFAS No. 148"), - an amendment of FASB Statement No. 123", 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. The Company adopted the disclosure provisions of SFAS No. 148 effective, January 1, 2003. The Company continued to apply the intrinsic value-based method to account for stock options through fiscal year 2003.

In July 2003, the Company elected to adopt SFAS No. 123 and to transition to a fair value-based method of accounting for stock-based employee compensation. The Company will use the prospective method for the transition as permitted by SFAS 148. Under the prospective method, stock compensation expense for new awards will be recognized for any new option grants or stock awards granted on or after July 1, 2003 based upon the award's fair value. Outstanding stock options granted prior to July 1, 2003 will continue to be accounted for under the intrinsic value method. Stock compensation expense for new awards will be calculated using the Black-Scholes Pricing Model to estimate fair value. The adoption of this standard will increase recognized stock compensation expense to the extent stock options or awards are granted after June 30, 2003.

In December 2002, the Company adopted the Financial Accounting Standards Board Statement of Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). It requires among other things, certain disclosures about warranty obligations. The Company typically warrants that its products will be free from defects in material and workmanship for 90 days. However, defective product may be accepted beyond this period. The Company

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provides for estimated sales returns when the underlying sale is made. Historically, product returns and associated warranty costs have not been significant.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). Previously, consolidation of variable interest entities was largely based on controlling voting rights. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to entities where the company is vulnerable to a majority of the entity's risk of loss or is entitled to receive a majority of the entity's residual returns even if there is no controlling voting interest. The Company will adopt FIN No. 46 effective July 1, 2003. The Company is currently assessing the impact of the adoption of FIN No. 46 on its financial position and consolidated results of operations.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, provisions for doubtful accounts receivable and sales returns, net realizable value of inventory, and assessments of the recoverability of the Company's long lived assets (including deferred taxes). Actual results could differ from those estimates.

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SUPPLEMENTAL CASH FLOW INFORMATION

During fiscal year 2003, significant non-cash activities included (i) a tax benefit of \$2,000 resulting from stock options exercised, (ii) deferred compensation expense of \$17,000 in connection with awards of an aggregate of 7,000 shares of common stock with a cost basis of \$7,000, (iii) amortization of interest income of \$8,000 related to net premiums on purchases of available for sale securities, and (iv) the adjustment of a capital lease relating to the Company's Jacksonville, Florida facility to reflect certain additions to the facility. The adjustment increased both fixed assets and the related long-term debt by \$1,437,000.

During fiscal year 2002, significant non-cash activities included (i) a tax benefit of \$57,000 resulting from stock options exercised, and (ii) deferred compensation expense of \$67,000 in connection with awards of an aggregate of 7,000 shares of common stock with a cost basis of \$44,000.

During fiscal year 2001, significant non-cash activities included (i) a tax benefit of \$182,000 resulting from stock options exercised, and (ii) securing a \$795,000 mortgage to finance the acquisition of a building.

NOTE 2. INVESTMENTS

Investments consist of the following:

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| June 30, 2003 | Cost | Gross Unrealized Gains | Gross Unrealized Losses |
|-----------------------------|--------------|------------------------------|-------------------------------|
| ----- | ----- | ----- | ----- |
| U.S. Government obligations | \$ 3,011,000 | \$ --- | \$ --- |
| | ----- | ----- | ----- |

| June 30, 2002 | Cost | Gross Unrealized Gains | Gross Unrealized Losses |
|-----------------------------|--------------|------------------------------|-------------------------------|
| ----- | ----- | ----- | ----- |
| U.S. Government obligations | \$ 3,018,000 | \$ 7,000 | \$ --- |
| | ----- | ----- | ----- |

Gross realized gains of approximately \$160,000 is included in other income for fiscal year 2002.

At June 30, 2003, all of the Company's investments in U. S. Government obligations contractually mature within three years.

NOTE 3. INVENTORIES

Inventories consist of the following:

| | June 30, 2003 | June 30, |
|-----------------|---------------|-----------|
| | ----- | ----- |
| Raw materials | \$ 7,055,000 | \$ 7,753 |
| Work in process | 4,361,000 | 3,968 |
| Finished goods | 3,728,000 | 3,696 |
| | ----- | ----- |
| | \$ 15,144,000 | \$ 15,417 |
| | ===== | ===== |

In June 2002, the Company sold a substantial portion of its palladium inventory to one of its vendors for approximately \$3,290,000, resulting in a loss of \$2,160,000 which was recognized as a component of cost of sales.

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NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

| June 30, 2003 | June 30, |
|---------------|----------|
| ----- | ----- |

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| | | |
|----------------------------------|--------------|----------|
| Notes payable to banks | \$ --- | \$ 4,047 |
| Obligations under capital leases | 3,645,000 | 2,597 |
| | ----- | ----- |
| | 3,645,000 | 6,644 |
| Less: Current portion | 355,000 | 4,276 |
| | ----- | ----- |
| Long-term debt | \$ 3,290,000 | \$ 2,368 |
| | ===== | ===== |

NOTES PAYABLE TO BANKS

At June 30, 2002, the Company had available two credit facilities with Bank of America, N.A. ("Bank of America"): a \$4,000,000 revolving line of credit against which no borrowings were incurred, and an \$8,500,000 equipment line of credit against which the Company had borrowings of \$4,047,000. Both lines bore interest at 1 1/2% above the one month LIBOR rate, or approximately 3.3% at June 30, 2002. The outstanding principal balance of the equipment line rolled over periodically into a self-amortizing term note of not less than four nor more than seven years.

Each of these credit facilities was subject to certain financial covenants, including maintenance of asset and liability percentage ratios. One such covenant required the Company 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 Company during fiscal year 2002, the Company was not in compliance with this covenant. The Company held discussions with Bank of America concerning possible amendments to the terms of these facilities which proved to be unsuccessful. Accordingly, in July 2002, the Company repaid the outstanding balance of the equipment facility and terminated both of these facilities.

OBLIGATIONS UNDER CAPITAL LEASES

The Company leases an administrative office, manufacturing and research and development complex located in Jacksonville, Florida (the "Jacksonville Facility") from a partnership controlled by the Company's President, Chief Executive Officer and principal stockholder under a capital lease. At June 30, 2003, the Jacksonville Facility has an aggregate cost of \$5,104,000 and a net book value of \$2,705,000. The lease is for a period of 30 years, was capitalized using an interest rate of 10.5% and expires on September 30, 2010. The lease provides for base rent of approximately \$719,000 per annum. The lease further provides for annual increases in base rent for years beginning after May 1, 1999, based on the increase in the Consumer Price Index ("CPI") since May 1, 1998 applied to base rent. The lease also provides for increases to the base rent in connection with any new construction at the Jacksonville Facility. Under the lease, upon any new construction being placed into use, the base rental is subject to increase to the fair market rental of the Jacksonville Facility, including the new construction. In August 2002, the base monthly rental was increased to approximately \$60,000 for fiscal year 2003, effective September 1, 2002, to reflect the addition of a new manufacturing facility at the Jacksonville Facility. In fiscal year 2002, the base rental was approximately \$43,000 per month.

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The following table sets forth the future minimum lease payments

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(excluding rental adjustments) under this capital lease by fiscal year and the present value of the minimum lease payments as of June 30, 2003:

| | | |
|------------------------------------|----|-----------|
| 2004 | \$ | 719,000 |
| 2005 | | 719,000 |
| 2006 | | 719,000 |
| 2007 | | 719,000 |
| 2008 | | 719,000 |
| 2009 and thereafter | | 1,619,000 |
| | | ----- |
| Total minimum lease payments | | 5,214,000 |
| Less: Amount representing interest | | 1,569,000 |
| | | ----- |
| Present value at June 30, 2003 | | 3,645,000 |
| Less: Current portion | | 355,000 |
| | | ----- |
| | | 3,290,000 |
| | | ===== |

NOTE 5. INCOME TAXES

The components of income/(loss) before income taxes are as follows:

| | Fiscal Years Ended J | |
|----------|----------------------|----------------|
| | 2003 | 2002 |
| Domestic | \$ (931,000) | \$ (6,784,000) |
| Foreign | (74,000) | 43,000 |
| | ----- | ----- |
| | \$ (1,005,000) | \$ (6,741,000) |
| | ===== | ===== |

The provision for income taxes consists of the following:

| | Years Ended June 30, | | |
|------------------|----------------------|----------------|----------|
| | 2003 | 2002 | 2001 |
| CURRENT: | | | |
| Federal | \$ (464,000) | \$ (2,716,000) | \$ 5,714 |
| State | 5,000 | 26,000 | 304 |
| Foreign | --- | (6,000) | 96 |
| | ----- | ----- | ----- |
| Total Current | (459,000) | (2,696,000) | 6,114 |
| | ----- | ----- | ----- |
| DEFERRED: | | | |
| Federal | (5,000) | 446,000 | (470) |
| State | (40,000) | (248,000) | (80) |

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| | | | |
|----------------|--------------|----------------|--------------|
| Total Deferred | (45,000) | 198,000 | (550,000) |
| | \$ (504,000) | \$ (2,498,000) | \$ 5,564,000 |

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The following table reconciles the Federal statutory rate to the Company's effective tax rate:

| | Years Ended June 30, | |
|-----------------------------------------------------------|----------------------|-------|
| | 2003 | 2002 |
| Tax provision computed at statutory rate | 34.0% | 34.0% |
| State tax and State tax credit, net of Federal tax effect | 2.3 | 2.1 |
| FSC/EIE benefit | 12.4 | 1.1 |
| Tax credits and other, net | 1.4 | (0.1) |
| | 50.1% | 37.1% |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2003 and 2002, are presented below.

| | June 2003 |
|----------------------------------------------------------------------------------------|-------------|
| Deferred tax assets: | |
| Allowance for doubtful accounts receivable and sales returns | \$ 155,000 |
| Inventories | 1,447,000 |
| Accrued expenses | 387,000 |
| Net operating loss and tax credit carry forwards | 375,000 |
| Valuation allowance | (159,000) |
| Total deferred tax assets | 2,205,000 |
| Deferred tax liabilities: | |
| Plant and equipment, principally due to differences in depreciation and capital leases | (3,508,000) |
| Unrealized appreciation on investments available-for-sale | --- |
| Other | (8,000) |

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| | |
|--------------------------------|----------------|
| Total deferred tax liabilities | (3,516,000) |
| Net deferred tax liability | \$ (1,311,000) |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, expected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income, expected future taxable income over the periods in which the deferred tax assets are deductible, and reversals of deferred tax liabilities, management believes (although there can be no assurance) that it is more likely than not that the Company will realize the benefits of these deductible differences in the United States. However, due to the uncertainties of realizing certain foreign tax loss carryforwards, a valuation allowance has been provided against the associated deferred tax asset.

As of June 30, 2003, the Company had available United States and foreign net operating loss and credit carryforwards aggregating \$497,000. United States net operating loss and credit carryforwards expire in various years through 2023. Foreign net operating losses carry forward indefinitely.

The Company had no undistributed earnings of foreign subsidiaries as of June 30, 2003. Consequently no accrual of U.S. income taxes on the earnings of these subsidiaries is needed.

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NOTE 6. STOCK-BASED COMPENSATION

STOCK OPTIONS

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

Disposition of shares acquired pursuant to the exercise of incentive stock options under both plans may not be made by the optionees within two years following the date that the option is granted, nor within one year after the exercise of the option, without the written consent of the Company. Since the Company measures compensation cost under Opinion No. 25, the Company has not recognized compensation cost for these options upon grant as the exercise price was equal to the fair market value of the stock at the date of grant.

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On January 16, 2002, the Company 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 Company accepted for exchange options to purchase an aggregate of 432,000 shares of common stock. On August 15, 2002, the Company 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 Company's common stock on August 15, 2002, which was \$2.35 per share. No compensation expense was recognized as a result of these exchanges.

Stock option activity for fiscal years 2003, 2002 and 2001 is as follows:

| | 2003 | | 2002 | |
|--------------------------------|---------------------------------|------------------------------------------|---------------------------------|------------------------------------------|
| | Shares Subject to Options | Weighted Average Exercise Price | Shares Subject to Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 919,800 | \$ 8.98 | 1,347,025 | \$ 14.22 |
| Granted | 504,000 | 2.50 | 227,000 | 8.53 |
| Canceled | (19,850) | 8.34 | (469,750) | 20.53 |
| Expired | (12,250) | 12.35 | (143,650) | 21.13 |
| Exercised | (10,500) | 2.60 | (40,825) | 4.30 |
| Outstanding, end of year | 1,381,200 | \$ 6.64 | 919,800 | \$ 8.98 |

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The following table summarizes significant ranges of outstanding and exercisable options at June 30, 2003:

| Actual Range of Exercise Prices 150% increment | Options Outstanding | | |
|------------------------------------------------------|-----------------------|------------------------------------------------|------------------------------------|
| | Number Outstanding | Weighted-Average Remaining Life in Years | Weighted-Average Exercise Price |
| \$ 2.35 - 3.99 | 463,000 | 7.1 | \$ 2.35 |
| 4.00 - 5.63 | 360,700 | 5.3 | \$ 4.30 |
| 5.64 - 9.09 | 205,500 | 8.2 | \$ 8.62 |
| 9.10 - 15.75 | 306,000 | 7.4 | \$ 11.97 |

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| | | | | | | |
|-------|------|-------|--------|-----------|-----|---------|
| 15.76 | - | 23.50 | 38,000 | 6.8 | \$ | 19.50 |
| 44.00 | | | 8,000 | 6.9 | \$ | 44.00 |
| ----- | | | | | | |
| \$ | 2.35 | - | 44.00 | 1,381,200 | 6.9 | \$ 6.64 |
| ===== | | | | | | |

At June 30, 2003, an aggregate of 251,000 shares were available for option grants or awards under the 1997 Option Plan and 2000 Plan.

OTHER STOCK-BASED COMPENSATION

In fiscal years 2003, 2002 and 2001, the Company awarded an aggregate of 7,000, 7,000 and 6,000 shares of common stock, respectively, to officers and certain other employees. These awards resulted in compensation expense of \$38,000, \$88,000 and \$309,000, respectively (including \$21,000, \$21,000 and \$45,000 of payments made to offset tax liabilities associated with these awards), measured by the market value of the shares at June 30, 2003, June 28, 2002 and June 29, 2001, respectively.

In fiscal year 2001, the Company awarded 9,750 shares of its common stock to employees for services rendered. These awards resulted in compensation expense of \$172,000 (including payments made to offset tax liabilities associated with these awards of \$67,000), measured by the market value of the shares on the date of grant.

In fiscal year 2001, the Company awarded an aggregate of 5,000 shares of common stock to each of its non-employee directors. These awards resulted in compensation expense of \$286,000 (including \$218,000 of payments made to offset tax liabilities associated with these awards), measured by the market value of the shares on the date of grant.

In fiscal year 2000, the Company awarded an aggregate of 12,000 shares of common stock to three employees. These awards resulted in an accrual of deferred compensation of \$528,000 to be amortized to compensation expense over the 24 month period these shares were to be earned. In fiscal years 2002 and 2001, these awards resulted in compensation expense of \$95,000 and \$312,000, respectively (including payments made to offset tax liabilities associated with these awards of \$7,000 and \$29,000, respectively).

Treasury shares with an aggregate cost basis of \$7,000, \$44,000 and \$68,000 were issued in connection with the awards granted in fiscal years 2002, 2001 and 2000, respectively. Accordingly, treasury stock was reduced for the cost of the shares on a specific identification, first-in first-out, basis.

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NOTE 7. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company had a related party operating lease with the Company's President, Chief Executive Officer and principal stockholder, for a rented facility which expired December 31, 2001. The Company and the related party agreed to continue the lease on a month-to-month basis under the existing terms until a new agreement was finalized. Rent expense under this related party

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operating lease was approximately \$429,000, \$523,000 and \$511,000 for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. In September 2002, the Company and the related party reached a new agreement on a long-term lease pursuant to which the Company pays \$410,000 per annum, subject to annual increases based upon increases in the CPI. The lease expires in September 2007, subject to two five-year renewal options.

Rent expense to unrelated parties was approximately \$93,000, \$181,000 and \$128,000 for the fiscal years ended June 30, 2003, 2002 and 2001, respectively. Minimum rent payments under existing lease commitments extending through the year ended June 30, 2004 are approximately \$43,000.

CONTINGENCIES

The Company is party to certain legal proceedings that arose in the normal course of its business. The Company does not believe that the resolution of such matters will have a significant effect on the Company's financial position or results of operations.

EMPLOYMENT AGREEMENTS

The Company has an employment agreement with its President and Chief Executive Officer, which provides for annual base compensation of \$323,000 as well as additional annual compensation equal to 2.5% of net income before such additional compensation and income taxes. The Company, at its option, may pay the additional annual compensation in stock, cash or a combination thereof, subject to certain limitations.

The agreement expires March 1st of each year but is renewed automatically for an additional one year in the absence of written notice to the contrary by either party at least 120 days prior to the March 1st renewal date. In addition, if there is a change in control of the Company or the employee's employment is terminated by the Company before the expiration of the agreement other than for cause (as defined in the agreement), the employee is entitled to the greater of (a) all compensation due under the remaining term of the agreement, or (b) a payment equal to three times his average annual compensation (including any incentives) over the last five years.

In September 2000, the Company entered into a three year employment agreement with an executive officer. The agreement provides initially for annual base compensation of \$175,000, increasing to \$185,500 beginning September 1, 2001 and to \$196,630 beginning September 1, 2002, and participation in the Company's Officers' Bonus Plan. If the officer is terminated by the Company during the term of the agreement other than for cause (as defined in the agreement), (i) the officer will be entitled to receive his base salary for a period of one year, (ii) the Company shall continue to provide family medical coverage for a period of 18 months, and (iii) all exercisable options may be exercised for a period of one year after termination.

In April 2001, the Company entered into a three year agreement with another executive officer which was amended in January 2002. The agreement provides for annual base compensation of \$150,000 and participation in the Company's Officers' Bonus Plan. If the officer is terminated by the Company during the term of the agreement other than for cause (as defined in the agreement), the officer will be entitled to receive his base salary for one year.

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In December 2001, the Company renewed a four year employment agreement with an officer. The agreement provides for annual base compensation of \$125,000, with annual increases of 8% over the rate in effect during the immediately preceding year, plus additional compensation based upon specific performance measures. The agreement includes termination provisions providing for payments depending on the nature of the termination.

In April 2003, the Company entered into a three year agreement with another executive officer. The agreement provides for annual base compensation of \$160,000, plus additional compensation based upon specific performance measures. If the officer is terminated by the Company during the term of the agreement other than for cause (as defined in the agreement), the officer will be entitled to receive his base salary for one year from the date of termination.

NOTE 8. OTHER DATA

ACCRUED EXPENSES

Accrued expenses consist of the following:

| | June 30, 2003 | June 30, 2002 |
|--------------------------------------|---------------|---------------|
| Accrued commissions and bonuses | \$ 520,000 | \$ 499,000 |
| Accrued payroll and related expenses | 2,015,000 | 2,386,000 |
| Other | 308,000 | 333,000 |
| | \$ 2,843,000 | \$ 3,218,000 |

VALUATION AND QUALIFYING ACCOUNTS

Valuation and qualifying accounts included in the accompanying consolidated financial statements consist of the following:

| Classification | Balance - Beginning of Period | Additions Charged to Expense |
|-----------------------------------------------------------------|-------------------------------------|------------------------------------|
| For the year ended June 30, 2003: | | |
| Allowance for doubtful accounts receivable and sales returns | \$ 665,000 | 1,597,000 |
| For the year ended June 30, 2002: | | |
| Allowance for doubtful accounts receivable and sales returns | \$ 444,000 | 1,737,000 |
| For the year ended June 30, 2001: | | |
| Allowance for doubtful accounts receivable and sales returns | \$ 530,000 | 909,000 |

EMPLOYEE BENEFIT DEFINED CONTRIBUTION PLAN

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Effective November 1, 1985, the Company established a voluntary savings and defined contribution plan under Section 401(k) of the Internal Revenue Code. This Plan covers all U.S. employees meeting certain eligibility requirements and allows participants to contribute a portion of their annual compensation. For the fiscal years ended June 30, 2003, 2002 and 2001, the Company provided a matching contribution of \$542,000, \$539,000 and \$555,000, respectively, which was equal to 50% of each participant's contribution up to a maximum of 6% of annual compensation. Employees are 100% vested in their own contributions and become fully vested in the employer contributions over five years.

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PROFIT BONUS PLAN

Effective commencing in fiscal year 1995, the Company adopted a Profit Bonus Plan for the benefit of eligible employees, as defined. The plan provides that, for each fiscal year, the Board of Directors, in its discretion, may establish a bonus pool not to exceed 10% of pretax income of the Company for the subject fiscal year. The bonus pool is then allocated among eligible employees in accordance with the terms of the plan. For fiscal years 2003 and 2002, no compensation expense was recognized pursuant to this plan. For fiscal year 2001, the Company recognized related compensation expense of \$1,590,000 pursuant to this plan.

Effective January 1, 2000, the Company adopted a Managers Profit Bonus Plan for the benefit of eligible employees, as defined. The plan provides that, for each fiscal year, the Board of Directors, in its discretion, may allocate a percentage of the Company's pre-tax profits (not to exceed 2.5% of such profits) for equal distribution among participants in the plan. Participants in the Managers Profit Bonus Plan are no longer eligible to participate in the Profit Bonus Plan described above. For fiscal years 2003, 2002 and 2001, the Company recognized compensation expense of \$12,000, \$11,000 and \$397,000, respectively, in respect of this plan.

The Company has a bonus plan for executive officers. This plan provides for a majority of the eligible employees to receive a cash bonus equal to at least 0.5% of the Company's pre tax income. In addition, two of the employees have different plans that provide for bonus calculations based upon other factors, including product line profitability and achievement of bookings quotas. For fiscal years 2003, 2002 and 2001, the Company recognized compensation expense of \$67,000, \$145,000 and \$1,624,000, respectively, pursuant to this plan.

NOTE 9. FOREIGN OPERATIONS

The Company markets and distributes a portion of its products sold abroad through its wholly-owned subsidiary, American Technical Ceramics Europe AB, located in Sweden. During fiscal year 2002, the Company closed its wholly-owned subsidiary located in the United Kingdom as part of cost reduction measures instituted during fiscal year 2002. The business activity from the United Kingdom has been moved to the Company's wholly-owned subsidiary in Sweden. During fiscal year 2002, the Company established a wholly-owned subsidiary in the United States which established a representative office in the People's Republic of China to service the Chinese market. The following table summarizes certain financial information covering the Company's operations by geographic area for fiscal years 2003, 2002 and 2001. Net sales information is based upon country of origin.

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| | 2003 | 2002 | 2001 |
|-------------------|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| Net sales | | | |
| United States | \$ 42,204,000 | \$ 44,359,000 | \$ 77,235,000 |
| Sweden | 6,844,000 | 4,539,000 | 4,801,000 |
| United Kingdom | --- | 687,000 | 2,549,000 |
| | ----- | ----- | ----- |
| Total | \$ 49,048,000 | \$ 49,585,000 | \$ 84,585,000 |
| | ===== | ===== | ===== |
| | | | |
| Long-lived assets | | | |
| United States | \$ 26,974,000 | \$ 29,768,000 | \$ 31,934,000 |
| Sweden | 70,000 | 59,000 | 62,000 |
| China | 17,000 | --- | --- |
| United Kingdom | --- | --- | 292,000 |
| | ----- | ----- | ----- |
| Total | \$ 27,061,000 | \$ 29,827,000 | \$ 32,288,000 |
| | ===== | ===== | ===== |

U.S. sales include \$13,507,000, \$11,900,000 and \$16,271,000 for export in fiscal years 2003, 2002 and 2001, respectively. Export sales were primarily to customers in Western Europe, Canada and the Far East.

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NOTE 10. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND ACCRUED EXPENSES

The carrying amount approximates fair value due to the short maturity of these instruments.

INVESTMENTS

Cost and fair value of the Company's investments is presented in Note 2. Fair value is based upon quoted market prices.

LONG-TERM DEBT

At June 30, 2003, the fair value of the Company's capital lease obligation with respect to its Jacksonville, Florida facility was \$4,754,000 based on the present value of future cash flows and the Company's estimated incremental borrowing rate of 2.6%.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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