

KEY TRONIC CORP
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE PERIOD ENDED OCTOBER 1, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE PERIOD FROM TO .

Commission File Number 0-11559

KEY TRONIC CORPORATION

(Exact name of registrant as specified in its charter)

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Washington
(State of Incorporation)

91-0849125
(I.R.S. Employer

Identification No.)

N. 4424 Sullivan Road

Spokane Valley, Washington 99216

(509) 928-8000

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 during the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 29, 2011, 10,446,687 shares of common stock, no par value (the only class of common stock), were outstanding.

KEY TRONIC CORPORATION

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* Items are not applicable

We, us, our, Company, KeyTronicEMS and KeyTronic, unless the context otherwise requires, means Key Tronic Corporation and its subsidiaries.

PART I: FINANCIAL INFORMATION**Item 1: Financial Statements****KEY TRONIC CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	October 1, 2011	July 2, 2011
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 347	\$ 1,232
Trade receivables, net (allowance for doubtful accounts of \$0 and \$111)	48,277	40,350
Inventories	46,728	41,554
Deferred income tax asset	4,689	3,900
Other	3,432	4,549
Total current assets	103,473	91,585
Property, plant and equipment net	14,757	14,917
Other assets:		
Deferred income tax asset	4,947	4,219
Other	516	1,643
Total other assets	5,463	5,862
Total assets	\$ 123,693	\$ 112,364
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 32,568	\$ 26,149
Accrued compensation and vacation	3,726	4,436
Current portion of other long-term obligations	771	761
Other	3,107	1,932
Total current liabilities	40,172	33,278
Long-term liabilities:		
Revolving loan	11,339	6,000
Deferred income tax liability	1,040	1,542
Other long-term obligations	5,911	3,521
Total long-term liabilities	18,290	11,063
Total liabilities	58,462	44,341
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, no par value shares authorized 25,000; issued and outstanding 10,447 and 10,399 shares, respectively	41,288	41,014
Retained earnings	26,516	25,269
Accumulated other comprehensive (loss) income	(2,573)	1,740

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Total shareholders' equity	65,231	68,023
Total liabilities and shareholders' equity	\$ 123,693	\$ 112,364

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(in thousands, except per share amounts)	
Net sales	\$ 69,761	\$ 63,340
Cost of sales	64,756	57,370
Gross profit on sales	5,005	5,970
Operating expenses:		
Research, development and engineering	956	914
Selling, general and administrative	2,434	2,432
Total operating expenses	3,390	3,346
Operating income	1,615	2,624
Interest expense	103	72
Income before income tax provision	1,512	2,552
Income tax provision	265	810
Net income	\$ 1,247	\$ 1,742
Earnings per share basic	\$ 0.12	\$ 0.17
Weighted average shares outstanding - basic	10,418	10,296
Earnings per share diluted	\$ 0.12	\$ 0.17
Weighted average shares outstanding - diluted	10,446	10,403

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(in thousands)	
Comprehensive income:		
Net income	\$ 1,247	\$ 1,742
Other comprehensive (loss) income:		
Unrealized (loss) gain on foreign exchange contracts	(4,313)	673
Comprehensive (loss) income	\$ (3,066)	\$ 2,415

Other comprehensive (loss) income for the three months ended October 1, 2011 and October 2, 2010 is reflected net of tax of approximately \$2.2 million and \$0.4 million, respectively.

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(in thousands)	
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	\$ 1,247	\$ 1,742
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	573	532
Accretion of deferred gain on sale of building		(19)
Provision for obsolete inventory	92	80
Provision for warranty	60	31
Recovery of doubtful accounts	(111)	
Gain on disposal of assets		(13)
Share-based compensation expense	146	142
Deferred income taxes	204	494
Changes in operating assets and liabilities:		
Trade receivables	(7,816)	(436)
Inventories	(5,266)	(6,112)
Other assets	(497)	(928)
Accounts payable	6,419	(1,117)
Accrued compensation and vacation	(782)	(1,244)
Other liabilities	(56)	(696)
Cash used in operating activities	(5,787)	(7,544)
Cash flows from investing activities:		
Purchase of property and equipment	(396)	(1,566)
Proceeds from sale of fixed assets		14
Cash used in investing activities	(396)	(1,552)
Cash flows from financing activities:		
Payment of financing costs		(50)
Capital lease payments	(169)	
Borrowings under revolving credit agreement	24,768	35,011
Repayment of revolving credit agreement	(19,429)	(25,514)
Proceeds from exercise of stock options	128	301
Cash provided by financing activities	5,298	9,748
Net (decrease) increase in cash and cash equivalents	(885)	652
Cash and cash equivalents, beginning of period	1,232	770
Cash and cash equivalents, end of period	\$ 347	\$ 1,422
Supplemental cash flow information:		
Interest payments	\$ 42	\$ 74
Income tax payments, net of refunds	\$ 116	\$ 199

See accompanying notes to consolidated financial statements.

KEY TRONIC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by Key Tronic Corporation and subsidiaries (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. The year-end condensed consolidated balance sheet information was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2011.

The Company's reporting period is a 52/53 week fiscal year ending on the Saturday closest to June 30. The three month periods ended October 1, 2011 and October 2, 2010 were 13 week periods. Fiscal year 2012 will end on June 30, 2012 which is a 52 week year, and fiscal year 2011 which ended on July 2, 2011, was also a 52 week year.

2. Significant Accounting Policies

Reclassifications

As discussed in Note 5, the Company reclassified certain deferred tax assets and liabilities on its July 2, 2011 balance sheet. The reclassification was not material to the July 2, 2011 financial statements.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, as well as operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities for a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.