PARK ELECTROCHEMICAL CORP
Form 10-Q
January 09, 2009

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

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 14(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2008

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 1-4415

PARK ELECTROCHEMICAL CORP.
(Exact Name of Registrant as Specified in Its Charter)

New York	11-1734643
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
48 South Service Road, Melville, N.Y.	11747
(Address of Principal Executive Offices)	(Zip Code)

(631) 465-3600

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated Filer [ ]

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 20,470,516 as of January 7, 2009.

PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	November 30, 2008 (Unaudited)	March 2, 2008*

ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,998	$ 100,159
Marketable securities	179,455	113,819
Accounts receivable, net	30,506	37,466
Inventories (Note 2)	12,439	14,049
Prepaid expenses and other current assets	6,825	5,546
Total current assets	264,223	271,039
Property, plant and equipment, net	51,951	47,188
Other assets	12,253	9,180
Total assets	$ 328,427	$ 327,407
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,228	$ 12,828
Accrued liabilities	11,686	13,314
Income taxes payable	2,818	5,837
Total current liabilities	22,732	31,979
Deferred income taxes	4,851	4,851
Restructuring accruals and other liabilities (Note 5)	3,927	4,224
Liabilities from discontinued operations (Note 4)	17,064	17,181
Total liabilities	48,574	58,235
Stockholders equity:		
Common stock	2,047	2,037
Additional paid-in capital	146,709	143,267
Retained earnings	127,173	116,646
Treasury stock, at cost	(1)	(214)
Accumulated other comprehensive income	3,925	7,436
Total stockholders equity	279,853	269,172
Total liabilities and stockholders equity	$ 328,427	$ 327,407

*The balance sheet at March 2, 2008 has been derived from the audited financial statements at that date.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

	13 weeks ended (Unaudited)		39 weeks ended (Unaudited)	
	November 30, 2008	November 25, 2007	November 30, 2008	November 25, 2007

Net sales	$ 49,166	$ 63,653	$ 164,565	$ 181,271
Cost of sales	39,380	47,577	129,253	134,651
Gross profit	9,786	16,076	35,312	46,620
Selling, general and administrative expenses	6,211	6,580	18,715	19,803
Restructuring charges (Note 5)	570	-	570	-
Earnings from operations	3,005	9,496	16,027	26,817
Interest income and other income	1,651	2,206	5,015	6,980
Earnings from operations before income taxes	4,656	11,702	21,042	33,797
Income tax provision	1,722	2,925	5,614	8,449
Net earnings	$ 2,934	$ 8,777	$ 15,428	$ 25,348
Earnings per share (Note 6)				
Basic	$ 0.14	$ 0.43	$ 0.76	$ 1.25
Diluted	$ 0.14	$ 0.43	$ 0.75	$ 1.25
Weighted average number of common and common equivalent shares outstanding:				
Basic shares	20,471	20,340	20,432	20,290
Diluted shares	20,512	20,452	20,487	20,364
Dividends per share	$ 0.08	$ 0.08	$ 0.24	$ 1.74

See accompanying Notes to the Condensed Consolidated Financial Statements.

PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Amounts in thousands)

	13 weeks ended (Unaudited)		39 weeks ended (Unaudited)	
	November 30, 2008	November 25, 2007	November 30, 2008	November 25, 2007
Common stock and paid-in capital:				
Balance, beginning of period	$ 148,468	$ 144,399	$ 145,304	$ 142,067
Stock-based compensation	288	357	943	1,037
Stock option activity	0	144	2,066	1,194
Tax benefit on exercise of options	0	31	443	633
Balance, end of period	148,756	144,931	148,756	144,931
Retained earnings:				
Balance, beginning of period	125,876	101,792	116,646	118,961
Net earnings	2,934	8,777	15,428	25,348
Dividends	(1,637)	(1,627)	(4,901)	(35,367)
Balance, end of period	127,173	108,942	127,173	108,942
Treasury stock:				
Balance, beginning of period	(2)	(322)	(214)	(1,625)
Stock option activity	1	98	213	1,401

Balance, end of period	(1)	(224)	(1)	(224)
Accumulated other comprehensive Income:				
Balance, beginning of period	5,462	4,934	7,436	4,764
Net unrealized investment gains (losses)	(1,235)	806	(2,710)	914
Translation adjustments	(302)	140	(801)	202
Balance, end of period	3,925	5,880	3,925	5,880
Total stockholders equity	$ 279,853	$ 259,529	$ 279,853	$ 259,529

See accompanying Notes to the Condensed Consolidated Financial Statements.

PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	39 Weeks Ended (Unaudited)	
	November 30, 2008	November 25, 2007
Cash flows from operating activities:		
Net earnings	$ 15,428	$ 25,348
Depreciation and amortization	5,889	6,036
Stock-based compensation	943	1,037
Loss (gain) on sale of fixed assets	2	(75)
Change in operating assets and liabilities	4	(2,212)
Net cash provided by operating activities	22,266	30,134
Cash flows from investing activities:		
Purchases of property, plant and equipment, net	(11,734)	(5,109)
Proceeds from sales of fixed assets	2	75
Purchases of marketable securities	(187,323)	(123,811)
Proceeds from sales and maturities of marketable securities	119,316	101,545
Business acquisition	(4,726)	-
Net cash used in investing activities	(84,465)	(27,300)
Cash flows from financing activities:		
Dividends paid	(4,901)	(35,367)
Proceeds from exercise of stock options	2,236	2,596
Tax benefits from stock based compensation	443	633
Net cash used in financing activities	(2,222)	(32,138)
Change in cash and cash equivalents before exchange rate changes	(64,421)	(29,304)
Effect of exchange rate changes on cash and cash equivalents	(740)	(56)

Change in cash and cash equivalents	(65,161)	(29,360)
Cash and cash equivalents, beginning of period	100,159	119,051
Cash and cash equivalents, end of period	$ 34,998	$ 89,691
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 7,496	$ 8,389

See accompanying Notes to the Condensed Consolidated Financial Statements.

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PARK ELECTROCHEMICAL CORP.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in thousands, except per share amounts)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet as of November 30, 2008 and the consolidated statements of operations and stockholders equity for the 13 weeks and 39 weeks ended November 30, 2008 and the condensed consolidated statements of cash flows for the 39 weeks then ended have been prepared by the Company, without audit. In the opinion of management, these unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at November 30, 2008 and the results of operations, stockholders equity and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 2, 2008.

2. INVENTORIES

Inventories consisted of the following:

	November 30, 2008	March 2, 2008
Raw materials	$ 6,531	$ 5,923
Work-in-process	2,935	3,686
Finished goods	2,607	3,951
Manufacturing supplies	366	489
	$ 12,439	$ 14,049

3. STOCK-BASED COMPENSATION

As of November 30, 2008, the Company had a 1992 Stock Option Plan and a 2002 Stock Option Plan, and no other stock-based compensation plan. Both Stock Option Plans have been approved by the Company s stockholders and provide for the grant of stock options to directors and key employees of the Company. All options granted under such Plans have exercise prices equal to the fair market value of the underlying common stock of the Company at the time of grant, which pursuant to the terms of the Plans, is the reported closing price of the common stock on the New York Stock Exchange on the date preceding the date the option is granted. Options granted under the Plans become exercisable 25% one year from the date of grant, with an additional 25% exercisable each succeeding anniversary of the date of grant, and expire 10 years from the date of grant. The authority to grant additional options under the 1992 Stock Option Plan expired on March 24, 2002, and options to purchase a total of 1,800,000 shares of common stock were authorized for grant under the 2002 Stock Option Plan. At November 30, 2008, 2,029,333 shares of common stock of the Company were reserved for issuance upon exercise of stock options

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under the 1992 Stock Option Plan and the 2002 Stock Option Plan and 1,050,606 options were available for future grant under the 2002 Stock Option Plan. Options to purchase 142,850 shares of common stock were granted during the 13 weeks and 39 weeks ended November 30, 2008. Options to purchase 4,000 and 168,150 shares of common stock were granted during the 13 weeks and 39 weeks, respectively, ended November 25, 2007.

The Company records its stock-based compensation at fair value in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R).

The weighted average fair value for options was estimated at the date of grant using the Black-Scholes option-pricing model to be $2.95 for the first 39 weeks of fiscal year 2009, with the following assumptions: risk free interest rate of 4.00%; expected volatility factors of 27.5%-28.4%; expected dividend yield of 1.18%; and estimated option term of 4.7-5.6 years.

The risk free interest rate is based on U.S. Treasury rates at the date of grant with maturity dates approximately equal to the estimated term of the options at the date of the grant. Volatility is based on historical volatility of the Company s common stock. The expected dividend yield is based on the regular cash dividends per share paid by the Company in the 2008 fiscal year and on the exercise price of the options granted during the 13 weeks and 39 weeks ended November 30, 2008. The estimated term of the options is based on evaluations of historical and expected future employee exercise behavior.

The future compensation expense affecting earnings from operations before income taxes for options outstanding at November 30, 2008 will be $2,295.

The following is a summary of options for the 39 weeks ended November 30, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Months	Aggregated Intrinsic Value
Outstanding at March 2, 2008	1,040,739	$23.50	66.63	$2,890
Granted	142,850	27.10	-	
Exercised	123,649	18.08	-	
Terminated or expired	81,213	26.72	-	
Outstanding at November 30, 2008	978,727	$24.45	69.15	$0
Exercisable at November 30, 2008	643,492	$22.83	50.19	$0

The total intrinsic value of options exercised during the 13 weeks ended November 30, 2008 and November 25, 2007 was $0 and $105, respectively. The total intrinsic value of options exercised during the 39 weeks ended November 30, 2008 and November 25, 2007 was $1,259 and $1,883, respectively.

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A summary of the status of the Company s nonvested options at November 30, 2008, and changes during the 13 week-period then ended, is presented below:

	Shares Subject to Options	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	339,491	$9.12
Granted	0	-
Vested	(2,000)	9.04
Terminated	(2,256)	6.11
Nonvested, end of period	335,235	$9.12

4. DISCONTINUED OPERATIONS AND PENSION LIABILITY

On February 4, 2004, the Company announced that it was discontinuing its financial support of its Dielektra GmbH (Dielektra) subsidiary located in Cologne, Germany, due to the continued erosion of the European market for the Company s high technology products. Without Park s financial support, Dielektra filed an insolvency petition, which the Company believes will result in the liquidation of Dielektra. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", Dielektra is treated as a discontinued operation. As a result of the discontinuation of financial support for Dielektra, the Company recognized an impairment charge of $22,023 for the write-off of Dielektra assets and other costs during the fourth quarter of the 2004 fiscal year. The liabilities from discontinued operations are reported separately on the condensed consolidated balance sheet. These liabilities from discontinued operations included $12,094 for Dielektra s deferred pension liability.

The Company expects to recognize a gain of approximately $17,000 related to the reversal of these liabilities when the Dielektra insolvency process is completed, although it is unclear when the process will be completed. The Company applied $117 of legal expenses against these liabilities in the 2009 fiscal year third quarter.

Liabilities for discontinued operations as of November 30, 2008 and March 2, 2008 consisted of the following:

	November 30, 2008	March 2, 2008
Environmental and other liabilities	$ 4,970	$ 5,087
Pension liabilities	12,094	12,094
Total liabilities	$ 17,064	$ 17,181

5. RESTRUCTURINGS AND SEVERANCE CHARGES

In the 2009 fiscal year third quarter, the Company recorded a charge of $570 related to restructurings at its North American and European business units. In the 2008 fiscal year fourth quarter, the Company recorded a charge of $1,362 for employment termination benefits and other expenses resulting from a restructuring and workforce reduction at the Company s Neltec Europe SAS electronic materials business unit

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located in Mirebeau, France; and the Company paid $39 and $627 of such expenses during the 13 weeks and 39 weeks, respectively, ended November 30, 2008 and expects to pay the remaining $106 during the 2009 fiscal year fourth quarter. In addition, in the 2009 fiscal year third quarter, the Company announced that its Neltec Europe SAS and Neltec SA business units were proposing to restructure their operations; and in the 2009 fiscal year fourth quarter, the Company announced a workforce reduction at its Nelco Products, Pte. Ltd. business unit in Singapore and announced the closure of its New England Laminates Co., Inc. business unit in Newburgh, New York. The 2009 restructuring at Neltec Europe SAS and Neltec SA, the workforce reduction in Singapore and the closure of New England Laminates are described in Note 10 of the Notes to Condensed Consolidated Financial Statements below.

During the 2004 fiscal year, the Company recorded charges related to the realignment of its North America volume printed circuit materials operations. The charges were for employment termination benefits of $1,258, which were fully paid in fiscal year 2004, and lease and other obligations of $7,292. All costs other than the lease obligations were settled prior to fiscal year 2007. The future lease obligations are payable through September 2013. The remaining balances on the lease obligations relating to the realignment were $3,379 and $3,706 as of November 30, 2008 and March 2, 2008, respectively. For the 13 weeks and 39 weeks ended November 30, 2008, the Company applied $110 and $327, respectively, of lease payments against the liability.

6. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the sum of (a) the weighted average number of shares of common stock outstanding during the period and (b) the potential common stock equivalents outstanding during the period. Stock options are the only common stock equivalents, and the number of dilutive options is computed using the treasury stock method.

The following table sets forth the calculation of basic and diluted earnings per share for the 13 weeks and 39 weeks ended November 30, 2008 and November 25, 2007.

	13 weeks ended		39 weeks ended	
	November 30, 2008	November 25, 2007	November 30, 2008	November 25, 2007
Net Earnings	$2,934	$8,777	$15,428	$25,348
Weighted average common shares outstanding for basic EPS	20,471	20,340	20,432	20,290
Net effect of dilutive options	41	112	55	74
Weighted average shares outstanding for diluted EPS	20,512	20,452	20,487	20,364
Basic earnings per share	$0.14	$0.43	$0.76	$1.25
Diluted earnings per share	$0.14	$0.43	$0.75	$1.25

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Common stock equivalents, which were not included in the computation of diluted earnings per share because the effect would have been antidilutive as the options exercise prices were greater than the average market price of the common stock, were 129 and 1 for the 13 weeks ended November 30, 2008 and November 25, 2007, respectively, and 61 and 3 for the 39 weeks ended November 30, 2008 and November 25, 2007, respectively.

7. GEOGRAPHIC REGIONS

The Company s printed circuit materials (the Nelco® product line), the Company s advanced composite materials (the Nelcote™ product line) and the Company s advanced aerospace structures and components (the Nova™ product line) are sold to customers in North America, Europe and Asia.

Sales are attributed to geographic region based upon the region from which the materials were invoiced to the customer. Sales between geographic regions were not significant.

Financial information concerning the Company s operations by geographic region follows:

	13 weeks ended		39 weeks ended	
	November 30, 2008	November 25, 2007	November 30, 2008	November 25, 2007
Sales:				
North America	$ 27,270	$ 31,850	$ 86,947	$ 92,171
Europe	4,108	8,437	16,813	21,311
Asia	17,788	23,366	60,805	67,789
Total sales	$ 49,166	$ 63,653	$ 164,565	$ 181,271

	November 30, 2008	March 2, 2008
Long-lived assets:		
North America	$ 35,431	$ 25,069
Europe	3,625	4,552
Asia	25,148	26,747

Total long-lived assets	$ 64,204	$ 56,368

8. CONTINGENCIES

a. *Litigation* - The Company is subject to a small number of proceedings, lawsuits and other claims related to environmental, employment, product and other matters. The Company is required to assess the likelihood of any adverse judgments or outcomes in these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

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