

NORTECH SYSTEMS INC
Form 10-Q
August 12, 2011
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

NORTECH SYSTEMS INCORPORATED

Edgar Filing: NORTECH SYSTEMS INC - Form 10-Q

Commission file number **0-13257**

State of Incorporation: **Minnesota**

IRS Employer Identification No. **41-1681094**

Executive Offices: **1120 Wayzata Blvd E., Suite 201, Wayzata, MN 55391**

Telephone number: **(952) 345-2244**

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 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 the definitions 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

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

Number of shares of \$.01 par value common stock outstanding at August 3, 2011- 2,742,992

(The remainder of this page was intentionally left blank.)

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1 - Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	3 - 4
<u>Consolidated Statements of Income</u>	5-6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Condensed Notes to Consolidated Financial Statements</u>	8-15
<u>Item 2 - Management's Discussion and Analysis of Financial Condition And Results of Operations</u>	15-21
<u>Item 4 - Controls and Procedures</u>	21
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1 - Legal Proceedings</u>	22
<u>Item 6 - Exhibits</u>	22
<u>SIGNATURES</u>	23
Exhibit 10.9	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32	
Exhibit 101	

Table of Contents**PART 1****ITEM 1. FINANCIAL STATEMENTS****NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

ASSETS	JUNE 30 2011 (Unaudited)	DECEMBER 31 2010
Current Assets		
Cash	\$ 1,417,331	\$ 230,582
Accounts Receivable, Less Allowance for Uncollectible Accounts	17,486,825	15,562,277
Inventories	21,525,122	16,108,773
Prepaid Expenses	732,103	596,363
Income Taxes Receivable	242,061	376,001
Deferred Income Taxes	621,000	594,000
Total Current Assets	42,024,442	33,467,996
Property and Equipment, Net	8,992,021	7,157,543
Finite Life Intangible Assets, Net of Accumulated Amortization	131,848	202,150
Deferred Income Taxes	1,000	219,000
Other Assets	514,235	514,235
Total Assets	\$ 51,663,546	\$ 41,560,924

See Accompanying Condensed Notes to Consolidated Financial Statements

Table of Contents

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY	JUNE 30 2011 (Unaudited)	DECEMBER 31 2010
Current Liabilities		
Line of Credit	\$ 12,297,705	\$ 5,615,121
Current Maturities of Long-Term Debt	2,694,562	841,760
Accounts Payable	11,508,392	10,727,907
Accrued Payroll and Commissions	3,382,160	2,584,108
Other Accrued Liabilities	649,727	634,655
Total Current Liabilities	30,532,546	20,403,551
Long-Term Liabilities		
Long-Term Debt, Net of Current Maturities	908,469	1,731,318
Other Long-Term Liabilities	145,568	137,236
Total Long-Term Liabilities	1,054,037	1,868,554
Total Liabilities	31,586,583	22,272,105
Shareholders Equity		
Preferred Stock, \$1 par value; 1,000,000 Shares Authorized: 250,000 Shares Issued and Outstanding	250,000	250,000
Common Stock - \$0.01 par value; 9,000,000 Shares Authorized: 2,742,992 Shares Issued and Outstanding at both June 30, 2011 and December 31, 2010	27,430	27,430
Additional Paid-In Capital	15,714,210	15,698,348
Accumulated Other Comprehensive Loss	(62,936)	(62,936)
Retained Earnings	4,148,259	3,375,977
Total Shareholders Equity	20,076,963	19,288,819
Total Liabilities and Shareholders Equity	\$ 51,663,546	\$ 41,560,924

See Accompanying Condensed Notes to Consolidated Financial Statements

Table of Contents

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED	
	2011	2010
	JUNE 30	
Net Sales	\$ 27,796,576	\$ 24,694,506
Cost of Goods Sold	24,561,236	21,583,889
Gross Profit	3,235,340	3,110,617
Operating Expenses:		
Selling Expenses	871,409	765,502
General and Administrative Expenses	2,024,797	1,860,145
Total Operating Expenses	2,896,206	2,625,647
Income From Operations	339,134	484,970
Other Income (Expense)		
Interest Expense	(142,093)	(100,511)
Miscellaneous Income (Expense), net	(26,947)	7,653
Total Other Expense	(169,040)	(92,858)
Income Before Income Taxes	170,094	392,112
Income Tax Expense	24,000	245,000
Net Income	\$ 146,094	\$ 147,112
Earnings Per Common Share:		
Basic and Diluted	\$ 0.05	\$ 0.05
Weighted Average Number of Common Shares Outstanding Used for Basic and Diluted Earnings Per Common Share	2,742,992	2,741,777

See Accompanying Condensed Notes to Consolidated Financial Statements

Table of Contents

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	2011	2010
Net Sales	\$ 56,794,773	\$ 46,435,947
Cost of Goods Sold	50,363,268	40,685,662
Gross Profit	6,431,505	5,750,285
Operating Expenses:		
Selling Expenses	1,800,793	1,520,924
General and Administrative Expenses	4,004,916	3,418,609
Total Operating Expenses	5,805,709	4,939,533
Income From Operations	625,796	810,752
Other Income (Expense)		
Interest Expense	(262,085)	(225,941)
Bargain Purchase Gain	791,615	
Miscellaneous Income (Expense), net	(46,044)	(37,415)
Total Other Income (Expense)	483,486	(263,356)
Income Before Income Taxes	1,109,282	547,396
Income Tax Expense	337,000	305,000
Net Income	\$ 772,282	\$ 242,396
Earnings Per Common Share:		
Basic and Diluted	\$ 0.28	\$ 0.09
Weighted Average Number of Common Shares Outstanding Used for Basic and Diluted		
Earnings Per Common Share	2,742,992	2,741,777

Table of Contents

NORTECH SYSTEMS INCORPORATED AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	2011	2010
Cash Flows From Operating Activities		
Net Income	\$ 772,282	\$ 242,396
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	971,993	797,061
Amortization	70,302	71,097
Stock-Based Compensation	15,862	15,864
Interest on Swap Valuation	(18,140)	(12,404)
Bargain Purchase Gain	(791,615)	
Deferred Income Taxes	191,000	24,000
Loss on Disposal of Property and Equipment	2,744	876
Foreign Currency Gain		(3,458)
Changes in Current Operating Items, Net of Effects of Business Acquisitions		
Accounts Receivable	(47,592)	(2,330,092)
Inventories	(5,416,349)	(1,861,077)
Prepaid Expenses and Other Assets	(135,740)	93,034
Income Taxes Receivable	133,940	177,501
Accounts Payable	(991,849)	1,925,180
Accrued Payroll and Commissions	798,052	1,579,335
Other Accrued Liabilities	(222,346)	(342,140)
Net Cash Provided by (Used in) Operating Activities	(4,667,456)	377,173
Cash Flows from Investing Activities:		
Proceeds from Sale of Property and Equipment	1,400	
Business Acquisitions	(1,042,389)	(402,969)
Purchase of Property and Equipment	(355,110)	(233,651)
Net Cash Used in Investing Activities	(1,396,099)	(636,620)
Cash Flows from Financing Activities:		