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## Spectrum Control Inc. Q2 2009 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator Instructions) Your first question comes from Ted Kuntz – Needham & Company.

#### Ted Kuntz – Needham & Company

A couple of questions for you, maybe you could just clarify a few things. One, the gross margin outlook, it was a nice pleasant surprise. It was a very nice job on that. Do you expect that level can be maintained or obviously it's somewhat of a function of mix as well, but it sounds like the volumes are going to be holding up in terms of your top line volumes. Would you expect the margins to maintain this level as well?

#### Jack Freeman

Yes we would. As you know, one of the items of focus and really one of the opportunities that we think we have is that with the existing manufacturing capabilities and capacity we have as sales volumes increase, we can really leverage our fixed manufacturing overhead and generate some significant incremental margins and some improved overall gross margins. So we certainly are expecting that as we go forward.

As you indicated, the changes in mix can have an impact, but overall, to date I would say that the increase to our military and defense business over our commercial business has had a modest positive impact on our gross margins as well and we would expect that to continue at least for the rest of this fiscal year.

#### Ted Kuntz – Needham & Company

Would you expect the mix to kind of stay the same as you're currently seeing it?

#### Jack Freeman

We would not expect any significant or certainly no dramatic change in that mix at this point.

#### Ted Kuntz – Needham & Company

It kind of leads to my next question on the commercial side of your business, are things, you say weak. Are things getting any worse or better or just really just kind of flat?

#### Jack Freeman

I'd say they're flat. We haven't seen any further weakening. We haven't seen also any strengthening of the markets yet. If anything, the opportunities I think will first come in the defense market for additional strengthening.

**Ted Kuntz – Needham & Company**

And how is the bidding activity on the defense side? Can you give us some color as to where these programs, how these programs are currently moving through the system? Are things being held up? We heard that generally in the defense area they were taking longer to approve things with the new administration in place, but hopefully once they do, they may get some longer order cycles out there, more multi-year type orders. Could you comment on any kind of change you're seeing in the military defense bidding activity?

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