

SERVOTRONICS INC /DE/
Form 10QSB
November 15, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2004

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

For the transition period from _____ to _____

Commission File No. 1 - 07109

SERVOTRONICS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

16-0837866

(IRS

(State or other jurisdiction of
Employer
incorporation or organization)
Identification No.)

1110 Maple Street, Elma, New York 14059-0300

(Address of principal executive offices)

716-655-5990

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 .

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| <u>Class</u> | <u>Outstanding at October 31, 2004</u> |
|-------------------------------|--|
| Common Stock, \$.20 par value | 2,492,901 |

Transitional Small Business Disclosure Format (Check one):

Yes ____; No X

INDEX

| P A R T I . F I N A N C I A L INFORMATION | <u>Page No.</u> |
|--|---|
| Item 1. Financial Statements (Unaudited) | |
| a) Consolidated balance sheet, September 30, 2004 | |
| 3 | |
| b) Consolidated statement of operations for the three and nine months ended September 30, 2004 and 2003 | 4 |
| c) Consolidated statement of cash flows for the nine months ended S e p t e m b e r 3 0 , 2 0 0 4 a n d 2003 | 5 |
| d) N o t e s t o c o n s o l i d a t e d f i n a n c i a l statements | 6 |
| Item 2 . M a n a g e m e n t s D i s c u s s i o n a n d A n a l y s i s o r P l a n o f Operation | 9 |
| I t e m 3 . C o n t r o l s a n d Procedures | 12 |
| PART II. OTHER INFORMATION | |
| Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Small Business Securities | I s s u e r P u r c h a s e s o f E q u i t y 12 |
| Item 4 . S u b m i s s i o n o f M a t t e r s t o a V o t e o f S e c u r i t y Holders | 12 |
| I 6. Exhibits | e m |
| 12 | |
| Signatures | |
| 14 | |

PART I
 FINANCIAL INFORMATION
 SERVOTRONICS, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEET
 (\$000 s omitted except per share data)
 (Unaudited)

September 30,
2004

| | |
|---|-----------|
| Assets | |
| Current assets: | |
| Cash | \$ 2,011 |
| Accounts receivable | 3,143 |
| Inventories | 6,797 |
| Prepaid income taxes | 73 |
| Deferred income taxes | 368 |
| Other assets (See Note 1 to consolidated financial statements) | 1,631 |
| Total current assets | 14,023 |
| Property, plant and equipment, net | 6,399 |
| Other non-current assets | 543 |
| | \$ 20,965 |
| Liabilities and Shareholders' Equity | |
| Current liabilities: | |
| Current portion of long-term debt | \$ 381 |
| Accounts payable | 935 |
| Accrued employee compensation and benefit costs | 782 |
| Other accrued liabilities | 339 |
| Accrued income taxes | 149 |
| Total current liabilities | 2,586 |
| Long-term debt | 5,042 |
| Deferred income taxes | 357 |
| Other non-current liability | 244 |
| Shareholders' equity: | |
| Common stock, par value \$.20; authorized 4,000,000 shares; Issued 2,614,506 shares | 523 |
| Capital in excess of par value | 13,033 |

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| | |
|---|-----------|
| Retained earnings | 2,043 |
| Accumulated other comprehensive loss | (107) |
| | 15,492 |
| Employee stock ownership trust commitment | (2,236) |
| Treasury stock, at cost 121,605 shares | (520) |
| Total shareholders' equity | 12,736 |
| | \$ 20,965 |

See notes to consolidated financial statements

-3-

SERVOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(\$000 s omitted except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net revenues | \$5,383 | \$4,487 | \$16,351 | \$12,261 |
| Costs and expenses: | | | | |
| Cost of goods sold, exclusive of depreciation | 4,031 | 3,339 | 12,173 | 9,145 |
| Selling, general and administrative | 913 | 756 | 2,745 | 2,436 |
| Interest | 36 | 38 | 108 | 122 |
| Depreciation and amortization | 159 | 158 | 486 | 509 |
| | 5,139 | 4,291 | 15,512 | 12,212 |
| Income before income taxes | 244 | 196 | 839 | 49 |
| Income tax provision | 90 | 73 | 312 | 19 |
| Net income | \$ 154 | \$ 123 | \$ 527 | \$ 30 |
| Income Per Share: | | | | |
| Basic | | | | |
| Net income per share | \$0.08 | \$0.06 | \$0.26 | \$0.02 |
| Diluted | | | | |
| Net income per share | \$0.07 | \$0.06 | \$0.25 | \$0.02 |

See Notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(\$000 s omitted)
(Unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------|
| | 2004 | 2003 |
| Cash flows related to operating activities: | | |
| Net income | \$ 527 | \$ 30 |
| Adjustments to reconcile net income to net cash provided by operating activities - | | |
| Depreciation and amortization | 486 | 509 |
| Change in assets and liabilities - | | |
| Accounts receivable | (655) | 30 |
| Inventories | 13 | (419) |
| Other assets | (46) | (291) |
| Other current assets | 6 | 5 |
| Accounts payable | 386 | 359 |
| Accrued employee compensation & benefit costs | 50 | 91 |
| Accrued income taxes | 149 | 115 |
| Other accrued liabilities | 164 | 142 |
| Net cash provided by operating activities | 1,080 | 571 |
| Cash flows related to investing activities: | | |
| Capital expenditures - property, plant & equipment | (324) | (113) |
| Net cash used in investing activities | (324) | (113) |
| Cash flows related to financing activities: | | |
| Increase in demand loan | - | 250 |
| Payments on demand loan | - | (250) |
| Principal payments on long-term debt | (251) | (156) |
| Net cash used in financing activities | (251) | (156) |
| Net increase in cash | 505 | 302 |
| Cash at beginning of period | 1,506 | 679 |
| Cash at end of period | \$ 2,011 | \$ 981 |

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$000 omitted in tables except for per share data)

The information set forth herein is unaudited. This financial information reflects all normal accruals and adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented.

1. Summary of risk factors and significant accounting policiesRisk factors

The aviation and aerospace industries as well as markets for the Company's consumer products are facing new and evolving challenges on a global basis. The success of the Company depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, and other risk factors. In addition, uncertainties in today's global economy, global competition, the effect of terrorism, difficulty in predicting defense and other government appropriations, the vitality of the commercial aviation industry and its ability to purchase new aircraft, the willingness and ability of the Company's customers to fund long-term purchase programs, volatile market demand and the continued market acceptance of the Company's advanced technology and cutlery products make it difficult to predict the impact on future financial results.

Revenue recognition

The Company's revenues are principally recognized as units are shipped and as terms and conditions of purchase orders are met. The Company also incurred costs for certain contracts which are long term. These contracts are accounted for under the percentage of completion method (cost-to-cost) which recognizes revenue as the work progresses towards completion.

Included in other current assets are \$807,000 of unbilled revenues which represent revenue earned under the percentage of completion method (cost-to-cost) not yet billable under the terms of the contracts.

2. Inventories

| | <u>September 30, 2004</u> |
|---|---------------------------|
| <u>Raw materials and common parts</u> | <u>\$ 3,411</u> |
| <u>Work-in-process</u> | <u>3,276</u> |
| <u>Finished goods</u> | <u>346</u> |
| | <u>7,033</u> |
| <u>Less common parts expected to be used after one year</u> | <u>(236)</u> |
| | <u>\$ 6,797</u> |

Inventories are stated generally at the lower of standard cost and net realizable value. Cost includes all cost incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out). Market provisions in respect of net realizable value and obsolescence are applied to the gross value of the inventory. Pre-production and start-up costs are expensed as incurred.

3. Property, plant and equipment

| | September 30, 2004 |
|----------------------------------|-----------------------|
| Land | \$ 25 |
| Buildings | 6,483 |
| Machinery, equipment and tooling | 10,053 |
| | 16,561 |
| Less accumulated depreciation | (10,162) |
| | \$ 6,399 |

Property, plant and equipment includes land and building under a \$5,000,000 capital lease which can be purchased for a nominal amount at the end of the lease term. The Company believes that it maintains property and casualty insurance in amounts adequate for the risk and nature of its assets and operations and which are generally customary in its industry.

4. Long-term debt
September 30, 2004

| | |
|--|---------|
| Industrial Development Revenue Bonds; secured by a letter of credit from a bank with interest payable monthly at a floating rate (1.90% at September 30, 2004) | \$4,320 |
|--|---------|

Term loan payable to a financial institution interest at LIBOR plus 2% (3.60% at September 30, 2004); quarterly principal payments of \$17,500 commencing January 1, 2005; payable in full October 1, 2009 500

Term loan payable to a financial institution