

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. Management s Discussion and Analysis or Plan of 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. Submission of Matters to a Vote of Security 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

Edgar Filing: SERVOTRONICS INC /DE/ - Form 10QSB

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