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SERVOTRONICS INC /DE/  
Form 10QSB  
May 14, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
--- ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

--- 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 - 7109

SERVOTRONICS, INC.

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

Delaware  
-----

(State or other jurisdiction of  
incorporation or organization)

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 X ; No  
-----

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

Class	Outstanding
----- Common Stock, \$.20 par value	-----

Transitional Small Business Disclosure Format (Check one):

Yes ; No X  
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PART I. FINANCIAL INFORMATION

- Item 1. Financial Statements
  - a) Consolidated Balance Sheet, March 31, 2003
  - b) Consolidated Statement of Operations for the Three Months Ended March 31, 2003 and 2002
  - c) Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2003 and 2002
  - d) Notes to Consolidated Financial Statements
- Item 2. Management's Discussion and Analysis or Plan of Operation
- Item 3. Controls and Procedures

PART II. OTHER INFORMATION

- Item 6. Exhibits and Reports on Form 8-K
  - Signatures
  - Certifications

PART I FINANCIAL INFORMATION  
SERVOTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
March 31, 2003

(\$000's omitted except per share data)  
(Unaudited)

Assets

Current assets:

Cash  
Accounts receivable  
Inventories  
Prepaid income taxes  
Deferred income taxes  
Other (See Note 1 to consolidated financial statements)

Total current assets

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Property, plant and equipment, net

Other assets

Liabilities and Shareholders' Equity

Current liabilities:

Current portion of long-term debt  
Accounts payable  
Accrued employee compensation and benefit costs  
Other accrued liabilities

Total current liabilities

Long-term debt

Deferred income taxes

Other non-current liability

Shareholders' equity:

Common stock, par value \$.20; authorized  
4,000,000 shares; Issued 2,614,506 shares  
Capital in excess of par value  
Retained earnings  
Accumulated other comprehensive income (loss)

Employee stock ownership trust commitment  
Treasury stock, at cost 222,365 shares

Total shareholders' equity

See notes to consolidated financial statements

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SERVOTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

(\$000's omitted except per share data)  
(Unaudited)

Net revenues

Three  
2003  
-----  
\$ 3,82

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Costs and expenses:	
Cost of goods sold	2,88
Selling, general and administrative	83
Interest	4
Depreciation	17
	-----
	3,94
	-----
Income (loss) before income taxes	(11)
Income tax provision (benefit)	(4)
	-----
Net income (loss)	\$ (7)
	=====
Income (Loss) Per Share:	
Basic	
-----	
Net income (loss) per share	\$ (0.0)
	=====
Diluted	
-----	
Net income (loss) per share	\$ (0.0)
	=====

See notes to consolidated financial statements  
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SERVOTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

(\$000's omitted)  
(Unaudited)

	Three Mo
	Mar
	2003
	-----
Cash flows related to operating activities:	
Net income (loss)	\$ (71)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -	
Depreciation	178
Change in assets and liabilities -	
Accounts receivable	109
Inventories	(261)
Prepaid income taxes	(48)
Other current assets	(167)
Accounts payable	218
Accrued employee compensation & benefit costs	34
Accrued income taxes	0
Other accrued liabilities	96
	-----

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Net cash provided by operating activities	88
<hr/>	
Cash flows related to investing activities:	
Capital expenditures - property, plant & equipment	(14)
<hr/>	
Net cash used in investing activities	(14)
<hr/>	
Cash flows related to financing activities:	
Increase in demand loan	50
Payments on demand loan	(50)
Principal payments on long-term debt	(52)
<hr/>	
Net cash used in financing activities	(52)
<hr/>	
Net increase (decrease) in cash	22
Cash at beginning of period	679
<hr/>	
Cash at end of period	\$ 701
<hr/>	

See notes to consolidated financial statements  
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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 SIGNIFICANT ACCOUNTING POLICIES  
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REVENUE RECOGNITION  
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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 \$995,000 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  
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Raw materials and common parts  
Work-in-process  
Finished goods

Less common parts expected to be used after one year

3. PROPERTY, PLANT AND EQUIPMENT  
-----

Land  
Buildings  
Machinery, equipment and tooling

Less accumulated depreciation

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.

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4. LONG-TERM DEBT  
-----

Industrial Development Revenue Bonds; secured by a letter of credit from a bank with interest payable monthly at a floating rate (1.50% at March 31, 2003)

Term loans; payable to a financial institution \$500,000 at LIBOR plus 2% (3.38% at March 31, 2003); quarterly principal payments of \$17,500 commencing January 1, 2005; payable in full October 1, 2009; and \$429,000 at a rate of 3.40% at December 31, 2002; quarterly principal payments of \$35,714 through February 1, 2006

Various other secured term notes payable to government agencies

Less current portion

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Industrial Development Revenue Bonds were issued by a government agency to finance the construction of the Company's headquarters/Advanced Technology facility. Annual sinking fund payments of \$170,000 commenced December 1, 2000 and continue through 2013, with a final payment of \$2,620,000 due December 1, 2014. The Company has agreed to reimburse the issuer of the letter of credit if there are draws on that letter of credit. The Company pays the letter of credit bank an annual fee of 1% of the amount secured thereby and pays the remarketing agent for the bonds an annual fee of .25% of the principal amount outstanding. The Company's interest under the facility capital lease has been pledged to secure its obligations to the government agency, the bank and the bondholders.

The Company also has a \$1,000,000 line of credit on which there was no balance outstanding at March 31, 2003.

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5. COMMON SHAREHOLDERS' EQUITY

	Common stock							
	Number of shares issued	Amount	Capital in excess of par value	Retained earnings	ESOP	Treasury stock	Compreh inco	
Balance December								
31, 2002	2,614,506	\$523	\$13,361	\$1,262	(\$ 2,337)	(\$ 1,054)		
Comprehensive income (loss)								
Net income (loss)	-	-	-	\$ (71)	-	-	\$ (71)	
Other comprehensive income, (loss) net of tax	-	-	-	-	-	-	-	
Minimum pension liability adjustment	-	-	-	-	-	-	-	
Other comprehensive Income (loss)	-	-	-	-	-	-	-	
Comprehensive income (loss)	-	-	-	-	-	-	\$ (71)	
Compensation expense	-	-	-	-	-	-	-	
Balance March 31, 2003	2,614,506	\$523	\$13,361	\$1,191	(\$ 2,337)	(\$ 1,054)		

EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the period plus the number of shares of common stock that would be issued assuming all contingently issuable shares having a dilutive effect on earnings per share were outstanding for the period.

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	Three M Ma 2003 ----
Net income (loss)	\$ (71) =====
Weighted average common shares outstanding (basic)	1,922
Incremental shares from assumed conversions of stock options	0
Weighted average common shares outstanding (diluted)	1,922
Basic -----	
Net income (loss) per share	\$ (0.04) =====
Diluted -----	
Net income (loss) per share	\$ (0.04) =====

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6. BUSINESS SEGMENTS  
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The Company operates in two business segments, Advanced Technology Group and Consumer Products Group. The Company's reportable segments are strategic business units that offer different products and services. The segments are composed of separate corporations and are managed separately. Operations in Advanced Technology Group involve the design, manufacture, and marketing of servo-control components for government and commercial industrial applications. Consumer Products Group's operations involve the design, manufacture and marketing of a variety of cutlery products for use by consumers and government agencies. The Company derives its primary sales revenue from domestic customers, although a significant portion of finished products are for foreign end use.

Three Month Period Ended March 31, 2003 -----	Advanced Technology Group -----	Consumer Products Group -----
Revenues from unaffiliated customers	\$ 2,506 =====	\$ 1,323 =====
Profit (loss)	\$ 409 =====	\$ (174) =====
Depreciation expense		
Interest expense		
General corporate expense		
Income (loss) before income taxes		

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION  
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The following table sets forth for the period indicated the percentage relationship of certain items in the consolidated statement of operations to net revenues, and the percentage increase or decrease of such items as compared to the indicated prior period.

	Relations net reve three month March 2003 ----		
Net revenues			
Advanced technology products	65.5%		
Consumer products	34.5%		
	-----		
		100.0%	1
Cost of goods sold	75.3%		
	-----		
Gross profit	24.7%		
	-----		
Selling, general and administrative	21.8%		
Interest	1.1%		
Depreciation	4.6%		
	-----		
		27.5%	
		-----	
Income (loss) before income taxes		(2.8)%	
Income tax provision (benefit)		(0.9)%	
		-----	
Net income (loss)		(1.9)%	
		=====	

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### MANAGEMENT DISCUSSION

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During the three month period ended March 31, 2003 and for the comparable period ended March 31, 2002, approximately 36% and 25% respectively, of the Company's revenues were derived from contracts with agencies of the U.S. Government or their prime contractors. The Company's business is performed under fixed price contracts. Sales to the government are affected by defense budgets, U.S. & foreign policy and the level of military operations. As major international events continue, it is difficult to predict the impact on future financial results. In addition, restrictions on certain international travel, along with the continued real and perceived threats to the airline industry have significantly lowered commercial passenger traffic and have had a direct effect on revenues in the commercial aerospace markets and, consequently, on aerospace manufacturing.

### RESULTS OF OPERATIONS

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The Company's consolidated results of operations for the three month period ended March 31, 2003 when compared to the same three month period of 2002 showed net revenues remaining consistent and a decrease in net income of approximately 167.4%. While revenues continue to reflect the overall economic softness in the commercial aerospace industry and previously reported reductions and stretch-outs in the commercial markets for the Company's Advanced Technology Products, the Company continues to be successful in procuring new applications and the backlog remains strong.

During the first quarter of 2003, the Company incurred significant front-end costs associated with prototype, preproduction and start-up activities in both the Advanced Technology Group (ATG) and the Consumer Products Group (CPG). These costs, consistent with the changes in accounting standards, are expensed as they occur and as such provide minimal or no benefit to revenue in the current period. Such costs attribute to the decrease in gross profit for the quarter ended March 31, 2003 when compared to the comparable period of 2002. Specific to these costs, which are being expensed on a current basis, are those related to the engineering and manufacturing of the Marine Corps' new combination bayonet and combat knife. As the result of an intensive two-year competition, the CPG was recently awarded a four million dollar order which is scheduled to be in full production during the third quarter of this year and will continue into the year 2005.

Selling, general and administrative expenses increased as a percentage of revenues for the quarter ended March 31, 2003 when compared to the same period in 2002. The Company has incurred expenses for costs dedicated to expanded sales and marketing activities, and additional procedures and professional expenses to assure the integrity of financial reporting and corporate disclosure following passage of the Sarbanes-Oxley Act in 2002.

Interest expense decreased for the quarter ended March 31, 2003 when compared to the same period in 2002 due to market driven interest rate fluctuations and the decrease of institutional debt.

The Company continues to take advantage of the tax benefit for extraterritorial sales, which is reflected in the effective tax rate of approximately 37%.

### LIQUIDITY AND CAPITAL RESOURCES

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The Company's primary liquidity and capital requirements relate to the working capital needs; primarily inventory, accounts receivable, capital investments in facilities, machinery, tools/dies and equipment and principal/interest payments on indebtedness. The Company's primary sources of liquidity have been from positive cash flows and from bank financing.

As of March 31, 2003 there are no material commitments for capital expenditures.

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### Item 3. CONTROLS AND PROCEDURES

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Our management has reviewed our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of a date within 90 days prior to this report. Our management believes that such disclosure controls and procedures are adequate to ensure that material information relating to the Company is made known to management by others within the Company.

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In addition, our management reviewed our internal controls and, to management's knowledge, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their last evaluation.

### PART II OTHER INFORMATION

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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(a) Exhibits

99.1 Certification of Chief Executive Officer pursuant to 19 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Chief Financial Officer pursuant to 19 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None

### FORWARD-LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-QSB contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those pertaining to the Company's capital resources and profitability. Forward-looking statements involve numerous risks and uncertainties. The Company derives a material portion of its revenues from contracts with agencies of the U.S. Government or their prime contractors. The Company's business is performed under fixed price contracts and the following factors, among others discussed herein, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: uncertainties in today's global economy and global competition, and difficulty in predicting defense 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, and market demand and acceptance both for the Company's products and its customers' products which incorporate Company-made components. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form 10-QSB. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as of the date hereof. The Company assumes no obligation to update forward-looking statements.

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### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 9, 2003

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SERVOTRONICS, INC.

By: /s/Lee D. Burns, Treasurer

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Lee D. Burns, Treasurer and  
Chief Financial Officer

By: /s/Raymond C. Zielinski, Vice President

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Raymond C. Zielinski, Vice President

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CERTIFICATION

I, Lee D. Burns, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Servotronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ Lee D. Burns, Chief Financial Officer

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Lee D. Burns  
Chief Financial Officer

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CERTIFICATION

I, Nicholas D. Trbovich, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Servotronics, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the

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equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ Nicholas D. Trbovich, Chief Executive Officer

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Nicholas D. Trbovich  
Chief Executive Officer

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