

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

SERVOTRONICS INC /DE/  
Form 10QSB  
May 17, 2004

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, 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

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer  
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 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 at April 30, 2004 |
|-------------------------------|-------------------------------|
| Common Stock, \$.20 par value | 2,492,901                     |

Transitional Small Business Disclosure Format (Check one):

Yes \_\_\_\_\_ ; No X \_\_\_\_\_

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

|  |                |
|--|----------------|
|  | March 31, 2004 |
|  | -----          |
| Assets   |                |
| Current assets:  |                |
| Cash   | \$ 1,758       |
| Accounts receivable  | 3,405          |
| Inventories  | 6,774          |
| Prepaid income taxes   | 73             |
| Deferred income taxes  | 368            |
| Other assets (See Note 1 to consolidated financial statements) | 1,475          |
|  | -----          |
| Total current assets   | 13,853         |
| Property, plant and equipment, net                             | 6,518          |
| Other non-current assets                                       | 548            |
|  | -----          |
|  | \$ 20,919      |
|  | =====          |
| Liabilities and Shareholders' Equity                           |                |
| Current liabilities:   |                |

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|  |    |         |
|--|----|---------|
| Current portion of long-term debt  | \$ | 463     |
| Accounts payable   |    | 840     |
| Accrued employee compensation and benefit costs  |    | 946     |
| Other accrued liabilities  |    | 449     |
| Accrued income taxes   |    | 94      |
|  |    | -----   |
| Total current liabilities  |    | 2,792   |
| Long-term debt   |    | 5,159   |
| Deferred income taxes  |    | 357     |
| Other non-current liability  |    | 244     |
| Shareholders' equity:  |    |         |
| Common stock, par value \$.20; authorized<br>4,000,000 shares; Issued 2,614,506 shares |    | 523     |
| Capital in excess of par value   |    | 13,033  |
| Retained earnings  |    | 1,674   |
| Accumulated other comprehensive loss   |    | (107)   |
|  |    | -----   |
|  |    | 15,123  |
| Employee stock ownership trust commitment  |    | (2,236) |
| Treasury stock, at cost 121,605 shares   |    | (520)   |
|  |    | -----   |
| Total shareholders' equity   |    | 12,367  |
|  |    | -----   |
|  | \$ | 20,919  |
|  |    | =====   |

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)

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          |          |
|   | 2004               | 2003     |
|   | ----               | ----     |
| Net revenues                                  | \$ 5,328           | \$ 3,829 |
| Costs and expenses:                           |                    |          |
| Cost of goods sold, exclusive of depreciation | 3,997              | 2,885    |
| Selling, general and administrative           | 881                | 835      |
| Interest                                      | 36                 | 43       |
| Depreciation and amortization                 | 162                | 178      |
|   | -----              | -----    |
|   | 5,076              | 3,941    |
|   | -----              | -----    |
| Income (loss) before income taxes             | 252                | (112)    |
| Income tax provision (benefit)                | 94                 | (41)     |
|   | -----              | -----    |

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|                             |         |           |
|-----------------------------|---------|-----------|
| Net income (loss)           | \$ 158  | \$ (71)   |
|                             | =====   | =====     |
| Income (Loss) Per Share:    |         |           |
| Basic                       |         |           |
| -----                       |         |           |
| Net income (loss) per share | \$ 0.08 | \$ (0.04) |
|                             | =====   | =====     |
| Diluted                     |         |           |
| -----                       |         |           |
| Net income (loss) per share | \$ 0.08 | \$ (0.04) |
|                             | =====   | =====     |

See notes to consolidated financial statements

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

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2004                            | 2003    |
|   | ----                            | ----    |
| Cash flows related to operating activities:   |                                 |         |
| Net income (loss)   | \$ 158                          | \$ (71) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities - |                                 |         |
| Depreciation and amortization   | 162                             | 178     |
| Change in assets and liabilities -  |                                 |         |
| Accounts receivable   | (917)                           | 109     |
| Inventories   | 36                              | (261)   |
| Other assets and prepaid income taxes   | 1                               | (48)    |
| Other current assets  | 111                             | (167)   |
| Accounts payable  | 291                             | 218     |
| Accrued employee compensation and benefit costs   | 214                             | 34      |
| Accrued income taxes  | 94                              | 0       |
| Other accrued liabilities   | 274                             | 96      |
|   | -----                           | -----   |
| Net cash provided by operating activities   | 424                             | 88      |
|   | -----                           | -----   |
| Cash flows related to investing activities:   |                                 |         |
| Capital expenditures - property, plant and equipment                                      | (120)                           | (14)    |
|   | -----                           | -----   |
| Net cash used in investing activities   | (120)                           | (14)    |
|   | -----                           | -----   |
| Cash flows related to financing activities:   |                                 |         |
| Increase in demand loan   | 0                               | 50      |
| Payments on demand loan   | 0                               | (50)    |
| Principal payments on long-term debt  | (52)                            | (52)    |

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|                                       |          |        |
|---------------------------------------|----------|--------|
| Net cash used in financing activities | (52)     | (52)   |
| Net increase in cash                  | 252      | 22     |
| Cash at beginning of period           | 1,506    | 679    |
| Cash at end of period                 | \$ 1,758 | \$ 701 |

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

Risk factors

The aviation and aerospace industries as well as markets for the Company's consumer products are facing new and different 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 is \$622,000 of unbilled revenues which represents revenue earned under the percentage of completion method (cost-to-cost) not yet billable under the terms of the contracts.

2. Inventories

March 31, 2004

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|  |                   |
|--|-------------------|
|  | -----             |
|  | (\$000's omitted) |
| Raw materials and common parts                       | \$ 3,175          |
| Work-in-process                                      | 3,498             |
| Finished goods                                       | 337               |
|  | -----             |
|  | 7,010             |
| Less common parts expected to be used after one year | (236)             |
|  | -----             |
|  | \$ 6,774          |
|  | =====             |

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), and 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.

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|                                  |                   |
|----------------------------------|-------------------|
| 3. Property, plant and equipment | March 31, 2004    |
| -----                            | -----             |
|                                  | (\$000's omitted) |
| Land                             | \$ 25             |
| Buildings                        | 6,452             |
| Machinery, equipment and tooling | 9,880             |
|                                  | -----             |
|                                  | 16,357            |
| Less accumulated depreciation    | (9,839)           |
|                                  | -----             |
|                                  | \$ 6,518          |
|                                  | =====             |

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 which are generally customary in its industry.

|  |                   |
|--|-------------------|
| 4. Long-term debt  | March 31, 2004    |
| -----  | -----             |
|  | (\$000's omitted) |
| Industrial Development Revenue Bonds; secured by a letter of credit from a bank with interest payable monthly at a floating rate (1.27% at March 31, 2004)   | \$ 4,320          |
| Term loan payable to a financial institution interest at LIBOR plus 2% (3.16% at March 31, 2004); quarterly principal payments of \$17,500 commencing January 1, 2005; payable in full October 1, 2009 | 500               |

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|   |          |
|---|----------|
| Term loan payable to a financial institution interest at a rate of 3.38% at March 31, 2004; quarterly principal payments of \$35,714 through February 1, 2006 | 286      |
| Secured term loan payable to a government agency interest fixed at 6%, monthly payments of \$2,778; payable in full second quarter of 2004                    | 108      |
| Secured term loan payable to a government agency interest fixed at 6%, monthly payments of \$2,774 through second quarter of 2012                             | 176      |
| Secured term loan payable to a government agency interest fixed at 3%; monthly payments of \$1,950 through fourth quarter of 2015                             | 232      |
|   | -----    |
| Less current portion  | (463)    |
|   | -----    |
|   | \$ 5,159 |
|   | =====    |

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

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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 is no balance outstanding at March 31, 2004.

5. Common shareholders' equity

|   | Common stock                  |        |                                      |                      |            |                   |                 |  |
|---|-------------------------------|--------|--------------------------------------|----------------------|------------|-------------------|-----------------|--|
|   | Number<br>of shares<br>issued | Amount | Capital in<br>excess of<br>par value | Retained<br>earnings | ESOP       | Treasury<br>stock | Compreh<br>inco |  |
|   | -----                         |        |                                      |                      |            |                   |                 |  |
| Balance December                          |                               |        |                                      |                      |            |                   |                 |  |
| 31, 2003                                  | 2,614,506                     | \$523  | \$13,033                             | \$1,516              | (\$ 2,236) | (\$ 520)          |                 |  |
|   | =====                         | =====  | =====                                | =====                | =====      | =====             |                 |  |
| Comprehensive income                      |                               |        |                                      |                      |            |                   |                 |  |
| Net income                                | -                             | -      | -                                    | \$ 158               | -          | -                 | \$ 158          |  |
| Other comprehensive income,<br>net of tax | -                             | -      | -                                    | -                    | -          | -                 | -               |  |
| Minimum pension liability<br>adjustment   | -                             | -      | -                                    | -                    | -          | -                 | -               |  |
| Other comprehensive                       |                               |        |                                      |                      |            |                   |                 |  |

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|                        |           |       |          |         |            |          |   |
|------------------------|-----------|-------|----------|---------|------------|----------|---|
| income                 | -         | -     | -        | -       | -          | -        | - |
| Comprehensive income   | -         | -     | -        | -       | -          | -        | - |
| Compensation expense   | -         | -     | -        | -       | -          | -        | - |
| Balance March 31, 2004 | 2,614,506 | \$523 | \$13,033 | \$1,674 | (\$ 2,236) | (\$ 520) |   |

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.

|   | Three Months Ended<br>March 31,            |           |
|---|--|-----------|
|   | 2004                                       | 2003      |
|   | ----                                       | ----      |
|   | (\$000's omitted<br>except per share data) |           |
| Net income (loss)   | \$ 158                                     | \$ (71)   |
|   | =====                                      | =====     |
| Weighted average common shares<br>outstanding (basic)           | 2,048                                      | 1,922     |
| Incremental shares from assumed<br>conversions of stock options | 47   | 0         |
| Weighted average common<br>shares outstanding (diluted)         | 2,095                                      | 1,922     |
| Basic<br>-----  |  |           |
| Net income (loss) per share                                     | \$ 0.08                                    | \$ (0.04) |
|   | =====                                      | =====     |
| Diluted<br>-----  |  |           |
| Net income (loss) per share                                     | \$ 0.08                                    | \$ (0.04) |
|   | =====                                      | =====     |

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6. Business segments  
-----

The Company operates in two business segments, the Advanced Technology Group and the 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 the Advanced Technology Group involve the design, manufacture, and marketing of servo-control components for government and commercial applications. The Consumer Products Group's operations involve the design, manufacture and marketing of a variety of cutlery products for use by consumers



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and government agencies. The Company derives its primary sales revenue from domestic customers, although a portion of finished products are for foreign customers and/or use.

| Three Month<br>Period Ended<br>March 31, 2004<br>----- | Advanced<br>Technology<br>Group<br>----- | Consumer<br>Products<br>Group<br>----- | Consolidated<br>----- |
|--|--|--|-----------------------|
| Revenues from unaffiliated customers                   | \$ 2,671                                 | \$ 2,657                               | \$ 5,328              |
|  | =====                                    | =====                                  | =====                 |
| Profit   | \$ 398                                   | \$ 184                                 | \$ 582                |
|  | =====                                    | =====                                  |                       |
| Depreciation and amortization                          |  |  | (162)                 |
| Interest expense                                       |  |  | (36)                  |
| General corporate expense                              |  |  | (132)                 |
|  |  |  | -----                 |
| Income before income taxes                             |  |  | \$ 252                |
|  |  |  | =====                 |

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

-----

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.

|   | Relationship to<br>net revenues |        | Period to<br>period \$<br>increase<br>(decrease) |
|---|---------------------------------|--------|--|
|   | three months ended              |        |  |
|   | 2004                            | 2003   |  |
|   | March 31,                       |        | 04-03  |
|   | -----                           | -----  | -----  |
| Net revenues                                  |                                 |        |  |
| Advanced technology products                  | 50.1%                           | 65.5%  | 6.6%   |
| Consumer products                             | 49.9%                           | 34.5%  | 100.9%   |
|   | -----                           | -----  | -----  |
|   | 100.0%                          | 100.0% | 39.2%  |
| Cost of goods sold, exclusive of depreciation | 75%                             | 75.3%  | 38.5%  |
|   | -----                           | -----  | -----  |
| Gross profit                                  | 25%                             | 24.7%  | 41.0%  |
|   | -----                           | -----  | -----  |
| Selling, general and administrative           | 16.5%                           | 21.8%  | 5.5%   |
| Interest                                      | 0.7%                            | 1.1%   | (16.3)%  |
| Depreciation and amortization                 | 3.0%                            | 4.6%   | (9.0)%   |
|   | -----                           | -----  | -----  |
|   | 20.2%                           | 27.5%  | 2.2%   |
|   | -----                           | -----  | -----  |
| Income (loss) before income taxes             | 4.8%                            | (2.8)% | 325.2%   |
| Income tax provision (benefit)                | 1.8%                            | (0.9)% | 329.3%   |
|   | -----                           | -----  | -----  |

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|                   |       |        |        |
|-------------------|-------|--------|--------|
| Net income (loss) | 3.0%  | (1.9)% | 322.8% |
|                   | ===== | =====  | =====  |

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### Management Discussion

-----

During the three month period ended March 31, 2004 and for the comparable period ended March 31, 2003, approximately 43% and 36% respectively of the Company's revenues were derived from contracts with agencies of the U.S. Government or their prime contractors and their subcontractors. The Company's business is performed under fixed price contracts. Continued government involvement in military operations overseas has had a direct impact on the financial results in both the Advanced Technology and Consumer Product's markets. Sales of products sold for government applications have increased approximately 65% when comparing the three month period ended March 31, 2004 to the comparable period of 2003 and are expected to remain strong. While the Company remains optimistic in relation to these opportunities, it recognizes that sales to the government are affected by defense budgets, U.S. and foreign policy and the level of military operations and as such, it is difficult to predict the impact on future financial results.

### Results of Operations

-----

The Company's consolidated results of operations for the period ended March 31, 2004 showed an approximate \$1,500,000 or 39.2% increase in net revenues with a turnaround in income before taxes of approximately \$360,000. The increase in revenues is primarily attributed to increased government business.

Gross profit increased 41.0% for the three month period ended March 31, 2004. During 2003, the Company incurred significant front-end costs associated with prototype, preproduction and start-up activities for the Consumer Products Group's combination combat knife and bayonet. The majority of such up-front costs were incurred and expensed in 2003 and prior. While the Company continues to incur such costs on an ongoing basis associated with products for both the Advanced Technology Group (ATG) and Consumer Products Group (CPG), the timing of such costs directly contributes to the fluctuation in gross profit from period to period because these costs are expensed as they occur and, as such, are not matched to their future revenues and benefits.

Selling, general and administrative (SG&A) costs increased approximately 5.5% when compared to the same period in 2003. The increase in SG&A costs is primarily attributed to increased marketing and expanded sales efforts of the ATG and CPG and the increased costs for professional services and corporate governance necessitated by the Sarbanes-Oxley Act and related regulations. Such costs are expected to continue to be significant expense factors.

Interest expense decreased for the quarter ended March 31, 2004 when compared to the same period in 2003 primarily due to a decrease in 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 in 2004 have been from positive cash flows.

As of March 31, 2004 there are no material commitments for capital expenditures.

### Off Balance Sheet Arrangements

-----

None.

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### Critical Accounting Policies

-----

The Company prepares the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and which require our most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Note 1 to the accompanying consolidated financial statements includes a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

### Item 3. CONTROLS AND PROCEDURES

-----

Our management has reviewed our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15). Our management believes that as of the end of the Company's most recent fiscal quarter, 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.

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 have a significant adverse affect on internal controls subsequent to the date of their last evaluation.

## PART II OTHER INFORMATION

### Item 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY

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#### SECURITIES

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The Company's Board of Directors has previously authorized the

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repurchase of shares of its outstanding common stock. The Company did not repurchase any shares during the three months ended March 31, 2004. There are 88,955 shares that are still available for repurchase under this general authorization.

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

-----

#### (a) Exhibits

- 31.1 Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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#### (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.

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 14, 2004

SERVOTRONICS, INC.

By: /s/Lee D. Burns, Treasurer  
-----  
Lee D. Burns, Treasurer and  
Chief Financial Officer

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