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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

or

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

Commission File No. 1-07109

SERVOTRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**16-0837866**
(State or other jurisdiction of incorporation or organization)	*(I. R. S. Employer Identification No.)*

1110 Maple Street
Elma, New York 14059
(Address of principal executive offices) (zip code)
(716) 655-5990
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Common Stock	SVT	NYSE American

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

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

Class	Outstanding at July 26, 2024
Common Stock, $.20 par value	2,557,927

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SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share data)

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Current assets:		
Cash	$ 119	$ 95
Cash, restricted	150	150
Accounts receivable, net	10,706	12,065
Inventories, net	15,830	14,198
Prepaid and other current assets	945	1,507
Assets related to discontinued operation	1,480	1,552
Total current assets	29,230	29,567
Property, plant and equipment, net	7,082	6,978
Other non-current assets	42	42
Total Assets	$ 36,354	$ 36,587
Liabilities and Shareholders' Equity		
Current liabilities:		
Line of credit	$ 1,473	$ 2,103
Current portion of post retirement obligation	97	97
Accounts payable	2,432	2,061
Accrued employee compensation and benefits costs	989	1,003
Accrued warranty	449	542
Other accrued liabilities	1,827	1,909
Liabilities related to discontinued operation	24	213
Total current liabilities	7,291	7,928
Post retirement obligation	4,202	4,165
Shareholders' equity:		
Common stock, par value $0.20; authorized 4,000,000 shares; issued 2,629,052 shares; outstanding 2,531,175 (2,514,775 - 2023) shares	525	525
Capital in excess of par value	14,762	14,617
Retained earnings	13,127	12,954
Accumulated other comprehensive loss	(2,350)	(2,389)
Employee stock ownership trust commitment	(56)	(56)
Treasury stock, at cost 71,125 (87,525 - 2023) shares	(1,147)	(1,157)
Total shareholders' equity	24,861	24,494
Total Liabilities and Shareholders' Equity	$ 36,354	$ 36,587

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Revenue	$ 12,273	$ 10,649	$ 22,719	$ 19,709
Costs of goods sold, inclusive of depreciation and amortization	9,210	9,092	17,921	17,168
Gross profit	3,063	1,557	4,798	2,541
Operating expenses				
Selling, general and administrative	2,397	3,269	4,415	5,444
Operating income (loss)	666	(1,712)	383	(2,903)
Other expense				
Interest & other expense, net	98	89	181	142
Total other expense	98	89	181	142
Income (loss) from continuing operations before income taxes	568	(1,801)	202	(3,045)
Income taxes	-	1,479	-	1,063
Income (loss) from continuing operations, net of tax	568	(3,280)	202	(4,108)
Loss from discontinued operation before income taxes	(12)	(6,220)	(29)	(6,940)
Income taxes	-	-	-	-
Loss from discontinued operation, net of tax (Note 2)	(12)	(6,220)	(29)	(6,940)
Net income (loss)	$ 556	$ (9,500)	$ 173	$ (11,048)
Basic earnings (loss) per share:				
Continuing operations	$ 0.23	$ (1.33)	$ 0.08	$ (1.67)
Discontinued operation	-	(2.53)	(0.01)	(2.82)
Basic earnings (loss) per share	$ 0.23	$ (3.86)	$ 0.07	$ (4.49)
Diluted earnings (loss) per share:				
Continuing operations	$ 0.22	$ (1.33)	$ 0.08	$ (1.67)
Discontinued operation	-	(2.53)	(0.01)	(2.82)
Diluted earnings (loss) per share	$ 0.22	$ (3.86)	$ 0.07	$ (4.49)

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net Income (Loss)	$ 556	$ (9,500)	$ 173	$ (11,048)
Other comprehensive income items:				
Actuarial gains	20	12	39	25
Income tax benefit on actuarial losses	-	-	-	-
Retirement benefits adjustments, net of income taxes	20	12	39	25
Total comprehensive income (loss)	$ 576	$ (9,488)	$ 212	$ (11,023)

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Cash flows related to operating activities:		
Income (loss) from continuing operations	$ 202	$ (4,108)
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:		
Depreciation and amortization	543	517
Stock based compensation	176	74
Allowance for credit losses	(18)	(25)
Inventory reserve	139	14
Warranty reserve	(93)	(2)
Deferred income taxes	-	1,072
Changes in assets and liabilities providing (using) cash:		
Accounts receivable	1,377	(2,663)
Inventories	(1,771)	(826)
Prepaid and other current assets	562	(520)
Accounts payable	371	1,064
Accrued employee compensation and benefit costs	25	301
Post retirement obligations	37	66
Other accrued liabilities	(82)	(105)
Net cash provided (used) by operating activities from continuing operations	1,468	(5,141)
Cash flows related to investing activities:		
Purchase of property, plant and equipment	(647)	(403)
Net cash used by investing activities from continuing operations	(647)	(403)
Cash flows related to financing activities:		
(Payments on) proceeds from line of credit	(630)	3,697
Purchase of treasury shares	(21)	-
Principal payments on finance lease obligations	-	(501)
Net cash (used) provided by financing activities from continuing operations	(651)	3,196
Discontinued Operation		
Cash used by operating activities	(146)	(568)
Net cash used by operating activities from discontinued operation	(146)	(568)
Net increase (decrease) in cash and restricted cash	24	(2,916)
Cash and restricted cash at beginning of period	245	3,812
Cash and restricted cash at end of period	$ 269	$ 896

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Servotronics, Inc. (“Servotronics”) and its subsidiaries (“Company”) design, manufacture and market servo-control components and other advanced technology products for aerospace, military and medical applications. The Company was incorporated in New York in 1959. In 1972, the Company was merged into a wholly-owned subsidiary organized under the laws of the State of Delaware, thereby changing the Company’s state of incorporation from New York to Delaware. The Company’s shares currently trade on the New York Stock Exchange (NYSE American) under the symbol SVT.

Until 2023, the Company had operated historically under two business segments: Advanced Technology Group (“ATG”) and Consumer Products Group (“CPG”), which had been strategic business segments that offered different products and services. Operations in ATG included the design, manufacturing and marketing of servo-control components and other advanced technology products, and the CPG operations included the design, manufacture and marketing of a variety of cutlery products for use by consumers and government agencies. During 2023, the Company’s Management made the strategic decision to sell certain assets of The Ontario Knife Company (“OKC”) and divest the CPG business segment. This divestiture represented a strategic shift, as the Company has realigned its corporate and management reporting structure to focus solely on the servo-control components and other advanced technology products, and now organizes its business in a single reportable segment. This segment structure reflects the financial information and reports used by management, specifically the Chief Executive Officer and Chief Operating Officer.

The consolidated financial statements currently include the accounts of Servotronics, OKC, and other inactive, wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. The Company derives its primary sales revenue from domestic customers, although a portion of finished products are for foreign end use. As previously communicated, the Company executed an Asset Purchase Agreement (“APA”) with a third party to sell certain assets of OKC, which transaction closed on August 1, 2023. Accordingly, the sale of assets and results of operations for OKC are presented as a “Loss from Discontinued Operation, net of tax” on the Condensed Consolidated Statements of Operations, and assets and liabilities are reflected as “Assets and Liabilities related to Discontinued Operation” in the Condensed Consolidated Balance Sheets. The “Loss from Discontinued Operation, net of tax” is included in the net income or net loss on the Condensed Consolidated Statements of Comprehensive Income (Loss), and the cash used in operating activities from the discontinued operation are included in the “Discontinued Operation” section of the Condensed Consolidated Statements of Cash Flows.

SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited Condensed Consolidated Financial Statements ("consolidated financial statements") have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Operating results for the three- and six-months ended June 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. The consolidated financial statements should be read in conjunction with the 2023 annual report and the notes thereto.

The 2023 financial information included in the aforementioned Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations were reclassified to conform with the discontinued operation presentation. Amounts for all periods discussed below reflect the results of operations, financial condition and cash flows from the Company's continuing operations, unless otherwise noted. Refer to Note 2 "Discontinued Operation and Assets and Liabilities Related to Discontinued Operation", for further discussion.

Cash and Restricted Cash

The following table provides a reconciliation of cash and restricted cash to the amounts in the statement of cash flows:

(in thousands)	June 30, 2024	December 31, 2023
Cash	$ 119	$ 95
Restricted cash	150	150
Total cash and restricted cash	$ 269	$ 245

The Company considers cash to include all currency and coin owned by the Company as well as all deposits in the bank including checking and savings accounts. The restricted cash of $150,000 as of June 30, 2024 and December 31, 2023 represents collateral with a financial institution.

Accounts Receivable

The Company grants credit to substantially all of its customers and carries its accounts receivable at original invoice amount less an allowance for credit losses. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for credit losses based on history of past write-offs, collections, and current credit conditions. The allowance for credit losses amounted to approximately $103,000 as of June 30, 2024 and $121,000 as of December 31, 2023, respectively. The Company does not accrue interest on past due receivables.

Revenue Recognition

Revenues are recognized at the time of shipment of goods, transfer of title and customer acceptance, as required. Revenue transactions generally consist of a single performance obligation to transfer contracted goods. Purchase orders generally include specific terms relative to quantity, item description, specifications, price, customer responsibility for in-process costs, delivery schedule, shipping point, payment and other standard terms and conditions of purchase. Service revenue, principally representing repairs, is recognized at the time of shipment of goods.

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods and services to a customer. The Company determines revenue recognition using the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when the company satisfies a performance obligation.

Revenue excludes taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer (e.g., sales and use taxes). Revenue includes payments for shipping activities that are reimbursed by the customer to the Company.

SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Performance obligations are satisfied as of a point in time. Performance obligations are supported by contracts with customers, providing a framework for the nature of the distinct goods, services or bundle of goods and services. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. As a significant portion of the Company's revenue are recognized at the time of shipment, transfer of title and customer acceptance, there is no significant judgment applied to determine the timing of the satisfaction of performance obligations or transaction price. Shipping and handling activities that occur after the customer obtains control of the promised goods are considered fulfillment activities.

The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment. The Company generally receives payment for these contracts within the payment terms negotiated and agreed upon by each customer contract.

Warranty and repair obligations are assessed on all returns. Revenue is not recorded on any warranty returns. The Company warrants its products against design, materials and workmanship based on an average of twenty-seven months. The Company determines warranty reserves needed based on actual average costs of warranty units shipped and current facts and circumstances. As of June 30, 2024, and December 31, 2023 under the guidance of ASC 460, the Company has recorded a warranty reserve of approximately $ 449,000 and $542,000, respectively. Revenue is recognized on repair returns, covered under a customer contract, at the contractual price upon shipment to the customer.

The Company disaggregates revenue from contracts with customers into geographic regions. The Company determined that disaggregating revenue into this category achieves the objective to portray how the nature, timing, and uncertainty of revenue from cash flows are affected by different regions. Disaggregation of revenue by geographic region are provided below:

	Three Months Ended		Six Months Ended	
(in thousands)	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Domestic	$ 9,065	$ 7,589	$ 16,851	$ 14,598
International	3,208	3,060	5,868	5,111
Total Revenue	$ 12,273	$ 10,649	$ 22,719	$ 19,709

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost includes all costs incurred to bring each product to its present location and condition. Inventory reserves consist of obsolete and/or slow-moving items based on inventory levels in excess of planned sales activity. These reserves are applied to the gross value of the inventory and are approximately $766,000 and $627,000 as of June 30, 2024 and December 31, 2023, respectively. Pre-production and start-up costs are expensed as incurred.

The purchase of suppliers' minimum economic quantities of material such as steel, etc. may result in a purchase of quantities exceeding two years of customer requirements. Also, in order to maintain a reasonable and/or agreed to lead time or minimum stocking requirements, certain larger quantities of other product support items may have to be purchased and may result in over one year's supply. The amounts are not included in the inventory reserve discussed above.

Shipping and Handling Costs

Shipping and handling costs are classified as a component of cost of goods sold.

Property, Plant and Equipment

Property, plant and equipment is carried at cost; expenditures for new facilities and equipment and expenditures which substantially increase the useful lives of existing plant and equipment are capitalized; expenditures for maintenance and repairs are expensed as incurred. Upon disposal of properties, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is included in income.

Depreciation is provided on the basis of estimated useful lives of depreciable properties, primarily by the straight-line method for financial statement purposes and by accelerated methods for income tax purposes. Depreciation expense includes the amortization of right-of-use (“ROU”) assets accounted for as finance leases. The estimated useful lives of depreciable properties are generally as follows:

Buildings and improvements (years)	5 - 40
Machinery and equipment (years)	5 - 20
Tooling (years)	3 - 5

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities, as well as operating loss and credit carryforwards. The Company and its subsidiaries file a consolidated federal income tax return, combined New York, Texas, California and Connecticut state income tax returns, and a separate Arkansas state income tax return.

The Company’s practice is to recognize interest and/or penalties related to uncertain tax positions and income tax matters in income tax expense. The Company did not have any accrued interest or penalties included in its Condensed Consolidated Balance Sheets at June 30, 2024 or December 31, 2023, and did not recognize any interest and/or penalties in its Condensed Consolidated Statements of Operations during the three- and six-month periods ended June 30, 2024 and 2023. The Company did not have any material uncertain tax positions or unrecognized tax benefits or obligations as of June 30, 2024 and December 31, 2023. The 2020 through 2023 federal and 2019 through 2023 state tax returns remain subject to examination by the respective taxing authorities.

Supplemental Cash Flow Information

Income taxes paid amounted to approximately $ 0 and $2,000 for the six-month periods ended June 30, 2024 and 2023, respectively. Interest paid during the six-month periods ended June 30, 2024 and 2023 was approximately $86,000 and $46,000 respectively.

Employee Stock Ownership Plan

Contributions to the employee stock ownership plan are determined annually by the Company according to plan formula.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment annually or whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable based on undiscounted future operating cash flow analyses. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

The Company's strategic decision to sell certain assets of OKC in 2023 resulted in the classification of a discontinued operation and triggered an impairment of OKC's real property in accordance with ASC 360-10-45-9 *Impairment or Disposal of Long-Lived Assets*. Refer to Note 2, "Discontinued Operation and Assets and Liabilities Related to Discontinued Operation", for further discussion. No additional impairment of long-lived assets exists as of June 30, 2024, which primarily includes the Company's tangible real (land and building) and personal (machinery & equipment) properties.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain balances as previously reported were reclassified to classifications adopted in the current period.

Research and Development Costs

Research and development costs are expensed as incurred and are included in selling, general and administrative on the Condensed Consolidated Statements of Operations.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentration of credit risks principally consist of cash accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management assesses the risk of nonperformance by the financial institutions to be low.

Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value due to their short maturity. Based on variable interest rates and the borrowing rates currently available to the Company for loans similar to its asset-based line of credit the fair value approximates its carrying amount.

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09 "Income Taxes (Topics 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for the Company's annual periods beginning January 1, 2025, with early adoption permitted. The Company is currently evaluating the potential effect that the updated standard will have on its financial statement disclosures.

There have been no additional new or material changes to the significant accounting policies discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, that are of significance, or potential significance, to the Company.

2. Discontinued Operation and Assets and Liabilities Related to Discontinued Operation

The Company's decision to sell certain assets and wind down the operations of OKC met the "held for sale" definition under ASC 205-20-45-9 *Discontinued Operations*, and represented a strategic shift that had a significant impact on the Company's overall operations and financial results. Accordingly, the assets and liabilities of OKC are reflected as "Assets and Liabilities related to Discontinued Operation" in the Condensed Consolidated Balance Sheets as of June 30, 2024 and December 31, 2023. In addition, OKC's operating loss, divestiture costs, and impairment charges on long-lived assets were reclassified to "Loss from Discontinued Operation, net of tax" in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2024 and 2023 (as reclassified).

Under the terms of the Asset Purchase Agreement, the Company sold inventory, machinery & equipment and intellectual property (patents & trademarks/tradenames) to a third party on August 1, 2023. As a direct result of Management's decision to sell OKC's assets, divest the operations, and exit the CPG business segment, the Company incurred impairment charges on its long-lived asset (building) in 2023 based on independent, third-party appraisals (less estimated costs to sell). No impairment charges were incurred for the three- and six-month periods ended June 30, 2024.

Operating loss from discontinued operation was approximately $32,000 and $57,000 for the three- and six-month periods ended June 30, 2024, respectively, and resulted primarily from employee compensation and severance costs (compared to $770,000 and $1,490,000 for the three- and six-month period ended June 30, 2023, respectively, as reclassified). Divestiture and impairment cost changes resulted in income of approximately $20,000 and $28,000 for the three- and six-month periods ended June 30, 2024 (compared to divestiture and impairment cost estimates of $2,227,000 for each of the three- and six-month periods ended June 30, 2023, respectively). The loss on the sale of assets was $ 0 for the three- and six-month periods ended June 30, 2024, respectively (compared to $3,223,000 for each of the three- and six-month periods ended June 30, 2023, respectively, as reclassified). Therefore, the total Loss from Discontinued Operation, net of tax, is approximately $12,000 and $29,000 for the three- and six-month periods ended June 30, 2024, respectively (compared to a Loss of $6,220,000 and $6,940,000 for the three- and six-month periods ended June 30, 2023, respectively, as reclassified).

Discontinued Operation Financial Information

Consolidated Statements of Operations are as follows:

(in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023
Net Sales	$ -	$ 1,345
Operating costs	(32)	(2,115)
Loss from discontinued operation	(32)	(770)
Divestiture and impairment cost estimates	20	(2,227)
Loss on sale of assets	-	(3,223)
Loss from discontinued operation before income taxes	(12)	(6,220)
Income tax benefit	-	-
Loss from discontinued operation, net of tax	$ (12)	$ (6,220)

(in thousands)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net Sales	$ -	$ 3,087
Operating costs	(57)	(4,577)
Loss from discontinued operation	(57)	(1,490)
Divestiture and impairment cost estimates	28	(2,227)
Loss on sale of assets	-	(3,223)
Loss from discontinued operation before income taxes	(29)	(6,940)
Income tax benefit	-	-
Loss from discontinued operation, net of tax	$ (29)	$ (6,940)

Assets & Liabilities Related to Discontinued Operation Financial Information

A summary of the carrying amounts of major classes of assets and liabilities, which are included in assets and liabilities related to discontinued operation in the Condensed Consolidated Balance Sheets, are as follows:

(in thousands)	June 30, 2024	December 31, 2023
Accounts receivable, net	$ -	$ 38
Prepaid and other assets	52	31
Inventories, net	-	55
Building and improvements, net	1,428	1,428
Assets related to discontinued operation	$ 1,480	$ 1,552
Accounts payable	$ 23	$ 197
Accrued employee compensation and other costs	1	16
Liabilities related to discontinued operation	$ 24	$ 213

The Company has actively marketed the building for sale with a commercial real estate broker during the first quarter and expects to sell the real property in 2024. The majority of the remaining assets and liabilities are expected to be expensed or settled during the third quarter, as divestiture and wind-down activities are substantially complete.

3. Inventories

(in thousands)	June 30, 2024	December 31, 2023
Raw material and common parts	$ 7,829	$ 7,828
Work-in-process	8,270	6,466
Finished goods	497	531
	16,596	14,825
Less inventory reserve	(766)	(627)
Total inventories	$ 15,830	$ 14,198

4. Property, Plant and Equipment

(in thousands)	June 30, 2024	December 31, 2023
Buildings and building improvements	$ 8,558	$ 8,447
Machinery, equipment and tooling	15,672	15,503
Construction in progress	472	106
	24,702	24,056
Less accumulated depreciation and amortization	(17,620)	(17,078)
Property, plant and equipment, net	$ 7,082	$ 6,978

Depreciation and amortization expense amounted to approximately $ 271,000 and $260,000 for the three-month periods ended June 30, 2024 and 2023, respectively. Amortization expense related to Right of Use ("ROU") assets amounted to approximately $ 6,000 and $7,000 for the three-month periods ended June 30, 2024 and 2023, respectively. Depreciation and amortization expense amounted to approximately $ 543,000 and $517,000 for the six-month periods ended June 30, 2024 and 2023, respectively. Amortization expense related to ROU assets amounted to approximately $ 12,000 and $12,000 for the six-month periods ended June 30, 2024 and 2023, respectively.

The Company's ROU assets included in machinery, equipment and tooling had a net book value of approximately $ 148,000 and $160,000 as of June 30, 2024 and December 31, 2023, respectively.

As of June 30, 2024, there is approximately $472,000 ($106,000 as of December 31, 2023) of construction in progress included in property, plant and equipment, all of which is related to capital projects for machinery and equipment of $246,000 and building improvements of $226,000.

5. Indebtedness

In June 2023, the Company entered into a three-year financing agreement with a financial lending institution for an asset-based line of credit ("Credit Facility") with a maximum revolving credit of $7,000,000. The borrowing base under the Credit Facility is determined using 85% of eligible domestic and foreign accounts receivable balances, less any other specific reserves. In general terms, ineligible receivables are defined as invoices unpaid over 90 days. The balance outstanding on the Credit Facility is approximately $1,473,000 and $2,103,000 as of June 30, 2024 and December 31, 2023, respectively. The interest rate on the Credit Facility is equal to the greater of 8.0% or the prime rate (as defined by JP Morgan Chase) plus 1.0% (9.5% as of June 30, 2024 and December 31, 2023). The Credit facility is collateralized by the Company's non-realty assets.

In accordance with ASC 470-10-45-5 Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses, borrowings outstanding under the Credit Facility that includes both a subjective acceleration clause and requirement to maintain a lock-box arrangement must be considered short-term obligations. As the Credit Facility includes both provisions, the outstanding balances are classified as current liabilities on the Condensed Consolidated Balance Sheets.

The Credit Facility contains two financial covenants required to be maintained by the Company at the end of each of its fiscal quarters. The Tangible Net Worth covenant requires the Company to maintain tangible net worth not less than $20,000,000. The Working Capital covenant requires the Company to maintain working capital not less than $10,000,000. The Company has met both covenant requirements as of June 30, 2024 and December 31, 2023.

6. Postretirement Benefit Plan

The Company provides certain postretirement health and life insurance benefits for two former executives ("retirees") of the Company ("Plan"). Upon ceasing employment, the Company pays the annual cost of health insurance coverage and provides continuing life insurance at the same level of coverage at the time of terminating employment with the Company. The Plan also provides a benefit to reimburse the retirees for certain out-of-pocket medical and/or health-related costs. The retirees' benefits cease upon their death. The Plan is unfunded and the actuarially-determined projected postretirement benefit obligation was approximately $4,299,000 and $4,262,000 as of June 30, 2024 and December 31, 2023, respectively. Benefit costs for the three-month periods ended June 30, 2024 and 2023, were $73,000 and $65,000 respectively. Benefit costs for the six-month periods ended June 30, 2024 and 2023 were $146,000 and $130,000, respectively.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Shareholders' Equity

	Six-month Period Ended June 30, 2024 (in thousands)						
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	ESOT	Treasury Stock	Total Shareholders' Equity
December 31, 2023	$ 525	$ 14,617	$ 12,954	$ (2,389)	$ (56)	$ (1,157)	$ 24,494
Retirement benefits adjustment	-	-	-	19	-	-	19
Stock based compensation	-	44	-	-	-	19	63
Net Loss	-	-	(383)	-	-	-	(383)
March 31, 2024	$ 525	$ 14,661	$ 12,571	$ (2,370)	$ (56)	$ (1,138)	$ 24,193
Retirement benefits adjustment	-	-	-	20	-	-	20
Stock based compensation	-	101	-	-	-	12	113
Purchase of treasury shares	-	-	-	-	-	(21)	(21)
Net Income	-	-	556	-	-	-	556
June 30, 2024	$ 525	$ 14,762	$ 13,127	$ (2,350)	$ (56)	$ (1,147)	$ 24,861

	Six-month Period Ended June 30, 2023 (in thousands)						
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	ESOT	Treasury Stock	Total Shareholders' Equity
December 31, 2022	$ 523	$ 14,556	$ 23,741	$ (2,337)	$ (157)	$ (1,214)	$ 35,112
Retirement benefits adjustment	-	-	-	13	-	-	13
Stock based compensation	-	17	-	-	-	24	41
Net Loss	-	-	(1,547)	-	-	-	(1,547)
March 31, 2023	$ 523	$ 14,573	$ 22,194	$ (2,324)	$ (157)	$ (1,190)	$ 33,619
Retirement benefits adjustment	-	-	-	12	-	-	12
Stock based compensation	1	14	-	-	-	18	33
Net Loss	-	-	(9,500)	-	-	-	(9,500)
June 30, 2023	$ 524	$ 14,587	$ 12,694	$ (2,312)	$ (157)	$ (1,172)	$ 24,164

Earnings Per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding does not include any potentially dilutive securities or any unvested restricted shares of common stock. These unvested restricted shares, although classified as issued and outstanding, are considered forfeitable until the restrictions lapse and will not be included in the basic EPS calculation until the shares are vested. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common 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 the earnings per share were outstanding for the period. The dilutive effect of unvested restrictive stock is determined using the treasury stock method. However, if the assumed common shares are anti-dilutive, basic and diluted earnings per share are the same.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands except per share data)		(in thousands except per share data)	
Income (loss) from continuing operations	$ 568	$ (3,280)	$ 202	$ (4,108)
Loss from discontinued operation	(12)	(6,220)	(29)	(6,940)
Net income (loss)	$ 556	$ (9,500)	$ 173	$ (11,048)
Weighted average common shares outstanding (basic)	2,495	2,461	2,492	2,458
Unvested restricted stock (service based)	30	28	30	28
Unvested restricted stock (performance based)	21	-	21	-
Weighted average common shares outstanding (diluted)	2,546	2,489	2,543	2,486
Basic earnings (loss) per share:				
Continuing operations	$ 0.23	$ (1.33)	$ 0.08	$ (1.67)
Discontinued operation	-	(2.53)	(0.01)	(2.82)
Basic earnings (loss) per share	$ 0.23	$ (3.86)	$ 0.07	$ (4.49)
Diluted earnings (loss) per share:				
Continuing operations	$ 0.22	$ (1.33)	$ 0.08	$ (1.67)
Discontinued operation	-	(2.53)	(0.01)	(2.82)
Diluted earnings (loss) per share	$ 0.22	$ (3.86)	$ 0.07	$ (4.49)

Stock-Based Compensation

The Company's 2022 Equity Incentive Plan ("Equity Plan") was approved by the shareholders at the 2022 Annual Meeting of Shareholders. The Equity Plan allows for various types of awards (rights) to be granted, including incentive stock options, non-qualified stock options, stock appreciation rights, restricted awards, performance share awards, cash awards, or any other equity-based awards. The total number of awards under the Equity Plan are limited to a maximum of 200,000 authorized common shares.

The Company's executive compensation program established by the Board of Directors determines the type of awards available to the Company's executives. The program consists of a cash incentive plan and a long-term incentive plan ("LTIP") that are awarded annually. The LTIP includes service-based (restricted) share awards that vest annually over three years, and performance-based (restricted) share awards that cliff-vest based on the achievement of a specific financial metric over a specific three-year period.

On March 26, 2024, 7,180 service-based share awards were granted to Company executives under the 2024-2026 LTIP Stock Award. Additionally, on January 29, 2024, 1,786 service-based share awards were granted in connection with the hiring of an executive officer, and these shares vest after a one-year service period.

The Company's director compensation policy provides that non-employee directors receive a portion of their annual retainer in the form of shares under the Equity Plan. These shares vest quarterly over a twelve-month service period, have voting rights, and any dividends declared and paid during the restricted period accrue and are paid upon vesting. The aggregate amount of expense to the Company, measured based on the grant date fair value, is recognized over the requisite service period. On May 10, 2024, an aggregate of 9,980 restricted shares were issued with a grant date fair value of $125,000.

SERVOTRONICS, INC. AND SUBSIDIARIES

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A summary of the status of restricted (service-based) share awards granted is presented below:

	Shares		Weighted Average Grant Date Fair Value
Service-Based Share Activity:			
Unvested at December 31, 2023	22,448	$	11.45
Granted in 2024	18,946	$	12.70
Vested in 2024	(11,807)	$	11.55
Unvested at June 30, 2024	29,587	$	12.21

Included in the six-month periods ended June 30, 2024 and 2023 is approximately $131,000 and $74,000, respectively, of stock-based compensation expense related to the service-based share awards. The Company has approximately $296,000 of stock-based compensation expense related to unvested service-based shares to be recognized over the requisite service periods.

Restricted, performance-based share awards represent a right to receive a certain number of shares of common stock based on the achievement of corporate performance goals and continued employment during the performance period. Performance-based share awards granted to executives vest at the end of a three-year period, and are not issued until the performance period is complete and the metrics are achieved. Vested and issued shares may range from 0% to a maximum of 200% of targeted amounts depending on the achievement of performance measures at the end of a three-year period. The expected cost of the shares is based on the date of grant fair value and the Company's assessment of the probability that the performance condition will be achieved. Any related compensation expense is recognized when the probability is likely that the performance criteria will be achieved. Forfeitures are recognized as they occur. These awards may be settled in cash or shares of common stock at the election of the Company on the date of grant. It is the Company's intent to settle performance-based share awards with shares of common stock.

On March 26, 2024, 21,541 performance-based share awards (at target) were granted to Company executives under the 2024-2026 LTIP Stock Award at a grant date fair value of $12.63 per share. Included in the six-month periods ended June 30, 2024 and 2023 is approximately $45,000 and $0, respectively, of stock-based compensation expense related to this award. The Company has approximately $227,000 of stock-based compensation expense related to this award to be recognized over the requisite service periods.

On December 13, 2023, 17,380 performance-based share awards (at target) were granted to Company executives under the 2023-2025 LTIP Stock award at a grant date fair value of $11.50 per share. No stock-based compensation expense has been recorded for the six-month period ending June 30, 2024, as achievement of the performance metric was deemed not probable for this award.

The maximum potential stock-based compensation expense for the performance-based share awards under the 2023-2025 and 2024-2026 LTIP Stock Awards is approximately $944,000.

A summary of the status of performance-based share awards granted is presented below:

	Shares		Weighted Average Grant Date Fair Value
Performance-Based Share Activity:			
Unvested at December 31, 2023	17,380	$	11.50
Granted in 2024	21,541	$	12.63
Vested in 2024	-	$	-
Unvested at June 30, 2024	38,921	$	12.13

Included in the six-month periods ended June 30, 2024 and 2023 is approximately $176,000 and $74,000, respectively, of total stock-based compensation expense related to the service- and performance-based share awards. The Company has approximately $523,000 of stock-based compensation expense related to total unvested service- and performance-based shares to be recognized over the requisite service periods.

8. Income Taxes

The income tax expense in the Condensed Consolidated Statements of Operations is $ 0 for the three- and six-month period ended June 30, 2024 compared to an income tax expense of approximately $1,479,000 and $1,063,000 for the three- and six-month period ended June 30, 2023, respectively, due to the valuation allowance recorded against the net deferred tax assets as of June 30, 2024 and 2023. The valuation allowance was initially recorded during the second quarter of 2023 based on management's determination that it is more likely than not that the Company will not realize the net deferred tax assets in the future.

The effective tax rate benefit for the three- and six-month period ended June 30, 2024 is 0%, compared to an effective tax rate of 18.4% and 10.6% for the three- and six-month period ended June 30, 2023, respectively. The difference between the statutory rate of 21% and the effective tax rate expense of 0% for the three- and six-month period ended June 30, 2024 is due to the valuation allowance recorded against the deferred tax assets (net) as of June 30, 2024.

9. Commitments and Contingencies

In the course of its business, the Company is subject to a variety of claims and lawsuits that are inherently subject to many uncertainties regarding the possibility of a loss to the Company. Because litigation outcomes are inherently unpredictable, the Company's evaluation of legal proceedings often involves a series of complex assessments by management, after consulting with legal counsel, about future events and can rely heavily on estimates and assumptions. The Company carries liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

During 2023, the Company entered into discussions with a particular customer regarding product liability costs and customer damages ("claim") resulting from non-conforming product shipped to the customer in prior years. Prior to 2023, the Company considered the risk of loss to be remote, however, the claim was received from the customer and submitted to the Company's insurance carrier in 2024. The insurance carrier determined the claim was covered by insurance for approximately $1,000,000 and proceeds were received during the second quarter. The claim liability of approximately $1,000,000 is included in other accrued liabilities in the Condensed Consolidated Balance Sheets as of June 30, 2024 and December 31, 2023 and was settled with the customer at the beginning of the third quarter of 2024.

On December 21, 2021, the Company's former Chief Executive Officer ("Former CEO") delivered his Notice of Termination and alleged that the Company breached the terms of the Employment Agreement between the Company and the Former CEO by, among others, placing the Former CEO on paid administrative leave in June 2021 pending an internal investigation. On December 22, 2021, the Board of Directors accepted the Former CEO's resignation from the Company but rejected his request to treat his resignation as resignation for good reason under Paragraph 10 of his Employment Agreement. The Board also determined, based on the findings of its investigation that the Former CEO committed willful malfeasance in violation of his Employment Agreement, and that such willful malfeasance would have justified termination of employment pursuant to Paragraph 9 of the Employment Agreement, but for his earlier resignation. The Former CEO claims that he is entitled to a severance payment equal to 2.99 times his average annual compensation as set forth in the Employment Agreement, plus the reimbursement of certain expenses and the value of any lost benefits. As noted above, the Board of Directors rejected the Former CEO's claim that the Company breached the Employment Agreement. Accordingly, the Company is classifying the Former CEO's termination as a voluntary resignation for which no severance is due. The Employment Agreement provides that disputes arising thereunder shall be settled by arbitration. To date, neither party has commenced an arbitration proceeding with respect to these matters. Based on the information known by the Company as of the date of this filing, if a claim is ultimately asserted, the Company does not consider the risk of loss to be probable and is unable to reasonably or accurately estimate the likelihood and amount of any liability that may be realized with respect to this matter.

On June 7, 2021, a Summons and Complaint was filed by an employee in the Supreme Court of the State of New York, County of Erie, against Servotronics, Inc., the Servotronics' Board of Directors, The Ontario Knife Company and Kenneth D. Trbovich (collectively, the "Defendants"). The Complaint alleges certain violations under the New York Human Rights Law by the Defendants relating to the employee's employment by the Company as well as intentional and negligent infliction of emotional distress. The Complaint also alleges certain purported derivative causes of action against all Defendants, including breach of fiduciary duties, fraud and corporate waste. The Complaint seeks monetary damages in an amount not less than $5,000,000 with respect to the direct causes of action and equitable relief with respect to the purported derivative causes of action. The Defendants filed a motion to dismiss the Complaint on August 6, 2021. On January 13, 2022, the Defendants' motion to dismiss was granted, in part, and denied, in part. The Company is insured for such matters in the amount of $3 million with a retention of $ 250,000 for defense costs. During 2023, the Company met the retention amount, so defense costs are covered by insurance. Additionally, there is an excess coverage policy for $3 million that considers the retention payment from the primary insurance policy as the excess $3 million retention. Based on the information known by the Company as of the date of this filing, the Company does not consider the risk of loss to be probable and is unable to reasonably or accurately estimate the likelihood and amount of any liability that may be realized as a result of this litigation. Accordingly, no loss has been recognized in the accompanying Condensed Consolidated Financial Statements related to this litigation. The Company is vigorously defending against this litigation.

There are no other legal proceedings currently pending by or against the Company other than litigation incidental to the business which is not expected to have a material adverse effect on the business or earnings of the Company.

10. Customer and Supplier Concentration

The Company's revenue includes significant concentration from a limited number of customers representing approximately 90% of revenue for both the three and six-month periods ended June 30, 2024 and 2023. While the Company continues to pursue diversification of its customer base, the loss of, or significant reduction in business from, any of these major customers could have a material adverse effect on the Company's financial condition, results of operations, and cash flows. The Company routinely assesses its relationships with major customers, including creditworthiness, market conditions, and competitive pressures, to mitigate risks associated with customer concentration. Despite these efforts, there can be no assurance that the Company will successfully reduce its dependence on any single customer in the future.

The Company relies on a variety of suppliers for the procurement of raw materials, components, and services necessary for its operations. While the Company actively manages its relationships with suppliers and seeks to diversify its supplier base, a disruption in the supply of goods or services from a major supplier could have a material adverse effect on the Company's operations and financial results. To mitigate the risks associated with supplier concentration, the Company engages in ongoing efforts to identify alternative sources of supply, assess supplier reliability and performance, and negotiate favorable contractual terms where feasible. However, there can be no assurance that the Company will be successful in reducing its dependence on any single supplier or mitigating the impact of supplier-related risks in the future. During the six-month periods ended June 30, 2024 and 2023, there were no purchases for products derived from one supplier greater than 10% of total vendor purchases.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and the related notes appearing elsewhere in this report.

The discussion and analysis contain forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements due to many known and unknown risks and uncertainties described elsewhere in this report.

Business Overview & Environment

We are a strategic partner in the aerospace industry, playing a key role in supporting the growth of commercial airplanes, including narrow body and widebody aircraft and business jets. We have long-term customer contracts resulting from being a trusted partner in safety-critical, high-temperature, and high-vibration environments. Our servo-control components and advanced technology products are sold to commercial aerospace, government, medical, and industrial markets. Through strong industry partnerships, innovative product offerings, and a commitment to excellence, we aim to maintain our leadership position and capitalize on emerging opportunities in the dynamic commercial aerospace landscape, as well as the other markets.

As disclosed in Note 1 of the Condensed Consolidated Financial Statements, we divested the OKC operations and exited the CPG business segment during 2023. This divestiture represented a strategic shift, and we realigned our corporate and management reporting structure to focus solely on servo-control components and other advanced technology products as a single reportable segment. This segment structure reflects the financial information and reports used by our management team, specifically the Chief Executive Officer and Chief Operating Officer. Therefore, the management discussion and analysis below pertain only to the results of operations of our continuing operations, unless otherwise noted.

Commercial Aerospace Market

The commercial aerospace market, characterized by its dynamic nature, is witnessing unprecedented growth driven by increased global travel demands. We are deeply involved in providing cutting-edge solutions and components to meet the evolving needs of aerospace manufacturers and operators worldwide. Our strategic focus within this market encompasses developing and supplying advanced materials, components, and systems that enhance aircraft performance, efficiency, and safety. The commercial aerospace industry's ability to meet the significant travel demand is currently hindered by supply chain issues as well as ongoing challenges with supply of parts and people constraints. We have been, and continue to be, challenged by these same factors, as noted in our Management Summary.

Marketing Strategy

Our marketing strategy focuses on expanding business in primary markets, such as commercial aviation, while exploring new opportunities in markets like energy and industrials as part of our growth strategy. This approach capitalizes on our technology and expertise in applications for our servo-controls and other advanced technology products, meeting the expanding demands of these sectors.

Furthermore, our strategy includes expanding our services in the defense sector, strategically aligning with the increasing demand for modernizing and renewing military fleets. We actively collaborate with Tier 2 Defense Contractors by providing essential components for various defense applications. In doing so, we contribute critical components to military platforms that require the highest levels of precision and reliability. By expanding our services in the defense sector, we are diversifying our portfolio and reinforcing our commitment to excellence across a wide range of aerospace applications. This balance between our commercial and defense activities positions us to strategically leverage growth opportunities in both areas due to our reputation for delivering unparalleled quality in the most challenging environments.

Results of Operations

The following table compares the Company's Consolidated Statements of Operations data for the three- and six-month periods ended June 30, 2024 and 2023:

	Three Months Ended June 30,					
(dollars in thousands)	**2024**		**2023**		**2024 vs 2023**	
	Dollars	**% Sales**	**Dollars**	**% Sales**	**$ Change**	**% Change**
Revenues	$ 12,273	100.0%	$ 10,649	100.0%	$ 1,624	15.3%
Cost of goods sold	9,210	75.0%	9,092	85.4%	118	1.3%
Gross Profit	**3,063**	**25.0%**	**1,557**	**14.6%**	**1,506**	**96.7%**
Selling, general and administrative	2,397	19.5%	3,269	30.7%	(872)	(26.7)%
Operating income (loss)	**666**	**5.4%**	**(1,712)**	**(16.1)%**	**2,378**	**138.9%**
Other expenses	98	0.8%	89	0.8%	9	10.1%
Income (loss) before income taxes	568	4.6%	(1,801)	(16.9)%	2,369	131.5%
Income taxes	-	0.0%	1,479	13.9%	(1,479)	(100.0)%
Income (loss) from continuing operations	**$ 568**	**4.6%**	**$ (3,280)**	**(30.8)%**	**$ 3,848**	**117.3%**

	Six Months Ended June 30,					
(dollars in thousands)	**2024**		**2023**		**2024 vs 2023**	
	Dollars	**% Sales**	**Dollars**	**% Sales**	**$ Change**	**% Change**
Revenues	$ 22,719	100.0%	$ 19,709	100.0%	$ 3,010	15.3%
Cost of goods sold	17,921	78.9%	17,168	87.1%	753	4.4%
Gross Profit	**4,798**	**21.1%**	**2,541**	**12.9%**	**2,257**	**88.8%**
Selling, general and administrative	4,415	19.4%	5,444	27.6%	(1,029)	(18.9)%
Operating income (loss)	**383**	**1.7%**	**(2,903)**	**(14.7)%**	**3,286**	**113.2%**
Other expenses	181	0.8%	142	0.7%	39	27.5%
Income (loss) before income taxes	202	0.9%	(3,045)	(15.4)%	3,247	106.6%
Income taxes	-	0.0%	1,063	5.4%	(1,063)	(100.0)%
Income (loss) from continuing operations	**$ 202**	**0.9%**	**$ (4,108)**	**(20.8)%**	**$ 4,310**	**104.9%**

Revenue

Revenue for the three-month period ended June 30, 2024 increased by approximately $1,624,000, or 15.3%, compared to the same period in 2023. This was driven by an increase in volume of approximately $2,170,000 and price increases of approximately $330,000, partially offset by unfavorable product mix of approximately $875,000. Our foreign sales increased to $3,208,000 for the three-month period ended June 30, 2024 compared to $3,060,000 for the same period in 2023, a growth of approximately $148,000, or 4.8%.

Revenue for the six-month period ended June 30, 2024 increased by approximately $3,010,000, or 15.3%, compared to the same period in 2023. This was driven by an increase in volume of approximately $2,626,000 and price increases of approximately $618,000, partially offset by unfavorable product mix of approximately $234,000. Our foreign sales increased to $5,868,000 for the six-month period ended June 30, 2024 compared to $5,111,000 for the same period in 2023, a growth of approximately $757,000, or 14.8%.

The significant revenue growth over prior year is reflective of our continued focus on increased shipments to support our strong customer demand. Our foreign sales constitute a substantial part of our overall revenue stream, and can be attributed to several factors, including an enhanced market penetration, amplified demand for our products/services, and successful execution of our international sales and marketing strategies.

Gross Profit/Margin

Gross profit increased approximately $1,506,000, or 96.7%, for the three-month period ended June 30, 2024 when compared to the same period in 2023 resulting in a gross margin of 25.0% for the same period in 2024, compared to a margin of 14.6% for the same period in 2023.

Gross profit increased approximately $2,257,000, or 88.8%, for the six-month period ended June 30, 2024 when compared to the same period in 2023, resulting in a gross margin of 21.1% for the same period in 2024 compared to a margin of 12.9% for the same period in 2023.

The gross profit and gross margin increase over prior year were significantly benefited by higher volumes, price increases, improved operational efficiencies, and reduction of customer late fees, partially offset by higher compensation and temporary labor costs, and a lower allocation of research & development (R&D) costs to operating (selling, general and administrative) costs.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the three-month period ended June 30, 2024 of approximately $2,397,000 decreased $872,000, or 26.7%, when compared to $3,269,000 during the same period in 2023. SG&A expenses as a percentage of revenue are 19.5% for the three-month period ended June 30, 2024 compared to 30.7% for the same period in 2023.

SG&A expenses for the six-month period ended June 30, 2024 of approximately $4,415,000 decreased $1,029,000, or 18.9%, when compared to $5,444,000 during the same period in 2023. SG&A expenses as a percentage of revenue are 19.4% for the six-month period ended June 30, 2024 compared to 27.6% for the same period in 2023.

The SG&A decreases are attributable to lower professional and legal costs in the current year resulting from significant, non-recurring bank refinancing, proxy contest and corporate restructuring costs in the prior year, and lower R&D costs as a significant R&D project from the prior year is substantially complete in the current year. SG&A expense in the current year is aligned with our standard business operations and cost containment efforts when compared to the prior year.

Operating Income

Operating income of approximately $666,000 for the three-month period ended June 30, 2024 improved by approximately $2,378,000 when compared to the operating loss of ($1,712,000) during the same period in 2023.

Operating income of approximately $383,000 for the six-month period ended June 30, 2024 improved by approximately $3,286,000 when compared to the operating loss of ($2,903,000) during the same period in 2023.

The operating income improvements were due to revenue and gross profit growth driven primarily by volume, production efficiencies, and lower SG&A expenses.

Other Expense

For the three-month period ended June 30, 2024, other expense increased by approximately $9,000, or 10.1%, compared to the same period in 2023.

For the six-month period ended June 30, 2024, other expense increased by approximately $39,000, or 27.5%, compared to the same period in 2023.

The increases in the current year were driven by higher interest expense due to increased usage of our asset-based line of credit and higher interest rates when compared to the same periods in 2023.

Income before Income Taxes

For the three-month period ended June 30, 2024, income before income taxes improved to $568,000, an increase of approximately $2,369,000, or 131.5%, compared to a loss before income taxes of ($1,801,000) during the same period in 2023.

For the six-month period ended June 30, 2024, income before income taxes improved to $202,000, an increase of approximately $3,247,000, or 106.6%, compared to a loss before income taxes of ($3,045,000) during the same period in 2023.

These improvements were due to revenue and gross profit growth driven primarily by volume, production efficiencies, and lower operating expenses.

Income Taxes

The Company's effective tax rate for continuing operations was 0.0% and 18.4% for the three-month periods ended June 30, 2024 and 2023, respectively.

The Company's effective tax rate for continuing operations was 0.0% and 10.6% for the six-month periods ended June 30, 2024 and 2023, respectively.

The difference between the effective tax rates and the statutory rate of 21.0% in the current and prior year reflect the impact of recording a valuation allowance against the deferred tax assets (net). See also Note 8, Income Taxes, of the accompanying Condensed Consolidated Financial Statements, for information concerning income taxes.

Income (loss) from Continuing Operations

Income from continuing operations of $568,000 for the three-month period ended June 30, 2024 improved by approximately $3,848,000 when compared to the loss from continuing operations of ($3,280,000) for the same period in 2023 due to the reasons noted above.

Income from continuing operations of $202,000 for the six-month period ended June 30, 2024 improved by approximately $4,310,000 when compared to the loss from continuing operations of ($4,108,000) for the same period in 2023 due to the reasons noted above.

Loss from Discontinued Operation

Loss from discontinued operation, net of tax, of ($12,000) for the three-month period ended June 30, 2024 improved by approximately $6,208,000 when compared to the loss from discontinued operation of ($6,220,000) for the same period in 2023, as wind-down costs associated with the OKC operations and divestiture costs related to the CPG business segment are substantially complete in the current year.

Loss from discontinued operation, net of tax, of ($29,000) for the six-month period ended June 30, 2024 improved by approximately $6,911,000 when compared to the loss from discontinued operation of ($6,940,000) for the same period in 2023, as wind-down costs associated with the OKC operations and divestiture costs related to the CPG business segment are substantially complete in the current year.

Liquidity and Capital Resources

(in thousands)	Six-Month Periods Ended June 30, 2024		2023	
CASH FLOW DATA:				
Net Cash Flows from:				
Operating Activities	$	1,468	$	(5,141)
Investing Activities	$	(647)	$	(403)
Financing Activities	$	(651)	$	3,196
Discontinued Operation Activities	$	(146)	$	(568)
FINANCIAL POSITION:				
Working Capital	$	21,939	$	20,766
CAPITAL EXPENDITURES:	$	(647)	$	(403)

Operating Activities:

Cash provided by operating activities of $1,468,000 for the six-month period ended June 30, 2024 represents an increase in cash flow from operations of $6,609,000 when compared to the cash use of $5,141,000 during the same period in 2023. The source of cash in the current year is due primarily to the decrease in accounts receivable resulting from strong customer collections and insurance proceeds, partially offset by an increase in work-in-process inventories to support higher production output. The use of cash in the prior year was due primarily to operating losses and increases in accounts receivable.

We had working capital of approximately $21,939,000 and $20,766,000 as of June 30, 2024 and June 30, 2023, respectively, of which approximately $269,000 and $896,000 as of June 30, 2024 and June 30, 2023, respectively, was comprised of cash and restricted cash. The increase in working capital is due primarily to higher inventory levels to support our production output and revenue growth.

Investing Activities:

We used approximately $647,000 for investing activities during the six-month period ended June 30, 2024, and used approximately $403,000 during the same period in 2023. The investing activities were primarily for machinery and equipment and building improvements.

Financing Activities:

We used approximately $651,000 for investing activities driven primarily by repaying our line of credit (net of borrowings) by approximately $630,000 resulting from our strong collections during the six-month period ended June 30, 2024. Our primary source of cash of approximately $3,196,000 for the six-month period ended June 30, 2023 was due to advances on our line of credit of approximately $3,847,000, partially offset by the payment of our equipment loans of approximately $501,000.

Discontinued Operation Activities:

Our use of cash from discontinued operating activities of approximately $146,000 during the six-month period ended June 30, 2024 resulted from the funding of operating losses and wind-down costs. For the same period in 2023, our use of cash of approximately $568,000 resulted from the operating losses of the discontinued operation (as reclassified).

Ongoing Liquidity Considerations:

The income from continuing operations generated for the three- and six-month periods ending June 30, 2024, the positive operating cash flows, and the availability of funding from our credit facility, provides us with adequate working capital and sufficient liquidity to fund our operations in the near term. We understand, however, that our ability to maintain sufficient liquidity is highly dependent upon achieving our expected operating results. Failure to achieve our expected operating results could have a material adverse effect on our liquidity and our ability to obtain financing to support operations.

Management Summary

We are pleased with our revenue growth of 15% and the positive impact of operational advances and production efficiencies that continue to generate gross margin improvements over the prior year. In addition, we are effectively managing operating costs, which were significantly lower than prior year as a percentage of our revenue. Finally, we have generated positive operating cash flows, a substantial improvement over the prior year. These factors have yielded favorable results and reinforces our commitment and focus on achieving our strategic plan of growth and profitability.

The aerospace industry has been rapidly ramping up over the last two years creating volatility in the commercial aerospace market, including demand and supply challenges. We are navigating through the complexity of aligning our customers’ forecasts with our production output to achieve profitability and enhance shareholder value in 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) as of June 30, 2024. Based upon that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as of June 30, 2024.

Changes in Internal Controls

There have been no changes during the period covered by this report to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth in Note 9, Commitments and Contingencies, there are no other legal proceedings which are material to the Company currently pending by or against the Company other than ordinary routine litigation incidental to the business which is not expected to materially adversely affect the business, earnings or cash flows of the Company.

Item 1A. Risk Factors

The Company is a smaller reporting company as defined in Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(c) Trading Plans

During the three-month period ended June 30, 2024, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

Item 6. Exhibits

31.1	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 (Filed herewith)
31.2	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 (Filed herewith)
32.1	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 (Filed herewith)
32.2	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 (Filed herewith)
101	The following materials from Servotronics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of comprehensive income, (iv) condensed consolidated statements of cash flows and (v) the notes to the condensed consolidated financial statements.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in exhibits 101).

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words “project,” “believe,” “plan,” “anticipate,” “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve numerous risks and uncertainties which may cause the actual results of the Company to be materially different from future results expressed or implied by such forward-looking statements. There are a number of factors that will influence the Company’s future operations, including: uncertainties in today’s global economy, including political risks, adverse changes in legal and regulatory environments, and difficulty in predicting defense appropriations, the introduction of new technologies and the impact of competitive products, 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 Company’s ability to accurately align capacity with demand, the availability of financing and changes in interest rates, the outcome of pending and potential litigation, and on commercial activity and demand across our and our customers’ businesses, and on global supply chains, the ability of the Company to obtain and retain key executives and employees and the additional risks discussed elsewhere in this Form 10-Q and in the Company’s other filings with the Securities and Exchange Commission. 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, whether as a result of new information, future events or otherwise.

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: August 8, 2024

SERVOTRONICS, INC.

By: /s/ William F. Farrell, Jr., Chief Executive Officer
William F. Farrell, Jr.
Chief Executive Officer

By: /s/ Robert A. Fraass, Chief Financial Officer
Robert A. Fraass
Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, William F. Farrell Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Servotronics, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

/s/ William F. Farrell, Jr., Chief Executive Officer
William F. Farrell, Jr.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Robert A. Fraass, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Servotronics, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

/s/ Robert A. Fraass, Chief Financial Officer
Robert A. Fraass
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Servotronics, Inc. (the “Company”), on Form 10-Q for the period ended June 30, 2024, I hereby certify solely for the purpose of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The quarterly report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and

2. The information contained in the quarterly report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2024

/s/ William F. Farrell, Jr., Chief Executive Officer
William F. Farrell, Jr.
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Servotronics, Inc. (the “Company”), on Form 10-Q for the period ended June 30, 2024, I hereby certify solely for the purpose of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The quarterly report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and

2. The information contained in the quarterly report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2024

/s/Robert A. Fraass, Chief Financial Officer
Robert A. Fraass
Chief Financial Officer