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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 March 31, 2023

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 April 26, 2023
Common Stock, $.20 par value	2,525,313

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SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
($000's omitted except share and per share data)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Current assets:		
Cash	$ 671	$ 4,004
Cash, restricted	500	—
Accounts receivable, net	10,746	9,469
Inventories, net	20,007	19,044
Prepaid income taxes	138	138
Other current assets	1,619	597
Total current assets	33,681	33,252
Property, plant and equipment, net	10,790	10,656
Deferred income taxes	1,067	1,072
Other non-current assets	311	314
Total Assets	$ 45,849	$ 45,294
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 939	$ —
Current portion of equipment financing and capital leases	—	501
Current portion of postretirement benefits	87	87
Accounts payable	4,085	3,113
Accrued employee compensation and benefits costs	1,377	1,163
Accrued warranty	594	581
Other accrued liabilities	1,150	762
Total current liabilities	8,232	6,207
Long-term debt	—	—
Post retirement obligation	3,998	3,975
Shareholders' equity:		
Common stock, par value $0.20; authorized 4,000,000 shares; issued 2,629,052 shares; outstanding 2,484,042 (2,483,318 - 2022) shares	523	523
Capital in excess of par value	14,573	14,556
Retained earnings	22,194	23,741
Accumulated other comprehensive loss	(2,324)	(2,337)
Employee stock ownership trust commitment	(157)	(157)
Treasury stock, at cost 103,739 (104,464 - 2022) shares	(1,190)	(1,214)
Total shareholders' equity	33,619	35,112
Total Liabilities and Shareholders' Equity	$ 45,849	$ 45,294

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($000's omitted except per share data)
(Unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenue	$ 10,802	$ 11,168
Costs and expenses:		
Cost of goods sold, inclusive of depreciation and amortization	9,887	8,211
Gross profit	915	2,957
Operating expenses:		
Selling, general and administrative	2,826	2,501
Total operating expenses	2,826	2,501
Operating (loss)/income	(1,911)	456
Other (expense)/income:		
Interest expense	(53)	(70)
Gain on sale of equipment	—	26
Total other expense, net	(53)	(44)
(Loss)/income before income taxes	(1,964)	412
Income tax benefit/(provision)	417	(87)
Net (loss)/income	$ (1,547)	$ 325
Income per share:		
Basic		
Net income per share	$ (0.63)	$ 0.13
Diluted		
Net income per share	$ (0.63)	$ 0.13

See notes to condensed consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME
($000's omitted)
(Unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Net (Loss)/Income	$ (1,547)	$ 325
Other comprehensive (loss)/income items:		
Actuarial gains	16	27
Income tax expense on actuarial losses	(3)	(5)
Other comprehensive income:		
Retirement benefits adjustments, net of income taxes	13	22
Total comprehensive (loss)/income	$ (1,534)	$ 347

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash flows related to operating activities:		
Net (Loss)Income	$ (1,547)	$ 325
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation and amortization	306	313
Gain on sale of equipment	—	(26)
Stock based compensation	55	25
(Decrease)/increase in allowance for credit losses	(10)	65
(Decrease)/increase in inventory reserve	(175)	168
Increase in warranty reserve	13	—
Deferred income taxes	2	—
Change in assets and liabilities:		
Accounts receivable	(1,267)	(2,171)
Inventories	(788)	(222)
Prepaid income taxes	—	199
Other current assets	(1,022)	(783)
Accounts payable	972	1,669
Accrued employee compensation and benefit costs	200	(72)
Post retirement obligation	39	34
Other accrued liabilities	388	(68)
Accrued income taxes	—	—
Net cash used by operating activities	(2,834)	(544)
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(437)	(115)
Proceeds from sale of assets	—	38
Net cash used by investing activities	(437)	(77)
Cash flows related to financing activities:		
Principal payments on equipment financing lease/note obligations	(501)	(70)
Proceeds from line of credit, net	939	—
Net cash provided (used) by financing activities	438	(70)
Net decrease in cash and restricted cash	(2,833)	(691)
Cash and restricted cash at beginning of period	4,004	9,546
Cash and restricted cash at end of period	$ 1,171	$ 8,855

See notes to condensed consolidated financial statements

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

1. Basis of Presentation

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 accompanying 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 months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. The consolidated financial statements should be read in conjunction with the 2022 annual report and the notes thereto.

2. Business Description and Summary of Significant Accounting Policies

Business Description

Servotronics, Inc. and its subsidiaries design, manufacture and market advanced technology products consisting primarily of control components, and consumer products consisting of knives and various types of cutlery and other edged products. The company operates through two primary segments: the Advanced Technology Group (ATG) and the Consumer Products Group (CPG).

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Servotronics, Inc. and its wholly-owned subsidiaries (the “Company”). All intercompany balances and transactions have been eliminated upon consolidation.

Cash and Restricted Cash

The following table provides a reconciliation of cash and restricted cash to the amounts in the statement of cash flow in thousands.

	March 31, 2023	December 31, 2022
	($000's omitted)	
Cash	$ 671	$ 4,004
Restricted cash	500	—
Total Cash and restricted cash	$ 1,171	$ 4,004

The Company considers cash to include all currency and coin owned by the Company as well as all deposits in the bank including checking accounts and savings accounts. The Company’s restricted cash consists of cash that the Company is contractually obligated to maintain in accordance with the terms of its Amendment No.7 and Waiver of Agreements (the “Amendment”) effective March 30, 2023 of approximately $500,000 at March 31, 2023 ($0 at December 31, 2022). See note 5 for further discussion.

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

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 $125,000 and $135,000 as of March 31, 2023 and December 31, 2022, respectively. The Company does not accrue interest on past due receivables.

The Company evaluated the ASU related to Current Expected Credit Losses ("CECL") and determined that the pronouncement does not have a material effect on the financial position, results of operations or cash flows of the Company.

Revenue Recognition

Revenues are recognized at the time of shipment of goods, transfer of title and customer acceptance, as required. Our revenue transactions generally consist of a single performance obligation to transfer contracted goods and are not accounted for under industry-specific guidance. 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 sales, principally representing repair, are recognized at the time of shipment of goods. The costs incurred for nonrecurring engineering, development and repair activities of our products under agreements with commercial customers are expensed as incurred. Subsequently, the revenue is recognized as products are delivered to the customers with the approval by the customers.

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.

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 March 31, 2023, and December 31, 2022 under the guidance of ASC 460 the Company has recorded a warranty reserve of approximately $594,000 and $581,000, respectively. Revenue is recognized on repair returns, covered under a customer contract, at the contractual price upon shipment to the customer.

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

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. Market provisions in respect of lower of cost or market adjustments and inventory determined to be slow moving are applied to the gross value of the inventory through a reserve of approximately $1,083,000 and $1,258,000 as of March 31, 2023 and December 31, 2022, 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 ROU (Right of Use) assets. The estimated useful lives of depreciable properties are generally as follows:

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

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 income tax matters in income tax expense. The Company did not have any accrued interest or penalties included in its condensed consolidated balance sheets as of March 31, 2023 or December 31, 2022, and did not recognize any interest and/or penalties in its condensed consolidated statements of operations during the periods ended March 31, 2023 and March 31, 2022. The Company did not have any material uncertain tax positions or unrecognized tax benefits or obligations as of March 31, 2023 and December 31, 2022. The 2019 through 2022 federal and state tax returns remain subject to examination.

Supplemental Cash Flow Information

There were no income taxes paid or refunded for the three-month period ended March 31, 2023, there were income tax refunds received of approximately $113,000 for the same three-month period ended March 31, 2022. Interest paid amounted to approximately $5,000 and $31,000, during the three months ended March 31, 2023 and March 31, 2022, respectively.

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

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. Due to the losses incurred, the Company performed a test for recoverability of the long-lived assets by comparing its carrying value to the future undiscounted cash flows that we expect will be generated by the asset group. 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 has determined that no impairment of long-lived assets existed as of March 31, 2023 and December 31, 2022.

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 condensed 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 with classifications adopted in the current period.

Effective January1, 2023 the ATG research and development and certain insurance expenditures of approximately $395,000 are reflected in selling, general and administrative operating expenses. Accordingly, approximately $319,000 was reclassified for the same period in 2022. There was no impact to the condensed consolidated statement of operations due to the reclassification.

Research and Development Costs

Research and development costs are expensed as incurred and are included in the 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 does not anticipate nonperformance by the financial institutions.

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 long-term debt, the fair value approximates its carrying amount.

Recent Accounting Pronouncements Adopted

Effective January 1, 2023 the Company adopted the Accounting Standard Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* issued by the Financial Accounting Standards Board ("FASB") which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including

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

loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change.

The Company evaluated the ASU related to Current Expected Credit Losses ("CECL") and determined that the pronouncement does not have a material effect on the financial position, results of operations or cash flows of the Company.

There have been no 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, 2022, that are of significance, or potential significance, to the Company.

3. Inventories

	March 31, 2023	December 31, 2022
	($000's omitted)	
Raw material and common parts	$ 15,239	$ 14,534
Work-in-process	3,490	3,258
Finished goods	2,361	2,510
	21,090	20,302
Less inventory reserve	(1,083)	(1,258)
Total inventories	$ 20,007	$ 19,044

4. Property, Plant and Equipment

	March 31, 2023	December 31, 2022
	($000's omitted)	
Land	$ 7	$ 7
Buildings	11,886	11,843
Machinery, equipment and tooling	21,216	20,757
Construction in progress	1,023	1,087
	34,132	33,694
Less accumulated depreciation and amortization	(23,342)	(23,038)
Total property, plant and equipment	$ 10,790	$ 10,656

Depreciation and amortization expense amounted to approximately $306,000 and $313,000 for each of the three months ended March 31, 2023 and March 31, 2022, respectively. Depreciation expense amounted to approximately $298,000 and $305,000 for the three months ended March 31, 2023 and March 31, 2022, respectively. Amortization expense primarily related to capital leases amounted to approximately $8,000 for each of the three months ended March 31, 2023 and March 31, 2022.

The Company's Right of Use ("ROU") assets included in machinery, equipment and tooling had a net book value of approximately $178,000 as of March 31, 2023 ($185,000- December 31, 2022).

As of March 31, 2023, there is approximately $1,023,000 ($1,087,000 – December 31, 2022) of construction in progress (CIP) included in property, plant and equipment all of which is related to capital projects. There is approximately $384,000 in CIP for the machinery and equipment and approximately $639,000 for building improvements at the Advance Technology Group.

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

5. Long-Term Debt

	March 31, 2023	December 31, 2022
	($000's omitted)	
Line of credit payable to a financial institution; Interest rate is BSBY plus 4.0 percentage points (Interest Rate 8.88% as of March 31, 2023)(A)	$ 939	$ —
Equipment note obligations; Interest rate fixed for term of each funding based upon the Lender's lease pricing at time of funding. (Interest rate/factor 1.7955% - 1.8350% as of March 31, 2023)(B)	—	491
Equipment financing lease obligations; Interest rate fixed for term of each funding based upon the Lender's lease pricing at time of funding. (Interest rate/factor 1.8227% - 1.8690% at time of funding)©	—	10
	939	501
Less current portion	(939)	(501)
Long-term debt	$ —	$ —

A.) As disclosed in the filing of our 2022 third quarter 10-Q, at that time the Company anticipated that we would fail to meet the Debt Service Coverage Ratio loan covenant up through and including the fourth quarter of 2022. Accordingly, as of December 31, 2022, the Company was not in compliance with this covenant under its loan agreement. Subsequently, on March 13, 2023 the availability of the Line of Credit ("LOC") was temporarily frozen.

On March 30, 2023, the Company executed the Amendment which provides a waiver of Debt Service Coverage Ratio defaults and other potential defaults at December 31, 2022 and through December 31, 2023, the expiration date of the agreement.

The Amendment also provides the following stipulations. The LOC was immediately converted to a borrowing base line of credit utilizing eligible accounts receivable (the "Borrowing Base"), with a maximum availability of the lesser of $5,000,000 or the Borrowing Base, which amounted to $6,400,000 as of the amendment date. As of June 29, 2023, the maximum availability under the Borrowing Base LOC will be reduced to the lesser of $3,900,000 or the Borrowing Base; and then as of August 1, 2023, it will be further reduced to the lesser of $1,000,000 or the Borrowing Base. The amended Borrowing Base LOC is secured by all equipment, receivables, inventory and real property of the Company and its wholly owned subsidiary, The Ontario Knife Company, with the exception of certain equipment that was purchased from proceeds of government grants. Interest on the Borrowing Base LOC is the Bloomberg Short-Term Bank Yield ("BSBY") plus 4.00 percentage points, amounting to 8.88% as of March 30, 2023.

Pursuant to the Amendment, the Company paid in full the outstanding balance on its equipment loans, approximately $501,000 as of December 31, 2022. Additionally, the Company advanced $500,000 on the Borrowing Base LOC for a pledged deposit account with its lender to be used solely to pay interest.

The Company intends to refinance the LOC with a different lender by June 29, 2023. Failure to deliver a commitment letter to its current lender by June 1, 2023 and to refinance the LOC loan by June 29, 2023 will result in the imposition of additional fees to its current lender of up to $300,000.

There was approximately $939,000 outstanding at March 31, 2023 and $0 balance outstanding at December 31, 2022.

We incurred consolidated operating losses for the quarter ended March 31, 2023 and for the year ended December 31, 2022. The losses incurred were predominately driven by our decision to maintain our experienced and knowledgeable workforce during the pandemic years and hire ahead of expected increased customer demand at the ATG.

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

The ATG has experienced growing customer demand since the middle of 2022, causing an increase in inventory purchases and the resulting usage of cash. This was further exacerbated by the hiring and training of staff to support increasing production in 2023. The temporary freezing of availability on our LOC raised initial doubt about our ability to continue as a going concern until we amended our loan agreement on March 30, 2023, alleviating that doubt. We believe that our operating cash flow and availability of our amended Borrowing Base LOC provides us with sufficient liquidity in the near term. Additionally, we are actively pursuing an alternate credit facility with a different lender to replace the Borrowing Base LOC loan from our current lender by June 29, 2023. We believe that the strength of our asset base and increasing customer demand make our ability to successfully refinance our LOC probable, providing us with sufficient liquidity for at least the next 12 months. We had total shareholders' equity of approximately $33,619,000 as of March 31, 2023. Also as of that date, we had working capital excluding cash, of approximately $24,278,000.

B.) The Company established an equipment loan facility in the amount of $1,000,000 available until July 9, 2021. This line was non-revolving and non-renewable. The loan term for the equipment covered by the agreement was 60 months. Monthly payments were fixed for the term of each funding based upon the Lender's lease pricing in effect at the time of such funding. There was no outstanding balance at March 31, 2023 and $491,000 balance outstanding at December 31, 2022.

C.) The Company established a lease line of credit for equipment financing in the amount of $1,000,000 available until June 28, 2018. This line was non-revolving and non-renewable. The lease term for equipment covered by the lease line of credit was 60 months. Monthly payments were fixed for the term of each funding based upon the Lender's lease pricing in effect at the time of such funding. There was no outstanding balance at March 31, 2023 and $10,000 at December 31, 2022.

6. Postretirement Benefit Plan

The Company provides certain postretirement health and life insurance benefits for two former executives of the Company (the Plan). Upon ceasing employment with the Company, the Company is paying the annual cost of health insurance coverage and providing life insurance at the same level of coverage provided to the former employee at the time of termination of employment by the Company. The Plan also provides a benefit to reimburse the participants for certain out-of-pocket medical or health related expenses. The participant's insurance benefits cease upon their death.. The Plan is unfunded and the actuarially determined future accumulated postretirement benefit obligation at March 31, 2023 and December 31, 2022 was approximately $4,085,000 and $4,062,000, respectively and has been recognized in Post Retirement Obligation in the accompanying condensed consolidated balance sheets. The components of the Plan were not material for the three-month period ended March 31, 2023 and March 31, 2022 respectively.

Benefit cost for the three months ended March 31, 2023 and March 31, 2022 totaled $65,000 and $69,000, respectively.

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

7. Shareholders' Equity

	Three-month Period Ended March 31, 2023						
	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock	Capital in excess of par value	ESOT	Treasury stock	Total shareholders' equity
December 31, 2022	$ 23,741	$ (2,337)	$ 523	$ 14,556	$ (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	$ 22,194	$ (2,324)	$ 523	$ 14,573	$ (157)	$ (1,190)	$ 33,619

	Three-month Period Ended March 31, 2022						
	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Capital in excess of par value	ESOT	Treasury stock	Total shareholders' equity
December 31, 2021	$ 25,858	$ (3,908)	$ 523	$ 14,500	$ (258)	$ (1,349)	$ 35,366
Retirement benefits adjustment	—	22	—	—	—	—	22
Stock based compensation	—	—	—	2	—	23	25
Net Income	325	—	—	—	—	—	325
March 31, 2022	$ 26,183	$ (3,886)	$ 523	$ 14,502	$ (258)	$ (1,326)	$ 35,738

The Company's Board of Directors authorized the purchase of up to 450,000 shares of its common stock in the open market or in privately negotiated transactions. As of March 31, 2023, the Company has purchased 360,615 shares and there remains 89,385 shares available to purchase under this program. There were no shares purchased by the Company during the three-month period ended March 31, 2023 and March 31, 2022.

The Company's director compensation policy provides that non-employee directors receive a portion of their annual retainer in the form of restricted stock under the Company's 2022 Equity Incentive Plan. These shares vest quarterly over a twelve-month service period, have voting rights and accrue dividends that 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. An aggregate of 11,345 restricted shares were issued on August 15, 2022 with a grant date fair value of $125,000. An additional aggregate of 725 restricted shares were issued on February 16, 2023 with a grant date fair value of $7,808.

Included in the three-month period ended March 31, 2023 and March 31, 2022 is approximately $55,000 and $25,000, respectively, of stock-based compensation expense related to the restrictive share awards. The Company has approximately $177,000 of stock-based compensation expense related to unvested shares to be recognized over the requisite service period.

SERVOTRONICS, INC. AND SUBSIDIARIES
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(Unaudited)

	Shares	Weighted Average Grant Date Fair Value
Restricted Share Activity:		
Unvested at December 31, 2022	27,010	$ 11.09
Granted in 2023	725	$ 10.77
Vested in 2023	4,978	$ 11.03
Unvested at March 31, 2023	22,757	$ 11.09

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net earnings by the weighted average number of 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 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 that were outstanding for the period. Incremental shares from assumed conversions are calculated as the number of shares that would be issued, net of the number of shares that could be purchased in the marketplace with the cash received upon stock option exercise. The dilutive effect of unvested restrictive stock is determined using the treasury stock method.

	Three Months Ended March 31,	
	2023	2022
	($000's omitted except per share data)	
Net (Loss) Income	$ (1,547)	$ 325
Weighted average common shares outstanding (basic)	2,460	2,432
Unvested restricted stock	24	3
Weighted average common shares outstanding (diluted)	2,484	2,435
Basic		
Net (loss) income per share	$ (0.63)	$ 0.13
Diluted		
Net (loss) income per share	$ (0.63)	$ 0.13

8. Litigation

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.

SERVOTRONICS, INC. AND SUBSIDIARIES
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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. This litigation is still in its earliest stages. The Company is insured for such matters in the amount of $3 million with a retention of $250,000. Additionally, there is an excess coverage policy for $3 million that considers the payment of the earlier insurance policy as the $1 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 financials statements related to this litigation. The Company intends to vigorously defend against this litigation.

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 pending an internal investigation in June 2021. 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.

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.

9. Business Segments

The Company operates in two business segments, Advanced Technology Group ("ATG") and Consumer Products Group ("CPG"). 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 ATG primarily involve the design, manufacture, and marketing of servo-control components (i.e., torque motors, control valves, actuators, etc.) for government, commercial and industrial applications. CPG's operations involve the design, manufacture and marketing of a variety of cutlery products for use by consumers and government agencies. The Company derives its primary sales revenue from domestic customers, although a portion of finished products are for foreign end use.

Information regarding the Company's operations in these segments is summarized as follows:

SERVOTRONICS, INC. AND SUBSIDIARIES
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(Unaudited)

	($000's omitted except per share data)					
	ATG Three Months Ended March 31,		CPG Three Months Ended March 31,		Consolidated Three Months Ended March 31,	
	2023	2022	2023	2022	2023	2022
Revenues from unaffiliated customers	$ 9,060	$ 9,168	$ 1,742	$ 2,000	$ 10,802	$ 11,168
Cost of goods sold, inclusive of depreciation	(8,076)	(6,496)	(1,811)	(1,715)	(9,887)	$ (8,211)
Gross profit (loss)	984	2,672	(69)	285	915	2,957
Gross margin %	10.9 %	29.1 %	(4.0)%	14.3 %	8.5 %	26.5 %
Operating expenses:						
Selling, general and administrative	(2,175)	(2,093)	(651)	(408)	(2,826)	(2,501)
Total operating costs and expenses	(10,251)	(8,589)	(2,462)	(2,123)	(12,713)	(10,712)
Operating (loss)/income	(1,191)	579	(720)	(123)	(1,911)	456
Other (expenses)/income:						
Interest expense	(53)	(70)	—	—	(53)	(70)
Gain on sale of equipment	—	26	—	—	—	26
Total other expenses, net	(53)	(44)	—	—	(53)	(44)
(Loss)/income before income tax provision	(1,244)	535	(720)	(123)	(1,964)	412
Income tax benefit/(provision)	264	(113)	153	26	417	(87)
Net (loss)/income	$ (980)	$ 422	$ (567)	$ (97)	$ (1,547)	$ 325
Total assets	$ 36,096	$ 42,382	$ 9,753	$ 9,546	$ 45,849	$ 51,928
Capital expenditures, net	$ 302	$ 77	$ 135	$ —	$ 437	$ 77
Foreign derived sales	$ 2,023	$ 2,962	$ 63	$ 37	$ 2,086	$ 2,999

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

The aviation and aerospace industries as well as markets for the our consumer products continually face evolving challenges on a global basis. Our operations can be affected by the trends of the economy, including interest rates, income tax laws, government regulation, legislation, and other factors. In addition, uncertainties in today's global economy, competition from expanding manufacturing capabilities and technical sophistication of low-cost developing countries and emerging markets, currency policies in relation to the U.S. dollar of some major foreign exporting countries, 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 our customers to fund long-term purchase programs, volatile market demand and the continued market acceptance of our advanced technology and cutlery products make it difficult to predict the impact on future financial results.

Both the ATG and CPG markets are sensitive to domestic and foreign economic conditions and policies, which may create volatility in operating results from period to period. For example, the airline industry is sensitive to fuel price increases and economic conditions. These factors directly impact the demand for aircraft production as well as the amount of repair and overhaul required on in-service aircraft.

Consistent with the evolving requirements of the aerospace industry, companies are increasingly being requested to operate under long-term agreements with their customers on the basis of fixed prices, targeted year to year price reductions and/or year to year price adjustments predicated on mutually agreed indices and/or a combination of some or all of the above described pricing arrangements and/or otherwise. Therefore, productivity improvements and cost containment strategies are continuously sought within our concept of continuous improvement. Our products are labor intensive and as such productivity improvements are expected to have positive effects on our operating results. However, increased costs for raw material, purchased parts and/or labor have the reverse effect.

If any adverse economic events reduce the number of airliners and/or aircraft being produced by our relevant prime contractors, the negative effects of that reduction will in turn flow down through the supply chain. Also, certain major manufacturers have successfully imposed extended payment terms to their suppliers. At times, these extended payment terms are not available to us when purchasing raw material such as aluminum, magnetic material, steel and/or other product support items and services. If our customers delay their payments until after the extended due date or fail to pay, it could adversely impact our operating results and cash flow. During 2022 and continuing into the first quarter ending March 31, 2023, inflation negatively impacted our input costs, primarily for labor and materials. Supply chain disruptions, labor shortages, and global inflation remain persistent.

The ATG engages its business development efforts in its primary markets and is broadening its activities to include new domestic and foreign markets that are consistent with its core competencies. We believe our business remains particularly well positioned in the strong commercial aircraft market driven by the replacement of older aircraft with more fuel-efficient alternatives and the increasing demand for air travel in emerging markets. Although the ATG backlog continues to be strong, actual scheduled shipments may be delayed/changed as a function of our customers' final delivery determinations based on changes in the global economy and other factors.

During the three months ended March 31, 2023 and March 31, 2022, approximately 84% and 82%, respectively, of our consolidated revenues were derived from the ATG sale of product to a small base of customers. During the three months ended March 31, 2023 and March 31, 2022, approximately 16% and 18% of our consolidated revenues respectively, were derived from the CPG sale of product to a large base of retail customers. Our consolidated revenues decreased approximately $366,000, or 3%, during the three-month period ended March 31, 2023 when compared to the same period in 2022. This is due to a decrease at the ATG of approximately $108,000 and a decrease at the CPG of approximately $258,000.

See also Note 9, Business Segments, of the accompanying condensed consolidated financial statements for information concerning business segment operating results.

Business Environment

We continue to experience supply chain challenges, as well as cost inflation for parts and components and expect inflationary and supply chain constraints to continue throughout 2023. Our suppliers are also subject to all the pressures and volatility being generated by the current global economic conditions. Any interruption of the continuous flow of material and product parts that are required for the manufacture of our products could adversely impact our ability to meet customers' delivery requirements.

Our strategy continues to emphasize growth, maximizing our operations and resources requiring continued dedicated performances from our key and other personnel. In the our key markets and business arenas there is substantial competition for the services of the highest performing individuals. Any unplanned replacement of such personnel may require the hiring of new personnel on an expedited basis and may temporarily interrupt our operations and efforts for continuous improvement. We intend to strengthen and expand our core competencies, while improving our margins and earnings by controlling costs in all aspects of our business.

On March 30, 2023, we announced that our Board of Directors has authorized the review of strategic alternatives for the CPG with a goal of enhancing shareholder value. This review was authorized by the Board on February 28, 2023 and we have engaged a financial advisor to manage the process. CPG does not meet the criteria for classification as a discontinued operation as of March 31, 2023. As of April 18, 2023, the CPG segment is being actively marketed to potential buyers, however, there is no set timetable for the strategic review process and there can be no assurance that such review will result in any transaction or other alternative.

Results of Operations

The following table compares the Company's condensed consolidated statements of operations data for the three months ended March 31, 2023 and 2022:

	($000's omitted except per share data)					
	Three Months Ended March 31, 2023		Three Months Ended March 31, 2022		2023 vs 2022	
	Dollars	% of Sales	Dollars	% of Sales	Dollar Change	% Favorable/ (Unfavorable)
Revenues:						
Advanced Technology	$ 9,060	83.9 %	$ 9,168	82.1 %	$ (108)	(1.2)%
Consumer Products	1,742	16.1 %	2,000	17.9 %	(258)	(12.9)%
	10,802	100.0 %	11,168	100.0 %	(366)	(3.3)%
Cost of goods sold, inclusive of depreciation and amortization	(9,887)	91.5 %	(8,211)	73.5 %	(1,676)	(20.4)%
Gross profit	915	8.5 %	2,957	26.5 %	(2,042)	(69.1)%
Gross margin %	8.5 %		23.6 %			
Operating expenses:						
Selling, general and administrative	(2,826)	26.2 %	(2,501)	22.4 %	(325)	(13.0)%
Total operating costs and expenses	(12,713)	117.7 %	(10,712)	95.9 %	(2,001)	(18.7)%
Operating (loss)/income	(1,911)	(17.7)%	456	4.1 %	(2,367)	(519.1)%
Interest expense	(53)	(0.5)%	(70)	(0.6)%	17	24.3 %
Gain on sale of equipment	—	0.0 %	26	0.2 %	(26)	(100.0)%
Total other expense, net	(53)	(0.5)%	(44)	(0.4)%	(9)	(20.5)%
(Loss)/income before income tax provision	(1,964)	(18.2)%	412	3.7 %	(2,376)	(576.7)%
Income tax benefit	417	3.9 %	87	(0.8)%	330	(379.3)%
Net (loss)/income	$ (1,547)	(14.3)%	$ 325	2.9 %	$ (1,872)	(576)%

Revenue and Gross Profit (Loss)

($000's omitted)	ATG Three months ended March 31, 2023	ATG 2022	CPG Three months ended March 31, 2023	CPG 2022	Servotronics, Inc. Three months ended March 31, 2023	Servotronics, Inc. 2022
Revenues	**$ 9,060**	**$ 9,168**	**$ 1,742**	**$ 2,000**	**$ 10,802**	**$ 11,168**
Cost of goods sold	(8,076)	(6,496)	(1,811)	(1,715)	(9,887)	(8,211)
Gross profit (loss)	**$ 984**	**$ 2,672**	**$ (69)**	**$ 285**	**$ 915**	**$ 2,957**
Gross margin %	**10.9 %**	**29.1 %**	**(4.0)%**	**14.3 %**	**8.5 %**	**26.5 %**

Revenue

Consolidated revenues from operations decreased approximately $366,000 or (3.3)% for the three-month period ended March 31, 2023 when compared to the same period in 2022. This is due to a decrease at the ATG of approximately $108,000 or (1.2)% and at the CPG of approximately $258,000 or (12.9)%.

The consolidated decrease in revenue for the three-month period ended March 31, 2023 when compared to the same period in 2022 is attributable to an unfavorable mix of products shipped of approximately $607,000 partially offset by an increase in prices and a higher number of units shipped of approximately $499,000 at the ATG. Additionally, there was a decrease in revenue attributable to an unfavorable mix of products shipped and lower volumes of approximately $258,000 at the CPG as compared to the same period in 2022.

Gross Profit (Loss)

Consolidated gross profit from operations decreased approximately $2,042,000 for the three-month period ended March 31, 2023 when compared to the same period in 2022. The gross profit decreased at the ATG by approximately $1,688,000 and at the CPG by approximately $354,000.

Gross profit benefited in the three-month period from the recovery of business within the commercial aircraft market with price increases of approximately $181,000 which was more than offset by an unfavorable product mix shipped of approximately $839,000 at the ATG resulting in a net increase in operating costs of approximately $1,030,000. The increase in operating costs is primarily due to increased compensation and benefits of approximately $1,095,000 and a net decrease of approximately $65,000 for all other operating expenses as compared to the same period in 2022. The ATG added staff during this period due to increasing production requirements in 2023 to satisfy the increasing customer demand.

Additionally, gross profit in the three-month period decreased approximately $465,000 for an unfavorable product mix shipped at the CPG, partially offset by a net decrease in operating costs of approximately $111,000. The decrease in operating costs is primarily due to favorable operating variances of approximately $251,000 partially offset by an increase in operating overhead costs for compensation and benefits of approximately $51,000, freight expenses of approximately $84,000, and the net increase of approximately $5,000 for all other operating expenses as compared to the same period in 2022.

A change in the cost allocations for the treatment of an ATG work cell operating in the CPG facility became effective January 1, 2023. The three-month period ending March 31, 2023 was a benefit of approximately $162,000 to the ATG cost of goods sold as compared to the benefit of approximately $185,000, as reclassified, to the CPG cost of goods sold for the three-month period ending March 31, 2022. There was no impact to the Condensed Consolidated Statement of Operations due to the change in accounting estimate.

Selling, General and Administrative Expenses and Operating Income/(Losses)

($000's omitted)	ATG Three months ended March 31, 2023	ATG Three months ended March 31, 2022	CPG Three months ended March 31, 2023	CPG Three months ended March 31, 2022	Servotronics, Inc. Three months ended March 31, 2023	Servotronics, Inc. Three months ended March 31, 2022
SG&A:						
Selling, general & admin	$ (2,175)	$ (2,093)	$ (651)	$ (408)	$ (2,826)	$ (2,501)
Total SG&A	**$ (2,175)**	**$ (2,093)**	**$ (651)**	**$ (408)**	**$ (2,826)**	**$ (2,501)**
% SG&A to Revenues	**24.0 %**	**22.8 %**	**37.4 %**	**20.4 %**	**26.2 %**	**22.4 %**
Operating (Loss)/Income	**$ (1,191)**	**$ 579**	**$ (720)**	**$ (123)**	**$ (1,911)**	**$ 456**
Operating (Loss)/Inc %	**(13.1)%**	**6.3 %**	**(41.3)%**	**(6.2)%**	**(17.7)%**	**4.1 %**

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) increased approximately $325,000 or (13.0)% for the three-month period ended March 31, 2023 when compared to the same period in 2022. This is due to an increase at both the ATG of approximately $82,000 or (3.9)% and at the CPG of approximately $243,000 or (59.6)%.

The increase is driven by the CPG due to higher compensation and benefits of approximately $135,000, professional fees of approximately $30,000, outbound freight of approximately $35,000, trade shows and sales commissions of approximately $24,000 and a net increase of all other SG&A expenses of approximately $19,000 as compared to the same period in 2022.

Operating (Loss)/Income

Income from operations decreased approximately $2,376,000 when comparing the three-month period ended March 31, 2023 to the same period in 2022. Operating income decreased at both the ATG and CPG approximately $1,770,000 and $597,000, respectively, as compared to the three-month period ended March 31, 2022.

The consolidated decreases in operating income are primarily the result in the decreases in revenue, increases in cost of goods sold, and increases in SG&A expenditures at both Segments, as discussed above.

Other (Expense)/Income:

($000's omitted)	ATG Three months ended March 31, 2023	ATG Three months ended March 31, 2022	CPG Three months ended March 31, 2023	CPG Three months ended March 31, 2022	Servotronics, Inc. Three months ended March 31, 2023	Servotronics, Inc. Three months ended March 31, 2022
Other (Expense)/Income:						
Interest expense	$ (53)	$ (70)	$ —	$ —	$ (53)	$ (70)
Gain sale of equipment	—	26	—	—	—	26
Total other expense, net	**$ (53)**	**$ (44)**	**$ —**	**$ —**	**$ (53)**	**$ (44)**
(Loss)/income before income tax provision (benefits)	**$ (1,244)**	**$ 535**	**$ (720)**	**$ (123)**	**$ (1,964)**	**$ 412**
EBIT %	**(13.7)%**	**5.8 %**	**(41.3)%**	**(6.2)%**	**(18.2)%**	**3.7 %**

Interest Expense

Interest expense decreased approximately $17,000 primarily due to the reimbursement of the line of credit and equipment financing lease obligations at the ATG for the three-month period ended March 31, 2023 compared to the same period in 2022. See also Note 5, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

(Loss) Income before Income Taxes

Consolidated loss before income taxes for the three-month period ended March 31, 2023 increased approximately $2,376,000 when compare to the same period in 2022. The consolidated increase is primarily the result of an unfavorable product mix shipped at both the ATG and CPG and increased compensation and benefits costs at the ATG to support the recovery of business within the commercial aircraft market with increased volume and price increases.

Net (Loss) Income

Net Income decreased approximately $1,872,000 when comparing the three-month period ended March 31, 2023 to the same period in 2022. Net income at the ATG was lower by approximately $1,402,000 and by approximately $470,000 at the CPG as compared to the three-month period ended March 31, 2022. The consolidated decrease is primarily the result of the decreases in gross profit and increases in SG&A expenses as discussed above.

Liquidity and Capital Resources

	Three months ended March 31,	
($000's omitted)	**2023**	**2022**
CASH FLOW DATA:		
Net Cash Flows from:		
Operating Activities	$ (2,834)	$ (544)
Investing Activities	$ (437)	$ (77)
Financing Activities	$ 438	$ (70)
QUARTER END FINANCIAL POSITION:		
Working Capital	$ 25,449	$ 34,601
Long-term Debt	$ —	$ 4,690
CAPITAL EXPENDITURES (1):	$ (437)	$ (77)

(1) NET OF PROCEEDS FROM SALE OF EQUIPMENT AND EQUIPMENT FINANCING

Operating Activities:

We used approximately $2,834,000 in cash from operations during the three- month period ended March 31, 2023 and used approximately $544,000 in cash from operation for the same period in 2022. We had working capital of approximately $25,449,000 and $34,601,000 at March 31, 2023 and March 31, 2022, respectively, of which approximately $1,171,000 and $8,855,000 at March 31, 2023 and March 31, 2022, respectively, was comprised of cash and restricted cash.

The decrease in cash flow from operating activities of approximately $2,290,000 is primarily attributable to a decrease in net income of approximately $1,872,000 as explained previously. In addition, there was a decrease in cash flow due to adjustments to reconcile net (loss) to net cash of approximately $354,000 plus a decrease in cash flow due to an increase in inventories, prepaid income taxes, and accounts payable of approximately $1,462,000. This is offset by an increase in cash flow from accounts receivable, accrued employee compensation and benefit costs, other current assets, post retirement obligations and other accrued liabilities of approximately $1,398,000.

The available borrowing base LOC capacity provides us with the financial resources needed to run our operations and reinvest in our business. We anticipate refinancing our LOC by June 29, 2023. Our ability to maintain sufficient liquidity is highly dependent upon achieving expected operating results. Failure to achieve expected operating results could have a material adverse effect on our liquidity, our ability to obtain financing, and our operations in the future.

Investing Activities:

We used approximately $437,000 in cash from investing activities during the three-month period ended March 31, 2023 as compared to a usage of cash of approximately $77,000 during the same period in 2022. The investing activities were primarily for machinery and equipment and building improvements at the Advance Technology Group.

Financing Activities:

Our primary favorable cash flow from our financing activities of approximately $438,000 in the three-month period ended March 31, 2023 includes proceeds from our borrowing base LOC of approximately $939,000 partially offset by the full repayment of the outstanding balance on our equipment loans of approximately $501,000.

On March 30, 2023, we executed an amendment to our loan agreement (the "Amendment"), which provides a waiver of Debt Service Coverage Ratio defaults and other potential defaults at December 31, 2022 and through December 31, 2023, the expiration date of the agreement.

The Amendment also provides the following stipulations. The LOC loan was immediately converted to a borrowing base line of credit utilizing eligible accounts receivable (the "Borrowing Base"), with a maximum availability of the lesser of $5,000,000 or the Borrowing Base, which amounted to $6,400,000 as of the amendment date. As of June 29, 2023, the maximum availability under the Borrowing Base LOC will be reduced to the lesser of $3,900,000 or the Borrowing Base; and then as of August 1, 2023, it will be further reduced to the lesser of $1,000,000 or the Borrowing Base. The amended Borrowing Base LOC loan is secured by all equipment, receivables, inventory and real property of the Company and its wholly owned subsidiary, The Ontario Knife Company, with the exception of certain equipment that was purchased from proceeds of government grants. Interest on the Borrowing Base LOC is the Bloomberg Short-Term Bank Yield ("BSBY") plus 4.00 percentage points, amounting to 8.88% as of March 30, 2023.

Pursuant to the Amendment, as noted above, we paid in full the outstanding balance on our equipment loans, approximately $501,000 as of December 31, 2022. Additionally, we advanced $500,000 on the Borrowing Base LOC loan for a pledged deposit account with our lender to be used solely to pay interest.

Ongoing Liquidity Considerations

We incurred consolidated operating losses from continuing operations for the quarter ending March 31, 2023 and the years ended December 31, 2022 and 2021. The losses incurred were predominantly driven by our decision to maintain our experienced and knowledgeable workforce during the pandemic years and hire ahead of the expected increased customer demand at the ATG. During 2021, our operating losses were funded by PPP loans and Employee Retention Credits provided by the U.S. government, which were not available in 2022 or 2023. We had total shareholders' equity of approximately $33,619,000 as of March 31, 2023. Also, as of that date, we had working capital excluding cash of approximately $24,278,000 and only $939,000 of bank financing outstanding.

The ATG has experienced growing customer demand since the middle of 2022, causing an increase in inventory purchases and the resulting usage of cash. This was further exacerbated by the hiring and training of staff to support increasing production in 2023. The temporary freezing of availability on our LOC raised initial doubt about our ability to continue as a going concern until we amended our loan agreement on March 30, 2023, alleviating that doubt. We believe that our operating cash flow and availability of our amended Borrowing Base LOC provides us with sufficient liquidity in the near term. Additionally, we are actively pursuing an alternate credit facility with a different lender to replace the Borrowing Base LOC loan from our current lender by June 29, 2023. We believe that the strength of our asset base and increasing customer demand make our ability to successfully refinance our LOC probable, providing us with sufficient liquidity for at least the next 12 months.

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 Principal Financial Officer ("PFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) as of March 31, 2023. Based upon that evaluation, the CEO and PFO concluded that the Company's disclosure controls and procedures were not effective due to the material weakness in the Company's internal control over financial reporting reported in the Company's Form 10-K for the year ended December 31, 2022.

Changes in Internal Controls

As reported in the Company's Form 10-K for the year ended December 31, 2022, management identified certain control deficiencies that, in the aggregate, constitute a material weakness in the Company's internal control over financial reporting. The Company began its remediation efforts in 2021 and continues with its remediation plan which includes a comprehensive technology assessment by a third party, including the establishment and implementation of an information technology strategy and improving its risk assessment and documentation over the monitoring of internal controls. Except for the implementation of the remediation plan, 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 affect, the Company's internal controls over financial reporting.

Notwithstanding the existence of the above-mentioned material weakness, the Company believes that the consolidated financial statements in this filing fairly present, in all material respects, the Company's financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. generally accepted accounting principles.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth in Note 8, Litigation, there are no other legal proceedings which are material to the Company 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.

Item 1A. Risk Factors

Not applicable.

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

The Company's Board of Directors authorized the purchase of up to 450,000 shares of its common stock in the open market or in privately negotiated transactions. As of March 31, 2023, the Company has purchased 360,615 shares and there remains 89,385 shares available to purchase under this program. There were no shares purchased by the Company during the three-month period ended March 31, 2023.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

Not applicable.

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 Principal 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 Principal 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 March 31, 2023, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.

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 release, 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, the severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic and of businesses' and governments' responses to the pandemic on our operations and personnel, 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: May 15, 2023

SERVOTRONICS, INC.

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

By: /s/ Lisa F Bencel, Principal Financial Officer
Lisa F. Bencel
Principal 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: May 15, 2023

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

William F. Farrell, Jr.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Lisa F. Bencel, 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: May 15, 2023

/s/ Lisa F. Bencel, Principal Financial Officer
Lisa F. Bencel
Principal 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 March 31, 2023, 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: May 15, 2023

/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 March 31, 2023, 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: May 15, 2023

/s/Lisa F. Bencel, Principal Financial Officer
Lisa F. Bencel
Principal Financial Officer