

SERVOTRONICS INC /DE/
Form 10-Q
August 12, 2009

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, 2009

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

(I. R. S.

(State or other jurisdiction of
Employer
incorporation or organization)
No.)

Identification

1110 Maple Street
Elma, New York 14059
(Address of principal executive offices)
(716) 655-5990

(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Yes No

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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 31, 2009 | |
|-------------------------------|------------------------------|-----------|
| Common Stock, \$.20 par value | | 2,237,371 |

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

| | June 30, 2009 (Unaudited) | December 31, 2008 |
|--|---------------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,136 | \$ 4,709 |
| Accounts receivable | 5,533 | 5,006 |
| Inventories | 11,426 | 10,160 |
| Prepaid income taxes | - | 84 |
| Deferred income taxes | 494 | 494 |
| Other assets | 442 | 387 |
| Total current assets | 21,031 | 20,840 |
| Property, plant and equipment, net | 5,778 | 5,838 |
| Other non-current assets | 202 | 207 |
| Total Assets | \$ 27,011 | \$ 26,885 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 504 | \$ 539 |
| Accounts payable | 1,833 | 2,393 |
| Accrued employee compensation and benefit costs | 1,437 | 1,335 |
| Accrued income taxes | 148 | - |
| Other accrued liabilities | 352 | 346 |
| Total current liabilities | 4,274 | 4,613 |
| Long-term debt | 3,628 | 3,702 |
| Deferred income taxes | 501 | 501 |
| Shareholders' equity: | | |
| Common stock, par value \$.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 1,932,310 (1,933,253 – 2008) shares | 523 | 523 |
| Capital in excess of par value | 13,296 | 13,296 |
| Retained earnings | 9,179 | 8,680 |
| Accumulated other comprehensive loss | (98) | (98) |
| | 22,900 | 22,401 |
| Employee stock ownership trust commitment | (1,568) | (1,614) |
| Treasury stock, at cost 377,135 (376,192 – 2008) shares | (2,724) | (2,718) |
| Total shareholders' equity | 18,608 | 18,069 |
| Total Liabilities and Shareholders' Equity | \$ 27,011 | \$ 26,885 |

See notes to consolidated financial statements

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | June 30, 2009 | 2008 | June 30, 2009 | 2008 |
| Revenue | \$ 9,106 | \$ 7,732 | \$ 16,644 | \$ 16,717 |
| Costs, expenses and other income: | | | | |
| Cost of goods sold, exclusive of depreciation | 6,617 | 5,617 | 12,756 | 12,085 |
| Selling, general and administrative | 1,271 | 1,021 | 2,350 | 2,044 |
| Interest expense | 19 | 40 | 43 | 87 |
| Depreciation and amortization | 143 | 141 | 282 | 281 |
| Other income, net | (11) | (15) | (40) | (53) |
| | 8,039 | 6,804 | 15,391 | 14,444 |
| Income before income tax provision | 1,067 | 928 | 1,253 | 2,273 |
| Income tax provision | 357 | 340 | 418 | 832 |
| Net income | \$ 710 | \$ 588 | \$ 835 | \$ 1,441 |
| Income per share: | | | | |
| Basic | | | | |
| Net income per share | \$ 0.37 | \$ 0.3 | \$ 0.43 | \$ 0.74 |
| Diluted | | | | |
| Net income per share | \$ 0.34 | \$ 0.27 | \$ 0.41 | \$ 0.67 |

See notes to consolidated financial statements

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

| | Six Months Ended | |
|--|------------------|----------|
| | June 30, | |
| | 2009 | 2008 |
| Cash flows related to operating activities: | | |
| Net income | \$ 835 | \$ 1,441 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities - | | |
| Depreciation and amortization | 282 | 281 |
| Change in assets and liabilities - | | |
| Accounts receivable | (527) | (157) |
| Inventories | (1,266) | (792) |
| Prepaid income taxes | 84 | - |
| Other assets | (55) | (273) |
| Other non-current assets | 1 | 5 |
| Accounts payable | (560) | 60 |
| Accrued employee compensation and benefit costs | 102 | 223 |
| Other accrued liabilities | 6 | (1) |
| Accrued income taxes | 148 | (300) |
| Employee stock ownership trust payment | 46 | - |
| Net cash (used in) provided by operating activities | (904) | 487 |
| Cash flows related to investing activities: | | |
| Capital expenditures - property, plant and equipment | (218) | (186) |
| Net cash used in investing activities | (218) | (186) |
| Cash flows related to financing activities: | | |
| Principal payments on long-term debt | (109) | (108) |
| Purchase of treasury shares | (6) | - |
| Cash dividend | (336) | (348) |
| Purchase of stock options | - | (772) |
| Proceeds from exercise of stock options | - | 7 |
| Net cash used in financing activities | (451) | (1,221) |
| Net decrease in cash and cash equivalents | (1,573) | (920) |
| Cash and cash equivalents at beginning of period | 4,709 | 4,879 |
| Cash and cash equivalents at end of period | \$ 3,136 | \$ 3,959 |

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. 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 U.S. 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 six months ending June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The consolidated financial statements should be read in conjunction with the annual report and the notes thereto.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Servotronics, Inc. and its wholly-owned subsidiaries (the "Company").

Cash and cash equivalents

The Company considers cash and cash equivalents to include all cash accounts and short-term investments purchased with an original maturity of six months or less.

Revenue Recognition

Revenues are recognized as services are rendered or as units are shipped and at the designated FOB point consistent with the transfer of title, risks and rewards of ownership. Such 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.

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Cost includes all cost incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out). Market provisions in respect of net realizable value and inventory expected to be used in greater than one year are applied to the gross value of the inventory through a reserve of approximately \$544,000 at June 30, 2009 and \$524,000 at December 31, 2008. 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 one year of customer requirements. Also, in order to maintain a reasonable and/or agreed to lead time, certain larger quantities of other product support items may have to be purchased and may result in over one year's supply.

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.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 tax purposes. Depreciation expense includes the amortization of capital lease assets. The estimated useful lives of depreciable properties are generally as follows:

| | |
|----------------------------|---------------|
| Buildings and improvements | 5-39 years |
| Machinery and equipment | 5-15 years |
| Tooling | 3-5 years |

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of operating loss and credit carryforwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return, a combined New York State income tax return and a separate Pennsylvania 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 consolidated balance sheets at June 30, 2009 or December 31, 2008, and did not recognize any interest and/or penalties in its consolidated statements of operations during the periods ended June 30, 2009 and 2008.

Supplemental cash flow information

Income taxes paid during the three months ended June 30, 2009 and 2008 amounted to approximately \$198,000 and \$404,000, respectively, and amounted to \$201,000 and \$1,138,000 for the six months ended June 30, 2009 and 2008, respectively. Interest paid during the three months ended June 30, 2009 and 2008 amounted to approximately \$21,000 and \$44,000, respectively, and amounted to \$47,000 and \$102,000 for the six months June 30, 2009 and 2008, 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 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 has determined that no impairment of long lived assets existed at June 30, 2009 and

December 31, 2008.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Research and Development Costs

Research and development costs are expensed as incurred as defined in SFAS No. 2, Accounting for Research and Development Costs.

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.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157 "Fair Value Measurement." This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 in the first quarter of 2008 which did not have an impact on the Company's consolidated financial statements or disclosures. In February of 2008, the FASB issued FASB Staff Position 157-2 which delays the effective date of SFAS 157 for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact, if any, of adopting the provisions of SFAS 157 for our non-financial assets and liabilities on the Company's consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No.159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 in 2008 and elected not to apply the fair value measurement option for any of our financial assets or liabilities.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, inventories, 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.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Inventories

| | June 30, 2009 (\$000's omitted) | December 31, 2008 |
|-----------------------------------|---------------------------------------|----------------------|
| Raw materials and common parts | \$ 5,011 | \$ 4,621 |
| Work-in-process | 5,200 | 4,153 |
| Finished goods | 1,215 | 1,386 |
| Total inventories, net of reserve | \$ 11,426 | \$ 10,160 |

4. Property, Plant and Equipment

| | June 30, 2009 | December 31, 2008 (\$000's omitted) |
|--|------------------|---|
| Land | \$ 25 | \$ 25 |
| Buildings | 6,803 | 6,761 |
| Machinery, equipment and tooling | 11,393 | 11,728 |
| | 18,221 | 18,514 |
| Less accumulated depreciation and amortization | (12,443) | (12,676) |
| Total property, plant and equipment | \$ 5,778 | \$ 5,838 |

Property, plant and equipment include land and building under a \$5,000,000 capital lease which can be purchased for a nominal amount at the end of the lease term. As of June 30, 2009 and December 31, 2008, accumulated amortization on the building amounted to approximately \$2,093,000 and \$2,040,000, respectively. Amortization expense amounted to \$35,000 and \$70,000 for the three and six month periods ended June 30, 2009 and 2008, respectively. The associated current and long-term liabilities are discussed in Note 5, Long-term debt, of the consolidated financial statements. Depreciation expense for the three months ended June 30, 2009 and 2008 amounted to \$106,000 and \$105,000, respectively and \$208,000 and \$207,000 for the six month periods ended June 30, 2009 and 2008, respectively. The Company believes that it maintains property and casualty insurance in amounts adequate for the risk and nature of its assets and operations which are generally customary in its industry.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-Term Debt

| | June 30, 2009 (\$000's omitted) | December 31, 2008 |
|--|---------------------------------------|----------------------|
| Industrial Development Revenue Bonds; secured by an equivalent letter of credit from a bank with interest payable monthly at a floating rate (0.55% at June 30, 2009) (A) | \$ 3,470 | \$ 3,470 |
| Term loan payable to a financial institution; interest at LIBOR plus 2%, (3.21% at June 30, 2009); quarterly principal payments of \$26,786 through the fourth quarter of 2011 | 268 | 321 |
| Term loan payable to a financial institution; interest at LIBOR plus 2%, not to exceed 6.00% (3.21% at June 30, 2009); quarterly principal payments of \$17,500; payable in full in the fourth quarter of 2009; partially secured by equipment | 185 | 220 |
| Secured term loan payable to a government agency; monthly payments of \$1,950 including interest fixed at 3% payable through fourth quarter of 2015 | 136 | 146 |
| Secured term loan payable to a government agency; monthly principal payments of approximately \$1,800 with interest waived payable through second quarter of 2012 | 73 | 84 |
| | 4,132 | 4,241 |
| Less current portion | (504) | (539) |
| | \$ 3,628 | \$ 3,702 |

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

The Company also has a \$1,000,000 line of credit on which there was no balance outstanding at June 30, 2009 and December 31, 2008.

Certain lenders require the Company to comply with debt covenants as described in the specific loan documents, including a debt service ratio. At June 30, 2009 and December 31, 2008, the Company was in compliance with all of its debt covenants.

6. Income Taxes

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position, taken or expected to be taken, in a tax return. The Company adopted FIN 48 as of the beginning of 2007 and the adoption of FIN 48 did not have a material impact on its consolidated financial statements. The Company did not have any unrecognized tax benefits or obligations as of June 30, 2009 and December 31, 2008.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If interest and penalties would need to be accrued related to unrecognized tax obligations, it is the Company's policy to recognize interest and penalties accrued related to unrecognized tax obligations as a component of income taxes. The Company and/or its subsidiaries file income tax returns in the United States federal jurisdiction, New York State and Pennsylvania. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2004.

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

During the second quarter of 2007, the Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax return for the year 2005. In the third quarter of 2007, the IRS examination was completed and settled resulting in a \$3,000 refund to the Company.

7. Common Shareholders' Equity

| | (\$000's omitted) | | | | | | | |
|-----------------------------|---|--------|---|----------------------|-----------|-------------------|---|----------------------------------|
| | Common stock Number of shares issued | Amount | Capital in excess of par value | Retained earnings | ESOP | Treasury stock | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance December 31, 2008 | 2,614,506 | \$523 | \$13,296 | \$8,680 | (\$1,614) | (\$2,718) | (\$98) | \$18,069 |
| Net income | - | - | - | 835 | - | - | - | 835 |
| Purchase of treasury shares | - | - | - | - | - | (6) | - | (6) |
| Cash dividend | - | - | - | (336) | 46 | - | - | (290) |
| Balance June 30, 2009 | 2,614,506 | \$523 | \$13,296 | \$9,179 | (\$1,568) | (\$2,724) | (\$98) | \$18,608 |

In January of 2006, the Company's Board of Directors authorized the purchase by the Company of up to 250,000 shares of its common stock in the open market or in privately negotiated transactions. On October 31, 2008, the Company announced that its Board of Directors authorized the purchase of an additional 200,000 shares of the Company's common stock under the Company's current purchase program. As of June 30, 2009, the Company has purchased 238,088 shares and there remain 211,912 shares available to purchase under this program.

As previously reported, on April 1, 2009, the Company announced that its Board of Directors declared a \$0.15 per share cash dividend. The dividend was paid on May 15, 2009 to shareholders of record on April 20, 2009 and was approximately \$336,000 in the aggregate. This second consecutive annual dividend does not represent that the Company will pay dividends on a regular or scheduled basis.

Earnings Per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. 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 earnings per share 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.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|---------|------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | (\$000's omitted except per share data) | | | |
| Net income | \$ 710 | \$ 588 | \$ 835 | \$ 1,441 |
| Weighted average common shares outstanding (basic) | 1,933 | 1,936 | 1,933 | 1,935 |
| Incremental shares from assumed conversions of stock options | 143 | 206 | 122 | 207 |
| Weighted average common shares outstanding (diluted) | 2,076 | 2,142 | 2,055 | 2,142 |
| Basic | | | | |
| Net income per share | \$ 0.37 | \$ 0.3 | \$ 0.43 | \$ 0.74 |
| Diluted | | | | |
| Net income per share | \$ 0.34 | \$ 0.27 | \$ 0.41 | \$ 0.67 |

8. Commitments

The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in the six month periods ended June 30, 2009 and 2008 and future minimum payments under such leases are not material to the consolidated financial statements.

9. Litigation

There are no 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 or earnings of the Company.

10. 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 the ATG 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 various government agencies. The Company derives its primary sales revenue from domestic customers, although a portion of finished products are for foreign end use.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(\$000's omitted):

| | Advanced Technology Group | | Consumer Products Group | | Consolidated | |
|--------------------------------------|------------------------------|----------|------------------------------|----------|------------------------------|-----------|
| | Six months ended June 30, | | Six months ended June 30, | | Six months ended June 30, | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from unaffiliated customers | \$ 8,959 | \$ 9,894 | \$ 7,685 | \$ 6,823 | \$ 16,644 | \$ 16,717 |
| Profit | \$ 1,928 | \$ 2,740 | \$ 115 | \$ 320 | 2,043 | 3,060 |
| Interest expense | \$ (39) | \$ (78) | \$ (4) | \$ (9) | (43) | (87) |
| Depreciation and amortization | \$ (204) | \$ (195) | \$ (78) | \$ (86) | (282) | (281) |
| Other income, net | \$ 38 | \$ 36 | \$ 2 | \$ 17 | 40 | 53 |
| General corporate expense | | | | | (505) | (472) |
| Income before income tax provision | | | | | \$ 1,253 | \$ 2,273 |
| Capital expenditures | \$ 131 | \$ 168 | \$ 87 | \$ 18 | \$ 218 | \$ 186 |

| | December | | December | | December | |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | June 30, | 31, | June 30, | 31, | June 30, | 31, |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Identifiable assets | \$ 16,212 | \$ 16,688 | \$ 10,799 | \$ 10,197 | \$ 27,011 | \$ 26,885 |

| | Advanced Technology Group | | Consumer Products Group | | Consolidated | |
|--------------------------------------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|
| | Three months ended June 30, | | Three months ended June 30, | | Three months ended June 30, | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues from unaffiliated customers | \$ 4,446 | \$ 5,247 | \$ 4,660 | \$ 2,485 | \$ 9,106 | \$ 7,732 |
| Profit (loss) | \$ 930 | \$ 1,638 | \$ 540 | \$ (308) | \$ 1,470 | \$ 1,330 |
| Interest expense | \$ (18) | \$ (36) | \$ (1) | \$ (4) | (19) | (40) |
| Depreciation and amortization | \$ (104) | \$ (98) | \$ (39) | \$ (43) | (143) | (141) |
| Other income, net | \$ 9 | \$ 8 | \$ 2 | \$ 7 | 11 | 15 |
| General corporate expense | | | | | (252) | (236) |
| Income before income tax provision | | | | | \$ 1,067 | \$ 928 |

| | | | | | | | | | | | | |
|----------------------|----|----|----|----|----|----|----|---|----|----|----|----|
| Capital expenditures | \$ | 31 | \$ | 66 | \$ | 63 | \$ | 1 | \$ | 94 | \$ | 67 |
|----------------------|----|----|----|----|----|----|----|---|----|----|----|----|

11. Other Income

Components of other income include interest income on cash and cash equivalents, and other minor amounts not directly related to the sale of the Company's products.

12. Subsequent Events

These financial statements have not been updated for subsequent events occurring after August 12, 2009 which is the date these financial statements were available to be issued.

ItemMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. OPERATIONS

Management Discussion

During the three months ended June 30, 2009 and 2008 approximately 56% and 37%, respectively and 50% and 43%, for the six months ended June 30, 2009 and 2008 respectively, of the Company's revenues were derived from contracts with agencies of the U.S. Government or their prime contractors and their subcontractors. The Company believes that government involvement in military operations overseas will continue to have an impact on the Company's revenues. While the Company remains optimistic in relation to these opportunities, it recognizes that sales to the Government are affected by defense budgets, the foreign policies of the U.S. and other nations, the level of military operations and other factors and, as such, it is difficult to predict the impact on future financial results. The Company's commercial business is affected by such factors as uncertainties in today's global economy, global competition, the vitality and ability of the commercial aviation industry to purchase new aircraft, the effects of terrorism and the threat of terrorism, market demand and acceptance both for the Company's products and its customers' products which incorporate Company-made components.

The Company's Advanced Technology Group's revenue decreased approximately \$801,000 and \$935,000 for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008 due to stretch-outs of customer orders across various product lines and, to a lesser extent, cancellations. The ATG continues its aggressive business development efforts in its primary markets and is broadening its focus to include new domestic and foreign markets that are consistent with its core competencies. There are substantial uncertainties in the current Global Economy that are compounded with certain Airliner delivery stretch-outs being implemented which in turn are adversely affecting the Company's sales revenues in 2009. Although the ATG backlog continues to be significant, actual scheduled shipments may be delayed as a function of the Company's customers' delivery determinations that are affected by changes in the Global Economy and other factors.

The Company's Consumer Products Group's (CPG) revenue increased approximately \$2,175,000 and \$862,000 for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008 primarily because of shipments under several significant government contracts. The Company's Consumer Products Group (CPG) develops new commercial products and products for Government and Military applications. Included in the significant uncertainties in the near and long term are the effects of the current recession and the difficulty to accurately project the net effect of the change in the U.S. Administration on the government's procurement programs. Approximately 69% and 62% of the CPG's revenues are derived from contracts with agencies of the U.S. Government or their prime contractors for the three and six months ended June 30, 2009, respectively.

See also Note 10, Business Segments, of the accompanying consolidated financial statements for information concerning business segment operating results.

Results of Operations

The following tables compare the Company's statements of operations data for the six and three months ended June 30, 2009 and 2008 (\$000's omitted).

Six Months Ended June 30,

| | 2009 | | 2008 | | 2009 vs. 2008 | |
|--|----------|------------|----------|------------|---------------|-----------------------|
| | Dollars | % of Sales | Dollars | % of Sales | Dollar Change | % Increase (Decrease) |
| Revenue: | | | | | | |
| Advanced Technology | \$ 8,959 | 53.8% | \$ 9,894 | 59.2% | \$ (935) | (9.5%) |
| Consumer Products | 7,685 | 46.2% | 6,823 | 40.8% | 862 | 12.6% |
| | 16,644 | 100.0% | 16,717 | 100.0% | (73) | (0.4%) |
| Cost of sale, exclusive of depreciation and amortization | 12,756 | 76.6% | 12,085 | 72.3% | 671 | 5.6% |
| Gross profit | 3,888 | 23.4% | 4,632 | 27.7% | (744) | (16.1%) |
| Selling, general and administration | 2,350 | 14.1% | 2,044 | 12.2% | 306 | 15.0% |
| Depreciation and amortization | 282 | 1.7% | 281 | 1.7% | 1 | 0.4% |
| Total costs and expenses | 15,388 | 92.4% | 14,410 | 86.2% | 978 | 6.8% |
| Operating income | 1,256 | 7.6% | 2,307 | 13.8% | (1,051) | (45.6%) |
| Interest expense | 43 | 0.3% | 87 | 0.5% | (44) | (50.6%) |
| Other income, net | (40) | (0.2%) | (53) | (0.3%) | 13 | (24.5%) |
| Income tax provision | 418 | 2.5% | 832 | 5.0% | (414) | (49.8%) |
| Net income | \$ 835 | 5.0% | \$ 1,441 | 8.6% | \$ (606) | (42.1%) |

Three Months Ended June 30,

| | 2009 | | 2008 | | 2009 vs. 2008 | |
|--|-------------|------------|----------|------------|---------------|-----------------------|
| | Dollars | % of Sales | Dollars | % of Sales | Dollar Change | % Increase (Decrease) |
| Revenue: | | | | | | |
| Advanced Technology | \$ 4,446.00 | 48.8% | \$ 5,247 | 67.9% | \$ (801) | (15.3%) |
| Consumer Products | 4,660 | 51.2% | 2,485 | 32.1% | 2,175 | 87.5% |
| | 9,106 | 100.0% | 7,732 | 100.0% | 1,374 | 17.8% |
| Cost of sale, exclusive of depreciation and amortization | 6,617 | 72.7% | 5,617 | 72.6% | 1,000 | 17.8% |
| Gross profit | 2,489 | 27.3% | 2,115 | 27.4% | 374 | 17.7% |
| Selling, general and administration | 1,271 | 14.0% | 1,021 | 13.2% | 250 | 24.5% |
| Depreciation and amortization | 143 | 1.6% | 141 | 1.8% | 2 | 1.4% |
| Total costs and expenses | 8,031 | 88.3% | 6,779 | 87.6% | 1,252 | 18.5% |
| Operating income | 1,075 | 11.7% | 953 | 12.4% | 122 | 12.8% |
| Interest expense | 19 | 0.2% | 40 | 0.5% | (21) | (52.5%) |

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| | | | | | | |
|----------------------|--------|--------|--------|--------|--------|---------|
| Other income, net | (11) | (0.1%) | (15) | (0.2%) | 4 | (26.7%) |
| Income tax provision | 357 | 3.9% | 340 | 4.4% | 17 | 5.0% |
| Net income | \$ 710 | 7.7% | \$ 588 | 7.7% | \$ 122 | 20.7% |

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Sales

The Company's consolidated revenues increased approximately \$1,374,000 or 17.8% for the three month period ended June 30, 2009 and remained relatively consistent for the six month period ended June 30, 2009 when compared to the same three and six month periods in 2008. Such results are due to increased shipments at the CPG under several significant government contracts off-set by decreased shipments at the ATG due to customer stretch-outs of existing orders and, to a lesser extent, order cancellations. Procurement and time of shipments under Government contracts at the CPG significantly impact operating results from period to period.

Gross Profit

As shown in the above table, gross profit for the three month period ended June 30, 2009 increased while gross profit for the six month period ended June 30, 2009 decreased as compared to the same three and six month periods in 2008. The primary reason for the variations in gross profit was the mix of products sold at the CPG. The current mix of products sold in the period within the ATG and CPG segments as well as the composition of ATG and CPG sales to the total consolidated sales directly attributed to dollar value and percentage variations in gross profit.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses that include variable costs increased for the three and six month periods ended June 30, 2009 as compared to the same three and six month periods in 2008. The increase in SG&A includes increased expenses relative to contract/ product administration/negotiations, product protection (i.e., trademarks, patents) and other costs associated with the expansion of the ATG and CPG foreign and domestic markets. The trend is for SG&A expenses to increase as a function of increased regulations, market expansion, company growth and the continued implementation of the Sarbanes-Oxley Act.

Interest Expense

Interest expense decreased for the three and six month periods ended June 30, 2009 compared to the same periods in 2008 due to the decrease in average outstanding debt and interest rates. Average debt outstanding will continue to decline as the Company repays its scheduled debt obligations and assuming the Company does not incur additional debt. See also Note 5, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

Depreciation and Amortization Expense

Depreciation and amortization expense remained consistent for the three and six month periods ended June 30, 2009 compared to the same periods in 2008. Depreciation expense fluctuates due to variable estimated useful lives of depreciable property (as identified in Note 2, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements) as well as the amount and nature of capital expenditures in current and previous periods. It is anticipated that the Company's future capital expenditures will, at a minimum, follow the Company's requirements to support its delivery commitments and to meet the information technology related capital expenditure requirements that are associated with Sarbanes-Oxley and other new regulatory requirements.

Other Income

Components of other income include interest income on cash and cash equivalents, and other amounts not directly related to the sale of the Company's products. The decrease in other income for the three and six month periods ended June 30, 2009 when compared to the same three and six month periods in 2008 is due to the decline in market driven interest rates on cash and cash equivalents.

Income Taxes

The Company's effective tax rate was 33.4% for the six months ended June 30, 2009 as compared to 36.6% for the six month period ended June 30, 2008. The effective tax rate in both periods reflects state income taxes, permanent non-deductible expenditures and the tax benefit for the domestic manufacturing deduction allowable under the American Jobs Creation Act of 2004 as well as a reduction in New York State's statutory tax rate and apportioned income. See also Note 6, Income Taxes, of the consolidated financial statements for information concerning income tax.

Net Income

Net income for the three month period ended June 30, 2009 increased \$122,000 or 20.7% and decreased \$606,000 or 42.1% for the six month period ended June 30, 2009 when compared to net income for the same two periods ended June 30, 2008. These period to period differences in net income are primarily attributable to decreased sales at ATG offset by increased sales at the CPG in the second quarter of 2009. Also, affecting net income were increases in selling, general and administrative expenses and changes in gross margin as the result of product mix in the respective periods.

Liquidity and Capital Resources

The Company's primary liquidity and capital requirements relate to working capital needs; primarily inventory, accounts receivable, capital expenditures for property, plant and equipment, tax payments and principal and interest payments on debt.

At June 30, 2009, the Company had working capital of approximately \$16,757,000 of which approximately \$3,136,000 was comprised of cash and cash equivalents. The Company used approximately \$904,000 in cash from operations during the six months ended June 30, 2009 as compared to generating \$487,000 during the six months ended June 30, 2008. The primary uses of cash for the Company's operating activities for the six months ended June 30, 2009 were for increases in inventory and accounts receivable and payments to vendors aggregating \$2,353,000.

The Company's primary use of cash in its financing and investing activities in the first six months of 2009 related to capital expenditures for equipment and principal payments on long-term debt as well as approximately \$336,000 for a cash dividend paid on May 15, 2009 to shareholders of record on April 20, 2009.

At June 30, 2009, there are no material commitments for capital expenditures.

The Company also has a \$1,000,000 line of credit on which there is no balance outstanding at June 30, 2009. If needed, this can be used to fund cash flow requirements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item

3.

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.

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Item CONTROLS AND PROCEDURES

4T.

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 of June 30, 2009. Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company (or the Company's consolidated subsidiaries) required to be included in the Company's periodic filings with the SEC, such that the information relating to the Company required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

During the six month period ended June 30, 2009, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item LEGAL PROCEEDINGS

1.

None.

Item RISK FACTORS

1A.

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 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

2.

(c) Company Purchases of Company's Equity Securities

| 2009 Periods | Total Number of Shares Purchased | Average Price \$ Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced | Maximum Number of Shares that may yet be Purchased under the Plans or |
|-----------------|--|---------------------------------------|--|---|
| | | | | |

| | | | Plans or Programs | Programs |
|---------------------------------|-----|------|-------------------|----------|
| January 1– March 31, 2009 | - | - | - | 212,855 |
| April 1 – June 30, 2009 | 943 | 6.34 | 943 | 211,912 |
| Total | 943 | 6.34 | 943 | 211,912 |

In January of 2006, the Company’s Board of Directors authorized the purchase by the Company of up to 250,000 shares of its common stock in the open market or in privately negotiated transactions. On October 31, 2008, the Company announced that its Board of Directors authorized the purchase of an additional 200,000 shares of the Company’s common stock under the Company’s current purchase program. As of April 30, 2009, the Company has purchased 238,088 shares and there remain 211,912 shares available to purchase under this program

Item 3. DEFAULTS UPON SENIOR SECURITIES

3.

None.

Item SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

4.

None.

Item OTHER INFORMATION

5.

None.

Item EXHIBITS

6.

31.1 Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

FORWARD-LOOKING STATEMENTS

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

SIGNATURES

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

SERVOTRONICS, INC.

Date: August 12, 2009

By: /s/ Cari L. Jaroslowsky, Chief Financial Officer
Cari L. Jaroslowsky
Chief Financial Officer

By: /s/ Dr. Nicholas D. Trbovich, Chief Executive Officer
Dr. Nicholas D. Trbovich
Chief Executive Officer

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