SERVOTRONICS, INC.

2014
Annual Report

ANNUAL MESSAGE

Dr. Nicholas D. Trbovich

Kenneth D. Trbovich

Servotronics is pleased to announce that in 2014 the company experienced year-to-year revenue increases for the Advanced Technology Group (ATG) which achieved record sales, as well as new programs going on-stream and the rollout of key strategic investments in the ATG's workforce and equipment. In tandem, the subsidiaries in the Company's Consumer Products Group (CPG) broke ground on a major plant expansion and capital investment while launching two new lines of business.

Over the past 56 years, Servotronics has earned the confidence of many of the world's most prestigious companies: Boeing, Airbus, United Technologies, Honeywell, Rolls Royce, GE Aviation, and others. This has manifested itself in their selection of Servotronics as the preferred supplier of various control components on vital systems for some of the most technologically advanced commercial and military aircraft programs. Through our customer partnerships, the ATG supports a wide range of platforms including Boeing 787, Boeing 737MAX, Boeing 777X, Airbus 320, Airbus A320 NEO, Airbus A350, Airbus A380, F-35 Lightning II, Gulfstream G650, CH-53K Helicopter, and KC-46A Tanker to name a few. These current and future aircraft programs build on Servotronics' legacy that began more than 50 years ago and includes diverse applications such as the early Boeing 700 and Airbus 300 series aircraft, F-14, F-15, F-16, and FA-18 E/F jet fighters, Apache Longbow and Blackhawk helicopters, the Hubble Space Telescope, various regional jets, battle tanks, torpedoes, and various other land, sea, air and space applications.

Recently we received a letter from the Fairchild Controls Corporation describing our exemplary performance on quality, delivery, and service. Along with the letter, the Company received an award plaque for display at our facility; one of only two such awards granted by Fairchild to vendors in 2014. The letter states:

"Servotronics has demonstrated exceptional performance by responding quickly and professionally to Fairchild's requirements during this challenging developmental program. The products delivered resulted in a 100% Quality and delivery rating. Over the last three years Servotronics has worked diligently to design and qualify the replacement 767-2C Tanker ADU servo-valve. The management and engineering support has been exceptional. The redesign process consisted of multiple WebEx reviews, weekly phone conference calls, several site visits, and numerous revisions to engineering specifications, drawings and procedures. On November 17, 2014 the first production units were delivered after completing a rigorous qualification testing process… A great team effort by everyone at Servotronics."

We believe these operational strengths coupled with the ATG's ongoing business development efforts and new product offerings will continue to produce positive results. In 2014, ATG revenues increased by approximately 13% over the prior year. Also, ATG bookings for 2014 were a record $26.9 million. The continuing growth of the ATG was supported by the addition of 36 new employees in the 15 months leading up to March 31, 2015. The hiring and training of new team members was instrumental in meeting difficult delivery schedules under trying conditions. The addition of these new employees in conjunction with an organizational reengineering of the operations department implemented by our dynamic management team continues to scale out our capabilities. Process improvement plans developed through a collaboration between senior management and line supervisors have been introduced across production in an effort to meet and exceed cost targets. Furthermore, the recently built hot-test facility continues to support the development and testing of a wide range of new products.

2014 was also a year of some challenges for the Company. Severe weather conditions in western New York in November resulted in a lost week of production, which through great effort on the part of the employees on weekends and after hours, was recovered in full before the close of the year. 2014 also saw an extended arbitration process with payment of future wages to a former senior officer pursuant to an employment contract. The majority of the arbitration amount (approximately 88%) was covered by the Company's insurance policy. The details of this arbitration award are contained on page F19 of the Annual Report. The actual award was paid in the first quarter of 2015. The balance of the award, which includes interest and attorney fees, was paid from cash on hand.

It is with sadness that we report the January 16, 2015 passing of our long-time Director, Dr. William H. Duerig. Dr. Duerig was a Director of Servotronics since 1990. Prior to his tenure on the Board, Dr. Duerig held many notable positions including service as a project leader on the Manhattan Atomic Bomb Project during World War II. His impressive record of leadership was demonstrated in many world-recognized advanced technology and state-of-the-art programs and projects. Servotronics' association with Dr. Duerig dates back to the early 1960's. His talents, expertise, and input were invaluable to our Company and he was a trusted friend to us all.

With adversity however comes opportunity; the Company has appointed a United States Naval Reserve Officer Rigel D. Pirrone, a Reserve Navy Commander and Executive Officer of Strike Fighter Squadron 204 to the Board of Directors. Mr. Pirrone's engineering background and experience as a Navy pilot integrates well with the diverse experience possessed by the Company's Board.

Operations at the CPG during 2014 were focused upon the implementation of long-term strategic initiatives to invest in the group's main business unit, The Ontario Knife Company, and to position the group for future growth. The main strategic project for 2014 was securing the funding and executing the first stages of a major multi-year capital investment. The CPG's efforts secured over $700,000 in grants for the construction of a 28,000 square foot expansion to the Franklinville manufacturing facility as well as new equipment designed to scale out the Company's capabilities and improve efficiencies. We believe these investments will better position the CPG to take advantage of the business opportunities emerging in its now 46-country distribution network.

In parallel with the rollout of the capital investment project, the CPG continued to focus its business development activities on revenue channel diversification and new product commercialization. These efforts include the launch of two new lines of business: 1) a direct to consumer ecommerce site and 2) an injection molding, machining, and tool works division. The ecommerce platform provides a new high-margin avenue for the CPG's cutlery and tool products while creating closer ties to the end users and monetizable synergies with new media and social media advertising. The molding and machining division allows the Company to bring the fabrication of handle and scabbard components in-house. The new division will also allow the CPG to produce entirely new types of products to help us enter previously untapped markets and industries, including metal and plastic parts for commercial and industrial applications ranging from toys to plastic aerospace components. Meanwhile, design efforts around existing merchandise led to several new catalog items including the Bushcraft Field Knife, which won the prestigious Best of the Best Award from Field & Stream magazine for 2014 survival knives.

In closing, as we enter 2015 we would like to thank all of our employees, Directors and shareholders for their time, effort, and loyal support. We intend to build upon the successes of 2014 while continuing to provide award-winning products and services to our loyal customers. We look forward to continuing our association into 2015 and beyond.

DR. NICHOLAS D. TRBOVICH
Founder, Chairman of the Board and
Chief Executive Officer

KENNETH D. TRBOVICH
Director and President

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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 Office) (Zip Code)

Registrant's telephone number, including area code (716) 655-5990

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

Title of each class	Name of each exchange on which registered
Common Stock, $.20 par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by checkmark 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 checkmark 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 (§232.405) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ☐ No ☒

Based on the closing price of the Common Stock on June 28, 2014 ($6.96) (the last day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting stock held by non-affiliates of the registrant was $10,863,889.

As of February 28, 2015 the number of $.20 par value common shares outstanding was 2,438,209.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated by reference in Part III.

NOTE: The Company's Form 10-K as filed with the Securities and Exchange Commission has been appropriately condensed to provide this Annual Report to Shareholders. The complete 10-K is available from the Company to any shareholder as stated on the inside back cover of this Annual Report.

PART I

Item 1. Business

General

Servotronics, Inc. and its subsidiaries (collectively the "Registrant" or the "Company") 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 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) MKT under the symbol SVT.

Products

Advanced Technology Products

The Company designs, manufactures and markets a variety of servo-control components which convert an electrical current into a mechanical force or movement and other related products. The principal servo-control components produced include torque motors, electromagnetic actuators, hydraulic valves, pneumatic valves and similar devices, all of which perform the same general function. These are sold principally to the commercial aerospace, aircraft and government related industries, as well as medical and industrial markets.

To fill most of its orders for components, the Company must either modify a standard model or design a new product in order to satisfy the customer's particular requirements. The Company also produces unique products based on specifications provided by its customers. The Company produces under long-term contracts and other types of orders.

The Company may from time to time produce metallic seals of various cross-sectional configurations. These seals fit between two surfaces, usually metal, to produce a more secure and leak-proof joint. The Company manufactures these seals to close tolerances from standard and special alloy steels. Ductile coatings are often applied to the seals in order to increase their effectiveness.

The Company has also produced other products of its own and/or of a given design to meet customers' requirements.

Consumer Products

The Company designs, manufactures and sells a variety of edged products and tools for domestic and international distribution. These products include a wide range of cutlery items such as steak, carving, bread, butcher and paring knives for household use and for use in restaurants, institutions and private industry, as well as fixed and folding knives for hunting, fishing and camping. The Company also sells knives and tools to the U.S. Government, related agencies, and allied foreign governments. These products include machetes, bayonets, axes, strap cutters, and other tools that are designed primarily for military and rescue/first-responder use, but are viable in commercial markets as well. The Company also produces and markets other edged products such as various specialty tools, putty knives, linoleum sheet cutters, field knives and SciMed items including scalpels and micro-spatulas. The Company manufactures its products from stainless or high carbon steel in numerous styles, designs, models and sizes. Substantially all of the Company's commercial related products are intended for the moderate to premium priced markets. The Company also provides plastic fabrication, metal fabrication and other engineering, design, and OEM/white-label manufacturing services to regional customers. This includes the production of a wide range of machined, engineered, and/or molded consumer and industrial products and components.

Sales, Marketing and Distribution

Advanced Technology Products

The Company's Advanced Technology Group (ATG) products are marketed throughout the United States and in select foreign markets. Products are primarily non-seasonal in nature. These products are sold to the United States Government, government prime contractors, government subcontractors, commercial manufacturers and end-users. Sales are made primarily by the Company's professional staff.

During the Company's 2014 fiscal year, sales of advanced technology products pursuant to contracts with prime or subcontractors for various branches of the United States Government accounted for approximately 15% of the Company's consolidated revenues as compared to 17% in 2013. The Company's sales of advanced technology products to one customer, including various divisions and subsidiaries of a common parent company, amounted to approximately 31% in 2014 and 29% in 2013 of the Company's consolidated revenues. The Company also had sales to another ATG customer that amounted to approximately 16% and 11% of total consolidated revenues in 2014 and 2013, respectively. No other single customer represented more than 10% of the Company's consolidated revenues in either of these years.

The Company's prime contracts and subcontracts with the United States Government are subject to termination at the convenience of the Government. In the event of such termination, the Company is ordinarily entitled to receive payment for its costs and profits on work done prior to termination. Since the inception of the Company's business, less than 1% of its Government contracts have been terminated for convenience.

Consumer Products

The Company's consumer products are marketed throughout the United States and in select foreign markets. Consumer sales are moderately seasonal. Sales are to national and international distributors as well as directly to big box, hardware, supermarket, variety, department, discount, gift, drug, outdoors and sporting retailers. The Company's Consumer Products Group (CPG) also sells its knives and tools (principally machetes, bayonets, survival knives and kitchen knives) to various branches of the United States Government which accounted for approximately 2% of the Company's consolidated revenues in 2014 as compared to 4% in 2013. Additionally, the Company provides original manufactured equipment (OEM) and white label product design and manufacturing services to a regional customer base across a wide range of consumer and commercial industries. No single customer of the CPG represented more than 10% of the Company's consolidated revenues in 2014 or 2013. The Company sells its products and manufacturing services through its own sales resources and through independent manufacturers' representatives.

Business Segments

Business segment information is presented in Note 11, Business Segments, of the accompanying consolidated financial statements.

Intellectual Properties

The Company has rights under certain copyrights, trademarks, patents, and registered domain names. In the view of management, the Company's competitive position is not dependent on patent protection.

Research Activities

The amount spent by the Company in research and development activities during its 2014 and 2013 fiscal years was not significant, but the Company does take advantage of tax credits for research and development activities when available. Such activities are expensed as incurred.

Environmental Compliance

The cost of compliance with current environmental laws has not been material and the Company does not anticipate that it will be in the future.

Manufacturing

The Company manufactures its advanced technology products in Elma, New York and its consumer products in Franklinville, New York.

Raw Materials and Other Supplies

The Company purchases raw materials and certain components for its products from outside vendors. The Company is generally not dependent upon a single source of supply for any raw material or component used in its operations.

Competition

Although no reliable industry statistics are available to enable the Company to determine accurately its relative competitive position with respect to any of its products, the Company believes that it is a significant factor with respect to certain of its servo-control components. The Company's share of the overall cutlery market is not significant.

The Company has many different competitors with respect to servo-control components because of the nature of that business and the fact that these products also face competition from other types of control components which, at times, can accomplish the desired result.

The Company encounters active competition with respect to its consumer products from numerous companies, many of which are larger in terms of manufacturing capacity, financial resources and marketing organization. Its principal competitors vary depending upon the customer and/or the products involved. The Company believes that it competes primarily with more than 20 companies with respect to its consumer products, in addition to foreign imports. To the Company's knowledge, its principal competitors with regard to cutlery include World Kitchen, Inc., Benchmade Knife Company, Inc., Tramontina, Inc., Dexter-Russell Inc., W. R. Case & Sons Cutlery Company, Lifetime Hoan Corp., Cutco Corporation and Gerber. The Company also competes with other regional manufacturing companies for its molded plastic and metal and plastic fabrication services. To the Company's knowledge, its principal competitors with regard to manufacturing services include PM Plastics, Monarch Plastics and Ontario Plastics.

The Company markets most of its products throughout the United States and to a lesser extent in select foreign markets. The Company believes that it competes in marketing its servo-control products primarily on the basis of operating performance, adherence to rigid specifications, quality, price and delivery and its consumer products primarily on the basis of price, quality and delivery.

Employees

The Company, at December 31, 2014, had 271 employees of which 253 are full time and are located in Western New York. Approximately 75% of its employees are engaged in production, inspection, packaging or shipping activities. The balance is engaged in executive, engineering, administrative, clerical or sales capacities.

Item 1A. Risk Factors

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 1B. Unresolved Staff Comments

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

Item 2. Properties

The Company owns real property as set forth in the following table with no related encumbrances:

Location	Description	Principal product manufactured	Number of buildings and type of construction	Approx. floor area (sq.feet)
Elma, New York	Corporate Headquarters and Manufacturing Facility	Advanced technology products	1-concrete block/ steel	83,000
Franklinville, New York	Office and Manufacturing Facility	Cutlery products	1-tile/wood 1-concrete/metal 1-concrete block	154,000

See the accompanying consolidated financial statements, including Note 8, Commitments and Contingencies, for further information with respect to the Company's lease commitments and a current expansion project at the Consumer Products Group in Franklinville, New York. The Company believes that the properties are suitable and adequate for the current production capacity. The properties are appropriately covered by insurance consistent with the advice of the Company's insurance consultant.

Item 3. Legal Proceedings

On July 17, 2013, the Company and its wholly-owned subsidiary, Aero Metal Products, Inc., received a summons and complaint filed by Aero, Inc. in the Supreme Court of the State of New York, County of Erie. Aero, Inc. is owned by the wife of a former Executive Officer and director of Servotronics, Inc. The complaint alleges various causes of action arising out of a Personal Property Lease and Real Property Lease between Aero Metal Products, Inc. and Aero, Inc. The Company believes that the litigation is without merit and intends to defend against it vigorously. See also Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements for further information regarding the litigation.

In August 2013, Nicholas D. Trbovich, Jr., a former Executive Officer and director of Servotronics, Inc. commenced an arbitration proceeding against the Company in connection with the termination of his employment agreement effective October 20, 2012. On September 30, 2014, an award was issued by the arbitrator in favor of the former Executive Officer and such award was revised by the arbitrator on October 28, 2014. The arbiter issued a final award on February 23, 2015 and the Company paid the award on March 6, 2015. See Note 8, Commitments and Contingencies, and Note 12, Subsequent Events, of the accompanying consolidated financial statements for additional information regarding the arbitration award.

There are no other legal proceedings which are material to the Company currently pending by or against the Company other than ordinary routine litigation incidental to the business which is not expected to materially adversely affect the business or earnings of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Price Range of Common Stock

The following table shows the range of high and low closing prices for the Company's common stock as reported by the NYSE MKT (symbol SVT) for 2014 and 2013.

	High	Low
2014		
Fourth Quarter	$ 7.99	$ 6.00
Third Quarter	8.13	6.54
Second Quarter	7.92	6.75
First Quarter	8.74	7.47
2013		
Fourth Quarter	$ 8.90	$ 8.05
Third Quarter	9.08	7.41
Second Quarter	8.23	7.20
First Quarter	9.10	7.22

(b) Approximate Number of Holders of Common Stock

Title of class	Approximate number of record holders (as of February 28, 2015)
Common Stock, $.20 par value per share	316

(c) Dividends on Common Stock

No cash dividends were paid in 2014. On May 28, 2013 the Company announced that its Board of Directors declared a $0.16 per share cash dividend. The dividend was subsequently paid on July 15, 2013 to shareholders of record on June 24, 2013 and was approximately $406,000 in the aggregate. These dividends do not indicate that the Company will pay dividends on a regular or scheduled basis.

(d) Company Purchases of Company's Equity Securities

2014 Periods	Total Number of Shares Purchased	Weighted Average Price $ Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that may yet be Purchased under the Plans or Programs (1)
January - March	19,195 (2)	$8.13	1,850	124,867
April - June	4,627	$7.05	4,627	120,240
July – September	-	-	-	120,240
October	-	-	-	120,240
November	-	-	-	120,240
December	2,210	$6.28	2,210	118,030
Total	26,032	$7.78	8,687	118,030

(1) 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. In 2014, the Company purchased 8,687 common shares at a weighted average price of $7.78 paid per share. As of December 31, 2014, the Company has purchased 331,970 shares and there remain 118,030 shares available to purchase under this program.

(2) Includes 17,345 shares withheld/purchased by the Company in January 2014 to satisfy statutory minimum withholding tax requirements for those participants who elected this option as permitted under the Company's 2012 Long-Term Incentive Plan.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

The aviation and aerospace industries as well as markets for the Company's consumer products continually face evolving challenges on a global basis. The operations of the Company 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 the Company's customers to fund long-term purchase programs, volatile market demand and the continued market acceptance of the Company's advanced technology and cutlery products make it difficult to predict the impact on future financial results.

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.

Government procurements are subject to Congressional appropriations and priorities that may change from year to year. Such changes could result in, but are not limited to, the expansion and/or contraction of Government procurement requirements, a reduction in funding, the continuation or termination of existing programs, the introduction of new programs requiring the funds that were originally directed to current programs, a stretch-out in Government delivery requirements or such other U.S. Government determinations that could result in increases or reductions of Government purchase orders for the ATG and/or the CPG products.

The Company's suppliers are also subject to all the pressures and volatility being generated by the current global economic conditions. Any interruption of the Company's continuous flow of material and product parts that are required for the manufacture of the Company's products could adversely impact the Company's ability to meet the Company's customers' delivery requirements. 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, on the basis of targeted year to year price reductions and/or on the basis of 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 the Company's concept of continuous improvement. The Company's products are labor intensive and as such productivity improvements are expected to have positive effects on the Company's operating results.

However, increased costs for raw material, purchased parts and/or labor will have the reverse effect. Therefore, there are strong incentives to continuously improve productivity and to contain/reduce costs.

If any adverse economic events reduce the number of Airliners and/or Aircraft being produced by the Company's 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 the Company when purchasing raw material such as aluminum, magnetic material, steel, etc. and/or other product support items and services. If the Company's customers delay their payments until after the extended due date or fail to pay, it could adversely impact the Company's operating results.

The Company's ability to manufacture products on a timely basis also depends on the Company's suppliers' on-time delivery of raw material, sub components, machined parts and other necessary product support supplies. Interruptions of this flow of purchased materials could adversely affect the Company's operations.

Maximizing the Company's operations requires continued dedicated performances from the Company's key and other personnel. In the Company's markets and business arenas there is substantial competition for the services of the highest performing individuals. Competitors, customers and other companies who may have interest in the Company's most experienced and educated/highly trained personnel (i.e., Managerial, Engineering and Accounting/Administrative) are a continuing consequence of the Company's history of successful operational performance. Any unplanned replacement of such personnel may require the hiring of new personnel on an expedited basis (provided they are available) and may temporarily interrupt the Company's operations and efforts for continuous improvement.

The Company has commenced a multi-year investment plan designed to consolidate the operations of the CPG. The five year plan includes the construction of an approximate 28,000 square foot addition, capital improvements to the existing plant, the reconfiguration of its production process within the expanded facility, and the addition of new state of the art knife-making equipment. The Company broke ground in the second quarter of 2014 and has entered into contracts for site work and equipment purchases in connection with the project. The cost of the project is approximately $4,000,000 over a five year period of which $2,667,000 was completed at December 31, 2014. Costs for the project are being accounted for as construction in progress on the accompanying consolidated balance sheet and will be moved to property, plant and equipment when placed in service. The Ontario Knife Company was awarded certain incentives from the County of Cattaraugus Industrial Development Agency (CCIDA) in connection with the expansion of The Ontario Knife Company's facility in Franklinville, New York and other proposed capital expenditures. The incentives include certain real property tax and sales tax abatements in connection with the proposed project. The Ontario Knife Company entered into customary lease and leaseback arrangements with the CCIDA to facilitate the various tax incentives. The Company has also been awarded a $300,000 grant from Cattaraugus County, New York. The grant can be used towards the payment or reimbursement for work and/or materials, incurred or to be incurred in connection with the proposed expansion project. As part of the terms of the grant contract with Cattaraugus County, The Ontario Knife Company has agreed to maintain certain employment levels for a period of five years from the date of the agreement. As of December 31, 2014, the Company has received $128,345 under the grant and recorded the amount as a reduction to the asset. The Company was also awarded a $416,000 New York State Community Development Block Grant from the Office of Community Renewal. The grant can be used towards the purchase of equipment in connection with the proposed expansion project of which no amount has been received or recorded by The Ontario Knife Company under this grant as of December 31, 2014.

Management Discussion

During the years ended December 31, 2014 and 2013, approximately 17% and 21%, respectively, of the Company's revenues were derived from contracts with agencies of the U.S. Government or their prime contractors and their subcontractors. Sales of products sold for government applications decreased approximately $1,130,000 and $717,000 from the prior year during 2014 and 2013, respectively, due to decreased government shipments at the ATG and CPG. The Company believes that government involvement in military operations overseas will continue to have an impact on the financial results in both the Advanced Technology and Consumer Products markets. While the Company is optimistic in relation to these potential 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 ATG continues its aggressive 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. 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 the Company's customers final delivery determinations that may be based on changes in the global economy and other factors.

The Company's CPG manufactures knives, tools and equipment for commercial, consumer, government, and military applications. In response to recent and ongoing reductions in military spending, the CPG continues to diversify its revenue streams with a broader government focus and new commercial channels, including the addition of national retailers, international accounts, and a direct-to-consumer business line. New product development is focused on the commercialization of products with applications that span government and civilian requirements to maximize demand or that open up new lines of business entirely.

The ATG and CPG continue to respond to U.S. government procurement requests for quotes. New product development activities are ongoing along with the acquisition and development of new product lines.

See also Note 11, Business Segments, of the accompanying consolidated financial statements for information concerning business segment operating results.

Results of Operations

The following table compares the Company's consolidated statements of operations data for the year ended December 31, 2014 and 2013 ($000's omitted).

	Twelve Months Ended December 31,					
					2014 vs. 2013	
	2014		2013		Dollar	% Increase
	Dollars	% of Sales	Dollars	% of Sales	Change	(Decrease)
Revenue:						
Advanced Technology	$ 25,021	79.1%	$ 22,204	73.3%	$ 2,817	12.7%
Consumer Products	6,625	20.9%	8,106	26.7%	(1,481)	(18.3%)
	31,646	100.0%	30,310	100.0%	1,336	4.4%
Cost of goods sold, exclusive of depreciation and amortization	24,525	77.5%	22,799	75.2%	1,726	7.6%
Selling, general and administrative	5,580	17.6%	5,638	18.6%	(58)	(1.0%)
Depreciation and amortization	652	2.1%	640	2.1%	12	1.9%
Arbitration award expense	5,597	17.7%	-	-	5,597	-
Total costs and expenses	36,354	114.8%	29,077	95.9%	7,277	25.0%
Operating (loss) income, net	(4,708)	(14.8%)	1,233	4.1%	(5,941)	(481.8%)
Interest expense	47	0.1%	41	0.1%	6	14.6%
Other income, net	(16)	(0.1%)	(42)	(0.1%)	26	(61.9%)
Income tax provision	(1,613)	(5.1%)	259	0.9%	(1,872)	(722.8%)
Net (loss) income	$ (3,126)	(9.8%)	$ 975	3.2%	$ (4,101)	(420.6%)

Revenue

The Company's consolidated revenues increased approximately $1,336,000 or 4.4% for the twelve month period ended December 31, 2014 when compared to the same period in 2013. The increase in revenue is the result of an approximate $3,316,000 increase in commercial shipments at the ATG offset by decreases in commercial shipments at the CPG of approximately $852,000. Revenues from shipments to the Government and its prime vendors at the ATG and CPG decreased approximately $500,000 and $630,000, respectively, for the twelve month period ended December 31, 2014 when compared to the same period in 2013 due to budget cuts for military spending and vagaries inherent in the Government procurement process and programs.

Cost of Goods Sold

Cost of goods sold as a percentage of revenues increased from 75.2% to 77.5% for the twelve month period ended December 31, 2014 when compared to the same period in 2013. Many factors effect cost of goods sold as a percentage of sales including production volume efficiencies, product mix, additional engineering and engineering support associated with customer design changes.

Specific to 2014, the CPG margins and costs were impacted negatively by expected operating inefficiencies due to decreases in revenue and production at CPG as the operation is being transitioned to its new facility. The CPG expects a permanent certificate of occupancy in the first quarter of 2015. As a result of the facility expansion and reconfiguration of the production process the CPG expensed approximately $524,000 of inventory that is considered slow moving or obsolete in 2014 compared to a reversal of $79,000 in 2013.

The ATG margins improved from volume efficiencies offset by additional labor and freight costs of approximately $150,000 to meet customer delivery requirements after a six day business interruption caused by a weather related event.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased approximately $58,000 or 1.0% for the twelve month period ended December 31, 2014 compared to the same period in 2013. Approximately 62% of SG&A expense relates to labor and labor related expenses to support SG&A functions. Such expenses decreased approximately $62,000 primarily due to a decrease in executive benefits. Approximately 14% of SG&A expense is attributable to professional and legal services that increased approximately $110,000 primarily due to legal expenses associated with the previously disclosed arbitration proceedings with a former Executive Officer and Director of the Company. Approximately 11% of SG&A expense is attributable to the sales and marketing of products including commissions and royalty expenses. These expenses decreased approximately $98,000 primarily due to efficiencies achieved through restructuring of distribution channels and programs at the CPG.

Depreciation and Amortization Expense

Depreciation and amortization expense increased approximately $12,000 or 1.9% for the twelve month period ended December 31, 2014 compared to the same period in 2013. Depreciation expense fluctuates due to variable estimated useful lives of depreciable property (as identified in Note 1, 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 manufacturing delivery commitments and to meet certain information technology related capital expenditure requirements. See also Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements for more information on anticipated capital expenditures.

Interest Expense

Interest expense remained relatively consistent for the twelve month period ended December 31, 2014 compared to the same period in 2013 due to interest rates and outstanding debt that remained consistent through December 1, 2014. See also Note 4, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

Arbitration Award Expense

As discussed in Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements, the Company has accrued for approximately $5,597,000 related to an arbitration award originally issued on September 30, 2014 and finalized on February 23, 2015. No amount was recorded in 2013.

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. Other income is immaterial in relationship to the consolidated financial statements.

Income Taxes

The Company's effective tax rate for operations was 34.0% in 2014 and 21.0% in 2013. The effective tax rate in both years reflects federal and state income taxes, permanent non-deductible expenditures and the research and development credit. The effective tax rate was lower in 2013 due to a tax benefit taken to reflect the re-enactment of the research and development tax credit for 2012. See also Note 6, Income Tax Provision, of the accompanying consolidated financial statements for information concerning income taxes.

The Company recognizes 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.

Net Income

Income from operations decreased approximately $4,101,000 when comparing the twelve month period ended December 31, 2014 to the same period in 2013. This decrease is primarily the result of the adverse arbitration award as discussed in Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements. Also contributing to the decrease in income were losses from decreases in revenue and production at the CPG and increases in related inventory reserves, as the operation is being transitioned to its new facility.

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 and principal payments on debt. At December 31, 2014, the Company had working capital of approximately $15,752,000 ($17,023,000 – 2013) of which approximately $4,166,000 ($4,502,000 – 2013) was comprised of cash and cash equivalents.

The Company generated approximately $1,062,000 in cash from operations during the twelve months ended December 31, 2014 as compared to $1,586,000 during the twelve months ended December 31, 2013. Cash was generated primarily through net income (loss) adjusted for non-cash expenses of approximately $3,965,000, inclusive of a $5,597,000 charge related to the previously discussed arbitration award, as well as the application of prepaid income taxes, timing differences on payments to vendors and an increase in accrued employee compensation and benefit costs.

The primary use of cash for the Company's operating activities for the twelve months ended December 31, 2014 include working capital requirements, mainly an increase in inventory, timing differences on collections of accounts receivable of approximately $1,032,000 and other current assets. ATG and CPG customers are increasingly requesting and/or requiring stock inventory in order to facilitate assurance of meeting their often volatile delivery schedule needs. As these requirements increase, they directly impact comparative cash flows when implemented and increase inventory levels when it is a continuing requirement. Additionally, at times, the Company takes advantage of price discounts on volume purchases for common parts. Cash generated and used in operations is consistent with sales volume, customer expectations and competitive pressures.

The Company generated cash in its financing and investing activities in the twelve months ended December 31, 2014 by refinancing and acquiring approximately $2,000,000 of additional long-term debt, while using approximately $202,000 for the purchase of treasury shares. The Company also expended approximately $3,154,000 for capital expenditures that include payments for the current expansion at CPG.

On December 1, 2014, the Company, entered into a Loan Agreement that provides for a $2,620,000 seven-year term loan (the "Term Loan") and $2,000,000 line of credit (the "Line of Credit"). The Line of Credit is available until June 24, 2015, unless subsequently renewed, and replaced the Company's previous $2,000,000 line of credit. As of December 31, 2014, there were no draws on the line. The proceeds from the Term Loan were used to pay off the Industrial Development Revenue Bonds that were issued by a government agency in 1994 to finance the construction of the Company's headquarters/advanced technology facility and which matured on December 1, 2014.

In addition, the Company's wholly-owned subsidiary, The Ontario Knife Company (OKC) entered into a separate Loan Agreement with the Bank. The OKC Loan Agreement provides for a $2,000,000 seven-year term loan (the "OKC Term Loan"). The proceeds from the OKC Term Loan will be used to purchase equipment and expand/renovate the OKC facility in Franklinville, New York.

Borrowings under these Credit Facilities will bear interest, at the Company's option, at the Bank's Prime Rate or LIBOR plus 1.4%. Principal installments are payable on the Term Loan and the OKC Term Loan through December 1, 2021 with a balloon payment at maturity of the Term Loan. The Term Loan and Line of Credit are secured by all of the Company's equipment, receivables and inventory. The OKC Term Loan is secured by substantially all of OKC's equipment and is fully and unconditionally guaranteed by the Company.

The Company believes its cash generating capability and financial condition, together with available credit facilities will be adequate to meet our operating, investing and financing needs. At December 31, 2014, the Company has accrued for approximately $5,597,000 related to the adverse arbitration award. Subsequent to year end, the arbitration award was finalized and paid by the Company. In addition, the Company entered into an agreement with its insurance carrier related to the Company's claim for insurance for damages the Company suffered in connection with the arbitration. See Note 8, Commitments and Contingencies, and Note 12, Subsequent Events, of the accompanying consolidated financial statements for more information.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies

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

Revenue Recognition

Revenues are recognized as services are rendered or as units are shipped 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 costs incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out). Market provisions in respect of lower of cost or market adjustments and inventory expected to be used in greater than one year are applied to the gross value of the inventory. Pre-production and start-up costs are expensed as incurred.

Employee Benefit Plans

The Company provides a range of benefits to its current and retired employees. The Company records annual amounts relating to these plans based on calculations specified by GAAP, which includes various actuarial assumptions, such as discount rates, assumed rates of return on plan assets and health care cost trend rates. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on advice from its actuaries.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. We are subject to federal and multiple state income taxes. Significant judgments and estimates are required in determining the consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, insurance claims and other legal proceedings. We recognize liabilities when the loss is probable and can be reasonably estimated. Assets related to commitments and contingencies are recorded when gains are realized.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company which are included in this Form 10-K Annual Report are described in the accompanying Index to Consolidated Financial Statements on Page F1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(i) Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2014. Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in SEC reports under the Exchange Act (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.

(ii) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Under the supervision and with the participation of management, including the CEO and CFO, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the Company's evaluation under the framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

(iii) Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the fourth quarter of 2014 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the Company, compliance with Section 16(a) of the Securities Exchange Act and the Company's Audit Committee, its members and the Audit Committee financial expert is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2014 fiscal year or such information will be included by amendment to this Form 10-K.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct (the Code) that applies to all directors, officers and employees of the Company as required by the listing standards of the NYSE MKT. The Code is available on the Company's website at www.servotronics.com and the Company intends to disclose on this website any amendment to the Code. Waivers under the Code, if any, will be disclosed under the rules of the SEC and the NYSE MKT.

Item 11. Executive Compensation

Information regarding executive compensation is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2014 fiscal year or such information will be included by amendment to this Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the securities authorized for issuance under the Company's equity compensation plans as of December 31, 2014:

Plan category	Number of securities to be issued upon Exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	1,000	$4.70	135,000
Equity compensation plans not approved by security holders	-	-	-
Total	1,000	$4.70	135,000

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2014 fiscal year or such information will be included by amendment to this Form 10-K.

Also incorporated by reference is the information in the table under the heading "Company Purchases of Company's Equity Securities" included in Item 5 of this Form 10-K. See also Note 7, Shareholders' Equity, of the accompanying consolidated financial statements for more information.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2014 fiscal year or such information will be included by amendment to this Form 10-K.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2014 fiscal year or such information will be included by amendment to this Form 10-K.

PART IV

Item 15. The information in Part IV (except for the list of Exhibits and Signatures) is contained in the Company's Proxy Statement.

FORWARD-LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-K 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, global competition, 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 operations of the Company can be affected by the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those factors discussed elsewhere in this Form 10-K. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements.

SERVOTRONICS, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidating financial statement schedules are omitted because they are not applicable to smaller reporting companies.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Servotronics, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Servotronics, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Servotronics, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 8, 9, and 12, certain claims have been made against the Company by a former Executive Officer in connection with the termination of the Executive Officer's employment agreement, which had been pending in an arbitration proceeding. During the year ended December 31, 2014, the Company recorded an estimated loss of $5,597,000 related to this matter, which was concluded subsequent to December 31, 2014. Also discussed in Note 12, the Company recovered $4,500,000 from an insurance carrier related to this claim subsequent to December 31, 2014, which will be recorded in the first quarter of 2015.

/s/ Freed Maxick CPAs, P.C.
Buffalo, New York
March 20, 2015

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

	December 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 4,166	$ 4,502
Accounts receivable, net	6,022	4,990
Inventories, net	12,040	11,929
Prepaid income taxes	-	310
Deferred income taxes	2,812	747
Other assets	450	311
Total current assets	25,490	22,789
Property, plant and equipment, net	9,375	6,860
Other non-current assets	380	354
Total Assets	$ 35,245	$ 30,003
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 548	$ 2,641
Accounts payable	1,345	1,216
Accrued employee compensation and benefit costs	1,773	1,612
Accrued arbitration award and related liability	5,597	-
Accrued income taxes	31	-
Other accrued liabilities	444	297
Total current liabilities	9,738	5,766
Long-term debt	4,072	21
Deferred income taxes	555	482
Commitments and contingencies (See Note 8)	-	-
Shareholders' equity:		
Common stock, par value $.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,278,791 (2,285,883 - 2013) shares	523	523
Capital in excess of par value	14,068	14,024
Retained earnings	9,176	12,302
Accumulated other comprehensive loss	(14)	(26)
Employee stock ownership trust commitment	(964)	(1,065)
Treasury stock, at cost 158,862 (132,830 - 2013) shares	(1,909)	(2,024)
Total shareholders' equity	20,880	23,734
Total Liabilities and Shareholders' Equity	$ 35,245	$ 30,003

See notes to consolidated financial statements

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

	Years Ended December 31, 2014	Years Ended December 31, 2013
Revenue	$ 31,646	$ 30,310
Costs, expenses and other income:		
Cost of goods sold, exclusive of depreciation and amortization	24,525	22,799
Selling, general and administrative	5,580	5,638
Interest expense	47	41
Arbitration award expense	5,597	-
Depreciation and amortization	652	640
Other income, net	(16)	(42)
Total expenses	36,385	29,076
(Loss) income before income tax provision	(4,739)	1,234
Income tax provision	(1,613)	259
Net (loss) income	$ (3,126)	$ 975
(Loss) income per share:		
Basic		
Net (loss) income per share	$ (1.38)	$ 0.43
Diluted		
Net (loss) income per share	$ (1.38)	$ 0.43

See notes to consolidated financial statements

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

	Years Ended December 31, 2014	Years Ended December 31, 2013
Net (loss) income	$ (3,126)	$ 975
Other comprehensive income:		
Retirement benefits adjustment, net of income taxes	12	59
Total comprehensive (loss) income	**$(3,114)**	**$ 1,034**

See notes to consolidated financial statements

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

	Years Ended December 31, 2014	2013
Cash flows related to operating activities:		
Net (loss) income	$(3,126)	$ 975
Adjustments to reconcile net (loss) income to net cash generated in operating activities:		
Depreciation and amortization	652	640
Deferred income tax (benefit)	(1,993)	41
Stock based compensation	361	255
Increase (decrease) in inventory reserve	540	(64)
Decrease in allowance for doubtful accounts	(56)	(8)
Gain on disposal of property and equipment	-	(22)
Change in assets and liabilities:		
Accounts receivable	(976)	(124)
Inventories	(651)	(652)
Prepaid income taxes	310	98
Other assets	(139)	(5)
Other non-current assets	(38)	-
Accounts payable	129	165
Accrued employee compensation and benefit costs	173	279
Accrued arbitration award and related liability	5,597	-
Other accrued liabilities	147	(92)
Accrued income taxes	31	-
Employee stock ownership trust payment	101	100
Net cash generated in operating activities	1,062	1,586
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(3,154)	(1,563)
Proceeds from sale of assets	-	43
Net cash used in investing activities	(3,154)	(1,520)
Cash flows related to financing activities:		
Principal payments on long-term debt	(2,662)	(194)
Acquisition of long-term debt	4,620	-
Proceeds from exercise of stock options	-	70
Purchase of treasury shares	(202)	(607)
Cash dividend	-	(406)
Net cash generated (used) in financing activities	1,756	(1,137)
Net decrease in cash and cash equivalents	(336)	(1,071)
Cash and cash equivalents at beginning of period	4,502	5,573
Cash and cash equivalents at end of period	$4,166	$4,502

See notes to consolidated financial statements

1. 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.

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 Cash Equivalents

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

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 doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history of past write-offs, collections, and current credit conditions. The allowance for doubtful accounts amounted to approximately $66,000 at December 31, 2014 and $122,000 at December 31, 2013, respectively. The Company does not accrue interest on past due receivables.

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 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 expected to be used in greater than one year are applied to the gross value of the inventory through a reserve of approximately $1,254,000 and $714,000 at December 31, 2014 and December 31, 2013, 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 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.

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	5-40 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 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, combined New York and Texas state income tax returns and separate Pennsylvania and Arkansas income tax returns.

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 December 31, 2014 or December 31, 2013, and did not recognize any interest and/or penalties in its consolidated statements of operations during the years ended December 31, 2014 and 2013.

Supplemental Cash Flow Information

Income taxes paid (net of refunds) during the twelve month periods ended December 31, 2014 and 2013 amounted to $44,000 and $314,000, respectively. Interest paid during the twelve month periods ended December 31, 2014 and 2013 amounted to $33,000 and $41,000, respectively.

Employee Stock Ownership Plan

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

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment annually or whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable based on undiscounted future operating cash flow analyses. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal. The Company has determined that no impairment of long-lived assets existed at December 31, 2014 and December 31, 2013.

Use of Estimates

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

Reclassifications

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

Research and Development Costs

Research and development costs are expensed as incurred.

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.

During the Company's 2014 fiscal year, sales of advanced technology products pursuant to contracts with prime or subcontractors for various branches of the United States Government accounted for approximately 15% of the Company's consolidated revenues as compared to 17% in 2013. The Company's sales of advanced technology products to one customer, including various divisions and subsidiaries of a common parent company, amounted to approximately 31% in 2014 and 29% in 2013 of the Company's consolidated revenues. The Company also had sales to another ATG customer that amounted to approximately 16% and 11% of total consolidated revenues in 2014 and 2013, respectively. No other single customer of the ATG or CPG represented more than 10% of the Company's consolidated revenues in either of these years. Refer to Note 11, Business Segments, for disclosures related to business segments of the Company.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, 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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

2. Inventories

	December 31, 2014	December 31, 2013
	($000's omitted)	
Raw materials and common parts, net of reserve	$ 6,680	$ 6,832
Work-in-process, net of reserve	2,280	2,380
Finished goods, net of reserve	3,080	2,717
Total inventories	$12,040	$11,929

3. Property, Plant and Equipment

	December 31, 2014	December 31, 2013
	($000's omitted)	
Land	$ 21	$ 21
Buildings	7,916	7,851
Machinery, equipment and tooling	13,530	12,781
Construction in progress	2,817	477
	24,284	21,130
Less accumulated depreciation and amortization	(14,909)	(14,270)
Total property, plant and equipment	$ 9,375	$ 6,860

Property, plant and equipment includes land and building in Elma, New York, that was previously under a $5,000,000 capital lease and was purchased on December 1, 2014 for a nominal amount. As of December 31, 2014 and 2013, accumulated amortization on the building amounted to approximately $2,811,000 and $2,682,000, respectively. Amortization expense amounted to $130,000 for the twelve month periods ended December 31, 2014 and 2013, respectively. The associated current and long-term liabilities are discussed in Note 4, Long-Term Debt.

Depreciation expense amounted to $509,000 and $498,000 for the twelve month periods ended December 31, 2014 and 2013, respectively. The combined depreciation and amortization expense amounted to $652,000 and $640,000 the twelve month periods ended December 31, 2014 and 2013, respectively. The Company believes that it maintains property and casualty insurance in amounts adequate for the risk and nature of its assets and operations and which are generally customary in its industry.

As of December 31, 2014, there is approximately $2,529,000 of construction in progress included in property, plant and equipment related to a facility expansion and renovation project at the Consumer Products Group and $288,000 related to capital projects at the Advanced Technology Group. At December 31, 2013 there was approximately $477,000 of construction in progress related to these projects. See Note 8, Commitments and Contingencies.

4. Long Term Debt

	December 31, 2014	December 31, 2013
	($000's omitted)	
Term loan payable to a financial institution; interest rate option of bank prime or Libor plus 1.4% (3.25% at December 31, 2014); monthly principal payments of $21,833 through 2020 with a final payment of $786,000 due December 1, 2021	$ 2,620	$ -
Term loan payable to a financial institution; interest rate option of bank prime or Libor plus 1.4% (3.25% at December 31, 2014); monthly principal payments of $23,810 through December 2021	2,000	-
Industrial Development Revenue Bonds; secured by an equivalent letter of credit from a bank with interest payable monthly at a floating rate, paid in full during the fourth quarter of 2014	-	2,620
Secured term loan payable to a government agency; monthly payments of $1,950 including interest fixed at 3%, paid in full during the fourth quarter of 2014	-	42
	4,620	2,662
Less current portion	(548)	(2,641)
	$ 4,072	$ 21

The term loans are secured by all personal property of the Company with the exception of certain equipment that was purchased from proceeds of government grants.

Principal maturities of long-term debt are as follows: 2015 - $548,000, 2016 - $548,000, 2017 - $548,000, 2018 - $548,000, 2019 - $548,000 and thereafter - $1,881,000.

The Company also has an unsecured $2,000,000 line of credit on which there was no balance outstanding at December 31, 2014 or 2013.

Certain lenders require the Company to comply with debt covenants as described in the specific loan documents, including a debt service ratio. At December 31, 2014 and 2013, the Company was in compliance with its debt covenants.

5. Employee Benefit Plans

Employee Stock Ownership Plan (ESOP)

In 1985, the Company established an employee stock ownership plan (ESOP) for the benefit of employees who meet certain minimum age and service requirements. Upon inception of the ESOP, the Company borrowed $2,000,000 from a bank and lent the proceeds to the trust established under the ESOP to purchase shares of the Company's common stock. The Company's loan to the trust is at an interest rate approximating the prime rate and is repayable to the Company over a 40-year term ending in December 2024. During 1987 and 1988, the Company loaned an additional $1,942,000 to the trust under terms similar to those under the Company's original loan.

ESOP shares are held by the plan trustees in a suspense account until allocated to participant accounts. Each year the Company makes contributions to the trust sufficient to enable the trust to repay the principal and interest due to the Company under the trust loans. As the loans are repaid, shares are released from the suspense account pro rata based on the portion of the aggregate loan payments that are paid during the year. During 2010, the ESOP plan was amended to allow dividends on unallocated shares be distributed to participants in cash, unless otherwise directed. ESOP shares released from the suspense account are allocated to participants on the basis of their relative compensation in the year of allocation and/or on the participant's account balance. For this purpose, "compensation" means taxable pay.

If Servotronics shares are not readily tradable on an established securities market at the times of an ESOP participant's termination of employment or retirement and if such ESOP participant requests that his/her ESOP distributed shares be repurchased by the Company, the Company is obligated to do so. The Company's shares currently trade on NYSE MKT, formerly known as the American Stock Exchange. There were no outstanding shares subject to the repurchase obligation at December 31, 2014.

Since inception of the ESOP, 429,966 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2014 and 2013, 176,853 and 195,793 shares, respectively, remain unallocated.

Related compensation expense associated with the Company's ESOP, which is equal to the principal reduction on the loans receivable from the trust, amounted to $101,000 in 2014 and $100,000 in 2013, respectively. Included as a reduction to shareholders' equity is the ESOP trust commitment which represents the remaining indebtedness of the trust to the Company. Employees are entitled to vote allocated shares and the ESOP trustees are entitled to vote unallocated shares and those allocated shares not voted by the employees.

Other Postretirement Benefit Plans

The Company provides certain post retirement health and life insurance benefits for certain executives of the Company. Upon retirement and after attaining at least the age of 65, the Company will pay the annual cost of health insurance for the retired executives and dependents and will continue the Company provided life insurance offered at the time of retirement. The retiree's health insurance benefits ceases upon the death of the retired executive. The actuarially calculated future obligation of the benefits at December 31, 2014 and 2013 is $422,124 and $368,824, respectively, excluding the estimated liability related to post retirement benefits for the former Executive Officer discussed in Note 8, Commitments and Contingencies. Additional expense of approximately $71,000 per year is expected subsequent to December 31, 2014. Estimated future annual expenses associated with the plan are immaterial. Included in accumulated other comprehensive loss for 2014 and 2013 is approximately $14,000 and $26,000, respectively, net of deferred taxes, associated with the unrecognized service cost of the plan.

6. Income Tax Provision

The income tax provision from operations included in the consolidated statements of operations consists of the following:

	2014	2013
	($000's omitted)	
Current:		
Federal	$ 379	$ 215
State	6	5
	385	220
Deferred:		
Federal	(2,039)	30
State	41	9
	(1,998)	39
	$ (1,613)	$ 259

The reconciliation of the difference between the Company's effective tax rate based upon the total income tax provision from operations and the federal statutory income tax rate is as follows:

	2014	2013
Federal statutory rate	34.0%	34.0%
Business credits	1.4%	(9.0%)
ESOP dividend	-	(2.9%)
Domestic production activities deduction	(0.6%)	(2.2%)
Other	(0.2%)	0.3%
State income taxes (less federal effect)	(0.6%)	0.8%
Effective tax rate	34.0%	21.0%

At December 31, 2014 and 2013, the deferred tax assets (liabilities) were comprised of the following:

	2014	2013
	($000's omitted)	
Inventories	$ 493	$ 333
Accrued employee compensation and benefit costs	508	458
Accrued arbitration award and related liability	1,903	-
Operating loss and credit carryforwards	287	297
Other	45	64
Minimum pension liability	7	14
Total deferred tax assets	3,243	1,166
Valuation allowance	(295)	(279)
Net deferred tax asset	2,948	887
Property, plant and equipment	(691)	(622)
Total deferred tax liabilities	(691)	(622)
Net deferred tax asset	$ 2,257	$ 265

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the level of historical taxable income, the opportunity for net operating loss carrybacks, and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at December 31, 2014, except for a valuation allowance of $295,000 ($279,000 – 2013) related to certain state net operating loss carryforwards, state tax credit carryforwards and other state net deferred tax assets. At December 31, 2014, the Company has net operating loss carryforwards with full valuation allowances from Pennsylvania of approximately $2,240,000 ($2,240,000 – 2013) and Arkansas of approximately $2,530,000 ($2,515,000 – 2013), which begin to expire in 2019 and 2015, respectively. The Company also has a New York state tax credit carryforward at December 31, 2014 of approximately $63,000 ($80,000 – 2013), which begins to expire in 2025.

At December 31, 2013, the Company had a net operating loss carryforward with full valuation allowance from New York State of approximately $453,000, which no longer exists due to New York State tax law changes enacted during 2014.

There are no uncertain tax positions or unrecognized tax benefits for 2014 and 2013. The Company is subject to routine audits of its tax returns by the Internal Revenue Service and various state taxing authorities. The 2011 through 2013 Federal and state tax returns remain subject to examination.

7. Shareholders' Equity

($000's omitted except for share data)

	Common Stock							
	Number of shares issued	Amount	Capital in excess of par value	Retained earnings	ESOT	Treasury stock	Accumulated Other Comprehensive Loss	Total shareholders' equity
Balance at December 31, 2012	2,614,506	$ 523	$ 13,987	$ 11,771	$(1,165)	$(1,765)	$ (85)	$ 23,266
Net income	-	-	-	975	-	-	-	975
Retirement benefits adjustment	-	-	-	-	-	-	59	59
Compensation expense	-	-	-	-	100	-	-	100
Purchase of treasury shares	-	-	-	-	-	(607)	-	(607)
Stock based compensation	-	-	16	-	-	239	-	255
Cash dividend	-	-	-	(406)	-	-	-	(406)
Exercise of stock options net of tax benefit	-	-	21	(38)	-	109	-	92
Balance at December 31, 2013	2,614,506	$ 523	$ 14,024	$ 12,302	$(1,065)	$(2,024)	$ (26)	$ 23,734)
Net loss	-	-	-	(3,126)	-	-	-	(3,126)
Retirement benefits adjustment	-	-	-	-	-	-	12	12
Compensation expense	-	-	-	-	101	-	-	101
Purchase of treasury shares	-	-	-	-	-	(202)	-	(202)
Stock based compensation	-	-	44	-	-	317	-	361
Balance at December 31, 2014	2,614,506	$ 523	$ 14,068	$ 9,176	$ (964)	$(1,909)	$ (14)	$ 20,880

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. During the year ended, December 31, 2014, 8,687 (71,458 – 2013) shares were repurchased for $62,000 ($607,000 – 2013) and added to treasury stock. As of December 31, 2014, the Company has purchased 331,970 shares and there remain 118,030 shares available to purchase under this program.

On April 18, 2013, the Company issued 165,000 shares of restricted stock to Executive Officers of the Company under the Company's 2012 Long-Term Incentive Plan that was approved by the shareholders at the 2012 Annual Meeting of Shareholders. This plan authorizes the issuance of up to 300,000 shares. The restricted share awards vest over four year periods between January 2014 and January 2017; however, have voting rights and accrue dividends prior to vesting. The aggregate amount of expense to the Company, measured based on grant date fair value is expected to be $1,336,500 and will be recognized over the four year requisite service period. During the year ended December 31, 2014, there was $361,000 of compensation expense related to the restricted share awards, $255,000 of compensation expense was recognized in the comparable period ended December 31, 2013.

On January 1, 2014, 41,250 shares of restricted stock vested of which 17,345 shares were withheld, repurchased and added to treasury by the Company for approximately $140,000 to satisfy statutory minimum withholding tax requirements for those participants who elected this option as permitted under the Company's 2012 Long-Term Incentive Plan.

Other Comprehensive Loss

The only component of accumulated other comprehensive loss included in equity at December 31, 2014 is approximately $22,000 ($40,000 - 2013) of unrecognized actuarial losses and net transition obligations for post retirement, health and life insurance benefits (see Note 5, Employee Benefit Plans). These amounts are shown net of income tax benefit of $7,400 at December 31, 2014 ($14,000 - 2013). The current year impact on accumulated other comprehensive loss for the year ended December 31, 2014 is approximately $12,000 ($59,000 - 2013), net of income taxes of approximately $14,000 ($26,000 - 2013).

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 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.

	Years Ended December 31, 2014	Years Ended December 31, 2013
	($000's omitted except per share data)	
Net (loss) income	$ (3,126)	$ 975
Weighted average common shares outstanding (basic)	2,267	2,266
Incremental shares from assumed conversions of stock options	-	1
Weighted average common shares outstanding (diluted)	2,267	2,267
Basic		
Net (loss) income per share	$ (1.38)	$ 0.43
Diluted		
Net (loss) income per share	$ (1.38)	$ 0.43

Share Based Payments

Under the Servotronics, Inc. 2001 Long-Term Stock Incentive Plan authorized by the Board of Directors and the Shareholders, the Company has granted options to certain Directors, Officers and employees. No options were granted under this plan since 2005. Options granted under this plan have durations of ten years and all outstanding options are currently exercisable.

A summary of the status of options granted under all employee plans is presented below:

	Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($)
Outstanding and exercisable as of December 31, 2012	21,000	4.70	3.00	65,100
Granted in 2013	-	-		
Expired in 2013	5,000	4.70		
Exercised in 2013	15,000	4.70		
Outstanding and exercisable as of December 31, 2013	1,000	4.70	2.00	3,400
Outstanding and exercisable as of December 31, 2014	1,000	4.70	1.00	1,790

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on the closing stock price of $6.49 at December 31, 2014.

The Company's 2012 Long-Term Incentive Plan was approved by the shareholders at the 2012 Annual Meeting of Shareholders. This plan authorizes the issuance of up to 300,000 shares. On April 18, 2013, the Company issued 165,000 shares of restricted stock to Executive Officers of the Company. The restricted share awards vest over four year periods between January 2014 and January 2017; however, the restricted shares have voting rights and accrue dividends prior to vesting. The aggregate amount of expense to the Company, measured based on grant date fair value is expected to be $1,336,500 and will be recognized over the four year requisite service period. During the year ended December 31, 2014, there was $361,000 of compensation expense related to the restricted share awards, $255,000 of compensation expense was recognized in the comparable period ended December 31, 2013. As of December 31, 2014, there is approximately $720,000 of unrecognized compensation related to the unvested restricted shares which is expected to be recognized over the next 2.3 years.

A summary of the status of restricted share awards granted under all employee plans is presented below:

	Shares	Weighted Average Grant Date Fair Value
Restricted Share Activity:		
Unvested at December 31, 2013	165,000	$8.10
Granted in 2014	-	
Forfeited in 2014	-	
Vested in 2014	41,250	
Unvested at December 31, 2014	123,750	$8.10

Shareholders' Rights Plan

During 2012, the Company's Board of Directors adopted a shareholders' rights plan (the "Rights Plan") and simultaneously declared a dividend distribution of one right for each outstanding share of the Company's common stock outstanding at October 15, 2012. The Rights Plan replaced a previous shareholders rights plan that was adopted in 2002 and expired on August 28, 2012. The rights do not become exercisable until the earlier of (i) the date of the Company's public announcement that a person or affiliated group other than Dr. Nicholas D. Trbovich, Kenneth D. Trbovich or the ESOP trust (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 25% or more of the Company's common stock (excluding shares held by the ESOP trust) or (ii) ten business days following the commencement of a tender offer that would result in a person or affiliated group becoming an Acquiring Person.

The exercise price of a right has been established at $32.00. Once exercisable, each right would entitle the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock. In the event that any person becomes an Acquiring Person, each right would entitle any holder other than the Acquiring Person to purchase common stock or other securities of the Company having a value equal to three times the exercise price. The Board of Directors has the discretion in such event to exchange two shares of common stock or two one-hundredths of a share of preferred stock for each right held by any holder other than the Acquiring Person.

8. Commitments and Contingencies

Litigation. As previously disclosed by Servotronics, Inc. certain claims had been pending between the Company and a former Executive Officer of the Company in connection with the termination of the former Executive Officer's employment agreement. Such claims had been pending in an arbitration proceeding before a single arbitrator under the rules of the American Arbitration Association.

As of December 31, 2014, the Company has accrued for approximately $5,597,000 which represents $3,535,000 in damages, $726,000 in interest, and $891,000 in attorney fees based on a preliminary ruling made by the arbitrator on September 30, 2014, as well as $445,000 in estimated post-retirement health related benefits under the employment contract. See Note 12, Subsequent Events, for additional information.

The Company has pending litigation relative to leases of certain equipment and real property with a former related party, Aero, Inc. Aero, Inc. is suing Servotronics, Inc. and its wholly owned subsidiary and has alleged damages in the amount of $3,000,000. The Company has filed a response to the Aero, Inc. lawsuit and has also filed a counter-claim in the amount of $3,191,000. The Company has not considered the risk of loss to be probable and is unable to reasonably or accurately estimate the likelihood and amount of any liability or benefit that may be realized as a result of this litigation.

Leases. The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in the twelve month periods ended December 31, 2014 and 2013 and future minimum payments under such leases are not material to the consolidated financial statements.

Facility Expansion. As previously disclosed, the Company has commenced a multi-year investment plan designed to consolidate the operations of the CPG. The five year plan includes the construction of an approximate 28,000 square foot addition, capital improvements to the existing plant, the reconfiguration of its production process within the expanded facility, and the addition of new state of the art knife-making equipment. The Company broke ground in the second quarter of 2014 and has entered into contracts for site work and equipment purchases in connection with the project. The cost of the project is approximately $4,000,000 over a five year period of which $2,667,000 was completed at December 31, 2014. Costs for the project are being accounted for as construction in progress on the accompanying consolidated balance sheet and will be moved to property, plant and equipment when placed in service. The Ontario Knife Company was awarded certain incentives from the County of Cattaraugus Industrial Development Agency (CCIDA) in connection with the expansion of The Ontario Knife Company's facility in Franklinville, New York and other proposed capital expenditures. The incentives include certain real property tax and sales tax abatements in connection with the proposed project. The Ontario Knife Company entered into customary lease and leaseback arrangements with the CCIDA to facilitate the various tax incentives. The Company has also been awarded a $300,000 grant from Cattaraugus County, New York. The grant can be used towards the payment or reimbursement for work and/or materials, incurred or to be incurred in connection with the proposed expansion project. As part of the terms of the grant contract with Cattaraugus County, The Ontario Knife Company has agreed to maintain certain employment levels for a period of five years from the date of the agreement. As of December 31, 2014, the Company has received $128,345 under the grant and recorded the amount as a reduction to the asset. The Company was also awarded a $416,000 New York State Community Development Block Grant from the Office of Community Renewal. The grant can be used towards the purchase of equipment in connection with the proposed expansion project of which no amounts have been received or recorded by The Ontario Knife Company under this grant as of December 31, 2014.

Employment Agreements. The Company has entered into employment agreements with Dr. Nicholas D. Trbovich and Kenneth D. Trbovich pursuant to which they are entitled to receive minimum salary compensation of $578,300 and $300,000 per annum, respectively, or such greater amount as the Company's Board of Directors may approve/ratify and individual and spousal lifetime health and life insurance benefits. In the event of death or total disability during the term of the employment agreement, he or his estate is entitled to receive 50% of the compensation he is receiving from the Company at the time of his death or disability during the remainder of the term of the employment agreement. Also, in the event of (i) a breach of the agreement by the Company, (ii) a change in control of the Company, as defined, or (iii) a change in the responsibilities, positions or geographic office location, he is entitled to terminate the agreement and receive a payment of 2.99 times their average annual compensation from the Company for the preceding five years. If this provision is invoked and the Company makes the required payment, the Company will be relieved of any further salary liability under the agreement notwithstanding the number of years covered by the agreement prior to termination. The term of the agreement extends to and includes December 31, 2017 for Dr. Trbovich, and December 31, 2019 for Kenneth Trbovich provided however, the term of the agreement will be automatically extended for one additional year beyond its then expiration date unless either party has notified the other in writing that the term will not be extended. If the Company elects not to extend the agreement, he will be entitled to a severance payment equal to nine months' salary and benefits.

The Company provides certain post retirement health and life insurance benefits for Dr. Trbovich and Kenneth Trbovich. Upon retirement and after attaining at least the age of 65, the Company will pay for the retired executives and dependents health benefits and will continue the Company-provided life insurance offered at the time of retirement. The retiree's health insurance benefits ceases upon the death of the retired executive. See Note 5, Employee Benefit Plans—Other Postretirement Benefit Plans, for additional information.

9. Litigation

As previously disclosed by Servotronics, Inc. certain claims had been pending between the Company and a former Executive Officer of the Company in connection with the termination of the former Executive Officer's employment agreement. On September 30, 2014 an award was issued under the rules of the American Arbitration Association in favor of the former Executive Officer. The arbitrator issued a final award on February 23, 2015 and the Company paid the award on March 6, 2015. See Note 8, Commitments and Contingencies and Note 12, Subsequent Events, for additional information regarding the arbitration proceeding and award.

The Company has pending litigation relative to leases of certain equipment and real property with a former related party, Aero, Inc. Aero, Inc. is suing Servotronics, Inc. and its wholly owned subsidiary and has alleged damages in the amount of $3,000,000. The Company has filed a response to the Aero, Inc. lawsuit and has also filed a counter-claim in the amount of $3,191,000. The Company has not considered the risk of loss to be probable and is unable to reasonably or accurately estimate the likelihood and amount of any liability or benefit that may be realized as a result of this litigation.

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

10. Related Party Transactions

The Company incurred legal fees and disbursements of approximately $129,000 and $71,000 in 2014 and 2013, respectively, for services provided by a law firm that is owned by a member of the Company's Board of Directors.

11. 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.

As of December 31, 2014, the Company had assets of approximately $35,245,000 ($30,003,000 – December 31, 2013) of which approximately $23,092,000 ($19,816,000 – December 31, 2013) was for ATG and approximately $12,153,000 ($10,187,000 – December 31, 2013) was for CPG.

Information regarding the Company's operations in these segments is summarized as follows ($000s omitted):

	ATG Years ended December 31,		CPG Years ended December 31,		Consolidated Years ended December 31,	
	2014	2013	2014	2013	2014	2013
Revenues from unaffiliated customers	$ 25,021	$ 22,204	$ 6,625	$ 8,106	$ 31,646	$ 30,310
Cost of goods sold, exclusive of depreciation and amortization	(17,983)	(16,155)	(6,542)	(6,644)	(24,525)	(22,799)
Selling, general and administrative	(4,097)	(3,985)	(1,483)	(1,653)	(5,580)	(5,638)
Interest expense	(40)	(41)	(7)	-	(47)	(41)
Arbitration award expense	(5,597)	-	-	-	(5,597)	-
Depreciation and amortization	(468)	(452)	(184)	(188)	(652)	(640)
Other income, net	13	(2)	3	44	16	42
Income (loss) before income tax provision (benefit)	(3,151)	1,569	(1,588)	(335)	(4,739)	1,234
Income tax (benefit) provision	1,072)	329	(541)	(70)	(1,613)	259
Net (loss) income	$ (2,079)	$ 1,240	$(1,047)	$ (265)	$ (3,126)	$ 975
Capital expenditures	$ 803	$ 1,191	$ 2,351	$ 372	$ 3,154	$ 1,563

12. Subsequent Events

Final Arbitration Award. As previously disclosed in filings with the Securities and Exchange Commission ("SEC"), certain claims had been pending between the Company and a former Executive Officer of the Company (the "Former Employee"), in connection with the termination of the Former Employee's employment agreement effective October 20, 2012. Such claims had been pending in an arbitration proceeding before a single arbitrator under the rules of the American Arbitration Association.

On February 23, 2015, the arbitrator issued a final award in favor of the Former Employee. Pursuant to the material provisions of the arbitration award, the Company is to pay the Former Employee approximately $5,201,000 representing the final amount of the arbitration award, interest at the annual rate of 9% calculated from September 2012 through the date of the final award and attorney's fees and disbursements. The amount of the arbitration award represented the present value of the Former Employee's calculation of his estimated total compensation for the remainder of the term of the employment agreement (through December 2018). The Company is also expected to pay post-employment health related benefits for the former Executive Officer, which has been accrued as of December 31, 2014.

Agreement with respect to Insurance Claim. As previously disclosed, the Company has an employment practices liability insurance policy in place with a national insurer. On February 20, 2015, the Company entered into an agreement with its insurance carrier pursuant to which the Company received $4,500,000 from the carrier related to the Company's claim for insurance for damages the Company suffered in connection with the above arbitration proceeding. The insurance carrier also paid under the policy partial attorney fees incurred by the Company in defense of the arbitration. The Company expects to record the benefit from this agreement during the first quarter of 2015. The insurance proceeds will be used to pay the majority of the arbitration award with the remainder being paid by the Company using cash on hand.

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DIRECTORS

Dr. Nicholas D. Trbovich
Founder, Chairman of the Board of Directors and Chief Executive Officer, Servotronics, Inc.

Donald W. Hedges, Esq.
Attorney

Rigel D. Pirrone
Commander, United States Navy Reserve

Edward C. Cosgrove, Esq.
Attorney

Kenneth D. Trbovich
President, Servotronics, Inc.

OFFICERS

Dr. Nicholas D. Trbovich
Chief Executive Officer

Kenneth D. Trbovich
President

Cari L. Jaroslawsky, CPA
Treasurer
Chief Financial Officer

Salvatore San Filippo
Senior Vice President

James C. Takacs
Vice President

Bernadine E. Kucinski
Assistant Corporate Secretary

Registrar and Transfer Agent

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Canton, MA 02021-1011

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Independent Auditors

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Form 10-K Report

Servotronics' Annual Report to the Securities and Exchange Commission on Form 10-K (including related financial statements and schedules) for its fiscal year ended December 31, 2014 is available to all stockholders, without charge, upon written request. Written requests should be addressed to:

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