SERVOTRONICS, INC.

2015 Annual Report

ANNUAL MESSAGE

Dr. Nicholas D. Trbovich

Kenneth D. Trbovich

During 2015, Servotronics, Inc. delivered another year of strong growth with a focus on developing improved operational performance. We are pleased to report that the Company achieved considerable year-over-year revenue increases at both the Advanced Technology Group (ATG) and the Consumer Products Group (CPG). Efforts to develop new business secured record-breaking sales figures for the ATG while generating strong profitability for the Company. Revenue grew to $36,729,000 (16.1%) for the twelve month period ended December 31, 2015 with a resulting net income of $4,597,000 or $2.03 per diluted share. We believe that ongoing investments in our people, our equipment, and our infrastructure that were implemented in 2015 better position the Company to take advantage of growing demand for our products and services.

For over 56 years, Servotronics has earned the confidence of some of the world's largest and most prestigious companies including Boeing, Airbus, United Technologies, Honeywell, Rolls Royce, GE Aviation, Raytheon and others. Servotronics is the preferred supplier of control components on vital systems for many technologically advanced commercial and military aircraft programs. The ATG, in partnership with our customers, supports a wide range of platforms including the Boeing 787, Boeing 737 MAX, Boeing 777X, Airbus 320, Airbus A320 NEO, Airbus A350, Airbus A380, F-35 Lightning II, Gulfstream G650, CH-53K Helicopter, and KC-46A Tanker. These programs continue Servotronics' legacy that includes the early Boeing 700 and Airbus 300 series aircraft, F-14, F-15, F-16, and FA-18 E/F jet fighters, the M1 Abrams tank family, Apache Longbow and Blackhawk helicopters, and other land, sea, and air applications. Through the CPG, our products that include commercial and military grade knives and tools are distributed to dozens of countries around the world and through leading retailers including Amazon, Bass Pro, Cabela's, ACE Hardware, and Wal-Mart. Our Mission Statement declares that "Our Customers are our Partners" and it is evident that the strong partnerships developed by the ATG and the CPG, coupled with our operational capabilities, were driving factors in our success this past year.

The ATG achieved a record setting sales performance in 2015. ATG bookings were $31,970,000, surpassing the previous record of $26,903,000 in 2014 by over $5.0 million (18.8%). ATG revenues grew to $28,596,000, a more than $3.5 million increase (14.3%).

The ATG's focus for 2015 was securing new business while continuing to invest in key resources including new equipment as well as developing and growing our employee base. Our recruitment efforts have increased total headcount by over 12.2% from 2014 levels, with a focus on direct labor and key professional resources to support the growth in production capacities. We seek to further increase our total headcount by more than 15% in 2016. In tandem with the recruitment programs, our senior management continued to implement planned modifications to our organizational structure, which are designed to position Servotronics to respond to growing demand. This reorganization continues to emphasize the core functional areas within the Company such as sales, operations, and finance, while developing stronger competitive advantages in human resources, information technology, and long-term strategic planning.

The CPG's performance in 2015 was a solid step in the right direction, with bookings improving to $8,115,000 in 2015, a $1.0 million increase (14.0%). CPG revenue grew by $1.5 million (22.8%) to $8,133,000 in 2015. The CPG's efforts to develop new business and improve manufacturing efficiencies are ongoing.

Operations at the CPG during 2015 focused on realizing growth opportunities generated by the implementation of our long-term strategic capital investments in the group's primary business unit, The Ontario Knife Company (OKC), and the development of new products, services, and markets. Management was proud to mark the ribbon cutting for the Company's new 28,000 square foot expansion, which includes a global distribution center, expanded machine shop, improved quality lab, and the addition of an injection molding and tooling division. Other accomplishments during 2015 include establishing new relationships with product designers and the expansion of OKC's distribution network including the addition of OKC products to Wal-Mart stores.

At the corporate level, the Company continued the expansion of its Board of Directors with the appointment of Lucion P. Gygax as an Independent Director. Mr. Gygax has over 25 years of experience as an entrepreneur, logistics specialist, former noncommissioned officer and later officer in the United States Army and the Army National Guard. A decorated soldier and veteran of the Gulf and Iraq wars, he is the recipient of the Bronze Star Medal and the Meritorious Service Medal. Mr. Gygax's leadership experience and logistical expertise compliments the diverse experience of the Company's Board.

In closing, we are pleased with our accomplishments in 2015 and it is our intention to continue our strong growth trend through 2016 and beyond. We appreciate the dedication, loyalty, and contributions of our Employees, Officers, Directors, and Shareholders as we continue our efforts to expand our Company. Thank you.

Nicholas D. Trbovich

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

Kenneth D. Trbovich

KENNETH D. TRBOVICH
Director and President

TABLE OF CONTENTS

Annual Message 1

Table of Contents 3

Form 10-K 4

PART I

Item 1. Business 5

Item 1A. Risk Factors 7

Item 1B. Unresolved Staff Comments 8

Item 2. Properties 8

Item 3. Legal Proceedings 8

Item 4. Mine Safety Disclosures 8

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 9

Item 6. Selected Financial Data 10

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 10

Item 7A. Quantitative and Qualitative Disclosures About Market Risk 16

Item 8. Financial Statements and Supplementary Data 16

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 17

Item 9A. Controls and Procedures 17

Item 9B. Other Information 17

PART III

Item 10. Directors, Executive Officers and Corporate Governance 18

Item 11. Executive Compensation 18

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 18

Item 13. Certain Relationships and Related Transactions and Director Independence 19

Item 14. Principal Accountant Fees and Services 19

PART IV

Item 15. The information in Part IV (except the list of Exhibits and Signatures) is contained in the Company's Proxy Statement 19

FORWARD-LOOKING STATEMENTS 19

Consolidated Financial Statements F1-F22

Directors and Officers .... Inside Back Cover

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, 2015

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 30, 2015 $6.65 (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 $10,729,652.

As of February 29, 2016 the number of $.20 par value common shares outstanding was 2,421,774.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2016 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, tools and specialty consumer products 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 equipment and gear including 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 and high carbon

steels, titanium, or synthetic materials 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.

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. The Company's sales of advanced technology products are concentrated within a small group of customers with three customers accounting for 54% of the Company's total revenue in 2015. See Note 1, Business Description and Summary of Significant Accounting Policies – Concentration of Credit Risks, of the accompanying consolidated financial statements for information related to sales concentrations.

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 direct to consumer, through national and international distributors, and through retailers such as big box, hardware, supermarket, variety, department, discount, gift, drug, outdoors and sporting stores. 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 less than 1% of the Company's consolidated revenues in 2015 as compared to 2% in 2014. Additionally, the Company provides 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 2015 or 2014. 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 2015 and 2014 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, 2015, had 304 employees of which 289 are full time and are located in Western New York. Approximately 79% of its employees are engaged in production, inspection, packaging or shipping activities. The balance is engaged in executive, engineering, administrative, clerical or sales capacities. None are subject to a collective bargaining agreement.

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	137,000

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

As previously disclosed by the Company, an arbitrator issued a final award on February 23, 2015 in connection with the termination of the Former Employee's employment agreement and the Company paid the award on March 6, 2015. See Note 8, Commitments and Contingencies, for additional information regarding the arbitration proceeding and award and other litigation matters.

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 2015 and 2014.

	High	Low
2015		
Fourth Quarter	$ 8.55	$ 6.76
Third Quarter	7.75	6.03
Second Quarter	7.06	6.31
First Quarter	6.89	6.05
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

(b) Approximate Number of Holders of Common Stock

Title of class	Approximate number of record holders (as of February 29, 2016)
Common Stock, $.20 par value per share	297

(c) Dividends on Common Stock

On May 29, 2015, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was subsequently paid on July 15, 2015 to shareholders of record on June 30, 2015 and was approximately $375,000 in the aggregate. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis. The amount is recorded as a reduction to retained earnings on the accompanying consolidated balance sheet. No cash dividends were paid in 2014.

(d) Company Purchases of Company's Equity Securities

2015 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	17,435(2)	$6.49	-	118,030
April - June	-	-	-	118,030
July - September	-	-	-	118,030
October-December	-	-	-	118,030
Total	17,435	$6.49	-	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. As of December 31, 2015, the Company has purchased 331,970 shares and there remain 118,030 shares available to purchase under this program. There were no shares purchased by the Company in 2015.

(2) Includes 17,435 shares withheld/purchased by the Company in January 2015 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, targeted year to year price reductions and/or year to year price adjustments predicated on mutually agreed indices and/or a combination of some or all of the above described pricing arrangements and/or otherwise. Therefore, productivity improvements and cost containment strategies are continuously sought within 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.

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.

As previously disclosed in 2013, the Company commenced a multi-year investment plan designed to consolidate the operations of the CPG. See Note 8, Commitments and Contingencies, for additional information regarding the Facility Expansion.

Management Discussion

During the years ended December 31, 2015 and 2014, approximately 11% and 17%, 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 $1,353,000 and $1,130,000 from the prior year during 2015 and 2014, 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 and threats 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 business development efforts in its primary markets and is broadening its activities to include new domestic and foreign markets that are consistent with its core competencies. We believe our business remains particularly well positioned in the strong commercial aircraft market driven by the replacement of older aircraft with more fuel efficient alternatives and the increasing demand for air travel in emerging markets. Although the ATG backlog continues to be strong, actual scheduled shipments may be delayed/changed as a function of the Company's customers final delivery determinations that may be based on changes in the global economy and other factors.

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, in response to recent and ongoing reductions in military spending. 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 income (loss) data for the years ended December 31, 2015 and 2014 ($000's omitted).

	Twelve Months Ended December 31,				2015 vs 2014	
	2015		2014		Dollar	% Increase
	Dollars	% of Sales	Dollars	% of Sales	Change	(Decrease)
Revenue:						
Advanced Technology	$28,596	77.9%	$ 25,021	79.1%	$ 3,575	14.3%
Consumer Products	8,133	22.1%	6,625	20.9%	1,508	22.8%
	36,729	100.0%	31,646	100.0%	5,083	16.1%
Cost of goods sold, exclusive of depreciation and amortization	27,641	75.3%	24,525	77.5%	3,116	12.7%
Selling, general and administrative	6,162	16.8%	5,580	17.6%	582	10.4%
Depreciation and amortization	718	2.0%	652	2.1%	66	10.1%
Arbitration award expense	50	0.1%	5,597	17.7%	(5,547)	(99.1%)
Insurance proceeds – arbitration	(4,500)	(12.3%)	-	-	(4,500)	-
Total costs and expenses	30,071	81.9%	36,354	114.9%	(6,283)	(17.3%)
Operating income, net	6,658	18.1%	(4,708)	(14.9%)	11,366	241.4%
Interest expense	70	0.2%	47	0.1%	23	48.9%
Other income, net	(140)	(0.4%)	(16)	(0.1%)	(124)	775.0%
Income tax provision (benefit)	2,131	5.8%	(1,613)	(5.1%)	3,744	232.1%
Net income (loss)	$ 4,597	12.5%	$ (3,126)	(9.8%)	$ 7,723	247.1%

Revenue

The Company's consolidated revenues from operations increased approximately $5,083,000 or 16.1% for the twelve month period ended December 31, 2015 when compared to the same period in 2014. The increase in revenue is attributable to an increase in commercial shipments of $4,593,000 at the ATG and an increase of $1,843,000 at the CPG due to a growth in commercial cutlery sales and revenues from the new molding product line developed in 2014. Revenues from shipments to the Government and its prime vendors at the ATG and CPG decreased approximately $1,018,000 and $335,000, respectively, for the twelve month period ended December 31, 2015 when compared to the same period in 2014 due to previously reported budget cuts for military spending and vagaries inherent in the Government procurement process and programs.

Cost of Goods Sold

Cost of goods sold increased approximately $3,116,000 or 12.7% for the twelve month period ended December 31, 2015 when compared to the same period in 2014. The increase in costs is primarily attributable to increased sales volume. Cost of goods sold, as a percentage of revenue, decreased from 77.5% to 75.3% due in part to the mix of product sold as well as the realization of certain expected operational efficiencies attributable to increased production volumes for in-house and outsourced operations. Total employment levels grew from 271 employees at December 31, 2014 to 304 employees at December 31, 2015. The increase in employees is in response to an increase in product demand both at the ATG and CPG as evidenced by an increase in the value of purchase orders placed of 19% at the ATG and 14% at the CPG when comparing 2015 to 2014.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased approximately $582,000 or 10.4% for the twelve month period ended December 31, 2015 compared to the same period in 2014. Approximately 65% of SG&A expense relates to labor and labor related costs. Such expenses increased approximately $582,000 primarily due to an increase in salaries, wages and employee benefit costs for new and existing employees. Approximately 10% of SG&A expense is attributable to professional and legal services, such costs decreased approximately $183,000 due to a reduction in legal expenses associated with the previously disclosed arbitration proceedings with a former Executive Officer 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 increased approximately $30,000.

Depreciation and Amortization Expense

Depreciation and amortization expense increased approximately $66,000 or 10.1% for the twelve month period ended December 31, 2015 compared to the same period in 2014 primarily due to the assets related to CPG expansion and renovation being placed in service in 2015. Depreciation expense fluctuates due to variable estimated useful lives of depreciable property (as identified in Note 1, Business Description and 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 and related depreciation and amortization expense 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 capital expenditures.

Arbitration Award Expense

As discussed in Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements, in 2014 the Company accrued for approximately $5,597,000 related to an arbitration award originally issued on September 30, 2014 and finalized on February 23, 2015. The Company incurred approximately $50,000 in additional award interest in the first quarter of 2015 prior to payment of the award on March 6, 2015. The Company does not expect to have any further material expenditures related to the arbitration.

Insurance Proceeds - Arbitration

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 previously discussed arbitration proceeding. The insurance carrier also paid under the policy partial attorney fees incurred by the Company in defense of the arbitration. The insurance proceeds were used to pay the majority of the arbitration award with the remainder being paid by the Company using cash on hand. See also Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements for more information.

Interest Expense

Interest expense increased approximately $23,000 or 48.9% for the twelve month period ended December 31, 2015 compared to the same period in 2014 due to the Company's refinancing of debt in

December of 2014 related to the capital investment at the CPG manufacturing facility. See also Note 4, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

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 31.7% in 2015 and 34.0% in 2014. The effective tax rate in both years reflects federal and state income taxes, permanent non-deductible expenditures. The effective tax rate was lower in 2015 due to the Company taking advantage of manufacturing tax credits. See also Note 6, Income Taxes, 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 temporary differences between the carrying amounts and the tax basis of assets and liabilities, as well as net operating loss and tax credit carryforwards.

Net Income

Income from operations increased approximately $7,723,000 or 247.1% when comparing the twelve month period ended December 31, 2015 to the same period in 2014. This increase is the result of increases in revenues, reduction in the effective tax rate, timing difference in the recognition of the pretax expense of approximately $5,597,000 associated with the arbitration award in 2014 as well as a pretax $4,500,000 insurance settlement received on February 20, 2015 as discussed in Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements.

Liquidity and Capital Resources

The Company's primary liquidity and capital requirements relate to working capital needs; primarily inventory, accounts receivable and accounts payable, capital expenditures for property, plant and equipment and principal payments on debt. At December 31, 2015, the Company had working capital of approximately $19,959,000 ($16,197,000 – 2014) of which approximately $3,268,000 ($4,166,000 – 2014) was comprised of cash and cash equivalents.

The Company generated approximately $1,231,000 in cash from operations during the twelve months ended December 31, 2015 as compared to $1,062,000 during the twelve months ended December 31, 2014. Cash was generated primarily through net income of approximately $4,597,000, the noncash effect of deferred income taxes, timing differences in payments to vendors as well as $4,500,000 received from the insurance settlement as discussed in Note 8, Commitments and Contingencies, of the accompanying consolidated financial statements.

The primary use of cash for the Company's operating activities for the twelve months ended December 31, 2015 include working capital requirements, mainly an increase in inventory of approximately $447,000, timing differences on collections of accounts receivable of approximately $816,000 as well as a $5,201,000 payment for the arbitration award. Cash generated and used in operations is consistent with sales volume, customer expectations and competitive pressures.

The Company's primary use of cash in its financing and investing activities in the twelve months ended December 31, 2015 included approximately $548,000 in current principal payments on long-term

debt, approximately $375,000 for cash dividends paid on July 15, 2015 as well as approximately $114,000 for the purchase of treasury shares. The Company also expended approximately $1,132,000 for capital expenditures that include payments for the expansion at the 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, which replaced the Company's previous $2,000,000 line of credit, was renewed on May 28, 2015 and is available until June 22, 2016, unless subsequently renewed. As of December 31, 2015, 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 are being 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 future operating, investing and financing needs.

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. 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.

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, 2015. 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, 2015.

(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 2015 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 2015 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 2015 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, 2015:

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	-	-	169,780
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	169,780

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 2015 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 2015 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 2015 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

	Page
Report of Independent Registered Public Accounting Firm	F2
Consolidated Balance Sheets at December 31, 2015 and 2014	F3
Consolidated Statements of Income (Loss) for the years ended December 31, 2015 and 2014	F4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015 and 2014	F5
Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014	F6
Notes to Consolidated Financial Statements	F7-F21

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, 2015 and 2014, and the related consolidated statements of income (loss), 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, 2015 and 2014, 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 and 9, 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 8, the Company recovered $4,500,000 from an insurance carrier related to this claim subsequent to December 31, 2014, which was recorded in the first quarter of 2015.

/s/ Freed Maxick CPAs, P.C.
Buffalo, New York
March 21, 2016

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

	December 31, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$ 3,268	$ 4,166
Accounts receivable, net	6,838	6,022
Inventories, net	12,487	12,040
Prepaid income taxes	177	-
Deferred income taxes	1,155	2,812
Other current assets	326	450
Total current assets	24,251	25,490
Property, plant and equipment, net	9,755	9,375
Other non-current assets	368	380
Total Assets	$ 34,374	$ 35,245
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 548	$ 548
Accounts payable	1,518	1,345
Accrued employee compensation and benefit costs	1,852	1,773
Accrued arbitration award liability	-	5,152
Accrued income taxes	-	31
Other accrued liabilities	374	444
Total current liabilities	4,292	9,293
Long-term debt	3,524	4,072
Accrued arbitration award liability	471	445
Deferred income taxes	645	555
Shareholders' equity:		
Common stock, par value $.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,280,813 (2,278,791 - 2014) shares	523	523
Capital in excess of par value	14,092	14,068
Retained earnings	13,395	9,176
Accumulated other comprehensive loss	(3)	(14)
Employee stock ownership trust commitment	(863)	(964)
Treasury stock, at cost 175,297 (158,862 - 2014) shares	(1,702)	(1,909)
Total shareholders' equity	25,442	20,880
Total Liabilities and Shareholders' Equity	$ 34,374	$ 35,245

See notes to consolidated financial statements

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

	Years Ended December 31, 2015	Years Ended December 31, 2014
Revenue	$ 36,729	$ 31,646
Cost, expenses and other income:		
Cost of goods sold, exclusive of depreciation and amortization	27,641	24,525
Selling, general and administrative	6,162	5,580
Interest expense	70	47
Arbitration award expense	50	5,597
Insurance proceeds - arbitration	(4,500)	-
Depreciation and amortization	718	652
Other income, net	(140)	(16)
Total expenses	30,001	36,385
Income (loss) before income tax provision	6,728	(4,739)
Income tax provision (benefit)	2,131	(1,613)
Net income (loss)	$ 4,597	$ (3,126)
Income (loss) per share:		
Basic		
Net income (loss) per share	$ 2.11	$ (1.46)
Diluted		
Net income (loss) per share	$ 2.03	$ (1.38)

See notes to consolidated financial statements

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

	Years Ended December 31, 2015	Years Ended December 31, 2014
Net income (loss)	$ 4,597	$ (3,126)
Other comprehensive income:		
Retirement benefits adjustment, net of income taxes	11	12
Total comprehensive income (loss)	$ 4,608	$ (3,114)

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000's omitted)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows related to operating activities:		
Net income (loss)	$ 4,597	$(3,126)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	718	652
Deferred income tax (benefit)	1,741	(1,993)
Stock based compensation	361	361
Increase in inventory reserve	175	540
Increase (decrease) in allowance for doubtful accounts	22	(56)
Loss on disposal of property and equipment	5	-
Change in assets and liabilities:		
Accounts receivable	(838)	(976)
Inventories	(622)	(651)
Prepaid income taxes	(190)	310
Other current assets	124	(139)
Other non-current assets	12	(38)
Accounts payable	173	129
Accrued employee compensation and benefit costs	79	173
Accrued arbitration award liability	(5,126)	5,597
Other accrued liabilities	(70)	147
Accrued income taxes	(31)	31
Employee stock ownership trust payment	101	101
Net cash provided by operating activities	1,231	1,062
Cash flows related to investing activities:		
Capital expenditures – property, plant and equipment	(1,132)	(3,154)
Proceeds from sale of assets	33	-
Net cash used in investing activities	(1,099)	(3,154)
Cash flows related to financing activities:		
Proceeds from long-term debt	-	4,620
Principal payments on long-term debt	(548)	(2,662)
Proceeds from exercise of stock options	7	-
Purchase of treasury shares	(114)	(202)
Cash dividend	(375)	-
Net cash (used in) provided by financing activities	(1,030)	1,756
Net decrease in cash and cash equivalents	(898)	(336)
Cash and cash equivalents at beginning of year	4,166	4,502
Cash and cash equivalents at end of year	$ 3,268	$ 4,166

See notes to consolidated financial statements

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 $88,000 at December 31, 2015 and $66,000 at December 31, 2014. 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 $1,429,000 and $1,254,000 at December 31, 2015 and December 31, 2014, 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 or minimum stocking requirements, certain larger quantities of other product support items may have to be purchased and may result in over one year's supply.

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.

In 2015, the Company's CPG received $700,000 in County and State grants that were used towards the purchase of machinery and equipment. The Company recorded the grant proceeds as a reduction to the carrying value of the related assets. See Note 8, Commitments and Contingencies for more information related to the facility expansion and subject grants.

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 temporary differences between the carrying amounts and the tax basis of assets and liabilities, as well as operating loss and credit carryforwards. The Company and its subsidiaries file a consolidated federal income tax return, combined New York 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, 2015 or December 31, 2014, and did not recognize any interest and/or penalties in its consolidated statements of income during the years ended December 31, 2015 and 2014. The Company did not have any uncertain tax positions or unrecognized tax benefits or obligations as of December 31, 2015 and December 31, 2014. The 2012 through 2014 federal and state tax returns remain subject to examination.

Supplemental Cash Flow Information

Income taxes paid during the twelve months ended December 31, 2015 amounted to approximately $622,000. Income taxes paid (net of refunds) during the twelve months ended December 31, 2014 amounted to approximately $44,000. Interest paid during the twelve month periods ended December 31, 2015 and 2014 amounted to approximately $77,000 and $33,000, 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, 2015 and December 31, 2014.

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 2015 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 10% of the Company's consolidated revenues as compared to 15% in 2014. The Company's sales of advanced technology products to one customer, including various divisions and subsidiaries of a common parent company, amounted to approximately 28% in 2015 and 31% in 2014 of the Company's consolidated revenues. The Company also had sales to another ATG customer that amounted to approximately 16% of total consolidated revenues in 2015 and 2014, 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, their fair value approximates the carrying amount.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The Company plans to adopt ASU 2015-03 effective January 1, 2016; as such, the Company plans to present debt issuance costs as a direct deduction from the carrying amounts of its debt liabilities and to provide all necessary disclosures beginning with the Form 10-Q for the period ended March 31, 2016.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which adds comments from the Securities and Exchange Commission (SEC) addressing ASU 2015-03, as discussed on the previous page, and debt issuance costs related to line-of-credit arrangements. The SEC commented it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company plans to adopt ASU 2015-15 in connection with its adoption of ASU 2015-03 effective January 1, 2016. The Company does not anticipate the adoption of ASU 2015-15 will have a material impact on the Company's financial condition or results of operations.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." The ASU changes the measurement principle for certain inventory methods from the lower of cost or market to the lower of cost and net realizable value. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the guidance to determine the impact it may have to its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new revenue recognition standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In August 2015, the FASB affirmed its proposal to defer the effective date of the standard to annual reporting periods (and interim reporting periods within those years) beginning after December 15, 2017. Entities are permitted to apply the new revenue standard early, but not before the original effective date of annual periods beginning after December 15, 2016. The standard shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance becomes effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the guidance to determine the impact it may have to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." There are elements of the new standard that could impact almost all entities to some extent, although the lessees will likely see the most significant changes. Lessee will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and a lease liability. Public business entities are required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019. Early adoption is permitted. The Company has not yet performed an assessment of the impact on the financial statements and disclosures.

2. Inventories

	December 31, 2015	December 31, 2014
	($000's omitted)	
Raw material and common parts, net of reserve	$ 6,627	$ 6,680
Work-in-process, net of reserve	2,699	2,280
Finished goods, net of reserve	3,161	3,080
Total inventories	$ 12,487	$ 12,040

3. Property, Plant and Equipment

	December 31, 2015	December 31, 2014
	($000's omitted)	
Land	$ 21	$ 21
Buildings	10,343	7,916
Machinery, equipment and tooling	14,934	13,530
Construction in progress	57	2,817
	25,355	24,284
Less accumulated depreciation and amortization	(15,600)	(14,909)
Total property, plant and equipment	$ 9,755	$ 9,375

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, 2015 and 2014, accumulated depreciation on the building amounted to approximately $2,937,000 and $2,811,000, respectively. The associated current and long-term liabilities are discussed in Note 4, Long-Term Debt.

Depreciation and amortization expense amounted to $718,000 and $652,000 for the twelve month periods ended December 31, 2015 and 2014, 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, 2015 there is approximately $57,000 of construction in progress included in property, plant and equipment all of which is related to capital projects at the Advanced Technology Group. Comparatively, there was approximately $2,817,000 of construction in progress at December 31, 2014 of which $2,529,000 was for the facility expansion and renovation project at the Consumer Products Group and $288,000 related to projects at the Advanced Technology Group. See also Note 8, Commitments and Contingencies for more information on the facility expansion.

4. Long-Term Debt

	December 31, 2015	December 31, 2014
	($000's omitted)	
Term loan payable to a financial institution; Interest rate option of bank prime or Libor plus 1.4% (1.64% as of December 31, 2015); monthly principal payments of $21,833 through 2020 with a balloon payment of $786,000 due December 1, 2021	$ 2,358	$ 2,620
Term loan payable to a financial institution; Interest rate option of bank prime or Libor plus 1.4% (1.64% as of December 31, 2015); monthly principal payments of $23,810 through 2021	1,714	2,000
	4,072	4,620
Less current portion	(548)	(548)
	$ 3,524	$ 4,072

Principal maturities of long-term debt are as follows: 2017 - $548,000, 2018 - $548,000, 2019 - $548,000, 2020 - $548,000 and thereafter - $1,332,000.

The Company also has a $2,000,000 line of credit on which there was no balance outstanding at December 31, 2015 and December 31, 2014.

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

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, 2015 and December 31, 2014 the Company was in compliance with these 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, 2015.

Since inception of the ESOP, 421,971 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2015 and 2014, 158,396 and 176,853 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 approximately $101,000 in 2015 and 2014, 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 Post-Retirement Benefit Plans

The Company provides certain postretirement 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 their 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, 2015 and 2014 is $497,635 and $422,124, respectively, excluding the estimated liability related to post retirement benefits for the for Executive Officer discussed in Note 8, Commitments and Contingencies. Additional expense of approximately $92,000 per year is expected to be paid subsequent to December 31, 2015. Estimated future annual expenses associated with the plan are immaterial. Included in accumulated other comprehensive loss for 2015 and 2014 is approximately $3,000 and $14,000, respectively, net of deferred taxes, associated with the unrecognized service cost of the plan.

6. Income Taxes

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

	2015	2014
	($000's omitted)	
Current:	$ 387	$ 379
Federal	3	6
State	390	385
Deferred:	1,741	(2,039)
Federal	-	41
State	1,741	(1,998)
	$ 2,131	$ (1,613)

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:

	2015	2014
Federal statutory rate	34.0%	34.0%
Business credits	(1.8%)	1.4%
ESOP dividend	(0.4%)	-
Domestic production activities deduction	(0.2%)	(0.6%)
Other	0.1%	(0.2%)
State income taxes (less federal effect)	-	(0.6%)
Effective tax rate	31.7%	34.0%

At December 31, 2015 and 2014, the deferred tax assets (liabilities) were comprised of the following:

	2015	2014
	($000s omitted)	
Deferred tax assets:		
Inventories	$ 665	$ 493
Accrued employees compensation and benefits costs	612	508
Accrued arbitration award and related liability	160	1,903
Net operating loss and credit carryforwards	388	287
Other	52	45
Minimum pension liability	2	7
Total deferred tax assets	1,879	3,243
Valuation allowance	(397)	(295)
Net deferred tax asset	1,482	2,948
Deferred tax liabilities:		
Property, plant and equipment	(972)	(691)
Total deferred tax liabilities	(972)	(691)
Net deferred tax asset	$ 510	$ 2,257

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, 2015, except for a valuation allowance of $397,000 ($295,000 – 2014) related to certain state net operating loss carryforwards, state tax credit carryforwards and other state net deferred tax assets. At December 31, 2015, the Company has net operating loss carryforwards with full valuation allowances from Pennsylvania of approximately $2,240,000 ($2,240,000 – 2014) and Arkansas of approximately $2,530,000 ($2,530,000 – 2014), which begin to expire in 2019 and 2016, respectively. The Company also has a New York state tax credit carryforward at December 31, 2015 of approximately $217,000 ($63,000 – 2014), which begins to expire in 2025.

There are no uncertain tax positions or unrecognized tax benefits for 2015 and 2014. The Company is subject to routine audits of its tax returns by the Internal Revenue Service and various state taxing authorities. The 2012 through 2014 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, 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
Net income	-	-	-	4,597	-	-	-	4,597
Retirement benefits adjustment	-	-	-	-	-	-	11	11
Compensation expense	-	-	-	-	101	-	-	101
Purchase of treasury shares	-	-	-	-	-	(114)	-	(114)
Cash dividend	-	-	-	(375)	-	-	-	(375)
Exercise of stock options, net of tax benefit	-	-	-	(3)	-	7	-	4
Stock based compensation, net of tax benefit	-	-	24	-	-	314	-	338
Balance at December 31, 2015	2,614,506	$ 523	$ 14,092	$ 13,395	$ (863)	$ (1,702)	$ (3)	$ 25,442

The Company's Board of Directors authorized the purchase of up to 450,000 shares of its common stock in the open market or in privately negotiated transactions. As of December 31, 2015, the Company has purchased 331,970 shares and there remain 118,030 shares available to purchase under this program. There were no shares purchased by the Company in 2015.

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 years ended December 31, 2015 and 2014, there was approximately $361,000, respectively, of compensation expense related to the restrictive share awards.

On January 1, 2015, 41,250 shares of restricted stock vested of which 17,435 shares were withheld and repurchased by the Company for approximately $114,000 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.

On May 29, 2015, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was subsequently paid on July 15, 2015 to shareholders of record on June 30, 2015 and was approximately $375,000 in the aggregate. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis. The amount is recorded as a reduction to retained earnings on the accompanying consolidated balance sheet.

Earnings Per Share

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

	Years Ended December 31,	
	2015	2014
	($000's omitted except per share data)	
Net income (loss)	$ 4,597	$ (3,126)
Weighted average common shares outstanding (basic)	2,182	2,143
Unvested restricted stock	82	124
Weighted average common Shares outstanding (diluted)	2,264	2,267
Basic		
Net income (loss) per share	$ 2.11	$ (1.46)
Diluted		
Net income (loss) per share	$ 2.03	$ (1.38)

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, 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
Outstanding and exercisable as of December 31, 2015	-	-	-	-

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 years ended December 31, 2015 and 2014, there was $361,000 of compensation expense related to the restricted share awards. As of December 31, 2015, there is approximately $361,000 of unrecognized compensation related to the unvested restricted shares which is expected to be recognized over the next year.

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, 2014	123,750	$8.10
Granted in 2015	-	
Forfeited in 2015	-	
Vested in 2015	41,250	
Unvested at December 31, 2015	82,500	$8.10

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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. Accordingly, no gain or loss has been recognized in the accompanying financial statements related to this litigation.

Final Arbitration Award. As previously disclosed in filings with the Securities and Exchange Commission ("SEC"), in the first quarter of 2015 the Company paid a former Executive Officer of the Company (the "Former Employee") an arbitration award in connection with the termination of the Former Employee's employment agreement.

The arbitration award, including interest and attorney's fees and disbursements was approximately $5,201,000. The Company recognized the expense in fiscal 2014 and paid the award on March 6, 2015. The Company is also expected to pay post employment health related benefits for the Former Employee, of which approximately $471,000 has been accrued as of December 31, 2015 and is reflected as Accrued Arbitration Award Liability in the accompanying balance sheet.

Agreement with respect to Insurance Claim. As previously disclosed, the Company received $4,500,000 in the first quarter of 2015 from the carrier related to the Company's claim for insurance for damages the Company suffered in connection with the previously mentioned arbitration proceeding. The insurance carrier also paid under the policy partial attorney fees incurred by the Company in defense of the arbitration. The Company recorded the benefit from this agreement during the first quarter of 2015.

Leases. The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in the twelve month periods ended December 31, 2015 and 2014 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 included 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 is now manufacturing in the newly constructed facility. The cost of the project is approximately $4,000,000 over a five year period of which approximately $3,432,000 was completed as of December 31, 2015 and is accounted for in property plant and equipment.

The Company's CPG was awarded certain incentives from the County of Cattaraugus Industrial Development Agency (CCIDA) in connection with the expansion of the Company's CPG 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 Company's CPG entered into customary lease and leaseback arrangements with the CCIDA to facilitate the various tax incentives.

The Company's CPG was awarded a $300,000 grant from Cattaraugus County, New York. The grant was used towards new manufacturing equipment in connection with the proposed expansion project. As part of the terms of the Grant Contract with Cattaraugus County, the Company's CPG has agreed to maintain certain employment levels for a period of five years from the date of the agreement, March 13, 2014. If the employment levels are not maintained, the Company will be required to repay the grant proceeds on a prorated basis. The Company's CPG was also awarded a $416,000 New York State Community Development Block Grant from the Office of Community Renewal to be used towards the purchase of equipment. As of December 31, 2015, the Company has received the grants in full and recorded them as a reduction to the carrying value of the asset.

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 $596,000 and $350,000 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 month's salary and benefits.

The Company provides certain postretirement 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 for information regarding Other Postretirement Benefit Plans.

9. Litigation

Except as set forth in Note 8, Commitments and Contingencies, there are no other legal proceedings 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 $99,000 and $129,000 in 2015 and 2014, 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.

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

	ATG		CPG		Consolidated	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
	2015	2014	2015	2014	2015	2014
Revenues from unaffiliated customers	$ 28,596	$ 25,021	$ 8,133	$ 6,625	$ 36,729	$ 31,646
Cost of goods sold, exclusive of depreciation and amortization	(20,390)	(17,983)	(7,251)	(6,542)	(27,641)	(24,525)
Selling, general and administrative	(4,492)	(4,097)	(1,670)	(1,483)	(6,162)	(5,580)
Interest expense	(40)	(40)	(30)	(7)	(70)	(47)
Arbitration award expense	(50)	(5,597)	-	-	(50)	(5,597)
Depreciation and amortization	(493)	(468)	(225)	(184)	(718)	(652)
Insurance proceeds - arbitration	4,500	-	-	-	4,500	-
Other income, net	139	13	1	3	140	16
Income (loss) before income tax provision (benefit)	7,770	(3,151)	(1,042)	(1,588)	6,728	(4,739)
Income tax provision (benefit)	2,462	(1,072)	(331)	(541)	2,131	(1,613)
Net income (loss)	$ 5,308	$ (2,079)	$ (711)	$ (1,047)	$ 4,597	$ (3,126)
Total assets	$ 22,789	$ 23,092	$ 11,585	$ 12,153	$ 34,374	$ 35,245
Capital expenditures	$ 903	$ 803	$ 229	$ 2,351	$ 1,132	$ 3,154

12. Subsequent Events

On March 14, 2016, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend will be paid on May 16, 2016 to shareholders of record on April 11, 2016. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis. The amount will be recorded as a reduction to retained earnings on the accompanying consolidated balance sheet.

DIRECTORS

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

Kenneth D. Trbovich
President, Servotronics, Inc.

Edward C. Cosgrove, Esq.
Attorney

Lucion P. Gygax
Major, Army National Guard

Donald W. Hedges, Esq.
Attorney

Rigel D. Pirrone
Commander, United States Navy Reserve

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Chief Executive Officer

Kenneth D. Trbovich
President

Cari L. Jaroslawsky, CPA
Treasurer
Chief Financial Officer

Salvatore San Filippo
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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, 2015 is available to all stockholders, without charge, upon written request. Written requests should be addressed to:

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