SERVOTRONICS, INC.

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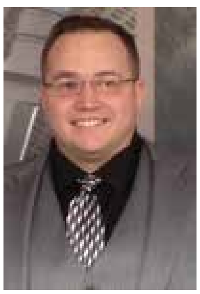
17 | ANNUAL REPORT

DR. NICHOLAS D. TRBOVICH
1935 – 2017

In Memoriam

DR. & MRS. NICHOLAS D. TRBOVICH



KENNETH D. TRBOVICH

With sadness and profound gratitude for his legacy, we mourn the passing of Dr. Nicholas D. Trbovich, the Company's founder, on August 8, 2017.

Dr. Trbovich founded Servotronics in late August 1959 and served diligently for almost 58 years as its Chairman, CEO, and Past President until his passing. Under his guidance, the Company expanded from a small engineering firm into a major motion control component manufacturer employing over 300 dedicated women and men.

Born in Buffalo, New York in 1935 as the eldest son of three children, he married the late Patricia B. Trbovich and raised a family that grew to include five children and four beloved grandchildren.

Dr. Trbovich believed in lifelong learning, earning a Master of Business Administration in 1969, a Doctor of Education in 1981 and a Doctor of Philosophy at the turn of the new millennium from the prestigious University of Rochester, where he received the "Distinguished Alumnus Award" and was inducted into the *Beta Gamma Sigma*, *Pi Lambda Theta*, and *Kappa Delta Pi* academic honor societies. He also received three honorary degrees in the form of a Doctor of Science from D'Youville College, a Doctor of Humane Letters from Trocaire College and a Doctor of Laws from Medaille College. It is impossible to overstate Dr. Trbovich's dedication to knowledge and the advancement of human understanding. Over the course of his extensive career he was awarded over 30 United States and foreign patents.

We recognize the admirable way Dr. Trbovich lived his life as a talented business leader and dedicated philanthropist for many educational and charitable causes. He served as the Chairman of the Board of Trustees for D'Youville College and Trocaire College and later as the Vice Chair of the Board of Trustees at Medaille College. Additionally, he served as a director or trustee at several other Western New York civic and cultural organizations including the Buffalo Area Chamber of Commerce, Studio Arena Theatre, and the Greater Niagara Frontier Council of the Boy Scouts of America.

Dr. Trbovich will be remembered for his dedication to family and scholarship, service to the community, and devotion to our Company. He contributed his passion, talent and visionary leadership to help build Servotronics to be the company that it is today. He led the acquisition of its wholly owned subsidiary, The Ontario Knife Company, and ultimately took the Company public in 1970. Throughout the 70s, 80s, and 90s he contributed his engineering expertise to numerous major aerospace projects including many of the United States' most iconic fighter aircraft, the Boeing 700 series, the Airbus 300 series, and the Hubbell Space Telescope. In recognition of his many accomplishments and contributions to the field of aerospace, he was recognized early as one of the "Five Outstanding Young Men in New York State" in 1967 and later in life was named "Entrepreneur of the Year" by Medaille College and elected to the Niagara Frontier Aviation and Space Hall of Fame.

He was passionate about Servotronics and was fiercely proud of our employees and their accomplishments. He sought to create long lasting and collaborative relationships and truly believed that people are the heart of successful companies. One of the last projects he oversaw was the refining of the Company's mission, vision, and value statements that incorporated his core beliefs of Trust, Commitment, Employee Engagement, Integrity, Continuous Improvement and Innovation. We posted these strategic statements on our website, announcing to the world that these are the guiding principles with which we will manage the business in the years to come.

President's Message

"The challenge of today's competition and the uncertainty of tomorrow's defense budget often creates dichotomies which demand strategic and tactical flexibility in order to insure your Company's perpetuity and growth."

Dr. Nicholas D. Trbovich
1988 Annual Report

My father's words from nearly 30 years ago hold true today as we continue to navigate a highly competitive market while building upon a foundation based on our strategic vision.

I am pleased to report that 2017 was another year of solid growth for Servotronics, Inc. The Company delivered its third straight year of record breaking consolidated revenues, generating $41,444,000 (7.4% increase) for the twelve month period ended December 31, 2017 with a resulting net income of $1,317,000 or $0.57 per diluted share. The strong growth realized at both the Advanced Technology Group (ATG) and the Consumer Products Group (CPG) is the result of the continuing implementation of our long term strategic vision which focuses on implementing continuous improvements to our core operations and investing in our employees.

The ATG secured its seventh straight year of record sales performance in 2017. ATG bookings grew modestly to $38,155,000 but managed to surpass the record of $37,678,000 set in 2016 by $477,000 (1.3%). We expect bookings growth to continue in 2018 as our prior success in procuring new programs for our products begins to translate into increased production rates. ATG revenues grew to $32,414,000, a $1.355 million increase (4.4%) over 2016. In 2017, the CPG secured its strongest financial performance since 2011. Bookings increased dramatically from 2016 levels, rising to $9,334,000 in 2017, a $1,877,000 increase (25.2%). CPG revenue increased by $1.502 million (20.0%) to $9,030,000 in 2017, driven by increased domestic commercial and government shipments.

While we are pleased with our progress during 2017, we remain committed to the future and have positioned the company to maximize opportunities for growth. I would like to acknowledge the counsel and support of our Board of Directors and thank our employees and shareholders for the confidence they have demonstrated in our Company. 2017 was a year of mixed emotions – profound personal loss mingled with great accomplishments for the Company. My father's legacy will endure and I am sure he would have been proud of the outstanding contributions of our entire team, including our Directors, Officers, and Employees.

Kenneth D. Trbovich

Chairman of the Board,
Chief Executive Officer and President

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act.

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

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

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

Based on the closing price of the Common Stock on June 30, 2017 $9.38 (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 $13,089,828.

As of February 28, 2018 the number of $.20 par value common shares outstanding was 2,484,735.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference in Part III.

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 composed primarily of a small group of customers with three customers accounting for 49% and 61% of the Company's total revenue in 2017 and 2016, respectively. 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 2% of the Company's consolidated revenues in 2017 and 2016. 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 2017 or 2016. The Company sells its products and manufacturing services through its own sales resources, independent manufacturers' representatives and electronic commerce.

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 2017 and 2016 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 within its competitive market. 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 Corelle Brands Holdings, Inc., Benchmade Knife Company, Inc., Tramontina, Inc., Dexter-Russell Inc., W. R. Case & Sons Cutlery Company, Lifetime Brands, Inc., 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, 2017, had 315 employees of which 308 are full time and are located in Western New York. Approximately 80% 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 by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item. See also the Forward-Looking Statement on page 20.

Item 1B. Unresolved Staff Comments

Not applicable.

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 the 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

See Note 8, Commitments and Contingencies, for information regarding arbitration proceedings 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 prices for the Company's common stock as reported by the NYSE MKT (symbol SVT) for 2017 and 2016.

	High	Low
2017		
Fourth Quarter	$ 11.69	$ 11.03
Third Quarter	9.20	8.57
Second Quarter	9.38	9.31
First Quarter	11.11	11.11
2016		
Fourth Quarter	$ 12.06	$ 9.00
Third Quarter	12.51	8.80
Second Quarter	9.86	7.41
First Quarter	8.20	7.17

(b) **Approximate Number of Holders of Common Stock**

Title of class	Approximate number of record holders (as of February 28, 2018)
Common Stock, $.20 par value per share	281

(c) **Dividends on Common Stock**

On May 16, 2017, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was subsequently paid on July 14, 2017 to shareholders of record on June 30, 2017 and was approximately $376,000 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. Approximately $380,000 of cash dividends were paid to shareholders in 2016.

(d) Company Purchases of Company's Equity Securities

2017 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	(2 15,991)	$ 9.97	-	104,596
April - June	-	-	-	104,596
July - September	3,926	9.05	3,926	100,670
October	-	-	-	100,670
November	-	-	-	100,670
December	-	-	-	100,670
Total	19,917	$ 9.79	3,926	100,670

(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, 2017, the Company has purchased 349,330 shares and there remain 100,670 shares available to purchase under this program. There were 3,926 shares purchased by the Company in 2017.

(2) Includes 15,991 shares withheld/purchased by the Company in January 2017 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 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.

Management Discussion

During the years ended December 31, 2017 and 2016, approximately 11 % and 9%, 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 increased approximately $1,230,000 and $649,000 from the prior year during 2017 and 2016, respectively, due to increased government shipments at both 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, 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 engages its business development efforts in its primary markets and is broadening its activities to include new domestic and foreign markets that are consistent with its core competencies. We believe our business remains particularly well positioned in the strong commercial aircraft market driven by the replacement of older aircraft with more fuel efficient alternatives and the increasing demand for air travel in emerging markets. Although the ATG backlog continues to be strong, actual scheduled shipments may be delayed/changed as a function of the Company's customers' final delivery determinations 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. The CPG is also actively growing its custom manufacturing business to provide a wide range of metal and plastic fabrication services to a variety of consumer and industrial companies. 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 data for the years ended December 31, 2017 and 2016 ($000's omitted).

	Twelve Months Ended December 31,				2017 vs 2016	
	2017		2016		Dollar	% Increase
	Dollars	% of Sales	Dollars	% of Sales	Change	(Decrease)
Revenues:						
Advanced Technology	$ 32,414	78.2%	$ 31,059	80.5%	$ 1,355	4.4%
Consumer Products	9,030	21.8%	7,528	19.5%	1,502	20.0%
	41,444	100.0%	38,587	100.0%	2,857	7.4%
Cost of goods sold, exclusive of depreciation and amortization	30,610	73.9%	28,564	74.0%	2,046	7.2%
Selling, general and administrative	7,807	18.8%	6,668	17.3%	1,139	17.1%
Depreciation and amortization	885	2.1%	823	2.1%	62	7.5%
Total costs and expenses	39,302	94.8%	36,055	93.4%	3,247	9.0%
Operating income, net	2,142	5.2%	2,532	6.6%	(390)	-15.4%
Interest expense	77	0.2%	73	0.2%	4	5.5%
Other income, net	(10)	0.0%	(11)	0.0%	1	-9.1%
Income tax provision	758	1.8%	717	1.9%	41	5.7%
Net income	$ 1,317	3.2%	$ 1,753	4.5%	$ (436)	-24.9%

Revenue

The Company's consolidated revenues from operations increased approximately $2,857,000 or 7.4% for the twelve month period ended December 31, 2017 when compared to the same period in 2016. The increase in revenue is attributable to an increase in commercial and government shipments at both the ATG and CPG. Commercial shipments increased approximately $1,627,000 or 4.6% and government shipments increased approximately $1,230,000 or 37% for the twelve month period ended December 31, 2017. Revenues from commercial shipments increased $717,000 or 2.6% at the ATG and increased $910,000 or 12.4% at the CPG. Revenues from shipments to the Government and its prime vendors at the ATG increased approximately $638,000 or 20.5% and at the CPG increased approximately $592,000 or more than triple the twelve month period ended December 31, 2017 when compared to the same period in 2016.

Cost of Goods Sold

Cost of goods sold increased approximately $2,046,000 or 7.2% for the twelve month period ended December 31, 2017 when compared to the same period in 2016. The increase in costs attributable to increased sales volume is approximately $574,000. Cost of goods sold, as a percentage of revenue, decreased from 74.0% to 73.9%. The improvement is attributed to the CPG decrease of cost of goods sold as a percentage of revenue, from 88.3% to 83.2%. This is due to the realization of certain expected operational efficiencies attributable to increased production volumes. The improvement is slightly offset by the ATG increase of cost of goods sold as a percentage of revenue, from 70.6% to 71.2%. This is due, in part, to the mix of product sold as well as higher labor costs and inefficiencies associated with hiring and training of employees. Total employment levels dropped from 320 employees at December 31, 2016 to 315 employees at December 31, 2017, due to higher than expected attrition. The Company continues to pursue cost saving opportunities in material procurements and other operating efficiencies including capital investments and technical developments in updated and new equipment/machinery as well as investing in the development and training of its labor force.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased approximately $1,139,000 or 17.1% for the twelve month period ended December 31, 2017 compared to the same period in 2016. Approximately 46% of the twelve month period ended December 31, 2017 SG&A expense relates to labor and labor related costs to support SG&A functions, decreasing from 64% for the same period in 2016. Overall there is a decrease in labor and labor related costs partially offset by the previously disclosed accrual of $449,000 pursuant to the terms of the employment agreement for Servotronics' former Chairman of the Board and Chief Executive Officer. The accrual was made to reflect the death benefits under the terms of his employment contract. The payment equals 50% of base pay, payable to the Estate of Dr. Trbovich from the date of death through December 31, 2018. In addition, as discussed in Note 5, Employee Benefit Plans - Other Postretirement Benefit Plans, the actuarially calculated future obligation of certain postretirement health and life insurance benefits at December 31, 2017 is approximately $568,000 including the estimated liability related to postretirement benefits for the former Executive Officer discussed in Note 8, Commitments and Contingencies. Such expenses increased primarily due to increased health and life insurance costs. Approximately 9% of SG&A expense is attributable to professional and legal services. These expenses increased approximately $278,000 due to ongoing legal proceedings.

Depreciation and Amortization Expense

Depreciation and amortization expense increased approximately $62,000 or 7.5% for the twelve month period ended December 31, 2017 compared to the same period in 2016 primarily due to the assets purchased for the ATG in response to increased production demands. 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.

Interest Expense

Interest expense remained relatively consistent for the twelve month period ended December 31, 2017 compared to the same period in 2016. 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 36.5% in 2017 and 29.0% in 2016. The effective tax rate in both years reflects federal and state income taxes, permanent non-deductible expenditures, the deduction for domestic production activities and the federal tax credit for research and development expenditures. The effective tax rate was higher in 2017 primarily due to the revaluation of the net deferred tax asset balances as a result of a reduction in the Federal tax rate from tax law changes enacted in 2017 partially offset by permanent differences and research tax credits. See also Note 6, Income Taxes, of the accompanying consolidated financial statements for information concerning 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 net operating loss and tax credit carryforwards.

Net Income

Income from operations decreased approximately $436,000 or 24.9% when comparing the twelve month period ended December 31, 2017 to the same period in 2016. This decrease is the result of a pretax increased costs for SG&A expenses discussed earlier, partially offset by increases in revenues and operating profits.

Liquidity and Capital Resources

The Company's primary liquidity and capital expenditure requirements relate to working capital needs; primarily inventory, accounts receivable, accounts payable, capital expenditures for property, plant and equipment and principal payments on debt. At December 31, 2017, the Company had working capital of approximately $20,307,000 ($19,817,000 – 2016) of which approximately $4,707,000 ($3,515,000 – 2016) was comprised of cash and cash equivalents.

The Company generated approximately $3,652,000 in cash from operations during the twelve months ended December 31, 2017 as compared to $2,441,000 during the twelve months ended December 31, 2016. Cash was generated primarily through net income of approximately $1,317,000, adjustments to reconcile net income to net cash of approximately $1,361,000 and timing of accrued expenses and employee compensation and benefit costs. The primary use of cash for the Company's operating activities for the twelve months ended December 31, 2017 include working capital requirements, mainly an increase in accounts receivables of approximately $1,062,000 and on time payments to our suppliers of approximately $703,000. 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, 2017 included approximately $548,000 of current principal payments on long-term debt, approximately $376,000 for cash dividends as well as approximately $195,000 for the purchase of treasury shares. The Company also expended approximately $1,508,000, net of proceeds from equipment financing, for capital expenditures.

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 has been renewed until June 20, 2018 and the Company is considering its options with respect to any future renewals. As of December 31, 2017, 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 on December 1, 2014. 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 were used to purchase equipment and expand/renovate the OKC facility in Franklinville, New York.

Borrowings under these Credit Facilities 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 of $786,000 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 established a lease line of credit for equipment financing in the amount of $1,000,000 available until June 28, 2018. This line is non-revolving and non-renewable. The lease term for equipment covered by the lease line of credit is 60 months. Monthly payments will be fixed for the term of each funding based upon the Lender's lease pricing in effect at the time of such funding. There was approximately $659,000 outstanding at December 31, 2017.

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

Not applicable.

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

Not applicable.

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 the 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, 2017. 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, CFO and Controller, 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, 2017.

(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 2017 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

Not applicable.

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 2017 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 2017 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, 2017:

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	-	-	161,106
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	161,106

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 2017 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 2017 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 2017 fiscal year or such information will be included by amendment to this Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

3.1 Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3(A)(1) to the Company's Form 10-KSB for the year ended December 31, 1996)

3.2 Amendments to Certificate of Incorporation dated August 27, 1984 (Incorporated by reference to Exhibit 3(A)(2) to the Company's Form 10-KSB for the year ended December 31, 1996)

3.3 Amendments to Certificate of Incorporation dated June 30, 1998 (Incorporated by reference to Exhibit 3(A)(4) to the Company's Form 10-KSB for the year ended December 31, 1998)

3.4 Certificate of designation creating Series I preferred stock (Incorporated by reference to Exhibit 4(A) to the Company's Form 10-KSB for the year ended December 31, 1987)

3.5 By-laws of the Company (Incorporated by reference to Exhibit 3(B) to the Company's Form 10-KSB for the year ended December 31, 1986)

3.6 Amendment to By-laws dated January 2008 (Incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC February 4, 2008)

4.1 Shareholder Rights Plan dated as of October 15, 2012 (Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed with the SEC on October 17, 2012)

4.2 Amendment No. 1 to Shareholder Rights Plan dated as of March 11, 2015 (Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed with the SEC on March 11, 2015)

10 Material Contracts (*Indicates management contract or compensatory plan or arrangement)

10.1* Employment contract for Dr. Nicholas D. Trbovich, former Chief Executive Officer (Incorporated by reference to Exhibit 10(A)(1) to the Company's Form 8-K filed with the SEC on August 18, 2005)

10.2* Amendment to employment contract for Dr. Nicholas D. Trbovich, former Chief Executive Officer (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed with the SEC on November 13, 2012)

10.3*	Amendment to employment contract for Dr. Nicholas D. Trbovich, former Chief Executive Officer (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-K filed with the SEC on March 21, 2013)
10.4*	Employment Agreement for Kenneth D. Trbovich (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed with the SEC on November 13, 2012)
10.5*	Amendment to employment agreement for Kenneth D. Trbovich (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed with the SEC on November 13, 2012)
10.6*	Amendment to employment agreement for Kenneth D. Trbovich (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed with the SEC on March 20, 2015)
10.7	Form of Indemnification Agreement between the Registrant and each of its Directors and Officers (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-K filed with the SEC on March 15, 2017)
10.8	Loan agreement between the Company and its employee stock ownership trust, as amended (Incorporated by reference to Exhibit 10(C)(1) to the Company's Form 10-KSB for the year ended December 31, 1991)
10.9	Stock purchase agreement between the Company and its employee stock ownership trust (Incorporated by reference to Exhibit 10(D)(2) to the Company's Form 10-KSB for the year ended December 31, 1988)
10.10*	Servotronics, Inc. 2012 Long-Term Incentive Plan (Incorporated by reference to Appendix A to the Company's Proxy Statement for the 2012 Annual Meeting of Shareholders)
10.11	Loan Agreement dated as of December 1, 2014 between Servotronics, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 4, 2014)
10.12	Loan Agreement dated as of December 1, 2014 between The Ontario Knife Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 4, 2014)
10.13	Non-Employee Director Compensation Policy (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on July 20, 2016)
21	Subsidiaries of the Registrant (Filed herewith)
23.1	Consent of Freed Maxick CPAs, P.C. (Filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith)
101	The following materials from Servotronics, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows and (v) the notes to the consolidated financial statements.

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, planned growth efforts and expectation of new business and success in its entry into new product programs. Forward-looking statements involve numerous risks and uncertainties. The Company derives a material portion of its revenues from fixed price contracts with agencies of the U.S. Government or their prime contractors. 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, including political risks, adverse changes in legal and regulatory environments, and difficulty in predicting defense appropriations, the introduction of new technologies and the impact of competitive products, the vitality of the commercial aviation industry and its ability to purchase new aircraft, the willingness and ability of the Company’s customers to fund long-term purchase programs, and market demand and acceptance both for the Company’s products and its customers’ products which incorporate Company-made components, the Company’s ability to accurately align capacity with demand, the availability of financing and changes in interest rates, the outcome of pending and potential litigation and the additional risk factors discussed elsewhere in this Form 10-K and in the Company’s filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management’s analysis only as of the date hereof. The Company assumes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SERVOTRONICS, INC.

March 22, 2018	By	/s/ Kenneth D. Trbovich
		Kenneth D. Trbovich Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Kenneth D. Trbovich Kenneth D. Trbovich	Chief Executive Officer, Chairman of the Board and Director	March 22, 2018
/s/ Lisa F. Bencel Lisa F. Bencel	Chief Financial Officer	March 22, 2018
/s/ Edward C. Cosgrove, Esq. Edward C. Cosgrove, Esq.	Director	March 22, 2018
/s/ Lucion P. Gygax Lucion P. Gygax	Director	March 22, 2018
/s/ Christopher M. Marks Christopher M. Marks	Director	March 22, 2018
/s/ Jason T. Bear Jason T. Bear	Director	March 22, 2018

SERVOTRONICS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Servotronics, Inc. and Subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, consolidated statements of comprehensive income, and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ FREED MAXICK CPAs, P.C.

We have served as the Corporation's auditor since 2005.

Buffalo, New York
March 23, 2018

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

	December 31, 2017	December 31, 2016
Current assets:		
Cash	$ 4,707	$ 3,515
Accounts receivable, net	8,424	7,439
Inventories, net	12,791	13,293
Prepaid income taxes	-	182
Other current assets	249	387
Total current assets	26,171	24,816
Property, plant and equipment, net	11,021	9,937
Deferred income taxes	409	491
Other non-current assets	385	376
Total Assets	$ 37,986	$ 35,620
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 681	$ 548
Accounts payable	1,377	2,080
Accrued employee compensation and benefits costs	2,520	1,945
Accrued income taxes	414	-
Other accrued liabilities	872	426
Total current liabilities	5,864	4,999
Long-term debt	2,950	2,976
Post retirement obligation	1,007	528
Shareholders' equity:		
Common stock, par value $0.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,308,315 (2,310,148 - 2016) shares	523	523
Capital in excess of par value	14,171	14,160
Retained earnings	15,709	14,768
Accumulated other comprehensive loss	(32)	(20)
Employee stock ownership trust commitment	(662)	(763)
Treasury stock, at cost 183,983 (164,066 - 2016) shares	(1,544)	(1,551)
Total shareholders' equity	28,165	27,117
Total Liabilities and Shareholders' Equity	$ 37,986	$ 35,620

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

	December 31, 2017	December 31, 2016
Revenue, net	$ 41,444	$ 38,587
Cost, expenses and other (income):		
Cost of goods sold, exclusive of depreciation and amortization	30,610	28,564
Selling, general and administrative	7,807	6,668
Depreciation and amortization	885	823
Interest expense	77	73
Other income, net	(10)	(11)
Total expenses	39,369	36,117
Income before income tax provision	2,075	2,470
Income tax provision	758	717
Net income	$ 1,317	$ 1,753
Income per share:		
Basic		
Net Income per share	$ 0.58	$ 0.79
Diluted		
Net income per share	$ 0.57	$ 0.76

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

	Years Ended December 31, 2017	Years Ended December 31, 2016
Net Income	$ 1,317	$ 1,753
Other comprehensive loss:		
Retirement benefits adjustment, net of income taxes	(12)	(17)
Total comprehensive income	$ 1,305	$ 1,736

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash flows related to operating activities:		
Net Income	$ 1,317	$ 1,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	885	823
Loss on disposal of property	16	-
Deferred income tax	82	27
Stock based compensation	213	479
Increase in inventory reserve	88	84
Increase (decrease) in allowance for doubtful accounts	77	(11)
Change in assets and liabilities:		
Accounts receivable	(1,062)	(590)
Inventories	414	(890)
Prepaid income taxes	182	7
Other current assets	138	(61)
Other non-current assets	(9)	(8)
Accounts payable	(703)	545
Accrued employee compensation and benefit costs	575	93
Post retirement obligation	479	40
Accrued income taxes	414	-
Other accrued liabilities	445	50
Employee stock ownership trust payment	101	100
Net cash provided by operating activities	3,652	2,441
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(2,176)	(991)
Proceeds from sale of assets	180	-
Net cash used in investing activities	(1,996)	(991)
Cash flows related to financing activities:		
Proceeds from lease line of credit	668	-
Principal payments on long-term debt	(547)	(548)
Principal payments on equipment financing obligations	(14)	-
Purchase of treasury shares	(195)	(275)
Cash dividend	(376)	(380)
Net cash used in financing activities	(464)	(1,203)
Net increase in cash and cash equivalents	1,192	247
Cash and cash equivalents at beginning of year	$ 3,515	$ 3,268
Cash and cash equivalents at end of period	$ 4,707	$ 3,515

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

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 $154,000 at December 31, 2017 and $77,000 at December 31, 2016. 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 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 $1,601,000 and $1,513,000 at December 31, 2017 and December 31, 2016, 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.

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, 2017 or December 31, 2016, and did not recognize any interest and/or penalties in its consolidated statements of income during the years ended December 31, 2017 and 2016. The Company did not have any material uncertain tax positions or unrecognized tax benefits or obligations as of December 31, 2017 and December 31, 2016. The 2014 through 2016 federal and state tax returns remain subject to examination.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. In accordance with generally accepted accounting principles, the Company has accounted for the impact of the provisions in the Tax Act during the year ended December 31, 2017.

Supplemental Cash Flow Information

Income taxes paid during the twelve month periods ended December 31, 2017 and 2016 amounted to approximately \$73,000 and \$684,000, respectively. Interest paid during the twelve month periods ended December 31, 2017 and 2016 amounted to approximately \$77,000 and \$73,000, 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 and during the years ended December 31, 2017 and December 31, 2016.

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 2017 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 9% of the Company's consolidated revenues as compared to 9% in 2016. The Company had sales of advanced technology products to three customers, including various divisions and subsidiaries of a common parent company, which represented more than 10% of consolidated revenues in 2017. Total revenues from these three customers amounted to approximately 49% in 2017 as compared to three customers amounting to approximately 61% of the Company's consolidated revenues in 2016. No other customers 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

Effective January 1, 2017, the Company adopted new guidance issued by the Financial Accounting Standards Board ("FASB") 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. Adoption of this new guidance had no impact on the Company's consolidated results of operations and financial position.

Effective January 1, 2017, the Company adopted new guidance issued by the FASB ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The guidance requires that all deferred tax assets and deferred tax liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Adoption of this new guidance during the reporting period resulted in the reclassification of a deferred tax liability of $661,000 from current to noncurrent at September 30, 2017 and December 31, 2016. The deferred tax liability, for both reporting periods offsets the deferred tax asset, as presented on the balance sheet at December 31, 2017 and December 31, 2016.

Effective January 1, 2017, the Company adopted new guidance issued by the FASB ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a Company's payments for tax withholdings should be classified. Adoption of this new guidance has not had a material impact on the Company's consolidated results of operations and financial position.

Effective January 1, 2017, the Company selected early adoption of the new guidance issued by the FASB ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. Adoption of this new guidance has not had a material impact on the Company's consolidated results of operations and financial position.

In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires employers to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. The other components of net periodic benefit cost will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. This update is effective for annual periods beginning after December 15, 2017.

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.

Revenue on a significant portion of our contracts is currently recognized at the time of shipment of goods, transfer of title and customer acceptance, as required. Our revenue transactions generally consist of a single performance obligation to transfer contracted goods and are not accounted for under-industry-specific guidance. We have obtained an understanding of the new standard and currently believe that we will retain much of the same accounting treatment used to recognize revenue as compared to current standards.

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 the right-of-use asset and a lease liability. Public business entities are required to adopt the new leasing standard for fiscal years, and interim period within those fiscal years, beginning December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019. Early adoption is permitted. The Company does not believe the adoption will have a material impact on the financial statements and disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

2. Inventories

	December 31, 2017	December 31, 2016
	($000's omitted)	
Raw material and common parts, net of reserve	$ 7,609	$ 7,618
Work-in-process	2,940	2,062
Finished goods, net of reserve	2,242	3,613
Total inventories	$ 12,791	$ 13,293

3. Property, Plant and Equipment

	December 31, 2017	December 31, 2016
	($000's omitted)	
Land	$ 7	$ 21
Buildings	10,288	10,422
Machinery, equipment and tooling	17,249	15,826
Construction in progress	665	77
	28,209	26,346
Less accumulated depreciation and amortization	(17,188)	(16,409)
Total property, plant and equipment	$ 11,021	$ 9,937

As previously disclosed, the Company through a wholly-owned subsidiary, entered into a contract to sell unused commercial real property in Franklinville, New York for approximately $180,000. The sale transaction closed on March 9, 2017 and the wholly-owned subsidiary recognized a de minimis loss on the sale.

Property, plant and equipment includes land and facilities in Elma and Franklinville, New York. As of December 31, 2017 and 2016, accumulated depreciation on the building amounted to approximately $3,598,000 and $3,472,000, respectively.

Depreciation and amortization expense amounted to $885,000 and $823,000 for the twelve month periods ended December 31, 2017 and 2016, 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, 2017 there is approximately $665,000 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 $77,000 of construction in progress at December 31, 2016. See also Note 8, Commitments and Contingencies, for more information on anticipated capital expenditures.

4. Long-Term Debt

	December 31, 2017	December 31, 2016
	($000's omitted)	
Term loan payable to a financial institution; Interest rate option of bank prime or Libor plus 1.4% (2.76% as of December 31, 2017), monthly prinicipal payments of $21,833 through 2021 with a balloon payment of $786,000 due December 1, 2021	$ 1,835	$ 2,096
Term loan payable to a financial institution; Interest rate option of bank prime or Libor plus 1.4% (2.76% as of December 31, 2017), monthly prinicipal payments of $23,810 through December 1, 2021	1,142	1,428
Lease line of credit for equipment; Interest rate fixed for term of each funding based upon the Lender's lease pricing at time of funding. (Interest rate/factor 1.822758% - 1.831742% at time of funding)	654	-
	3,631	3,524
Less current portion	(681)	(548)
	$ 2,950	$ 2,976

Principal maturities of long-term debt are as follows: 2019 - $681,000, 2020 - $681,000 and 2021 - $1,467,000, 2022 - $121,000.

The Company also has a $2,000,000 line of credit on which there was no balance outstanding at December 31, 2017 and December 31, 2016.

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, 2017 and December 31, 2016 the Company was in compliance with these covenants.

The Company established a lease line of credit for equipment financing in the amount of $1,000,000 available until June 28, 2018. This line is non-revolving and non-renewable. The lease term for equipment covered by the lease line of credit is 60 months. Monthly payments will be fixed for the term of each funding based upon the Lender's lease pricing in effect at the time of such funding. There was approximately $654,000 outstanding at December 31, 2017.

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 to 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, 2017.

Since inception of the ESOP, 416,265 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2017 and 2016, 122,208 and 140,292 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 2017 and $100,000 in 2016, 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.

At December 21, 2017 and 2016, the deferred tax assets (liabilities) were comprised of the following:

	2017	2016
	($000's omitted)	
Deferred Tax Assets:		
Inventories	$ 406	$ 604
Accrued employees compensation and benefits costs	430	696
Accrued arbitration award and related liability	268	160
Net operating loss and credit carryforwards	269	244
Bad debt reserve	33	26
Other	41	23
Minimum pension liability	9	10
Total deferred tax assets	1,456	1,763
Valuation allowance	(279)	(253)
Net deferred tax asset	1,177	1,510
Deferred tax liabilities:		
Property, plant and equipment	(768)	(1,019)
Total deferred tax liabilities	(768)	(1,019)
Net deferred tax asset	$ 409	$ 491

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, 2017, except for a valuation allowance of $279,000 ($253,000 – 2016) related to certain state net operating loss carryforwards, state tax credit carryforwards and other state net deferred tax assets. At December 31, 2017, the Company has net operating loss carryforwards with full valuation allowances from Pennsylvania of approximately $2,240,000 ($2,240,000 – 2016), which begin to expire in 2019, and Arkansas of approximately $31,000 ($839,000 – 2016), which begin to expire in 2018, respectively. The Company also has a New York state tax credit carryforward at December 31, 2017 of approximately $115,000 ($97,000 – 2016), which begins to expire in 2024.

There are no uncertain tax positions or unrecognized tax benefits for 2017 and 2016. The Company is subject to routine audits of its tax returns by the Internal Revenue Service and various state taxing authorities. The 2014 through 2016 Federal and state tax returns remain subject to examination.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) changing rules related to usage and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; (4) eliminating U.S. federal income taxes on dividends from foreign subsidiaries for tax years beginning after December 31, 2017; and (5) implementing a territorial tax system and imposing a transition toll tax on deemed repatriated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company has recognized the provisional tax impacts related to the revaluation of deferred tax assets and liabilities and included these amounts in its financial statements for the year ended December 31, 2017. As of December 31, 2017, the Company has completed most of its accounting for the tax effects of the Act. If revisions are needed as new information becomes available, the final determination of the deemed re-measurement of the deferred assets and liabilities or other applicable provisions of the Tax Act will be completed as additional information becomes available, but no later than one year from the enactment of the 2017 Tax Act.

The deferred federal income tax expense for 2017 includes a one-time, non-cash expense of $261,000 for the revaluation of the Company's net deferred tax asset as a result of the reduction in the corporate tax rate for future years.

7. Shareholders' Equity

	Common Stock		($000's omitted except for share data)					
	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, 2015	2,614,506	$ 523	$ 14,092	$ 13,395	$ (863)	$ (1,702)	$ (3)	$ 25,442
Net income	-	-	-	1,753	-	-	-	1,753
Retirement benefits adjustment	-	-	-	-	-	-	(17)	(17)
Compensation expense	-	-	-	-	100	-	-	100
Purchase of treasury shares	-	-	-	-	-	(275)	-	(275)
Cash dividend	-	-	-	(380)	-	-	-	(380)
Stock based compensation net of tax benefit	-	-	68	-	-	426	-	494
Balance at December 31, 2016	2,614,506	$ 523	$ 14,160	$ 14,768	$ (763)	$ (1,551)	$ (20)	$ 27,117
Net income	-	-	-	1,317	-	-	-	1,317
Retirement benefits adjustment	-	-	-	-	-	-	(12)	(12)
Compensation expense	-	-	-	-	101	-	-	101
Purchase of treasury shares	-	-	-	-	-	(195)		(195)
Cash dividend	-	-	-	(376)	-	-	-	(376)
Stock based compensation net of tax benefit	-	-	11	-	-	202	-	213
Balance at December 31, 2017	2,614,506	$ 523	$ 14,171	$ 15,709	$ (662)	$ (1,544)	$ (32)	$ 28,165

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, 2017, the Company has purchased 349,330 shares and there remain 100,670 shares available to purchase under this program. There were 3,926 shares purchased by the Company in 2017.

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, these 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 ($1,336,500) was recognized over the four year requisite service period.

On April 11, 2016, the Company issued 51,000 shares of restricted stock to Executive Officers and certain key management of the Company under the Company's 2012 Long-Term Incentive Plan. The restricted share awards have varying vesting periods between January 2017 and January 2018; however, these 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 ($406,000) and was recognized over the requisite service period.

During the years ended December 31, 2017 and 2016, there was approximately $213,000 and $479,000, respectively, of compensation expense related to the restrictive share awards.

On January 1, 2017, 39,750 shares of restricted stock vested of which 15,991 shares were withheld and repurchased by the Company for approximately $159,000 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 16, 2017 the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was subsequently paid on July 14, 2017 to shareholders of record on June 30, 2017 and was approximately $376,000 in the aggregate. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis. The amount is a reduction to retained earnings on the accompanying consolidated balance sheet.

Earnings Per Share

Basic earnings per share is computed by dividing net income 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 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, 2017	2016
	($000's omitted except for per share data)	
Net Income	$ 1,317	$ 1,753
Weighted average common shares outstanding (basic)	2,267	2,215
Unvested restricted stock	29	83
Weighted average common shares outstanding (diluted)	2,296	2,298
Basic		
Net income per share	$ 0.58	$ 0.79
Diluted		
Net income per share	$ 0.57	$ 0.76

Share Based Payments

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. As of December 31, 2017, there is no unrecognized compensation related to the unvested restricted shares since all outstanding restricted shares vested on January 1, 2018.

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, 2015	82,500	$ 8.10
Granted in 2016	51,000	$ 7.96
Forfeited in 2016	(9,000)	$ 8.03
Vested in 2016	41,250	$ 8.10
Unvested at December 31, 2016	83,250	$ 8.02
Granted in 2017	-	-
Forfeited in 2017	-	-
Vested in 2017	54,750	$ 8.09
Unvested at December 31, 2017	28,500	$ 7.96

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 considers the risk of loss remote, 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.

Post retirement obligation. 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 Company is also expected to pay post employment health related benefits for the Former Employee, of which approximately $1,007,000 and $528,000, respectively, has been accrued as of December 31, 2017 and 2016. This amount is reflected as Post Retirement Obligation in the accompanying balance sheet. Subsequently, the scope of the health related benefits obligation in the agreement became an issue. In June 2016 an Arbitrator was selected by the parties to hear this matter. The Company did not consider the risk of loss to be probable. A partial final opinion and award was issued on December 18, 2017 and a final opinion and award issued on February 1, 2018. The Company has disputed the amount of fees and costs to be reimbursed. The Company has accrued as our best estimate approximately $270,000 as of December 31, 2017. This amount is reflected in other accrued expenses in the accompanying balance sheet.

Leases. The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in the twelve month periods ended December 31, 2017 and 2016 and future minimum payments under such leases are not material to the consolidated financial statements.

Facility Expansion. The Company's CPG has also been awarded a $300,000 grant from Cattaraugus County, New York. The grant was invested in 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 has maintained the required employment levels as of December 31, 2017.

Employment Agreements. The Company has entered into an employment agreement with Kenneth D. Trbovich pursuant to which he is entitled to receive minimum salary compensation of $524,000 per annum, 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 his 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, 2019 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 Kenneth Trbovich. Upon retirement and after attaining at least the age of 65, the Company will pay for the retired executive's 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 $205,000 and $109,000 in 2017 and 2016, 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	
	Twelve Months Ended December 31,		Twelve Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016	2017	2016
Revenues from unaffiliated customers	$ 32,414	$ 31,059	$ 9,030	$ 7,528	$ 41,444	$ 38,587
Cost of goods sold, exclusive of depreciation and amortization	(23,094)	(21,919)	(7,516)	(6,645)	(30,610)	(28,564)
Selling, general and administrative	(5,965)	(4,808)	(1,842)	(1,860)	(7,807)	(6,668)
Depreciation and amortization	(623)	(559)	(262)	(264)	(885)	(823)
Interest expense	(45)	(43)	(32)	(30)	(77)	(73)
Other income, net	7	11	3	-	10	11
Income (loss) before income tax provision (benefits)	2,694	3,741	(619)	(1,271)	2,075	2,470
Income tax provision (benefits)	984	1,086	(226)	(369)	758	717
Net income (loss)	$ 1,710	$ 2,655	$ (393)	$ (902)	$ 1,317	$ 1,753
Total assets	$ 26,331	$ 24,037	$ 11,655	$ 11,583	$ 37,986	$ 35,620
Capital expenditures	$ 1,998	$ 772	$ 178	$ 219	$ 2,176	$ 991

DIRECTORS

Kenneth D. Trbovich
Chairman of the Board of Directors
President and Chief Executive Officer, Servotronics, Inc.

Edward C. Cosgrove, Esq.
Attorney

Lucion P. Gygax
Major, Army National Guard

Christopher M. Marks
Financial Advisor

Jason T. Bear
Marketing Executive

OFFICERS

Kenneth D. Trbovich
Chief Executive Officer and President

Lisa F. Bencel, CPA
Chief Financial Officer

James C. Takacs
Senior Vice President

Salvatore San Filippo
Senior Vice President

Bernadine E. Kucinski
Corporate Secretary

Registrar and Transfer Agent
Computershare
250 Royall St.
Canton, MA 02021-1011

General Counsel
Bond, Schoeneck & King, PLLC.
Avant Building -Suite 900
200 Delaware Ave.
Buffalo, NY 14202-2107

Independent Auditors
Freed Maxick CPAs, PC
424 Main St. - Suite 800
Buffalo, NY 14202-3508

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, 2017 is available to all stockholders, without charge, upon written request. Written requests should be addressed to:

Bernadine E. Kucinski
Corporate Secretary
Servotronics, Inc.
1110 Maple Rd.
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IN MEMORIAM

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