SERVOTRONICS INC /DE/
Form 10KSB
March 31, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

__ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to _________________.

Commission File No. 1-07109

SERVOTRONICS, INC.
(Name of small business issuer as specified in its charter)

Delaware	16-0837866
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
1110 Maple Street, Elma, New York	14059
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number:
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	American Stock Exchange

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ____

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X . No .

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. X

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

Issuer's revenues for its most recent fiscal year: $23,126,000

As of March 27, 2006 the aggregate market value of the voting common stock held by non-affiliates of the registrant was $14,617,768.22 based on the average of sales prices reported by the American Stock Exchange on that day.

As of March 27, 2006 the number of $.20 par value common shares outstanding was 2,481,752.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-KSB
2006 Proxy Statement	Part III

Transitional Small Business Disclosure Format. Yes ____. No X.

TABLE OF CONTENTS

PART I

Item 1. Description of 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.

The Registrant was incorporated in New York in 1959. In 1972, the Registrant was merged into a wholly-owned subsidiary organized under the laws of the State of Delaware, thereby changing the Registrant's state of incorporation from New York to Delaware.

Products

Advanced Technology Products

The Registrant 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, missile, aircraft and government related industries.

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

The Registrant also produces 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 Registrant 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.

From time to time, the Registrant has also produced other products of its own and/or of a given design to meet customers' requirements.

Consumer Products

The Registrant designs, manufactures and sells a variety of cutlery products. These products include a wide range of kitchen knives such as steak, carving, bread, butcher and paring knives for household use and for use in restaurants, institutions and private industry, and pocket and other types of knives for hunting, fishing and camping. The Registrant sells cutlery products to the U.S. Government and related agencies. These products include machetes, bayonets and other types of knives that are primarily for military use. The Registrant also produces and markets other cutlery items such as various specialty tools, putty knives, linoleum sheet cutters and field knives. The Registrant manufactures its cutlery products from stainless or high carbon steel in numerous styles, designs, models and sizes. Substantially all of the Registrant's commercial cutlery related products are intended for the medium to premium priced markets.

The Registrant sells many of its cutlery products under its own brand names including "Old Hickory" and "Queen."

Sales, Marketing and Distribution

Advanced Technology Products

The Registrant's advanced technology products are marketed throughout the United States and are essentially 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 Registrant's professional staff and field engineering representatives.

During the Registrant's last fiscal year, sales of advanced technology products pursuant to subcontracts with prime or subcontractors for various branches of the United States Government or pursuant to prime contracts directly with the government accounted for approximately 23% of the Registrant's total revenues as compared to 22% in 2004. In 2005 and 2004, the Registrant had sales of advanced technology products to two customers (including their respective subsidiaries and/or divisions) that each exceeded 10% of Registrant's total revenues. No other single customer represented more than 10% of the Company's revenues in 2005 or 2004.

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

Consumer Products

The Registrant's consumer products are marketed throughout the United States. Consumer sales are moderately seasonal. Sales are to hardware, supermarket, variety, department, discount, gift and drug stores. The Registrant's Consumer Products Group also sells its cutlery products (principally machetes, bayonets, survival knives and kitchen knives) to various branches of the United States Government which accounted for approximately 16% of the Registrant's total sales in 2005 as compared to 23% in 2004. No other single customer represented more than 10% of the Company's revenues in 2005. The Registrant sells its products through its own sales personnel and through independent manufacturers' representatives.

Business Segments

Business segment information is presented in Note 10 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 Registrant's competitive position is not dependent on patent protection.

Research Activities

The amount spent by the Registrant in research and development activities during its 2005 and 2004 fiscal years was not significant.

Environmental Compliance

The Registrant does not anticipate that the cost of compliance with current environmental laws will be material.

Manufacturing

The Registrant manufactures its consumer products in Franklinville, New York and Titusville, Pennsylvania and its advanced technology products in Elma, New York.

Raw Materials and Other Supplies

The Registrant purchases raw materials and certain components for its products from outside vendors. The Registrant is not generally 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 Registrant to determine accurately its relative competitive position with respect to any of its products, the Registrant believes that it is a significant factor with respect to certain of its servo-control components. The Registrant's share of the overall cutlery market is not significant.

The Registrant encounters active competition with respect to its 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 Registrant believes that it competes primarily with more than 20 companies with respect to its consumer products, in addition to foreign imports. To the Registrant's knowledge, its principal competitors with regard to cutlery include World Kitchen, Inc., Tramontina, Inc., Dexter-Russell Inc., W. R. Case & Sons Cutlery Company, Lifetime Hoan Corp., Gerber and Camillus Cutlery Company.

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

Employees

The Registrant, at December 31, 2005, had approximately 245 employees of which approximately 230 are full time; 189 in Western New York and 41 in Pennsylvania. In excess of 83% of its employees are engaged in production, inspection, packaging or shipping activities. The balance are engaged in executive, engineering, administrative, clerical or sales capacities.

Item 2. Description of Properties

The Registrant's executive offices are located on premises leased by the Registrant at 1110 Maple Street, Elma, a suburb of Buffalo, New York. The Registrant owns and/or leases real property as set forth in the following table:

Location	Approx. acreage	Principal product manufactured	Number of buildings and type of construction	Ap floo (sq.
Elma, New York	38.4	Advanced technology products	1-concrete block/ steel	
Franklinville, New York	12.7	Cutlery products	1-tile/wood 1 concrete/metal 1 concrete block	1
Titusville, Pennsylvania	.4	Cutlery products	2-brick	

In Elma, New York, the Registrant leases approximately 38.4 acres of land and a facility from a local industrial development agency. The lease is accounted for as a capital lease and entitles the Registrant to purchase the property for a nominal amount.

See the consolidated financial statements, including Note 8 thereto, for further information with respect to the Registrant's lease commitments.

The Registrant possesses modern precision manufacturing and testing equipment suitable for the development, manufacture, assembly and testing of its advanced technology products. The Registrant uses computer-aided technology throughout its processes, procedures, designs, manufacturing and administrative functions. The Registrant designs and makes substantially all of the tools, dies, jigs and specialized testing equipment necessary for the production of the advanced technology products. The Registrant also possesses automatic and semi-automatic grinders, tumblers, presses and miscellaneous metal finishing machinery and equipment for use in the manufacture of consumer products.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

(a) Price range of common stock

The following table shows the range of high and low prices for the Registrant's common stock as reported by the American Stock Exchange for 2005 and 2004.

	High	Low
2005		
Fourth Quarter	$ 4.75	$ 3.85
Third Quarter	5.05	4.10
Second Quarter	5.00	4.10
First Quarter	5.00	4.41
2004		
Fourth Quarter	$ 4.99	$ 3.70
Third Quarter	5.90	3.50
Second Quarter	4.98	2.72
First Quarter	3.54	2.75

(b) Approximate number of holders of common stock

Title of class	Approximate number of record holders (as of December 31, 2005)
Common Stock, $.20 par value per share	605

(c) Dividends on common stock

No cash dividends were paid in 2005 or 2004.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Num rema fut eq plans refle
Equity compensation plans approved by security holders	333,000	$3.503	
Equity compensation plans not approved by security holders	180,900	$6.072	
Total	513,900	$4.407	

(e) Company Re-purchases of Equity Securities

During 2005, the Company did not purchase any shares of Servotronics, Inc. common stock. In January 2006, the Board of Directors authorized the purchase of up to 250,000 shares of the Company's outstanding common stock. The shares may be purchased in the open market or in privately negotiated transactions; and at times and in amounts that the Company deems appropriate.

Item 6. Management's Discussion and Analysis or Plan of Operation

Management Discussion

During the years ended December 31, 2005 and 2004, approximately 39% and 45% 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 have decreased a net of approximately $560,000 when comparing the results of 2005 to 2004 as the result of the previously reported scheduled completion of a significant order to the Consumer Products Group (CPG). The Company believes that government involvement in military operations overseas will continue to have a direct impact on the financial results in both the Advanced Technology and Consumer Products markets. While the Company remains optimistic in relation to these opportunities, it recognizes that sales to the government are affected by defense budgets, the foreign policies of the U.S. and other nations, the level of military operations and other factors and, as such, it is difficult to predict the impact on future financial results. The Company's commercial business is affected by such factors as uncertainties in today's global economy, global competition, the vitality and ability of the commercial aviation industry to purchase new aircraft, market demand and acceptance both for the Company's products and its customers' products which incorporate Company-made components.

See also Note 10 to the consolidated financial statements for information concerning business segment operating results.

Results of Operations - Year 2005 as Compared to 2004

The following table sets forth for the period indicated the percentage relationship of certain items in the consolidated statement of operations to net revenues and the period to period dollar and percentage increase or decrease of such items as compared to the indicated prior period.

	Relationship to net revenues year ended December 31, 2005	2004	Period to period $ increase (decrease) year ended 2005-20
Net revenues and other income:			
Advanced technology products	59.8%	51.3%	$ 2,480
Consumer products	40.2	48.7	(1,467
	100.0	100.0	1,013
Cost of goods sold, exclusive of depreciation	73.7	73.9	703
Gross profit	26.3	26.1	310
Selling, general and administrative	16.5	17.1	15
Interest	1.0	0.7	74
Depreciation and amortization	2.9	3.0	24
Insurance proceeds, net	(3.4)	-	795
	17.0	20.8	682
Income before income tax provision	9.3	5.3	992
Income tax provision	3.4	2.0	363
Net income	5.9%	3.3%	$ 629

Revenues increased by approximately $1,013,000 or 4.6% with an increase in net income of $629,000 or 85.7%. The increase in revenues is primarily attributed to an increase in government and commercial shipments as well as price increases under certain long-term agreements at the Advanced Technology Group (ATG) partially off-set by a decrease in government shipments at the Consumer Products Group as a result of the aforementioned scheduled completion of a significant government order.

Gross margins for the twelve month period ended December 31, 2005 increased

5.4% when compared to the same period in 2004 primarily due to the aforementioned price increases offset by increased costs associated with certain retirement obligations (See Note 5 Consolidated Financial Statements). Other factors affecting margins include the mix of products sold. The Company continues to incur costs associated with prototype and preproduction activities that are expensed in the period incurred.

Selling, general and administrative (SG&A) costs increased approximately 0.4% when compared to the same period in 2004. The increase in SG&A costs is attributed to an increase in administrative and professional costs as well as increase in costs attributed to expanded marketing and sales efforts and continuing compliance-related costs under federal securities laws and regulations applicable to registrant companies.

Interest expense increased for the year ended December 31, 2005 when compared to the same period in 2004. Although average debt outstanding was lower and will continue to decline as the Company continues to repay its scheduled debt obligations, the increase in interest expense was primarily due to an increase in market driven interest rates. See also Note 4 to the consolidated financial statements for information on long-term debt.

Depreciation and amortization expense increased approximately 3.7% for the year ended December 31, 2005 when compared to the same period in 2004 due to variable estimated useful lives of depreciable property as identified in Note 1 to the consolidated financial statements.

In December 2005, the Company received $1,000,000, equal to the policy limit, from its insurance carrier in partial recovery of a defalcation by a former employee. As of December 31, 2005, the Company incurred approximately $205,000 in professional, legal and related costs associated with the recovery and the Company continues to seek additional restitution.

The Company's effective tax rate was 37% in 2005 and 2004. The effective tax rate in both years reflects state income taxes, permanent non-deductible expenditures and the tax benefit for extraterritorial sales as well as manufacturing deductions allowable under the American Jobs Creation Act of 2004. See also Note 6 to the consolidated financial statements for information concerning income tax rates.

Net income increased $629,000 after the aforementioned increase in costs associated with certain retirement obligations. The increase in net income is primarily attributed to the net after tax insurance proceeds of approximately $500,000 and the increase in gross profits generated from approximately $1 million increase in net revenues for 2005.

Results of Operations - Year 2004 as Compared to 2003

The Company's consolidated results of operations for the year ended December 31, 2004 showed an approximate $4,539,000 or 25.8% increase in net revenues with an increase in income before taxes of approximately $757,000. The increase in revenues is primarily attributed to increased government shipments.

Gross profit increased 28.0% for the twelve month period ended December 31, 2004. The variation in gross profit can be attributed to several factors including year-to-year variations in the previously discussed front-end costs associated with new products and changes in design on existing products. The timing of such costs directly contributes to the fluctuation in gross profit from period to period as these costs are expensed as they occur and, as such, are not matched to their future revenues and benefits. As previously reported, while 2004 revenues from Consumer Products Group's combination combat knife and bayonet increased, a substantial amount of front-end costs associated with these revenues were expensed in prior periods. The Company continues to incur such costs on an ongoing basis associated with products for both the ATG and CPG. Another factor contributing to the increase in gross profit for the reported period is product mix.

Selling, general and administrative (SG&A) costs increased approximately 15.8% when compared to the same period in 2003. The increase in SG&A costs is attributed to increased marketing and sales efforts of the ATG and CPG, however, the most significant impact has been increased costs for professional services and corporate governance necessitated by the Sarbanes-Oxley Act. The Company estimates that it has incurred in excess of $200,000 on related expenses in 2004 and expects to incur significant expenses in the future.

Interest expense remained consistent for the year ended December 31, 2004 when compared to the same period in 2003. Despite the decrease in the average outstanding balances on institutional debt, average market driven interest rates increased when comparing the twelve month period ending December 31, 2004 to the same period of 2003. See also Note 4 to the consolidated financial statements for information on long-term debt.

Depreciation and amortization expense decreased approximately 2.1% for the year ended December 31, 2004 when compared to the same period in 2003 due to variable estimated useful lives of depreciable property as identified in Note 1 to the consolidated financial statements.

The Company's effective tax rate was 37% in 2004 and 2003. The effective tax rate in both years reflects state income taxes, permanent non-deductible expenditures and the tax benefit on certain foreign sales. See also Note 6 to the consolidated financial statements for information concerning income tax rates.

Liquidity and Capital Resources

The Company's primary liquidity and capital requirements relate to the working capital needs; primarily inventory, accounts receivable, capital investments in facilities, machinery, tools/dies and equipment and principal/interest payments on indebtedness. At December 31, 2005, the Company has approximately $4.6 million in cash on hand and working capital of approximately $13 million.

The Company's primary sources of liquidity in 2005 have been from positive cash flows from operations. For fiscal 2005, the Company generated approximately $3.3 million in cash flow from operations, an increase of approximately $2.2 million over fiscal 2004. The increase was primarily funded through an increase in net income as discussed above and a lower use of cash to fund working capital.

-12-

During the year ended December 31, 2005, the Company expended $421,000 on capital expenditures as compared to $622,000 in 2004.

At December 31, 2005, there are no material commitments for capital expenditures.

The Company also has a $1,000,000 line of credit on which there is no balance outstanding at December 31, 2005. This will be used to fund cash flow required for operations if needed.

Principal maturities of long-term debt are as follows: 2006 - $382,000, 2007 - $386,000, 2008 - $387,000, 2009 - $539,000, 2010 - $321,000 and thereafter - $3,383,000.

In January of 2006, the Company's Board of Directors authorized the purchase by the Company of up to 250,000 shares of its common stock in the open market or in privately negotiated transactions. As of March 27, 2006, the Company has purchased or committed to purchase 77,757 shares for a total of $679,300 under this program.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). As such, we are required to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and which require our most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Notes 1 and 7 to the accompanying consolidated financial statements include a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

-13-

New Accounting Pronouncements

Management reviewed recent accounting pronouncements and has not determined the effect these pronouncements will have on Financial Statement results. See Notes 1 and 7 to the accompanying consolidated financial statements for further discussion of new accounting pronouncements.

Revenue Recognition

Revenues are recognized as servies 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 and may provide for progress payments based on in-process costs as they are incurred.

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Cost includes all cost incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out). Market provisions in respect to net realizable value and obsolescence are applied to the gross value of the inventory. Pre-production and start-up costs are expensed as incurred.

Employee Benefit Plans

As discussed in Note 5 to the financial statements, the Company provides a range of benefits to its employees and retired employees, including pension and post retirement benefits. The Company records annual amounts relating to these plans based on calculations specified by GAAP, which includes various actuarial assumptions, such as discount rates, assumed rates of return on plan assets and health care cost trend rates. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on advice from its actuaries.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, reserves and allowances for inventories and trade receivables. Actual results could differ from those estimates.

Item 7. Financial Statements

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

As previously disclosed on Form 8-K, on September 7, 2005, the Audit Committee of the Company's Board of Directors terminated PricewaterhouseCoopers LLP ("PWC") as the Company's independent registered public accounting firm. The audit reports of PWC on the Company's consolidated financial statements as of and for the two most recent fiscal years ended December 31, 2004 did not contain any adverse opinion or disclaimer of opinion, nor were these opinions modified as to uncertainty, audit scope or accounting principles. During the Company's two fiscal years ended December 31, 2004 and through September 7, 2005, there were no disagreements between the Company and PWC on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PWC, would have caused it to make a reference to the subject matter of the disagreement in connection with its audit report which did not occur.

The Company provided PWC with a copy of its Form 8-K disclosure and requested that PWC furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether PWC agreed with the Company's statements. PWC agreed that there were no disagreements, and issued the letter which is incorporated by reference as Exhibit 16.1 to this Form 10-KSB.

In connection with obtaining consent from PWC to the inclusion of their audit report dated March 31, 2005 in this Form 10-KSB for the year ended December 31, 2004, the Company agreed to indemnify PWC against any legal costs and expenses incurred by PWC in the successful defense of any legal action that arises as a result of such inclusion. Such indemnification will be void if a court finds PWC liable for professional malpractice. As stated in the Division of Corporate Finance's Accountant Disclosure Rules and Practices Training Manual, the Securities and Exchange Commission does not object to a domestic or foreign registrant's indemnification of predecessor auditors for costs incurred in successful defense of claims.

-15-

On September 7, 2005, the Audit Committee engaged Freed Maxick & Battaglia, CPAs, P.C., effective September 8, 2005, to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005.

Item 8A. Controls and Procedures

(i) Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005. Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company (or the Company's consolidated subsidiaries) required to be included in the Company's periodic filings with the SEC, such that the information relating to the Company, required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(ii)Changes in Internal Controls

The Company reviewed its internal control policy and procedures and during the period ended December 31, 2005 it developed and implemented additional measures designed to insure that information is recorded, processed, summarized and reported accurately. These measures include additional procedures relative to the review and reconciliation of bank statements for payroll and operating accounts.

Item 8B. Other Information

None.

-16-

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Information regarding directors and executive officers of the Registrant is incorporated herein by reference to the information included in the Registrant's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant's 2005 fiscal year or such information will be included by amendment to this form 10-KSB.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct that applies to all directors, officers and employees of the Company as required by the listing standards of the American Stock Exchange. 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 American Stock Exchange.

Item 10. Executive Compensation

Information regarding executive compensation is incorporated herein by reference to the information included in the Registrant's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant's 2005 fiscal year or such information will be included by amendment to this form 10-KSB.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information included in the Registrant's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant's 2005 fiscal year or such information will be included by amendment to this form 10-KSB.

Also incorporated by reference is the information in the table under the heading "Securities Authorized for Issuance Under Equity Compensation Plans" included in Item 5 of this Form 10-KSB.

Item 12. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated herein by reference to the information included in the Registrant's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant's 2005 fiscal year or such information will be included by amendment to this form 10-KSB.

Item 13. Exhibits

(a) Exhibits

Exhibit

number	Presentation	Reference
3(A)(1)	Certificate of Incorporation	Exhibit 3(A)(1) to 19 Form 10-KSB*
3(A)(2)	Amendments to Certificate of Incorporation dated August 27, 1984	Exhibit 3(A)(2) to 19 Form 10-KSB*
3(A)(3)	Certificate of designation regarding Series I preferred stock	Exhibit 4(A) to 1987 Form 10-K*
3(A)(4)	Amendments to Certificate of Incorporation dated June 30, 1998	Exhibit 3(A)(4) to 19 Form 10-KSB*
3(B)	By-laws	Exhibit 3(B) to 1986 Form 10-K*
4.1(A)	First amended and restated term loan agreement with Fleet Bank of New York dated October 4, 1993	Exhibit 4(A) to 1993 Form 10-KSB*
4.1(B)	Second amended and restated term loan agreement with Fleet Bank of New York dated February 26, 1999	Exhibit 4.1(B) to 199 Form 10-KSB*
4.1(C)	First amendment to second amended and restated term loan agreement with Fleet Bank of New York dated December 17, 1999	Exhibit 4.1(C) to 199 Form 10-KSB*
4.1(D)	Second amendment to a second amended and restated term loan agreement with Fleet National Bank dated December 20, 2004	Exhibit 4.1(D) to 200 Form 10-KSB*

---

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
4.2(A)	Letter of Credit Reimbursement Agreement with Fleet Bank dated December 1, 1994	Exhibit 4(B)(1) to 1994 10-KSB*
4.2(B)	First Amendment and	Exhibit 4.2(B) to 199

	Extension to Letter of Credit and Reimbursement Agreement with Fleet Bank of New York dated as of December 17, 1999	Form 10-KSB*
4.2(C)	Second Amendment and Extension to Letter of Credit and Reimbursement Agreement originally dated December 1, 1994, with Fleet National Bank, dated as of December 20, 2004	Exhibit 4.2(C) to 200 Form 10-KSB*
4.3	Agency Mortgage and Security Agreement dated as of December 1, 1994 from the Registrant and its subsidiaries	Exhibit 4(B)(2) to 1994 10-KSB*
4.4	Guaranty Agreement dated as of December 1, 1994 from the Registrant and its subsidiaries to the Erie County Industrial Development Agency ("ECIDA"), Norwest Bank Minnesota, N.A., as Trustee, and Fleet Bank	Exhibit 4(B)(3) to 1994 10-KSB*
4.5	Shareholder Rights Plan dated as of August 27, 2002	Exhibit 4 to Form 8-K filed August 2 2002*
10(A)(1)	Employment contract for Dr. Nicholas D. Trbovich, Chief Executive Officer	Exhibit 10(A)(1) to F 8-K filed August 1 2005**

---

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

-19-

Exhibit number	Presentation	Reference
10(A)(4)	Employment contract for Nicholas D. Trbovich, Jr. Vice President	Exhibit 10(A)(1) to F 8-K filed August 1 2005**
10(B)	Form of Indemnification Agreement between the Registrant and each of its Directors and Officers**	Exhibit 10(E) to 1986 Form 10-K*
10(C)(1)	Loan agreement between	Exhibit 10(C)(1)

	the Company and its employee stock ownership trust, as amended	to 1991 Form 10-K*
10(C)(2)	Stock purchase agreement between the Company and its employee stock ownership trust	Exhibit 10(D)(2) to 1988 Form 10-K*
10(D)(1)(a)	1989 Employees Stock Option Plan**	Exhibit A to Form 8: Amendment No. 1 to 1988 Form 10-K*
10(D)(1)(b)	Amendment to 1989 Employees Stock Option Plan**	Exhibit 10(D)(1)(b) t Form 10-K*
10(D)(1)(c)	Amendment No. 2 to 1989 Employees Stock Option Plan**	Exhibit 10(D)(1)(d) t Form 10-K*
10(D)(1)(d)	2000 Employees Stock Option Plan**	Exhibit 10(D)(1)(a) t Form 10-KSB*
10(D)(2)	Stock Option Agreement for Donald W. Hedges dated March 24, 1998**	Exhibit 10(D)(2) to 1 Form 10-KSB*

----

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

-20-

Exhibit number	Presentation	Reference
10(D)(2)(a)	Stock Option Agreement for Donald W. Hedges dated July 7, 2000**	Exhibit 10(D)(2)(a) t Form 10-KSB*
10(D)(3)(b)	Stock Option Agreement for Nicholas D. Trbovich dated March 24, 1998**	Exhibit 10(D)(3)(b) t Form 10-KSB*
10(D)(3)(c)	Stock Option Agreement for Nicholas D. Trbovich dated July 7, 2000**	Exhibit 10(D)(3)(c) t Form 10-KSB*
10(D)(4)	Stock Option Agreement for William H. Duerig dated March 24, 1998**	Exhibit 10(D)(4) to 1 Form 10-KSB*
10(D)(4)(a)	Stock Option Agreement	Exhibit 10(D)(4)(a) t

	for William H. Duerig dated July 7, 2000**	Form 10-KSB*
10(D)(9)	Land Lease Agreement between TSV, Inc. (wholly-owned subsidiary of the Registrant) and the ECIDA dated as of May 1, 1992, and Corporate Guaranty of the Registrant dated as of May 1, 1992	Exhibit 10(D)(9) to 1 Form 10-KSB*
10(D)(10)	Amendment to Land Lease Agreement and Interim Lease Agreement dated November 19, 1992	Exhibit 10(D) (11) to Form 10-KSB*
10(D)(11)	Lease Agreement dated as of December 1, 1994 between the Erie County Industrial Development Agency ("ECIDA") and TSV, Inc.	Exhibit 10(D)(11) to 1994 10-KSB*
10(D)(12)	Sublease Agreement dated as of December 1, 1994 between TSV, Inc. and the Registrant	Exhibit 10(D)(12) to 1994 10-KSB*

----

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
10(D)(13)	2001 Long-Term Stock Incentive Plan	Appendix A to 2001 Proxy**
16	Letter from PricewaterhouseCoopers regarding dismissal	Exhibit 16.1 to Form filed September 21
21	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Freed Maxick & Battaglia, CPAs, P.C.	Filed herewith
23.2	Consent of PricewaterhouseCoopers LLP	Filed herewith
31.1	Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of	Filed herewith

	1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

The Registrant hereby agrees that it will furnish to the Securities and Exchange Commission upon request a copy of any instrument defining the rights of holders of long-term debt not filed herewith.

---

*Incorporated herein by reference (File No. 1-07109)

**Indicates management contract or compensatory plan or arrangement

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

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 Registrant's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant's 2005 fiscal year or such information will be included by amendment to this Form 10-KSB.

FORWARD-LOOKING STATEMENTS

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

-23-

SIGNATURES

In accordance with 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 28, 2006 By /s/ Nicholas D. Trbovich, President

Nicholas D. Trbovich
President, Chief Executive Officer
and Chairman of the Board

In accordance with 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/ Nicholas D. Trbovich Nicholas D. Trbovich	President, Chief Executive Officer, Chairman of the Board and Director	March 28, 2006
/s/ Cari L. Jaroslawsky Cari L. Jaroslawsky	Chief Financial Officer, Treasurer	March 28, 2006
/s/ Donald W. Hedges Donald W. Hedges	Director	March 28, 2006
/s/ William H. Duerig William H. Duerig	Director	March 28, 2006
/s/ Nicholas D. Trbovich Jr. Nicholas D. Trbovich Jr.	Director	March 28, 2006

SERVOTRONICS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Servotronics, Inc. and Subsidiaries

We have audited the consolidated balance sheet of Servotronics, Inc. and Subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the year ended December 31, 2004 were audited by other auditors whose report dated March 31, 2005 expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Servotronics, Inc. and Subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Freed Maxick & Battaglia, CPAs, P.C.
Buffalo, New York
March 28, 2006

-F2-

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated statements of operations and cash flows for the year ended December 31, 2004 appearing on pages F-5 through F-6 of the Servotronics, Inc. 2005 Annual Report to Shareholders which has been incorporated by reference in this Form 10-KSB, present fairly, in all material respects, the results of operations and cash flows of Servotronics, Inc. and its subsidiaries for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Buffalo, New York
March 31, 2005

-F3-

SERVOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

($000's omitted except share and per share data)

Assets

Current assets:

Cash
Accounts receivable
Inventories
Deferred income taxes
Other assets

Total current assets

Property, plant and equipment, net

Other non-current assets

Liabilities and Shareholders' Equity
Current liabilities:
Current portion of long-term debt
Accounts payable
Accrued employee compensation and benefit costs
Accrued income taxes
Other accrued liabilities

Total current liabilities
Long-term debt
Deferred income taxes
Other non-current liabilities
Shareholders' equity:
Common stock, par value $.20; authorized
4,000,000 shares; issued 2,614,506 shares
Capital in excess of par value
Retained earnings
Accumulated other comprehensive loss

Employee stock ownership trust commitment
Treasury stock, at cost 121,605 shares

Total shareholders' equity

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

($000's omitted except per share data)

	Ye Dec 2005
Net revenues	$ 23,126
Costs, expenses and other:	
Cost of goods sold, exclusive of depreciation	17,047
Selling, general and administrative	3,805
Interest	235
Depreciation and amortization	679
Insurance proceeds, net (Note 11)	(795)
	20,971
Income before income tax provision	2,155
Income tax provision	792
Net income	$ 1,363
Income per share:	
Basic	
Net income per share	$ 0.66
Diluted	
Net income per share	$ 0.64

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

($000's omitted)

	Year Decem 2005
Cash flows related to operating activities:	
Net income	$ 1,363
Adjustments to reconcile net income to net cash provided by operating activities -	
Depreciation and amortization	679
Deferred income taxes	(39)

Change in assets and liabilities -	
Accounts receivable	(441)
Inventories	283
Prepaid income taxes	-
Other assets	614
Other non-current assets	(111)
Accounts payable	95
Accrued employee compensation and benefit costs	311
Other accrued liabilities	127
Accrued income tax	262
Other non-current liabilities	90
Employee stock ownership trust payment	101
Net cash provided by operating activities	3,334
Cash flows related to investing activities:	
Capital expenditures - property, plant & equipment	(421)
Net cash used in investing activities	(421)
Cash flows related to financing activities:	
Proceeds from demand loan	-
Proceeds from long-term debt issuance	-
Payments on demand loan	-
Principal payments on long-term debt	(382)
Net cash provided by (used in) provided by financing activities	(382)
Net increase in cash	2,531
Cash at beginning of year	2,106
Cash at end of year	$ 4,637
Supplemental disclosures:	
Income taxes paid	$ 419
Interest paid	$ 222

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Principles of consolidation

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

Cash and cash equivalents

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

Revenue recognition

Revenues are recognized as services are rendered or as units are shipped and at the designated FOB point consistent with the transfer of title, risks and rewards of ownership. Such purchase orders generally include specific terms relative to quantity, item description, specifications, price, customer responsibility for in-process costs, delivery schedule, shipping point, payment and other standard terms and conditions of purchase and may provide for progress payments based on in-process costs as they are incurred.

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Cost includes all cost incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out). Market provisions in respect of net realizable value and obsolescence are applied to the gross value of the inventory. Pre-production and start-up costs are expensed as incurred.

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.

-F7-

Depreciation is provided on the basis of estimated useful lives of depreciable properties, primarily by the straight-line method for financial statement purposes and by accelerated methods for tax purposes. Depreciation expense includes the amortization of capital lease assets. The estimated useful lives of depreciable properties are generally as follows:

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

Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of operating loss and credit carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return and separate state income tax returns.

Employee stock ownership plan

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

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable based on undiscounted future operating cash flow analyses. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Use of estimates

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

New accounting pronouncements

During the year ended December 31, 2005, the Financial Accounting Standards Board (FASB) issued a revision to SFAS 123 entitled SFAS 123 R - "Share-Based Payment", requiring companies to include the fair value of stock options granted as an expense in the statement of operations. This revision will become effective for the Company commencing January 1, 2006. See Note 7 for the expected impact of recording the fair value of options granted.

During the year ended December 31, 2004, the FASB issued SFAS 151, "Inventory Costs". This Statement amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "abnormal". In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Statement 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted in certain circumstances. The Company will adopt SFAS 151 effective January 1, 2006 and does not expect the adoption of this new standard to have a significant impact on the Company's financial statements.

Risk Factors

The aviation and aerospace industries as well as markets for the Company's consumer products are facing new and evolving challenges on a global basis. The success of the Company depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, and other risk factors. In addition, uncertainties in today's global economy, competition from expanding manufacturing capabilities and technical sophistication of low-cost developing countries, particularly in South and East Asia, currency policies in relation to the U.S. dollar of some major foreign exporting countries so as to maintain or increase a pricing advantage of their exports vis-a-vis U.S. manufactured goods, 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.

-F9-

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, inventories, accounts payable and accrued expenses are reasonable estimates of their fair value due to their short maturity. Based on variable interest rates and the borrowing rates currently available to the Company for loans similar to its long-term debt, the fair value approximates its carrying amount.

2. Inventories

	December 31, 2005 ($000's omitted)
Raw materials and common parts	$ 3,055
Work-in-process	3,278
Finished goods	548
	6,881
Less: common parts expected to be used after one year (classified as long-term)	(323)
	$ 6,558

3. Property, plant and equipment

December 31, 2005

	($000's omitted)
Land	$ 25
Buildings	6,537
Machinery, equipment and tooling	10,717
	17,279
Less accumulated depreciation and amortization	(11,009)
	$ 6,270

Property, plant and equipment includes land and building under a $5,000,000 capital lease which can be purchased for a nominal amount at the end of the lease term. As of December 31, 2005, accumulated amortization on the building amounted to approximately $1,500,000. The associated current and long-term liabilities are discussed in footnote 4 to the consolidated financial statements. 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.

4. Long-term debt

	December 31
	($000's omi
Industrial Development Revenue Bonds; secured by an equivalent letter of credit from a bank with interest payable monthly at a floating rate (3.71% at December 31, 2005) (A)	$ 3,98
Term loan payable to a financial institution; interest at LIBOR plus 2% (6.00% at December 31, 2005); quarterly principal payments of $17,500 commencing January 1, 2005; payable in full in the fourth quarter of 2009	43
Term loan payable to a financial institution; interest at LIBOR plus 2% (6.41% at December 31, 2005); quarterly principal payments of $26,786 through the fourth quarter of 2011	64
Secured term loan payable to a government agency; monthly payments of approximately $1,455 with interest waived payable through second quarter of 2012	14
Secured term loan payable to a government agency; monthly payments of $1,950 including interest fixed at 3% payable through fourth quarter of 2015	20
	5,39
Less current portion	(38
	$ 5,01

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

Principal maturities of long-term debt are as follows: 2006 - $382,000, 2007 - $386,000, 2008 - $387,000, 2009 - $539,000, 2010 - $321,000 and thereafter - $3,383,000.

-F11-

The Company also has a $1,000,000 line of credit on which there is no balance outstanding at December 31, 2005.

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, 2005, the Company was in compliance with all of its debt covenants.

5. Employee benefit plans

Employee stock ownership plan (ESOP)

Under the Company's ESOP adopted in 1985, participating employees are awarded shares of the Company's common stock based upon eligible compensation and minimum 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 the Company's original loan. Each year the Company makes contributions to the trust which the plan's trustees use to repay the principal and interest due the Company under the trust loan agreement. Shares held by the trust are allocated in the aggregate to participating employees in proportion to the amount of the loan repayment made by the trust to the Company. Since inception of the ESOP, approximately 419,000 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2005 and 2004, approximately 397,000 and 422,000 shares, respectively, purchased by the ESOP remain unallocated.

Related compensation expense associated with the Company's ESOP, which is equal to the principal reduction on the loans receivable from the trust, amounted to $101,000 in 2005 and 2004. Included as a reduction to shareholders' equity is the employee stock ownership 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.

Defined benefit plan

The Company has noncontributory frozen defined benefit pension plans. Plan benefits are based on stated amounts for each year of service and funding is in accordance with statutory requirements. The Company uses

a measurement date of December 1 for its pension plans. The plan assets consist of cash and cash equivalents.

NARRATIVE DESCRIPTION OF DEVELOPMENT OF LONG-TERM RATE OF RETURN

The Company uses historical performance in the market blended with consideration for inflation and a risk-free rate of return.

NARRATIVE DESCRIPTION OF INVESTMENT POLICY STRATEGIES

The Company seeks to maximize income, growth of income, and long-term appreciation and preservation of capital. The assets must be invested with care and diligence with the overriding prudent man rule as a guide to investment management. The Company will, as a general guideline, make occasional disbursements and care is taken to ensure available funds.

	December 1,	
MEASUREMENT DATE	2005	20
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at prior measurement date	$437,926	$429,
Interest cost	24,479	25,
Actuarial (gain)/loss	96,907	15,
Benefits paid (exclusive of settlements)	(15,908)	(19,
Settlements	(17,139)	(12,
Benefit obligation at current measurement date	$526,265	$437,
CHANGE IN FAIR VALUE OF PLAN ASSETS		
Plan assets at prior measurement date	$364,636	$345,
Actual return (net of investment expenses)	4,119	2,
Employer contributions	50,471	51,
Benefits paid (exclusive of settlements)	(15,908)	(19,
Settlements	(14,695)	(14,
Plan assets at current measurement date	$388,623	$364,
FUNDED STATUS		
Funded status	($137,642)	($73,
Unrecognized prior service cost	45,874	47,
Unrecognized net loss	295,269	197,
Unrecognized net transition obligation	44,458	59,
Intangible asset	(90,332)	(106,
Accumulated other comprehensive income	(295,269)	(197,
Accrued pension cost	($137,642)	($73,
NET PERIODIC PENSION COST		
Interest cost	$24,479	$25,
Expected return on assets	(30,212)	(28,

Amortization of transition obligation	14,820	14,
Recognized loss	12,414	9,
Amortization of prior service cost	1,561	1,
Recognized settlement loss	10,704	6,
Net periodic pension cost	$33,766	$29,

WEIGHTED AVERAGE ASSUMPTIONS

Discount rate prior measurement date	5.75%	6
Discount rate current measurement date	5.75%	5
Rate of compensation increase	n/a	n
Long-term rate of return	8.00%	8

ADDITIONAL FINANCIAL STATEMENT DISCLOSURES FOR SFAS NO. 132 (R)

PLAN ASSETS		
Cash and cash equivalents	100.00%	100
REQUIRED EMPLOYER CONTRIBUTIONS		
Remaining Contributions for the 2004 Plan Year	$32,157	$11,
Installments for the subsequent Plan Year	61,014	38,
Total	$93,171	$50,
ACCUMULATED BENEFIT OBLIGATION		
Projected benefit obligation (PBO)	$526,265	$437,
Accumulated benefit obligation (ABO)	$526,265	$437,
Plan assets	$388,623	$364,
Excess of ABO over plan assets	$137,642	$73,
ESTIMATED FUTURE BENEFIT PAYMENTS		
First plan year	$23,349	$24,
Second plan year	$27,915	$25,
Third plan year	$27,116	$27,
Fourth plan year	$28,469	$27,
Fifth plan year	$29,956	$28,
Sixth through tenth plan years	$166,042	$147,

Other Postretirement Benefit Plans

The Company provides certain post retirement health and life insurance benefits for two executives of the Company. Upon retirement and after attaining at least the age of 65, the Company will pay the annual cost of health insurance for the retired executives and dependents and will continue the Company provided life insurance in force at the time of retirement. The retiree's health insurance benefits ceases upon the death of the retired executive. The actuarially calculated future obligation of the benefits at the date of adoption of the plan was $128,675 and is being amortized into expense at a rate of approximately $17,000 per year. Estimated future annual expenses associated with the plan are immaterial.

6. Income tax provision

The provision (benefit) for income taxes included in the consolidated statement of operations consists of the following:

	2005	2004
	($000's omitted)	
Current:		
Federal income tax provision	$ 764	$ 388
State income tax provision	67	57
	831	445
Deferred:		
Federal income tax (benefit)	(61)	(13)
State income tax provision (benefit)	22	(3)
	(39)	(16)
	$ 792	$ 429

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

	2005	2004
Federal statutory rate	34%	34%
State income taxes (less federal effect)	3%	3%
Effective tax rate	37%	37%

At December 31, 2005, the deferred tax assets (liabilities) were comprised of the following:

	($000's omitted)
Inventories	$ 158
Accrued employee compensation and benefit costs	213
Operating loss and credit carryforwards	52
Minimum pension liability	126
Other	3
Total deferred tax assets	552
Property, plant and equipment	(540)
Other liabilities	(7)
Total deferred tax liabilities	(547)

Net deferred tax asset	$ 5

At December 31, 2005, the Company has New York State net operating loss carryforwards of approximately $279,000 (approximately a $9,000 net tax benefit) that begin to expire in 2019.

The Company also has a State of Pennsylvania net operating loss carryforward of approximately $1,306,000 (approximately a $43,000 net tax benefit) that begins to expire in 2006.

7. Common shareholders' equity

	Common stock						
	Number of shares issued	Amount	Capital in excess of par value	Retained earnings	ESOP	Treasury stock	Oth Compreh Los
	($000's omitted except share amounts)						
Balance December 31, 2003	2,614,506	$523	$13,033	$1,516	($ 2,236)	($ 520)	($ 1
Comprehensive income:							
Net income	-	-	-	734	-	-	-
Other comprehensive loss, net of tax							
Minimum pension liability adjustment	-	-	-	-	-	-	(18
Total comprehensive income	-	-	-	-	-	-	-
Compensation expense	-	-	-	-	101	-	-
Other	-	-	-	(4)	-	-	-
Balance December 31, 2004	2,614,506	$523	$13,033	$2,246	($ 2,135)	($ 520)	($ 1
Comprehensive income:							
Net income	-	-	-	1,363	-	-	-
Other comprehensive loss, net of tax							
Minimum pension liability adjustment	-	-	-	-	-	-	(61
Total comprehensive income	-	-	-	-	-	-	-
Compensation expense	-	-	-	-	101	-	-
Balance December 31, 2005	2,614,506	$523	$13,033	$3,609	($ 2,034)	($ 520)	($ 1

In January of 2006, the Company's Board of Directors authorized the purchase by the Company of up to 250,000 shares of its common stock in the open market or in privately negotiated transactions. As of March 27, 2006, the Company has purchased or committed to purchase 77,757 shares for a total of $679,300 under this program.

Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. Diluted earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period plus the number of shares of common stock that would be issued assuming all contingently issuable shares having a dilutive effect on earnings per share were outstanding for the period. Incremental shares from assumed conversions are calculated as the number of shares that would be issued, net of the number of shares that could be purchased in the marketplace with the cash received upon stock option exercise.

-F16-

	Year Ended December 31, 2005	2004
	($000's omitted) except per share data)	
Net income	$ 1,363	$ 734
Weighted average common shares outstanding (basic)	2,075	2,052
Incremental shares from assumed conversions of stock options	64	46
Weighted average common shares outstanding (diluted)	2,139	2,098
Basic		
Net income per share	$ 0.66	$ 0.36
Diluted		
Net income per share	$ 0.64	$ 0.35

Other comprehensive loss

The minimum pension liability of $186,000 ($125,000 - 2004), which is shown net of deferred income taxes of $109,000 ($73,000 - 2004), is the only component of other comprehensive loss.

Stock options

Under the Servotronics, Inc. 2000 Employee Stock Option Plan authorized by the Board of Directors and the 2001 Long-Term Stock Incentive Plan authorized by the Board of Directors and the Shareholders, and other separate agreements authorized by the Board of Directors, the Company has granted non-qualified options to certain

Directors and Officers. The Company applies APB Opinion No. 25 and related interpretations in accounting for these Plans and the separate option agreements. Accordingly, no compensation expense has been charged to earnings in 2005 or prior years as stock options granted have an exercise price equal to the market price on the date of grant. At December 31, 2005, 33,300 shares of common stock were available under these plans. Options granted under these plans have durations of ten years and vesting periods ranging from immediate vesting to four (4) years.

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

	Options Outstanding	Weighted Average Exercise Price ($)
Outstanding as of December 31, 2003	464,200	4.01
Granted in 2004	-	-
Exercised in 2004	-	-
Forfeited in 2004	-	-
Outstanding as of December 31, 2004	464,200	4.01
Granted in 2005	80,000	4.70
Exercised in 2005	-	-
Forfeited in 2005	30,300	4.34
Outstanding as of December 31, 2005	513,900	4.41

The following tables summarize information about options outstanding at December 31, 2005:

	Exercise Prices ($)	Number Outstanding	Remaining Contractual Life	Options Exercisable
	8.50	87,200	2 years	87,200
	3.8125	93,700	5 years	93,700
	4.38	117,000	6 years	117,000
	2.045	136,000	8 years	133,000
	4.70	80,000	10 years	80,000
Total		513,900		510,900

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". If the compensation cost for these plans had been determined based on the Black-Scholes calculated values at the grant dates for awards consistent with the method prescribed by SFAS No. 123, the pro forma effects on the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Net income:		
As reported	$1,363,000	$734,000
Pro forma	$1,171,778	$703,781
Earnings per common share:		
As reported - basic	$0.66	$0.36
As reported - diluted	$0.64	$0.35
Pro forma - basic	$0.56	$0.34
Pro forma - diluted	$0.55	$0.34

There were 80,000 options granted in 2005. There were no options granted in 2004. The Black-Scholes calculated estimated value of the options granted in 2005 was $3.095. The assumptions used to calculate this value include a risk-free interest rate of 4.39%, an expected term of 10 years, a dividend yield of zero and an annual standard deviation (volatility) factor of 49.6%. The Black-Scholes option pricing model was developed for use in estimating values of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options are restricted and have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the calculated estimated values, in the Company's opinion the existing models do not necessarily provide a reliable measure of the value of the Company's stock options. The estimated value calculated by the Black-Scholes methodology is hypothetical and does not represent an actual tangible Company expense or an actual tangible monetary transfer to the optionee. Further, for the reasons stated above (among others) and especially because of the volatility factor used in the Black-Scholes calculations for the Company's 2005 options, the derived estimated value may be, in the Company's opinion, substantially higher than the value which may be realized in an arms-length transaction under the above stated and existing conditions.

Shareholders' rights plan

During 2002, 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 August 28, 2002. The Rights Plan replaced a previous shareholder right plan that was adopted in 1992 and expired on August 28, 2002. 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 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

The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in 2005 and 2004 and future minimum payments under such leases are not significant.

9. Litigation

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

10. Business segments

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

-F20-

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

	Advanced Technology Group		Consumer Products Group	
	Year ended December 31,		Year ended December 31,	
	2005	2004	2005	2004
Revenues from unaffiliated customers	$13,834	$11,354	$ 9,292	$ 10,759
Profit	$ 2,974	$ 1,844	$ 48	$ 871

Depreciation and amortization	$ (508)	$ (506)	$ (171)	$ (149)
Interest expense				
Insurance proceeds, net				
General corporate expense				
Income before income taxes				
Identifiable assets	$16,046	$14,519	$ 7,163	$ 6,841
Capital expenditures	$ 192	$ 302	$ 229	$ 320

The Company engages in a significant amount of business with the United States Government through sales to its prime contractors and otherwise. Such contracts by the Advanced Technology Group accounted for revenues of approximately $5,600,000 in 2005 and $4,800,000 in 2004. Similar contracts by the Consumer Products Group accounted for revenues of approximately $3,800,000 in 2005 and $5,100,000 in 2004. Sales of advanced technology products to one prime contractor, including various divisions and subsidiaries of a common parent company, amounted to approximately 13% in 2005 and 14% in 2004. The Company also had sales to another customer that amounted to approximately 18% of total revenues in 2005 and 17% in 2004. No other single customer represented more than 10% of the Company's revenues in any of these years.

11. Insurance proceeds

As previously reported, in December of 2005, the Company received $1,000,000, equal to the policy limit, from its insurance carrier in partial recovery of a defalcation by a former employee. As of December 31, 2005, the Company incurred approximately $205,000 in professional, legal and related costs associated with the recovery and the Company continues to seek additional restitution.