SERVOTRONICS INC /DE/
Form 10-K
March 30, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

o 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 Amex

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 o No x

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 o No x

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 x No o

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 o No o

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Based on the closing price of the Common Stock on June 30, 2010 ($9.00) (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 $13,753,661.

As of February 28, 2011 the number of $.20 par value common shares outstanding was 2,237,371.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III.

TABLE OF CONTENTS

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 NYSE Amex 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, missile, 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 item 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.

From time to time, 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 cutlery products. 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, and pocket and other types of knives for hunting, fishing and camping. The Company also 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 Company also produces and markets other cutlery items such as various specialty tools, putty knives, linoleum sheet cutters, field knives and other edged products. The Company manufactures its cutlery products from stainless or high carbon steel in numerous styles, designs, models and sizes. Substantially all of the Company's commercial cutlery related products are intended for the medium to premium priced markets.

The Company sells many of its cutlery products under its own brand names including "Old Hickory" and "Queen". In the fourth quarter of 2009 the Company acquired the capability to manufacture hot forged edged products which expanded the commercial and government markets for the Consumer Products Group.

Sales, Marketing and Distribution

Advanced Technology Products

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

During the Company's 2010 fiscal year, sales of advanced technology products pursuant to subcontracts with prime contractors or subcontractors for various branches of the United States Government or pursuant to prime contracts directly with the government accounted for approximately 21% of the Company's total sales as compared to 23% in 2009. In 2010 and 2009, the Company's sales of advanced technology products to one customer, including various divisions and subsidiaries of a common parent company, amounted to approximately 25% in 2010 and 18% in 2009. The Company also had sales to another ATG customer that amounted to approximately 13% of total sales in 2010 and 12% in 2009. No other single customer represented more than 10% of the Company's consolidated sales in either of these years.

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

Consumer Products

The Company's consumer products are marketed throughout the United States and in select foreign markets. Consumer sales are moderately seasonal. Sales are to hardware, supermarket, variety, department, discount, gift and drug stores. The Company's Consumer Products Group (CPG) also sells its cutlery products (principally machetes, bayonets, survival knives, kitchen knives and scissors) to various branches of the United States Government which accounted for approximately 21% of the Company's total consolidated sales in 2010 as compared to 28% in 2009. No other single customer of the CPG represented more than 10% of the Company's consolidated sales in 2010. The Company sells its products through its own sales personnel and through independent manufacturers' representatives.

Business Segments

Business segment information is presented in Note 12, 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 2010 and 2009 fiscal years was not significant.

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 consumer products in Franklinville, New York, Titusville, Pennsylvania and Nashville, Arkansas and its advanced technology products in Elma, New York.

Raw Materials and Other Supplies

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

Competition

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

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

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

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, 2010, had approximately 286 employees of which approximately 275 are full time; 217 in Western New York, 30 in Pennsylvania and 28 in Arkansas. In excess of 81% of its employees are engaged in production, inspection, packaging or shipping activities. The balance is engaged in executive, engineering, administrative, clerical or sales capacities.

Item 1A. Risk Factors

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

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

Location	Approx. acreage	Principal product manufactured	Number of buildings and type of construction	Approx. floor area (sq. feet)
Elma, New York	38.40	Advanced technology products	1-concrete block/ steel	82,000
Franklinville, New York	12.70	Cutlery products	1-tile/wood 1-concrete/metal 1-concrete block	154,000
Titusville, Pennsylvania	0.40	Cutlery products	2-brick	25,000
Nashville, Arkansas	4.65	Cutlery products	1-concrete/metal	39,000

Pursuant to agreements with a local industrial development agency ("IDA") the Company leases and/or has options to purchase a facility and approximately 38.4 acres of land in Elma, New York. The Company occupies the facility, which serves as the Company's headquarters and major manufacturing and research site for the Company's Advanced Technology Group. The transaction is accounted for by the Company as a capital lease. The facility secures the payment of an outstanding Industrial Development Bond (the "Bond") which financed construction of the facility.

The Bond was originally issued in the principal amount of $5,000,000 and, after a series of timely payments of principal and interest by the Company in accordance with the governing agreements, the outstanding Bond principal indebtedness has been reduced to approximately $3.1 million as of December 31, 2010. When the Bond indebtedness has been fully paid, the Company has the right to purchase the Facility for a nominal sum.

As previously reported by the Company, in November 2009 the Company became the operating lessee of real property located in Nashville, Arkansas. The lessor is a related party. The lease was for a period of one year and conferred on the Company an option to purchase the property. The lease expired in November 2010. The Company did not exercise its purchase option, but the lessor and the Company extended the lease for another year. See Note 10, Related Party Transactions, of the accompanying consolidated financial statements for additional information.

The properties leased or otherwise operated by the Company in the forgoing report are appropriately covered by insurance consistent with the advice of the Company's insurance consultant.

See the accompanying consolidated financial statements, including Note 9, Commitments, thereto, for further information with respect to the Company's lease commitments.

The Company possesses modern precision manufacturing and testing equipment suitable for the development, manufacture, assembly and testing of its advanced technology products. The Company uses computer-aided technology throughout its processes, procedures, designs, manufacturing and administrative functions. The Company designs and makes most of the tools, dies, jigs and specialized testing equipment necessary for the production of the advanced technology products. The Company 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 have a material adverse affect on the business or earnings of the Company.

Item 4. Removed and Reserved

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 Amex (symbol SVT) for 2010 and 2009.

		High	Low
2010			
	Fourth Quarter	$ 10.25	$ 8.05
	Third Quarter	10	8.15
	Second Quarter	10.04	8.03
	First Quarter	11	8.21
2009			
	Fourth Quarter	$ 9.9	$ 7.05
	Third Quarter	8.35	5.91
	Second Quarter	10.89	5.5
	First Quarter	8.2	4.85

(b) Approximate Number of Holders of Common Stock

Title of	Approximate number of record holders (as of

class	February 28, 2011)
Common Stock, $.20 par value per share	426

-7-

(c) Dividends on Common Stock

On April 1, 2009, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was paid on May 15, 2009 to shareholders of record on April 20, 2009 and was approximately $336,000 in the aggregate.

On February 22, 2010, the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was paid on March 31, 2010 to shareholders of record on March 10, 2010 and was approximately $336,000 in the aggregate. This third consecutive annual dividend does not represent that the Company will pay dividends on a regular or scheduled basis.

(d) Company Purchases of Company's Equity Securities

Period	Total Number of Shares Purchased	Weighted Average Price $ Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
October 1 – October 31, 2010	-	-	-	211,912
November 1 – November 30, 2010	-	-	-	211,912
December 1 – December 31, 2010	-	-	-	211,912
Total	-	-	-	211,912

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. On October 31, 2008, the Company announced that its Board of Directors authorized the purchase of an additional 200,000 shares of the Company's common stock under the Company's current purchase program. As of February 28, 2011 the Company has purchased 238,088 shares and there remain 211,912 shares available to purchase under this program.

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 are facing new and 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, 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-à-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.

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 thereto, the expansion and/or contraction of Government procurement requirements, a reduction in funding, the continuation or termination of existing programs, the introduction of new programs requiring the funds that were originally directed to current programs, a stretch-out in Government delivery requirements or such other U.S. Government determinations that could result in increases or reductions of Government purchase orders for the ATG and/or the CPG products.

The Company’s suppliers are also subject to all the pressures and volatility being generated by the current global economic conditions. Any interruption of the Company’s continuous flow of material and product parts that are required for the manufacture of the Company’s products could adversely impact the Company’s ability to meet the Company’s customers’ delivery requirements. Consistent with the evolving requirements of the Aerospace Industry, companies are increasingly being requested to operate under Long-Term Agreements with their Customers on the basis of fixed prices, on the basis of targeted year to year price reductions and/or on the basis of year to year price adjustments predicated on mutually agreed indices and/or a combination of some or all of the above described pricing arrangements and/or otherwise. Therefore, productivity improvements and cost containment strategies are continuously sought within the Company’s concept of continuous improvement. The Company’s products are labor intensive and as such productivity improvements are expected to have positive effects on the Company’s operating results. However, increased costs for raw material, purchased parts and/or labor will have the reverse effect. Therefore, there are strong incentives to continuously improve productivity and to contain/reduce costs.

If any adverse economic events reduce the number of Airliners and/or Aircraft being produced by the Company’s relevant prime contractors, the negative effects of that reduction will in turn flow down through the supply chain. Also, certain major manufacturers have successfully imposed extended payment terms to their suppliers. At times, these extended terms of payment are not available to the Company when purchasing raw material such as aluminum, magnetic material, steel, etc. and/or other product support items and services. If the Company’s customers delay their payments until after the extended due date or fail to pay, it could adversely impact the Company’s operating results.

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

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

The final resolution of the U.S. and foreign economic uncertainties, notwithstanding the Stimulus Plans, may have significant adverse effects on access to capital markets and borrowings for all companies. However, the Company currently enjoys an attractive long-term debt/equity ratio and has a strong balance sheet.

Management Discussion

During the years ended December 31, 2010 and 2009, approximately 43% and 51%, respectively, of the Company’s revenues were derived from contracts with agencies of the U.S. Government or their prime contractors and their subcontractors. Sales of products sold for government applications decreased when comparing the results of 2010 to 2009, due to decreased 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 and, as such, it is difficult to predict the impact on future financial results.

The Company’s commercial business is affected by such factors as uncertainties in today’s global economy, global competition, the vitality and ability of the commercial aviation industry to purchase new aircraft, the effects of terrorism and the threat of terrorism, market demand and acceptance both for the Company’s products and its customers’ products which incorporate Company made components.

The ATG continues its aggressive business development efforts in its primary markets and is broadening its activities to include new domestic and foreign markets that are consistent with its core competencies. There are substantial uncertainties in the current global economy that are compounded with certain airliner delivery stretch-outs being considered and to a lesser degree, being implemented which in turn may adversely affect the Company’s sales revenues in 2011 and beyond. Although the ATG backlog continues to be strong, actual scheduled shipments may be delayed as a function of the Company’s customers final delivery determinations that may be based on changes in the global economy and other factors.

The Company’s CPG develops new commercial products and products for government and military applications. Included in the significant uncertainties in the near and long term are the effects of the U. S. and world stimulus plans and the difficulty to accurately project the net effect of the vagaries inherent in the government procurement process and programs. 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 of new product lines.

See also Note 12, Business Segments, of the accompanying consolidated financial statements for information concerning business segment operating results.

Results of Operations - Year 2010 as Compared to 2009

The following table compares the Company's statements of income data for the twelve months ended December 31, 2010 and 2009 ($000's omitted).

	Twelve Months Ended December 31,				2010 vs. 2009	
	2010 Dollars	% of Sales	2009 Dollars	% of Sales	Dollar Change	% Increase (Decrease)
Revenue:						
Advanced Technology	$19,301	61.0 %	$18,000	54.5 %	$1,301	7.2 %
Consumer Products	12,358	39.0 %	15,008	45.5 %	(2,650)	(17.7 %)
	31,659	100.0 %	33,008	100.0 %	(1,349)	(4.1 %)
Cost of sale, exclusive of depreciation and amortization	22,900	72.3 %	24,968	75.6 %	(2,068)	(8.3 %)
Selling, general and administrative	5,001	15.8 %	4,948	15.0 %	53	1.1 %
Depreciation and amortization	664	2.1 %	564	1.7 %	100	17.7 %
Total costs and expenses	28,565	90.2 %	30,480	92.3 %	(1,915)	(6.3 %)
Operating income	3,094	9.8 %	2,528	7.7 %	566	22.4 %
Interest expense	74	0.2 %	84	0.3 %	(10)	(11.9 %)
Other income, net	(28)	(0.1 %)	(62)	(0.2 %)	34	(54.8 %)
Income tax provision	920	2.9 %	603	1.8 %	317	52.6 %
Net income	$2,128	6.8 %	$1,903	5.8 %	$225	11.8 %

Sales

The Company's consolidated sales decreased approximately $1,349,000 or 4.1% for the twelve month period ended December 31, 2010 when compared to the same period in 2009. The decrease in sales is the result of decreased shipments for government related applications at both operating groups. Shipments for government applications were down approximately $3,400,000 as a result of contract completion at CPG. Procurement and time of shipment under Government contracts can significantly impact operating results from period to period.

Cost of Sales

Cost of sales as a percentage of revenue decreased for the twelve month period ended December 31, 2010 when compared to the same period in 2009. The decrease is primarily the result of the mix of product sold within the ATG and CPG as well as a larger percentage (61% in 2010 as compared to 55% in 2009) of the total consolidated sales coming from the ATG which generally recognizes higher profit margins. Also during the twelve month period ended December 31, 2010, there were no reserves for cost overruns at year-end while there were approximately $250,000 during the twelve month period ended December 31, 2009 that negatively impacted gross margins.

The Company continues to aggressively pursue cost saving opportunities in material procurements and other operating efficiencies through capital investments and technical developments in new machinery as well as investment and development of its labor force.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased approximately $53,000 or 1.1% for the twelve month period ended December 31, 2010 compared to the same period in 2009. Approximately 28% of selling, general and administrative expenses is attributable to the sale and marketing of products. This includes costs of internal and external sales force and active promotion and development of new and existing products, such costs increased approximately $84,000 or 6% when comparing the twelve month period ended December 31, 2010 to the same period in 2009.

Labor and related expenses for general and administrative support account for approximately 44% of total SG&A. These costs increased approximately $435,000 mainly due to hiring of new employees when comparing the twelve month period ended December 31, 2010 to the same period in 2009. These increases were more than offset by decreases of approximately $537,000 in information technology costs as well as reductions in legal and professional expenses associated with previously reported merger and acquisition activities.

Interest Expense

Interest expense decreased for the twelve month period ended December 31, 2010 compared to the same period in 2009 due to the decrease in the average outstanding debt and interest rates for the majority of 2010. See also Note 4, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

Depreciation and Amortization Expense

Depreciation and amortization expense increased for the twelve month period ended December 31, 2010 compared to the same period in 2009. Depreciation expense fluctuates due to estimated useful lives of depreciable property (as identified in Note 1, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements) as well as the amount and nature of capital expenditures in current and previous periods. Depreciation and amortization expense also increased $70,000 due to 2010 being the first full year of depreciation of the machinery and equipment under the $588,000 capital lease with related party. It is anticipated that the Company's future capital expenditures will, at a minimum, follow the Company's requirements to support its delivery commitments and to meet the information technology related capital expenditure requirements.

Other Income

Components of other income include interest income on cash and cash equivalents, and other amounts not directly related to the sale of the Company's products. The decrease in other income for the twelve month period ended December 31, 2010 when compared to the same twelve month period in 2009 is primarily due to the market driven decline in interest rates on cash and cash equivalents.

Income Taxes

The Company's effective tax rate was 30.1% in 2010 and 24.0% in 2009. The effective tax rate in both years reflects state income taxes, permanent non-deductible expenditures and the tax benefit for manufacturing deductions allowable under the American Jobs Creation Act of 2004. The effective tax rate increased during 2010 as compared to 2009 primarily due to 2009 including additional benefits relating to prior period ESOP dividend payments and R&D tax credits. See also Note 7, Income Tax Provision, of the accompanying consolidated financial statements for information concerning income taxes.

Net Income

Net income increased $225,000 or 11.8% when comparing the twelve month period ended December 31, 2010 to the same period in 2009. The increase in net income is primarily the result of increased sales at the Company's Advanced Technology Group. The Company improved the margin on sales at both the ATG and CPG because of the mix of products sold as well as successful cost containment activities.

Results of Operations - Year 2009 as Compared to 2008

The following table compares the Company's statements of income data for the twelve months ended December 31, 2009 and 2008 ($000's omitted).

	Twelve Months Ended December 31,				2009 vs. 2008	
	2009		2008		Dollar	% Increase
	Dollars	% of Sales	Dollars	% of Sales	Change	(Decrease)
Revenue:						
Advanced Technology	$18,000	54.5%	$20,882	61.1%	$(2,882)	(13.8%)
Consumer Products	15,008	45.5%	13,288	38.9%	1,720	12.9%
	33,008	100.0%	34,170	100.0%	(1,162)	(3.4%)
Cost of sale, exclusive of depreciation and amortization	24,968	75.6%	24,405	71.4%	563	2.3%
Selling, general and administrative	4,948	15.0%	4,550	13.3%	398	8.7%
Depreciation and amortization	564	1.7%	552	1.6%	12	2.2%
Total costs and expenses	30,480	92.3%	29,507	86.4%	973	3.3%
Operating income	2,528	7.7%	4,663	13.6%	(2,135)	(45.8%)
Interest expense	84	0.3%	178	0.5%	(94)	(52.8%)
Other income, net	(62)	(0.2%)	(87)	(0.3%)	25	(28.7%)
Income tax provision	603	1.8%	1,517	4.4%	(914)	(60.3%)
Net income	$1,903	5.8%	$3,055	8.9%	$(1,152)	(37.7%)

Sales

The Company's consolidated sales decreased approximately $1,162,000 or 3.4% for the twelve month period ended December 31, 2009 when compared to the same period in 2008. The decrease in sales is the result of decreased shipments for commercial applications at both the ATG and CPG not fully off-set by increased shipments for government related applications at both operating groups. Shipments for commercial applications were down approximately $3,800,000 as a result of economic driven customer order stretch-outs and to a lesser extent, order cancellations while shipments for government related applications were up approximately $2,600,000. Procurement and time of shipment under Government contracts can significantly impact operating results from period to period.

Cost of Sales

Cost of sales as a percentage of sales increased approximately 2.3% or $563,000 for the twelve month period ended December 31, 2009 compared to the same period in 2008 primarily due to price increases for raw material and labor related expenses including anticipated and quantifiable cost overruns of $250,000 for unshipped units under a long-term contract that were reserved in the fourth quarter of 2009.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses that include variable costs increased for the twelve month period ended December 31, 2009 compared to the same period in 2008 by approximately $398,000 or 8.7%. In 2009, the Company expended an additional $180,000 for information technology upgrades some of which are related to anticipated Sarbanes-Oxley 404 (SOX) requirements. For the period ended December 31, 2009, the Company's SG&A expenses include general corporate, intellectual properties and increased asset acquisition related activity costs of $165,000 which include, among other things, the support for additional and new manufacturing capabilities which expanded the cutlery product line to include hot forged edged products. As required by generally accepted accounting principles (GAAP) the Company expensed such costs in the period incurred. The trend is for SG&A expenses to increase as a function of increased regulations, market expansion and company growth.

Interest Expense

Interest expense decreased for the twelve month period ended December 31, 2009 compared to the same period in 2008 due to the decrease in the average outstanding debt and interest rates for the majority of 2009. See also Note 4, Long-Term Debt, of the accompanying consolidated financial statements for information on long-term debt.

Depreciation and Amortization Expense

Depreciation and amortization expense remained relatively consistent for the twelve month period ended December 31, 2009 compared to the same period in 2008. Depreciation expense fluctuates due to variable estimated useful lives of depreciable property (as identified in Note 1, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements) as well as the amount and nature of capital expenditures in current and previous periods. It is anticipated that the Company’s future capital expenditures will, at a minimum, follow the Company’s requirements to support its delivery commitments and to meet the information technology related capital expenditure requirements.

Other Income

Components of other income include interest income on cash and cash equivalents, and other amounts not directly related to the sale of the Company’s products. The decrease in other income for the twelve month period ended December 31, 2009 when compared to the same twelve month period in 2008 is primarily due to the market driven decline in interest rates on cash and cash equivalents.

Income Taxes

The Company’s effective tax rate was 24.0% in 2009 and 33.3% in 2008. The effective tax rate in both years reflects state income taxes, permanent non-deductible expenditures and the tax benefit for manufacturing deductions allowable under the American Jobs Creation Act of 2004 as well as reductions in New York State’s statutory tax rate and income apportionment formula. The effective tax rate decreased during 2009 as compared to 2008 primarily due to 2009 including additional benefits relating to current period ESOP dividend payments and R&D tax credits. See also Note 7, Income Tax Provision, of the accompanying consolidated financial statements for information concerning income taxes.

Net Income

Net income decreased $1,152,000 or 37.7% when comparing the twelve month period ended December 31, 2009 to the same period in 2008. The decrease in net income is primarily the result of decreased sales of approximately 3.4% with the majority of the decrease representing products with above average gross margins. Net income was also impacted by the previously discussed $250,000 expense to cost of goods sold for an anticipated cost overrun on a long-term contract as well as general inflationary costs for material procurements and labor related expenditures. Other increases in SG&A expenditures impacting net income include $165,000 associated with the acquisition of assets to expand the cutlery product line and an approximate $180,000 increase in information technology due to Sarbanes-Oxley 404 requirements and industry/customer related information technology requirements.

Liquidity and Capital Resources

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

At December 31, 2010, the Company had working capital of approximately $18,838,000 ($17,698,000 – 2009) of which approximately $4,447,000 ($4,320,000 – 2009) was comprised of cash and cash equivalents and certificates of deposit. The Company generated approximately $1,932,000 in cash from operations during the twelve months ended December 31, 2010 as compared to $952,000 during the twelve months ended December 31, 2009. Cash was generated from operations through net income and a decrease in inventory of approximately $494,000. The primary uses of cash for the Company's operating activities for the twelve months ended December 31, 2010 include payments of approximately $805,000 in income taxes and increases in accounts receivable of $1,340,000 and decreases of $625,000 in other accrued liabilities. ATG and CPG customers are increasingly requesting and/or requiring stock inventory in order to facilitate assurance of meeting their often volatile delivery schedule needs. As these requirements increase, they directly impact comparative cash flows when implemented and increased inventory levels when it is a continuing requirement. Additionally, at times, the Company takes advantage of price discounts on volume purchases for common parts. Cash generated and used in operations is consistent with sales volume, customer expectations and competitive pressures.

The Company's primary use of cash in its financing and investing activities during the twelve months ended December 31, 2010 includes current principal payments on long-term debt as well as approximately $336,000 for a cash dividend paid on March 31, 2010 to shareholders of record on March 10, 2010. Under the Company's stock repurchase program (as of February 28, 2011) the Company repurchased 238,088 shares of which zero shares and 943 shares were purchased in 2010 and 2009, respectively. There remain 211,912 shares to be purchased under this program. See Note 8, Common Shareholders' Equity, of the accompanying consolidated financial statements for further discussion of the current purchase program.

At December 31, 2010, there are no material commitments for capital expenditures.

The Company also has an unsecured $1,000,000 line of credit on which there was no balance outstanding at December 31, 2010 or 2009. If needed, this can be used to fund cash flow required for operations.

The Company believes that it has adequate internal and external resources available to fund expected working capital and capital expenditure requirements through fiscal 2010 as supported by the level of cash/cash equivalents on hand, cash flow from operations and bank lines of credit.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies

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

Revenue Recognition

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

Inventories

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

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

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 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

(i) Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of its management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2010. Based upon that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in SEC reports under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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

The Company's management (as defined in Exchange Act Rule 13a-15(f)) is responsible for establishing and maintaining adequate internal controls over financial reporting. 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 Treasury Commission. 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, 2010.

(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 2010 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the Company, compliance with Section 16(a) of the Securities Exchange Act and the Company's Audit Committee, its members and the Audit Committee financial expert is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2010 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 that applies to all directors, officers and employees of the Company as required by the listing standards of the NYSE Amex. 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 Amex.

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 2010 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, 2010.

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)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	306,500	$ 3.49	17,000
Equity compensation			

plans not approved by security holders	0	0	0
Total	306,500	$ 3.49	17,000

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information included in the Company's definitive proxy statement if it is filed with the Commission within 120 days after the end of the Company's 2010 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 "Securities Authorized for Issuance Under Equity Compensation Plans" included in Item 5 of this Form 10-K.

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 2010 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 2010 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