SHERWIN WILLIAMS CO
Form 4/A
January 22, 2013

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Oberfeld Steven J
(Last) (First) (Middle)
101 WEST PROSPECT AVENUE
(Street)
CLEVELAND, OH 44115
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SHERWIN WILLIAMS CO [SHW]

3. Date of Earliest Transaction (Month/Day/Year)
09/13/2012

4. If Amendment, Date Original Filed(Month/Day/Year)
09/14/2012

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr. VP-Corp Plan & Develop

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/13/2012		M		16,000 (1)	A	$ 63.44	57,279	D	
Common Stock	09/13/2012		M		36,000 (1)	A	$ 54.09	93,279 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 63.44	09/13/2012		M			6,000	10/19/2009	10/18/2017	Common Stock	6,000
Employee Stock Option (Right to Buy)	$ 63.44	09/13/2012		M			10,000	10/19/2010	10/18/2017	Common Stock	10,000
Employee Stock Option (Right to Buy)	$ 54.09	09/13/2012		M			12,000	10/14/2009	10/13/2018	Common Stock	12,000
Employee Stock Option (Right to Buy)	$ 54.09	09/13/2012		M			12,000	10/14/2010	10/13/2018	Common Stock	12,000
Employee Stock Option (Right to Buy)	$ 54.09	09/13/2012		M			12,000	10/14/2011	10/13/2018	Common Stock	12,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Oberfeld Steven J 101 WEST PROSPECT AVENUE CLEVELAND, OH 44115			Sr. VP-Corp Plan & Develop	

Signatures

Steven J. Oberfeld	01/22/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These transactions mistakenly were omitted from the reporting person's Form 4 filed 09/14/2012 and the acquired shares were also omitted from the Forms 4 subsequently filed by the reporting person.

(2) Of shares listed, 31,845 are restricted.

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Other accrued liabilities	389	327
Total current liabilities	3,054	3,495
Long-term debt	2,663	2,855
Long-term portion of capital lease related party	-	333
Deferred income taxes	320	496
Commitments and contingencies (see Note 10)	-	-
Shareholders' equity:		
Common stock, par value $.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,157,920 (2,074,257 – 2011) shares	523	523
Capital in excess of par value	13,987	13,774
Retained earnings	11,771	12,490
Accumulated other comprehensive loss	(85)	(67)
Employee stock ownership trust commitment	(1,165)	(1,266)
Treasury stock, at cost 241,372 (305,135 – 2011) shares	(1,765)	(2,210)
Total shareholders' equity	23,266	23,244
Total Liabilities and Shareholders' Equity	$29,303	$30,423

See notes to consolidated financial statements

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Explanation of Responses:

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

	Years Ended December 31, 2012	Years Ended December 31, 2011
Revenue	$30,510	$32,899
Costs, expenses and other income:		
Cost of goods sold, exclusive of depreciation and amortization	22,416	22,874
Selling, general and administrative	5,047	4,739
Interest expense	52	56
Depreciation and amortization	614	592
Other income, net	(14)	(160)
Total expenses	28,115	28,101
Income from continuing operations before income tax provision	2,395	4,798
Income tax provision	748	1,139
Income from continuing operations	1,647	3,659
Discontinued Operations:		
Loss from operations of a discontinued component, net of income tax benefit	(647)	(1,033)
Loss on disposal of QCC and AMP, net of income tax benefit	(680)	-
Loss from discontinued operations	(1,327)	(1,033)
Net income	$320	$2,626
Income (loss) per share:		
Basic		
Income per share from continuing operations	$0.77	$1.83
Loss per share from discontinued operations	(0.62)	(0.52)
Total net income per share	$0.15	$1.31
Diluted		
Income per share from continuing operations	$0.77	$1.73
Loss per share from discontinued operations	(0.62)	(0.49)
Total net income per share	$0.15	$1.24

See notes to consolidated financial statements

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Explanation of Responses:

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

	Years Ended December 31, 2012	2011
Net income	$320	$2,626
Other comprehensive income (loss): Retirement benefits adjustment	(18)	11
Total comprehensive income	$302	$2,637

See notes to consolidated financial statements

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

	Years Ended December 31, 2012	2011
Cash flows related to operating activities:		
Net income	$320	$2,626
Adjustments to reconcile net income to net cash generated in operating activities -		
Depreciation and amortization	660	686
Loss on disposal of QCC and AMP, net of income tax benefit	680	-
Deferred income taxes (benefit)	(73)	(206)
Increase in inventory reserve	91	122
Increase in allowance for doubtful accounts	29	16
Gain on disposal of property and equipment	(9)	-
Change in assets and liabilities:		
Accounts receivable	1,144	(620)
Inventories	(1,109)	(697)
Prepaid income taxes	277	376
Other assets	183	(168)
Other non-current assets	(31)	(54)
Accounts payable	(400)	204
Accrued employee compensation and benefit costs	(75)	119
Other accrued liabilities	(93)	97
Employee stock ownership trust payment	101	101
Net cash generated in operating activities	1,695	2,602
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(885)	(608)
Proceeds from the sale of Queen Cutlery assets	650	-
Net cash used in investing activities	(235)	(608)
Cash flows related to financing activities:		
Principal payments on long-term debt	(202)	(323)
Proceeds from exercise of stock options	234	110
Principal payments on capital lease related party	(41)	(81)
Purchase of treasury shares	(110)	-
Cash dividend	(716)	(682)
Purchase of stock options	-	(517)
Net cash used in financing activities	(835)	(1,493)
Net increase in cash and cash equivalents	625	501
Cash and cash equivalents at beginning of year	4,948	4,447
Cash and cash equivalents at end of year	$5,573	$4,948

See notes to consolidated financial statements

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description and Summary of Significant Accounting Policies

Business Description

Servotronics, Inc. and its subsidiaries design, manufacture and market advanced technology products consisting primarily of control components and consumer products consisting of knives and various types of cutlery and other edged products.

Principles of Consolidation

The consolidated financial statements include the accounts of Servotronics, Inc. and its wholly-owned subsidiaries (the “Company”). All intercompany balances and transactions have been eliminated upon consolidation.

Cash and Cash Equivalents

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

Accounts Receivable

The Company grants credit to substantially all of its customers and carries its accounts receivable at original invoice amount less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history of past write-offs, collections, and current credit conditions. The allowance for doubtful accounts amounted to approximately $130,000 at December 31, 2012 and $101,000 at December 31, 2011. The Company does not accrue interest on past due receivables.

Revenue Recognition

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

Inventories

Inventories are stated at the lower of standard cost or net realizable value. Cost includes all costs incurred to bring each product to its present location and condition. Market provisions in respect of lower of cost or market adjustments and inventory expected to be used in greater than one year are applied to the gross value of the inventory through a reserve of approximately $778,000 and $773,000 at December 31, 2012 and 2011, respectively. Pre-production and start-up costs are expensed as incurred.

The purchase of suppliers’ minimum economic quantities of material such as steel, etc. may result in a purchase of quantities exceeding one year of customer requirements. Also, in order to maintain a reasonable and/or agreed to lead time, certain larger quantities of other product support items may have to be purchased and may result in over one year’s supply.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shipping and Handling Costs

Shipping and handling costs are classified as a component of cost of goods sold.

Property, Plant and Equipment

Property, plant and equipment is carried at cost; expenditures for new facilities and equipment and expenditures which substantially increase the useful lives of existing plant and equipment are capitalized; expenditures for maintenance and repairs are expensed as incurred. Upon disposal of properties, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is included in income.

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

Buildings and improvements	5-39 years
Machinery and equipment	5-20 years
Tooling	3-5 years

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of operating loss and credit carryforwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return, combined New York and Texas state income tax returns and separate Pennsylvania and Arkansas state income tax returns.

The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company did not have any accrued interest or penalties included in its consolidated balance sheets at December 31, 2012 or 2011, and did not recognize any interest and/or penalties in its consolidated statements of income during the years ended December 31, 2012 and 2011.

During the third quarter of 2010, the Internal Revenue Service commenced an examination of the Company’s Federal income tax returns for the years 2008 and 2009. In the first quarter of 2011, the examination was completed and resulted in no material adjustments to the Company’s originally filed returns. The 2009 through 2011 Federal and state tax returns remain open under statute.

Supplemental Cash Flow Information

Income taxes paid during the twelve month periods ended December, 2012 and 2011 amounted to $256,000 and $511,000, respectively. Interest paid during the twelve month periods ended December, 2012 and 2011 amounted to $57,000 and $65,000 respectively. During the twelve month periods ended December 2012 and 2011, the Company reduced its tax liability and credited capital in excess of par value by approximately $213,000 and $283,000, respectively, related to the exercise/surrender of stock options.

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Explanation of Responses:

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Company has determined that no impairment of long lived assets existed at December 31, 2012 and 2011.

Use of Estimates

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

Research and Development Costs

Research and development costs are expensed as incurred.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentration of credit risks principally consist of cash accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institutions. Refer to Note 13, Business Segments, for disclosures related to customer concentrations.

Fair Value of Financial Instruments

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

Reclassifications

Certain balances as of December 31, 2011 were reclassified to conform with classifications adopted in the current year.

Recent Accounting Pronouncements

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this pronouncement in the first quarter of 2012 and is presenting separate statements of comprehensive income in the consolidated financial statements.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

During the second quarter of 2012, the Company committed to a plan to enhance profit margins through the expected sale of a component. On September 18, 2012, Queen Cutlery Company ("QCC"), a wholly owned subsidiary of Servotronics Inc., completed the disposition through a sale of substantially all of its assets for cash consideration of $650,000. QCC is accounted for as a discontinued operation in the accompanying consolidated financial statements. During the twelve months ended December 31, 2012, QCC reported a loss from discontinued operations before income tax of $793,000 that included a pre-tax loss on disposal related to a write-down of certain assets to lower of cost or market of $406,000.

On July 23, 2012, Aero Metal Products, Inc. ("AMP"), a wholly owned subsidiary of Servotronics, Inc., gave twelve months notice of termination of a personal property capital lease for machinery and equipment previously reported under a $588,000 capital lease with a related party. Due to the termination, beginning in July 2012, this lease is accounted for as an operating lease rather than a capital lease for the remaining term and the related assets and liabilities were removed from the consolidated balance sheet. In the third quarter of 2012, AMP ceased all manufacturing operations and in the fourth quarter of 2012, the Company surrendered all assets under the personal property and real property lease to the lessor, Aero Inc., a previously reported related party. As of December 31, 2012, AMP has recorded a loss from discontinued operations before income tax of $1,153,000 that included a pre-tax loss on disposal relating to a write-down of certain assets to lower of cost or market, accrual of remaining balance on operating leases and expected payroll and closing costs to surrender assets of $592,000.

The following is a summary of discontinued operations:

	Years Ended December 31, 2012 ($000's omitted)	2011
Discontinued operations:		
Revenue of QCC and AMP	$ 1,002	$ 1,282
Loss from operations of QCC and AMP	$ (948)	(1,504)
Income tax benefit	301	471
Net loss from operations of QCC and AMP	(647)	(1,033)
Loss on disposal of QCC and AMP	(998)	-
Income tax benefit	318	-
Net loss on disposal of QCC and AMP	(680)	-
Loss from discontinued operations	$ (1,327)	$ (1,033)

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Inventories	December 31, 2012	2011
	($000's omitted)	
Raw materials and common parts	$ 6,189	$ 5,727
Work-in-process	2,460	3,511
Finished goods	2,564	2,369
Total inventories, net of reserve	$ 11,213	$ 11,607

4. Property, Plant and Equipment	December 31, 2012	2011
	($000's omitted)	
Land	$ 21	$ 25
Buildings	7,256	7,181
Machinery, equipment and tooling (including capital lease)	12,370	12,930
	19,647	20,136
Less accumulated depreciation and amortization	(13,701)	(14,033)
Total property, plant and equipment	$ 5,946	$ 6,103

Property, plant and equipment includes land and building in Elma, New York, 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, 2012 and 2011, accumulated amortization on the building amounted to approximately $2,552,000 and $2,423,000, respectively. Amortization expense amounted to $130,000 for the twelve month periods ended December 31, 2012 and 2011, respectively. The associated current and long-term liabilities are discussed in Note 5, Long-Term Debt, of the accompanying consolidated financial statements.

On July 23, 2012, the Company gave twelve months notice of termination of a capital lease for machinery and equipment previously under a $588,000 capital lease with a related party. Due to the termination, beginning in July 2012, this lease is accounted for as an operating lease rather than a capital lease for the remaining term and the related assets and liabilities were removed from the consolidated balance sheet. See also Note 6, Capital Lease – Related Party, of the accompanying consolidated financial statements for more information. Amortization expense related to the capital lease related party, included in the loss from operations of a discontinued component, net of tax, amounted to $42,000 and $84,000 for the twelve month periods ended December 31, 2012 and 2011, respectively.

Depreciation expense from continuing operations amounted to $461,000 and $439,000 for the twelve month periods ended December 31, 2012 and 2011, respectively. The combined depreciation and amortization expense from continuing operations were $614,000 and $592,000 for the twelve month periods ended December 31, 2012 and 2011, respectively. The Company believes that it maintains property and casualty insurance in amounts adequate for the risk and nature of its assets and operations and which are generally customary in its industry.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in the property, plant and equipment is approximately $290,000 of construction in progress related to the facility expansion in Elma, New York not yet placed in service at December 31, 2012.

5. Long-Term Debt

	December 31, 2012	2011
	($000's omitted)	
Industrial Development Revenue Bonds; secured by an equivalent letter of credit from a bank with interest payable monthly at a floating rate (0.38% at December 31, 2012)(A)	$ 2,790	$ 2,960
Secured term loan payable to a government agency; monthly payments of $1,950 including interest fixed at 3% payable through fourth quarter of 2015	65	86
Secured term loan payable to a government agency; monthly principal payments of approximately $2,200 with interest waived payable through second quarter of 2012	-	11
	2,855	3,057
Less current portion	(192)	(202)
	$ 2,663	$ 2,855

(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: 2013 - $192,000, 2014 - $2,642,000 and 2015 - $21,000.

The Company also has an unsecured $2,000,000 line of credit on which there was no balance outstanding at December 31, 2012 or 2011.

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, 2012 and 2011, the Company was in compliance with its debt covenants.

6. Capital Lease – Related Party

On November 3, 2009, the Company entered into a capital lease with a related party of the Company for certain personal property. Monthly payments of $7,500 which include an imputed fixed interest rate of 2.00% commenced November 3, 2009 through the fourth quarter of 2016.

On July 23, 2012, the Company gave twelve months notice of termination of a previously reported related party capital lease. There is no material gain or loss associated with the cancellation of such agreement. Due to the termination, beginning in July 2012, this lease is accounted for as an operating lease rather than a capital lease for the remaining term and the related assets and liabilities were removed from the consolidated balance sheet. The Company has accrued for any balances payable on the December 31, 2012 financial statements. The termination relates to discontinued operations as discussed in Note 2, Discontinued Operations, of the accompanying consolidated financial statements. There are no other future obligations under this lease.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Employee Benefit Plans

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

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

If Servotronics shares are not readily tradable on an established securities market at the times of an ESOP participant's termination of employment or retirement and if such ESOP participant requests that his/her ESOP distributed shares be repurchased by the Company, the Company is obligated to do so. The Company's shares currently trade on NYSE MKT, formerly known as the American Stock Exchange. There were no outstanding shares subject to the repurchase obligation at December 31, 2012.

Since inception of the ESOP, approximately 439,647 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2012 and 2011 approximately 215,214 and 235,114 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 2012 and 2011. Included as a reduction to shareholders' equity is the ESOP trust commitment which represents the remaining indebtedness of the trust to the Company. Employees are entitled to vote allocated shares and the ESOP trustees are entitled to vote unallocated shares and those allocated shares not voted by the employees.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Postretirement Benefit Plans

The Company provides certain post retirement health and life insurance benefits for certain executives of the Company. Upon retirement and after attaining at least the age of 65, the Company will pay the annual cost of health insurance for the retired executives and dependents and will continue the Company provided life insurance offered at the time of retirement. The retiree’s health insurance benefits ceases upon the death of the retired executive. The actuarially calculated future obligation of the benefits at December 31, 2012 and 2011 is $376,962 and $316,395, respectively, and is being amortized into expense at a rate of approximately $38,000 per year. Estimated future annual expenses associated with the plan are immaterial. Included in accumulated other comprehensive loss for 2012 and 2011 is approximately $85,000 and $67,000, respectively, net of deferred taxes, associated with the unrecognized service cost of the plan.

8. Income Tax Provision

There are no uncertain tax positions or unrecognized tax benefits for 2012 and 2011.

The income tax provision (benefit) for income taxes from continuing operations included in the consolidated statements of income consists of the following:

	2012	2011
	($000’s omitted)	
Current:		
Federal	$ 703	$ 1,333
State	2	(2)
	705	1,331
Deferred:		
Federal	42	(151)
State	1	(41)
	43	(192)
	$ 748	$ 1,139

The income tax (benefit) for income taxes from discontinued operations included in the consolidated statements of income consists of the following:

	2012	2011
	($000’s omitted)	
Current:		
Federal	$ (503)	$ (454)
State	-	-
	(503)	(454)
Deferred:		
Federal	(114)	(17)
State	(2)	-
	(116)	(17)
	$ (619)	$ (471)

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SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2012		2011	
Federal statutory rate	34.0	%	34.0	%
Deferred tax adjustment	-		(3.3	%)
Business credits	1.8	%	(2.8	%)
ESOP dividend	(2.8	%)	(1.5	%)
Domestic production activities deduction	(1.8	%)	(2.3	%)
Other	-		0.2	%
State income taxes (less federal effect)	0.1	%	(0.6	%)
Effective tax rate	31.3	%	23.7	%

At December 31, 2012 and 2011, the deferred tax assets (liabilities) were comprised of the following:

	2012			2011		
	($000's omitted)					
Inventories	$	319		$	380	
Accrued employee compensation and benefit costs		316			373	
Operating loss and credit carryforwards		252			300	
Other		73			38	
Minimum pension liability		44			39	
Total deferred tax assets		1,004			1,130	
Valuation allowance		(233	)		(270	)
Net deferred tax asset		771			860	
Property, plant and equipment		(436	)		(602	)
Total deferred tax liabilities		(436	)		(602	)
Net deferred tax asset	$	335		$	258	

At December 31, 2012, the Company has a New York state net operating loss carryforward of approximately $453,000 (approximately a $2,000 net tax benefit) that begin to expire in 2023, which is fully reserved for at December 31, 2012. The Company has a Pennsylvania state net operating loss carryforward of approximately $1,924,000 (approximately a $192,000 net tax benefit) that begins to expire in 2019, which is fully reserved for at December 31, 2012. The Company also has an Arkansas state net operating loss carryforward of approximately $2,478,000 (approximately a $144,000 net tax benefit) that begins to expire in 2015, which is fully reserved for at December 31, 2012.

During the third quarter of 2010, the Internal Revenue Service commenced an examination of the Company's Federal income tax returns for the years 2008 and 2009. In the first quarter of 2011, the examination was completed and resulted in no material adjustments to the Company's originally filed returns. The 2009 through 2011 Federal and state tax returns remain open under statute.

SERVOTRONICS, INC. AND SUBSIDIARIES
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9. Common Shareholders' Equity

	Common stock						Accumulated	
	Number of shares issued	Amount	Capital in excess of par value	Retained earnings	ESOT	Treasury stock	Other Comprehensive Loss	Total Shareholders' Equity
	($000's omitted except share amounts)							
Balance December 31, 2010	2,614,506	$ 523	$ 13,491	$ 11,467	($ 1,367)	($ 2,724)	($ 78)	$ 21,312
Net income	-	-	-	2,626	-	-	-	2,626
Retirement benefits adjustment	-	-	-	-	-	-	11	11
Compensation expense	-	-	-	-	101	-	-	101
Cash dividend	-	-	-	(682)	-	-	-	(682)
Surrender of unexercised options, net of tax benefit	-	-	176	(517)	-	-	-	(341)
Exercise of stock options, net of tax benefit	-	-	107	(404)	-	514	-	217
Balance December 31, 2011	2,614,506	523	13,774	12,490	(1,266)	(2,210)	(67)	23,244
Net income	-	-	-	320	-	-	-	320
Retirement benefits adjustment	-	-	-	-	-	-	(18)	(18)
Compensation expense	-	-	-	-	101	-	-	101
Purchase of treasury shares	-	-	-	-	-	(110)	-	(110)
Cash dividend	-	-	-	(716)	-	-	-	(716)
Exercise of stock options, net of tax benefit	-	-	213	(323)	-	555	-	445
Balance December 31, 2012	2,614,506	$ 523	$ 13,987	$ 11,771	($ 1,165)	($ 1,765)	($ 85)	$ 23,266

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. 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. During the year ended December 31, 2012, 13,737 shares were repurchased for $110,000 and added to treasury stock. As of February 28, 2013, the Company has purchased 263,812 shares and there remain 186,188 shares available to purchase under this program.

In 2012, certain option holders, including the independent directors, Chief Executive Officer and then current Chief Operating Officer, elected to exercise 71,000 options, of which 2,500 were bought back by the Company resulting in 68,500 net shares issued out of treasury stock for net proceeds of approximately $215,000. Such transactions were properly reported on Form 4 with the Securities and Exchange Commission. A tax benefit to the Company of approximately $213,000 associated with these transactions reduced taxes payable and was credited directly to capital in excess of par value. Also in the first quarter of 2012, one option holder elected to exercise 9,000 options, resulting in 9,000 shares issued out of treasury stock for proceeds of approximately $18,000.

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In 2011, certain option holders elected to surrender 112,000 unexercised options to the Company in exchange for a cash payment equal to the difference between the exercise price and the average of the high and the low market price of the Company's common stock on the day of surrender less an administrative charge. Such transactions aggregated $517,000. A tax benefit, to the Company of approximately $176,000 associated with these transactions reduced taxes payable and was credited directly to capital in excess of par value. Also in 2011, certain option holders elected to exercise 78,000 options, of which 6,000 were bought back by the Company resulting in 72,000 net shares issued out of treasury stock. A tax benefit to the Company of approximately $107,000 associated with these transactions reduced taxes payable and was credited directly to capital in excess of par value.

On May 14, 2012 the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was paid on July 2, 2012 to shareholders of record on June 1, 2012 and was approximately $358,000 in the aggregate. On November 19, 2012 the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was paid on December 19, 2012 to shareholders of record on November 29, 2012 and was approximately $358,000 in the aggregate. During the twelve months ended December 31, 2011, dividends amounting to approximately $682,000 were declared and paid to shareholders. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis.

Other Comprehensive Loss

The only component of accumulated other comprehensive loss included in equity at December 31, 2012 is $85,000 ($67,000 – 2011) of unrecognized actuarial losses and net transition obligations for post retirement, health and life insurance benefits (see Note 7, Employee Benefit Plans). These amounts are shown net of income tax benefit of $44,000 at December 31, 2012 ($39,000 – 2011).

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. Unallocated ESOP shares are not included in the calculation of weighted average common shares outstanding. 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.

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	Year Ended December 31, 2012	2011
	($000's omitted except per share data)	
Income from continuing operations	$ 1,647	$ 3,659
Loss from discontinued operations	(1,327)	(1,033)
Net income	$ 320	$ 2,626
Weighted average common shares outstanding (basic)	2,132	1,997
Incremental shares from assumed conversions of stock options	15	112
Weighted average common shares outstanding (diluted)	2,147	2,109
Basic		
Income per share from continuing operations	$ 0.77	$ 1.83
Loss per share from discontinued operations	(0.62)	(0.52)
Total net income per share	$ 0.15	$ 1.31
Diluted		
Income per share from continuing operations	$ 0.77	$ 1.73
Loss per share from discontinued operations	(0.62)	(0.49)
Total net income per share	$ 0.15	$ 1.24

Share Based Payments

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 options to certain Directors, Officers and employees. No options were granted and there was no corresponding stock based compensation in 2012 or 2011. At December 31, 2012, there were no stock options available for issuance as no awards are available to be granted after July 2, 2012 under the 2001 Long-Term Stock Incentive Plan. Options granted under this plan have durations of ten years and vesting periods ranging from immediate vesting to four years.

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SERVOTRONICS, INC. AND SUBSIDIARIES
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A summary of the status of options granted under all employee plans is presented below:

	Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($)
Outstanding as of December 31, 2010	306,500	3.49	2.55	
Granted in 2011	-	-		
Expired in 2011	8,000	4.38		
Exercised in 2011	78,000	2.05		
Surrendered in 2011	112,000	4.33		
Outstanding as of December 31, 2011	108,500	3.60	2.96	
Granted in 2012	-	-		
Expired in 2012	7,500	4.70		
Exercised in 2012	80,000	3.21		
Outstanding and exercisable as of December 31, 2012	21,000	4.70	3.00	65,100

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on the closing stock price of $7.80 at December 31, 2012. The total intrinsic value of options exercised during the year ended December 31, 2012 amounted to $517,000.

Shareholders' Rights Plan

During 2012, the Company's Board of Directors adopted a shareholders' rights plan (the "Rights Plan") and simultaneously declared a dividend distribution of one right for each outstanding share of the Company's common stock outstanding at October 15, 2012. The Rights Plan replaced a previous shareholders rights plan that was adopted in 2002 and expired on August 28, 2012. The Rights do not become exercisable until the earlier of (i) the date of the Company's public announcement that a person or affiliated group other than Dr. Nicholas D. Trbovich 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.

Explanation of Responses:

SERVOTRONICS, INC. AND SUBSIDIARIES
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10. Commitments and Contingencies

The Company has a contingent liability related to the termination of an employment agreement for a former Executive Officer of the Company, effective September 29, 2012. The Company is unable to reasonably or accurately estimate the amount of the liability at this time. Under the terms of the agreement, management estimates that the compensation in the form of future medical benefits and severance payments could result in additional liabilities as high as approximately $1,400,000. However, the Company is disputing these amounts and is currently in negotiation with the former officer to settle the potential liability. Accordingly, no additional liability has been accrued as of December 31, 2012 related to these items.

The Company leases certain equipment and real property pursuant to operating lease arrangements. Total rental expense in 2012 and 2011 and future minimum payments under such leases are not material to consolidated financial statements. The Company also leases certain real and personal property being accounted for under capital leases. See also Note 4, Property, Plant and Equipment, Note 5, Long-Term Debt, Note 6, Capital Lease – Related Party and Note 11, Related Party Transactions, of the accompanying consolidated financial statements for information on the leases.

In October 2012, Servotronics, Inc. entered into an agreement with a local contractor for the construction of a new 30 x 36 foot testing facility that will be located in Elma, New York. The facility expansion is in response to an increase in demand and is expected to cost approximately $700,000, including related equipment. The expansion is being funded from operating cash flows and the target completion date is in the first quarter of 2013. At December 31, 2012 the Company has remaining commitments of approximately $410,000 for the completion of the project.

11. Related Party Transactions

During 2009 the Company formed a new wholly owned subsidiary that leased certain personal property from a related party through the execution of a capital lease. The Company also entered into a real property lease agreement, with the same related party, which provided for annual rental of $60,000 a year. These transactions were disclosed as related party transactions because the wife of a former officer of Servotronics, Inc. is a sole shareholder of the company that was leasing/selling the assets. In connection with the Company’s decision to cease all manufacturing operations in the third quarter of 2012 at this subsidiary, and the subsequent surrender of assets under the personal property and real property leases to the related party in the fourth quarter of 2012, the Company accrued for the remaining lease payments which are not material to the December 31, 2012 consolidated financial statements. See Note 6, Capital Lease-Related Party, of the accompanying consolidated financial statements.

12. 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.

13. Business Segments

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

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As of December 31, 2012, the Company had identifiable assets of approximately $29,303,000 ($30,423,000 – December 31, 2011) of which approximately $19,211,000 ($18,004,000 – December 31, 2011) was for ATG and approximately $10,092,000 ($12,419,000 – December 31, 2011) was for CPG.

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

	ATG Years ended December 31,		CPG Years ended December 31,		Consolidated Years ended December 31,	
	2012	2011	2012	2011	2012	2011
Revenues from unaffiliated customers	$22,000	$21,816	$8,510	$11,083	$30,510	$32,899
Cost of goods sold, exclusive of depreciation and amortization	(15,275)	(14,710)	(7,141)	(8,164)	(22,416)	(22,874)
Selling, general and administrative	(3,319)	(3,034)	(1,728)	(1,705)	(5,047)	(4,739)
Interest expense	(52)	(56)	-	-	(52)	(56)
Depreciation and amortization	(432)	(431)	(182)	(161)	(614)	(592)
Other income, net	4	150	10	10	14	160
Income (loss) from continuing operations before income tax provision (benefit)	2,926	3,735	(531)	1,063	2,395	4,798
Income tax provision (benefit)	915	885	(167)	254	748	1,139
Income (loss) from continuing operations	2,011	2,850	(364)	809	1,647	3,659
Discontinued operations:						
Loss from operations of a discontinued component, net of income tax benefit	-	-	(647)	(1,033)	(647)	(1,033)
Loss on disposal of QCC and AMP, net of income tax benefit	-	-	(680)	-	(680)	-
Loss from discontinued operations	-	-	(1,327)	(1,033)	(1,327)	(1,033)
Net income (loss)	$2,011	$2,850	$(1,691)	$(224)	$320	$2,626
Capital expenditures	$574	$271	$311	$337	$885	$608

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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 consolidated revenues from continuing operations of approximately $6,000,000 in 2012 and $6,300,000 in 2011. Similar contracts by the Consumer Products Group accounted for consolidated revenues from continuing operations of approximately $2,750,000 in 2012 and $6,900,000 in 2011. Sales of advanced technology products to one customer, including various divisions and subsidiaries of a common parent company, amounted to approximately 27% of total consolidated revenues from continuing operations in 2012 and 26% in 2011. The Company also had sales to another ATG customer that amounted to approximately 10% of total consolidated revenues from continuing operations in 2012 and 2011. No other single customer represented more than 10% of the Company's consolidated revenues from continuing operations in any of these years.

14. Subsequent Events

In the first quarter of 2013 certain independent directors elected to exercise 15,000 options at an exercise price of $4.70. Such transactions were properly reported on Form 4 with the Securities and Exchange Commission.

During January and February 2013, 11,987 shares were repurchased for approximately $104,000 and added to treasury stock.

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