

SERVOTRONICS INC /DE/  
Form 10KSB  
March 31, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549  
FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004  
 TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.  
Commission File No. 1-07109

SERVOTRONICS, INC.

(Name of small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

16-0837866  
(I. R. S. Employer  
Identification No.)

1110 Maple Street, Elma, New York  
(Address of principal executive  
offices)

14059  
(Zip Code)

Issuer's telephone number: 716-655-5990  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, \$.20 par value American Stock Exchange

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  . No .

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

Issuer's revenues for its most recent fiscal year: \$22,113,000

As of March 14, 2005 the aggregate market value of the voting common stock held by non-affiliates of the registrant was \$7,503,970.275 based on the average of sales prices reported by the American Stock Exchange on that day.

As of March 14, 2005 the number of \$.20 par value common shares outstanding was 2,492,901.

DOCUMENTS INCORPORATED BY REFERENCE

Document Part of Form 10-KSB  
2004 Proxy Statement Part III

Transitional Small Business Disclosure Format. Yes . No

---

PART I

Item 1. Description of Business

General

Servotronics, Inc. and its subsidiaries (collectively the Registrant or the Company ) design, manufacture and market advanced technology products consisting primarily of control components and consumer products consisting of knives and various types of cutlery.

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

Products

Advanced Technology Products

The Registrant designs, manufactures and markets a variety of servo-control components which convert an electrical current into a mechanical force or movement and other related products. The principal servo-control components produced include torque motors, electromagnetic actuators, proportional solenoids, hydraulic valves, pneumatic valves and similar devices, all of which perform the same general function. These are sold principally to the commercial aerospace, missile, aircraft and government related industries.

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

The Registrant also produces metallic seals of various cross-sectional configurations. These seals fit between two surfaces, usually metal, to produce a more secure and leak-proof joint. The Registrant manufactures these seals to close tolerances from standard and special alloy steels. Ductile coatings are often applied to the seals in order to increase their effectiveness.

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

### Consumer Products

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

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

### Sales, Marketing and Distribution

#### Advanced Technology Products

The Registrant's advanced technology products are marketed throughout the United States and are essentially non-seasonal in nature. These products are sold to the United States Government, government prime contractors, government subcontractors, commercial manufacturers and end users. Sales are made primarily by the Registrant's professional staff and commissioned field engineering representatives.

During the Registrant's last fiscal year, sales of advanced technology products pursuant to subcontracts with prime or subcontractors for various branches of the United States Government or pursuant to prime contracts directly with the government accounted for approximately 22% of the Registrant's total revenues as compared to 30% in 2003. In 2004, sales of advanced technology products to each of Honeywell and United Technologies (including their respective subsidiaries and/or divisions) exceeded 10% of Registrant's total revenues. In 2003, sales of advanced technology products to each of Honeywell, Raytheon and United Technologies (including their respective subsidiaries and/or divisions) exceeded 10% of Registrant's total revenues. No other single customer represented more than 10% of the Company's revenues in 2004 or 2003.

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

#### Consumer Products

The Registrant's consumer products are marketed throughout the United States. Consumer sales are moderately seasonal. Sales are to hardware, supermarket, variety, department, discount, gift and drug stores. The Registrant's Consumer Products Group also sells its cutlery products (principally machetes, bayonets, survival knives and kitchen knives) to various branches of the United States Government which accounted for approximately 23% of the Registrant's total sales in 2004 and approximately 12% of total sales in 2003. No other single customer represented more than 10% of the Company's revenues in 2004. The Registrant sells its products through its own sales personnel and through independent manufacturers' representatives.

#### Business Segments

Business segment information is presented in Note 10 of the accompanying consolidated financial statements.

#### Intellectual Properties

The Company has rights under certain copyrights, trademarks, patents, and registered domain names. In the view of management, the Registrant's competitive position is not dependent on patent protection.

#### Research Activities

The amount spent by the Registrant in research and development activities during its 2004 and 2003 fiscal years was not significant.

#### Environmental Compliance

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

#### Manufacturing

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

### Raw Materials and Other Supplies

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

### Competition

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

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

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

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

### Employees

The Registrant, at December 31, 2004, had approximately 226 employees of which approximately 212 are full time. In excess of 81% of its employees are engaged in production, inspection, packaging or shipping activities. The balance are engaged in executive, engineering, administrative, clerical or sales capacities.

**Item 2. Description of Properties**

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

Location	Approx. Acreage	Principal Product manufactured Advanced Technology Products	Number of buildings and type of construction	Approx. floor area (sq. feet)
Elma, New York	38.4		1-concrete block/ Steel	82,000
Franklinville, New York	11.7	Cutlery products	1-tile/wood and 1-concrete/metal	149,000
Titusville, Pennsylvania	.4	Cutlery products	2-brick	25,000

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

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

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

**Item 3. Legal Proceedings**

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

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

Not applicable.

-7-

---



PART IIItem 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities(a) Price range of common stock

The following table shows the range of high and low prices for the Registrant's common stock as reported by the American Stock Exchange for 2004 and 2003.

	<u>High</u>	<u>Low</u>	
2004			
Fourth Quarter	\$ 4.99	\$ 3.70	
Third Quarter	5.90	3.50	
Second Quarter	4.98	2.72	
First Quarter	3.54	2.75	
2003			
Fourth Quarter	\$ 3.55	\$ 2.00	
Third Quarter	2.45	2.10	
Second Quarter	2.28	1.85	
First Quarter	3.75	2.25	

(b) Approximate number of holders of common stock

<u>Title</u> <u>of</u> <u>class</u>	<u>Approximate number of</u> <u>record holders (as of</u> <u>December 31, 2004)</u>
Common Stock, \$.20 par value per share	567

(c) Dividends on common stock

No cash dividends were paid in 2004 or 2003.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	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	270,000	\$3.126	80,000
Equity compensation plans not approved by security holders	194,200	\$6.057	76,600
Total	464,200	\$4.352	156,600

(e) Company Re-purchases of Equity Securities

None.

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

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

	Relationship to net revenues year ended		Period to period increase (decrease) year ended
	December 31, 2004	2003	2004-2003
Net revenues:			
Advanced technology products	51.3%	58.5%	10.4%
Consumer products	48.7	41.5	47.7
	100.0	100.0	25.8
Cost of goods sold, exclusive of depreciation	73.9	74.4	25.1
Gross profit	26.1	25.6	28.0
Selling, general and administrative	17.1	18.6	15.8
Interest	0.7	0.9	0.6

Edgar Filing: SERVOTRONICS INC /DE/ - Form 10KSB

Depreciation and amortization	3.0	3.8	(2.1)
	20.8	23.3	14.3
Income before income taxes	5.3	2.3	186.5
Income tax provision	2.0	0.9	182.2
Net income	3.3		