

SERVOTRONICS INC /DE/
Form 10-Q
November 12, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

Commission File No. 1-07109
SERVOTRONICS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1110 Maple Street
Elma, New York 14059
(Address of principal executive offices) (zip code)
(716) 655-5990

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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| Class | Outstanding at October 31, 2013 |
|-------------------------------|---------------------------------|
| Common Stock, \$.20 par value | 2,494,043 |

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

| | September 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|-------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$4,998 | \$5,573 |
| Accounts receivable, net | 5,438 | 4,858 |
| Inventories, net | 11,933 | 11,213 |
| Prepaid income taxes | 19 | 387 |
| Deferred income taxes | 655 | 655 |
| Other assets | 563 | 306 |
| Total current assets | 23,606 | 22,992 |
| Property, plant and equipment, net | 6,588 | 5,946 |
| Other non-current assets | 351 | 365 |
| Total Assets | \$ 30,545 | \$ 29,303 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 192 | \$ 192 |
| Accounts payable | 1,463 | 1,051 |
| Accrued employee compensation and benefit costs | 1,863 | 1,422 |
| Other accrued liabilities | 275 | 389 |
| Total current liabilities | 3,793 | 3,054 |
| Long-term debt | 2,647 | 2,663 |
| Deferred income taxes | 320 | 320 |
| Commitments and contingencies (See Note 10) | - | - |
| Shareholders' equity: | | |
| Common stock, par value \$.20; authorized 4,000,000 shares; issued 2,614,506 shares; outstanding 2,293,614 (2,157,920 - 2012) shares | 523 | 523 |
| Capital in excess of par value | 14,008 | 13,987 |
| Retained earnings | 12,366 | 11,771 |
| Accumulated other comprehensive loss | (85) | (85) |
| Employee stock ownership trust commitment | (1,165) | (1,165) |

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| | | |
|---|-----------|-----------|
| Treasury stock, at cost 105,678 (241,372 - 2012) shares | (1,862) | (1,765) |
| Total shareholders' equity | 23,785 | 23,266 |
| Total Liabilities and Shareholders' Equity | \$ 30,545 | \$ 29,303 |

See notes to consolidated financial statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenue | \$7,727 | \$7,516 | \$23,136 | \$23,302 |
| Costs, expenses and other income: | | | | |
| Cost of goods sold, exclusive of depreciation and amortization | 5,594 | 5,536 | 17,164 | 17,081 |
| Selling, general and administrative | 1,506 | 1,275 | 4,140 | 3,753 |
| Interest expense | 10 | 11 | 31 | 34 |
| Depreciation and amortization | 152 | 141 | 460 | 437 |
| Other income, net | (44) | (2) | (45) | (12) |
| Total expenses | 7,218 | 6,961 | 21,750 | 21,293 |
| Income from continuing operations before income tax provision | 509 | 555 | 1,386 | 2,009 |
| Income tax provision | 151 | 249 | 347 | 663 |
| Income from continuing operations | 358 | 306 | 1,039 | 1,346 |
| Discontinued Operations: | | | | |
| Loss from operations of a discontinued component, net of income tax benefit | - | (188) | - | (591) |
| Loss on disposal of QCC and AMP, net of income tax benefit | - | (262) | - | (530) |
| Loss from discontinued operations | - | (450) | - | (1,121) |
| Net income (loss) | \$358 | \$(144) | \$1,039 | \$225 |
| Income (loss) per share: | | | | |
| Basic | | | | |
| Income per share from continuing operations | \$0.16 | \$0.14 | \$0.46 | \$0.63 |
| Loss per share from discontinued operations | - | (0.21) | - | (0.53) |
| Total net income (loss) per share | \$0.16 | \$(0.07) | \$0.46 | \$0.10 |
| Diluted | | | | |
| Income per share from continuing operations | \$0.16 | \$0.14 | \$0.46 | \$0.63 |
| Loss per share from discontinued operations | - | (0.21) | - | (0.52) |
| Total net income (loss) per share | \$0.16 | \$(0.07) | \$0.46 | \$0.11 |

See notes to consolidated financial statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|---------|------------------------------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income (loss) | \$358 | \$(144) |) \$1,039 | \$225 |
| Other comprehensive income: | | | | |
| Retirement benefits adjustment | - | - | - | - |
| Total comprehensive income (loss) | \$358 | \$(144) |) \$1,039 | \$225 |

See notes to consolidated financial statements

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2013 | 2012 |
| Cash flows related to operating activities: | | |
| Net income | \$1,039 | \$225 |
| Adjustments to reconcile net income to net cash generated in operating activities: | | |
| Depreciation and amortization | 460 | 484 |
| Loss on disposal of QCC and AMP, net of income tax benefit | - | 530 |
| Stock based compensation | 165 | - |
| (Decrease) increase in inventory reserve | (45 |) 59 |
| (Decrease) increase in allowance for doubtful accounts | (27 |) 33 |
| Gain on disposal of property and equipment | (22 |) (9) |
| Change in assets and liabilities: | | |
| Accounts receivable | (553 |) 636 |
| Inventories | (675 |) (1,106) |
| Prepaid income taxes | 389 | 101 |
| Other assets | (257 |) (222) |
| Other non-current assets | 14 | (24) |
| Accounts payable | 412 | (446) |
| Accrued employee compensation and benefit costs | 443 | 196 |
| Other accrued liabilities | (114 |) 152 |
| Net cash generated from operating activities | 1,229 | 609 |
| Cash flows related to investing activities: | | |
| Capital expenditures - property, plant and equipment | (1,124 |) (394) |
| Proceeds from the sale of Queen Cutlery | - | 640 |
| Proceeds from sale of assets | 43 | - |
| Net cash (used) generated from investing activities | (1,081 |) 246 |
| Cash flows related to financing activities: | | |
| Principal payments on long-term debt | (16 |) (29) |
| Proceeds from exercise of stock options | 70 | 234 |
| Principal payments on capital lease related party | - | (41) |
| Purchase of treasury shares | (371 |) (62) |
| Cash dividend | (406 |) (358) |
| Net cash used in financing activities | (723 |) (256) |
| Net (decrease) increase in cash and cash equivalents | (575 |) 599 |
| Cash and cash equivalents at beginning of period | 5,573 | 4,948 |

| | | |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$4,998 | \$5,547 |
|--|---------|---------|

See notes to consolidated financial statements

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

The accompanying consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The consolidated financial statements should be read in conjunction with the 2012 annual report and the notes thereto.

2. 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 \$103,000 at September 30, 2013 and \$130,000 at December 31, 2012. 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 \$733,000 and \$778,000 at September 30, 2013 and December 31, 2012, respectively. Pre-production and start-up costs are expensed as incurred.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 assets and liabilities 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 September 30, 2013 or December 31, 2012, and did not recognize any interest and/or penalties in its consolidated statements of income during the three and nine months ended September 30, 2013 and 2012.

The 2010 through 2012 Federal and state returns remain open under statute.

Supplemental Cash Flow Information

Income taxes paid during the three months ended September 30, 2013 and 2012 amounted to approximately \$136,000 and zero, respectively, and amounted to approximately \$136,000 and \$256,000 for the nine months ended September 30, 2013 and 2012, respectively. Interest paid during the three months ended September 30, 2013 and 2012 amounted to approximately \$10,000 and \$12,000, respectively, and amounted to \$31,000 and \$38,000 for the nine months ended September 30, 2013 and 2012, respectively. In the first quarter of 2013, the Company reduced its tax liability by approximately \$21,000 related to the exercise of stock options and was credited directly to capital in excess of par value.

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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, or at least annually, 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 September 30, 2013 and December 31, 2012.

Use of Estimates

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

Reclassifications

Certain balances as previously reported were reclassified to conform with classifications adopted in the current period.

Research and Development Costs

Research and development costs are expensed as incurred.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentration of credit risks principally consist of cash accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institutions. Refer to Note 12, 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.

3.

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 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 three and nine months ended September 30, 2013 there was no loss from discontinued operations related to QCC. A loss before income taxes of approximately \$116,000 and \$358,000 from discontinued operations was reported for the same three and nine month periods in 2012.

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On July 23, 2012, Aero Metal Products, Inc. (“AMP”), a wholly owned subsidiary of Servotronics, Inc., gave 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. During the three and nine months ended September 30, 2013, there was no loss from discontinued operations related to AMP. A loss before income taxes of approximately \$169,000 and \$537,000 from discontinued operations was reported for the same three and nine month periods in 2012.

The following is a summary of discontinued operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (\$000's omitted) | | | |
| Discontinued operations: | | | | |
| Revenue of QCC and AMP | \$ - | \$ 221 | \$ - | \$ 899 |
| Loss from operations of QCC and AMP | \$ - | \$ (285) | \$ - | \$ (895) |
| Income tax benefit | - | 97 | - | 304 |
| Net loss from operations of QCC and AMP | - | (188) | - | (591) |
| Loss on disposal of QCC and AMP | - | (397) | - | (804) |
| Income tax benefit | - | 135 | - | 274 |
| Net loss on disposal of QCC and AMP | - | (262) | - | (530) |
| Loss from discontinued operations | \$ - | \$ (450) | \$ - | \$ (1,121) |

4. Inventories

| | September 30, 2013 | December 31, 2012 |
|-----------------------------------|--------------------------|----------------------|
| | (\$000's omitted) | |
| Raw materials and common parts | \$ 6,160 | \$ 6,189 |
| Work-in-process | 3,258 | 2,460 |
| Finished goods | 2,515 | 2,564 |
| Total inventories, net of reserve | \$ 11,933 | \$ 11,213 |

5. Property, Plant and Equipment

| | September 30, 2013 | December 31, 2012 |
|--|--------------------------|----------------------|
| | (\$000's omitted) | |
| Land | \$ 21 | \$ 21 |
| Buildings | 7,876 | 7,256 |
| Machinery, equipment and tooling | 12,794 | 12,370 |
| | 20,691 | 19,647 |
| Less accumulated depreciation and amortization | (14,103) | (13,701) |
| Total property, plant and equipment | \$ 6,588 | \$ 5,946 |

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SERVOTRONICS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2013 and December 31, 2012, accumulated amortization on the building amounted to approximately \$2,649,000 and \$2,552,000, respectively. Amortization expense amounted to \$32,000 and \$33,000 for the three month periods ended September 30, 2013 and 2012, respectively, and amounted to \$97,000 for the nine month periods ended September 30, 2013 and 2012, respectively. The associated current and long-term liabilities are discussed in Note 6, Long-Term Debt, of the accompanying consolidated financial statements.

On July 23, 2012, the Company gave notice of termination of a 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 was 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 7, 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 zero for the three month periods ended September 30, 2013 and 2012, respectively, and amounted to approximately zero and \$42,000 for the nine month periods ended September 30, 2013 and 2012, respectively.

Depreciation expense from continuing operations amounted to \$117,000 and \$107,000 for the three month periods ended September 30, 2013 and 2012, respectively, and amounted to \$355,000 and \$334,000 for the nine month periods ended September 30, 2013 and 2012, respectively. The combined depreciation and amortization expense from continuing operations amounted to \$152,000 and \$141,000 for the three month periods ended September 30, 2013 and 2012, respectively, and amounted to \$460,000 and \$437,000 for the nine month periods ended September 30, 2013 and 2012, respectively. The Company believes that it maintains property and casualty insurance in amounts adequate for the risk and nature of its assets and operations and which are generally customary in its industry.

As of September 30, 2013, there is approximately \$121,000 of construction in progress included in property, plant and equipment related to an anticipated facility expansion and renovation project at the Consumer Products Group. There are currently no other material commitments for this project. At December 31, 2012 there was approximately \$290,000 of construction in progress related to a previously reported facility expansion at the Company's Advanced Technology Group. These amounts along with amounts incurred during 2013 were placed in service in the third quarter ended September 30, 2013.

6. Long-Term Debt

| September 30, 2013 | December 31, 2012 |
|--------------------------|----------------------|
| (\$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 (0.32% at September 30, 2013) (A) \$ | 2,790 | \$ 2,790 |
|---|-------|----------|

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| | | |
|---|----------|----------|
| Secured term loan payable to a government agency; monthly payments of \$1,950 including interest fixed at 3% payable through fourth quarter of 2015 | 49 | 65 |
| | 2,839 | 2,855 |
| Less current portion | (192) | (192) |
| | \$ 2,647 | \$ 2,663 |

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SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 1/4% 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.

The Company has an unsecured \$2,000,000 line of credit on which there was no balance outstanding at September 30, 2013 or December 31, 2012.

Certain lenders require the Company to comply with debt covenants as described in the specific loan documents, including a debt service ratio. At September 30, 2013 and December 31, 2012, the Company was in compliance with its debt covenants.

7. Capital Lease – Related Party

On November 3, 2009, the Company entered into a capital lease with a related party (Aero, Inc.) 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 this lease. There was no material gain or loss associated with the cancellation of such agreement. Due to the termination, beginning in July 2012, this lease was 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 the remaining balances payable on the accompanying September 30, 2013 consolidated financial statements, see Note 10, Commitments and Contingencies, regarding pending litigation related to the lease termination. The termination relates to discontinued operations as discussed in Note 3, Discontinued Operations, of the accompanying consolidated financial statements. There are no other future obligations under this lease.

8. Income Taxes

The Company did not have any material uncertain tax positions or unrecognized tax benefits or obligations as of September 30, 2013 and December 31, 2012. The Company recorded a tax benefit of approximately \$40,000 in the first quarter of 2013 to reflect the research and development tax credit re-enactment related to fiscal 2012. 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.

SERVOTRONICS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Shareholders' Equity

(\$000's omitted except for share data)

| | Common stock | | Capital in excess of par value | Retained earnings | ESOP | Treasury Stock | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|-----------------------------------|-------------------------------|--------|---|----------------------|------------|-------------------|---|----------------------------------|
| | Number of shares issued | Amount | | | | | | |
| Balance December 31, 2012 | 2,614,506 | \$ 523 | \$ 13,987 | \$ 11,771 | \$ (1,165) | \$ (1,765) | \$ (85) | \$ 23,266 |
| Net income | - | - | - | 1,039 | - | - | - | 1,039 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - |