SERVOTRONICS INC /DE/
Form 10-Q
November 13, 2012

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

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

For the quarterly period ended September 30, 2012
or

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

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

Delaware	16-0837866
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

1110 Maple Street
Elma, New York 14059
(Address of principal executive 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 x No o
Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

Yes o No x

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

Class	Outstanding at October 31, 2012
Common Stock, $.20 par value	2,378,236

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

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 5,547	$ 4,948
Accounts receivable, net	5,372	6,031
Inventories, net	11,406	11,607
Prepaid income taxes	458	133
Deferred income taxes	754	754
Other assets	711	505
Total current assets	24,248	23,978
Property, plant and equipment, net	5,614	6,103
Other non-current assets	364	342
Total Assets	$ 30,226	$ 30,423
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 191	$ 202
Current portion of capital lease related party	-	81
Accounts payable	1,005	1,451
Accrued employee compensation and benefit costs	1,634	1,434
Other accrued liabilities	629	327
Total current liabilities	3,459	3,495
Long-term debt	2,838	2,855
Long-term portion of capital lease related party	-	333
Deferred income taxes	496	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 2,144,316 (2,074,257 - 2011) shares	523	523
Capital in excess of par value	13,926	13,774
Retained earnings	12,034	12,490
Accumulated other comprehensive loss	(67)	(67)
Employee stock ownership trust commitment	(1,266)	(1,266)
Treasury stock, at cost 235,076 (305,135 - 2011) shares	(1,717)	(2,210)
Total shareholders' equity	23,433	23,244
Total Liabilities and Shareholders' Equity	$ 30,226	$ 30,423

See notes to consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 7,516	$8,550	$23,302	$24,592
Costs, expenses and other income:				
Cost of goods sold, exclusive of depreciation and amortization	5,536	5,821	17,081	17,046
Selling, general and administrative	1,275	1,145	3,753	3,543
Interest expense	11	12	34	37
Depreciation and amortization	141	139	437	427
Other income, net	(2)	(150)	(12)	(164)
Total expenses	6,961	6,967	21,293	20,889
Income from continuing operations before income tax provision	555	1,583	2,009	3,703
Income tax provision	249	476	663	1,115
Income from continuing operations	306	1,107	1,346	2,588
Discontinued Operations:				
Loss from operations of a discontinued component, net of income tax benefit	(188)	(203)	(591)	(550)
Loss on disposal of QCC and AMP, net of income tax benefit	(262)	-	(530)	-
Loss from discontinued operations	(450)	(203)	(1,121)	(550)
Net income (loss)	($144)	$904	$225	$2,038
Income (loss) per share:				
Basic				
Income per share from continuing operations	$ 0.14	$0.56	$0.63	$1.31
Loss per share from discontinued operations	(0.21)	(0.10)	(0.53)	(0.28)
Total net income (loss) per share	($0.07)	$0.46	$0.10	$1.03
Diluted				
Income per share from continuing operations	$ 0.14	$0.53	$0.63	$1.23
Loss per share from discontinued operations	(0.21)	(0.10)	(0.52)	(0.26)
Total net income (loss) per share	($0.07)	$0.43	$0.11	$0.97

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,	
	2012	2011	2012	2011
Net income (loss)	$(144)	$904	$225	$2,038
Other comprehensive income:				
Retirement benefits adjustment	-	-	-	-
Total comprehensive income (loss)	$(144)	$904	$225	$2,038

See notes to consolidated financial statements

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows related to operating activities:		
Net income	$225	$2,038
Adjustments to reconcile net income to net cash generated by operating activities -		
Depreciation and amortization	484	498
Loss on disposal of QCC and AMP, net of income tax benefit	530	-
Increase in inventory reserve	59	52
Increase in allowance for doubtful accounts	33	3
Gain on disposal of property and equipment	(9)	-
Change in assets and liabilities:		
Accounts receivable	636	(455)
Inventories	(1,106)	(757)
Prepaid income taxes	101	382
Other assets	(222)	(117)
Other non-current assets	(24)	(29)
Accounts payable	(446)	38
Accrued employee compensation and benefit costs	196	179
Other accrued liabilities	152	111
Accrued income taxes	-	7
Net cash generated in operating activities	609	1,950
Cash flows related to investing activities:		
Capital expenditures - property, plant and equipment	(394)	(435)
Proceeds from the sale of Queen Cutlery	640	-
Net cash generated (used) in investing activities	246	(435)
Cash flows related to financing activities:		
Principal payments on long-term debt	(29)	(115)
Proceeds from exercise of stock options	234	-
Principal payments on capital lease related party	(41)	(60)
Purchase of treasury shares	(62)	-
Cash dividend	(358)	(336)
Purchase of stock options	-	(517)
Net cash used in financing activities	(256)	(1,028)
Net increase in cash and cash equivalents	599	487
Cash and cash equivalents at beginning of period	4,948	4,447
Cash and cash equivalents at end of period	$5,547	$4,934

See notes to consolidated financial statements

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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The consolidated financial statements should be read in conjunction with the 2011 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 $134,000 at September 30, 2012 and $101,000 at December 31, 2011.

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 $574,000 and $773,000 at September 30, 2012 and December 31, 2011, respectively. Pre-production and start-up costs are expensed as incurred.

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	5-15 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, 2012 or December 31, 2011, and did not recognize any interest and/or penalties in its consolidated statements of income during the three and nine months ended September 30, 2012 and 2011.

Supplemental Cash Flow Information

Income taxes paid during the three months ended September 30, 2012 and 2011 amounted to zero and approximately $291,000, respectively, and amounted to approximately $256,000 and $517,000 for the nine months ended September 30, 2012 and 2011 respectively. Interest paid during the three months ended September 30, 2012 and 2011 amounted to approximately $12,000 and $14,000, respectively, and amounted to $38,000 and $44,000 for the nine months ended September 30, 2012 and 2011, respectively. During the three and nine months ended September 30, 2012, the Company reduced its tax liability by approximately $152,000 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, 2012 and December 31, 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.

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 and capital lease, the fair value approximates its carrying amount.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 (loss) must be reclassified to net income (loss). This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted this pronouncement in the first quarter of 2012 and is presenting separate statements of comprehensive income (loss) in the consolidated financial statements. For the three and nine month periods ended September 30, 2012 and 2011, there were no items affecting comprehensive income (loss).

3. Discontinued Operations

As previously reported, 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, less $10,000 in escrow. QCC is accounted for as a discontinued operation in the accompanying consolidated financial statements. During the three and nine months ended September 30, 2012, QCC reported a loss on disposal related to a write-down of certain assets to lower of cost or market resulting in a before tax loss of approximately zero and $406,000, respectively.

On July 23, 2013, 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. As such, AMP is accounted for as discontinued operations in the accompanying consolidated financial statements and the Company accrued for the remaining balance payable on the personal property lease of $67,500 in the accompanying September 30, 2012 financial statements. On October 23, 2012, AMP announced that it will surrender all assets under the personal property and real property lease to the lessor, Aero Inc., a previously reported related party, by November 3, 2012, which is the expiration date of the operating lease for the building. During the three and nine months ended September 30, 2012, AMP recorded a loss on disposal amounting to a before tax loss of approximately $397,000 relating to a write-down of certain assets to lower of cost or market, accrual of remaining balance on operating leases, and expected costs to surrender assets.

The following is a summary of discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Discontinued Operations:	($000's omitted)			
Revenue of QCC and AMP	$ 221	$ 256	$ 899	$ 901
Loss from operations of QCC and AMP	($ 285)	($ 291)	($ 895)	($ 790)

Income tax benefit	97	88	304	240
Net loss from operations of QCC and AMP	(188)	(203)	(591)	(550)
Loss on disposal of QCC and AMP	(397)	-	(804)	-
Income tax benefit	135	-	274	-
Net loss from disposal of QCC and AMP	(262)	-	(530)	-
Loss from discontinued operation	($ 450)	($ 203)	($ 1,121)	($ 550)

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Inventories

	September 30, 2012	December 31, 2011
	($000's omitted)	
Raw materials and common parts	$ 5,917	$ 5,727
Work-in-process	3,173	3,511
Finished goods	2,316	2,369
Total inventories, net of reserve	$ 11,406	$ 11,607

5. Property, Plant and Equipment

	September 30, 2012	December 31, 2011
	($000's omitted)	
Land	$ 21	$ 25
Buildings	7,021	7,181
Machinery, equipment and tooling (including capital lease)	12,116	12,930
	19,158	20,136
Less accumulated depreciation and amortization	(13,544)	(14,033)
Total property, plant and equipment	$ 5,614	$ 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 September 30, 2012 and December 31, 2011, accumulated amortization on the building amounted to approximately $2,520,000 and $2,423,000, respectively. Amortization expense amounted to $32,000 for the three month periods ended September 30, 2012 and 2011, respectively and amounted to $97,000 for the nine month periods ended September 30, 2012 and 2011, 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 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 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 and approximately $21,000 for the three month periods ended September 30, 2012 and 2011, respectively, and $42,000 and $63,000 for the nine month periods ended September 30, 2012 and 2011, respectively.

Depreciation expense from continuing operations amounted to $107,000 and $106,000 for the three month periods ended September 30, 2012 and 2011, respectively, and amounted to $334,000 and $323,000 for the nine month periods ended September 30, 2012 and 2011, respectively. The combined depreciation and amortization expense from continuing operations amounted to $141,000 and $139,000 for the three month periods ended September 30, 2012 and 2011, respectively, and amounted to $437,000 and $427,000 for the nine month periods ended September

30, 2012 and 2011, respectively.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Long-Term Debt

	September 30, 2012	December 31, 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 (0.43% at September 30, 2012)(A)	$ 2,960	$ 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	69	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
	3,029	3,057
Less current portion	(191)	(202)
	$ 2,838	$ 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 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.

During the nine months ended September 30, 2012, the Company increased the amount available on the unsecured line of credit from $1,000,000 to $2,000,000. There was no balance outstanding at September 30, 2012 and December 31, 2011. The line of credit is available through June of 2013.

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, 2012 and December 31, 2011, 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 of the Company for certain equipment to be used at AMP. On July 23, 2012, the Company gave notice of termination of the lease and as a result of 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. There is no material gain or loss associated with the cancellation of such agreement. Under the terms of the Agreement, monthly payments of $7,500 still continue through July 2013. The Company has accrued for the remaining balance payable of $67,500 in the September 30, 2012 financial statements as a result of the discontinued operation discussed in Note 3. There are no other future obligations under this lease.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Income Taxes

The Company did not have any material uncertain tax positions or unrecognized tax benefits or obligations as of September 30, 2012 and December 31, 2011.

The Company and/or its subsidiaries file income tax returns in the United States federal jurisdiction and in the states of New York, Pennsylvania, Arkansas and Texas. Also, during the third quarter of 2010, the Internal Revenue Service commenced an examination of the Company's Federal Income tax returns for years 2008 and 2009. In the first quarter of 2011, the examination was completed and resulted in no material adjustments to the originally filed returns. The 2009 through 2011 federal and state tax returns remain open under statute.

9. Shareholders' Equity

($000's omitted)

	Common Stock							
	Number of shares issued	Amount	Capital in excess of par value	Retained earnings	ESOP	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance December 31, 2011	2,614,506	$ 523	$ 13,774	$ 12,490	($ 1,266)	($ 2,210)	($ 67)	$ 23,244
Net income	-	-	-	225	-	-	-	225
Cash dividend	-	-	-	(358)	-	-	-	(358)
Purchase of treasury shares	-	-	-	-	-	(62)	-	(62)
Exercise of stock options, net of income tax benefit	-	-	152	(323)	-	555	-	384
Balance September 30, 2012	2,614,506	$ 523	$ 13,926	$ 12,034	($ 1,266)	($ 1,717)	($ 67)	$ 23,433

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. As of September 30, 2012, the Company has purchased 245,529 shares and there remain 204,471 shares available to purchase under this program. There were 7,441 and zero shares purchased by the Company during the nine month periods ended September 30, 2012 and 2011, respectively.

In the second quarter of 2012 certain option holders, including the independent directors, Chief Executive Officer and the 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 $152,000 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.

On May 14, 2012 the Company announced that its Board of Directors declared a $0.15 per share cash dividend. The dividend was subsequently paid on July 2, 2012 to shareholders of record on June 1, 2012 and was approximately $358,000 in the aggregate. These dividends do not represent that the Company will pay dividends on a regular or scheduled basis. The amount is recorded in dividends payable on the accompanying consolidated balance sheet.

SERVOTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 the earnings per share that were outstanding for the period. Incremental shares from assumed conversions are calculated as the number of shares that would be issued, net of the number of shares that could be purchased in the marketplace with the cash received upon stock option exercise.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000's omitted except per share data)			
Income from continuing operations	$ 306	$ 1,107	$ 1,346	$ 2,588
Loss from discontinued operations	(450)	(203)	(1,121)	(550)
Net income (loss)	($ 144)	$ 904	$ 225	$ 2,038
Weighted average common shares outstanding (basic)	2,146	1,982	2,125	1,982
Incremental shares from assumed conversions of stock options	6	89	19	117
Weighted average common shares outstanding (diluted)	2,152	2,071	2,144	2,099
Basic				