HOOKER FURNITURE CORP
Form 8-K
April 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): April 6, 2015

HOOKER FURNITURE CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	000-25349 (Commission File No.)	54-0251350 (I.R.S. Employer Identification No.)
440 East Commonwealth Boulevard, Martinsville, Virginia (Address of principal executive offices)	24112 (Zip Code)	(276) 632-0459 (Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On April 6, 2015, the Compensation Committee of the Board of Directors of Hooker Furniture Corporation (the "Company") approved annual base salaries, annual cash incentives and long-term incentive awards for the Company's executive officers.

Annual Base Salary

The base salary for each executive officer for the 2015 calendar year will be:

		Base Salary
Paul B. Toms, Jr., Chairman and CEO	$	370,000
Paul A. Huckfeldt, Senior VP – Finance and Accounting and CFO		214,500
Michael W. Delgatti, Jr., President		300,000
Anne M. Jacobsen, Senior VP-Administration		175,000

Annual Cash Incentives

The annual cash incentive for each executive officer for the Company's 2016 fiscal year, which ends January 31, 2016, will be paid if the Company attains 70% or more of its budgeted fiscal 2016 consolidated net income target, as approved by the Board of Directors. Each executive officer is eligible to receive a percentage of his or her calendar 2015 base salary under the annual incentive program. No cash bonus is payable if the Company fails to reach at least 70% of the budgeted consolidated net income target and a maximum cash bonus is payable if the Company reaches 150% or more of target consolidated net income. The annual cash incentive potential, expressed as a percentage of calendar 2015 base salary, for each of the executive officers is as follows:

	If the Company Attains:									
	70% of Target Net Income		85% of Target Net Income		100% of Target Net Income		125% of Target Net Income		150% or More of Target Net Income	
Paul B. Toms, Jr.	25	%	38	%	50	%	67	%	84	%
Paul A. Huckfeldt	20	%	30	%	40	%	53	%	67	%
Michael W. Delgatti, Jr.	23	%	34	%	45	%	60	%	75	%
Anne M. Jacobsen	20	%	30	%	40	%	53	%	67	%

Long-Term Incentive Awards

Time-Based Restricted Stock Units (RSUs). Each time-based RSU entitles the executive officer to receive one share of the Company's common stock if he or she remains continuously employed with the Company through the end of a three-year service period that ends April 6, 2018. At the discretion of the Committee, the RSUs may be paid in shares of the Company's common stock, cash (based on the fair market value of a share of the Company's common stock on the date payment is made), or both. In addition to the service-based vesting requirement, 100% of an executive officer's RSUs will vest upon a change of control of the Company and a prorated number of the RSUs will vest upon the death, disability or retirement of the executive officer.

The number of RSUs awarded to each executive officer is set forth in the table below.

Executive Officer	Number of RSUs
Paul B. Toms, Jr.	0
Paul A. Huckfeldt	1,376
Michael W. Delgatti, Jr.	3,207
Anne M. Jacobsen	935

Performance Grants. Each performance grant entitles the executive officer to receive a payment based on the achievement of two specified performance conditions. The payout will be the sum of two amounts, based on the Company's absolute and relative EPS growth over a three-year performance period that begins February 2, 2015 and ends January 29, 2018. At the discretion of the Committee, the payout can be made in cash, shares of the Company's common stock (based on the fair market value of a share of the Company's common stock on the date payment is made), or both. The executive officer also must remain continuously employed with the Company through the end of the performance period to be eligible for a payment.

The payment for each executive officer under his or her performance grant will be the sum of the following amounts:

a. An amount set forth in the table below based on the growth of the Company's fully diluted earnings per share from continuing operations ("EPS") over the performance period. The Company's EPS growth must be at least 5% over the performance period for a payment to be made.

	Payout Amount Based on EPS Growth (%) for Performance Period				
Executive Officer	5%	10%	15%	20%	25%
Paul B. Toms, Jr.	$27,750	$83,250	$111,000	$138,750	$166,500
Paul A. Huckfeldt	12,870	38,610	51,480	64,350	77,200
Michael W. Delgatti, Jr.	15,003	45,009	60,012	75,015	90,018
Anne M. Jacobsen	8,750	26,250	35,000	43,750	52,500

b. An amount set forth in the table below based on the growth of the Company's EPS over the performance period relative to a group of specified peer companies. However, if the Company's EPS growth is not positive for the performance period, this payment will be capped at the amount for the 50th percentile.

	Payout Amount Based on Relative EPS Growth for Performance Period		
Executive Officer	Less than 50th percentile	50th percentile, but less than 75th percentile	Equal to or greater than 75th percentile
Paul B. Toms, Jr.	$ 0	$ 111,000	$ 166,500
Paul A. Huckfeldt	0	51,480	77,200
Michael W. Delgatti, Jr.	0	59,994	89,991
Anne M. Jacobsen	0	35,000	52,500

In addition, a payment will be made to an executive officer under each performance grant upon a change of control of the Company, consistent with attaining 15% EPS growth and relative EPS growth at the 50th percentile for the performance period, or a prorated amount following the death, disability or retirement of the executive officer as described in the executive officer's grant agreement.

The terms of the time-based RSUs and the performance grants are more completely described in the respective forms of grant agreements filed as exhibits to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2012, and which are incorporated by reference into this Item 5.02.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit 10.1. Form of Time-Based Restricted Stock Unit Agreement (incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2012)

Exhibit 10.2. Form of Performance Grant Agreement (incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2012)

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HOOKER FURNITURE CORPORATION

By: /s/ Paul A. Huckfeldt
Paul A. Huckfeldt
Senior Vice President - Finance and Accounting
Chief Financial Officer

Date: April 9, 2015

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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 December 31, 2004	2003	Period to period increase (decrease) year ended 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
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%	1.4%	189.0%

Management Discussion

During the year ended December 31, 2004 and for the comparable period ended December 31, 2003, approximately 45% and 42% respectively of the Company s revenues were derived from contracts with agencies of the U.S. Government or their prime contractors and their subcontractors. Continued government involvement in military operations overseas has had a direct impact on the financial results in both the Advanced Technology and Consumer Product s markets. Sales of products sold for government applications have increased approximately $2,700,000 over 2003. While the Company remains optimistic in relation to these opportunities, it recognizes that sales to the government are affected by defense budgets, U.S. and foreign policy and the level of military operations and as such, it is difficult to predict the impact on future financial results.

See also Note 10 to the consolidated financial statements for information concerning business segment operating results.

Results of Operations - Year 2004 as Compared to 2003

The Company s consolidated results of operations for the year ended December 31, 2004 showed an approximate $4,539,000 or 25.8% increase in net revenues with an increase in income before taxes of approximately $757,000. The increase in revenues is primarily attributed to increased government shipments.

Gross profit increased 28.0% for the twelve month period ended December 31, 2004. The variation in gross profit can be attributed to several factors including year-to-year variations in the previously discussed front-end costs associated with new products and changes in design on existing products. The timing of such costs directly contributes to the fluctuation in gross profit from period to period as these costs are expensed as they occur and, as such, are not matched to their future revenues and benefits. As previously reported, while 2004 revenues from Consumer Products Group s combination combat knife and bayonet increased, a substantial amount of front-end costs associated with these revenues were expensed in prior periods. The Company continues to incur such costs on an ongoing basis associated with products for both the Advanced Technology Group (ATG) and Consumer Products Group (CPG). Another factor contributing to the increase in gross profit for the reported period is product mix.

Selling, general and administrative (SG&A) costs increased approximately 15.8% when compared to the same period in 2003. The increase in SG&A costs is attributed to increased marketing of the expanded sales effort of the ATG and CPG, however, the most significant impact has been increased costs for professional services and corporate governance necessitated by the Sarbanes-Oxley Act. The Company estimates that it has incurred in excess of $200,000 on related expenses in 2004 and expects to continue to incur significant expenses in the future.

Interest expense remained consistent for the year ended December 31, 2004 when compared to the same period in 2003. Despite the decrease in the average outstanding balances on institutional debt, average market driven interest rates increased when comparing the twelve month period ending December 31, 2004 to the same period of 2003. See also Note 4 to the consolidated financial statements for information on long-term debt.

Depreciation and amortization expense decreased approximately 2.1% for the year ended December 31, 2004 when compared to the same period in 2003 due to variable estimated useful lives of depreciable property as identified in Note 1 to the consolidated financial statements.

The Company s effective tax rate was 37% in 2004 and 2003. The effective tax rate in both years reflects state income taxes, permanent non-deductible expenditures and the tax benefit on certain foreign sales. See also Note 6 to the consolidated financial statements for information concerning income tax rates.

Results of Operations - Year 2003 as Compared to 2002

The Company s consolidated results of operations for the year ended December 31, 2003 showed an approximate $2,000,000 or 12.6% increase in net revenues with a turnaround in income before taxes of approximately $728,000. The increase in revenues is primarily attributed to increased government shipments.

Gross profit increased 28.4% for the twelve month period ended December 31, 2003. During 2002, the Company incurred significant front-end costs associated with prototype, preproduction and start-up activities for Consumer Products Group s combination combat knife and bayonet. The majority of such up-front costs were incurred and expensed in 2002 and early 2003. While the Company continues to incur such costs on an ongoing basis associated with products for both the Advanced Technology Group (ATG) and Consumer Products Group (CPG), the timing of such costs directly contributes to the fluctuation in gross profit from period to period as these costs are expensed as they occur and, as such, are not matched to their future revenues and benefits. Another factor contributing to the increase in gross profit for the reported period is product mix.

Selling, general and administrative (SG&A) costs increased approximately 10% when compared to the same period in 2002. The increase in SG&A costs is primarily attributed to increased marketing of the expanded sales effort of the ATG and CPG and the increased costs for professional services and corporate governance necessitated by the Sarbanes-Oxley Act and related regulations that are expected to continue to be significant expense factors.

Interest expense decreased for the year ended December 31, 2003 when compared to the same period in 2002 due to market driven interest rate fluctuations and the decrease of institutional debt.

Depreciation and amortization expense increased approximately 1.4% for the year ended December 31, 2003 when compared to the same period in 2002 due to variable estimated useful lives of depreciable property as identified in Note 1 to the consolidated financial statements.

The Company s effective tax rate (benefit) was 37% in 2003 compared to (29%) in 2002. The variance in the effective tax rate is primarily attributable to state income taxes, permanent non-deductible expenditures and the tax benefit on certain foreign sales.

Liquidity and Capital Resources

The Company s primary liquidity and capital requirements relate to the working capital needs; primarily inventory, accounts receivable, capital investments in facilities, machinery, tools/dies and equipment and principal/interest payments on indebtedness. The Company s primary sources of liquidity have been from positive cash flows and from bank financing.

During the year ended December 31, 2004, the Company expended $622,000 on capital expenditures as compared to $148,000 in 2003.

At December 31, 2004, the Company has commitments for approximately $70,000 in capital expenditures.

The Company also has a $1,000,000 line of credit on which there is no balance outstanding at December 31, 2004.

Principal maturities of long-term debt are as follows: 2005 - $381,000; 2006 - $384,000, 2007 - $386,000; 2008 - $387,000, 2009 and thereafter - $4,243,000.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies

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

New Accounting Pronouncements

Management reviewed recent accounting pronouncements and has not determined the effect these pronouncements will have on Financial Statement results. See Note 1 to the accompanying consolidated financial statements for further discussion of new accounting pronouncements.

Revenue Recognition

The Company s revenues are principally recognized as units are shipped and as terms and conditions of purchase orders are met.

Inventories

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, reserves and allowances for inventories and trade receivables. Actual results could differ from those estimates.

Item 7. Financial Statements

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures

Our management has reviewed our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15). Our management believes that as of the end of the Company s most recent fiscal year such disclosure controls and procedures are adequate to ensure that material information relating to the Company is made known to management by others within the Company.

In addition, our management reviewed our internal controls and, to management s knowledge, during the quarter ended December 31, 2004 there has been no change that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 8B. Other Information

None.

PART III

Item 9. Directors and Executive Officers of the Registrant

Information regarding directors and executive officers of the Registrant is incorporated herein by reference to the information included in the Registrant s definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant s 2004 fiscal year or such information will be included by amendment.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct that applies to all directors, officers and employees of the Company as required by the listing standards of the American Stock Exchange. The Code is available on the Company s website at www.servotronics.com and the Company intends to disclose on this website any amendment to the Code. Waivers under the Code, if any, will be disclosed under the rules of the SEC and the American Stock Exchange.

Item 10. Executive Compensation

Information regarding executive compensation is incorporated herein by reference to the information included in the Registrant s definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant s 2004 fiscal year or such information will be included by amendment.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information included in the Registrant s definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant s 2004 fiscal year or such information will be included by amendment.

Also incorporated by reference is the information in the table under the heading Securities Authorized for Issuance Under Equity Compensation Plans included in Item 5 of this Form 10KSB.

Item 12. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated herein by reference to the information included in the Registrant s definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant s 2004 fiscal year or such information will be included by amendment.

Item 13. Exhibits

(a) Exhibits

Exhibit number	Presentation	Reference
3(A)(1)	Certificate of Incorporation	Exhibit 3(A)(1) to 1996 Form 10-KSB*
3(A)(2)	Amendments to Certificate of Incorporation dated August 27, 1984	Exhibit 3(A)(2) to 1996 Form 10-KSB*
3(A)(3)	Certificate of designation regarding Series I preferred stock	Exhibit 4(A) to 1987 Form 10-K*
3(A)(4)	Amendments to Certificate of Incorporation dated June 30, 1998	Exhibit 3(A)(4) to 1998 Form 10-KSB*
3(B)	By-laws	Exhibit 3(B) to 1986 Form 10-K*
4.1(A)	First amended and restated term loan agreement with Fleet Bank of New York dated October 4, 1993	Exhibit 4(A) to 1993 Form 10-KSB*

4.1(B)	Second amended and restated term loan agreement with Fleet Bank of New York dated February 26, 1999	Exhibit 4.1(B) to 1999 Form 10-KSB*
4.1(C)	First amendment to second amended and restated term loan agreement with Fleet Bank of New York dated December 17, 1999	Exhibit 4.1(C) to 1999 Form 10-KSB*
4.1(D)	Second amendment to a second amended and restated term loan agreement with Fleet National Bank dated December 20, 2004	Filed herewith

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
4.2(A)	Letter of Credit Reimbursement Agreement with Fleet Bank dated December 1, 1994	Exhibit 4(B)(1) to 1994 10-KSB*
4.2(B)	First Amendment and Extension to Letter of Credit and Reimbursement Agreement with Fleet Bank of New York dated as of December 17, 1999	Exhibit 4.2(B) to 1999 Form 10-KSB*
4.2(C)	Second Amendment and Extension to Letter of Credit and Reimbursement Agreement originally dated December 1, 1994, with Fleet National Bank, dated as of December 20, 2004	Filed herewith
4.3	Agency Mortgage and Security Agreement dated as of December 1, 1994 from the Registrant and its subsidiaries	Exhibit 4(B)(2) to 1994 10-KSB*

4.4	Guaranty Agreement dated as of December 1, 1994 from the Registrant and its subsidiaries to the Erie County Industrial Development Agency (ECIDA), Norwest Bank Minnesota, N.A., as Trustee, and Fleet Bank	Exhibit 4(B)(3) to 1994 10-KSB*
4.5	Shareholder Rights Plan dated as of August 27, 2002	Exhibit 4 to Form 8-K filed August 27, 2002*
10(A)(1)	Employment contract for Dr. Nicholas D. Trbovich, Chief Executive Officer**	Exhibit 10(A) to 1986 Form 10-K*

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
10(A)(2)	Amendment to employment contract for Dr. Nicholas D. Trbovich, Chief Executive Officer**	Filed herewith
10(A)(3)	Amendment to employment contract for Dr. Nicholas D. Trbovich, Chief Executive Officer**	Filed herewith
10(A)(4)	Employment contract for Nicholas D. Trbovich, Jr. Vice President**	Filed herewith
10(B)	Form of Indemnification Agreement between the Registrant and each of its Directors and Officers**	Exhibit 10(E) to 1986 Form 10-K*
10(C)(1)	Loan agreement between the Company and its employee stock ownership trust, as amended	Exhibit 10(C)(1) to 1991 Form 10-K*
10(C)(2)	Stock purchase agreement	Exhibit 10(D)(2) to

	between the Company and its employee stock ownership trust	1988 Form 10-K*
10(D)(1)(a)	1989 Employees Stock Option Plan**	Exhibit A to Form 8: Amendment No. 1 to 1988 Form 10-K*
10(D)(1)(b)	Amendment to 1989 Employees Stock Option Plan**	Exhibit 10(D)(1)(b) to 1990 Form 10-K*
10(D)(1)(c)	Amendment No. 2 to 1989 Employees Stock Option Plan**	Exhibit 10(D)(1)(d) to 1991 Form 10-K*
10(D)(1)(d)	2000 Employees Stock Option Plan**	Exhibit 10(D)(1)(a) to 2000 Form 10-KSB*

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
10(D)(2)	Stock Option Agreement for Donald W. Hedges dated March 24, 1998**	Exhibit 10(D)(2) to 1998 Form 10-KSB*
10(D)(2)(a)	Stock Option Agreement for Donald W. Hedges dated July 7, 2000**	Exhibit 10(D)(2)(a) to 2000 Form 10-KSB*
10(D)(3)(b)	Stock Option Agreement for Nicholas D. Trbovich dated March 24, 1998**	Exhibit 10(D)(3)(b) to 1998 Form 10-KSB*
10(D)(3)(c)	Stock Option Agreement for Nicholas D. Trbovich dated July 7, 2000**	Exhibit 10(D)(3)(c) to 2000 Form 10-KSB*
10(D)(4)	Stock Option Agreement for William H. Duerig dated March 24, 1998**	Exhibit 10(D)(4) to 1998 Form 10-KSB*
10(D)(4)(a)	Stock Option Agreement	Exhibit 10(D)(4)(a) to 2000

	for William H. Duerig dated July 7, 2000**	Form 10-KSB*
10(D)(9)	Land Lease Agreement between TSV, Inc. (wholly-owned subsidiary of the Registrant) and the ECIDA dated as of May 1, 1992, and Corporate Guaranty of the Registrant dated as of May 1, 1992	Exhibit 10(D)(9) to 1992 Form 10-KSB*
10(D)(10)	Amendment to Land Lease Agreement and Interim Lease Agreement dated November 19, 1992	Exhibit 10(D) (11) to 1993 Form 10-KSB*

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
10(D)(11)	Lease Agreement dated as of December 1, 1994 between the Erie County Industrial Development Agency (ECIDA) and TSV, Inc.	Exhibit 10(D)(11) to 1994 10-KSB*
10(D)(12)	Sublease Agreement dated as of December 1, 1994 between TSV, Inc. and the Registrant	Exhibit 10(D)(12) to 1994 10-KSB*
10(D)(13)	2001 Long-Term Stock Incentive Plan	Appendix A to 2001 Proxy**
21	Subsidiaries of the Registrant	Exhibit 21 to 2001 10-KSB*
23	Consent of Independent Accountants Consent on Form S-8 dated March 31, 2005	Filed herewith
31.1	Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant	Filed herewith

	to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

*Incorporated herein by reference (File No. 1-07109)
**Indicates management contract or compensatory plan or arrangement

Exhibit number	Presentation	Reference
32.2	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

The Registrant hereby agrees that it will furnish to the Securities and Exchange Commission upon request a copy of any instrument defining the rights of holders of long-term debt not filed herewith.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is incorporated herein by reference to the information included in the Registrant s definitive proxy statement if it is filed with the Commission within 120 days after the end of the Registrant s 2004 fiscal year or such information will be included by amendment.

FORWARD-LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-KSB contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those pertaining to the Company s capital resources and profitability. Forward-looking statements involve numerous risks and uncertainties. The Company derives a material portion of its revenues from contracts with agencies of the U.S. Government or their prime contractors. The Company s business is performed under fixed price contracts and the following factors, among others discussed herein, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: uncertainties in today s global economy, global competition, difficulty in predicting defense appropriations, the vitality of the commercial aviation industry and its ability to purchase new aircraft, the willingness and ability of the Company s customers to fund long-term purchase programs and market demand and acceptance both for the Company s products and its customers products which incorporate Company-made components. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form 10-KSB. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management s analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SERVOTRONICS, INC.

March 31, 2005 By /s/ Nicholas D. Trbovich, President
Nicholas D. Trbovich
President, Chief Executive Officer
and Chairman of the Board

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Nicholas D. Trbovich Nicholas D. Trbovich	President, Chief Executive Officer, Chairman of the Board and Director	March 31, 2005
/s/ Lee D. Burns Lee D. Burns	Treasurer and Secretary (Chief Financial Officer)	March 31, 2005
/s/ Donald W. Hedges Donald W. Hedges	Director	March 31, 2005
/s/ William H. Duerig William H. Duerig	Director	March 31, 2005
/s/ Nicholas D. Trbovich Jr. Nicholas D. Trbovich Jr.	Director	March 31, 2005

SERVOTRONICS, INC. AND SUBSIDIARIES

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Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Servotronics, Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations and cash flows present fairly, in all material respects, the financial position of Servotronics, Inc. (the Company) and its subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

PricewaterhouseCoopers LLP

Buffalo, New York
March 31, 2005

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

Assets	December 31, 2004
Current assets:	
Cash	$ 2,106
Accounts receivable	3,334
Inventories	6,841
Deferred income taxes	471
Other assets	1,544
Total current assets	14,296
Property, plant and equipment, net	6,527
Other non-current assets	537
	$ 21,360
Liabilities and Shareholders Equity	
Current liabilities:	
Current portion of long-term debt	$ 381
Accounts payable	795
Accrued employee compensation and benefit costs	805
Accrued income taxes	67
Other accrued liabilities	152
Total current liabilities	2,200
Long-term debt	5,400
Deferred income taxes	434
Other non-current liabilities	304
Shareholders equity:	
Common stock, par value $.20; authorized 4,000,000 shares; issued 2,614,506 shares	523
Capital in excess of par value	13,033
Retained earnings	2,246
Accumulated other comprehensive loss	(125)
	15,677
Employee stock ownership trust commitment	(2,135)
Treasury stock, at cost 121,605 shares	(520)
Total shareholders equity	13,022
	$ 21,360

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
($000 s omitted except per share data)

	Year Ended December 31,			
		2004		2003
Net revenues	$	22,113	$	17,574
Costs and expenses:				
Cost of goods sold, exclusive of depreciation		16,344		13,067
Selling, general and administrative		3,790		3,272
Interest		161		160
Depreciation and amortization		655		669
		20,950		17,168
Income before income taxes		1,163		406
Income tax provision		429		152
Net income	$	734	$	254
Income Per Share:				
Basic				
Net income per share	$	0.36	$	0.13
Diluted				
Net income per share	$	0.35	$	0.13

See notes to consolidated financial statements

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

	Year Ended December 31, 2004	2003
Cash flows related to operating activities:		
Net income	$ 734	$ 254
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	655	669
Deferred income taxes	(16)	184
Change in assets and liabilities -		
Accounts receivable	(846)	145
Inventories	(31)	(47)
Prepaid income taxes	73	72
Other assets	42	(125)
Other non-current assets	13	24
Accounts payable	246	131
Accrued employee compensation and benefit costs	73	(57)
Other accrued liabilities	(23)	66
Other non-current liabilities	27	(64)
Accrued income tax	67	-
Employee stock ownership trust payment	101	101
Net cash provided by operating activities	1,115	1,353
Cash flows related to investing activities:		
Capital expenditures - property, plant & equipment	(622)	(148)
Net cash used in investing activities	(622)	(148)
Cash flows related to financing activities:		
Proceeds from demand loan	572	250
Proceeds from long-term debt issuance	750	-
Payments on demand loan	(572)	(250)
Principal payments on long-term debt	(643)	(378)
Net cash provided by (used) in financing activities	107	(378)
Net increase in cash	600	827
Cash at beginning of period	1,506	679
Cash at end of period	$ 2,106	$ 1,506

Supplemental disclosures:
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Income taxes (received) paid	$ 306	($131)
Interest paid	$ 153	$ 154

See notes to consolidated financial statements

SERVOTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The principal accounting policies of Servotronics, Inc. (the Company) and subsidiaries are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of Servotronics, Inc. and its wholly-owned subsidiaries.

Cash and cash equivalents

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

Revenue recognition

The Company s revenues are principally recognized as units are shipped and as terms and conditions of purchase orders are met.

Inventories

Inventories are stated generally at the lower of standard cost or net realizable value. Cost includes all cost incurred to bring each product to its present location and condition, which approximates actual cost (first-in, first-out), and market provisions in respect of net realizable value and obsolescence are applied to the gross value of the inventory. Pre-production and start-up costs are expensed as incurred.

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 and its subsidiaries file a consolidated federal income tax return and separate state income tax returns.

The Company follows the asset and liability approach to account for income taxes. This approach requires the recognition of 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 bases of assets and liabilities.

Employee stock ownership plan

Contributions to the employee stock ownership plan are determined annually by the Company according to plan formula.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

New accounting pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 changes the accounting guidance for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity by now requiring those instruments to be classified as liabilities (or assets in some circumstances) on the balance sheet. Further, SFAS 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have any material impact on the Company s financial position, results of operations or cash flows.

In December 2003, the FASB issued a revision to SFAS No. 132 (SFAS 132), Employers Disclosure about Pensions and Other Postretirement Benefits. This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The disclosures required by this Statement are included in Note 5 to the Financial Statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, (SFAS 151) which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the Company will adopt this standard in its third quarter of fiscal 2005. We do not expect implementation of this statement to have a material effect on our consolidated financial position or results of operations.

The FASB issued Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004) (SFAS No. 123R), Share-Based Payment, in December 2004. SFAS No. 123R is a revision of FASB Statement 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005, which will require the expensing of any stock options issued in the future.

Risk Factors

The aviation and aerospace industries as well as markets for the Company s consumer products are facing new and different challenges on a global basis. The success of the Company depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, and other risk factors. In addition, uncertainties in today s global economy, global competition, the effect of terrorism, difficulty in predicting defense and other government appropriations, the vitality of the commercial aviation industry and its ability to purchase new aircraft, the willingness and ability of the Company s customers to fund long-term purchase programs, volatile market demand and the continued market acceptance of the Company s advanced technology and cutlery products make it difficult to predict the impact on future financial results.

2. Inventories

($000 s omitted)	December 31, 2004
Raw materials and common parts	$ 3,181
Work-in-process	3,268
Finished goods	640
	7,089
Less: common parts expected to be used after one year	(248)
	$ 6,841

3. Property, plant and equipment ($000 s omitted)	December 31, 2004
Land	$ 25
Buildings	6,484
Machinery, equipment and tooling	10,349
	16,858
Less accumulated depreciation and amortization	(10,331)
	$ 6,527

Property, plant and equipment includes land and building 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, 2004, accumulated amortization on the building amounted to approximately $1,400,000. The associated current and long-term liabilities are discussed in footnote 4 to the consolidated financial statements. 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.

4. Long-term debt ($000 s omitted)	December 31, 2004
Industrial Development Revenue Bonds; secured by a letter of credit from a bank with interest payable monthly at a floating rate (2.12% at December 31, 2004)	$ 4,150
Term loan payable to a financial institution interest at LIBOR plus 2% (4.00% at December 31, 2004); quarterly principal payments of $17,500 commencing January 1, 2005; payable in full in the fourth quarter of 2009	500
Term loan payable to a financial institution interest at a rate of 5.25% at December 31, 2004, changing to LIBOR plus 2% (4.56% at January 4, 2005); quarterly principal payments of $26,786 through the fourth quarter of 2011	750
Secured term loan payable to a government agency,	

monthly payments of approximately $1,455 with interest waived payable through second quarter of 2012	163
Secured term loan payable to a government agency monthly payments of $1,950 including interest fixed at 3% payable through fourth quarter of 2015	218
	5,781
Less current portion	(381)
	$ 5,400

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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: 2005 - $381,000; 2006 - $384,000, 2007 - $386,000; 2008 - $387,000, 2009 and thereafter - $4,243,000.

The Company also has a $1,000,000 line of credit on which there is no balance outstanding at December 31, 2004. The average interest rate on draw-downs for 2004 was 5%.

Certain lenders require the Company to comply with debt covenants as described in the specific loan documents, including the debt service ratio. At December 31, 2004, the Company was in compliance with all of its debt covenants.

5. Employee benefit plans

Employee stock ownership plan (ESOP)

Under the Company s ESOP adopted in 1985, participating employees are awarded shares of the Company s common stock based upon eligible compensation and minimum 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 the Company s original loan. Each year the Company makes contributions to the trust which the plan s trustees use to repay the principal and interest due the Company under the trust loan agreement. Shares held by the trust are allocated in the aggregate to participating employees in proportion to the amount of the loan repayment made by the trust to the Company. Since inception of the ESOP, approximately 405,000 shares have been allocated, exclusive of shares distributed to ESOP participants. At December 31, 2004 and 2003, approximately 422,000 and 445,000 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 2004 and 2003. Included as a reduction to shareholders equity is the employee stock ownership 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.

Defined benefit plan

The Company has noncontributory defined benefit pension plans. Plan benefits are based on stated amounts for each year of service and funding is in accordance with statutory requirements. The Company uses a measurement date of December 1 for its pension plans. The plan assets consist of cash and cash equivalents.

Narrative description of development of long-term rate of return

The Company uses historical performance in the market blended with consideration for inflation, risk-free rate of return.

Narrative description of investment policy strategies

The Company seeks to maximize income, growth of income, and long-term appreciation and preservation of capital. The assets must be invested with care and diligence with the overriding prudent man rule as a guide to investment management. The Company will, as a general guideline, make occasional disbursements and care should be taken to ensure available funds.

Weighted - Average Assumptions

	December 1,	
	2004	2003
Discount rate for benefit obligations	5.75%	6.0%
Discount rate for net periodic pension cost	6.0%	6.5%
Rate of compensation increase	N/A	N/A
Long-term rate of return and expected long-term return on plan assets	8.0%	8.0%

Accumulated benefit obligation

	December 1,	
	2004	2003
Accumulated benefit obligations (ABO)	$437,926	$429,351
Projected benefit obligations (PBO)	$437,926	$429,351
Plan assets	$364,636	$345,256

Excess of ABO over plan assets	$73,290	$84,095

Pension cost and employer contributions

	2004	December 1, 2003
Net periodic pension cost	$ 29,036	$ 25,101
Anticipated employer contributions	$ 50,491	$ 51,364

Estimated future benefit payments

	2004	2003
Plan year 2005	$ 24,430	$ 22,157
Plan year 2006	$ 25,569	$ 23,607
Plan year 2007	$ 27,164	$ 24,791
Plan year 2008	$ 27,824	$ 26,077
Plan year 2009	$ 28,702	$ 26,837
	147,998	141,434
Plan years 2010 through 2014	$	$

6. <u>Income tax provision</u>

The provision (benefit) for income taxes included in the consolidated statement of operations consists of the following:

	2004	2003
	($000	s omitted)
Current:		
Federal income tax (benefit)	$ 388	($37)
State income tax	57	5
	445	(32)
Deferred:		
Federal income tax (benefit)	(13)	(177)
State income tax	(3)	7
	(16)	184
	$ 429	$ 152

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

	2004	2003
Statutory rate	34%	34%
Increase resulting from:		
State income taxes (less federal effect)	3%	2%
Extraterritorial income exclusion	(2%)	(3%)
Nondeductible expenses	1%	3%

Other	1%	1%
	37%	37%

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At December 31, 2004, the deferred tax assets (liabilities) were comprised of the following:

	($000 s omitted)
Inventories	$ 247
Accrued employee compensation and benefit costs	222
Operating loss and credit carryforwards	62
Minimum pension liability	64
Other	10
Total deferred tax assets	605
Property, plant and equipment	(558)
Other liabilities	(10)
Total deferred tax liabilities	(568)
Net deferred tax asset	$ 37

Realization of the net deferred tax asset is dependent upon generating sufficient taxable income over the periods in which the temporary differences are anticipated to reverse. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. However, the amount of net deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income are reduced.

At December 31, 2004, the Company also has New York State net operating loss carryforwards of approximately $556,000 (approximately a $18,000 net tax benefit) that begin to expire in 2019. The Company also has a State of Pennsylvania net operating loss carryforward of approximately $1,312,000 (approximately a $43,000 net tax benefit) that begins to expire in 2006.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. The Company has not determined the effect this Act will have on future effective tax rates.

7. Common shareholders equity

	Common stock Number of shares issued	Amount	Capital in excess of par value	Retained Earnings	ESOP	Treasury stock	Comprehensive income	Accumulated other comprehensive income (loss)
	($000	s omitted except share amounts)						
Balance December 31, 2002	2,614,506	$523	$13,361	$1,262	($2,337)	($1,054)		($82)
Comprehensive income:								
Net income	-	-	-	254	-	-	$254	-
Other comprehensive loss, net of tax:								
Minimum pension liability adjustment	-	-	-	-	-	-	(25)	(25)
Other comprehensive loss	-	-	-	-	-	-	(25)	-
Comprehensive income	-	-	-	-	-	-	$229	-
Compensation expense	-	-	-	-	101	-		-
Treasury shares issued for deferred compensation obligation	-	-	(328)	-	-	534		-
Balance December 31, 2003	2,614,506	$523	$13,033	$1,516	($2,236)	($520)		($107)
Comprehensive income:								
Net income	-	-	-	734	-	-	$734	-
Other comprehensive loss, net of tax:								
Minimum pension								
	-	-	-	-	-	-	(18)	(18)

liability adjustment								
Other comprehensive loss	-	-	-	-	-	-	(18)	-
Comprehensive income	-	-	-	-	-	-	$716	-
Compensation expense	-	-	-	-	101	-	-	
Treasury shares issued for deferred compensation obligation	-	-		-	-			-
Other	-	-	-	(4)	-	-		-
Balance December 31, 2004	2,614,506	$523	$13,033	$2,246	($2,135)	($520)		($125)

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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.

	Year Ended December 31,	
	2004	2003
	($000 s omitted except per share data)	
Net income	$ 734	$ 254
Weighted average common shares outstanding (basic)	2,052	2001
Incremental shares from assumed conversions of stock options	46	10
Weighted average common shares outstanding (diluted)	2,098	2,011
Basic Net income per share	$ 0.36	$ 0.13
Diluted Net income per share	$ 0.35	$ 0.13

Other comprehensive loss

The minimum pension liability adjustment of $125,000 ($107,000 - 2003), which is net of taxes amounting to $73,000 ($63,000 - 2003), is the only component of other comprehensive loss for 2004.

Stock options

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 non-qualified options to certain Directors and Officers. The Company applies APB Opinion No. 25 and related interpretations in accounting for these Plans and the separate option agreements. Accordingly, no compensation expense has been charged to earnings in 2004 or prior years as stock options granted have an exercise price equal to the market price on the date of grant. At December 31, 2004, 156,600 shares of common stock were available under these plans. Options granted under these plans have durations of ten years and vesting periods ranging from six (6) months to four (4) years.

A summary of the status of options granted under all employee plans is presented below:

	Options Outstanding	Weighted Average Exercise Price ($)
Outstanding as of December 31, 2002	319,200	5.37
Granted in 2003	145,000	2.045
Exercised in 2003	-	-
Forfeited in 2003	-	-
Outstanding as of December 31, 2003	464,200	4.01
Granted in 2004	-	-
Exercised in 2004	-	-
Forfeited in 2004	-	-
Outstanding as of December 31, 2004	464,200	4.01

The following tables summarize information about options outstanding at December 31, 2004:

	Exercise Prices ($)	Number Outstanding	Remaining Contractual Life	Options Exercisable
	8.50	93,000	3 years	93,000
	3.8125	101,200	6 years	101,200
	4.38	125,000	7 years	125,000
	2.045	145,000	9 years	141,000
Total		464,200		460,200

The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation . If the compensation cost for these plans had been determined based on the Black-Scholes calculated values at the grant dates for awards consistent with the method prescribed by SFAS No. 123, the pro forma effects on the years ended December 31, 2004 and 2003 are as follows:

	2004	2003
Net income:		
As reported	$734,000	$254,000
Pro forma	$703,781	$128,000
Earnings per common share:		
As reported - basic	$0.36	$0.13
As reported - diluted	$0.35	$0.13
Pro forma - basic	$0.34	$0.06
Pro forma - diluted	$0.34	$0.06

There were no options granted in 2004. There were 145,000 options granted in 2003. The Black-Scholes calculated estimated value of the options granted in 2003 was $1.277. The assumptions used to calculate this value include a risk-free interest rate of 3.83%, an expected term of 10 years, and an annual standard deviation (volatility) factor of 46.6%. The Black-Scholes option pricing model was developed for use in estimating values of traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the use of highly subjective assumptions, including the expected stock price volatility. Because the Company s stock options are restricted and have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the calculated estimated values, in the Company s opinion the existing models do not necessarily provide a reliable measure of the value of the Company s stock options. The estimated value calculated by the Black-Scholes methodology is hypothetical and does not represent an actual tangible Company expense or an actual tangible monetary transfer to the optionee. Further, for the reasons stated above (among others) and especially because of the volatility factor used in the Black-Scholes calculations for the Company s 2003 options, the derived estimated value may be, in the Company s opinion, substantially higher than the value which may be realized in an arms-length transaction under the above stated and existing conditions.

Shareholders rights plan

During 2002, 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 August 28, 2002. The Rights Plan replaced a previous shareholder right plan that was adopted in 1992 and expired on August 28, 2002. 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.

8. Commitments

The Company leases certain equipment pursuant to operating lease arrangements. Total rental expense in 2004 and 2003 and future minimum payments under such leases are not significant.

9. 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.

10. Business segments

The Company operates in two business segments, the Advanced Technology Group and the Consumer Products Group. 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 the Advanced Technology Group involve the design, manufacture, and marketing of servo-control components for government and commercial applications. The Consumer Products Group 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 use.

Information regarding the Company s operations in these segments is summarized as follows:

Year ended December 31, 2004		Advanced Technology Group		Consumer Products Group		Consolidated ($000's omitted)
Revenues from unaffiliated customers	$	11,354	$	10,759	$	22,113
Profit	$	1,844	$	871		2,715
Depreciation and amortization	$	(506)	$	(149)		(655)
Interest expense						(161)
General corporate expense						(736)
Income before income taxes					$	1,163
Identifiable assets	$	14,519	$	6,841	$	21,360
Capital expenditures	$	302	$	320	$	622

Year ended December 31, 2003		Advanced Technology Group		Consumer Products Group		Consolidated ($000's omitted)
Revenues from unaffiliated customers	$	10,289	$	7,285	$	17,574
Profit	$	1,561	$	203		1,764
Depreciation and amortization	$	(522)	$	(147)		(669)
Interest expense						(160)
General corporate expense						(529)
Income before income taxes					$	406
Identifiable assets	$	13,920	$	6,021	$	19,941
Capital expenditures	$	53	$	95	$	148

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 revenues of approximately $4,800,000 in 2004 and $5,200,000 in 2003. Similar contracts by the Consumer Products Group accounted for revenues of approximately $5,100,000 in 2004 and $2,100,000 in 2003. Sales of advanced technology products to one prime contractor, including various divisions and subsidiaries of a common parent company, amounted to approximately 14% in 2004 and 2003. The Company also had sales to another customer that amounted to approximately 17% of total revenues in 2004 and 2003. Another prime contractor provided sales of approximately 8% and 13% of total revenues in 2004 and 2003. No other single customer represented more than 10% of the Company s revenues in any of these years.