Federal Screw Works 2015 Annual Report

Board of Directors

David W. Ayriss, Sr. †
Business Consultant
Retired General Manager
Big Rapids Division of
the Company

Thomas W. Butler, Jr.†**
President, Thomas
W. Butler and Associates, Inc.
Business Consultants

Frank S. Galgan†**
Attorney and Member Lambert Leser, P.C.

Hugh G. Harness*
Business Consultant
Retired President and Chief
Operating Officer of
the Company

Aaron J. ZurSchmiede
Vice President
Big Rapids Division of
the Company

Delle Jean ZurSchmiede**
Retired Executive Director
Finance of General Motors Corporation

Robert F. ZurSchmiede*
Executive Vice President
and Chief Operating Officer
of the Company

Thomas ZurSchmiede*
President and Chief Executive
Officer of the Company

W. T. ZurSchmiede, Jr.*
Chairman of the Board
and Secretary of the Company

*Member of
Executive Committee

**Member of Audit
Committee

†Member of Compensation Committee

Officers

Thomas ZurSchmiede
President and Chief
Executive Officer

W. T. ZurSchmiede, Jr.
Chairman of the Board
and Secretary

Robert F. ZurSchmiede
Executive Vice President
and Chief Operating Officer

Jeffrey M. Harness
Vice President — Sales and Marketing

Aaron J. ZurSchmiede
Vice President — Big Rapids Division

William G. Harness
Vice President — Novex Tool Division

Wade C. Plaskey
Chief Financial Officer
Treasurer
and Corporate Controller

Financial Highlights

(Dollars in thousands, except per share data)

Years Ended June 30	2015	2014	2013
Net sales	$ 63,983	$ 61,060	$ 57,193
Earnings before income taxes	1,340	607	104
Income taxes benefit	—	—	—
Net earnings	1,340	607	104
Depreciation and amortization	3,677	3,702	4,102
Capital expenditures	6,271	4,204	2,600
Working capital	17,347	15,634	15,396
Stockholders' equity	771	591	2,049
Per Share Data			
Net earnings	$ 0.97	$ 0.44	$ 0.08
Average number of shares outstanding: 2015 — 1,381,595; 2014 — 1,381,595; 2013 — 1,381,595			

Annual Meeting
October 22, 2015, 10 a.m.
The Dearborn Inn
20301 Oakwood Boulevard
Dearborn, Michigan 48124

Transfer Agent
Shareholder Correspondence:
Computershare
P.O. Box 30170
College Station, TX 77842-3170
Shareholder Inquiries 1-800-426-5523
https://www-us.computershare.com/investor/contact

Registrar
Computershare Trust Company, N. A.

Federal Screw Works
Corporate Offices:
34846 Goddard Road
Romulus, Michigan 48174-3406
Telephone: 734-941-4211

Division locations: Big Rapids, Brighton, Romulus, Traverse City, Michigan

Federal Screw Works shares are traded on the OTC Pink Market. The Company's symbol is FSCR.
www.otcmarkets.com

To Our Shareholders:

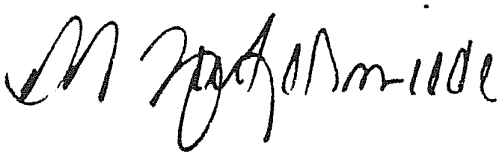
The Company reports net earnings for the fourth quarter ended June 30, 2015, of $1,016,000, or $.74 per share, on sales of $18,339,000. This compares to net earnings of $817,000, or $.59 per share, on sales of $16,542,000 in the comparable quarter last year. For the year ended June 30, 2015, the Company reports net earnings of $1,340,000, or $.97 per share, on sales of $63,983,000. For the year ended June 30, 2014, the Company reported net earnings of $607,000, or $.44 per share, on sales of $61,060,000.

The Company performed well, doubling its profit from the year previous while increasing sales by 5%.

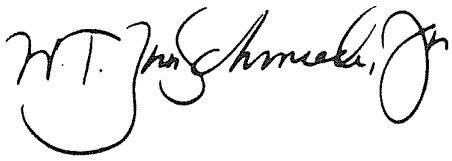
We continue to be successful in securing, funding, and developing new orders. Capital expenditure this past year rose once again to $6.3 million in support of three substantial programs. Similar to last year, developmental expenses depressed current earnings, but we are pleased to report all three programs are coming online.

Economists are uncertain of the dimensions of the current economic slowdown in China and its likely impact on the global economy. The U.S. economy continues its slow walk. However, the prolonged low oil prices now forecast will benefit U.S. consumers with lower food, gasoline, and home heating costs, supporting consumer confidence and North American vehicle sales. We believe low oil will also help maintain strong sales of light trucks, the Company's principal end user market.

The Company continues to progressively improve its financial performance while enhancing its true engineering capability. We have great pride in this capability, which is the clearest expression of the strength and quality of our employees. We wish to thank all of them for their commitment, skill, and hard work. We also wish to thank our Shareholders for their best wishes and kind expressions of support. It's been another year of solid progress and we look confidently to the future.



Thomas ZurSchmiede
President



W.T. ZurSchmiede, Jr.
Chairman

Financial Review

Selected Financial Data

Years Ended June 30 (Dollars in thousands, except per share data)

	2015	2014	2013	2012	2011
Net sales	$ 63,983	$ 61,060	$ 57,193	$ 58,647	$ 55,836
Cost of products sold	58,850	56,635	53,041	54,802	53,794
Interest expense	681	675	832	880	801
Earnings (loss) before income taxes	1,340	607	104	(682)	(2,378)
Income taxes (benefit)	—	—	—	(120)	(152)
Net earnings (loss)	1,340	607	104	(562)	(2,226)
Average number of shares of common stock outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595
Per share of common stock:					
Net earnings (loss)	$ 0.97	$ 0.44	$ 0.08	$ (0.41)	$ (1.61)
Cash dividends	—	—	—	—	—
Total assets	$ 53,425	$ 48,093	$ 46,982	$ 46,375	$ 46,903
Long-term debt	17,523	12,686	11,315	8,959	8,829

Stock Prices

	2015		2014	
	High	**Low**	**High**	**Low**
1st Quarter	$ 4.20	$ 2.55	$ 2.89	$ 2.19
2nd Quarter	4.40	2.60	4.40	2.55
3rd Quarter	4.10	3.20	3.00	2.55
4th Quarter	4.40	2.75	2.70	2.55

These are the quarterly high and low sale quotations as reported by the OTC Pink Market.
The Company's symbol is FSCR.

The Company

Industry Information

Federal Screw Works is a domestic manufacturer of industrial component parts, consisting of locknuts, bolts, piston pins, studs, bushings, shafts and other machined, cold formed, hardened and/or ground metal parts, all of which constitute a single business segment.

The Company's products are manufactured at several plants and are fabricated from metal rod and bar, which are generally available at competitive prices from multiple sources. Production is in high-volume job lots to the specification of original equipment manufacturers and sold to them for incorporation into their assemblies. The majority of these sales are to manufacturers of automobiles and trucks, with the balance being mainly to manufacturers of nonautomotive durable goods.

Operating Divisions

The Company's industrial component parts are manufactured in four plants located throughout Michigan. The Company presently employs 201 full time personnel. A brief description of each division follows.

The Big Rapids Division in Big Rapids, Michigan, manufactures special high-strength bolts and other cold formed products using boltmakers and headers as primary equipment. Among the items manufactured to both inch and metric specifications are hex head bolts, connecting rod bolts, studs and flange bolts. The 200,000 square foot plant is situated on 25 acres of land, and contains heat treat facilities for hardening in-process parts.

The Romulus Division is housed in a 100,000 square foot plant on 13 acres of land in Romulus, Michigan. This division uses nutformers as primary equipment to manufacture special prevailing torque locknuts. Products include locknuts, connecting rod nuts, and other special nut products, in both metric and inch sizes. The plant has its own furnace for heat treating in-process parts.

The Traverse City Division manufactures special assemblies for automotive customers out of a 47,000 square foot plant.

The parts produced at the above divisions are sold principally to the automotive market. These parts are mass produced, and most are shipped directly to car assembly plants.

The Novex Tool Division occupies a 19,000 square foot leased facility in Brighton, Michigan. The lease expires in August 2015 and the rent will be month to month while a new lease is negotiated. The division manufactures perishable tooling, primarily for the cold heading industry. Approximately thirteen percent of its output is consumed by the Company's Big Rapids, Romulus and Traverse City Divisions.

The Company's corporate offices are located at 34846 Goddard Road, Romulus, Michigan, a western suburb of Detroit. The offices are part of the Romulus Division stated above.

The Company owns outright all of the above described buildings, land and production facilities except as specifically noted to the contrary. The Company utilizes all of the floor space of these structures. Present facilities are adequate to meet the needs of each respective division.

Statements of Operations

	Years Ended June 30		
	2015	**2014**	**2013**
Net sales	$ 63,982,677	$ 61,059,950	$ 57,192,654
Costs and expenses:			
Cost of products sold	58,849,694	56,634,947	53,040,626
Selling, general and administrative	3,673,010	3,511,549	3,314,217
Interest	681,019	674,532	832,126
Other income	(561,401)	(368,387)	(98,518)
	62,642,322	60,452,641	57,088,451
EARNINGS BEFORE INCOME TAXES	1,340,355	607,309	104,203
Income tax expense (benefit) — Note 4:			
Current income tax benefit	—	—	—
NET EARNINGS	$ 1,340,355	$ 607,309	$ 104,203
Average number of common shares outstanding	1,381,595	1,381,595	1,381,595
Net earnings per common share	$ 0.97	$ 0.44	$ 0.08

See accompanying notes.

Statements of Comprehensive Income (Loss)

	Years Ended June 30		
	2015	**2014**	**2013**
NET EARNINGS	$ 1,340,355	$ 607,309	$ 104,203
Other comprehensive income (loss)			
Pension and postretirement liability adjustment	(1,160,499)	(2,064,755)	6,467,954
COMPREHENSIVE INCOME (LOSS)	$ 179,856	$ (1,457,446)	$ 6,572,157

Balance Sheets

	June 30	
	2015	2014
Assets		
Current Assets		
Cash	$ 284,543	$ 214,980
Accounts receivable, net	10,903,004	9,995,561
Refundable state income taxes	—	119,763
Inventories:		
Finished products	2,803,514	2,371,552
In-process products	13,670,703	13,095,954
Raw materials and supplies	1,661,665	619,604
Total inventories	18,135,882	16,087,110
Prepaid expenses and other current assets	212,609	432,760
Assets held for sale	5,171	5,171
TOTAL CURRENT ASSETS	29,541,209	26,855,345
Other Assets		
Company owned life insurance	1,908,657	1,885,751
Other assets	169,067	121,090
	2,077,724	2,006,841
Property, Plant and Equipment — Notes 2 and 3		
Land	387,467	387,467
Buildings and improvements	11,831,704	11,699,756
Machinery and equipment	104,164,596	102,411,655
	116,383,767	114,498,878
Less accumulated depreciation	(94,577,967)	(95,268,448)
	21,805,800	19,230,430
	$ 53,424,733	$ 48,092,616

	June 30	
	2015	**2014**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 6,137,484	$ 6,138,685
Payroll and employee benefits	2,298,498	2,217,982
Taxes, other than income taxes	787,012	810,844
Other accrued liabilities	396,497	326,702
Current portion of long-term debt — Note 2	1,582,719	667,500
Current portion of postretirement benefits — Note 5	991,927	1,059,466
TOTAL CURRENT LIABILITIES	12,194,137	11,221,179
Long-Term Liabilities		
Long-term debt — Note 2	17,523,420	12,685,680
Employee benefits	769,778	758,365
Postretirement benefits — Note 5	12,683,677	12,825,173
Pension benefits — Note 5	9,113,672	9,619,287
Other liabilities — Note 9	368,926	391,665
	40,459,473	36,280,170
Stockholders' Equity — Note 8		
Common stock, $1 par value: authorized 2,000,000 shares; 1,381,595 shares outstanding in 2015 and in 2014	1,381,595	1,381,595
Additional capital	3,269,476	3,269,476
Retained earnings	17,206,653	15,866,298
Accumulated other comprehensive income (loss)	(21,086,601)	(19,926,102)
	771,123	591,267
	$53,424,733	$48,092,616

See accompanying notes.

Statements of Stockholders' Equity

Years ended June 30, 2015, 2014 and 2013

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JULY 1, 2012	$ 1,381,595	$ 3,269,476	$ 15,154,786	$ (24,329,301)	$ (4,523,444)
Net earnings for the year			104,203		104,203
Pension and postretirement liability adjustment				6,467,954	6,467,954
BALANCES AT JUNE 30, 2013	1,381,595	3,269,476	15,258,989	(17,861,347)	2,048,713
Net earnings for the year			607,309		607,309
Pension and postretirement liability adjustment				(2,064,755)	(2,064,755)
BALANCES AT JUNE 30, 2014	1,381,595	3,269,476	15,866,298	(19,926,102)	591,267
Net earnings for the year			1,340,355		1,340,355
Pension and postretirement liability adjustment				(1,160,499)	(1,160,499)
BALANCES AT JUNE 30, 2015	$ 1,381,595	$ 3,269,476	$ 17,206,653	$ (21,086,601)	$ 771,123

( ) Denotes deduction.
See accompanying notes.

Statements of Cash Flows

	Years Ended June 30		
	2015	2014	2013
OPERATING ACTIVITIES			
Net earnings	$ 1,340,355	$ 607,309	$ 104,203
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,676,820	3,701,851	4,101,692
Employee benefits	(1,863,736)	(1,544,290)	(1,648,184)
Gain on sale of equipment	(536,278)	(945,751)	(312,303)
Miscellaneous and other	(79,645)	(15,740)	10,831
Changes in operating assets and liabilities:			
Accounts receivable	(907,443)	(798,460)	413,527
Refundable income taxes	119,763	120,237	—
Inventories and prepaid expenses	(1,828,621)	(141,076)	(2,568,713)
Accounts payable and accrued expenses	111,933	733,131	(390,281)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	33,148	1,717,211	(289,228)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(6,270,781)	(4,203,759)	(2,600,256)
Proceeds from sale of equipment	586,538	982,800	325,000
Company owned life insurance	(22,907)	251,179	80,053
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,707,150)	(2,969,780)	(2,195,203)
FINANCING ACTIVITIES			
Additional borrowings (principal repayments) under bank credit agreement, net	2,182,268	9,118	2,051,573
Borrowings on term loans	4,464,844	2,016,662	1,018,891
Principal payments on term loan	(894,153)	(701,803)	(519,999)
Principal payments on capital leases	(9,394)	(9,218)	(9,045)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,743,565	1,314,759	2,541,420
INCREASE (DECREASE) IN CASH	69,563	62,190	56,989
Cash at beginning of year	214,980	152,790	95,801
CASH AT END OF YEAR	$ 284,543	$ 214,980	$ 152,790

See accompanying notes.

Notes to Financial Statements

Description of Business: Federal Screw Works was founded in 1917 and is a domestic manufacturer of industrial component parts, consisting of locknuts, bolts, piston pins, studs, bushings, shafts and other machined and/or ground metal parts, all of which constitute a single business segment. The Company's fiscal year end is June 30.

Note 1 — Significant Accounting Policies

Inventories: Inventories are stated at the lower of cost or market. Cost, determined by the last-in, first-out (LIFO) method, was used for certain raw material inventories, $1,130,000 and $177,000 at June 30, 2015 and 2014, respectively. The remaining inventories are costed using the first-in, first-out (FIFO) method. If inventories valued on LIFO had been valued at current cost, amounts reported at June 30 would have been increased by $275,000 and $517,000 in 2015 and 2014, respectively. In addition, net earnings under the FIFO method would have decreased by $242,000 and $117,000 for the years ended June 30, 2015 and 2014, respectively.

Property, Plant and Equipment: Property, plant and equipment is stated at cost, which includes the cost of interest which is capitalized during construction of significant additions. Provisions for depreciation are based upon the estimated useful lives of the respective assets and are computed by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable from undiscounted cash flows. If impaired, the assets are recorded at fair value as determined by appraisals or discounted cash flow calculations.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Company owned life insurance is presented in the balance sheets net of policy loans of $4,537,000 and $4,469,000 at June 30, 2015 and 2014, respectively.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates associated with collectability of receivables, inventory allowance for obsolescence, carrying value of property, plant and equipment, self-funded workers compensation liability, pension and postretirement benefits, environmental liability and valuation allowance on deferred tax assets are particularly susceptible to material changes in the near term.

Revenue Recognition: The Company recognizes revenue from product sales when goods are shipped and title has transferred to the customer.

Allowance for Uncollectible Accounts Receivable: Accounts receivable has been reduced by an allowance for amounts that may become uncollectible in the future. This estimated allowance ($50,000 at June 30, 2015 and 2014) is based primarily on management's evaluation of the financial condition of the customer and historical experience. Also, the Company monitors its accounts receivable and charges to expense an amount equal to its estimate of potential credit losses. The Company considers a number of factors in determining its estimates, including the length of time its trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation and the condition of the general economy and the industry as a whole. The use of different estimates could significantly affect the Company's results of operations for the period.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income and losses. Other comprehensive income (loss) includes pension and postretirement liability adjustments.

Income Taxes: The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a tax benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with the tax examination being presumed to occur. The amount recognized is the largest amount of the tax benefit greater than 50% likely of being realized on examination and for tax positions not meeting the more likely than not test, no tax benefit is recorded. As of June 30, 2015, and 2014, the Company does not have any material unrecognized tax benefits and accordingly has not recorded any interest or penalties related to unrecognized tax benefits. The Company files a federal income tax return and various state returns. These returns remain subject to examination by taxing authorities for all years after 2008.

Fair Value of Financial Instruments: At June 30, 2015 and 2014, the carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable, debt and investments approximate fair value due to their short duration and the variable rate nature of the company's debt.

Net Earnings (Loss) Per Common Share: Net earnings per common share is based on the weighted average number of common shares outstanding of 1,381,595 in 2015, 2014, and 2013.

Defined Benefit Pension Obligations: The Company accounts for its defined benefit pension and postretirement liabilities under FASB ASC 715, which requires defined benefit plan assets and obligations to be measured as of the date of the employer's fiscal year-end.

Deferred Financing Costs: Financing fees attributable to loan borrowing agreements are amortized to interest expense on a straight line basis over the life of the corresponding debt which approximates the effective interest method and are stated net of accumulated amortization of $247,427 at June 30, 2015 and $218,603 at June 30, 2014. Annual amortization expense over the next three years is as follows: 2016 through 2018 - $35,852.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 2, 2015, which is the date financial statements were available to be issued.

Note 2 – Long-Term Debt

Long-term debt at June 30 consists of the following:

	2015	2014
Notes payable to bank	$19,106,139	$13,353,180
Less current maturities	(1,582,719)	(667,500)
	$17,523,420	$12,685,680

On January 29, 2015 the Company amended and restated a $25,961,000 credit facility with a bank that consists of a $17,000,000 revolving loan, $5,561,000 term loan, and a $3,400,000 equipment line of credit with a maturity date of April 7, 2019.

Interest on the revolving loan balance of $11,642,000 at June 30, 2015 consisted of $10,000,000 at a rate of 3.19% (LIBOR rate plus 3.00%) and the balance of $1,642,000 at a rate of 3.75% (prime rate plus .50%). Interest on the revolving loan balance of $9,459,000 at June 30, 2014 consisted of $7,500,000 at a rate of 3.15% (LIBOR rate plus 3.00%) and the balance of $1,959,000 at a rate of 3.75% (prime rate plus .50%). Interest on the term loan balance of $5,190,000 at June 30, 2015 consisted of $5,097,000 at 3.44% (LIBOR rate plus 3.25%) and the balance of $93,000 at a rate of 4.00% (prime rate plus

.75%). Interest on the term loan balance of $3,894,000 at June 30, 2014 consisted of $3,837,000 at 3.40% (LIBOR rate plus 3.25%) and the balance of $57,000 at a rate of 4.00% (prime rate plus .75%). Interest on the equipment loan balance of $2,274,000 at June 30, 2015 consisted of $2,234,000 at 3.44% (LIBOR rate plus 3.25%) and the balance of $40,000 at a rate of 4.00% (prime rate plus .75%). The balance on the equipment loan at June 30, 2014 was zero. The Company also pays a commitment fee of .50% on the unused portion of the credit facility. Interest is payable monthly on the 1st of every month.

Advances under the line of credit are limited to approximately 85% of eligible accounts receivable plus the lesser of 65% of eligible inventory or $11,000,000 including a further sublimit of $6,500,000 of eligible work in process inventory. Included in the maximum borrowings of the revolving note payable is a letter of credit totaling $300,000 at June 30, 2015. The Company had available $5,058,000 to borrow under the revolving loan as of June 30, 2015. The term loan is due in monthly installments of $92,683 and the equipment loan is due in monthly installments of $39,210.

The Company is in compliance with the financial covenants of the credit facility.

Interest paid by the Company during fiscal 2015, fiscal 2014, and fiscal 2013 aggregated $545,000, $527,000, and $617,000, respectively. Interest capitalized into property, plant and equipment in fiscal 2015 and 2014, was $128,000 and $39,000, respectively.

The scheduled repayment of the term loan and equipment loans are $1,582,719 per year for each of the next three years and $2,716,284 is due in the fourth year.

Note 3 - Leases and Other Commitments

At June 30, 2015, future minimum lease payments for various non-cancelable operating leases with initial terms of one year or more are as follows:

Year ending June 30	Operating Leases
2016	$ 283,000
2017	153,000
2018	96,000
2019	72,000
2020	59,000
Thereafter	6,000
Total future minimum lease payments	$ 669,000

Total rent expense was $593,000 in fiscal 2015, $680,000 in fiscal 2014, and $685,000 in fiscal 2013.

Costs committed to complete the expansion of existing plant facilities and the purchase of machinery and equipment approximated $479,000 at June 30, 2015.

Note 4 - Income Taxes

A reconciliation of the federal income tax expense to the amount computed by applying the applicable statutory income tax rate (34%) to loss before income taxes follows:

	2015	2014	2013
Computed amount	$ 456,000	$ 206,000	$ 35,000
Life insurance policies	(18,000)	(18,000)	(16,000)
State income tax benefit, net of federal expense	—	—	—
Other	63,000	35,000	(9,000)
Change in income tax valuation allowance	(501,000)	(223,000)	(10,000)
Federal income tax expense	$ —	$ —	$ —

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. At June 30, 2015 and 2014, a valuation allowance of $10,380,000 and $10,881,000 was recorded, respectively. Significant components of the Company's deferred tax liabilities and assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
Deferred tax liabilities:		
Accelerated tax depreciation	$ 1,535,000	$ 1,950,000
Other	123,000	186,000
Total deferred tax liabilities	$ 1,658,000	$ 2,136,000
Deferred tax assets:		
Employee benefits	$ 2,029,000	$ 2,663,000
Net operating loss and tax credit carryforwards	9,660,000	9,898,000
Inventories	89,000	70,000
Other	260,000	386,000
Total deferred tax assets	12,038,000	13,017,000
Valuation allowance	(10,380,000)	(10,881,000)
Net deferred tax (assets) liabilities	$ —	$ —

Income taxes paid (received) by the Company during 2015, 2014, and 2013 totaled $-0-, $(4,000) and $(4,000), respectively. State income taxes paid during 2015, 2014, and 2013 are not material.

At June 30, 2015, and June 30, 2014, the Company had a federal tax loss carryforward of approximately $28,301,000 and $28,704,000, respectively, available to offset future taxable income through June 30, 2032. Net operating losses begin to expire in 2025. In addition, the Company had alternative minimum tax credit carryforwards of approximately $13,000 at June 30, 2015, and June 30, 2014, respectively, available to reduce future regular federal income taxes over an indefinite carryforward period.

Note 5 - Employee Benefit Plans

The Company sponsors three defined benefit pension plans. Benefits under two of the plans are based on negotiated rates times years of service. Under the remaining plan, benefits are based on compensation during the years immediately preceding retirement and years of service. It is the Company's policy to make contributions to these plans sufficient to meet minimum funding requirements of the applicable laws and regulations, plus such additional amounts, if any, as the Company's actuarial consultants advise to be appropriate.

The Company has frozen all benefit accruals under the Salaried Pension Plan effective November 30, 2006. In addition, the Company negotiated a pension freeze on one of the remaining plans effective June 30, 2008.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Some of the Company's hourly employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The benefits are provided through certain insurance companies. Effective June 30, 2009, the Company terminated the postretirement health benefit for all current and future salaried retirees.

The Company uses a measurement date of June 30 for purposes of valuing its obligations related to pension benefits and postretirement benefits. The following tables set forth the plans' funded status at the 2015 and 2014 measurement dates:

Changes in benefit obligation are:

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Benefit obligation at beginning of year	$ 41,623,000	$ 38,476,000	$ 13,885,000	$ 13,345,000
Service cost	—	—	—	—
Interest cost	1,784,000	1,907,000	536,000	578,000
Amendments	—	—	—	—
Actuarial (gain)/loss	663,000	3,114,000	228,000	1,114,000
Benefits paid	(2,036,000)	(1,874,000)	(973,000)	(1,152,000)
Benefit obligation at end of year	$ 42,034,000	$ 41,623,000	$ 13,676,000	$ 13,885,000

Changes in plan assets are:

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Fair value of assets at beginning of year	$ 32,004,000	$ 28,860,000	$ —	$ —
Actual return on assets	1,326,000	3,639,000	—	—
Employer contributions	1,626,000	1,379,000	—	—
Benefits paid	(2,036,000)	(1,874,000)	—	—
Fair value of assets at end of year	$ 32,920,000	$ 32,004,000	$ —	$ —
Funded status at measurement date (underfunded)	$ (9,114,000)	$ (9,619,000)	$ (13,676,000)	$ (13,885,000)

Amounts recognized in accumulated other comprehensive income (loss):

	Pension Benefits		Postretirement Benefits	
	2015	**2014**	**2015**	**2014**
Net loss (gain)	$ 17,752,000	$ 16,686,000	$ 3,915,000	$ 3,903,000
Prior service cost (credit)	—	—	(581,000)	(663,000)
Net amounts recognized	$ 17,752,000	$ 16,686,000	$ 3,334,000	$ 3,240,000

The pension benefit net loss is shown net of taxes in the amount of $1,826,000 for the years ended June 30, 2015 and 2014.

The components of net periodic benefit cost are as follows:

	Pension Benefits			Postretirement Benefits		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Service cost	$ —	$ —	$ —	$ 2,000	$ 2,000	$ 3,000
Interest cost	1,784,000	1,907,000	1,777,000	534,000	575,000	623,000
Expected return on assets	(2,388,000)	(2,140,000)	(2,037,000)	—	—	—
Amortization of prior service cost	—	—	—	(83,000)	(82,000)	(82,000)
Amortization of unrecognized net (gain)/loss	658,000	606,000	775,000	217,000	141,000	272,000
Net periodic benefit cost	$ 54,000	$ 373,000	$ 515,000	$ 670,000	$ 636,000	$ 816,000

The following summarizes target asset allocations for the Company's defined benefit plan assets as of June 30, 2015 and major asset categories as of June 30, 2015 and June 30, 2014:

	Target Asset Allocations	**Percentage of Plan Assets**	
	June 30, 2015	**2015**	**2014**
Equity securities	60.0%	63.9%	61.2%
Fixed income instruments	10.0%	9.7%	9.8%
Cash equivalents	30.0%	26.4%	29.0%
	100.0%	100.0%	100.0%

The Company's defined benefit plan assets are managed by institutional investment managers. Target investment allocation rates have been developed for the pension plans in order to achieve the overall investment objective of an annual rate of return of 7.5% or more. The target allocations for plan assets are shown in the table above. The objectives of the target allocations are to maintain investment portfolios that diversify risk though prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. The Company achieves the target asset allocations by investing in equity securities, common stock, money market accounts, U.S. treasury and agency securities, corporate bonds, collective trusts, investment contracts and mutual funds with appropriate underlying assets that are consistent with the target allocations. The plans have an allocation range for each asset class to adjust for investment opportunities and changing market conditions. Currently, management has not identified any concentration in the investments to disclose. The weighted average expected long term rate of return is estimated based on current trends in the plan assets as well as projected future rates of returns on those assets.

Fair Value Measurements: Generally accepted accounting principles (GAAP) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Company's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in primarily active markets that the entity has the ability to access as of the measurement date.

Level 2 inputs: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 inputs: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value of Plan Assets: The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Equity securities and common stock: The fair values of equity securities and common stock investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Mutual funds: The fair values of equity mutual fund investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments measured at fair value are summarized below:

	Fair Value Measurements at June 30, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:			
Equity securities and common stock	$ 4,954,000	$ —	$ —
Mutual funds	27,966,000	—	—

	Fair Value Measurements at June 30, 2014 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:			
Equity securities and common stock	$ 4,412,000	$ —	$ —
Mutual funds	27,592,000	—	—

Plan assets of one of the plans include 15,156 shares of Federal Screw Works common stock which had a market value of $64,413 at June 30, 2015 and $38,648 at June 30, 2014.

The Company's contributions to the defined benefit plans in fiscal 2016 are estimated to be $1,021,000.

The assumptions used in the calculation of amounts recognized for the Company's benefit plans are as follows:

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate – benefit obligation	4.75%	4.50%	4.00%	4.00%
Discount rate – benefit cost	4.50%	5.25%	4.00%	4.50%
Expected return on plan assets	7.5%	7.5%	—	—
Rate of salary increase	NA	NA	—	—

The net periodic pension cost for fiscal 2015 and 2014 was based on a long-term asset rate of return of 7.50%. This rate is based upon management's and the investment advisor's estimate of future long-term rates of return on similar assets and is consistent with historical returns on assets. Using the plans' current mix of assets and adjusting for current market trends for this broadly diversified portfolio, an expected rate of return of 7.50% is justified. The estimated net loss and prior service credit that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next year are $858,000 and $82,000 respectively.

The future benefits to be paid are as follows:

	Pension Benefits	Postretirement Benefits
Fiscal 2016	$ 2,166,000	$ 991,000
Fiscal 2017	2,329,000	1,019,000
Fiscal 2018	2,436,000	1,038,000
Fiscal 2019	2,545,000	1,049,000
Fiscal 2020	2,633,000	1,047,000
Fiscal 2021 through 2025	14,022,000	4,973,000

Note 6 – Industry Information

Approximately 97% of the Company's net sales in fiscal 2015, 2014 and 2013 were made either directly or indirectly to automotive companies.

The Company's customer base is primarily located throughout the United States and Canada. Three customers accounted for approximately 45% of net sales in 2015, 50% in 2014, and 50% in 2013; and 45% of accounts receivable as of June 30, 2015 and 50% as of June 30, 2014 respectively.

Notes to Financial Statements
Continued

Note 7 – Contingencies

The Company is involved in various legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that their outcome will not have a significant effect on the Company's financial statements.

The Company is self-insured for workers' compensation claims up to $450,000 per claim. The Company has excess liability insurance with an outside carrier to minimize its risk to catastrophic claims. Losses are accrued based on an estimate of the ultimate liability for claims incurred, using certain assumptions based on the Company's experience under the program including the nature of outstanding claims, estimated costs to settle existing claims and loss history. At June 30, 2015 and 2014, the Company had an accrued self funded workers' compensation liability of approximately $152,000 and $204,000 respectively, included in payroll and employee benefits. Workers' compensation expense was $116,000 in fiscal 2015, $76,000 in fiscal 2014, and $14,000 in fiscal 2013.

Note 8 – Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	2015	2014	2013
Net income	$ 1,340,355	$ 607,309	$ 104,203
Change in pension and postretirement liabilities	(1,160,499)	(2,064,755)	6,467,954
Total comprehensive income (loss)	$ 179,856	$ (1,457,446)	$ 6,572,157

The changes in pension and postretirement liabilities in fiscal 2015 and 2014 were primarily the result of changes in the discount rate (note 5, page 17) and updating mortality assumptions. Future decreases in the discount rate will have an effect to increase the value of the pension obligation, while future increases in the discount rate will have an effect to decrease the value of the pension obligation.

The components of accumulated other comprehensive income (loss) as of June 30, 2015 and 2014 are as follows:

	2015	2014
Unrecognized loss and prior service costs in pensions	$(17,752,165)	$(16,685,634)
Unrecognized loss and prior service costs in postretirement benefits	(3,334,436)	(3,240,468)
Accumulated other comprehensive income (loss)	$(21,086,601)	$(19,926,102)

The changes in accumulated other comprehensive income (loss) by component for the year ended June 30, 2015 are as follows:

	Pension Benefits	Postretirement Benefits	Total
Balance at July 1, 2013	$ (15,676,144)	$ (2,185,203)	$ (17,861,347)
Changes in actuarial assumptions	(1,615,865)	(1,113,448)	(2,729,313)
Amounts reclassified from AOCI	606,375	58,183	664,558
Net OCI for the year	(1,009,490)	(1,055,265)	(2,064,755)
Balance at June 30, 2014	(16,685,634)	(3,240,468)	(19,926,102)
Changes in actuarial assumptions	(1,724,244)	(228,330)	(1,952,574)
Amounts reclassified from AOCI	657,713	134,362	792,075
Net OCI for the year	(1,066,531)	(93,968)	(1,160,499)
Balance at June 30, 2015	$ (17,752,165)	$ (3,334,436)	$ (21,086,601)

The pension benefits in accumulated other comprehensive income (loss) balances are shown net of taxes.

Reclassifications out of accumulated other comprehensive income (loss) for the year ended June 30, 2015 are as follows:

Details about accumulated other comprehensive income (loss) components	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Amortization				
Actuarial (losses)	$ (657,713)	$ (606,375)	$ (216,835)	$ (140,656)
Prior service costs	—	—	82,473	82,473
Total before tax	(657,713)	(606,375)	(134,362)	(58,183)
Tax expense	—	—	—	—
Net of tax	$ (657,713)	$ (606,375)	$ (134,362)	$ (58,183)

These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 5 - Pensions for additional details.)

Note 9 – Other Liabilities

The Company along with several other manufacturing companies has been designated by the federal Environmental Protection Agency ("EPA") as a Potentially Responsible Party ("PRP") with respect to two dump sites. The primary PRP who had the greatest share of liability and was performing the remedial activities at both sites filed bankruptcy. The Company had previously resolved its liability with the primary PRP in 1988. In accordance with Consent Decrees with the EPA, the remaining PRPs are liable for continuing the remedial activities. At June 30, 2015 and 2014, the Company had accrued $424,000 and $447,000 respectively. Both amounts include $55,000 classified as current in other accrued liabilities.

Report of Independent Auditors

Board of Directors
Federal Screw Works
Romulus, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Screw Works, which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

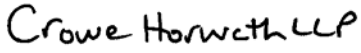
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Screw Works as of June 30, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

Grand Rapids, Michigan
September 2, 2015

Five Year Summary

Five Years Ended June 30	**2015**	**2014**	**2013**	**2012**	**2011**
Operations (in thousands)					
Net sales	$ 63,983	$ 61,060	$ 57,193	$ 58,647	$ 55,836
Earnings (loss) before income taxes	1,340	607	104	(682)	(2,378)
Income taxes (benefit)	—	—	—	(120)	(152)
Net earnings (loss)	1,340	607	104	(562)	(2,226)
Depreciation and amortization	3,677	3,702	4,102	4,467	4,826
Capital expenditures	6,271	4,204	2,600	974	656
Cash dividends declared	—	—	—	—	—
Per share data					
Net earnings (loss)	$ 0.97	$ 0.44	$ 0.08	$ (0.41)	$ (1.61)
Cash dividends declared	—	—	—	—	—
Book value	0.56	0.43	1.48	(3.27)	3.50
Market price range					
High	4.40	4.40	4.75	6.50	6.49
Low	2.55	2.19	2.55	2.65	2.55
Return data					
Net earnings (loss) on net sales	2.0%	1.0%	0.2%	(0.9)%	(4.0)%
Net earnings (loss) on stockholders' equity	173.8%	102.7%	5.1%	(12.4)%	(46.0)%
Financial position at June 30 (in thousands)					
Total assets	$ 53,425	$ 48,093	$ 46,982	$ 46,375	$ 46,903
Working capital (net current assets)	17,347	15,634	15,396	12,808	10,776
Other assets	2,078	2,007	2,319	2,482	2,551
Property, plant and equipment (net)	21,806	19,230	18,689	20,131	23,554
Total assets less current liabilities	41,231	36,871	36,404	35,421	36,881
Less:					
Long-term debt	17,523	12,686	11,315	8,958	8,829
Employee benefits	770	758	780	818	743
Postretirement benefits	12,684	12,825	12,228	14,017	12,791
Pension liabilities	9,114	9,619	9,616	15,711	9,232
Other liabilities	369	392	416	440	446
Stockholders' equity (net assets)	$ 771	$ 591	$ 2,049	$ (4,523)	$ 4,840
Other					
Number of employees	201	201	184	183	181
Average shares outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595

Federal Screw Works
34846 Goddard Road
Romulus, Michigan 48174