KREISLER
MANUFACTURING CORPORATION

2015

Consolidated Financial Statements
Year-ended June 30, 2015

Rule 15C2-11
Information

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Rule 15C2-11 Information

1. The exact name of the Company and its predecessor (if any) is

   Kreisler Manufacturing Corporation

2. The address of its principal executive offices is

   180 Van Riper Avenue
   Elmwood Park, New Jersey 07407

3. The state of incorporation of the Company is

   Delaware

4. The exact title and class of the security to be listed is

   Common Stock

5. The par or stated value of the security is

   $0.125

6. The number of shares outstanding as of the end of the Company's most recent fiscal year is

   1,888,448

7. The name and address of the transfer agent is

   American Stock Transfer and Trust Company
   6201 15th Avenue
   Brooklyn, NY 11219

8. The nature of the Company's business is described below:

   Kreisler Manufacturing Corporation and its wholly owned subsidiary, Kreisler Industrial Corporation (Kreisler Industrial) (collectively, Kreisler or we, us, our or the Company), manufacture precision metal components and assemblies primarily for use in military and commercial aircraft engines and in industrial gas turbines.

9. The nature of products or services offered:

   Our products include tube assemblies of multiple sizes and configurations as well as machined and formed components and are typically manufactured to the designs and specifications of the particular customer. Our products may be made of various materials, including titanium, nickel and stainless steel. These high-quality engineered tube assemblies transfer fuel, oil, water, air and hydraulic fluids. Orders are received through competitive proposals, which are made in response to request for bids from contractors who supply engine or engine components to various branches of the United States Department of Defense or to commercial businesses. Kreisler Industrial's order backlog as of June 30, 2015 was $59 million.

(Continued)

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Rule 15C2-11 Information

10. The nature and extent of the Company's facilities are described below:

Our principal executive office is located at Kreisler Industrial's manufacturing facility in Elmwood Park, New Jersey. Our New Jersey location consists of a 52,000 square foot leased facility of which over 95% is committed to the operational requirements of Kreisler Industrial. The facility is approximately 60 years old and the current term under the existing lease agreement will expire on September 30, 2018.

In October 2014, an additional facility was leased in Elmwood Park, New Jersey. The lease for this 22,500 square foot facility will expire on November 22, 2018.

11. The names of the chief executive officer and members of the board of directors are as follows:

Director .....Michael D. Stern

Director .....John W. Poling

Director .....Edward A. Stern

Director .....Joseph P. Daly

Michael D. Stern is also Co-President, Chief Executive Officer, and Treasurer of the Company.

Edward A. Stern is also Co-President, Chief Corporate Officer, and Secretary of the Company.

12. The Company's most recent balance sheet and profit and loss and retained earnings statements:

The most recent financial information for the year ended June 30, 2015 is attached hereto as Exhibit A.

13. Similar financial information for such part of the two preceding fiscal years as the Company or its predecessor has been in existence;

The most recent financial information for the last two fiscal years is attached hereto as Exhibit A.

14. Whether the broker or dealer or any associated person is affiliated, directly or indirectly with the Company:

No.

15. Whether the quotation is being published or submitted on behalf of any other broker or dealer, and, if so, the name of such broker or dealer:

N/A

16. Whether the quotation is being submitted or published directly or indirectly on behalf of the Company, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10% of the outstanding units or shares of any equity security of the Company, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person.

N/A

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

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KPMG LLP
4 Becker Farm Road
Roseland, NJ 07068

Independent Auditors' Report

The Board of Directors
Kreisler Manufacturing Corporation:

We have audited the accompanying consolidated financial statements of Kreisler Manufacturing Corporation and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kreisler Manufacturing Corporation and Subsidiary as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Roseland, New Jersey
September 3, 2015

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	$ 5,612,460	$ 7,384,208
Short-term investments	—	3,274,574
Accounts receivable – trade (net of $20,000 allowance for uncollectible accounts at June 30, 2015 and June 30, 2014)	2,140,810	2,709,360
Inventories, net	4,787,135	4,889,453
Other current assets	197,383	180,609
Prepaid income taxes	169,884	85,508
Total current assets	12,907,672	18,523,712
Property and equipment, net	2,188,056	796,465
Deposits on property and equipment	—	262,301
Deferred tax assets, net	106,231	228,620
Total noncurrent assets	2,294,287	1,287,386
TOTAL ASSETS	$ 15,201,959	$ 19,811,098
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable – trade	$ 2,004,987	$ 2,650,721
Accrued expenses	1,277,714	1,339,806
Line of credit	—	250,000
Loan payable	98,454	—
Income taxes payable	158,000	—
Deferred tax liabilities, net	28,833	20,731
Total current liabilities	3,567,988	4,261,258
Loan payable, net of current portion	525,606	—
Accrued environmental costs	690,277	534,180
Total long-term liabilities	1,215,883	534,180
Stockholders' equity:		
Common stock, $0.125 par value; 6,000,000 shares authorized; 1,888,448 and 1,867,948 shares issued and outstanding at June 30, 2015 and June 30, 2014, respectively	236,056	233,494
Additional paid-in capital	1,551,414	1,446,973
Retained earnings	8,630,618	13,335,193
Total stockholders' equity	10,418,088	15,015,660
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,201,959	$ 19,811,098

See accompanying notes to consolidated financial statements.

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

	2015	2014
Net sales	$ 30,489,646	$ 30,607,834
Cost of goods sold	25,896,995	24,289,267
Selling, general, and administrative expenses	3,055,088	2,353,061
Total costs and expenses	28,952,083	26,642,328
Income from operations	1,537,563	3,965,506
Interest and other income	3,474	12,103
Interest and other expenses	(154)	(31,889)
Realized gain on disposition of assets	3,001	64,534
Income before income tax expense	1,543,884	4,010,254
Income tax expense	(586,115)	(1,286,810)
Net income	$ 957,769	$ 2,723,444
Net income per common share:		
Net income – basic	$ 0.51	$ 1.46
Net income – diluted	$ 0.50	$ 1.44
Weighted average common shares – basic	1,878,862	1,867,948
Weighted average common shares – diluted	1,903,796	1,888,240

See accompanying notes to consolidated financial statements.

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Years ended June 30, 2015 and 2014

	Common stock outstanding		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amounts			
Balances, June 30, 2013	1,867,948	$ 233,494	$ 1,446,973	$ 11,545,723	$ 13,226,190
Net income	—	—	—	2,723,444	2,723,444
Cash dividend	—	—	—	(933,974)	(933,974)
Balances, June 30, 2014	1,867,948	$ 233,494	$ 1,446,973	$ 13,335,193	$ 15,015,660
Net income	—	—	—	957,769	957,769
Cash dividend	—	—	—	(5,662,344)	(5,662,344)
Exercise of stock options	20,500	2,562	93,547	—	96,109
Stock-based compensation	—	—	10,894	—	10,894
Balances, June 30, 2015	1,888,448	$ 236,056	$ 1,551,414	$ 8,630,618	$ 10,418,088

See accompanying notes to consolidated financial statements.

KREISLER MANUFACTURING CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 957,769	$ 2,723,444
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	478,149	264,058
Realized gain on disposition of assets	(3,001)	(64,134)
Deferred tax expense	130,491	81,399
Stock-based compensation	10,894	—
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable – trade, net	568,550	572,268
Inventories, net	102,318	(1,308,954)
Other current assets	(16,774)	(29,692)
Prepaid income taxes	(84,376)	(85,508)
Accounts payable – trade	(645,734)	782,788
Accrued expenses	(62,092)	152,258
Income taxes payable	158,000	(344,974)
Accrued environmental costs	156,097	51,850
Net cash provided by operating activities	1,750,291	2,794,803
Cash flows from investing activities:		
Purchases of property and equipment	(1,607,439)	(420,660)
Deposit of property and equipment	—	(29,371)
Proceeds from sale of property and equipment	3,001	65,154
Net redemption of short-term investments	3,274,574	732,119
Net cash provided by investing activities	1,670,136	347,242
Cash flows from financing activities:		
(Repayments of) proceeds from line of credit	(250,000)	250,000
Cash dividend paid	(5,662,344)	(933,974)
Proceeds from borrowings	648,100	—
Repayment of borrowings	(24,040)	—
Proceeds from exercise of stock options	96,109	—
Net cash used in financing activities	(5,192,175)	(683,974)
Increase (decrease) in cash and cash equivalents	(1,771,748)	2,458,071
Cash and cash equivalents – beginning of year	7,384,208	4,926,137
Cash and cash equivalents – end of year	$ 5,612,460	$ 7,384,208
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 382,000	$ 1,635,894
Interest	$ 17,654	$ 11,889
Supplemental disclosure of noncash investing and financing activities:		
Deposits on property and equipment transferred to property and equipment	$ 262,301	$ 147,233
Deposits on property and equipment included in accounts payable accrued expenses	$ —	$ 232,930

See accompanying notes to consolidated financial statements.

A. Operations and Summary of Significant Accounting Policies

Operations

Kreisler Manufacturing Corporation and its wholly owned subsidiary, Kreisler Industrial Corporation (Kreisler Industrial) (collectively, Kreisler or we, us, our or the Company), manufacture precision metal components and assemblies at a facilities located in Elmwood Park, New Jersey. These components are primarily used in military and commercial aircraft engines and in industrial gas turbine engines. These products include tube assemblies of multiple sizes and configurations as well as machined components.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; valuation of deferred tax assets, fixed assets, inventory, and share-based compensation; and reserves for income tax uncertainties and other contingencies.

Principles of Consolidation

The consolidated financial statements include the accounts of Kreisler Manufacturing Corporation and its wholly owned subsidiary Kreisler Industrial. All intercompany transactions and accounts have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as detailed in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) and are presented in U.S. Dollars.

Revenue Recognition

Revenue from the sale of products is recognized at the time title and the risks and rewards of ownership pass to the customer. This is typically when the products are shipped per the customers' instructions, the sales price is fixed and determinable, and collections are reasonably assured. In those instances in which customer quality and product acceptance are performed at the customer's location, we have a high degree of certainty, based on historical performance, that the product will be accepted by the customer, and therefore revenue is recognized prior to formal client acceptance. Our manufacturing cycle time is typically between two and four weeks.

Cash Equivalents

All investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash equivalents were $1,517,886 and $1,562,895 at June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, and at various times within those years, balances of cash equivalents at financial institutions have exceeded the federally insured limit (see note B). We have not experienced any losses in such accounts and believe we are not subject to any significant credit risk on cash equivalents.

(Continued)

Accounts Receivable – Trade

Accounts receivable – trade represents uncollateralized customer obligations due under normal trade terms generally requiring payment within 30–90 days from the invoice date. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

Accounts receivable – trade is stated at the amount we expect to collect from outstanding balances. The carrying amounts of accounts receivable are reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. We review all accounts receivable balances that extend beyond the due date and estimate the portion, if any, of the balance that will not be collected. We provide for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on our assessment of the current status of individual accounts. Balances that are still outstanding after we have used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable – trade.

Accounts receivable – trade is presented net of the allowance for estimated uncollectible accounts of $20,000 at June 30, 2015 and 2014. We may adjust the allowance, either up or down, as necessary to adjust for estimated uncollectible accounts.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Asset and related accumulated depreciation amounts are relieved from the accounts for retirements or dispositions. Depreciation on machinery and equipment is computed using the double-declining balance method. Amortization for software and leasehold improvements is computed using the straight-line method. Estimated useful lives of three to ten years are used for machinery and equipment while leasehold improvements are amortized over the shorter of either their economic useful lives or the remaining lease term.

Long-Lived Assets

In accordance with ASC 360-10, *Impairment or Disposal of Long-Lived Assets*, we review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We assess the recoverability of the cost of the asset based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. During the years ended June 30, 2015 and 2014, there were no long-lived assets impaired.

Stock-Based Compensation

We follow ASC 718, *Compensation – Stock Compensation*, which requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements straight-line over the vesting period with the cost measured based on the estimated fair value of the equity or liability instruments issued. All options granted prior to June 30, 2014 are fully vested. Options granted during the year ending June 30, 2015 vest over a three year period. Based on stock options granted during fiscal 2015 and outstanding at June 30, 2015, we recognized compensation expense of approximately $11,000. The

estimated future additional compensation expense for the straight-line vesting of all stock options granted through June 30, 2015 is as follows:

Year ending June 30:		
2016	$	19,112
2017		19,112
2018		8,218
Total	$	46,442

Inventories, Net

Inventories are stated at the lower-of-cost-or-market. Raw materials cost is determined on a first-in, first-out basis. Work in process and finished goods are determined on an average cost basis which is not materially different from a first-in, first-out basis.

We periodically evaluate inventory to determine the likely future usage of items in inventory. As a result, we will typically record a charge against inventory that has historical limited usage. We also make judgments as to future demand requirements based upon customer orders in backlog or the propensity of a customer to order a component from us. If such future demand requirements are unlikely, we will record a charge to write down the inventory to the net realizable value. The recorded inventory charges for fiscal years 2015 and 2014 totaled approximately $48,000 and $83,000, respectively.

Income Taxes

We comply with ASC 740, *Income Taxes*, which requires an asset and liability approach to financial reporting of income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

The Company recognizes uncertain tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

The Company files an income tax return in the U.S. federal jurisdiction, and income tax returns in various U.S. states and foreign jurisdictions. We are no longer subject to income tax examinations by major taxing authorities for tax years before July 1, 2011.

The Company may be subject to potential examination by U.S. federal, U.S. states or foreign jurisdiction authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with

U.S. federal, U.S. state and foreign tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

Net Income Per Common Share

We comply with ASC 260, *Earnings Per Share*, which requires dual presentation of basic and diluted income per common share for all periods presented. Basic income per common share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in our income. The difference between the number of shares used to compute basic income per common share and diluted income per common share relates to additional shares to be issued upon the assumed exercise of stock options, net of shares hypothetically repurchased at the average market price with the proceeds of exercise.

Fair Value of Financial Instruments

We comply with ASC 820, *Fair Value Measurement*, for our financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and nonfinancial assets and liabilities that are re-measured and reported at fair value at least annually. We have elected to defer implementation of ASC 820 as it relates to our nonfinancial assets and nonfinancial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until July 1, 2015. The impact of implementing this guidance is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Fair Value – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs are to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

> *Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments are not applied to Level 1 investments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these investments does not entail a significant degree of judgment.
>
> *Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified to a lower level within the fair value hierarchy.

Fair Value – Valuation Techniques and Inputs

The Company's short-term investments consist of certificates of deposit and money market mutual funds that are valued at the closing price reported on the active market on which the individual securities are traded and are therefore Level 1.

Research and Development Costs

In accordance with ASC 730, *Research and Development*, the Company accounts for research and development expenditures, including payments to collaborative research partners, as research and development expenses. Accordingly, all research and development costs are charged to expense as incurred.

Reclassification

Certain 2014 amounts have been reclassified for consistency with the 2015 presentation. These reclassifications had no effect on the reported results.

Recently Issued Accounting Pronouncements

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers in May 2014. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company will implement the provisions of ASU 2014-09 as of July 1, 2018. The Company has not yet determined the impact, if any, of the new standard on its current policies for revenue recognition.

B. Concentrations of Credit Risk

We maintain cash balances at several financial institutions. Accounts at each domestic institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 or are provided with up to $500,000 in protection by the Securities Investor Protection Corporation (SIPC) should a brokerage firm close due to bankruptcy or other financial difficulties and customer assets are missing. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash and cash equivalents. The brokerage accounts were closed in December 2014.

C. Fair Value Measurements

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy as described in the Company's significant accounting policies in note A. The following table presents information about the Company's assets measured at fair value as of June 30, 2015 and 2014:

	June 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets (at fair value):				
Short-term investments:				
Cash equivalents	$ 1,517,886	$ —	$ —	$ 1,517,886
	$ 1,517,886	$ —	$ —	$ 1,517,886

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets (at fair value):				
Short-term investments:				
Certificates of deposit	$ 1,900,976	$ —	$ —	$ 1,900,976
Money market mutual funds	1,373,598	—	—	1,373,598
Cash equivalents	1,562,895	—	—	1,562,895
	$ 4,837,469	$ —	$ —	$ 4,837,469

D. Inventories, Net

Inventories consist of the following at June 30, 2015 and 2014:

	2015	2014
Raw materials	$ 1,759,875	$ 1,928,269
Work-in-process	1,862,665	1,726,325
Finished goods	1,164,595	1,234,859
	$ 4,787,135	$ 4,889,453

E. Property and Equipment, Net

Property and equipment, net consists of the following at June 30, 2015 and 2014:

	2015	2014
Machinery and equipment	$ 8,586,379	$ 7,306,297
Leasehold improvements	531,037	434,561
Construction in progress	479,067	—
	9,596,483	7,740,858
Less accumulated depreciation and amortization	(7,408,427)	(6,944,393)
	$ 2,188,056	$ 796,465

At June 30, 2015, the Company had Construction in Progress totaling $479,067 for machinery and equipment.

Depreciation and amortization expense for property and equipment was $478,149 and $264,058 for the years ended June 30, 2015 and 2014, respectively.

F. Deposits on Property and Equipment

At June 30, 2015 and 2014, the Company had deposits totaling $0 and $262,301, respectively, for machinery and equipment. In June 2014, the Company entered into an agreement to purchase equipment for $638,000, for which a deposit was made in the amount of $159,500. The equipment was paid in full in February 2015.

(Continued)

G. Income Taxes

The components of income tax expense from operations as reflected in the consolidated statements of operations for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Current tax expense:		
Federal	$ 270,063	$ 1,138,368
State	185,561	67,043
Total current tax expense	455,624	1,205,411
Deferred tax expense:		
Federal	125,228	75,309
State	5,263	6,090
Total deferred tax expense	130,491	81,399
Income tax expense	$ 586,115	$ 1,286,810

The tax-effected components of deferred income tax assets and liabilities consisted of the following at June 30, 2015 and 2014:

	2015	2014
Accrued environmental costs	$ 241,597	$ 186,963
State net operating loss carryforwards	5,729	6,404
Stock-based compensation	83,809	142,366
Capital loss carryforward	1,530,236	1,530,236
Other items, net	155,922	86,000
Gross deferred tax assets	2,017,293	1,951,969
Valuation allowance	(1,535,965)	(1,536,640)
Deferred tax assets	481,328	415,329
Basis difference in property and equipment	(357,229)	(168,410)
Other items, net	(46,701)	(39,030)
Deferred tax liabilities	(403,930)	(207,440)
Net deferred tax asset	$ 77,398	$ 207,889

	2015	2014
Net deferred tax asset consists of:		
Current deferred tax liability, net	$ (28,833)	$ (20,731)
Noncurrent deferred tax asset, net	106,231	228,620
Net deferred tax asset	$ 77,398	$ 207,889

(Continued)

As of June 30, 2015, we had approximately $143,000 of state net operating loss carryforwards from continuing operations and a capital loss carryforward generated from the sale of the discontinued foreign subsidiary in 2012. The state net operating loss carryforwards begin to expire in 2022 and the capital loss carryforward will expire in 2017.

A valuation allowance has been established to reduce the deferred tax assets to an amount that is more-likely than-not to be realized. The valuation allowance is based on the uncertainty of realization of the state net operating loss carryforwards and the capital loss carryforward. The ability of the Company to utilize this capital loss is subject to limitations under the Internal Revenue Code. A corporation may use capital losses to offset only capital gains and not ordinary income.

The following is a reconciliation of income taxes at the Federal statutory rate to the provision for income taxes from operations:

	2015	2014
Federal tax computed at statutory rate of 34%	$ 524,921	$ 1,363,486
State taxes, net of Federal benefit	23,453	50,338
Domestic production deduction	(26,189)	(115,172)
R&D credit	(18,168)	(16,686)
Provision to return true-up	(24,976)	5,003
ASC740-10 Reserve, net of Federal benefit	104,280	—
Other items, net	2,794	(159)
Income tax expense	$ 586,115	$ 1,286,810

At June 30, 2015 the Company had unrecognized tax benefits of $158,000 (including interest) that if recognized, would have a favorable impact on tax expense. If not favorably settled, all of the unrecognized tax benefits would require the use of our cash. It is reasonably possible that the total amount of our unrecognized tax benefits will change during the next 12 months. However, the Company does not expect those changes will have a significant impact on financial positions or results of operations.

H. Stock Option Plan

Our 2007 Stock Option Plan (the 2007 Plan) was approved by shareholders in December 2007. A maximum of 200,000 shares of our common stock may be issued under the 2007 Plan. The term for all stock options granted is ten years and optionees vest in the options over a three-year period. In the event of a change of control, as defined in the 2007 Plan, optionees become fully vested in their unexercised options. No stock options may be granted under the 2007 Plan after December 11, 2017.

The purpose of the 2007 Plan is to provide additional incentives to officers, other key employees, directors of, and important consultants to the Company by encouraging them to invest in shares of the Company's common stock and, thereby, acquire a proprietary interest in the Company and an increased personal interest in the Company's continued success and progress.

Options under the 2007 Plan include options which qualify under Section 422 of the Internal Revenue Code (Incentive Stock Options) and options which do not qualify under Section 422 (Nonqualified Options). The following table summarizes option activity for the years ended June 30, 2015 and 2014:

	2015		2014	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Stock option activity:				
Outstanding, beginning of year	106,500	$ 8.60	106,500	$ 8.60
Granted	12,000	14.30	—	—
Exercised	(20,500)	4.69	—	—
Expired/forfeited	—	—	—	—
Outstanding, end of year	98,000	10.12	106,500	8.60
Exercisable, end of year	86,000	$ 9.53	106,500	$ 8.60

At June 30, 2015, the weighted average contractual life of the 98,000 options outstanding was approximately four years.

The estimated fair value of stock options at the time of the grant using the Black-Scholes option pricing model was as follows:

Fair value per option	$ 5.03
Assumptions:	
Annualized dividend yield	40%
Expected volatility	37.23
Risk-free interest rate	1.69
Expected option terms (years)	5

I. Significant Customers and Suppliers

Net sales to our two largest commercial customers represented the following percentages of net sales for the years ended June 30, 2015 and 2014, respectively:

	2015	2014
Percentage of net sales:		
Commercial customer 1	61%	60%
Commercial customer 2	17%	23%

Commercial customer 2 is a subsidiary of an OEM engine manufacturer. During fiscal 2015, certain products produced for commercial customer 2 were transitioned to a global solutions provider for sale and use by the

same OEM engine manufacturer. If net sales for both commercial customers were aggregated, net sales would equal 24% of total net sales.

Net sales to our two largest commercial customers were approximately as follows:

	2015	2014
Net sales:		
Commercial customer 1	$ 18,821,000	$ 18,474,000
Commercial customer 2	$ 5,273,000	$ 7,006,000

Accounts receivable from our two largest commercial customers at June 30, 2015 and 2014 were approximately as follows:

	2015	2014
Accounts receivable:		
Commercial customer 1	$ 566,000	$ 511,000
Commercial customer 2	$ 685,000	$ 1,086,000

Purchases

During fiscal 2015 and 2014, two suppliers each accounted for more than 12% of our purchased material cost. Alternative suppliers of these components are available, and we believe that the loss of any of these suppliers would not have a long-term material impact on our operations.

J. Banking and Debt

Banking

The Company entered into a commercial banking arrangement with JP Morgan Chase Bank, N.A. for its day-to-day banking needs in September 2014.

Loan Payable

On March 31, 2015, the Company borrowed $648,100 from General Electric Capital Corporation for the purchase of equipment. The loan term is 72 months with an annual interest rate of 4.0%. Monthly payments total $10,141, including interest. The outstanding principal balance at June 30, 2015 is $624,060.

Future minimum payments as of June 30, 2015 are as follows:

Year ending June 30:		
2016	$	98,454
2017		102,529
2018		106,705
2019		111,052
2020		115,561
Thereafter		89,759
Total	$	624,060

Line of Credit

On October 4, 2012, Kreisler Industrial entered into a business loan agreement with Sovereign Bank N.A. (renamed Santander Bank, N.A.) for a line of credit to be used for working capital needs and capital equipment. The key terms are as follows:

Limit	$3,000,000 (Including $1,000,000 in Equipment Advances for the purchase of capital equipment)
Term	2 years (Equipment Advances may be converted to a four year term loan at the end of the line of credit term)
Interest rate	One month LIBOR plus 3.00%
Annual Fee	0.125% of unused portion of line of credit
Key provisions	Kreisler Manufacturing Corporation guarantee, collateralized by all assets of the Company

In October 2014, the line of credit was extended with the same terms through December 30, 2014. The outstanding loan balance was paid in full and closed by us on December 30, 2014.

K. Commitments and Contingencies

Leases

Our corporate office is located at the Kreisler Industrial manufacturing facility in Elmwood Park, New Jersey. Our New Jersey location consists of a 52,000 square foot leased facility. In January 2012, Kreisler Manufacturing Corporation and Kreisler Industrial entered into the Extension to Lease Agreement (the Lease Agreement Extension) with the facility owner. The Lease Agreement Extension extended the lease term from October 1, 2012 through September 30, 2018.

In October 2014, an additional facility was leased in Elmwood Park, New Jersey. The lease for this 22,500 square foot facility will expire on November 22, 2018.

Future minimum lease commitments, which include copier and vehicle leases, as of June 30, 2015, are approximately as follows:

Year ending June 30:	
2016	$ 482,000
2017	486,000
2018	490,000
2019	145,000
Total	$ 1,603,000

Rent expense for the years ended June 30, 2015 and 2014 amounted to $443,000 and $332,000, respectively.

Contingencies

Certain federal and state laws authorize the United States Environmental Protection Agency (EPA) and similar state agencies to issue orders and bring enforcement actions to compel responsible parties to take investigative and remedial actions at any site that is determined to present an imminent and substantial danger to the public or the environment because of an actual or threatened release of one or more hazardous substances. The Company generally provides for the disposal or processing of such substances through licensed, independent contractors.

- In July 1999, we became aware of historical releases of hazardous substances at our Kreisler Industrial manufacturing facility located at 180 Van Riper Avenue, Elmwood Park, New Jersey. We promptly notified the New Jersey Department of Environmental Protection (NJDEP) as required by the New Jersey Spill Compensation and Control Act (Spill Act) and retained the services of environmental remediation consultants, Resource Control Corporation (RCC), to perform a full site characterization in accordance with the NJDEP's Technical Requirement for Site Remediation. In June 2001, we entered into a Fixed Price Remediation Agreement (FPRA) with RCC. An Amendment to the FPRA was signed with RCC in November 2014. Key Provisions of the Amendment include:
  - We capped our contractual final amounts payable to RCC at $595,332 which includes our agreed upon contingent additional payment of $103,000 as well as 50% of the previously outstanding NJDEP remediation fees. Our continuing financial obligations under the FPRA includes an additional sum of $22,000, interest payments as calculated through June 2007 and the remaining 11% of the contract price due upon project completion (Kreisler has paid 89% of the FPRA amount).
  - Kreisler and RCC agreed to establish an escrow account for payments directly to RCC vendors (rather than through RCC) who represent the majority of the remaining work to be done under the Agreement
  - The Amendment established funding parameters for the payment of the $595,332 to third-party suppliers and, as appropriate, RCC, as follows:
    - Kreisler funds 100% of the initial $250,000 of remediation cost
    - Kreisler and RCC each fund 50% of the next $390,662

- RCC funds 100% of the remaining costs for project completion
  - The remaining $150,000 to be paid by Kreisler is not required to be paid until project remediation completion
  - Kreisler may advance some of those funds (in our sole discretion) for RCC vendor payments

At June 30, 2014, the remaining unpaid cost estimated for remediation of the site under the FPRA with RCC was approximately $534,000. During fiscal 2015, the Company received an estimate of post closure environmental costs of $110,000. As of June 30, 2015, the Company accrued approximately $690,000 of total contingent payments, of which a significant portion is expected to be paid in fiscal 2016, provided that RCC achieves specific requirements contained in the FPRA and the Amendment. We monitor the project status and believe that RCC is capable of meeting their contractual obligations under the FPRA.

A portion of our business is subject to contract provisions which permit the termination of contracts at the election of the U.S. Government or its prime contractors. Contracts with the U.S. Government and with suppliers to the U.S. Government generally provide for termination at any time for the convenience of the U.S. Government and its prime contractors as well as for default based on our failure to meet specified performance measurements, and upon such termination a contractor is entitled to receive payment for the work performed plus a pro rata portion of the profit it would have earned before the termination and any allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. Government would pay only for the work that has been accepted and can require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. Government can also hold us liable for damages resulting from the default.

The Company from time to time is subject to tax audits by Federal and State authorities. We were audited by the State of New Jersey for the period June 1, 2010 through March 31, 2014. Following the audit we received an adjusted Post Audit Conference Report on March 23, 2015 and paid $28,000 (including interest) on April 10, 2015 related to New Jersey Use Tax. The audit resulted in no adjustments to New Jersey corporate income taxes for the audit period. We are currently not aware of any other income tax examinations that would require an income tax accrual at June 30, 2015.

L. Employee Benefit Plan

Beginning April 1, 2005, Kreisler Industrial established an employee savings plan (the Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. All employees, except those covered by a collective bargaining agreement, are eligible to participate in the Plan after completing one year of service. Kreisler Industrial may, in its sole discretion, contribute and allocate to each eligible participant's account a percentage of the participant's elective deferrals. Matching contributions, if any, shall be determined as of the end of the Plan year. No matching contributions were made to the Plan during the years ended June 30, 2015 and 2014. The Plan does not offer employees an option to invest in the shares of Kreisler Manufacturing Corporation.

M. Collective Bargaining Agreement

On May 2, 2013, Kreisler Industrial entered into a new Collective Bargaining Union Agreement (the Agreement) with Local 377, Retail Wholesale and Department Store Union, Union Food and Commercial Workers, which represents approximately 100 Kreisler Industrial employees. The Agreement term is from April 1, 2013 through March 31, 2016. In addition to certain work rule changes, the Agreement increases wages $0.35 per hour effective May 5, 2013, $0.35 per hour effective April 1, 2014 and $0.35 per hour effective April 1, 2015.

N. Dividends

In 2015 and 2014, the Company paid a cash dividend of $3.00 and $0.50 per share, respectively, in the amounts of $5,662,344 and $933,974, respectively.

O. Subsequent Events

Management has evaluated subsequent events through September 3, 2015, the date of issuance of these consolidated financial statements, in accordance with GAAP, and none were found that have not been addressed in these Notes to the Consolidated Financial Statements.