KREISLER
MANUFACTURING CORPORATION

2012

Consolidated Financial Statements
Year-ended June 30, 2012

Rule 15C2-11 Information

KREISLER MANUFACTURING CORPORATION
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

   1,867,948

7. The name and address of the transfer agent is

   American Stock Transfer and Trust Company
   40 Wall Street
   New York, NY 10005

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

   Kreisler Manufacturing Corporation and its wholly-owned subsidiaries, Kreisler Industrial Corporation and Kreisler Polska Sp. z o.o, manufacture precision metal components and assemblies primarily for use in military and commercial aircraft engines and in industrial gas turbines. As of June 30, 2012 Kreisler Polska Sp. z o.o was classified as held for sale and presented as discontinued operations in the consolidated financial statements. Effective July 6, 2012, Kreisler Polska Sp. z o.o was sold to a third party.

9. The nature of products or services offered;

   Our products include tube assemblies of multiple sizes and configurations as well as machined 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 Corporation's order backlog as of June 30, 2012 was $36.3 million which <u>excludes</u> any and all orders attributable to the 10 year long-term agreement previously described in our September 30, 2010 press release. Kreisler Industrial is no longer a party to that long-term agreement.

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.

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

Chairman of the Board and Chief Executive Officer............ Michael D. Stern

Director ....……............... John W. Poling

Director ....……............... Edward A. Stern

Edward A. Stern is also Co-President, Chief Financial Officer, Secretary and Treasurer 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, 2012 is attached hereto as <u>Exhibit A</u>.

13. Similar financial information for such part of the 2 preceding fiscal years as the company or its predecessor has been in existence;

The most recent financial information for the last fiscal year is attached hereto as <u>Exhibit A</u>.

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 percent 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

Certified
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Rothstein Kass

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Kreisler Manufacturing Corporation

We have audited the accompanying consolidated balance sheets of Kreisler Manufacturing Corporation and Subsidiaries (collectively, the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income/(loss), and cash flows for each of the years in the two year period ended June 30, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the two year period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

Rothstein Kass

Roseland, New Jersey
October 12, 2012

EXHIBIT A – CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of the Company are included herein:

Consolidated Balance Sheets – June 30, 2012 and June 30, 2011

Consolidated Statements of Operations – Years ended June 30, 2012 and 2011

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income/(Loss) – Years ended June 30, 2012 and 2011

Consolidated Statements of Cash Flows – Years ended June 30, 2012 and 2011

Notes to the Consolidated Financial Statements

Kreisler Manufacturing Corporation and Subsidiaries
Consolidated Balance Sheets

	Jun. 30, 2012	Jun. 30, 2011
	(Audited)	*(Audited)*
Assets		
Cash and cash equivalents	$ 2,216,581	$ 1,373,834
Accounts receivable - trade *(net of $20,000 allowance for uncollectible accounts at June 30, 2012 and June 30, 2011)*	4,274,260	2,189,412
Inventories, net	5,850,478	7,111,035
Deferred tax assets, current portion	-	120,560
Other current assets	234,520	158,305
Prepaid income taxes	1,641,297	17,465
Assets of business held for sale	-	1,459,599
Total current assets	14,217,136	12,430,210
Property and equipment, net	531,532	792,910
Deposits on property and equipment	57,675	52,275
Deferred tax assets, net of current portion	571,287	174,144
Assets of business held for sale	-	6,339,988
Total non-current assets	1,160,494	7,359,317
TOTAL ASSETS	$ 15,377,630	$ 19,789,527
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable - trade	$ 2,301,421	$ 2,606,842
Accrued expenses	864,387	720,746
Loan payable, current portion	31,367	50,788
Deferred tax liability	10,148	-
Liabilities of business held for sale	-	1,647,478
Total current liabilities	3,207,323	5,025,854
Loan payable, net of current portion	-	31,367
Accrued environmental costs	482,330	482,330
Total long-term liabilities	482,330	513,697
Commitments and Contingencies		
Stockholders' equity		
Common stock, $.125 par value; 6,000,000 shares authorized; 1,867,948 shares issued and outstanding at June 30, 2012 and 2011	233,494	233,494
Additional paid-in capital	1,435,190	1,401,765
Retained earnings	10,280,157	12,582,040
Accumulated other comprehensive (loss)/income	(260,864)	32,677
Total stockholders' equity	11,687,977	14,249,976
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,377,630	$ 19,789,527

See accompanying notes to the consolidated financial statements

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statements of Operations

Years ended June 30,	**2012**	**2011**
Net sales	$ 37,468,805	$ 27,431,619
Cost of goods sold	31,218,033	25,075,431
Selling, general, and administrative expenses	2,481,251	1,795,036
Total costs and expenses	33,699,284	26,870,467
Income from continuing operations	3,769,521	561,152
Interest and other income	2,089	4,028
Interest and other expenses	(18,807)	(13,580)
Realized loss on disposition of assets	(62,434)	-
Income from continuing operations before income tax expense	3,690,369	551,600
Income tax expense	453,636	(358,350)
Income from continuing operations	4,144,005	193,250
Loss from discontinued operations, net of tax	(6,445,888)	(986,456)
Net loss	$ (2,301,883)	$ (793,206)
Net income/(loss) per common share - basic and diluted		
Income from continuing operations	$2.22	$0.10
Loss from discontinued operations	($3.45)	($0.53)
Net loss	($1.23)	($0.43)
Weighted average common shares – basic	1,867,948	1,867,948
Weighted average common shares – diluted	1,867,948	1,867,948

See accompanying notes to the consolidated financial statements

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income/(Loss)

Years ended June 30, 2012 and 2011

	Common Stock Outstanding					
	Shares	**Amounts**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Stockholders' Equity**
Balances, June 30, 2010	**1,867,948**	**$ 233,494**	**$ 1,349,824**	**$ 13,375,246**	**$ (566,107)**	**$ 14,392,457**
Comprehensive loss:						
Net loss				(793,206)		(793,206)
Foreign currency translation adjustment [1]					598,784	598,784
Total comprehensive loss						(194,422)
Stock-based compensation			51,941			51,941
Balances, June 30, 2011	**1,867,948**	**$ 233,494**	**$ 1,401,765**	**$ 12,582,040**	**$ 32,677**	**$ 14,249,976**
Comprehensive loss:						
Net loss				(2,301,883)		(2,301,883)
Foreign currency translation adjustment [2]					(293,541)	(293,541)
Total comprehensive loss						(2,595,424)
Stock-based compensation			33,425			33,425
Balances, June 30, 2012	**1,867,948**	**$ 233,494**	**$ 1,435,190**	**$ 10,280,157**	**$ (260,864)**	**$ 11,687,977**

(1) Net of tax expense $325,024

(2) Net of tax benefit $209,393

See accompanying notes to the consolidated financial statements

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30,	**2012**	**2011**
Cash Flows from Operating Activities		
Net loss	(2,301,883)	(793,206)
Loss from discontinued operations, net of tax	(6,445,888)	(1,321,935)
Income from continuing operations	$ 4,144,005	$ 528,729
Adjustments to reconcile net income (loss) to net cash used in operating activities of continuing operations		
Depreciation and amortization	294,951	363,133
Realized loss on dispositions of assets	62,434	-
Deferred tax benefit	(107,804)	(40,803)
Stock-based compensation	33,425	51,941
Increase (decrease) in cash attributable to changes in operating assets and liabilities		
Accounts receivable - trade, net	(2,059,981)	(636,927)
Inventories, net	1,260,557	(589,170)
Other current assets	(76,215)	(38,403)
Prepaid income taxes	(1,623,832)	(15,665)
Accounts payable - trade	(305,421)	904,202
Accrued expenses	143,641	281,344
Accrued environmental costs	-	544
Net cash provided by operating activities of continuing operations	1,765,760	808,925
Net cash used in operating activities of discontinued operations	(599,952)	(963,255)
Net Cash Provided By/(Used In) Operating Activities	1,165,808	(154,330)
Cash Flows from Investing Activities		
Purchases of property and equipment	(98,311)	(236,597)
Deposits of property and equipment	(5,400)	(4,173)
Proceeds from sale of fixed assets	2,302	-
Net cash used in investing activities of continuing operations	(101,409)	(240,770)
Net cash used in investing activities of discontinued operations	(136,595)	(247,553)
Net Cash Used In Investing Activities	(238,003)	(488,323)
Cash Flows from Financing Activities		
Repayments of obligations under capital leases	-	(6,233)
Repayments of loan payable	(50,788)	(47,247)
Net Cash Used In Financing Activities	(50,788)	(53,480)
Effect of foreign currency translation	(34,269)	(294,180)
Increase (decrease) in cash and cash equivalents	842,747	(990,313)
Cash and cash equivalents - beginning of year	1,373,834	2,364,147
Cash and cash equivalents - end of year	$ 2,216,581	$ 1,373,834
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Income taxes	$ 1,278,000	$ 414,818
Interest	$ 18,808	$ 8,036

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

A. Operations and Summary of Significant Accounting Policies

Operations

Kreisler Manufacturing Corporation and its wholly-owned subsidiaries, Kreisler Industrial Corporation ("Kreisler Industrial") and Kreisler Polska Sp. z o.o ("Kreisler Polska") (collectively, "Kreisler" or "we," "us," "our" or the "Company"), manufacture precision metal components and assemblies at facilities located in Elmwood Park, New Jersey and Niepołomice, Poland primarily for use 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. As discussed in Note M Discontinued Operations, Kreisler Polska was classified as held for sale during the fiscal year ended June 30, 2012, resulting in the presentation of discontinued operations for the fiscal years ended June 30, 2012 and 2011.

Principles of Consolidation

The consolidated financial statements include the accounts of Kreisler Manufacturing Corporation and its subsidiaries, all of which are wholly-owned. 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") 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 and Cash Equivalents

All investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash equivalents were $557,000 and $930,000 at June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, and at various times during the years, balances of cash 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 and cash equivalents.

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. Follow-up correspondence is made if unpaid accounts receivable go beyond the invoice due 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, 2012 and 2011. 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 lease term.

Foreign Currency Translation

We comply with “Foreign Currency Translation”, in accordance with GAAP; accordingly, balance sheet accounts are translated at the exchange rate in effect at each balance sheet date; income and expense accounts are translated at the average rates of exchange prevailing during the period. Adjustments related to foreign currency translations are reflected in the accumulated other comprehensive income/(loss) component of the consolidated statements of changes in stockholders’ equity and comprehensive income/(loss) in accordance with "Reporting Comprehensive Income". The Polish zloty is the functional currency of Kreisler Polska.

Long-Lived Assets

In accordance with GAAP, “Accounting for the 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 year ended June 30, 2012, Kreisler Industrial wrote off a vacuum furnace. The net book value remaining at the time of write off was $63,000. No impairments were identified during the year ended June 30, 2011.

Stock-Based Compensation

Beginning July 1, 2006, we have followed the GAAP requirements for “Share-Based Payments.” GAAP requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements with the cost measured based on the estimated fair value of the equity or liability instruments issued. Based on stock options outstanding at June 30, 2012 and 2011 that vested during fiscal 2012 and 2011, we recognized additional compensation expense of approximately $33,000 and $52,000 for the years ended June 30, 2012 and 2011, respectively. The estimated future additional compensation expense for the straight-line vesting of all stock options granted through June 30, 2013 is $12,000.

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 against inventory. The recorded inventory charges for fiscal years 2012 and 2011 totaled approximately $752,000 and $142,000, respectively.

Income Taxes

We comply with "Accounting for Income Taxes", in accordance with GAAP, 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.

We also comply with "Accounting for Uncertainty in Income Taxes", in accordance with GAAP, which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not sustainable upon examination by taxing authorities. There were no unrecognized tax benefits as of June 30, 2012 and 2011. We recognize accrued interest and penalties related to unrecognized tax expense or benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at June 30, 2012. At June 30, 2011 we accrued $80,000 for the payment of tax, interest and penalties due to a New Jersey sales and use tax audit. In 2012 we resolved the New Jersey sales and use tax audit for which we paid $53,000 in tax, $4,600 in penalties and $19,000 in interest. We are currently unaware of any issues under review that could result in significant payments, accruals or material deviations from our position. We are no longer subject to income tax examinations by major taxing authorities for tax years before July 1, 2009.

Net (Loss) per Common Share

We comply with "Earnings Per Share", in accordance with GAAP, which requires dual presentation of basic and diluted income/(loss) per common share for all periods presented. Basic income/(loss) 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/(loss) 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/(loss) per common share and diluted income/(loss) 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.

Comprehensive Income/(Loss)

We comply with "Reporting Comprehensive Income", in accordance with GAAP, which establishes rules for the reporting and display of comprehensive income/(loss) and its components. GAAP requires the changes in our foreign currency translation adjustments from our Polish subsidiary be included in other comprehensive income/(loss).

Fair Value of Financial Instruments

We comply with "Fair Value Measurement", in accordance with GAAP, for our financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the GAAP provisions, we have elected to defer implementation of "Fair Value Measurement" as it relates to our non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until July 1, 2013. We are evaluating the impact, if any, this standard will have on our non-financial assets and liabilities.

Use of Estimates

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

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 amends the guidance regarding the presentation of comprehensive income and eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, comprehensive income must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. There is no change to the items that are reported in other comprehensive income. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011. As these standards impact presentation requirements only, the adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements. We expect to conform our financial statements to the new presentation guidance during the first quarter of the fiscal year ending June 30, 2013.

We do not believe that any other recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on our consolidated financial statements.

B. Concentrations of Credit and Market 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. Our uninsured FDIC balances approximated $524,000 and $680,000 at June 30, 2012 and 2011, respectively. There were no uninsured balances as of June 30, 2012 and 2011 subject to SIPC. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash.

We are exposed to market risks primarily from changes in interest rates and changes in the relationship between the U.S. dollar and the Polish zloty. We do not engage in financial transactions for trading or speculative purposes.

C. Inventories

Inventories consist of the following at June 30, 2012 and 2011:

	2012	2011
Raw materials	$3,175,941	$4,760,740
Work-in-process	2,031,404	2,002,266
Finished goods	643,133	348,029
	$5,850,478	$7,111,035

D. Property and Equipment, net

Property and equipment, net consists of the following at June 30, 2012 and 2011:

	2012	2011
Leasehold improvements	$ 426,586	$ 419,836
Machinery and equipment	6,556,204	6,638,446
	6,982,790	7,058,282
Less accumulated depreciation and amortization	(6,457,758)	(6,265,372)
	$ 525,032	$792,910

Depreciation and amortization expense for property and equipment was $294,951 and $363,133 for the years ended June 30, 2012 and 2011, respectively.

E. Deposits on Property and Equipment

In fiscal year 2012, Kreisler Industrial had deposits totaling approximately $57,500 for software and $6,500 for tooling.

F. Income Taxes

The components of income tax expense/(benefit) from continuing operations as reflected in the consolidated statements of operations for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Current tax expense (benefit)		
Federal	$1,191,179	$233,864
State	152,190	51,225
Total current tax expense (benefit)	1,343,369	285,089
Deferred tax expense (benefit)		
Federal	20,624	(82,675)
State	16,695	14,708
Total deferred tax expense (benefit)	37,319	(67,967)
Income tax expense (benefit)	$1,380,688	$217,122

The tax-effected components of deferred income tax assets and liabilities consisted of the following at June 30, 2012 and 2011:

	2012	2011
Accrued environmental costs	$ 168,816	$ 178,462
Federal and state net operating loss carryforwards	142,117	7,777
Stock-based compensation	138,242	138,668
Foreign currency translation	155,707	(2,924)
Write-down of investment in foreign subsidiary	1,314,491	-
Other items, net	57,820	122,707
Gross deferred tax assets	1,977,193	444,690
Valuation allowance	(1,322,268)	(7,777)
Deferred tax assets	654,925	436,913
Basis difference in property and equipment	(66,595)	(139,633)
Other items, net	(27,191)	(2,576)
Deferred tax liabilities	(93,786)	142,209
Net deferred tax asset	$ 561,139	$ 294,704

	2012	2011
Net deferred tax asset consists of:		
Current deferred tax asset (liability)	$ (10,148)	$ 120,560
Non-current deferred tax asset	571,287	174,144
Net deferred tax asset	$ 561,139	$ 294,704

Excluded from the net deferred tax assets above is $0 and $280,402 in net deferred tax assets related to discontinued operations at June 30, 2012 and 2011, respectively.

As of June 30, 2012, we had approximately $350,000 of federal and $1,660,000 of state net operating loss carryforwards from continuing operations. The federal and state net operating loss carryforwards begin to expire in 2032 and 2022, respectively. A valuation allowance has been established to reduce the deferred tax asset to an amount that is more likely than not to be realized. The valuation allowance is primarily based on the uncertainty of realization of approximately $1,300,000 of deferred tax assets related to the write-down of the investment in the discontinued foreign subsidiary. 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 continuing operations:

	2012	2011
Federal tax computed at statutory rate	$ 1,254,725	$ 187,544
State taxes, net of Federal benefit	117,140	48,516
Domestic production deduction	-	(33,075)
Other items, net	8,823	14,137
Income tax expense	$ 1,380,688	$ 217,122

G. 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 may qualify under Section 422 of the Internal Revenue Code (Incentive Stock Options) or options which do not qualify under Section 422 (Nonqualified Options). The following table summarizes option activity for the years ended June 30, 2012 and 2011:

	2012		2011	
Stock Option Activity	No. of Shares	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	151,000	$ 8.84	151,000	$ 8.84
Granted	-	-	-	-
Exercised	-	-	-	-
Outstanding, end of year	151,000	8.84	151,000	8.84
Exercisable, end of year	142,000	$9.11	123,000	$9.66

At June 30, 2012, the weighted average contractual life of the 151,000 options outstanding was approximately six years.

H. Significant Customers and Suppliers

Net sales to our two largest commercial customers and the United States Government represented the following percentages of net sales as of June 30, 2012 and 2011, respectively:

Percentage of Net Sales

	Fiscal 2012	Fiscal 2011
Commercial Customer 1	60%	62%
Commercial Customer 2	13%	6%
U.S. Government	2%	2%

Net sales to our two largest commercial customers and the United States Government were as follows:

Net Sales

	Fiscal 2012	Fiscal 2011
Commercial Customer 1	$23,858,000	$17,049,000
Commercial Customer 2	$4,999,000	$1,772,000
U.S. Government	$826,000	$489,000

Accounts receivable from our two largest commercial customers and the United States Government at June 30, 2012 and 2011 were as follows:

Accounts Receivable

	Fiscal 2012	Fiscal 2011
Commercial Customer 1	$1,271,000	$736,000
Commercial Customer 2	$819,000	$243,000
U.S. Government	$102,000	$2,200

During fiscal 2012, three suppliers accounted for more than 10% of our purchased material cost compared to no one supplier in fiscal 2011. 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.

We do not have any long-term or fixed quantity purchase agreements with our suppliers. Materials used in our products are purchased, as required, from various suppliers.

I. Debt

Loans Payable

On February 1, 2010, we borrowed $148,102 from Key Equipment Finance Inc. for the purchase of software. The loan term is three years with an annual interest rate of 7.25%. Monthly payments total $4,590, including interest. The outstanding principal balance at June 30, 2012 is $31,367.

Future minimum payments on loans payable are $31,367 for the year ending June 30, 2013.

Line of Credit

On June 22, 2011, Kreisler Industrial Corporation entered into a business loan agreement with Citibank N.A. for a line of credit to be used for working capital needs. The initial key terms were:

Limit	$3,000,000
Term	2 years (June 22, 2013)
Interest Rate	Prime rate plus 1.00%
Annual Fee	$3,500
Key Provisions	Kreisler Manufacturing Corporation guarantee
	Limits to additional amounts that can be loaned or invested in Kreisler Polska Sp. z o.o

On September 7, 2011, Citibank N.A. amended the business loan agreement in response to a supplier advance agreement agreed among Kreisler Industrial, Kreisler Polska and a customer, which was repaid during fiscal 2012, in order to increase the permissible amount that could be loaned or invested in Kreisler Polska by Kreisler Industrial or Kreisler Manufacturing. As a result, certain key terms were modified by Citibank N.A. which reduced the amount of the line of credit, shortened the term by 15 months and increased the interest rate margin. The revised key terms are:

Limit	$1,500,000
Term	March 31, 2012
Interest Rate	Prime rate plus 1.50%

In March 2012, the line was extended with the same terms through November 22, 2012. All outstanding loan balances were repaid at June 30, 2012, at which time we agreed with Citibank N.A. to make no further draws on the line and allow it to expire. See Note N Subsequent Events for information about the new line of credit facility entered in October 2012.

J. 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. Effective July 11, 2006, 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, 2006 through September 30, 2012. In January 2012 we signed an agreement extending the lease for an additional six years, beginning on October 1, 2012 and ending on September 30, 2018.

Future minimum lease commitments as of June 30, 2012 are approximately as follows:

Year ending June 30,	
2013	$354,000
2014	336,000
2015	325,000
2016	325,000
2017 and after	731,000
Total	$2,071,000

Rent expense for the years ended June 30, 2012 and 2011 amounted to $321,500 and $321,670, 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. These statutory provisions impose joint and several responsibility without regard to fault on all responsible parties, including the generators of the hazardous substances, for certain investigative and remedial costs at sites where substances that are classified as hazardous are or were produced or handled. 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 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 Resource Control Corporation ("RCC"). At June 30, 2012, the remaining cost estimated for remediation of the site under the FPRA with RCC was approximately $482,000 (the present value at an interest rate of 6.16%, per annum), virtually all of which is expected to be paid by us in fiscal 2014, provided that RCC achieves specific milestones contained in the FPRA.

Subject to the terms of the FPRA, RCC, not us, is responsible for any unexpected or unanticipated remediation cost increases. We monitor the project status and believe that RCC is capable of meeting their contractual obligations under the FPRA.

At June 30, 2012, estimated remediation payments are as follows:

Fiscal 2014	$482,330

A material 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.

K. 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, 2012 and 2011. The Plan does not offer employees an option to invest in the shares of Kreisler Manufacturing Corporation.

L. Collective Bargaining Agreement

On December 18, 2009, Kreisler Industrial entered into a Collective Bargaining Union Agreement (the "Agreement") with Local 377, RWSDU affiliated with AFL-CIO ("Local 377"), which represents approximately 85 Kreisler Industrial employees. The Agreement term is from December 5, 2009 through December 4, 2012. In addition to certain work rule changes, the Agreement increases wages $0.55 per hour effective December 5, 2009, $0.50 per hour effective December 5, 2010 and $0.50 per hour effective December 5, 2011. The average annual increase was 3.2%. In lieu of a retroactive pay adjustment, Kreisler Industrial made a one-time $75.00 payment, on December 23, 2009, to each employee who was a member of Local 377.

With the current Agreement set to expire on December 4, 2012, Kreisler Industrial and Local 377 are expected to enter into negotiations for a new collective bargaining agreement during October and November 2012.

M. Discontinued Operations

In June 2012, after considering past and expected future financial performance and working capital requirements, management made the decision to sell Kreisler Polska. The sale was completed on July 6, 2012 (see Note N Subsequent Events – Sale of Kreisler Polska Sp. z o.o) for consideration of $10. As a result of the decision to sell Kreisler Polska in June 2012, Kreisler Polska's financial position and results of operations were presented as discontinued operations in accordance with ASC Topic 205-20 "Discontinued Operations". Additionally, we wrote down the net assets of Kreisler Polska on the consolidated balance sheet as of June 30, 2012 to the net realizable value of $10 and recognized a loss on our net investment in Kreisler Polska of approximately $3.5 million for the fiscal year ended June 30, 2012, which is included in the loss from discontinued operations, net of tax on the consolidated statement of operations. We have disclosed Kreisler Polska's net assets as of June 30, 2012 in the summary below.

On April 12, 2012, Kreisler Industrial and Kreisler Polska entered into a Supplier Advance Agreement ("Advance Agreement") with our largest customer for the amount of $950,000. This advance was solely for the working capital needs of Kreisler Polska. As part of the sale of Kreisler Polska (see Note N Subsequent Events – Sale of Kreisler Polska Sp. z o.o), Kreisler Industrial was released from any and all obligations under the Advance Agreement.

The following is a summary of the assets, liabilities, and results of operations of Kreisler Polska as of and for the years ended June 30, 2012 and 2011:

Current assets of discontinued operations		
Cash and cash equivalents	$ 438,066	$ 120,666
Accounts receivable, net	20,925	132,213
Inventories, net	1,737,290	944,699
Other current assets	225,253	262,021
Total current assets of business held for sale	$ 2,421,534	$ 1,459,599
Non-current assets of discontinued operations		
Property, plant, and equipment, net	$ 5,027,922	$ 5,225,389
Deposits on property, plant, and equipment	99,685	834,197
Deferred tax assets	-	280,402
Total non-current assets of business held for sale	$ 5,127,607	$ 6,339,988
Current liabilities of discontinued operations		
Accounts payable	$ 3,392,494	$ 1,364,884
Accrued expenses	465,771	282,594
Income taxes payable	197,805	-
Total current liabilities of business held for sale	$ 4,056,070	$ 1,647,478
Results of operations of discontinued operations		
Net sales	$ 2,869,209	$ 725,310
Cost of goods sold	2,894,990	756,980
Selling, general, and administrative expenses	1,557,519	1,204,462
Loss from discontinued operations	(1,583,300)	(1,236,132)
Other income and expenses	(4,939)	(96,227)
Impairment of investment in foreign subsidiary	(3,493,071)	209,580
Foreign currency exchange adjustments	(874,943)	209,580
Loss from discontinued operations before income taxes	(5,956,253)	(1,122,779)
Income tax benefit/(expense)	1,344,689	(4,905)
Loss from discontinued operations, net of tax	$ (4,611,564)	$ (1,127,684)

N. Subsequent Events

Sale of Kreisler Polska Sp. z o.o

On July 9, 2012, we announced the sale of our wholly-owned subsidiary, Kreisler Polska Sp. z o.o, located in Niepołomice, Poland to United Technologies Holdings SAS, a subsidiary of United Technologies Corporation ("UTC") for $10. The sale was effective on July 6, 2012. Kreisler Polska was established in 2005 and manufactures tube and manifold assemblies as well as machined components primarily used in aerospace applications. As a result of the decision to sell Kreisler Polska in June 2012, all inter-company obligations invested in, owed and/or payable to Kreisler Manufacturing and Kreisler Industrial were written off at June 30, 2012, aggregating approximately $5.3 million, which effects were eliminated in consolidation.

As of July 6, 2012, Kreisler Polska employed approximately 150 people. Fiscal 2012 sales, including intra-company sales, totaled approximately $4.5 million of which approximately $4.0 million were to our Kreisler Industrial subsidiary. Approximately $2.1 million of Kreisler Polska's sales to Kreisler Industrial were for tube and manifold assemblies and the balance for machined components.

As part of the transaction with UTC, Kreisler Industrial was released as a party to an existing long term agreement ("LTA") among two UTC subsidiaries and Kreisler Polska. The LTA provides for the manufacture of over 1,000 part numbers in Poland or the United States. As part of the transaction, the manufacture of certain products by Kreisler Industrial in the United States will be transitioned to Kreisler Polska during 2012 and 2013.

Kreisler Polska continues to manufacture machined components for Kreisler Industrial. Kreisler Polska does not currently manufacture any tube and manifold assemblies for or on behalf of Kreisler Industrial. Kreisler Industrial also sells a limited number of components to Kreisler Polska. All transactions are managed through purchase orders issued by each company to the other.

See Note M Discontinued Operations for financial statement information regarding Kreisler Polska.

Line of Credit

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

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

Management has evaluated subsequent events through October 12, 2012, 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.