Federal
Screw Works
2016
Annual Report

Board of Directors

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

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

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

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

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

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

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

Thomas ZurSchmiede*
President and Chief Executive
Officer of the Company

W. T. ZurSchmiede, Jr.*
Chairman of the Board

*Member of
Executive Committee

**Member of Audit
Committee

†Member of Compensation Committee

Officers

Thomas ZurSchmiede
President and Chief
Executive Officer

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

Robert F. ZurSchmiede
Executive Vice President
and Chief Operating Officer

Jeffrey M. Harness
Vice President — Sales and Marketing

Aaron J. ZurSchmiede
Vice President — Big Rapids Division

William G. Harness
Vice President — Novex Tool Division

Wade C. Plaskey
Chief Financial Officer, Secretary and
Treasurer

Financial Highlights

(Dollars in thousands, except per share data)

Years Ended June 30	2016	2015	2014
Net sales	$ 77,525	$ 63,983	$ 61,060
Earnings before income taxes	4,210	1,340	607
Federal income tax benefit	(2,877)	—	—
Net earnings	7,087	1,340	607
Depreciation and amortization	3,977	3,677	3,702
Capital expenditures	5,507	6,271	4,204
Working capital	16,161	17,347	15,634
Stockholders' equity	2,797	771	591
Per Share Data			
Net earnings	$ 5.13	$ 0.97	$ 0.44

Average number of shares outstanding:
2016 — 1,381,595; 2015 — 1,381,595; 2014 — 1,381,595

Annual Meeting
October 27, 2016, 10 a.m.
The Dearborn Inn
20301 Oakwood Boulevard
Dearborn, Michigan 48124

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

Registrar
Computershare Trust Company, N. A.

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

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

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

To Our Shareholders:

The Company reports net earnings for the fourth quarter ended June 30, 2016, of $4,153,000, or $3.01 per share, on sales of $19,285,000. Net earnings include an income tax benefit of $2,877,000 which consists of a reduction in the deferred tax asset valuation reserve of $4,300,000 and deferred tax expense of $1,423,000. Absent the tax adjustments net earnings in the current quarter are $1,276,000, or $.92 per share. This compares to net earnings of $1,016,000, or $.74 per share, on sales of $18,339,000 in the comparable quarter last year.

For the year ended June 30, 2016, the Company reports net earnings of $7,087,000, or $5.13 per share, on sales of $77,525,000. Absent the income tax benefit of $2,877,000, net earnings are $4,210,000 or $3.05 per share. This compares to net earnings of $1,340,000, or $.97 per share, on sales of $63,983,000 in the previous year.

We are very pleased to report a significant increase in profits as the Company brought a substantial amount of new business into production.

The Company is enjoying a period of strong demand and solid plant performance. In support of this lively sense of opportunity, capital expenditures were $5.5 million. Overall, the Company's advanced technical capabilities are driving its continual expansion into the manufacture of more sophisticated, complex parts which yield higher margins and, we believe, make the Company's competitive position increasingly defensible.

Many of the uncertainties of the global economy which may act as headwinds for the modest U.S. economic recovery still persist. Although a renewed sense of stability regarding the European and Chinese economies has lessened concern among economists that they will slow U.S. growth, China's economic opacity and the threat of a toxic loan crisis among Chinese banks continues to be troubling. Japan is experiencing difficulty with its negative interest policies and struggles for any growth. However, consumers are playing their part in the consumer driven U.S. economy. Relatively less expensive gasoline, sustained job growth, and the recovery in housing all act to support strong North American vehicle sales.

We wish to thank our employees for their deep commitment to develop and produce increasingly difficult part programs. We also wish to thank our Shareholders for their kind expressions of support and encouragement. The Company, resilient and adaptive and prospering, has done a fine job.

Thomas ZurSchmiede
President

W.T. ZurSchmiede, Jr.
Chairman

Financial Review

Selected Financial Data

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

	2016	2015	2014	2013	2012
Net sales	$ 77,525	$ 63,983	$ 61,060	$ 57,193	$ 58,647
Cost of products sold	69,195	58,850	56,635	53,041	54,802
Interest expense	782	681	675	832	880
Earnings (loss) before income taxes	4,210	1,340	607	104	(682)
Income tax (benefit)	(2,877)	—	—	—	(120)
Net earnings (loss)	7,087	1,340	607	104	(562)
Average number of shares of common stock outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595
Per share of common stock: Net earnings (loss)	$ 5.13	$ 0.97	$ 0.44	$ 0.08	$ (0.41)
Total assets	$ 59,397	$ 53,425	$ 48,093	$ 46,982	$ 46,375
Long-term debt	14,043	17,523	12,686	11,315	8,959

Stock Prices

	2016		2015	
	High	Low	High	Low
1st Quarter	$ 5.50	$ 3.05	$ 4.20	$ 2.55
2nd Quarter	6.99	3.70	4.40	2.60
3rd Quarter	6.25	4.00	4.10	3.20
4th Quarter	6.40	4.76	4.40	2.75

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

The Company

Industry Information

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

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

Operating Divisions

The Company's industrial component parts are manufactured in four plants located throughout Michigan. The Company presently employs 222 full time personnel. A brief description of each division follows.

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

The Romulus Division operates out of a 100,000 square foot facility. The division heat treats products shipped from Traverse City and also serves as a distribution center of these products to our customers. The division also provides finish processing to those products that we purchase and prepares them for shipment to our customers.

The Traverse City Division manufactures a wide variety of special cold formed products for automotive customers out of a 47,000 square foot plant. The majority of these products are prevailing torque nuts which are intended for use in automotive suspension and drivetrain applications. These products are formed utilizing partsformers and nutformers and finished on various types of secondary equipment that are designed to tap threads, apply locking features or assemble nut blanks to washers.

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

The Novex Tool Division occupies a 19,000 square foot leased facility in Brighton, Michigan. The lease expires in August 31, 2018. The division manufactures perishable tooling, primarily for the cold heading industry. Approximately ten percent of its output is consumed by the Company's Big Rapids, Romulus and Traverse City Divisions.

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

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

Statements of Income

	Years Ended June 30		
	2016	2015	2014
Net sales	$ 77,524,869	$ 63,982,677	$ 61,059,950
Costs and expenses:			
Cost of products sold	69,195,437	58,849,694	56,634,947
Selling, general and administrative	4,082,603	3,673,010	3,511,549
Interest	781,999	681,019	674,532
Other income	(745,315)	(561,401)	(368,387)
	73,314,724	62,642,322	60,452,641
EARNINGS BEFORE INCOME TAXES	4,210,145	1,340,355	607,309
Federal income tax (benefit) — Note 4:	(2,877,008)	—	—
NET EARNINGS	$ 7,087,153	$ 1,340,355	$ 607,309
Average number of common shares outstanding	1,381,595	1,381,595	1,381,595
Net earnings per common share	$ 5.13	$ 0.97	$ 0.44

See accompanying notes.

Statements of Comprehensive Income (Loss)

	Years Ended June 30		
	2016	2015	2014
NET EARNINGS	$ 7,087,153	$ 1,340,355	$ 607,309
Other comprehensive income (loss)			
Pension and postretirement liability adjustment	(5,061,384)	(1,160,499)	(2,064,755)
COMPREHENSIVE INCOME (LOSS)	$ 2,025,769	$ 179,856	$ (1,457,446)

Balance Sheets

	June 30	
	2016	2015
Assets		
Current Assets		
Cash	$ 606,906	$ 284,543
Accounts receivable, net	11,456,867	10,903,004
Inventories:		
Finished products	4,012,837	2,803,514
In-process products	12,245,602	13,670,703
Raw materials and supplies	2,345,618	1,661,665
Total inventories	18,604,057	18,135,882
Prepaid expenses and other current assets	244,869	212,609
Assets held for sale	5,171	5,171
TOTAL CURRENT ASSETS	30,917,870	29,541,209
Other Assets		
Company owned life insurance	1,991,228	1,908,657
Deferred federal income taxes — Note 4	2,877,008	—
Other assets	274,933	169,067
	5,143,169	2,077,724
Property, Plant and Equipment — Notes 2 and 3		
Land	387,467	387,467
Buildings and improvements	11,830,108	11,831,704
Machinery and equipment	105,449,903	104,164,596
	117,667,478	116,383,767
Less accumulated depreciation	(94,331,769)	(94,577,967)
	23,335,709	21,805,800
	$ 59,396,748	$ 53,424,733

	June 30	
	2016	**2015**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 7,096,768	$ 6,137,484
Payroll and employee benefits	3,930,872	2,298,498
Taxes, other than income taxes	532,499	787,012
Other accrued liabilities	561,187	396,497
Current portion of long-term debt — Note 2	1,702,719	1,582,719
Current portion of postretirement benefits — Note 5	932,871	991,927
TOTAL CURRENT LIABILITIES	14,756,916	12,194,137
Long-Term Liabilities		
Long-term debt — Note 2	14,043,167	17,523,420
Employee benefits	729,402	769,778
Postretirement benefits — Note 5	11,744,187	12,683,677
Pension benefits — Note 5	13,962,184	9,113,672
Other liabilities — Note 9	1,364,000	368,926
	41,842,940	40,459,473
Stockholders' Equity — Note 8		
Common stock, $1 par value: authorized 2,000,000 shares; 1,381,595 shares outstanding in 2016 and in 2015	1,381,595	1,381,595
Additional capital	3,269,476	3,269,476
Retained earnings	24,293,806	17,206,653
Accumulated other comprehensive income (loss)	(26,147,985)	(21,086,601)
	2,796,892	771,123
	$ 59,396,748	$ 53,424,733

See accompanying notes.

Statements of Stockholders' Equity

Years ended June 30, 2016, 2015 and 2014

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JULY 1, 2013	$ 1,381,595	$ 3,269,476	$ 15,258,989	$ (17,861,347)	$ 2,048,713
Net earnings for the year			607,309		607,309
Pension and postretirement liability adjustment				(2,064,755)	(2,064,755)
BALANCES AT JUNE 30, 2014	1,381,595	3,269,476	15,866,298	(19,926,102)	591,267
Net earnings for the year			1,340,355		1,340,355
Pension and postretirement liability adjustment				(1,160,499)	(1,160,499)
BALANCES AT JUNE 30, 2015	1,381,595	3,269,476	17,206,653	(21,086,601)	771,123
Net earnings for the year			7,087,153		7,087,153
Pension and postretirement liability adjustment				(5,061,384)	(5,061,384)
BALANCES AT JUNE 30, 2016	$ 1,381,595	$ 3,269,476	$ 24,293,806	$ (26,147,985)	$ 2,796,892

( ) Denotes deduction.
See accompanying notes.

Statements of Cash Flows

	Years Ended June 30		
	2016	2015	2014
OPERATING ACTIVITIES			
Net earnings	$ 7,087,153	$ 1,340,355	$ 607,309
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	3,976,655	3,676,820	3,701,851
Deferred federal income taxes	(2,877,008)	—	—
Employee benefits	(1,251,794)	(1,863,736)	(1,544,290)
Gain on sale of equipment	(1,366,202)	(536,278)	(945,751)
Miscellaneous and other	(146,426)	(79,645)	(15,740)
Changes in operating assets and liabilities:			
Accounts receivable	(553,863)	(907,443)	(798,460)
Refundable income taxes	—	119,763	120,237
Inventories and prepaid expenses	(500,435)	(1,828,621)	(141,076)
Accounts payable and accrued expenses	3,504,073	111,933	733,131
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,872,153	33,148	1,717,211
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(5,507,059)	(6,270,781)	(4,203,759)
Proceeds from sale of equipment	1,407,256	586,538	982,800
Company owned life insurance	(82,571)	(22,907)	251,179
NET CASH USED IN INVESTING ACTIVITIES	(4,182,374)	(5,707,150)	(2,969,780)
FINANCING ACTIVITIES			
Additional borrowings (principal repayments) under bank credit agreement, net	(2,977,534)	2,182,268	9,118
Borrowings on term loans	1,200,000	4,464,844	2,016,662
Principal payments on term loan	(1,582,719)	(894,153)	(701,803)
Principal payments on capital leases	(7,163)	(9,394)	(9,218)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(3,367,416)	5,743,565	1,314,759
INCREASE IN CASH	322,363	69,563	62,190
Cash at beginning of year	284,543	214,980	152,790
CASH AT END OF YEAR	$ 606,906	$ 284,543	$ 214,980

See accompanying notes.

Notes to Financial Statements

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

Note 1 — Significant Accounting Policies

Inventories: Inventories are stated at the lower of cost or market. Cost, determined by the last-in, first-out (LIFO) method, was used for certain raw material inventories, $1,488,000 and $1,130,000 at June 30, 2016 and 2015, respectively. The remaining inventories are costed using the first-in, first-out (FIFO) method. If inventories valued on LIFO had been valued at current cost, amounts reported at June 30 would have been increased by $290,000 and $275,000 in 2016 and 2015, respectively. In addition, net earnings under the FIFO method would have increased by $15,000 for the year ended June 30, 2016 and decreased $242,000 for the year ended June 30, 2015.

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

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Company owned life insurance is presented in the balance sheets net of policy loans of $4,547,000 and $4,537,000 at June 30, 2016 and 2015, respectively.

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

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

Allowance for Uncollectible Accounts Receivable: Accounts receivable has been reduced by an allowance for amounts that may become uncollectible in the future. This estimated allowance ($50,000 at June 30, 2016 and 2015) is based primarily on management's evaluation of the financial condition of the customer and historical experience. Also, the Company monitors its accounts receivable and charges to expense an amount equal to its estimate of potential credit losses. The Company considers a number of factors in determining its estimates, including the length of time its trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation and the condition of the general economy and the industry as a whole. The use of different estimates could significantly affect the Company's results of operations for the period.

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

Income Taxes: The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a tax benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with the tax examination being presumed to occur. The amount recognized is the largest amount of the tax benefit greater than 50% likely of being realized on examination and for tax positions not meeting the more likely than not test, no tax benefit is recorded. As of June 30, 2016, and 2015, the Company does not have any material unrecognized tax benefits and accordingly has not recorded any interest or penalties related to unrecognized tax benefits. The Company files a federal income tax return and various state returns. These returns remain subject to examination by taxing authorities for all years after 2009.

Adoption of New Accounting Standards: In November 2015, the FASB amended existing guidance related to the balance sheet classification of deferred taxes for annual periods beginning after December 15, 2016. The amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to early adopt and apply the amendments prospectively; therefore, prior periods were not retrospectively adjusted.

Fair Value of Financial Instruments: At June 30, 2016 and 2015, the carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable, debt and investments approximate fair value due to their short duration and the variable rate nature of the company's debt.

Net Earnings (Loss) Per Common Share: Net earnings per common share is based on the weighted average number of common shares outstanding of 1,381,595 in 2016, 2015, and 2014.

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

Deferred Financing Costs: Financing fees attributable to loan borrowing agreements are amortized to interest expense on a straight line basis over the life of the corresponding debt which approximates the effective interest method and are included in other assets on the balance sheet at $240,312 and $134,446 at June 30, 2016 and 2015, respectively, net of accumulated amortization of $290,831 at June 30, 2016 and $250,272 at June 30, 2015. Annual amortization expense over the next four years is as follows: 2017 through 2020 - $53,403 and $26,700 in fiscal 2021.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 6, 2016, which is the date financial statements were available to be issued.

Note 2 – Long-Term Debt

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

	2016	**2015**
Notes payable to bank	$15,745,886	$19,106,139
Less current maturities	(1,702,719)	(1,582,719)
	$14,043,167	$17,523,420

On January 14, 2016 the Company amended and restated a $33,541,000 credit facility with a bank that consists of a $19,000,000 revolving loan, $12,541,000 term loan, and a $2,000,000 equipment line of credit with a maturity date of January 14, 2021.

Notes to Financial Statements
Continued

Interest on the revolving loan balance of $8,664,000 at June 30, 2016 consisted of $7,500,000 at a rate of 2.96% (LIBOR rate plus 2.50%) and the balance of $1,164,000 at a rate of 3.50% (prime). Interest on the revolving loan balance of $11,642,000 at June 30, 2015 consisted of $10,000,000 at a rate of 3.19% (LIBOR rate plus 3.00%) and the balance of $1,642,000 at a rate of 3.75% (prime rate plus .50%). Interest on the term loan balance of $5,278,000 at June 30, 2016 consisted of $5,185,000 at 3.71% (LIBOR rate plus 3.25%) and the balance of $93,000 at a rate of 4.25% (prime rate plus .75%). Interest on the term loan balance of $5,190,000 at June 30, 2015 consisted of $5,097,000 at 3.44% (LIBOR rate plus 3.25%) and the balance of $93,000 at a rate of 4.00% (prime rate plus .75%). Interest on the equipment loan balance of $1,804,000 at June 30, 2016 consisted of $1,763,000 at 3.71% (LIBOR rate plus 3.25%) and the balance of $41,000 at a rate of 4.25% (prime rate plus .75%). Interest on the equipment loan balance of $2,274,000 at June 30, 2015 consisted of $2,234,000 at 3.44% (LIBOR rate plus 3.25%) and the balance of $40,000 at a rate of 4.00% (prime rate plus .75%). The Company also pays a commitment fee of .25% on the unused portion of the credit facility. Interest is payable monthly on the 1st of every month.

Advances under the line of credit are limited to approximately 85% of eligible accounts receivable plus the lesser of 65% of eligible inventory or $12,300,000 including a further sublimit of $7,300,000 of eligible work in process inventory. Included in the maximum borrowings of the revolving note payable is a letter of credit totaling $300,000 at June 30, 2016. The Company had available $9,704,000 to borrow under the revolving loan and $6,800,000 under the term loans as of June 30, 2016. The term loans are due in monthly installments of $92,683 through December 1, 2016, increasing to $112,683 beginning January 1, 2017. Additional borrowings under the term loans will be repaid using a five year amortization. The equipment loan is due in monthly installments of $39,210.

Under the terms of the bank agreement, the Company has agreed to maintain certain financial covenants including the requirements to meet certain financial ratios and other restrictions related to the use of cash. At June 30, 2016, the Company was in compliance with these financial covenants.

Interest paid by the Company during fiscal 2016, fiscal 2015, and fiscal 2014 aggregated $615,000, $545,000, and $527,000, respectively. Interest capitalized into property, plant and equipment in fiscal 2016 and 2015, was $82,000 and $128,000, respectively.

The scheduled repayment of the term loan and equipment loans as of June 30, 2016 are $1,702,719 next year, $1,822,719 for each of the following two years, $1,373,566 is due in the fourth year, $360,000 is due in the fifth year.

Note 3 - Leases and Other Commitments

At June 30, 2016, future minimum lease payments for various non-cancelable operating leases with initial terms of one year or more are as follows:

Year ending June 30	Operating Leases
2017	$ 408,000
2018	326,000
2019	189,000
2020	121,000
2021	52,000
Thereafter	44,000
Total future minimum lease payments	$ 1,140,000

Total rent expense was $552,000 in fiscal 2016, $593,000 in fiscal 2015, and $680,000 in fiscal 2014.

Costs committed to complete the expansion of existing plant facilities and the purchase of machinery and equipment approximated $5,839,000 at June 30, 2016.

Note 4 - Income Taxes

Federal income tax benefit consists of the following at June 30:

	2016	2015	2014
Current expense	$ 1,423,000	$ —	$ —
Benefit of net operating loss carryforwards	(1,423,000)	—	—
Change in valuation allowance	(2,877,000)	—	—
Federal income tax benefit	$ (2,877,000)	$ —	$ —

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

	2016	2015	2014
Computed amount	$ 1,431,000	$ 456,000	$ 206,000
Life insurance policies	(19,000)	(18,000)	(18,000)
Other	11,000	63,000	35,000
Change in income tax valuation allowance	(4,300,000)	(501,000)	(223,000)
Federal income tax benefit	$ (2,877,000)	$ —	$ —

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which the related temporary differences become deductible. The Company evaluated the deferred tax valuation allowance and considering recent financial performance and future performance, reversed $4,300,000 of the valuation allowance during the year ended June 30, 2016, as the realization of such income tax benefits was considered to be more likely than not. During the year ended June 30, 2016, the Company changed the presentation of the employee benefit deferred tax and state tax assets to present deferred tax assets gross of the related valuation. Presentation has been shown retrospectively for all years presented. At June 30, 2016 and 2015, a valuation allowance of $14,202,000 and $18,631,000 was recorded, respectively. Significant components of the Company's deferred tax liabilities and assets as of June 30, 2016 and 2015 are as follows:

	2016	2015
Deferred tax liabilities:		
Accelerated tax depreciation	$ 1,880,000	$ 1,612,000
Other	164,000	129,000
Total deferred tax liabilities	$ 2,044,000	$ 1,741,000
Deferred tax assets:		
Employee benefits	$ 9,754,000	$ 10,312,000
Net operating loss and tax credit carryforwards	8,357,000	9,694,000
Inventories	80,000	93,000
Other	932,000	273,000
Total deferred tax assets	19,123,000	20,372,000
Valuation allowance	(14,202,000)	(18,631,000)
Net deferred tax assets (liabilities)	$ 2,877,000	$ —

Income taxes paid (received) by the Company during 2016, 2015, and 2014 totaled $-0-, $-0- and $(4,000), respectively. State income taxes paid during 2016, 2015, and 2014 are not material.

At June 30, 2016, and June 30, 2015, the Company had a federal tax loss carryforward of approximately $24,846,000 and $28,301,000, respectively, available to offset future taxable income through June 30, 2032. Net operating losses begin to expire in 2025. In addition, the Company had alternative minimum tax credit carryforwards of approximately $13,000 at June 30, 2016, and June 30, 2015, respectively, available to reduce future regular federal income taxes over an indefinite carryforward period.

Note 5 - Employee Benefit Plans

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

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

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Some of the Company's hourly employees may become eligible for life insurance benefits if they reach normal retirement age while working for the Company. The benefits are provided through certain insurance companies. Effective June 30, 2009, the Company terminated the postretirement health benefit for all current and future salaried retirees. Effective January 30, 2011, the Company terminated the postretirement health benefit for all future hourly employees after the age of 65.

The Company uses a measurement date of June 30 for purposes of valuing its obligations related to pension benefits and postretirement benefits. The following tables set forth the plans' funded status at the 2016 and 2015 measurement dates:

Changes in benefit obligation are:

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Benefit obligation at beginning of year	$ 42,034,000	$ 41,623,000	$ 13,676,000	$ 13,885,000
Service cost	—	—	—	—
Interest cost	1,889,000	1,784,000	528,000	536,000
Amendments	—	—	—	—
Actuarial (gain)/loss	3,542,000	663,000	(548,000)	228,000
Benefits paid	(2,036,000)	(2,036,000)	(979,000)	(973,000)
Benefit obligation at end of year	$ 45,429,000	$ 42,034,000	$ 12,677,000	$ 13,676,000

Changes in plan assets are:

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Fair value of assets at beginning of year	$ 32,920,000	$ 32,004,000	$ —	$ —
Actual return on assets	(414,000)	1,326,000	—	—
Employer contributions	997,000	1,626,000	—	—
Benefits paid	(2,036,000)	(2,036,000)	—	—
Fair value of assets at end of year	$ 31,467,000	$ 32,920,000	$ —	$ —
Funded status at measurement date (underfunded)	$ (13,962,000)	$ (9,114,000)	$ (12,677,000)	$ (13,676,000)

Amounts recognized in accumulated other comprehensive income (loss):

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Net loss (gain)	$ 23,480,000	$ 17,752,000	$ 3,166,000	$ 3,915,000
Prior service cost (credit)	—	—	(498,000)	(581,000)
Net amounts recognized	$ 23,480,000	$ 17,752,000	$ 2,668,000	$ 3,334,000

The pension benefit net loss included in accumulated other comprehensive income (loss) is shown net of taxes in the amount of $1,826,000 for the years ended June 30, 2016 and 2015.

The components of net periodic benefit cost are as follows:

	Pension Benefits			Postretirement Benefits		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Service cost	$ —	$ —	$ —	$ 1,000	$ 2,000	$ 2,000
Interest cost	1,889,000	1,784,000	1,907,000	527,000	534,000	575,000
Expected return on assets	(2,433,000)	(2,388,000)	(2,140,000)	—	—	—
Amortization of prior service cost	—	—	—	(82,000)	(83,000)	(82,000)
Amortization of unrecognized net (gain)/loss	662,000	658,000	606,000	201,000	217,000	141,000
Net periodic benefit cost	$ 118,000	$ 54,000	$ 373,000	$ 647,000	$ 670,000	$ 636,000

The following summarizes target asset allocations for the Company's defined benefit plan assets as of June 30, 2016 and major asset categories as of June 30, 2016 and June 30, 2015:

	Target Asset Allocations June 30, 2016	Percentage of Plan Assets 2016	2015
Equity securities	60.0%	67.0%	63.9%
Fixed income instruments	10.0%	8.0%	9.7%
Cash equivalents	30.0%	25.0%	26.4%
	100.0%	100.0%	100.0%

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

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

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

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

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

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

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

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

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

Investments measured at fair value are summarized below:

	Fair Value Measurements at June 30, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:			
Equity securities and common stock	$ 4,857,000	$ —	$ —
Mutual funds	26,610,000	—	—

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

Plan assets of one of the plans include 15,156 shares of Federal Screw Works common stock which had a market value of $93,058 at June 30, 2016 and $64,413 at June 30, 2015.

The Company's contributions to the defined benefit plans in fiscal 2017 are estimated to be $688,000.

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

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Discount rate – benefit obligation	4.00%	4.75%	3.25%	4.00%
Discount rate – benefit cost	4.75%	4.50%	3.25%	4.00%
Expected return on plan assets	7.5%	7.5%	—	—
Rate of salary increase	NA	NA	—	—

The net periodic pension cost for fiscal 2016 and 2015 was based on a long-term asset rate of return of 7.50%. This rate is based upon management's and the investment advisor's estimate of future long-term rates of return on similar assets and is consistent with historical returns on assets. Using the plans' current mix of assets and adjusting for current market trends for this broadly diversified portfolio, an expected rate of return of 7.50% is justified. The estimated net loss and prior service credit that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next year are $1,041,000 and $82,000 respectively.

The future benefits to be paid are as follows:

	Pension Benefits	Postretirement Benefits
Fiscal 2017	$ 2,311,000	$ 933,000
Fiscal 2018	2,415,000	946,000
Fiscal 2019	2,516,000	955,000
Fiscal 2020	2,601,000	950,000
Fiscal 2021	2,666,000	941,000
Fiscal 2022 through 2026	14,073,000	4,372,000

Notes to Financial Statements
Continued

Note 6 – Industry Information

Approximately 97% of the Company's net sales in fiscal 2016, 2015 and 2014 were made either directly or indirectly to automotive companies.

The Company's customer base is primarily located throughout the United States and Canada. Three customers accounted for approximately 50% of net sales in 2016, 45% in 2015, and 50% in 2014; and 54% of accounts receivable as of June 30, 2016 and 45% as of June 30, 2015 respectively.

Note 7 – Contingencies

The Company is involved in various legal actions arising in the normal course of business. Management is of the opinion that their outcome will not have a significant effect on the Company's financial statements.

The Company is self-insured for workers' compensation claims up to $450,000 per claim. The Company has excess liability insurance with an outside carrier to minimize its risk to catastrophic claims. Losses are accrued based on an estimate of the ultimate liability for claims incurred, using certain assumptions based on the Company's experience under the program including the nature of outstanding claims, estimated costs to settle existing claims and loss history. At June 30, 2016 and 2015, the Company had an accrued self funded workers' compensation liability of approximately $177,000 and $152,000 respectively, included in payroll and employee benefits. Workers' compensation expense was $189,000 in fiscal 2016, $116,000 in fiscal 2015, and $76,000 in fiscal 2014.

Note 8 – Comprehensive Income (Loss)

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

	2016	2015	2014
Net income	$ 7,087,153	$ 1,340,355	$ 607,309
Change in pension and postretirement liabilities	(5,061,384)	(1,160,499)	(2,064,755)
Total comprehensive income (loss)	$ 2,025,769	$ 179,856	$ (1,457,446)

The changes in pension and postretirement liabilities in fiscal 2016 and 2015 were primarily the result of changes in the discount rate (note 5, page 17). Future decreases in the discount rate will have an effect to increase the value of the pension obligation, while future increases in the discount rate will have an effect to decrease the value of the pension obligation.

The components of accumulated other comprehensive income (loss) as of June 30, 2016 and 2015 are as follows:

	2016	2015
Unrecognized loss and prior service costs in pensions	$(23,480,213)	$(17,752,165)
Unrecognized loss and prior service costs in postretirement benefits	(2,667,772)	(3,334,436)
Accumulated other comprehensive income (loss)	$(26,147,985)	$(21,086,601)

The changes in accumulated other comprehensive income (loss) by component for the year ended June 30, 2016 are as follows:

	Pension Benefits	**Postretirement Benefits**	**Total**
Balance at July 1, 2014	$ (16,685,634)	$ (3,240,468)	$ (19,926,102)
Changes in actuarial assumptions	(1,724,244)	(228,330)	(1,952,574)
Amounts reclassified from AOCI	657,713	134,362	792,075
Net OCI for the year	(1,066,531)	(93,968)	(1,160,499)
Balance at June 30, 2015	(17,752,165)	(3,334,436)	(21,086,601)
Changes in actuarial assumptions	(6,389,549)	548,374	(5,841,175)
Amounts reclassified from AOCI	661,501	118,290	779,791
Net OCI for the year	(5,728,048)	666,664	(5,061,384)
Balance at June 30, 2016	$ (23,480,213)	$ (2,667,772)	$ (26,147,985)

The pension benefits in accumulated other comprehensive income (loss) balances are shown net of taxes of $1,826,000.

Reclassifications out of accumulated other comprehensive income (loss) for the year ended June 30, 2016 are as follows:

Details about accumulated other comprehensive income (loss) components	**Pension Benefits**		**Postretirement Benefits**	
	2016	**2015**	**2016**	**2015**
Amortization				
Actuarial gain (loss)	$ (661,501)	$ (657,713)	$ (200,763)	$ (216,835)
Prior service costs	—	—	82,473	82,473
Total before tax	(661,501)	(657,713)	(118,290)	(134,362)
Tax expense	—	—	—	—
Net of tax	$ (661,501)	$ (657,713)	$ (118,290)	$ (134,362)

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

Note 9 – Other Liabilities

The Company along with several other manufacturing companies has been designated by the federal Environmental Protection Agency ("EPA") as a Potentially Responsible Party ("PRP") with respect to two dump sites. The primary PRP who had the greatest share of liability and was performing the remedial activities at both sites filed bankruptcy. The Company had previously resolved its liability with the primary PRP in 1988. In accordance with Consent Decrees with the EPA, the remaining PRPs are liable for continuing the remedial activities. During 2016, based on continued studies and remedial activities, it was determined that the liability for remedial activities needed to be increased by $1,041,000. At June 30, 2016 and 2015, the Company had accrued $1,465,000 and $424,000 respectively. Amounts include $101,000 and $55,000 classified as current in other accrued liabilities at June 30, 2016 and 2015, respectively.

Report of
Independent Auditors

Board of Directors
Federal Screw Works
Romulus, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Screw Works, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Screw Works as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Grand Rapids, Michigan
September 6, 2016

Five Year Summary

Five Years Ended June 30	2016	2015	2014	2013	2012
Operations (in thousands)					
Net sales	$ 77,525	$ 63,983	$ 61,060	$ 57,193	$ 58,647
Earnings (loss) before income taxes	4,210	1,340	607	104	(682)
Income taxes (benefit)	(2,877)	—	—	—	(120)
Net earnings (loss)	7,087	1,340	607	104	(562)
Depreciation and amortization	3,977	3,677	3,702	4,102	4,467
Capital expenditures	5,507	6,271	4,204	2,600	974
Per share data					
Net earnings (loss)	$ 5.13	$ 0.97	$ 0.44	$ 0.08	$ (0.41)
Book value	2.02	0.56	0.43	1.48	(3.27)
Market price range					
High	6.99	4.40	4.40	4.75	6.50
Low	3.05	2.55	2.19	2.55	2.65
Return data					
Net earnings (loss) on net sales	9.1%	2.0%	1.0%	0.2%	(0.9)%
Net earnings (loss) on stockholders' equity	253.4%	173.8%	102.7%	5.1%	(12.4)%
Financial position at June 30 (in thousands)					
Total assets	$ 59,397	$ 53,425	$ 48,093	$ 46,982	$ 46,375
Working capital (net current assets)	16,161	17,347	15,634	15,396	12,808
Other assets	5,143	2,078	2,007	2,319	2,482
Property, plant and equipment (net)	23,336	21,806	19,230	18,689	20,131
Total assets less current liabilities	44,640	41,231	36,871	36,404	35,421
Less:					
Long-term debt	14,043	17,523	12,686	11,315	8,958
Employee benefits	730	770	758	780	818
Postretirement benefits	11,744	12,684	12,825	12,228	14,017
Pension liabilities	13,962	9,114	9,619	9,616	15,711
Other liabilities	1,364	369	392	416	440
Stockholders' equity (net assets)	$ 2,797	$ 771	$ 591	$ 2,049	$ (4,523)
Other					
Number of employees	222	201	201	184	183
Average shares outstanding	1,381,595	1,381,595	1,381,595	1,381,595	1,381,595

Federal Screw Works
34846 Goddard Road
Romulus, Michigan 48174