2009

Consolidated Financial Statements

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, manufactures precision metal components and assemblies primarily for use in military and commercial aircraft engines and in industrial gas turbines.

9. The nature of products or services offered;

   The Company's 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. The Company's 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.

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

The Company's principal executive office is located at Kreisler Industrial's manufacturing facility in Elmwood Park, New Jersey. The Company's 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, 2012.

The Company's Kreisler Polska subsidiary operates from an approximately 23,000 square foot leased facility (with approximately 4,200 additional square feet of leased land). Kreisler Polska's lease agreement has no lease end date but does require six months notice of cancellation by either part.

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

Chief Executive Officer ....Michael D. Stern

Chairman of the Board ....Wallace N. Kelly

Director ....Ronald Nussle, Jr.

Director ....John W. Poling

Director ....Richard T. Swope

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, 2009 is attached hereto as Exhibit A.

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

The Company's financial information for the last 2 fiscal years is attached hereto as Exhibit A.

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

No.

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

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.

Certified
Public
Accountants

Rothstein, Kass & Company, P.C.
4 Becker Farm Road
Roseland, NJ 07068
tel 973.994.6666
fax 973.994.0337
www.rkco.com

Beverly Hills
Dallas
Denver
Grand Cayman
New York
Roseland
San Francisco
Walnut Creek

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, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the two year period ended June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two year period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, P.C.

Roseland, New Jersey
September 29, 2009

An independent firm associated with AGN International Ltd
AGN INTERNATIONAL

EXHIBIT A – CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Balance Sheets – June 30, 2009 and 2008

Consolidated Statements of Operations – Years ended June 30, 2009 and 2008

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income – Years ended June 30, 2009 and 2008

Consolidated Statements of Cash Flows – Years ended June 30, 2009 and 2008

Notes to the Consolidated Financial Statements

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Balance Sheets

June 30,	2009	2008
Assets		
Cash and cash equivalents	$ 6,463,894	$ 7,243,565
Accounts receivable – trade (net of $20,000 allowance for uncollectible accounts at June 30, 2009 and 2008)	1,790,145	2,052,124
Inventories	6,567,490	7,142,438
Deferred tax asset	39,713	31,271
Other current assets	261,277	620,614
Prepaid income taxes	158,886	-
Total current assets	15,281,405	17,090,012
Property and equipment, net	2,334,617	2,077,223
Deposits on property and equipment	292,508	456,989
Long-term investments	-	700,000
Deferred tax asset	322,390	-
Total non-current assets	2,949,515	3,234,212
TOTAL ASSETS	$ 18,230,920	$ 20,324,224
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable – trade	$ 1,363,217	$ 1,812,515
Accrued expenses	551,135	867,167
Deferred revenue	-	1,259,505
Income taxes payable	43,466	39,018
Obligation under capital leases, current portion	80,152	127,731
Total current liabilities	2,037,970	4,105,936
Obligation under capital leases, net of current portion	18,869	128,296
Deferred tax liability	-	95,884
Accrued environmental costs	463,246	444,707
Total long-term liabilities	482,115	668,887
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, 2009 and 2008	233,494	233,494
Additional paid-in capital	1,221,814	1,062,736
Retained earnings	14,332,950	13,794,746
Accumulated other comprehensive (loss)/income	(77,423)	458,425
Total stockholders' equity	15,710,835	15,549,401
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 18,230,920	$ 20,324,224

The accompanying notes are an integral part of these consolidated financial statements.

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statements of Operations

Years ended June 30,	**2009**	**2008**
Net sales	$ 26,423,295	$ 29,278,635
Cost of goods sold	22,913,399	23,374,081
Selling, general and administrative expenses	3,079,506	2,691,215
Total costs and expenses	25,992,905	26,065,296
Income from operations	430,390	3,213,339
Interest and other income	73,376	239,777
Interest and other expenses	(38,103)	(56,579)
Realized gain on sale of asset	7,319	-
Foreign currency exchange adjustments	219,756	(219,271)
Income before income tax expense	692,738	3,177,266
Income tax expense	(154,534)	(1,311,509)
Net income	$ 538,204	$ 1,865,757
Net income per common share:		
Net income – basic	$0.29	$1.00
Net income – diluted	$0.29	$0.99
Weighted average common shares – basic	1,867,948	1,867,948
Weighted average common shares – diluted	1,868,147	1,891,138

The accompanying notes are an integral part of these consolidated financial statements.

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income

Years ended June 30, 2009 and 2008

	Common Stock Outstanding					
	Shares	**Amounts**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total Stockholders' Equity**
Balances, July 1, 2008	**1,867,948**	**$ 233,494**	**$ 909,625**	**$ 11,928,989**	**$ 71,023**	**$ 13,143,131**
Comprehensive income:						
Net income				1,865,757		1,865,757
Foreign currency translation adjustment [(1)]					387,402	387,402
Total comprehensive income						2,253,159
Stock-based compensation			153,111			153,111
Balances, June 30, 2008	**1,867,948**	**233,494**	**1,062,736**	**13,794,746**	**458,425**	**15,549,401**
Comprehensive income:						
Net income				538,204		538,204
Foreign currency translation adjustment [(2)]					(535,848)	(535,848)
Total comprehensive income						2,356
Stock-based compensation			159,078			159,078
Balances, June 30, 2009	**1,867,948**	**$ 233,494**	**$ 1,221,814**	**$ 14,332,950**	**$ (77,423)**	**$ 15,710,835**

[(1)] Net of tax expense of $258,268

[(2)] Net of tax benefit of $357,231

The accompanying notes are an integral part of these consolidated financial statements.

Kreisler Manufacturing Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30,	**2009**	**2008**
Cash Flows From Operating Activities:		
Net income	$ 538,204	$ 1,865,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	704,082	724,359
Realized (gain)/loss on disposition of equipment	(7,319)	1,427
Deferred tax (benefit)/expense	(69,486)	26,599
Stock-based compensation	159,078	153,111
Increase/(decrease) in cash attributable to changes in operating assets and liabilities		
Accounts receivable – trade, net	207,636	262,705
Inventories	522,125	(1,576,643)
Other current assets	344,672	(502,579)
Prepaid income taxes	(158,886)	-
Accounts payable – trade	(432,857)	759,261
Accrued expenses	(250,397)	326,605
Deferred revenue	(1,259,505)	759,505
Product warranties	-	(148,185)
Income taxes payable	4,448	39,018
Accrued environmental costs	18,539	18,590
Net Cash Provided By Operating Activities	320,334	2,709,530
Cash Flows From Investing Activities:		
Foreign grant for property and equipment placed in service	-	448,817
Purchases of property and equipment	(1,135,562)	(550,047)
Purchase of investments	-	(700,000)
Payment for deposit on property and equipment	(314,303)	(456,989)
Proceeds from sale of fixed asset	7,319	-
Proceeds from investments	700,000	550,000
Net Cash Used In Investing Activities	(742,546)	(708,219)
Cash Flows From Financing Activities:		
Repayments of obligations under capital leases	(157,006)	(118,047)
Net Cash Used In Financing Activities	(157,006)	(118,047)
Effect of foreign currency translation	(200,453)	291,976
(Decrease)/Increase in cash and cash equivalents	(779,671)	2,175,240
Cash and cash equivalents, beginning of period	7,243,565	5,068,325
Cash and cash equivalents, end of period	$ 6,463,894	$ 7,243,565
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Income taxes	$ 375,153	$ 1,466,000
Interest	$ 60,563	$ 25,532
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Deposits on property and equipment transferred to property and equipment	$ 21,625	$ -

The accompanying notes are an integral part of these 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 Krakow, 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.

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.

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.

Kreisler Industrial entered into a Memorandum of Understanding (the "MOU") with United Technologies Corporation ("UTC") for the delivery of F119 engine components. Under the MOU, UTC agreed to provide a $2,000,000 advance payment against future deliveries of F119 engine components, subject to certain conditions. As of June 30, 2008, Kreisler Industrial received $1,500,000 in advance payments, including $500,000 received at June 30, 2007 and $500,000 recorded in other current assets on the consolidated balance sheet at June 30, 2008. Prior to January 1, 2008, we deferred recognizing sales from these advance payments. Deferred sales are recognized based on the difference between the baseline selling price and the actual selling price of components covered under the MOU. The baseline selling price is defined as the price in effect prior to any discounts agreed to in the MOU. Starting January 1, 2008, we began recognizing deferred sales associated with the advance payments to net sales. At June 30, 2009 all deferred revenue had been recognized to net sales.

Cash and Cash Equivalents

All investments purchased with an original maturity of three months or less are considered to be cash equivalents.

As of June 30, 2009 and 2008, and at various times during the years, balances of cash at financial institutions 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 management expects to collect from outstanding balances. The carrying amounts of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that extend beyond the due date and estimates the portion, if any, of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has 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, 2009 and 2008. Management 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. Estimated useful lives of three to ten years are used for machinery and equipment, while leasehold improvements are amortized, using the straight-line method, over the shorter of either their economic useful lives or the term of the leases.

Long-Term Investments

All investments purchased with an original maturity greater than twelve months are considered to be long-term investments. All of our long-term investments are classified as available-for-sale at the respective balance sheet dates. We account for our investment portfolio at fair value. The investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and any material unrealized differences between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income. The specific identification method is used to determine the realized gains and losses on investments.

As of June 30, 2008, we held $700,000 of long-term investments. These long-term investments represented AAA-rated auction rate securities and had been affected by the ability of the financial markets to trade such securities. During the fiscal year ended June 30, 2009, all of our auction rate securites were purchased, at par, by either our broker or the security issuer.

We do not maintain investments in equities, commodities or derivatives and do not currently enter into transactions denominated in currencies other than the U.S. dollar or Polish zloty. With the exception of bank deposits, we have minimal interest rate risk on investments or other assets.

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 though we intend to evaluate, during fiscal year 2010, the risks and/or benefits of developing a hedging policy to lower our potential exposure to changes in the U.S. dollar relative to the Polish zloty.

Foreign Currency Translation

We comply with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation"; 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 statement of changes in stockholders' equity and comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income". The Polish zloty is the functional currency of Kreisler Polska.

Long-Lived Assets

In accordance with SFAS No. 144, "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. No impairments were identified during the years ended June 30, 2009 and 2008.

Stock-Based Compensation

Beginning July 1, 2006, we have followed the requirements of SFAS No. 123 (revised 2004) ("SFAS No. 123R"), "Share Based Payments." SFAS No. 123R 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, 2009 and 2008 for options that vested during fiscal 2009 and 2008, we recognized additional compensation expense of approximately $159,000 and $153,000 for the years ended June 30, 2009 and 2008, respectively. The estimated future additional compensation expense for the straight-line vesting of all stock options granted through June 30, 2009 is as follows:

Year Ended June 30,	Compensation Expense
2010	$120,000
2011	32,000
2012	13,000
Total	$165,000

Inventories

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 those 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 fiscals 2009 and 2008 totaled approximately $99,000 and $77,000, respectively.

Income Taxes

We comply with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial reporting of income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

We also comply with Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 ("FIN 48"), which provides criteria for the recognition, measurement, presentation, and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is "more-likely-than-not" that the position is sustainable based on its technical merits. The adoption of FIN 48 did not have a significant effect on our consolidated balance sheet or consolidated statement of operations.

Essentially all earnings of our foreign subsidiary, Kreisler Polska, are expected to be reinvested in overseas expansion. The unremitted earnings of Kreisler Polska are considered to be permanently reinvested and, accordingly, no deferred tax liability has been recorded on the potential repatriation of profits earned by Kreisler Polska.

Earnings per Common Share

We comply with SFAS No. 128, "Earnings Per Share." SFAS No. 128 requires dual presentation of basic and diluted income per common share for all periods presented. Basic income per common share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in our income. The difference between the number of shares used to compute basic income per common share and diluted income per common share relates to additional shares to be issued upon the assumed exercise of stock options, net of shares hypothetically repurchased at the average market price with the proceeds of exercise.

Comprehensive Income

We comply with SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes rules for the reporting and display of comprehensive income (loss) and its components. SFAS No. 130 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

Effective July 1, 2008, we implemented SFAS No. 157, "Fair Value Measurement" ("SFAS 157"), 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 provisions of FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," we have elected to defer implementation of SFAS 157 as it relates to its 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, 2009. We are evaluating the impact, if any, this standard will have on our non-financial assets and liabilities. The adoption of SFAS No. 157 did not have any material impact on our consolidated financial statements.

Use of Estimates

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

Recently Issued Accounting Standards

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS 168"), a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The Statement establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with U.S. GAAP. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and is not expected to have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). This Statement requires entities to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements ("recognizable subsequent events"). This Statement also requires entities to disclose the date through which subsequent events have been evaluated and the nature and estimated financial effects of certain subsequent events. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. We adopted SFAS 165 for its annual reporting period ending on June 30, 2009, and this statement did not have a material impact on our consolidated financial statements.

The Company does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed interim financial statements.

Product Warranty Expense

During April 2007, Kreisler Industrial was informed by a customer that industrial gas turbine components provided by Kreisler Industrial during fiscal 2007 needed to be replaced due to a quality discrepancy specific to this customer. This defect was subsequently rectified by Kreisler Industrial. As a result, we incurred a charge for the three months ended March 31, 2007 of $235,000, which was the estimated replacement cost of the components. Kreisler Industrial completed shipment of replacement components, at no additional cost to this customer, as of October 2007.

B. Concentration of Credit Risk

We maintain cash balances at several financial institutions. Accounts at each domestic institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 (through December 31, 2013) 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. In addition, some of our accounts were fully protected by the FDIC under the Transaction Account Guarantee Program ("TAGP"). On August 26, 2009, the FDIC extended the expiration date of the TAGP to June 30, 2010. Our uninsured FDIC (and at June 30, 2009, TAGP) balances approximated $2,861,000 and $7,218,000 at June 30, 2009 and 2008, respectively. If our primary commercial banks did not participate in the TAGP at June 30, 2009, our uninsured FDIC balances would have approximated $5,539,000. There were no uninsured balances as of June 30, 2009 and 2008 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.

C. Inventories

Inventories consist of the following at June 30, 2009 and 2008:

	2009	2008
Raw materials	$3,939,092	$4,636,976
Work-in-process	1,598,984	1,660,742
Finished goods	1,029,414	844,720
	$6,567,490	$7,142,438

D. Property and Equipment, net

Property and equipment, net consist of the following at June 30, 2009 and 2008:

	2009	2008
Leasehold improvements	$ 708,873	$ 801,812
Machinery and equipment	8,538,335	7,945,622
	9,247,208	8,747,434
Less accumulated depreciation and amortization	(6,912,591)	(6,670,211)
	$2,334,617	$2,077,223

At June 30, 2009 machinery and equipment included $586,859 of equipment acquired under capital leases with accumulated depreciation of $393,436. At June 30, 2008 machinery and equipment included $586,859 of equipment acquired under capital leases with accumulated depreciation of $310,305.

Depreciation and amortization expense was $704,082 and $724,359 for the years ended June 30, 2009 and 2008, respectively.

E. Income Taxes

The components of income tax expense as reflected in the consolidated statements of operations for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Current tax expense		
Federal	$125,766	$992,388
State	54,786	292,524
Foreign	43,466	-
Total current tax expense	224,018	1,284,912
Deferred tax expense/(benefit)		
Federal	(17,945)	13,665
State	(3,167)	2,411
Foreign	(48,372)	10,521
Total deferred tax expense/(benefit)	(69,484)	26,597
Income tax expense/(benefit)	$154,534	$1,311,509

The components of income before income tax expense consisted of the following for the years ended June 30, 2009 and 2008:

	2009	2008
U.S.	$329,393	$3,511,057
International	363,345	(333,791)
Total	$692,738	$3,177,266

The tax-effected components of deferred income tax assets and liabilities consisted of the following at June 30, 2009 and 2008:

	2009	2008
Accrued environmental costs	$ 185,298	$ 177,883
Foreign and state net operating loss carryforwards	21,542	155,661
Stock based compensation	109,622	63,471
Foreign currency translation	51,615	-
Other items, net	40,511	38,494
Gross deferred tax assets	408,588	435,509
Valuation allowance	(7,777)	(81,719)
Deferred tax assets	400,811	353,790
Basis difference in fixed assets	28,920	94,394
Foreign currency translation	-	305,617
Other items, net	9,788	18,392
Deferred tax liabilities	38,708	418,403
Net deferred tax asset/(liability)	$ 362,103	$ (64,613)

	2009	2008
Net deferred tax asset/(liability) consist of:		
Current deferred tax asset	$ 39,713	$ 31,271
Non-current deferred tax asset/(liability)	322,390	(95,884)
Net deferred tax asset/(liability)	$ 362,103	($64,613)

As of June 30, 2009, we had approximately $194,000 of state and $72,000 of foreign net operating loss carryforwards. The state and foreign net operating loss carryforwards begin to expire in 2012 and 2010, respectively. There are no federal net operating loss carryforwards.

The following is a reconciliation of income taxes at the Federal statutory rate to the provision for income taxes for the years ended Jue 30, 2009 and 2008:

	2009	2008
Federal tax computed at statutory rate	$ 235,532	$ 1,080,270
State taxes, net of Federal benefit	32,992	195,477
Foreign income taxed at rates other than Federal	(54,502)	50,069
Domestic production deduction	(8,500)	(62,900)
Other items, net	22,954	(25,349)
Valuation allowance	(73,942)	73,942
Income tax expense	$ 154,534	$ 1,311,509

F. 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.

Our 1997 Stock Option Plan (the “1997 Plan”) was approved by shareholders in November 1997 and expired during August 2007. A maximum of 280,000 shares of our common stock could be issued under the 1997 Plan. The term for all stock options granted under the 1997 Plan 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 1997 Plan, optionees become fully vested in their unexercised options. No stock options were granted under the 1997 Plan after August 5, 2007.

The purpose of the 2007 Plan and 1997 Plan is or was 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 and 1997 Plan may qualify under Section 422 of the Internal Revenue Code (Incentive Stock Options) or may be options which do not qualify under Section 422 (Nonqualified Options). The following table summarizes option activity for the years ended June 30, 2009 and 2008:

	2009		2008	
Stock Option Activity	No. of Shares	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	94,000	$10.83	94,000	$10.83
Granted	30,000	6.41	-	
Exercised	-		-	
Outstanding, end of year	124,000	9.76	94,000	10.83
Exercisable, end of year	62,667	$10.83	31,333	$10.83

At June 30, 2009, the weighted average contractual life of the 124,000 options outstanding was approximately nine years.

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

	2009
Fair value per option	$3.34
Assumptions:	
Annualized dividend yield	0%
Expected volatility	60.51%
Risk-free interest rate	1.61%
Expected option terms (years)	5

G. Significant Customers and Suppliers

Net sales to our largest commercial customer and the United States Government represented the following percentages of net sales as of June 30, 2009 and 2008, respectively:

Percentage of Net Sales

	Fiscal 2009	Fiscal 2008
Commercial Customer[1]	56%	54%
U.S. Government	6%	6%

[1]The sales amount includes approximately $1,252,000 in fiscal 2009 and $740,000 in fiscal 2008 of deferred revenue recognized in connection with UTC MOU, as defined in Note A.

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

Net Sales

	Fiscal 2009	Fiscal 2008
Commercial Customer[1]	$14,916,000	$15,820,000
U.S. Government	$1,673,000	$1,712,000

[1]The sales amount includes approximately $1,252,000 in fiscal 2009 and $740,000 in fiscal 2008 of deferred revenue recognized in connection with UTC MOU, as defined in Note A.

Accounts receivable from our largest commercial customer and the United States Government at June 30, 2009 and 2008 were as follows:

Accounts Receivable

	Fiscal 2009	Fiscal 2008
Commercial Customer	$204,000	$340,000 [1]
U.S. Government	$116,000	$196,000

[1]Excludes $500,000 in deferred revenue under the UTC MOU which was invoiced by Kreisler Industrial during March 2008 but not paid by the customer as of June 30, 2008. The $500,000 is included in other current assets.

During fiscal 2009, two suppliers each accounted for more than 10% of our purchased material cost compared to three suppliers in fiscal 2008. 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. While two suppliers represented between 11% and 12% of our purchased materials cost during fiscal 2009, we believe that alternative suppliers of these components are available such that the loss of either of these suppliers would not have a long-term material impact on us. At times, our customers require raw materials or components to be purchased from designated suppliers. We procure approximately 12% of our purchased material components from one of those two suppliers, a designated supplier of proprietary components.

H. Commitments and Contingencies

Leases

Our corporate office is located at the Kreisler Industrial Corporation 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 Corporation entered into the Extension to Lease Agreement (the "Lease Agreement Extension") with the facility owner. The Lease Agreement Extension extends the lease term from October 1, 2006 through September 30, 2012. Our Kreisler Polska subsidiary operates from a leased facility located in Krakow, Poland. Kreisler Polska's lease agreement has no lease end date but does require six months notice of cancellation by either party prior.

Future minimum lease commitments as of June 30, 2009 are as follows:

	Capital Leases	Operating Leases
Year ending June 30,		
2010	$ 85,155	$ 390,517
2011	19,438	354,079
2012	-	343,524
2013	-	85,627
	$ 104,593	$ 1,173,747
Less amount representing interest	(5,572)	
Present value of net minimum capital lease payments	99,021	
Less current maturities	(80,152)	
Long-term capital lease obligation	$ 18,869	

Rent expense for the years ended June 30, 2009 and 2008 amounted to $427,041 and $447,187, 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, 2009, the remaining cost estimated for remediation of the site under the FPRA with RCC was approximately $463,000 (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 2010, provided that RCC achieves specific milestones contained in the FPRA.

On April 14, 2009, we received an updated remediation status report from RCC indicating that the original remediation cost of $2,115,122, as specified in the FPRA, will be exceeded by approximately $426,000. 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 RCC's contractual obligations under the FPRA.

At June 30, 2009, estimated remediation payments are as follows:

2010	$467,630
2011	14,700
	482,330
Unamortized discount	(19,084)
Total	$463,246

In a letter dated February 23, 2006, we received a Notice of Assessment Related to Final Audit Determination from the New Jersey Division of Taxation that Kreisler Industrial's Business Tax Returns for the fiscal years ended June 30, 2002 and June 30, 2001 are subject to additional income tax. In accordance with the appropriate New Jersey statutes, we protested the final audit determination and requested an informal administrative conference with the Conference and Appeals Branch. On April 29, 2008, we participated in an informal administrative hearing with the Conference and Appeals Branch. In a letter dated June 13, 2008, we were notified by the New Jersey Division of Tax that our appeal was denied. We elected not to pursue further appeals of this audit determination. The amount due under the final audit determination totaled $104,561 of which $59,493 was additional income tax, $2,974 was for penalties and $42,094 was for interest through July 15, 2008. Approximately $90,000 of this expense was recognized during the three months ended December 31, 2005. Approximately $14,000 in interest expense was recognized during the three months ended March 31, 2008. The total amount owed was paid during July 2008.

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.

I. Related Party Transactions

On June 1, 2009, we entered into a consulting agreement (the "SEG Consulting Agreement") with the Stern Equity Group, LLC ("SEG") to provide consulting services related to (i) implementing sustaining solutions to existing sales, (ii) identifying higher margin/higher complexity products and (iii) developing new technologies. SEG is owned by Jeffrey R. Stern who is the brother of Michael D. Stern and Edward A. Stern, Co-President & Chief Executive Officer and Co-President & Chief Financial Officer, respectively, of Kreisler.

We agreed to pay Mr. J. Stern $7,500 per month for each month that he performs such consulting services during the term of the SEG Consulting Agreement.

We also agreed to reimburse Mr. J. Stern for all reasonable out-of-pocket expenses incurred during the term of the Consulting Agreement, including, but not limited to, Mr. J. Stern's commute to or from his home residence, living expenses while on site in New Jersey and certain business travel and entertainment expenses.

The SEG Consulting Agreement became effective on June 1, 2009 and continues for an initial period of three months from that date and continues until thirty days following a written termination notice by either party to the SEG Consulting Agreement. For the year ended June 30, 2009, we paid Mr. J. Stern $7,500 for consulting services and reimbursed Mr. J. Stern $646 for his out-of-pocket expenses.

On July 1, 2005, we entered into a letter agreement (the "Consulting Agreement") with Wallace N. Kelly, our Chairman of the Board, setting forth the terms of our engagement of Mr. Kelly to render technical advisory services to us in the areas of process engineering, product development, strategic planning, and customer and marketing support, as directed by our Chief Executive Officer.

We agreed to pay Mr. Kelly $1,000 for each full (eight hours or greater) day that he performs such services during the term of the Consulting Agreement. For days that Mr. Kelly performs services of less than eight hours, the fee is based on the fraction of actual hours during which the services were performed to eight hours.

We also agreed to reimburse Mr. Kelly for all reasonable out-of-pocket expenses incurred during the term of the Consulting Agreement, including, but not limited to, Mr. Kelly's commute to or from his home residence, living expenses while on site in New Jersey and certain business travel and entertainment expenses.

The Consulting Agreement became effective on July 1, 2005 and continues until thirty days following a written termination notice by either party to the Consulting Agreement. For the years ended June 30, 2009 and 2008, we paid Mr. Kelly $90,000 and $117,000, respectively for technical advisory services and reimbursed Mr. Kelly $16,000 and $30,000, respectively, for his out-of-pocket expenses.

J. Employee Benefit Plan

Beginning April 1, 2005 the Company 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. The employer 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, 2009 and 2008. The Plan does not offer employees an option to invest in the shares of the Company.

K. Subsequent Events

We have evaluated subsequent events through August 11, 2009, the date of issuance of these financial statements, as required by SFAS No. 165.

Fiscals 2009 and 2008 Quarterly Financial Results (Unaudited)

Quarterly financial results (unaudited) for fiscals 2009 and 2008 are presented below:

Fiscal 2009 Three Months Ended:	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09	Fiscal 2009
Net sales	$6,292,358	$6,039,547	$6,786,914	$7,304,476	$26,423,295
Cost of goods sold	5,325,670	5,411,038	5,908,928	6,267,763	22,913,399
Selling, general & administrative expenses	700,922	659,032	751,002	968,550	3,079,506
Total costs and expenses	6,026,592	6,070,070	6,659,930	7,236,313	25,992,905
Income/(Loss) from operations	265,766	(30,523)	126,984	68,163	430,390
Interest and other income	32,738	23,521	9,190	7,927	73,376
Interest and other expenses	(10,544)	(8,800)	(13,986)	(4,773)	(38,103)
Realized gain on sale of asset	0	0	0	7,319	7,319
Foreign currency exchange adjustments	74,603	157,692	13,041	(25,580)	219,756
Income before income tax (expense)/benefit	362,563	141,890	135,229	53,056	692,738
Income tax (expense)/benefit	(143,261)	(66,087)	(57,127)	111,941	(154,534)
Net income	$219,302	$75,803	$78,102	$164,997	$538,204

Fiscal 2008 Three Months Ended:	30-Sep-07	31-Dec-07	31-Mar-08	30-Jun-08	Fiscal 2008
Net sales	$6,696,947	$7,566,846	$7,445,087	$7,569,755	$29,278,635
Cost of goods sold	5,348,273	5,960,283	5,883,179	6,182,346	23,374,081
Selling, general & administrative expenses	580,237	733,915	564,189	812,874	2,691,215
Total costs and expenses	5,928,510	6,694,198	6,447,368	6,995,220	26,065,296
Income from operations	768,437	872,648	997,719	574,535	3,213,339
Interest and other income	63,715	61,571	76,774	37,717	239,777
Interest and other expenses	(12,357)	(6,311)	(25,305)	(12,606)	(56,579)
Foreign currency exchange adjustments	(5,095)	(21,470)	(37,764)	(154,942)	(219,271)
Income before income tax expense	814,700	906,438	1,011,424	444,704	3,177,266
Income tax expense	(327,940)	(363,919)	(406,019)	(213,631)	(1,311,509)
Net income	$486,760	$542,519	$605,405	$231,073	$1,865,757