FANSTEEL INC.
CRESTON, IOWA

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years Ended December 31, 2012 and 2011

FANSTEEL INC.
CRESTON, IOWA

Contents

Kiesling
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INDEPENDENT AUDITORS' REPORT

Fansteel Inc.
Creston, Iowa

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Fansteel Inc. (a Delaware corporation) and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fansteel Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kiesling Associates LLP

West Des Moines, Iowa
August 28, 2013

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,322,460	$ 163,906
Accounts receivable, less allowance of $1,174,691 and $249,048 at December 31, 2012 and 2011, respectively	13,406,243	14,447,797
Inventories		
Raw material and supplies	2,654,830	3,643,430
Work-in-process	16,439,417	15,986,995
Finished goods	1,108,465	1,530,931
Total inventories	20,202,712	21,161,356
Prepaid expenses	1,193,668	2,909,626
Total current assets	36,125,083	38,682,685
Property, plant and equipment		
Assets Held for Sale	915,592	-0-
Land	917,419	917,419
Buildings	9,290,917	9,443,085
Machinery and equipment	30,237,972	32,026,127
	41,361,900	42,386,631
Less accumulated depreciation	29,497,188	29,061,452
Net property, plant and equipment	11,864,712	13,325,179
Other assets		
Deposits	220,000	220,000
Reorganization value in excess of amounts allocable to identified assets	12,893,734	12,893,734
Goodwill	1,362,048	1,064,484
Deferred tax asset	3,484,400	3,146,100
Other	1,003,917	917,152
Total other assets	18,964,099	18,241,470
	$ 66,953,894	$ 70,249,334

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

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 13,091,092	$ 10,583,408
Accrued liabilities	9,600,972	13,739,979
Short-term borrowings	22,388,772	20,811,434
Current maturities of long-term debt	4,538,931	3,371,950
Total current liabilities	49,619,767	48,506,771
Long-term debt, less current maturities	2,480,679	2,830,757
Other liabilities		
Environmental remediation	23,970,755	23,767,483
Non-current pension liability	4,313,034	2,965,709
Deferred commissions	1,300,000	2,371,000
Total other liabilities	29,583,789	29,104,192
Total liabilities	81,684,235	80,441,720
Shareholders' equity (deficit)		
Common stock, par value $0.01, authorized 3,600,000 shares, issued and outstanding 662,400 and 662,400, respectively	6,624	6,624
Capital in excess of par value	105,050	105,050
Accumulated deficit	(12,097,795)	(8,402,705)
Accumulated other comprehensive loss	(2,744,220)	(1,901,355)
Total shareholders' deficit	(14,730,341)	(10,192,386)
Total liabilities and shareholders' deficit	$ 66,953,894	$ 70,249,334

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

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2012 and 2011

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net Sales	$90,714,072	$ 88,530,217
Cost and Expenses		
Cost of products sold	87,208,696	83,137,399
Selling, general and administrative	4,876,801	5,904,523
	92,085,497	89,041,922
Operating Income (Loss)	(1,371,425)	(511,705)
Other Income (Expense)		
Interest expense	(1,654,497)	(968,668)
Other	(404,979)	(1,174,554)
	(2,059,476)	(2,143,222)
Income (Loss) from Continuing Operations Before Income Taxes	(3,430,901)	(2,654,927)
Income Tax Expense (Benefit)	(731,163)	(1,041,077)
Net Income (Loss) from Continuing Operations	(2,699,738)	(1,613,850)
Income (Loss) from Discontinued Operations	(995,352)	(1,758,160)
Net Income (Loss)	$ (3,695,090)	$ (3,372,010)

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

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2012 and 2011

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net Income	$ (3,695,090)	$ (3,372,010)
Other comprehensive income, net of tax:		
Foreign Currency Translation Adjustments	(15,137)	(150,557)
Defined benefit pension plans:		
Net loss arising during period	(827,728)	(757,335)
Other comprehensive income	(842,865)	(907,892)
COMPREHENSIVE INCOME	$ (4,537,955)	$ (4,279,902)

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

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2010	6,628	105,232	(5,030,695)	(993,463)	(5,912,298)
Net loss					
Other comprehensive loss	-	-	(3,372,010)	-	(3,372,010)
Adjustment to apply post-retirement benefit obligation, net of tax	-	-	-	(757,335)	(757,335)
Foreign currency translation adjustment	-	-	-	(150,557)	(150,557)
Repurchase of common stock	(4)	(182)	-	-	(186)
Balance at December 31, 2011	6,624	105,050	(8,402,705)	(1,901,355)	(10,192,386)
Net loss					
Other comprehensive loss	-	-	(3,695,090)	-	(3,695,090)
Adjustment to apply post-retirement benefit obligation, net of tax	-	-	-	(827,728)	(827,728)
Foreign currency translation adjustment	-	-	-	(15,137)	(15,137)
Balance at December 31, 2012	$ 6,624	$ 105,050	$ (12,097,795)	$ (2,744,220)	$(14,730,341)

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

FANSTEEL INC.
CRESTON, IOWA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash Flows From Operating Activities:		
Net income (loss)	$ (3,695,090)	$ (3,372,010)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,901,934	2,118,353
Disposal of fixed assets	90,833	6,759
(Income) Loss from discontinued operations, net of tax benefit	995,352	1,758,160
Impairment loss	887,373	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	1,491,554	1,710,658
(Increase) decrease in inventories	958,644	(4,752,418)
(Increase) decrease in prepaid and other assets	1,647,200	(1,217,590)
Increase (decrease) in accounts payable and accrued liabilities	(2,684,225)	2,313,027
Net cash provided (used in) by operating activities	1,593,575	(1,435,061)
Cash Flows From Investing Activities:		
Proceeds from sale of assets	-	186,816
Business combination	-	(493,621)
Capital expenditures	(1,419,673)	(1,725,075)
Net cash used in investing activities	(1,419,673)	(2,031,880)
Cash Flows From Financing Activities:		
Proceeds from short-term borrowing	3,774,388	5,770,071
Payments on long-term debt	(1,380,147)	(1,439,813)
Repurchase of stock	-	(186)
Net cash provided by financing activities	2,394,241	4,330,072
Net Decrease in Cash and Cash Equivalents from Continuing Operations	2,568,143	863,131
Cash Flows of Discontinued Operations:		
Operating cash flows	(1,409,589)	(1,138,184)
Investing cash flows	-	-
Financing cash flows	-	-
Total Cash Flows of Discontinued Operations	(1,409,589)	(1,138,184)
Net Increase (Decrease) in Cash and Cash Equivalents	1,158,554	(275,053)
Cash and Cash Equivalents at Beginning of Year	163,906	438,959
Cash and Cash Equivalents at End of Year	$ 1,322,460	$ 163,906

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business

Fansteel Inc. and its subsidiaries (the "Company") manufacture high value precision engineered components for the global aerospace and industrial markets. The Company's products are used in a variety of applications where performance counts, including commercial aircraft, regional aircraft, business aircraft, personal aircraft, helicopters, turbine and piston engines; energy (flow control) and power generation (land based gas turbines and large displacement diesel/natural gas/oil fueled engines); and agriculture equipment, construction machinery, lawn and garden equipment and automotive.

For financial reporting purposes, the Company classifies its products into two business segments: Advanced Structures (precision engineered aluminum and magnesium sand castings, low pressure and low pressure permanent mold castings and end item assemblies) and Industrial Metal Components (precision net shape powdered metal components, engineered investment castings and custom assemblies).

The Company also has special purpose subsidiaries included as part of discontinued operations that were established solely for the remediation of environmental issues at former operations of the Company as part of the Company's Second Amended Joint Reorganization Plan ("Reorganization Plan") that was effective January 23, 2004 ("Effective Date").

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated in the consolidation.

Management has evaluated subsequent events through August 28, 2013. Operations at Wellman Dynamics Twin Cities, Inc., a wholly owned subsidiary of the Company, ceased effective January 28, 2011. Some existing business, and certain equipment, was relocated to Wellman Dynamics Corporation, another wholly owned subsidiary of the Company, and those customers, upon completion of source approval, became customers of Wellman Dynamics Corporation. Equipment not used by Wellman Dynamics Corporation or other wholly owned subsidiaries is in storage at the FMRI facility and is in the process of being liquidated.

Estimates

The preparation of the financial statements, in conformance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2012 and 2011, the Company had not purchased any investments with maturities of three months or less.

Note 2 - Significant Accounting Policies (Continued)

Receivables

Trade accounts receivable are classified as current assets and are reported net of allowances for doubtful accounts. The Company records such allowances based on a number of factors, including historical trends and specific customer liquidity. The Company has a process in-place to monitor the financial condition of its customers and proactively manages its accounts receivable.

Inventories

Inventories are valued at the lower of cost, determined on the "first-in-first-out" (FIFO) basis, or market. Costs include direct material, labor and any applicable manufacturing overhead.

Property, Plant and Equipment

Acquisitions of properties and additions to existing facilities and equipment are recorded at cost. For financial reporting purposes, straight-line depreciation is used. The estimated useful lives for machinery and equipment range from 3 years to 15 years while the estimated useful life of buildings is 39 years. Accelerated depreciation is used for income tax purposes.

Reorganization Items

Excess reorganization value represents the excess of the Company's enterprise value over the aggregate fair value of the Company's tangible and identifiable intangible assets and liabilities at January 23, 2004, the Effective Date. Although excess reorganization value is not amortized, it is evaluated annually or when events or changes occur that suggest impairment in carrying value.

Long-lived Assets

The Company periodically re-evaluates carrying values and estimated useful lives of long-lived assets to determine if adjustments are warranted. The Company uses estimates of undiscounted cash flows from long-lived assets to determine whether the book value of such assets is recoverable over the assets' remaining useful lives. During 2012, the Company determined that the assets held for sale from the Wellman Dynamics Twin Cities, Inc. were impaired and recognized an impairment loss of $887,373.

Revenue Recognition

The Company recognizes revenue when the risks and rewards of ownership have transferred to the customer, which is generally considered to have occurred as products are shipped from the Company. Revenues from sales of tooling, patterns and dies are recognized upon acceptance by the customer, and in certain cases, on a percentage of completion basis when pre-established milestones have been met and accepted by the customer.

Note 2 - Significant Accounting Policies (Continued)

Shipping and Handling Costs

The Company classifies distribution costs, including shipping and handling costs, in its cost of goods sold. Shipping and handling revenues are included in revenues.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with FASB Codification No. 740, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides for valuation allowances against the deferred tax asset for amounts which are not considered "more likely than not" to be realized.

Foreign Currency

The functional currency for the Company's foreign operation is the applicable local currency. The translation from the applicable foreign currency to U.S. Dollars is performed for the balance sheet accounts using current exchange rates in effect at the balance sheet date and for the profit and loss accounts using the average exchange rate for the year. The resulting translation adjustments are recorded as a component of shareholders' deficit. Gains or losses which are not material resulting from foreign currency transactions are included in other income.

Fair Value Measurements

Accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and provides for disclosures related to fair value measurements. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 – quoted market prices; Level 2 – observable inputs of quoted market prices for similar or inactive items; and Level 3 – unobservable inputs.)

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Note 3 - Discontinued Operations Including Certain Environmental Remediation

Muskogee Facility (FMRI, Inc.)

The Predecessor Company's ("Predecessor") Metal Products business segment, prior to the Effective Date, had been licensed by the Nuclear Regulatory Commission (hereinafter "NRC") to possess and use source material at the Muskogee Facility. Under the Predecessor's NRC permit, it was authorized to process ore concentrates and tin slag in the production of refined tantalum products. Licensable quantities of natural uranium and thorium are present in the slag, ores, concentrates and process residues.

The Predecessor discontinued its Metal Products business segment in 1989. In 1990 the NRC included the Muskogee Facility in the NRC's Site Decommissioning Management Plan. The Predecessor completed a remedial assessment in 1993 to determine what areas of the Muskogee Facility were required to undergo decommissioning.

During 2002 the Predecessor, with the assistance of third party environmental consultants, prepared a revised Decommissioning Plan ("Decommissioning Plan"), which was submitted to the NRC on January 15, 2003. The Decommissioning Plan assumed offsite disposal of all contaminated residues and soils as well as groundwater treatment and monitoring using criteria for acceptable decommissioning under applicable NRC regulations. Based on then available information, the Predecessor estimated the total future costs of the Decommissioning Plan based upon the then current costs of decommissioning activities to be \$41,600,000. The estimated decommissioning costs consisted of \$20,400,000 for excavating, hauling, and offsite disposal of residues and soils, \$15,600,000 for site plans, maintenance, safety, security and consulting costs, and \$5,600,000 for groundwater treatment and monitoring.

During 2003 the Predecessor continued to maintain the safety and security of the Muskogee Facility. Pursuant to the Reorganization Plan the Predecessor negotiated with the NRC to develop acceptable mechanisms for providing financial assurance for the decommissioning of the Muskogee Facility. In December 2003 the NRC approved the issuance and transfer of an amended NRC License and the Decommissioning Plan to FMRI Inc. (hereinafter "FMRI"). At January 23, 2004 the liability for the environmental remediation was \$38,700,000, and the recorded discounted liability using a discount rate of 11.3% as part of fresh-start accounting, which was required to be applied upon emergence of the Company from Chapter 11 Bankruptcy, was \$19,200,000. In 2005 FMRI began removal of the residues under Phase 1 of the Decommissioning Plan, which is expected to remove over 80% of the radioactive residues. Phase 1 is behind schedule. At December 31, 2012 and 2011, the gross estimated liability was \$22,417,000 and \$22,900,000, respectively and the recorded discounted liability, using a discount rate of 11.3%, was \$20,051,000 and \$20,050,000.

Note 3 - Discontinued Operations Including Certain Environmental Remediation (Continued)

FMRI can draw up to $4,500,000 from a Decommissioning Trust ("Decommissioning Trust") owned by the Company that was established in accordance with the NRC approved Decommissioning Plan. Draws against the Decommissioning Trust may be made on a revolving basis as long as the aggregate amounts outstanding under such draws don't exceed $2,000,000 and provided certain terms and conditions are satisfied. On April 13, 2005 the Decommissioning Trust was amended, with the consent of the NRC, to allow additional draws of up to $2,500,000. The Decommissioning Trust has a current balance of approximately $223,000.

Actual costs to be incurred in future periods to decommission the Muskogee Facility may vary, which could result in adjustment to future accrual and the estimates, due to, among other things, assumptions related to the quantities of soils to be remediated and inherent uncertainties in costs over time of actual disposal. No anticipated insurance recoveries are included in the recorded environmental liabilities.

Results of Discontinued Operations

The operations described above are classified as discontinued operations for all periods presented.

Discontinued operations reported gains (losses) of ($995,000) and ($1,758,000) for the years ended December 31, 2012 and 2011, respectively. The remaining losses for each time period relate in part to the accretion of discounted environmental liabilities arising from the Company's unsecured note obligations to its special purpose subsidiaries and the pension note for the terminated pension plan.

Results for discontinued operations were as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Gain on dispositions	$ -	$ -
Other expense	(995,352)	(1,758,160)
Loss before income taxes	(995,352)	(1,758,160)
Income tax provision	-	-
Net loss from operations	$ (995,352)	$ (1,758,160)

Note 3 - Discontinued Operations Including Certain Environmental Remediation (Continued)

The net liabilities of discontinued operations, which are included on the consolidated balance sheets, consist of the following amounts at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Cash	$ 2,299	$ 327,135
Prepaid expenses	69,464	125,148
Total assets	$71,763	$452,283
Current liabilities	$ 80,780	$ 101,185
Current maturities of long-term debt	3,450,000	1,150,000
Long-term debt (PBGC note)	879,531	2,957,872
Environmental remediation	20,050,730	20,050,147
Total liabilities	$ 24,461,041	$ 24,259,204
Net liabilities of discontinued operations	$ 24,389,278	$ 23,806,921

Note 4 - Other Environmental Remediation

Wellman Dynamics Corporation (hereinafter "Wellman"), a wholly owned subsidiary of the Company, entered into an Administrative Order on Consent with the EPA to perform a RCRA Facility Investigation ("RFI") for the purpose of determining the extent of releases of hazardous wastes and/or hazardous constituents, and, if appropriate, a Corrective Measures Study ("CMS") to evaluate possible corrective action measures that may be necessary at its Iowa Facility. At January 23, 2004 Wellman estimated that the cost for conducting the RFI/CMS would be $2,166,000 through 2010. At December 31, 2012 and 2011, the gross estimated liability was $1,774,000 and $1,774,000 respectively.

Wellman is permitted to operate a landfill for the disposal of its foundry sand. It is anticipated that, based upon current regulation and projections by third party consultants, Wellman is likely to be required to close the landfill in 2018 at a future cost approximating $1,297,000. Changes in regulations for non-public landfills may result in closure at an earlier date, which cannot be determined from current information. The recorded discounted liability, using a discount rate of 11.3%, at December 31, 2012 and 2011 respectively, was $1,170,000 and $1,072,000 respectively. During 2010 Wellman began reclaiming sand disposed of in the landfill and magnesium dross generated by current operations.

Note 4- Other Environmental Remediation (Continued)

In October 2000 Wellman provided the Iowa Department of Health (the "IDPH") with a "Historical Site Assessment" that identified uranium and thorium concentrations at the site. The IDPH required Wellman to perform a Risk Assessment ("RA") to determine whether the thorium-containing materials are a threat to human health or the environment. Wellman is awaiting the final report, but to its knowledge, the existing data forming the basis for the RA indicates that there is no imminent threat to health, safety or the environment. Wellman anticipates that the IDPH will allow it to address the thorium issue when it closes the landfill. However, there is a risk that the IDPH will require Wellman to remove or remediate the thorium prior to that time. The current estimated cost to remediate the thorium is $1,075,000. The recorded discounted liability, using a discount rate of 11.3%, at December 31, 2012 and 2011, respectively, was $968,000 and $871,000.

The liabilities were recorded for estimated environmental investigatory and remediation costs based upon an evaluation of currently available facts, including the results of environmental studies and testing conducted for all Predecessor owned sites in 1997 and since, and considering existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. Actual costs to be incurred in future periods at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. Future information and developments will require the Company to continually reassess the expected impact of these environmental matters. These liabilities could be reduced by potential net insurance recoveries that the Company is seeking from its insurers, and certain third parties, but there is no assurance any additional recoveries will be received. No anticipated insurance recoveries are included in the recorded environmental liabilities.

Note 5 - Debt

Short-term borrowings consisted of the following:

	December 31, 2012	December 31, 2011
Term loan	$ -	$ -
Revolving line of credit	22,388,772	20,811,434
	$ 22,388,772	$ 20,811,434

In order to increase the Company's liquidity and ability to meet operational and strategic needs, the Company and Wellman, one of its wholly owned subsidiaries, as borrowers, entered into the original Loan and Security Agreement with Fifth Third Bank, as lender, on July 15, 2005, with an original principal amount of $15,000,000. Substantially all of the assets of the borrowers were pledged as security for this financing.

Note 5 – Debt (Continued)

On September 5, 2011 the Company and Fifth Third amended its Loan and Security Agreement for the tenth time. The Tenth Amendment paid off the Wellman Dynamics Twin Cities note while restating the Fansteel term note. The agreement extended repayment of the then principal of $2,293,083 until January 5, 2014. This amendment also updated the required covenants of minimum EBITDA levels, limit leverage and debt service requirements.

In March 2012 the Company and Fifth Third amended its Loan and Security Agreement for the twelfth time establishing the maximum revolving loan limit of $28,000,000 and extending repayment to July 5, 2013. A term loan was made in the amount of $2,800,000 commencing April 5, 2012 with monthly payment until September 5, 2014 when payment is due in full. Covenant requirements were also updated. An Equipment Draw Note of $2,000,000 and $2,080,000 mortgage on the York, PA facility were approved. The mortgage was paid in full in October 2012 with the sale of the York building.

In September 2012 the Company and Fifth Third amended its Loan and Security Agreement for the Thirteenth time. The Thirteenth amendment provided for cancellation of the Equipment Draw Note, increase of the maximum Letter of Credit Commitment to $1,500,000 and an over advance. Covenant requirements were also updated.

On May 3, 2013 the Company and Fifth Third amended its Loan and Security Agreement increasing the Letter of Credit limit to $2,250,000.

On July 5, 2013 the Company and Fifth Third amended its Loan and Security Agreement for the Fifteenth time. The Fifteenth amendment extended the due date of the revolving line of credit from July 5, 2013 to July 5, 2014.

At December 31, 2012, the Company had letters of credit outstanding with Fifth Third Bank for casualty insurance collateral with an interest rate of 2 percent. The Company's availability under its revolver was $850,468 at December 31, 2012. The Company was not in compliance with the loan covenant at December 31, 2012. However Fifth Third Bank waived the 4th quarter non-compliance.

Long-term debt consisted of the following:

	December 31, 2012	December 31, 2011
PBGC, non-interest bearing ten-year note, due thru 2014 (net of an imputed discount of $120,455 at December 31, 2012 and $342,114 at December 31, 2011)	$ 4,329,531	$ 4,107,872
Term loan with Fifth Third Bank, due September 5, 2014, with interest rate of 3.25%	2,035,000	2,038,083
Capital lease of equipment, with an interest rate of 7.21% due 2013	-0-	14,083
Capital lease of equipment, with an interest rate of 11.3% due 2013	-0-	2,263

Note 5 – Debt (Continued)

	December 31, 2012	December 31, 2011
Capital lease of equipment, with an interest rate of 7.4% due 2013	11,777	40,406
Financed Lighting Upgrade	577,076	-0-
Financed Equipment Purchase	66,226	-0-
	7,019,610	6,202,707
Less current maturities	4,538,931	3,371,950
Total long-term debt	$ 2,480,679	$ 2,830,757

The Pension Benefit Guarantee Corporation ("PBGC") note is collateralized by land, building and equipment located in Mexico with a book value of $1,436,000 at December 31, 2012. The note has been discounted using an imputed interest rate of 11.3%. The note was purchased from PBGC by a limited liability company owned by the majority shareholders.

The aggregate maturities for long-term debt, excluding discounts, for the five years after December 31, 2012 are $4,538,931, $2,153,000, $1,238,000, $1,088,000 and $88,000, respectively.

Interest paid for 2012 and 2011 was $1,278,391 and $936,000, respectively.

Note 6 - Income Taxes

Deferred income taxes reflect the tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2012		December 31, 2011	
Deferred tax assets	$	13,911,500	$	9,546,800
Valuation allowance		(10,427,100)		(6,062,400)
	$	3,484,400	$	3,484,400

	December 31, 2012		December 31, 2011	
Current portion	$	-	$	338,300
Long-term portion		3,484,400		3,146,100
	$	3,484,400	$	3,484,400

Details of the provision (benefit) for income taxes in the Consolidated Statement of Operations are as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Current tax benefit	$	(731,163)	$	(1,041,077)
Deferred tax expense (benefit)		(4,364,700)		(835,800)
Change in valuation allowance		4,364,700		835,800
	$	(731,163)	$	(1,758,160)

Significant components of the Company's deferred taxes arise from differences between the basis of plant and certain liabilities. Before 2009 and in 2011 and 2012 the Company experienced historical net operating losses and has elected not to recognize deferred tax assets for certain accrued liabilities. As the Company has had taxable income for the years ended December 31, 2010 and 2009 it had elected to recognize a portion of its deferred tax assets it felt could be utilized against future taxable income. The Company has a benefit of $4,400,000 in loss carryforwards which expire in 2031 and 2032.

The Company's income tax returns from December 31, 2009 to present remain subject to examination.

Note 7 - Lease Commitments

The Company leases data processing, transportation and other equipment, as well as certain facilities, under operating leases. Such leases do not involve contingent rentals nor do they contain significant renewals or escalation clauses. Total minimum future rentals under non-cancelable leases at December 31, 2012 were $540,000, including $143,000 in 2013, $123,000 in 2014, $88,000 in 2015, $88,000 in 2016 and $603,000 in 2017 and thereafter. Rental expense was $594,000 in 2012 and $701,000 in 2011.

Note 8 - Retirement Plans

The Company has one non-contributory defined benefit plan covering salaried employees at Wellman, which approximates 9% of the Company's total employees. Benefits for the salaried plan are generally based on salary and years of service. Wellman's funding of the plan is equal to the minimum contribution required by ERISA. The measurement date used to measure plan assets and obligations is December 31st of each year as shown below.

Following is actuarial information relating to the defined benefit plans for:

		December 31, 2012		December 31, 2011
Change in benefit obligation	$	9,274,558	$	8,394,459
Benefit obligations at beginning of year				
Service cost		-		202,880
Interest cost		463,157		472,619
Actuarial loss (gain)		1,028,633		1,110,045
Benefits paid		(372,470)		(327,327)
Effect of Curtailment		-		(578,118)
Benefit obligations at end of year	$	10,393,878	$	9,274,558
Change in plan assets				
Fair value of plan assets at beginning of year	$	5,808,436	$	5,454,858
Actual return on plan assets		475,393		581
Employer contributions		169,485		680,324
Benefits paid		(372,470)		(327,327)
Fair value of plan assets at end of year	$	6,080,844	$	5,808,436
Underfunded status at end of year	$	(4,313,034)	$	(3,466,122)
Amounts recognized in statement of financial position				
Noncurrent assets	$	-	$	-
Current liabilities		-		-
Noncurrent liabilities		(4,313,034)		(3,466,122)
Net amount recognized	$	(4,313,034)	$	(3,466,122)

Note 8 - Retirement Plans (Continued)

	December 31, 2012	December 31, 2011
Amounts recognized in accumulated other comprehensive income		
Total net (gain)loss	$ 3,090,310	$ 2,262,582
Transition (asset)/obligation	-	-
Prior service cost/(credit)	-	-
Total accumulated other comprehensive income	$ 3,090,310	$ 2,262,582
Weighted average assumptions used to determine benefit obligations		
Discount rate	4.00%	4.75%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine net periodic pension cost		
Discount rate	5.75%	5.75%
Average compensation increase	N/A	3.08%
Expected rate of return on plan assets	6.25%	6.25%
Components of net periodic benefit cost		
Service cost	$ -	$ 202,880
Interest cost	463,157	472,619
Expected return on plan assets	(335,695)	(325,959)
Amortization of net loss	61,207	99,970
Net periodic benefit cost	$ 188,669	$ 449,510

The expected long-term rate of return for the pension plans was developed using historical rates of return while factoring in current market conditions such as inflation, interest rates and equity performance. The investment policies and strategies are directed at a blend of equity and income investments that ranges from 65% to 35% of each asset classification.

Contributions to the plan are expected to be a minimum of $630,000 in 2012. The plan was frozen, with no new entrants or additional benefit accruals, effective March 31, 2011. A curtailment gain of $578,000 was included in other comprehensive income.

The fair value of the Company's pension plan assets at December 31, 2012 and 2011, by asset class are as follows:

	Fair Value Measurements		
	12/31/2012	Level 1	Level 3
Common stock	$999,677	$999,677	$ -
Pooled investments	5,081,167	-	5,081,167
	$6,080,844	$999,677	$5,081,167

Note 8 - Retirement Plans (Continued)

	Fair Value Measurements		
	12/31/2011	Level 1	Level 3
Common stock	$843,005	$843,005	$ -
Pooled investments	4,965,431	-	4,965,431
	$5,808,436	$843,005	$4,965,431

Fair Value Measurements Using Significant Unobservable Inputs (Level3)	December 31, 2012	December 31, 2011
Beginning balance, December 31, 2011	$4,965,431	$4,368,939
Actual return on plan assets:		
Related to assets still held at the reporting date	206,963	232,556
Related to assets sold during the period	137,031	32,948
Purchases, sales, and settlements	(225,258)	330,988
Ending balance, December 31, 2012	$5,081,167	$4,965,431

Based on the current data and assumptions, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 calendar years:

Year Ending December 31,	Benefits Paid
2013	490,000
2014	500,000
2015	540,000
2016	550,000
2017	550,000
Years 2018 – 2022	2,920,000

The Company has several variable defined contribution plans (401(k)) covering approximately 100% of its employees. Almost all of these plans have funding provisions that, in certain situations, require Company contributions based upon formulae relating to employee gross wages, participant contributions or hours worked. The costs of these plans for 2012 and 2011 were $1,272,000 and $1,212,000 respectively.

Note 9 – Concentrations and Risks

United Technologies Corporation ("UTC"), and its wholly owned subsidiaries and tier one suppliers collectively, are a significant customer for the Company. For the year ending December 31, 2012 sales to UTC represented 26% of total Company revenue.

The Company entered into an asset purchase agreement on October 29, 2009 containing a contingent royalty agreement based on future sales of the purchased entity. Due to the shutdown of the facility in 2011 certain amounts have been disputed. The seller is requesting payment of $1,354,000 plus interest from April 2011 in addition to information requests that could result in additional settlements. An arbitration hearing is scheduled to begin August 26, 2013. The Company has accrued a liability for the possible settlement in the event of a negative outcome in arbitration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10 - Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) consists of the following as of December 31st of each year respectively:

	2012	2011
Foreign currency translation, net of tax	$ (165,694)	$ (150,557)
Pension benefit obligation, net of tax	(2,578,526)	(1,750,798)
	$ (2,744,220)	$ (1,901,355)

Note 11 - Goodwill

Goodwill consists of the following:

	2012	2011
Reorganization value in excess of identified assets	$ 12,893,734	$ 12,893,734
Goodwill acquired from purchase of WDMA (Note 13)	1,362,048	1,064,484
	$ 14,255,782	$ 13,958,218

The Company assesses its recorded balances of goodwill and intangible assets for impairment at least annually. As a result of the assessments, the Company has determined that no impairment needs to be recorded for the years ended December 31, 2012 and 2011.

Note 12 - Business Combination

On or about September 20, 2011, the Company purchased certain assets of Wellman Dynamics Machining and Assembly, Inc. (hereinafter "WDMA"). Purchased assets included inventories, property and equipment. The purchase price paid by the Company at closing was $493,621, net of cash received, along with assumption of certain accrued liabilities and long-term debt. The cash purchase price was financed through additional lending at Fifth Third Bank. An adjustment was made in 2012 to Goodwill for $297,564 for additional liabilities that needed to be recognized.

The total purchase price at closing was from the following:

	Original Allocation
Cash paid (net of cash received)	$ 493,621
Assumed liabilities	5,686,818
	$ 6,180,439

Note 12 - Business Combination (Continued)

The allocation of the purchase price was as follows:

Inventories	$ 3,500,057
Other	519,612
Goodwill	1,362,048
Property	798,722
	$ 6,180,439

On or about August 3, 2010 the Company purchased certain assets of Quality Compacted Metals, Inc. (hereinafter "QCM"). Purchased assets included inventories, property and equipment relating to QCM's powdered metal business. Liability for a single piece of equipment financed through U.S. Bancorp was transferred to the Company's American Sintered Technologies, Inc. business unit. The purchase price at closing was $588,370. The purchase price was financed through the revolving line of credit with Fifth Third Bank. On or about February 10, 2011, the Company completed the disposition of the former manufacturing facility and property formerly used by QCM and received net proceeds of approximately $187,200.