

THE L. S. STARRETT COMPANY
Athol, Massachusetts

February 8, 2019

To the Stockholders:

Presented below are the comparative financial results for the Company for the fiscal periods ended in December.

The Company enjoyed improved financial results in the second quarter. The positive sales trajectory established in the first quarter continued in our core precision measuring tool and saw products in North and South America. This, coupled with a recovery in high-end metrology, delivered increased sales and earnings. Net sales increased \$4.4 million or 8% from \$52.1 million in fiscal 2018 to \$56.5 million in fiscal 2019, which include \$2.3 million of unfavorable currency impact due to the strong U.S. dollar. Excluding the negative impact of foreign exchange, sales in constant dollars increased 13% or \$6.7 million.

Both our North American and International markets contributed to our improved performance, posting sales gains of \$3.5 million and \$0.9 million, respectively. Consolidated operating income was \$3.3 million, an increase of \$2.9 million.

The Company recorded net income of \$1.9 million or \$0.27 per diluted share in the second quarter of fiscal 2019 compared to a net loss of \$6.5 million or \$0.93 per diluted share in fiscal 2018, principally due to a \$2.9 million increase in operating income and a significantly lower effective tax rate.

Even though there is concern that the economy is slowing in some sectors and in international markets, notably China, we do not see this affecting our performance in the near term.

D. A. Starrett
President and CEO

SUMMARY OF CONSOLIDATED RESULTS

(in thousands of dollars except share data)

	Three Months Ended December		Six Months Ended December	
	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018
Net sales	\$ 56,532	\$ 52,124	\$ 108,433	\$ 103,942
Cost of goods sold	38,111	36,194	73,480	71,473
Gross margin	18,421	15,930	34,953	32,469
Selling, general and administrative expenses	15,141	\$ 15,486	30,905	\$ 31,576
Operating income	3,280	444	4,048	893
Other income (expense)	(289)	653	(115)	844
Income before income taxes	2,991	1,097	3,933	1,737
Income tax expense	1,065	7,618	1,423	7,832
Net income (loss)	\$ 1,926	\$ (6,521)	\$ 2,510	\$ (6,095)
Basic income (loss) per share	\$ 0.27	\$ (0.93)	\$ 0.36	\$ (0.87)
Diluted income (loss) per share	\$ 0.27	\$ (0.93)	\$ 0.35	\$ (0.87)
Dividends per share	\$ -	\$ 0.10	\$ -	\$ 0.20

The above figures are in part estimates and are subject to audit and year-end adjustments. Except for historical information contained herein, the matters discussed may involve forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially, including statements concerning future financial performance, economic and political conditions, currency fluctuations and foreign operations.

Second Quarter Report
December 31, 2018

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