

To the Stockholders:

Presented below are the comparative operating figures for the Company for the periods ended in December 2019 and December 2018.

Revenue in our second quarter remained flat in comparison to the prior year and year to date. This reflects continuing uncertainty in Europe, Asia and North American markets. However, the decline in our core products sold through industrial distribution channels were offset by double-digit growth in our high-end metrology businesses.

Operating income declined \$0.7 million in the period as gross margins remained flat and selling, general and administrative expenses increased in both international and North American operations.

Net income was \$1.3 million or \$0.18 per share compared to \$1.9 million or \$0.27 per share in the prior period, principally due to the decline in operating income and \$0.4 million increase in other expense due to the recognition of unrealized foreign exchange losses.

Over the second half of the year, we expect to encounter headwinds relative to sales growth, as the industrial channel continues to reduce inventory levels. Cost mitigation efforts will help soften some of the margin pressure. In our high-end metrology businesses, we expect our current sales trajectory to continue in the second half of the year.

D. A. Starrett

SUMMARY OF CONSOLIDATED RESULTS

(in thousands of dollars except share data)

	Three Months Ended December		Six Months Ended December	
	Fiscal 2020	Fiscal 2019	Fiscal 2020	Fiscal 2019
Net sales	\$ 56,864	\$ 56,532	\$ 108,978	\$ 108,433
Cost of goods sold	38,228	37,984	72,639	73,226
Gross margin	18,636	18,548	36,339	35,207
Selling, general and administrative expenses	15,874	15,100	32,132	30,823
Operating income	2,762	3,448	4,207	4,384
Other expense	(887)	(457)	(1,056)	(451)
Income before income taxes	1,875	2,991	3,151	3,933
Income tax expense	615	1,065	1,113	1,423
Net income	\$ 1,260	\$ 1,926	\$ 2,038	\$ 2,510
Basic income per share	\$ 0.18	\$ 0.27	\$ 0.29	\$ 0.36
Diluted income per share	\$ 0.18	\$ 0.27	\$ 0.29	\$ 0.35

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.