STARRETT L S CO
Form 10-K
August 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(check one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File No. 1-367

THE L.S. STARRETT COMPANY

(Exact name of registrant as specified in its charter)

MASSACHUSETTS	**04-1866480**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

121 CRESCENT STREET, ATHOL, MASSACHUSETTS	**01331**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code 978-249-3551

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Class A Common - $1.00 Per Share Par Value	**New York Stock Exchange**
Class B Common - $1.00 Per Share Par Value	**Not applicable**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The Registrant had 6,198,381 and 790,683 shares, respectively, of its $1.00 par value Class A and B common stock outstanding on December 31, 2014. On December 31, 2014, the last business day of the Registrant's second fiscal quarter, the aggregate market value of the common stock held by nonaffiliates was approximately $122,614,044.

There were 6,230,772 and 782,169 shares, respectively, of the Registrant's $1.00 par value Class A and Class B common stock outstanding as of August 24, 2015.

The exhibit index is located on pages 53-54.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to file a definitive Proxy Statement for the Company’s 2015 Annual Meeting of Stockholders within 120 days of the end of the fiscal year ended June 30, 2015. Portions of such Proxy Statement are incorporated by reference in Part III.

THE L.S. STARRETT COMPANY

FORM 10-K

FOR THE YEAR ENDED JUNE 30, 2015

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All references in this Annual Report to “Starrett”, the “Company”, “we”, “our” and “us” mean The L.S. Starrett Company and subsidiaries.

PART I

Item 1 - Business

General

Founded in 1880 by Laroy S. Starrett and incorporated in 1929, The L.S. Starrett Company (the "Company") is engaged in the business of manufacturing over 5,000 different products for industrial, professional and consumer markets. The Company has a long history of global manufacturing experience and currently operates 5 major global manufacturing plants. Domestic locations are Athol, Massachusetts (1880) and Mt. Airy, North Carolina (1985) with international operations located in Itu, Brazil (1956) Jedburgh, Scotland (1958) and Suzhou, China (1997). All subsidiaries principally serve the global manufacturing industrial base with concentration in the metalworking, construction, machinery, equipment, aerospace and automotive markets.

The Company offers its broad array of measuring and cutting products to the market through multiple channels of distribution throughout the world. The Company's products include precision tools, electronic gages, gage blocks, optical vision and laser measuring equipment, custom engineered granite solutions, tape measures, levels, chalk products, squares, band saw blades, hole saws, hacksaw blades, jig saw blades, reciprocating saw blades, M1® lubricant and precision ground flat stock. The Company primarily distributes its precision hand tools, saw and construction products through distributors or resellers both domestically and internationally. The Company's financial reporting is based on one business segment. Starrett® is brand recognized around the world for precision, quality and innovation.

Products

The Company's tools and instruments are sold throughout North America and in over 100 other countries. By far the largest consumer of these products is the manufacturing industry including metalworking, aerospace, medical, and automotive but other important consumers are marine and farm equipment shops, do-it-yourselfers and tradesmen such as builders, carpenters, plumbers and electricians.

For 135 years the Company has been a recognized leader in providing measurement and cutting solutions to industry. Measurement tools consist of precision instruments such as micrometers, vernier calipers, height gages, depth gages, electronic gages, dial indicators, steel rules, combination squares, custom, non-contact and in-process gaging such as optical, vision and laser measurement systems. The Company has expanded its product offering in the field of test and measurement equipment, with force measurement and material test equipment. Skilled personnel, superior products, manufacturing expertise, innovation and unmatched service has earned the Company its reputation as the "Best in Class" provider of measuring application solutions for industry. During fiscal 2014, the Company introduced material test systems consisting of hardware and cutting edge software with capacities up to 50KN, in addition to new manual and automated FOV (Field of View) measurement systems. These systems we believe will be attractive to industry to reduce measurement and inspection time and are ideal for quality assurance, inspection labs, manufacturing and research facilities.

The Company's saw product lines enjoy strong global brand recognition and market share. These products encompass a breadth of uses. The Company introduced several new products in the recent past including a new line of hand tools for measuring, marking and layout that include tapes, levels, chalk lines and other products for the building trades. In fiscal 2015, the Company introduced a new line of drills, knives and tool bags to broaden its hand tool product line. The continued focus on high performance, production band saw applications has resulted in the development of two new ADVANZ carbide tipped products MC5 and MC7 ideal for cutting ferrous materials (MC7) and non-ferrous metals and castings (MC5). These actions are aimed at positioning Starrett for global growth in wide band products for production applications.

As one of the premier industrial brands, the Company continues to be focused on every touch point with its customers. To that end, the Company now offers modern, easy-to-use interfaces for distributors and end-users including interactive catalogs and several online applications.

Personnel

At June 30, 2015, the Company had 1,804 employees, approximately 52% of whom were domestic. This represents a net decrease from June 30, 2014 of 7 employees. The headcount change included an increase of 1 domestically and a decrease of 8 internationally.

None of the Company's operations are subject to collective bargaining agreements. In general, the Company considers relations with its employees to be excellent. Domestic employees hold a large share of Company stock resulting from various stock purchase plans and employee stock ownership plans. The Company believes that this dual role of owner-employee has strengthened employee morale over the years.

Competition

The Company competes on the basis of its reputation as the best in class for quality, precision and innovation combined with its commitment to customer service and strong customer relationships. To that end, Starrett is increasingly focusing on providing customer centric solutions. Although the Company is generally operating in highly competitive markets, the Company's competitive position cannot be determined accurately in the aggregate or by specific market since none of its competitors offer all of the same product lines offered by the Company or serve all of the markets served by the Company.

The Company is one of the largest producers of mechanics' hand measuring tools and precision instruments. In the United States, there are three major foreign competitors and numerous small companies in the field. As a result, the industry is highly competitive. During fiscal 2015, there were no material changes in the Company's competitive position. The Company's products for the building trades, such as tape measures and levels, are under constant margin pressure due to a channel shift to large national home and hardware retailers. The Company is responding to such challenges by expanding its manufacturing operations in China. Certain large customers also offer their own private labels ("own brand") that compete with Starrett branded products. These products are often sourced directly from low cost countries.

Saw products encounter competition from several domestic and international sources. The Company's competitive position varies by market and country. Continued research and development, new patented products and processes, strategic acquisitions and investments and strong customer support have enabled the Company to compete successfully in both general and performance oriented applications.

Foreign Operations

The operations of the Company's foreign subsidiaries are consolidated in its financial statements. The subsidiaries located in Brazil, Scotland and China are actively engaged in the manufacturing and distribution of precision measuring tools, saw blades, optical and vision measuring equipment and hand tools. Subsidiaries in Canada, Australia, New Zealand, Mexico, Germany and Singapore are engaged in distribution of the Company's products. The Company expects its foreign subsidiaries to continue to play a significant role in its overall operations. A summary of the Company's foreign operations is contained in Note 15 to the Company's fiscal 2015 financial statements under the caption "OPERATING DATA" found in Item 8 of this Form 10-K.

Orders and Backlog

The Company generally fills orders from finished goods inventories on hand. Sales order backlog of the Company at any point in time is not significant. Total inventories amounted to $63.0 million at June 30, 2015 and $65.6 million at June 30, 2014.

Intellectual Property

When appropriate, the Company applies for patent protection on new inventions and currently owns a number of patents. Its patents are considered important in the operation of the business, but no single patent is of material importance when viewed from the standpoint of its overall business. The Company relies on its continuing product research and development efforts, with less dependence on its current patent position. It has for many years maintained engineers and supporting personnel engaged in research, product development and related activities. The expenditures for these activities during fiscal years 2015, 2014, and 2013 were approximately $1.7 million, $1.4 million, and $1.3 million, respectively.

The Company uses trademarks with respect to its products and considers its trademark portfolio to be one of its most valuable assets. All of the Company's important trademarks are registered and rigorously enforced.

Environmental

Compliance with federal, state, local, and foreign provisions that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to protection of the environment is not expected to have a material effect on the capital expenditures, earnings and competitive position of the Company. Specifically, the Company has taken steps to reduce, control and treat water discharges and air emissions. The Company takes seriously its responsibility to the environment, has embraced renewable energy alternatives and received approval from federal and state regulators in fiscal 2013 to begin using its new hydro – generation facility on line at its Athol, MA plant to reduce its carbon footprint and energy costs, an investment in excess of $1.0 million.

Strategic Activities

Globalization has had a profound impact on product offerings and buying behaviors of industry and consumers in North America and around the world, forcing the Company to adapt to this new, highly competitive business environment. The Company continuously evaluates most aspects of its business, aiming for new world-class ideas to set itself apart from its competition.

Our strategic concentration is on global brand building and providing unique customer value propositions through technically supported application solutions for our customers. Our job is to recommend and produce the best suited standard product or to design and build custom solutions. The combination of the right tool for the job with value added service gives us a competitive advantage. The Company continues its focus on lean manufacturing, plant consolidations, global sourcing, new software and hardware technologies, and improved logistics to optimize its value chain.

The execution of these strategic initiatives has expanded the Company’s manufacturing and distribution in developing economies, resulting in international sales revenues totaling 48% of consolidated sales for fiscal 2015.

SEC Filings and Certifications

The Company makes its public filings with the Securities and Exchange Commission (“SEC”), including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all exhibits and amendments to these reports, available free of charge at its website, www.starrett.com, as soon as reasonably practicable after the Company files such material with the SEC. Information contained on the Company’s website is not part of this Annual Report on Form 10-K.

Item 1A – Risk Factors

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K and the Company’s 2015 Annual Report to Stockholders, including the President’s letter, contain forward-looking statements about the Company’s business, competition, sales, gross margins, capital expenditures, foreign operations, plans for reorganization, interest rate sensitivity, debt service, liquidity and capital resources, and other operating and capital requirements. In addition, forward-looking statements may be included in future Company documents and in oral statements by Company representatives to security analysts and investors. The Company is subject to risks that could cause actual events to vary materially from such forward-looking statements, including the following risk factors:

Economic and world events could affect our operating results.

The Company’s results of operations may be materially affected by the conditions in the global economy. These include both world - wide and regional economic conditions and geo-political events. These conditions may affect financial markets, consumer and customer confidence. The recovery from the recession has been slow in North America. Latin America has experienced inflation resulting in weaker local currencies compared to the U. S. dollar. China’s growth has slowed and Europe and the Middle – East remain under geo-political threat. The Company can provide no assurance that these economic trends will not continue.

Technological innovation by competitors could adversely affect financial results.

Although the Company’s strategy includes investment in research and development of new and innovative products to meet technology advances, there can be no assurance that the Company will be successful in competing against new technologies developed by competitors.

International operations and our financial results in those markets may be affected by legal, regulatory, political, currency exchange and other economic risks.

During 2015, international sales revenues were $116 million, representing approximately 48% of total net sales. In addition, a significant amount of our manufacturing and production operations are located, or our products are sourced from, outside the United States. As a result, our business is subject to risks associated with international operations. These risks include the burdens of complying with foreign laws and regulations, unexpected changes in tariffs, taxes or regulatory requirements, and political unrest and corruption. Regulatory changes could occur in the countries in which we sell, produce or source our products or significantly increase the cost of operating in or obtaining materials originating from certain countries. Restrictions imposed by such changes can have a particular impact on our business when, after we have moved our operations to a particular location, new unfavorable regulations are enacted in that area or favorable regulations currently in effect are changed.

Countries in which our products are manufactured or sold may from time to time impose additional new regulations, or modify existing regulations, including:

- changes in duties, taxes, tariffs and other charges on imports;
- limitations on the quantity of goods which may be imported into the United States from a particular country;
- requirements as to where products and/or inputs are manufactured or sourced;
- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing and/or export prices or duties;
- limitations on foreign owned businesses; or
- government actions to cancel contracts, re-denominate the official currency, renounce or default on obligations, renegotiate terms unilaterally or expropriate assets.

In addition, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption and other economic or political uncertainties could interrupt and negatively affect our business operations. All of these factors could result in increased costs or decreased revenues and could materially and adversely affect our product sales, financial condition and results of operations.

We are also subject to the U.S. Foreign Corrupt Practices Act, in addition to the anti-corruption laws of the foreign countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

Economic weakness in the industrial manufacturing sector could adversely affect the Company's financial results.

The market for most of the Company's products is subject to economic conditions affecting the industrial manufacturing sector, including the level of capital spending by industrial companies and the general movement of manufacturing to low cost foreign countries where the Company does not have a substantial market presence. Accordingly, economic weakness in the industrial manufacturing sector may, and in some cases has, resulted in decreased demand for certain of the Company's products, which adversely affects sales and performance. Economic weakness in the consumer market will also adversely impact the Company's performance. In the event that demand for any of the Company's products declines significantly, the Company could be required to recognize certain costs as well as asset impairment charges on long-lived assets related to those products.

Volatility in the price of energy and raw materials could negatively affect our margins.

Steel is the principal raw material used in the manufacture of the Company's products. The price of steel has historically fluctuated on a cyclical basis and has often depended on a variety of factors over which the Company has no control. The cost of producing the Company's products is also sensitive to the price of energy. The selling prices of the Company's products have not always increased in response to raw material, energy or other cost increases, and the Company is unable to determine to what extent, if any, it will be able to pass future cost increases through to its customers. The Company's inability to pass increased costs through to its customers could materially and adversely affect its financial condition or results of operations.

The inability to meet expected investment returns and changes to interest rates could have a negative impact on Pension plan assets.

Currently, the Company's U.S. defined benefit pension plan is underfunded primarily due to lower discount rates. The Company made contributions in fiscal 2015 of $4.8 million and will be required to make additional contributions in fiscal 2016 of $3.3 million. The Company could be required to provide more funding to the domestic plan in the future. The Company's UK plan, which is also underfunded, required Company contributions of $1.2 million, $1.2 million and $1.2 million during fiscal 2015, 2014 and 2013 respectively. The Company will be required to make a $1.1 million contribution to its UK pension plan in fiscal 2016.

Businesses that we may acquire may fail to perform to expectations.

Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies, difficulty in assimilating the operations and personnel of the acquired businesses, disruption of the Company’s existing business, dissipation of the Company’s limited management resources, and impairment of relationships with employees and customers of the acquired business as a result of changes in ownership and management. While the Company believes that strategic acquisitions can improve its competitiveness and profitability, the failure to successfully integrate and realize the expected benefits of such acquisitions could have an adverse effect on the Company’s business, financial condition and operating results.

We are subject to certain risks as a result of our financial borrowings. Under the Company’s credit facility with TD Bank, N.A., the Company is required to comply with certain financial covenants, including: 1) funded debt to EBITDA, excluding non-cash and retirement benefit expenses (“maximum leverage”), cannot exceed 2.25 to 1; 2) annual capital expenditures cannot exceed $15.0 million; 3) maintain a Debt Service Coverage Rate of a minimum of 1.25 to 1 and 4) maintain consolidated cash plus liquid investments of not less than $10.0 million at any time.

The Company believes that it will be able to service its debt and comply with the financial covenants in future periods; however, it can be not be assured of results of operations or future credit and financial markets conditions. An event of default under the credit facility, if not waived, could prevent additional borrowing and could result in the acceleration of the Company’s debt. As of June 30, 2015, the Company was in compliance with all the covenants. The credit facility expires in April of 2018.

Any inadequacy, interruption, integration failure or security failure with respect to our information technology could harm our ability to effectively operate our business.

The efficient operation of the Company's business is dependent on its information systems, including its ability to operate them effectively and to successfully implement new technologies, systems, controls and adequate disaster recovery systems. In addition, the Company must protect the confidentiality of data of its business, employees, customers and other third parties. The failure of the Company's information systems to perform as designed or its failure to implement and operate them effectively could disrupt the Company's business or subject it to liability and thereby harm its profitability. The Company continues to enhance the applications contained in the Enterprise Resource Planning (ERP) system as well as improvements to other operating systems.

Failure to comply with laws, rules and regulations could negatively affect our business operations and financial performance.

Our business is subject to federal, state, local and international laws, rules and regulations, such as state and local wage and hour laws, the U.S. Foreign Corrupt Practices Act, the False Claims Act, the Employee Retirement Income Security Act (“ERISA”), securities laws, import and export laws (including customs regulations) and many others. The complexity of the regulatory environment in which we operate and the related cost of compliance are both increasing due to changes in legal and regulatory requirements, increased enforcement and our ongoing expansion into new markets and new channels. In addition, as a result of operating in multiple countries, we must comply with multiple foreign laws and regulations that may differ substantially from country to country and may conflict with corresponding U.S. laws and regulations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice. If we fail to comply with laws, rules and regulations or the manner in which they are interpreted or applied, we may be subject to government enforcement action, class action litigation or other litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties, and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance.

Our tax rate is dependent upon a number of factors, a change in any of which could impact our future tax rates and net income.

Our future tax rates may be adversely affected by a number of factors, including the enactment of certain tax legislation being considered in the U.S.; other changes in tax laws or the interpretation of such tax laws; changes in the estimated realization of our net deferred tax assets; the jurisdictions in which profits are determined to be earned and taxed; the repatriation of non-U.S. earnings for which we have not previously provided for U.S. income and non-U.S. withholding taxes; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses that are not deductible for tax purposes, including impairment of goodwill in connection with acquisitions; changes in available tax credits; and the resolution of issues arising from tax audits with various tax authorities. Losses for which no tax benefits can be recorded could materially impact our tax rate and its volatility from one quarter to another. Any significant change in our jurisdictional earnings mix or in the tax laws in those jurisdictions could impact our future tax rates and net income in those periods.

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

The Company's principal plant and its corporate headquarters are located in Athol, MA on approximately 15 acres of Company-owned land. The plant consists of 25 buildings, mostly of brick construction of varying dates, with approximately 535,000 square feet.

The Company's Webber Gage Division in Cleveland, OH, owns and occupies two buildings totaling approximately 50,000 square feet.

The Company-owned facility in Mt. Airy, NC consists of one building totaling approximately 320,000 square feet. It is occupied by the Company's Saw Division, Ground Flat Stock Division and a distribution center.

The Company's subsidiary in Itu, Brazil owns and occupies several buildings totaling 209,000 square feet.

The Company's subsidiary in Jedburgh, Scotland owns and occupies a 175,000 square foot building.

A wholly owned manufacturing subsidiary in The People's Republic of China leases a 133,000 square foot building in Suzhou and leases a sales office in Shanghai.

The Tru-Stone Division owns and occupies a 106,000 square foot facility in Waite Park, MN.

The Kinemetric Engineering Division occupies a 18,000 square foot leased facility in Laguna Hills, CA.

The Bytewise Division occupies a 10,000 square foot leased facility in Columbus, GA.

In addition, the Company operates warehouses and/or sales-support offices in the U.S., Canada, Australia, New Zealand, Mexico, Germany, Singapore and Japan.

In the Company's opinion, all of its property, plant and equipment are in good operating condition, well maintained and adequate for its current and foreseeable needs.

Item 3 - Legal Proceedings

In the ordinary course of business the Company is involved from time to time in litigation that is not considered material to its financial condition or operations.

Item 4 – Mine Safety Disclosures

Not applicable.

PART II

Item 5 - Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Class A common stock is traded on the New York Stock Exchange. Quarterly dividend and high/low closing market price information is presented in the table below. The Company's Class B common stock is generally nontransferable, except to lineal descendants of stockholders, and thus has no established trading market, but it can be converted into Class A common stock at any time. The Class B common stock was issued on October 5, 1988, and the Company has paid the same dividends thereon as have been paid on the Class A common stock since that date. On June 30, 2015, there were approximately 1,224 registered holders of Class A common stock and approximately 1,015 registered holders of Class B common stock.

Quarter Ended	Dividends	High	Low
September 2013	$ 0.10	$11.77	$10.07
December 2013	0.10	14.57	10.99
March 2014	0.10	19.21	14.41
June 2014	0.10	17.01	13.73
September 2014	0.10	18.23	13.84
December 2014	0.10	19.99	13.15
March 2015	0.10	21.80	18.88
June 2015	0.10	20.30	14.75

The Company's dividend policy is subject to periodic review by the Board of Directors. Based upon economic conditions, the Board of Directors decided to maintain the quarterly dividend at $0.10 for all quarters of fiscal 2015.

The Company repurchased 263 shares of class B stock in the fourth quarter of fiscal 2015.

PERFORMANCE GRAPH

The following graph sets forth information comparing the cumulative total return to holders of the Company's Class A common stock based on the market price of the Company's Class A common stock over the last five fiscal years with (1) the cumulative total return of the Russell 2000 Index ("Russell 2000") and (2) a peer group index (the "Peer Group") reflecting the cumulative total returns of certain small cap manufacturing companies as described below. The peer group is comprised of the following companies: Acme United, Q.E.P. Co. Inc., Badger Meter, Federal Screw Works, National Presto Industries, Regal-Beloit Corp., Tecumseh Products Co., Tennant Company, The Eastern Company and WD-40.

	BASE	FY2011	FY2012	FY2013	FY2014	FY2015
STARRETT	**100.00**	**110.64**	**129.15**	**118.35**	**183.36**	**183.19**
RUSSELL 2000	**100.00**	**137.41**	**134.55**	**167.12**	**206.63**	**220.03**
PEER GROUP	**100.00**	**116.95**	**114.47**	**127.51**	**163.03**	**163.37**

Item 6 - Selected Financial Data

The following selected financial data have been derived from and should be read in conjunction with “Management Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and notes thereto, included elsewhere in this Annual Report on Form 10-K.

	Years ended June 30 (in $000s except per share data)				
	2015	**2014**	**2013**	**2012**	**2011**
Net sales	$241,550	$247,134	$243,797	$260,148	$244,841
Net earnings (loss)	5,244	6,712	(162)	888	6,845
Basic earnings (loss) per share	0.75	0.97	(0.02)	0.13	1.02
Diluted earnings (loss) per share	0.75	0.97	(0.02)	0.13	1.02
Long-term debt	18,552	10,804	24,252	29,387	721
Total assets	212,272	231,443	230,794	252,166	227,179
Dividends per share	0.40	0.40	0.40	0.40	0.32

Items 7 and 7A- Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure about Market Risk

RESULTS OF OPERATIONS

Fiscal 2015 Compared to Fiscal 2014

Overview

L. S. Starrett is a global manufacturing company impacted by economic and geo-political conditions worldwide. North America was the strongest market for the Company in FY 2015. This was driven by a U.S economy that exhibited the most buoyance of any of the major global economies. This was driven by an improved labor market and a steady recovery in overall economic performance coupled with new product introductions and new and enhanced channel partner relationships. This resulted in increased demand for precision hand tools and continued growth in shipments for high-end capital equipment. Internationally, sales declined as result of the strong U.S. dollar. This negatively impacted most all international operating facilities. Other significant factors hurting international performance were accelerating inflation and a deepening recession in Brazil, a European market still suffering with Eurozone financial instability and a Chinese economy experiencing slower expansion. Net sales for fiscal 2015 declined $5.6 million, or 2%, compared to fiscal 2014, as gains in North America were offset by lower International sales, principally caused by the strong U.S. dollar. Price increases, particularly in Brazil and new products, representing sales gains of $6.5 million and $2.7 million respectively, were offset by unfavorable exchange rates of $14.1 million and volume declines of $0.77 million. Gross margins declined $4.4 million from $81.1 million, or 32.8 % of sales, in fiscal 2014 to $76.7 million or 31.8% of sales in fiscal 2015 as a $3.7 million improvement in North America was offset by an $8.1 million decline in International. Selling, general and administrative expenses decreased $1.1 million or 2% from $69.2 million in fiscal 2014 to $68.1 million in fiscal 2015 principally due to reduced International expenses expressed in U.S. dollars. Operating income declined $3.3 million, from $11.9 million in fiscal 2014, to $8.6 million in fiscal 2015.

Net Sales

Net sales in North America increased $7.9 million, or 6%, from $129.4 million in fiscal 2014 to $137.3 million in fiscal 2015 with precision hand tools and capital equipment posting gains of 6% and 13%, respectively. International sales decreased $13.4 million, or 11%, from $117.8 million in fiscal 2014 to $104.4 million in fiscal 2015 with the weak Brazilian Real translated to the strong U.S. dollar representing $12.1 million, or 90%, of the decline.

Gross Margin

Gross margin in North America increased $3.8 million, or 10%, from $39.8 million in fiscal 2014 to $43.6 million in fiscal 2015 and improved as a percentage of sales from 30.8% in fiscal 2014 to 31.8% in fiscal 2015. The improvement was due to a favorable product mix and increased sales volume. International gross margins decreased $8.2 million, or 20%, from $41.3 million in fiscal 2014 to $33.1 million in fiscal 2015 with unfavorable exchange rates representing $4.4 million and reduced sales volume $3.7 million.

Selling, General and Administrative Expenses

North American selling, general and administrative expenses increased $0.5 million, or 1%, as higher travel and entertainment, professional fees and commissions more than offset savings in salaries and employee benefits. International selling, general and administrative expenses decreased $1.6 million, or 5%, with a $4.0 million savings due to the stronger U. S. dollar. Higher spending in local currencies for salaries and benefits, commissions, professional fees and marketing expenses represented the major factors for a $2.4 million cost increase as measured if currency exchange rate remained constant.

Operating Profit

The operating profit declined $3.3 million from $11.9 million in fiscal 2014 to $8.6 million in fiscal 2015 as a $3.2 million North American profit improvement was more than offset by $6.5 million reduction in International.

Other Income, Net

Other income in fiscal 2015 increased $1.2 million compared to fiscal 2014 principally due to a strong dollar in fiscal 2015 that increased the local currency value of dollar denominated assets, especially export receivables in Brazil, compared to fiscal 2014 when the Brazilian Real was consistent with fiscal 2013 and the strength of the Pound Sterling to the U. S. dollar resulted in foreign exchange losses in Scotland.

Income Taxes

The effective tax rate was 47.2% for fiscal 2015 and 44.3% for fiscal 2014. The rate reflects federal, state and foreign adjustments for permanent book to tax differences. The principal reason for the rate being significantly greater than the US normalized combined federal and state tax rate of approximately 38% was significant losses in foreign operations which could not reduce tax expense based upon the uncertainty of future profits in those entities.

The Company continues to recognize the benefit of most U.S. deferred tax assets as, after weighing the positive and negative evidence, it believes it is more likely than not that those benefits will be recognized. The valuation allowances relating to carryforwards of foreign net operating losses (NOLs) increased by $0.7 million and to foreign tax credits increased by $0.5 million. There was no change in the valuation allowance related to certain state NOLs.

Fiscal 2014 Compared to Fiscal 2013.

Overview

L. S. Starrett is a global manufacturing company impacted by economic conditions worldwide. In North America, an improved labor market and a steady recovery in overall economic performance resulted in increased demand for precision hand tools and a resurgence of shipments for high-end capital equipment. Internationally, sales declined as an economic recovery in Europe and strong gains in Asia was offset by a continued weakening of the Brazilian Real against the U. S. dollar.

Net sales for fiscal 2014 increased $3.3 million, or 1.4%, compared to fiscal 2013, as gains in North America, Europe and Asia more than offset unfavorable foreign currency exchange rates in South America. Price increases, particularly in Brazil, and new products represented sales gains of $9.6 and $7.0 million respectively offsetting volume declines of $6.0 million and unfavorable exchange rates of $7.3 million. Gross margins increased $9.3 million from $71.8 million, or 29.5 %, of sales in fiscal 2013 to $81.1 million, or 32.8%, of sales in fiscal 2014 as a favorable product mix of increased sales of higher margin products, a successful launch of new products and reduced manufacturing overhead costs all contributed to an improved performance. Selling, general and administrative expenses decreased $3.9 million, or 5.3%, from $73.1 million in fiscal 2013 to $69.2 million in fiscal 2014 principally due to cost reductions implemented in the fourth quarter of fiscal 2013. Operating income improved $13.2 million, from a loss of $1.3 million in fiscal 2013, to a profit of $11.9 million in fiscal 2014.

Net Sales

Net sales in North America increased $5.9 million, or 4.8%, from $123.5 million in fiscal 2013 to $129.4 million in fiscal 2014 with an increase in capital equipment sales representing $4.3 million, or 73%, of the growth. International sales decreased $2.6 million, or 2.2%, from $120.3 million in fiscal 2013 to $117.7 million in fiscal 2014. Foreign currency exchange rate fluctuations represented an unfavorable impact of $7.3 million, more than offsetting than revenue increases in Europe and Asia of $2.1 and $1.4 million, respectively.

Gross Margin

Gross margin in North America increased $7.4 million, or 22%, from $33.1 million in fiscal 2013 to $40.5 million in fiscal 2014 and improved as a percentage of sales from 26.8% in fiscal 2013 to 31.3% in fiscal 2014. The improvement was due to a favorable product mix, reduced manufacturing overhead and lower LIFO reserves in North America. International gross margins increased $1.8 million, or 4.7%, from $38.8 million in fiscal 2013 to $40.6 million in fiscal 2014 as improved margins in Europe and Asia, of $0.9 million and $2.5 million, respectively, more than offset a $2.7 million negative impact due to foreign exchange rate changes.

Selling, General and Administrative Expenses

North American selling, general and administrative expenses decreased $1.0 million, or 2.8%, due to lower salaries, travel and professional fees. International selling, general and administrative expenses decreased $3.0 million, or 8.4%, with a $1.9 million savings due to the stronger U. S. dollar. Lower salaries and employee benefits, commissions, Information Technology, professional fees and marketing expenses combined for a $2.7 million savings expressed in U. S. dollars.

Operating Profit

Operating profit improved $13.2 million from a loss of $1.3 million in fiscal 2013 to a profit of $11.9 million in fiscal 2014 as a result of improved gross margins and lower selling, general and administrative expenses.

Other Income, Net

Other income declined $1.9 million due to $0.8 million in foreign exchange losses in fiscal 2014 compared to $1.1in foreign exchange gains in fiscal 2013.

Income Taxes

The Company recorded $5.3 million of tax expense (44.3%) on $12.0 million of pretax income and $1.0 million of tax expense (120.3%) on $0.8 million of pretax income for the fiscal years ended June 30, 2014 and June 30, 2013, respectively. The significant items impacting tax expense in fiscal 2014 include the following:

The Company recorded $0.3 million of deferred income tax expense to reflect a reduction of three percentage points in the tax rate applied to deferred tax assets in the U.K. In addition, as a result of a tax audit in China, the Company's tax loss carryforwards were reduced increasing tax expense by $0.2 million. Tax benefits include a reduction of the valuation allowance in China as the subsidiary was profitable in fiscal 2014 and fully utilized its tax loss carryforward and the tax benefit of a revised calculation of the U.S. deduction for losses related to receivables and investments in foreign subsidiaries as a return to provision adjustment.

The Company continues to recognize the benefit of most U.S. deferred tax assets as, after weighing the positive and negative evidence, it believes it is more likely than not that those benefits will be recognized. In fiscal 2014, the valuation allowance decreased by $1.2 million primarily related to profits in China (as noted above) and to the portion of foreign tax credits which expired in 2014 and which were also written off.

FINANCIAL INSTRUMENT MARKET RISK

Market risk is the potential change in a financial instrument's value caused by fluctuations in interest and currency exchange rates, and equity and commodity prices. The Company's operating activities expose it to risks that are continually monitored, evaluated and managed. Proper management of these risks helps reduce the likelihood of earnings volatility.

The Company does not engage in tracking, market-making or other speculative activities in derivatives markets. The Company does not enter into long-term supply contracts with either fixed prices or quantities. The Company engages in an immaterial amount of hedging activity to minimize the impact of foreign currency fluctuations and had $1.3 million in forward currency contracts outstanding at June 30, 2015. Net foreign monetary assets are approximately $25.7 million as of June 30, 2015.

A 10% change in interest rates would not have a significant impact on the aggregate net fair value of the Company's interest rate sensitive financial instruments or the cash flows or future earnings associated with those financial instruments. A 10% change in interest rates would not have a material impact on our borrowing costs. See Note 12 to the Consolidated Financial Statements for details concerning the Company's long-term debt outstanding of $18.6 million.

LIQUIDITY AND CAPITAL RESOURCES

	Years ended June 30 ($000)		
	2015	**2014**	**2013**
Cash provided by operating activities	$6,800	$11,175	$20,716
Cash used in investing activities	(5,544)	(8,347)	(9,829)
Cash provided by (used in) financing activities	(3,547)	(6,669)	(7,590)

The Company has a working capital ratio of 5.7 as of June 30, 2015 as compared to 4.1 as of June 30, 2014. The working capital ratio improvement is principally due to the reclassification of our Line of Credit from short-term debt to long-term debt as the credit facility was renewed for three years in April of 2015. Cash, short-term investments, accounts receivable and inventories represent 92% of current assets in both fiscal 2015 and fiscal 2014. The Company had accounts receivable turnover of 5.8 in fiscal 2015 and 6.1 in fiscal 2014, and had an inventory turnover ratio of 2.6 in fiscal 2015 and 2.7 in fiscal 2014.

Net cash provided by operations of $6.8 million in fiscal 2015 was the result of contributions on earning, depreciation and amortization and an increase in tax liabilities of $16.4 million partially offset by increased working capital requirements of $8.5 million. The negative impact of increased working capital on cash flows was primarily the result of a strong U. S. dollar reducing the value of foreign working capital when denominated in U. S. dollars

The Company incurred a $5.1 million cash flow deficit in fiscal 2015, as the $6.8 million provided by operations was offset by investments in plant and equipment of $5.6million, net debt repayments of $1.2 million, dividends of $2.8 million and $2.8 million in currency changes.

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Effects of translation rate changes on cash primarily result from the movement of the U.S. dollar against the British Pound, the Euro and the Brazilian Real. The Company uses a limited number of forward contracts to hedge some of this activity and a natural hedge strategy of paying for foreign purchases in local currency when economically advantageous.

Liquidity and Credit Arrangements

The Company believes it maintains sufficient liquidity and has the resources to fund its operations in the near term. In addition to its cash and short-term investments, the Company has maintained a $23.0 million line of credit, of which, $0.8 million is reserved for letters of credit and $9.3 million was outstanding as of June 30, 2015.

On June 30, 2009, The L.S. Starrett Company (the “Company”) and certain subsidiaries of the Company (the “Subsidiaries”) entered into a Loan and Security Agreement (the “Credit Facility”) with TD Bank, N.A.. The amended Credit Facility is scheduled to mature on April 30, 2018 and bears interest at LIBOR plus 1.50%.

The obligations under the Credit Facility are unsecured. However, in the event of certain triggering events, the obligations under the Credit Facility will become secured by the assets of the Company and the subsidiaries party to the Credit Facility. Triggering events are two consecutive quarters of failure to achieve the financial covenants outlined in Note 12.

Availability under the Credit Facility is subject to a borrowing base comprised of accounts receivable and inventory. The Company believes that the borrowing base will consistently produce availability under the Credit Facility in excess of $23.0 million. As of July 31, 2015, the Company had borrowings of $9.3 million under the Credit Facility.

The Credit Facility contains financial covenants with respect to leverage, tangible net worth, and interest coverage, and also contains customary affirmative and negative covenants, including limitations on indebtedness, liens, acquisitions, asset dispositions, and fundamental corporate changes, and certain customary events of default. Upon the occurrence and continuation of an event of default, the lender may terminate the revolving credit commitment and require immediate payment of the entire unpaid principal amount of the Credit Facility, accrued interest and all other obligations. As of June 30, 2015, the Company was in compliance with the financial covenants under the Credit Facility.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements as defined under the Securities and Exchange Commission rules.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The second footnote to the Company's Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements.

Judgments, assumptions, and estimates are used for, but not limited to, the allowance for doubtful accounts receivable and returned goods; inventory allowances; income tax reserves; long lived assets; goodwill; and employee turnover, discount and return rates used to calculate pension obligations.

Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the Company's Consolidated Financial Statements. The following sections describe the Company's critical accounting policies.

Revenue Recognition and Accounts Receivable: Sales of merchandise and freight billed to customers are recognized when products are shipped, title and risk of loss has passed to the customer, no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Sales are net of provisions for cash discounts, returns, customer discounts (such as volume or trade discounts), and other sales related discounts. Cooperative advertising payments made to customers are included as advertising expense in selling, general and administrative in the Consolidated Statements of Operations. While the Company does allow its customers the right to return in certain circumstances, revenue is not deferred, but rather a reserve for sales returns is provided based on experience, which historically has not been significant.

The allowance for doubtful accounts of $0.6 million and $0.7 million at the end of fiscal 2015 and 2014 respectively, is based on our assessment of the collectability of specific customer accounts and the aging of our accounts receivable. While the Company believes that the allowance for doubtful accounts is adequate, if there is a deterioration of a major customer's credit worthiness, actual write-offs are higher than our previous experience, or actual future returns do not reflect historical trends, the estimates of the recoverability of the amounts due the Company and net sales could be adversely affected.

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Inventory Valuation: The Company values inventories at the lower of the cost of inventory or net realizable value, with cost determined by either the last-in, first-out ("LIFO") method for most U.S. inventories or the first-in, first-out ("FIFO") method for all other inventories. We establish reserves for excess, slow moving, and obsolete inventory based on inventory levels, expected product life, and forecasted sales demand. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed according to our projected demand requirements based on historical demand, competitive factors, and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there is a significant decline in demand for our products and we do not adjust our production schedule accordingly.

Property Plant and Equipment: The Company accounts for property, plant and equipment (PP&E) at historical cost less accumulated depreciation. Impairment losses are recorded when indicators of impairment, such as plant closures, are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. The Company continually reviews for such impairment and believes that PP&E is being carried at its appropriate value.

The Company groups PP&E for impairment analysis by division and/or product line. PP&E are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of such an asset may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or change in utilization of property and equipment.

Recoverability of the net book value of property, plant and equipment is determined by comparison of the carrying amount to estimated future undiscounted net cash flows the assets are expected to generate. Those cash flows include an estimated terminal value based on a hypothetical sale at the end of the assets' depreciation period. Estimating these cash flows and terminal values requires management to make judgments about the growth in demand for our products, sustainability of gross margins, and our ability to achieve economies of scale. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. No events or circumstances arose in fiscal 2015 which required management to perform an impairment analysis.

Depreciation is included in cost of goods sold or selling, general and administrative expenses in the Consolidated Statement of Operations based upon the function or use of the specific asset. Depreciation of equipment used in the manufacturing process is a component of inventory and included in costs of goods sold. Depreciation of equipment used for office and administrative functions is an expense in selling, general and administrative expenses.

Intangible Assets: Identifiable intangible assets are recorded at cost and are amortized on a straight-line basis over a 5-15 year period. The estimated useful lives of the intangible assets subject to amortization are: 15 years for patents, 14 years for trademarks and trade names, 10 years for completed technology, 8 years for non-compete agreements, 8 years for customer relationships and 5 years for software development.

Recoverability of the net book value of intangible assets is determined by comparison of the carrying amount to estimated future undiscounted net cash flows the assets are expected to generate. Estimating these cash flows requires management to make judgments about the growth in demand for our products, sustainability of gross margins, and our ability to achieve economies of scale. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. No events or circumstances arose in fiscal 2015 which required management to perform an impairment analysis.

Goodwill: The Company assesses the fair value of its goodwill to determine if the carrying amount of the goodwill is greater than the fair value. An impairment charge would be recognized to the extent the recorded goodwill exceeds the implied fair value of goodwill.

The Company annually tests the goodwill associated with the November 2011 acquisition of Bytewise in October. As of October 1, 2014, the Company performed a two-step impairment assessment analysis. The first step requires a comparison of the implied fair value of the reporting unit to its carrying value. If the carrying value were higher than the fair value, there would have been an indication that impairment may have existed and a second step would have been performed to calculate the potential impairment. The first step of the 2015 goodwill assessment concluded that the fair value of goodwill exceeded the carrying amount by approximately 37.4%. Therefore no goodwill impairment was recorded and the second step was not required. If future results significantly vary from current estimates, related projections, or business assumptions in the future due to changes in industry or market conditions, the Company may be required to record impairment charges.