

STARRETT L S CO
Form DEF 14A
September 19, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant

Check the appropriate box:

☐ Preliminary Proxy Statement
☒ Definitive Proxy Statement

☐ Confidential, for Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to Rule 14a-12

THE L.S. STARRETT COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the on amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- .. Fee paid previously with preliminary materials.
- .. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

THE L.S. STARRETT COMPANY

121 Crescent Street

Athol, Massachusetts 01331

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

OCTOBER 12, 2005

NOTICE IS HEREBY GIVEN that the Annual Meeting of the stockholders of The L.S. Starrett Company will be held at the Company's offices at 121 Crescent Street, Athol, Massachusetts 01331, on Wednesday, October 12, 2005 at 2:00 p.m. for the following purposes:

1. To elect a class of three directors, each to hold office for a term of three years and until his successor is chosen and qualified.
2. To consider and act upon any other matter that may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed August 17, 2005 as the record date for the determination of stockholders entitled to vote at the Annual Meeting, or any adjournments thereof, and to receive notice thereof. The transfer books of the Company will not be closed.

You are requested to execute and return the enclosed proxy, which is solicited by the management of the Company.

STEVEN A. WILCOX, *Clerk*

Athol, Massachusetts

September 19, 2005

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE DATE, SIGN AND PROMPTLY RETURN THE ENCLOSED FORM OF PROXY IN THE ENCLOSED STAMPED AND ADDRESSED ENVELOPE OR, ALTERNATIVELY, COMPLETE YOUR PROXY BY TELEPHONE OR OVER THE INTERNET AS DESCRIBED IN THE ENCLOSED INSTRUCTIONS. IF YOU DESIRE TO VOTE YOUR SHARES IN PERSON AT THE ANNUAL MEETING, YOUR PROXY WILL BE RETURNED TO YOU.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

OF

THE L.S. STARRETT COMPANY

121 CRESCENT STREET

ATHOL, MASSACHUSETTS 01331

The enclosed form of proxy and this Proxy Statement have been mailed to stockholders on or about September 19, 2005 in connection with the solicitation by the Board of Directors of The L.S. Starrett Company (the "Company") of proxies for use at the Annual Meeting of Stockholders to be held at the Company's offices at 121 Crescent Street, Athol, Massachusetts 01331, on Wednesday, October 12, 2005 at 2:00 p.m., or at any adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

It is the intention of the persons named as proxies to vote shares represented by duly executed proxies for the proposals described in this Proxy Statement unless contrary specification is made. Any such proxy may be revoked by a stockholder at any time prior to the voting of the proxy by a written revocation received by the Clerk of the Company, by properly executing and delivering a later-dated proxy, or by attending the meeting, requesting return of the proxy and voting in person. **A proxy, when executed and not so revoked, will be voted at the meeting, including any adjournments thereof; and if it contains any specifications, it will be voted in accordance therewith. If no choice is specified, proxies will be voted in favor of the proposals described in this Proxy Statement.**

Stockholders of record at the close of business on August 17, 2005 are entitled to vote at this meeting. On that date, the Company had outstanding and entitled to vote 5,545,975 shares of Class A Common Stock (the "Class A Stock") and 1,118,077 shares of Class B Common Stock (the "Class B Stock" and together with the Class A Stock, the "Common Stock"). Each outstanding share of Class A Stock entitles the record holder thereof to one vote and each outstanding share of Class B Stock entitles the record holder thereof to ten votes. The holders of Class A Stock are entitled to elect 25% of the Company's directors to be elected at each meeting and such holders voting together with the holders of Class B Stock as a single class are entitled to elect the remaining directors to be elected at the meeting. Except for the foregoing and except as provided by law, all actions submitted to a vote of stockholders will be voted on by the holders of Class A and Class B Stock voting together as a single class. The Company's Board of Directors is divided into three classes with one class to be elected at each annual meeting of stockholders.

I. ELECTION OF DIRECTORS

The Board of Directors has fixed the number of directors at seven and designated Ralph G. Lawrence, Antony McLaughlin and Stephen F. Walsh to serve as Class I Directors; Douglas A. Starrett and Robert L. Montgomery, Jr. to serve as Class II Directors; and Richard B. Kennedy and Terry A. Piper to serve as Class III Directors; and, in the case of each director, until his successor is chosen and qualified.

It is the intention of the persons named in the proxy to vote for the election of the three persons named below as Class I Directors, each to hold office for a term of three years and until his successor is chosen and qualified.

The names and ages of the nominees for director proposed by the management, their principal occupations, the significant business directorships they hold, and the years in which they first became directors of the Company are as follows:

Name (Age)	Principal Occupation During Last Five Years and Directorships	Director Since
Class I Director to be elected by Class A Stockholders:		
Ralph G. Lawrence (62)	Until retirement in 2003, President and Chief Operating Officer, Hyde Manufacturing Company, a producer of hand tools and specialty machine blades.	2003
Class I Directors to be elected by Class A and Class B Stockholders:		
Antony McLaughlin (76)	President, Starrett Industria e Comercio Ltda. (Brazil), a wholly-owned subsidiary of the Company.	2002
Stephen F. Walsh (59)	Since 2005, Senior Vice President Operations of the Company. From 2003 to 2005, Vice President Operations of the Company. Prior to 2003, Mr. Walsh was President of the Silicon Carbide Division of Saint-Gobain Industrial Ceramics, a producer of ceramic and abrasive products.	2005

The following table sets forth the names and ages of the Class II and Class III Directors, their principal occupations, the significant business directorships they hold, the years in which they first became directors of the Company and the years that their current term in office expires:

Principal Occupation During Last Five Years					
Name (Age)		and Directorships		Director Since	Term Expires
Class II Directors:					
Robert L. Montgomery, Jr. (67)		Until retirement in 2004, Executive Vice President, Chief Financial Officer and director of Columbus McKinnon Corporation, Amherst, New York, a public company and a designer and manufacturer of material handling products, systems and services.		2004	2006
Douglas A. Starrett (53)		Since September 2001, President and Chief Executive Officer of the Company; prior to September 2001, President of the Company.		1984	2006
Class III Directors:					
Richard B. Kennedy (62)		Since 2004, President and Chief Executive Officer, Worcester Regional Chamber of Commerce, Worcester, Massachusetts. From 2002 to 2004, Associate Principal and Market Strategy Consultant, Frank Lynn & Associates, Chicago, Illinois. From 2000 to 2001, Executive Vice President and Director of GlobalBA.com, a start-up serving the chemical industry. Until 1999, Vice President Marketing, Saint-Gobain Abrasives, Worcester, Massachusetts, a producer of abrasive products.		1996	2007
Terry A. Piper (60)		Chairman, President and Chief Executive Officer of Precision Steel Warehouse, Inc., Franklin Park, Illinois, a wholesale steel service center.		2003	2007

Mr. Walsh was elected to the Board of Directors on June 1, 2005 to fill the vacancy created by the retirement from the Board on that day of Roger U. Wellington, Jr., who had served as a director since 1987. Mr. Walsh was elected upon the recommendation of the Board's Corporate Governance and Nominating Committee.

Mr. McLaughlin's total compensation from the Company for fiscal year 2005, which ended on June 25, 2005 was approximately \$170,000. Within the last five years, Mr. Kennedy served as the executive vice president and a director of GlobalBA.com. When GlobalBA.com was not able to secure a second round of financing, it made an assignment for the benefit of its creditors.

The Board of Directors has determined that Messrs. Kennedy, Lawrence, Montgomery and Piper are independent directors, as defined by the applicable New York Stock Exchange rules.

**GENERAL INFORMATION RELATING TO THE BOARD
OF DIRECTORS AND ITS COMMITTEES**

The Board of Directors held four regular and two special meetings during fiscal 2005. Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board and of all committees on which he was a member. In addition, the Company's non-management directors met in executive session without management participation four times during fiscal 2005. A regular Board meeting is traditionally held immediately following the Annual Meeting but the Board does not have a policy requiring the attendance by the directors at the Annual Meeting. All of the directors attended the 2004 Annual Meeting, which was held on October 13, 2004.

The standing committees of the Board are the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee and the Executive Committee. During fiscal 2005, there were eight meetings of the Audit Committee, one meeting of the Compensation Committee, one meeting of the Corporate Governance and Nominating Committee, and no meetings of the Executive Committee.

During fiscal 2005, the members of the Audit Committee were Messrs. Kennedy, Lawrence and Montgomery. In general, the Audit Committee recommends to the Board the independent auditors to be selected and confers with the Company's independent auditors to review the audit scope, the Company's internal controls, financial reporting issues, results of the audit and the range of non-audit services. See also "Relationship with Independent Auditors" below. The Board has adopted a written charter for the Audit Committee, which was attached as Annex A to the Company's August 2003 Proxy Statement and is available on the Company's web site at www.starrett.com.

The members of the Compensation Committee during fiscal 2005 were Messrs. Kennedy, Piper and Lawrence. The function of the Compensation Committee is to review the salaries of key management personnel and to set the Chief Executive Officer's salary. The Board has adopted a written charter for the Compensation Committee, which is available on the Company's web site at www.starrett.com.

The members of the Corporate Governance and Nominating Committee during fiscal 2005 were Messrs. Kennedy, Lawrence, Montgomery and Piper. Each member of the Committee is independent, as defined by the applicable New York Stock Exchange rules. The Board has adopted a written charter for the Corporate Governance and Nominating Committee, which is available on the Company's web site at www.starrett.com. The Corporate Governance and Nominating Committee is responsible for recommending to the Board nominees for director and for the Company's corporate governance practices. The Corporate Governance and Nominating Committee recommends to the Board individuals as director nominees who, in the opinion of the Committee, have high personal and professional integrity, have experience that is of particular relevance to the Company, have sufficient time available to devote to the affairs of the Company, and who will be effective, in conjunction with the other nominees and members of the Board, in collectively serving the long-term best interests of the stockholders.

The Corporate Governance and Nominating Committee's process for identifying and evaluating director candidates, including candidates recommended by stockholders, includes actively seeking to

identify qualified individuals by reviewing lists of possible candidates, such as executive officers of public companies, considering proposals from a number of sources, such as the Board of Directors, management, employees, stockholders, industry contacts and outside search firms. The Committee has adopted a policy with respect to submission by stockholders of candidates for director nominees, which is available on the Company's web site at www.starrett.com. The Committee will consider up to two candidates each year recommended by stockholders under this policy. Any stockholder or group of stockholders (referred to in either case as a "Nominating Stockholder") that, individually or as a group, have beneficially owned at least 5% of the Company's voting power for at least one year prior to the date the Nominating Stockholder submits a candidate for nomination as a director may submit in writing one candidate to the Committee for consideration at each stockholder meeting at which directors are to be elected but not later than the 120th calendar day before the first anniversary of the date that the Company released its proxy statement to stockholders in connection with the previous year's annual meeting. Recommendations should be sent to The L.S. Starrett Company, Attention: Clerk, 121 Crescent Street, Athol, Massachusetts 01331. The recommendation must include specified information about and consent and agreement of the candidate. There are no differences in the manner in which the Committee evaluates candidates for director whether an individual is recommended by a stockholder or otherwise. The Committee will determine whether to interview any candidates and may seek additional information about candidates from third-party sources. In addition, stockholders may nominate individuals for election as director at the Company's next annual meeting in accordance with the procedures described in Section 3.11 of the Company's By-laws.

Members of the Executive Committee during fiscal 2005 were Messrs. Starrett, Kennedy and until his retirement, Wellington. The Executive Committee may exercise most Board powers during the period between Board meetings.

During fiscal 2005, directors who were not employees of the Company received an annual retainer fee of \$10,000 payable in quarterly installments and a fee of \$1,000, plus expenses, for each Board and Committee meeting they attended. For fiscal 2006, the annual retainer fee and the Committee meeting fee remain the same as during fiscal 2005. Only one meeting attendance fee is paid for attending two or more meetings on the same day. Non-employee directors may elect to defer part or all of their director's fees, in which event such deferred fees and interest thereon will generally be payable in five equal annual installments after they cease to be a director.

A. Audit Committee Report

The Audit Committee operates in accordance with a written charter adopted by the Board and reviewed annually by the Committee. The Committee is responsible for overseeing the quality and integrity of the Company's accounting, auditing and financial reporting practices. It is composed solely of members who are independent, as defined by the applicable rules of the New York Stock Exchange. Further, Mr. Montgomery is an audit committee financial expert as defined by the Securities and Exchange Commission. The Audit Committee is chaired by Mr. Montgomery, who is a certified public accountant and has served as Chief Financial Officer of a public company.

Management has the primary responsibility for the financial statements and the financial reporting process. Management is also responsible for assessing and maintaining the effectiveness of internal control over the financial reporting process in compliance with Sarbanes-Oxley Section 404 requirements. The Audit Committee oversees the Company's financial reporting process and internal

controls on behalf of the Board. In this regard, the Audit Committee helps to ensure the independence of the Company's auditors, the integrity of management and the adequacy of disclosure to stockholders. Representatives of the Company's independent auditors, Deloitte & Touche LLP, and financial management and other management personnel have unrestricted access to the Audit Committee.

The Company's independent auditors are responsible for auditing the Company's annual financial statements and expressing an opinion as to whether the statements are fairly stated in conformity with accounting principles generally accepted in the United States. In addition, the Company's independent auditors are responsible for auditing the Company's internal controls over financial reporting and for expressing opinions on both the effectiveness of controls and management's assertion as to this effectiveness. The Company's independent auditors perform their responsibilities in accordance with the standards of the Public Company Accounting Oversight Board.

For fiscal year 2005, management, Deloitte & Touche and the Audit Committee met eight times, including meetings to discuss the Company's annual and quarterly earnings reports and financial statements prior to each public release of such reports or statements.

With respect to fiscal 2005, the Audit Committee met prior to the issuance of the Company's Annual Report on Form 10-K, to:

review and discuss the audited financial statements with the Company's management;

discuss with Deloitte & Touche, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees); and

discuss with Deloitte & Touche its independence and receive from Deloitte & Touche the written disclosures and letter required by Independence Standards Board Standard No. 1.

Based upon these reviews and discussions, the Audit Committee recommended that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 25, 2005 for filing with the Securities and Exchange Commission.

The Audit Committee has considered and determined that the provision of the non-audit services provided by Deloitte & Touche is compatible with maintaining the auditor's independence.

Audit Committee

Robert L. Montgomery, Jr., Chairman

Richard B. Kennedy

Ralph G. Lawrence

September 8, 2005

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended (the Securities Act) or under the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the Securities Act and the Exchange Act and shall not be deemed soliciting material.

B. Audit Fees and Audit Committee Pre-Approval Policy*Audit Fees*

The following table sets forth the approximate aggregate fees billed to the Company for the fiscal years ended June 25, 2005 and June 26, 2004, by the Company's independent auditors, Deloitte & Touche:

<u>Fee Category</u>	<u>Fiscal 2004 Fees</u>	<u>Fiscal 2005 Fees</u>
Audit Fees	\$ 325,000	\$ 800,000
Audit-Related Fees	15,000	20,000
Tax Fees	155,000	50,000
All Other Fees	20,000	5,000
Total Fees	\$ 515,000	\$ 875,000

Audit Fees were for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements. Audit fees for fiscal 2005 also included services related to the Company's compliance with Section 404 of the Sarbanes-Oxley Act regarding internal controls over financial reporting.

Audit-Related Fees were for assurance and related services that are reasonably related to the performance of the audit or review of Company's consolidated financial statements and are not reported under Audit Fees. These services include employee benefit plan audits and consultations concerning financial accounting and reporting matters not classified as audits.

Tax Fees were for professional services for federal, state and international tax compliance, tax advice and tax planning.

All Other Fees were for services other than the services reported above.

No fees were paid to Deloitte & Touche for financial information systems design or implementation services during fiscal 2004.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors in order to ensure that the provision of such services does not impair the auditors' independence. These services may include audit services, audit-related services, tax services and other services. In addition to generally pre-approving, on a case-by-case basis, services provided by the independent auditors, the Audit Committee has adopted a policy for the pre-approval of certain specified services which may be provided by the independent auditors. Under this policy, the Audit Committee has pre-approved the auditors' engagement for the provision of certain

services set forth in a detailed list subject to a specified dollar limit per service which range from \$5,000 to \$100,000, depending on the service. The services set forth in the list have been identified in a sufficient level of detail so that management will not be called upon to make a judgment as to whether a proposed service fits within the pre-approved service list. Pursuant to the policy, the Audit Committee is informed of the auditors' provision, if any, of a pre-approved service on a periodic basis and the auditors report to the Audit Committee the fees for any services performed under this pre-approval policy.

C. Compensation Committee Report

During fiscal 2005, the Compensation Committee of the Company was chaired by Richard B. Kennedy. The members of the Committee are Messrs. Kennedy, Lawrence and Piper. The Committee operates in accordance with the written charter adopted by the Board of Directors and reviewed annually by the Committee. We are responsible for reviewing and setting the compensation of the Company's Chief Executive Officer and for recommending to the full Board of Directors the compensation for the Company's other executive officers.

Setting compensation is not done by strict formula. It is a subjective judgment based on a number of factors as follows. We do not look at the performance for just one year, but for a number of years, and consider the economic climate in all areas of the world where we operate. We look at how both stockholders and employees at all locations have fared during these periods. In particular, we look at measures affecting stockholders' equity such as sales revenues and net profit margin, which are key indicators of stockholder value. We also consider stock price movement, bearing in mind that the stock market is generally short-term oriented and subject to pressures that are not under the control of executive officers.

Our executive officers do not have employment contracts, and compensation is primarily made up of base salary and bonus. We make a judgment based on the above listed considerations and on competitive compensation at companies of similar size and in similar fields, as shown by a national survey, *The National Executive Compensation Survey*. This comprehensive survey covers compensation for top executive positions for manufacturing organizations as measured by sales volume. We also draw on our knowledge of the market cost of any executive who might have to be replaced.

The variable pay for the executive officers who have Company-wide responsibility is the bonus plan. This plan is based upon the return on equity and the net margin on sales. No bonuses are awarded unless certain minimums are exceeded. The combined minimums for return on equity and net margin on sales were not achieved during fiscal 2005 and, as a result, there were no bonuses paid for the year. The Company has not paid a bonus to its executive officers who have Company-wide responsibility since fiscal 1999.

There are also long-term incentives for everyone in the Company, including the executive officers, to own Company stock. This is available by way of a 401(k) plan and stock purchase plans approved by stockholders. The Company does not have special perks for executives that are not available to everyone in the Company, and we maintain a common sense relationship between executive pays and average pays.

The Company has experienced improved financial performance during this fiscal year with a return to profitability and a revenue increase of 9%. While pleased with this improvement, the Company has not achieved the level of financial performance that would warrant significant changes in executive compensation.

In reviewing executive pays, it is our decision to hold executive pays, with the exception of Stephen F. Walsh whose appointment to the Board and increasing responsibilities warrant an increase.

There were no bonuses awarded any executive officers with Company-wide responsibility during or related to this fiscal year.

Compensation Committee

Richard B. Kennedy, Chairman

Ralph G. Lawrence

Terry A. Piper

June 1, 2005

Compensation Committee Interlocks and Insider Participation

During fiscal year 2005, decisions with respect to the compensation of the Company's executive officers were made by, or upon the recommendation of, the Compensation Committee. During fiscal year 2005, the Compensation Committee consisted of independent directors, as defined by the New York Stock Exchange rules. No member of the Compensation Committee was an officer of the Company nor is any officer of the Company a member of the compensation committee (or similar body) for any employer of the Company's Compensation Committee members.

D. Remuneration

The following table sets forth on an accrual basis the annual and long-term compensation for the last three fiscal years with respect to the Executive Officers (including one former Executive Officer) of the Company:

Name and Position	Fiscal Year	Annual Compensation (\$)		Long-Term Compensation	All Other Compensation (\$)(1)
		Salary	Bonus/ Profit Sharing	Options	
Douglas A. Starrett President, Chief Executive Officer and Director	2003	270,000		1,000	3,611
	2004	270,000		300	4,000
	2005	300,000		400	4,580
Anthony M. Aspin Vice President Sales	2003	120,000		567	800
	2004	120,000	5,912		2,000
	2005	120,000	8,400		2,000
Stephen F. Walsh Senior Vice President Operations and Director	2003	135,000		1,295	600
	2004	135,000		1,307	2,250
	2005	160,000		1,870	2,660
Randall J. Hylek Treasurer and Chief Financial Officer (3)	2005	35,000			
Roger U. Wellington, Jr. (4)	2003	162,000		5,902(2)	1,078
	2004	162,000			2,700
	2005	180,000			3,000

- (1) Consists of the market value of the one-third matching shares allocated under the Company's 401(k) Savings Plan.
- (2) Does not include an option for 4,261 shares of Class B stock under the 2002 Employees' Stock Purchase Plan in December 2002 that Mr. Wellington cancelled prior to the granting of the option for 5,902 shares of Class B stock under the plan.
- (3) Mr. Hylek has been an employee of the Company since April 2005 and was elected Treasurer and Chief Financial Officer of the Company effective June 1, 2005.
- (4) Mr. Wellington retired as Vice President, Treasurer and Chief Financial Officer of the Company effective June 1, 2005, but remained an employee of the Company until July 1, 2005.

E. Retirement Plan

The Company's Retirement Plan covers all eligible employees who have at least one year of service and have attained age 21. An eligible employee is an employee of the Company (or an affiliate of the Company that participates in the Plan) other than a union employee, leased employee, independent contractor, or, except as determined by the Company, a nonresident alien. Benefits under the Retirement Plan are determined by reducing a formula amount calculated under the Retirement Plan by 90% of the annuity value of the employee's vested account balance, if any, under The L.S. Starrett Company Employee Stock Ownership Plan (the "ESOP"). See "Employee Stock Ownership and 401(k) Savings Plans" below. At no time will the benefit of any participant under the Retirement

Plan be less than such participant's benefits, if any, under the Retirement Plan before establishment of the ESOP. The formula amount calculated under the Retirement Plan is based on the sum of 1.25% of the employee's average base salary up to the employee's Social Security covered compensation plus 1.70% of the employee's average base salary over covered compensation, times the number of years of credited service up to but not exceeding 35 years. An employee's average base salary is his average base salary for the five consecutive highest paid of his last ten years of employment.

A special benefit formula applies under the Retirement Plan for eligible employees of the Company's Evans Rule subsidiary. Under this special formula, participants earn credits to an account equal to 4% per month of monthly compensation (as determined under the Retirement Plan) up to \$1,000 and 8% of any additional monthly compensation, plus interest credits as determined under the Retirement Plan. The benefit payable under this special formula is payable as an annuity that is the actuarial equivalent (as determined under the Retirement Plan) of the vested account balance, or as a lump sum. Any Evans Rule employee who has a period of service at the E.R. Rule Company of Puerto Rico, Inc. on or after November 1, 2004 is fully vested in his or her special benefit. In general, the special benefit formula, when it applies, is in lieu of the general Retirement Plan benefit formula and is not subject to any offset for benefits earned under the ESOP.

Pursuant to provisions of the Internal Revenue Code of 1986, as amended, in general, annual compensation that may be taken into account in computing a participant's benefit under the Retirement Plan is limited (to \$210,000 for the plan year beginning on July 1, 2005) and annual annuity benefits may not exceed a specified dollar limit (currently \$170,000). The Company has established a Supplemental Executive Retirement Plan (SERP) to provide on an unfunded basis out of the general assets of the Company benefits earned under the Retirement Plan formula that are in excess of Internal Revenue Code limits. At June 25, 2005, under the Retirement Plan and SERP the credited years of service of certain executive officers of the Company and their credited salaries as of such date were as follows: Douglas A. Starrett 27/2 years, \$300,000; Roger U. Wellington, Jr. 19/2 years, \$180,000; Anthony M. Aspin 13/2 years, \$120,000; and Stephen F. Walsh 2/2 years, \$160,000.

The following table sets forth estimates of the pre-offset formula benefit amount for employees in various salary and years-of-service categories, calculated as a benefit payable as if an employee retired in 2005 at age 65. In the case of any employee with a vested account balance under the ESOP, the formula benefit amount under the Retirement Plan would be subject to offset by 90% of the annuity value of the ESOP vested account balance, but no deduction would be made for Social Security benefits or other offset amounts. The estimated benefit amounts set forth below are calculated under the general Retirement Plan benefit formula, not the special benefit formula for Evans Rule employees.

PENSION PLAN TABLE

Average Annual Earnings	Years of Credited Services				
	15	20	25	30	35
\$100,000	\$22,372	\$ 29,829	\$ 37,286	\$ 44,744	\$ 52,201
125,000	28,747	38,329	47,911	57,494	67,076
150,000	35,122	46,829	58,536	70,244	81,951
175,000	41,497	55,329	69,161	82,994	96,826
200,000	47,872	63,829	79,786	95,744	111,701
225,000	54,247	72,329	90,411	108,494	126,576
250,000	60,622	80,829	101,036	121,244	141,451
275,000	66,997	89,329	111,661	133,994	156,326
300,000	73,372	97,829	122,286	146,744	171,201
325,000	79,747	106,329	132,911	159,494	186,076
350,000	86,122	114,829	143,536	172,244	200,951
375,000	92,497	123,329	154,161	184,994	215,826

F. Employee Stock Ownership and 401(k) Savings Plans

The Company also maintains an ESOP, established in 1984, and a 401(k) Savings Plan, established in 1986. Both plans are designed to supplement retirement benefits provided under the Company's Retirement Plan and to enable employees to share in the growth of the Company.

As drafted, the ESOP covers all domestic employees who have at least one year of service and have attained age 21. However, as of June 30, 1994, all of the shares of Common Stock in the ESOP have been allocated to participant accounts, and future ESOP contributions by the Company (if any) are discretionary. Employees who retire, die, or otherwise terminate employment will be entitled to receive their account balance, if any, under the ESOP, which will generally be distributed at the same time that the employee is eligible to begin receiving a benefit under the Retirement Plan. An amount equal to 90% of an employee's ESOP account balance, if any, expressed in annuity form, will be used to offset the employee's benefit under the Retirement Plan. See Retirement Plan above.

The 401(k) Savings Plan is a savings and salary deferral plan that is intended to qualify for favorable tax treatment under Section 401(a) of the Internal Revenue Code. To be a participant in the 401(k) Savings Plan (a Participant) an eligible employee must have completed six months of service and be at least 18 years old. Participants may authorize deferral of a percentage of their compensation through payroll deductions, subject to any limitations imposed by the 401(k) Savings Plan administrator, which the Company will contribute to a trust fund established for the 401(k) Savings Plan (the 401(k) Trust).

The Company contributes to the 401(k) Savings Plan for the benefit of each Participant a matching contribution equal to one-third of the first 5% of the Participant's compensation (as determined under the 401(k) Savings Plan) that the Participant contributes as a salary deferral for each month. The Company may prospectively increase or decrease the matching contribution formula. Under current vesting rules, matching contributions vest after three years of service (as determined under the 401(k) Savings Plan) and salary deferral contributions vest immediately.

Participants are not subject to federal or state income tax on salary deferral contributions or on Company matching contributions or the earnings thereon until such amounts are withdrawn from the 401(k) Savings Plan. Matching contributions to the 401(k) Savings Plan are required to be invested in the Company stock fund until the Participant has attained age 59 1/2. Other Plan accounts, including salary deferral contributions, held for the benefit of the Participant are diversifiable.

Assets of the Plan, including Company stock, are held in trust. Company stock is held in a unitized fund that includes both Company stock and cash. Circle Trust Company is the trustee of the 401(k) Trust.

Diversifiable portions of a Participant's accounts may be invested (along with any earnings) as the Participant directs in one or more of the investments made available by the Plan administrator, including the Company stock fund. Withdrawals from the 401(k) Savings Plan may only be made upon termination of employment, attainment of age 59 1/2 or in connection with certain provisions of the Plan that permit hardship withdrawals. The 401(k) Savings Plan also permits loans to Participants.

For the last three fiscal years (2003, 2004 and 2005), Company matching contributions for all executive officers of the Company as a group were \$34,153 and for all employees of the Company as a group were \$710,200.

G. Employees' Stock Purchase Plan

The Company currently has in effect for the benefit of eligible employees the 2002 Employees' Stock Purchase Plan (the "2002 Plan") to provide a convenient means for these employees to acquire an interest in the future of the Company by purchasing up to 800,000 shares of Common Stock. At June 25, 2005, there were 1,082 employees eligible to participate in the 2002 Plan. The 2002 Plan was approved by stockholders at the Company's 2002 Annual Meeting. The option price to purchase shares of the Company's Common Stock is the lower of 85% of the market price on the date of grant or 85% of the market price on the date of exercise (two years from the date of grant).

The Company also sells treasury shares to employees under an Employees' Stock Purchase Plan adopted in 1952 (the "1952 Plan"). The Company, from time to time, purchases these shares in the open market to be held in treasury. The Company pays brokerage and other expenses incidental to purchases and sales under the 1952 Plan and employees may authorize regular payroll deductions for purchases of shares.

The following table sets forth information regarding options for shares of the Company's Common Stock under the terms of the Company's stock purchase plans for the Executive Officers (including one former Executive Officer) of the Company:

OPTION GRANTS IN LAST FISCAL YEAR

	Class of Stock and Number of Options Granted	As % of Total Employee Grants	Price (\$) at Grant Date	Exercise Price (\$) (1)	Expiration Date	Grant Date Value (\$) (2)
Douglas A. Starrett	200 Class B	1.2	19.20			