Company Registration No. SC032886

THE L S STARRETT COMPANY LIMITED

Report and Financial Statements

For the year ended 30 June 2012

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THE L S STARRETT COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditor's report	5
Profit and loss account	6
Statement of total recognised gains and losses	7
Balance sheet	8
Cash flow statement	9
Notes to the financial statements	10

THE L S STARRETT COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G R Miller
D A Starrett
R Nagle

SECRETARY

G M Gill

REGISTERED OFFICE

Oxnam Road
Jedburgh
Roxburghshire
TD8 6LR

BANKERS

The Royal Bank of Scotland
38 High Street
Jedburgh
TD8 6DQ

Bank of America
5 Canada Square
London
E14 5AQ

SOLICITORS

Maclay Murray & Spens
151 St Vincent Street
Glasgow
G2 5NJ

INDEPENDENT AUDITORS

Grant Thornton UK LLP
1-4 Atholl Crescent
Edinburgh
EH3 8LQ

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2012.

PRINCIPAL ACTIVITIES

The principal activity of the company is the manufacture of a wide range of precision measuring tools, engineers' hand tools, holesaws and bandsaws.

BUSINESS REVIEW

The company profit for the year after taxation amounted to £275,000 (2011 13 month period: £584,000).

During the year the company has transferred responsibility for Middle East markets to our operation in Singapore. This has resulted in a reduction in sales and gross profit. This has resulted in a significant drop in pre tax profit. The company operates in a highly competitive market place and has demonstrated that it can operate profitably.

The company has key performance indicators around sales growth, gross profit and distribution costs. Sales for the year were down 9% on the 13 month previous period (1% on a like for like 12 month period). Gross profit has fallen to 25.9% (2011: 31.1%) whilst the distribution costs ratio to sales has improved to 14.8% (2011: 15.6%).

The directors have reviewed the forecasts for the period of 12 months from the date of approval of these financial statements which indicate that the company will be cash positive and no external funding requirement has been forecast.

FUTURE DEVELOPMENTS

The company plans significant capital investment over the next 12 to 18 months to facilitate process improvements and product development. We also look to grow our business within Eastern Europe.

PRINCIPAL RISKS AND UNCERTAINTIES

The main risks to the viability of the business relate to the level of sales activity which could be impacted by the current financial crises within Europe. Spain and Italy are important markets for the business.

DIVIDENDS

The directors recommend that no final dividend be paid and that the profit of £275,000 (2011: £584,000) be transferred to reserves.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company seeks to fund its operations using various financial instruments such as cash and liquid resources as well as trade debtors and trade creditors. The company manages foreign currency transaction exposures through the use of currency bank accounts and forward currency contracts. Credit risk is managed through tight internal controls and credit insurance. These risks are reviewed by the management team at regular meetings.

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1.

So far as each of the directors, at the date of this report, are aware:

- there is no relevant audit information of which the company's auditor is unaware and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

DIRECTORS' REPORT

RESEARCH AND DEVELOPMENT

Research and development work is undertaken by the company along with its ultimate parent company.

DONATIONS

During the year the company made charitable contributions amounting to £2,923 (201113 month period: £3,914).

AUDITORS

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

Approved by the Board of Directors
and signed by order of the Board

Grant M Gill

G M Gill
Secretary
1 October 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE L S STARRETT COMPANY LIMITED

We have audited the financial statements of The L S Starrett Company Limited for the year ended 30 June 2012 which comprise the profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses and the related notes on pages 10- 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of company's affairs as at 30 June 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

Diana Penny
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Edinburgh

1 October 2012

THE L S STARRETT COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2012

	Note	2012 £'000	13 months 2011 £'000
TURNOVER: continuing operations	2	14,006	15,305
Cost of sales		(10,394)	(10,450)
GROSS PROFIT		3,612	4,765
Distribution costs		(2,070)	(2,391)
Administrative expenses		(1,398)	(1,813)
Other operating income		-	2
OPERATING PROFIT : continuing operations	4	144	563
Interest receivable and similar income		210	306
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		354	869
Tax on profit on ordinary activities	5	(79)	(285)
RETAINED PROFIT FOR THE FINANCIAL PERIOD		**275**	**584**

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30 June 2012

	2012 £'000	13 months 2011 £'000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Retained profit for the financial period	275	584
Actuarial (loss) / gain in pension scheme	(2,854)	2,276
Movement on deferred taxation relating to pension liability	613	(703)
Total recognised (losses)/gains relating to the period	(1,966)	2,157

The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET
As at 30 June 2012

	Note	2012 £'000	2011 £'000
FIXED ASSETS			
Tangible assets	6	1,084	1,227
Investments	7	671	671
		1,755	1,898
CURRENT ASSETS			
Stocks	8	4,061	3,222
Debtors	9	8,421	9,708
Investments	10	4,500	5,060
Cash at bank and in hand		1,072	1,009
		18,054	18,999
CREDITORS: amounts falling due within one year	11	(1,865)	(2,908)
NET CURRENT ASSETS		16,189	16,091
TOTAL ASSETS LESS CURRENT LIABILITIES		17,944	17,989
PROVISIONS FOR LIABILITIES AND CHARGES	12	(4,667)	(2,746)
NET ASSETS		13,277	15,243
CAPITAL AND RESERVES			
Called up share capital	13	850	850
Other reserves	14	836	836
Profit and loss account	14	11,591	13,557
EQUITY SHAREHOLDERS' FUNDS		13,277	15,243

These financial statements were approved by the Board of Directors on 1 October 2012

Signed on behalf of the Board of Directors

R Nagle
Director

Company Registration No. SC032886

The accompanying accounting policies and notes form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 30 June 2012

	Note	2012 £'000	13 months 2011 £'000
Net cash (outflow)/inflow from operating activities	17	(334)	1,871
Returns on investment and servicing of finance	18	210	306
Capital expenditure and financial investment	18	(193)	(123)
Taxation payments		(180)	(403)
Cash (outflow)/inflow before management of liquid resources		(497)	1,651
Management of liquid resources	18	560	(1,697)
Increase/(decrease) in cash in the period		63	(46)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
For the year ended 30 June 2012

	2012 £'000	13 months 2011 £'000
Increase/(decrease) in cash in the period	63	(46)
Cash (outflow)/inflow from liquid resources	(560)	1,697
Change in net funds resulting from cash flows	(497)	1,651
Net funds at 1 July 2011	6,069	4,418
Net funds at 30 June 2012	5,572	6,069

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

The principal accounting policies have remained unchanged from the previous accounting period.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The financial statements incorporate the financial statements of the company only. The company has taken exemption under S401 of the Companies Act 2006 from preparing consolidated financial statements incorporating the results of its subsidiary undertakings Starrett Precision Optical Limited, Starrett GmbH and Starrett (Asia) Pte. Limited.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation on all tangible fixed assets is provided at rates calculated to write off the cost, less estimated residual value, in equal annual instalments over the useful economic life of the asset. The rates of depreciation are as follows:

Heritable property	2.5% - 5% per annum
Equipment and fittings	10% - 25% per annum
Computer and Office equipment	25% per annum
Plant and machinery	7% - 10% per annum
Motor vehicles	25% per annum

Investments

Fixed asset investments are stated at cost less provision for any impairment.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is represented by materials, direct labour and appropriate manufacturing overheads. Expenditure on consumable stores is written off in the year in which it is incurred.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities.

Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity investment. Dividends and distributions relating to equity investments are debited direct to equity.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT. Turnover is recognised at the time goods are despatched to the customer.

Foreign exchange

Transactions in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date or, if appropriate, at the forward contract rate. These translation differences are dealt with in the profit and loss account.

Operating leases

Rental costs under operating leases are charged to the profit and loss account in equal annual instalments over the periods of the leases.

Defined benefit pension scheme

Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, adjusted for deferred tax, is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the company.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefits vest. Interest on the scheme liabilities and the expected return on the scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of total recognised gains and losses.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

2. TURNOVER

Geographical analysis of turnover by destination:

	2012 £'000	13 months 2011 £'000
United Kingdom	5,362	5,435
Rest of Europe	5,675	6,728
North America	408	196
South and Central America	171	28
Middle East and Africa	757	1,364
South East Asia	1,633	1,554
	14,006	15,305

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £'000	13 months 2011 £'000
Directors' emoluments		
Fees	87	93
Other emoluments	12	11
Pension contributions	11	8
	110	112

Only one executive director is remunerated through this company with the remuneration of the other directors being met by the ultimate parent company (note 22). In addition to the amounts above, one non-executive director receives fees of £5,000 per annum.

	2012 No.	13 months 2011 No.
Number of directors who are members of a defined benefit pension scheme and accrue benefits in respect of their services to the company	1	1

	2012 £'000	13 months 2011 £'000
Employee costs		
Wages	2,834	3,194
Social security costs	190	229
Other pension costs (note 23)	384	639
	3,408	4,062

	2012 No.	13 months 2011 No.
Average monthly number of persons employed		
Production	101	98
Sales and distribution	31	29
Administration	18	18
	150	145

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

4. OPERATING PROFIT

	2012 £'000	13 months 2011 £'000
Operating profit is stated after charging/(crediting):		
Depreciation	342	475
(Gain) on disposal of fixed assets	(6)	(19)
Loss/(gain) on foreign exchange	99	(84)
Auditor's remuneration		
Audit fees	30	38
Other services	4	6
Rentals under operating leases		
Plant and machinery	41	38

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £'000	13 months 2011 £'000
Current		
Total current tax charge for the period	21	402
Adjustment in respect of prior accounting periods	(2)	(2)
Total current tax	19	400
Deferred tax		
Current accounting period	60	(115)
Total deferred tax	60	(115)
Total tax charge for the period	79	285

The standard rate of tax for the accounting period, based on the UK standard rate of corporation tax, is 25.5% (2011: 27.5%). The actual tax charge for the current and the previous periods differ from the standard rate for the reasons set out in the following reconciliation:

	2012 £'000	13 months 2011 £'000
Profit on ordinary activities before tax	354	1,009
Tax on profit on ordinary activities at standard rate	90	278
Factors affecting charge for the period:		
Permanent differences	5	5
Depreciation in excess of capital allowances	24	60
(Profit) on disposal of fixed assets	(1)	(5)
Movement in short term timing differences	(97)	64
Adjustment in respect of prior accounting periods	(2)	(2)
Total actual amount of current tax	19	400

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

6. TANGIBLE FIXED ASSETS

	Heritable Property £'000	Plant and machinery, motor vehicles etc £'000	Total £'000
Cost			
At 1 June 2011	2,074	9,070	11,144
Additions	-	205	205
Disposals	-	(84)	(84)
At 30 June 2012	2,074	9,191	11,265
Accumulated depreciation			
At 1 June 2011	2,074	7,843	9,917
Charge for the year	-	342	342
Disposals	-	(78)	(78)
At 30 June 2012	2,074	8,107	10,181
Net book value			
At 30 June 2012	-	1,084	1,084
At 30 June 2011	-	1,227	1,227

Fixed assets with a cost of £5,847,000 (2011 - £4,983,000) are fully depreciated but still in use.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

7. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiary undertakings £'000
Cost	
At 1 June 2011 and 30 June 2012	1,785
Provisions	
At 1 June 2011 and 30 June 2012	1,114
Net book value	
At 30 June 2011 and 30 June 2012	671

The following information relates to the subsidiaries, all of which are included in these company financial statements:

Name of Company	Country of Incorporation	Proportion of Nominal Value of Issued Share Capital Held	Principal Activities
Starrett Precision Optical Limited	England	100%	Manufacture of optical measuring equipment
Starrett GmbH	Germany	100%	Sale and distribution of company products
Starrett (Asia) Pte Limited	Singapore	100%	Sale and distribution of company products

8. STOCKS

	2012 £'000	2011 £'000
Finished goods	2,032	1,781
Work in progress	436	424
Raw materials and supplies	1,593	1,017
	4,061	3,222

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

9. DEBTORS

	2012 £'000	2011 £'000
Trade debtors	3,375	3,448
Prepayments and accrued income	261	289
Amounts owed by group undertakings	4,785	5,971
	8,421	9,708

10. INVESTMENTS HELD AS CURRENT ASSETS

	2012 £'000	2011 £'000
Cash deposits not repayable on demand	4,500	5,060

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'000	2011 £'000
Trade creditors	594	1,221
Amounts owed to group undertakings	639	746
Taxation and social security	79	209
Accruals and deferred income	553	732
	1,865	2,908

12. PROVISIONS FOR LIABILITIES AND CHARGES

	2012 £'000	2011 £'000
Pension Liability (note 23)	4,560	2,608
Deferred Tax	107	138
	4,667	2,746

The pension liability at 30 June 2012 represents the FRS 17 scheme deficit less the deferred tax asset relating to the pension scheme of £1,440,000 (2011: £917,000).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

12. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts of deferred taxation asset provided and unprovided are as follows:

	2012		2011	
	Provided £'000	Not Provided £'000	Provided £'000	Not Provided £'000
Capital allowances in advance of depreciation	113	-	143	-
Other timing differences	(6)	-	(5)	-
	107	-	138	-

The L S Starrett Company Limited has entered into a deed of cross guarantee with the effect that the Company guarantees debts with The Royal Bank of Scotland in respect of Starrett Precision Optical Limited.

13. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Authorised:		
850,000 Ordinary shares of £1 each	850	850
Allotted, called-up and fully paid:		
850,000 Ordinary shares of £1 each	850	850

13. MOVEMENT ON RESERVES

	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 July 2011	836	13,557	14,393
Retained profit for the year	-	275	275
Actuarial gain on pension scheme	-	(2,854)	(2,854)
Movement on deferred tax relating to pension liability		613	613
Balance at 30 June 2012	836	11,591	12,427

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

14. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit for the period	275	584
Actuarial (loss)/gain on pension scheme	(2,854)	2,276
Movement on deferred taxation relating to pension scheme liability	613	(703)
Net reduction)/addition to shareholders funds	(1,966)	2,157
Opening equity shareholders' funds	15,243	13,086
Closing equity shareholders' funds	13,277	15,243

15. FINANCIAL COMMITMENTS

a) Capital commitments

The company had £38,000 of capital commitments at 30 June 2012 (2011:£Nil).

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2012 £'000	13 months 2011 £'000
Operating profit	144	563
Depreciation charge	342	476
(Profit) on sale of tangible fixed assets	(6)	(19)
(Decrease)/increase in pension liability	(379)	233
Decrease in debtors	1,317	1,119
(Increase) in stocks	(839)	(1,085)
(Decrease)/increase in creditors	(913)	584
Net cash (outflow)/inflow from operating activities	(334)	1,871

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

18. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2012 £'000	13 months 2011 £'000
Returns on investment and servicing of finance		
Interest received	210	306
	210	306
Capital expenditure and financial investment		
Payments to acquire fixed assets	(205)	(145)
Receipts from sale of fixed assets	12	22
	(193)	(123)
Management of liquid resources		
Net reduction/(increase) in deposits	560	(1,697)

19. ANALYSIS OF NET FUNDS

	1 July 2011 £'000	Cash flow £'000	30 June 2012 £'000
Cash in hand and at bank	1,009	63	1,072
	1,009	63	1,072
Current asset investments	5,060	(560)	4,500
Total net funds	6,069	(497)	5,572

20. RELATED PARTIES

The company has elected to take advantage of the exemption from disclosure of transactions with investees of the company qualifying as related parties, available to wholly owned subsidiaries under FRS 8.

21. ULTIMATE PARENT COMPANY

The company's ultimate parent company is The L S Starrett Company Inc, which is incorporated in the United States of America and prepares group financial statements. Copies of the group financial statements of The L S Starrett Company Inc are available from The L S Starrett Company Inc, Athol, Massachusetts, United States of America.

22. PENSION SCHEME

The company participates in The L S Starrett Company Limited Retirement Benefits Scheme. This is a defined benefit, multi-employer scheme, the assets and liabilities of which are held independently from the group (the company and its subsidiary undertaking Starrett Precision Optical Limited). Details of the actuarial valuation of the pension scheme are contained below.

Contributions to the scheme are calculated on a group wide basis and are charged to the profit and loss account so as to spread the cost of the pensions over employees' working lives throughout the group. The company's share of the net charge is based upon the group contribution rate and the company's pensionable payroll this being 90% for the current year (2011: 88%). A qualified actuary determines the contributions. The most recent valuation was at 1 June 2010 and updated to 30 June 2012 by a qualified independent actuary.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

22. PENSION SCHEME (CONTINUED)

The principal actuarial assumptions used by the actuaries were as follows:

	2012	2011
	%	%
Discount rate at 30 June	4.4	5.7
Expected return on plan assets at 30 June	4.9	6.4
Future salary increases	2.6	3.3
Future pension increases	2.6	3.3
Inflation assumption	2.6	3.3

The post-retirement mortality assumptions used to value the benefit obligation at 30 June 2012 were based on the PA92 table with medium cohort mortality improvements. The same mortality assumptions were used at 30 June 2011. The life expectancy of a male member reaching age 65 in 2012 is projected to be 20.7 years compared to 20.6 years for someone reaching 65 in 2011. The life expectancy of a female member reaching age 65 in 2012 is projected to be 23.3 years compared to 23.2 years for someone reaching 65 in 2011. For scheme members who have not reached pensionable age, the rates are adjusted to reflect changes in mortality rates that are expected to arise over the period to pensionable age.

The expected return on plan assets is based on:

	Rate of return 2012	Value 2012 £'000	Rate of return 2011	Value 2011 £'000
Equities	2.9%	7,752	7.3%	10,005
Bonds	4.2%	6,582	5.7%	5,626
Property	4.9%	1,882	6.3%	1,787
GARS fund	4.9%	2,568	6.3%	500
Cash	0.5%	695	0.5%	753
Total market value of assets		19,479		18,671

Consideration has been given to the redemption yield on UK government fixed interest bonds and AA rated corporate bonds. In addition, the average return from equities over gilts has been considered in determining the overall expected rate of return on assets.

The amounts charged or (credited) in profit or loss are as follows:

	2012 £'000	13 months 2011 £'000
Current service cost	230	291
Interest on obligation	1,164	1,244
Expected return on plan assets	(1,067)	(950)
Total	327	585

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

22. PENSION SCHEME (CONTINUED)

The amounts recognised in the balance sheet are as follows:

	2012 £'000	2011 £'000
Fair value of plan assets	17,531	16,430
Present value of funded retirement benefit obligations	(23,531)	(19,955)
Deficit in scheme	(6,000)	(3,525)
Related deferred tax asset	1,440	917
Net pension liability	(4,560)	(2,608)

The major categories of plan asset, as a percentage of the total plan assets, are as follows:

	2012 %	2011 %
Equities	40	54
Bonds	34	30
Property	10	9
GARS fund	13	3
Cash	3	4

The actual return on plan assets was as follows:	2012 £'000	2011 £'000
Actual return on plan assets less expected return	(261)	792

Movement in the defined benefits obligation

	2012 £'000	2011 £'000
At start of period	(19,956)	(20,639)
Current service cost	(230)	(291)
Interest cost	(1,164)	(1,244)
Actuarial (loss)/gain	(2,181)	2,218
Closing defined benefit obligation at 30 June	(23,531)	(19,956)

Movement in the fair value of the scheme assets

	2012 £'000	2011 £'000
At start of period	16,430	15,071
Expected return on scheme assets	1,067	950
Contributions	847	315
Actuarial (loss)/gain	(813)	94
Closing defined benefit obligation at 30 June	17,531	16,430

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

22. PENSION SCHEME (CONTINUED)

The cumulative actuarial loss recognised in the statement of total recognised gains and losses at 30 June 2012 was £3,968,000 (2011: £1,114,000)

Amount attributed to the company for the current and previous four periods are as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of plan assets at 30 June (2012 and 2011) 31 May for 2010 and prior	17,531	16,430	15,071	12,918	16,044
Present value of defined benefit obligation at 30 June (2012 and 2011) - 31 May for 2010 and prior	(23,531)	(19,956)	(20,639)	(15,103)	(17,390)
Deficit in the plan	(6,000)	(3,525)	(5,568)	(2,185)	(1,346)
Experience adjustments arising on plan liabilities	175	(38)	101	(205)	441

The L S Starrett Company Limited expects to contribute approximately £855,000 to its pension scheme over the next 12 months (inclusive of member contributions).

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, 2012

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 (State or other jurisdiction of incorporation or organization)	04-1866480 (I.R.S. Employer Identification No.)
121 CRESCENT STREET, ATHOL, MASSACHUSETTS (Address of principal executive offices)	01331 (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 ☒

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 (§ 232.405 of this chapter) 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 ☐ Smaller Reporting Company ☐
(Do not check if a 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 5,977,176 and 782,620 shares, respectively, of its $1.00 par value Class A and B common stock outstanding on December 31, 2011. On December 31, 2011, the last business day of the Registrant's second fiscal quarter, the aggregate market value of the common stock held by nonaffiliates was approximately $76,312,794.

There were 6,025,871 and 764,814 shares, respectively, of the Registrant's $1.00 par value Class A and Class B common stock outstanding as of August 31, 2012.

The exhibit index is located on pages 52-54.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to file a definitive Proxy Statement for the Company's 2012 Annual Meeting of Stockholders within 120 days of the end of the fiscal year ended June 30, 2012. 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, 2012

TABLE OF CONTENTS

		Page Number
	PART I	
ITEM 1.	Business	4-6
ITEM 1A.	Risk Factors	6-8
ITEM 1B.	Unresolved Staff Comments	8
ITEM 2.	Properties	8
ITEM 3.	Legal Proceedings	8
ITEM 4.	Mine Safety Disclosures	8
	PART II	
ITEM 5.	Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	9-10
ITEM 6.	Selected Financial Data	10
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11-17
ITEM 7A.	Quantitative and Qualitative Disclosures about Market Risk	11-17
ITEM 8.	Financial Statements and Supplementary Data	19-46
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	47
ITEM 9A.	Controls and Procedures	47
ITEM 9B.	Other Information	50
	PART III	
ITEM 10.	Directors, Executive Officers and Corporate Governance	50
ITEM 11.	Executive Compensation	51
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	51
ITEM 14.	Principal Accounting Fees and Services	51
	PART IV	
ITEM 15.	Exhibits and Financial Statement Schedules	52
EXHIBIT INDEX		52-53
SIGNATURES		54

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

PART I

Item 1 - Business

General
Founded in 1880 by Laroy S. Starrett and incorporated in 1929, the Company is engaged in the business of manufacturing over 5,000 different products for industrial, professional and consumer markets. As a global manufacturer with major subsidiaries in Brazil (1956), Scotland (1958) and China (1997), the Company offers its broad array of products to the market through multiple channels of distribution throughout the world. The Company's products include precision tools, non-contact industrial measurement systems, 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's financial reporting is based upon 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 metalworking industry including 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 132 years the Company has been a recognized leader in providing measurement solutions consisting of hand measuring tools and precision instruments such as micrometers, vernier calipers, height gages, depth gages, electronic gages, dial indicators, steel rules, combination squares, custom and non-contact gaging and many other items. 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 2012 the Company has expanded its reach with new product introductions. These include a range of force measurement, surface roughness testers and roundness test equipment and IP67 water resistant electronic indicators. The Company also entered the in process gaging field with the acquisition of Bytewise measurement systems which makes state of the art laser measurement equipment and software for shop floor applications.

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 its ADVANZ carbide tipped products and its VERSATIX products with a patent pending tooth geometry designed for the cutting of structurals and small solids. These new product lines were enhanced through the global introduction of new support programs and marketing collateral. These actions are aimed at positioning Starrett for global growth in wide band products for production applications as well as product range expansions for shop applications. A full line of complementary saw products, including hack, jig, reciprocating saw blades and hole saws provide cutting solutions for the building trades and are offered primarily through construction, electrical, plumbing and retail distributors.

Personnel
At June 30, 2012, the Company had 1,928 employees, approximately 53% of whom were domestic. This represents a net decrease from June 30, 2011 of 23 employees. The headcount change included an increase of 37 domestically and a decrease of 60 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. The Company believes that this dual role of owner-employee has strengthened employee morale over the years.

Competition
The Company is competing 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 2012, 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 offer 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 segment 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 2012 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 $69.9 million at June 30, 2012 and $58.8 million at June 30, 2011.

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 2012, 2011 and 2010 were approximately $2.2 million, $1.9 million and $1.3 million, respectively.

The Company uses trademarks with respect to its products and considers its trademark portfolio as 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 is ready to bring a new hydro – generation facility on line at its Athol, MA plant to reduce its carbon foot print 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 55% of consolidated sales for fiscal 2012.

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 2012 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:

Risks Related to Financial Reporting: If the Company or its independent registered public accounting firm are unable to affirm the effectiveness of internal control over financial reporting in future years, the market value of the Company's common stock could be adversely affected. The Company's independent registered public accounting firm did audit and report on internal controls over financial reporting as of June 30, 2012 and June 30, 2011. For the year ended June 30, 2011, a material weakness in internal controls in income tax analysis and reporting was identified. Management has implemented the remediation steps outlined in the Annual Report on Form 10-K for fiscal 2012, and resolved this financial reporting issue.

Risks Related to the Economy: The Company's results of operations are materially affected by the conditions in the global economy. As a result of the global economic recession, U.S. and foreign economies have experienced significant declines in employment, household wealth, consumer spending, and lending. Businesses, including the Company and its customers, faced weakened demand for their products and services, difficulty obtaining access to financing, increased funding costs, and barriers to expanding operations. While the Company's results of operations in fiscal 2010 were negatively impacted by the global economic recession, business activity improved for the Company in fiscal 2011 and continued to grow in fiscal 2012. The Company can provide no assurance that the past two fiscal year improvements will continue or that its future results of operations will improve.

Risks Related to Reorganization: The Company continues to evaluate consolidation and reorganization of some of its manufacturing and distribution operations. There can be no assurance that the Company will be successful in these efforts or that any consolidation or reorganization will result in revenue increases or cost savings to the Company. The implementation of these reorganization measures may disrupt the Company's manufacturing and distribution activities, could adversely affect operations, and could result in asset impairment charges and other costs that will be recognized if and when reorganization or restructuring plans are implemented or obligations are incurred.

Risks Related to Technology: 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.

Risks Related to Foreign Operations: Approximately 55% of the Company's sales and 66% of net assets related to foreign operations for fiscal 2012. Foreign operations are subject to special risks that can materially affect the sales, profits, cash flows and financial position of the Company, including taxes and other restrictions on distributions and payments, currency exchange rate fluctuations, political and economic instability, inflation, minimum capital requirements and exchange controls. The Company's Brazilian operations can be very volatile, changing from year to year due to the political situation, currency risk and the economy. As a result, the future performance of the Brazilian operations may be difficult to forecast.

Risks Related to Industrial Manufacturing Sector: 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.

Risks Related to Competition: The Company's business is subject to direct and indirect competition from both domestic and foreign firms. In particular, low cost foreign sources have created severe competitive pricing pressures. Under certain circumstances, including significant changes in U.S. and foreign currency relationships, such pricing pressures tend to reduce unit sales and/or adversely affect the Company's margins.

Risks Related to Insurance Coverage: The Company carries liability, property damage, workers' compensation, medical and other insurance policies that management considers adequate for the protection of its assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover all claims and losses. Such uncovered claims and losses could have a material adverse effect on the Company. Depending on the risk, deductibles can be as high as 5% of the loss or $500,000.

Risks Related to Raw Material and Energy Costs: 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.

Risks Related to Overall Stock Market Performance: Currently, the Company's U.S. defined benefit pension plan is underfunded. The Company will be required to provide an additional $1.5 million to the domestic pension fund in fiscal 2013. The Company could be required to fund the domestic plan in the future. The Company's UK plan, which is also underfunded, required Company contributions during fiscal 2010, 2011 and 2012.

Risks Related to Acquisitions: 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.

Risks Related to Investor Expectations: The Company's share price remained relatively stable in fiscal 2012 The price rose steadily through the first three quarters of fiscal 2012 before declining in the fourth quarter. The Company's earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior quarter or investors' expectations. If the Company fails to meet the expectations of securities analysts or investors, the Company's share price may decline.

Risks Related to the Company's Credit Facility: Under the Company's credit facility with TD Bank, N.A., the

Company is required to comply with certain financial covenants. While the Company believes that it will be able to comply with the financial covenants in future periods, its failure to do so would result in defaults under the credit facility unless the covenants are amended or waived. 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 indebtedness. The Credit Facility matured on April 30, 2012 and was renewed thru April 30, 2015. As of June 30, 2012 the Company was in compliance with three of the four covenants, however, due to the increase in the pension liability, the Company was not in compliance with the tangible net worth covenant. The Company received a waiver for default of the tangible net worth covenant and, on September 7, 2012 amended its agreement with TD Bank replacing the tangible net worth covenant with a covenant that specifies a maximum ratio of funded debt to EBITDA. The Company expects to be able to meet this revised covenant in future periods.

Risks Related to Information Systems: 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. For those reasons, the Company implemented a new Enterprise Resource Planning (ERP) system in fiscal 2010 at its principal North American locations.

Risks Related to Litigation and Changes in Laws, Regulations and Accounting Rules: Various aspects of the Company's operations are subject to federal, state, local or foreign laws, rules and regulations, any of which may change from time to time. Generally accepted accounting principles may change from time to time, as well. In addition, the Company is regularly involved in various litigation matters that arise in the ordinary course of business. Litigation, regulatory developments and changes in accounting rules and principles could adversely affect the Company's business operations and financial performance.

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. A separate 36,000 square foot building which formerly housed the distribution center was vacated in November 2008 and is currently listed for sale.

A manufacturing and warehousing facility in North Charleston encompassing 173,000 square feet was closed in fiscal 2005 and the building was sold in fiscal 2011.

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. In fiscal 2012, the Company closed a 5,000 square foot Shanghai distribution center and sales office, consolidated the distribution into the Suzhou facility and leased a new sales office in Shanghai.

The Tru-Stone Division owns and occupies a106,000 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, plants and equipment are in good operating condition, well maintained and adequate for its needs.

Item 3 - Legal Proceedings

The Company is, in the ordinary course of business, from time to time involved 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 Company'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, 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, 2012, there were approximately 1,410 registered holders of Class A common stock and approximately 1,167 registered holders of Class B common stock.

Quarter Ended	Dividends	High	Low
September 2010	$ 0.06	$ 12.48	$ 10.00
December 2010	0.08	12.88	10.36
March 2011	0.08	14.94	11.38
June 2011	0.10	14.32	10.25
September 2011	0.10	12.77	10.28
December 2011	0.10	13.40	10.47
March 2012	0.10	14.56	12.30
June 2012	0.10	13.37	10.75

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 2012.

ISSUER PURCHASES OF EQUITY SECURITIES

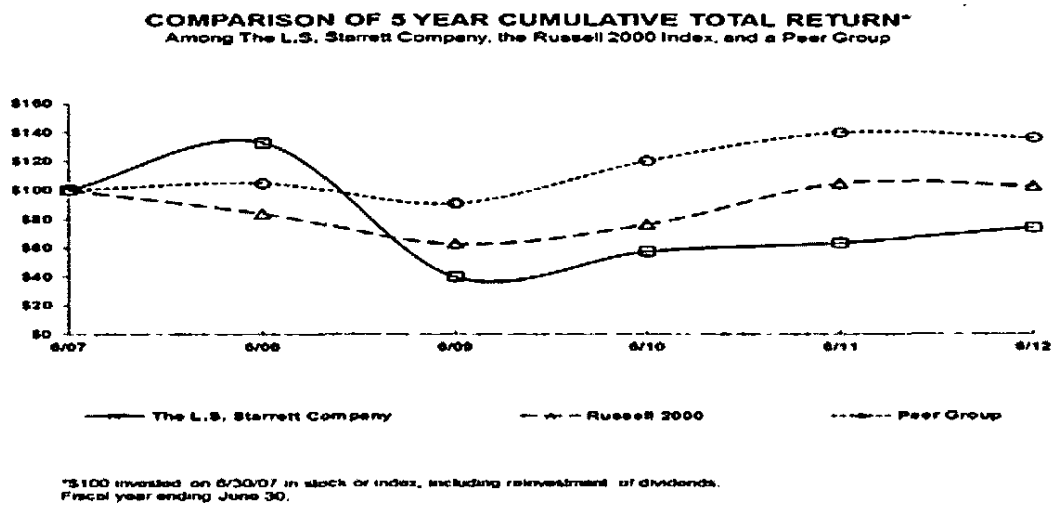
Summary of Stock Repurchases:

A summary of the Company's repurchases of shares of its common stock for the fourth quarter fiscal 2012 is as follows:

Period	Shares Purchased	Average Price	Shares Purchased Under Announced Programs	Shares yet to be Purchased Under Announced Programs
April 2012	None	$ –	–	–
May 2012	None	$ –	–	–
June 2012	None	$ –	–	–

PERFORMANCE GRAPH

The following graph sets forth information comparing the cumulative total return to holders 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	FY2008	FY2009	FY2010	FY2011	FY2012
0STARRETT	100.00	132.91	39.84	57.47	63.59	74.22
RUSSELL 2000	100.00	83.81	62.84	76.35	104.91	102.73
PEER GROUP	100.00	104.82	90.89	120.34	140.18	136.17

Item 6 - Selected Financial Data

The following selected condensed financial data has 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 in June ($000 except per share data)				
	2012	2011	2010	2009	2008[1]
Net sales	$ 260,148	$ 244,841	$ 203,662	$ 203,659	$ 242,371
Net earnings (loss)	888	6,845	(8,021)	(23,429)	10,356
Basic earnings (loss) per share	0.13	1.02	(1.20)	(3.54)	1.57
Diluted earnings (loss) per share	0.13	1.02	(1.20)	(3.54)	1.57
Long-term debt	29,387	721	706	1,264	5,834
Total assets	252,166	227,179	200,134	194,241	250,285
Dividends per share	0.40	0.32	0.30	0.48	0.52

[1] As adjusted for the correction of an immaterial error in the accounting for the estimate of a potential income tax exposure as more fully described in Note 17 to the accompanying financial statements. To correct this immaterial error, we increased income tax expense and reduced net earnings by $677,000 in fiscal 2008. The correction of this error also reduced basic and diluted earnings per share by $0.11.

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 2012 Compared to Fiscal 2011

Overview

Solid revenue growth continued in fiscal 2012 as sales increased over a strong fiscal 2011. The Company was not immune to the financial volatility over the past twelve months. Lower long-term interest rates driven by Federal Reserve policy led to the discount rate falling to historic lows. As a result the Company recognized a significantly higher pension liability, and a $17.2 million non-cash pension expense, of which $15.2 million was recorded in the fourth quarter of fiscal 2012. The eight fold increase over normal pension expense negatively impacted gross margin and selling, general and administrative expenses and was the prime driver in a net loss in the fourth quarter and near breakeven results for the year. The Company closed its Dominican Republic facility in December 2011 and added advanced metrology technology through its acquisition of Bytewise in November 2011,

Net sales for fiscal 2012 increased $15.3 million or 6.3% compared to fiscal 2011 due to a recovering manufacturing sector and increased market penetration. Gross margins declined $3.7 million from $81.8 million or 33 % of sales in fiscal 2011 to $78.1million or 30% of sales in fiscal 2012. Selling, general and administrative expenses increased $9.2 million or 13% from $70.8 million in fiscal 2011 to $78.0 million in fiscal 2012. Operating income declined $14.3 million from a profit of $12.4 million in fiscal 2011 to a loss of $1.9 million in fiscal 2012. All of these changes, as more fully described below, were significantly affected by the pension expense noted above.

Net Sales

Net sales in North America increased $9.4 million or 8% from $119.7 million in fiscal 2011 to $129.1 million in fiscal 2012. All divisions, excluding Tru Stone, posted gains led by precision tools. The Bytewise acquisition represented $6.1 million of the gain. International sales increased $5.9 million or 5% from $125.1 million in fiscal 2011 to $131.0 million in fiscal 2012. Foreign currency exchange rate fluctuations represented a marginal unfavorable impact of $0.9 million.. All international subsidiaries achieved sales increases and account for over 50% of the Company's global revenues. The Company is cautiously optimistic about fiscal 2013 based upon orders in the fourth quarter of fiscal 2012; however, recent unfavorable economic news could have a negative impact on the year.

Gross Margin

Gross margin in North America decreased $5.4 million or 15% from $35.2 million in fiscal 2011 to $29.8 million in fiscal 2012 and declined as a percentage of sales from 29% in fiscal 2011 to 23% in fiscal 2012. Higher sales and improved efficiencies contributed $1.2 million and $6.8 million, respectively. However, these gains were offset by an increase in non-cash pension expense of $13.4 million. Higher production levels for precision tools and saws were the primary factor influencing the improvement in efficiencies coupled with the contribution of the newly acquired higher margin Bytewise business. International gross margins increased $1.7 million or 4% from $46.6 million in fiscal 2011 to $48.3 million in fiscal 2012 and remained level as a percentage of sales at 37% in both fiscal 2011 and 2012. Foreign exchange rate fluctuations represented an unfavorable charge of $0.3.million. Improvements in China were offset by declines in Europe.

Selling, General and Administrative Expenses

North American selling, general and administrative expenses increased $4.7 million or 13%. Employee benefits increased $4.7 million principally due to a $3.0 million increase in non-cash pension expense, all of which was related to a decrease in the discount rate used to measure the pension benefit obligation. Salaries and insurance expenses increased $0.4 and $0.2 million, respectively. International selling, general and administrative expenses increased $4.5 million or 13% due to a $0.8 million bad debt; a $0.6 million increase in research and development expenses; and increased selling expenses, particularly in South America, related to increased competition including: $0.6 for advertising and marketing, $0.4 million in commissions and $0.3 travel and entertainment. International salaries and benefits also increased $0.7

million.

Operating Loss

Higher sales and improved gross margins were more than offset by a $16.4 million increase in North American non-cash pension expense resulting in a $1.9 million operating loss. The discount rate used for valuing the pension liability declined from 5.44% as of June 30, 2011 to 3.92% as of June 30, 2012 and increased the pension liability by $21.0 million, which was the prime driver behind the increase in pension expense.

Other Income, Net

Other income, net increased $1.1 million from $0.8 in fiscal 2011 to $1.9 million in fiscal 2012 primarily due to foreign currency exchange rate changes.

Income Taxes

The effective tax rate was a benefit of 700% for fiscal 2012. The rate reflects federal, state and foreign adjustments for permanent book tax differences. The principal reason for the rate significantly greater than the US normalized combined federal and state tax rate of approximately 40% includes the very low book income which causes even small dollar adjustments to have a very large impact on the tax rate. One significant item which reduced tax expense is income earned in foreign countries taxed at rates lower than the US tax rate.

There were no significant changes in valuation allowances relating to carryforwards for foreign NOL's, foreign tax credits and certain state NOL's. The Company continues to believe that it is more likely than not that it will be able to utilize its domestic federal net operating loss carryforward of approximately $16.8 million.

Significant Fourth Quarter Activity

As discussed in Note 16, the Company recorded a $9.1 million loss before income taxes in the fourth quarter of fiscal 2012 compared to a $4.5 million profit in fiscal 2011 as $15.7 million of the annual $17.2 million pension expense was recorded in the fourth quarter of fiscal 2012. The "mark to market" method of pension accounting which the Company adopted in fiscal 2011 specifies the pension liability must be valued on the last day of the fiscal year and the resulting pension expense adjustment must be recorded in the fourth quarter.

Consolidated sales decreased $1.2 million or 2% from $71.2 million in fiscal 2011 to $70.0 million in fiscal 2012 with North America representing a $1.2 million increase and International a $2.4 million decrease. The impact of the $15.9 million non-cash pension expense in fiscal 2012 significantly distorts fourth quarter gross margin and selling, general and administrative comparisons to fiscal 2011.

Fiscal 2011 Compared to Fiscal 2010

As further explained in Note 2 to the consolidated financial statements in fiscal 2011, the Company changed its fiscal year end from the last Saturday in June to June 30. This change facilitated an improved closing process and conformed North American to International subsidiaries' year end. In fiscal 2010, the Company changed the fiscal year end of its international subsidiaries to that of the Company. Those subsidiaries previously reported on a one-month lag. Management has concluded that the effects of the change from a fiscal to a calendar year end and the inclusion of the additional month for its international subsidiaries in fiscal 2010 are immaterial to the consolidated financial statements.

Overview

The Company began to experience an economic upturn in the second quarter of fiscal 2010. To service higher demand the Company began to increase manufacturing output, inventory raw material purchases, and selling, general, and administrative expenses globally in the third quarter of fiscal 2010. Sales increased $21.5 million or 24% in the second half of fiscal 2011 compared to the first half of fiscal 2010. Sales in the first half of 2011 were $23.7 million or 26% higher than in the first half of 2010. The Company experienced higher backorder levels in the first half of fiscal 2011 as a result of the inability to quickly adjust inventory and manufacturing staffing levels to match demand, however, this backorder position decreased in the second half of fiscal 2011.

Net sales for fiscal 2011 increased $41.1 million or 20% compared to fiscal 2010 due to global economic recovery and increased market penetration. Gross margins improved $25.4 million from $56.4 million or 28% of sales in fiscal 2010 to $81.8 million or 33% of sales in fiscal 2011. Selling, general and administrative expenses increased $6.7 million or 10% from $64.1 million in fiscal 2010 to $70.8 million in fiscal 2011. Operating income increased $21.8 million from a loss of $9.4 million in fiscal 2010 to a profit of $12.4 million in fiscal 2011.

Net Sales

Net sales in North America increased $22.6 million or 23% from $97.1 million in fiscal 2010 to $119.7 million in fiscal 2011. All divisions posted gains except Evans Rule, which lost the Sears contract in the fourth quarter of fiscal 2010. Tru-Stone and Kinemetric benefited from renewed capital equipment markets registering sales increases in fiscal 2011 of 64% and 71%, respectively, as our customers reinvested in their businesses. International sales, excluding U.S. exports, increased $18.5 million or 17% from $106.6 million in fiscal 2010 to $125.1 million in fiscal 2011. Foreign currency exchange rate fluctuations represented $8.1 million of the sales gain principally due to a weaker U.S. dollar. All International subsidiaries achieved double digit sales increases and account for over 50% of the Company's global revenues.

Gross Margin

Gross margin in North America increased $10.8 million or 44% from $24.5 million in fiscal 2010 to $35.3 million in fiscal 2011 and improved as a percentage of sales from 25.3% in fiscal 2010 to 29.5% in fiscal 2011. Higher sales, improved manufacturing efficiencies, and a reduction in pension cost were the key drivers in the improved margin performance. In addition, the gross margin improvement overcame an unfavorable LIFO swing of $9.5 million based upon a reduction in cost of sales of $8.5 million in fiscal 2010 to an increase in cost of sales of $1.0 million in fiscal 2011. The change in LIFO was the result of lower inventories during the recession in fiscal 2010 compared to an increase in inventories in conjunction with the economic recovery in fiscal 2011. International gross margins increased $14.6 million or 46% from $31.9 million in fiscal 2010 to $46.5 million in fiscal 2011 and improved as a percentage of sales from 30% in fiscal 2010 to 37% in fiscal 2011. Higher sales, improved manufacturing efficiencies, lower pension expense and favorable foreign exchange rates all contributed to the improved international gross margins.

Selling, General and Administrative Expenses

North American selling, general and administrative expenses increased $3.6 million or 11% but declined as a percentage of sales from 33% in fiscal 2010 to 30% in fiscal 2011. Salaries and benefits in North America increased $2.2 million in fiscal 2011 compared to fiscal 2010, principally due to the restoration of previous salary reductions, a 3% salary increase and higher medical costs. Higher sales also resulted in a $0.9 million increase in travel and commission expenses. International selling, general and administrative expenses increased $3.1 million or 10% and declined from 30% to 28% of sales. Salaries and benefits increased $2.5 million due to restoration of previous salary reductions, while increased sales resulted in a $1.3 million increase in travel and commission expenses. These expense increases were partially offset by a $2.2 million reduction in pension expense.

Operating Profit

Operating income in fiscal 2011 of $12.4 million represented a $21.8 million improvement from an operating loss of $9.4 million in fiscal 2010. Higher sales and improved margins accounted for $11.4 and $14.0 million, respectively, of the $25.4 million gross margin improvement and offset the selling, general and administrative increase of $6.7 million. The net impact of combined losses related to restructuring costs and goodwill impairment of $1.7 million in fiscal 2010 compared to a $1.3 million gain on the sale of a building in fiscal 2011 represents the incremental operating profit improvement of $3.0 million.

Other Income, Net

Higher interest income was the primary factor for the $0.7 million improvement in other income, net.

Income Taxes

The effective tax rate for fiscal 2011 was 48%. The principal reason for the 8% increase over a normalized combined federal and state statutory tax rate of 40% is book losses not benefited principally in the Dominican Republic and China as well as an increase in the valuation allowance for losses in Argentina.

There were no significant changes in the valuation allowance relating to foreign tax credits. There was an increase in the valuation allowance for state NOL's and a reduction relating to realization of NOL benefits for certain foreign

subsidiaries. The Company continues to believe that it is more likely than not that it will be able to utilize its domestic federal net operating loss carryforward of approximately $21.9 million.

Significant Fourth Quarter Activity

The Company recorded a $4.5 million profit before taxes in the fourth quarter of fiscal 2011 compared to a comparable $1.5 million loss in fiscal 2010.

Consolidated sales increased $7.4 million or 12 % from $63.9 million in fiscal 2010 to $71.3 million in fiscal 2011 with North America representing $7.3 million of the increase. International sales increase was modest due to three months of sales in fiscal 2011 compared to four months in fiscal 2010. The four months in fiscal 2010 for International was a result of dropping the one month lag. Higher sales and improved margins generated a $5.3 million increase in gross margins which more than offset a $0.6 million increase in selling, general and administrative expenses resulting in a $4.7 million net contribution to profits. The remaining $1.5 comparative profit improvement was principally due to losses of $1.7 million related to restructuring and impairment charges in fiscal 2010 compared to no similar costs in fiscal 2011.

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 $2.0 million in forward currency contracts outstanding at June 30, 2012. Net foreign monetary assets are approximately $35 million as of June 30, 2012.

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% increase 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 $29.4 million.

LIQUIDITY AND CAPITAL RESOURCES

	Years ended in June ($000)		
	2012	2011	2010
Cash provided by operations	$ 3,524	$ 5,189	$ 29,708
Cash used in investing activities	(25,870)	(10,141)	(9,011)
Cash provided by (used in) financing activities	20,050	3,860	(9,994)

The Company has a working capital ratio of 5.0 as of June 30, 2012 as compared to 3.9 as of June 30, 2011. Cash, short-term investments, accounts receivable and inventories represent 90% and 92% of current assets in fiscal 2012 and fiscal 2011, respectively. The Company had accounts receivable turnover of 6.0 in fiscal 2012 compared to 6.2 in fiscal 2011 and an inventory turnover ratio of 2.8 in fiscal 2012 compared to 3.2 in fiscal 2011.

Net cash provided by operations of $3.5 million in fiscal 2012 is principally due to operating performance improvement (excluding a non-cash pension expense increase of $16.4 million) partially offset by higher inventory levels.

The Company has invested $25.9 million in fiscal 2012. The Bytewise acquisition represented $15.1 million and investments in plant and equipment accounted for an additional $10.8 million.

The Company increased debt $22.2 million in fiscal 2012 compared to fiscal 2011 principally to finance the Bytewise acquisition and higher working capital requirements.

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, $0.2 million is reserved for letters of credit and $15.5 million was outstanding as of June 30, 2012.

On June 30, 2009, The L.S. Starrett Company (the "Company") and certain subsidiaries of the Company subsidiaries (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, 2015 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 August 31, 2012, the Company had borrowings of $15.5 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, 2012, the Company was not in compliance with one of the financial covenants required for testing at that time under the Credit Facility. The Company has received a waiver for the default of the tangible net worth covenant caused by an increase in the pension liability and on September 7, 2012 amended its agreement with TD Bank replacing the tangible net worth covenant with a covenant that specifies a maximum ratio of funded debt to EBITDA. The Company expects to be able to meet this revised covenant in future periods.

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; 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 delivered, 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), cooperative advertising 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 $1 million and $0.4 million at the end of fiscal 2012 and 2011, respectively, is

based on our assessment of the collectability of specific customer accounts and the aging of our accounts receivable. The $0.6 million increase in doubtful accounts is principally the result of a $0.8 million reserve for a foreign customer previously reported in the fiscal 2012 first quarter. 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 defaults 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 sales could be adversely affected.

Inventory Valuation: Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden and significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and requirements, the Company may be required to increase the inventory reserve and, as a result, gross profit margin could be adversely affected.

Long-lived Assets and Goodwill: The Company values 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 assesses the fair value of its goodwill generally based upon a discounted cash flow methodology. The discounted cash flows are estimated utilizing various assumptions regarding future revenue and expenses, working capital, terminal value, and market discount rates. If the carrying amount of the goodwill is greater than the fair value, an impairment charge is recognized to the extent the recorded goodwill exceeds the implied fair value of goodwill. The Company will perform its annual assessment of goodwill resulting from the Bytewise acquisition as of October 1. As permitted by ASU 2011-08, the Company is evaluating whether it will utilize a qualitative approach in performing this assessment.

Our long-lived assets consist primarily of property, plant and equipment. The Company groups long-lived assets for impairment analysis by division and/or product line. Long-lived assets 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 measured 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.

Depreciation is included in cost of goods sold and selling, general and administrative expenses in the Consolidated Statement of Operations based upon where the assets are contributing to the measurement of cost or expense by functional area. 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.

Income Taxes: Accounting for income taxes requires estimates of future benefits and tax liabilities. Due to temporary differences in the timing of recognition of items included in income for accounting and tax purposes, deferred tax assets or liabilities are recorded to reflect the impact arising from these differences on future tax payments. With respect to recorded tax assets, the Company assesses the likelihood that the asset will be realized. If realization is in doubt because of uncertainty regarding future profitability or enacted tax rates, the Company provides a valuation allowance related to the asset. Should any significant changes in the tax law or the estimate of the necessary valuation allowance occur, the Company would record the impact of the change, which could have a material effect on our financial position or results of operations.

Defined Benefit Pension Plans: The Company has two defined benefit pension plans, one for U.S. employees and another for U.K. employees.

In 2011, we elected to retrospectively change our method of recognizing certain actuarial gains and losses. Previously, the market related value of plan assets for the U.S. plan was equal to fair value, and the market-related value of plan assets for the U.K. plan, was based on a calculated five-year moving average of market value. Actuarial gains and losses were recognized in other comprehensive income as of the measurement date. Net actuarial gains or losses in excess of ten percent (10%) of the greater of the market-related value of plan assets or of the plans' projected benefit obligation (*the corridor*) were amortized in net periodic benefit cost over the average remaining service period (fourteen-years). The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value pension obligations as of the measurement date each year and the differences between expected and actual returns on plan assets.

Under our current accounting method, both plans use fair value as the market-related value of plan assets and continue to recognize actuarial gains or losses within the corridor in other comprehensive income but instead of amortizing net

actuarial gains or losses in excess of the corridor in future periods, excess gains and losses will be recognized in net periodic (benefit) cost as of the plan measurement date, which is the same as the fiscal year end of the Company (*MTM adjustment*). This accounting method is a permitted option which results in immediate recognition of excess net actuarial gains and losses in net periodic benefit cost instead of in other comprehensive income. Immediate recognition in net periodic benefit cost could potentially increase the volatility of net periodic benefit cost. The MTM adjustments to net periodic benefit cost for 2012, 2011 and 2010 were $15.3, $0.0, and $9.4 million, respectively.

Calculation of pension and postretirement medical costs and obligations are dependent on actuarial assumptions. These assumptions include discount rates, healthcare cost trends, inflation, salary growth, long-term return on plan assets, employee turnover rates, retirement rates, mortality and other factors. These assumptions are made based on a combination of external market factors, actual historical experience, long-term trend analysis, and an analysis of the assumptions being used by other companies with similar plans. Significant differences in actual experience or significant changes in assumptions would affect pension and other postretirement benefit costs and obligations. See also Employee Benefit Plans (Note 11 to the Consolidated Financial Statements).

Cost of Goods Sold: The Company includes material direct and indirect labor and manufacturing overhead in cost of goods sold. Included in these costs are inbound freight, personnel (manufacturing plants only), receiving costs, internal transferring, employee benefits (including pension expense) and inspection costs.

Selling General and Administrative Expenses: The Company includes distribution expenses in selling, general and administrative expenses. Distribution expenses include shipping labor and warehousing costs associated with the storage of finished goods at each manufacturing facility. The Company also includes costs for our dedicated distribution centers as selling expenses. Employee benefits, including pension expense, are also included in selling, general and administrative expenses.

CONTRACTUAL OBLIGATIONS

The following table summarizes future estimated payment obligations by period.

	Payments due by period (in millions)				
	Total	<1yr.	1-3yrs.	3-5yrs.	>5yrs.
Debt obligations	$ 31.2	$ 1.8	$ 18.6	$ 3.1	$ 7.7
Capital lease obligations	0.7	0.3	0.3	0.1	—
Operating lease obligations	2.8	1.7	1.1	—	—
Purchase obligations	17.5	17.3	0.1	0.1	—
Total	$ 52.0	$ 21.0	$ 20.0	$ 3.3	$ 7.7

ANNUAL NYSE CEO CERTIFICATION AND SARBANES-OXLEY SECTION 302 CERTIFICATIONS

In fiscal 2012, the Company submitted an unqualified "Annual CEO Certification" to the New York Stock Exchange as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual. Further, the Company is filing with the Securities and Exchange Commission the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Company's Annual Report on Form 10-K.

Item 8 - Financial Statements and Supplementary Data

Contents:	Page
Report of Independent Registered Public Accounting Firm	18
Consolidated Balance Sheets	19
Consolidated Statements of Operations	20
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)	21
Consolidated Statements of Cash Flows	22
Notes to Consolidated Financial Statements	23-47

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
The L.S. Starrett Company

We have audited the accompanying consolidated balance sheets of The L.S. Starrett Company and subsidiaries ("the Company") as of June 30, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 30, 2012. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The L.S. Starrett Company and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 12, 2012 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Boston, Massachusetts
September 12, 2012

THE L.S. STARRETT COMPANY
Consolidated Balance Sheets
(in thousands except share data)

	June 30, 2012	June 30, 2011
ASSETS		
Current assets:		
Cash	$ 17,502	$ 21,572
Short-term investments	6,282	6,421
Accounts receivable (less allowance for doubtful accounts of $965 and $416, respectively)	42,167	45,567
Inventories	69,895	58,789
Current deferred tax asset	7,620	6,100
Prepaid expenses and other current assets	7,764	5,494
Total current assets	151,230	143,943
Property, plant and equipment, net	53,597	56,265
Taxes receivable	3,814	3,594
Deferred tax assets, net	29,842	21,407
Intangible assets, net	8,755	231
Goodwill	3,034	-
Other assets	1,894	1,739
Total assets	$ 252,166	$ 227,179
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities	$ 1,800	$ 8,238
Accounts payable and accrued expenses	20,912	22,030
Accrued compensation	7,299	7,129
Total current liabilities	30,011	37,397
Deferred tax liabilities	2,530	2,806
Other tax obligations, as adjusted (Note 17)	10,590	11,127
Long-term debt	29,387	721
Postretirement benefit and pension obligations	51,810	22,467
Total liabilities	124,328	74,518
Stockholders' equity:		
Class A common stock $1 par (20,000,000 shares authorized; 6,017,227 outstanding at June 30, 2012 and 5,933,059 outstanding at June 30, 2011)	6,017	5,933
Class B common stock $1 par (10,000,000 shares authorized; 753,307 outstanding at June 30, 2012 and 800,868 outstanding at June 30, 2011)	753	801
Additional paid-in capital, as adjusted (Note 17)	51,941	51,411
Retained earnings, as adjusted (Note 17)	94,661	96,477
Accumulated other comprehensive loss	(25,534)	(1,961)
Total stockholders' equity	127,838	152,661
Total liabilities and stockholders' equity	$ 252,166	$ 227,179

See notes to consolidated audited financial statements

THE L.S. STARRETT COMPANY
Consolidated Statements of Operations
For the three years ended June 30, 2012
(in thousands except per share data)

	6/30/12	6/30/11	6/26/10
Net sales	$ 260,148	$ 244,841	$ 203,662
Cost of goods sold	182,073	163,041	147,290
Gross margin	78,075	81,800	56,372
% of net sales	30.0%	33.4%	27.7%
Selling, general and administrative expenses	79,925	70,750	64,111
Gain on sale of building	—	(1,350)	—
Goodwill impairment	—	—	1,091
Reorganization costs	—	—	616
Operating income (loss)	(1,850)	12,400	(9,446)
Other income, net	1,961	839	105
Earnings (loss) before income taxes	111	13,239	(9,341)
Income tax expense (benefit)	(777)	6,394	(1,320)
Net earnings (loss)	$ 888	$ 6,845	$ (8,021)
Basic and diluted earnings (loss) per share	$ 0.13	$ 1.02	$ (1.20)
Average outstanding shares used in per share calculations:			
Basic	6,757	6,698	6,667
Diluted	6,794	6,717	6,667
Dividends per share	$ 0.40	$ 0.32	$ 0.30

See notes to consolidated audited financial statements

THE L.S. STARRETT COMPANY
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
For the three years ended June 30, 2012
(in thousands except per share data)

	Common Stock Outstanding Class A	Common Stock Outstanding Class B	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, June 27, 2009,	$ 5,770	$ 869	$ 49,984	$ 103,027	$ (16,772)	$ 142,878
Corrections in accounting for stock-based compensation and income taxes (Note 17)			548	(1,225)		(677)
Balance, June 27, 2009, as adjusted	$ 5,770	$ 869	$ 50,532	$ 101,802	$ (16,772)	$ 142,201
Comprehensive income (loss):						
Net loss				(8,021)		(8,021)
Unrealized net gain (loss) on investments					2	2
Pension and postretirement plans					(3,444)	(3,444)
Translation gain (loss), net					2,537	2,537
Total comprehensive loss						(8,926)
Dividends ($0.30 per share)				(2,000)		(2,000)
Issuance of stock under ESOP	38		302			340
Issuance of stock under ESPP		3	20			23
Stock-based compensation			67			67
Conversion	51	(51)				–
Balance, June 26, 2010	$ 5,859	$ 821	$ 50,921	$ 91,781	$ (17,677)	$ 131,705
Comprehensive income (loss):						
Net earnings				6,845		6,845
Pension and postretirement plans					5,938	5,938
Translation gain (loss), net					9,778	9,778
Total comprehensive income						22,561
Dividends ($0.32 per share)				(2,149)		(2,149)
Repurchase of shares			(1)			(1)
Issuance of stock under ESOP	21		209			230
Issuance of stock under ESPP		33	220			253
Stock-based compensation			62			62
Conversion	53	(53)				–
Balance, June 30, 2011	$ 5,933	$ 801	$ 51,411	$ 96,477	$ (1,961)	$ 152,661
Comprehensive income (loss):						
Net earnings				888		888
Pension and postretirement plans					(8,898)	(8,898)
Translation gain (loss), net					(14,675)	(14,675)
Total comprehensive loss						(22,685)
Dividends ($0.40 per share)				(2,704)		(2,704)
Issuance of stock under ESOP	27		287			314
Issuance of stock under ESPP		9	72			81
Stock-based compensation			171			171
Conversion	57	(57)				-
Balance, June 30, 2012	$ 6,017	$ 753	$ 51,941	$ 94,661	$ (25,534)	$ 127,838

Cumulative balance:		
Translation gain (loss), net	$	(15,905)
Pension and postretirement plans, net of taxes		(9,629)
	$	(25,534)

See notes to consolidated audited financial statements

THE L. S. STARRETT COMPANY
Consolidated Statements of Cash Flows
For the three years ended June 30, 2012
(in thousands)

	6/30/12	6/30/11	6/26/10
Cash flows from operating activities:			
Net earnings (loss)	$ 888	$ 6,845	$ (8,021)
Non cash operating activities:			
Gain on sale of building	-	(1,350)	-
Depreciation	9,039	9,351	10,035
Amortization	1,059	1,072	1,214
Impairment of fixed assets	-	-	747
Goodwill impairment	-	-	1,091
Net long-term tax obligations	(284)	458	(215)
Deferred taxes	(5,079)	(600)	(5,973)
Unrealized transaction (gains) losses	(23)	(165)	(247)
Equity (gain) loss on investment	(237)	572	-
Working capital changes, net of effects of business acquisition:			
Accounts receivable	(2,567)	(7,852)	(6,883)
Inventories	(15,774)	(9,019)	15,903
Other current assets	(382)	153	2,979
Other current liabilities	(315)	5,032	7,951
Postretirement benefit and pension obligations	16,037	2,408	11,744
Other	1,162	(1,716)	(617)
Net cash provided by operating activities	3,524	5,189	29,708
Cash flows from investing activities:			
Business acquisition, net of cash acquired	(15,070)	-	-
Additions to plant and equipment	(10,800)	(6,772)	(9,266)
Purchase of investments	-	(6,631)	-
Proceeds from sale of investments	-	1,250	615
Earn-out paid for Kinemetric Engineering	-	-	(110)
Investment in private software development company	-	(1,250)	(250)
Proceeds from sale of building	-	3,262	-
Net cash used in investing activities	(25,870)	(10,141)	(9,011)
Cash flows from financing activities:			
Proceeds from short-term borrowings	2,056	6,878	14,040
Short-term debt repayments	(552)	(1,326)	(21,506)
Proceeds from long-term borrowings	22,454	340	129
Long-term debt repayments	(1,599)	(372)	(1,019)
Proceeds from common stock issued	395	490	362
Repurchase of shares	-	(1)	-
Dividends paid	(2,704)	(2,149)	(2,000)
Net cash provided by (used in) financing activities	20,050	3,860	(9,994)
Effect of translation rate changes on cash	(1,774)	2,186	(473)
Net increase (decrease) in cash	(4,070)	1,094	10,230
Cash beginning of year	21,572	20,478	10,248
Cash end of year	$ 17,502	$ 21,572	$ 20,478
Supplemental cash flow information:			
Interest paid	$ 505	255	1,449
Taxes paid, net	4,795	4,422	1,402

See notes to consolidated audited financial statements

THE L.S. STARRETT COMPANY
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

1. DESCRIPTION OF BUSINESS

The L. S. Starrett Company (the "Company") is incorporated in the Commonwealth of Massachusetts and is in the business of manufacturing industrial, professional and consumer measuring and cutting tools and related products. The largest consumer of these products is the metalworking industry, but others include automotive, aviation, marine, farm, do-it-yourselfers and tradesmen such as builders, carpenters, plumbers and electricians.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation: The consolidated financial statements include the accounts of The L. S. Starrett Company and its subsidiaries, all of which are wholly-owned. All significant intercompany items have been eliminated in consolidation. The Company's fiscal year ends on June 30 effective for fiscal year 2011. Previously the fiscal year ended on the last Saturday in June. Fiscal year 2010 represents a 52 week year. This change in reporting period was not considered material to the Company's results of operations, therefore the results of operations for fiscal 2010 have not been restated.

Financial instruments and derivatives: The Company's financial instruments include cash, investments and long term debt. Investments are stated at cost which approximates fair market value. The carrying value of long-term debt, which is at current market interest rates, also approximates its fair value. The Company's U.K. subsidiary entered into various forward exchange contracts. The amount of contracts outstanding as of June 30, 2012 and June 30, 2011 amounted to $2.0 million and $10.7 million, respectively.

Accounts receivable: Accounts receivable consist of trade receivables from customers. The expense for bad debts amounted to $0.8, $0.3, and $0.1 million in fiscal 2012, 2011 and 2010, respectively. In establishing the allowance for doubtful accounts, management considers historical losses, the aging of receivables and existing economic conditions.

Inventories: Inventories are stated at the lower of cost or market. Substantially all United States inventories are valued using the last-in-first-out ("LIFO") method of accounting. All non-U.S. subsidiaries use the first-in-first-out ("FIFO") method or the average cost method, as LIFO is not an accepted method of inventory valuation outside the U.S.

Long-lived assets: The cost of buildings and equipment is depreciated using straight-line and accelerated methods over their estimated useful lives as follows: buildings and building improvements 10 to 50 years, machinery and equipment 3 to 12 years. Leases are capitalized under the criteria set forth in Accounting Standards Codification (ASC) 840, "Leases" which establishes the four criteria of a capital lease. At least one of the four following criteria must be met for a lease to be considered a capital lease: a transfer of ownership of the property to the lessee by the end of the lease term; a bargain purchase option; a lease term that is greater than or equal to 75 percent of the economic life of the leased property; present value of the future minimum lease payments equals or exceeds 90 percent of the fair market value of the leased property. If none of the aforementioned criteria are met, the lease will be an operating lease. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. A gain or loss is recorded on individual fixed assets when retired or disposed of. Included in buildings and building improvements and machinery and equipment at June 30, 2012 and June 30, 2011 were $3.3 million and $5.0 million, respectively, of construction in progress. Also included in machinery and equipment at June 30, 2012 and June 30, 2011 were $0.5 million and $0.5 million net of depreciation, respectively, of capitalized interest cost. Repairs and maintenance of equipment are expensed as incurred.

Intangible assets and goodwill: Intangibles are recorded at cost and are amortized on a straight-line basis over a 5-14 year period. Patents are amortized over 15 years. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to amortization but is tested for impairment annually and at any time when events suggest impairment may have occurred. The Company will annually test the goodwill associated with the November 2011 acquisition of Bytewise as of October 1.. The Company assesses the fair value of its goodwill using impairment tests, generally based upon a discounted cash flow methodology. The discounted cash flows are estimated

utilizing various assumptions regarding future revenue and expenses, working capital, terminal value and market discount rates. In the event that the carrying value of goodwill exceeds the fair value of the goodwill, an impairment loss would be recorded for the amount of that excess.

Revenue recognition: Sales of merchandise and freight billed to customers are recognized when 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 presented net of provisions for cash discounts, returns, customer discounts (such as volume or trade discounts), cooperative advertising 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.

Advertising costs: The Company's policy is to generally expense advertising costs as incurred, except catalogs costs, which are deferred until mailed. Advertising costs were expensed as follows: $5.6 million in fiscal 2012, $5.1 million in fiscal 2011 and $5.0 million in fiscal 2010 and are included in selling, general and administrative expenses.

Freight costs: The cost of outbound freight and the cost for inbound freight included in material purchase costs are both included in cost of sales.

Warranty expense: The Company's warranty obligation is generally one year from shipment to the end user and is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. Historically, the Company has not incurred significant warranty expense and consequently its warranty reserves are not material.

Pension and Other Postretirement Benefits:

The Company has two defined benefit pension plans, one for U.S. employees and another for U.K. employees. The Company also has defined contribution plans. In addition, certain U.S. employees participate in an Employee Stock Ownership Plan (ESOP).

The Company sponsors both funded and unfunded U.S. and non-U.S. defined benefit pension plans covering the majority of our U.S. and U.K. employees. The Company also sponsors postretirement benefit plans that provide health care benefits and life insurance coverage to eligible U.S. retirees. In 2011, the Company elected to retrospectively change its method of recognizing certain actuarial gains and losses. Previously, the market related value of plan assets for the U.S. plan was equal to fair value, and the market-related value of plan assets for the U.K. plan was based on a calculated five-year moving average of market value. Actuarial gains and losses were recognized in other comprehensive income as of the measurement date. Net actuarial gains or losses in excess of ten percent (10%) of the greater of the market-related value of plan assets or of the plans' projected benefit obligation (*the corridor*) were amortized in net periodic benefit cost over the average remaining service period (currently fourteen-years). The primary factors contributing to actuarial gains and losses were changes in the discount rate used to value pension obligations as of the measurement date each year and the differences between expected and actual returns on plan assets.

Under the Company's current accounting method, both plans use fair value as the market-related value of plan assets and continue to recognize actuarial gains or losses within the corridor in other comprehensive income (loss) but instead of amortizing net actuarial gains or losses in excess of the corridor in future periods, such excess gains and losses, if any, are recognized in net periodic benefit cost as of the plan measurement date, which is the same as the fiscal year end of the Company (*MTM adjustment*). This method is a permitted option which results in immediate recognition of excess net actuarial gains and losses in net periodic benefit cost instead of in other comprehensive income (loss). Such immediate recognition in net periodic benefit cost could potentially increase the volatility of net periodic benefit cost. The MTM adjustments to net periodic benefit cost for fiscal 2012, 2011 and 2010 were $ 15.3 million, $0.0 million, and $9.4 million, respectively.

Income taxes: Deferred tax expense results from differences in the timing of certain transactions for financial reporting and tax purposes. Deferred taxes have not been recorded on approximately $71.7 million of undistributed earnings of foreign subsidiaries as of June 30, 2012 or the related unrealized translation adjustments because such amounts are considered permanently invested. In addition, it is possible that remittance taxes, if any, would be reduced by U.S. foreign tax credits. Valuation allowances are recognized if, based on the available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

Research and development: Research and development costs are expensed as incurred and were as follows: $2.2 million in fiscal 2012, $1.9 million in fiscal 2011 and $1.3 million in fiscal 2010 and are included in selling general and administrative expenses.

Earnings per share (EPS): Basic EPS is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution by securities that could share in the earnings. The Company had 36,555, 19,236, and 12,687 of potentially dilutive common shares in fiscal 2012, 2011 and 2010, respectively, resulting from shares issuable under its stock option plan. For fiscal year 2012 and 2011, these shares had no impact on the calculated per share amounts. These additional shares are not used for the diluted EPS calculation in loss years.

Translation of foreign currencies: The financial statements of our foreign subsidiaries, where the local currency is the functional currency, are translated at exchange rates in effect on reporting dates, and income and expense items are translated at average rates or rates in effect on transaction dates as appropriate. The resulting foreign currency translation adjustments are charged or credited directly to the "Accumulated Other Comprehensive Loss" account included as part of stockholders' equity. Net foreign currency gains (losses) are disclosed in Note 9.

Use of accounting estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Judgments, assumptions and estimates are used for, but not limited to: the allowances for doubtful accounts receivable and returned goods; inventory allowances; income tax valuation allowances, uncertain tax positions and pension obligations. Amounts ultimately realized could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the prior periods as a result of the current year presentation with no effect on net earnings.

Recent Accounting Pronouncements:

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04 to amend fair value measurements and related disclosures; the guidance becomes effective on a prospective basis for interim and annual periods beginning after December 15, 2012. This new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between International Financial Reporting Standards ("IFRS") and U.S. GAAP. The new guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The adoption of this updated authoritative guidance is not expected to have any impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 to amend the presentation of comprehensive income in financial statements. This guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies will be required to present each component of net income and comprehensive income. The adoption of this updated authoritative guidance will impact the presentation of the Company's consolidated financial statements, but it will not change the items that must be reported in other comprehensive income. The guidance must be applied retrospectively and is effective for the first quarter of fiscal 2013. The Company is in the process of evaluating the presentation options required by this ASU.

In September 2011, the FASB issued ASU 2011-08 to amend the impairment assessment criteria for goodwill. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is then necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50%. The guidance is effective for the first quarter of fiscal 2013. The Company is in the process of evaluating whether it will utilize a qualitative approach in its upcoming annual goodwill impairment assessment.

3. ACQUISITION AND INVESTMENT

On November 22, 2011 a wholly-owned subsidiary of the Company entered into an asset purchase agreement (the "Purchase Agreement") with Bytewise Development Corporation ("Bytewise") pursuant to which a wholly-owned subsidiary of the Company purchased all of the assets of Bytewise for $15.4 million in cash plus the assumption of certain liabilities. The asset purchase was financed through a term loan under the Company's existing security agreement. The Purchase Agreement contains customary representations, warranties and covenants. In connection with the Purchase Agreement, $1.55 million of the purchase price was placed into escrow to support the indemnification obligations of Bytewise and its shareholders. Under the Purchase Agreement, the former owners of Bytewise will be entitled to a 40% share of any profits from Bytewise's operations over the next three years so long as they remain employed by the Company. The Company has accrued for such profit sharing as an expense based on Bytewise's results of operations since the date of acquisition.

Bytewise designs, develops and manufactures non-contact, industrial measurement systems and software that capture the external geometric profile of a product and analyze that data to meet measurement and/or quality control requirements.

The acquisition was accounted for under the acquisition method of accounting. The total purchase price was allocated to Bytewise's net tangible assets and identifiable intangible assets based on their estimated fair value as of November 22, 2011. The allocation of the purchase price is based upon management's valuation and was finalized in the fourth quarter of fiscal 2012.

The table below presents the allocation of the purchase price to the acquired net assets of Bytewise (in thousands):

Cash	$	298
Accounts receivable		1,897
Inventories		1,674
Other current assets		74
Intangibles		9,300
Goodwill		3,034
Other long-term assets		69
Accounts payable		(379)
Accrued compensation costs		(270)
Accrued expenses		(329)
Cash paid to sellers	$	15,368

Acquisition costs were expensed as incurred and totaled approximately $0.13 million for fiscal year 2012, which are included in selling, general and administrative expenses.

The estimates for definite-lived amortizable intangible assets acquired include approximately $4.95 million for customer relationships, $1.48 million for trademarks and trade names, $2.0 million for completed technology, $0.6 million for non-compete agreements and $0.26 million for order backlog. Amortizable intangible assets are amortized on a straight-line basis over their respective useful lives. The weighted-average amortization period is 9.3 years.

The following table reflects the Bytewise acquisition as if the transaction had occurred as of the beginning of the Company's fiscal year 2011. The unaudited pro forma information does not necessarily reflect the actual results that would have occurred had the Company and Bytewise been combined during the periods presented (in thousands except per share amounts):

	Year Ended	
	6/30/2012	6/30/2011
Unaudited consolidated pro forma revenue	$ 264,036	$ 255,525
Unaudited consolidated pro forma net earnings	$ 951	$ 7,118
Unaudited consolidated pro forma diluted earnings per share	$ 0.14	$ 1.06

In fiscal 2010, the Company entered into an agreement with a private software development company to invest $1.5 million over the subsequent twelve to eighteen months in exchange for a 36% equity interest in the software development company. The Company invested $0.3 million and $1.2 million in fiscal 2012 and 2011, respectively, and recorded other income of $0.2 million in fiscal 2012 and other loss of $0.6 million in fiscal 2011 under the equity method of accounting. The net carrying value of the investment included in other long term assets in the Consolidated Balance Sheet as of June 30, 2012 and June 30, 2011 is $1.2 million and $0.9 million, respectively. In August 2011, the Company guaranteed a loan of $0.5 million between the private software development company and a lender.

4. CASH AND SHORT-TERM INVESTMENTS

Cash and investments held in foreign subsidiaries amounted to $20.6 million and $18.9 million at June 30, 2012 and June 30, 2011, respectively. Of this amount, $9.0 million in U.S. dollar equivalents were held in British Pound Sterling and $7.4 million in U.S. dollar equivalents were held in Brazilian Reals.

As of June 30, 2012 and June 30, 2011, the Company's U.K. subsidiary held a $6.3 million twelve month fixed rate deposit and a $6.4 million six month fixed rate deposit, respectively, with a financial institution.

5. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2012	June 30, 2011
Raw materials and supplies	$ 35,803	$ 31,928
Goods in process and finished parts	24,044	23,938
Finished goods	37,553	29,096
	97,400	84,962
LIFO Reserve	(27,505)	(26,173)
	$ 69,895	58,789

LIFO inventories were $19.7 million and $15.4 million at June 30, 2012 and June 30, 2011, respectively, such amounts being approximately $27.5 million and $26.2 million, respectively, less than if determined on a FIFO basis. The use of LIFO, as compared to FIFO, on an annual basis resulted in a $1.3 million increase in cost of sales in fiscal 2012 compared to a $1.0 million increase in cost of sales in fiscal 2011 and a $8.5 million reduction in cost of sales in fiscal 2010.

6. GOODWILL AND INTANGIBLES

The following tables present information about the Company's intangible assets on the dates indicated (in thousands):

	June 30, 2012			June 30, 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Goodwill	$ 3,034	$ -	$ 3,034	$ -	$ -	$ -
Other intangible assets	15,858	(7,103)	8,755	6,276	(6,045)	231

Amortizable intangible assets consist of the following (in thousands):

	June 30, 2012	June 30, 2011
Non-compete agreements	$ 600	$ -
Trademarks and trade names	1,480	-
Completed technology	2,292	-
Customer relationships	4,950	-
Backlog	260	-
Other intangible assets	6,276	6,276
Total	15,858	6,276
Accumulated amortization	(7,103)	(6,045)
Total net balance	$ 8,755	$ 231

Amortizable intangible assets are being amortized on a straight-line basis over the period of expected economic benefit. Amortization expense of $869 thousand was recorded on the Bytewise acquisition assets as of June 30, 2012.

The estimated useful lives of the intangible assets subject to amortization are 14 years for trademarks and trade names, 8 years for non-compete agreements, 10 years for completed technology, 8 years for customer relationships and 0.5 years for backlog.

The estimated aggregate amortization expense, for each of the next five years, and thereafter, is as follows (in thousands):

Fiscal Year	
2013	$ 1,079
2014	1,057
2015	1,057
2016	1,057
2017	1,057
Thereafter	3,448

The Company performed its annual goodwill impairment test for Kinemetric as of June 26, 2010. The results indicated that goodwill in the Kinemetric reporting unit was fully impaired, resulting in a $1.1 million impairment recorded in the fourth quarter of fiscal 2010. The impairment charge was primarily the result of continued sales declines and the decline in the forecasted cash flows expected by the Company.

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consists of the following as of June 30, 2012 and 2011 (in thousands):

	As of June 30, 2012		
	Cost	Accumulated Depreciation	Net
Land	$ 1,394	$ -	$ 1,394
Buildings and building improvements	44,409	(22,351)	22,058
Machinery and equipment	129,846	(99,701)	30,145
Total	$ 175,649	$ (122,052)	$ 53,597

	As of June 30, 2011		
	Cost	Accumulated Depreciation	Net
Land	$ 1,444	$ -	$ 1,444
Buildings and building improvements	43,289	(22,765)	20,524
Machinery and equipment	144,799	(110,502)	34,297
Total	$ 189,532	$ (133,267)	$ 56,265

Included in machinery and equipment are assets under capital leases of $0.7 million as of June 30, 2012 and $0.9 million as of June 30, 2011 relating to domestic and Brazilian operations. The accumulated amortization relating to these leases was $0.4 million and $1.0 million for fiscal 2012 and 2011, respectively.

Operating lease expense was $1.8 million, $1.5 million and $1.9 million in fiscal 2012, 2011 and 2010, respectively. Future commitments under operating leases are as follows (in thousands):

Fiscal Year	
2013	$ 1,724
2014	1,006
2015	124
2016	41
2017	1
Thereafter	-

8. REORGANIZATION COSTS

In May 2010, Sears informed the Company it would no longer purchase "Craftsman" brand measuring tapes from the Company's Evans Rule subsidiary. Evans Rule was the leading supplier of measuring tapes to Sears for over 30 years. As a result of Sears' decision, the Company incurred an inventory write-off of approximately $2.0 million, which was included in the Cost of Goods Sold on the Consolidated Statement of Operations for 2010. Also in 2010, the Company determined that $0.6 million of long-lived equipment of this subsidiary was impaired by comparing undiscounted cash flows to carrying value. This adjustment was reported as Reorganization costs in the Consolidated Statement of Operations.

The Company closed its Dominican Republic facility effective December 31, 2011. The decision to close the facility was the result of the Sears decision to no longer purchase "Craftsman" brand measuring tapes from the Company. The Company incurred approximately $0.3 million in costs in fiscal 2012 related to facility closure, severance and asset write-offs. The costs included in the fiscal 2012 Consolidated Statements of Operations in costs of sales, selling, general and administrative expenses and other income and expense are ($0.1) million $0.2 million, and $0.1 million, respectively.

9. OTHER INCOME AND EXPENSE

Other income and expense consists of the following (in thousands):

	2012	2011	2010
Interest income	$ 916	$ 1,495	$ 334
Interest expense	(712)	(257)	(484)
Foreign currency gain (loss), net	1,442	(748)	(67)
Other income (expense), net	315	349	322
	$ 1,961	$ 839	$ 105

10. INCOME TAXES

Components of earnings (loss) before income taxes are as follows (in thousands):

	2012	2011	2010
Domestic operations	$ (14,614)	$ (413)	$ (7,295)
Foreign operations	14,725	13,652	(2,046)
	$ 111	$ 13,239	$ (9,341)

The provision (benefit) for income taxes consists of the following (in thousands):

	2012	2011	2010
Current:			
Federal	$ (392)	$ 12	$ -
Foreign	4,239	6,818	3,699
State	455	164	30
Deferred:			
Federal	(5,195)	(177)	(815)
Foreign	656	(331)	(4,112)
State	(540)	(92)	(122)
	$ (777)	$ 6,394	$ (1,320)

Reconciliations of expected tax expense (benefit) at the U.S. statutory rate to actual tax expense (benefit) are as follows (in thousands):

	2012	2011	2010
Expected tax expense (benefit)	$ 38	$ 4,501	$ (3,176)
State taxes, net of federal effect	(170)	(32)	(255)
Foreign taxes, net of federal credits	(751)	(227)	(76)
Change in valuation allowance	(201)	908	181
Return to provision and tax reserve adjustments (including Brazil tax settlement in fiscal 2010)	(286)	246	759
Foreign losses not benefited	206	771	1,042
Other permanent items	387	227	205
Actual tax expense (benefit)	$ (777)	$ 6,394	$ (1,320)

No valuation allowance has been recorded for the domestic federal NOL. The Company believes that forecasted future taxable income and certain tax planning opportunities eliminate the need for any valuation allowance.

Conversely, a valuation allowance was provided on certain state NOLs in 2006 as a result of much shorter carryforward periods and the uncertainty of generating adequate taxable income at the entity and state level. This valuation allowance has remained through fiscal 2012. Similarly, a valuation allowance has been provided on certain foreign NOLs due to the uncertainty of generating future taxable income in those jurisdictions. Lastly, a valuation allowance has been

provided for foreign tax credit carryforwards due to the uncertainty of generating sufficient foreign source income in the future. The need for any valuation allowance on the domestic federal NOL and the continued need for allowance on state and foreign NOLs and tax credits is reevaluated as facts and assumptions change over time.

Deferred income taxes at June 30, 2012 and June 30, 2011 are attributable to the following (in thousands):

	2012	2011
Deferred assets (current):		
Inventories	$ 4,892	$ 4,598
Employee benefits (other than pension)	1,336	548
Book reserves	1,757	954
Other	298	-
Valuation allowance	(663)	-
Current deferred tax asset	$ 7,620	$ 6,100
Deferred assets (long-term):		
Federal NOL, carried forward	$ 5,706	$ 7,438
State NOL, various carryforward periods	874	1,039
Foreign NOL, various carried forward periods	1,283	1,583
Foreign tax credit carryforward, expiring 2014 - 2015	1,028	1,117
Pension benefit	13,599	3,980
Retiree medical benefits	5,563	4,615
Intangibles	3,285	3,813
Other	401	651
Valuation allowance	(1,897)	(2,829)
Long-term deferred tax asset	$ 29,842	$ 21,407
Deferred liabilities (long-term):		
Depreciation	(2,530)	(2,806)
Long-term deferred tax liabilities	$ (2,530)	$ (2,806)
Net deferred tax assets	$ 34,932	$ 24,701

As of June 30, 2012 and June 30, 2011, the net long-term deferred tax asset and deferred tax liabilities on the balance sheet are as follows (in thousands):

	2012	2011
Long-term assets	$ 29,842	$ 21,407
Long-term liabilities	(2,530)	(2,806)
	$ 27,312	$ 18,601

Foreign operations deferred assets (current) relate primarily to book reserves. Foreign operations net deferred assets (long-term) relate primarily to pension benefits. Amounts related to foreign operations included in the long-term portion of deferred liabilities relate primarily to depreciation.

The Company is subject to U.S. federal income tax and various state, local and international income taxes in numerous jurisdictions. The Company's domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to the Company's interpretation of applicable tax laws in the jurisdictions in which it files.

Reconciliations of the beginning and ending amount of unrecognized tax benefits are as follows (in thousands):

Balance at June 27, 2009, as adjusted	$ (9,817)
Increases for tax positions taken during the current period	(234)
Effect of exchange rate changes	242
Balance at June 26, 2010	(9,809)
Decreases for tax positions taken during a prior period	156
Increases for tax positions taken during the current period	(1,189)
Effect of exchange rate changes	(285)
Balance at June 30, 2011	(11,127)
Increases for tax positions taken during a prior period	(32)
Increases for tax positions taken during the current period	(955)
Effect of exchange rate changes	473
Decrease relating to settlement	137
Decreases resulting from the expiration of the statute of limitations	914
Balance at June 30, 2012	$ (10,590)

The long-term tax obligations on the balance sheet as of June 30, 2012 and June 30, 2011 relate primarily to transfer pricing adjustments. The Company has also recorded a non-current tax receivable for $3.8 million and $3.6 million at June 30, 2012 and 2011, respectively, representing the corollary effect of transfer pricing competent authority adjustments.

During the next 12 months, the Company expects there is the possibility that there will be a decrease in the total amount of unrecognized tax benefits as a result of the passing of the related statute of limitations. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company's US tax returns are no longer subject to U.S. federal examination by the Internal Revenue Service for years prior to 2005. As of June 30, 2012, the Company did have a state income tax audit in process. There were no other local or federal income tax audits as of June 30, 2012. In international jurisdictions the years that may be examined vary by country.

The federal NOL carryforward of $16.8 million expires beginning in 2026. The state tax loss carryforward tax effected benefit of $0.9 million expire at various times over the next 5 years. The foreign tax credit carryforward of $1.0 million expires in the years 2014 through 2015.

No deferred taxes have been provided on the undistributed non-U.S. subsidiary earnings that are considered to be permanently invested. At June 30, 2012, the estimated amount of total unremitted earnings is $71.7 million. The Company has not determined the total amount of the unrecognized deferred taxes related to these earnings as the Company has permanently invested those earnings overseas.

11. EMPLOYEE BENEFIT AND RETIREMENT PLANS

The Company has two defined benefit pension plans, one for U.S. employees and another for U.K. employees. The UK plan was closed to new entrants in fiscal 2009. The Company also has defined contribution plans. The Company has a postretirement medical and life insurance benefit plan for U.S. employees. In addition, certain U.S. employees participate in an Employee Stock Ownership Plan (ESOP).

The Company's contribution toward medical benefits for qualified retirees between ages 55 and 64 is based on a sliding scale ranging from 15% to 75% of the current annual premium rates. For retirees 65 and older, the Company's contribution is fixed at $28.50 or $23 per month depending upon the plan the retiree has chosen.

The Company makes periodic contributions to the ESOP in the form of Company stock or in cash to be invested in Company stock. Employees are not required or permitted to make contributions to the ESOP. Ninety percent of the actuarially determined annuity value of their ESOP shares is used to offset benefits otherwise due under the domestic defined benefit pension plan.

The total cost of all such plans for fiscal 2012, 2011 and 2010, considering the combined projected benefits and funds of the ESOP as well as the other plans, was $18.0 million, $1.9 million and $11.5 million, respectively. Included in these amounts are the Company's contributions to the defined contribution plans amounting to $0.2 million, $0.2 million and $0.1 million in fiscal 2012, 2011 and 2010, respectively.

Under both U.S and U.K. defined benefit plans, benefits are based on years of service and final average earnings. Plan assets, including those of the ESOP, consist primarily of investment grade debt obligations, marketable equity securities and shares of the Company's common stock. The asset allocation of the Company's domestic pension plan is diversified, consisting primarily of investments in equity and debt securities. The Company seeks a long-term investment return that is reasonable given prevailing capital market expectations. Target allocations are 40% to 70% in equities (including 10% to 20% in Company stock), and 30% to 60% in cash and debt securities.

The Company uses an expected long-term rate of return assumption of 6.0% for the U.S. domestic pension plan, and 6.4% for the U.K. plan. In determining these assumptions, the Company considers the historical returns and expectations for future returns for each asset class as well as the target asset allocation of the pension portfolio as a whole. In fiscal 2012, the Company used a discount rate assumption of 3.9% for the U.S. plan and 4.4% for the U.K. plan. In determining these assumptions, the Company considers published third party data appropriate for the plans.

Other than the discount rate, pension valuation assumptions are generally long-term and not subject to short-term market fluctuations, although they may be adjusted as warranted by structural shifts in economic or demographic outlooks. Long-term assumptions are reviewed annually to ensure they do not produce results inconsistent with current market conditions. The discount rate is adjusted annually based on corporate investment grade (rated AA or better) bond yields as of the measurement date.

Based upon the actuarial valuations performed on the Company's defined benefit plans as of June 30, 2012, the U.S. plan will require a $1.5 million contribution in fiscal 2013 and the U.K. plan will require a $1.5 million contribution in fiscal 2013.

The Company's overall investment strategy had been to achieve a long-term rate of return of 8.0%, with a wide diversification of asset types. Based upon the Company's current accounting policy, management began to adjust its portfolio and return in fiscal 2012 to realize a 60% fixed – 40% equity asset allocation and a 6% long-term rate return in fiscal 2013. This policy change is intended to minimize the market volatility in the future.

The table below sets forth the actual asset allocation for the assets within the Company's plans.

	2012	2011
Asset category:		
Cash equivalent	0%	3%
Fixed income	12%	6%
Equities	27%	41%
Mutual and pooled funds (balanced funds)	60%	49%
Other	1%	1%
	100%	100%

The Company determines its investments strategies based upon the composition of the beneficiaries in its defined benefit plans and the relative time horizons that those beneficiaries are projected to receive payouts from the plans. The Company engages an independent investment firm to manage the pension assets.

Cash equivalents are held in money market funds.

The Company's fixed income portfolio includes mutual funds that hold a combination of short-term, investment-grade fixed income securities and a diversified selection of investment-grade, fixed income securities, including corporate securities and U. S. government securities.

The Company invests in equity securities, which are diversified across a spectrum of value and growth in large, medium and small capitalization as appropriate to achieve the objective of a balanced portfolio and optimize the expected returns and volatility in the various asset classes.

In accordance with ASC 820, the Company has categorized its financial assets (including its pension plan assets), based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the

inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market which the Company has the ability to access at the measurement.
- Level 2 – Financial assets whose value are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.
- Level 3 – Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own view about the assumptions a market participant would use in pricing the asset.

The tables below show the portfolio by valuation category as of June 30, 2012 and June 30, 2011 (in thousands).

June 30, 2012

Asset Category	Level 1	Level 2	Level 3	Total	%
Cash Equivalent	$ 79	$ —	$ —	$ 79	0%
Fixed Income	—	12,617	—	12,617	12%
Equities	25,212	3,379	—	28,591	27%
Mutual & Pooled Funds	34,627	30,462	—	65,089	60%
Other	—	992	—	992	1%
Total	$ 59,918	$ 47,450	$ —	$ 107,368	100%

June 30, 2011

Asset Category	Level 1	Level 2	Level 3	Total	%
Cash Equivalent	$ 2,950	$ —	$ —	$ 2,950	3%
Fixed Income	—	6,619	—	6,619	6%
Equities	41,657	2,542	—	44,199	41%
Mutual & Pooled Funds	23,821	29,758	—	53,579	49%
Other	—	1,200	—	1,200	1%
Total	$ 68,428	$ 40,119	$ —	$ 108,547	100%

Included in equity securities at June 30, 2012 and 2011 are shares of the Company's common stock having a fair value of $10.4 million and $9.2 million, respectively.

U.S. and U.K. Plans Combined:

The status of these defined benefit plans, including the ESOP, is as follows (in thousands):

	2012	2011	2010
Change in benefit obligation			
Benefit obligation at beginning of year	$ 119,892	$ 117,974	$ 96,167
Service cost	2,168	2,278	1,707
Interest cost	6,538	6,541	6,532
Participant contributions	249	202	231
Exchange rate changes	(852)	2,683	(2,740)
Benefits paid	(5,803)	(5,307)	(5,349)
Actuarial (gain) loss	23,403	(4,480)	21,426
Benefit obligation at end of year	$ 145,595	$ 119,891	$ 117,974
Change in plan assets			
Fair value of plan assets at beginning of year	$ 108,547	$ 98,867	$ 90,864
Actual return on plan assets	3,770	12,271	14,628
Employer contributions	1,268	625	483
Participant contributions	249	202	231
Benefits paid	(5,803)	(5,307)	(5,349)
Exchange rate changes	(663)	1,889	(1,990)
Fair value of plan assets at end of year	$ 107,368	$ 108,547	$ 98,867

	2012	2011	2010
Funded status at end of year			
Funded status	$ (38,227)	$ (11,344)	$ (19,107)
Net amount recognized	$ (38,227)	$ (11,344)	$ (19,107)

	2012	2011	2010
Amounts recognized in balance sheet			
Current liability	$ (23)	$ (23)	$ (24)
Noncurrent liability	(38,204)	(11,321)	(19,083)
Net amount recognized in balance sheet	$ (38,227)	$ (11,344)	$ (19,107)
Amounts not yet reflected in net periodic benefit costs and included in accumulated other comprehensive loss			
Prior service cost	$ (349)	$ (585)	$ (834)
Accumulated loss	(13,248)	(2,450)	(11,668)
Amounts not yet recognized as a component of net periodic benefit cost	(13,597)	(3,035)	(12,502)
Accumulated net periodic benefit cost in excess of contributions	$ (24,630)	$ (8,309)	$ (6,605)
Net amount recognized	$ (38,227)	$ (11,344)	$ (19,107)
Components of net periodic benefit cost			
Service cost	$ 2,168	$ 2,278	$ 1,707
Interest cost	6,538	6,541	6,532
Expected return on plan assets	(6,473)	(7,305)	(6,672)
Amortization of prior service cost	234	249	381
Recognized actuarial (gain) loss	15,298	(2)	9,370
Net periodic benefit cost	$ 17,765	$ 1,761	$ 11,318
Estimated amounts that will be amortized from accumulated other comprehensive loss over the next year			
Prior service cost	$ (234)	$ (234)	$ -
Information for pension plans with accumulated benefits in excess of plan assets			
Projected benefit obligation	$ 145,595	119,891	117,974
Accumulated benefit obligation	138,587	115,306	113,511
Fair value of assets	107,368	108,547	98,867

U.S. Plan:

The status of the U.S. defined benefit plan is as follows (in thousands):

	2012	2011	2010
Change in benefit obligation			
Benefit obligation at beginning of year	$ 83,491	$ 81,678	$ 68,414
Service cost	1,763	1,787	1,429
Interest cost	4,530	4,498	4,518
Benefits paid	(4,170)	(3,821)	(3,674)
Actuarial (gain) loss	18,923	(651)	10,991
Benefit obligation at end of year	$ 104,537	$ 83,491	$ 81,678
Weighted average assumptions - benefit obligation			
Discount rate	3.92%	5.44%	5.37%
Rate of compensation increase	2.64%	2.64%	2.64%
Change in plan assets			
Fair value of plan assets at beginning of year	$ 78,577	$ 73,832	$ 67,126
Actual return on plan assets	2,348	8,543	10,357
Employer contributions	23	23	23
Benefits paid	(4,170)	(3,821)	(3,674)
Fair value of plan assets at end of year	$ 76,778	$ 78,577	$ 73,832
Funded status at end of year			
Funded status	$ (27,759)	$ (4,914)	$ (7,846)
Net amount recognized	$ (27,759)	$ (4,914)	$ (7,846)

	2012	2011	2010
Amounts recognized in balance sheet			
Current liability	$ (23)	$ (23)	$ (24)
Noncurrent liability	(27,736)	(4,891)	(7,822)
Net amount recognized in balance sheet	$ (27,759)	$ (4,914)	$ (7,846)
Weighted average assumptions – net periodic benefit cost			
Discount rate	5.44%	5.37%	6.50%
Rate of compensation increase	2.64%	2.64%	2.64%
Return on plan assets	6.00%	8.00%	8.00%
Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss			
Prior service cost	$ (349)	$ (585)	$ (834)
Accumulated loss	(10,420)	(4,572)	(8,038)
Amounts not yet recognized as a component of net periodic benefit cost	(10,770)	(5,157)	(8,872)
Accumulated contributions in excess of (less than) net periodic benefit cost	$ (16,990)	$ 243	$ 1,026
Net amount recognized	$ (27,759)	$ (4,914)	$ (7,846)
Components of net periodic benefit cost			
Service cost	$ 1,763	$ 1,787	$ 1,429
Interest cost	4,530	4,498	4,518
Expected return on plan assets	(4,570)	(5,724)	(5,195)
Amortization of prior service cost	234	249	273
Recognized actuarial (gain) or loss	15,298	(2)	4,405
Net periodic benefit cost	$ 17,255	$ 808	$ 5,430
Estimated amounts that will be amortized from accumulated other comprehensive loss over the next year			
Prior service cost	$ (234)	$ (234)	$ -
Information for plan with accumulated benefits in excess of plan assets			
Projected benefit obligation	$ 104,537	83,491	81,678
Accumulated benefit obligation	97,529	78,905	77,215
Fair value of assets	76,778	78,577	73,832

U.K. Plan:

The status of the U.K. defined benefit plan is as follows (in thousands):

	2012	2011	2010
Change in benefit obligation			
Benefit obligation at beginning of year	$ 36,400	$ 36,296	$ 27,753
Service cost	405	491	278
Interest cost	2,008	2,043	2,014
Participant contributions	249	202	231
Exchange rate changes	(851)	2,683	(2,740)
Benefits paid	(1,633)	(1,486)	(1,675)
Actuarial (gain) loss	4,480	(3,829)	10,435
Benefit obligation at end of year	$ 41,058	$ 36,400	$ 36,296
Weighted average assumptions - benefit obligation			
Discount rate	4.40%	5.70%	5.40%
Rate of compensation increase	2.60%	3.30%	3.10%
Change in plan assets			
Fair value of plan assets at beginning of year	$ 29,971	$ 25,035	$ 23,738
Actual return on plan assets	1,422	3,728	4,271
Employer contributions	1,245	602	460
Participant contributions	249	202	231
Benefits paid	(1,633)	(1,486)	(1,675)
Exchange rate changes	(664)	1,889	(1,990)
Fair value of plan assets at end of year	$ 30,590	$ 29,970	$ 25,035

	2012	2011	2010
Funded status at end of year			
Funded status	$ (10,468)	$ (6,430)	$ (11,261)
Net amount recognized	$ (10,468)	$ (6,430)	$ (11,261)

	2012	2011	2010
Amounts recognized in balance sheet			
Current liability	$ -	$ -	$ -
Noncurrent liability	(10,468)	(6,430)	(11,261)
Net amount recognized in balance sheet	$ (10,468)	$ (6,430)	$ (11,261)
Weighted average assumptions – net periodic benefit cost			
Discount rate	5.70%	5.40%	7.10%
Rate of compensation increase	3.30%	3.10%	3.00%
Return on plan assets	6.40%	6.00%	6.50%
Amounts not yet reflected in net periodic benefit costs and included in accumulated other comprehensive loss			
Prior service credit (cost)	$ —	$ —	$ —
Accumulated gain (loss)	(2,828)	2,122	(3,630)
Amounts not yet recognized as a component of net periodic benefit cost	(2,828)	2,122	(3,630)
Accumulated net periodic benefit cost in excess of contributions	$ (7,640)	$ (8,552)	$ (7,631)
Net amount recognized	$ (10,468)	$ (6,430)	$ (11,261)
Components of net periodic benefit cost			
Service cost	$ 405	$ 491	$ 278
Interest cost	2,008	2,043	2,014
Expected return on plan assets	(1,903)	(1,581)	(1,477)
Amortization of prior service cost	-	-	108
Recognized actuarial loss	-	-	4,965
Net periodic benefit cost	$ 510	$ 953	$ 5,888
Estimated amounts that will be amortized from accumulated other comprehensive loss over the next year	$ -	$ -	$ -
Information for plan with accumulated benefits in excess of plan assets			
Projected benefit obligation	$ 41,058	$ 36,400	$ 36,296
Accumulated benefit obligation	41,058	36,400	36,296
Fair value of assets	30,590	29,970	25,035

Postretirement Medical and Life Insurance Benefits:	**2012**	**2011**	**2010**
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 11,804	$ 11,603	$ 10,817
Service cost	386	353	287
Interest cost	611	591	646
Benefits paid	(552)	(662)	(977)
Actuarial (gain) loss	1,981	(81)	830
Benefit obligation at end of year	$ 14,230	$ 11,804	$ 11,603
Weighted average assumptions: benefit obligations			
Discount rate	3.92%	5.44%	5.37%
Rate of compensation increase	2.64%	2.64%	2.64%
Change in plan assets			
Fair value of plan assets at beginning of year	$ -	$ -	$ -
Employer contributions	552	662	977
Benefits paid	(552)	(662)	(977)
Fair value of plan assets at end of year	$ -	$ -	$ -
Amounts recognized in balance sheet			
Current postretirement benefit obligation	$ (623)	$ (657)	$ (681)
Non-current postretirement benefit obligation	(13,606)	(11,147)	(10,922)
Net amount recognized in balance sheet	$ (14,230)	$ (11,804)	$ (11,603)
Weighted average assumptions – net periodic benefit cost			
Discount rate	5.44%	5.37%	6.50%
Rate of compensation increase	2.64%	2.64%	2.64%
Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss			
Prior service credit	$ 1,888	$ 2,793	$ 3,699
Accumulated loss	(3,400)	(1,422)	(1,511)
Amounts not yet recognized as a component of net periodic benefit cost	(1,512)	1,371	2,188
Net periodic benefit cost in excess of accumulated contributions	$ (12,718)	$ (13,175)	$ (13,791)
Net amount recognized	$ (14,230)	$ (11,804)	$ (11,603)
Components of net periodic benefit cost			
Service cost	$ 386	$ 353	$ 287
Interest cost	611	591	646
Amortization of prior service credit	(905)	(905)	(905)
Amortization of accumulated loss	2	10	-
Net periodic benefit cost	$ 94	$ 49	$ 28

Estimated amounts that will be amortized from accumulated other comprehensive loss over the next year			
Prior service credit (cost)	$ 905	$ 905	$ 905
Net gain (loss)	(158)	(19)	(28)
	$ 747	$ 886	$ 877

Healthcare cost trend rate assumed for next year	8.80%	9.70%	7.66%
Rate to which the cost trend rate gradually declines	4.50%	4.50%	4.50%
Year that the rate reaches the rate at which it is assumed to remain	2027	2027	2027

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects (in thousands):

	1% Increase		
	2012	2011	2010
Effect on total of service and interest cost	$ 111	$ 104	$ 105
Effect on postretirement benefit obligation	1,430	1,067	1,079

	1% Decrease		
	2012	2011	2010
Effect on total of service and interest cost	$ (93)	$ (87)	$ (89)
Effect on postretirement benefit obligation	(1,028)	(915)	(923)

For fiscal 2013, the Company expects to make a contribution of $1.5 million to the qualified domestic pension plan, $23 thousand to the nonqualified domestic pension plan, $1.3 million to the U.K. pension plan, and $623 thousand to the postretirement medical and life insurance plan.

Future pension and other benefit payments are as follows (in thousands):

Fiscal Year	Pension	Other Benefits
2013	$ 6,121	$ 623
2014	6,308	623
2015	6,487	676
2016	6,635	702
2017	6,841	750
2018-2022	36,689	4,955

12. DEBT

Debt, including capitalized lease obligations, is comprised of the following (in thousands):

	June 30, 2012	June 30, 2011
Short-term and current maturities		
Loan and Security Agreement	$ 1,289	$ 8,000
Short-term foreign credit facility	231	27
Capitalized leases	280	211
	$ 1,800	$ 8,238
Long-term debt		
Loan and Security Agreement	$ 28,985	$ -
Capitalized leases	402	721
	29,387	721
Total	$ 31,187	$ 8,959

Future maturities of debt are as follows (in thousands):

Fiscal Year	
2013	$ 1,800
2014	1,535
2015	17,048
2016	1,553
2017	1,543
Later years	7,708
Total	$ 31,187

The Company completed the negotiations for an amended Loan and Security Agreement ("Line of Credit") and executed the new agreement as of April 25, 2012. Borrowings under this agreement are secured by the assets of the Company's domestic subsidiaries. The new Line of Credit is effective for three years commencing April 25, 2012 and expires on April 30, 2015. The new agreement continues the previous line of $23.0 million and interest rate of LIBOR plus 1.5%. The material financial covenants of the new Loan and Security Agreement are: 1) total liabilities cannot exceed 85% of tangible net worth, 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. Based upon the terms of the amended Security and Loan Agreement, the Line of Credit has been reclassified to long-term debt in fiscal 2012 as the Agreement has a maturity greater than one year and meets all of the criteria necessary to be so classified.

The effective interest rate on the Line of Credit for fiscal 2012 was 1.68%.

As of June 30, 2012, the Company was in compliance with three of the four covenants. However, due to the increase in the pension liability, the Company was not in compliance with the tangible net worth covenant. The Company received a waiver for default of the tangible net worth covenant. On September 7, 2012, the Company executed a new amendment to the Loan and Security Agreement. The new agreement modifies EBITDA to begin with income from continuing operations and to exclude non-cash pension and retirement benefits expenses and replaces the tangible net worth covenant with a new covenant which states that the Company will not permit the ratio of funded debt to EBITDA to exceed 1.45 to 1, effective with the fiscal period ending September 30, 2012. The Company expects to be able to meet this revised covenant in future periods.

On November 22, 2011, in conjunction with the Bytewise acquisition, the Company entered into a new $15.5 million term loan (the "Term Loan") under the then existing Loan and Security Agreement. The term loan is a ten year loan bearing a fixed interest rate of 4.5% and is payable in fixed monthly payments of principal and interest of $160,640. The $15.5 million term loan is subject to the same financial covenants as the Loan and Security Agreement.

Availability under the Line of Credit 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 line of Credit in excess of $23.0 million. As of June 30, 2012, the Company had borrowings of $15.5 million under this facility. A 0.25% commitment fee is charged on the unused portion of the Line of Credit.

The Company has two standby letters of credit totaling $0.2 million which reduce the $23 million available line of credit to $22.8 million. As of June 30, 2012, the Company has approximately $7.3 million available in the Line of Credit.

13. COMMON STOCK

Class B common stock is identical to Class A except that it has 10 votes per share, is generally nontransferable except to lineal descendants, cannot receive more dividends than Class A, and can be converted to Class A at any time. Class A common stock is entitled to elect 25% of the directors to be elected at each meeting with the remaining 75% being elected by Class A and Class B voting together.

Under the Company's Employee Stock Purchase Plans (ESPP), the purchase price of the optioned stock is 85% of the lower of the market price on the date the option is granted or the date it is exercised. Options become exercisable exactly two years from the date of grant and expire if not exercised on such date. No options were exercisable at fiscal year ends. A summary of option activity is as follows:

	Shares On Option	Weighted Average Exercise Price	Shares Available For Grant
Balance, June 27, 2009	61,347		661,221
Options granted	24,330	$ 8.73	(24,330)
Options exercised	(2,937)	7.88	-
Options canceled	(21,656)		21,656
Balance, June 26, 2010	61,084		658,547
Options granted	69,078	8.99	(69,078)
Options exercised	(33,098)	7.65	
Options canceled	(23,055)		23,055
Balance, June 30, 2011	74,009		612,524
Options granted	61,815	9.87	(61,815)
Options exercised	(9,290)	8.73	
Options canceled	(24,044)		24,044
2002 plan expired	-		(222,568)
Balance, June 30, 2012	102,490		352,185

The 2007 plan shares available for grant totaling 352,185 expire on October 3, 2012.

The following information relates to outstanding options as of June 30, 2012:

Weighted average remaining life (yr.s)	1.1
Weighted average fair value on grant date of options granted in:	
2010	$ 4.59
2011	3.01
2012	3.32

The fair value of each option grant was estimated on the date of grant based on the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility – 36.2 – 38.7%, interest – 0.6 – 0.7%, and expected lives - 2 years. Compensation expense of $171,400, $62,100 and $66,800 has been recorded for fiscal 2012, 2011 and 2010, respectively.

14. CONTINGENCIES

The Company is involved in some legal matters which arise in the normal course of business, which are not expected to have a material impact on the Company's financial condition, results of operations and cash flows.

15. OPERATING DATA

The Company believes it has no significant concentration of credit risk as of June 30, 2012. Trade receivables are dispersed among a large number of retailers, distributors and industrial accounts in many countries, with none exceeding 10% of consolidated sales.

The Company is engaged in the single business segment of producing and marketing industrial, professional and consumer products. It manufactures over 5,000 items, including precision measuring tools, tape measures, gages and saw blades. Operating segments are identified as components of an enterprise about which separate discrete financial information is used by the chief operating decision maker in determining how to allocate assets and assess performance of the Company.

The Company has (and is managed through) nine manufacturing plants or reporting units, which are in Jedburgh, Scotland, Itu, Brazil, Athol, MA, Cleveland, OH, Mt. Airy, NC, Suzhou, China, Waite Park, MN, Laguna Hills, CA, and the Columbus, GA. Internal operating statements used by the chief operating decision maker (the CEO) are prepared on the basis of the operating results of each of these units, and the Company believes these reporting units meet the aggregation criteria as stated in ASC 280.

The Company has concluded that its principal units in North America, Scotland and Brazil have similar economic characteristics and therefore similar long-term financial prospects because they operate in worldwide markets, produce and market the same or similar finished products in the same way, generate comparable gross margins, have comparable return on equity, and sell primarily through distribution as opposed to directly to the end user of the product. Because the units operate in different countries, the economic climate in each country may affect the short-term results of each unit differently; however, over the long run, the units in general are expected to operate similarly and generate similar returns.

Other reporting unit similarities include:

a. All the Company's units produce tools and related products used primarily by the metal-working and construction trades. These include rules and tape measures, levels, dial indicators, band saw and hole saw blades, gage blocks, ground flat stock, granite surface plates, micrometers and calipers, etc. All the Company's products are included in a single catalog regardless of where manufactured.

b. The production processes for all products (regardless of where manufactured) are the same or similar in that they use metal or granite as a raw material.

c. The Company's products are sold from its manufacturing units through a customer base of resellers, primarily industrial distributors.

d. The Company and its individual units are not materially affected by the regulatory environment.

For these reasons, the Company believes it is appropriate to report on the basis of one reporting segment.

The Company's operations are primarily in North America, Brazil and the United Kingdom. Geographic information about the Company's sales and long-lived assets are as follows (in thousands):

	2012	2011	2010
Net Sales			
United States	$ 142,417	$ 136,257	$ 101,305
North America (other than U.S.)	13,144	12,406	10,134
United Kingdom	31,527	27,480	23,616
Brazil	96,404	94,859	77,955
Eliminations and other	(23,344)	(26,161)	(9,348)
Total	$ 260,148	$ 244,841	$ 203,662

Long-lived Assets			
United States	$ 81,378	$ 60,210	$ 69,264
North America (other than U.S.)	464	501	651
United Kingdom	4,349	3,802	3,580
Brazil	11,981	15,910	14,213
Eliminations and other	2,764	2,813	2,025
Total	$ 100,936	$ 83,236	$ 89,733

16. QUARTERLY FINANCIAL DATA (unaudited)

(in thousands except per share data)

Quarter Ended	Net Sales	Gross Margin	Earnings (Loss) Before Income Taxes	Net Earnings	Basic and Diluted Earnings Per Share
Sep. 2010	$ 57,539	$ 19,283	$ 2,260	$ 1,267	$ 0.19
Dec. 2010	57,290	19,289	3,459	1,694	0.25
Mar. 2011	58,763	19,553	2,991	2,319	0.35
June 2011	71,249	23,675	4,529	1,565	0.23
	$ 244,841	$ 81,800	$ 13,239	$ 6,845	$ 1.02
Sep. 2011	$ 63,384	$ 21,590	$ 3,751	$ 2,249	$ 0.33
Dec. 2011	62,219	22,107	3,234	1,715	0.25
Mar. 2012	64,540	21,455	2,231	1,570	0.23
June 2012	70,005	12,923	(9,105)	(4,646)	(0.69)
	$ 260,148	$ 78,075	$ 111	$ 888	$ 0.13

The "mark to market" method of pension accounting which the Company elected in fiscal 2011, specifies the pension liability must be valued on the last day of the fiscal year and the resulting pension expense adjustment is recorded in the fourth quarter. The actuarial assumption at the beginning of fiscal 2012 was that the discount rate would be 5.44%. The actual discount rate as of June 30, 2012 was 3.92%. The change resulted in an adjustment to fourth quarter expense of $15.2 million including $12.0 million which reduced the gross margin for this period.

17. PRIOR PERIOD ADJUSTMENTS

During the first quarter of fiscal 2012, the Company identified a prior period error in the method of calculating compensation expense imputed under the Employee Stock Purchase Plan (ESPP) which had accumulated over a period of years. This error, which was immaterial to previously issued financial statements, resulted in an understatement of compensation expense in the Consolidated Statement of Operations for prior periods. The recorded balance of additional paid-in capital was likewise understated in the consolidated balance sheets for prior periods. The Company evaluated the effects of this error on prior periods' consolidated financial statements, individually and in the aggregate, in accordance with the guidance in ASC Topic 250, Accounting Changes and Error Corrections, ASC Topic 250-10-S99-1, Assessing Materiality, and ASC Topic 250-10-S99-2, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("ASC 250"), and concluded that no prior period is materially misstated. In order to correct this immaterial error, the Company has revised the accompanying statements of stockholders' equity and comprehensive income (loss) as of the earliest period presented (June 27, 2009) to decrease retained earnings by $548,000 and to increase additional paid-in capital by the same amount. We made no adjustments to the accompanying fiscal 2011 and 2010 statements of operations and cash flows due to the de minimis impact of the errors to those statements.

During the fourth quarter of fiscal 2012, the Company identified a prior period error in the estimate of a potential income tax exposure arising in fiscal 2008. This error, which was immaterial to previously issued financial statements, resulted in an understatement of income tax expense in the consolidated statement of operations for such fiscal year. The recorded balance of other tax obligations was likewise understated in the consolidated balance sheets for since fiscal 2008. The Company evaluated the effects of this error on prior periods' consolidated financial statements, individually and in the aggregate, in accordance with the guidance in ASC 250 and concluded that no prior period financial statements are materially misstated. In order to correct this immaterial error, the Company has revised the accompanying statements of stockholders' equity and comprehensive income (loss) as of the earliest period presented (June 27, 2009) to decrease retained earnings by $677,000 and to increase other tax obligations by the same amount. No adjustments were required to be made to the accompanying fiscal 2011 and 2010 statements of operations and cash flows.

18. SUBSEQUENT EVENTS

The Company evaluated June 30, 2012 financial statements for subsequent events through the date that the financial statements were available to be issued and noted no material events requiring either recognition as of June 30, 2012 or disclosure herein, except for the issuance of a waiver and amendment to the Loan and Security Agreement as disclosed in Note 12.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date in ensuring that information required to be filed in this annual report was recorded, processed, summarized and reported within the time period required by the rules and regulations of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Starting in the first quarter of fiscal 2012, the Company dedicated one member of its finance team to review all aspects of the tax provision and the tax balance sheet accounts, and ensured that this work was also coordinated with and reviewed by an outside advisor on taxes for each of the interim quarterly financial statements. During the fourth quarter of fiscal 2012, the Company effectively remediated the material weakness within its financial reporting process related to income taxes. The additional steps taken to achieve remediation included the hiring of a tax director, enhancements to the documentation supporting the tax calculation model, and completion of a more detailed review of tax accounts at all subsidiaries., There were no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fourth quarter of fiscal 2012 identified in connection with our Chief Executive Officer's and Chief Financial Officer's evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and acquisitions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- Provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2012. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Board of Directors.

Based on our assessment, management concluded that as of June 30, 2012 our internal control over financial reporting was effective based on those criteria.

The Company's internal control over financial reporting as of June 30, 2012 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
The L.S. Starrett Company

We have audited The L.S. Starrett Company's internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The L.S. Starrett Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on The L.S. Starrett Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The L.S. Starrett Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of June 30, 2012 and June 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended June 30, 2012 and our report, dated September 12, 2012, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
September 12, 2012

Item 9B - Other Information
None.

PART III

Item 10 – Directors, Executive Officers and Corporate Governance
The information concerning the Directors of the Registrant will be contained immediately under the heading "Election of Directors" and prior to Section A of Part I in the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on October 17, 2012 (the "2012 Proxy Statement"), which will be mailed to stockholders on or about September 20, 2012. The information in that portion of the 2012 Proxy Statement is hereby incorporated by reference.

Executive Officers of the Registrant

Name	Age	Held Present Office Since	Position
Douglas A. Starrett	60	2001	President and CEO and Director
Francis J. O'Brien	65	2009	Chief Financial Officer and Treasurer
Anthony M. Aspin	59	2000	Vice President Sales
Stephen F. Walsh	66	2001	Senior Vice President Operations and Director

Douglas A. Starrett has been President of the Company since 1995 and became CEO in 2001.

Francis J. O'Brien was previously Chief Financial Officer at Delta Education, LLC, an elementary school education company, from 2005 to 2009. Prior to Delta Education, he was Chief Financial Officer at StockerYale Corporation, a publicly traded technology company, from 2001 to 2004 and Director of Finance and Business Development at Analogic Corporation, a publicly traded manufacturer of medical and security systems, from 1998 to 2000. Mr. O'Brien served as Corporate Vice President of Finance & Administration for Addison Wesley, a global education company, from 1982 to 1997 and as Senior Manager at Coopers & Lybrand, an international public accounting firm, from 1976 to 1982. Mr. O'Brien holds a BA from the University of Massachusetts and an MBA from Suffolk University and is a Certified Public Accountant.

Anthony M. Aspin was previously a divisional sales manager with the Company.

Stephen F. Walsh was previously President of the Silicon Carbide Division of Saint-Gobain Industrial Ceramics before joining the Company in 2001 as Vice President Operations.

The positions listed above represent their principal occupations and employment during the last five years.

The President and Treasurer hold office until the first meeting of the directors following the next annual meeting of stockholders and until their respective successors are chosen and qualified, and each other officer holds office until the first meeting of directors following the next annual meeting of stockholders, unless a shorter period shall have been specified by the terms of his election or appointment or, in each case, until he sooner dies, resigns, is removed or becomes disqualified.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Code of Ethics
The Company has adopted a Policy on Business Conduct and Ethics (the "Ethics Policy") applicable to all directors, officers and employees of the Company. The Code is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters. The Ethics Policy is available on the Company's website at www.starrett.com. Stockholders may also obtain free of charge a printed copy of the Ethics Policy by writing to the Clerk of the Company at The L.S. Starrett, 121 Crescent Street, Athol, MA 01331. We intend to disclose any future amendments to, or waivers from, the Ethics Policy within four business days of the waiver or amendment through a website posting or by filing a Current Report on Form 8-K with the Securities and Exchange Commission.

Item 11 - Executive Compensation

The information concerning management remuneration will be contained under the heading "General Information Relating to the Board of Directors and Its Committees," and in Sections C-H of Part I of the Company's 2012 Proxy Statement, and is hereby incorporated by reference.

On July 15, 2010, the Company entered into a Change of Control Agreement with Francis J. O'Brien. The terms of Mr. O'Brien's Agreement are identical to those contained in the Change of Control Agreement between the Company and Stephen F. Walsh dated as of January 16, 2009, a form of which is incorporated by reference as Exhibit 10n to this Form 10-K. Such terms are described in the Company's Form 10-Q filed for the quarter ended December 27, 2008 and are incorporated herein by reference.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) The following table gives information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under the Company's 2007 Employees' Stock Purchase Plan ("2007 Plan") as of June 30, 2012. The 2007 Plan was approved by stockholders at the Company's 2007 annual meeting and shares of Class A or Class B common stock may be issued under the 2007 Plan. Options are not issued under the Company's Employees' Stock Purchase Plan that was adopted in 1952.

Plan Category	Number of Securities to be issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	102,490	$ 9.39	352,185
Equity compensation plans not approved by security holders	—	—	—
Total	102,490	$ 9.39	352,185

(b) Security ownership of certain beneficial owners:

The information concerning a more than 5% holder of any class of the Company's voting shares will be contained under the heading "Security Ownership of Certain Beneficial Owners" in Section I of Part I of the Company's 2012 Proxy Statement, and is hereby incorporated by reference.

(c) Security ownership of management:

The information concerning the beneficial ownership of each class of equity securities by all directors, and all directors and officers of the Company as a group, will be contained under the heading "Security Ownership of Management" in Section I of Part I in the Company's 2012 Proxy Statement. These portions of the 2012 Proxy Statement are hereby incorporated by reference.

(d) The Company knows of no arrangements that may, at a subsequent date, result in a change in control of the Company.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 will be contained in the Company's 2012 Proxy Statement, and is hereby incorporated by reference.

Item 14 - Principal Accountant Fees and Services

The information required by this Item 14 will be contained in the Audit Fee table in Section B of Part I in the Company's 2012 Proxy Statement. These portions of the Proxy Statement are hereby incorporated by reference.

PART IV

Item 15 – Exhibits and Financial Statement Schedules

(a) 1. Financial statements filed in Item 8 of this annual report:

Consolidated Balance Sheets at June 30, 2012 and June 30, 2011.

Consolidated Statements of Operations for each of the three years in the period ended June 30, 2012.

Consolidated Statements of Cash Flows for each of the three years in the period ended June 30, 2012.

Consolidated Statements of Stockholders' Equity and Comprehensive Income for each of the three years in the period ended June 30, 2012.

Notes to Consolidated Financial Statements

2. The following consolidated financial statement schedule of the Company included in this annual report on Form 10-K is filed herewith pursuant to Item 15(c) and appears immediately before the Exhibit Index:

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

All other financial statements and schedules are omitted because they are inapplicable, not required under the instructions, or the information is reflected in the financial statements or notes thereto.

3. See Exhibit Index below. Compensatory plans or arrangements are identified by an "*."

(b) See Exhibit Index below.

(c) Not applicable.

Schedule II

Valuation and Qualifying Accounts
Allowance for Doubtful Accounts

(in 000)	Balance at Beginning of Period	Provisions	Charges to Other Accounts	Write-offs	Balance at End of Period
Allowance for Doubtful Accounts:					
Year Ended June 30, 2012	$ 416	$ 660	$ (17)	$ (94)	$ 965
Year Ended June 30, 2011	607	405	(106)	(490)	416
Year Ended June 26, 2010	678	88	21	(180)	607

THE L.S. STARRETT COMPANY AND SUBSIDIARIES - EXHIBIT INDEX

Review Exhibit with Ropes and Gray
Exhibit

2.1* Asset Purchase Agreement dated as of April 28, 2006 by and among Starrett Acquisition Corporation, a Delaware Corporation, Tru-Stone Technologies, Inc., a Minnesota corporation (the "Company"), St. Cloud and each individual shareholder of St. Cloud that signed the Asset Purchase Agreement filed with Form 8-K dated May 8, 2006 is hereby incorporated by reference.

3a Restated Articles of Organization as amended, filed herewith.

3b Bylaws, filed with Form 10-K dated September 13, 2011.

4	Rights Agreement dated as of November 2, 2010 between the Company and Mellon Investor Services LLC, as Rights Agent (together with exhibits, including the Form of Rights Certificate, and the Summary of Rights to Purchase Shares of Class A Common Stock), filed with Form 10-Q for the quarter ended September 25, 2010, is hereby incorporated by reference.
10a*	Form of indemnification agreement with directors and executive officers, filed with Form 10-K for the year ended June 29, 2002, is hereby incorporated by reference.
10b*	The L.S. Starrett Company Supplemental Executive Retirement Plan, filed with Form 10-K for the year ended June 29, 2002 is hereby incorporated by reference.
10c*	The L.S. Starrett Company 401(k) Stock Savings Plan (2001 Restatement), filed with Form 10-K for the year ended June 29, 2002 is hereby incorporated by reference.
10d*	The L.S. Starrett Company Employee Stock Ownership Plan and Trust Agreement, as amended, filed herewith.
10e*	Amendment dated April 1, 2003 to the Company's 401(k) Stock Savings Plan, filed with Form 10-K for the year ended June 28, 2003, is hereby incorporated by reference.
10f*	Amendment dated October 20, 2003 to the Company's 401(k) Stock Savings Plan, filed with Form 10-Q for the quarter ended September 27, 2003, is hereby incorporated by reference.
10g	Amendment dated as of June 24, 2006 to the Company's Amended and Restated Credit Agreement, filed with Form 10-K for the year ended June 24, 2006, is hereby incorporated by reference.
10h*	Loan and Security Agreement dated as of June 30, 2009 by and among the Company, certain subsidiaries of the Company, and TD Bank, N.A., as lender as amended through April 25, 2012, filed herewith.
10i*	2007 Employees' Stock Purchase Plan filed with the Definitive Proxy Statement for the 2008 Annual Meeting of Stockholders is hereby incorporated by reference.
10j*	Cash Bonus Plan for Executive Officers of the Company, filed with Form 10-K for the year ended June 28, 2008, is hereby incorporated by reference.
10k*	Cash Bonus Plan for Anthony M. Aspin, filed with Form 10-K for the year ended June 28, 2008, is hereby incorporated by reference.
10l*	Change in Control Agreement, dated January 16, 2009, between the Company and Douglas A. Starrett, filed with Form 10-Q for the quarter ended December 27, 2008, is hereby incorporated by reference.
10m*	Form of Change in Control Agreement, executed separately by the Company and each of Stephen F. Walsh and Francis J. O'Brien on January 16, 2009 and July 15, 2010, respectively, filed with Form 10-Q for the quarter ended December 27, 2008, is hereby incorporated by reference.
10n	Form of Non-Compete Agreement, dated as of January 16, 2009, executed separately by the Company and each of Francis J. O'Brien, Douglas A Starrett and Stephen F. Walsh on July 15, 2010, January 16, 2009 and January 16, 2009, filed with Form 10-Q for the quarter ended December 27, 2008, is hereby incorporated by reference.
23	Consent of Independent Registered Public Accounting Firm, filed herewith.
31a	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a), filed herewith.
31b	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a), filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2003 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), filed herewith.

101 The following materials from L. S. Starrett's Annual Report on Form 10-K for the quarter ended June 30, 2012 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE L.S. STARRETT COMPANY
(Registrant)

By: /S/ Francis J. O'Brien
Francis J. O'Brien
Treasurer and Chief Financial Officer

Date: Sept. 12, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/S/DOUGLAS A. STARRETT
Douglas A. Starrett, Sept. 12, 2012
President and CEO and Director

/S/SALVADOR DE CAMARGO, JR.
Salvador de Camargo, Jr., Sept. 12, 2012
President and Director
Starrett Industria e Comercio Ltda, Brazil

/S/RALPH G. LAWRENCE
Ralph G. Lawrence, Sept. 12, 2012
Director

/S/TERRY A. PIPER
Terry A. Piper, Sept. 12, 2012
Director

/S/RICHARD B. KENNEDY
Richard B. Kennedy, Sept. 12, 2012
Director

/S/STEPHEN F. WALSH
Stephen F Walsh, Sept. 12, 2012
Senior Vice President Operations and Director

/S/DAVID A. LEMOINE
David A. Lemoine, Sept. 12, 2012
Director