

STARRETT L S CO  
Form DEF 14A  
September 05, 2013  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission  
Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**THE L.S. STARRETT COMPANY**

**(Name of Registrant as Specified in Its Charter)**

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

Title of each class of securities to which transaction applies:

(1)

Aggregate number of securities to which transaction applies:

(2)

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

(3)

Proposed maximum aggregate value of transaction:

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

Amount Previously Paid:

(1)

Form, Schedule or Registration Statement No.:

(2)

Filing Party:

(3)

Date Filed:

(4)

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**THE L.S. STARRETT COMPANY**

**121 Crescent Street**

**Athol, Massachusetts 01331**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**OCTOBER 16, 2013**

NOTICE IS HEREBY GIVEN that the Annual Meeting of the stockholders of The L.S. Starrett Company (the “Company”) will be held at the Company’s offices at 121 Crescent Street, Athol, Massachusetts 01331, on Wednesday, October 16, 2013, at 2:00 p.m. for the following purposes:

1. To elect a class of two directors, each to hold office for a term of three years and until his successor is chosen and qualified;
2. To ratify the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for fiscal 2014;
3. To vote on a non-binding stockholder proposal to request that the Company’s board redeem the rights issued pursuant to the Company’s Rights Agreement, dated November 2, 2010 (the “Rights Plan”); and
4. To consider and act upon any other matter that may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed August 30, 2013 as the record date for the determination of stockholders entitled to vote at the Annual Meeting, or any adjournments thereof, and to receive notice thereof. The transfer books of the Company will not be closed.

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

STEVEN A. WILCOX, *Clerk*

Athol, Massachusetts

September 5, 2013

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

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders' Meeting to be held on October 16, 2013.**

**The Notice of Annual Meeting, Proxy Statement and Annual Report are available at:**

Proxy: [http://www.starrett.com/proxy/2013\\_proxy.pdf](http://www.starrett.com/proxy/2013_proxy.pdf)

Annual Report: [http://www.starrett.com/proxy/2013\\_ar.pdf](http://www.starrett.com/proxy/2013_ar.pdf)

**If your shares are held in “street name” in a stock brokerage account or by a bank or other nominee, you must provide your broker with instructions on how to vote your shares in order for your shares to be voted on important matters presented at the Annual Meeting. If you do not instruct your broker on how to vote, your shares will not be voted on these matters.**

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**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

**OF**

**THE L.S. STARRETT COMPANY**

**121 CRESCENT STREET**

**ATHOL, MASSACHUSETTS 01331**

The enclosed form of proxy and this Proxy Statement have been mailed to stockholders on or about September 13, 2013 in connection with the solicitation by the Board of Directors of The L.S. Starrett Company (the "Company") of proxies for use at the Annual Meeting of Stockholders to be held at the Company's offices at 121 Crescent Street, Athol, Massachusetts 01331, on Wednesday, October 16, 2013, at 2:00 p.m., or at any adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

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

Stockholders of record at the close of business on August 30, 2013 are entitled to vote at this meeting. On that date, the Company had outstanding and entitled to vote 6,089,643 shares of Class A Common Stock (the "Class A Stock") and 819,901 shares of Class B Common Stock (the "Class B Stock" and together with the Class A Stock, the "Common Stock"). Each outstanding share of Class A Stock entitles the record holder thereof to one vote and each outstanding share of Class B Stock entitles the record holder thereof to ten votes. The holders of Class A Stock are entitled to elect 25% of the Company's directors to be elected at each meeting and such holders voting together with the holders of Class B Stock as a single class are entitled to elect the remaining directors to be elected at the meeting. Except for the

foregoing and except as provided by law, all actions submitted to a vote of stockholders will be voted on by the holders of Class A Stock and Class B Stock voting together as a single class. The Company's Board of Directors is divided into three classes with one class to be elected at each annual meeting of stockholders.

## **I. ELECTION OF DIRECTORS**

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

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

The names and ages as of August 30, 2013 of the nominees for director proposed by the Board of Directors, their principal occupations, the significant business directorships they hold, and the years in which they first became directors of the Company are as follows:

Name (Age)	Principal Occupation During Last Five Years and Directorships	Director Since
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**Class III — Director to be elected by the Class A Stockholders:**

Richard B. Kennedy (70)	From 2004 until retirement in June 2013, President and Chief Executive Officer, Worcester Regional Chamber of Commerce, Worcester, Massachusetts. From 2002 to 2004, Associate Principal and Market Strategy Consultant, Frank Lynn & Associates, Chicago, Illinois. From 2000 to 2001, Executive Vice President and Director of GlobalBA.com, a start-up serving the chemical industry. Until 1999, Vice President Marketing, Saint-Gobain Abrasives, Worcester, Massachusetts, a producer of abrasive products. Mr. Kennedy's career at Saint Gobain spanned sales and marketing in both domestic and international markets. His deep understanding of distribution channels and his geo-political savvy provides a valuable skill set for the Board.	1996
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**Class III — Director to be elected by the Class A and Class B Stockholders voting together:**

Terry A. Piper (68)	Chairman, President and Chief Executive Officer of Precision Steel Warehouse, Inc., Franklin Park, Illinois, a wholesale steel service center. Mr. Piper began his career at Precision Steel Warehouse in 1961 and has served in a series of progressively more responsible positions culminating in the position of CEO in 1999. As a head of a subsidiary of the Berkshire Hathaway Co., he brings practical experience and a best in practice expertise to the Board.	2003
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The following table sets forth the names and ages as of August 30, 2013 of the Class I and Class II Directors, their positions and offices with the Company, if applicable, their principal occupations, the significant business directorships they hold, the years in which they first became directors of the Company and the years that their current term in office expires:

Name (Age)	Principal Occupation During Last Five Years and Directorships	Director Since	Term Expires
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**Class I— Directors:**

Ralph G. Lawrence (70)	Until retirement in 2003, President and Chief Operating Officer, Hyde Manufacturing Company, a producer of hand tools and specialty machine blades.  With his experience at Hyde Manufacturing, Mr. Lawrence brings a deep understanding of the retail, construction and hardware trades to the Board. His diverse working career spanned both sales and operations which provides valuable insight to the Board.	2003	2014
Salvador de Camargo, Jr. (67)	President, Starrett Industria e Comercio Ltda, (Brazil), a wholly-owned subsidiary of the Company.  Mr. de Camargo is a respected leader who began his career with the Company's Brazilian subsidiary in 1963. He has participated in the	2007	2014



emergence of Brazil from a developing to a developed economy while rising through the ranks of the Company's Brazilian subsidiary to the position of President in 2008. His breadth of international experience and knowledge is invaluable to the Board.

Stephen F. Walsh (67) Since 2005, Senior Vice President Operations of the Company; From 2001-2005, Vice President Operations of the Company; Prior to 2001, Mr. Walsh was President of the Silicon Carbide Division of Saint-Gobain Industrial Ceramics, a producer of ceramic and abrasive products. Mr. Walsh holds a professional director certification from the American College of Corporate Directors. Mr. Walsh is a strong leader with a deep understanding of manufacturing operations and the industrial markets that the Company serves. He is well-versed on the issues facing a multi-national business and provides strategic expertise to the Board. 2005 2014

Name (Age)	Principal Occupation During Last Five Years and Directorships	Director Since	Term Expires
<b>Class II— Directors:</b>			
David A. Lemoine (65)	Until retirement in 2010, Audit Partner, Deloitte & Touche LLP (“D&T”), Boston, MA (1985-2010), Partner-in-charge of D&T’s audit practice (1995-2000). From 1980-1985, Senior Vice President, Finance & Administration, Briox Technologies, Inc., Worcester, MA. As a former partner of a large multi-national audit practice he brings to the Board extensive knowledge and experience in public accounting. Mr. Lemoine’s financial acumen makes him well suited to lead our audit committee and provide guidance to the Board.	2010	2015
Douglas A. Starrett (61)	Since 2001, President and Chief Executive Officer of the Company; prior to 2001, President of the Company. Mr. Starrett started his career with the Company in 1976 as an apprentice toolmaker and has been promoted to positions of increasing responsibility in engineering, operations and management. Mr. Starrett’s broad exposure to both domestic and international operations and markets provides an in-depth understanding of our business and its culture.	1984	2015

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

### Director’s Competency

Our directors play a critical role in overseeing the strategic direction and management of the Company. Board candidates are considered based on a broad breadth of professional skills, experiences, and financial acumen. They must possess a global perspective, personal integrity, sound judgment, and social and community awareness. However, in selecting qualified and competent directors, it is important to understand that our Company is a manufacturing business. Therefore, we look for candidates that have expertise and in-depth knowledge in the manufacturing field and our distribution channels. As a small public company, we also look for Board members who possess specific work experiences that augment areas where we may have limited expertise.

Collectively our current members of the Board meet all the above criteria. The Board of Directors believes that the composition of the Board provides a good balance between the business expertise and the appropriate social perspective to ensure that the business is operating with concern for the long-term interest of our stockholders, employees, and the community. Our directors have demonstrated that they have the time to devote to Board activities and to execute their fiduciary duties to the Company and its stockholders.

## **GENERAL INFORMATION RELATING TO THE BOARD**

### **OF DIRECTORS AND ITS COMMITTEES**

The Board of Directors held five regular meetings and one special meeting during the fiscal year ended June 30, 2013 (“fiscal 2013”). Each of the Company’s directors attended 100% of the aggregate of all meetings of the Board and of all committees on which he was a member. In addition, the Company’s non-management directors met in executive session without management participation four times during fiscal 2013. As described in the Company’s Corporate Governance Policy, the Board of Directors has not formally selected a director to preside over the executive sessions of the non-management directors. Instead, at each executive session, the non-management directors designate a presiding director, or chair, for the session. A regular Board meeting is traditionally held immediately following the Annual Meeting but the Board does not have a policy requiring the attendance by the directors at the Annual Meeting. All of the directors attended the 2012 Annual Meeting, which was held on October 17, 2012.

Douglas A. Starrett currently serves as Chief Executive Officer and Chairman of the Board of Directors. Mr. Starrett has worked for the Company for the past thirty-seven years. The Board believes that Mr. Starrett’s breadth of experience and unique understanding of the corporate culture are important assets in executing the duties of Chief Executive Officer and Chairman. The advantage of the combined duties contributes to more effective and streamlined implementation of strategy and creates direct accountability. The Board believes that Mr. Starrett’s in-depth knowledge of manufacturing and the industrial markets, combined with his international experience, allow Mr. Starrett to provide strong leadership and direction for the Company. Whether the same leadership structure will be selected when our Chief Executive Officer’s tenure with the Company ends is a matter that the Board feels should be evaluated at the time in light of the skills and experience of the Chief Executive Officer and other relevant considerations.

The role of the Board in managing risk at the Company is to have ultimate oversight for the risk management process. Management has day-to-day responsibility for the identification and control of risk facing the Company including timely identifying, monitoring, mitigating and managing those risks that could have a material effect on the Company. Further, management has the responsibility to report these risks as they arise to the Board and its committees and the Company’s auditors. The Board has delegated certain risk assessment responsibilities to its audit committee (the “Audit Committee”), its compensation committee (the “Compensation Committee”), its corporate governance and nominating committee (the “Corporate Governance and Nominating Committee”) and its executive committee (the “Executive Committee”). The responsibilities of each these committees are described below.

During fiscal 2013, the members of the Audit Committee were Messrs. Kennedy, Lemoine (Chair), and Lawrence. The Board of Directors has determined that each member of the Committee is independent, as defined by the applicable New York Stock Exchange rules. In general, the Audit Committee recommends to the Board the independent auditors to be selected and confers with the Company's independent auditors to review the audit scope, the Company's internal controls, financial reporting issues, results of the audit and the range of non-audit services. See also "Relationship with Independent Auditors" below. The Audit Committee also oversees the Company's internal audit function. The Board has adopted a written charter for the Audit Committee, which is available on the Company's web site at [www.starrett.com](http://www.starrett.com) and attached to this proxy statement as Exhibit I.

The members of the Compensation Committee during fiscal 2013 were Messrs. Kennedy (Chair), Piper and Lawrence. The Board of Directors has determined that each member of the Committee is independent, as defined by the applicable New York Stock Exchange rules. The function of the Compensation Committee is to review the compensation of key management personnel and to set the Chief Executive Officer's compensation. The Board has adopted a written charter for the Compensation Committee, which is available on the Company's website at [www.starrett.com](http://www.starrett.com).

The members of the Corporate Governance and Nominating Committee during fiscal 2013 were Messrs. Kennedy, Lawrence (Chair), Lemoine and Piper. The Board of Directors has determined that each member of the Committee is independent, as defined by the applicable New York Stock Exchange rules. The Board has adopted a written charter for the Corporate Governance and Nominating Committee, which is available on the Company's web site at [www.starrett.com](http://www.starrett.com). The Corporate Governance and Nominating Committee is responsible for recommending to the Board nominees for director and for the Company's corporate governance practices. The Corporate Governance and Nominating Committee recommends to the Board individuals as director nominees who, in the opinion of the Committee, have high personal and professional integrity, have experience that is of particular relevance to the Company, have sufficient time available to devote to the affairs of the Company, and who will be effective, in conjunction with the other nominees and members of the Board, in collectively serving the long-term best interests of the stockholders.

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

The members of the Executive Committee during fiscal 2013 were Messrs. Starrett, Kennedy and Walsh. The Executive Committee may exercise most Board powers during the period between Board meetings.

Beginning in fiscal 2013, annual compensation for outside directors on committees changed from an activity-based to a role-based retainer. The annual retainer for each outside director was as follows: David A. Lemoine \$40,000; Richard B. Kennedy \$38,000; Ralph G. Lawrence \$37,000; and Terry A. Piper \$35,000. Non-employee directors may elect to defer part or all of their director's compensation, in which event such deferred compensation and interest thereon will generally be payable in four equal installments after they cease to be a director.

The Board of Directors as a whole evaluates and approves any transactions with related parties. The Company has not adopted a written policy or procedure used to evaluate and approve transactions with related parties. Instead, transactions are considered by the Board of Directors at meetings or through written consents.

There have not been any transactions, or proposed transactions, during the last two fiscal years, to which the Company was or is to be a party, in which any director or executive officer of the Company, any nominee for election as a director, any security holder owning beneficially more than 5% of the Common Stock of the Company, or any member of the immediate family of the aforementioned persons had or is to have a direct or indirect material interest.

**A. Audit Committee Report**

The Audit Committee operates in accordance with a written charter adopted by the Board and reviewed annually by the Committee. The Committee is responsible for overseeing the quality and integrity of the Company's accounting, auditing and financial reporting practices. It is composed solely of members who are independent, as defined by the applicable rules of the New York Stock Exchange and under Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Further, Mr. Lemoine is an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission (the "SEC"). The Audit Committee is chaired by Mr. Lemoine, who is a certified public accountant and is a retired partner of a large public accounting firm.

Management has the primary responsibility for the financial statements and the financial reporting process. Management is also responsible for assessing and maintaining the effectiveness of internal controls over the financial reporting process in compliance with Sarbanes-Oxley Section 404 requirements. The Audit Committee oversees the Company's financial reporting process and internal controls on behalf of the Board. In this regard, the Audit Committee helps to ensure the independence of the Company's auditors, its internal audit function, and the integrity of management and the adequacy of disclosure to stockholders. Representatives of the Company's independent auditors, Grant Thornton LLP, and financial management and other management personnel have unrestricted access to the Audit Committee.

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

For fiscal 2013, management, Grant Thornton LLP and the Audit Committee met seven times including meetings to discuss the Company's annual and quarterly earnings reports and financial statements prior to each public release of such reports or statements.

With respect to fiscal 2013, the Audit Committee met prior to the issuance of the Company's Annual Report on Form 10-K, to:

review and discuss the audited financial statements with the Company's management;  
discuss with Grant Thornton LLP the matters required to be discussed by SAS No. 61 (Codification of Statements on Auditing Standards, AV Section 380, as modified and supplemented); and  
discuss with Grant Thornton LLP its independence and receive from Grant Thornton LLP the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board concerning independence.

Based upon these reviews and discussions, the Audit Committee recommended that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013 for filing with the SEC.

The Audit Committee has considered and determined that the provision of the non-audit services provided by Grant Thornton LLP is compatible with maintaining the auditor's independence and in accordance with Company policy to limit non-audit service fees to be no more than the total audit fee.

The Audit Committee has appointed Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2013 and intends to submit such recommendation to the Company's stockholders for ratification (but not for approval) at the Company's 2013 Annual Meeting.

Audit Committee

David A. Lemoine, Chairman

Richard B. Kennedy

Ralph G. Lawrence

September 5, 2013

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

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

### *Audit Fees*

The following table sets forth the approximate aggregate fees billed to the Company for the fiscal years ended June 30, 2013 and June 30, 2012 by the Company’s independent auditors, Grant Thornton LLP, in each of the last two fiscal years:

<b><u>Fee Category</u></b>	<b>Fiscal 2013 Fees</b>	<b>Fiscal 2012 Fees</b>
Audit Fees	\$1,176,628	\$1,127,162
Audit-Related Fees	-	-
Tax Fees	79,979	119,900
All Other Fees	-	-
<b>Total Fees</b>	<b>\$1,256,607</b>	<b>\$1,247,062</b>

“Audit Fees” were for professional services rendered for the audit of the Company’s consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Grant Thornton LLP in connection with statutory and regulatory filings or engagements. Audit fees for fiscal 2013 and fiscal 2012 also included services related to the Company’s compliance with Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting.





“Audit Fees” were for assurance and related services that are reasonably related to the performance of the audit or review of Company’s consolidated financial statements.

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

There were no “All Other Fees” in fiscal 2012 or 2013.

In making its determination regarding the independence of Grant Thornton LLP, the Audit Committee considered whether the provision of the services covered in the sections entitled “Audit-Related Fees” and “Tax Fees” was compatible with maintaining such independence. All of the work performed by Grant Thornton LLP was performed by full-time employees of the firm.

No fees were paid to Grant Thornton LLP for financial information systems design or implementation services during fiscal 2013 or fiscal 2012.

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

The Audit Committee’s policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors in order to ensure that the provision of such services does not impair the auditors’ independence. These services may include audit services, audit-related services, tax services and other services. In addition to generally pre-approving, on a case-by-case basis, services provided by the independent auditors, the Audit Committee has adopted a policy for the pre-approval of certain specified services which may be provided by the independent auditors. Under this policy, the Audit Committee has pre-approved the auditors’ engagement letter for the provision of certain services. These services set forth in the engagement letter have been identified in a sufficient level of detail so that management will not be called upon to make judgment as to whether a proposed service fits within the scope of the engagement letter. Pursuant to the policy, the Audit Committee is informed of the auditors’ provision, if any, of a pre-approved service on a periodic basis and the auditor’s report to the Audit Committee the fees for any services performed under this pre-approval policy.

**C. Executive Officers of the Company**

The following table sets forth the names of the executive officers of the Company, their positions and ages of August 30, 2013:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Douglas A. Starrett	61	President, Chief Executive Officer and Director
Francis J. O'Brien	66	Chief Financial Officer and Treasurer
Anthony M. Aspin	60	Vice President Sales
Stephen F. Walsh	67	Senior Vice President Operations and Director

**Francis J. O'Brien** has been the Company's Chief Financial Officer and Treasurer since 2009. Previously he served as 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** has served as Vice President Sales since 2000. He previously served as a divisional sales manager with the Company.

Mr. Starrett's and Mr. Walsh's background is described above under "I. Election of Directors."

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.

## **Compensation Discussion and Analysis**

### *Overview and Objectives*

The Company is engaged in the business of manufacturing industrial, professional and consumer products. The total number of different items made and sold by the Company exceeds 5,000. The Company is a preeminent global brand in the field of measuring tools and saw products. The Company's tools and instruments are sold throughout the United States and over 100 foreign countries around the world. The largest consumer of these products is the metalworking industry, but other important customers are automotive, aerospace, medical, marine and farm equipment, do-it-yourselfers, and tradesmen such as builders, carpenters, plumbers and electricians. The Company's principal plant is located in Athol, Massachusetts. In addition, the Company operates manufacturing plants in Ohio, North Carolina, Minnesota, California, Georgia, Brazil, Scotland and China.

Although the Company is a small to mid-sized manufacturer, the Compensation Committee understands that the Company's breadth of product, global operating presence and brand equity demands that the business be managed by highly competent personnel in order to meet the challenges and the continual changing landscape of today's global economy. The Company's executives require the same talents as much larger organizations and must be motivated, versatile and experienced in order for the Company to prosper in the future. To that end, the Company must recruit, retain and reward qualified executive talent in order to build long-term shareholder value and a sustainable business for the benefit of all stakeholders.

### *Compensation Committee*

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

The Compensation Committee engaged Radford, an executive compensation consultant, during fiscal 2012 to review base salary, target total cash compensation, long term incentive opportunity and total compensation against the competitive marketplace using a peer group of similarly situated companies. Radford has been evaluated by the Compensation Committee of the Board of Directors in accordance with SEC rules and has been determined to be independent.

The Compensation Committee has the opportunity to work closely with each executive officer during the year at various board and committee meetings and has a good understanding and working knowledge of each individual's contributions and talents. However, the Compensation Committee discusses with the CEO the performance and contributions of each executive officer and seeks his advice and recommendations when setting compensation. The CEO is not present when the Compensation Committee discusses his compensation.

### *Compensation Philosophy*

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

Our executive officers currently do not have employment contracts or company-paid memberships or professional services. For fiscal year 2013 compensation consisted primarily of base salary, cash incentive compensation and grants of awards under the 2012 Long Term Incentive Plan. In addition, in fiscal year 2013, long-term equity (stock) incentives are available to our executives and employees on the same basis through our employee stock purchase plan.

We make judgments based on the considerations listed above and on competitive compensation at companies of similar size and in similar fields. We use specific peer comparisons listed above and we draw on our knowledge of the market cost of any executive who might have to be replaced. The Compensation Committee also periodically reviews various publicly available sources of compensation data. We believe that our executive compensation is generally lower than executive compensation paid by companies of similar size and in similar fields for comparable positions. There is a need to close this gap through base salary increases and performance-based incentive plans in order to retain and attract qualified management talent.

*Components of Executive Compensation*

The five elements of our executive compensation program are:

- Base salary
- Cash incentive compensation
- Long-term incentives
- Retirement benefits
- Other compensation

These components are intended to encourage and achieve the purpose and philosophies of our compensation programs set forth above. We have not adopted formal policies for allocation between long- and short-term, and cash- and non-cash, compensation. We seek a mix between all elements of compensation to achieve a total compensation package that is commensurate with the executive officer's position, responsibility and performance relative to his peers in other companies of similar size and in similar fields.

At the 2011 annual meeting of stockholders, the stockholders approved, on a non-binding, advisory basis, the compensation of the Company's named executive officers ("NEOs"). The stockholders also voted, on a non-binding, advisory basis, on the frequency of holding non-binding, advisory votes on the compensation of the Company's NEOs. The stockholders of the Company voted in favor of holding an advisory vote every three years. The Compensation Committee considered the results of this vote and determined that, consistent with the majority vote of the Company's stockholders at the 2011 annual meeting of stockholders, the Company will hold future non-binding stockholder advisory votes on the compensation of the Company's NEOs every three years at the Company's annual meeting of stockholders. Accordingly, the next non-binding, advisory vote on executive compensation will be submitted to the stockholders at the 2014 annual meeting of stockholders.

*Base Salary*

Base salary is the fixed component of the executive's cash compensation and should reflect the individual's position and scope of responsibility, taking into consideration experience, tenure, long-term potential and the ability to assume additional responsibility.

The Compensation Committee reviews base salaries for the executive officers in June of each year or in connection with promotions. The Compensation Committee of the Board of Directors approved the following officer salaries effective July 1, 2011 based on our executive compensation philosophy: Mr. Starrett \$375,000; Mr. Walsh \$250,000;

Mr. O'Brien \$200,000; and Mr. Aspin \$175,000. The Compensation Committee of the Board of Directors approved the following officer salaries effective July 1, 2012 based on our executive compensation philosophy: Mr. Starrett \$394,000; Mr. Walsh \$263,000; Mr. O'Brien \$213,000; and Mr. Aspin \$185,000. The Compensation Committee of the Board of Directors granted no base salary increases for fiscal 2014; therefore, the fiscal 2014 salaries remained the same as fiscal 2013, effective July 1, 2013.

#### *Cash Incentive Compensation*

Annual cash incentive compensation is variable pay for the NEOs to reward them for overall Company and individual performance in the key areas of sales, operational, and financial results. This component of incentive compensation is important to attract highly motivated and skilled executives.

The Board of Directors, upon the recommendation of the Compensation Committee, voted in fiscal 2013 to adopt a new cash bonus plan for executive officers of the Company (the "Cash Bonus Plan").

The Cash Bonus Plan bases awards on achievement of financial goals, which are reviewed and recommended by the Compensation Committee and are approved by the Board of Directors. Targets for the NEOs are established on three financial measures—consolidated sales, operating profit and cash flow. Similar to the Company's previous cash bonus plan, income before taxes equal to 4% of revenue must be achieved before any cash bonuses for the NEOs are awarded. Once the 4% threshold is achieved, the participant earns a percentage of salary based upon the percentage level of achievement against the three financial measures of consolidated sales, operating profit and cash flow. Each participant's financial measures are weighted on a percentage basis to reflect their specific responsibilities.

The percentage weighted for each financial measure is applied on a sliding scale to calculate the percentage of salary upon which the bonus is earned. The scale begins, upon achievement of 90% of a financial measure, at 15% of salary. The percentage of salary increases 1% for each 1% increase in achievement of the financial measure up to 95%; 2% of salary for each 1% increase in achievement of financial measures up to 100%; and 3% increase in salary for each 1% increase in achievement of financial measures up to 110%. Bonuses under the Cash Bonus Plan for fiscal 2013 were capped at 50% of salary.

The Cash Bonus Plan covers the four executive officers responsible for the Company's worldwide results: Douglas A. Starrett, Stephen F. Walsh, Anthony M. Aspin and Francis J. O'Brien. Based on fiscal 2013 results, no cash incentives were earned.

#### *Long Term Equity Incentives*

The Board adopted the Company's 2012 Long-Term Incentive Plan, which was approved by the stockholders at the October 17, 2012 annual meeting, under which equity-based and cash-incentive awards may be granted to employees, directors, consultants and advisors of the Company. We plan to provide long-term equity compensation opportunities under the 2012 Long-Term Incentive Plan to our NEOs to provide a link between compensation and shareholder value and as a valuable retention component as, generally, the executive forfeits any unvested portion of the long-term equity component if the executive is not employed by the Company at the time of vesting. Radford, in conducting a competitive review of executive compensation, found the Company's NEOs were lacking in competitive long-term incentive opportunity and recommended a first year strategy of making long term equity grants that would position the Company in the 25<sup>th</sup> percentile of the market using a combination of options and restricted stock units. Market data for long term incentive compensation at the 25<sup>th</sup> percentile ranged up to \$248,000 in value for chief executive officers and \$55,000 to \$136,000 for other NEOs.

There are also other opportunities for our employees, including our NEOs, to invest in Company stock through the 401(k) Plan, the Company's 1952 Employees' Stock Purchase Plan and the 2012 Employee Stock Purchase Plan.

#### *Retirement Benefits*

The Compensation Committee and Company management believe that it is important to provide retirement benefits to employees who reach retirement age. Company retirement benefits consist of the following components:



The 401(k) Plan. The Company's 401(k) Plan is a defined contribution plan intended to be qualified under the Internal Revenue Code. Our executive officers are eligible to participate in the 401(k) plan on the same terms as our other employees. For additional information regarding the Company's 401(k) Plan, please see section "F. Employee Stock Ownership and 401(k) Savings Plans" of this proxy below.

The Retirement Plan. The Company's Retirement Plan is a defined benefit pension plan intended to be qualified under the Internal Revenue Code. Participants in this plan are generally eligible to retire with unreduced pension benefit at age 65. Our executive officers participate in the Retirement Plan on the same basis as our other employees with similar years of service at the Company. Further detail concerning the Retirement Plan is contained in the Pension Benefits Table and the related narrative below.

The ESOPs. The Company's 1984 Employee Stock Ownership Plan (the "1984 ESOP") and the 2013 Employee Stock Ownership Plan (the "2013 ESOP" and collectively with the 1984 ESOP, the "ESOPs") are employee stock ownership plans intended to be qualified under the Internal Revenue Code. An employee's vested balance, if any, under the ESOPs will generally be distributed at the same time that the employee is eligible to begin receiving a benefit under the ESOPs. Our executive officers participate in the ESOPs on the same terms as our other employees with similar years of service at the Company. For additional information regarding the Company's ESOPs, please see section "F. Employee Stock Ownership and 401(k) Savings Plans" of this proxy below.

The Supplemental Executive Retirement Plan (the "SERP"). Certain members of management and highly compensated employees, including the Company's executive officers, participate in the SERP. The SERP provides supplemental retirement benefits out of the general assets of the Company that are otherwise denied to participants due to legislation limiting the amount of compensation that may be taken into account in computing the benefit payable under the Company's Retirement Plan. Further detail concerning the SERP is contained in the Pension Benefits Table and the related narrative below.

#### *Other Compensation*

The Company strives to maintain a reasonable relationship between executive pay and average non-executive employee pay. Mr. Aspin has a company-provided car, commensurate with his sales position and requirements for travel on behalf of the Company. However, the Company does not otherwise provide its executives with perks such as club memberships or access to company-paid professional services that are not uniformly available to non-executive officer employees of the Company.

*Compensation Committee Report*

The Compensation Committee reviewed and discussed the Company's Compensation Discussion and Analysis with the Company's management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

*Compensation Committee:*

Richard B. Kennedy, Chairman

Ralph G. Lawrence

Terry A. Piper

*Compensation Committee Interlocks and Insider Participation*

During fiscal 2013, decisions with respect to the compensation of the Company's executive officers were made by, or upon the recommendation of, the Compensation Committee. During fiscal 2013, the Compensation Committee consisted of independent directors, as defined by the New York Stock Exchange rules. No member of the Compensation Committee was an officer of the Company nor was any officer of the Company a member of the Compensation Committee (or similar body) for any employer of the Company's Compensation Committee members.

**D. Remuneration****SUMMARY COMPENSATION TABLE**

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(a)	Option Awards (\$)(b)	Non-Equity Incentive Plan Compensation (\$)(c)	Change in Pension Value and Nonqualified Deferred Compensation (\$)(d)	All Other Compensation (\$)	Total (\$)
	2013	394,000	N/A	30,240	28,650	-0-	-0-	N/A	

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Douglas A. Starrett	2012	375,000	N/A	N/A	N/A	99,375	504,419	N/A	452,890
	2011	325,000	N/A	N/A	N/A	55,250	106,312	N/A	978,794
<i>President, Chief Executive Officer and Director</i>									486,562
Francis J. O'Brien	2013	213,000	N/A	15,120	14,325	-0-	26,135	N/A	268,580
<i>Treasurer and Chief Financial Officer</i>	2012	200,000	N/A	N/A	N/A	83,000	40,228	N/A	323,228
	2011	175,000	N/A	N/A	N/A	29,750	13,684	N/A	218,434
Anthony M. Aspin	2013	185,000	N/A	10,080	9,550	-0-	-0-	N/A	204,630
<i>Vice President of Sales</i>	2012	175,000	N/A	N/A	N/A	72,100	149,930	N/A	397,030
	2011	150,000	N/A	N/A	N/A	57,000	39,323	N/A	246,323
Stephen F. Walsh	2013	263,000	N/A	15,120	14,325	-0-	-0-	N/A	292,445
<i>Senior Vice President Operations and Director</i>	2012	250,000	N/A	N/A	N/A	66,250	100,024	N/A	416,274
	2011	215,000	N/A	N/A	N/A	36,550	48,821	N/A	300,371

(a) This column represents the grant date fair value of restricted stock units granted in fiscal 2013. For a detailed description of the assumptions used for purposes of determining fair value, see Note 4 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended June 30, 2013. No restricted stock units were granted in fiscal 2012 or 2011.

(b) This column represents the grant date fair value of stock options granted in fiscal 2013. For a detailed description of the assumptions used for purposes of determining fair value, see Note 4 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended June 30, 2013. No stock options were granted in fiscal 2012 or 2011.

(c) This column represents the annual incentive bonuses earned by our named executive officers under our Cash Bonus Plan for services performed in fiscal 2011, 2012 and 2013. Because Company performance targets were not met for fiscal 2013, no incentive bonuses were paid for that fiscal year.

(d) Amounts reflect the change in the actuarial present value of the accumulated pension benefits for Messrs. Starrett, O'Brien, Aspin and Walsh for each of fiscal 2013, 2012 and 2011. In fiscal 2013, the actuarial present value of the accumulated pension benefits for Messrs. Starrett, Aspin and Walsh was reduced by \$76,867, \$12,432 and \$1,300, respectively.



**Grants of Plan-Based Awards Table**

The following table sets forth information regarding grants of plan-based awards made to our executive officers during fiscal 2013:

<u>Name</u>	<b>Grant Date</b>	<b>Estimated Future Payouts Under Non-Equity Incentive Plan Awards</b>			<b>All other stock awards number of shares or stock or units (#) (b)</b>	<b>All other option awards number of securities underlying options (#) (c)</b>	<b>Exercise or Base Price of Option Awards (\$/Sh) (d)</b>	<b>Grant date fair value of awards (\$) (e)</b>
		<b>Threshold (\$)(a)</b>	<b>Target (\$)(a)</b>	<b>Maximum (\$)(a)</b>				
Douglas A. Starrett	7/1/12	59,100	118,200	197,000				
	12/17/12	N/A	N/A	N/A	3,000			30,240
	12/17/12	N/A	N/A	N/A		7,500	10.08	28,650
Francis J. O'Brien	7/1/12	31,950	63,900	106,500				
	12/17/12	N/A	N/A	N/A	1,500			15,120
	12/17/12	N/A	N/A	N/A		3,750	10.08	14,325
Anthony M. Aspin	7/1/12	27,750	55,500	92,500				
	12/17/12	N/A	N/A	N/A	1,000			10,080
	12/17/12	N/A	N/A	N/A		2,500	10.08	9,550
Stephen F. Walsh	7/1/12	39,450	78,900	106,500				
	12/17/12	N/A	N/A	N/A	1,500			15,120
	12/17/12	N/A	N/A	N/A		3,750	10.08	14,325

(a) This column represents the estimated future payouts for each named executive officer in fiscal 2013 under the Cash Bonus Plan. Upon 90% achievement of the Company's performance goals, an executive is entitled to an award equal to 15% of base salary. The award increases by 1% of base salary for each 1% increase in achievement of the Company's performance goals up to 95%, by 2% of base salary for each 1% increase in achievement of the Company's performance goals up to 100%, and by 3% of base salary for each 1% increase in achievement of the Company's performance goals up to 110%. Awards under the Cash Bonus Plan for fiscal 2013 were capped at 50% of base salary. For additional information, see "Cash Incentive Compensation" in the Compensation Discussion and Analysis. Based on the Company's performance, no cash incentives were earned in fiscal 2013. This is reflected in the "Non-Equity Incentive Plan Compensation" column under the Summary Compensation Table above.

(b) This column represents the number of restricted stock units awarded in fiscal 2013 under the 2012 Long-Term Incentive Plan. These restricted stock units vest ratably over a three year period from the grant date.

(c) This column represents the number of stock options awarded in fiscal 2013 under the 2012 Long-Term Incentive Plan. These stock options vest ratably over a three year period from the grant date.

(d) This column represent the per-share exercise price of the stock options on the grant date of December 17, 2012.

(e) This column represents the grant date fair value of stock options and restricted stock units granted in fiscal 2013. See Note 4 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ending June 30, 2013.

**Outstanding Equity Awards as of Fiscal-Year End**

The following table summarizes the number of shares of common stock underlying outstanding equity incentive plan awards for each executive officer as of June 30, 2013:

<u>Name</u>	<b>Stock Awards</b>			<b>Number of Shares or Units of Stock That Have Not Vested (#)(d)</b>	<b>Market Value of Shares or Units of Stock That Have Not Vested \$(e)</b>
	<b>Number of Securities Underlying Unexercised Stock Options (Unexercisable) (#)(a)</b>	<b>Option Exercise Price \$(b)</b>	<b>Option Expiration Date (c)</b>		
Douglas A. Starrett	-07,500	10.08	12/17/2022	3,000	30,660
Francis J. O'Brien	-03,750	10.08	12/17/2022	1,500	15,330
Anthony M. Aspin	-02,500	10.08	12/17/2022	1,000	10,220
Stephen F. Walsh	-03,750	10.08	12/17/2022	1,500	15,330

(a) Stock options vest ratably over a three year period commencing on the grant date of December 17, 2012.

(b) Represents the stock price (fair market value) on the date of grant of December 17, 2012.

(c) Stock options expire, if not exercised, on the ten year anniversary of the grant.

(d) Restricted stock units vest equally over a three year period commencing with the grant date of December 17, 2012.

(e) The market value of the restricted stock units is determined by multiplying the number of shares subject to the award by \$10.22, which represents the closing price of the Company's common stock on June 30, 2013.

**Stock Vested Table**

As of June 30, 2013, no stock options or restricted stock units held by the executive officers have vested.

### **Pension Benefits**

The Company's Retirement Plan covers all eligible employees who have at least one year of service and have attained age 21. An "eligible employee" is an employee of the Company (or an affiliate of the Company that participates in the Plan) other than a union employee, leased employee, independent contractor, or, except as determined by the Company, a nonresident alien. Benefits under the Retirement Plan are determined by reducing a formula amount calculated under the Retirement Plan by 90% of the annuity value of the employee's vested account balance, if any, under the 1984 ESOP. See "Employee Stock Ownership and 401(k) Savings Plans" below. At no time will the benefit of any participant under the Retirement Plan be less than such participant's benefits, if any, under the Retirement Plan before establishment of the 1984 ESOP. The formula amount calculated under the Retirement Plan is based on the sum of 1.25% of the employee's average base salary up to the employee's Social Security covered compensation plus 1.70% of the employee's average base salary over covered compensation, times the number of years of credited service up to but not exceeding 35 years. An employee's average base salary is his average base salary for the five consecutive highest paid of his last ten years of employment.

Pursuant to provisions of the Internal Revenue Code of 1986, as amended, in general, annual compensation that may be taken into account in computing a participant's benefit under the Retirement Plan is limited (to \$255,000 for the plan year beginning on July 1, 2012) and annual annuity benefits may not exceed a specified dollar limit (currently \$205,000). The Company has established a Supplemental Executive Retirement Plan ("SERP") to provide on an unfunded basis out of the general assets of the Company benefits earned under the Retirement Plan formula that are in excess of Internal Revenue Code limits. At June 30, 2013, the retirement benefits are outlined in the Pension Benefits table below.



**PENSION BENEFITS**

Name	Plan Name	Number of Years	Present Value of	Payments During
		Credited Service	Accumulated Benefit	Last Fiscal Year
		(#)(a)	(\$)(b)	(\$)
Douglas A. Starrett	Retirement Plan	35.0	1,205,752	- 0 -
	SERP	35.0	447,155	- 0 -
Francis J. O'Brien	Retirement Plan	2.5	80,048	- 0 -
	SERP	-	-	- 0 -
Anthony M. Aspin	Retirement Plan	21.5	423,717	- 0 -
	SERP	21.5	-	- 0 -
Stephen F. Walsh	Retirement Plan	10.5	388,542	- 0 -
	SERP	10.5	-	- 0 -

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(a) This column represents the number of years of service credited to each executive officer under the Retirement Plan and SERP. Mr. Starrett's actual years of service with the Company are 35.5 years; however, the number of years of credited service under the Retirement Plan and SERP is limited to 35 years.

(b) This column represents the actuarial present value of the executive officer's accumulated benefit under Retirement Plan and SERP. For a detailed description of the assumptions used for purposes of determining fair value, see Note 12 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended June 30, 2013.

**Summary of Director Compensation**

Our non-management directors in fiscal 2013 received:

Annual cash retainers ranging from \$35,000 to \$40,000.

Reimbursement for Company-related out-of-pocket expenses, including travel expenses.

Stock options and Restricted Stock Units under the 2012 Long-Term Incentive Plan.

**DIRECTOR COMPENSATION FOR FISCAL 2013**

The table below summarizes the compensation earned by our directors/and or paid by the Company to our directors for fiscal 2013.

Name	Fees Earned or Paid in Cash (Meeting Fees and Retainers)	Stock Awards	Option Awards	Total
	(\$)(a)	(\$)(b)	(\$)(c)	(\$)
Ralph G. Lawrence	37,000	3,024	2,865	42,889
Salvador de Camargo, Jr. <sup>(d)</sup>	-	-	-	-
Richard B. Kennedy	38,000	3,024	2,865	43,889
Terry A. Piper	35,000	3,024	2,865	40,889
David A. Lemoine	40,000	3,024	2,865	45,889

(a) This column represents retainer fees paid for services as a director during the fiscal year ended June 30, 2013.

(b) This column represents the grant date fair value of restricted stock units granted in fiscal 2013. For a detailed description of the assumptions used for purposes of determining fair value, see Note 4 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended June 30, 2013.

(c) The amounts represent the grant date fair value of stock options granted in fiscal 2013. For a detailed description of the assumptions used for purposes of determining fair value, see Note 4 to our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended June 30, 2013.

(d) Salvador de Camargo, Jr.'s total compensation in fiscal 2013 was \$235,500. He was not separately compensated as a member of the Board. Mr. de Camargo, Jr.'s compensation in Brazilian Reals was R512,000.

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

The Company also maintains the 1984 ESOP, established in 1984, a 401(k) Savings Plan, established in 1986, and the 2013 ESOP, established in fiscal 2013. All plans are designed to supplement retirement benefits provided under the Company's Retirement Plan and to enable employees to share in the growth of the Company.

The 1984 ESOP covers eligible domestic employees who have at least one year of service and have attained age 21. However, as of June 30, 1994, all of the shares of Common Stock in the 1984 ESOP were allocated to participant accounts, and future 1984 ESOP contributions by the Company (if any) are discretionary. Employees who retire, die, or otherwise terminate employment will be entitled to receive their vested account balance, if any, under the 1984 ESOP, which will generally be distributed at the same time that the employee is eligible to begin receiving a benefit under the Retirement Plan. An amount equal to 90% of an employee's 1984 ESOP account balance, if any, expressed in annuity form, will be used to offset the employee's benefit under the Retirement Plan. See "Pension Benefits" above.



The 2013 ESOP covers eligible domestic employees who have at least one year of service and have attained age 21. The 2013 ESOP plan year ends on June 30. The plan is funded exclusively by Company contributions, and employees will neither be required nor permitted to make contributions to the plan. Each year, the Company will determine the extent of its contribution to the plan. For fiscal 2013, the Company made a contribution to the plan totaling \$773,000, equal to 2% of each eligible participant's annual compensation. Participants will become vested in the plan over a six year period at 20% per year beginning in the second year.

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

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

Participants are not subject to federal or state income tax on salary deferral contributions or on Company matching contributions or the earnings thereon until such amounts are withdrawn from the 401(k) Savings Plan.

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

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

For fiscal 2013 and 2012, Company matching contributions for all executive officers of the Company as a group were \$14,994 and \$16,263, respectively, and for all employees of the Company as a group were \$211,760 and \$218,117, respectively.

**G. Employees' Stock Purchase Plans**

The 2007 Employees' Stock Purchase Plan (the "2007 Plan"), which was approved in 2007, provides that the options may cover shares of Class A or Class B Stock as the Company shall determine. The principal difference between the Class A Stock and the Class B Stock is their respective voting rights. Class B Stock is otherwise identical to the Class A Stock except (i) that it is generally non-transferable except to lineal descendants, (ii) cannot receive more dividends per share than the Class A Stock and (iii) can be converted to Class A Stock at any time. Under the 2007 Plan, the option price to purchase shares of the Company's Common Stock was the lower of 85% of the market price on the date of grant or 85% of the market price on the date of exercise (two years from the date of grant).

The 2007 Plan gives new employees an opportunity to participate in the success of the Company and allows present employee stockholders to invest further if they so desire. The Company's management feels that a further financial interest of this type on the part of those who work in the Company and its subsidiaries gives it an added edge that makes a difference in Company performance. At June 30, 2013, 943 employees were eligible to participate in the 2007 Plan. Based on the closing market price for the Company's Common Stock on July 26, 2013 of \$10.30 per share, the aggregate market value of the 500,000 shares of Common Stock issuable under the 2007 Plan would be approximately \$5,150,000.

No additional options will be granted under the 2007 Plan.

The 2012 Employees' Stock Purchase Plan (the "2012 Plan"), which was approved in 2012, is substantially similar to the 2007 Plan and provides that the options may cover shares of Class A or Class B Stock as the Company shall determine. The principal difference between the Class A Stock and the Class B Stock is their respective voting rights. Class B Stock is otherwise identical to the Class A Stock except (i) that it is generally non-transferable except to lineal descendants, (ii) cannot receive more dividends per share than the Class A Stock and (iii) can be converted to Class A Stock at any time. Under the 2012 Plan, the option price to purchase shares of the Company's Common Stock was the lower of 85% of the market price on the date of grant or 85% of the market price on the date of exercise (two years from the date of grant).

The 2012 Plan gives new employees an opportunity to participate in the success of the Company and allows present employee stockholders to invest further if they so desire. The Company's management feels that a further financial interest of this type on the part of those who work for the Company and its subsidiaries gives it an added edge that makes a difference in Company performance. At June 30, 2012, 994 employees were eligible to participate in the 2012 Plan. Based on the closing market price for the Company's Common Stock on July 26, 2013 of \$10.30 per share, the aggregate market value of the 500,000 shares of Common Stock issuable under the 2012 Plan would be approximately \$5,150,000.

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

#### **H. Potential Payments upon Termination or Change of Control**

The Company entered into Change in Control Agreements ("CIC Agreements") with Douglas A. Starrett and Stephen F. Walsh on January 16, 2009 and with Francis J. O'Brien on July 15, 2010. Under the CIC Agreements, Messrs. Starrett, O'Brien and Walsh are entitled to certain payments in connection with a "change in control" (as defined in the CIC Agreements) of the Company. Mr. Aspin has not entered into a CIC Agreement. Among other triggering events set forth in the definition, a change in control of the Company will occur if any person is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities or more than 50% of the total fair market value of the Company. The material terms of the CIC Agreements are summarized below.

*CIC Agreement with Douglas A. Starrett*

Under Mr. Starrett's CIC Agreement, Mr. Starrett is entitled to certain payments and benefits if there is a change in control of the Company. In the event of a change in control of the Company (and notwithstanding any change in employment with the Company), Mr. Starrett is entitled to:

A lump sum payment of three times his annual base salary immediately prior to the change in control plus three times the average of his annual bonus for the past three years. As of the date of this Proxy Statement, this amount is estimated to be \$1,331,000.

Full acceleration of his options to purchase stock of the Company (including the right to participate in any stage of a tender offer) and full acceleration of his restricted stock units. Mr. Starrett was granted 7,500 stock options and 3,000 restricted stock units pursuant to the Company's 2012 Long-Term Incentive Plan. The value of full acceleration as of June 30, 2013 for the stock options and restricted stock units would be \$1,050 and \$30,240, respectively.

Continued coverage under existing medical, dental, and prescription drug plans for Mr. Starrett and his family for 36 months following the change in control. In the event that coverage under such a plan is not available, the Company will pay the premium costs for COBRA health care continuation coverage for him and his spouse and/or dependents or, to the extent that COBRA coverage is not available, monthly lump sum cash payments equal to the monthly COBRA premiums directly to him for such 36 month period. This is estimated to be approximately \$70,000.

Continued coverage under a director and officer liability policy.

A "gross up payment" for excise and related taxes in the event that payments or distributions to him under his CIC Agreement would constitute "excess parachute payments" under Section 280G of the Internal Revenue Code. The value of such "gross up payment" as of June 30, 2013, would be approximately \$585,800. For purposes of this calculation, the Company took into account the full value of the restricted stock units and stock options, rather than the acceleration value of such awards.

In the event that he is terminated for any reason within 36 months of a change in control, a lump sum payment equal to the value of any additional benefits that would have accrued to him under the Company's retirement plan from the date of his termination if he had remained employed with the Company for 36 months following the change in control. No estimate of this payment is available at this time.

The Company's covenant to continue in effect all retirement plans in which he is a participant immediately prior to the change in control. No estimate of this payment is available at this time.

*CIC Agreements with Francis J. O'Brien and Stephen F. Walsh*

Under their CIC Agreements, Messrs. O'Brien and Walsh are entitled to certain payments and benefits if (1) there is a change in control of the Company and (2) they are terminated in connection with the change in control. In the event of a termination in connection with a change in control, each of Messrs. O'Brien and Walsh is entitled to:

A lump sum payment equal to one and one half times his annual base salary immediately prior to the change in control and one and one half times the average of his annual bonus over the past three years. As of the date of this Proxy Statement, this amount is estimated to be \$432,000 and \$530,000 for Messrs. O'Brien and Walsh, respectively.

Continued coverage under existing medical, dental, and prescription drug plans for him and his family for 18 months following the change in control and termination of employment. In the event that coverage under such a plan is not available, the Company will pay the premium costs for COBRA health care continuation coverage for him and his spouse and/or dependents or, to the extent that COBRA coverage is not available, monthly lump sum cash payments equal to the monthly COBRA premiums directly to him for such 18 month period. This is estimated to be approximately \$35,000 for each of Messrs. O'Brien and Walsh.

Continued coverage under a director and officer liability policy.

A "gross up payment" for excise and related taxes in the event that payments or distributions to them under their CIC Agreements would constitute "excess parachute payments" under Section 280G of the Internal Revenue Code. Neither Mr. O'Brien nor Mr. Walsh would qualify for a "gross up payment" assuming a change of control occurred on June 30, 2013.

A lump sum payment equal to any additional benefits that would have accrued to him under the Company's retirement plan from the date of his termination if he had remained employed with the Company for 18 months following the change in control. No estimate of this payment is available at this time.

In the event that his employment is not terminated following a change in control, the Company's covenant to continue in effect all retirement plans in which he is a participant immediately prior to a change in control. No estimate of this payment is available at this time.

In the event of a change in control of the Company (and notwithstanding any change in employment with the Company), each of Messrs. O'Brien and Walsh are entitled to, full acceleration of his options to purchase stock of the Company (including the right to participate in any stage of a tender offer) and full acceleration of his restricted stock units. Messrs. O'Brien and Walsh were each granted 3,750 stock options and 1,500 restricted stock units pursuant to the Company's 2012 Long-Term Incentive Plan. The value of full acceleration as of June 30, 2013 for the stock options and restricted stock units would be \$525 and \$15,120, respectively for both Messrs. O'Brien and Walsh.





**I. Security Ownership of Certain Owners and Management***1. Security Ownership of Management*

The following table and accompanying footnotes set forth certain information about the beneficial ownership of the Company's Common Stock as of August 30, 2013 by the directors, the executive officers named in the Summary Compensation Table and all directors and executive officers as a group.

<b>Name of Beneficial Owner</b>	<b>Title of Class of Common Stock</b>	<b>Amount and Nature of Beneficial Ownership <sup>1</sup></b>	<b>Percent of Class</b>
Douglas A. Starrett <sup>2</sup>	Class A	34,455	*
	Class B	48,999	6.5%
Anthony M. Aspin <sup>3</sup>	Class A	3,122	*
	Class B	284	*
Stephen F. Walsh <sup>4</sup>	Class A	3,847	*
	Class B	9,228	*
Francis J. O'Brien	Class A	703	*
	Class B	-	*
Salvador de Camargo, Jr.	Class A	700	*
	Class B	-	*
Richard B. Kennedy <sup>5</sup>	Class A	125	*
	Class B	-	*
Ralph G. Lawrence	Class A	1,200	*
	Class B	-	*
Terry A. Piper	Class A	200	*
	Class B	-	*
David A. Lemoine	Class A	1,000	*
	Class B	-	*
All Directors and Executive Officers (as a Group <sup>9</sup> persons)	Class A	45,352	*
	Class B	58,511	7.8%

\*Less than one percent (1%)

<sup>1</sup> Shares are held with sole voting and investment power except as indicated below.

Includes 314 Class A and 450 Class B shares held with shared voting and investment power and 8,009 Class A and 45,404 Class B shares held with sole voting power only. Does not include shares of Common Stock held by Mr.

<sup>2</sup> Starrett as Trustee under the 1984 ESOP except for 4,794 Class A and 1,545 Class B shares allocated to Mr. Starrett's 1984 ESOP account. See Note 5 under "Security Ownership of Certain Beneficial Owners" below.

<sup>3</sup> Includes 218 Class A shares with shared voting and investment power and 2,845 Class A and 284 Class B shares with sole voting power only.

<sup>4</sup> Includes 2,400 Class A shares and 9,228 Class B shares held with shared voting and investment power and 1,218 Class A shares with sole voting power only.

<sup>5</sup> Shares are held with shared voting and investment power.

## 2. Security Ownership of Certain Beneficial Owners

The following table and accompanying footnotes sets forth the persons or groups known by the Company to be beneficial owners of more than 5% of the Company's Common Stock as of August 30, 2013.

Name and Address of Beneficial Owners	Title of Class of Common Stock	Amount and Nature of Beneficial Ownership	Percent of Class
Gamco Investors, Inc <sup>1</sup> 1 Corporate Center Rye, NY 10580	Class A	887,325	14.6%
	Class B	-	*
Royce & Associates, LLC <sup>2</sup> 1414 Avenue of the Americas New York, NY 10019	Class A	529,400	8.7%
	Class B	-	*
Dimensional Fund Advisors LP <sup>3</sup> 1299 Ocean Ave. Santa Monica, CA 90401	Class A	501,843	8.2%
	Class B	-	*
Counsel Trust Company <sup>4</sup> dba Mid-Atlantic Trust Company The Times Building 336 Fourth Avenue, Suite 5 Pittsburgh, PA 15222	Class A	420,357	6.9%
	Class B	13,770	1.7%
Harold J. Bacon, Douglas A. Starrett and Francis J. O'Brien, as Trustees under The L.S. Starrett Company's Employees Stock Ownership Plan <sup>5</sup>	Class A	525,467	8.6%
	Class B	162,227	19.8%

c/o The L.S. Starrett Company

121 Crescent Street

Athol, MA 01331

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\*Less than one percent (1%)

<sup>1</sup> Share information is based on information set forth in the Amendment on Schedule 13D filed by Gamco Investors, Inc. with the SEC on September 7, 2012.

<sup>2</sup> Share information is based on information set forth in the Amendment on Schedule 13G filed by Royce & Associates, LLC with the SEC on January 22, 2013.

<sup>3</sup> Share information based on information set forth in the Schedule 13G filed by Dimensional Fund Advisors LP with the SEC on February 11, 2013.

<sup>4</sup> Counsel Trust Company acts as Trustee of the Company's 401(k) Savings Plan and in that capacity shares voting power with respect to the shares of Common Stock with and subject to direction from participants in the 401(k) Savings Plan. Counsel Trust Company disclaims beneficial ownership as to all of the shares in the 401(k) Savings Plan.

Harold J. Bacon, Douglas A. Starrett and Francis J. O'Brien in their capacity as Trustees under the ESOPs (the "ESOPs Trustees") hold the shares with sole dispositive power subject to the terms of the ESOPs. The ESOPs Trustees disclaim beneficial ownership of the ESOPs shares except with respect to their own vested shares in the ESOPs.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires directors and executive officers of the Company and persons who own more than 10% of any class of equity securities of the Company registered under the Exchange Act to file with the SEC, the New York Stock Exchange and the Company initial reports of ownership and reports of changes in ownership of such securities. Based on information provided to the Company by the individual officers and directors, the Company believes that all such reports were timely filed in fiscal 2012 by such directors and officers.

#### **IV. RELATIONSHIP WITH INDEPENDENT AUDITORS**

During the fiscal year ended June 30, 2013, Grant Thornton LLP was engaged to perform the annual audit. Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

The Audit Committee has appointed Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2014 and intends to submit such recommendation to the Company's stockholders for ratification (but not for approval) at the Company's 2013 Annual Meeting of Stockholders.

#### **V. GENERAL**

##### **A. Solicitation and Voting**

In case any person or persons named herein for election as a director should not be available for election at the Annual Meeting, proxies in the enclosed form (in the absence of express contrary instructions) may be voted for a substitute or substitutes as well as for other persons named herein.

As of the date of this proxy statement, management knows of no business that will be presented to the Annual Meeting that is not referred to in the accompanying notice, other than the approval of the minutes of the last meeting of stockholders, which action will not be construed as approval or disapproval of any of the matters referred to in such minutes.

As to other business, if any, that may properly come before the Annual Meeting, it is intended that proxies in the attached form that do not contain specific instructions to the contrary will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

The enclosed proxy is solicited by the Board of Directors of the Company. The cost of solicitation will be borne by the Company. Such solicitation will be made by mail and may also be made by the Company's officers and employees personally or by telephone or telegram. The Company will, on request, reimburse brokers, custodians and nominees for their expenses in sending proxies and proxy material to beneficial owners. A proxy that is executed but that does

not specify a vote for, against or in abstention will be voted in accordance with the recommendation of the Board of Directors contained herein.

Consistent with Massachusetts law and under the Company's by-laws, a majority of the shares entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to such matter. Votes cast by proxy or in person at the Annual Meeting will be counted by persons appointed by the Company to act as election tellers for the Annual Meeting. The two nominees for election as directors at the Annual Meeting who receive the greatest number of votes properly cast for the election of directors will be elected directors. Should any of the nominees not remain a candidate at the end of the Annual Meeting (a situation which is not expected), proxies solicited hereunder will be voted in favor of those who remain as candidates and may be voted for substitute nominees, unless the Board determines to reduce the number of directors. The ratification of Grant Thornton LLP as the Company's independent auditor and approval of the stockholder proposal requires the affirmative vote of a majority of the votes properly cast. However, a vote in favor or against either the ratification of Grant Thornton LLP as the Company's independent auditor or the stockholder proposal is not binding on the Board of Directors.

The election tellers will count shares represented by proxies that withhold authority to vote for a nominee for election as a director or that reflect abstentions and "broker non-votes" (i.e., shares represented at the meeting held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have the discretionary voting power on a particular matter) only as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be counted in favor of or against, and will have no other effect on the election of directors.

## **B. Communication with the Board of Directors**

Stockholders and other interested parties can communicate directly with the Board by writing to: Board of Directors, c/o Clerk, The L.S. Starrett Company, 121 Crescent Street, Athol, Massachusetts 01331. The Company will forward such communications to the Board at, or prior to, the next meeting of the Board.

Stockholders and other interested parties wishing to communicate only with the Company's independent directors (i.e., non-management directors) can address their communications to "Independent Directors, c/o Corporate Governance and Nominating Committee" at the same address as above. These communications will be handled by the Corporate Governance and Nominating Committee and forwarded to the independent directors at or prior to the next meeting of the independent directors. The Board or the independent directors will determine, in such group's sole discretion, the method by which any such communications will be reviewed and considered.

Communications to the Board (including to the independent directors) should not exceed 200 words in length, excluding the information required to accompany the communication. All such communications must be accompanied by the following information: (i) a statement of the type and amount of the securities of the Company that the person holds and (ii) the address, telephone number and e-mail address, if any, of the person submitting the communication. Interested parties that do not hold any securities of the Company may omit the information required by item (i) above in communications with the Board.

### **C. Corporate Governance**

The Company's Corporate Governance Policy, and its Policy on Business Conduct and Ethics ("Ethics Policy") for all directors, officers and employees of the Company, including executive officers, as well as any waivers under the Ethics Policy granted to directors and executive officers, are available on the Company's web site at [www.starrett.com](http://www.starrett.com). The Company's website is included in this proxy statement as a textual reference only and the information in the website is not incorporated by reference into this proxy statement. Stockholders may also obtain free of charge printed copies of these policies as well as the committee charters for the Company's Board of Directors by writing to the Clerk of the Company at the Company's headquarters.

### **D. Submission of Stockholder Proposals**

In order to be included in the Company's proxy materials for presentation at the 2014 Annual Meeting of stockholders, a stockholder proposal pursuant to Rule 14a-8 as promulgated under the Exchange Act must be received by the Company not less than 120 days prior to September 13, 2014 and must comply with the requirements of Rule 14a-8. Such proposals should be sent to the Board of Directors, c/o Clerk, at 121 Crescent Street, Athol, Massachusetts 01331.

Under the Company's By-laws, stockholders who wish to make a proposal at the 2013 Annual Meeting, other than one that will be included in the Company's proxy statement, must notify the Company not less than 120 days nor more than 150 days prior to the meeting; provided that in the event that less than 130 days' notice or prior public disclosure of the date of meeting is given or made to stockholders, the notice must be received no later than the close of business on the 10<sup>th</sup> day following the day on which such notice of the date of the meeting was mailed or such public disclosure is made. If a stockholder who wishes to present a proposal fails to notify the Company in accordance with the procedure set forth in the Company's By-laws, the stockholder would not be entitled to present the proposal at the meeting. If, however, notwithstanding the requirements of the Company's By-laws, the proposal is brought before the meeting, then under the SEC's proxy rules the proxies solicited by management with respect to the Annual Meeting will confer discretionary voting authority with respect to the stockholder's proposal on the persons selected by management to vote the proxies. If a stockholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC's proxy rules.



**E. Additional Information**

The Company makes available through its web site, *www.starrett.com*, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13(a) and 15(d) of the Exchange Act.

IN ORDER THAT THE PRESENCE OF A QUORUM MAY BE ASSURED IT IS IMPORTANT THAT THE PROXIES BE RETURNED PROMPTLY. THEREFORE, STOCKHOLDERS ARE URGED TO EXECUTE AND RETURN THE ENCLOSED PROXY CARD IN THE STAMPED ENVELOPE ADDRESSED TO MELLON INVESTOR SERVICES LLC, THE COMPANY'S TRANSFER AGENT, OR TO VOTE BY TELEPHONE OR OVER THE INTERNET AS PROVIDED ON THE ENCLOSED INSTRUCTIONS. Stockholders who execute proxies, but attend the Annual Meeting in person, may withdraw their proxies and vote directly if they prefer. The Company's transfer agent will assist the Company in tabulating the stockholder vote.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

The election of two directors is proposed by the Board of Directors, each to hold office for a term of three years and until his successor is chosen and qualified. The Company's Board of Directors proposes for election: Richard G. Kennedy and Terry A. Piper. All of the nominees are current members of the Company's Board of Directors.

In accordance with the Board of Directors' recommendation, the proxy holders will vote the shares of the Company's Common Stock covered by the respective proxies for the election of each of the two director nominees, unless the stockholder gives instructions to the contrary. If, for any reason, any of the director nominees become unavailable for election, the proxy holders may exercise discretion to vote for substitute nominees proposed by the Board of Directors. Each of the director nominees has indicated that he will be able to serve if elected and has agreed to do so.

For details regarding qualifications, experience and specific skills of each of our director nominees, please see "Election of Directors" included elsewhere in this proxy statement.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ALL THE NOMINATED DIRECTORS.**

**PROPOSAL NO. 2**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR FISCAL YEAR 2014**

The Audit Committee of the Board of Directors has appointed Grant Thornton LLP to serve as the Company's independent registered public accountants for fiscal year 2014. The Audit Committee and the Board of Directors seek to have the stockholders ratify the Audit Committee's appointment. The Company expects representatives of Grant Thornton LLP will be present at the Annual Meeting and will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions. If the appointment of Grant Thornton LLP is not ratified by the stockholders, the Audit Committee may appoint another independent registered public accounting firm or may decide to maintain its appointment of Grant Thornton LLP.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR 2014.

## PROPOSAL NO. 3

### THE STOCKHOLDER PROPOSAL

A stockholder has notified the Company that it intends to present a proposal for action at the Annual Meeting. The Company disclaims any responsibility for the content of the proposal and the statement in support, which are presented in the form received from the stockholder. The Company will provide the name, address and stock ownership of the proponent of the stockholder proposal to any stockholder promptly after receiving an oral or written request to the Company's Clerk at the Company's principal office address.

The following stockholder proposal and supporting statement is presented verbatim and in its entirety as submitted by the proponent stockholder. The Company has not undertaken any review of the proposal or the supporting statement and is not responsible for the accuracy or inaccuracy of any statements contained therein.

In the following stockholder supporting statement, including the recommendation immediately following such stockholder supporting statement, the use of the word "we" refers to the proponent stockholder.

**“RESOLVED:** *that the stockholders of The L.S. Starrett Company (the “Company”) request the Board of Directors redeem the rights issued pursuant to the Rights Agreement, dated as of November 2, 2010, unless the holders of a majority of the outstanding shares of common stock approve the issuance at a meeting of the stockholders held as soon as practical.*

### SUPPORTING STATEMENT

As of November 2, 2010, the Board of Directors adopted a Rights Agreement. The Rights represent a corporate anti-takeover device, commonly known as a “poison pill.” Absent Board intervention, the Rights are exercisable when a person or group acquires a beneficial interest in 15% or more of the outstanding common stock of the Company.

We oppose the use of Rights to prevent a potential bidder from effecting any merger or tender offer that is not approved by the Board of Directors. A poison pill stops a potential bidder from taking their offer directly to the shareholders even if an overwhelming majority would have accepted the offer. The potential bidder must instead negotiate with management, and a Board or management may sometimes have interests that conflict with interests of

the shareholders. In effect, the pill allows a Board to arrogate to itself the sole right to determine what price a potential buyer must pay to acquire the entire company. The power of shareholders to accept an offer by a potential bidder provides an important check and balance on management and the Board in their stewardship of the shareholders' interests. We believe the shareholders should retain the right to decide for themselves what represents a fair price for their holdings.

WE URGE STOCKHOLDERS TO VOTE IN FAVOR OF THIS PROPOSAL.”

### **Company Response to Stockholder Proposal**

The Board of Directors recommends that you vote against this proposal. The Board of Directors adopted a Stockholders Rights Plan (the “Rights Plan”) in 1990 and has modified and renewed the Rights Plan several times since then. The Board of Directors initially adopted and twice renewed the Rights Plan after concluding that such actions were in the best interests of the Company and its stockholders. The Board of Directors determined that having the Rights Plan in place would protect against any potential future use of coercive or abusive takeover techniques designed to gain control of the Company without full and fair value being paid to all of the Company's stockholders. The Rights Plan is not intended to prevent an acquisition of the Company on terms that are fair and equitable to all stockholders. Instead, the Rights Plan encourages a potential acquiring stockholder to negotiate directly with the Board of Directors, which the Company believes enhances the Board of Director's bargaining power and enables the Board of Directors to represent all stockholders.

Absent the existence of the Rights Plan, an acquirer could take steps to acquire control of the Company while circumventing the Board of Directors through mechanisms such as partial or two-tier tender offers, “creeping” acquisitions through the purchase of stock on the open market and other unfair or abusive acquisition tactics. These approaches allow acquirers to avoid negotiating with the Board of Directors, generally resulting in a stronger position for the acquirer to achieve a lower acquisition price at the expense of some or all of the stockholders.

The Company's Board of Directors owes fiduciary duties to the Company and all of its stockholders, regardless of the size of a stockholder's holdings, to evaluate any acquisition proposal and determine whether that proposal was in the best long-term and short-term interests of the Company and its stockholders. The Rights Plan provides the Board of Directors with an important means by which to fulfill its fiduciary duties. Because the Company's Board of Directors has the right to redeem the rights issued under the Rights Plan and thus remove the Rights Plan as an impediment to an acquisition, the Company believes its Board of Directors has the means to facilitate a transaction that is in the best long-term and short-term interests of the Company and its stockholders or negotiate a higher value in the face of an unfavorable proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE **AGAINST** THE STOCKHOLDER PROPOSAL.



## **Exhibit I**

### **Audit Committee Charter**

#### **I. Purpose and Function**

The function of the Audit Committee (the “Committee”) is oversight. The Committee shall assist in the Board of Directors' oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, (iv) the performance of the Company's internal audit function and independent auditor and (v) the Company's system of disclosure control and system of internal controls. In addition, the Committee shall be solely responsible for appointing and overseeing the independent auditor and preparing the report required to be included in the Company's annual proxy statement.

While the Committee has the responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits, to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or to assure compliance with laws, regulations or any internal rules or policies of the Company. This is the responsibility of management. The independent auditor is responsible for performing independent audits of the Company's financial statements in accordance with generally accepted accounting standards and for issuing reports thereon. The Committee has direct and sole responsibility for the appointment, compensation, oversight and replacement, if necessary, of the independent auditor, including the resolution of disagreements between management and the auditor regarding financial reporting. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company that it receives information from and (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors). The Committee has the authority to retain legal, accounting or other experts that it deems appropriate to carry out its duties. It also has authority to determine compensation for such advisors as well as for the independent auditor and the Company shall provide appropriate funding for the payment of such compensation.

#### **II. Composition and Meetings**

The Committee shall consist of not less than three members appointed by the Board of Directors of the Company. Committee members may be removed by the Board of Directors in its discretion. Members of the Committee shall each satisfy the independence, financial literacy, and other requirements of the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange as such requirements are interpreted by the Board of Directors in its business judgment

and the Board of Directors shall annually review the Committee's compliance with such requirement.

The Board of Directors will appoint a chairperson of the Committee, who shall preside over the meetings of the Committee. In the absence of the chairperson of the Committee, the members of the Committee may appoint any other member to preside.

The Committee shall hold at least four regularly scheduled meetings per year and shall hold such special meetings as circumstances dictate. The Committee shall periodically, but in no event less than twice a year, meet separately with management, the independent auditor, and those responsible for the internal audit function to discuss any matters that the Committee or any of these persons or firms believe should be discussed privately, including results of internal and external audit examinations. The Committee shall report regularly to the Board of Directors. No member of the Committee may sit on more than three separate audit committees unless the Board of Directors determines that such simultaneous service does not impair the ability of the director to effectively serve on the Committee. Committee members shall be versed in reading and understanding financial statements.

### III. Duties and Proceedings of the Audit Committee

The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by accomplishing the following:

#### A. Oversight of Independent Auditor:

1. Annually evaluate, determine the selection of, and if necessary, determine the replacement of or rotation of, the independent auditor.
2. Approve or re-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the auditor.



3. Review, evaluate and discuss formal reports, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company; and recommend to the Board of Directors actions to satisfy the Board of Director of the independence of the auditor.
  
  4. Establish clear hiring policies for employment by the Company of any employees or former employees of the independent auditor.
  
  5. Receive formal written statements, at least annually, from the independent auditor regarding the auditor's independence, including a delineation of all relationships between the auditor and the Company; discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, addressing at least the matters set forth in Independence Standards Board Standard No. 1; and if so determined by the Committee, recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the auditor.
  
  6. At least annually, receive a report from the independent auditor detailing the firm's internal quality control procedures and any material issues raised by independent auditor's internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm.
- B. Oversight of Audit Process and Company's Legal Compliance:
1. Review with internal auditors, if any, and independent auditor the overall scope and plans for audits, including authority and organizational reporting lines and adequacy of staffing and compensation. Review with internal auditors and independent auditor any difficulties with audits and managements' response.
  
  2. Review and discuss with management, internal auditors, if any, and independent auditor the Company's system of internal control, its financial and critical accounting practices, and policies relating to risk assessment and management and ensure that the appropriate control process is in place for reviewing and approving the Company's internal transactions and accounting.
  
  3. Receive and review reports of the independent auditor discussing 1) all critical accounting policies and practices to be used in the firm's audit of the Company's financial statements, 2) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent

auditor; and 3) review any other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

4. Review and discuss with management and the independent auditor the annual and quarterly financial statements and MD&A of the Company for the reports filed on Forms 10-K and 10-Q. Discuss results of the annual audit and quarterly reviews and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards. Discuss with management and independent auditor their judgment about the quality of accounting principles, the reasonableness of significant judgments, including a description of any transactions as to which the management obtained Statement on Auditing Standards No. 50 letters, and the clarity of disclosures in the financial statements, including the Company's disclosures of critical accounting policies and other disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations."

5. Review, or establish standards for the type of information and the type of presentation of such information to be included in, earnings press releases, the President's letter to shareholders and earnings guidance provided to analysts and rating agencies.

6. Discuss with management and independent auditor any changes in Company's critical accounting principles and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives.

7. Review with management the systems relating to compliance with laws, rules, regulations and Company policies.

8. Review material pending legal proceedings involving the Company and other contingent liabilities.

9. In connection with and prior to giving their required certifications, the CEO and CFO must disclose to the auditors and the Committee all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that involves management or other employees who have a significant role in the Company's internal controls.

10. Discuss with independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards No. 61.

11. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees or contractors of concerns regarding questionable accounting or accounting matters.

C. Other Responsibilities:

1. Review adequacy of this audit committee charter annually and submit charter to Board of Directors for approval.

2. Prepare report for inclusion in the Company's annual proxy statement as required by the rules of the Securities and Exchange Commission.

3. Report recommendations to the Board on a regular basis and present to the Board of Directors an annual performance evaluation of the Committee.

4. Perform any other activities consistent with the Charter, By-laws and governing law as the Board of Directors or the Audit Committee shall deem appropriate, including holding meetings with the Company's investment bankers.



