

Semco

INSTRUMENTS, INC.

*ANNUAL
REPORT
2001*

SEMCO INSTRUMENTS, INC. was founded in December 1965 as an engineering based aerospace manufacturer of precision sensors and electronic controls. Our primary market has been the gas turbine engine manufacturers and the related commercial aircraft industry. Company efforts continue to be directed toward the expansion of our market share of temperature sensors and speed sensors in the commercial and military markets.

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To Our Stockholders:

Net sales achieved by your Company in 2001 were \$8,710,586 as compared to 2000 sales of \$8,053,746. In 2001, net income was \$569,736 or \$0.14 per share as compared to a 2000 net income of \$610,687 or \$0.15 per share.

In 2001 the Company achieved an 8% growth in sales and maintained a pre-tax return on sales of 12%. The Company was, however, subject to a larger amount of income taxes as a result of our election to terminate our Domestic International Sales Corporation (DISC) and the subsequent recognition of undistributed DISC income. While the DISC had provided the benefit of deferred taxes for many years, the future benefits were limited as compared to those that would be available to our Company without a DISC.

The Company continues to market its capabilities both within and outside the gas turbine engine industry with some success and persists in efforts to differentiate itself as a customer-driven, technology-rich, low-cost provider of sensors. Internally, the Company continues the relentless pursuit of process improvements throughout the business, the automation of processes, and the evaluation of products that do not adequately contribute to the desired profit margin. The Company continues its efforts to develop a business environment wherein waste is quickly identified and eliminated at all levels throughout the business and where employees are rewarded for improvements in profitability.

In May 2001 the Board of Directors declared a dividend of \$0.05 per share payable to the shareholders of record as of 25 May 2001 and in November 2001 the Board of Directors declared a dividend of \$0.06 per share payable to shareholders of record as of 4 January 2002.

We remain optimistic about the future of the Company. While continuing to adapt itself to the changing business environment, the Company is distinguishing itself in the areas of technical expertise, quality, delivery, and customer support. We believe that this will contribute to continued success.

I am thankful for your continued interest and support.

Sincerely,



Michael G. Moore
President



Balance Sheets

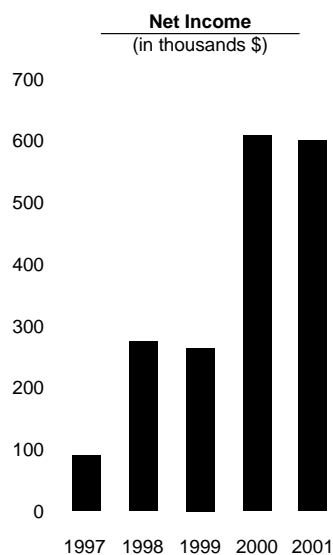
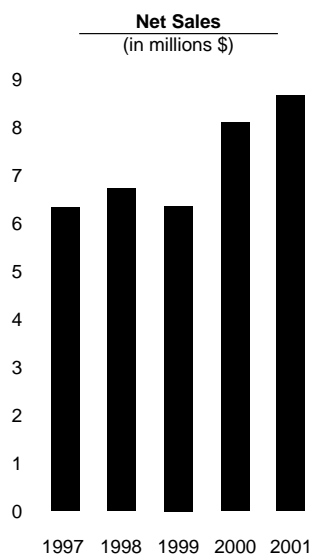
ASSETS	December 31	
	2001	2000
Current Assets		
Cash and cash equivalents	\$ 939,209	\$ 633,266
Short-term investment	–	600,000
Trade receivables	1,258,279	1,177,254
Inventories	2,260,505	2,083,594
Prepaid expenses and other current assets	45,680	64,841
Deferred taxes	244,000	179,000
Total current assets	4,747,673	4,737,955
Investment in Available-for-sale Securities	347,938	–
Property, Plant and Equipment		
Land	898,993	898,993
Building and improvements	2,095,172	2,095,172
Machinery and equipment	1,578,052	1,978,490
Automotive equipment	80,403	69,675
Furniture, fixtures and computers	619,297	664,141
	5,271,917	5,706,471
Less accumulated depreciation	2,504,651	3,030,795
	2,767,266	2,675,676
	\$ 7,862,877	\$ 7,413,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 35,388	\$ 32,777
Accounts payable and accrued expenses	942,124	973,191
Dividends payable	260,352	–
Total current liabilities	1,237,864	1,005,968
Long-term Debt, less current maturities	1,745,977	1,781,366
Deferred Taxes	401,000	309,000
Stockholders' Equity		
Common stock, \$0.01 par value; 6,000,000 shares authorized	44,258	43,553
Additional paid-in capital	833,626	850,537
Treasury stock	(17,054)	(97,802)
Retained earnings	3,617,206	3,521,009
Total stockholders' equity	4,478,036	4,317,297
	\$ 7,862,877	\$ 7,413,631

See Notes to Financial Statements.

Statements of Income

	Years Ended December 31		
	2001	2000	1999
Net sales	\$ 8,710,586	\$ 8,053,746	\$ 6,376,818
Cost of sales	6,285,290	5,671,844	4,720,789
Gross profit	2,425,296	2,381,902	1,656,029
Selling, general and administrative expenses	1,224,764	1,261,513	1,101,273
Operating income	1,200,532	1,120,389	554,756
Financial (income) expense:			
Interest expense, net	113,733	119,328	142,009
Other	3,063	(3,626)	(11,446)
	116,796	115,702	130,563
Income before income taxes	1,083,736	1,004,687	424,193
Federal and state income taxes	514,000	394,000	155,000
Net income	\$ 569,736	\$ 610,687	\$ 269,193
Earnings per common share:			
Basic earnings per share	\$ 0.14	\$ 0.15	\$ 0.06
Diluted earnings per share	\$ 0.13	\$ 0.14	\$ 0.06
Weighted average number of common shares outstanding, basic	4,182,969	4,110,510	4,322,386
Weighted average number of common shares outstanding, diluted	4,269,574	4,380,122	4,373,251

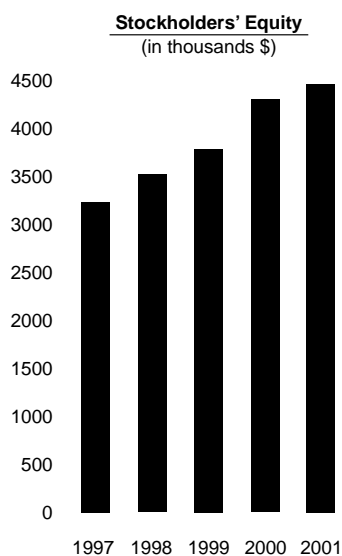
See Notes to Financial Statements.



Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost		Total
	Shares Outstanding	Amount			Shares	Amount	
Balance, December 31, 1998	4,394,536	\$ 43,945	\$ 869,065	\$ 2,641,129	(86,625)	\$ (17,054)	\$ 3,537,085
Net income	-	-	-	269,193	-	-	269,193
Retirement of previously repurchased treasury stock	(3,960)	(40)	(1,280)	-	3,960	1,320	-
Repurchase of common stock	-	-	-	-	(68,960)	(23,865)	(23,865)
Balance, December 31, 1999	4,390,576	43,905	867,785	2,910,322	(151,625)	(39,599)	3,782,413
Net income	-	-	-	610,687	-	-	610,687
Retirement of previously repurchased treasury stock	(35,200)	(352)	(17,248)	-	35,200	17,600	-
Repurchase of common stock	-	-	-	-	(172,700)	(75,803)	(75,803)
Balance, December 31, 2000	4,355,376	43,553	850,537	3,521,009	(289,125)	(97,802)	4,317,297
Common stock issued for exercise of options	300,000	3,000	53,887	-	-	-	56,887
Net income	-	-	-	569,736	-	-	569,736
Dividends	-	-	-	(473,539)	-	-	(473,539)
Retirement of previously repurchased treasury stock	(229,547)	(2,295)	(94,798)	-	229,547	97,093	-
Repurchase of common stock	-	-	-	-	(27,047)	(16,345)	(16,345)
Tax benefits from option activity	-	-	24,000	-	-	-	24,000
Balance, December 31, 2001	4,425,829	\$ 44,258	\$ 833,626	\$ 3,617,206	(86,625)	\$ (17,054)	\$ 4,478,036

See Notes to Financial Statements.



Statements of Cash Flows

	Years Ended December 31		
	2001	2000	1999
Cash Flows from Operating Activities			
Net income	\$ 569,736	\$ 610,687	\$ 269,193
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	232,168	272,633	248,447
Gain on disposal of equipment	-	-	(13,575)
Deferred taxes	27,000	(48,000)	41,000
Tax benefits related to employee stock options	24,000	-	-
Changes in working capital components:			
(Increase) in trade receivables	(81,025)	(138,143)	(93,177)
(Increase) decrease in inventories	(176,911)	77,782	110,282
(Increase) decrease in prepaid expenses and other current assets	19,161	23,913	(21,923)
Increase (decrease) in accounts payable and accrued expenses	(31,067)	284,426	24,276
Net cash provided by operating activities	583,062	1,083,298	564,523
Cash Flows from Investing Activities			
Purchase of equipment	(323,758)	(159,985)	(450,607)
Proceeds from sale (purchase) of short-term investments	600,000	(600,000)	-
Purchase of available-for-sale securities	(347,938)	-	-
Proceeds on sale of equipment	-	-	13,575
Net cash (used in) investing activities	(71,696)	(759,985)	(437,032)
Cash Flows from Financing Activities			
Dividends paid	(213,187)	-	-
Principal repayments of long-term debt	(32,778)	(30,402)	(69,292)
Issuance of common stock for options	56,887	-	-
Repurchase of common stock	(16,345)	(75,803)	(23,865)
Net cash (used in) financing activities	(205,423)	(106,205)	(93,157)
Net increase in cash	305,943	217,108	34,334
Cash and cash equivalents			
Beginning	633,266	416,158	381,824
Ending	\$ 939,209	\$ 633,266	\$ 416,158
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest expense	\$ 155,619	\$ 161,268	\$ 168,440
Income taxes	\$ 701,114	\$ 94,206	\$ 261,102

See Notes to Financial Statements.

Notes to Financial Statements

1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Semco Instruments, Inc. (the Company) manufactures and sells precision sensors and systems for measurement and control, principally to original equipment manufacturers in aerospace and commercial industries primarily located in North America. All sales are denominated in U.S. dollars.

A summary of the Company's significant accounting policies follows:

Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates and could materially affect the reported amount of assets, liabilities and future operating results.

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk relative to its cash accounts.

Concentrations of credit risk

The Company's customers are concentrated in the commercial aviation industry. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral. Receivables are generally due within 30 days. Credit losses have historically been within management's expectations.

Concentrations

The Company derived 59% of its sales from two customers during 2001 (58% in 2000 from the top two and 60% in 1999 from the top three). Accounts receivable related to these customers represented 39% of trade receivables at December 31, 2001. Individually, the two customers accounted for 34% and 25% of 2001 sales (37% and 21% in 2000 and 36%, 13% and 11% in 1999).

Fair value of financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and debt. The values reported in the financial statements approximate fair value due to their short-term nature and/or relative rates of interest.

NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities available for sale

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Available-for-sale securities are stated at fair value, and unrealized holding gains or losses, net of the related deferred tax effect, are reported as a separate component of stockholders' equity.

Short-term investments

Short-term investments consist of certificates of deposit with maturities of 90 or more days. These short-term investments are accounted for at cost which approximates fair value.

Accounting for Stock-based Compensation

The Company follows Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, to measure stock-based employee compensation. Accordingly, stock compensation expense is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price. The Company also discloses the pro forma effects on net income and earnings per share as if compensation was measured in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-based Compensation*.

Inventories

Inventories are stated at the lower of weighted average cost or market. The Company periodically reviews the age and turnover of its inventory to determine whether any inventory has become obsolete or has declined in value and records a charge to operations for known and anticipated inventory obsolescence.

Property, plant and equipment

Property, plant and equipment is recorded at cost. The Company uses the straight-line depreciation method for financial reporting purposes. The estimated useful lives by classes of assets used in computing depreciation are as follows:

	<u>Years</u>
Building and improvements	30
Machinery and equipment	3 – 10
Furniture and fixtures	7 – 10
Automotive equipment	5
Molds and tooling	3 – 5

Revenue recognition

Revenue is primarily recognized as units are shipped.

NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences and deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it cannot be demonstrated that the deferred tax assets are more likely than not to be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Segment information

The Company operates as one segment, manufacturing and selling precision sensors and systems for measurement and control. For purposes of reporting and aggregating revenue to foreign countries, sales are attributed to the country of the headquarters of the customer.

Earnings per common share

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is based upon the weighted average number of common shares outstanding during the period plus the additional weighted average common equivalent shares during the period, if any. Common equivalent shares are not included in the per-share calculations where the effect of their inclusion would be antidilutive. Common equivalent shares result from the assumed exercise of outstanding stock options, the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury-stock method.

The following table sets forth the computation of the denominator (in shares of common stock) for basic and fully diluted earnings per share as of December 31:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Denominator for basic earnings per share	4,182,969	4,110,510	4,322,386
Effect of dilutive securities, employee stock options	86,605	269,612	50,865
Denominator for diluted earnings per share	<u>4,269,574</u>	<u>4,380,122</u>	<u>4,373,251</u>
Antidilutive employee stock options not included in diluted earnings per share	<u>—</u>	<u>—</u>	<u>300,000</u>

2 INVENTORIES

Inventories consist of the following at December 31:

	<u>2001</u>	<u>2000</u>
Raw materials and fabricated parts	\$ 1,542,546	\$ 1,415,644
Work in process	419,685	400,561
Finished goods	298,274	267,389
	<u>\$ 2,260,505</u>	<u>\$ 2,083,594</u>

3 AVAILABLE-FOR-SALE SECURITIES

The amortized cost and fair value of securities available for sale as of December 31, 2001 are summarized as follows:

Certificates of deposit	\$ 198,125
Corporate bonds	<u>149,813</u>
	<u>\$ 347,938</u>

The amortized cost and fair value of securities available for sale as of December 31, 2001 by contractual maturities are shown below.

Due in one through five years	\$ 198,125
Due after ten years	<u>149,813</u>
	<u>\$ 347,938</u>

4 LINES OF CREDIT

The Company has a revolving line-of-credit agreement with a bank for borrowings up to a maximum of \$1,000,000. No amounts were outstanding at December 31, 2001 and 2000. The agreement provides for interest, payable monthly, at the bank's prime rate (4.75% at December 31, 2001). The line of credit is collateralized by all assets of the Company, including trade receivables, inventories, equipment and fixtures. The line of credit expires June 15, 2002.

Under the line-of-credit agreement, the Company agrees to maintain certain minimum financial ratios related to working capital, stockholders' equity and profitability. In addition, the Company is subject to restrictions related to paying dividends, purchases of treasury stock and fixed assets, and entering into new lease obligations.

The Company also has a \$250,000 line-of-credit facility available for equipment purchases with terms similar to the revolving line of credit. Outstanding balances accrue interest at the bank's prime rate, and interest is payable monthly. The line of credit expires June 15, 2002, at which time any outstanding principal may be converted to a four-year term loan with principal and interest payable monthly. There was no balance outstanding under the equipment line of credit at December 31, 2001 and 2000.

5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31 consist of:

	<u>2001</u>	<u>2000</u>
Accounts payable	\$ 314,275	\$ 269,376
Compensation and related payroll taxes	494,571	346,484
Federal and state income taxes	76,295	314,409
Interest	40,188	32,065
Other	16,795	10,857
	<u>\$ 942,124</u>	<u>\$ 973,191</u>

6 LONG-TERM DEBT

Long-term debt at December 31 is as follows:

	<u>2001</u>	<u>2000</u>
Note payable, bank, secured by first deed of trust on real estate, payable in monthly installments of \$14,045 including interest at 7.5%, maturing in September 2005	\$ 1,781,365	\$ 1,814,143
Less current maturities	35,388	32,777
	<u>\$ 1,745,977</u>	<u>\$ 1,781,366</u>

Aggregate maturities of long-term debt as of December 31, 2001 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2002	\$ 35,388
2003	38,098
2004	41,074
2005	1,666,805
	<u>\$ 1,781,365</u>

7 INCOME TAXES

Components of income tax expense for the years ended December 31 are as follows:

	2001	2000	1999
Currently paid or payable:			
Federal	\$ 427,000	\$ 364,000	\$ 106,000
State	60,000	78,000	8,000
	<u>487,000</u>	<u>442,000</u>	<u>114,000</u>
Deferred	27,000	(48,000)	41,000
	<u>\$ 514,000</u>	<u>\$ 394,000</u>	<u>\$ 155,000</u>

The following table presents a reconciliation of income tax determined by applying the U.S. federal income tax rate to pretax income:

	2001	2000	1999
Computed expected statutory rate	35 %	35 %	35 %
Increase (decrease) in rate resulting from:			
State taxes, net of federal benefit	4	5	5
Benefit of income taxed at lower rates	-	-	(1)
Undistributed DISC income adjustment	8	-	-
Other	-	(1)	(2)
	<u>47 %</u>	<u>39 %</u>	<u>37 %</u>

Net deferred tax assets (liabilities) as of December 31 consist of the following components:

	2001	2000
Deferred tax liabilities:		
Property, Plant and Equipment	\$ (115,000)	\$ (101,000)
Undistributed DISC income	(300,000)	(208,000)
	<u>(415,000)</u>	<u>(309,000)</u>
Deferred tax assets:		
Inventories	91,000	62,000
Compensation	132,000	-
Other	35,000	117,000
	<u>258,000</u>	<u>179,000</u>
	<u>\$ (157,000)</u>	<u>\$ (130,000)</u>

Net deferred tax assets (liabilities) described above have been included in the accompanying balance sheets at December 31 as follows:

	2001	2000
Current assets	\$ 244,000	\$ 179,000
Long-term liabilities	(401,000)	(309,000)
	<u>\$ (157,000)</u>	<u>\$ (130,000)</u>

During 2001 the company revoked its election pertaining to the maintenance of its Domestic International Sales Corporation (DISC). As a result of terminating the DISC, the Company is required to pay federal tax on the undistributed DISC income of \$889,000 over the next ten years, or approximately \$34,000 per year, through 2010.

8 STOCK OPTION PLAN

The Company has adopted certain stock option plans covering the Company's common shares. Nonqualified stock options may be issued to officers, directors or key employees of the Company. Qualified stock options may be issued to employees of the Company. Qualified and nonqualified stock options are exercisable at prices not less than the fair market value on the date of grant (not less than 110% of the fair market value for participating individuals who own more than 10% of the outstanding voting stock of the Company).

Options granted under the Company's stock option plans generally are exercisable beginning one year from the date of grant at the rate of 25% per year on a cumulative basis. The options expire at the earlier of five years from the date of grant or three months from the stock option holder's termination of employment.

A summary of stock option activity is as follows:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year:	450,000	\$0.19	900,000	\$ 0.23	900,000	\$ 0.23
Granted	-	-	-	-	-	-
Canceled	-	-	450,000	0.27	-	-
Exercised	300,000	0.19	-	-	-	-
Outstanding at end of year	<u>150,000</u>	0.19	<u>450,000</u>	0.19	<u>900,000</u>	0.23
Options exercisable, end of year	<u>37,500</u>	0.19	<u>225,000</u>	0.19	<u>562,500</u>	0.26
Options available for grant, end of year	<u>150,000</u>		<u>150,000</u>		<u>150,000</u>	
Weighted average fair value of options granted during the year	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>	

STOCK OPTION PLAN (continued)

The following table summarizes information about stock options outstanding at December 31, 2001:

Exercise Price	Number Outstanding	Remaining Contractual Life (in Years)	Number Exercisable
\$ 0.19	125,000	2	37,500
0.20	<u>25,000</u>	2	<u>—</u>
	<u>150,000</u>		<u>37,500</u>

The Company applies APB Opinion 25 and related Interpretations in accounting for its grants to employees. Accordingly, no compensation cost has been recognized in the financial statements. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under this plan consistent with the provisions of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	<u>2001</u>	2000	1999
Net income			
As reported	\$ 569,736	\$ 610,687	\$ 269,193
Pro forma	565,361	606,312	261,068
Basic earnings per share:			
As reported	0.14	0.15	0.06
Pro forma	0.14	0.15	0.06
Diluted earnings per share:			
As reported	0.13	0.14	0.06
Pro forma	0.13	0.14	0.06

The pro forma compensation cost was recognized for the fair value of the stock options granted, which was estimated using the Black-Scholes model with the following assumptions: expected volatility of 21%, risk-free interest rate of 4.75%, the options would be exercised at the end of the exercise period and the Company would declare and pay no dividends.

9 PROFIT SHARING PLANS

The Company has a 401(k) profit sharing plan for full-time employees who have completed 12 months of service and reached age 21. Eligible employees may contribute from 2% to 20% of their wages up to the allowable Internal Revenue Service limit. The plan allows for a discretionary matching contribution up to 5% of each employee's contributed salary deferral. The Company has made no matching contributions to the plan since its inception.

10 DIVIDENDS PAID AND DECLARED

The Company declared and paid dividends of \$213,187 (\$.05 per share) to stockholders of record on May 25, 2001. On November 13, 2001, the Company declared dividends of \$260,352 (\$.06 per share) for stockholders of record on January 4, 2002, which were paid in 2002.



Independent Auditor's Report

To the Board of Directors and Stockholders
Semco Instruments, Inc.
Valencia, California

We have audited the accompanying balance sheets of Semco Instruments, Inc. as of December 31, 2001 and 2000, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Semco Instruments, Inc. as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Pasadena, California
April 5, 2002

Financial Highlights

FIVE YEAR SUMMARY	2001	2000	1999	1998	1997
Income Statement Data					
Net income before cumulative effect of change in accounting principle	569,736	610,687	269,193	285,262	214,812
Cumulative effect on prior years of changing to a different method of accounting for pre-contract costs, net of related tax effect	—	—	—	—	(123,951)
Net income	569,736	610,687	269,193	285,262	90,861
Return on sales before cumulative effect of change in accounting principle	6.5%	7.6%	4.2%	4.2%	3.4%
Earnings per share before cumulative effect of change in accounting principle	0.14	0.15	0.06	0.06	0.05
Cumulative effect on prior years of change in accounting principle	—	—	—	—	(0.03)
Earnings per share, basic	0.14	0.15	0.06	0.06	0.02
Weighted average # of shares outstanding, basic	4,182,969	4,110,510	4,322,386	4,406,549	4,431,643
Net sales	8,710,586	8,053,746	6,376,818	6,791,165	6,374,961
Cost of sales	6,285,290	5,671,844	4,720,789	5,107,063	4,909,688
Gross profit margin	27.8%	29.6%	26.0%	24.8%	23.0%
Selling, general & administrative expense	1,224,764	1,261,513	1,101,273	1,021,394	914,927
Selling, general & administrative expense % of sales	14.1%	15.7%	17.3%	15.0%	14.3%
Interest expense	113,733	119,328	142,009	232,446	219,534
EBITDA	1,429,637	1,396,648	814,649	892,676	721,048
EBITDA margin	16.4%	17.3%	12.8%	13.1%	11.3%
Working Capital					
Quick ratio	1.8	2.4	2.0	1.9	1.1
Current ratio	3.8	4.7	5.3	5.3	3.1
Liabilities and Debt/Equity	0.8	0.7	0.7	0.8	0.9
Liabilities/Assets	0.4	0.4	0.4	0.4	0.5
Days sales in receivables	53	53	59	51	62
Working capital as % of sales	40.3%	46.3%	48.7%	45.2%	37.1%
Inventory turnover	2.90	2.70	2.13	2.24	2.15
Leverage and Other					
Asset turnover	1.14	1.15	0.98	1.09	0.98
Stockholder's equity	4,478,036	4,317,298	3,782,413	3,537,085	3,271,815
Return on stockholders' equity*	12.7%	14.1%	7.1%	8.1%	6.6%
Liabilities and Debt/Equity	0.8	0.7	0.7	0.8	0.9
Liabilities/Assets	0.4	0.4	0.4	0.4	0.5

* The Company adopted SOP 98-5 for the year ended December 31, 1997. The unamortized portion of pre-contract costs at December 31, 1996, net of tax, was recorded as cumulative effect of change in accounting principle.

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Northridge, California

Edwin H. Boyer
Private Investor
Westlake Village, California

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Senior Vice President
BankAmerica Business Credit, Inc.
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Michael G. Moore
President
Semco Instruments, Inc.

OFFICERS

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Michael G. Moore – President
Edwin H. Boyer – Secretary/Treasurer

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