

# **Semco**

**INSTRUMENTS, INC.**

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29 October 2004

To Our Shareholders and Friends of the Company:

Sales for the first nine months of operation in 2004 were \$17,926,725 as compared to \$15,030,673 for the same period in 2003. Earnings after a provision for income taxes for the first nine months in 2004 were \$407,862 as compared to \$858,642 for the same period in 2003.

Demand for product in the first nine months of 2004 has remained strong and this was reflected in the level of sales and the volume in the order backlog. The level of profitability has remained damped in 2004 due to a number of factors. Among these factors are overtime premiums paid to increase capacity in order to meet customers delivery requirements, margin pressures resultant from price reductions offered to certain key customers, and the costs incurred to align Atlas-Aero with the systems of Semco Instruments.

Considerable effort continues to be directed within Atlas-Aero where we are implementing a lean operating system, an upgraded information system, and measurements that will direct on-going process improvements. In September 2004, the Atlas-Aero facility completed its initial assessment by British Standards to the AS9100 Quality System standard and has been recommended for registration. We expect to have the registration process completed within 30 days.

The Company currently has several new products being qualified for new applications and the Company continues to explore opportunities for new applications for our existing product technology. We believe that the combined product offering of both Semco Instruments and Atlas-Aero will create an opportunity for additional business growth based upon customers' desire for fewer suppliers. In addition, the Company remains focused on process improvement throughout our business with the intent to remain very competitive in pricing, delivery, quality, and customer service.

I appreciate your continued interest.



Michael G. Moore  
President



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Certificate No. FM 35623