

# Semco

**INSTRUMENTS, INC.**

25700 Rye Canyon Road, Valencia, California 91355  
Telephone 661 257-2000  
Facsimile 661 295-0044

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To Our Shareholders and Friends of the Company:

Sales for the first nine months of operation in 2005 were \$18,073,840 as compared to \$17,926,725 for the same period in 2004. Earnings after a provision for income taxes for the first nine months in 2005 were \$344,168 as compared to \$407,862 for the same period in 2004.

Demand for product in the first nine months of 2005 remained robust and this was reflected in the level of sales and the continued strength of the order backlog. The Company maintains a strong niche position in a segment of the aerospace market that continues to experience growth and the Company continues to develop products that share in this growth. Qualification hardware has now been produced and delivered for some of the newest commercial and military programs including the Boeing 787, the Airbus A380, and the latest Sikorsky helicopter variants. These efforts will result in added production requirements starting in 2006.

The level of profitability has continued to be damped in 2005 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 increased material and labor costs. In order to improve the level of profitability the Company has begun to increase prices where possible, eliminate the availability of low-margin products, and negotiate long-term agreements with suppliers in order to contain future costs. In addition, the Company has begun the process of establishing a manufacturing facility in a low labor-cost location, Nogales, Sonora, Mexico. We are confident that these actions will improve the level of profitability as well as create increased market opportunities for additional sales.

I appreciate your continued interest.



Michael G. Moore  
President



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