STARRETT L S CO
Form 10-Q
February 03, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-367

THE L. S. STARRETT COMPANY
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-1866480
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

121 CRESCENT STREET, ATHOL, MASSACHUSETTS	01331-1915
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 978-249-3551

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Common Shares outstanding as of	January 31, 2017
Class A Common Shares	6,293,967
Class B Common Shares	765,837

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THE L. S. STARRETT COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE L. S. STARRETT COMPANY

Consolidated Balance Sheets

(in thousands except share data)

	December 31, 2016 (unaudited)	June 30, 2016
ASSETS		
Current assets:		
Cash	$ 16,727	$ 19,794
Accounts receivable (less allowance for doubtful accounts of $752 and $887, respectively)	31,388	34,367
Inventories	58,204	56,321
Current deferred income tax assets	-	4,518
Prepaid expenses and other current assets	7,316	5,911
Total current assets	113,635	120,911
Property, plant and equipment, net	39,870	41,010
Income taxes receivable	2,517	2,655
Deferred income tax assets, net of current portion	25,069	25,284
Intangible assets, net	6,126	6,490
Goodwill	3,034	3,034
Other assets	2,258	2,214
Total assets	$ 192,509	$ 201,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 1,578	$ 1,543
Accounts payable	8,056	8,981
Accrued expenses	5,758	6,372
Accrued compensation	3,924	4,922
Total current liabilities	19,316	21,818

Long-term debt, net of current portion	16,311	17,109
Other income tax obligations	4,609	3,813
Deferred income tax liabilities	-	187
Postretirement benefit and pension obligations	55,308	67,158
Total liabilities	95,544	110,085
Stockholders' equity:		
Class A Common stock $1 par (20,000,000 shares authorized; 6,286,978 outstanding at December 31, 2016 and 6,249,563 outstanding at June 30, 2016)	6,287	6,250
Class B Common stock $1 par (10,000,000 shares authorized; 766,623 outstanding at December 31, 2016 and 772,742 outstanding at June 30, 2016)	767	773
Additional paid-in capital	55,567	55,227
Retained earnings	81,643	81,228
Accumulated other comprehensive loss	(47,299)	(51,965)
Total stockholders' equity	96,965	91,513
Total liabilities and stockholders’ equity	$ 192,509	$ 201,598

See Notes to Unaudited Consolidated Financial Statements

THE L. S. STARRETT COMPANY

Consolidated Statements of Operations

(in thousands except per share data) (unaudited)

	3 Months Ended		6 Months Ended	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net sales	$53,187	$ 53,671	$102,100	$ 104,709
Cost of goods sold	36,365	37,672	71,364	72,858
Gross margin	16,822	15,999	30,736	31,851
% of Net sales	31.6 %	29.8 %	30.1 %	30.4 %
Selling, general and administrative expenses	14,942	14,796	30,363	30,469
Restructuring charges	51	-	394	-
Operating income (loss)	1,829	1,203	(21)	1,382
Other income (expense)	(312)	(211)	(75)	92
Gain on sale of building	-	-	3,089	-
Income before income taxes	1,517	992	2,993	1,474
Income tax expense	454	534	1,171	1,194
Net income	$1,063	$ 458	$1,822	$ 280
Basic and diluted income per share	$0.15	$ 0.07	$0.26	$ 0.04
Weighted average outstanding shares used in per share calculations:				
Basic	7,050	7,022	7,039	7,018
Diluted	7,068	7,043	7,068	7,050
Dividends per share	$0.10	$ 0.10	$0.20	$ 0.20

See Notes to Unaudited Consolidated Financial Statements

THE L. S. STARRETT COMPANY

Consolidated Statements of Comprehensive Income (Loss)

(in thousands) (unaudited)

	3 Months Ended		6 Months Ended	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net income	$1,063	$ 458	$1,822	$ 280
Other comprehensive income (loss):				
Translation gain (loss)	(988)	102	(1,756)	(9,678)
Pension and postretirement plans, net of tax of $3,958,$0,$3,958 and $0 respectively	6,469	-	6,422	-
Other comprehensive income (loss)	5,481	102	4,666	(9,678)
Total comprehensive income (loss)	$6,544	$ 560	$6,488	$ (9,398)

See Notes to Unaudited Consolidated Financial Statements

THE L. S. STARRETT COMPANY

Consolidated Statements of Stockholders' Equity

For the Six Months Ended December 31, 2016

(in thousands except per share data) (unaudited)

	Common Stock Outstanding		Addi-tional Paid-in	Retained	Accumulated Other Com-prehensive	
	Class A	Class B	Capital	Earnings	Loss	Total
Balance June 30, 2016	$6,250	$773	$55,227	$81,228	$(51,965)	$91,513
Total comprehensive income	-	-	-	1,822	4,666	6,488
Dividends ($0.20 per share)	-	-	-	(1,407)	-	(1,407)
Repurchase of shares	-	(3)	(30)	-	-	(33)
Issuance of stock	11	7	163	-	-	181
Stock-based compensation	16	-	207	-	-	223
Conversion	10	(10)	-	-	-	-
Balance December 31, 2016	$6,287	$767	$55,567	$81,643	$(47,299)	$96,965

Accumulated balance consists of:	
Translation loss	$(43,642)
Pension and postretirement plans, net of taxes	(3,657)
	$(47,299)

See Notes to Unaudited Consolidated Financial Statements

THE L. S. STARRETT COMPANY

Consolidated Statements of Cash Flows

(in thousands of dollars) (unaudited)

	6 Months Ended	
	12/31/2016	12/31/2015
Cash flows from operating activities:		
Net income	$1,822	$ 280
Non-cash operating activities:		
Gain on sale of building	(3,089)	-
Depreciation	2,732	3,052
Amortization	732	667
Stock-based compensation	223	227
Net long-term tax obligations	842	320
Deferred taxes	413	(1)
Postretirement benefit and pension obligations	1,743	1,561
Income from equity method investment	(43)	(73)
Working capital changes:		
Accounts receivable	1,849	4,666
Inventories	(3,389)	(661)
Other current assets	(1,563)	(235)
Other current liabilities	(1,026)	(1,307)
Prepaid pension expense	(2,418)	(2,238)
Other	188	(79)
Net cash provided by (used in) operating activities	(984)	6,179
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,412)	(3,611)
Software development	(368)	(325)
Proceeds from sale of investments	-	7,621
Proceeds from sale of building	3,321	-
Net cash provided by investing activities	541	3,685
Cash flows from financing activities:		
Proceeds from long-term borrowings	-	750
Long-term debt repayments	(762)	(1,448)
Proceeds from common stock issued	181	217
Shares repurchased	(33)	(297)
Dividends paid	(1,407)	(1,407)
Net cash used in financing activities	(2,021)	(2,185)
Effect of exchange rate changes on cash	(603)	(407)

Net increase (decrease) in cash	(3,067)	7,272
Cash, beginning of period	19,794	11,108
Cash, end of period	$16,727	$ 18,380
Supplemental cash flow information:		
Interest paid	$302	$ 349
Income taxes paid, net	113	557

See Notes to Unaudited Consolidated Financial Statements

THE L. S. STARRETT COMPANY

Notes to Unaudited Consolidated Financial Statements

December 31, 2016

Note 1: Basis of Presentation and Summary of Significant Account Policies

The unaudited interim financial statements as of and for the three and six months ended December 31, 2016 have been prepared by The L.S. Starrett Company (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. These unaudited financial statements, which, in the opinion of management, reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation, should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016. Operating results are not necessarily indicative of the results that may be expected for any future interim period or for the entire fiscal year.

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended June 30, 2016 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements.

Note 2: Recent Accounting Pronouncements

In May 2014, the FASB issued a new standard related to the "Revenue from Contracts with Customers" which amends the existing accounting standards for revenue recognition. The standard requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This standard is applicable for fiscal years beginning after December 15, 2017 and for interim periods within those years. Earlier application will be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company expects to adopt this standard for its fiscal year beginning July 1, 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." Previous to the issuance of this ASU, ASC 330 required that an entity measure inventory at the lower of cost or market. ASU 2015-11 specifies that “market” is defined as “net realizable value,” or the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Application is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU No. 2015-11 will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”. The ASU requires that organizations that lease assets recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases. The ASU will affect the presentation of lease related expenses on the income statement and statement of cash flows and will increase the required disclosures related to leases. This ASU is effective for annual periods beginning after December 15, 2018, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of ASU No. 2016-02 on its consolidated financial statements. It is expected that a key change upon adoption will be the balance sheet recognition of leased assets and liabilities and that any changes in income statement recognition will not be material.

Note 3: Stock-based Compensation

On September 5, 2012, the Board of Directors adopted The L.S. Starrett Company 2012 Long Term Incentive Plan (the “2012 Stock Plan”). The 2012 stock plan was approved by shareholders on October 17, 2012. The 2012 Stock Plan permits the granting of the following types of awards to officers, other employees and non-employee directors: stock options; restricted stock awards; unrestricted stock awards; stock appreciation rights; stock units including restricted stock units; performance awards; cash-based awards; and awards other than previously described that are convertible or otherwise based on stock. The 2012 Stock Plan provides for the issuance of up to 500,000 shares of common stock.

Options granted vest in periods ranging from one year to three years and expire ten years after the grant date. Restricted stock units ("RSU") granted generally vest from one year to three years. Vested restricted stock units will be settled in shares of common stock. As of December 31, 2016, there were 20,000 stock options and 105,634 restricted stock units outstanding. In addition, there were 346,600 shares available for grant under the 2012 Stock Plan as of December 31, 2016.

For stock option grants the fair value of each grant is estimated at the date of grant using the Binomial Options pricing model. The Binomial Options pricing model utilizes assumptions related to stock volatility, the risk-free interest rate, the dividend yield, and employee exercise behavior. Expected volatilities utilized in the model are based on the historic volatility of the Company's stock price. The risk free interest rate is derived from the U.S. Treasury Yield curve in effect at the time of the grant. The expected life is determined using the average of the vesting period and contractual term of the options (Simplified Method).

No stock options were granted during the six months ended December 31, 2016 and 2015.

The weighted average contractual term for stock options outstanding as of December 31, 2016 was 6 years. The aggregate intrinsic value of stock options outstanding as of December 31, 2016 was negligible. Stock options exercisable as of December 31, 2016 were 20,000. In recognizing stock compensation expense for the 2012 Stock Incentive Plan management has estimated that there will be no forfeitures of options.

The Company accounts for stock options and RSU awards by recognizing the expense of the grant date fair value ratably over vesting periods generally ranging from one year to three years. The related expense is included in selling, general and administrative expenses.

There were 45,000 RSU awards with a fair value of $10.86 per RSU granted during the six months ended December 31, 2016. There were 12,733 RSUs settled during the six months ended December 31, 2016. The aggregate intrinsic value of RSU awards outstanding as of December 31, 2016 was $1.0 million. As of December 31, 2016 all vested awards had been issued and settled.

On February 5, 2013, the Board of Directors adopted The L.S. Starrett Company 2013 Employee Stock Ownership Plan (the "2013 ESOP"). The purpose of the plan is to supplement existing Company programs through an employer funded individual account plan dedicated to investment in common stock of the Company, thereby encouraging increased ownership of the Company while providing an additional source of retirement income. The plan is intended as an employee stock ownership plan within the meaning of Section 4975 (e) (7) of the Internal Revenue Code of 1986, as amended. U.S. employees who have completed a year of service are eligible to participate.

Compensation expense related to all stock based plans for the six month periods ended December 31, 2016 and 2015 was $0.2 million and $0.2 million, respectively. As of December 31, 2016, there was $1.4 million of total unrecognized compensation costs related to outstanding stock-based compensation arrangements. Of this cost $1.1 million relates to performance based RSU grants that are not expected to be awarded. The remaining $0.3 million is expected to be recognized over a weighted average period of 1.6 years.

Note 4: Inventories

Inventories consist of the following (in thousands):

	12/31/2016	6/30/2016
Raw material and supplies	$ 28,568	$ 29,209
Goods in process and finished parts	15,394	16,459
Finished goods	42,584	39,449
	86,546	85,117
LIFO Reserve	(28,342)	(28,796)
Inventories	$ 58,204	$ 56,321

LIFO inventories were $9.7 million and $10.5 million at December 31, 2016 and June 30, 2016, respectively, such amounts being approximately $28.3 million and $28.8 million, respectively, less than if determined on a FIFO basis. The use of LIFO, as compared to FIFO, resulted in a $0.5 million decrease in cost of sales for the six months ended December 31, 2016 compared to a $0.4 million increase for the six months ended December 31, 2015.

Note 5: Goodwill and Intangible Assets

The Company's acquisition of Bytewise in 2011 gave rise to goodwill. The Company performed a qualitative analysis in accordance with ASU 2011-08 for its October 1, 2016 annual assessment of goodwill (commonly referred to as "Step Zero"). From a qualitative perspective, in evaluating whether it is more likely than not that the fair value of the reporting unit exceeds its respective carrying amount, relevant events and circumstances were taken into account, with greater weight assigned to events and circumstances that most affect the fair value or the carrying amounts of its assets. Items that were considered included, but were not limited to, the following: macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and changes in management or key personnel. After assessing these and other factors the Company determined that it was more likely than not that the fair value of the reporting unit exceeded its carrying amount as of October 1, 2016.

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

	12/31/2016	6/30/2016
Non-compete agreement	$ 600	$ 600
Trademarks and trade names	1,480	1,480
Completed technology	2,358	2,358
Customer relationships	4,950	4,950
Software development	2,770	2,402
Other intangible assets	325	325
Total	12,483	12,115
Accumulated amortization	(6,357)	(5,625)
Total net balance	$ 6,126	$ 6,490

Amortizable intangible assets are being amortized on a straight-line basis over the period of expected economic benefit.

The estimated useful lives of the intangible assets subject to amortization are 14 years for trademarks and trade names, 8 years for non-compete agreements, 10 years for completed technology, 8 years for customer relationships and 5 years for software development.

The estimated aggregate amortization expense for the remainder of fiscal 2017 and for each of the next five years and thereafter, is as follows (in thousands):

2017 (Remainder of year)	$862
2018	1,587
2019	1,491
2020	984
2021	581
2022	262
Thereafter	359

Note 6: Pension and Post-retirement Benefits

The Company has two defined benefit pension plans, one for U.S. employees and another for U.K. employees.   The U.K. plan was closed to new entrants in fiscal 2009. The Company has a postretirement medical and life insurance benefit plan for U.S. employees. The Company also has defined contribution plans.

On December 21, 2016, the Company amended the U.S. defined benefit pension plan to freeze benefit accruals effective December 31, 2016. Consequently, the Plan will be closed to new participants and current participants will no longer earn additional benefits after December 31, 2016.

The amendment of the defined benefit pension plan triggered a pension curtailment which required a remeasurement of the Plan's obligation as of December 31, 2016. The remeasurement resulted in a decrease in the benefit obligation of approximately $6.9 million primarily due to an increase in the discount rate from 3.77% to 4.31%, with an additional $4.2 million decrease resulting from the impact of the curtailment. These reductions in the Plan’s benefit obligation were recorded as other comprehensive income, net of taxes.

Reconciliation of Funded Status of U.S. Defined Benefit Pension Plan as of December 31, 2016

Benefit obligation as of June 30, 2016	$130,863
Service cost	1,405
Interest cost	2,457
Benefits paid	(2,374)
Actuarial (gain)/loss	(8,443)
Benefit obligation prior to curtailment	123,908
Effect of curtailment	(4,170)
Benefit obligation as of December 31, 2016	119,738
Fair value of assets	80,989
Funded status as of December 31, 2016	$(38,749)

Net periodic benefit costs for all of the Company's defined benefit pension plans consist of the following (in thousands):

	Three Months Ended		Six Months Ended	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
	(Unaudited)		(Unaudited)	
Service cost	$614	$ 715	$1,405	$ 1,429
Interest cost	1,533	1,759	3,085	3,527
Expected return on plan assets	(1,288)	(1,585)	(2,594)	(3,179)
Amortization of net loss	68	12	96	26
	$927	$ 901	$	

AUDIT COMMITTEE REPORT

Management is responsible for the preparation, presentation and integrity of the financial statements, accounting and financial reporting principles and internal control over financial reporting. The Company's independent registered public accounting firm, KPMG LLP, is responsible for performing an independent audit of the financial statements in accordance with generally accepted auditing standards and for expressing opinions on the conformity of the financial statements with accounting principles generally accepted in the

United States.

In the performance of its oversight function, the Audit Committee has considered and discussed with management and the Company's independent registered public accounting firm, KPMG LLP, the audited financial statements for the year ended December 31, 2011. The Audit Committee has also discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional* Standards, Vol.1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Finally, the Audit Committee has received the written disclosures and the letter from KPMG LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with KPMG LLP that firm's independence.

Based upon the reviews and discussions referred to above, in reliance on management and the independent registered accounting firm, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC.

SUBMITTED BY THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

James L. Freer, *Chairman*
Denis C. Arsenault
Carol T. Banducci
James P. Geyer

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OVERVIEW OF PROPOSALS

This Proxy Statement contains three proposals requiring shareholder action. Proposal 1 requests the election of seven directors to our Board of Directors. Proposal 2 requests the appointment of KPMG LLP as our independent registered public accounting firm. Proposal 3 requests an advisory vote to approve executive compensation. Each of these proposals is described in more detail on the pages that follow.

ELECTION OF DIRECTORS (PROPOSAL 1)

Our Board of Directors presently is comprised of seven directors. Directors who are elected at the 2012 annual meeting, and any directors who are elected after the meeting to fill vacancies and newly created directorships, shall hold office until the next annual meeting of shareholders or until his or her successor is duly elected or appointed unless his or her office is earlier vacated in accordance with our Articles of Continuance.

Set forth below is certain information with respect to each of our nominees for the office of director and each of our other executive officers. Shares represented by proxies returned duly executed will be voted, unless otherwise specified, in favor of the following seven nominees: Denis C. Arsenault, Carol T. Banducci, James L. Freer, James P. Geyer, Timothy J. Haddon, Kevin Loughrey and Thomas J. O'Neil. All of the nominees are currently serving as directors. Each nominee for director has consented to serve on our Board of Directors and the seven nominees with the highest number of "for" votes will be elected.

In accordance with our Board of Directors' Voting Policy, our Board of Directors will nominate for election or re-election as a director in uncontested elections only candidates who agree to tender, promptly following their failure to receive more votes in favor than withheld for election or re-election at the next meeting at which they would face election or re-election, an irrevocable resignation that will be effective upon acceptance by our Board of Directors. In addition, our Board of Directors will fill director vacancies and new directorships only with candidates who agree to tender the same form of resignation, promptly following their appointment to our Board of Directors.

If the number of shares "withheld" with respect to an incumbent director exceeds the number of shares voted in favor of that nominee then, under the Board of Directors' Voting Policy, the nominee will be considered not to have received the support of shareholders (even though duly elected as a matter of corporate law). As soon as possible consistent with an orderly transition, but in any event within 90 days, following certification of the shareholder vote, our Board of Directors will accept the director's resignation.

Subject to any corporate law restrictions, the Board of Directors may leave the resultant vacancy unfilled until the next annual general meeting. It may also fill the vacancy through the appointment of a new director whom the Board considers to merit the confidence of the shareholders or it may call a special meeting of shareholders at which there will be presented a management slate to fill the vacant position or positions.

The Board of Directors' Voting Policy does not apply in the case of a contested election (where nominees other than the slate supported by the Board of Directors have been proposed).

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF ALL OF THE NOMINEES NAMED IN THIS PROXY STATEMENT.

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APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (PROPOSAL 2)

The Board of Directors recommends the appointment of KPMG LLP as our independent registered public accounting firm through the next annual meeting of shareholders. A representative of KPMG LLP is expected to be present at the annual meeting and will have an opportunity to make a statement should he or she so desire. The representative will also be available to respond to appropriate questions from shareholders during the meeting.

The appointment of KPMG LLP as our independent registered public accounting firm from their engagement through the next annual meeting of shareholders and authorization of the directors to fix their remuneration will be dependent on no other independent registered public accounting firm being put forward at the meeting and receiving more "for" votes than KPMG LLP.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FROM THEIR ENGAGEMENT THROUGH THE NEXT ANNUAL MEETING OF SHAREHOLDERS.

Auditors Fees

The following table sets forth approximate aggregate fees billed to us for the fiscal years ending December 31, 2010 and 2011 by KPMG LLP:

	2011 ($)	2010 ($)
Audit Fees(1)	992,704	826,000
Audit Related Fees(2)	150,174	84,000
Tax Fees(3)	203,529	302,028
All Other Fees(4)	17,337	0
Total	1,363,744	1,212,028

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(1) These fees relate to services rendered in connection with the audit of our annual financial statements, review of our quarterly financial statements, review of the financial statements of our Endako Mine joint venture, and services in connection with our regulatory filings.

(2) For 2011, these fees relate to the review of potential business and financing transactions, employee benefit planning, comfort letter fees and the review of a prospectus and registration statement in connection with a securities offering. For 2010, these fees relate to consulting services rendered in connection with our acquisition of Terrane Metals Corp.

(3) These fees for both years relate to services rendered in connection with tax compliance, tax advice, tax planning and tax training.

(4) These fees relate to an audit of carbon dioxide emissions at our Canadian facilities.

The Audit Committee pre-approved all audit and non-audit services performed by the Company's independent auditor in advance. The Audit Committee also reviewed actual spending on such services on a quarterly basis.

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ADVISORY VOTE ON
THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS
(PROPOSAL 3)

As required by Section 14A of the Securities Exchange Act of 1934, we are asking our shareholders to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement through the following resolution:

> "RESOLVED, that the shareholders approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables and any other related disclosure in this proxy statement."

Our executive compensation program is designed to attract and retain quality executives and to motivate them to work effectively to attain short- and long-term corporate and individual goals that are aligned with the interests of our shareholders, and to reward those executives when such objectives are met or exceeded. We attempt to create and implement policies that will encourage and reward outstanding performance, seek to increase overall performance and profitability, and thereby increase shareholder value.

Our Compensation Discussion and Analysis, beginning on page 18 of this Proxy Statement describes our executive compensation program and the decisions made by our Compensation and Governance Committee in 2011 in more detail. Important considerations for the 2011 program included the following:

- As a result of the Company having achieved only 60.3% of targeted earnings before taxes, the Compensation and Governance Committee awarded bonuses to our named executive officers that ranged between 30-50% of their targeted levels, representing a year-over-year decrease in bonus from 2010 for our named executive officers of between 47-77% (with our Chief Executive Officer receiving a 77% decrease in his bonus payout in 2011 compared to 2010).

- Total compensation (including base salary, equity awards and short- and long-term incentive pay) for our named executive officers for 2011 was 22% below the 75th percentile of our peer group.

- In direct response to the results of last year's "say-on-pay" vote, the Company made a number of revisions to our executive compensation program for 2012 including:

  - changed the form of employment agreement for future executives so that future executives will only be entitled to a payment upon a termination of employment resulting from a change-in-control transaction (i.e., a "double trigger" for payment), as opposed to the existing arrangement (i.e., a "single modified trigger" for payment) and to include a finite term;

adopted stock ownership guidelines for our named executive officers; and

changed the vesting period for performance share units granted to our named executive offices from three-year ratable vesting to vesting only at the conclusion of three years upon achievement of performance criteria.

This "Say on Pay" proposal allows our shareholders to express their view regarding the decisions of the Compensation and Governance Committee on the 2011 compensation to our named executive officers. Your advisory vote will serve as a tool to guide the Board of Directors and the Compensation and Governance Committee in continuing to improve the alignment of our executive compensation programs with the objective of creating long-term value for our shareholders.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE EXECUTIVE COMPENSATION OF OUR NAMED EXECUTIVES AS DISCLOSED IN THIS PROXY STATEMENT.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In accordance with our Policy on Related Person Transactions, we review all relationships and transactions in which our Company and our directors and executive officers, or their immediate family members, are participants to determine whether such persons have a direct or indirect material interest.

Our Compensation and Governance Committee is responsible for reviewing all related person transactions. As required under the SEC rules, transactions that are determined to be directly or indirectly material to our Company or a related person are disclosed in our proxy statement. In addition, our Compensation and Governance Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. In the course of its review, our Compensation and Governance Committee considers the benefits of the transaction to us; the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction, and the terms of comparable transactions that would be available to unrelated third parties or to employees generally.

We did not have any related person transactions in 2011.

GENERAL

Other Matters

Our Board of Directors does not know of any matters that are to be presented at the annual meeting other than those stated in the notice of annual meeting and referred to in this proxy statement. If any other matters should properly come before the annual meeting, it is intended that the proxies in the accompanying form will be voted as the persons named therein may determine in their discretion.

Our Annual Report to Shareholders for the fiscal year ended December 31, 2011 which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 is being mailed to shareholders together with this proxy statement.

Any shareholder can access our Charter of the Board of Directors and the Board Guidelines as well as the Charters each of our Board committees in the "Corporate Governance" section of our website at www.thompsoncreekmetals.com. In addition, our Code of Ethics and Business Practices can also be accessed in the "Corporate Governance" section of our website at www.thompsoncreekmetals.com. We will disclose any future amendments to, or waivers from, certain provisions of our Code of Ethics and Business Practices on our website following such amendment or waiver. Any shareholder may also obtain a printed copy of these documents by writing to Wendy Cassity, Vice President, General Counsel and Secretary, Thompson Creek Metals Company Inc., 26 West Dry Creek Circle, Suite 810, Littleton, Colorado 80120.

Solicitation of Proxies

The cost of solicitation of proxies in the accompanying form will be borne by us, including expenses in connection with preparing and mailing this proxy statement. In addition to solicitation of proxies by mail, our directors, officers and employees (who will receive no additional compensation therefore) may solicit the return of proxies by telephone or personal interview. Arrangements have also been made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and we will reimburse them for reasonable out-of-pocket expenses incurred by them in connection therewith. We have retained Morrow & Co., LLC to provide the following services in connection with the meeting: review and analysis of the proxy statement, recommending corporate governance best practices where applicable, liaising with proxy advisory firms, developing and implementing shareholder communication

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and engagement strategies, advice with respect to meeting and proxy protocol, reporting and reviewing the tabulation of shareholder proxies, and the solicitation of shareholder proxies including contacting shareholders by telephone. The costs of these services are approximately $32,500 plus $6.50 per holder contacted and reimbursement of disbursements, which costs will be borne by Thompson Creek.

Each holder of our common stock who does not expect to be present at the annual meeting or who plans to attend but who does not wish to vote in person is urged to fill in, date and sign the proxy and return it promptly in the enclosed return envelope or vote by telephone or on the Internet.

Shareholder Proposals

If any of our shareholders intends to present a proposal for consideration at the next annual meeting of shareholders and desires to have such proposal included in the proxy statement and form of proxy distributed by our Board of Directors with respect to such meeting pursuant to Rule 14a-8 under the Exchange Act, such proposal must be received in writing at our offices, 26 West Dry Creek Circle, Suite 810, Littleton, Colorado 80120, Attention: Wendy Cassity, Vice President, General Counsel and Secretary no later than December 4, 2012.

Delivery of Materials to Shareholders with Shared Addresses

Beneficial holders who own their shares through a broker, bank or other nominee and who share an address with another such beneficial owner are only being sent one set of proxy materials, unless such holders have provided contrary instructions. If you wish to receive a separate copy of these materials or if you are receiving multiple copies and would like to receive a single copy, please contact us by phone at (303) 762-3526, or by writing to Investor Relations, Thompson Creek Metals Company Inc., 26 West Dry Creek Circle, Suite 810, Littleton, Colorado 80120.

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Any questions and requests for assistance may be directed to the Proxy Solicitation Agent:

Morrow & Co., LLC 470 West Avenue, Stamford, CT 06902

North American Toll Free Phone:

1-877-658-1531

Email: tcm.info@morrowco.com

Outside North America, Banks and Brokers Call Collect: 203-658-9400

FORM OF PROXY SOLICITED BY THE MANAGEMENT OF THOMPSON CREEK METALS COMPANY INC. FOR USE AT THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 8, 2012

The undersigned shareholder(s) of THOMPSON CREEK METALS COMPANY INC. (the "Company") hereby appoint(s) Kevin Loughrey, the Chairman and Chief Executive Officer of the Company, or in lieu of the foregoing, Timothy J. Haddon, Lead Director of the Company, and Wendy Cassity, Vice President, General Counsel and Secretary of the Company, or in lieu of the foregoing, , to attend and vote on behalf of the undersigned at the Annual Meeting of Shareholders of the Company to be held on Tuesday, May 8, 2012 at 10:00 a.m. (Mountain Time) and at any adjournment thereof as follows in accordance with their discretion upon any other matter properly presented.

This proxy when properly executed will be voted in the manner directed herein. If no direction is made, this proxy will be voted FOR the election of Directors named below or their substitutes as designated by the Board of Directors and FOR proposals 2 and 3. The proxies are authorized to vote as they may determine in their discretion upon such other business as may properly come before the meeting.

The undersigned specifies that all of the voting shares owned by him or her and represented by this form of proxy shall be:

Proposals:

(1) Election of Directors:

		For	**Withheld**			**For**	**Withheld**
1	Denis C. Arsenault	o	o	5	Timothy J. Haddon	o	o
2	Carol T. Banducci	o	o	6	Kevin Loughrey	o	o
3	James L. Freer	o	o	7	Thomas J. O'Neil	o	o
4	James P. Geyer	o	o				

The Board of Directors recommends you vote FOR the election of directors.

(2) Appoint KPMG LLP as the Company's independent auditors from their engagement through the next annual meeting of shareholders and authorize the Company's directors to fix their remuneration:

For	**Withheld**	**Abstain**
o	o	o

The Board of Directors recommends you vote FOR the appointment of KPMG LLP.

(3) Advisory vote on the compensation of the Company's named executive officers:

For	**Against**	**Abstain**
o	o	o

The Board of Directors recommends you vote FOR the executive compensation of our named executive officers.

If any amendments or variations to the matters referred to above or to any other matters identified in the notice of meeting are proposed at the meeting or any adjournment or adjournments thereof, or if any other matters which are not now known to management should properly come before the meeting or any adjournment or adjournments thereof, this proxy confers discretionary authority on the person voting the proxy to vote on such amendments or variations or such other matters in accordance with the best judgment of such person.

To be valid, this proxy must be received by the Company's transfer agent, Equity Financial Trust Company, 200 University Avenue, Suite 400, Toronto, ON M5H 4H1, not later than 48 hours, excluding Saturdays, Sundays and holidays, prior to the Meeting or any adjournment thereof. Late proxies may be accepted or rejected by the Chairman of the meeting in his discretion, and the Chairman is under no obligation to accept or reject any particular late proxy.

This proxy revokes and supersedes all proxies of earlier date.

DATED this day of , 2012.

Signature of Shareholder

Name of Shareholder (Please Print)

PLEASE SEE NOTES ON REVERSE

NOTES:

1. **THIS PROXY IS SOLICTED BY MANAGEMENT OF THE COMPANY.**

2. The shares represented by this proxy will be voted. Where a choice is specified, the proxy will be voted as directed.

Where no choice is specified, this proxy will be voted in favour of the matters listed on the proxy. The proxy confers discretionary authority on the above named person to vote in his or her discretion with respect to amendments or variations to the matters identified in the Notice of Meeting accompanying the proxy or such other matters which may properly come before the meeting.

3. Each shareholder has the right to appoint a person other than management designees specified above to represent them at the meeting. Such right may be exercised by inserting in the space provided the name of the person to be appointed, who need not be a shareholder of the Company.

4. Each shareholder must sign this proxy. Please date the proxy. If the shareholder is a corporation, the proxy must be executed by an officer or attorney thereof duly authorized.

5. If the proxy is not dated in the space provided, it is deemed to bear the date of its mailing to the shareholders of the Company.

6. If the shareholder appoints any of the persons designated above, **including persons other than management designees**, as proxy to attend and act at the said meeting:

(a) the shares represented by the proxy will be voted in accordance with the instructions of the shareholder on any ballot that may be called for;

(b) where the shareholder specifies a choice in the proxy with respect to any matter to be acted upon, the shares represented by the proxy shall be voted accordingly; and

(c) **IF NO CHOICE IS SPECIFIED WITH RESPECT TO THE MATTERS LISTED ABOVE, THE PROXY WILL BE VOTED <u>FOR</u> SUCH MATTERS.**