Notes to Consolidated Financial Statements

1. The consolidated financial statements include the accounts of the Company and its wholly-owned International subsidiaries. The net assets of such subsidiaries including loans and advances from the Company amounted to $37,970,000 at December 31, 1967 and $34,503,000 at December 31, 1966. The net losses of such subsidiaries were $1,185,000 for the year ended December 31, 1967 and $2,148,000 for the year ended December 31, 1966.

2. Depreciation has been provided by the Company and its subsidiaries generally at rates calculated to absorb the cost of buildings and equipment during the period of their useful lives. Where permitted by income tax laws, the Company and certain of its subsidiaries deduct larger amounts of depreciation for income tax purposes than are charged against net earnings. The reductions in tax liabilities resulting from this practice are not credited to net earnings but are accumulated in deferred income taxes, displayed separately on the consolidated balance sheet.

3. Long term debt at December 31, 1967 consists of the following:

	Due Within One Year	Due After One Year
Abex Corporation		
4½% sinking fund debentures due 1982	$ —	$ 8,896,000
4½% sinking fund debentures due 1987	—	11,000,000
International Subsidiaries		
Amount due Canadian government on purchase of equipment	189,000	439,000
Notes payable (3.8%-7%) due 1969-1986	993,000	6,469,000
Total long term debt	$ 1,182,000	$26,804,000

Under the terms of the indentures covering sinking fund debentures, minimum annual sinking fund payments are required as follows: 1969, $846,000; 1970-1971, $900,000; 1972-1981, $1,300,000; 1982, $1,150,000; 1983-1986, $650,000; and 1987, $500,000.

The indentures covering the debentures contain restrictions, among others, against the payment of dividends (other than stock dividends), the redemption of capital stock, and investment in subsidiaries in areas other than the United States and Canada. The amount free of such restrictions at December 31, 1967 under the most restrictive covenant was $24,759,000.

4. Issuance of not more than 200,000 shares, in series, of cumulative preferred stock, par value $100, has been approved by the shareholders.

5. At December 31, 1966, options were outstanding to purchase 74,423 shares of common stock of the Company under the Employees' Stock Purchase and Option Plan adopted in 1957, at prices ranging from $21.03 to $26.94 per share. During the year 33,254 shares were purchased under the plan at a total purchase price of $877,000 and options to purchase 21,629 shares were canceled, leaving 19,540 shares under option at December 31, 1967 all of which were exercisable. No shares were available for the granting of additional options at any time during the year under this Plan.

Under the 1967 Qualified Stock Option Plan approved by shareholders in 1967, 200,000 shares of common stock of the Company were made available for grant to eligible employees. As of December 31, 1967, options for 19,700 shares had been granted at a price of $29.38 per share, exercisable in not less than one year or more than five years after date of grant.

6. The Company and its subsidiaries have several pension plans which cover substantially all employees in the United States and Canada and certain employees in Europe. Total expense for the year was $2,425,000 which includes amortization of prior service costs over a period of not more than 30 years. The Company's policy is to fund pension cost accrued.

7. The details of consolidated earnings reinvested in the business are as follows:

	1967	1966
Beginning of year	$71,438,000	$64,408,000
Net earnings	11,270,000	12,827,000
Total	82,708,000	77,235,000
Cash dividends on common stock, $1.60 per share in 1967 and $1.575 per share in 1966	5,909,000	5,797,000
End of year	$76,799,000	$71,438,000

8. Reference should be made to information concerning a Federal Trade Commission proceeding appearing on page 5 of this report.