

to the shareholders:

March 15, 1961



MR. D.J.H.N.



MR. GIVEN

Expansion, both domestic and international, highlighted operations of American Brake Shoe Company in 1960. Steps taken to establish or acquire facilities to serve growing markets in the United States and abroad were costly—as reflected in lower earnings for the year—but should bring short and long-range earnings improvement.

Net earnings of \$5,666,874 in 1960 were 26 per cent below 1959 earnings of \$7,681,383, while 1960 shipments were slightly below those for 1959. The decline in domestic shipments — caused by the softness that developed in the durable goods portion of the American economy during the year—was partially offset by an increase in shipments of international subsidiaries.

Additional factors producing a decline in earnings were the cost of work stoppages, the transfer of Kellogg Division's facilities from Rochester, New York to Oxnard, California, increased wages, and improvements in employee benefit plans. Some of these costs are non-recurring in nature and, therefore, when the demand of our customers increases our earnings should rise.

The extended strike at the American Manganese Steel Division plant in Chicago Heights and the other nine strikes experienced during the first quarter had a harmful effect on shipments and earnings. As we explained in last year's annual report, unions at seven plants refused to accept improved pension and insurance plans that had been accepted by most of the Company's 47 domestic plants. Because we think these plans are among the best in American heavy industry, we cannot believe they were a basic issue in these strikes. Rather, the strikes appear to have been called in sympathy with the work stoppage at Amsco—Chicago Heights.

More than 500 employees at this plant were on strike for over eight months. The central issue was revision of "past practices" provisions of the labor contract—revision essential to continued profitable operation of the plant. The settlement finally reached reasserted management's decision-making control and was on basic terms offered by the Company before the work stoppage began.

During 1960, Brake Shoe acquired for cash the Mold Division of Bridgwater Machine Company, whose plant at Athens, Ohio is a major producer of molds used in making tires and other rubber and plastic products and is expected to make an important contribution to Company earnings. A Canadian affiliate of the Bridgwater firm was acquired at the same time by Dominion Brake Shoe Company, and will supply similar products to Canadian industry.

In December, the Company acquired Dynisco, Inc., a manufacturer of electro-mechanical transducers and sensitive measuring instruments. This firm's products are used in measuring the performance of missiles and in controlling automated industrial equipment. Dynisco Division's operations are coordinated with those of Brake Shoe's Hydraulics and Electronics Group and with the research activities of the new Hydrodynamics Research Center. This combination gives Brake Shoe a broad base for growth in hydraulics, electro-hydraulics and related fields, as described more fully on page 7 of this report.

Other important steps toward domestic growth were taken in 1960 with the expansion of facilities for the production of large and specialized castings. The