February 27, 1964

TO THE STOCKHOLDERS:

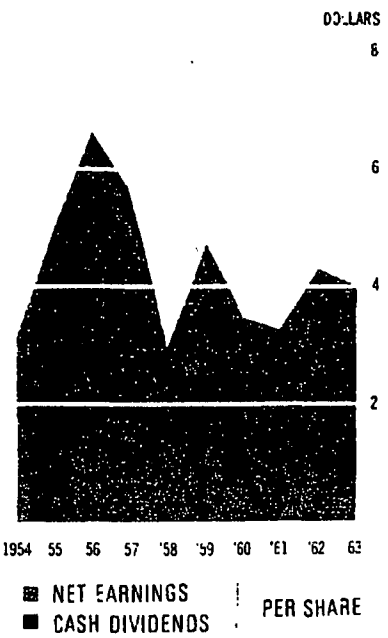
The year 1963 was one of sound accomplishment and steady progress toward our long-term goals of broadening the company's product lines and extending its operations internationally. High levels of economic activity in North America and Western European countries carried company sales to a record high. Sales gains were achieved in all major geographical areas of the company's operations.

Despite these gains, profits in 1963 were somewhat lower than in the previous year. The circumstances which caused the decline in earnings were of a temporary nature and we expect them to be alleviated in 1964.

There were significant developments during the year that helped strengthen the company, and will provide a basis for more profitable operations in the future. The merger with The S. K. Wellman Company expanded our friction materials business. And progress in Europe was marked by a healthy growth in sales that contributed to profits.

An analysis of 1963 sales by product group reflects the results of efforts in recent years to broaden the product base of the company. Friction materials provided 15 per cent of the total volume, hydraulic products 22 per cent, railroad products 25 per cent, and casting and forgings 38 per cent.

NET EARNINGS AND CASH DIVIDENDS



THE S. K. WELLMAN COMPANY MERGER

The company acquired all of the net assets of The S. K. Wellman Company of Bedford, Ohio on April 16, 1963 in exchange for 223,654 shares of newly issued Brake Shoe common stock. Wellman is a manufacturer of heavy duty industrial friction materials. The contract provided for acquisition of Wellman's assets as of January 1, 1963 and the transaction was treated for accounting purposes as a pooling of interests. This report includes the combined operations of Brake Shoe and Wellman for the years 1962 and 1963.

SALES AND EARNINGS

Sales in 1963 amounted to $214,700,000. This was the highest in history and represented an increase of four per cent over shipments of $207,200,000 in 1962. Net earnings in 1963 amounted to $7,441,000 equal to $4.00 per share compared with $7,873,000 or $4.25 per share in 1962.

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