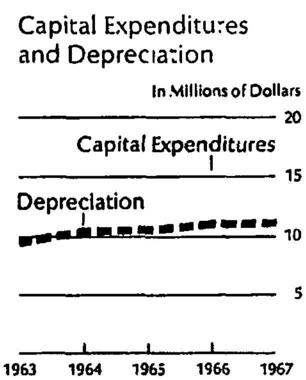
they are coordinated with production schedules of aircraft building programs. The balance of the backlog was normal, and the supply of our products in customers' inventories appeared to be reasonably balanced.

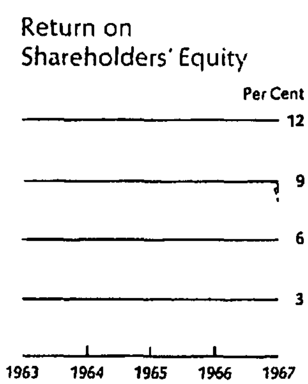
Capital Expenditures

Capital expenditures in 1967 amounted to $12,322,000 compared to $15,224,000 in 1966. Expenditures were lower than originally planned because some expenditures were deferred, some new equipment was not received on schedule, and initial expenditures for the start of construction of a new plant were delayed.

About 40% of capital expenditures in 1967 were for expansion of capacity in several product lines. In Canada, the aerospace facilities and a manganese steel foundry were expanded. In the United States, additions were made to the Medina, New York and Delaware, Ohio plants. Also, additional equipment at our two friction control product plants in Ohio increased their capacity by about 20%.

Capital expenditures for 1968 are planned at approximately $15,000,000, which includes about 40% for added capacity at existing plants. Initial expenditures for a new wheel plant are included also.





International Operations

Sales of our international divisions increased to $62,671,000 compared with $58,485,000 in the previous year. They amount to 23% of the total consolidated volume. Over-all results of our international operations improved over the previous year and we expect further progress in 1968.

Shipments of our Canadian Aerospace Division increased substantially because of a strong flow of orders and expanded plant capacity. However, operating results of this division were not satisfactory. The terms of one long-running contract for military aircraft components would not allow price adjustments to cover higher production costs. During the year, a management reorganization was necessary and the division has been integrated with the United States Aerospace Division.

A high proportion of this division's products were shipped to United States manufacturers of military aircraft. This is in line with the Defense Department's policy of coordinating the materiel program of this country with that of Canada.

Construction and mining activity in Canada slowed down during the year. This caused a reduction in sales of manganese steel and other wear control products. Sales of automotive brake lining held steady while shipments of products for the railroads increased.

Brake lining sales of our Mexican company increased as they have in each year since the operation was started in 1959.

Shipments of our European operations were slightly higher than in the previous year reflecting an improvement in industrial activity during the latter part of the year.

Sales of fluid power control products increased; brake lining sales were lower because of reduced European automotive production. Shipments of tire molds from the Belgian plant increased and this new plant, opened in 1966, should achieve a satisfactory operating level in 1968.

Devaluation of the British pound sterling on November 18th had been anticipated and action had been taken to protect the company's position. Consequently, the devaluation did not have any adverse effect upon earnings.

The general economy of the Common Market countries is showing signs of renewed strength and increased activity. Most indica-