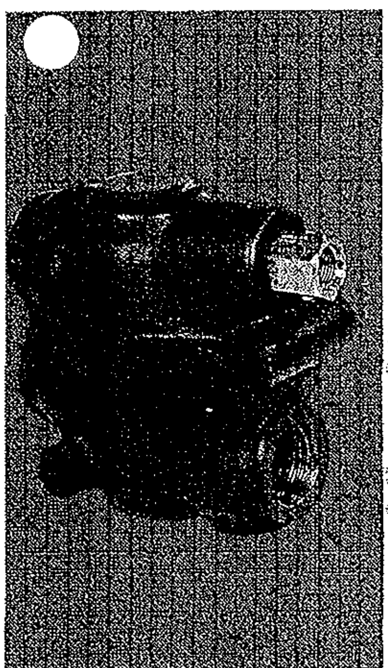
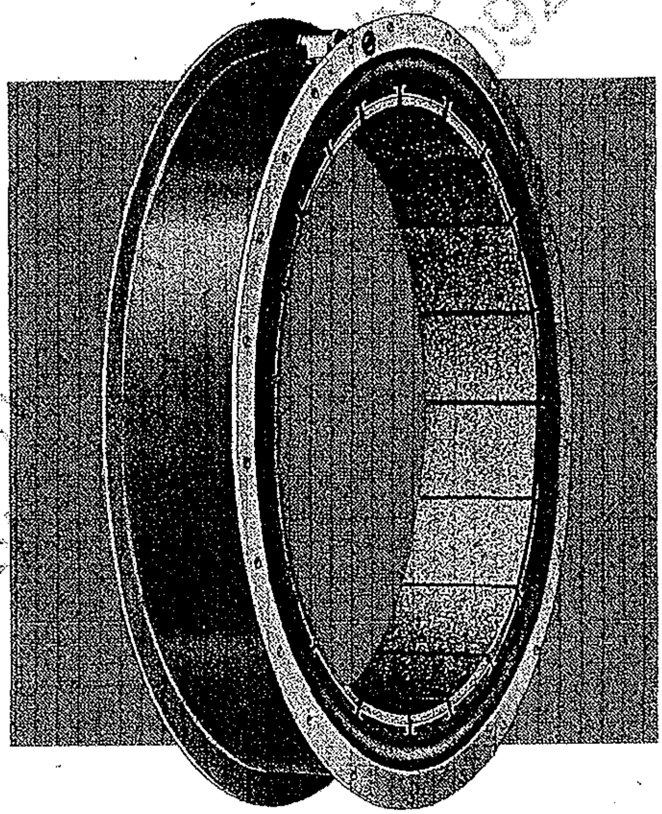
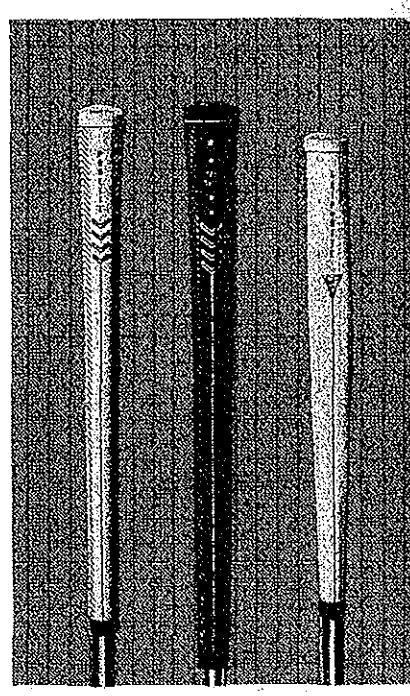
# FAWICK
## CORPORATION
## Annual Report 1964







**FAWICK**
**CORPORATION**
**AND SUBSIDIARIES**

## SUMMARY OF FINANCIAL OPERATIONS

| | Year Ended December 31, 1964 | 1963 |
|---|---|---|
| Net sales | $11,430,365 | $10,194,893 |
| Net income | $ 1,166,602 | $ 1,032,414 |
| Per share common stock | 95¢ | 84¢ |
| Dividends declared | | |
| Fawick Corporation | $ 609,258 | $ 408,428 |
| 1964—52½¢ per share | | |
| 1963—42½¢ per share | | |
| Fawick Flexi-Grip Company, paid prior to merger | 37,500 | 90,000 |
| | $ 646,758 | $ 498,428 |
| Expenditures for property, plant and equipment | $ 1,155,749 | $ 683,404 |
| Provision for depreciation | $ 294,115 | $ 252,058 |

*NOTE: Financial results for 1964 and 1963 are for* the combined operations of Fawick Corporation and Fawick Flexi-Grip Company, which was merged with Fawick as a division on May 31, 1964.

**DIRECTORS**

THOMAS L. FAWICK, *Cleveland, Ohio*
HARRY F. BURMESTER, *Cleveland, Ohio*
JOHN V. EAKIN, *Cleveland, Ohio*
WILLIAM GUIER, *Tulsa, Oklahoma*
JAMES A. KARNS, *Akron, Ohio*
WILLIAM E. RUTZ, *Fond du Lac, Wisconsin*
CHARLES W. STEADMAN, *Cleveland, Ohio*
FRED M. YOUNG, *Racine, Wisconsin*

**OFFICERS**

THOMAS L. FAWICK, *Chairman of the Board and President*
JOHN V. EAKIN, *Executive Vice President*
JAMES A. KARNS, *Vice President*
CARL DAUTEL, *Vice President and Treasurer*
EDWARD C. CROUCH, *Assistant Secretary*

**CORPORATE COUNSEL**

MARSHMAN, HORNBECK, HOLLINGTON, STEADMAN AND MCLAUGHLIN, *Cleveland, Ohio*

**ACCOUNTANTS**

LYBRAND, ROSS BROS. & MONTGOMERY *Cleveland, Ohio*

**TRANSFER AGENTS**

CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*
UNION COMMERCE BANK, *Cleveland, Ohio*

**EXCHANGES**

*Shares of Fawick Corporation are listed for trading upon the*
NEW YORK STOCK EXCHANGE
PACIFIC COAST STOCK EXCHANGE

## TO THE SHAREHOLDERS:

Sales and earnings of your company once again reached new high levels in 1964. We made excellent progress toward improving and expanding our plant facilities, broadening our operations in foreign countries, developing new products and achieving deeper penetration of domestic markets for industrial clutches, brakes and hydraulic products of our Airflex and Hydraulic Divisions, and for the sporting goods and hand tool grips of our Flexi-Grip Division.

Consolidated net income for the year ended December 31, 1964 amounted to \$1,166,602. This was equivalent to 95 cents a share on our capital stock and compares with \$1,032,414 or 84 cents a share in 1963. Net sales increased 12% to \$11,430,365 from \$10,194,893 in the preceding year.

Financial results for both 1964 and 1963 are for the combined operations of Fawick Corporation and Fawick Flexi-Grip Company of Akron, Ohio, which was merged with Fawick as a division on May 31, 1964.

In the course of our progress in expanding and improving operations, we spent \$1,156,000 on plant expansions and equipment improvements during 1964. These expenditures were financed out of the company's resources, except that \$84,000 was contributed by minority interests in a subsidiary. Capital expenditures for 1965 will be substantially less than those of 1964.

The plant and equipment additions for last year resulted in a modest decrease in our working capital. This, however, remains more than adequate for our requirements. In addition, we have an investment in the common stock of a listed company with a present market value of approximately \$900,000. We are currently receiving a good return on this investment.

Commensurate with the steady improvement in earnings, Fawick Directors recently increased the dividend for the second time in a year to a current quarterly rate of 15 cents a share. It is significant that this new rate is 50% greater than the 10 cent quarterly rate declared during most of 1963.

The current year has started on a strong note. The order backlog for clutches, brakes and hydraulic products amounted to \$1,950,000 on January 1, 1965, a new high for the Corporation. Sales for the first two months of 1965 showed a sizeable gain over the same period last year. Barring any sharp changes in the country's economy, we expect that sales and profits for 1965 will show substantial increases over 1964.

Respectfully yours,

Thomas L. Fawick

March 23, 1965

*Chairman of the Board and President*

# FAWICK CORPORATION AND SUBSIDIARIES

## A STORY OF GROWTH

FAWICK CORPORATION was founded in 1938 by a man with an idea for a radically new clutch. It employed a tire-like rubber tube with friction shoes and attached to a steel rim. When the tube was inflated with compressed air, it engaged the clutch. This was the Airflex clutch, invented by Thomas L. Fawick. It, and many modifications of this basic patented principle, is still the primary product of the rapidly expanding Fawick Corporation, which today also manufactures magnetic clutches and brakes, hydraulic control products, friction materials and rubber grips for the sporting goods and hand tool industries.

The Airflex clutch proved itself during World War II. It was used in the propulsion system of over 4,000 diesel-powered landing and patrol craft of the United States Navy. Market acceptance, after World War II, came rapidly. Today Fawick products are the accepted standard of excellence in the petroleum, marine, paper, metalworking, and many other industries vital to the industrial strength of our country.

In 1956 to broaden our base, we added magnetic clutches and brakes to our standard line. These are used primarily in the machine tool, computer, and packaging industries. There is also an increasing trend in many industries to rely more and more on power and control through hydraulic mediums. To serve this product area, we established the Hydraulic-Electronic Division in 1959. This division produces valves and other components for the machine tool, material handling, construction, and farm equipment industries.

Closely allied with clutches and brakes, and used extensively in them, are friction materials. In 1964 we established National Friction Products Company, Logansport, Indiana. We have controlling interest in this company. The general area of industrial friction products is large. We expect this subsidiary to grow and contribute its share to our expanding operations.

Fawick today is not only a name known widely throughout industry for its power transmission and hydraulic control products, but also in the sporting goods field. Fawick Flexi-Grip Company was merged into the corporation in 1964 as an operating division. Flexi-Grip manufactures the rubber portion of the Airflex clutches and rubber grips for the golf club, fishing rod, ski pole, tennis racket, and hand tool industries. The golf grips are sold to major manufacturers of clubs and are used extensively.

Production capacity has kept pace with our expanding product line and market acceptance. Manufacturing facilities are located in Cleveland and Akron, Ohio on 100 acres of prime property. Over 50% of our building space is less than ten years old. In 1963 and 1964, we spent approximately $1,840,000, mainly for a new Banbury mixing plant and equipment for the Flexi-Grip Division, and new automatic and numerically controlled machines for the Airflex Division.

Fawick sales and engineering offices are in most major U.S. cities, Canada, India and Australia. To better serve the market areas of the British Isles, Europe and Africa, Fawick A.G. was established with offices and warehouse in Roosendaal, The Netherlands. Joint venture companies are being established in Mexico and Japan to better serve the Central American and Asiatic areas.

Fawick Growth—Products, facilities, sales and profits—during these years of development and diversification into complementary and divergent areas has been most gratifying and will be continued as profitable opportunities arise.

**FAWICK**
*CORPORATION*
**AND SUBSIDIARIES**

## STATEMENT OF CONSOLIDATED OPERATIONS AND EARNINGS RETAINED IN THE BUSINESS

| | Year Ended December 31, 1964 | 1963 |
|---|---|---|
| **INCOME** | | |
| Net sales | $11,430,365 | $10,194,893 |
| Dividend and interest income | 70,550 | 57,774 |
| Miscellaneous other income | 35,362 | 67,263 |
| | $11,536,277 | $10,319,930 |
| **COST AND EXPENSES** | | |
| Materials, wages, and other costs of products sold | $ 6,370,297 | $ 5,718,653 |
| Selling, administrative, and engineering expenses | 2,570,263 | 2,160,934 |
| Provision for depreciation | 294,115 | 252,058 |
| | $ 9,234,675 | $ 8,131,645 |
| **INCOME BEFORE INCOME TAXES** | $ 2,301,602 | $ 2,188,285 |
| United States and Canadian income taxes | $ 1,135,000 | 1,155,871 |
| **NET INCOME** | $ 1,166,602 | $ 1,032,414 |
| **EARNINGS RETAINED IN THE BUSINESS** | | |
| At beginning of year, as restated on the *pooling of interests basis, Note 1* | 4,859,296 | 4,325,310 |
| | $ 6,025,898 | $ 5,357,724 |
| Dividends declared: | | |
| Fawick Corporation: | | |
| 1964—$ .52½ per share | $ 609,258 | |
| 1963—$ .42½ per share | | $ 408,428 |
| Fawick Flexi-Grip Company, paid prior to merger | 37,500 | 90,000 |
| | $ 646,758 | $ 498,428 |
| At end of year | $ 5,379,140 | $ 4,859,296 |

The accompanying notes are an integral part of these financial statements.

**FAWICK**
*CORPORATION*
**AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

| | December 31, 1964 | December 31, 1963 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 571,041 | $ 817,347 |
| Certificates of deposit | 360,025 | 561,480 |
| United States Treasury Bills | | 299,297 |
| Trade accounts receivable, less allowance for doubtful accounts | 1,192,176 | 1,206,999 |
| Inventories—raw materials, work in process, and finished parts and products—at lower of cost (generally first-in, first-out) or market | 2,166,792 | 1,877,111 |
| Prepaid insurance and other expenses | 119,649 | 98,196 |
| **TOTAL CURRENT ASSETS** | $4,409,683 | $4,860,430 |
| **INVESTMENTS AND OTHER ASSETS** | | |
| Capital stock of domestic company—at cost (quoted market, December 31, 1964—$806,250) | $ 831,250 | $ 831,250 |
| Miscellaneous investments and receivables | 390,838 | 336,348 |
| **TOTAL INVESTMENTS AND OTHER ASSETS** | $1,222,088 | $1,167,598 |
| **PROPERTY, PLANT, AND EQUIPMENT,** at cost | $6,182,332 | $5,114,877 |
| Less allowances for depreciation | 2,234,711 | 2,040,086 |
| **NET PROPERTY, PLANT AND EQUIPMENT** | $3,947,621 | $3,074,791 |
| | $9,579,392 | $9,102,819 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Trade accounts payable | $ 538,484 | $ 512,691 |
| Dividend payable | 183,423 | 120,128 |
| Salaries, wages, commissions, and amounts withheld therefrom | 246,485 | 218,485 |
| Accrued taxes—other than income taxes | 150,149 | 100,523 |
| United States and Canadian income taxes | 551,656 | 846,060 |
| **TOTAL CURRENT LIABILITIES** | $1,670,197 | $1,797,887 |
| **MINORITY INTEREST IN SUBSIDIARY,** Note 1 | $ 84,419 | —— |
| **SHAREHOLDERS' EQUITY** | | |
| Common capital stock, par value $2.00 a share: | | |
| Authorized 2,500,000 shares Outstanding 1,222,818 shares | $2,445,636 | $2,445,636 |
| Earnings retained in the business, Note 2 | 5,379,140 | 4,859,296 |
| **TOTAL SHAREHOLDERS' EQUITY** | $7,824,776 | $7,304,932 |
| | $9,579,392 | $9,102,819 |

The accompanying notes are an integral part of these financial statements.

**FAWICK**
**CORPORATION**
**AND SUBSIDIARIES**

## NOTES TO FINANCIAL STATEMENTS

**Note 1. Principles of Consolidation:** The consolidated financial statements include the accounts of the Corporation's two wholly owned subsidiaries, Fawick Canada, Ltd. and Fawick A.G. (a Swiss corporation), and the accounts of National Friction Products Corp., a 57% owned domestic subsidiary, from date of acquisition in July, 1964.

**Note 2. Merger with Fawick Flexi-Grip Company:** On May 31, 1964, the Fawick Corporation issued 261,818 shares of common stock in exchange for 30,000 shares of Fawick Flexi-Grip Company, now operated as a division of the corporation. The merger has been accounted for in the accompanying financial statements as a pooling of interests. On this basis, the accounts of Flexi-Grip (unaudited for 1963) have been combined with the accounts of Fawick for the years 1964 and 1963. Earnings retained in the business at January 1, 1963, as restated, consist of:

| | | |
|---|---|---|
| Balance, January 1, 1963: | | |
| Fawick Corporation | $3,405,189 | |
| Fawick Flexi-Grip Company | 1,039,973 | $4,445,162 |
| Less: | | |
| Excess of par value of 261,818 shares of Fawick Corporation common stock issued over par value of Fawick Flexi-Grip common stock exchanged in the merger, less $423,594 charged to capital in excess of par value | $ 70,042 | |
| Expenses of the merger | 49,810 | 119,852 |
| Balance January 1, 1963, as restated | | $4,325,310 |

Capital in excess of par value, as restated January 1, 1963, of $578,057 (Fawick Corporation $557,009, Fawick Flexi-Grip Company $21,048) was eliminated by charges of $154,463 arising from cancellation of 47,148 treasury shares of Fawick and $423,594 in connection with issuance of Fawick shares for Flexi-Grip shares.

**Note 3. Stock Option Plan:** On October 9, 1964, the Board of Directors adopted a qualified stock option plan, subject to shareholders' approval at the next annual meeting in May, 1965. Under the plan, options were granted to selected employees to purchase 36,000 shares of common stock at $11.25 per share (100% of the fair market value at date of grant).

**Note 4. Pension Plans:** The Corporation maintains pension plans for its salaried and hourly employees. The unfunded past service costs of these plans, as of December 31, 1964, were $539,000. Pension costs charged against income for the year 1964 amounted to $106,000.

**Note 5. Investment Tax Credit:** The Revenue Act of 1964 eliminated the former requirement that the investment credit be deducted from the basis for depreciation of machinery and equipment. Therefore, the investment credits of previous years in the amount of $43,790 are included in 1964 income.

## ACCOUNTANTS' REPORT

Board of Directors
Fawick Corporation
Cleveland, Ohio

We have examined the consolidated balance sheet of Fawick Corporation and subsidiaries as of December 31, 1964, and the related statement of consolidated operations and earnings retained in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of operations and earnings retained in the business present fairly the consolidated financial position of Fawick Corporation and subsidiaries at December 31, 1964, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

Cleveland, Ohio
February 25, 1965

# FAWICK CORPORATION AND SUBSIDIARIES

## 10-YEAR SUMMARY OF OPERATIONS

| | 1964 | 1963 |
|---|---|---|
| **NET SALES** | | |
| Operating Divisions | $11,430,365 | $ 9,779,326 |
| Divisions sold | | |
| Brake Division | — | 415,567 |
| Federal Motor Truck Division | — | — |
| Daugherty Machine Division | — | — |
| TOTAL NET SALES | $11,430,365 | $10,194,893 |
| Income before income taxes | $ 2,301,602 | $ 2,188,285 |
| United States and Canadian income taxes | 1,135,000 | 1,155,871 |
| Income from operations | 1,166,602 | 1,032,414 |
| Per share common stock | 95¢ | 84¢ |
| Net *non-recurring* income | — | — |
| Per share common stock | — | — |
| Net income | $ 1,166,602 | $ 1,032,414 |
| Per share common stock | 95¢ | 84¢ |
| Dividends declared | | |
| Fawick Corporation | $ 609,258 | $ 408,428 |
| Per share common stock | 52½¢ | 42½¢ |
| Number of shares of common stock outstanding | 1,222,818 | 1,222,818 |

## SOURCES AND APPLICATION OF WORKING CAPITAL

### YEAR ENDED DECEMBER 31, 1964

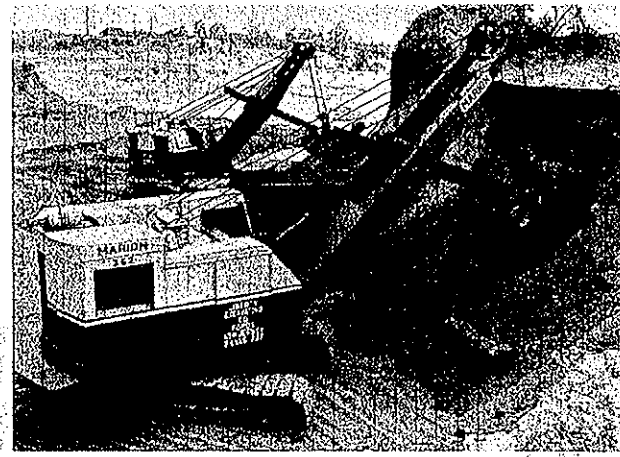
| | | |
|---|---|---|
| **SOURCES OF WORKING CAPITAL** | | |
| Net income | | $1,166,602 |
| Provision for depreciation, net of Investment Tax Credit of previous years of $43,790 | | 250,325 |
| Other | | 32,594 |
| | | $1,449,521 |
| **APPLICATION OF WORKING CAPITAL** | | |
| Expenditures for property, plant and equipment, less portion provided by minority interests in a subsidiary amounting to $84,419 | $1,071,330 | |
| Other expenditures | 54,490 | |
| | | 1,125,820 |
| Dividends declared | | |
| Fawick Corporation—52½¢ per share | $ 609,258 | |
| Fawick Flexi-Grip Company, paid prior to merger | 37,500 | 646,758 |
| | | $1,772,578 |
| **DECREASE IN WORKING CAPITAL** | | $ 323,057 |

| 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 |
|---|---|---|---|---|---|---|---|
| $ 6,720,917 | $ 5,876,651 | $ 5,614,857 | $ 4,939,340 | $ 3,489,931 | $ 4,781,760 | $ 4,905,515 | $ 3,678,841 |
| 1,190,932 | 316,618 | 167,193 | 233,199 | 86,087 | 171,558 | 57,966 | 41,602 |
| — | — | — | — | — | — | — | 1,443,308 |
| — | — | — | — | — | — | 42,404 | 153,944 |
| $ 7,911,849 | $ 6,193,269 | $ 5,782,050 | $ 5,172,539 | $ 3,576,018 | $ 4,953,318 | $ 5,005,885 | $ 5,317,695 |
| $ 1,068,258 | $ 873,722 | $ 467,928 | $ 494,080 | $ 81,004 | $ 587,284 | $ 876,898 | $ 823,439 |
| 602,000 | 500,317 | 278,600 | 88,000 | — | — | — | — |
| 466,258 | 373,405 | 189,328 | 406,080 | 81,004 | 587,284 | 876,898 | 823,439 |
| 49¢ | 39¢ | 20¢ | 42¢ | 8¢ | 61¢ | 90¢ | 84¢ |
| 447,198 | 79,835 | — | — | — | — | — | — |
| 46¢ | 8¢ | — | — | — | — | — | — |
| $ 913,456 | $ 453,240 | $ 189,328 | $ 406,080 | $ 81,004 | $ 587,284 | $ 876,898 | $ 823,439 |
| 95¢ | 47¢ | 20¢ | 42¢ | 8¢ | 61¢ | 90¢ | 84¢ |
| $ 384,400 | $ 288,300 | $ 288,300 | $ 288,300 | $ 288,300 | $ 290,850 | $ 293,400 | $ 245,000 |
| 40¢ | 30¢ | 30¢ | 30¢ | 30¢ | 30¢ | 30¢ | 25¢ |
| 961,000 | 961,000 | 961,000 | 961,000 | 961,000 | 961,000 | 978,000 | 980,000 |

### Notes to Ten Year Summary

1) The results for both 1964 and 1963 are for the combined operations of Fawick Corporation and Fawick Flexi-Grip Company, which was merged with Fawick as a division on May 31, 1964. The other operating divisions are the Fawick Airflex Division, formed in 1942, and Fawick Hydraulic-Electronic Division, which was started in 1959.

2) The income in the years 1955 through 1958, and part of the income in 1959 were not subject to United States income taxes at the time because of an income tax loss carry-forward arising from the Federal Motor Truck operations.




Airflex clutches, installed on deck of power shovel, control movements of boom.

## INDUSTRIES WHERE **FAWICK** PRODUCTS ARE USED

**AIRFLEX DIVISION CLUTCHES AND BRAKES**

Canning
Ceramics and Building Material
Earthmoving and Construction Equipment
Hoisting and Mining Equipment
Lumber and Woodworking Equipment
Machine Tools
Marine
Material Handling Equipment
Metal Forming, Fabricating and Processing Machinery
Papermaking Equipment
Petroleum Drilling and Well Servicing Equipment
Rubber and Plastics Machinery
Sugar and Starch Mills

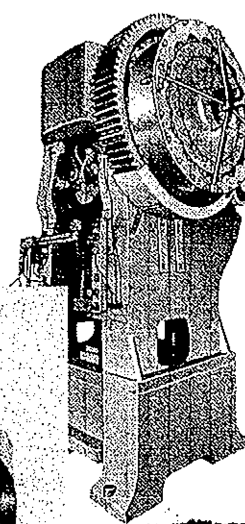
**HYDRAULIC-ELECTRONIC DIVISION VALVES AND COMPONENTS**

Farm Equipment
Floor Sweepers
Hydraulic Presses
Machine Tools
Material Handling Trucks and Cranes
Off-the-road Construction Equipment

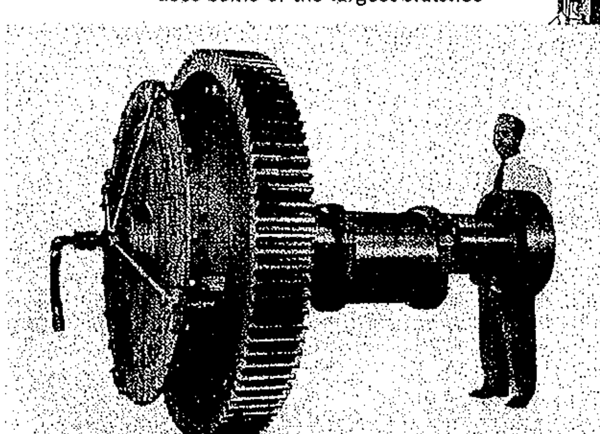
**FLEXI-GRIP DIVISION RUBBER GRIPS**

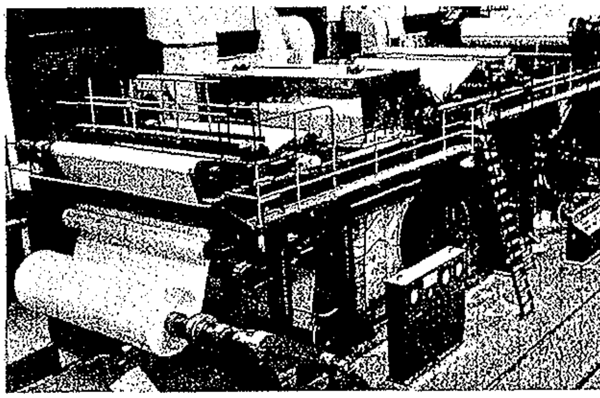
Recreation Industries (golf, bowling, fishing, skiing and tennis)
Hand Tool Manufacturers

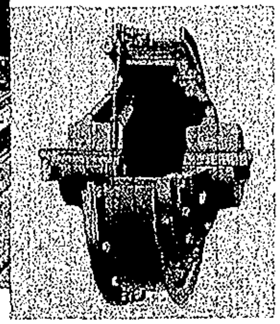

Marine reverse reduction gear employs Airflex forward and reversing clutches



Fawick's largest market in volume, the metalworking industry, also uses some of the largest clutches

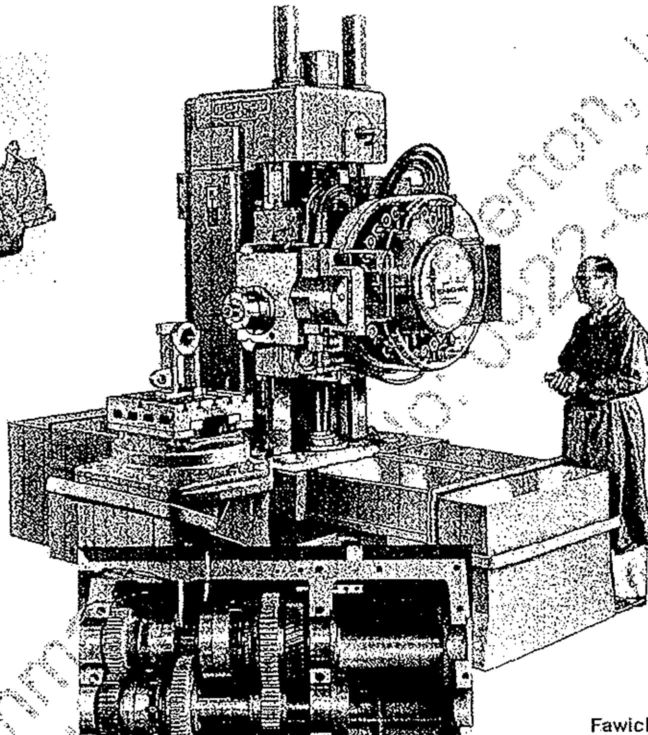






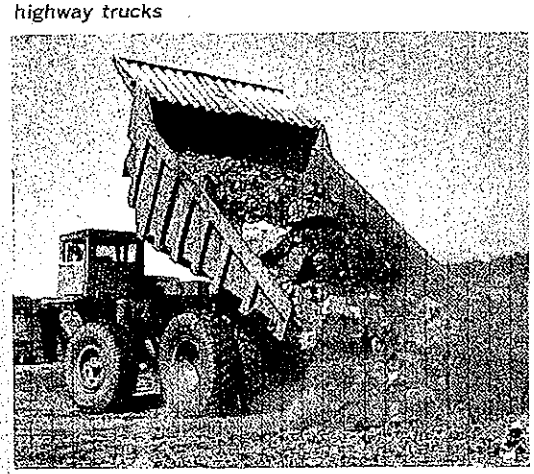
Fawick clutches and brakes are widely used in the paper machinery industry

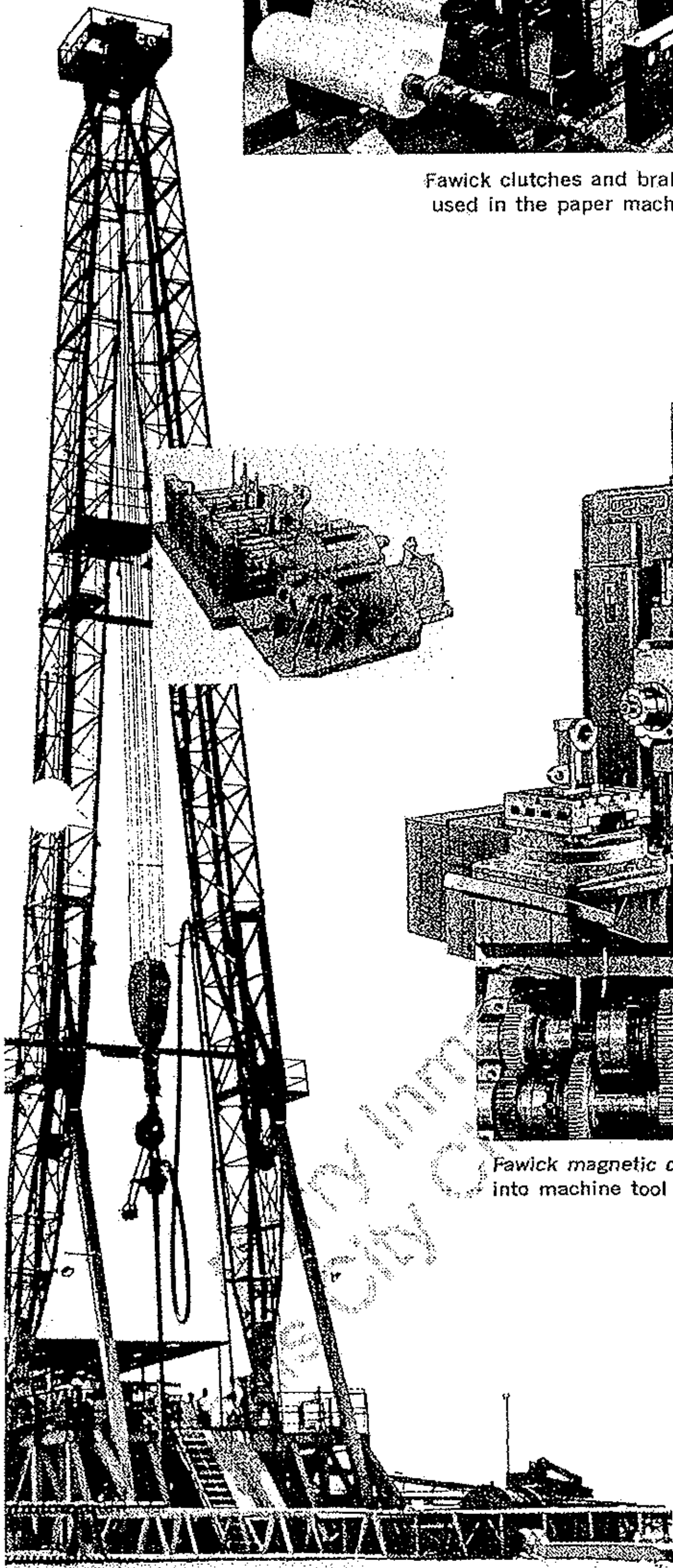
Flexi-Grip rubber grips can be seen on golf clubs, ski poles, fishing rods and hand tools



Fawick magnetic clutches are built into machine tool transmissions

Fawick hydraulic valves are used on many vehicles, including off-highway trucks



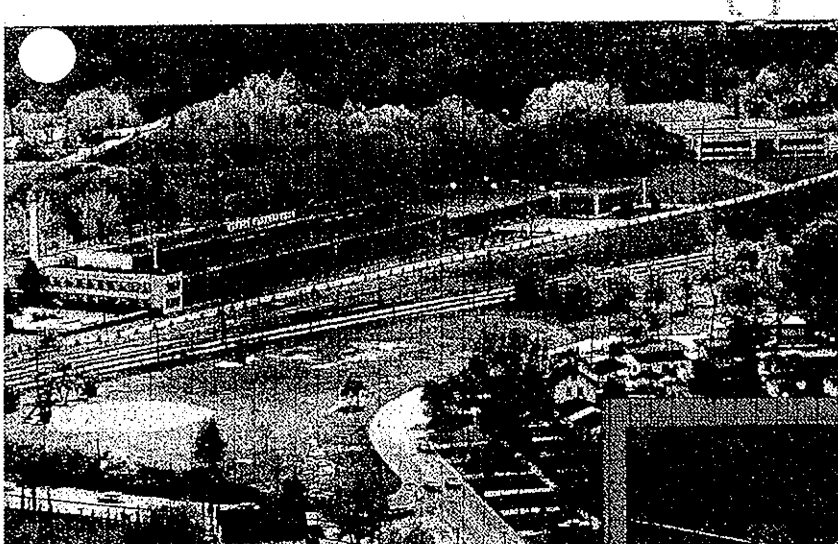


Fawick Airflex clutches and brakes are used by major manufacturers of oil well drilling equipment

**FAWICK** *CORPORATION*
9919 CLINTON ROAD
CLEVELAND, OHIO 44111

BULK RATE
U. S. POSTAGE
**PAID**
CLEVELAND, OHIO
PERMIT NO. 1436





▲ Fawick Airflex Division and Hydraulic Electronic Division, Cleveland, Ohio

Fawick Flexi-Grip Division, Akron, Ohio ▶