

Notes to Consolidated Financial Statements

1. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

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.

In view of the 1964 amendments to the Internal Revenue Code, the Company has discontinued its practice of deferring a portion of the investment credit in order to offset the effect of reduced tax depreciation and has reflected such credits of \$281,000, relating to prior years in net earnings. The investment credit for the year 1964 is not significant in amount.

3. Inventories stated on the last-in, first-out basis comprise 30% of total inventories at December 31, 1964, measured by approximate current cost. Such cost exceeds the last-in, first-out basis by \$3,680,000.

4. Long term debt at December 31, 1964 includes the following:

	Due Within One Year	Due After One Year
American Brake Shoe Company		
Notes payable to banks	\$1,050,000	\$ —
4 1/2% sinking fund debentures due 1982	—	10,445,000
4 1/2% sinking fund debentures due 1987	132,000	1,750,000
Dominion Brake Shoe Company, Limited		
Amount due on purchase of shares of Jarry Hydraulics Limited	—	2,864,250
International Subsidiaries		
Notes payable to banks due 1965-1968	277,552	4,247,757
Total long term debt:	<u>\$1,459,552</u>	<u>\$29,307,007</u>

Under the terms of the indentures covering the sinking fund debentures, minimum annual sinking fund payments are required as follows: 1966, \$500,000; 1967-1971, \$900,000; 1972-1981, \$1,300,000; and 1982-1986, \$850,000. Such payments are sufficient to retire 86% of the debentures prior to maturity.

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, 1964 under the most restrictive covenant was \$10,593,000.

The amount due on the purchase of shares of Jarry Hydraulics Limited will become payable in January 1967 or on the death of the seller if earlier. The purchase agreement contains certain provisions which could, and are presently expected to, result in a liability of \$603,000 (Canadian) in addition to the amount included in the balance sheet.

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

6. At December 31, 1963 options were outstanding to purchase 75,153 shares of common stock of the Company under the Employees' Stock Purchase and Option Plan adopted in 1957, at prices ranging from \$42.05 to \$53.875 per share. During the year 11,126 shares were purchased under the plan at a total purchase price of \$509,830 and options to purchase 3,422 shares were canceled, leaving 60,605 shares under option at December 31, 1964, of which all were exercisable. No shares were available for the granting of additional options at any time during the year. There was no change in option prices during the year.

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