

March 15, 1962

To the Stockholders:

Substantial progress was achieved in 1961 in two of the newer areas of operations for the company. Our capabilities and facilities in the field of hydraulics expanded and improved with the acquisition of Jarry Hydraulics Limited of Canada. Also, our recently established international operations made good progress in their first full operating year.

The United States economy passed through the late stages of the recession which began in 1960. Although economic activity had returned to pre-recession levels by mid-year, the upswing was not reflected in Brake Shoe's orders and shipments until later in the year. In the fourth quarter, our consolidated orders reached an annual rate of \$200 million and the improvement was generally distributed throughout all product lines in the United States, Canada, and Europe.

Consolidated shipments of \$165,503,959 for the year were at about the same level as in 1960. Net earnings from operations were \$5,369,705, equal to \$3.29 per share. In addition, the company received a tax refund creating a special item of income equal to 61 cents per share. Net earnings per share amounted to \$3.90 including the special item. Earnings were \$3.48 per share in 1960.

The problems of decreased earnings and lower rate of return on capital employed in the business are of major concern to Brake Shoe, as they are to most other companies. During the last five years, fixed costs have risen sharply. Our newer businesses require higher expenditures for research and marketing activities. The company's investment in new plant facilities and modern equipment has increased our capacity while also increasing the volume required to produce a satisfactory profit. During the last two years, the lower level of activity of heavy industry deterred sales and brought about competitive conditions which would not allow compensating price increases. With the higher volume of sales anticipated in 1962, it is expected that improvement will be made in both earnings and return on investment.

Intensive efforts in recent years to broaden the base of Brake Shoe's markets and to find new product lines to replace those which were becoming