During the past several years, the costs of developing and introducing new products of the company, both in North America and in Europe, have been considerable. These added costs have not only included research and engineering, but the expense of rearranging and relocating facilities, training new employees and relocating key people. As the company continues to grow, it can be expected that costs of this nature will be ever present, but perhaps not in the magnitude of the recent past.

Upward pressures on costs, primarily wages and related costs, continue to be experienced. As a consequence, the rate of profit on many products is relatively narrow. Competition remains severe in all markets in which the company participates, and the possibilities of relief through increases in selling prices are limited. A rigid cost control program has been in operation for some time and management is continuing to study every area of the business in an effort to use the assets of the company to the fullest degree possible in order to improve the rate of return on investment.

Orders Improved and Backlog Remained Steady

TOTAL ORDERS received in 1962 increased to $195,400,000, slightly exceeding shipments for the year. As a result the backlog of orders at year-end was $46,900,000 approximately equalling the $46,400,000 backlog at the end of 1961. Over 50 per cent of this backlog was for hydraulic products which require a longer lead time from receipt of order to shipment, especially on defense orders.

Capital Expenditures Continued at High Level

CAPITAL EXPENDITURES for 1962 amounted to $11,102,508 compared with $12,608,997 in 1961. About 70 per cent of the expenditures in 1962 were for expansion of facilities and cost reduction programs while the remaining 30 per cent was spent for necessary replacement of equipment. Depreciation and amortization charges for the year 1962 amounted to $8,850,929.

The program to expand production capacity for cast steel freight car wheels which was initiated in 1961 was almost completed last year and production started early in 1963 at the newly converted Toledo, Ohio foundry. This was the second foundry converted from iron to steel wheels and with the expansion of the original Calera, Alabama plant increased our steel wheel capacity almost 100 per cent.

A new plant for Denison Engineering Division for production of hydraulic components was nearly completed in Marysville, Ohio and will be in production in the first half of 1963.

In November 1962, Jarry Hydraulics Limited, purchased the assets of Stanwyck Coil Products, Ltd., Hawkesbury, Ontario, manufacturers of electronic coils and torque motors.

During the year, Jarry disposed of its original plant and property in Montreal and purchased a modern one story building which is conveniently located near its other facilities in the city. Proceeds from the sale of the property offset the cost of the new facility.

Capital expenditures in Europe were for a new plant in England for the production of automotive tire molds and the relocation in modern quarters of an industrial hydraulic plant in England. Also in West Germany, Aerohydraul GmbH, our facility for the assembly and overhaul of airborne hydraulic pumps, became inadequate and it was necessary to relocate and expand it.

New Hydraulics Plant Acquired in West Germany

DURING the late months of 1962, Universal Hydraulics GmbH, a newly organized German subsidiary entered into a contract to acquire for cash on January 2, 1963