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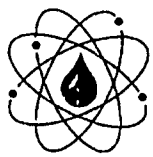
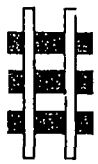
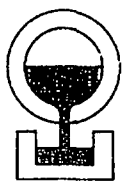
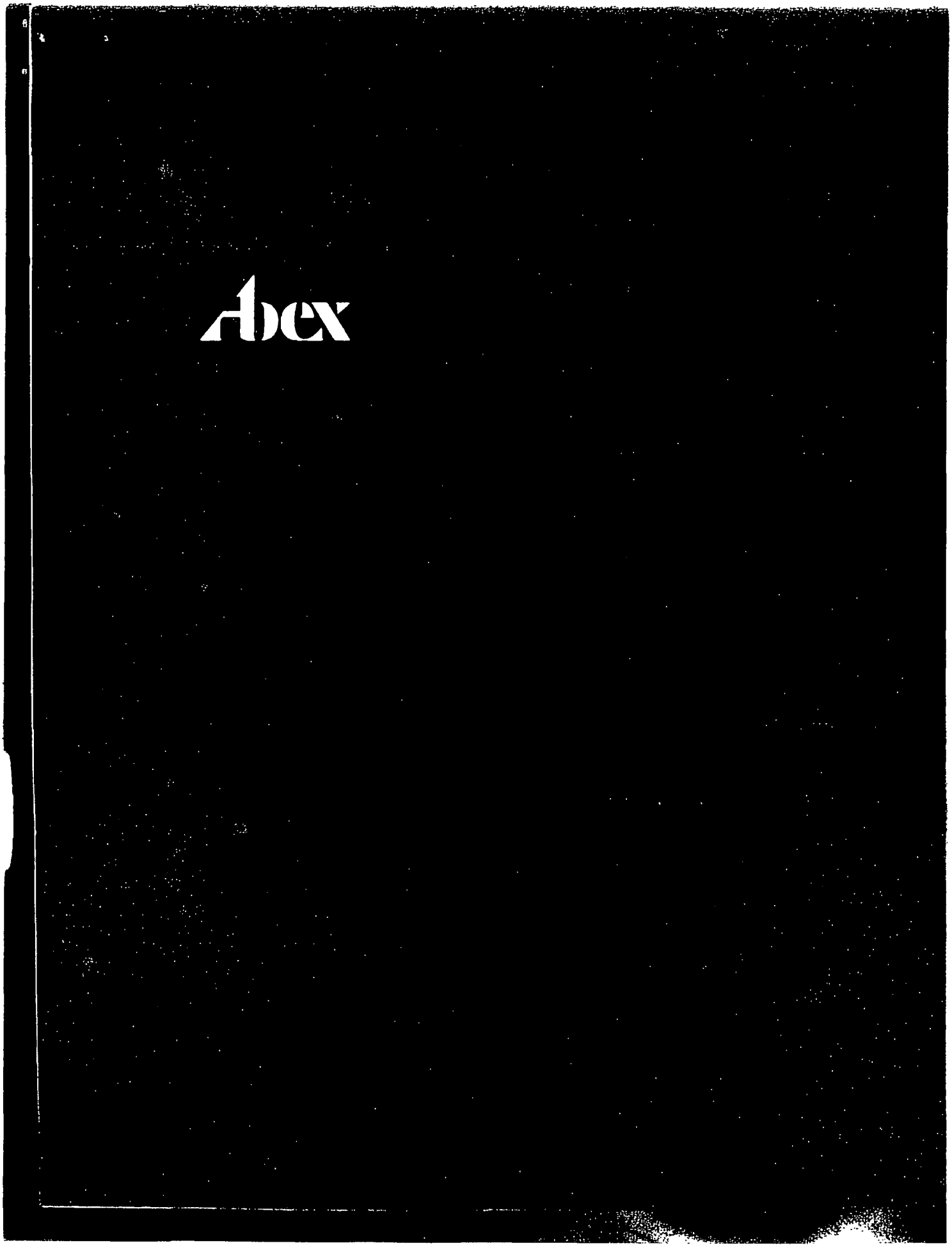






American Brake Shoe Company Annual Report 1964



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Highlights

	1964	1963
Shipments	$241,478,130	$214,668,928
Net earnings	9,762,039	7,440,744
Net earnings from each dollar of shipments	4.0¢	3.5¢
Stockholders' equity	110,507,961	106,027,845
Net earnings per dollar of stockholders' equity	9.0¢	7.1¢
Per common share		
Net earnings	5.27	4.00
Cash dividends	2.50	2.40
Stockholders' equity	59.68	56.96

ANNUAL MEETING The next annual meeting of the stockholders will be held at 10 a m on Tuesday, April 27, 1965 in New York City Proxies will be requested for the meeting. The notice of the meeting and proxy statement will be mailed on or about March 23rd.

American Brake Shoe Company Annual Report 1964

530 Fifth Avenue
New York
N. Y. 10036

SC1 01923

February 26, 1965

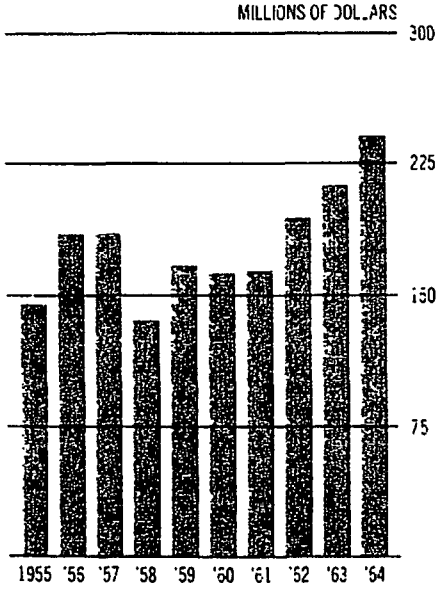
To Our Stockholders:

In 1964 the company reached new all-time records in shipments and net earnings while achieving further growth and improvement in all four major product groups. Aided by a world-wide business climate that was generally favorable, shipments increased 12 per cent and earnings improved 31 per cent over the preceding year.

The increase in shipments was spread throughout all product groups and the ratio of shipments in each group to total company volume remained approximately the same as in 1963. Friction products provided 15 per cent of the sales, hydraulic equipment brought in 21 per cent, railroad products accounted for 26 per cent and 38 per cent was derived from the castings and forgings group.

This progress is the result of several years of careful effort to build a stronger company with more and better products for more segments of industry. Comparing a list of customers for 1964 with a similar list of ten years ago reveals the extent to which the company has changed and broadened its base. Then our products were used largely by transportation and a few major industries in the United States and Canada. Now a wider product line finds application throughout industry in many countries of the world, thereby providing the company with greater stability and potential growth.

Shipments



SHIPMENTS AND EARNINGS

Consolidated shipments in 1964 amounted to $241,478,130, compared with $214,668,928 in 1963. Net earnings in 1964 amounted to $9,762,039, equal to $5.27 per share, compared with $7,440,744 or $4.00 per share in 1963.

This significant increase in earnings was due partially to the larger volume of sales but several additional factors also contributed. The continuing efforts of division managements to maintain tight cost controls and develop more efficient manufacturing and marketing methods brought increased earnings. Start-up costs

SC1 01924

for new plants and new products were considerably lower in 1964 than in recent years. Consequently, some plants and products, particularly in hydraulic equipment and freight car wheels, showed substantial improvement in operating results. Also, reduction in the federal income tax rate in 1964 increased earnings by $360,000 or 19 cents per share.

Earnings before taxes increased from 6.9 per cent of sales in 1963 to 8.1 per cent in 1964. The return on stockholders' equity also improved, as indicated by the accompanying chart.

DIVIDENDS

Dividends totaling $2.50 per share were paid in 1964 compared with $2.40 in the previous year. In the final quarter, the Board of Directors raised the quarterly dividend rate to 70 cents per share. The December payment was the 250th consecutive quarterly cash dividend paid to shareowners.

ORDERS AND BACKLOG

Total orders received in 1964 were the highest in company history, amounting to $260,300,000. Orders exceeded shipments by approximately eight per cent. As a result, the backlog of orders at year end was a record $70,700,000 contrasted with $56,100,000 a year previous. The product mix of the backlog was in good balance among the four major product groups.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures for 1964 amounted to $7,913,369, compared with $11,124,517 in 1963. Charges for depreciation and amortization increased to $10,423,323 from $9,645,690 the preceding year. The major portion of capital expenditures during 1964 went into cost reduction programs and normal replacement of equipment. Capital expenditures planned for this year are higher than in 1964 and are ex-

Return on Stockholders' Equity



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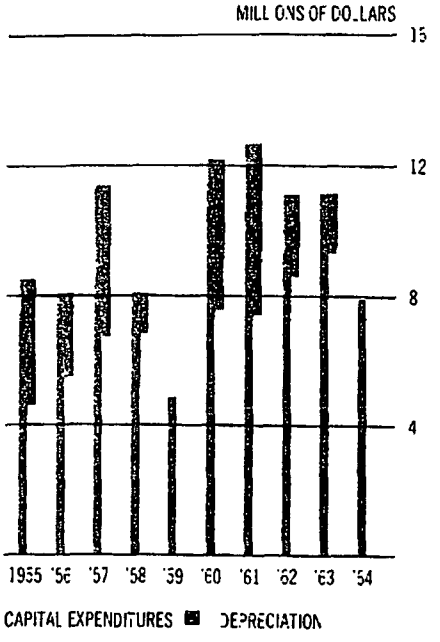
Capital Expenditures and Depreciation



pected to exceed depreciation charges by a small amount.

In October of 1964, ground was broken and construction started on a small plant for the production of tire molds in Santa Maria, California. When completed and in full operation, this plant will serve the west coast facilities of the tire manufacturers.

The company now operates 44 plants in the United States, nine in Canada, eight in Europe and one in Mexico.

FEDERAL TRADE COMMISSION PROCEEDING

Stockholders were advised that in May 1964 the Federal Trade Commission issued a complaint alleging that the acquisition of The S. K. Wellman Company was in violation of the anti-merger provisions of the Clayton Act. The Commission by its complaint requested that an order be entered requiring that the company divest itself of the Wellman business. Prior to the acquisition in 1963, the company had been advised by its legal counsel that the proposed merger would not violate the anti-trust laws. Under the circumstances, we see no reason to acquiesce in the Commission's request and will continue to resist the divestiture by all legal means available.

UNITED STATES OPERATIONS

Shipments of the U.S. divisions amounted to $196,954,000, representing 82 per cent of the consolidated total. The strong forward surge of the domestic economy and the increase in gross national product brought record production in most industries. Consequently, most company plants operated at higher levels than in the previous year.

Defense business for our United States divisions represents about seven per cent of shipments. Although defense spending was lower in 1964, our volume continued to improve for certain products and total defense business increased slightly.

Competition continued severe in all markets during the year and, although minor price increases were effected for a few products, sales prices remained generally stable. We expect that keen competition will make it difficult to obtain price increases during the present year.

CANADIAN OPERATIONS

Shipments of the Canadian divisions amounted to $26,208,000, representing approximately 11 per cent of consolidated volume.

A large portion of the Canadian volume is in airborne hydraulic equipment for the military services in Canada and the United States. Shipments of these products were lower than in 1963, reflecting a drop in orders.

The balance of Canadian shipments is comprised of products for industry and transportation and all of these product lines posted gains. Shipments of the foundry division were

SC1 01926

sustained by a strong demand from the mining and construction industries. Railroad brake shoes and trackwork gained with the rise in revenue ton-miles of the Canadian railroads. The tire mold plant showed substantial gains in shipments and more capacity was added to the plant during the year. Shipments of the Canadian brake lining plant also increased.

About 25 per cent of the products we manufacture in Canada are shipped to the United States and other countries of the world, thereby helping to fill Canada's need to export finished products as well as raw materials.

INTERNATIONAL OPERATIONS

Shipments of the consolidated international divisions, which include the European and Mexican companies, amounted to $18,316,000 or seven per cent of total consolidated sales. These divisions increased shipments approximately 23 per cent and reported higher earnings.

Products manufactured in Europe include hydraulic equipment for industrial and aerospace applications, friction products and tire molds. The outlook for economic progress in Western Europe in 1965 is good, but the rate of expansion is expected to be slower than in 1964. Most of our products are newer and more advanced than similar items of European origin; consequently, our sales are growing faster than the general economy and expectations for 1965 are for further gains in sales and earnings.

The Mexican brake lining company has shown consistent growth since the plant was established in 1957. Further gains were made in 1964 with a corresponding improvement in operating results.

Many of the company's products, including castings, hydraulic equipment, friction products and freight car wheels, are produced by licensees in several countries throughout the free world where Brake Shoe does not have manufacturing facilities. Brake Shoe has partial ownership in a number of these licensed companies. Royalties and technical assistance fees have been increasing in recent years and the company is continually exploring possibilities for additional licensing opportunities.

RESEARCH AND DEVELOPMENT

Research has been in progress for several years on a new family of composite friction products which exhibit highly desirable and novel characteristics. Field tests indicate that these composites may prove suitable for a number of different uses, including railroad, automotive, aircraft and industrial applications.

Supplementing its constant research on vehicle braking of all kinds, the laboratory continues to investigate friction products for the aerospace industry. A recent success was the development of brake materials which qualified for the F-111(TFX), the new multi-service aircraft being built by General Dynamics Corporation.

In the metallurgical field extensive research has been conducted in the area of vacuum melted alloys, and a superior type of mold for the glass industry is now in pilot production.

The company has had a research project for the development of a railway roller bearing under way for some time. This bearing is still in the laboratory test stage.

In hydraulics, extensive research and field testing are progressing on several hydraulic transmission systems for various kinds of mobile equipment. A number of equipment manufacturers have shown interest and some have placed orders for prototype models.

A new type of piston pump has also been developed which is simpler in design, requires fewer parts, and stands up to more rugged service. Production will start early in 1965.

For aircraft application, the laboratory has developed a hydraulic pump which operates at

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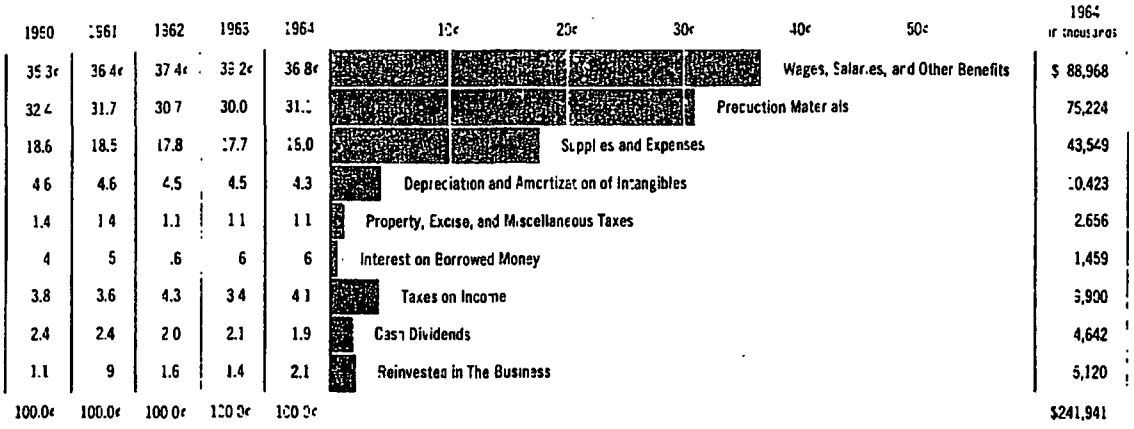
Distribution of the Income Dollar



substantially higher speeds, pressures and temperatures than existing pumps. Different materials in combination with design innovations make this, in effect, the first of a new generation of pumps, and its initial use is on the F-111 aircraft.

A new servovalve, designed and placed in pilot production last year, has excellent potential for both aerospace and industrial application. A considerable number of components and systems were also successfully developed for specific aircraft or missiles.

EMPLOYEE RELATIONS

The number of employees increased to approximately 13,500 from 12,900 in the preceding year. Employees in the United States totaled 9,900, in Canada 1,800 and our international operations employed 1,800 people in Europe and Mexico. The average annual compensation per employee was the highest in the history of the company.

A major work stoppage, which lasted twenty-eight weeks, occurred at the tire mold plant in Athens, Ohio, and involved approximately 300 hourly employees. The principal areas of disagreement involved the company's right to arrange production schedules and work assignments—in short, the right to manage the plant efficiently. A settlement reached in October retained these management rights for the company.

This was a costly strike for the employees, the community and the company. The employees lost more than six months' wages and the community lost the input of the plant payroll to its economy. The company lost six months' production and sales plus the time and effort required to return the plant to its former level of production. Despite the cost, it was vital for us to retain essential management rights while maintaining our policy of fair treatment to employees and bargaining in good faith.

With the exception of the Athens plant strike, there were no work stoppages of lengthy duration and relations with employees and unions remained satisfactory.

In April, Mr. Dunn, chairman, met with President Lyndon B. Johnson and a group of other industry leaders in Washington to pledge the company's support for the President's "Plan for Progress", which is a program designed to stimulate voluntary action to create in the na-

SC1 01928

tion's large companies equal employment opportunities regardless of race, creed, color or national origin. Brake Shoe has initiated efforts throughout the company to accelerate the employment, training and advancement of capable people from minority groups.

ORGANIZATION AND MANAGEMENT CHANGES

William T. Kelly, Jr. was elected first vice president on February 13, 1964. He is a member of the Board of Directors and has 37 years of service with the company.

Victor L. Persbacker was elected vice president for finance on February 13, 1964. He was formerly vice president and treasurer. Mr. Persbacker has spent his entire business career of 31 years with Brake Shoe.

Owen B. Cottle, formerly assistant treasurer, was elected treasurer to succeed Mr. Persbacker and Ralph J. Switzer was elected assistant treasurer.

Maynard B. Terry, president of American Brakeblok Division, was elected vice president of the company on February 13, 1964. Mr. Terry has 22 years of service with the Brakeblok Division.

On May 13, 1964, Robert W. Biggs, president of the S. K. Wellman Division, was elected a vice president and director of the company.

Boyd E. Bridgwater, formerly president of the Bridgwater Machine Division, was elected a vice president of the company on September 9, 1964. Mr. Bridgwater is also executive vice president of the newly formed Engineered Products Division.

The Engineered Products Division of the company was formed on January 1, 1965, through the consolidation of Engineered Castings, Bridgwater Machine and National Bearing Divisions. N. George Belury, formerly president of the Engineered Castings and National Bearing Divisions, is president of the new division. This consolidation of three separate units will bring greater efficiency with integrated manufacturing operations, and also will provide a better sales and service organization for our customers.

Effective January 1, 1965, Thomas W. Russell, Jr. was elected chairman of Dominion Brake Shoe Company Ltd. and Allan C. MacDonald was elected president of the Canadian company, succeeding Mr. Russell. Mr. MacDonald comes to Brake Shoe with many years of experience in executive positions in Canadian industry and government. Mr. Russell, a vice president of American Brake Shoe, has assumed new duties at company headquarters in New York.

LOOKING AHEAD

This report on the developments of 1964 would not be complete without some indication of our hopes for future years.

This is an era of unprecedented technological advance, constantly bringing forth more complex problems, yet offering more opportunities. Industry has an increasing need for new and better products to meet higher, and still higher, performance requirements.

Brake Shoe people are alert to these ever changing demands of our customers and are always seeking opportunities for the company to provide better products and services. We believe that 1965 will be a year of improved operations, and another year in which the company will gain in strength and momentum.

Sincerely,

John K. Hutchins
President

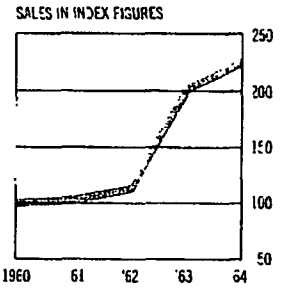
Chairman

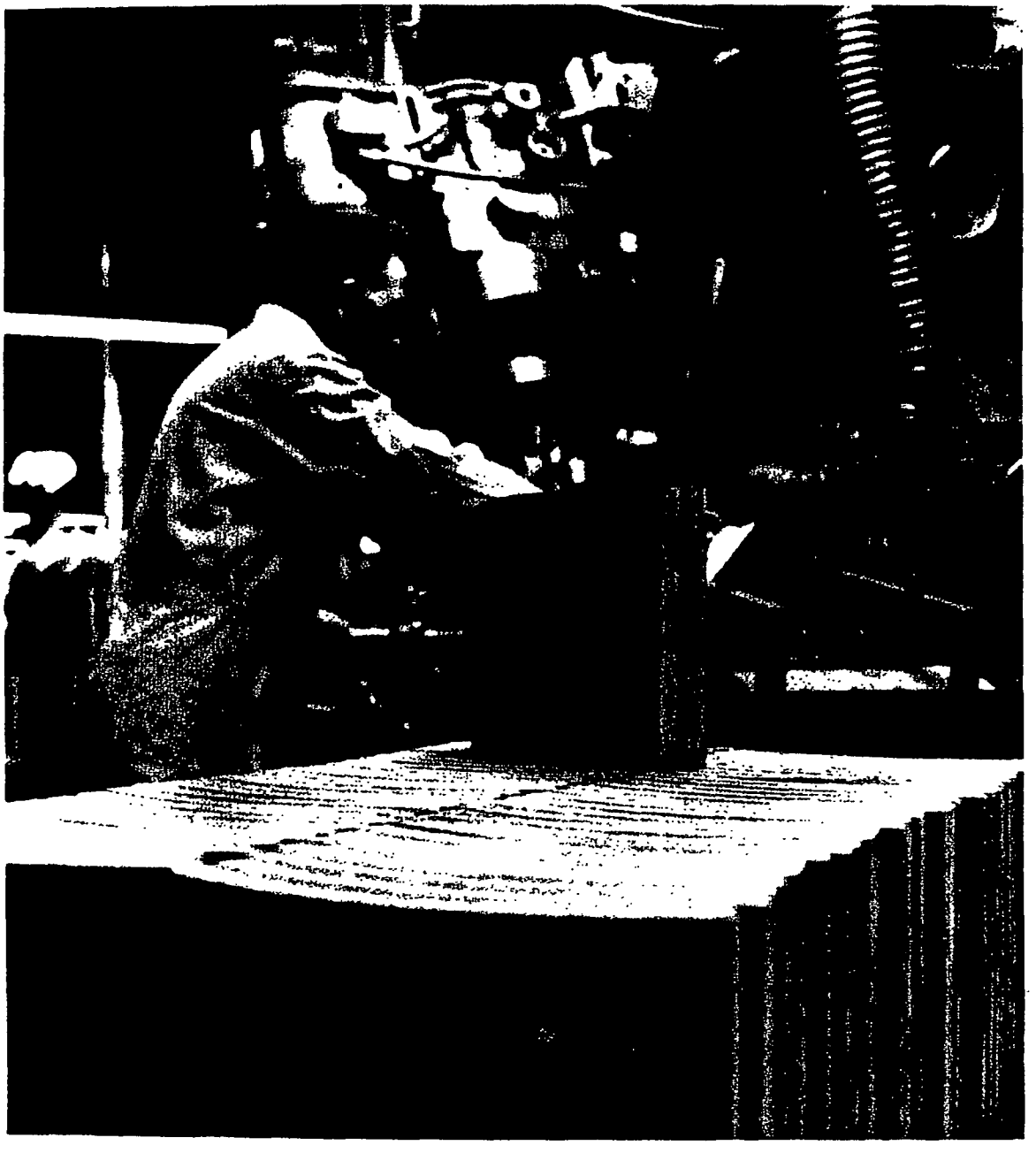
SC1 01929

Friction Products

FOR AUTOMOTIVE AND GENERAL INDUSTRY

15% OF SALES





Shipments of friction products in 1964 amounted to $35,500,000, representing a 13 per cent gain over 1963. Brake Shoe manufactures these products at eight plants located in the United States, Canada, Mexico and France. Sales increases were posted in each of these locations.

Industrial friction products are used in clutches, transmissions and brakes for earth-moving and construction equipment, farm machinery and numerous other mobile vehicles and industrial machines. Brake Shoe is also an important supplier of braking materials for all types of aircraft in private, commercial and military service.

In the automotive field, brake lining for passenger cars, trucks and buses provides the major market, while our high energy materials are used in clutches and transmissions for trucks and military equipment.

Brake Shoe has a group of friction products used on automotive disc brakes, and these materials are being manufactured and sold in Europe, where disc brakes are quite common. Should U.S. car manufacturers follow the European trend toward disc brakes, our research and manufacturing experience will place us in a favorable position.

The automotive parts business is highly competitive both in the original equipment and replacement markets, and brake lining is no exception. Intense competition comes from other brake lining manufacturers, automobile companies that manufacture and sell brake lining and many new distribution organizations. Nevertheless, because of the quality of our products and the effectiveness of our marketing, American Brakeblok continues to increase sales and grow with the demand in North America and Europe.

The demand for industrial friction products in 1964 was strong from original equipment manufacturers and the replacement market as well. In both the industrial and transportation fields, success depends in large measure upon our ability to provide materials with specific performance characteristics to meet the requirements of particular applications. Here our excellent research facilities, coordinated with an effective engineering and field sales force, supply the essential ingredients necessary to continued growth.

Requirements for automotive and industrial friction products are expanding on a worldwide basis and we plan to continue aggressive efforts in this field.

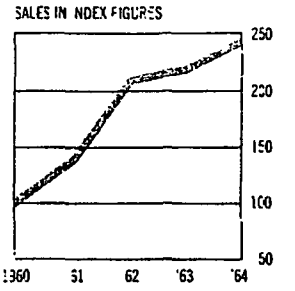
Thick blocks for truck brakes are manufactured by American Brakeblok Division at Winchester, Va.

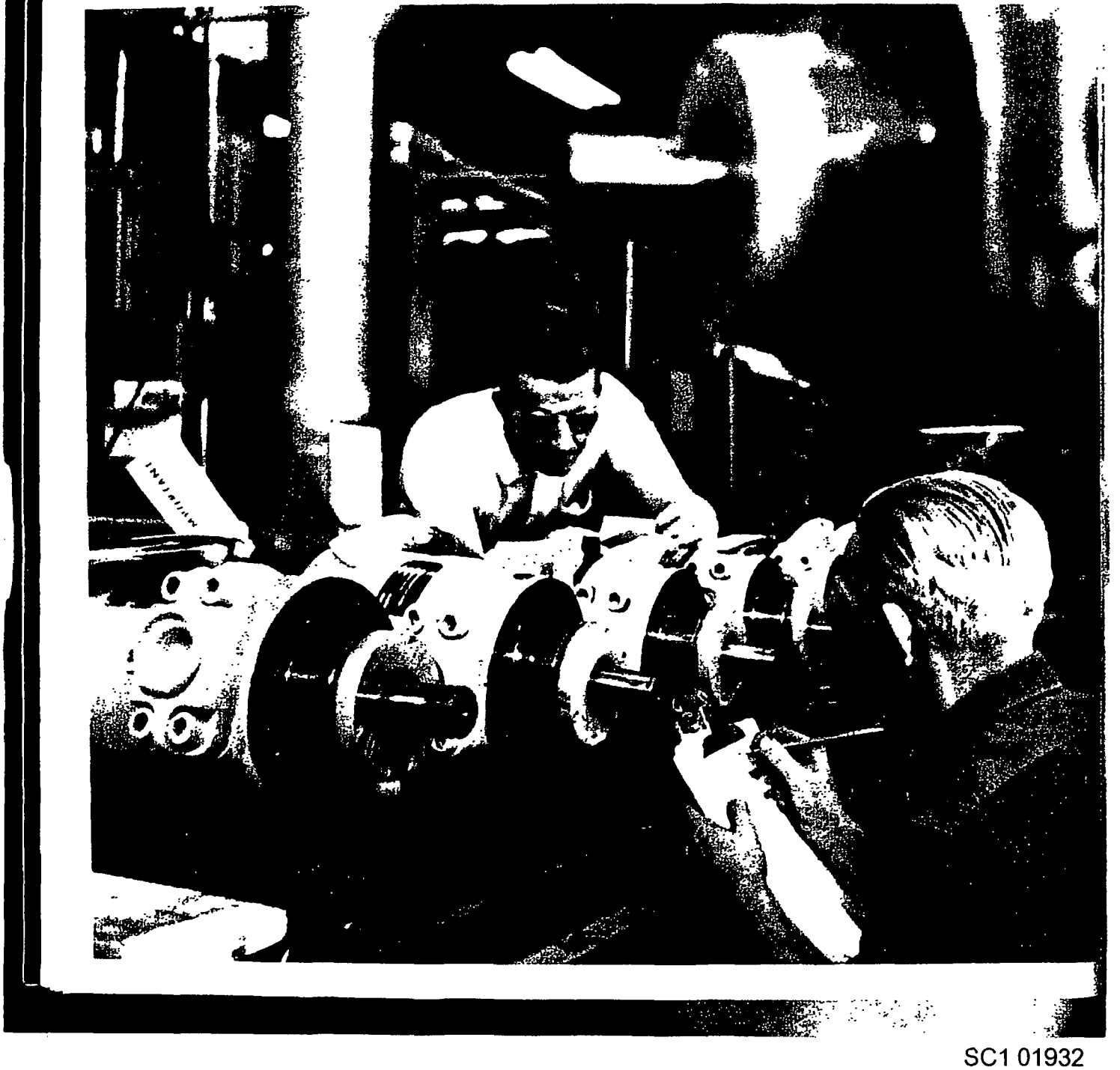
SC1 01931

Hydraulic Products

FOR AEROSPACE AND INDUSTRY

21% OF SALES





SC1 01932

Shipments of hydraulic products in 1964 amounted to $51,300,000, an 11 per cent increase over the previous year. Most of this sales gain occurred in industrial hydraulic equipment.

The new piston pump plant at Marysville, Ohio, which was opened in late 1963, operated at near capacity for the full year, permitting the Denison Division to meet an increased demand for its products in the United States. In Europe, plants producing industrial hydraulic equipment also operated at higher levels and continued to gain greater penetration in that market.

A number of new or improved Denison products are contributing to this growth in industrial hydraulic sales. A new line of vane pumps which are smaller, lighter and more durable was introduced in 1964.

An electronics department, established in 1963, now enables the company to design and manufacture complete hydraulic systems with accompanying electronic controls. This capability opens new market areas which have not been available in the past.

A substantial volume of orders was received for hydraulic and electronic equipment from the marine field. These products are used to provide power and controls for steering, materials transfer, winches and other shipboard equipment. This is a promising market for hydraulic equipment.

In airborne hydraulics, the Aerospace Division increased sales and made important technical advances. This division's products include hydraulic pumps, motors, servovalves and actuators which are used as parts of the total hydraulic systems of aircraft and missiles.

Jarry Hydraulics Limited, the Canadian aerospace division, produces landing gear, pumps and motors, servovalves and actuators, flight control systems and structural components. Sales of this division were slightly below 1963 because of cutbacks or stretch-outs in some military programs.

A single sales force serves the Aerospace and Jarry Divisions in the United States. These two divisions, in conjunction with Aerohydraul, the German airborne hydraulics division, participate in a large number of military aircraft and missile programs on a world-wide basis. Sales of equipment for commercial and private aircraft are also becoming increasingly important.

One of the programs the company participates in is the McDonnell Phantom II, a supersonic fighter used by both the U.S. Navy and Air Force, and for which we supply hydraulic pumps and servovalves. The plane is presently in volume production.

The revolutionary new F-111 plane has several company products on the initial group of ships. First flown in December 1964, the aircraft is built with wings which change their sweep to give a wide range of performance at subsonic and supersonic speeds. Jarry was awarded the contract for design and construction of the wing-sweep actuators and other parts. The F-111 is designed as a multi-purpose aircraft for use by several branches of the military and could become a high volume program.

Participation in many defense programs as well as in commercial and private aircraft markets provides stability. No single program represents a large enough portion of the total to jeopardize our position.

Brake Shoe entered the hydraulic equipment business about ten years ago. Since then the product line has been greatly broadened and sales have grown to a substantial part of the total volume of the company. The market for hydraulic equipment continues to grow and we expect to continue successful participation in this field.

Hydraulic pumps are rigidly inspected and tested during manufacture at a Denison Division plant.

SC1 01933

Railroad Products

26% OF SALES

Shipments of products to the railroads in the United States and Canada amounted to $62,400,000. This represented an increase of more than 13 per cent over 1963.

Railroads experienced a better year in 1964. A seven per cent increase in revenue ton-miles resulted in an improvement in earnings by most roads. The major portion of railroad products is for replacement of wearing parts and the higher level of operations brought a strong demand for these parts. Railroads increased their expenditures for new equipment, which also helped to increase orders.

Shipments of metal and composition brake shoes increased for the year. A wholly new type of brake shoe combining characteristics of both metal and composition shoes is now in field test stage and plans are in progress for a production facility in 1965.

The new braking system for freight cars, which has been in extensive service test, has proven satisfactory and first production orders have been received. This brake is simpler than competitive designs, having fewer parts which are more readily interchangeable.

Shipments of freight car wheels increased in spite of intense competition and an unstable price situation in the industry. The changing nature of modern freight cars has brought a demand for many sizes and types of wheels, which affects manufacturing costs adversely. Our plants are equipped to meet the needs of the market and we expect 1965 to be a better year.

Trackwork shipments were up over the preceding year, stimulated by more funds spent by the roads to maintain and improve their properties. The most significant development in the trackwork line was the successful introduction of our "Economatic" freight yard, a new concept for automating smaller freight yards at very low cost. "Economatic" yards incorporate our new speed and weight sensing hydraulic retarders with hydraulically actuated switch machines. This equipment speeds up switching operations and produces large savings in manpower and equipment. Two yards are in successful operation and equipment for another is on order. Many roads are expressing strong interest in this type of installation.

Effective November 1, 1964, the company signed an agreement with SKF Industries Inc. which designated Railroad Products Division the exclusive agent for sales and service of SKF railway roller bearings in the United States. SKF pioneered the development of roller bearings for railroads, and the teaming of their engineering and manufacturing facilities with our nation-wide sales and engineering organization will provide the railroads with better engineering service and sales coverage. This affiliation should prove beneficial to both companies and to the railroads.

The outlook for the railroad industry improved in 1964. The Supreme Court decision permitting the roads to begin the elimination of certain featherbedding practices will have an important impact on their earnings in future years. Mergers which strengthened the participating roads were allowed, and both federal and state regulatory agencies are being more realistic about problems which the railroads have faced for many years.

The railroads are vital to the nation's economy and security. Unless the roads are given wider latitude to operate efficiently, the alternative may be government subsidy with taxpayers' money. Enlightened public opinion can help the railroads obtain more freedom to compete effectively with other methods of transportation.

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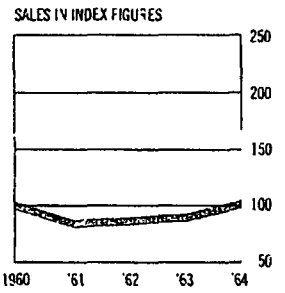

This hydraulically operated switch stand in an "Economatic" freight yard is used with hydraulic retarders to mechanize the switching of freight cars.

SC1 01935

Castings and Forgings

FOR ALL INDUSTRY

38% OF SALES

Shipments of castings and forgings amounted to $92,300,000, up 13 per cent over the preceding year. Sales gains were recorded in all areas of this product group with the exception of tire molds, where production was curtailed by a strike. The strong demand for castings and forgings in 1964 reflected the high level of activity in steel, mining, automotive, construction and other capital goods industries.

Heat and corrosion resistant alloys were shipped in the greatest tonnage ever. Much of the volume was in centrifugally cast tubing for the petrochemical industry and in heat resistant castings for the mining and steel industries.

Brake Shoe also produces a broad line of wear resistant alloys used where severe service causes rapid wear. These castings are used in equipment for mining, earthmoving, steelmaking, rock crushing and parts for power shovels and dredge pumps. Demand for these products was strong in 1964.

The production of copper and bronze castings and bearings at the Meadville, Pennsylvania plant increased. This foundry specializes in such products as precision bearings, parts for blast furnaces and steel mills, and numerous other castings for industrial equipment.

The company makes a broad range of engineered iron and steel alloys for a wide variety of applications. These castings range in size from twenty-ton machine tool bases to two-pound precision molds for golf club grips. All three foundries in this group increased sales during 1964 and progress was made in developing several products for new uses in areas which previously were not a part of our market.

The demand for tire molds in 1964 was strong. Sales of precision cast molds were at record levels and shipments of machined molds from our Canadian and English plants increased. With the additional production capacity of the new Santa Maria plant, 1965 should be a record year for this product line.

Shipments of forgings showed an increase in 1964 and the division made progress in developing new processes for more efficient forming of both hot and cold metals.

In recent years, Brake Shoe has made a careful selection of products and markets where better alloys, more advanced technology and special manufacturing methods are beyond the capabilities of much of the industry. This program has brought to the company a large volume of very specialized and desirable business.

Electro-Alloys Division in Elyria, Ohi uses molds of this shell type to make small castin of heat-resistant alloys in large quantiti

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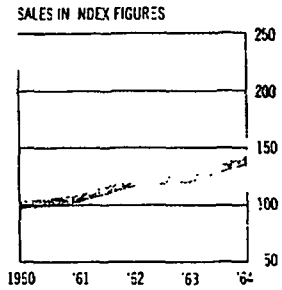
SALES IN NDEX FIGURES
250
200
150
100
50
1950
'61
'62
'63
'64



Consolidated Balance Sheet

December 31, 1964 and 1963

Assets

	1964	1963
CURRENT ASSETS		
Cash	$ 7,128,784	$ 7,196,029
Short term investments—at cost (approximates market)	12,324,147	6,749,585
Accounts receivable	35,093,261	31,525,712
Inventories—at lower of cost or market *(note 3)*		
Raw materials and supplies	16,771,843	14,377,425
Finished product and work in process	23,158,395	21,693,303
TOTAL CURRENT ASSETS	94,476,430	81,542,054
PROPERTY, PLANT, AND EQUIPMENT		
Buildings and equipment—at cost	149,758,594	144,947,834
Less depreciation	86,267,312	78,877,382
	63,491,282	66,070,452
Land—at cost	3,010,986	2,971,228
TOTAL PROPERTY, PLANT, AND EQUIPMENT	66,502,268	69,041,680
OTHER ASSETS		
Prepaid expenses and sundry assets	3,217,709	4,143,239
Investments—at cost or less	2,692,378	3,343,794
Patents and other intangibles, less amortization	2,509,533	2,279,846
TOTAL OTHER ASSETS	8,419,620	9,766,879
	$169,398,318	$160,350,613

SC1 01938

Liabilities

	1964	1963
CURRENT LIABILITIES		
Long term debt due within one year *(note 4)*	$ 1,459,552	$ 1,331,301
Notes payable by subsidiaries	1,455,478	2,832,597
Accounts payable	8,282,048	8,766,408
Accrued accounts	7,107,204	6,132,002
Accrued taxes on income	7,384,068	4,482,658
TOTAL CURRENT LIABILITIES	25,688,350	23,544,966
LONG TERM LIABILITIES		
Long term debt *(note 4)*	29,307,007	26,647,802
Deferred income taxes *(note 2)*	3,895,000	4,130,000
TOTAL LONG TERM LIABILITIES	33,202,007	30,777,802

Stockholders' Equity

	1964	1963		
CAPITAL STOCK *(notes 5 and 6)*				
Common, no par—authorized 3,000,000 shares:				
Issued	1,872,319	1,871,397	52,348,598	52,401,262
Treasury	20,586	10,000	1,059,808	472,838
Outstanding	1,851,733	1,861,397	51,288,790	51,928,424
EARNINGS REINVESTED IN THE BUSINESS *(note 4)*			59,219,171	54,099,421
TOTAL STOCKHOLDERS' EQUITY			110,507,961	106,027,845
			$169,398,318	$160,350,613

SC1 01939

Statement of Consolidated Earnings

Years Ended December 31, 1964 and 1963

	1964	1963
INCOME		
Shipments	$241,478,130	$214,668,928
Other income — net	463,234	743,938
TOTAL	241,941,364	215,412,866
COSTS AND EXPENSES		
Materials, wages, and other costs	172,169,501	153,829,654
Selling, administrative, and research expense	27,877,936	26,796,048
Depreciation and amortization of intangibles	10,423,323	9,645,690
Repairs and maintenance of plant and equipment	7,693,477	6,508,260
Property, excise, and miscellaneous taxes	2,655,600	2,493,332
Interest	1,459,488	1,399,138
TOTAL	222,279,325	200,672,122
EARNINGS BEFORE TAXES ON INCOME	19,662,039	14,740,744
Provision for taxes on income *(note 2)*	9,900,000	7,300,000
NET EARNINGS	$ 9,762,039	$ 7,440,744
NET EARNINGS PER SHARE OF COMMON STOCK, Based on shares outstanding at end of each year	$5.27	$4.00

SC1 01940

Statement of Consolidated Earnings Reinvested in the Business

Years Ended December 31, 1964 and 1963

	1964	1963
Beginning of year	$ 54,099,421	$ 51,112,067
Net earnings	9,762,039	7,440,744
Total	63,861,460	58,552,811
Cash dividends on common stock, $2.50 per share in 1964 and $2.40 per share in 1963	4,642,289	4,453,390
End of year	$ 59,219,171	$ 54,099,421

Accountants' Opinion

THE BOARD OF DIRECTORS AND STOCKHOLDERS OF AMERICAN BRAKE SHOE COMPANY:

We have examined the consolidated balance sheet of AMERICAN BRAKE SHOE COMPANY and its subsidiaries as of December 31, 1964, and the related statements of consolidated earnings and earnings reinvested 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. We previously examined and reported upon the consolidated financial statements of the Company and its subsidiaries for the year 1963.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1964 and 1963 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the consolidated statement of source and disposition of funds of the Company and its subsidiaries for the years ended December 31, 1964 and 1963, which statement, in our opinion, is fairly presented.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, January 25, 1965

SC1 01941

Consolidated Statement of Source and Disposition of Funds

Years Ended December 31, 1964 and 1963

	1964	1963
SOURCE OF FUNDS		
Net earnings	$ 9,762,039	$ 7,440,744
Depreciation and amortization of intangibles	10,423,323	9,645,690
Increase in long term liabilities	4,258,205	1,351,125
Decrease in other assets	900,926	801,180
Retirement of property, plant, and equipment — net	475,791	700,606
TOTAL	25,820,284	18,336,985
DISPOSITION OF FUNDS		
Expenditures for property, plant, and equipment	7,913,369	11,124,517
Dividends paid	4,642,289	4,453,390
Common stock purchases less sales to employees	639,634	392,570
Retirement of long term liabilities	1,834,000	1,306,000
Increase in working capital, excluding cash and equivalent	5,283,675	5,998,501
TOTAL	20,312,967	22,489,838
INCREASE/DECREASE IN CASH AND EQUIVALENT	5,507,317	4,152,853
CASH AND EQUIVALENT		
Beginning of year	13,945,614	18,098,467
End of year	$19,452,931	$13,945,614

SC1 01942

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	$ —
4½% sinking fund debentures due 1982	—	10,445,000
4½% sinking fund debentures due 1987	132,000	11,750,000
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	$1,459,552	$29,307,007

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, $650,000. 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.

SC1 01943

Ten Year Review

The year 1963 includes the operations of The S. K. Wellman Company acquired in that year in a transaction which for accounting purposes was treated as a pooling of interests.

In 1961 there was a special item of income from an excess profits tax refund for the years 1950-1953 amounting to $995,000.

	1964
Earnings and Dividends	
Shipments	241,478
Earnings before taxes	19,662
Per cent of shipments	8.1
Per cent of capital employed	14.0
Net earnings	9,762
Per cent of shipments	4.0
Per cent of common stock equity	9.0
Per common share	5.27
Dividends paid	4,642
Per cent of net earnings	47.6
Employees — end of year	13,535
Payrolls	
Wages and salaries	78,208
Cost of employee security	10,760
Total	88,968
Employee security as a per cent of payroll	13.8
Shipments per employee	18,291
Capital employed per employee	10,624
Dividends per share	
Preferred	—
Common	2.50
Financial Position	
Capital employed	
Cash and equivalent	10,453
Accounts receivable	35,093
Inventories	39,930
Total current assets	84,476
Current liabilities	25,688
Working capital	58,788
Property, plant, and equipment	66,502
Other assets	6,420
Total capital employed	131,710
Financed by	
Long term liabilities	7,202
Preferred stock	
Common stock equity	124,508
Total capital employed	131,710
Stockholders' equity per common share	31.68
Thousands of common shares outstanding	3,852
Number of common stockholders	7,084
Current ratio	3.7
Expenditures for property, plant, and equipment	7,013
Depreciation and amortization of intangibles	10,423

SC1 01944

Dollars expressed in thousands except per common share and per employee figures

1963	1962	1961	1960	1959	1958	1957	1956	1955
214,569	194,892	165,504	164,587	168,029	137,998	186,851	186,142	147,096
14,741	15,454	11,270	11,967	16,081	9,813	20,283	19,433	14,389
6.9	7.9	6.8	7.3	9.6	7.1	10.9	10.4	9.8
10.9	12.9	10.2	11.2	15.3	9.5	21.1	23.3	19.5
7,441	6,954	5,370	5,667	7,681	4,778	9,124	8,963	6,442
3.5	3.6	3.2	3.4	4.6	3.5	4.9	4.8	4.4
7.1	7.4	5.9	6.4	9.0	5.8	11.3	11.9	9.1
4.00	4.27	3.29	3.48	4.72	2.97	5.67	6.64	5.08
4,453	3,913	3,915	3,903	3,877	3,867	4,570	4,124	3,114
59.9	56.3	72.9	68.9	50.5	80.9	50.1	46.0	48.3
12,869	11,622	10,680	9,732	9,134	8,395	9,859	10,360	10,136
74,063	64,910	53,528	51,189	50,644	44,845	55,465	51,437	44,780
10,317	8,323	6,967	7,484	6,280	5,660	5,978	5,371	3,407
84,380	73,233	60,495	58,673	56,924	50,505	61,443	56,808	48,187
13.9	12.8	13.0	14.6	12.4	12.6	10.8	10.4	7.6
17,034	17,478	16,216	17,448	19,170	15,120	18,482	18,164	16,216
10,720	10,709	10,806	11,375	12,015	11,375	9,490	8,134	8,131
—	—	—	—	—	2.00	4.00	4.00	4.00
2.40	2.40	2.40	2.40	2.40	2.40	2.90	2.90	2.10
13,945	17,083	12,535	12,928	23,130	19,168	20,210	8,653	9,018
31,526	28,188	25,100	18,482	17,441	17,184	18,489	22,235	20,377
36,071	31,621	28,973	25,953	23,225	20,109	24,954	27,621	19,823
81,542	76,892	66,608	57,363	63,796	56,461	63,653	58,509	49,218
23,545	24,202	24,584	16,493	18,586	13,652	19,541	26,151	22,840
57,997	52,690	42,024	40,870	45,210	42,809	44,112	32,358	26,378
69,042	64,460	63,386	59,060	55,395	57,425	56,680	52,552	50,149
9,767	8,750	7,514	7,726	6,340	3,442	3,173	3,006	2,270
136,806	125,900	112,924	107,656	106,945	103,676	103,965	87,916	78,797
30,778	30,516	20,281	17,678	18,815	20,310	21,190	9,890	5,910
—	—	—	—	—	—	475	14,850	19,670
106,028	95,384	92,643	89,978	88,130	83,366	82,300	63,176	53,217
136,806	125,900	112,924	107,656	106,945	103,676	103,965	87,916	78,797
56.96	58.57	56.69	55.24	54.19	51.75	51.24	50.84	47.79
1,861	1,629	1,634	1,629	1,626	1,611	1,606	1,243	1,114
17,174	17,474	17,084	16,256	15,884	15,979	15,870	14,080	13,057
3.5	3.2	2.7	3.5	3.4	4.1	3.3	2.2	2.2
11,125	11,103	12,609	12,119	4,868	8,068	11,406	8,044	8,487
9,646	8,851	7,662	7,680	7,280	6,817	6,703	5,464	4,583

SC1 01945

Officers and Directors

Board of Directors

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Honorary Chairman

KEMPTON DUNN
Chairman

ROBERT W. BIGGS
Vice President

TILDEN CUMMINGS
President and Director
Continental Illinois National
Bank and Trust Company of Chicago

ALFRED S. FOOTE
Vice President
Morgan Guaranty Trust Company of New York

RODNEY C. GOTT
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American Machine and Foundry Company

KENNETH H. HANNAN
Executive Vice President and Director
Union Carbide Corporation

JOHN S. HUTCHINS
President

DEVEREUX C. JOSEPHS
Director and Former Chairman
New York Life Insurance Company

WILLIAM T. KELLY, JR.
First Vice President

LAWRENCE N. MURRAY
Former Director and President
Mellon National Bank and Trust Company

DANIEL E. POMEROY
Director
Bankers Trust Company

GEORGE M. SCHURMAN
President and Director
National Bag Corporation

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Scribner & Co.

JOHN P. STEVENS, JR.
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J. P. Stevens & Co., Inc.

MAURICE N. TRAINER
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ARTHUR K. WATSON
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WILLIAM T. KELLY, JR.
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N. GEORGE BELURY
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GILFRY WARD
Vice President

HOWARD C. BUSCHMAN, JR.
Secretary and General Counsel

OWEN B. COTTLE
Treasurer

RUSH M. FORQUER, JR.
Comptroller

STOCK TRANSFER AND DIVIDEND DISBURSING AGENT:
Bankers Trust Company, 16 Wall Street, New York, N. Y.

REGISTRAR OF COMMON STOCK:
Chemical Bank New York Trust Company, 20 Pine Street, New York, N. Y.

SC1 01946

Products and Divisions

Friction Products

AMERICAN BRAKEBLOK—aircraft, automotive, and industrial friction products; laminated plastic bearings

AMERICAN BRAKEBLOK DIVISION, *Troy, Michigan*
MAYNARD B. TERRY, President

AMERICAN BRAKEBLOK DIVISION, *Lindsay, Ont., Canada*
DONALD K. RENNIE, General Manager

BRAKEBLOK-NECTO DIVISION, F.A.D.I.L., *Paris, France*
MAURICE CHOPIN, President and General Manager

BRAKE SHOE DE MEXICO S.A., *Mexico D.F.*
HOMER PARSONS, President

VELVETOUCH—high energy friction products for automotive and industrial applications

S. K. WELLMAN DIVISION, *Bedford, Ohio*
ROBERT W. BIGGS, President

THE S. K. WELLMAN CO. OF CANADA, LTD., *Toronto, Ont., Canada*
ROBERT W. BIGGS, President

Hydraulic Products

AEROSPACE—hydraulic systems, landing gear, pumps, servovalves, structural components, electronic components

AEROSPACE DIVISION, *Oxnard, California*
GEORGE N. DECKER, President

JARRY HYDRAULICS LIMITED, *Montreal, P.Q., Canada*
FERNAND JARRY, President

AEROHYDRAUL G.m.b.H., *Wiesbaden, West Germany*
GERDE K. KROEBER, General Manager

INDUSTRIAL—hydraulic systems, pumps, motors, valves, controls and presses

DENISON ENGINEERING DIVISION, *Columbus, Ohio*
PAUL W. NORRIS, President

EUROPEAN OPERATIONS

DENISON DERI LIMITED, *Burgess Hill, England*
DENISON DIVISION, F.A.D.I.L., *Paris, France*
HYDROBEL S.A., *Liege, Belgium*
DENISON G.m.b.H., *Neuss, West Germany*
UNIVERSAL HYDRAULICS G.m.b.H., *Hilden, West Germany*
MILTON J. TAUP, General Manager

DENISON HYDRAULICS, JAPAN, LTD., *Tokyo, Japan* (67% OWNED)
LEROY E. BONNETTE, General Manager

INSTRUMENTS—strain gage transducers

DYNISCO DIVISION, *Cambridge, Massachusetts*
DR. YAO T. LI, President

Railroad Products

Brake shoes, cast steel freight car wheels, trackwork and journal bearings

RAILROAD PRODUCTS DIVISION, *New York, N. Y. and Montreal, P.Q., Canada*
RAYMOND A. FRICK, President

Castings and Forgings

WEAR-RESISTANT PRODUCTS—manganese and low alloy steel castings, dredge pumps, welding products and power shovel parts

AMERICAN MANGANESE STEEL DIVISION, *Chicago Heights, Ill.*
GILFRY WARD, President

JOLIETTE STEEL DIVISION, *Montreal, P.Q., Canada*
HOWARD M. BROWNRIGG, General Manager

AMSCO MEXICANA S.A., *Mexico D.F.* (75% OWNED)
HOMER PARSONS, President

HEAT AND CORROSION RESISTANT METALS—heat and corrosion resistant alloy castings

ELECTRO-ALLOYS DIVISION, *Elyria, Ohio*
WILLIAM D. RADDATZ, President

ENGINEERED METAL PRODUCTS—precision ferrous castings, tire molds, non-ferrous castings and bearings

ENGINEERED PRODUCTS DIVISION, *New York, N. Y.*
N. GEORGE BELURY, President

BRIDGWATER MACHINE DIVISION, *Brantford, Ont., Canada*
N. GEORGE BELURY, President

BRIDGWATER MACHINE COMPANY LTD., *Aycliffe, England*
N. GEORGE BELURY, Chairman

FORGINGS—carbon and alloy steel forgings

AMFORGE DIVISION, *Chicago, Illinois*
ARTHUR G. TICHENOR, President

SIFCO DO BRASIL, S.A., *Sao Paulo, Brazil* (52% OWNED)
DR. ALEXANDRE R. SMITH de VASCONCELLOS, President

SC1 01947