

Notes to Consolidated Financial Statements

AMERICAN BRAKE SHOE COMPANY

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.
3. Inventories stated on the last-in, first-out basis comprise 27% of total inventories at December 31, 1962, measured by approximate current cost. Such cost exceeds the last-in, first-out basis by \$3,474,000.
4. Long-term debt at December 31, 1962 includes the following:

	Due Within One Year	Due After One Year
American Brake Shoe Company		
Notes payable to banks—due 1965	\$1,050,000	\$ 2,100,000
4½ % sinking fund debentures due 1982	100,000	11,000,000
4½ % sinking fund debentures due 1987	—	12,000,000
Dominion Brake Shoe Company, Limited		
Amount due on purchase of shares of Jarry Hydraulics Limited	—	2,243,125
Total long-term debt	<u>\$1,150,000</u>	<u>\$27,343,125</u>

Under the terms of the indentures covering the sinking fund debentures, minimum annual sinking fund payments are required as follows: 1963-1964, \$250,000; 1965-1966, \$500,000; 1967-1971, \$900,000; 1972-1981, \$1,300,000; and 1982-1986, \$650,000. Such payments are sufficient to retire 96% of the debentures prior to maturity. The Company has the option of increasing the annual sinking fund payments beginning in 1965.

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, 1962 under the most restrictive covenant was \$7,275,000.

The amount due on 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 \$1,275,000 (Canadian) in addition to the amount included in the balance sheet.

5. On January 2, 1963 Universal Hydraulics GmbH, a newly organized European subsidiary, acquired for \$3,000,000 all the net assets of a business in Hilden, West Germany, for the manufacture of hydraulic products.
6. Issuance of not more than 200,000 shares, in series, of cumulative preferred stock, par value \$100, has been approved by the stockholders.
7. Under the Employees' Stock Purchase and Option Plan offerings may be made at prices not less than 85% of the market price at the time of the offering. Transactions during 1962 in the 1952 plan which terminated in 1962, and in the 1957 plan, were as follows:

	Reserved for Issuance at December 31, 1961	Shares Subscribed Or Options Granted	Purchases	Cancel- lations	Reserved for Issuance at December 31, 1962 Number of Shares	Price Per Share
Shares Under Subscription						
1952 Offering	1,500	—	1,359	141	—	—
1957 Offering	18,067	—	2,838	1,992	13,237*	\$42.05
1961 Offering	2,165	—	171	271	1,723	42.75
1962 Offering	—	4,940	—	560	4,380	42.75
Shares Under Option						
1957 Offering	40,035	—	—	1,920	38,115*	53.63
1959 Offering	2,600	—	—	—	2,600*	\$3.88-54.00
1961 Offering	24,335	—	—	150	24,185	45.00
1962 Offering	—	4,000	—	200	3,800	45.00
Available for Future Offerings	10,601	8,940	—	3,453	5,114	
Totals	<u>99,303</u>	<u>—</u>	<u>4,368</u>	<u>1,781</u>	<u>93,154</u>	

*Subject to purchase or exercisable at December 31, 1962.