

AMERICAN BRAKE SHOE COMPANY

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.

3. At December 31, 1965, 34% of total inventories, measured by approximate current cost, are stated on the last-in, first-out basis. Such cost exceeds the last-in, first-out basis by \$4,127,000.

4. Inventories and property, plant, and equipment at December 31, 1965 reflect reductions due to the sale of the forging facilities referred to on page eight.

5. Long term debt at December 31, 1965 includes the following:

	Due Within One Year	Due After One Year
American Brake Shoe Company		
4½% sinking fund debentures due 1982	\$ —	\$ 9,533,000
4½% sinking fund debentures due 1987	—	11,127,000
Dominion Brake Shoe Company, Limited		
Amount due on purchase of shares of Jarry Hydraulics Limited	—	3,144,075
International Subsidiaries		
Notes payable, due 1966-1985	456,424	4,318,306
Total long term debt	<u>\$456,424</u>	<u>\$28,122,381</u>

Under the terms of the indentures covering the sinking fund debentures, minimum annual sinking fund payments are required as follows: 1968, \$710,000; 1969-1971, \$900,000; 1972-1981, \$1,300,000; 1982, \$1,150,000; 1983-1986, \$650,000; and 1987, \$500,000.

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, 1965 under the most restrictive covenant was \$15,427,000.

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 \$301,000 (Canadian) in addition to the amount included in the balance sheet.

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

7. At December 31, 1964 options were outstanding to purchase 60,605 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 11,525 shares were purchased under the plan at a total purchase price of \$537,241 and options to purchase 1,118 shares were canceled, leaving 47,962 shares under option at December 31, 1965, 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.

8. The details of consolidated earnings reinvested in the business are as follows:

	1965	1964
Beginning of year	\$ 59,219,171	\$ 54,099,421
Net earnings and (in 1965) special item	10,460,474	9,762,039
Total	69,679,645	63,861,460
Cash dividends on common stock, \$2.85 per share in 1965 and \$2.50 per share in 1964	5,271,551	4,642,289
End of year	<u>\$ 64,408,094</u>	<u>\$ 59,219,171</u>

9. Reference should be made to information concerning a Federal Trade Commission proceeding appearing on page 13 of this report.