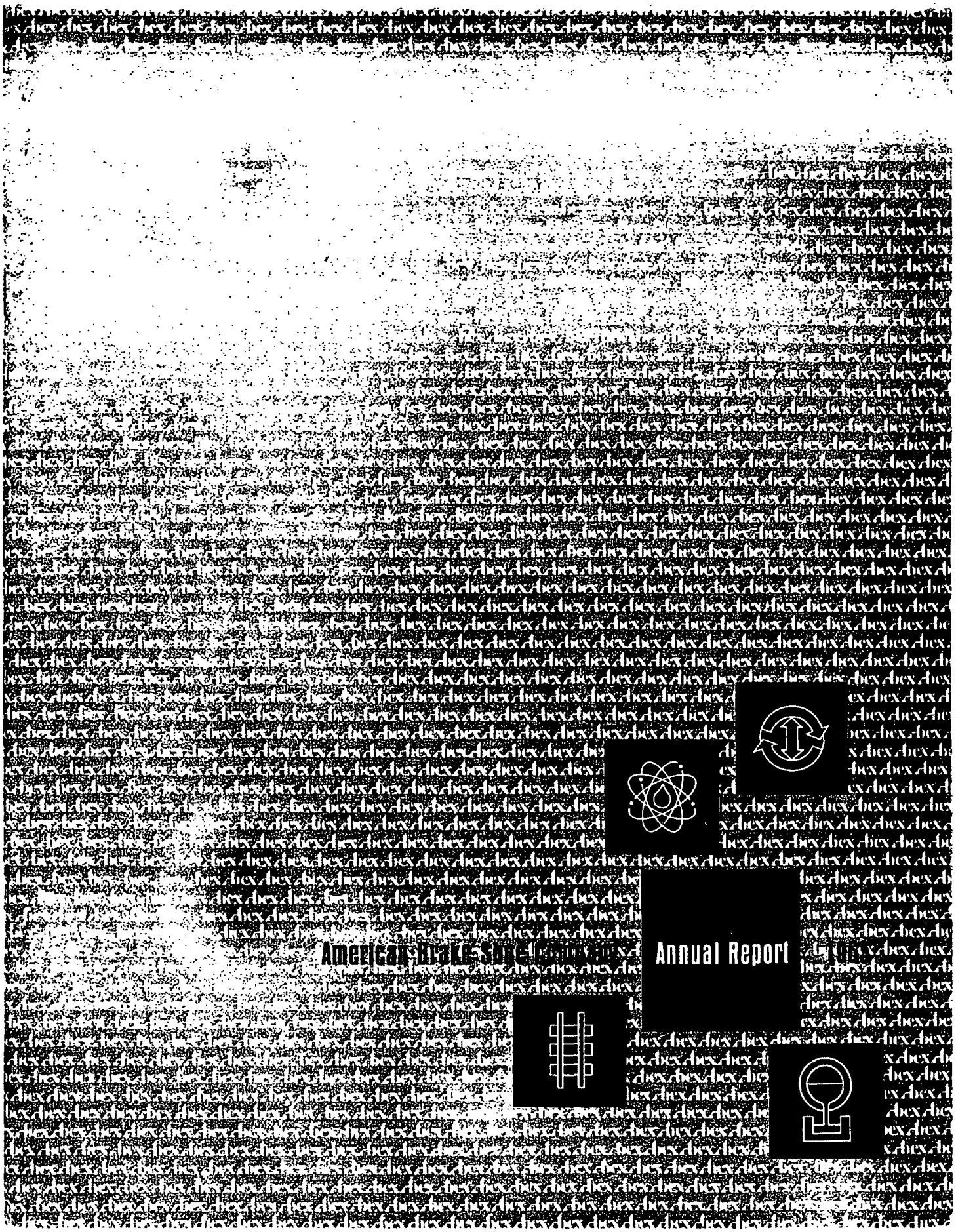
Annual Report

ANNUAL MEETING The next annual meeting of the shareholders will be held at 10 a.m. on Tuesday, April 26, 1966 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 15th.

Abex American Brake Shoe Company

Annual Report 1965

SC1 01640

Officers and Directors

WILLIAM B. GIVEN, JR.
Honorary Chairman

KEMPTON DUNN
Chairman

ROBERT W. BIGGS
President
The Brush Beryllium Company

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

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

ALBERT P. GAGNEBIN
Executive Vice President and Director
International Nickel Company of Canada

RODNEY C. GOTT
President and Director
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

GEORGE M. [illegible]
President and Director
National [illegible]

[illegible]

JOHN [illegible]
Director [illegible]

[illegible]

EXECUTIVE OFFICERS

[illegible]
Chairman [illegible]

[illegible]

SC1 01641

Highlights

	1965	1964	1963
Shipments	$260,168,235	$241,478,130	$214,668,928
Net earnings	11,104,486	9,762,039	7,440,744
Special item — loss on sale of forging facilities less related taxes on income	644,012	—	—
Net earnings from each dollar of shipments	4.3¢	4.0¢	3.5¢
Shareholders' equity	114,968,723	110,507,961	106,027,845
Net earnings per dollar of shareholders' equity	9.8¢	9.0¢	7.1¢
Per common share			
Net earnings	6.02	5.27	4.00
Special item of loss	.35	—	—
Cash dividends	2.85	2.50	2.40
Shareholders' equity	62.36	59.68	56.96

SALES BY PRODUCT GROUPS—1965

	Amount in Millions	Per Cent of Total
Friction Products	$ 39.9	15%
Hydraulic Products	53.6	21
Railroad Products	67.7	26
Castings and Forgings	99.0	38
Totals	$260.2	100%

SC1 01642



Electro-hydraulic servovalves for aircraft and space vehicles are precision made and carefully tested.

SC1 01643

To the Shareholders:

February 8, 1966

The world-wide performance of the Abex organization in 1965 resulted in the highest shipments and earnings in our company's 63-year history.

Several factors contributed to the year's favorable operations. The robust health of the economies of the United States, Canada and western Europe accelerated demand for our products and services, pushing shipments to new heights.

Increased earnings for 1965 were attributable primarily to expanded shipments and to the continued effectiveness of cost controls by all divisions of the company.

1965 was a particularly gratifying year because it brought to fruition some of the efforts of management to reshape the company in recent years. The strength and capacity for growth and progress inherent in a highly diversified industrial organization were reflected in the year's results.

SHIPMENTS AND EARNINGS REACH NEW RECORDS

Consolidated shipments increased for the fifth consecutive year. In 1965 they amounted to $260,168,235, an eight per cent gain over shipments of $241,478,130 in 1964.

The gains extended broadly through the four major product groups of the company: friction products, hydraulic equipment, products for the railroads and the castings and forgings group. Activities in each of the groups are discussed more fully in later sections of this report.

Net earnings from operations increased 14 per cent to $11,104,486, equal to $6.02 per share, compared with $9,762,039 or $5.27 per share in 1964.

Shipments and net earnings from operations per share were:

	1965		1964	
	Shipments	Earnings per share	Shipments	Earnings per share
First Quarter	$ 64,738,000	$1.53	$ 58,089,000	$1.21
Second Quarter	69,400,000	1.70	61,980,000	1.51
Third Quarter	59,583,000	.99	57,452,000	.92
Fourth Quarter	66,447,235	1.80	63,957,130	1.63
Total	$260,168,235	$6.02	$241,478,130	$5.27

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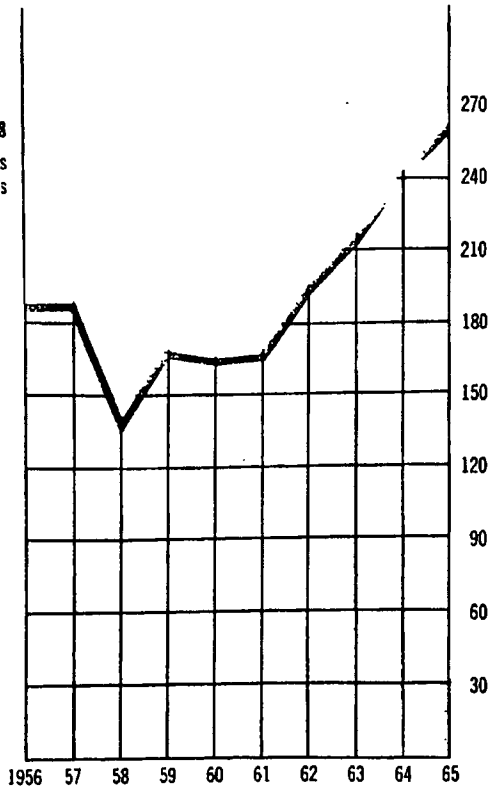
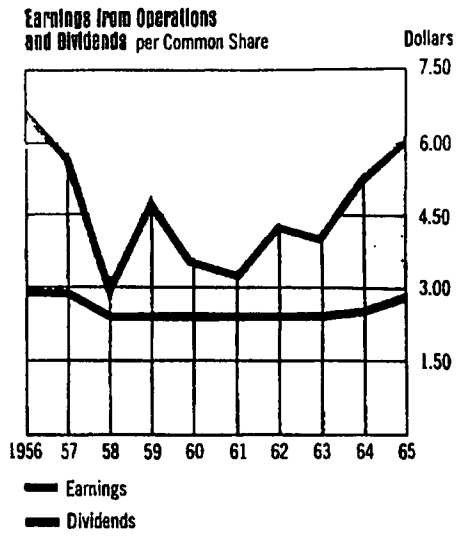
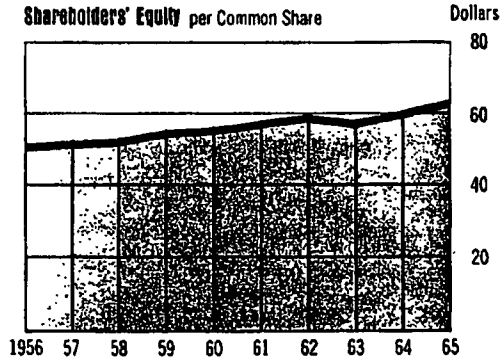
Shipments
In Millions of Dollars



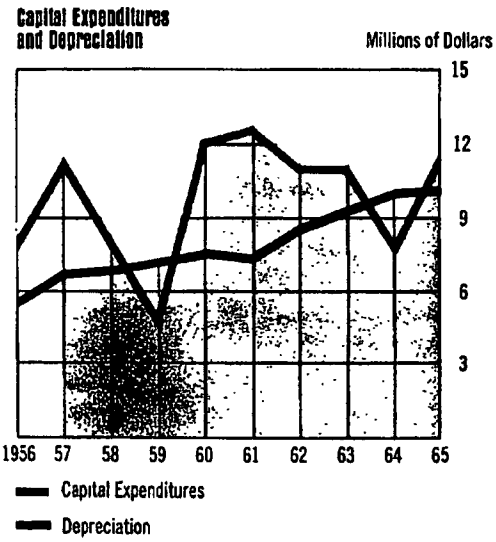
Earnings from Operations and Dividends per Common Share



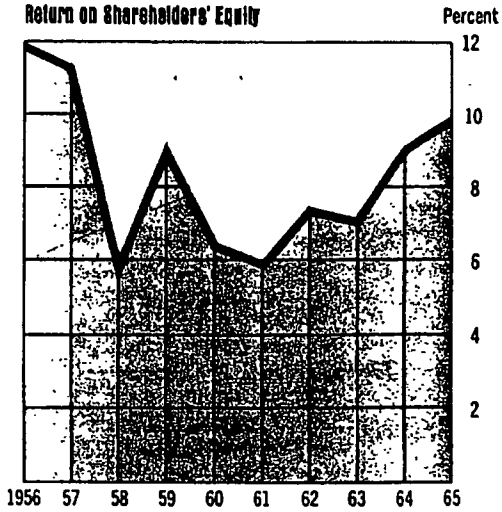
Shareholders' Equity per Common Share



Capital Expenditures and Depreciation



Return on Shareholders' Equity



SC1 01645

Sale of our AmForge Division (discussed on page 8) resulted in a loss after taxes of $644,012, equal to 35 cents per share. This appears as a special item in the financial statements in this report.

The net return from operations on shareholders' equity amounted to 9.8 per cent, a gain over the 9 per cent return in 1964. Earnings before taxes increased from 8.1 per cent of sales in 1964 to 8.3 per cent in 1965.

DIVIDEND RATE INCREASED

The annual dividend rate was raised for the second consecutive year. With the increase of the last quarterly payment to 75 cents, the rate rose to $3.00 a share. Dividends in 1965 amounted to $2.85 per share compared with $2.50 per share in 1964. The December dividend was the 254th consecutive quarterly dividend.

ORDERS AND BACKLOG AT ALL-TIME PEAK

Total orders received increased to a record $284,400,000. These orders were in good balance among the four major product groups. The backlog of orders at year-end stood at a record $84,400,000, up 19 per cent from $70,700,000 at the end of 1964.

About 50 per cent of this backlog was for industrial and aerospace hydraulic products which require a longer lead time than other products from receipt of order to shipment.

FINANCIAL POSITION REMAINS STRONG

Abex's financial position continued strong with working capital rising from $68,788,080 at the end of 1964 to $73,950,762 at the end of 1965. The ratio of current assets to current liabilities increased from 3.68 to 3.86. Inventories increased in 1965 as orders and backlog continued to rise. In relation to the current backlog, inventories are in good balance.

CAPITAL EXPENDITURES PROGRAM MOVES AHEAD

A well conceived and implemented capital expenditures program is essential to the strength of the company. In the last ten years, we have committed

SC1 01646

almost $100 million to a great range of carefully selected projects that were designed to contribute to diversified growth and increased profitability.

These investments have given us four specific results which are of particular significance to shareholders.

First, the company is soundly established in the hydraulic equipment business. Second, our other product lines have been carefully screened and upgraded, with many new and desirable ones being added. This has necessitated expanded manufacturing facilities. Third, the European operations, started in 1960, have grown steadily. Fourth, we have continuously invested large amounts to keep all of our plants efficient and competitive.

Capital expenditures for 1965 amounted to $11,363,599 and planned expenditures for 1966 are considerably greater than in 1965. A large portion of capital expenditures in both of these years is part of an expansion program, initiated in 1965, which is expected to be completed in about three years.

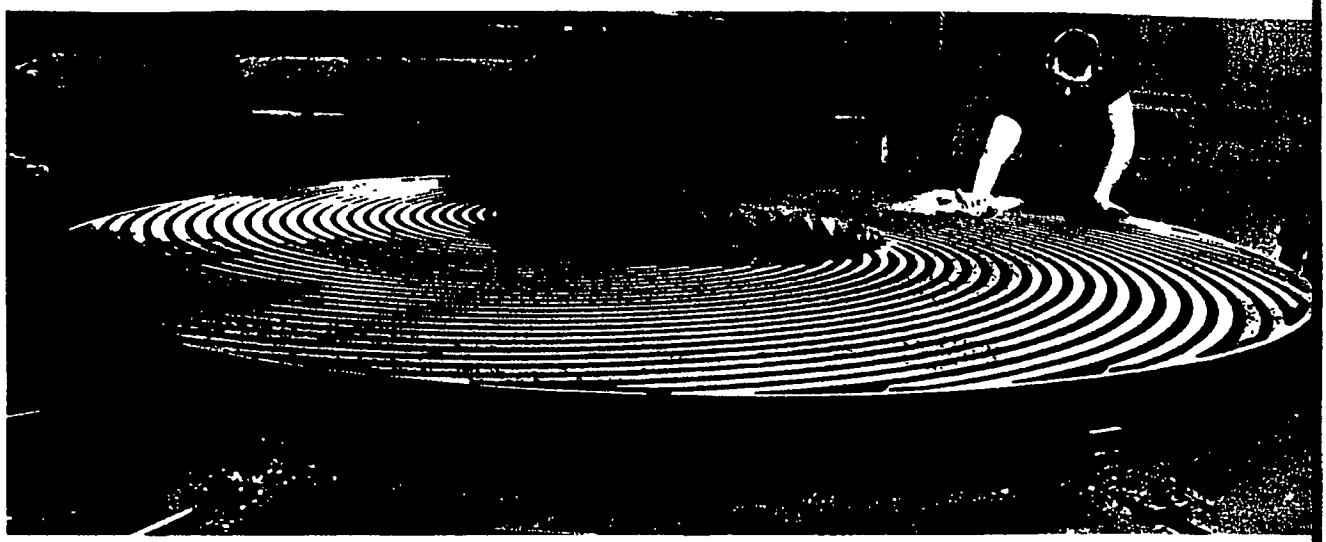
Among the expansion plans is the addition of buildings and equipment at the friction products plant in Winchester, Virginia. This expansion will increase plant capacity by approximately fifty per cent. In Noyon, France, capacity of the friction products plant will be doubled by addition of buildings and equipment. In Two Harbors, Minnesota, a plant is being started to produce manganese and alloy steel parts for taconite mining and processing machinery. A plant was constructed in Liege, Belgium, to produce tire molds for western Europe and this plant commenced operations at the beginning of 1966. Another building was constructed in Liege to house the hydraulics operations of the Denison Division. Also, the industrial hydraulics plant in Marysville, Ohio, which was completed in 1963, has reached capacity and will be expanded in 1966.

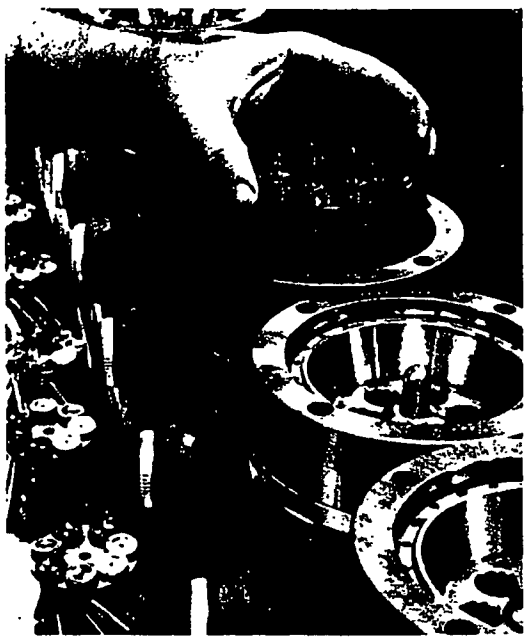
ABEX SELLS FORGING BUSINESS

A significant step in the long-range plans for the company was accomplished with the sale, effective November 30, 1965, of our forging business. For several years, profits from this portion of our business did not meet the company's standards for return on invested capital and we could not foresee any improvement in the future. Consequently, it was decided to withdraw from the business and to utilize the proceeds of the sale in further develop-

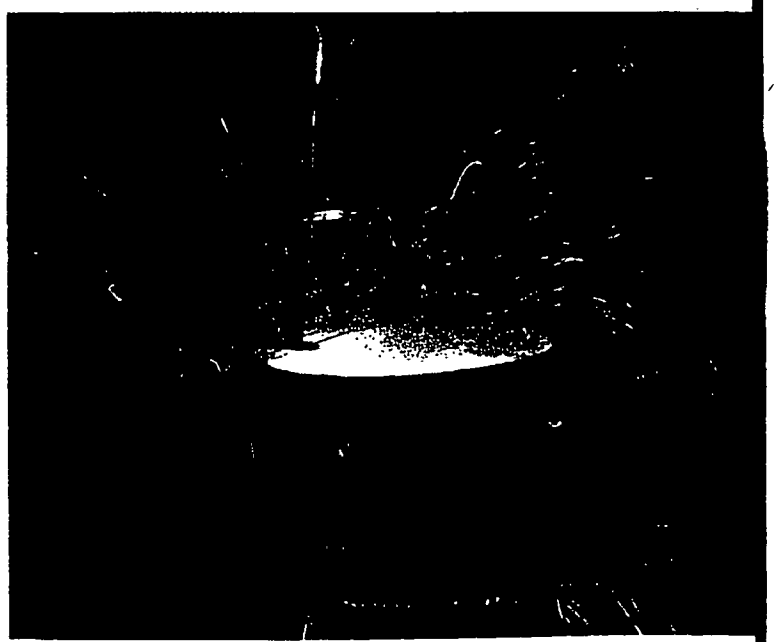
SC1 01647

Huge grinding disc, used in the manufacture of plate glass, is being machined.





Clusters of pistons are assembled into hydraulic pumps for use on earth-moving equipment.



Large dredge pump casing is finished by hand grinding.

SC1 01648

ment and expansion of newer product lines which have exhibited greater growth and profit potentials.

The sale involved three steel forging plants, two of which were in Chicago and one in Azusa, California, employing about 1,000 people. This will reduce shipments by about $25,000,000 annually but the effect upon operating earnings will be negligible. However, the sale resulted in a loss of $644,012 after taxes which has been recorded as a special item of loss and is not reflected in the operating earnings for 1965.

We are pleased to have made the sale in a manner which assures the continuation of the business in the best interests of customers and employees.

UNITED STATES OPERATIONS

Shipments of the United States divisions amounted to $212,964,000, representing 82 per cent of the consolidated total.

Most of the company's plants operated at higher levels of production than in the previous year. The high level of employment prevailing in the United States has brought a short supply of skilled and semi-skilled workers and a shortage existed in some company plants. Competition for qualified workers is likely to continue while the economy remains at present high levels and, in some plants, this condition may hamper production and increase costs.

Manufacturing departments of all divisions have continuing programs to increase operating efficiency and reduce costs through improved plant layout and better machinery utilization. These programs helped to improve profit ratios for the year. 1966 plans include the installation in several plants of numerical tape controlled machining facilities which will reduce costs.

In 1965 the company experienced production shutdowns in several plants due to floods, storms, and a prolonged strike discussed on page 14. In the Denver area, two foundries and a company warehouse were seriously damaged by flood waters and a considerable amount of production was lost, resulting in a loss before taxes of $460,000 to the company. Later in the year, a windstorm hit two of our plants in the Chicago area and caused minor damage and loss in production.

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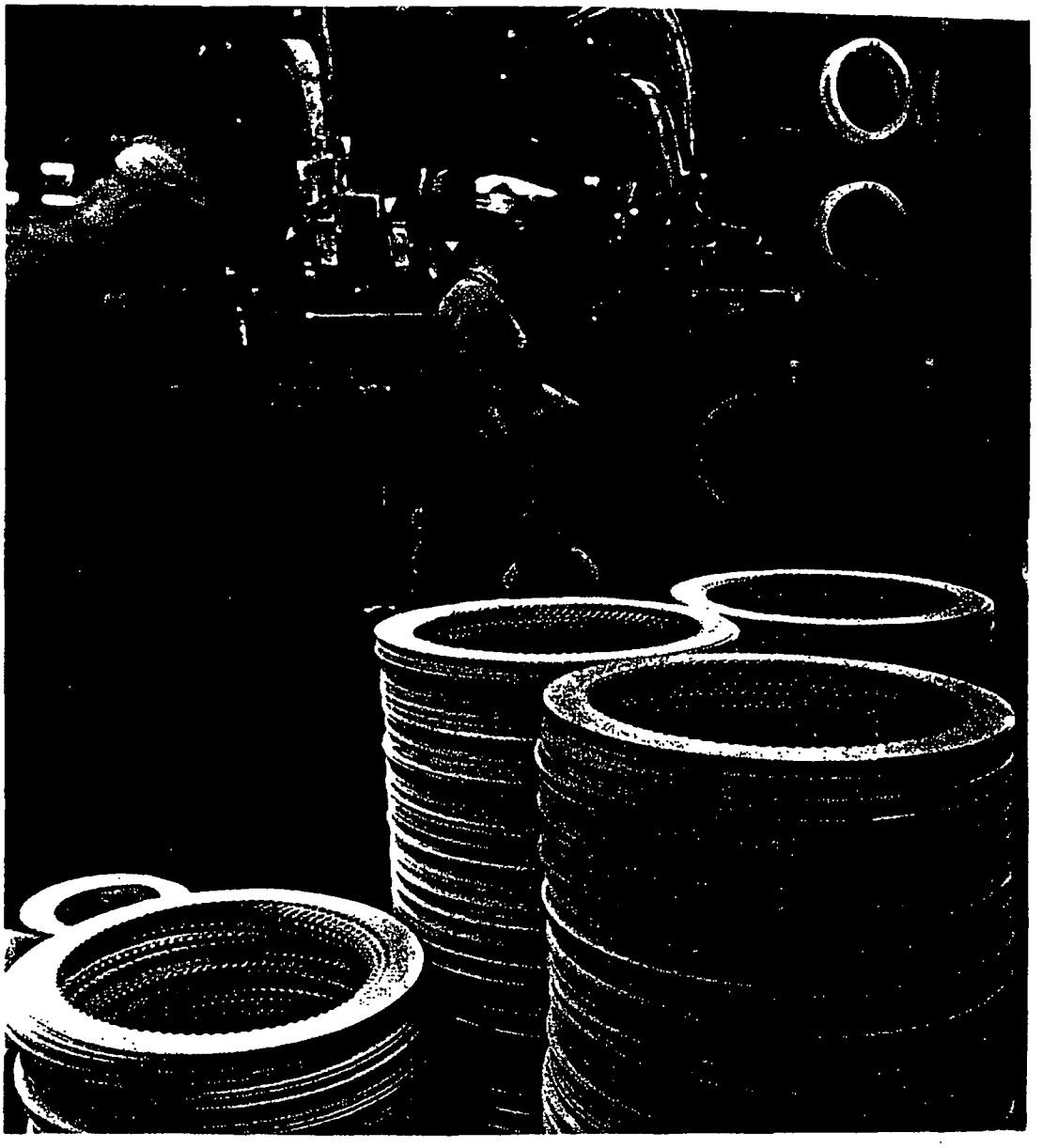

Friction discs like these are used in the powerful brakes on jet aircraft.

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CANADIAN OPERATIONS

Shipments of the Canadian divisions amounted to $27,524,000, approximately 10 per cent of consolidated volume. Shipments of tire molds from the Canadian plant were especially heavy, showing a large gain over the preceding year. Canadian mining and construction industries operated at high levels of activity in 1965, creating a strong demand for manganese and alloy steel parts which resulted in increased shipments of these products. Shipments of railroad products and automotive brake lining were higher, reflecting the healthy state of that country's transportation industry.

A large portion of Canadian shipments is in airborne hydraulic equipment for the military in Canada and the United States. During the first half of the year, orders for aerospace hydraulic equipment were low. During the second half, however, a large volume of orders was received, mostly for delivery in 1966, and the plants will operate at peak capacity during this year to meet delivery commitments.

In July 1965, the operations of Dominion Brake Shoe Company and Jarry Hydraulics Limited were consolidated to improve organizational efficiency.

INTERNATIONAL OPERATIONS

Shipments of the international divisions, which include the European and Mexican operations, amounted to $19,680,000 or eight per cent of total consolidated sales. In Europe, the industrial hydraulics divisions showed good sales increases while shipments of aerospace hydraulic equipment were lower because of the phasing out of the Nato F104 fighter plane. Sales of friction products were considerably higher. Shipments of tire molds exceeded the previous year but the recorded dollar volume was lower due to a change in the method of handling customer furnished materials.

The year 1965 marked what can be termed the start of the second phase in the development of our international operations. Expansion of manufacturing capacity for friction products and hydraulic equipment was started and the production of tire molds was extended to the continent with a new plant in Belgium.

In addition to these expansion moves, plans were made to extend and

SC1 01651

intensify marketing activities in several countries which offer new marketing opportunities for our products. We expect our European divisions will continue to grow and to contribute substantially to the future earnings of the company.

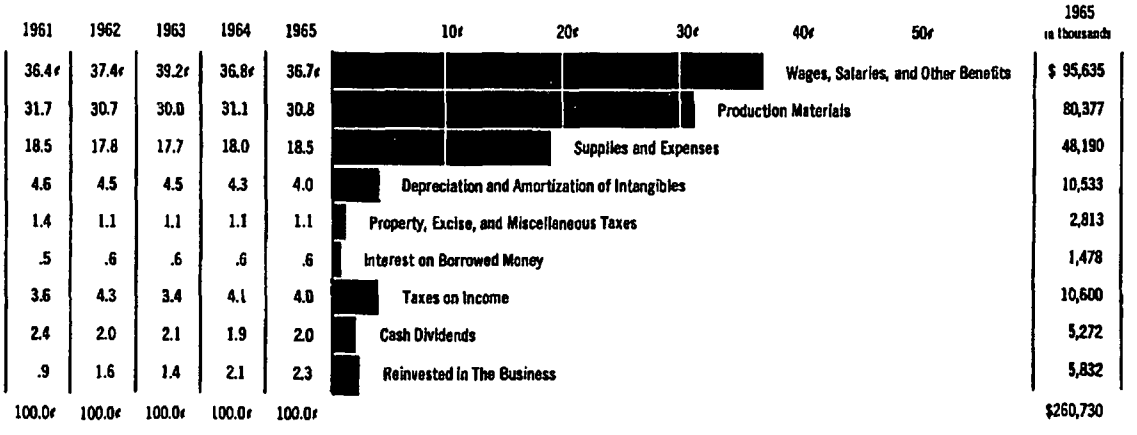
The Mexican brake lining plant posted further gains in 1965 and expansion of manufacturing capacity is planned for 1966.

Early in 1965, the Administration asked for voluntary effort by the business community to help improve the United States balance-of-payments deficit. This is an essential measure. Starting in 1964, capital required for our overseas expansion has been obtained mostly from local sources. Additionally, increases in sales of our products for export from the United States and licensee income contributed favorably to the deficit situation.

FEDERAL TRADE COMMISSION PROCEEDINGS CONTINUE

Shareholders have been advised of the proceedings instituted by the Federal Trade Commission in 1964 alleging that the acquisition of The S. K. Wellman Company was in violation of the anti-merger provisions of the Clayton Act. The Commission seeks an order requesting Abex to divest the Wellman business. Hearings are now in progress but the proceedings

Distribution of the Income Dollar



SC1 01652

before the Commission will not be completed for several months.

It is the company's position, based on the advice of counsel, that the merger did not violate the anti-trust laws. Accordingly, we shall continue to resist the divestiture by all legal means available, including an appeal to the courts should that become advisable.

EMPLOYEE RELATIONS

Through the years, Abex has been fortunate in attracting and retaining well qualified and loyal employees in all areas of the company. Employee relations and labor practices give consideration to the company's responsibility to its people. This policy has resulted generally in good employee relations and a relatively small number of serious labor disputes.

During 1965 negotiations were successfully concluded in 17 plants where labor contracts expired. There was, however, a 14-week strike, involving 350 employees, at the Electro-Alloys Division plant in Elyria, Ohio. This lengthy shutdown was caused primarily by an attempt of the union officials to encroach upon management's rights to arrange production schedules and work assignments. A satisfactory settlement which did not impair the company's management rights was reached.

Abex employee benefit programs compare favorably with the best in industry and, in most instances, are provided at no cost to employees.

Virtually all of the employees in the United States and Canada are covered by an insurance program which includes life, accident, disability and comprehensive medical and hospital coverage. These employees are also members of the retirement plan which was established in 1940. At the end of the year, 1,510 retired employees or their beneficiaries were receiving pensions from the plan.

In addition to benefit plans, the company has an extensive medical program for United States and Canadian employees. All newly hired employees are given a pre-placement physical examination to determine each individual's physical capability to perform assigned tasks. Periodic physicals also are given all employees on a voluntary basis, assisting them to maintain good health.

Through the medium of the American Brake Shoe Foundation, the company conducts a matching gifts plan as part of its aid-to-education program.

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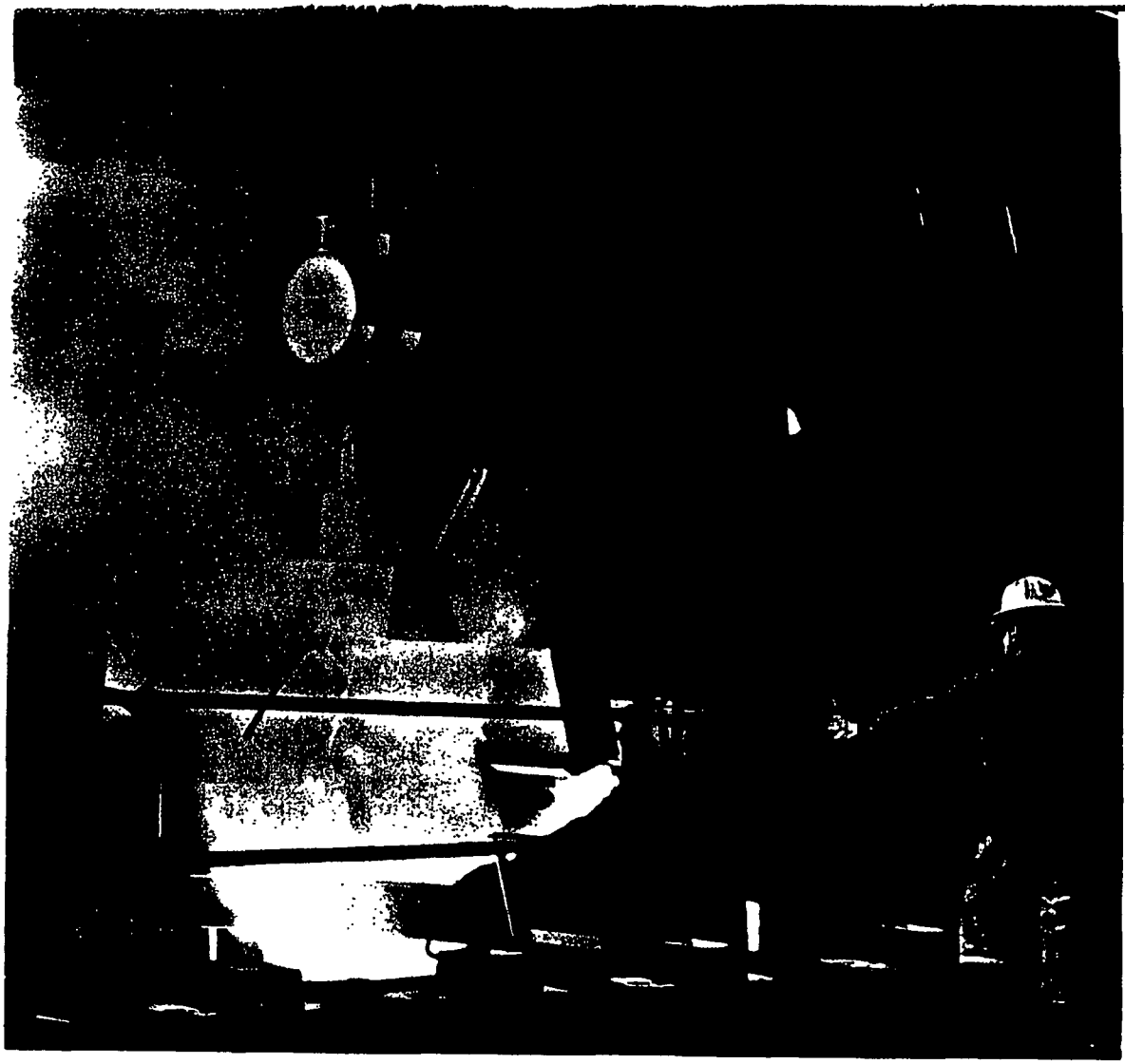




Molten metal, drawn from this electric arc furnace, is used in large precision-cast tire molds.

Over 9,000 employees were given chest x-rays in 1965 by mobile unit which travels to company plants and offices.

SC1 01654

Employees in the United States or Canada may contribute to colleges or secondary educational institutions of their choice and, upon application, the Foundation will match the amount of the gifts, up to a maximum of $1,000 annually per employee. Under this plan, the Foundation gave $19,000 to 103 educational institutions during the year.

MANAGEMENT CHANGES

Albert P. Gagnebin, executive vice president of both the International Nickel Company of Canada, Ltd. and its United States subsidiary, The International Nickel Company, Inc., was elected a director of Abex in January 1966.

Francis B. Herlihy was elected a vice president on May 12, 1965. He is director of metallurgical and chemical research at the Research Center in Mahwah, New Jersey. Mr. Herlihy has twenty years of service with the company.

George L. Romine was appointed president of S. K. Wellman Division on May 1, 1965. Mr. Romine, formerly vice president for original equipment sales, has served with the Wellman organization since 1942.

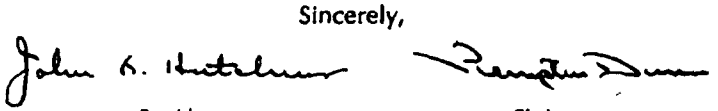
FUTURE OUTLOOK REMAINS PROMISING

Present forecasts indicate a continuing high level of business activity in 1966. We expect this to be reflected in another year of satisfactory operations.

Management responsibilities are essentially twofold. They must actively review day-to-day activities to insure the most efficient operation of the company and a satisfactory level of profits. Concurrently, a sound basis for advancing the growth and earning capability of the company must be given constant and meaningful attention. We are fortunate to have a large group of alert management people in all areas of our business who are thoroughly aware of their responsibilities.

It is the vigorous and loyal efforts of all Abex people that encourage us to look forward into 1966 and future years with confidence.

Sincerely,



President *Chairman*

SC1 01655

Friction Products

Shipments of friction products in 1965 amounted to $39,900,000, a 12 per cent gain over 1964. Sales increases were achieved in all types of friction products and by all divisions in the group.

In the automotive field, brake lining for passenger cars, trucks and buses provides the major market. Heavy-duty materials are used in clutches and transmissions in trucks and military vehicles.

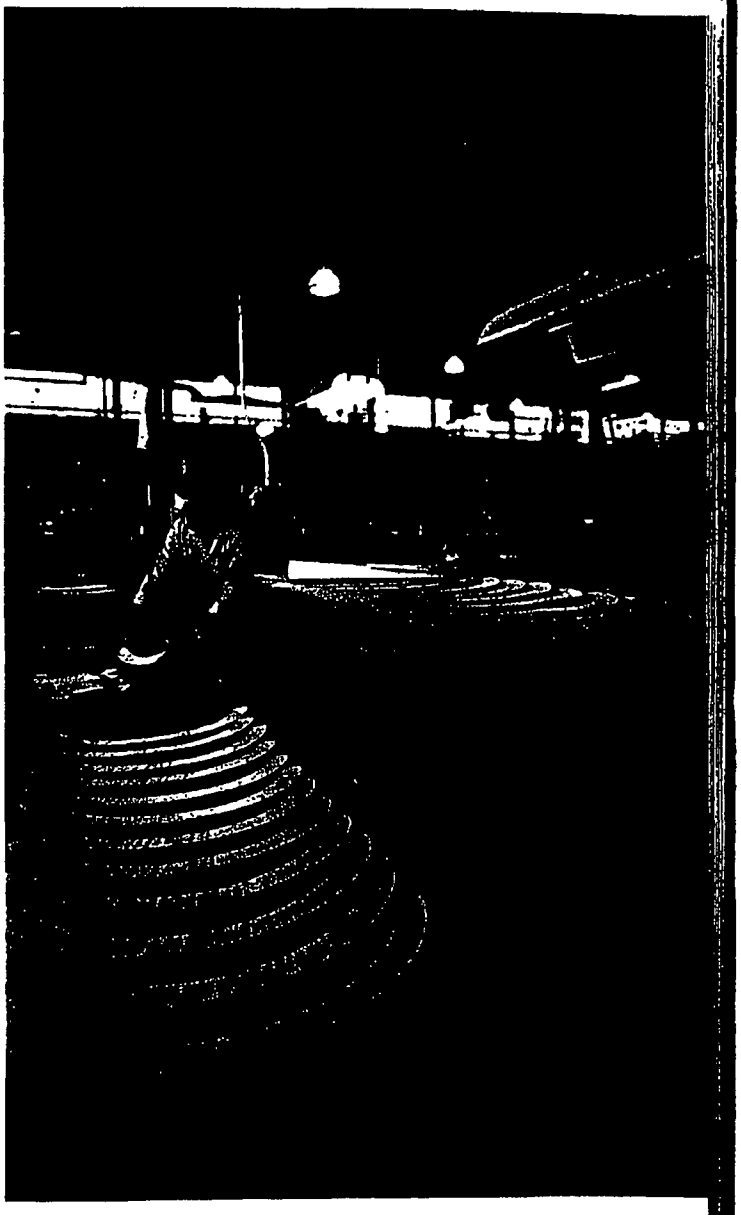
1965 was a banner year for the automotive industry. Passenger car output in the United States exceeded nine million vehicles and truck production increased to 1,800,000 units. Production levels were high also in Canada and European countries. The replacement market continued to grow as the number of registered vehicles in the United States alone reached almost 90 million. Consequently, the demand for automotive friction products was strong from both vehicle manufacturers and the replacement field.

A sizeable volume of new business was obtained from truck manufacturers in the United States. In Europe, a significant volume of new business, particularly in disc brake friction materials, was obtained from passenger car manufacturers.

The trend toward disc brakes on passenger cars in Europe was particularly strong and our pads for these brakes were in heavy demand. In the United States, disc brakes are standard or optional equipment on only a few models.

Industrial friction products are used in clutches, transmissions and brakes for earthmoving and construction equipment, farm machinery and other mobile vehicles. Production of all types of mobile equipment was high in 1965 and, consequently, the sales of our products increased to the

A-B-K steel mill bearings are made with resin-impregnated fabric which is molded to shape under heat and pressure.



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equipment manufacturers and the replacement market.

The aircraft industry experienced a high production year in all types of aircraft—private, commercial and military. Abex supplied friction products in large quantities for all types of aircraft.

A wholly new type of industrial friction material has been developed for power transmissions. This material will perform more work at higher energy levels with increased smoothness of operation. It is now in the field test stage in farm tractors and heavy-duty transmissions on other types of mobile equipment. The prospects for this material appear to open new opportunities and to up-grade existing applications for our materials.

The market for friction products continues to grow world-wide because of the constantly growing car and truck population, the increased use of all types of mobile equipment and the expanding aircraft market. Increased production capacity in the United States and France will allow us to seek additional new business in 1966 and we expect sales volume will continue an upward trend.



Storage hoppers for the many ingredients used in making automotive brake lining.

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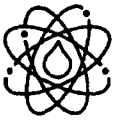
Hydraulic Products



Shipments of hydraulic products in 1965 amounted to $53,600,000, a five per cent gain over 1964. Sales of industrial hydraulic equipment increased 10 per cent while those for aerospace applications declined slightly.

The United States aerospace business showed sizeable gains in shipments, while Canadian and European shipments were down due to a time lag between the phasing out of older aircraft and the start of high volume production of new planes.

The major markets for industrial hydraulic equipment include earthmoving and construction equipment, mining machinery, metalworking and other industrial equipment. Denison Division in the United States made sales gains in all of its major markets. Denison plants located in four European countries also increased sales in each location.

The advantages of hydraulic power are receiving more recognition from design engineers and it is being employed in new kinds of machines each year. Examples include fully-hydraulic backhoes, hydraulically powered concrete mixers and railway track maintenance machinery that utilizes hydraulic instead of mechanical power for the working tools. Denison has developed equipment for these applications and succeeded in obtaining a significant share of this new business. The marine market also continues to grow both here and abroad.

In the last two years, improved piston and vane pumps with lighter weight and improved durability have been developed and introduced to the market. In 1965 continued progress was made in expanding the line of pumps, motors and controls to include more models and to increase versatility. The effect of this is to open new applications for Denison equipment.

Denison marketing organizations are being established in several additional countries to extend and intensify sales coverage in areas where the market for industrial hydraulic equipment is developing.

A new office building was completed during the year, in Hilden, West Germany, for the administrative, marketing and engineering departments of the Denison Division in Europe.

Increased needs for both military and commercial aircraft were reflected in a large volume of orders for our airborne hydraulic equipment. Additional orders were received for equipment on the McDonnell F-4 program, General Dynamics' F-111 plane, the Lockheed C-141 transport, Boeing-Vertol helicopters and Grumman military aircraft. An important volume of equipment was also shipped for the Titan III, the Saturn SII and several military missile programs.

In the commercial jet field, the Aerospace Division had an important amount of orders for Boeing aircraft and a growing business with major domestic and international airlines. This commercial business more than doubled in 1965.

Jarry Hydraulics Division in Canada was selected as one of the suppliers for landing gear on the new Boeing 737, the first specification of landing gear for a United States commercial jet plane from a Canadian source.

Aerohydraul Division in West Germany has obtained orders for delivery in 1966 of hydraulic pumps on several new aircraft programs in European countries, including Sweden, West Germany and Italy.

With a large order backlog, the work force at all aerospace hydraulic plants will be increased in 1966 and both shipments and earnings should

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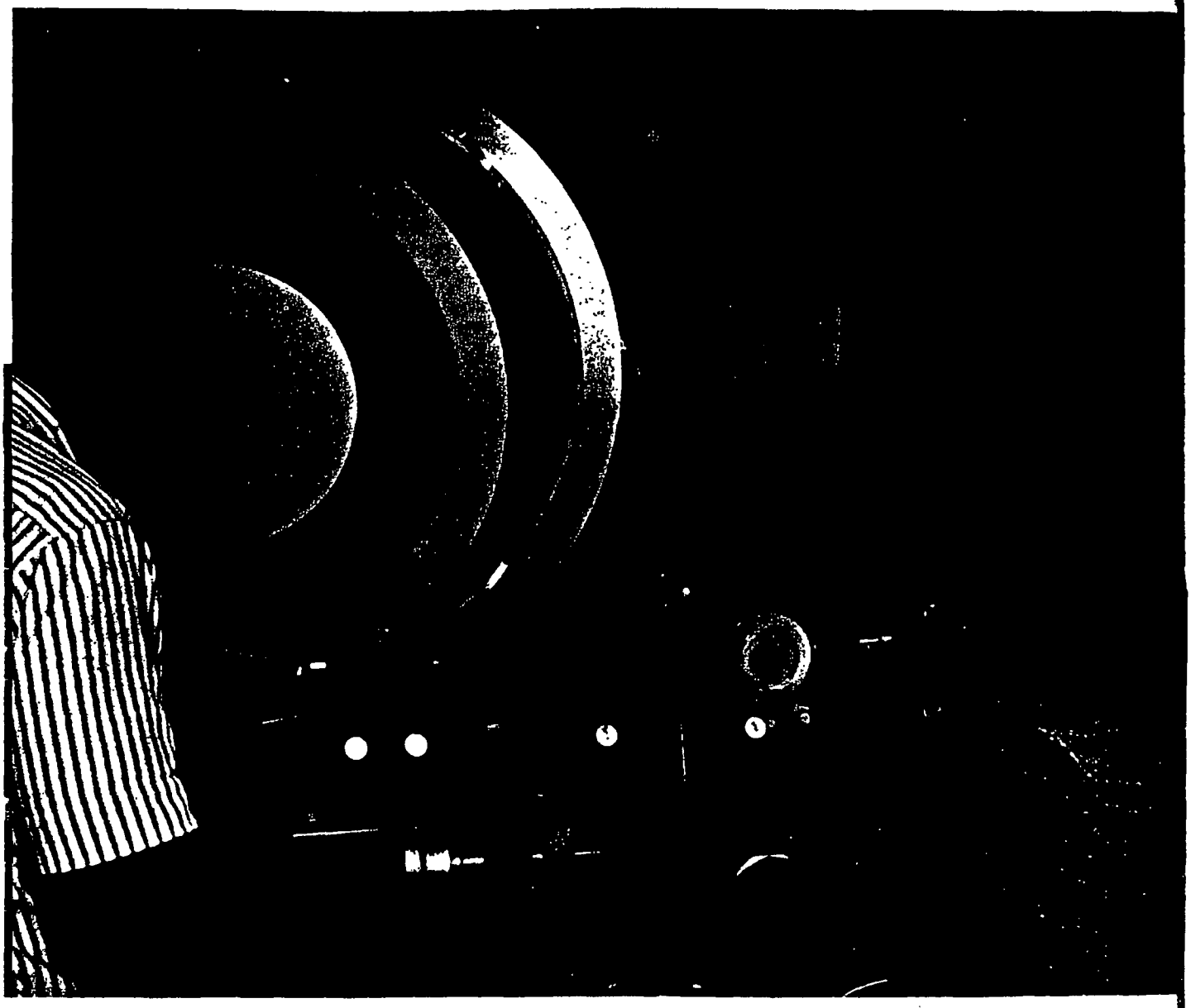


This optical comparator magnifies the profile of parts, providing a visual check on the accuracy of hydraulic pump components.

SC1 01659

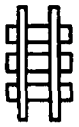
show gains.

The year 1965 marked the tenth anniversary of Abex in the hydraulic equipment field. Much has been accomplished. From a medium size company in Columbus, Ohio, operating two plants, the business has grown to three divisions and to over $50 million in volume and operates twelve plants in the United States, Canada and Europe.

In industry, the Denison trade name is recognized throughout the world for quality and performance. In aerospace, from a standing start, Abex equipment has been qualified for most of the important new planes developed in recent years.

Capable research, engineering and marketing organizations have been built and we expect continuing growth and profitability from both the industrial and aerospace segments of this business.

Railroad Products



Shipments to the railroads in the United States and Canada amounted to $67,700,000, an increase of more than eight per cent over the preceding year.

Railroads continued their resurgence in 1965 with a five per cent increase in freight revenue ton-miles. It was the best freight traffic year since the war year of 1944 and the fourth consecutive year in which freight traffic has shown an increase. More than 90 per cent of Abex railroad products are for the replacement of wearing parts and the higher level of operations brought a strong demand for our products.

Shipments of metal brake shoes increased slightly although composition shoes continued to make gains in replacing the metal shoe on new cars designed and built for special types of service. Sales of our composition shoes increased and capacity was added in 1965 for production of these shoes and also a wholly new type of brake shoe. This new shoe combines the best characteristics of both metal and composition. It has been in field test under all normal operating conditions during the year and results of these tests are very promising.

The new truck-mounted brake for freight cars went into production during the year and 600 car sets are now in service. Performance has been satisfactory and expanded sales are expected in 1966.

Shipments of freight car wheels increased and our three wheel plants operated near capacity. Current orders indicate that this condition will continue well into 1966.

Trackwork shipments were up over the preceding year, largely because the railroads spent more to maintain and improve their properties. Our trackwork sales have been stimulated in recent years by a number of new proprietary products. These include mechanical and hydraulically operated retarders and switching machines.

The company introduced in 1964 the "Economatic" freight yard, a new concept for automating freight yards at low cost. This equipment speeds up switching operations and produces large savings in man power and equipment as well as greatly reducing damage to freight. Three yards are in successful operation and orders for several more installations have been received for delivery in 1966.

In late 1964, the Railroad Products Division became the exclusive sales and service agent for SKF freight car roller bearings in the United States. SKF is the world's largest bearing manu-

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facturer and this arrangement combines the excellent technical and production facilities of SKF Industries, Inc. with the extensive sales and field engineering coverage of the Railroad Products Division.

Much of the railroads' gains in recent years can be attributed not only to the nation's prosperity but to the influence of many new services and lower freight charges. Significant among the new services are specialized freight cars such as piggyback cars for truck trailers, rack cars for hauling new motor vehicles and new unit trains for low cost movement of bulk materials such as ore, grain and coal.

The more enlightened approach by federal and state regulatory agencies toward mergers and archaic operating rules should greatly assist the railroads in successfully competing with other forms of transportation. The outlook for the industry continues to brighten.

Castings and Forgings

Shipments of castings and forgings amounted to $99,000,000, up seven per cent over the preceding year.

Engineered Products Division completed its first year of operations as a consolidated unit with sales and operating results exceeding expectations. Shipment of tire molds by the division increased sharply to a new high as demand continued heavy and our share of the world market increased. Integrated facilities enable the division to produce any type or size of tire mold by the most advantageous method, either precision cast or machine engraved. With the plant in Belgium added to the facilities in the United States, Canada and England, this product line will expand into new areas and we expect sales will continue to grow.

Soundness of freight car wheels is checked by radiographic inspection.



Hydraulically powered freight car retarders are assembled and tested before installation.



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Engineered Products Division also produces in four plants a broad range of products in iron, steel, aluminum and copper-base alloys. Shipments from these plants reached new high levels.

Amsco Division produces a broad line of wear-resistant manganese steel and other alloys used as parts in equipment for mining, earthmoving, ore crushing and steelmaking. The division also manufactures large dredge pumps and a line of dippers for power shovels. Orders for these products were the highest ever obtained and the division operated at near peak capacity throughout the year.

Sand core production in manganese steel foundry. Cores are used to produce the internal shape of cast products.

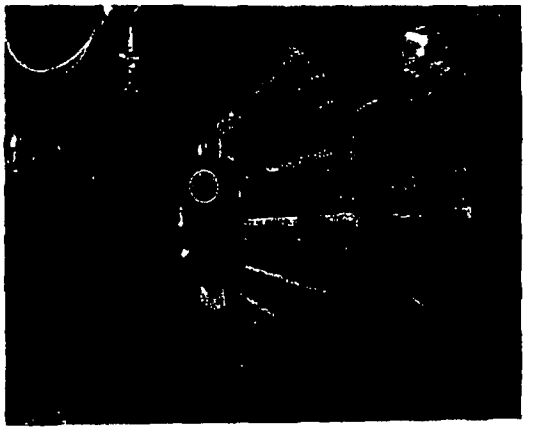


The market for wear-resistant alloys was given a strong boost during the year by the commitments of the mining companies to greatly expand their facilities to mine and process taconite ore on the Mesabi range. Our new plant at Two Harbors, Minnesota, which will be in operation early in 1967, will enable Abex to serve the area efficiently and thus participate in this industry's vast new development.

Shipments by the Electro-Alloys Division of heat-resistant alloys were restricted in 1965 by the 14-week strike but operations had returned to normal levels by the end of the year.

Electro-Alloys' products include specialties such as conveyor belts for heat-treat furnaces, retorts for cement kilns, parts for ore sintering equip-

Large pinion gear for a steel mill is carefully ground to dimensions.



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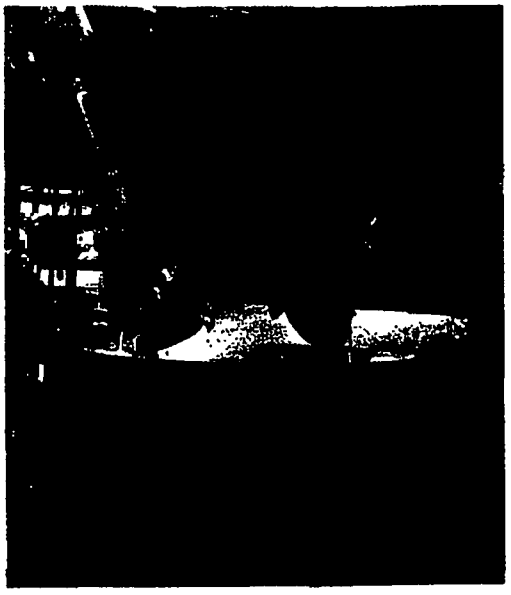
ment and heat-resistant tubing for petrochemical plants. The selection of metals and the design are important factors in determining the service life and consequent cost to the user of these types of products. The consistently high quality of our products and engineering service has been the main reason for the continued growth of this product line.

Selective specialization in the castings group has reached a point where a very high percentage of the business is in products that are, in a broad sense, almost proprietary. Through advanced engineering, metallurgical development of better alloys and highly skilled and unique manufacturing methods, Abex leads the industry in every important product line in this group. This portion of our business has the capability and market opportunities for continued profitable growth.

Segmental cores used in making molds for huge, off-highway equipment tires.



Parts for ore crushers made of manganese steel may weigh up to 40,000 pounds.



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Statement of Consolidated Earnings

Years Ended December 31, 1965 and 1964

	1965	1964
INCOME		
Shipments	**$260,168,235**	$241,478,130
Other income — net	**561,738**	463,234
TOTAL	**260,729,973**	241,941,364
COSTS AND EXPENSES		
Materials, wages, and other costs	**185,114,946**	172,169,501
Selling, administrative, and research expense	**30,524,618**	27,877,936
Depreciation and amortization of intangibles	**10,532,612**	10,423,323
Repairs and maintenance of plant and equipment	**8,563,024**	7,693,477
Property, excise, and miscellaneous taxes	**2,812,606**	2,655,600
Interest	**1,477,681**	1,459,488
TOTAL	**239,025,487**	222,279,325
EARNINGS BEFORE TAXES ON INCOME	**21,704,486**	19,662,039
Provision for taxes on income *(note 2)*	**10,600,000**	9,900,000
NET EARNINGS	**11,104,486**	9,762,039
SPECIAL ITEM		
Loss on sale of forging facilities less related taxes on income (See page 8)	**644,012**	—
NET EARNINGS AND SPECIAL ITEM	**$ 10,460,474**	$ 9,762,039
PER SHARE OF COMMON STOCK OUTSTANDING AT END OF YEAR		
Net earnings	**$6.02**	$5.27
Special item of loss	**.35**	—

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Consolidated Balance Sheet

December 31, 1965 and 1964

ASSETS

CURRENT ASSETS	1965	1964
Cash	$ 8,103,325	$ 7,128,784
Short term investments – at cost (approximates market)	14,049,306	12,324,147
Accounts receivable	34,468,083	35,093,261
Inventories—at lower of cost or market *(notes 3 and 4)*		
Raw materials and supplies	17,210,948	16,771,843
Finished product and work in process	25,949,769	23,158,395
TOTAL CURRENT ASSETS	99,781,431	94,476,430
PROPERTY, PLANT, AND EQUIPMENT *(note 4)*		
Buildings and equipment – at cost	146,550,312	149,758,594
Less depreciation	85,825,861	86,267,312
	60,724,451	63,491,282
Land – at cost	2,917,870	3,010,986
TOTAL PROPERTY, PLANT, AND EQUIPMENT	63,642,321	66,502,268
OTHER ASSETS		
Prepaid expenses and sundry assets	3,671,302	3,217,709
Investments – at cost or less	4,268,004	2,692,378
Patents and other intangibles, less amortization	2,348,715	2,509,533
TOTAL OTHER ASSETS	10,288,021	8,419,620
	$173,711,773	$169,398,318

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LIABILITIES

CURRENT LIABILITIES	1965	1964
Long term debt due within one year *(note 5)*	**$ 456,424**	$ 1,459,552
Notes payable by subsidiaries	**2,245,555**	1,455,478
Accounts payable	**9,250,055**	8,282,048
Accrued accounts	**7,604,870**	7,107,204
Accrued taxes on income	**6,273,765**	7,384,068
TOTAL CURRENT LIABILITIES	**25,830,669**	25,688,350
LONG TERM LIABILITIES		
Long term debt *(note 5)*	**28,122,381**	29,307,007
Deferred income taxes *(note 2)*	**4,790,000**	3,895,000
TOTAL LONG TERM LIABILITIES	**32,912,381**	33,202,007

SHAREHOLDERS' EQUITY

CAPITAL STOCK *(notes 6 and 7)*

Common, no par — authorized 3,000,000 shares:

	1965	1964		
Issued	1,872,319	1,872,319	**52,126,394**	52,348,598
Treasury	28,576	20,586	**1,565,765**	1,059,808
Outstanding	1,843,743	1,851,733	**50,560,629**	51,288,790
EARNINGS REINVESTED IN THE BUSINESS *(notes 5 and 8)*			**64,408,094**	59,219,171
TOTAL SHAREHOLDERS' EQUITY			**114,968,723**	110,507,961
			$173,711,773	$169,398,318

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Consolidated Statement of Source and Disposition of Funds

Years Ended December 31, 1965 and 1964

SOURCE OF FUNDS	1965	1964
Net earnings (less special item in 1965)	**$10,460,474**	$ 9,762,039
Depreciation and amortization of intangibles	**10,532,612**	10,423,323
Increase in long term liabilities	**1,626,798**	4,258,205
Retirement of property, plant, and equipment—net	**4,144,496**	475,791
TOTAL	**26,764,380**	24,919,358
DISPOSITION OF FUNDS		
Expenditures for property, plant, and equipment	**11,363,599**	7,913,369
Dividends paid	**5,271,551**	4,642,289
Common stock purchases less sales to employees	**728,161**	639,634
Retirement of long term liabilities	**1,916,424**	1,834,000
Increase/decrease in other assets	**2,321,963**	900,926
Increase in working capital, excluding cash and equivalent	**2,462,982**	5,283,675
TOTAL	**24,064,680**	19,412,041
INCREASE IN CASH AND EQUIVALENT	**2,699,700**	5,507,317
CASH AND EQUIVALENT		
Beginning of year	**19,452,931**	13,945,614
End of year	**$22,152,631**	$19,452,931

Accountants' Opinion

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

We have examined the consolidated balance sheet of AMERICAN BRAKE SHOE COMPANY and its subsidiaries as of December 31, 1965, and the related statements of consolidated earnings and earnings reinvested in the business (note 8) 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 1964.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1965 and 1964 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, 1965 and 1964, which statement, in our opinion, is fairly presented.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, January 28, 1966

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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	$456,424	$28,122,381

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	$ 64,408,094	$ 59,219,171

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

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Ten Year Review

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

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 1965 there was a special item of loss amounting to $644,012 after related taxes on income resulting from the sale of forging facilities.

EARNINGS AND DIVIDENDS	1965
Shipments	260,168
Earnings before taxes	21,704
Per cent of shipments	8.3
Per cent of capital employed	14.9
Net earnings	11,104
Per cent of shipments	4.3
Per cent of common stock equity	9.8
Per common share	6.02
Dividends paid	5,272
Per cent of net earnings	47.5
Employees – end of year	13,624
Payrolls	
Wages and salaries	83,725
Cost of employee security	11,910
Total	95,635
Employee security as a per cent of payroll	14.2
Shipments per employee	19,158
Capital employed per employee	10,736
Dividends per share	
Preferred	—
Common	2.85
FINANCIAL POSITION	
Capital employed	
Cash and equivalent	22,152
Accounts receivable	34,468
Inventories	43,161
Total current assets	99,781
Current liabilities	25,830
Working capital	73,951
Property, plant, and equipment	63,642
Other assets	10,288
Total capital employed	147,881
Financed by	
Long term liabilities	32,912
Preferred stock	—
Common stock equity	114,969
Total capital employed	147,881
Shareholders' equity per common share	62.36
Thousands of common shares outstanding	1,844
Number of common shareholders	17,120
Current ratio	3.9
Expenditures for property, plant, and equipment	11,364
Depreciation and amortization of intangibles	10,533

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

1964	1963	1962	1961	1960	1959	1958	1957	1956
241,478	214,669	194,892	165,504	164,587	168,029	137,998	186,851	186,142
19,662	14,741	15,454	11,270	11,967	16,081	9,813	20,283	19,433
8.1	6.9	7.9	6.8	7.3	9.6	7.1	10.9	10.4
14.0	10.9	12.9	10.2	11.2	15.3	9.5	21.1	23.3
9,762	7,441	6,954	5,370	5,667	7,681	4,778	9,124	8,963
4.0	3.5	3.6	3.2	3.4	4.6	3.5	4.9	4.8
9.0	7.1	7.4	5.9	6.4	9.0	5.8	11.3	11.9
5.27	4.00	4.27	3.29	3.48	4.72	2.97	5.67	6.64
4,642	4,453	3,913	3,915	3,903	3,877	3,867	4,570	4,124
47.6	59.9	56.3	72.9	68.9	50.5	80.9	50.1	46.0
13,535	12,869	11,622	10,680	9,732	9,134	8,395	9,859	10,360
78,208	74,063	64,910	53,528	51,189	50,644	44,845	55,465	51,437
10,760	10,317	8,323	6,967	7,484	6,280	5,660	5,978	5,371
88,968	84,380	73,233	60,495	58,673	56,924	50,505	61,443	56,808
13.8	13.9	12.8	13.0	14.6	12.4	12.6	10.8	10.4
18,291	17,034	17,478	16,216	17,448	19,170	15,120	18,482	18,164
10,624	10,720	10,709	10,806	11,375	12,015	11,375	9,490	8,134
—	—	—	—	—	—	2.00	4.00	4.00
2.50	2.40	2.40	2.40	2.40	2.40	2.40	2.90	2.90
19,453	13,945	17,083	12,535	12,928	23,130	19,168	20,210	8,653
35,093	31,526	28,188	25,100	18,482	17,441	17,184	18,489	22,235
39,930	36,071	31,621	28,973	25,953	23,225	20,109	24,954	27,621
94,476	81,542	76,892	66,608	57,363	63,796	56,461	63,653	58,509
25,688	23,545	24,202	24,584	16,493	18,586	13,652	19,541	26,151
68,788	57,997	52,690	42,024	40,870	45,210	42,809	44,112	32,358
66,502	69,042	64,460	63,386	59,060	55,395	57,425	56,680	52,552
8,420	9,767	8,750	7,514	7,726	6,340	3,442	3,173	3,006
143,710	136,806	125,900	112,924	107,656	106,945	103,676	103,965	87,916
33,202	30,778	30,516	20,281	17,678	18,815	20,310	21,190	9,890
—	—	—	—	—	—	—	475	14,850
110,508	106,028	95,384	92,643	89,978	88,130	83,366	82,300	63,176
143,710	136,806	125,900	112,924	107,656	106,945	103,676	103,965	87,916
59.68	56.96	58.57	56.69	55.24	54.19	51.75	51.24	50.84
1,852	1,861	1,629	1,634	1,629	1,626	1,611	1,606	1,243
17,084	17,174	17,474	17,084	16,256	15,884	15,979	15,870	14,080
3.7	3.5	3.2	2.7	3.5	3.4	4.1	3.3	2.2
7,913	11,125	11,103	12,609	12,119	4,868	8,068	11,406	8,044
10,423	9,646	8,851	7,662	7,680	7,280	6,817	6,703	5,464

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