notes to consolidated financial statements

AMERICAN BRAKE SHOE COMPANY

1. The consolidated financial statements include the accounts of all the Company's domestic, Canadian, and foreign subsidiaries.

2. Inventories stated on the last-in, first-out basis comprise 44% of total inventories at December 31, 1960 measured by approximate current cost. Such cost exceeds the last-in, first-out basis by $3,935,000.

3. Taxes on income include Federal, state, and foreign taxes on income.

4. Notes payable to banks are due (exclusive of prepayment privileges) in equal annual installments through June 1, 1965. The credit agreements provide that consolidated net current assets must be maintained at not less than $15,000,000.

5. For the four years ended December 31, 1953 the Company computed its excess profits tax credit under the relief provisions found in Section 444 of the Internal Revenue Code of 1939. Upon examination of the tax returns, the higher credit was not allowed, and to avoid interest charges the Company paid the additional amount of taxes involved. On October 2, 1957 a petition was filed in the Court of Claims of the United States seeking the establishment of the Company's position. A compromise settlement of the controversy has been agreed to by the Company and the government, and it is now awaiting approval by the Joint Committee on Taxation of the Congress. The settlement will result in a refund to the Company of approximately $1,000,000, including interest to December 31, 1960, net of related Federal taxes.

6. Under the terms of the indenture covering the 4½% sinking fund debentures due 1982, annual sinking fund payments are required to redeem $250,000 of debentures in the years 1960 through 1966 and $650,000 each year thereafter, which will effect a retirement of 96% of the issue. The Company has the option of increasing the annual sinking fund payment beginning in the year 1967 up to an additional $650,000. Sinking fund requirements through 1961 have been met.

The indenture contains a restriction, among others, against the payment of dividends (other than stock dividends) and against redemption of capital stock. At December 31, 1960 the amount of consolidated earnings retained in the business free of such restriction was approximately $12,250,000.

7. Issuance of not more than 200,000 shares of preferred stock, par value $100, has been approved by the stockholders. The shares will be cumulative; the dividend rate and provisions as to conversion, redemption, and voting rights will be determined by the Board of Directors for each series which may be issued.

8 Under the Employees' Stock Purchase and Option Plans adopted in 1952 and 1957, 104,784 shares of common stock are reserved for issuance to employees.

At December 31, 1960, subject to cancellation by employees, 3,349 shares were under subscription at $32.95 per share, and 23,841 shares at $50.95 per share, which price was reduced to $42.05 subsequent to the year end. 45,275 shares are under option at prices ranging from $53.63 to $54.00 per share. Under the Plans, 32,319 shares remain available for future offerings, at prices not less than 85 per cent of the market price at the time of offering.

During 1960, 2,554 shares were purchased at $32.95 per share, and 2,502 shares under subscription or option were cancelled.

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