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