

Notes to Consolidated Financial Statements

1. The consolidated financial statements include the accounts of the Company and its wholly-owned Canadian and International subsidiaries. The net assets of such subsidiaries including loans and advances from the Company amounted to \$34,503,389 at December 31, 1966 and \$32,158,796 at December 31, 1965. For the year ended December 31, 1966 the net losses of such subsidiaries were \$2,148,046 after amortization of intangibles and a write-off of goodwill amounting to \$1,407,384 and the payment of technical service fees, administrative charges, and interest to the Company totalling \$1,648,025. In the year ended December 31, 1965 the net earnings of these subsidiaries were \$886,328 after amortization of intangibles amounting to \$230,465 and the payment of technical service fees, administrative charges, and interest to the Company totalling \$955,654.

2. Included in the caption Other income-net on the Statement of Consolidated Earnings in the year ended December 31, 1966 are gains which arose upon the disposition of securities previously held for investment amounting to \$1,515,155, and a write-off amounting to \$800,000 which represents the Company's estimate of the decline in value of purchased goodwill.

3. 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.

4. The financial data in this report have been adjusted to reflect the increase in authorized shares to 6,000,000 and the two-for-one stock split approved by the shareholders on April 26, 1966.

5. At December 31, 1966, 25% 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 value by \$4,742,000.

6. Long term debt at December 31, 1966 includes the following:

	Due Within One Year	Due After One Year
Abex Corporation		
4 1/2% sinking fund debentures due 1982	\$ —	\$ 9,533,000
4 1/2% sinking fund debentures due 1987	—	11,127,000
Canadian Subsidiaries		
Amount due January 16, 1967 on purchase of		
Jarry Hydraulics Limited	3,020,378	—
Amount due Canadian government on purchase of equipment	44,993	157,997
European Subsidiaries		
Notes payable (3.8%-7%), due 1967-1986	722,022	6,573,570
Total long term debt	\$3,787,393	\$27,391,567

Under the terms of the indentures covering sinking fund debentures, minimum annual sinking fund payments are required as follows: 1968, \$710,000; 1969-1971, \$900,000; 1972-1980, \$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, 1966 under the most restrictive covenant was \$2,070,000.

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

8. At December 31, 1965, options were outstanding to purchase 95,924 shares of common stock of the Company under the Employees' Stock Purchase and Option Plan adopted in 1957, at prices ranging from \$21.03 to \$26.94 per share. During the year 17,442 shares were purchased under the plan at a total purchase price of \$422,111 and options to purchase 4,064 shares were canceled, leaving 74,423 shares under option at December 31, 1966 all of which were exercisable. No shares were available for the granting of additional options at any time during the year.

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

	1966	1965
Beginning of year	\$64,408,094	\$59,219,171
Net earnings and (in 1965) special item	12,827,047	10,460,474
Total	77,235,141	69,679,645
Cash dividends on common stock (\$1.575 per share in 1966 and \$1.425 per share in 1965)	7,971,223	5,271,551
End of year	\$69,263,918	\$64,408,094

10. Reference should be made to information concerning a Federal Trade Commission proceeding appearing on page 5 of this report.