Notes to consolidated financial statements

AMERICAN BRAKE SHOE COMPANY

1. The consolidated financial statements include the accounts of the Company, its Canadian, and wholly-owned international subsidiaries. The net earnings of Jarry Hydraulics Limited have been included from October 1, 1961, at which date the Company's subsidiary, Dominion Brake Shoe Company, Limited, held or was obligated by contract to purchase all of the shares of Jarry Hydraulics Limited (see note 3).

2. Inventories stated on the last-in, first-out basis comprise 29.9% of total inventories at December 31, 1961, measured by approximate current cost. Such cost exceeds the last-in, first-out basis by $3,748,000.

3. Long-term liabilities include the following:

	1961	1960
American Brake Shoe Company		
Notes payable to banks	$ 3,150,000	$ 4,200,000
4½% sinking fund debentures due 1982	11,112,000	11,368,000
Canadian Subsidiaries		
Notes payable by Jarry Hydraulics Limited due 1964-1967	1,392,618	—
Balance of amount due on purchase of remaining shares of Jarry Hydraulics Limited	2,112,000	—
Total	17,766,618	15,568,000
Estimated taxes on income in future years principally attributable to amortization of emergency facilities	2,514,160	2,110,000
Total long-term liabilities	$20,280,778	$17,678,000

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

Under the terms of the indenture covering the 4½% sinking fund debentures, 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 1962 have been met.

The balance of the amount due on the purchase of the remaining shares of Jarry Hydraulics Limited is payable upon the death of the seller. The final determination of the purchase price for all shares of Jarry Hydraulics Limited will depend upon its net earnings during the six years ended December 31, 1966 under a formula in the purchase contract. The seller, in the event of his retirement, has the option to request interim payments on portions of the amount due on the balance of shares to be purchased.

4. The indenture covering the 4½% sinking fund debentures contains a restriction, among others, against the payment of dividends (other than stock dividends) and against redemption of capital stock. At December 31, 1961, the amount of consolidated earnings retained in the business free of such restriction was approximately $14,000,000.

5. 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, if any, redemption, and voting rights will be determined by the Board of Directors for each series which may be issued.

6. Under the Employees' Stock Purchase and Option Plans adopted in 1952 and 1957, 99,303 shares of common stock were reserved at December 31, 1961 for issuance to employees, of which 10,601 shares remain available for future offerings at prices not less than 85 per cent of the market price at the time of the offering. Transactions during 1961 in the plans were as follows:

	Reserved for Issuance at December 31, 1960	Shares Subscribed Or Options Granted	Purchases	Cancellations	Reserved for Issuance at December 31, 1961 Number of Shares	Reserved for Issuance at December 31, 1961 Price Per Share
Shares Under Subscription:						
1952 Offering	3,349	—	1,674	175	1,500	$32.95
1957 Offering	23,841	—	3,807	1,967	18,067	42.05
1961 Offering	—	2,265	—	100	2,165	42.75
Shares Under Option:						
1957 Offering	45,275	—	—	2,640	42,635	53.63-54.00
1961 Offering	—	24,335	—	—	24,335	45.00
Available for Future Offerings	32,319	26,500	—	4,882	10,601	
Totals	104,784	—	5,481	—	99,303	

SC1 01845