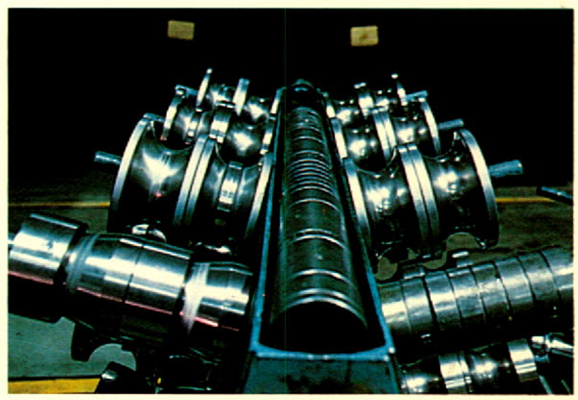
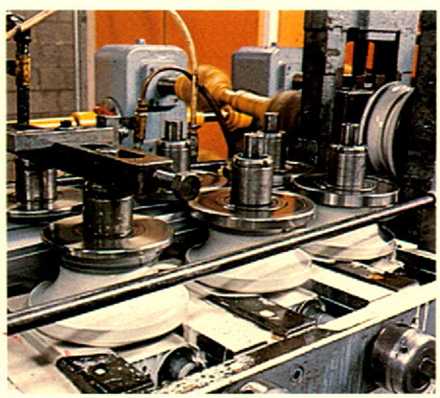
VAN DER HOUT ASSOCIATES LIMITED

1982 Annual Report





VAN DER HOUT ASSOCIATES LIMITED

Corporate Directory

OFFICERS:

John B. Van Der Hout, Chairman
Shapoor B. Guzder, Executive Vice-President
Stephen L. Ferguson, Vice-President
Barry S. Arbus, Q.C., Secretary

DIRECTORS:

Barry S. Arbus, Q.C., Partner, Lyons Arbus, Barristers and Solicitors
Kenneth C. Cornelius, Vice-President and Chief Financial Officer, Maremont Corporation
Roy A. Edwards, Retired Vice-President, Van Der Hout Associates Limited
K. Gordon Green, Vice-President and Director, Dominion Securities Ames Limited
William W. Mittlesteadt, Retired Vice-President, Maremont Corporation
Ireland J. Stewart, Executive Vice-President, Maremont Corporation
John B. Van Der Hout, Chairman
Albert E. Woods, Retired Banker

HEAD OFFICE:

3600 Lakeshore Blvd. West, Toronto, Ontario M8W 1N8

TRANSFER AGENTS:

Guaranty Trust Company of Canada, Toronto

AUDITORS:

Arthur Andersen & Co., Chartered Accountants, Mississauga

LISTED:

Toronto Stock Exchange

Highlights

	1982	1981
Sales	**$52,538,637**	$49,140,915
Net loss	**$(6,559,259)**	$(2,714,442)
Loss per common share	**$(3.91)**	$(1.62)
Number of shares outstanding	**1,681,608**	1,681,608
Number of registered shareholders	**594**	634
Shareholders' equity	**$ 8,445,745**	$15,005,004
Book value per common share	**$ 2.35**	$ 6.26

To Our Shareholders:

1982 was a most distressing year. In spite of a 7% increase in sales, the Company had a pretax loss of $6,559,259 versus a pretax loss of $4,748,442 in 1981. In addition, in 1981 the recovery of income taxes reduced the after-tax loss for 1981 to $2,714,442; the after-tax 1982 loss was equal to the pretax loss.

Although there were several factors contributing to the loss in 1982, the most significant was the disappointing performance of our new Ingersoll Division. The Ingersoll facility was built to supply a large volume of struts to a major customer that is an original equipment manufacturer. To date, sales to this customer have been far below their projected requirements and, as a result, production at this facility has been less than the level required for it to be profitable.

The loss for 1982 also reflected high interest expense, competitive pricing pressures and inflationary cost increases.

The outlook for 1983 is not encouraging. We do, however, forecast a decided improvement over the Company's 1982 performance and we are giving the highest priority to the development of plans that will cause this improvement to come about.

On Behalf of The Board

John B. Van Der Hout
Chairman

Consolidated Statements of Income

for the years ended December 31, 1982 and 1981

	1982	1981
Net sales	$52,538,637	$49,140,915
Cost of sales	49,518,097	44,041,814
Gross profit	$ 3,020,540	$ 5,099,101
Expenses:		
Selling, general and administrative expenses	$ 6,699,648	$ 7,656,492
Interest on long-term debt	2,771,989	2,122,090
Other interest	108,162	68,961
	$ 9,579,799	$ 9,847,543
Loss before income taxes	$(6,559,259)	$(4,748,442)
Recovery of income taxes (Note 6)	—	2,034,000
Net loss for the year (Note 2)	$(6,559,259)	$(2,714,442)
Loss per common share (Note 5)	$(3.91)	$(1.62)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Retained Earnings (Deficit)

for the years ended December 31, 1982 and 1981

	1982	1981
Balance, beginning of year	$ 4,358,896	$ 7,073,338
Deduct - Net loss for the year	(6,559,259)	(2,714,442)
Balance, end of year	$(2,200,363)	$ 4,358,896

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1982 and 1981

	1982	1981
WORKING CAPITAL, beginning of year	$14,445,079	$15,169,827
Application (source) of funds:		
Operations —		
Net loss for the year	$ 6,559,259	$ 2,714,442
Charges not requiring an outlay of funds —		
Depreciation and amortization	(1,815,928)	(1,323,016)
Decrease in deferred income taxes	—	2,216,094
Total provided to operations	$ 4,743,331	$ 3,607,520
Additions to property, plant and equipment	135,389	9,323,740
Decrease (increase) in long-term debt	5,254,305	(7,706,512)
Proceeds from issue of series "A" special shares	—	(4,500,000)
Increase in deferred income taxes	(68,091)	—
Decrease in working capital	$10,064,934	$ 724,748
WORKING CAPITAL, end of year	$ 4,380,145	$14,445,079
Changes in working capital:		
Decrease (increase) in current assets —		
Receivables	$ 3,738,454	$(659,849)
Income taxes recoverable	64,500	448,308
Inventories	5,567,299	(3,676,830)
Prepaid expenses	133,906	155,968
Increase (decrease) in current liabilities —		
Bank indebtedness	(3,118,822)	2,044,962
Accounts payable and accrued liabilities	(4,549,995)	3,042,311
Payable to affiliate, net	8,229,592	3,527
Current portion of long-term debt	—	(633,649)
Net decrease in working capital	$10,064,934	$ 724,748

The accompanying notes are an integral part of these statements.

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1982 and 1981

ASSETS	1982	1981
Current Assets:		
Receivables —		
Trade, less allowances of $155,288		
(1981 - $261,134) (Note 4)	$ 4,483,114	$ 7,692,395
Sundry	107,591	636,764
Affiliate	83,903	105,761
Income taxes recoverable	—	64,500
Inventories (Notes 3 and 4)	10,641,766	16,209,065
Prepaid expenses	92,571	226,477
Total current assets	$15,408,945	$24,934,962
Property, Plant and Equipment, at cost (Notes 2 and 4):		
Land	$ 1,083,159	$ 1,083,159
Buildings and improvements	5,313,826	5,466,255
Machinery and equipment	20,804,281	20,516,462
	$27,201,266	$27,065,876
Less - Accumulated depreciation and amortization	10,049,355	8,233,426
	$17,151,911	$18,832,450
Total	$32,560,856	$43,767,412

The accompanying notes are an integral part of these balance sheets.

Approved on behalf of the Board:

John B. Van Der Hout, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY	1982	1981
Current Liabilities:		
Bank indebtedness (Note 4)	$ —	$ 3,118,822
Loans from affiliate (Note 10)	8,237,500	—
Accounts payable and accrued liabilities	2,455,827	7,005,822
Payable to affiliate	162,473	192,239
Current portion of long-term debt (Note 4)	173,000	173,000
Total current liabilities	$11,028,800	$10,489,883
Long-Term Debt, net of current portion shown above (Note 4)	$12,928,471	$18,182,776
Deferred Income Taxes	$ 157,840	$ 89,749
Contingency (Note 2)		
Shareholders' Equity:		
Capital stock (Note 5) —		
Authorized:		
1,000,000 Special shares, $10 par value		
5,000,000 Common shares, no par value		
Issued:		
450,000 Series "A" Special shares	$ 4,500,000	$ 4,500,000
1,681,608 Common shares	5,857,142	5,857,142
Contributed surplus	308,488	308,488
Retained earnings (deficit) per accompanying statements	(2,200,363)	4,358,896
	$ 8,465,267	$15,024,526
Less - 2,600 Shares held in treasury, at cost	19,522	19,522
Total shareholders' equity	$ 8,445,745	$15,005,004
Total	$32,560,856	$43,767,412

Auditors' Report

To the Shareholders of Van Der Hout Associates Limited:

We have examined the consolidated balance sheets of VAN DER HOUT ASSOCIATES LIMITED (an Ontario corporation and a subsidiary of Maremont Corporation) AND SUBSIDIARY as at December 31, 1982 and 1981, and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Van Der Hout Associates Limited and Subsidiary as at December 31, 1982 and 1981, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Mississauga, Ontario
February 3, 1983

ARTHUR ANDERSEN & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1982 and 1981

1. Summary of significant accounting policies

(a) Principals of Consolidation
The accompanying financial statements of Van Der Hout Associates Limited (the "Company") are consolidated with those of its wholly owned subsidiary. All material intercompany transactions have been eliminated.

(b) Inventories
Inventories are valued at the lower of cost, as determined by the first-in, first-out (FIFO) method, or net realizable value.

(c) Property, Plant, Equipment Depreciation and Amortization
Expenditures for property, plant and equipment, and for renewals or improvements which extend the originally estimated economic life of assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in the results of operations.

Provisions for depreciation are determined on either the straight-line basis or declining-balance basis over the expected average useful lives of the asset groups. Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases.

(d) Deferred Income Taxes
Deferred income taxes arise primarily from the Company claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the books.

(e) Research and Development Costs
Research and development costs are expensed as incurred.

2. Realization of Ingersoll Plant

During 1981 the Company began production of shocks and struts at their new facility in Ingersoll, Ontario. The capital cost of the new plant and equipment, which was $10,426,250, was funded jointly by the Company, an affiliate (Note 5) and the Ontario Development Corporation (Note 4). Approximately $4,300,000 (1981 - 4,200,000) of the Company's Loss before Income Taxes of $6,559,259 for 1982 (1981 - $4,748,442) resulted from losses incurred at the Ingersoll facility. Start-up expenses of $1,415,000 in 1981 were incurred and are included in the above noted losses for the Ingersoll facility.

The Ingersoll facility was built to supply a large volume of shocks and struts to meet the requirements projected by a major Original Equipment Manufacturer ("OEM") customer. To date sales to this customer have been significantly below the level required for this facility to be profitable. The Ingersoll facility's future success and the realization of its asset values is dependent on its ability to significantly increase its sale of shocks and struts either to its major OEM customer or to other customers. Management is reviewing alternative courses of action that would reduce the impact of losses at this facility if the current depressed level of sales were to continue.

3. Inventories

Inventories consist of the following:

	1982	1981
Finished goods	$ 4,359,946	$ 7,120,730
Work-in-process	1,203,094	1,749,548
Raw materials, parts and supplies	5,078,726	7,338,787
	$10,641,766	$16,209,065

4. Long-term debt

	1982	1981
Revolving credit arrangements	$10,225,988	$15,575,340
Capital assistance programs —		
Ontario Development Corporation, payable in sixty monthly payments commencing January 15, 1986, secured by land and a building	2,400,000	2,300,018
Federal Government, payable in annual installments of $173,000 commencing June 1, 1981, secured by certain equipment	475,483	480,418
	$13,101,471	$18,355,776
Less-Current portion payable within one year	173,000	173,000
	$12,928,471	$18,182,776

The Company renegotiated its arrangements with a bank during 1981. Under this facility, the Company may borrow up to $15,000,000 in either U.S. or Canadian funds on a revolving basis. This agreement is in effect until cancelled by written notice from either party. The Company may cancel immediately; the bank's cancellation takes effect 13 months after receipt of notice. Interest on U.S. funds borrowed may be either at the bank's U.S. prime rate, or ¾% over LIBOR, at the Company's option. Interest on Canadian funds borrowed may be either at the bank's Canadian prime rate, or ½% over the Canadian banker's acceptance rate, at the Company's option. A fee of ¼% on not more than $1,750,000 of the unused portion is required. As security for the revolving credit agreements, the bank holds an assignment of the accounts receivable, inventory and fire insurance of the Company.

Under the terms of the capital assistance programs the Company is required to make certain ongoing commitments which they have complied with as of December 31, 1982 and 1981.

Aggregate repayments required in each of the next five years, excluding the bank loans, are as follows:

1983	$173,000
1984	$173,000
1985	$129,483
1986	$480,000
1987	$480,000

5. Increase in authorized and issued capital

During 1981 the Company increased its authorized capital by creating an additional 3,200,000 common shares without par value and 1,000,000 Special shares (issuable in series) with a par value of $10.00 each. The terms and conditions of each series of Special shares is fixed by resolution of the Company's Board of Directors.

450,000 series "A" Special shares were issued to an affiliate during 1981 as payment for capital equipment. The series "A" Special shares are entitled to receive 11% cumulative dividends commencing January 1, 1991. These shares are convertible at the rate of one and $^{3}/_{17}$ common shares for every one Special share up to December 31, 1990 and are redeemable at par value on January 1, 1996. A sinking fund equal to the par value of the outstanding Special shares will be provided at the rate of 20% per annum over the period January 1, 1991 to December 31, 1995.

The fully diluted losses per share were $(2.97) for 1982 and $(1.23) for 1981. These fully diluted losses per share have been calculated on the assumption that all of the series "A" special shares issued during 1981 had been converted into common shares at the beginning of each year.

6. Loss carry-forward

The 1982 loss carry-forward for accounting purposes which has not been recognized in the financial statements approximates $7,000,000. The tax benefits pertaining to this loss carry-forward are available until 1987.

7. Remuneration of directors and senior officers

The aggregate remuneration paid by the Company and its subsidiary to its directors and senior officers for the year ended December 31, 1982 approximated $427,200 (1981 - $372,000).

8. Commitments

(a) Long-Term Leases

Buildings are rented under leases which expire at various dates between 1983 and 1990. Rental expense related to these leases, excluding property taxes and insurance, amounted to approximately $265,000 in 1982 (1981 — $253,000). Rental commitments for the next five years under these leases are as follows:

1983	$228,000
1984	$175,000
1985	$166,000
1986	$160,000
1987	$160.000

(b) Pension Plan

The Company has a pension plan covering salaried employees. As of December 31,1982, the unfunded past service liability with respect to the plan amounted to approximately $195,000 (1981 - $220,500). The Company's policy is to provide for current costs as such costs are incurred and to amortize and fund past service costs over a period of fifteen years. In 1982, $104,300 (1981 - $87,300) was provided and is reflected in the consolidated statements of income.

9. Segmented information

The Company and its subsidiary manufacture and supply automotive products. Export sales for the year ended December 31, 1982 approximated $39,000,000 ($36,000,000 in 1981), of which 97% (96% in 1981) were made to the U.S.A.

10. Related party transactions

Approximately 71% of the common shares and all of the Special shares of the Company are owned by its affiliate, Maremont Corporation. Purchases of materials and supplies from Maremont in 1982 approximated $1,071,000 ($3,075,000 in 1981). Sales to Maremont in 1982 approximated $1,668,000 ($1,061,000 in 1981). In 1982 the Company negotiated a short-term loan with Maremont Corporation, of which $7,000,000 was Canadian funds and $1,000,000 was U.S. funds. Interest on the Canadian funds borrowed is at ½% over the Canadian banker's acceptance rate. Interest on the U.S. funds borrowed is at ¾% over LIBOR.

Five Year Comparative Summary of Operations

	1982	1981	1980	1979	1978
Net sales	$52,538,637	$49,140,915	$40,423,448	$44,984,137	$41,474,840
Cost of sales	49,518,097	44,041,814	33,809,747	36,015,262	34,058,452
Gross profit	$ 3,020,540	$ 5,099,101	$ 6,613,701	$ 8,968,875	$ 7,416,388
Selling, general and administrative expenses	6,699,648	7,656,492	5,653,249	5,640,154	5,152,408
Operating income (loss)	$(3,679,108)	$(2,557,391)	$ 960,452	$ 3,328,721	$ 2,263,980
Interest expenses	2,880,151	2,191,051	1,245,840	759,761	532,836
Income (Loss) from consolidated operations before income taxes	$(6,559,259)	$(4,748,442)	$(285,388)	$ 2,568,960	$ 1,731,144
Recovery of (provision for) income taxes	—	2,034,000	209,501	(975,000)	(610,000)
Income (Loss) from consolidated operations	$(6,559,259)	$(2,714,442)	$(75,887)	$ 1,593,960	$ 1,121,144
Minority interest	—	—	—	—	(13,340)
Income (Loss) before extraordinary items	$(6,559,259)	$(2,714,442)	$(75,887)	$ 1,593,960	$ 1,107,804
Extraordinary Items	—	—	—	—	574,105
Net income (loss)	$(6,559,259)	$(2,714,442)	$(75,887)	$ 1,593,960	$ 1,681,909
Earnings (Loss) per common share					
Before extraordinary items	$(3.91)	$(1.62)	$(.05)	$ .95	$ .66
After extraordinary items	$(3.91)	$(1.62)	$(.05)	$ .95	$ 1.00

PRODUCTS:

Gabriel brand shock absorbers
Standard and heavy duty shock absorbers
Truck and bus shock absorbers
Racing shock absorbers
Bus, truck and auto tail and exhaust pipe
Steel tubing
Strut suspension units

MARKETS:

Automotive replacement market
Automotive original equipment market
Heavy duty original equipment market
Industrial original equipment market
Agricultural market
Recreational market
Defense market

VAN DER HOUT ASSOCIATES LIMITED

Headquarters:

3600 Lakeshore Blvd. West, Toronto, Ontario M8W 1N8

Sales Offices:

5105 Tomken Road, Mississauga, Ontario L4W 2X5

89 Mills Road, Ajax, Ontario L1S 2M2

Manufacturing Operations:

Toronto, Mississauga, Ingersoll and Ajax, Ontario

Distribution Centre:

Mississauga, Ontario