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**Rockwell
International**

HOWARD ROSS LIBRARY
OF MANAGEMENT
SEP 29 1981
McGILL UNIVERSITY

A Message From the Chairman and President:

Rockwell International of Canada Ltd reported net income of \$20.3 million in fiscal 1980, a decrease of 35 percent from 1979 net income of \$31.4 million. Total sales were \$238.3 million, down 24 percent from \$311.8 million a year ago. The lower earnings and sales were due principally to an eight-month strike at the company's automotive facilities in Milton and Chatham, Ontario.

The company's 1980 export sales amounted to \$148.6 million or 62 percent of sales as compared to \$206.6 million or 66 percent of sales in 1979.

The automotive businesses, which manufacture and market various automotive components for heavy-duty trucks, special purpose vehicles, light trucks and passenger cars, reported 1980 sales of \$141.3 million, a drop of 37 percent from prior year sales of \$222.8 million. The sales decline was due primarily to the strike and to the continuing depressed automotive and truck markets.

Several divisions of the company reached record sales levels for the year, an achievement that helped reduce the impact of the automotive strike on the 1980 results.

General Industries' sales rose nearly 11 percent in 1980, to \$48.9 million from \$44.1 million a year ago. General Industries' businesses manufacture and market graphic arts equipment, power tools and flow control products.

The Electronics businesses, which manufacture and market telecommunications and microelectronics systems and equipment, reported a sales gain of 7 percent in 1980, to \$48.1 million as compared to 1979 sales of \$44.9 million.

During 1980 the company invested \$8.2 million in capital improvements; incurred \$13.2 million in federal and provincial taxes and purchased over \$86 million in goods and services in Canada; the company paid more than \$51 million in salaries, wages and benefits in 1980 to its nearly 2,000 employees.

Two important management changes occurred during 1980. Robert A. Kingston was elected chairman of the board and Richard W. Foxen was elected president and a director, succeeding Alonzo B. Kight, who has retired. Mr. Kingston is a partner in the law firm of Blake, Cassels and Graydon of Toronto. He had been a member of the board of directors of Rockwell International of Canada Ltd and its predecessor companies since 1959. Mr. Foxen is also vice president-International, Rockwell International Corporation, the parent company of Rockwell International of Canada Ltd.

Another important event during the year was the opening of an automotive service parts division in Mississauga to better serve the Canadian market.

A number of significant events occurred after the end of our fiscal year. On October 1, 1980 the company amalgamated with Wescom Canada Limited, which was a subsidiary of a U.S. corporation acquired during the year by Rockwell International Corporation. In November 1980, because of economic conditions, the company decided to discontinue the production of leaf springs at its Milton and Chatham automotive plants. In December 1980, the company sold its automotive plastics tool & die facility in Toronto.

For the board of directors and management we wish to thank those employees, customers and suppliers who contributed to our achievements in a rather difficult year.



R. A. Kingston, *Chairman*



R. W. Foxen, *President*

Balance Sheet

As at September 30, 1980 and 1979

Assets

	<u>1980</u>	<u>1979</u>
	(in thousands)	
CURRENT ASSETS		
Cash (substantially all in certificates of deposit)	\$272,020	\$ 91,995
Short-term investment—at cost which approximates market	—	12,227
Receivables:		
Trade—less allowance for doubtful accounts (1980—\$230,000; 1979—\$302,000)	15,956	23,189
Other	1,995	982
Inventories (Note 2)	42,606	44,356
Prepaid expenses	1,650	987
Total current assets	<u>334,227</u>	<u>173,736</u>
PROPERTY—at cost		
Land	571	1,013
Improvements to land and leaseholds	1,482	1,398
Buildings	16,781	18,191
Machinery and equipment	41,034	41,361
Construction in progress	5,946	3,239
Total	<u>65,814</u>	<u>65,202</u>
Less accumulated depreciation	31,794	33,263
Net property	<u>34,020</u>	<u>31,939</u>
TOTAL	<u>\$368,247</u>	<u>\$205,675</u>

Liabilities and Stockholder's Equity

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 20,752	\$ 31,051
Accrued income taxes	1,310	9,398
Notes payable to Rockwell International Corporation (Note 5)	158,024	—
Accounts payable to affiliated companies	6,282	3,280
Total current liabilities	<u>186,368</u>	<u>43,729</u>
DEFERRED INCOME TAXES	9,671	8,122
CONTINGENT LIABILITY (Note 6)		
STOCKHOLDER'S EQUITY		
Share capital:		
Authorized—an unlimited number of shares without par value		
Issued and fully paid—959,990 shares	1,680	1,680
Contributed surplus (no change during either year)	9,988	9,988
Retained earnings	160,540	142,156
Total stockholder's equity	<u>172,208</u>	<u>153,824</u>
Approved by the Board:		
R. G. Rogers	<i>Director</i>	
R. W. Foxen	<i>Director</i>	
TOTAL	<u>\$368,247</u>	<u>\$205,675</u>

See notes to financial statements.

Statement of Income and Retained Earnings

For the years ended September 30, 1980 and 1979

	<u>1980</u>	<u>1979</u>
	(in thousands)	
SALES AND OTHER INCOME		
Sales	\$238,286	\$311,824
Interest	49,577	9,125
Total sales and other income	<u>287,863</u>	<u>320,949</u>
COSTS AND EXPENSES		
Cost of sales	197,990	246,056
Selling, general and administrative	20,086	20,566
Interest (Note 5)	36,919	—
(Gain) loss on foreign exchange	(616)	3,383
Total costs and expenses	<u>254,379</u>	<u>270,005</u>
INCOME BEFORE INCOME TAXES	33,484	50,944
PROVISION FOR INCOME TAXES	13,200	19,500
NET INCOME	20,284	31,444
RETAINED EARNINGS AT BEGINNING OF THE YEAR	142,156	127,184
PROVISION FOR REFUNDABLE TAXES	(1,900)	(1,400)
CASH DIVIDENDS PAID	—	(15,072)
RETAINED EARNINGS AT END OF THE YEAR	<u>\$160,540</u>	<u>\$142,156</u>

See notes to financial statements.

Statement of Changes in Financial Position

For the years ended September 30, 1980 and 1979

	<u>1980</u>	<u>1979</u>
	(in thousands)	
RESOURCES PROVIDED		
From operations:		
Net income	\$ 20,284	\$31,444
Add (deduct) items not affecting working capital:		
Depreciation	3,700	3,494
Deferred income taxes	1,549	692
(Gain) loss on sales of property	(1,180)	46
Provided from operations	24,353	35,676
Proceeds from sales of property	3,619	78
Decreases in other assets	—	283
Total	<u>27,972</u>	<u>36,037</u>
RESOURCES APPLIED		
Property additions	8,220	7,693
Refundable taxes	1,900	1,400
Cash dividends paid	—	15,072
Total	<u>10,120</u>	<u>24,165</u>
INCREASE IN WORKING CAPITAL	<u>\$ 17,852</u>	<u>\$11,872</u>
CHANGES WITHIN WORKING CAPITAL		
Increases (decreases) in current assets:		
Cash	\$180,025	\$12,306
Short-term investment	(12,227)	(264)
Receivables:		
Trade	(7,233)	(4,935)
Other	1,013	(53)
Inventories	(1,750)	10,480
Prepaid expenses	663	64
Due from affiliated companies	—	(2,512)
Increase in current assets	<u>160,491</u>	<u>15,086</u>
Increases (decreases) in current liabilities:		
Accounts payable and accrued liabilities	(10,299)	2,317
Accrued income taxes	(8,088)	(2,383)
Notes payable to Rockwell International Corporation	158,024	—
Accounts payable to affiliated companies	3,002	3,280
Increase in current liabilities	<u>142,639</u>	<u>3,214</u>
INCREASE IN WORKING CAPITAL	<u>\$ 17,852</u>	<u>\$11,872</u>

See notes to financial statements.

Notes to Financial Statements

For the years ended September 30, 1980 and 1979

1. Significant Accounting Policies

Foreign currency translation

Foreign currencies have been translated to Canadian dollars as follows: current assets (other than inventories) and liabilities at the approximate exchange rates at the year ends, inventories at the exchange rates prevailing when produced or acquired; revenues and expenses at the average monthly exchange rates during the years. The company does not have any non-current assets or liabilities denominated in foreign currency.

Inventories

Inventories are stated at the lower of cost (using FIFO method) and market, less progress payments received. Market is determined on the basis of net realizable value for finished goods and work in process and of replacement cost for raw materials.

Depreciation of property

Depreciation is provided principally on a straight-line basis over the estimated useful lives of the respective assets.

Income taxes

Taxes are provided, at appropriate rates, on the basis of items included in the determination of income for financial reporting purposes regardless of the period when such items are reported for tax purposes. Deferred taxes arise from timing differences in the recognition of income and expense for financial and tax reporting purposes. The principal timing difference is depreciation.

Retirement plans

It is the policy of the company to fund accrued retirement plan costs. Such costs are actuarially computed using the aggregate cost, entry-age normal and unit credit methods. Under the aggregate cost method, all presently unfunded costs including prior service costs, and all changes in costs due to experience or other factors, are spread over the remaining service lives of the participants. Under the entry-age normal and unit credit methods, costs include, in addition to current service costs, amortization of unfunded prior service costs, generally over a fifteen-year period.

2. Inventories

Inventories at September 30, are summarized as follows (in thousands):

	1980	1979
Finished goods	\$13,728	\$13,334
Work in process	18,751	16,356
Raw materials	10,127	14,865
Total	42,606	44,555
Less progress payments from customers	—	199
Inventories	\$42,606	\$44,356

3. Retirement Plans

The provision for retirement plan costs amounted to \$2,935,000 for 1980 and \$2,774,000 for 1979. The actuarially computed value of vested benefits as of the most recent valuation dates under certain plans exceeded the market value of fund assets and balance sheet accruals by approximately \$4,300,000. The unfunded prior service costs of company retirement plans amount to approximately \$12,800,000 at September 30, 1980.

4. Refundable Taxes

Under the Income Tax Act, the company is classified as a private corporation and, therefore, taxes payable relative to certain investment income are potentially refundable at the rate of \$1 for each \$4 of taxable dividends paid. There were no taxable dividends paid in 1980 and 1979. Should the company cease to be classified as a private corporation, the entitlement to refund would be lost. At September 30, 1980 and 1979 refundable taxes amounted to \$4,450,000 and \$2,550,000 respectively.

5. Transactions with Rockwell International Corporation

The ultimate parent company is Rockwell International Corporation. Significant transactions with Rockwell International Corporation and affiliated companies during the years ended September 30, 1980 and 1979 were as follows (in thousands):

	1980	1979
Sales of components and finished goods	\$54,908	\$45,345
Purchases of components and finished goods	\$51,644	\$44,324
Cost allocations charged ...	\$ 9,138	\$ 9,441
Interest paid	\$36,914	\$ —

The notes payable to Rockwell International Corporation bear interest at varying rates set at ¼ of 1% below the market rate on short-term deposits. The weighted-average interest rate on the notes payable outstanding at September 30, 1980 was 13.4%.

6. Subsequent Event and Contingent Liability

On October 1, 1980, the company amalgamated with Wescom Canada Limited, a wholly-owned subsidiary of Rockwell International of Canada (Ontario) Ltd, under Section 179 of the Canada Business Corporations Act. The name of the amalgamated corporation is Rockwell International of Canada Ltd. The net assets of Wescom Canada Limited at October 1, 1980 were \$3,300,000.

Wescom Canada Limited has been assessed additional income taxes, including penalties and interest, by the Federal and Provincial taxation authorities amounting to approximately \$2,000,000 for the years 1973 to 1977. These assessments are based upon a review of certain transactions between Wescom Canada Limited and its previous parent company. Wescom Canada Limited has filed Notices of Objection with respect to these assessments.

7. Industry Segment Information

The company has diversified operations comprising the following industry segments:

Automotive businesses manufacture and market various automotive components for heavy-duty trucks, special purpose vehicles, light trucks and passenger cars.

General Industries businesses manufacture and market graphic art equipment, power tools and flow control products.

Electronics businesses manufacture and market telecommunications and microelectronics systems and equipment.

The directors of the company have approved the above industry segments as being those which most appropriately reflect the company's classes of business.

Sales are summarized as follows (in thousands):

	<u>1980</u>	<u>1979</u>
Automotive	\$141,314	\$222,828
General Industries	48,906	44,116
Electronics	48,066	44,880
Sales	<u>\$238,286</u>	<u>\$311,824</u>

Auditors' Opinion

To the Stockholder of
Rockwell International of Canada Ltd:

We have examined the balance sheet of Rockwell International of Canada Ltd as at September 30, 1980 and 1979 and the statements of income and retained earnings and of 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, these financial statements present fairly the financial position of the company as at September 30, 1980 and 1979 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles consistently applied.

Deloitte Hasbain & Mills

Chartered Accountants
Toronto, Ontario

October 20, 1980

Directors and Principal Officers

Directors

Robert A. Kingston, Q.C.
Chairman
Rockwell International of Canada Ltd
and
Partner
Blake, Cassels & Graydon
Toronto, Ontario

Richard W. Foxen
President
Rockwell International of Canada Ltd
and
Vice President, International
Rockwell International Corporation
Pittsburgh, Pennsylvania

John D. Allan
President
Stelco Inc.
Toronto, Ontario

A. James Harkness
Vice President
Rockwell International of Canada Ltd
Toronto, Ontario

Dr. H. Ian Macdonald
President
York University
Toronto, Ontario

Arne R. Nielsen
President & Chief Executive Officer
Canadian Superior Oil Ltd.
Calgary, Alberta

Robert G. Rogers
Chairman of the Board
Crown Zellerbach Canada Limited
Vancouver, British Columbia

Martin D. Walker
Senior Vice President
Rockwell International Corporation
and
President
Automotive Operations
Rockwell International Corporation
Troy, Michigan

Principal Officers

Robert A. Kingston, Q.C.
Chairman

Richard W. Foxen
President

A. James Harkness
Vice President

William L. Neely
Vice President and Treasurer

Corporate Offices

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Telex 06-523718

Rockwell International of
Canada Ltd is a wholly owned
subsidiary of Rockwell
International Corporation,
Corporate Headquarters,
Pittsburgh, Pennsylvania, U.S.A.

Principal Plants, Offices and Products

Automotive

Brake Division

Tilbury, Ontario

Plastics Division

Gananoque, Ontario

Suspension Components Division

Chatham, Ontario

Lacolle, Quebec

Milton, Ontario

Mechanical Devices Division

Bracebridge, Ontario

Service Parts Division

Mississauga, Ontario •

General Industries

Graphic Systems Division

Don Mills, Ontario •

Montreal, Quebec •

Flow Control Division

Barrie, Ontario

Calgary, Alberta •

Mississauga, Ontario •

Municipal & Utility Division

Calgary, Alberta •

Guelph, Ontario

Montreal, Quebec •

Vancouver, British Columbia •

Power Tool Division

Calgary, Alberta •

Edmonton, Alberta •

Guelph, Ontario

London, Ontario •

Mississauga, Ontario •

Ottawa, Ontario •

Quebec City, Quebec •

St. Laurent, Quebec •

Vancouver, British Columbia •

Winnipeg, Manitoba •

Electronics

Collins Canada Division

Mississauga, Ontario •

Ottawa, Ontario •

Toronto, Ontario

Wescom Canada Division

Georgetown, Ontario

• Indicates non-manufacturing activity.

Principal products

Automotive brake systems; plastic products; automotive, railroad and industrial springs; mechanical springs; stamped automotive parts and equipment; clamps and couplings; flow measurement and control equipment; printing machinery and related products; consumer and industrial power tools; commercial, military and maritime communications systems.