



VAN DER HOUT ASSOCIATES LIMITED
1984 Annual Report

VAN DER HOUT ASSOCIATES LIMITED

Corporate Directory

OFFICERS:

John B. Van Der Hout, Chairman

Shapoor B. Guzder, President

Stephen L. Ferguson, Vice-President and Treasurer

Barry S. Arbus, Q.C., Secretary

Gary D. Pedigo, Vice-President

DIRECTORS:

Barry S. Arbus, Q.C., Partner, Lyons Arbus & Goodman, Barristers and Solicitors

Stephen L. Ferguson, Vice-President, Van Der Hout Associates Limited

K. Gordon Green, Vice-President and Director, Dominion Securities Pitfield Limited

Shapoor B. Guzder, President, Van Der Hout Associates Limited

Raymond P. Mack, Vice-President, Maremont Corporation

Gary D. Pedigo, Vice-President, Van Der Hout Associates Limited

Ireland J. Stewart, Executive Vice-President, Maremont Corporation

John B. Van Der Hout, Chairman, Van Der Hout Associates Limited

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

	1984	1983
Sales	\$49,370,420	\$43,259,810
Net Income (loss)	\$ 2,013,646	\$(2,329,958)
Earnings (loss) available for common shareholders	\$ 1,013,646	\$(2,439,547)
Earnings (loss) per common share	\$.60	\$(1.45)
Fully diluted earnings (loss) per common share	\$.46	\$(1.45)
Number of shares outstanding	1,681,608	1,681,608
Number of registered shareholders	525	538
Total shareholders' equity	\$13,629,433	\$11,615,787
Total common shareholders' equity	\$ 2,519,844	\$ 1,506,198
Book value per common share	\$ 1.50	\$.89

To Our Shareholders:

1984 marked a year of significant overall progress for the Company. Net sales reached a record level of \$49,370,420, an increase of 14.1% over 1983. The Company realized a net income of \$2,013,646 in 1984 after four very difficult years.

Our Shock Absorber Products Division's operating profits improved as a result of increased sales in some markets and our continued focus on cost reduction and productivity improvement programs. Also, improvements in quality and customer service enabled us to strengthen our overall competitive position.

Our Exhaust Products Division operated at a loss in 1984. This business is being restructured and plans are in place to attain significant cost reductions and productivity improvements, to return the division to a profitable operating level.

It is a tribute to all of our employees that we have been able to make these important strides in 1984. Their continued efforts will enable the Company to further enhance its growth in the years ahead.

On Behalf of The Board

A handwritten signature in blue ink, appearing to read 'Shapoor B. Guzder', written in a cursive style.

Shapoor B. Guzder,
President

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Consolidated Statements of Income

for the years ended December 31, 1984 and 1983

	1984	1983
Net sales	\$49,370,420	\$43,259,810
Cost of sales	41,725,973	36,522,685
Gross profit	\$ 7,644,447	\$ 6,737,125
Expenses:		
Selling, general and administrative	\$ 5,445,226	\$ 5,888,908
Interest on long-term debt	426,460	466,376
Other interest (income)	(240,885)	35,471
	\$ 5,630,801	\$ 6,390,755
Income from continuing operations	\$ 2,013,646	\$ 346,370
Loss from discontinued operation (Note 2)	—	(1,051,411)
Income (loss) before income taxes	\$ 2,013,646	\$ (705,041)
Provision for income taxes	873,771	—
Income (loss) before extraordinary items	\$ 1,139,875	\$ (705,041)
Extraordinary items (Note 2)	873,771	(1,624,917)
Net income (loss) for the year	\$ 2,013,646	\$ (2,329,958)
Earnings (loss) per common share (Note 6):		
Basic —		
Before extraordinary items	\$.08	\$ (0.49)
Net income (loss)	\$.60	\$ (1.45)
Fully diluted —		
Before extraordinary items	\$.26	\$ (0.49)
Net income (loss)	\$.46	\$ (1.45)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Retained Earnings (Deficit)

for the years ended December 31, 1984 and 1983

	1984	1983
Balance, beginning of year	\$(4,530,321)	\$(2,200,363)
Net income (loss) for the year	2,013,646	(2,329,958)
Balance, end of year	\$(2,516,675)	\$(4,530,321)

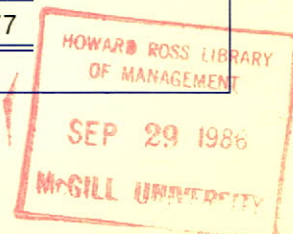
The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1984 and 1983

	1984	1983
WORKING CAPITAL, beginning of year	\$12,355,422	\$ 4,380,145
Sources of working capital:		
Operations —		
Income (loss) before extraordinary items	\$ 1,139,875	\$ (705,041)
Charges not requiring an outlay of funds —		
Depreciation and amortization	808,156	1,402,955
Loss on disposal of equipment	83,309	—
Total provided from operations	\$ 2,031,340	\$ 697,914
Proceeds from issue of Class 'C' First Preference Shares net of current portion	2,168,728	—
Reduction in the provision for income taxes due to the application of prior years' loss carry-forwards	873,771	—
Proceeds from disposal of property, plant, and equipment	113,102	8,849,700
Proceeds from issue of Second Preference Shares, Series "A"	—	9,000,000
Proceeds from issue of Second Preference Shares, Series "B"	—	1,000,000
Total sources of working capital	\$ 5,186,941	\$19,547,614
Applications of working capital:		
Decrease in long-term debt	\$ 5,952,676	\$ 4,815,793
Additions to property, plant and equipment	720,100	609,901
Decrease in deferred income taxes	80,053	21,726
Redemption of First Preference Shares Series "A"	—	4,500,000
Provision for discontinued Ingersoll operation	—	1,624,917
Total applications of working capital	\$ 6,752,829	\$11,572,337
Net increase (decrease) in working capital	\$(1,565,888)	\$ 7,975,277
WORKING CAPITAL, end of year	\$10,789,534	\$12,355,422
Changes in working capital:		
Increase (decrease) in current assets —		
Cash	\$ 485,736	\$ 62,275
Note receivable from affiliate	4,563,740	—
Receivables	(1,877,462)	2,533,388
Inventories	(1,240,156)	(679,662)
Prepaid expenses	(87,845)	40,648
Decrease (increase) in current liabilities —		
Accounts payable and accrued liabilities	(322,188)	(2,143,671)
Payable to affiliate	(59,958)	8,162,299
Current portion of long-term debt	(3,027,755)	—
Increase (decrease) in working capital	\$(1,565,888)	\$ 7,975,277

The accompanying notes are an integral part of these statements.



VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY


Consolidated Balance Sheets

December 31, 1984 and 1983

ASSETS	1984	1983
Current Assets:		
Cash	\$ 548,011	\$ 62,275
Receivables —		
Note receivable from affiliate	4,563,740	—
Trade, less allowances of \$161,070 (1983 — \$217,941) (Note 4)	4,541,206	6,550,615
Affiliate	654,378	349,269
Sundry	134,950	308,112
Inventories (Notes 3 and 4)	8,721,948	9,962,104
Prepaid expenses	45,374	133,219
Total Current Assets	\$19,209,607	\$17,365,594
Property, Plant and Equipment, at cost (Notes 2 and 4):		
Land	\$ 772,909	\$ 772,909
Buildings and improvements	2,054,628	2,031,030
Machinery and equipment	13,961,507	13,875,307
	\$16,789,044	\$16,679,246
Less — Accumulated depreciation and amortization	9,564,355	9,170,088
	\$ 7,224,689	\$ 7,509,158
Total	\$26,434,296	\$24,874,752

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

Approved on behalf of the Board:



John B. Van Der Hout, *Director*



Shapoor B. Guzder, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY	1984	1983
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,921,686	\$ 4,599,498
Payable to affiliate	297,632	237,674
Current portion of long-term debt (Note 4)	3,200,755	173,000
Total Current Liabilities	\$ 8,420,073	\$ 5,010,172
Long-Term Debt , net of current portion shown above (Note 4)	\$ 4,328,728	\$ 8,112,678
Deferred Income Taxes	\$ 56,062	\$ 136,115
Shareholders' Equity:		
Capital stock (Note 5) —		
Authorized:		
20,000,000 Special Shares		
5,000,000 Common Shares		
Issued:		
9,000,000 Second Preference Shares Series "A"	\$ 9,000,000	\$ 9,000,000
1,000,000 Second Preference Shares Series "B"	1,000,000	1,000,000
1,681,608 Common Shares	5,857,142	5,857,142
Contributed surplus	308,488	308,488
Retained earnings (deficit) per accompanying statements	(2,516,675)	(4,530,321)
	\$13,648,955	\$11,635,309
Less — 2,600 Common Shares held in treasury, at cost	19,522	19,522
Total Shareholders' Equity	\$13,629,433	\$11,615,787
Total	\$26,434,296	\$24,874,752

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, 1984 and 1983 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, 1984 and 1983, 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.

Mississauga, Ontario
January 18, 1985

ARTHUR ANDERSEN & CO.
Chartered Accountants

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1984 and 1983

1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, on the historical cost basis and conform in all material respects with International Accounting Standards. The more significant Accounting Practices are set out below.

(a) Principles 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. Extraordinary items

(a) Loss Carry-Forwards

The 1984 consolidated statement of income includes an extraordinary gain of \$873,771 which represents the reduction in the normal provision for income taxes due to the application of prior years' loss carry-forwards.

(b) Discontinued Ingersoll Operation

During 1983 the Company discontinued its shock and strut business at its Ingersoll facility in order to reduce the impact of continuing losses. The 1983 consolidated results of operations have been restated to separately reflect the Ingersoll operating losses of \$1,051,411 in 1983 including related long-term debt interest expense. The costs associated with the closing of the facility and its operations amounted to \$1,624,917 and have been reflected as an extraordinary item in the 1983 consolidated statement of income.

The fixed assets at this facility were sold in 1983 for an amount that in total was equal to their net book value of approximately \$8.5 million. Approximately \$6.8 million of such assets were sold to an affiliate for approximately \$2.3 million in cash

and the redemption of 450,000 First Preference Shares Series "A" with a paid in value of \$4.5 million.

3. Inventories

Inventories consist of the following:

	1984	1983
Finished goods	\$3,576,306	\$3,242,905
Work-in-process	1,024,016	1,922,579
Raw materials, parts and supplies	4,121,626	4,796,620
	<u>\$8,721,948</u>	<u>\$9,962,104</u>

4. Long-term debt

	1984	1983
Revolving credit arrangement	\$ —	\$5,583,195
Class 'C' First Preference Shares issued to a bank	5,000,000	—
Capital assistance programs —		
Ontario Development Corporation, payable in sixty monthly payments commencing July 1, 1985, secured by land and a building	2,400,000	2,400,000
Federal Government, payable in annual installments of \$173,000 commencing June 1, 1981, secured by certain equipment	129,483	302,483
	<u>\$7,529,483</u>	<u>\$8,285,678</u>
Less-Current portion payable within one year	3,200,755	173,000
	<u>\$4,328,728</u>	<u>\$8,112,678</u>

(a) Bank Loans

In 1984 the Company obtained an unsecured line of credit with a bank under which it may borrow up to \$2,000,000 in either U.S. or Canadian funds. Interest on U.S. funds borrowed may be either at the bank's U.S. prime rate or $\frac{3}{4}\%$ over LIBOR, at the Company's option. Interest on Canadian funds may be either at the bank's Canadian prime rate or banker's acceptance rate plus the bank's published fee, at the Company's option. This agreement is in effect until April 30, 1985.

During 1983 and until cancelled in 1984 the Company had a revolving credit agreement with the same bank. This agreement could have been cancelled by written notice from either party. The Company's cancellation would have been effective immediately: the bank's cancellation would have been effective thirteen months after receipt of notice. Interest on U.S. funds borrowed was at the bank's U.S. prime rate or $\frac{3}{4}\%$ over LIBOR, at the Company's option. Interest on Canadian funds borrowed was at the bank's Canadian prime rate, or banker's acceptance rate plus the bank's published fee, at the Company's option. A fee of $\frac{1}{4}\%$ on not more than \$1,750,000 of the unused portion was required.

As security for the revolving credit agreement, the bank held an assignment of the accounts receivable, inventories and fire insurance of the Company. At December 31, 1983 and during 1984 until this agreement was cancelled, the Company was not in compliance with certain covenants of the credit agreement.

(b) Preference Shares Issued to a Bank

During 1984, the Company's wholly owned subsidiary issued 50,000 Class C, cumulative, redeemable, non-voting, First Preference Shares to a bank for \$5,000,000. Under the terms and conditions of these shares, the holder is entitled to receive cumulative quarterly dividends at a rate equal to half the average Canadian prime rate for the quarter plus 1.5%. Each year, commencing on April 15, 1985 an amount equal to the prior year's excess cash flow, as defined in the subscription agreement, is to be paid to the bank for the redemption of shares. If any shares remain outstanding on April 15, 1988 they will be redeemed as of that date. The Company had undertaken certain covenants and guarantees which it has complied with as of December 31, 1984.

These shares have been classified as long-term debt on the consolidated balance sheet because of their short redemption period. Cumulative dividends of \$258,198 have been paid and or accrued for during 1984 and are included as interest on long-term debt in the 1984 consolidated statement of income. Based on the 1984 excess cash flow, 28,312 of Class C cumulative shares will be redeemed on April 15, 1985 for \$2,831,272.

(c) Capital Assistance Programs

Under the terms of various capital assistance programs the Company has made certain ongoing commitments which it has complied with as of December 31, 1984 and 1983.

Aggregate repayments under these programs required in each of the next five years are as follows:

1985	\$369,483
1986	\$480,000
1987	\$480,000
1988	\$480,000
1989	\$480,000

5. Capital stock

During 1983 the Company increased its authorized capital by creating an additional 20,000,000 Special Shares issuable in series and cancelled 550,000 unissued Special Shares. The terms and conditions of each series of new Special Shares are fixed by resolution of the Company's Board of Directors.

10,000,000 Special Shares consisting of 9,000,000 non-voting, Second Preference Shares Series "A" and 1,000,000 voting, Second Preference Shares Series "B" were issued to its affiliate on November 22, 1983 for \$10 million. Both series are entitled to receive 10% cumulative dividends. At December 31, 1984 the unpaid cumulative dividends amounted to \$1,109,589 (1983 — \$109,589).

In consideration of its purchase of the new special shares this affiliate received 2,666,667 Common Share purchase warrants which are exercisable for five years from their date of issue. Each such warrant enables the holder to purchase one Common Share

for \$3.75. The affiliate may pay for such Common Shares in cash or by surrender of Second Preference Shares for a credit equal to their purchase price plus accrued and unpaid dividends.

6. Earnings per share

The fully diluted earnings per share for 1984 were calculated on the assumption that all the warrants (Note 5) had been exercised and the common shares purchased as of January 1, 1984.

The fully diluted losses per share in 1983 were antidilutive and therefore have not been disclosed. These fully diluted losses per share were calculated on the assumption that all the warrants (Note 5) had been exercised and common shares purchased as of November 22, 1983, their date of issue.

7. Loss carry-forwards

The Company has loss carry-forwards for accounting purposes of approximately \$7.7 million (1983 — \$9.6 million) which have not been recognized in the financial statements. The tax benefits relating to these loss carry-forwards expire beginning in 1987.

8. Commitments

(a) Long-Term Leases

Buildings are rented under leases which expire at various dates between 1985 and 1990. Rental expense related to these leases, excluding property taxes and insurance, amounted to approximately \$293,000 in 1984 (1983 — \$262,000). Rental commitments for the next five years under these leases are as follows:

1985	\$315,000
1986	\$320,000
1987	\$320,000
1988	\$264,000
1989	\$184,000

(b) Pension Plan

The Company has a pension plan covering salaried employees. As of December 31, 1984 and 1983 there was no unfunded past service liability. 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, unless there is sufficient surplus in the plan to provide for such costs. No provision was made in 1984 due to a surplus in the plan. In 1983 \$84,400 was provided and is reflected in the consolidated statement of income.

9. Segmented information

The Company and its subsidiary manufacture and supply automotive products. Export sales for 1984 approximated \$38,000,000 (1983 — \$31,000,000) of which 99% (1983 — 98%) were made to the U.S.A.

10. Related party transactions

Approximately 71% of the Common Shares and 100% of Preference Shares Series 'A' and 'B' of the Company are owned by its affiliate, Maremont Corporation ("Maremont"). Purchases of materials and supplies from Maremont in 1984 approximated \$4,567,000 (1983 — \$3,739,000). Sales to Maremont in 1984 approximated \$1,953,000 (1983 — \$2,288,000). During 1983 the Company repaid short term loans from Maremont of \$7,000,000 Canadian and \$1,000,000 U.S.

VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

Five Year Comparative Summary of Operations

	1984	1983	1982	1981	1980
Net sales	\$49,370,420	\$43,259,810	\$48,135,617	\$47,082,550	\$40,423,448
Cost of sales	41,725,973	36,522,685	42,810,692	39,952,035	33,809,747
Gross profit	\$ 7,644,447	\$ 6,737,125	\$ 5,324,925	\$ 7,130,515	\$ 6,613,701
Selling, general and administrative expenses	5,445,226	5,888,908	6,127,891	6,067,198	5,466,433
Operating income (loss)	\$ 2,199,221	\$ 848,217	\$ (802,966)	\$ 1,063,317	\$ 1,147,268
Interest expense, net	185,575	501,847	1,428,565	1,618,996	1,245,840
Income (loss) from continuing operations	\$ 2,013,646	\$ 346,370	\$ (2,231,531)	\$ (555,679)	\$ (98,572)
Loss from discontinued operations	—	(1,051,411)	(4,327,728)	(2,447,763)	(174,159)
	\$ 2,013,646	\$ (705,041)	\$ (6,559,259)	\$ (3,003,442)	\$ (272,731)
Recovery of (provision for) income taxes	(873,771)	—	—	289,000	196,844
Income (loss) before extraordinary items	\$ 1,139,875	\$ (705,041)	\$ (6,559,259)	\$ (2,714,442)	\$ (75,887)
Extraordinary items	873,771	(1,624,917)	—	—	—
Net income (loss)	\$ 2,013,646	\$ (2,329,958)	\$ (6,559,259)	\$ (2,714,442)	\$ (75,887)
Earnings (loss) per common share					
Basic —					
Before extraordinary items	\$.08	\$ (.49)	\$ (3.91)	\$ (1.62)	\$ (.05)
Net income (loss)	\$.60	\$ (1.45)	\$ (3.91)	\$ (1.62)	\$ (.05)
Fully diluted —					
Before extraordinary items	\$.26	\$ (.49)	\$ (3.91)	\$ (1.62)	\$ (.05)
Net income (loss)	\$.46	\$ (1.45)	\$ (3.91)	\$ (1.62)	\$ (.05)

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

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:

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

89 Mills Road, Ajax, Ontario L1S 2M2

Manufacturing Operations:

Toronto, Mississauga, and Ajax, Ontario