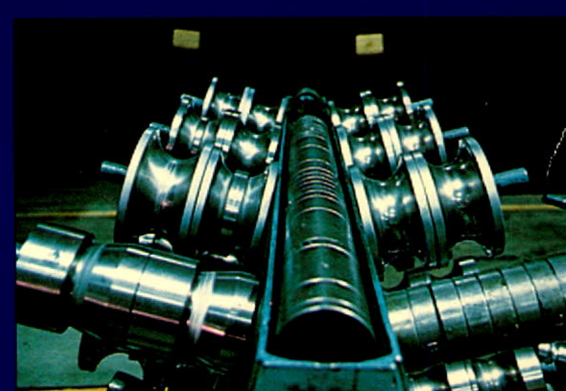
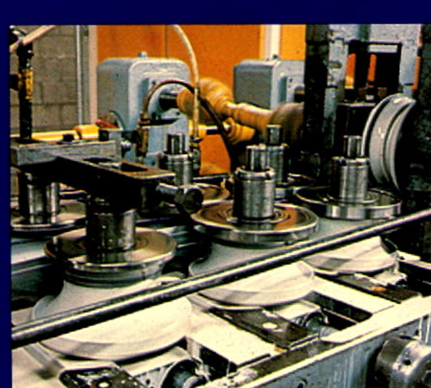
VAN DER HOUT ASSOCIATES LIMITED

1980 Annual Report





VAN DER HOUT ASSOCIATES LIMITED

Corporate Directory

OFFICERS:

John B. Van Der Hout, Chairman
Sverre E. Lunder, President
Susan M. Fletcher, Treasurer
Brian A. Bennett, Vice-President, Manufacturing
Barry S. Arbus, Secretary

DIRECTORS:

Barry S. Arbus, Partner, Lyons Arbus, Barristers and Solicitors
Kenneth C. Cornelius, Vice-President and Chief Financial Officer, Maremont Corporation
Roy A. Edwards, Vice-President, Aftermarket Sales
K. Gordon Green, Vice-President and Director, Dominion Securities Limited
Sverre E. Lunder, President
William W. Mittlesteadt, Vice-President, Shock Absorber Operations, 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, Toronto

LISTED:

Toronto Stock Exchange

Highlights

	1980	1979
Sales	**$40,423,448**	$44,984,137
Net income (loss)	**$(75,887)**	$ 1,593,960
Earnings per share	**$(.05)**	$ .95
Number of shares outstanding	**1,681,608**	1,681,608
Number of registered shareholders	**675**	794
Shareholders' equity	**$13,219,446**	$13,295,333
Book value per share	**$ 7.86**	$ 7.91

To Our Shareholders:

The year 1980 was a difficult one for the Company. Sales totalled $40,423,448, a decline of 10.1% from the $44,984,137 reported last year. The Company had a net loss of $75,887 or 5¢ per share compared to the $1,593,960 profit or 95¢ per share produced for 1979.

The lower sales level was a direct result of the dramatic decline in the sales of original equipment manufacturers, including heavy-duty truck and commercial vehicle makers as well as the major North American automobile companies. The Canadian replacement market was relatively stronger than the original equipment sector but did not experience sufficent growth to offset the total industry decline.

The lack of profitability during 1980 was the result of lower sales combined with record-high interest rates, ever increasing material costs and downward pricing pressure. Also, the erratic order flow from a depressed market caused higher production expenses and costly reallocations of the Company's resources.

In spite of these many difficulties, we are expanding our business base through the securing of a long-term contract with Volkswagen of America for the supply of a major portion of their shock absorber and strut suspension-unit requirements. To support this significant expansion, we acquired a new plant in Ingersoll, Ontario which is currently being equipped for a mid-1981 start-up. In addition to adding this important Volkswagen volume to our sales, the Ingersoll facility will provide us with the first Canadian strut suspension-unit production operation. This expansion will be funded jointly by the Ontario Government, Maremont Corporation and the Company.

The outlook for 1981 is not encouraging in light of continued slow car and truck sales, projected high interest rates and forecasted sluggish growth generally in the U.S. and Canadian economies. We will also incur the usual start-up costs related to the new manufacturing facilities in Ingersoll. Simultaneously, our daily focus will continue to be on cost reduction and efficiency improvements. In the current depressed economic environment we think it is unlikely that we will see any dramatic improvement in our operating performance in 1981.

Looking beyond the current year, Management remains firmly optimistic about our Company's future stake in the rapidly shifting and evolving global automotive industry.

On Behalf of the Board,

S. E. Lunder
President

Consolidated Statements of Income

for the years ended December 31, 1980 and 1979

	1980	1979
Net sales	$40,423,448	$44,984,137
Cost of sales	33,809,747	36,015,262
Gross profit	$ 6,613,701	$ 8,968,875
Expenses:		
Selling, general and administrative expenses	$ 5,653,249	$ 5,640,154
Interest on long-term debt	1,217,101	508,895
Other interest	28,739	250,866
	$ 6,899,089	$ 6,399,915
Income (Loss) before income taxes	$(285,388)	$ 2,568,960
Provision for income taxes	(209,501)	975,000
Net income (loss) for the year	$(75,887)	$ 1,593,960
Earnings (Loss) per share	$(.05)	$ .95

The accompanying notes are an integral part of these statements.

Consolidated Statements of Retained Earnings

for the years ended December 31, 1980 and 1979

	1980	1979
Balance, beginning of the year	$ 7,149,225	$ 5,555,265
Add - Net income for the year	(75,887)	1,593,960
Balance, end of the year	$ 7,073,338	$ 7,149,225

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1980 and 1979

	1980	1979
Sources of working capital:		
Operations —		
Income before extraordinary items	$(75,887)	$ 1,593,960
Charges not requiring an outlay of funds —		
Depreciation and amortization	799,043	716,896
Increase in deferred income taxes	174,843	395,000
Gain on disposal of equipment	(24,332)	(27,198)
Total provided from operations	$ 873,667	$ 2,678,658
Increase in long-term debt	5,812,632	2,931
Proceeds from disposal of equipment	46,050	372,630
Total sources of working capital	$ 6,732,349	$ 3,054,219
Applications of working capital:		
Additions to property, plant and equipment	$ 3,128,670	$ 2,853,937
Net increase in working capital	$ 3,603,679	$ 200,282
Changes in working capital:		
Increase (decrease) in current assets —		
Receivables	$(164,398)	$ 378,532
Inventories	(2,372,868)	5,267,551
Income taxes recoverable	512,808	(53,109)
Prepaid expenses	272,872	55,974
Decrease (increase) in current liabilities —		
Bank indebtedness	2,798,684	(2,168,224)
Accounts payable and accrued liabilities	2,653,681	(2,664,627)
Payable to affiliate	202,796	(148,072)
Income taxes payable	464,048	(464,048)
Current portion of long-term debt	(763,944)	(3,695)
Net increase in working capital	$ 3,603,679	$ 200,282

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

December 31, 1980 and 1979

ASSETS	1980	1979
Current Assets:		
Receivables —		
Trade, less allowances of $193,264		
(1979 - $192,224) (Note 3)	$ 7,063,195	$ 7,147,393
Sundry	593,665	631,159
Affiliate	118,211	160,917
Inventories (Notes 2 and 3)	12,532,235	14,905,103
Income taxes recoverable	512,808	—
Prepaid expenses	382,445	109,573
Total current assets	$21,202,559	$22,954,145
Property, Plant and Equipment, at cost (Note 3)		
Land	$ 1,083,159	$ 828,909
Buildings and improvements	3,889,480	2,655,554
Machinery and equipment	12,769,497	11,437,041
	$17,742,136	$14,921,504
Less - Accumulated depreciation and amortization	6,910,410	6,397,687
	$10,831,726	$ 8,523,817
Total	$32,034,285	$31,477,962

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

Approved on behalf of the Board:

John B. Van Der Hout, *Director*

Sverre E. Lunder, *Director*

Liabilities and Shareholders' Equity	1980	1979
Current Liabilities:		
Bank indebtedness (Note 3)	$ 1,073,860	$ 3,872,544
Accounts payable and accrued liabilities	3,963,511	6,617,192
Payable to affiliate	188,712	391,508
Income taxes payable	—	464,048
Current portion of long-term debt (Note 3)	$806,649	42,705
Total current liabilities	$ 6,032,732	$11,387,997
Long-term Debt, less current portion included above (Note 3)	$10,476,264	$ 4,663,632
Deferred Income Taxes	$ 2,305,843	$ 2,131,000
Shareholders' Equity:		
Capital stock —		
Authorized:		
1,800,000 Common shares, no par value		
Issued:		
1,681,608 Shares	$ 5,857,142	$ 5,857,142
Contributed surplus	308,488	308,488
Retained earnings per accompanying statements	7,073,338	7,149,225
	$13,238,968	$13,314,855
Less - 2,600 Shares held in treasury, at cost	19,522	19,522
Total shareholders' equity	$13,219,446	$13,295,333
Total	$32,034,285	$31,477,962

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, 1980 and 1979, and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was 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, 1980 and 1979, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Toronto, Ontario
February 23, 1981.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1980 and 1979

1. Summary of significant accounting policies

(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. Inventories

Inventories consist of the following:

	1980	1979
Finished goods	$ 6,066,545	$ 6,106,692
Work-in-process	1,255,983	1,644,447
Raw materials, parts and supplies	5,209,707	7,153,964
	$12,532,235	$14,905,103

3. Long-term debt

	1980	1979
Revolving credit arrangements	$ 9,086,313	$4,416,250
Capital assistance programs —		
Ontario Development Corporation, payable in sixty monthly payments commencing January 15, 1986, secured by land and a building	636,586	—
Federal Government, payable in five annual payments commencing June 1, 1981, secured by certain equipment	588,200	96,896
13% Mortgage payable, due 1981, secured by a property and building	626,225	—
Interest-free loan from affiliate	345,589	—
9½% Mortgage,repaid in 1980	—	193,191
	$11,282,913	$4,706,337
Less-Current portion payable within one year	806,649	42,705
	$10,476,264	$4,663,632

The Company renegotiated its arrangements with a bank during 1980 to consolidate its revolving credit agreement and open line of short-term credit into one facility. Under this facility, the Company may borrow up to $10,000,000 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 LIBOR plus ¾%, 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 $1,000,000 of the unused portion is required.

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, 1980.

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

1981	$180,424
1982	180,424
1983	180,424
1984	46,928
1985	—

4. 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, 1980 approximated $374,000 (1979 - $352,000).

5. 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 $258,000 in 1980 (1979 — $174,000). Rental commitments for the next five years under these leases are as follows:

1981	$242,000
1982	242,000
1983	214,000
1984	174.000
1985	174,000

(b) Pension Plan

The Company has a pension plan covering salaried employees. As of December 31,1980, the unfunded past service liability with respect to the plan amounted to approximately $246,000 (1979 - $272,000). 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 1980, $83,000 (1979 - $76,000) was provided and is reflected in the consolidated statements of income.

(c) Ingersoll Plant

During 1980 the Company acquired land and a building in Ingersoll, Ontario for the purpose of manufacturing shock absorbers. The capital cost of the new plant and equipment, which is expected to be $10,200,000, will be funded jointly by the Company, an affiliate, and the Ontario Development Corporation (Note 3). As of December 31, 1980 approximately $1,700,000 has been incurred and is included in Property, Plant and Equipment on the consolidated balance sheet.

6. Segmented information

The Company and its subsidiary manufacture and supply automotive products. Export sales for the year ended December 31, 1980 approximated $19,229,000 of which 94% were made to the U.S.A.

7. Related party transactions

The Company is approximately 71% owned by its affiliate, Maremont Corporation. Purchases from Maremont for 1980 approximated $1,600,000. Other transactions in 1980 were insignificant.

Five Year Comparative Summary of Operations

	1980	1979	1978	1977	1976
Net sales	$40,423,448	$44,984,137	$41,474,840	$35,200,877	$30,745,661
Cost of sales	33,809,747	36,015,262	34,058,452	28,409,392	25,568,911
Gross profit	$ 6,613,701	$ 8,968,875	$ 7,416,388	$ 6,791,485	$ 5,176,750
Selling, general and administrative expenses	5,653,249	5,640,154	5,152,408	5,026,388	5,702,925
Operating income (loss)	$ 960,452	$ 3,328,721	$ 2,263,980	$ 1,765,097	$(526,175)
Interest expenses	1,245,840	759,761	532,836	565,677	560,382
Income (Loss) from consolidated operations before income taxes	$(285,388)	$ 2,568,960	$ 1,731,144	$ 1,199,420	$(1,086,557)
Provision for (recovery of) income taxes	(209,501)	975,000	610,000	517,248	(247,919)
Income (Loss) from consolidated operations	$(75,887)	$ 1,593,960	$ 1,121,144	$ 682,172	$(838,638)
Minority interest	—	—	(13,340)	(18,798)	(19,394)
Income (Loss) before extraordinary items	$(75,887)	$ 1,593,960	$ 1,107,804	$ 663,374	$(858,032)
Extraordinary Items	—	—	574,105	—	—
Net income (loss)	$(75,887)	$ 1,593,960	$ 1,681,909	$ 663,374	$(858,032)
Earnings (Loss) per share					
Before extraordinary items	$(.05)	$ .95	$ .66	$ .40	$(.51)
After extraordinary items	$(.05)	$ .95	$ 1.00	$ .40	$(.51)

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

VDH

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