

*for*  
**D. A. STUART LTD.**  
formerly D. A. Stuart Oil Co., Limited



**ANNUAL REPORT**  

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**1987**

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OCT 26 1987



## D. A. STUART LTD.

### DIRECTORS and OFFICERS

#### Directors

DOUGLAS F. HASLAM  
FREDERICK W. HOHAGE  
CHRISTOPHER T. LOUGHIN  
WILLIAM H. MANN  
NORMAN J. MUNN, Q.C.  
Dr. STEPHEN P. OGRYZLO  
CHARLES E. SANTANGELO  
Dr. HEYO SCHMIEDEKNECHT  
HERIBERT WERHAHN

#### Officers of the Company

*Chairman of the Board*  
HERIBERT WERHAHN  
*President*  
CHARLES E. SANTANGELO  
*Secretary and Vice President, Finance*  
DOUGLAS F. HASLAM

#### Transfer Agents and Registrars

NATIONAL TRUST COMPANY  
4 King Street West  
Toronto, Ontario M5H 3W7

#### General Office

7575 Plaza Court  
Willowbrook, Illinois 60521

#### Head Office

43 Upton Road  
Scarborough, Ontario, Canada M1L 2C1

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The Annual Meeting of Shareholders will be held in the Library of the Royal York Hotel, Toronto, Canada, on Thursday, October 8, 1987 at 11 A.M. Toronto Time.



## Report of the Directors

**To the Shareholders:**

Consolidated net sales for the year ended May 31, 1987 were U.S. \$42,796,666 versus U.S. \$45,364,676 for the prior year. Net income for the year was U.S. \$3,583,007 (\$7.85 per share) compared to U.S. \$1,875,610 (\$4.11 per share) for the previous year. The current year results include a gain on termination of a pension plan in the United States amounting to U.S. \$1,350,000 net of applicable income taxes. Also included is a foreign exchange gain of U.S. \$453,523 versus a gain of U.S. \$157,750 for the prior year.

A new pension plan similar in all aspects to the old plan has been established for the U.S. operation.

The decline in sales is attributable principally to lower sales by the U.S. operations. These lower sales are due, in a large part, to the strike experienced by a major customer and the decision by a large steel customer to manufacture their own products. Large export sales by both the U.S. and West German operations were responsible for the excellent results achieved during the fourth quarter. All other operations performed well.

On April 7, 1987 your company purchased the business of Torco USA Lubricants Corporation located in Los Angeles, California in order to strengthen its market position on the West Coast and to enhance its capability to export products to the Pacific Rim.

Torco USA Lubricants Corporation had sales of approximately U.S. \$4,000,000 in its last fiscal year in metal working lubricants, gear oils and specialty motor oils.

Due to certain changes in legislation and reporting requirements the Directors have decided to change the year end of the Company from May 31 to December 31 effective with the seven month period ending December 31, 1987.

Dr. Stephen P. Ogryzlo who has been a director of the Company since October 1970 will not be standing for re-election as a director. The Board of Directors wishes to acknowledge the many valuable contributions and wise counsel of Dr. Ogryzlo while a member of the Board.

The Management and Directors wish to express their appreciation to all employees for their achievements this year.

On behalf of the Board

**HERIBERT WERHAHN**  
Chairman

**C. E. SANTANGELO**  
President

Toronto, Canada  
September 1, 1987

# D. A. STUART LTD.

(Incorporated under the laws of Ontario)  
(formerly D. A. Stuart Oil Co., Limited)

## Consolidated

(Expressed in United

### ASSETS

	May 31	
	1987	1986
<b>Current Assets</b>		
Cash and short-term deposits .....	\$ 1,993,331	\$ 1,186,312
Accounts receivable .....	11,115,111	5,498,619
Inventories .....	6,758,307	6,510,584
Advances and prepaid expenses .....	186,451	177,218
	<u>20,053,200</u>	<u>13,372,733</u>
<b>Property, Plant and Equipment</b>		
Land, buildings and equipment .....	14,108,610	11,112,125
Less: accumulated depreciation .....	6,608,231	5,725,000
	<u>7,500,379</u>	<u>5,387,125</u>
<b>Excess of Cost of Acquired Assets Over Values Assigned, less amortization .....</b>	<b>3,669,501</b>	<b>3,628,015</b>
<b>Other Assets .....</b>	<b>322,503</b>	<b>320,634</b>
	<u><b>\$31,545,583</b></u>	<u><b>\$22,708,507</b></u>

Approved by the Board:

HERIBERT WERHAHN, Director  
CHARLES E. SANTANGELO, Director

### AUDITORS'

To the Shareholders of  
D. A. Stuart Ltd.

We have examined the consolidated balance sheet, expressed in United States currency, of D. A. Stuart Ltd. (formerly D. A. Stuart Oil Co., Limited) as at May 31, 1987 and the consolidated statements of income, retained earnings and changes in financial position, all expressed in United States currency, for the year 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.

July 17, 1987



# Balance Sheet

(States currency)

## LIABILITIES

	May 31	
	1987	1986
<b>Current Liabilities</b>		
Bank indebtedness .....	\$ 500,000	\$ —
Accounts payable and accrued liabilities .....	4,549,796	3,007,385
Income taxes payable (Note 7) .....	2,337,194	538,849
Current portion of long-term debt .....	2,610,283	31,936
Dividend payable .....	<u>34,087</u>	<u>33,074</u>
	<u>10,031,360</u>	<u>3,611,244</u>
<b>Long-Term Debt (Note 3)</b> .....	4,500,000	5,600,000
<b>Deferred Income Taxes</b> .....	688,580	666,481
<b>Minority Interest</b> .....	22,600	22,500

## SHAREHOLDERS' EQUITY

Share capital:		
Authorized — 2,000,000 common shares no par value		
Issued — 456,256 common shares .....	424,608	424,608
Contributed surplus .....	11,880	11,880
Retained earnings (Note 8) .....	16,512,293	13,064,522
Equity adjustment arising from foreign currency translation .....	<u>(645,738)</u>	<u>(692,728)</u>
	<u>16,303,043</u>	<u>12,808,282</u>
	<u><u>\$31,545,583</u></u>	<u><u>\$22,708,507</u></u>

## REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Price Waterhouse*  
Chartered Accountants

# D. A. STUART LTD.

## Consolidated Statement of Income

(Expressed in United States currency)

	Year Ended May 31	1987	1986
Net sales .....	<u>\$42,796,666</u>	<u>\$45,364,676</u>	
Royalties and other income .....	<u>273,258</u>	<u>310,019</u>	
	<u><b>43,069,924</b></u>	<u><b>45,674,695</b></u>	
Costs and expenses			
Cost of products sold .....	29,576,682	32,666,691	
Selling and administrative expenses .....	9,933,403	9,371,532	
Interest expense, including interest on long-term debt of \$511,286 (1986 — \$742,598) .....	529,854	761,731	
Gain on foreign exchange .....	(453,523)	(157,750)	
	<u><b>39,586,416</b></u>	<u><b>42,642,204</b></u>	
Income before the undernoted items .....	3,483,508	3,032,491	
Gain on termination of pension plan (Note 6) .....	2,700,000	—	
Income before income taxes and extraordinary item .....	6,183,508	3,032,491	
Income taxes:			
Current .....	1,192,748	1,179,627	
Deferred .....	1,407,753	80,254	
	<u><b>2,600,501</b></u>	<u><b>1,259,881</b></u>	
Income Before Extraordinary Item .....	3,583,007	1,772,610	
Extraordinary item:			
Income tax reduction realized on the carry-forward of prior years' losses .....	—	103,000	
Net Income for the year .....	<u><b>\$ 3,583,007</b></u>	<u><b>\$ 1,875,610</b></u>	
Per Common Share:			
Earnings before extraordinary item .....	<u><b>\$7.85</b></u>	<u><b>\$3.89</b></u>	
Net Earnings .....	<u><b>\$7.85</b></u>	<u><b>\$4.11</b></u>	

## Consolidated Statement of Retained Earnings

(Expressed in United States currency)

	Year Ended May 31	1987	1986
Retained earnings, beginning of year .....	<u>\$13,064,522</u>	<u>\$11,322,503</u>	
Net income for the year .....	<u>3,583,007</u>	<u>1,875,610</u>	
	<u><b>16,647,529</b></u>	<u><b>13,198,113</b></u>	
Dividends on minority interest .....	(1,353)	(1,350)	
Dividends on common shares (Note 2) .....	(133,883)	(132,241)	
Retained earnings, end of year .....	<u><b>\$16,512,293</b></u>	<u><b>\$13,064,522</b></u>	



## Consolidated Statement of Changes in Financial Position

(Expressed in United States currency)

	Year Ended May 31	
	1987	1986
<b>Cash provided by operating activities</b>		
Income before extraordinary item .....	\$ 3,583,007	\$ 1,772,610
Adjusted for non-cash items —		
Depreciation .....	722,034	586,282
Amortization of excess of cost of acquired assets over values assigned .....	108,514	109,002
Deferred income tax .....	22,009	84,087
Decrease in non-cash working capital .....	<u>46,668</u>	<u>827,090</u>
	<u>4,482,232</u>	<u>3,379,071</u>
<b>Cash provided by (used in) investing activities</b>		
Acquisition of business (Note 10) .....	(2,172,656)	—
Additions to property, plant and equipment .....	(666,393)	(448,237)
Other .....	<u>(101,028)</u>	<u>111,866</u>
	<u>(2,940,077)</u>	<u>(336,371)</u>
<b>Cash provided by (used in) financing activities</b>		
Proceeds on issue of long-term debt .....	2,000,000	—
Reduction in long-term debt .....	(3,100,000)	(1,540,331)
Dividends .....	(135,236)	(133,591)
Other .....	<u>100</u>	<u>—</u>
	<u>(1,235,136)</u>	<u>(1,673,922)</u>
<b>Increase in cash and short-term deposits during the year .....</b>	<b>307,019</b>	<b>1,368,778</b>
<b>Cash and short-term deposits net of bank indebtedness, beginning of year .....</b>	<b>1,186,312</b>	<b>(182,466)</b>
<b>Cash and short-term deposits net of bank indebtedness, end of year .....</b>	<b><u>\$ 1,493,331</u></b>	<b><u>\$ 1,186,312</u></b>

# D. A. STUART LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States currency)

May 31, 1987

### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**General** — The consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles, which conform in all material respects with international accounting standards.

**Principles of Consolidation** — The accompanying consolidated financial statements include the accounts of D. A. Stuart Ltd. and its subsidiary companies, the common shares of which are all wholly owned.

**Foreign Currency Translation** — The Company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Accounts maintained in other than United States currency have been translated on the following basis:

Revenues and expenses are translated at rates of exchange prevailing during the year. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Unrealized gains and losses arising on translation of assets and liabilities are deferred except for gains and losses on intercompany trading balances which are included in income.

Realized gains or losses on translation of foreign currency accounts are recognized in income for the year in which they arise.

**Inventories** — Raw materials are valued at the lower of cost (first-in, first-out method) and replacement cost. Finished goods are valued at the lower of cost (first-in, first-out method) and net realizable value.

**Property, Plant and Equipment** — Property, plant and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates varying between 2½% and 25% which are based upon the estimated useful lives of the assets.

**Excess of Cost of Assets Acquired Over Values Assigned** — The excess is being amortized over 40 years on the straight-line method.

### NOTE 2 — DIVIDENDS:

Dividends on common shares, as shown in the consolidated statement of retained earnings, represent the United States currency equivalent of dividends which were declared in Canadian funds (1987 and 1986 — \$0.40 Canadian per share).

### NOTE 3 — LONG-TERM DEBT:

	1987	1986
Term loan (unsecured) dated June 30, 1983. The loan is repayable in principal amounts of \$500,000 on each of June 30, 1988, 1989, 1990, and 1991. The applicable interest rate on May 31, 1987 was 8.7868% .....	\$ 2,000,000	\$ 2,000,000
Revolving loan (unsecured), dated June 30, 1983. The loan is repayable at any time but not later than June 30, 1988. The interest rate on May 31, 1987 was 8.7868%.	2,600,000	600,000
Interim financing note, payable to a related party. The note is subordinated to the loans dated June 30, 1983. If not retired earlier, it is repayable June 30, 1992. Interest is payable at the same rate as the loans dated June 30, 1983 .....	2,500,000	3,000,000
8¾% mortgage bond secured by land and buildings of D. A. Stuart Oil GmbH. Repayment is made in quarterly instalments of 18,750 Deutsch Marks (\$10,283 U.S.) .....	10,283	31,936
Less: Current portion .....	7,110,283	5,631,936
Long-term portion .....	<u>2,610,283</u>	<u>31,936</u>
	<u><u>\$ 4,500,000</u></u>	<u><u>\$ 5,600,000</u></u>

The interest rate on the loans dated June 30, 1983 is 2% over the commercial paper rate of the lender. These loans have restrictive covenants as follows:

Except with the consent of the lender,

- (a) the retirement of subordinated debt is not to exceed 35% of the consolidated net income of the Company in any year; and
- (b) restricted payments (defined as cash dividends declared or paid by the Company subsequent to May 31, 1983, redemptions or purchase by the Company of any of its shares, and payments to retire subordinated debt) are not to exceed \$150,000 plus 35% of consolidated net income less the excess of any restricted payments over amounts received after May 31, 1983 through the issuance of additional shares by the Company.




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**NOTE 4 – SEGMENTED INFORMATION:**

The Company's consolidated net sales, contribution to income and identifiable assets by principal geographic location of operations were as follows:

	1987	1986
Net sales:		
Canada .....	\$ 5,250,939	\$ 5,395,576
United States .....	30,660,761	33,011,060
Europe .....	7,240,775	7,246,806
	<u>43,152,475</u>	<u>45,653,442</u>
Inter-area eliminations .....	(355,809)	(288,766)
Net Sales .....	<u>\$42,796,666</u>	<u>\$45,364,676</u>
Export Sales (included above) .....	<u>\$ 6,614,318</u>	<u>\$ 7,503,121</u>
Contributions to income:		
Canada .....	\$ 460,523	\$ 390,978
United States .....	1,746,177	1,614,668
Europe .....	1,021,701	1,006,577
	<u>3,228,401</u>	<u>3,012,223</u>
Unallocated general and administrative expenses .....	(45,318)	(112,146)
Corporate interest and royalty income .....	107,390	137,595
Unrealized inter-area exchange gains (losses) .....	193,035	(5,181)
Income Before Gain on Termination of Pension Plan, Income Taxes and Extraordinary Item .....	<u>\$ 3,483,508</u>	<u>\$ 3,032,491</u>
Identifiable assets:		
Canada .....	\$ 5,619,821	\$ 5,048,056
United States .....	23,895,197	16,963,936
Europe .....	4,548,896	3,558,235
	<u>34,063,914</u>	<u>25,570,227</u>
Inter-area eliminations .....	(3,133,201)	(3,172,735)
Corporate assets .....	614,870	311,015
Assets .....	<u>\$31,545,583</u>	<u>\$22,708,507</u>

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**NOTE 5 – RELATED PARTY TRANSACTIONS:**

The Company had no significant related party transactions during the year except as disclosed in Note 3.

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**NOTE 6 – PENSION PLANS:**

The Company has a defined benefit pension plan in the United States and defined contribution plans in certain other countries. Effective May 31, 1987, the United States plan was terminated and the Company has made an application for a pension reversion of approximately \$2,700,000. Such amount has been included in income for the year ended May 31, 1987. No pension expense was recorded for 1987 or 1986 in respect of the United States plan in view of the surplus existing at that time.

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**NOTE 7 – INCOME TAXES:**

The differences between the effective tax rate of the amounts recorded and the amounts computed by applying the statutory Canadian income tax rate to income before income taxes are explained as follows:

	% of pre-tax income	
	1987	1986
Income tax computed at statutory income tax rate .....	53.0	52.8
Differing asset bases for book and tax purposes in foreign jurisdiction .....	(4.6)	(2.2)
Investment and other tax credits .....	(0.8)	(0.8)
Income taxed at different rates in foreign jurisdictions .....	(3.8)	(5.7)
Other .....	(1.7)	(2.6)
Effective tax rate .....	<u>42.1</u>	<u>41.5</u>

# D. A. STUART LTD.

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## NOTE 8 – RETAINED EARNINGS:

Retained earnings in the amount of \$1,000,000 has been appropriated as a reserve for self-insurance of undetermined risks for which the Company is unable to obtain insurance at reasonable rates.

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## NOTE 9 – CONTINGENCY:

A complaint has been filed against the Company and others by the Department of Environmental Management of the State of Indiana alleging contamination of certain formerly owned property. The Company's management is of the opinion that the Company is free of liability in this matter and, accordingly, no provision for loss is necessary in the financial statements.

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## NOTE 10 – ACQUISITION:

On April 7, 1987, the Company acquired the business and assets of Torco USA Lubricants Corporation located in Los Angeles, California for cash consideration of \$2,172,656. The assets acquired consisted principally of inventory and property, plant and equipment.

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## NOTE 11 – CHANGE IN NAME:

During the year, the name of the Company was changed from D.A. Stuart Oil Co., Limited to D. A. Stuart Ltd.

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## FIVE YEAR COMPARATIVE REVIEW OF OPERATIONS

	Net sales	Income before income taxes	Income taxes	Net income	Dividends declared	Income retained
1987	\$42,796,666	\$6,183,508	\$2,600,501	\$3,583,007	\$135,236	\$3,447,771
1986	45,364,676	3,032,491	1,259,881	1,875,610 (1)	133,591	1,742,019
1985	49,164,207	3,622,284	1,539,341	2,082,943	138,500	1,944,443
1984	43,791,955	2,398,089	791,784	1,606,305	111,142	1,495,163
1983	36,588,136	686,490	(145,224)	831,714	74,701	757,013

(1) After extraordinary gain of \$103,000.



