



**VAN DER HOUT ASSOCIATES LIMITED**  
**1985 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

	1985	1984
Sales	\$50,068,388	\$49,370,420
Net income	\$ 2,553,823	\$ 2,013,646
Earnings available for common shareholders	\$ 1,553,823	\$ 1,013,646
Earnings per common share	\$ .93	\$ .60
Fully diluted earnings per common share	\$ .59	\$ .46
Number of common shares outstanding	1,679,008	1,679,008
Number of registered shareholders	478	525
Total shareholders' equity	\$16,183,256	\$13,629,433
Total common shareholders' equity	\$ 4,073,667	\$ 2,519,844
Book value per common share	\$ 2.43	\$ 1.50

## To Our Shareholders:

1985 marked a year of continuing progress for the Company. Net sales increased 1.4% to \$50,068,388 compared to \$49,370,420 in 1984. Net income for 1985 increased to \$2,553,823 or 93¢ per share from \$2,013,646 or 60¢ per share in 1984.

The Shock Absorber Products Division's operating profit declined slightly compared to 1984. The unfavourable impact of a four week labour stoppage and lower productivity in the second half of the year offset the profit gains achieved through continued product restructuring, customer service, and other operational improvements.

The Exhaust Products Division returned to a profitable operating level in the fourth quarter after a substantial restructuring process which began in 1984. The Division showed marked improvements in productivity and product quality resulting from realignment of manufacturing operations.

Steady improvements in operating results should continue into 1986 as ongoing opportunities and challenges have been identified for both Divisions. Further improvements in productivity, quality and customer service levels are being emphasized through the continued participation of all employees.

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, 1985 and 1984

	1985	1984
<b>Net sales</b>	\$50,068,388	\$49,370,420
Cost of sales	40,925,193	41,725,973
<b>Gross profit</b>	\$ 9,143,195	\$ 7,644,447
Selling, general and administrative expenses	\$ 6,574,458	\$ 5,445,226
<b>Operating income</b>	\$ 2,568,737	\$ 2,199,221
Interest on long-term debt	323,743	426,460
Interest income	(308,829)	(240,885)
<b>Income before income taxes</b>	\$ 2,553,823	\$ 2,013,646
Provision for income taxes	1,091,000	873,771
<b>Income before extraordinary item</b>	\$ 1,462,823	\$ 1,139,875
Extraordinary item (Note 2)	1,091,000	873,771
<b>Net income</b>	\$ 2,553,823	\$ 2,013,646
<b>Basic earnings per common share</b> (Note 6):		
Before extraordinary item	\$ .28	\$ .08
<b>Net income</b>	\$ .93	\$ .60

The accompanying notes are an integral part of these statements.

### Consolidated Statements of Retained Earnings (Deficit)

for the years ended December 31, 1985 and 1984

	1985	1984
<b>Balance, beginning of year</b>	\$(2,516,675)	\$(4,530,321)
<b>Net income for the year</b>	2,553,823	2,013,646
<b>Balance, end of year</b>	\$ 37,148	\$(2,516,675)

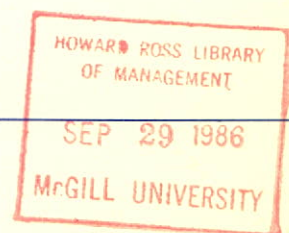
The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1985 and 1984

	1985	1984
<b>Operating Activities:</b>		
Income before extraordinary item	\$ 1,462,823	\$ 1,139,875
<i>Charges not requiring an outlay of funds –</i>		
Depreciation and amortization	908,867	808,156
Loss on disposal of equipment	–	83,310
Decrease in deferred income taxes	(17,572)	(80,053)
	\$ 2,354,118	\$ 1,951,288
Reduction in the provision for income taxes due to the application of prior years' loss carry-forwards	1,091,000	873,771
	\$ 3,445,118	\$ 2,825,059
<i>Changes in working capital –</i>		
Inventories	1,028,477	1,240,156
Receivables and prepaid expenses	344,664	1,965,307
Payables and accrued liabilities	(363,417)	382,146
Additions to property, plant and equipment	(971,387)	(720,100)
Proceeds from the disposal of property, plant and equipment	234,510	113,103
	\$ 3,717,965	\$ 5,805,671
<b>Financing Activities:</b>		
Redemption of Class 'C' First Preference Shares	\$ (5,000,000)	\$ –
Decrease in long-term debt	(315,885)	(5,756,195)
Proceeds from the issue of Class 'C' First Preference Shares	–	5,000,000
	\$ (5,315,885)	\$ (756,195)
<b>Investing Activities:</b>		
Proceeds from the repayment of note receivable	\$ 4,563,740	\$ –
Issue of note receivable	(2,298,250)	(4,563,740)
	\$ 2,265,490	\$ (4,563,740)
Increase in cash on hand	\$ 667,570	\$ 485,736
Cash on hand, beginning of year	548,011	62,275
Cash on hand, end of year	\$ 1,215,581	\$ 548,011

The accompanying notes are an integral part of these statements.





# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

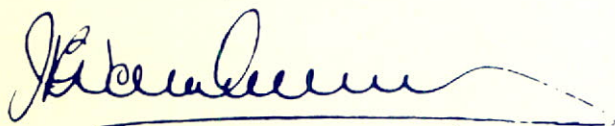
## Consolidated Balance Sheets

December 31, 1985 and 1984

<b>ASSETS</b>	1985	1984
<b>Current Assets:</b>		
Cash	\$ 1,215,581	\$ 548,011
Note receivable from affiliate	2,298,250	4,563,740
Accounts receivable —		
Trade, less allowances	4,450,008	4,541,206
Affiliate	276,679	654,378
Sundry	171,238	134,950
Inventories (Note 3)	7,693,471	8,721,948
Prepaid expenses	133,319	45,374
<b>Total Current Assets</b>	<b>\$16,238,546</b>	<b>\$19,209,607</b>
<b>Property, Plant and Equipment, at cost (Note 4):</b>		
Land	\$ 772,909	\$ 772,909
Buildings and improvements	2,107,748	2,054,628
Machinery and equipment	14,562,198	13,961,507
	\$17,442,855	\$16,789,044
Less — Accumulated depreciation and amortization	10,390,156	9,564,355
	\$ 7,052,699	\$ 7,224,689
<b>Total</b>	<b>\$23,291,245</b>	<b>\$26,434,296</b>

*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*

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1985</b>	<b>1984</b>
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 4,681,890	\$ 4,921,686
Payable to affiliate	174,011	297,632
Current portion of long-term debt (Note 4)	404,126	3,200,755
Total Current Liabilities	\$5,260,027	\$ 8,420,073
<b>Long-Term Debt</b> , net of current portion shown above (Note 4)	\$ 1,809,472	\$ 4,328,728
<b>Deferred Income Taxes</b>	\$ 38,490	\$ 56,062
<b>Shareholders' Equity:</b>		
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
1,679,008 Common Shares (Note 10)	5,837,620	5,837,620
Contributed surplus	308,488	308,488
Retained earnings (deficit) per accompanying statements	37,148	(2,516,675)
Total Shareholders' Equity	\$16,183,256	\$13,629,433
<b>Total</b>	<b>\$23,291,245</b>	<b>\$26,434,296</b>

### 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, 1985 and 1984, and the related 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, these financial statements present fairly the financial position of Van Der Hout Associates Limited and Subsidiary as at December 31, 1985 and 1984, and the results of their operations and the 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 24, 1986

ARTHUR ANDERSEN & CO.  
Chartered Accountants



# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 1985 and 1984

### 1. Significant accounting policies and practices

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.

#### (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 significant intercompany transactions have been eliminated.

#### (b) Inventories

Inventories are valued at the lower of first-in, first-out cost and net realizable value.

#### (c) Depreciation and Amortization

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) Research and Development Costs

Research and development costs are expensed as incurred.

### 2. Extraordinary item

The 1985 and 1984 consolidated statements of income include an extraordinary gain representing the reduction in the normal provision for income taxes due to the application of prior years' loss carry-forwards. In 1985 this amounted to \$1,091,000 (1984 - \$873,771).

The Company has loss carry-forwards for accounting purposes of approximately \$6.0 million (1984 - \$7.7 million) which have not been recognized in the financial statements. The tax benefits relating to these loss carry-forwards expire beginning in 1987.

### 3. Inventories

Inventories consist of the following:

	1985	1984
Finished goods	\$2,491,652	\$3,576,306
Work-in-process	1,297,841	1,024,016
Raw materials, parts and supplies	3,903,978	4,121,626
	<u>\$7,693,471</u>	<u>\$8,721,948</u>

### 4. Long-term debt

	1985	1984
Class 'C' First Preference Shares issued to a bank	\$ —	\$5,000,000
Capital assistance programs —		
Ontario Development Corporation, payable in sixty monthly blended payments of \$51,890 which include principal and interest at 11% per annum commencing July 1, 1985, secured by land and a building	2,213,598	2,400,000
Federal Government, payable in annual installments of \$173,000 commencing June 1, 1981, secured by certain equipment	—	129,483
	<u>\$2,213,598</u>	<u>\$7,529,483</u>
Less-Current portion payable within one year	404,126	3,200,755
	<u>\$1,809,472</u>	<u>\$4,328,728</u>

#### Class 'C' Preference Shares

During 1985, the Company's wholly-owned subsidiary redeemed 50,000 Class C, cumulative, non-voting First Preference Shares from the bank to whom these shares were issued in 1984. The redemption price was equal to the issue price of \$5,000,000.

Under the terms of these shares the holder was entitled to receive cumulative quarterly dividends at a rate equal to half the average Canadian prime rate for the quarter plus 1.5%. In 1985 these dividends amounted to \$174,261 (1984 - \$258,198) and were included as interest in the 1985 and 1984 consolidated statements of income.

These shares were classified as debt on the 1984 consolidated balance sheet because of their short redemption period.



## 5. Capital stock

During 1983 the Company issued 10,000,000 Preference Shares consisting of 9,000,000 non-voting, Second Preference Shares Series 'A' and 1,000,000 voting, Second Preference Shares Series 'B' to its affiliate, Maremont Corporation ("Maremont") for \$10 million.

Under the terms and conditions of these shares Maremont is entitled to receive cumulative, non-compounding dividends at a rate of 10% per annum. At December 31, 1985, the unpaid cumulative dividends amounted to \$2,109,589 (1984 - \$1,109,589). Maremont may not require redemption of these shares or payment of dividends prior to November 22, 1988 unless, after giving effect to such transaction, debt to all parties other than Maremont does not exceed \$2 million.

In conjunction with its purchase of the special shares Maremont received 2,666,667 Common Share purchase warrants which are exercisable for five years from their date of issue. Each such warrant entitles Maremont to purchase one Common Share for \$3.75. Maremont 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. Fully diluted earnings per share

If it were assumed that all of the common share purchase warrants (Note 5) outstanding at December 31, 1985, had been exercised and the common shares purchased for cash of \$3.75 each on January 1, 1985, the earnings per share for 1985 would have been:

Income before extraordinary item	\$23
Net income	\$59

For purposes of calculating fully diluted earnings per share, it is assumed that the funds derived from the exercise of the warrants had been invested to produce an annual return of 10% (\$1,000,000 before income taxes and \$550,000 after income taxes).

## 7. Commitments

### (a) Long-Term Leases

Buildings are rented under operating leases which expire at various dates between 1986 and 1988. Rental expense related to these

leases, excluding property taxes and insurance, amounted to approximately \$333,505 in 1985 (1984 - \$293,000). Rental commitments for the next three years under these leases are as follows:

1986	\$159,092
1987	\$136,061
1988	\$ 79,369

### (b) Pension Plans

During 1985 the Company established a defined contribution plan for eligible employees at its Ajax location. In 1985 an expense of \$12,815 was incurred for the current cost of the plan.

The company also has a defined benefit plan for eligible salaried employees. No provision for current costs was required in 1985 and 1984 as the plan was in a surplus position. As of December 31, 1985 and 1984 there was no unfunded past service liability.

## 8. Segmented information

The Company and its subsidiary manufacture and supply automotive products. Export sales for 1985 approximated \$40,000,000 (1984 - \$38,000,000) of which 99% (1984 - 99%) were made to the U.S.A.

## 9. Related party transactions

Approximately 71% of the Common Shares and 100% of Preference Shares Series 'A' and 'B' of the Company are owned by Maremont Corporation. Purchases of materials and supplies from Maremont in 1985 approximated \$4,988,000 (1984 - \$4,567,000). Sales to Maremont in 1985 approximated \$5,545,000 (1984 - \$1,953,000).

## 10. Treasury shares

During 1985 2,600 Common Shares held in treasury, at cost, were cancelled. The 1984 consolidated balance sheet has been restated to reflect the cancellation of these shares.

## 11. Statement of changes in financial position

The 1985 statement of changes in financial position reports the changes in cash resulting from the operating, financing and investing activities of the Company during the year. The 1984 statement has been restated to conform with the 1985 basis of presentation.

# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

## Five Year Comparative Summary of Operations

	1985	1984	1983	1982	1981
<b>Net sales</b>	\$50,068,388	\$49,370,420	\$43,259,810	\$48,135,617	\$47,082,550
Cost of sales	40,925,193	41,725,973	36,522,685	42,810,692	39,952,035
<b>Gross profit</b>	\$ 9,143,195	\$ 7,644,447	\$ 6,737,125	\$ 5,324,925	\$ 7,130,515
Selling, general and administrative expenses	6,574,458	5,445,226	5,888,908	6,127,891	6,067,198
<b>Operating income (loss)</b>	\$ 2,568,737	\$ 2,199,221	\$ 848,217	\$( 802,966)	\$ 1,063,317
Interest expense, net	14,914	185,575	501,847	1,428,565	1,618,996
<b>Income (loss) from continuing operations</b>	\$ 2,553,823	\$ 2,013,646	\$ 346,370	\$( 2,231,531)	\$( 555,679)
Loss from discontinued operations	—	—	( 1,051,411)	( 4,327,728)	( 2,447,763)
	\$ 2,553,823	\$ 2,013,646	\$( 705,041)	\$( 6,559,259)	\$( 3,003,442)
Recovery of (provision for) income taxes	(1,091,000)	( 873,771)	—	—	289,000
<b>Income (loss) before extraordinary items</b>	\$ 1,462,823	\$ 1,139,875	\$( 705,041)	\$( 6,559,259)	\$( 2,714,442)
Extraordinary items	1,091,000	873,771	( 1,624,917)	—	—
<b>Net income (loss)</b>	\$ 2,553,823	\$ 2,013,646	\$( 2,329,958)	\$( 6,559,259)	\$( 2,714,442)
<b>Basic earnings (loss) per common share</b>					
Before extraordinary item	\$ .28	\$ .08	\$( .49)	\$( 3.91)	\$( 1.62)
Net income (loss)	\$ .93	\$ .60	\$( 1.45)	\$( 3.91)	\$( 1.62)



## **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**