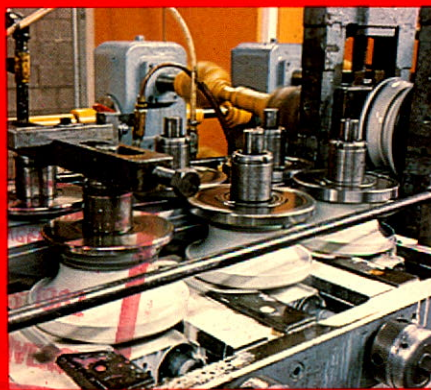
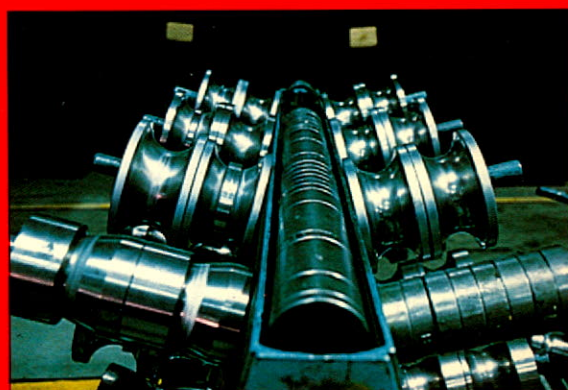




# **VAN DER HOUT ASSOCIATES LIMITED**

## **1981 Annual Report**



# VAN DER HOUT ASSOCIATES LIMITED

## Corporate Directory

### OFFICERS:

**John B. Van Der Hout**, Chairman

**Sverre E. Lunder**, President

**Susan M. Fletcher**, Treasurer

**Barry S. Arbus, Q.C.**, Secretary

### DIRECTORS:

**Barry S. Arbus, Q.C.**, 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

	1981	1980
Sales	<b>\$49,140,915</b>	\$40,423,448
Net loss	<b>\$( 2,714,442)</b>	\$( 75,887)
Loss per common share	<b>\$( 1.62)</b>	\$( .05)
Number of shares outstanding	<b>1,681,608</b>	1,681,608
Number of registered shareholders	<b>634</b>	675
Shareholders' equity	<b>\$15,005,004</b>	\$13,219,446
Book value per common share	<b>\$ 8.92</b>	\$ 7.86



## To Our Shareholders:

1981 was a year of challenge and adversity for the Company. Sales totalled \$49,140,915, an increase of 21.6% from that reported in 1980. The Company had a net loss of \$2,714,442, or \$1.62 per share compared to the loss of \$75,887 experienced in 1980.

Sales to original equipment manufacturers increased overall in spite of a sudden curtailment of demand from the North American automobile companies during the fourth quarter of the year. Sales out of the new Ingersoll facility also contributed to the increase in sales over 1980. The Canadian replacement market demand was generally even with last year.

The decline in profits resulted from many factors, most significant of which were the expenditures incurred in the start-up of the new strut and shock absorber facility in Ingersoll. Severe pricing pressures, high interest rates and the cost of highly fluctuating production rates to meet erratic requirements of the original equipment market impacted profitability in all divisions.

During the fourth quarter, the Company reduced employment levels through both temporary and permanent layoffs and reduced cost structures and inventory levels while improving productivity on a smaller production base.

During the year, the Company successfully completed the facility in Ingersoll and started shipping to Volkswagen of America. The funding required to bring this facility on stream was significant and assistance was provided by a \$2.4 million loan from the Ontario Development Corporation and the sale of 450,000 Series "A" Special shares to Maremont Corporation for capital equipment purchased for Ingersoll from Maremont.

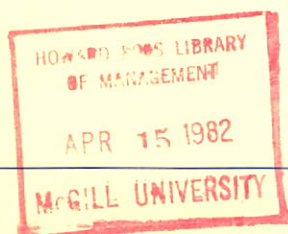
This new venture, in addition to the business climate of the fourth quarter, resulted in working capital pressures being placed on the Company toward the end of 1981 and into 1982. The Company borrowed approximately \$8 million from Maremont Corporation in February 1982 and this loan will enable the Company to ride out the current automotive downturn while consolidating its expanded asset base.

The outlook for 1982 is one of continued slow car and truck sales, continued high interest rates and a recession-type economy for at least the first six months of the year. We will be addressing the need to decrease cost structures to fit the current market, to reduce inventories in order to improve turnovers and carrying costs and to improve efficiency and productivity in all areas of the Company's operations. We believe 1982 will be a year of difficulty and consolidation and that we will succeed in effecting positive change.

On Behalf of the Board



S. E. Lunder  
President



## VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

### Consolidated Statements of Income

for the years ended December 31, 1981 and 1980

	1981	1980
<b>Net sales</b>	\$49,140,915	\$40,423,448
<b>Cost of sales</b>	44,041,814	33,809,747
Gross profit	\$ 5,099,101	\$ 6,613,701
<b>Expenses:</b>		
Selling, general and administrative expenses	\$ 7,656,492	\$ 5,653,249
Interest on long-term debt	2,122,090	1,217,101
Other interest	68,961	28,739
	\$ 9,847,543	\$ 6,899,089
Loss before income taxes	\$( 4,748,442)	\$( 285,388)
<b>Recovery of income taxes</b>	2,034,000	209,501
Net loss for the year	\$(2,714,442)	\$( 75,887)
<b>Loss per common share</b>	\$( 1.62)	\$( .05)

The accompanying notes are an integral part of these statements.

### Consolidated Statements of Retained Earnings

for the years ended December 31, 1981 and 1980

	1981	1980
<b>Balance, beginning of year</b>	\$ 7,073,338	\$ 7,149,225
<b>Deduct - Net loss for the year</b>	(2,714,442)	( 75,887)
<b>Balance, end of year</b>	\$ 4,358,896	\$ 7,073,338

The accompanying notes are an integral part of these statements.



# Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1981 and 1980

	1981	1980
<b>WORKING CAPITAL, beginning of year</b>	\$15,169,827	\$11,566,148
Application (source) of funds:		
Operations —		
Net loss for the year	2,714,442	75,887
Charges not requiring an outlay of funds —		
Depreciation and amortization	( 1,323,016)	( 799,043)
Decrease (increase) in deferred income taxes	2,216,094	( 174,843)
Gain on disposal of equipment	—	24,332
Total provided to (from) operations	\$ 3,607,520	\$ ( 873,667)
Additions to property, plant and equipment	9,323,740	3,128,670
Increase in long-term debt	( 7,706,512)	( 5,812,632)
Proceeds from issue of series "A" special shares	( 4,500,000)	—
Proceeds from disposal of equipment	—	( 46,050)
Decrease (increase) in working capital	\$ 724,748	\$ ( 3,603,679)
<b>WORKING CAPITAL, end of year</b>	<b>\$14,445,079</b>	<b>\$15,169,827</b>
<b>Changes in working capital:</b>		
Decrease (increase) in current assets —		
Receivables	\$ ( 659,849)	\$ 164,398
Income taxes recoverable	448,308	( 512,808)
Inventories	( 3,676,830)	2,372,868
Prepaid expenses	155,968	( 272,872)
Increase (decrease) in current liabilities —		
Bank indebtedness	2,044,962	( 2,798,684)
Accounts payable and accrued liabilities	3,042,311	( 2,653,681)
Payable to affiliate	3,527	( 202,796)
Income taxes payable	—	( 464,048)
Current portion of long-term debt	( 633,649)	763,944
Net decrease (increase) in working capital	\$ 724,748	\$ ( 3,603,679)

The accompanying notes are an integral part of these statements.

# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

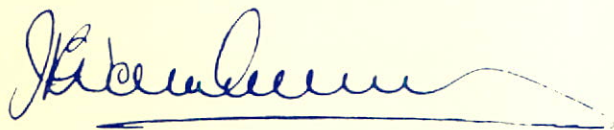
## Consolidated Balance Sheets

December 31, 1981 and 1980

<b>ASSETS</b>	1981	1980
<b>Current Assets:</b>		
Receivables —		
Trade, less allowances of \$261,134		
(1980 - \$193,264) (Note 4)	\$ 7,692,395	\$ 7,063,195
Sundry	636,764	593,665
Affiliate	105,761	118,211
Income taxes recoverable	64,500	512,808
Inventories (Notes 2 and 4)	16,209,065	12,532,235
Prepaid expenses	226,477	382,445
Total current assets	\$24,934,962	\$21,202,559
<b>Property, Plant and Equipment, at cost (Notes 3 and 4):</b>		
Land	\$ 1,083,159	\$ 1,083,159
Buildings and improvements	5,466,255	3,889,480
Machinery and equipment	20,516,462	12,769,497
	\$27,065,876	\$17,742,136
Less - Accumulated depreciation and amortization	8,233,426	6,910,410
	\$18,832,450	\$10,831,726
<b>Total</b>	<b>\$43,767,412</b>	<b>\$32,034,285</b>

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**

	1981	1980
<b>Current Liabilities:</b>		
Bank indebtedness (Note 4)	\$ 3,118,822	\$ 1,073,860
Accounts payable and accrued liabilities	7,005,822	3,963,511
Payable to affiliate	192,239	188,712
Current portion of long-term debt (Note 4)	173,000	806,649
Total current liabilities	\$10,489,883	\$ 6,032,732
<b>Long-Term Debt</b> , net of current portion shown above (Note 4)	\$18,182,776	\$10,476,264
<b>Deferred Income Taxes</b>	\$ 89,749	\$ 2,305,843
<b>Shareholders' Equity:</b>		
Capital stock (Note 5) —		
Authorized:		
1,000,000 Special shares, \$10 par value		
5,000,000 Common shares, no par value		
Issued:		
450,000 Series "A" Special shares	\$ 4,500,000	\$ —
1,681,608 Common shares	5,857,142	\$ 5,857,142
Contributed surplus	308,488	308,488
Retained earnings per accompanying statements	4,358,896	7,073,338
	\$15,024,526	\$13,238,968
Less - 2,600 Shares held in treasury, at cost	19,522	19,522
Total shareholders' equity	\$15,005,004	\$13,219,446
<b>Total</b>	<b>\$43,767,412</b>	<b>\$32,034,285</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, 1981 and 1980, and the consolidated statements of income, retained earnings 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, 1981 and 1980, 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 25, 1982

ARTHUR ANDERSEN & CO.  
Chartered Accountants

# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 1981 and 1980

### 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:

	1981	1980
Finished goods	\$ 7,120,730	\$ 6,066,545
Work-in-process	1,749,548	1,255,983
Raw materials, parts and supplies	7,338,787	5,209,707
	<u>\$16,209,065</u>	<u>\$12,532,235</u>

### 3. Ingersoll plant

During 1981 the Company began production of shock absorbers at their new facility in Ingersoll, Ontario. The capital cost of the new plant and equipment, which was \$10,058,000 at December 31, 1981, was funded jointly by the Company, an affiliate (Note 5) and the Ontario Development Corporation (Note 4).

Approximately \$1,415,000 of start-up expenses were incurred and are included in the accompanying consolidated statements of income.

### 4. Long-term debt

	1981	1980
Revolving credit arrangements	\$15,575,340	\$ 9,086,313
Capital assistance programs —		
Ontario Development Corporation, payable in sixty monthly payments commencing January 15, 1986, secured by land and a building	2,300,018	636,586
Federal Government, payable in annual installments of \$173,000 commencing June 1, 1981, secured by certain equipment	480,418	588,200
13% Mortgage payable, due 1981, secured by land and a building	—	626,225
Interest-free loan from affiliate	—	345,589
	<u>\$18,355,776</u>	<u>\$11,282,913</u>
Less-Current portion payable within one year	173,000	806,649
	<u>\$18,182,776</u>	<u>\$10,476,264</u>



The Company renegotiated its arrangements with a bank during 1981. Under this facility, the Company may borrow up to \$15,000,000 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  $\frac{3}{4}\%$  over LIBOR, at the Company's option. Interest on Canadian funds borrowed may be either at the bank's Canadian prime rate, or  $\frac{1}{2}\%$  over the Canadian banker's acceptance rate, at the Company's option. A fee of  $\frac{1}{4}\%$  on not more than \$1,750,000 of the unused portion is required. The Company also negotiated an additional short-term line of credit in the amount of \$3,000,000 with interest charged at the bank's Canadian prime rate. As security for the revolving credit agreements, the bank holds an assignment of the accounts receivable, inventory and fire insurance of the Company.

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, 1981.

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

1982	\$173,000
1983	\$173,000
1984	\$134,418
1985	—
1986	\$480,000

## 5. Increase in authorized and issued capital

During 1981 the Company increased its authorized capital by creating an additional 3,200,000 common shares without par value and 1,000,000 Special shares (issuable in series) with a par value of \$10.00 each. The terms and conditions of each series of Special shares is fixed by resolution of the Company's Board of Directors.

450,000 series "A" Special shares were issued to an affiliate during 1981 as payment for capital equipment. The series "A" Special shares are entitled to receive 11% cumulative dividends commencing January 1, 1991. These shares are convertible at the rate of one and  $\frac{3}{17}$  common shares for every one Special share up to December 31, 1990 and are redeemable at par value on January 1, 1996. A sinking fund equal to the par value of the outstanding Special shares will be provided at the rate of 20% per annum over the period January 1, 1991 to December 31, 1995.

## 6. 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, 1981 approximated \$372,000 (1980 - \$374,000).

## 7. 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 \$253,000 in 1981 (1980 — \$258,000). Rental commitments for the next five years under these leases are as follows:

1982	\$266,000
1983	\$228,000
1984	\$175,000
1985	\$190,000
1986	\$184,000

### (b) Pension Plan

The Company has a pension plan covering salaried employees. As of December 31, 1981, the unfunded past service liability with respect to the plan amounted to approximately \$220,500 (1980 - \$246,000). 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 1981, \$87,300 (1980 - \$83,000) was provided and is reflected in the consolidated statements of income.

## 8. Segmented information

The Company and its subsidiary manufacture and supply automotive products. Export sales for the year ended December 31, 1981 approximated \$36,000,000 (\$30,000,000 in 1980), of which 96% were made to the U.S.A.

## 9. Related party transactions

Approximately 71% of the common shares and all of the Special shares of the Company are owned by its affiliate, Maremont Corporation. Purchases of materials and supplies from Maremont in 1981 approximated \$3,075,000 (\$1,600,000 in 1980). Sales to Maremont in 1981 approximated \$1,061,000 (Nil in 1980). As part of the Company's capital expansion program in Ingersoll, Ontario, \$4,511,000 of equipment was also acquired. (Notes 3 and 5). Other transactions in 1981 were insignificant.

# VAN DER HOUT ASSOCIATES LIMITED AND SUBSIDIARY

## Five Year Comparative Summary of Operations

	1981	1980	1979	1978	1977
<b>Net sales</b>	\$49,140,915	\$40,423,448	\$44,984,137	\$41,474,840	\$35,200,877
Cost of sales	44,041,814	33,809,747	36,015,262	34,058,452	28,409,392
<b>Gross profit</b>	\$ 5,099,101	\$ 6,613,701	\$ 8,968,875	\$ 7,416,388	\$ 6,791,485
Selling, general and administrative expenses	7,656,492	5,653,249	5,640,154	5,152,408	5,026,388
<b>Operating income (loss)</b>	\$( 2,557,391)	\$ 960,452	\$ 3,328,721	\$ 2,263,980	\$ 1,765,097
Interest expenses	2,191,051	1,245,840	759,761	532,836	565,677
<b>Income (Loss) from consolidated operations before income taxes</b>	\$( 4,748,442)	\$( 285,388)	\$ 2,568,960	\$ 1,731,144	\$ 1,199,420
Provision for (recovery of) income taxes	( 2,034,000)	( 209,501)	975,000	610,000	517,248
<b>Income (Loss) from consolidated operations</b>	\$( 2,714,442)	\$( 75,887)	\$ 1,593,960	\$ 1,121,144	\$ 682,172
Minority interest	—	—	—	( 13,340)	( 18,798)
<b>Income (Loss) before extraordinary items</b>	\$( 2,714,442)	\$( 75,887)	\$ 1,593,960	\$ 1,107,804	\$ 663,374
Extraordinary Items	—	—	—	574,105	—
<b>Net income (loss)</b>	\$( 2,714,442)	\$( 75,887)	\$ 1,593,960	\$ 1,681,909	\$ 663,374
<b>Earnings (Loss) per common share</b>					
Before extraordinary items	\$( 1.62)	\$( .05)	\$ .95	\$ .66	\$ .40
After extraordinary items	\$( 1.62)	\$( .05)	\$ .95	\$ 1.00	\$ .40



## **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  
Strut suspension units

## **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:**

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

