



Keuffel & Esser Company

OFFICERS AND DIRECTORS

Alfred E. Busch, *President and Director*
Leslie M. Cassidy, *Director; Director of various corporations*
J. Russell Juten, *Vice President; General Counsel and Secretary*
Karl Keller, *Director; former Chairman of the Board*
Robert K. Keller, *Vice President and Director*
William G. Keller, *Vice President and Director*
Carl W. Keuffel, *Director; former President*
Kenneth G. McKay, *Director; Executive Vice President, Bell Telephone Laboratories, Inc.*
Kingsbury S. Nickerson, *Director; President, The First National Bank of Jersey City*
Thomas R. Nye, *Treasurer and Assistant Secretary*
Howard F. Schermerhorn, *Vice President and Director*
Samuel Wood, Jr., *Vice President and Director*

BRANCH SALES OFFICES

Alaska: Anchorage	New Jersey: Newark
California: Los Angeles	New York: New York
California: San Francisco	Ohio: Akron
Colorado: Denver	Ohio: Cleveland
Florida: Orlando	Ohio: Toledo
Illinois: Chicago	Ontario: Ottawa
Illinois: Rockford	Ontario: Toronto
Kansas: Wichita	Pennsylvania: Philadelphia
Maryland: Baltimore	Quebec: Montreal
Maryland: Bethesda	Texas: Dallas
Michigan: Detroit	Texas: Houston
Missouri: Kansas City	Texas: San Antonio
Missouri: St. Louis	Washington: Seattle
New Jersey: Hackensack	Wisconsin: Milwaukee
New Jersey: Hoboken	

COMPANY OWNED PLANTS AND FACILITIES

Cape May Products, Cape May Court House, New Jersey
Central Distributors, Teterboro, New Jersey
Cranford Instruments, Cranford, New Jersey
Detroit Coating, Detroit, Michigan
Granby Coating, Granby, Quebec, Canada
Hoboken Manufacturing, Hoboken, New Jersey
Kargl Instruments, San Antonio, Texas
Pasadena Coating, Pasadena, California
Redon Coating, Chatham, New Jersey
Salisbury Products, Lakeville, Connecticut
Taconic Products, Millerton, New York
York Products, Kennebunk, Maine

TRANSFER AGENTS

The First National Bank of Jersey City, Jersey City, New Jersey
Schroder Trust Company, New York, New York

REGISTRAR

Chemical Bank New York Trust Company, New York, New York

CORPORATE OFFICES

300 Adams Street, Hoboken, New Jersey 07030

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Holiday Inn, Holland Tunnel Plaza, Jersey City, New Jersey, on April 28, 1966 at 10:00 A.M.

COVER

A lens receptacle, used to hold precision optics prior to assembly, suggests through a composite photograph the broad panorama of K&E precision equipment and supplies.

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Colorado: Denver

Florida: Orlando

Illinois: Chicago

Illinois: Rockford

Kansas: Wichita

Maryland: Baltimore

Maryland: Bethesda

Michigan: Detroit

Missouri: Kansas City

Missouri: St. Louis

New Jersey: Hackensack

New Jersey: Hoboken

New Jersey: Newark

New York: New York

Ohio: Akron

Ohio: Cleveland

Ohio: Toledo

Ontario: Ottawa

Ontario: Toronto

Pennsylvania: Philadelphia

Quebec: Montreal

Texas: Dallas

Texas: Houston

Texas: San Antonio

Washington: Seattle

Wisconsin: Milwaukee

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Central Distributors, Teterboro, New Jersey

Cranford Instruments, Cranford, New Jersey

Detroit Coating, Detroit, Michigan

Granby Coating, Granby, Quebec, Canada

Hoboken Manufacturing, Hoboken, New Jersey

Kargl Instruments, San Antonio, Texas

Pasadena Coating, Pasadena, California

Redon Coating, Chatham, New Jersey

Salisbury Products, Lakeville, Connecticut

Taconic Products, Millerton, New York

York Products, Kennebunk, Maine

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The Business of Keuffel & Esser Company

Keuffel & Esser Company—best known by its trademark K&E—serves the engineering profession with a wide variety of precision equipment and materials.

The company is in its 99th year of operation. A rising curve of growth has been evident during the past 10 years, as our position in the market has grown. Once known as "the slide rule company," today K&E is recognized as the world's foremost supplier of a complete line of products for all branches of engineering.

At last count, the K&E line consisted of over 10,000 catalog items for the engineer, architect, draftsman, reproduction

specialist, surveyor, educator and student.

With the growing complexity of engineering, K&E products are changing in sophistication. Today our emphasis is on groups of interrelated products—systems—which speed efficiency and improve the quality of work produced. The need for systems is apparent when it's known, for example, that the bids and proposals submitted to the government on just one aircraft contract amounted to 35 tons of paper documents.

Our company maxim—*Creative Products for the Creative Engineer*—is more applicable today than ever before.

FINANCIAL HIGHLIGHTS	1965	1964
Net Sales	\$46,442,276	\$42,238,769
Net Income after Taxes	\$ 1,597,323	\$ 1,444,963
Net Income per Common Share	\$1.21*	\$1.25**
Working Capital	\$21,512,229	\$16,993,085
Stockholders' Equity	\$23,960,477	\$18,808,965
Number of Employees	2,231	2,164

* On 1,243,847 shares outstanding December 31, 1965, held by 1,918 stockholders.

** On 1,080,000 shares "outstanding" December 31, 1964, adjusted for nine-for-one stock split in August, 1965.

To the Stockholders:

The year 1965 was one of increased sales and general growth for Keuffel & Esser Company. Results would have been most successful had it not been for losses encountered in government contract work.

Net sales were \$46,442,276, a record high for the company and an increase of \$4,203,507 over 1964. Net income after taxes amounted to \$1,597,323, an increase of 11 per cent over the previous year's total of \$1,444,963. Net income applicable to common stock amounted to \$1.21 per share on 1,243,847 shares outstanding at year-end, compared with \$1.25 on 1,080,000 shares for 1964. Thus, while profits for the year increased 11 per cent, the number of shares outstanding at year-end increased 15 per cent.

In significant areas, K&E continued to broaden in scope. The most important event of the year was the company's first public offering of common stock in September. A total of 250,000 common shares were offered to the public—160,000 by the company, 90,000 by a trustee stockholder. In addition, 18,272 shares were either purchased outright or subscribed for purchase by company employees. Public distribution was completed in a very short time, and the stock is now quoted in the Over-the-Counter Markets.

The emergence of K&E as a public corporation will permit us to take greater advantage of opportunities for expansion and will enable us to accelerate the growth pattern established over the past 10 years.

My nine months' report to stockholders stated that government contract work continued to be disappointing. In the final months of the year, three govern-

ment contracts turned into major problems. Excessive costs, stemming from serious production difficulties, spoilage, rework, and other factors, brought about losses which were not predictable earlier. Such losses for the year, including estimated costs to complete work in progress, amounted to \$1,030,000 before taxes, and reduced net income after taxes by over 40 cents per common share.

At year end, two of the three major contracts where difficulties occurred were essentially completed and all losses taken in 1965. Completion of the third contract and other miscellaneous contracts should not adversely affect 1966 profits. As of December 31, there remained about \$800,000 of government contract work to be billed.

Claims, based on difficulties beyond the company's control, are being processed with the government to recover portions of these excess costs. At this time it is not possible to predict if any such recoveries will be realized.

Positive action has been taken to assure that losses in government work will not continue. We changed management structure, made another thorough review of present contracts to determine costs required to complete each, and revised our marketing approach.

On the favorable side, our government work brought about several important achievements in measurement technology which have greatly strengthened the technical capabilities of the company, and will refine and advance our standard lines, particularly our basic metrology hardware.

The company showed an 11 per cent gain in profits despite our losses because of three positive factors: the strong sales advances of our standard lines, improved overall operating efficiencies, and more effective distribution. Our domestic sales position was strengthened by the opening of two new sales branches in Toledo, Ohio and San Antonio, Texas, bringing

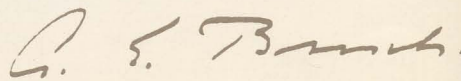
our total of company-owned branches to 29. International Marketing added 14 new distribution outlets to its overseas network.

Progress has been made on the new East Coast coating plant to be built on a site which has been selected in Rockaway, New Jersey. The scope of the plant has been broadened to include transparentizing, and is expected to be in operation in mid-1967 as scheduled. In the meantime, new machinery for coating sensitized materials was installed in present facilities during 1965, giving us a healthy gain in production capacity, and should help us bring higher quality to the market in the coming year. We also began a modest expansion program at our surveying instruments plant in Kennebunk, Maine. And plans were announced to purchase land in Morris County, New Jersey, which will serve as a site for a new home office building. A definite schedule for this move has not yet been determined.

I am pleased to report to you that our financial condition is strong, our products continue to gain in the marketplace, our ventures into new lines are showing good progress, and our research and development is on track with systems which we expect to have important potential.

In this first Annual Report to public stockholders, I wish to extend the appreciation of the company's management and employees for your interest in K&E, and to express my thanks to all K&E employees for their diligent efforts.

We have had our problems in the past year, to be sure. But the strong sales expansion and profit return of our major product lines was most encouraging. With government contract difficulties behind us and our established product lines sound and growing, the year ahead for K&E looks to be one of excellent promise.



March 1, 1966

A. E. Busch, President

Officers and Directors



Alfred E. Busch



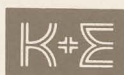
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Robert K. Keller



Howard F. Schermerhorn



Crisply efficient, a modern drafting room uses K&E equipment and materials to portray the creative ideas of creative engineers.

Review of 1965 Operations



Below

A hard-working tool of both industry and government, the MICRO-MASTER® microfilm camera records documents for storage and speeds the constant process of revision.

Providing quick reference for the draftsman, the new Automatic Viewer-Printer displays negative microfilm image on a screen, furnishes a fully processed print in 20 seconds.

Drawings on STABILENE films, an increasingly common sight in industry today. Using these new, exceptionally stable materials, layouts are made accurate to thousandths of an inch.

Engineering recording and communications

In this highly important, growing market, which presently accounts for about 70 per cent of the company's sales volume, sales and profits continued to grow during 1965. The market includes all manufacturing and commercial organizations, as well as government agencies, where engineering concepts are transformed into finished products and processes.

Engineering ideas take shape on drafting materials and are produced with drafting instruments and equipment. Concepts must be technically portrayed and continuously modified, before a finished product can be manufactured. The entire process calls for a great variety of papers, cloths and films. K&E serves this market with the most complete line of

drafting media available from any manufacturer, each product having unique, carefully designed working properties to meet a specific system requirement. Again in 1965, K&E drafting media showed strong sales gains, led by our "big three" products—ALBANENE® Tracing Paper, HERCULENE® Drafting Film, and PHOENIX® Tracing Cloth.

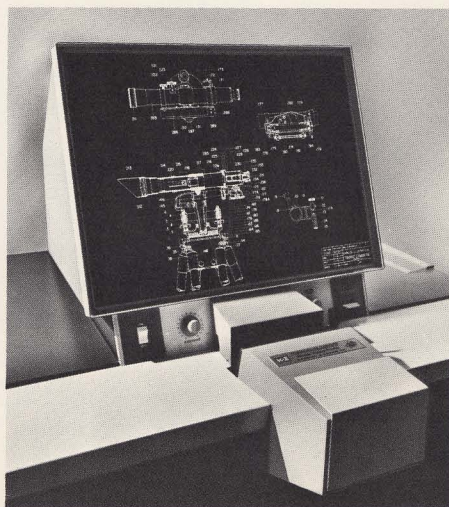
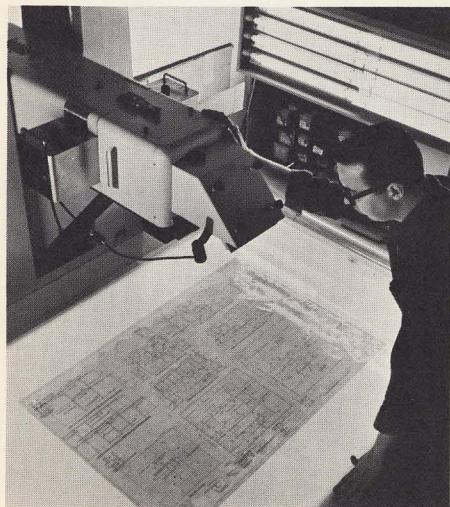
Our line of ultra-precise drafting and reproduction films—the STABILENE® family of products—made important new headway in industry. For the first time all of the engineering drawings of a major commercial aircraft, the Douglas DC-9, were made on STABILENE Scribe Coat Film. In production, the largest assemblies (including wings and fuselage) were fitted in record time. In many other industries, the concept of "undimensioned" drawings, made exactly to scale on STABILENE Film, was markedly changing former methods of precision drafting.

An aggressive marketing program based on the compatible properties of K&E drafting and reproduction films showed excellent results. The "compatibles" program stressed the carefully

matched working properties of both our drafting films and special sensitized films, and won quick acceptance from systems engineers who saw the efficiency and cost savings of revising duplicates of engineering drawings with exactly the same tools and techniques used on original drawings. The program has resulted in a broader demand for a wider range of related products—integrated systems buying instead of the individual product purchase.

Another trend in engineering drafting is the gradual swing toward automatic methods, with computerized drafting on the distant horizon. During the year, K&E introduced a new automated system known as PHOTO-DRAFT for the production of schematic drawings, such as wiring diagrams. A typist, using a special symbol keyboard, codes an engineer's rough sketch on to a punched paper tape. This is fed into an exposure unit which automatically prepares the drawing. A schematic that would take 10 hours to produce manually can be done in an hour with this system.

The rapidly growing microfilm market



Below

Applying sensitized coatings with precision is both an art and a science. Here a technician visually checks sheet flatness of material as it passes at high speed through machine rollers.

in engineering was another major field where K&E products made strong headway. Both our 35mm and 105mm systems (cameras, processors, viewers, and supplies) were sold against vigorous competition because of their superior optics and precision electromechanical features. During the year, many new government and private users accepted the K&E 35mm unit as the one best meeting their standards. The 105mm system—which K&E pioneered—continued to gain acceptance both in industry and among commercial reproduction shops. A valuable addition to the system was introduced during the year—the 105mm Automatic Viewer-Printer which provides reference prints in



just 20 seconds. The company is continuing its program of broadening both 35mm and 105mm microfilm systems.

In diazo reproduction, still the most widely used process for obtaining low-cost reproductions of engineering documents, K&E high-speed emulsions and sophisticated special surfaces combined to boost volume, despite vigorous competition from both independents and national concerns.

Firmly positioned in the gap between calculator and vast computer center is the versatile new PDS 1020 Computer. It talks a civil engineer's language, solves many of his common problems.

Civil Engineering, Surveying and Mapping, Photogrammetry

This large market area, where K&E for years has maintained a position of leadership, again reflected strength and growth



in 1965. New products were introduced and the traditional lines improved to maintain the reputation of the company for quality, reliability, and value.

Perhaps the most significant new product entry in this market was the addition to the line of the Civil Engineer's PDS 1020 computer, a low-cost unit specifically designed and easily programmed to solve problems in surveying, highway design, hydraulics, structures, and other fields.

K&E continued to strengthen and diversify its product line in the field of photogrammetry—the science of mapping and plotting the data of the earth's surface through aerial cameras, three-dimensional stereoscopic projectors, and specialized computers.

Among the new products introduced for the photogrammetrist was a modular stereoplotter. This instrument can be purchased in a simple stage and by the acquisition of module components be made to handle the most sophisticated mapping work. Another product, the HE-12 Enlarger, was developed for the Florida State Highway Department for use in its road mapping activities. Additional units

A familiar sight on any construction project, the K&E PARAGON® transit. Rugged and dependable, it is flawlessly engineered to stand the hard knocks of field work.

Right The mapmaker scribes his precision layouts on uniquely designed STABILENE film surfaces, from aerial photographs of a fast-changing world, taken by K&E photogrammetric equipment.

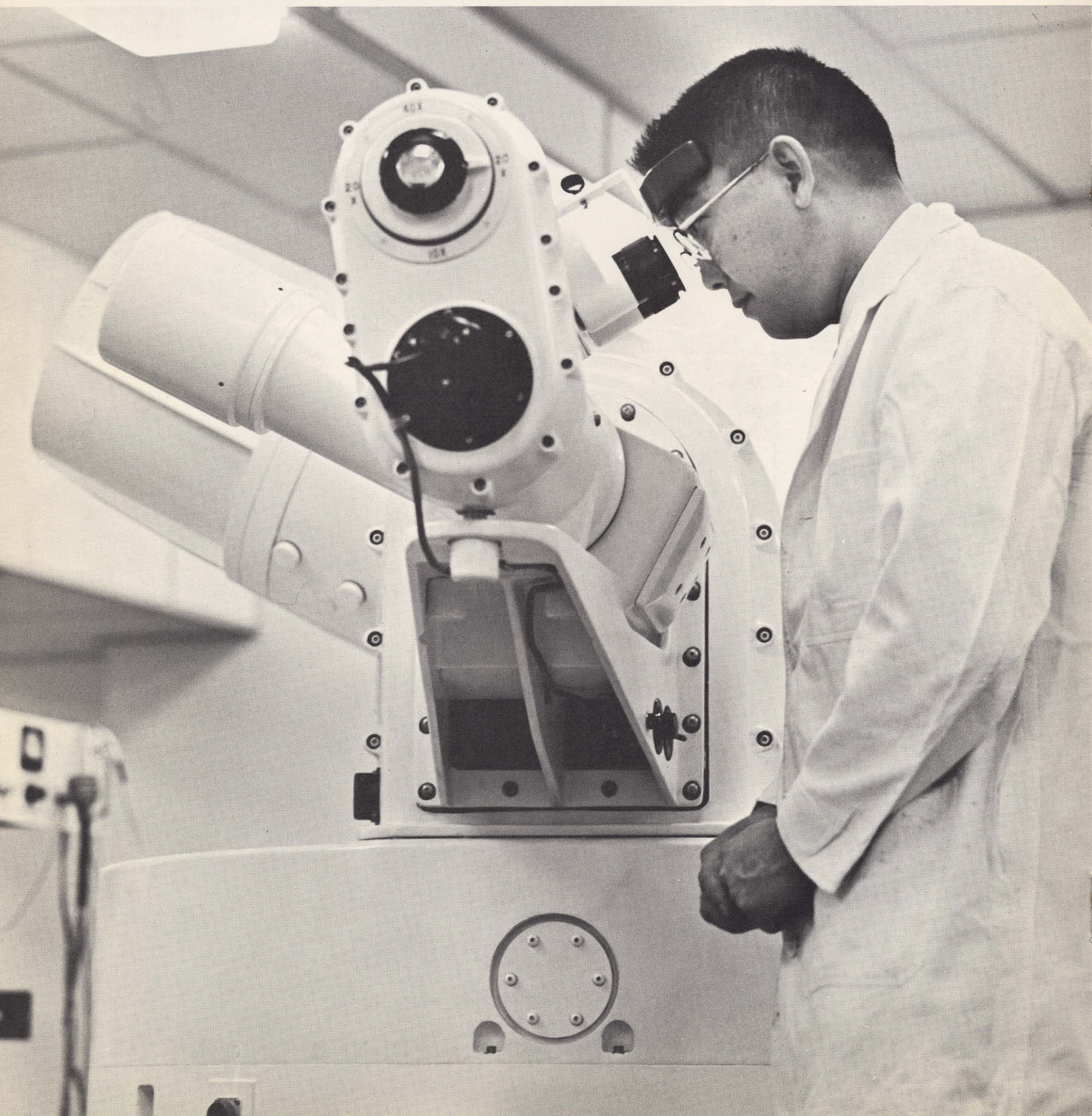
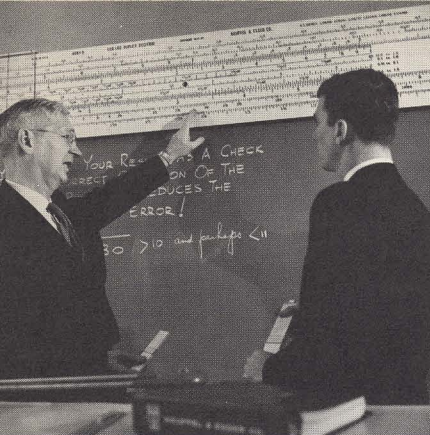
were sold during the year, and demand from highway departments should continue.

With the proposed creation of a federal transportation department, and the increasing emphasis being given to the problems of roads, highways, and city planning, we believe the field of photogrammetry and computer-assisted analysis of socio-economic data (such as that provided by our ECARS equipment) will offer important potential for growth.

STABILENE® Films, used so successfully by industry in precision drafting and reproduction, are also becoming the world standard for precision map-making. They are now used extensively by government mapping units in the United States and Canada, as well as government mapping divisions of France, Argentina, Turkey, Japan, and others, where usage continued to grow in 1965. The STABILENE system of precision layout and duplication promises to become an integral method for government and commercial map preparation throughout the world.







Left

Learning math efficiency with a slide rule is an indispensable part of the education of the engineering and vocational student. Here an instructor refers to large classroom model.

Below Left

Follow and film a basketball-sized object 200,000 feet in the air: the K&E cinetheodolite will do it. Made under government contract, it represents a new level of accuracy.

Specialized Markets

Positive results were recorded for the year in two of the company's specialized markets—education and hardware. In the third, optics and metrology, government contract losses overshadowed some strong technical achievements.

In education, our basic line of materials made good sales gains. Our new line of lower-priced drafting products for the secondary school was well accepted. The introduction of a new slide rule for non-engineers—the GP-12—broadened the base for slide rule usage to persons such as businessmen and computer programmers.

The field of audiovisual instruction saw valuable contributions by K&E products in 1965. Especially influential with teachers were the K&E Master Books. These books provide visual material in a variety of courses (biology and chemistry, for instance) and were acclaimed by educators as academically first-rate. From the Master Books, color transparencies are made on K&E high-speed diazo color films. In the latter part of the year, these same visuals were offered in ready-made form,

Center

Visual aids for more effective instruction. Overhead projector transparencies are made on K&E diazo color film from basic course material supplied in K&E Master Books.

and were enthusiastically received. While audiovisual sales still represent a small part of the company sales volume, we believe the field certainly offers growth potential.

The small but aggressive K&E hardware division also showed progress in the marketing of new products. Introduced at the beginning of the year was a new line of epoxy-coated steel measuring tapes of exceptional durability. Later in the year the company brought out a new line of color tapes—with bright pastel cases and matching color steel blades.

Government contract work in the sophisticated field of optics and metrology led to severe financial losses, but the company's technical achievements were significant.

The company completed work on a cinetheodolite of extreme accuracy for missile tracking. This unit will sight, track, and film an object about the size of a basketball up to 220,000 feet distant, to an accuracy of two seconds of arc. For the non-engineer, a second of arc is roughly the angle a viewer would discern if he sighted on the two opposite edges of a dime set on edge a mile away, and calculated the extremely slight angle between the two lines of sight. The cinetheodolite is scheduled to be in operation at the White Sands Missile Range this summer.

In addition, during 1965 the company built and delivered three optical checking units called azimuth comparators for use in testing the missile launching system of the Polaris submarine, and completed work and delivered a celestial test complex to Holloman Air Force Base early in the year. The latter is used to check out star tracking systems used in

Right

Testing the K&E epoxy-coated steel measuring tape, an expedition measures Mauna Loa, foot by foot over volcanic lava crags. Tape was reported back without a scratch.

guiding missiles and space vehicles, such as the one to be used in the moon program. One component of the complex, a star simulator, duplicates the light frequencies and intensity of stars used as guideposts for space vehicle tracking systems. Thus the trackers can be perfected on earth under conditions which exactly duplicate those of outer space.

We are confident the design and production skills gained in producing instruments of this calibre will pay lasting benefits to the company.

The International Market

The growing strength of our export business deserves mention. Each year for the past five we have seen strong sales gains, and 1965 was no exception.

We are investing a growing amount of effort in our overseas markets, being convinced they offer excellent potential for K&E products. During the year, as part of an active marketing effort, we participated in a number of fairs and exhibitions abroad, with fully equipped and manned exhibits. These included the British Fair in London, The Hanover Fair in Germany, The First World Congress of Microphotography in Tokyo, and exhibitions at U. S. Trade Centers in Bangkok, and Tokyo.

During 1965 product specialists also traveled to England, France, Germany, and Japan holding seminars on stable base materials and microfilm equipment to build the technical knowledge of local sales forces. The trips will be increased in 1966, and an international seminar will be held at our Hoboken office to be attended by distributor personnel from over 20 countries.

K&E research discovers a new role for many common plastics. Mild controlled heat can be used to transfer images to untreated cloths or films, to be developed by standard means.

Research and Development



K&E research and development proceeds along a dual path—to bolster and improve the significant products of the present line, and to venture beyond present technology into new products and systems. Both goals were pursued with energy and effectiveness during the past year.

Typical of improvements in the basic line was the work done on our LEROY® Lettering and Symbol Equipment. The developments included a newly designed scribe, a more functional case, additional pens and templates for more versatility. These developments should add strong impetus to sales during 1966. Newly designed transparentizing formulas have strengthened our leadership in drafting media by improving working properties, and extending the life of original drawings. With the acquisition of advanced coating machinery and new developments in quality control, the company's diazo sensitized products can now be produced at a higher uniform quality level. This decidedly improves our competitive position.

Wide recognition was given in news media and technical journals to findings

by our R&D group on the image acceptance properties of certain common, untreated plastics. K&E was granted patents on the discovery that these plastics retain an invisible, latent image after exposure to mild controlled heat, and that this image can be developed out by various means. The application of this finding offers possibilities for exploitation beyond the K&E sphere of business activity, and licensing arrangements are being discussed with several firms.

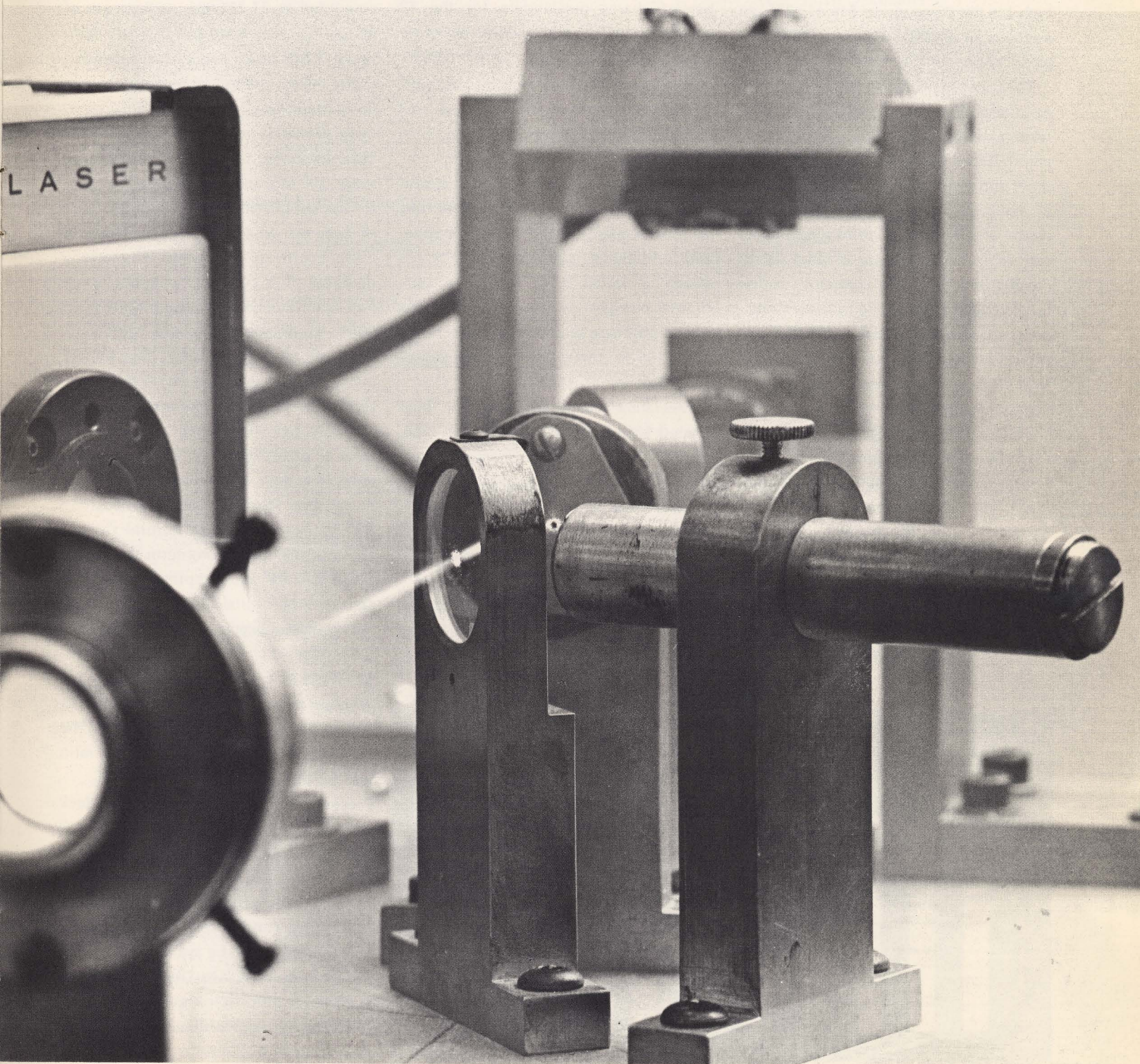
The coming year will also see the introduction by K&E of duplicating microfilm, a product which broadens our existing microfilm systems.

The prototype of a new laser interferometer was developed during the year. This is a specialized laboratory and research instrument which will give readings in the 10-50 foot range by counting fringes of light. The read-out of measurements will be accurate to 12/millionths of an inch—about 400 times finer than a human hair.

The company also developed a new line of thin film optical coatings. Computer designed, these films will provide desired transmission and reflection curves of light over any desired wave length range. An improved deposition technique gives the company the added capability to custom-make filters to almost any specification.

Research on the general feasibility of new reprographics systems continues at K&E. Research agreements are maintained with several organizations including Japan's Konishiroku Photo Industries, and with Kalle Akt. of Germany. New techniques of conventional and non-conventional photographic sensitization are now being explored under these agreements.

Harnessing the laser beam. The photograph pictures the prototype of a new interferometer which measures to 12-millionths of an inch in the 10-50 foot range.



Financial Review

Net sales in 1965 reached a new record high for the company of \$46,442,276, an increase of \$4,203,507 over 1964. This was a 10 per cent increase for the year.

The most important gains came in the engineering recording and communications market. This market accounts for about 70 per cent of total K&E sales volume, and about two-thirds is in the sale of consumable items such as papers, cloths and films. The remaining 30 per cent of K&E business was divided almost equally between the company's other two broad market groupings: civil engineering, surveying and mapping, and photogrammetry; and the three specialized markets of education, hardware, and optics and metrology.

The largest percentage gains were realized by sensitized products, drafting room equipment, miniaturization equipment, and surveying instruments.

Consolidated net income after taxes was \$1,597,323, an improvement of 11 per cent over 1964. Earnings per common share on shares outstanding at year-end were \$1.21, compared with \$1.25 for 1964. There were 1,243,847 shares out-

standing on December 31, 1965, contrasted with 1,080,000 in 1964. (This number reflects the nine-for-one stock split in August, 1965.) If earnings per common share were figured on the average number of shares outstanding for the 12 months of 1965, earnings would be somewhat higher at \$1.34 per common share.

The 1,243,847 figure takes into account the number of new shares issued and made available to the public in September, 1965, and the number sold to employees under an employee purchase plan. A total of 160,000 shares were sold by the company in the public offering, and employees subscribed to 18,272 shares of which 3,847 had been purchased outright by year-end. The employee purchase plan permits subscribers to complete their purchase or cancel until October 14, 1966.

Depreciation and amortization for 1965 totaled \$854,928 and \$821,921 for 1964. During the past year the company purchased \$998,320 of equipment, of which \$685,288 was for production machinery. This compares with total purchases in 1964 of \$757,823 of which production machinery amounted to \$426,122.

Taxes on United States and foreign income were \$1,229,000 in 1965 and \$1,301,856 in 1964. United States taxes

were reduced by investment credits of \$47,431 and foreign tax credit of \$43,326 in 1965, as compared with \$27,937 and \$42,022 in 1964.

Research and development costs for 1965 amounted to \$1,231,086, an increase of 45 per cent over \$846,853 in 1964. Additional R&D funds were also expended under reimbursement arrangements with the government.

Cash dividends paid by the company in 1965 amounted to 22 cents per common share. Of this amount 6 cents was paid for the last quarter of 1965 after the close of business on December 31. This was 1966 income to recipients. A quarterly dividend of 6 cents per common share has been declared payable March 31, 1966, to holders of record March 15, 1966. If continued at this rate, annual dividends will equal 24 cents per share. During the year 1965, preferred dividends of \$6.00 per share were paid on each class of preferred stock.

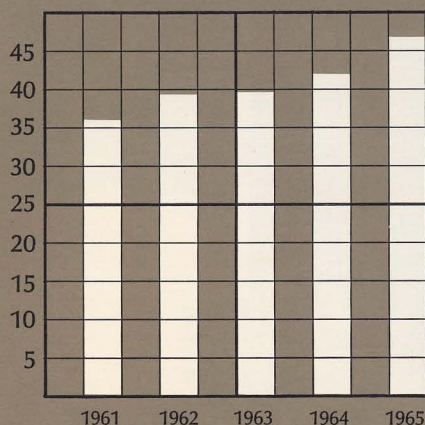
Long-term debt was reduced by \$300,000 in the year, leaving a balance of \$3,300,000 to be paid at the annual rate of \$300,000 per year. Long-term debt as of December 31, 1965, represented 12 per cent of total capitalization.

Stockholders' equity was \$23,960,477 at December 31, 1965, contrasted with \$18,808,965 at year-end 1964.

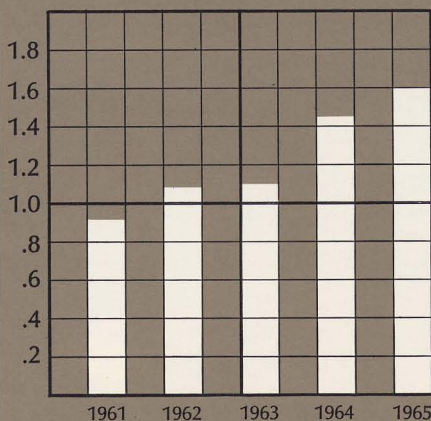
Working capital increased from \$16,993,085 to \$21,512,229 during the year. The current assets to current liabilities ratio was 6.3 at December 31, 1965.

Proceeds from the sale of common stock were not received by the company until September 28, 1965. Short-term bank loans in the amount of \$1,600,000 were paid off with part of the proceeds. The remaining funds were invested on a short-term basis to be available for future use in operations. On December 31 the company's total holdings of short term investments and certificates of deposit amounted to \$2,925,000.

NET SALES (In Millions)



NET PROFIT AFTER TAXES (In Millions)



Keuffel & Esser Company and Subsidiaries

Consolidated Statement of Income and Retained Earnings

	Year ended December 31	
	1965	1964
Net sales	\$46,442,276	\$42,238,769
Cost of goods sold	<u>30,903,568</u>	<u>27,871,802</u>
Gross profit	15,538,708	14,366,967
Selling, research, and administrative expenses	<u>12,652,624</u>	<u>11,527,107</u>
Income from operations	<u>2,886,084</u>	<u>2,839,860</u>
Other (deductions) and income:		
Interest expense	(224,370)	(253,760)
Gain on sale of property and equipment	6,493	67,801
Other—net	<u>158,116</u>	<u>92,918</u>
	<u>(59,761)</u>	<u>(93,041)</u>
Net income before taxes on income	2,826,323	2,746,819
United States and foreign taxes on income	<u>1,229,000</u>	<u>1,301,856</u>
Net income	<u>1,597,323</u>	<u>1,444,963</u>
Retained Earnings January 1	<u>14,208,965</u>	<u>13,100,002</u>
	<u>15,806,288</u>	<u>14,544,965</u>
Less Cash dividends:		
Preferred	96,000	96,000
Common	<u>249,831</u>	<u>240,000</u>
	<u>345,831</u>	<u>336,000</u>
Retained Earnings December 31	<u>\$15,460,457</u>	<u>\$14,208,965</u>

Depreciation and amortization was \$854,928 for 1965 and \$821,921 for 1964. United States taxes on income were reduced by the investment credit and unused foreign tax credit in the amount of \$90,757 for 1965 and \$69,959 for 1964.

See notes to financial statements

Keuffel & Esser Company and Subsidiaries
Consolidated Balance Sheet

ASSETS	December 31	
	1965	1964
Current assets:		
Cash	\$ 1,701,728	\$ 811,806
Short-term investments at cost, approximate market	1,924,523	370,400
Accounts and notes receivable:		
Trade	6,347,139	6,706,120
Other	257,114	176,984
	6,604,253	6,883,104
Inventories at lower of cost or market:		
Finished goods	8,161,779	7,517,769
Work in process	3,698,479	4,128,712
Raw materials and supplies	3,171,450	2,874,034
	15,031,708	14,520,515
Prepaid expenses, principally insurance	288,295	290,825
Total current assets	25,550,507	22,876,650
Investments	298,315	205,736
Property, plant and equipment—at cost:		
Land	446,187	436,462
Buildings	3,340,159	3,364,348
Machinery and equipment	5,773,875	5,447,377
Leasehold improvements	769,679	906,012
	10,329,900	10,154,199
Less accumulated depreciation and amortization	5,116,618	5,056,175
	5,213,282	5,098,024
Other assets, principally notes receivable	236,651	112,120
	\$31,298,755	\$28,292,530

See notes to Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31

	1965	1964
Current liabilities:		
Notes payable to banks	\$ —	\$ 600,000
Current portion of long-term debt (Note 2)	300,000	300,000
Accounts payable, principally trade	2,317,971	3,177,392
Accrued compensation	576,775	578,824
United States and foreign taxes on income (Note 3)	490,900	970,904
Employees' payments on stock subscriptions (Note 4)	82,298	—
Taxes, interest, and other liabilities	270,334	256,445
Total current liabilities	<u>4,038,278</u>	<u>5,883,565</u>
Long-term debt		
4½% Note payable—due \$300,000 annually 1967-1975 and the balance on December 1, 1976 (Note 2)	<u>3,300,000</u>	<u>3,600,000</u>
Stockholders' Equity:		
Preferred stock:		
6% cumulative non-callable First Preferred, \$100 par value; authorized and outstanding 10,000 shares	1,000,000	1,000,000
\$6.00 cumulative Second Preferred, no par value, stated value \$100 per share; authorized 10,000 shares; outstanding 6,000 shares	600,000	600,000
Common stock (Notes 4 and 5):		
Par value \$1.00; authorized 1,500,000 shares; outstanding 1,243,847 shares	1,243,847	—
No par value; authorized and outstanding 120,000 shares	—	3,000,000
Additional paid-in capital (Note 6)	5,656,173	—
Retained earnings (Note 2)	15,460,457	14,208,965
Total Stockholders' Equity	<u>23,960,477</u>	<u>18,808,965</u>
	<u><u>\$31,298,755</u></u>	<u><u>\$28,292,530</u></u>

Keuffel & Esser Company and Subsidiaries
Notes to Financial Statements

1. **Principles of Consolidation.** The accounts of all totally-held subsidiaries have been consolidated, and those of foreign subsidiaries have been translated at appropriate rates of exchange.

2. **Long-term Note Payable.** Under the provisions of the loan agreement, approximately \$4,604,000 of consolidated retained earnings at December 31, 1965 was available for payment of cash dividends or purchase of the Company's capital stock. After March 1, 1966, the Company may borrow on a short-term basis only if it has been free of all such debt for sixty consecutive days during the previous twelve months. The Company may make other short-term borrowings based on funds in Canada and for the purpose of financing conditional sales contracts and leasing arrangements covering its products.

3. **Taxes on Income.** United States income tax returns for years through 1961 have been examined and settled. An ex-

amination of such returns for 1962 and 1963 is in progress. In the opinion of Management, any additional taxes which may be assessed will not have a material effect on the financial statements.

4. **Stock Options.** Under a stock option plan, adopted in 1965, 25,000 shares have been reserved. Options for 15,400 shares have been granted, none of which can be exercised prior to September, 1966.

Under an employee stock purchase plan, adopted in 1965, subscriptions to 18,272 shares have been received of which 3,847 shares were paid for and issued. Subscriptions for the balance may be cancelled by the subscribing employee at any time prior to payment in full but not later than October 14, 1966.

5. **Common Stock.** During 1965, the shareholders approved a change in the authorized common stock from 120,000 shares of no par value to 1,500,000 shares of \$1.00, and a nine-for-one split.

6. **Additional Paid-in Capital.** Credits to additional paid-in capital during the year, amounted to \$5,656,173 as follows: transfer from common stock pursuant to change from no par value to \$1.00 par value and a nine-for-one split, \$1,920,000; excess of offering price of 160,000 shares sold over the par value, less expenses of sale, \$3,650,000; excess of offering price over par value of shares sold

under employee stock purchase plan, \$86,173.

7. **Commitments and Contingent Liabilities.** Leases expiring more than three years from December 31, 1965, provide for aggregate minimum annual rentals of about \$228,400, plus in certain cases real estate taxes and other expenses. Such minimum annual rentals, classified as to the period within which the related leases expire, are as follows: \$46,000 in 1969-1970; \$33,300 in 1972-1974; \$54,800 in 1975-1979; and \$94,300 in 1980-1985.

The Company is progressing with its program for the erection of a coating and converting plant, which has been expanded to include transparentizing, at a presently total estimated capital cost of \$2,800,000.

The Company has contracted for the purchase of certain land to be used for the erection of general offices, which contract when consummated will require the expenditure of \$525,000.

8. **Retirement Plans.** The Company has a non-contributory pension plan covering employees of the Company and its domestic and Canadian subsidiaries. In addition, supplemental payments are made to certain retired officers and employees. Charges to operations for such costs aggregated \$608,000 in 1965 and \$358,000 in 1964.

Opinion of Independent Accountants

To the Stockholders and Board of Directors of Keuffel & Esser Company:

We have examined the consolidated balance sheet of Keuffel & Esser Company and subsidiaries as of December 31, 1965, and the consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements identified above present fairly the financial position of Keuffel & Esser Company and subsidiaries consolidated at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 1, 1966

HURDMAN AND CRANSTOUN
Certified Public Accountants

Five Year Summary

(Dollars expressed in thousands except per share figures)

FINANCIAL POSITION	1965	1964	1963	1962	1961
Working capital	\$21,512	\$16,993	\$16,070	\$16,054	\$15,886
Current assets to current liabilities ratio	6.3	3.9	3.6	4.6	5.9
Total assets	\$31,299	\$28,293	\$27,860	\$25,792	\$24,151
Long term debt	\$ 3,300	\$ 3,600	\$ 3,900	\$ 4,200	\$ 4,500
Stockholders' equity	\$23,960	\$18,809	\$17,700	\$16,944	\$16,328
INCOME					
Net sales	\$46,442	\$42,239	\$38,899	\$38,334	\$35,587
Net income before taxes	\$ 2,826	\$ 2,747	\$ 2,178	\$ 1,951*	\$ 1,751*
% of sales	6.1	6.5	5.6	5.1	4.9
Net income after taxes	\$ 1,597	\$ 1,445	\$ 1,092	\$ 1,088*	\$ 902*
% of sales	3.4	3.4	2.8	2.8	2.5
Income available for common stockholders	\$ 1,501	\$ 1,349	\$ 996	\$ 992*	\$ 806*

*Does not include special gain of \$207,574 net of tax in 1961 and special loss of \$136,469 in 1962.



CREATIVE PRODUCTS
FOR THE CREATIVE ENGINEER

Keuffel & Esser Company Hoboken, New Jersey