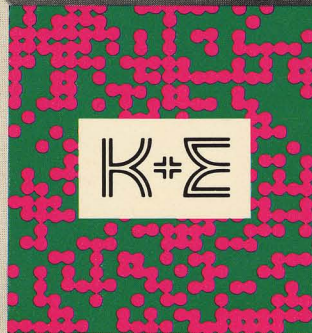
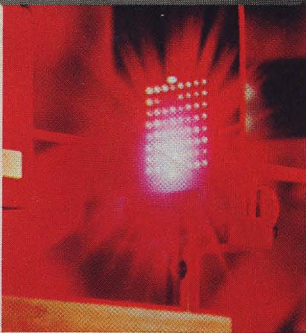
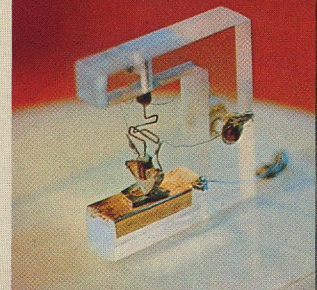
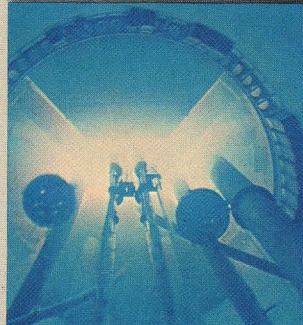
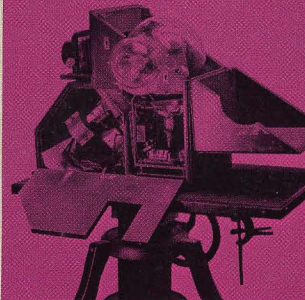
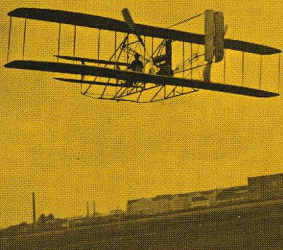
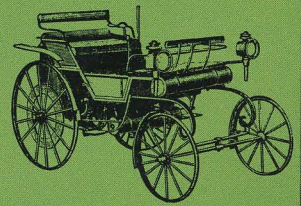
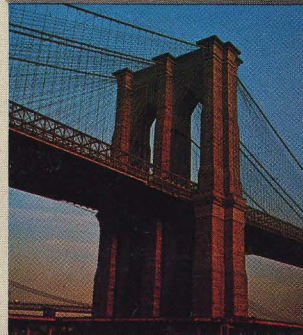
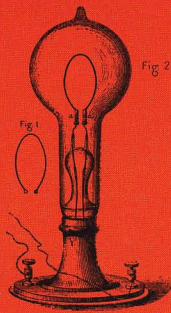
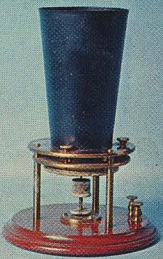


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**KEUFFEL
& ESSER
COMPANY**
ANNUAL REPORT 1966



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KEUFFEL & ESSER COMPANY

OFFICERS AND DIRECTORS

Alfred E. Busch, President and Director
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; Vice President,
American Telephone & Telegraph Company
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

MANUFACTURING PLANTS

Cape May Products, Cape May Court House, New Jersey
Central Distributors, Teterboro, New Jersey
Cranford Instruments, Cranford, New Jersey
Cury Manufacturing, Chicago, Illinois
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
Schroeder 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 27, 1967, at 10:00 A.M.

The cover of this report pictures some of the pivotal engineering events which have occurred during the 100-year history of Keuffel & Esser Co. Each of these events materially changed the world we live in. And, of course, they also contributed to the growth and development of K&E. As we commemorate our 100th year in 1967, we are proud to salute the pioneering engineers past, present and future. We wish to dedicate our centennial year in their honor as "the Year of the Engineer."



1. Bell's first telephone—1876
2. Edison's incandescent bulb—1879
3. The Brooklyn Bridge—1883
4. The internal combustion automobile—1885
5. The Wright Brothers' airplane—1903
6. The electronic scanner,
basis of television—1928
7. The atomic pile—1942
8. The transistor—1948
9. The laser—1960
10. The digital computer—1950
11. Space exploration—1957

Photos courtesy Western Electric, Bettman Archive,
Radio Corporation of America, University of California,
International Business Machines Corp., and
NASA.

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HIGHLIGHTS OF THE YEAR

Increased demand for all categories of K&E products sends sales to new highs, a gain of 12% over the previous year.

General improvement in operations yields a strong gain in after-tax profits, up 87% over previous year.

New production equipment and methods completely installed and on-line, completing a two-year program and materially increasing coating capacity. New Rockaway coating and sensitizing plant started, and well underway to completion by mid-1967.

A variety of new products introduced.

Specialized markets—educational/audiovisual, international—show growth. New specialty hardware division initiated.

FINANCIAL HIGHLIGHTS

1966

1965

Net Sales	\$51,791,255	\$46,442,276
Net Income after Taxes	\$ 2,988,969	\$ 1,597,323
Net Income per Common Share	\$2.31*	\$1.21*
Working Capital	\$21,735,811	\$21,512,229
Stockholders' Equity	\$26,733,462	\$23,960,477
Number of Stockholders	1,943	1,918
Number of Employees	2,309	2,231

THE BUSINESS OF THE COMPANY

Keuffel & Esser Company designs, manufactures and sells a wide variety of precision instruments, drafting and reproduction materials for the engineer, architect, draftsman, reproduction specialist, surveyor, educator, and student.

*On 1,251,499 shares outstanding December 31, 1966, and 1,243,847 shares outstanding December 31, 1965.

TO THE STOCKHOLDERS

The compass guiding K&E for the past 100 years has indicated a single corporate direction—toward quality products for the precise needs of the engineering profession. This is our course today as we prepare for another century of growth.

The year 1966 was a fitting entry into our Centennial. In all respects it was a record year for K&E. We attained new sales peaks and a very gratifying gain in profits.

Net sales were \$51,791,000, a new high for the company and an increase of \$5,349,000 over the 1965 total. Certainly this was a tribute to the continuing excellence of our products, which advanced against a tide of strong competition, and to our sales organization for a most effective performance.

Of even greater significance was the marked rise in earnings for the year. Net income after taxes amounted to \$2,989,000, an 87% gain over the 1965 figure of \$1,597,000. Net income applicable to common stock came to \$2.31 a share on 1,251,499 shares outstanding at year end, compared with \$1.21 on 1,243,847 shares last year.

The gains posted in 1966 are the direct result of a consolidation and strengthening of our total corporate framework over the past few years. No single factor can be isolated and given the lion's share of the credit. But a few deserve special mention—the improved efficiency and capacity of our manufacturing operations, including the elimination of excessive losses on government contracts; the lowering ratio of operating costs to volume; product improvements emanating from our R&D laboratories; and the steadily in-

creasing market penetration achieved by our sales organization.

Our manufacturing operations story can be summed up as increased capacity through new machinery and improved production methods. A wide-ranging line of 10,000 products, such as ours, does not permit the mass-production of every item. But in areas where volume is high—as with our “consumables” for drafting and reproduction departments—we have streamlined production. New high-speed machinery has gone on line to produce these papers, cloths, and films, giving us a considerable increase in capacity over just two years ago. This program will be further strengthened by the addition of our new Rockaway coating plant, which went into construction in 1966 and is due to be completed on schedule by mid-1967. The expanded facilities at our York plant helped boost instrument production in 1966.

More efficient administrative control brought about a lower ratio of operating costs to sales volume. For example, one step taken has been the conversion of many routine procedures (development of statistical data, customer invoicing, maintenance of accounts receivable, processing of general accounting records) to computer processing. In 1966 we installed the new IBM 360-40 computer to further improve our data handling methods. We have thus been able to absorb sizeable work increases at little increase in cost.

Our marketing efforts have been strengthened in many ways. We have created a strong corps of technical specialists working directly with branch and distributor field salesmen to build product knowledge and improve customer service. In addition, many of our newer branches have begun to hit stride and increase their share of the market. Our outstanding distributor organization has improved its market position as well. We are providing a more informed, diversified selling pattern, and it is showing results.

But with all of the good news of the year, I must record our grief and sense of loss at the passing of a distin-

guished colleague, Leslie M. Cassidy, who was for all too short a time a member of our board of directors. Mr. Cassidy was as beloved for his warmth and wit as he was admired for his keen business acumen. His astute judgment in matters of company policy will be sorely missed.

Today, we are involved in a concerted program to infuse scientific management principles in all phases of company activity. I firmly believe that a company such as K&E, so closely tied to science and engineering, must embody in its totality the most advanced methods and procedures. As we pursue this goal, we gain a new awareness of the implications for K&E of the scientific-technical revolution. We can see, for instance, in the vast output of information today, broad areas of opportunity in the handling of such information, especially as it is used by engineers.

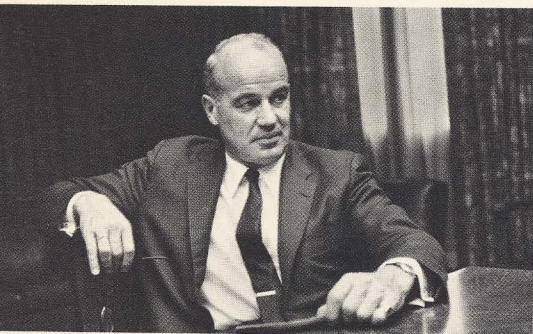
K&E began just as the Industrial Revolution was beginning to change America. We have worked hand in glove with the pioneers of our new technology. We are grateful to have played a part in the growth of the modern world, and we intend to provide the needed tools for the future.

I am pleased to report that our financial position is sound, enabling us to take advantage of any opportunity that may present itself. We are technically strong, confident of our abilities.

No company can prosper without loyal, dedicated employees. K&E has been fortunate in its first hundred years to have attracted men and women of outstanding skills and personal qualities. My special thanks to the present K&E family of employees for their spirited efforts of recent years. They are the key to Century II. The challenges of the future are great, but I know we have the human resources to meet them.

I feel certain that 1967 will be another year of advancement for Keuffel & Esser Company.

Alfred E. Busch
March 1, 1967 Alfred E. Busch, President



A. Technician monitors the flow of paper into giant coating machine at Taconic plant.

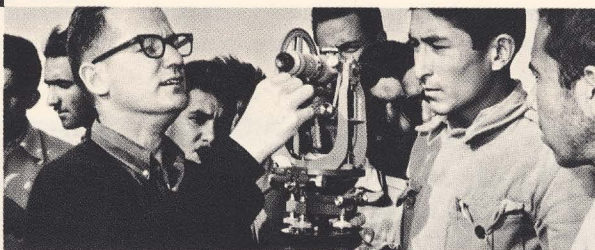
B. Trainees in Afghanistan are shown use of K&E surveyor's transit as part of AID program.

C. New Rockaway coating plant is erected, nears final stages of completion.

D. Patterns of precision—finely made prisms for optical heat-sensing devices.



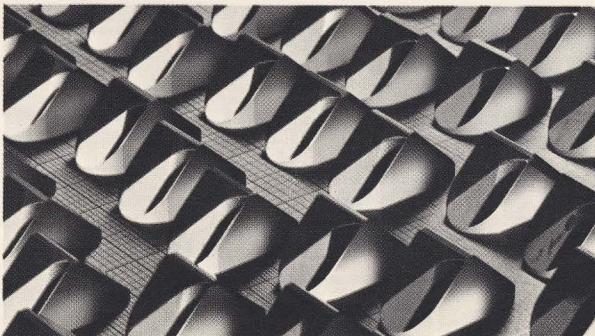
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YEAR IN REVIEW

The year 1966 began in an atmosphere of optimism and challenge. From the beginning of the year, it was apparent that K&E products were being specified in unprecedented quantities by the industries we serve. January was our best first month in history. February continued the trend. Our first quarter was a company high. The final figures for the year proved it to be outstanding—the most substantial growth year in our history.

Significantly, all segments of the product line participated in this growth. The relative contributions of our chief markets remained the same.

ENGINEERING RECORDING AND COMMUNICATIONS

Although optimistically forecast, sales in this, the largest market area for K&E, surpassed expectations.

All of our basic drafting materials and reproduction items were above the 8% gross national product increase.

continued

The strongest showing of the year was made by products where K&E has most clearly demonstrated its understanding of engineering problems and its ability to produce and maintain materials in a class by themselves.

HERCULENE® drafting film, the polyester based general-purpose medium for draftsmen, made a vigorous sales gain, against the steady competition of similar products. The precision-engineering built into the HERCULENE drafting surface for uniformity and easy working characteristics has established it as the product synonymous with excellence in this field.

Equally active was the K&E line of STABILENE® dimensionally stable precision films. This line filled a definite need of current technology for ultra-precise tolerances in manufacture. Because of its great stability and unrivalled variety of surfaces and coatings, the STABILENE line is well on

its way to becoming one of the truly essential products for engineers and map-makers. The great boom in aircraft activity, particularly on the Pacific Coast, contributed to STABILENE film sales. All of the major aircraft firms—Boeing, Douglas, Lockheed, North American—now use STABILENE films in their engineering systems. The scribe-coat technique, which K&E pioneered, has virtually replaced pencil and ink drafting at many aircraft firms.

However, the market for STABILENE films is by no means limited to the airframe industry. Wherever precision drafting is essential—in transportation, communications, electronics, machinery, mapping—the need for this product line will continue to grow.

A product line which K&E introduced over a generation ago—LEROY® lettering and symbol equipment—has grown to become an essential tool in engineer-

ing annotation. Mid-year saw the introduction of a new LEROY II lettering set with many notable design improvements. Sales have been brisk from the first day of its introduction.

Other important new products were introduced in the engineering recording and communications market during the year:

The PHOTACT® Instant Print line of high-speed photographic materials compatible with various other reproduction systems.

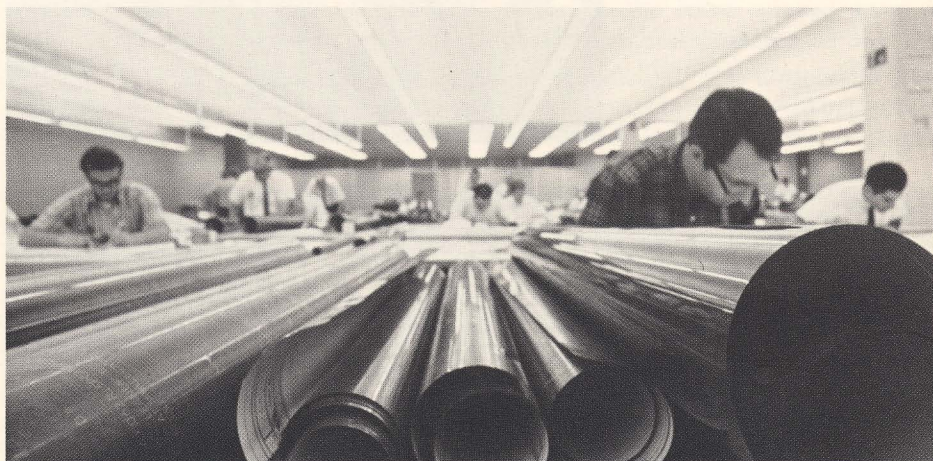
A new MICRO-MASTER® 35mm camera, with solid-state electronic components.

A new THERMO-ROY™ heat-scribing tool, for use with LEROY templates on STABILENE scribe coat films, a much needed tool for those who draft on scribing surfaces.

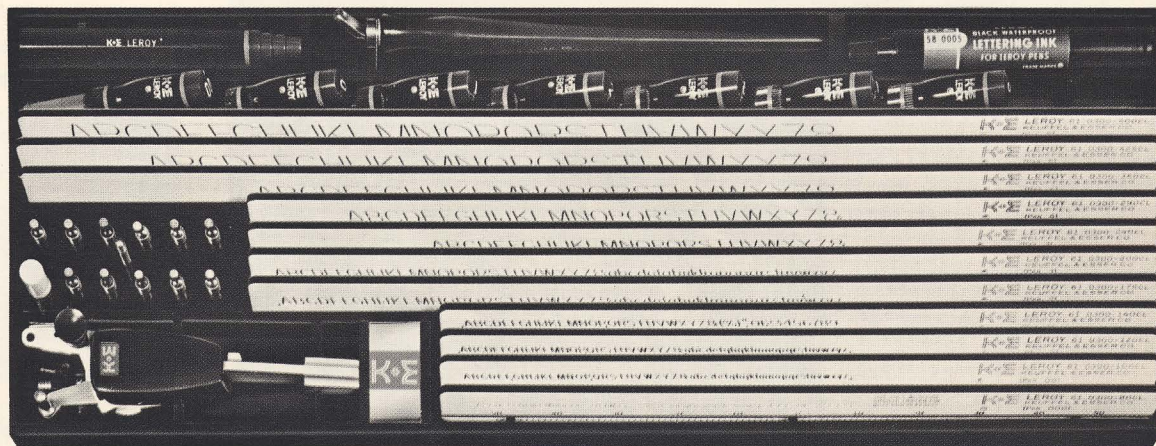
Within the MICRO-MASTER line of

A. Rolls of scribed STABILENE film symbolize new era of precision drafting.

B. LEROY II lettering set, with new look, new design improvements.



A



B

microfilm supplies, a new line of diazo microfilm, a system with excellent potential because of its economy and superior reproduction qualities (in many cases better than regular photographic microfilm).

The development of several new film-based products, including a new lithographic projection film, and specialized scribe films for use on optical-electronic visual display systems.

All told, the year reconfirmed the company's position as the leader in the engineering supplies field.

CIVIL ENGINEERING, SURVEYING & MAPPING, PHOTOGRAMMETRY

These fields, comprising another important K&E market segment, contributed their normal share of company sales volume despite a downturn in construction activity brought about

by the tight money situation which started to be felt at mid-year.

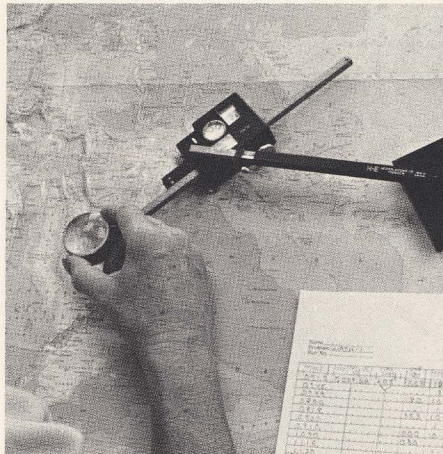
Tight money hit hardest in the home construction area, but did not affect major construction projects to any great extent. The K&E line, while used widely by the smaller builder, is sold chiefly to larger construction firms, and to state and federal agencies involved in large engineering projects.

The year marked the introduction of innovations on the outstanding surveying instrument in the country, the PARAGON® transit. A new optical plummet was added to various models of this instrument, replacing the traditional plumb bob as a means of setting up the instrument over a point.

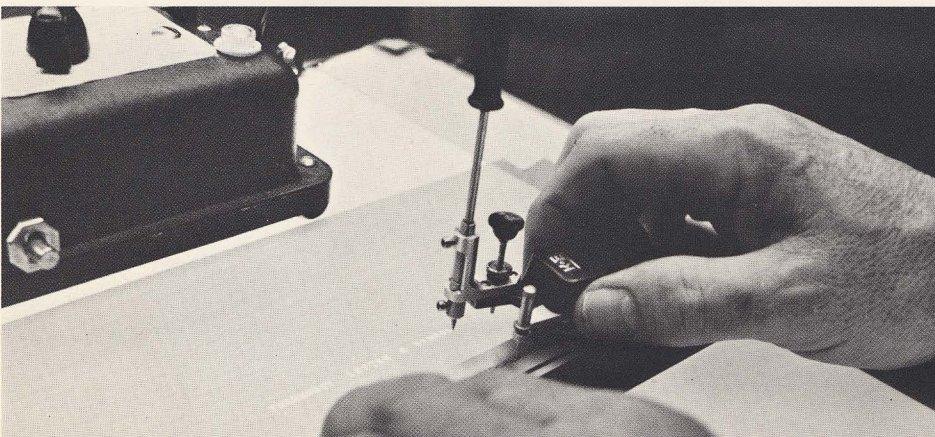
Civil engineers continued to buy the small PDS 1020 civil engineering computer in increasing numbers. The addition of several excellent new programs made the computer all the more attractive as a general purpose tool.



C



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C. Digitizing map information for computer analysis with the K&E ECARS (Electronic Coordinatograph & Recording System).

D. Planimeter is used to make accurate measurements of sea floor topography at Scripps Institution of Oceanography.

E. THERMO-ROY heated scribe permits lettering on scribe coat films.

F. The PARAGON transit—with new optical plummet to replace the plumb bob method of sighting over a point.



F

SPECIALIZED MARKETS

It was a year of growth, consolidation, and new ventures for the company's specialized market areas.

In the highly promising educational/audiovisual market, several steps were taken to strengthen the K&E position. The company created new selling outlets for traditional K&E educational products (slide rules, drawing instruments, T-squares, drafting tables) through its network of some 180 audiovisual dealers. In turn, all current K&E sales outlets added the audiovisual line to their regular line of K&E products. This two-way diversification led to a healthy 75% gain in audiovisual product sales and a smaller but noticeable gain in traditional K&E products.

The effect of the Elementary and Secondary Education Act was felt strongly in 1966. This Federal legislation, which provides 100% grants in many areas of school equipment and supplies, has

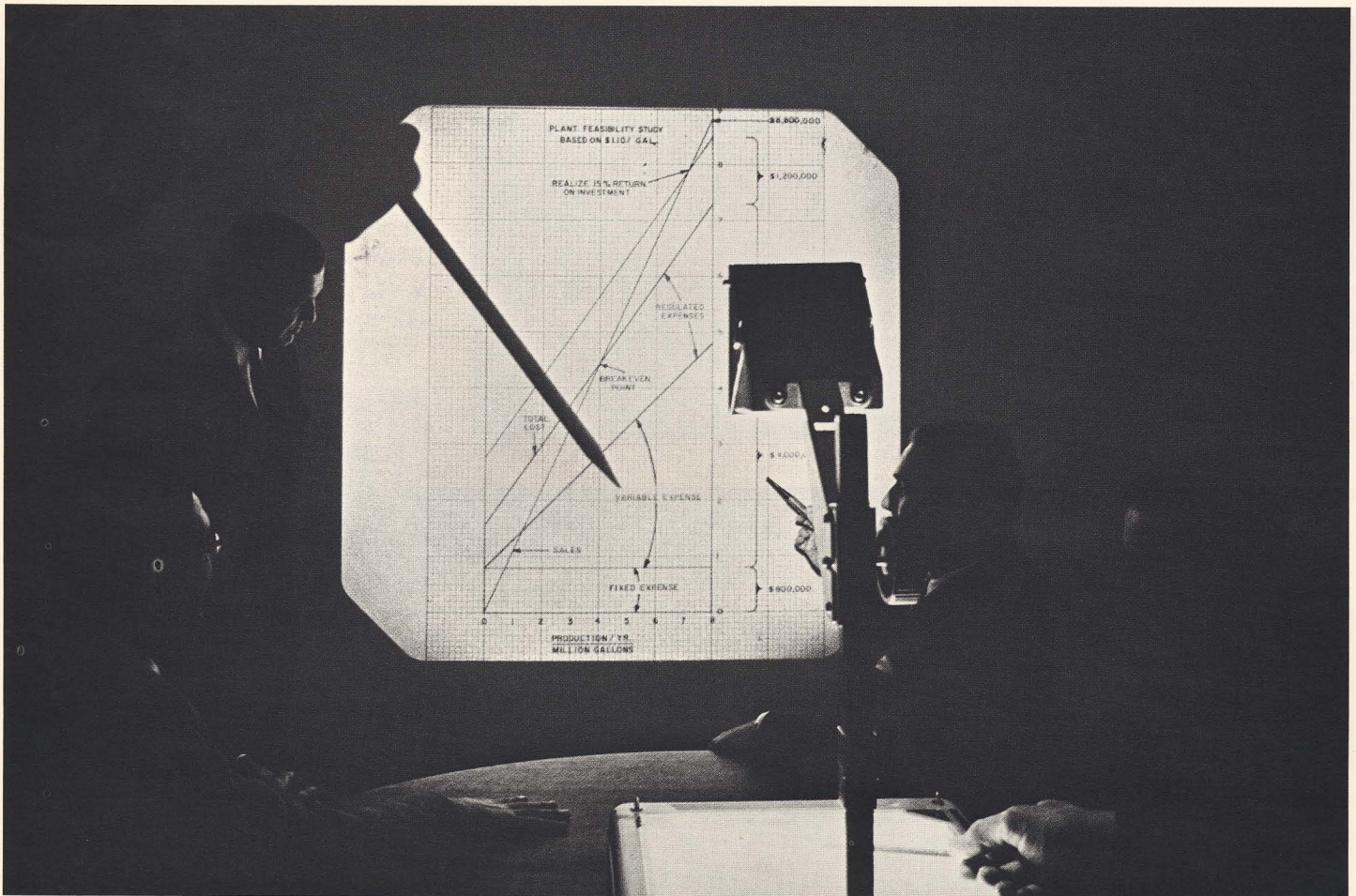
enabled elementary and secondary schools to acquire items they would not have been able to purchase under local funding methods.

In 1966, the greater part of the ESEA money was spent on equipment, including the purchase of an estimated 100,000 overhead projectors from a score of manufacturers, strongly positioning this teaching device as the most widely used technique in American education.

This trend benefited K&E in 1966 with the rise in purchase of our teaching transparencies for the overhead projector. Its full effect will come in 1967 and the immediate years following. The U.S. Office of Education states emphatically that there is a shortage of good teaching materials. K&E is primarily in the teaching materials business, and will continue to stress its interest there with new editions of its award-winning Master Book series. A

new Master Book on Sub-Saharan Africa made its debut in 1966. Eleven other Master Books are in various stages of preparation. The outlook and opportunities in education look to be extremely promising.

Within its Hardware Division, K&E broadened its base in 1966 with a new program to sell advertising and promotional products such as imprinted slide rules, scales, and measuring tapes. This is a field in which gifts and giveaway items are sold through specialty houses. Because a great many K&E items appeal as gifts, particularly to the growing number of technically trained people in the country, we see good possibilities in this area. The company produced a special catalog, and exhibited at trade shows to display its specialty line. We are launched into this field but will probably not derive significant sales volume for another year or so.



THE INTERNATIONAL MARKET

The company took major steps during 1966 to boost its steadily increasing sales overseas. Early in the year, a resident sales manager was appointed for Europe, where the company believes we have an excellent immediate sales potential. The European office, K&E G.m.b.H., is headquartered in Hamburg, Germany, and operates as a free port to speed service to European distributors.

In May, 1966, an international sales seminar was held in New York City, attended at their own expense by 45 representatives of K&E distributors from 21 different countries. The attendees were given an intense, thorough briefing on the technical aspects of the important K&E product lines. The meetings met with great success, and we have been requested by other distributors to schedule another session in the near future.

During the year, new distributors were appointed in 12 countries, and representatives of the International Division traveled throughout Europe, Central and South America, the Near and Far East.

In Mexico, production was begun on surveying instruments and ALBA-NENE® tracing paper. This venture marks the first time that any of the leading K&E products developed in the United States have been manufactured in a Latin American country.

Efforts to introduce the widely used 105mm system for engineering reproduction in Europe resulted in the first sales there of MICRO-MASTER® 105mm camera-projectors. We believe this to be an especially encouraging development, since the complete 105mm system is a K&E exclusive, and its adoption abroad could be a source of important sales volume in equipment and supplies.



B



C



D

A. Vivid tool of communication, an overhead projector transparency on K&E diazo film illuminates a business decision.

B. Delegates to international training seminar learn about K&E products by workshop method.

C. Multi-lingual translation keeps all members of seminar at same learning pace.

D. PARAGON® tilting levels, precision instruments for industrial alignment.

R&D—MANUFACTURING

The new products mentioned in this report were the outgrowth of applied research by our company research and development group. In solving technical and production problems, they were assisted by our manufacturing engineers. Also, basic research was continued on future technology—the new systems for tomorrow's technicians.

Architect's plans were approved and ground was broken in July on our new coating and sensitizing plant in Rockaway, N. J. This 83,000 sq. ft. facility has been erected, and internal fixtures and details are being completed. The first manufacturing operations are expected to start on schedule in mid-1967. By the end of the year the plant will be in full operation.

The addition of other high-speed coating equipment has increased capacity at our various coating plants. Instrument output has benefited from

the expansion program at our York plant in Kennebunk, Maine. Cury manufacturing, which makes many of our small instruments as well as specialized items for other manufacturers, was moved to new and larger facilities in Chicago. Facilities at the Kargl Instruments plant were expanded and modernized to handle greater capacity.

THE K&E CATALOG

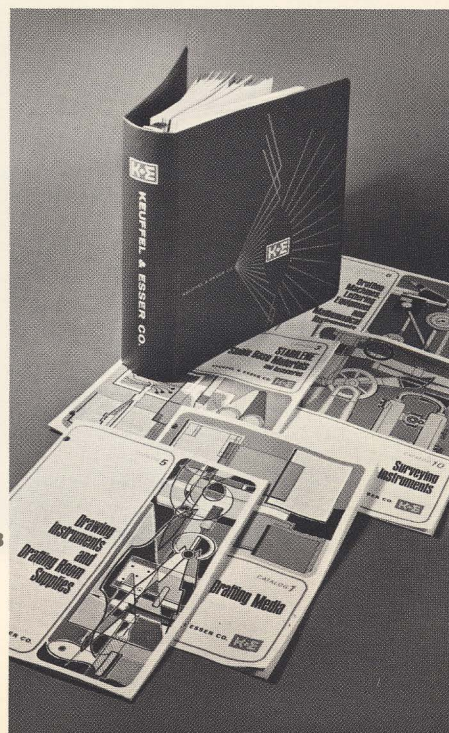
Since the first edition in 1868, the K&E catalog has been generally regarded as an essential buying guide for the engineering and technical professions. In 1966, K&E undertook a complete updating of all 12 sections of the General Catalog, covering more than 10,000 items in the product line. This project was about half completed by the end of the year, and subsequent sections will be finished by the end of April, 1967, providing a completely new edition of the catalog.

A. Coded, checked and stored, various base stocks await application of precise engineering surfaces.

B. The K&E Catalog, since 1868 the standard buying guide of the engineering profession, receives a complete updating.



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OUR FIRST 100 YEARS



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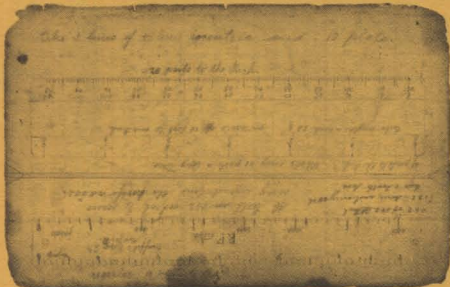
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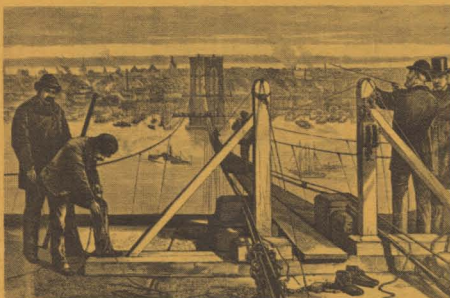
A. First rent receipt of the fledgling firm—\$5.50 payment in advance for a month's occupancy of a one-room office in New York's bustling Wall Street area.

B. Early relic of the precision methods of K&E . . . a page from William Keuffel's notebook, exact and meticulous notes for a measuring tape.

C. A first contribution to a major engineering project was the furnishing of drawing materials for the famed Brooklyn Bridge, started in 1870.



B



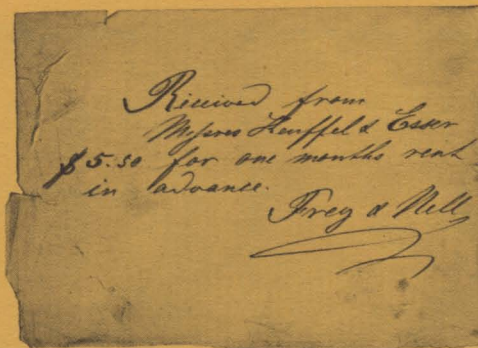
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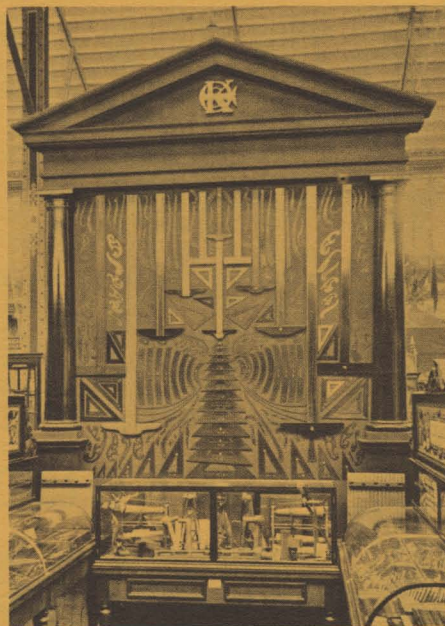
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D. A sign of the early growth of the company was this ornate display at the nation's first Centennial Exposition in 1876.

E. Rapid service, ever a K&E policy, was a little harder in the horse and buggy days. But we tried.

F. After nearly four decades of growth, the K&E manufacturing facilities had grown from a one-room loft to these imposing buildings in Hoboken, New Jersey.

The year 1867 was a year of beginnings. Canada became an independent nation. Alaska was purchased by the United States. And, in New York City, two young men formed a partnership and opened a business.

The day was July 19th.

On that day wagon trains moved westward across the great plains.

There was no telephone.

No electric light.

No refrigeration.

No coast-to-coast railroad.

America was still an agricultural nation, just beginning to recover from the exhaustion of the Civil War.

But some men of vision could see a new pattern emerging. The Industrial Revolution, already a century old in England, had leaped the ocean and was transforming America. A flood of creativity was about to spill forth new inventions by the thousands.

On that bright morning in July, William Keuffel, 29 years old, and Hermann Esser, 22, climbed four flights of stairs to their one-room office in the Wall Street section of New York City. The older man, ebullient and optimistic; his partner, precise and methodical.

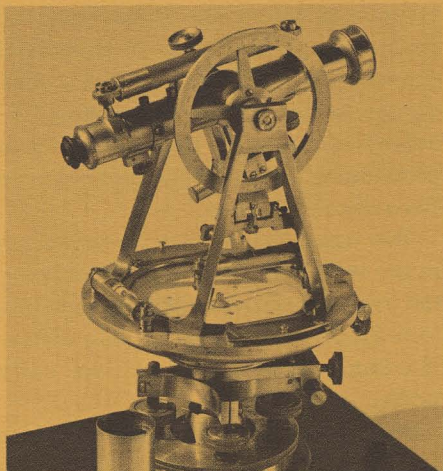
They were about to introduce a new idea in American business—a firm devoted exclusively to quality engineering products. Until that day engineering supplies had been considered part of the hardware and mill supply business—not important enough for any firm to make them a specialty.

But William Keuffel, with characteristic foresight, saw the role of the engineer and architect expanding, the need for supplies growing. He was right, perhaps more so than anybody could have dreamed even in America.

For \$5.50 the partners had paid a month's rent in advance on their small quarters. They arranged their stock: finely machined ruling pens; compasses and dividers; protractors of horn and nickel silver; trammels of rosewood and mahogany; ink in small glossy cakes from India and China; triangles and curves cut from sheets of hard rubber; and other supplies for engineers' and architects' drawings.

G. Now in the Smithsonian Institution, this K&E transit accompanied Adm. Robert Peary in his explorations of the far north, was cached and recovered in perfect condition.

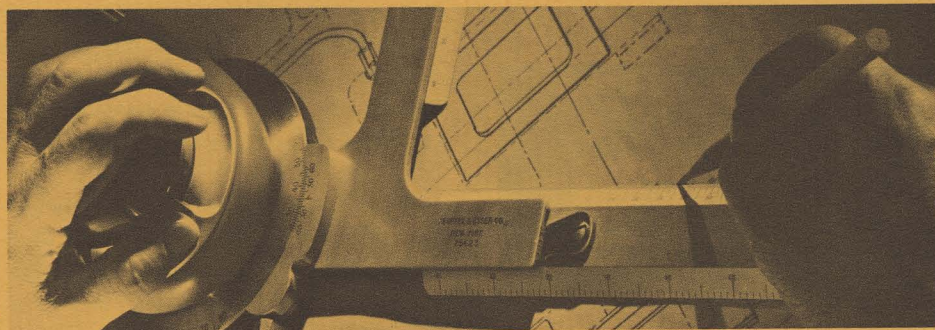
H. A last remaining fragment of the optical glass melt of 1916, one of the first successful ventures to supply critically needed optical glass prior to World War I.



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H



I

I. As drafting became more complex new tools were needed. The K&E drafting machine was one of many innovations.

J. For valiant production feats during World War II, the company receives one of its seven Army-Navy "E" awards.



J

The partners published their first catalog in 1868. Twenty-four pages in size, it created quite a stir in the trade. Soon K&E tools and materials were being used to draw plans for the Brooklyn Bridge, which got underway in 1870. And that year, William Keuffel himself became K&E's first manufacturing employee, cutting hard rubber curves and triangles by hand.

By 1875, the firm had set up a manufacturing plant in an old loft building in Hoboken. Three years later it occupied its own four-story headquarters building at 127 Fulton Street in Manhattan.

Times moved swiftly and so did K&E. In 1876, their catalog numbered 123 pages. An English reporter, viewing the Centennial Exposition of that year, at which K&E exhibited, wrote: "the American mechanizes as the old Greeks sculpted."

Hermann Esser retired in 1902. William Keuffel remained at the head of the firm until his death in 1908. The company they founded was by then technologically advanced, with San Francisco and Chicago Branches, and a small export business through South America.

The great railroad boom of the 1870's had brought about a need for surveying instruments on an unprecedented scale. They were a part of the K&E line in those early years, and by the time of World War I, K&E was a highly sophisticated instrument maker.

This capability was soon to be put to the test. The normal supply of optical glass from Europe was cut off. One of the first successful U.S. melts was made by K&E under the direction of Carl W. Keuffel in 1916. Before the war ended K&E had turned out thousands of range finders, telescopes, gun sights, submarine periscopes, and sextants.

This intensive optical experience led to the perfection in the 1920's of the internal focussing surveyor's transit, permitting inner parts of the instrument to be sealed off against the harmful effects of dust.

The twenties and thirties were periods when the K&E network grew

K. This fierce old bird, the Griffin, was the K&E trademark for over fifty years, until the appearance of the current design in 1944.

L. A brilliant extension of the company's optical capabilities was the development in the 1950's of a complete line of ultra-precise optical tooling and alignment equipment.

M. Symbol of the entry into Century II is this architect's drawing of the new Home Office and Research Center, to be constructed in Morris Township, New Jersey, now in the design stage.



K

rapidly, and some of the more famed K&E brand name products emerged from the newly established research and development group—ALBANENE® tracing paper, LEROY® lettering sets, PARAGON® drafting machines, WYTE-FACE® measuring tapes, and the LOG LOG DUPLEX DECITRIG® slide rule, to name a few. In the depression years of the thirties, K&E never closed its doors and in fact continued to enjoy a growing volume.

Again in World War II, the company performed yeoman duty in support of the war effort. K&E was one of 13 companies to win seven Army-Navy "E" awards, out of more than 85,000 in war production. Only five per cent received the award even once.

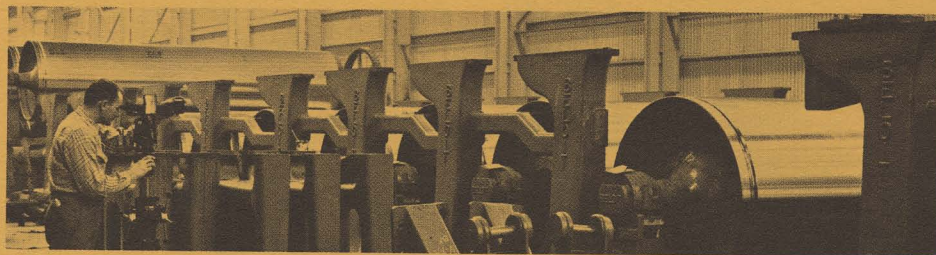
War again led to new developments in the 1940's, the most significant being the evolution of a completely new line of ultra-precise optical tooling instrumentation, introduced in the early 1950's.

The 1950's marked a period of growth and diversification of the company's product line. This served as the foundation for the 1960's, the period of most rapid growth for the company. The culmination of the new K&E was its emergence as a publicly owned corporation in 1965, under the presidency of Alfred E. Busch.

William Keuffel was a driving, cheerful, optimistic man. His partner Hermann Esser, was careful, thorough, methodical. They both believed it an obligation to furnish the engineer with quality products of the utmost reliability and precision.

These characteristics survive in the company today. More than ever our objective is to provide the engineer with completely trustworthy products of superior value. It is part of our continuing link with the past to carry forth a tradition of leadership.

The company is changing, building, moving forward with a new base of scientific and technical knowledge. We keenly anticipate the challenge of the years ahead as we move . . .



L



M

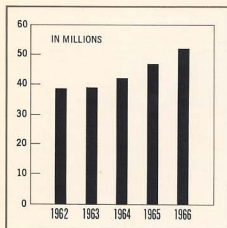
INTO CENTURY II.



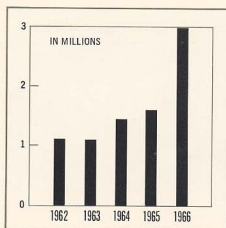
KEUFFEL & ESSER COMPANY

FINANCIAL SECTION

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Consolidated Balance Sheet	16
Notes to Financial Statements	18
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NET SALES



NET PROFIT AFTER TAXES

FINANCIAL REVIEW

NET SALES of \$51,791,255 in 1966 again reached a new record high for the company, and represent an increase of \$5,348,979, or approximately 12% over 1965.

Major increases in sales were realized in the engineering recording and communications market. Substantial increases were also achieved in the educational field as well as in sales of specialized industrial alignment devices.

CONSOLIDATED NET INCOME AFTER TAXES was \$2,988,969, an improvement of \$1,391,646 or 87 per cent over \$1,597,323 in 1965. As you will recall, earnings were adversely affected in 1965 due to excessive costs on certain government contracts written off during the year. These losses amounted to \$1,030,000 before taxes and adversely affected earnings per share by 43 cents. There was no such effect on 1966 earnings.

Earnings per common share on shares outstanding at year-end were \$2.31 compared with \$1.21 for 1965. There were 1,251,499 shares outstanding on December 31, 1966, contrasted with 1,243,847 in 1965. The employees stock

purchase plan was completed on October 14, 1966, as a result of which 7,652 shares were issued to employees.

INVESTMENTS—The Company for many years owned 60 per cent of Cury Manufacturing Company, Inc., a facility located in Chicago, Illinois. During the year K&E acquired the remaining 40 per cent and the subsidiary was subsequently merged into Keuffel & Esser Company.

PROPERTY, PLANT, AND EQUIPMENT—During the past year the company purchased additional capital assets of \$3,294,319 of which the comparable amount for 1965 was \$998,320. Included in the 1966 figure is \$1,343,179 of construction in progress, the major portion of which was incurred in the construction of the new coating and converting plant at Rockaway, New Jersey.

Land purchases in 1966 include purchase of the plant site in Rockaway, New Jersey, as well as land in Morris Township, New Jersey, for the erection of a new office and research center. Purchase of new production machinery (excluding that which is contained

in the construction in progress account) and a central processor unit for our electronic data processing installation amounted to \$842,561 in 1966.

Depreciation and amortization for 1966 was \$911,055 and \$854,928 for 1965.

TAXES on United States and foreign income were \$2,635,000 in 1966 and \$1,229,000 in 1965. United States taxes were reduced by investment credits of \$63,272 and foreign tax credit of \$14,229 in 1966 compared with \$47,431 and \$43,326 respectively in 1965.

CASH DIVIDENDS paid by the Company in 1966 amounted to 24 cents per common share. Of this amount 6 cents was paid for the last quarter of 1966 after the close of business on December 31. This is considered 1967 income to recipients. A quarterly dividend of 6 cents per common share has been declared payable March 31, 1967, to holders of record March 15, 1967. During the year 1966, preferred dividends of \$6.00 per share were paid on each class of preferred stock.

LONG-TERM DEBT was reduced by \$300,000 during the year, leaving a balance of \$3,000,000 to be paid at the annual rate of \$300,000 per year. Long-term debt as of December 31, 1966, represented 10 per cent of total capitalization.

STOCKHOLDERS' EQUITY increased by 12 per cent during the year. It was \$26,733,000 at December 31, 1966, contrasted with \$23,960,000 at the end of 1965.

WORKING CAPITAL at December 31, 1966, was \$21,736,000, compared with \$21,512,000 at December 31, 1965. The current asset to current liability ratio was 4.6 at December 31, 1966.

Our cash position, despite major expenditures for the purchase of new capital assets and requirements for additional funds in normal operations, was extremely strong on December 31, 1966. Substantial expenditures will be required for the Company's current expansion programs. In the meantime these funds have been invested on a short-term basis in interest-bearing prime commercial paper at favorable interest rates.

Consolidated Statement of Income and Retained Earnings

	Year ended December 31	
	1966	1965
Net sales	\$51,791,255	\$46,442,276
Cost of goods sold	33,022,916	30,903,588
Gross profit	18,768,339	15,538,708
Selling, research, and administrative expenses	13,284,562	12,652,624
Income from operations	5,483,777	2,886,084
Other income, 1966 principally interest	309,424	164,609
Interest on indebtedness	(169,232)	(224,370)
Net income before taxes on income	5,623,969	2,826,323
United States and foreign taxes on income	2,635,000	1,229,000
Net income	2,988,969	1,597,323
Retained earnings January 1	15,460,457	14,208,965
	18,449,426	15,806,288
Less cash dividends:		
Preferred	96,000	96,000
Common	299,041	249,831
	395,041	345,831
Retained earnings December 31	\$18,054,385	\$15,460,457
Net income per common share	\$ 2.31	\$ 1.21
Depreciation and amortization	\$ 911,055	\$ 854,928
Investment credit and foreign tax credit	\$ 77,501	\$ 90,757

See notes to financial statements.

KEUFFEL & ESSER COMPANY AND SUBSIDIARIES
Consolidated Balance Sheet

ASSETS

	December 31	
	1966	1965
Current assets:		
Cash	\$ 1,054,090	\$ 1,701,728
Short-term investments at cost, approximate market	2,646,878	1,924,523
Accounts and notes receivable	7,441,072	6,604,253
Inventories at lower of cost or market:		
Finished goods	8,721,517	8,161,779
Work in process	3,902,425	3,698,479
Raw materials and supplies	3,665,485	3,171,450
	16,289,427	15,031,708
Prepaid expenses	361,634	288,295
Total current assets	27,793,101	25,550,507
Property, plant and equipment—at cost:		
Land	1,219,351	446,187
Buildings	3,389,457	3,340,159
Machinery and equipment	5,879,390	5,689,668
Leasehold improvements	750,498	769,679
Construction in progress	1,427,386	84,207
	12,666,082	10,329,900
Less accumulated depreciation and amortization	5,097,985	5,116,618
	7,568,097	5,213,282
Investments	103,542	298,315
Other assets (Note 1)	326,012	236,651
	\$35,790,752	\$31,298,755

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31	
	1966	1965
Current liabilities:		
Current portion of long-term debt (Note 2)	\$ 300,000	\$ 300,000
Accounts payable, principally trade	2,704,482	2,317,971
United States and foreign taxes on income (Note 1)	1,891,735	490,900
Accrued expenses and other liabilities	1,161,073	929,407
Total current liabilities	6,057,290	4,038,278
 Long-term debt:		
4½% Note payable—due \$300,000 annually 1968-1975 and the balance on December 1, 1976 (Note 2)	3,000,000	3,300,000
 Stockholders' equity:		
Preferred stock (Note 3)	1,600,000	1,600,000
Common stock—par value \$1.00; authorized 1,500,000 shares (Notes 4 and 5)	1,251,499	1,243,847
Additional paid-in capital (Note 5)	5,827,578	5,656,173
Retained earnings (Note 2)	18,054,385	15,460,457
Total stockholders' equity	26,733,462	23,960,477
	\$35,790,752	\$31,298,755

See notes to financial statements.

Notes to Financial Statements

1. **TAX REFUND CLAIMS.** Included in other assets are claims for refund of taxes assessed by the Internal Revenue Service against a domestic subsidiary for the years 1962 to 1964, inclusive, in the aggregate amount of \$130,859, including interest. On the advice of counsel, the assessments were paid and claims for refund filed. The point in question is the availability to a subsidiary of carry forwards of unused foreign tax credits. Counsel has advised that they know of nothing in the Internal Revenue Code or the regulations which sustain the Government's position and that the Company's prospects of being able to sustain its claim are excellent. An additional amount of unused foreign tax credit of \$29,278 was utilized in 1965, and the remaining balance of \$17,087 will be deducted on the 1966 return.

2. **LONG-TERM DEBT.** Under the provisions of the loan agreement, approximately \$6,301,000 of consolidated retained earnings at December 31, 1966 was available for payment of cash dividends or purchase of the Company's capital stock. The Company may borrow on a short-term basis only under certain limitations imposed by the loan agreement. There were no short-term borrowings in 1966.

3. **PREFERRED STOCK.** The authorized preferred stock consisted of 10,000 shares of non-cumulative 6% cumulative first preferred, \$100 par value, all of which are outstanding, and 10,000 shares of \$6 cumulative second preferred, no par value, stated value \$100 per share, of which 6,000 shares are outstanding.

4. **STOCK OPTIONS.** Under a stock option plan, adopted in 1965, 25,000 shares of common stock have been reserved. Options for 15,400 shares have been granted at 100% of market value at date of grant, and 6,160 shares are ex-

ercisable. No options have been exercised.

5. **ADDITIONAL PAID-IN CAPITAL.** The increase during the year of \$171,405 represented the excess of offering price over par value of 7,852 shares sold to employees under a stock purchase plan.

6. **COMMITMENTS AND CONTINGENT LIABILITIES.** Leases expiring more than three years from December 31, 1966, provide for aggregate minimum annual rentals of about \$282,825, 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: \$48,000 in 1970-1971; \$66,175 in 1974-1977; \$115,350 in 1979-1980; and \$53,300 in 1983-1985.

The Company is presently erecting a coating and converting plant which is expected to be in operation by mid 1967 at an estimated capital cost of \$3,130,000 of which \$1,360,000 has been incurred.

In 1966 the Company acquired certain land in Morris Township, New Jersey for the erection of a new office and research center for which plans have not yet been finalized.

7. **RETIREMENT PLANS.** The Company has a non-contributory pension plan covering employees of the Company and its totally-owned domestic and Canadian subsidiaries. In addition, supplemental payments are made to certain retired officers and employees. Charges to operations for such costs aggregated \$601,000 in 1966, and \$608,000 in 1965.

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, 1966, 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, 1966, 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.

February 15, 1967

HURDMAN AND CRANSTOUN
Certified Public Accountants

THE K&E FIELD ORGANIZATION

One of the strengths underlying the close rapport between K&E and its customers is its widespread sales and service organization, situated in principal cities throughout the United States and Canada. Listed here are the Branch Offices. In addition over 400 distributors handle the K&E line. Over 99% of the 3,134 counties in the U.S. are served by a K&E representative.



Chicago



Dallas



Montreal



San Francisco

BRANCH SALES OFFICES

Alaska: Anchorage
California: Los Angeles
California: San Francisco
Colorado: Denver
Florida: Orlando
Illinois: Northfield
Illinois: Rockford
Kansas: Wichita
Maryland: Baltimore
Maryland: Bethesda
Michigan: Detroit
Missouri: Kansas City
Missouri: St. Louis
New Jersey: Hoboken
New Jersey: Teterboro
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

LERROY® II
LETTERING SET
61 2901

LOG LOG
DUPLEX DECITRIG® SLIDE RULE
WITH LEATHER CASE
68 1215

GRAPH SHEETS
8½ x 11 IN.
100 SHEETS
46 1473

KEUFFEL & ESSER CO.

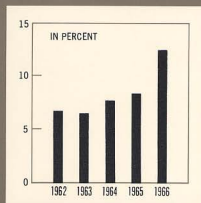
46 1473 TRACING PAPER • ORANGE • 10 x 10 TO ½ IN. 5th A

ERASING FLUID
FOR HELIOS® AND ONYX®
BLACK, BLUE AND MAROON LINE
BLACK, BLUE AND MAROON LINE
58 0252

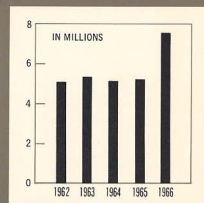
The new "Century II look"

in K&E packaging adds a strong visual identity
to the entire K&E line.

FIVE YEAR FINANCIAL SUMMARY



RETURN ON COMMON STOCKHOLDERS' EQUITY



NET PLANT & EQUIPMENT

(Dollars expressed in thousands)

FINANCIAL POSITION

	1966	1965	1964	1963	1962
Working capital	\$21,736	\$21,512	\$16,993	\$16,070	\$16,054
Current assets to current liabilities ratio	4.6	6.3	3.9	3.6	4.6
Total assets	\$35,791	\$31,299	\$28,293	\$27,880	\$25,792
Long-term debt	\$ 3,000	\$ 3,300	\$ 3,600	\$ 3,900	\$ 4,200
Stockholders' equity	\$26,733	\$23,960	\$18,809	\$17,700	\$16,944

RESULTS OF OPERATIONS

Net sales	\$51,791	\$46,442	\$42,239	\$38,899	\$38,334
Net income before taxes	\$ 5,624	\$ 2,826	\$ 2,747	\$ 2,178	\$ 1,951*
% of sales	10.9	6.1	6.5	5.6	5.1
Net income after taxes	\$ 2,989	\$ 1,597	\$ 1,445	\$ 1,092	\$ 1,088*
% of sales	5.8	3.4	3.4	2.8	2.8
Income available for common stockholders	\$ 2,893	\$ 1,501	\$ 1,349	\$ 996	\$ 992*

*Does not include loss of \$136,469.00 relating to devaluation of Canadian currency in 1962

