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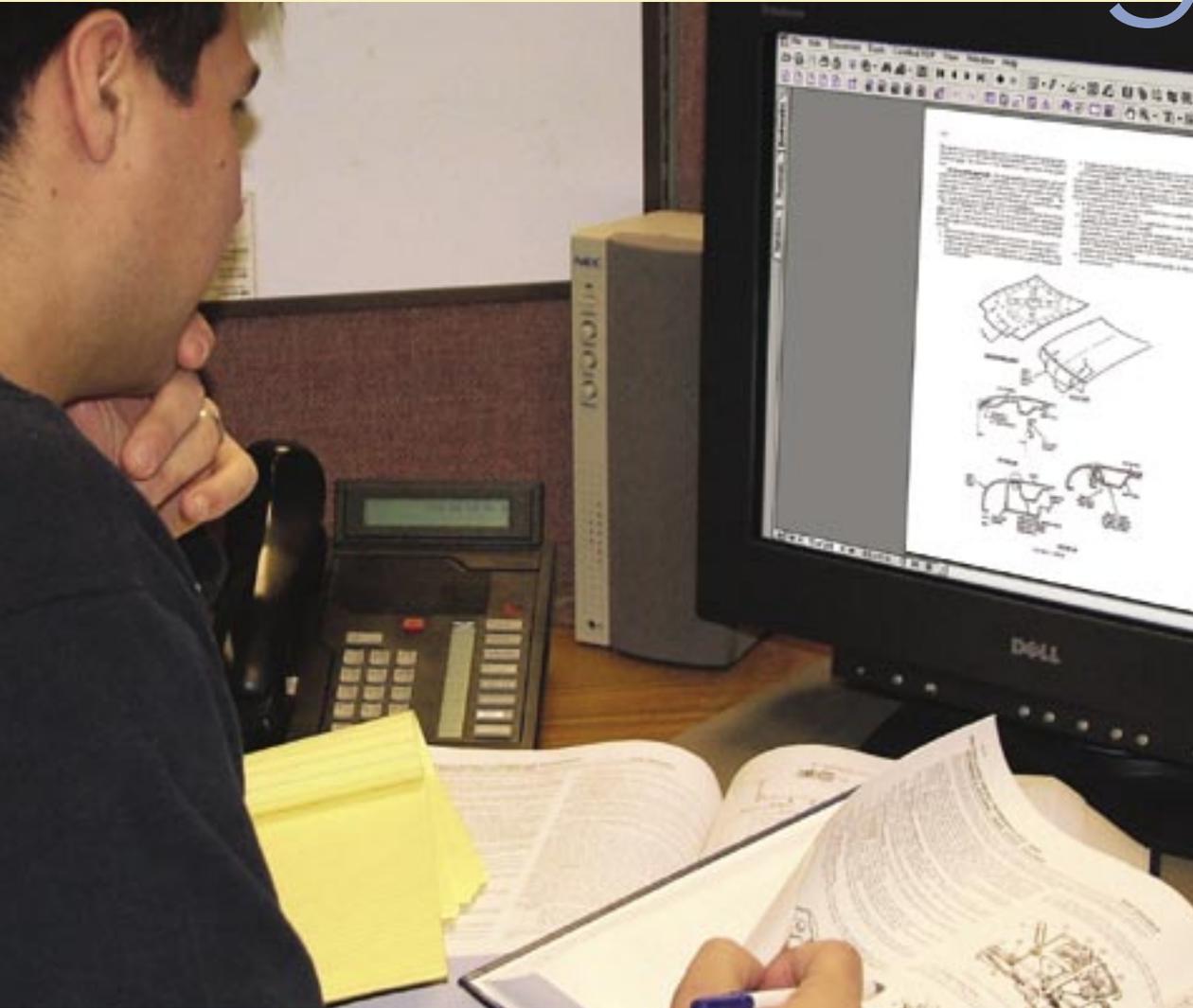
Global Business Development-China

2004 proved a busy year for SAE's business development in China. Several new events and milestones were achieved and more are scheduled for 2005.

Here are some of the highlights from 2004:

- SAE and Delphi signed an agreement to expand the SAE-DTI Library in the SAE Global Knowledge Center (GKC) on the Tsinghua University campus.
- Two staff positions – DTI managing director and technical specialist – were created for the GKC.
- An exhibit was shown at the Beijing International Automotive Industry Exhibition.
- SAE President Duane Tiede attended the GKC Inauguration and Signing Ceremony.
- The first series of training programs were held at the GKC in Beijing. Four seminars were presented to 44 attendees representing 18 different Chinese corporations and 17 different cities in China. More seminars are scheduled for 2005 based on the success of the inaugural sessions.
- Plans are under way for 2005 SAE President Ted Robertson to visit the GKC and Auto Shanghai in 2005.

knowledge



SAE provides the most

timely and relevant

engineering technology information.

During 2004, SAE Technical Publishing responded to the ever-growing market trend for more electronic delivery of products and customized products.



Publications

During 2004, SAE Technical Publishing responded to the ever-growing market trend for more electronic delivery of products and customized products. The Technical Publications staff met the challenge by providing improved content management and delivery systems, and improved product development and manufacturing processes.

In addition to the numerous papers and session books, *Transactions* and other yearly compendiums typically produced each year, SAE's publishing program introduced nine authored books to the automotive engineering market. Several of these books are new editions of popular titles, and two are motorsports books that have been very well-received. In addition, SAE published an English translation of the well-known German text *Internal Combustion Engine Handbook-Basics, Components, Systems, and Perspectives*. The nine new titles include:

- *Aircraft Maintenance: The Art and Science of Keeping Aircraft Safe*
- *Automobile Electrical and Electronics Systems, 3rd Edition*
- *Automotive Engineering Fundamentals*
- *Automotive Lubricants Reference Book, 2nd Edition*
- *Car Suspension and Handling, 4th Edition*
- *Ferrari Formula 1: Under the Skin of the Championship-Winning F1-2000*
- *Hands-On Race Car Engineer*
- *Internal Combustion Engine Handbook-Basics, Components, Systems, and Perspectives*
- *Vehicle Multiplex Communication-Serial Data Networking Applied to Vehicular Engineering*

SAE also published a record number of Special Publications – session books of paper collections from conferences. The number of Progress in Technology titles was also expanded to provide critical bodies of research on such popular topics as safety, diesel engines, electronics, fuel cells and motorsports.

challenge



SAE's lifelong-learning opportunities assist
the young professional
with the transition into the work force,
then provides personal-growth opportunities.

Participants in SAE's Collegiate Design Series competitions benefit by gaining hands-on engineering design experience; developing their engineering project management skills in a "real-world" environment; gaining exposure to mobility engineering industry; and by enjoying excellent networking and employment opportunities.



Educational Relations

The events of the Collegiate Design Series are SAE's most important contribution to university-level engineering education. SAE benefits by attracting new members and involving existing ones; and connecting student members to future employers in mobility industries. SAE strengthens its presence in the academic community by serving as a training ground for future member leaders. Students benefit by gaining global visibility in SAE competitions which include Formula SAE, Aero Design East and West, Clean Snowmobile Challenge, and Mini Baja West, East and Midwest.

Here are some notable achievements from 2004:

- Overall student participation increased from 4,300 in 2003 to 4,557 in 2004.
- Registration for the 2004 Formula SAE was limited to 140 teams and all available spaces were filled within eight days.
- The Aero Design East competition was hosted by the SAE/ University of Central Florida Section in DeLand, Fla., with teams from the United States, Canada, Puerto Rico and Brazil. The Aero Design West competition was hosted by Lockheed Martin of Ft. Worth, Texas, and the Ft. Worth Thunderbirds R/C Club for the first time.
- The Mini Baja Midwest competition included teams from 120 colleges and universities from across the United States, Canada, Argentina, South Africa, Brazil and South Korea.

In 2005, Mini Baja West will be transformed into Mini Baja 100 to commemorate SAE's 100th Anniversary. The key event will be a 100-mile endurance race through the desert at Caterpillar's Tinaja Hills Training Center in Green Valley, Ariz.

At the international level, the Collegiate Design Series presents important opportunities for forging relationships with professional organizations, university administrators and students, and a wide range of sponsoring companies. SAE's active support of international events increases its impact on engineering education worldwide. It helps build a base of appreciation and respect for all of our activities.

progressive



SAE's Power Track

provides opportunities to help members advance their careers.

Power Track is an exciting new program that is a formalized career path that starts as early as grade school and progresses through a career as an engineer.



Younger Members – Focusing on SAE’s Future

Through customer service feedback and research, SAE is responding to the needs and requests of younger members. The response is Power Track, an exciting career development program launched in 2004. Power Track features milestones an individual can follow from grade school through high school and college – all the way to a professional career as an engineer. Power Track incorporates new and existing programs, products and services that can help accelerate the career of an engineer.

Other new programs, products and services also are being introduced to keep up with customers’ changing needs. SAE’s online career center was added in the fall as a new, member-only benefit. Members can upload a resume, search job postings, set up job alert services and read career-related articles and find job tips. The online career center offers a unique resume-search feature that identifies SAE members who participate on boards and/or committees, Collegiate Design Series alumni, authors, instructors, and others.

motivate



Students will learn the **engineering design experience**
by participating in design challenges.

SAE is committed to working to inspire new generations of students and increase their interest in math and science.



A World in Motion (AWIM)

SAE and General Motors Corp. have been collaborating on numerous teacher/volunteer workshops at sites such as Flint, Warren and Wentzville in Michigan and Fairfax, Kan.

In addition, AWIM is in the San Diego County School District for a second year and involves more than 200 teachers.

2004 Teacher Awards: Pamela Grifka of Wilkerson Elementary in Warren, Mich., received the 2004 Lloyd Reuss Award for Teaching Excellence. The annual award recognizes teachers who have effectively implemented the AWIM program to further develop students' understanding of the principles of motion and the science that underlies them. Grifka has taught fourth grade at Wilkerson Elementary for 10 years. She received her bachelor's degree in mathematics from Central Michigan University and also holds a master's degree in education.

In addition, Richard J. Comeau, a teacher at William Diamond Middle School, and Robyn P. Vioria, former Middle School Outreach Technology Specialist for Minuteman Regional High School, (both schools in Lexington, Mass.) received the 2004 SAE Gary Dickinson Award for Teaching Excellence. This annual award recognizes an outstanding middle school for the best use of the AWIM Challenges 2 & 3 curriculum to further develop students' interest in math and science.

inspire



Programs funded through the SAE Foundation
enable students to recognize the **connection**
between ideas and actions
and between imagination and innovation.

The SAE Foundation provides opportunities for professionals and educators to work together to produce a qualified and creative work force for the future. Their passion inspires future generations to stretch to new heights.



SAE Foundation

Don Ableson, 1999 SAE President, President of the SAE Foundation Canada and member of the SAE Foundation Board, was selected to serve on a math and science steering committee that will advise the U. S. Congress on important issues concerning future legislation related to math and science education. The steering committee reports to the Congressional Science and Math (STEM) Education Caucus, which is comprised of members of Congress.

SAE Foundation Banquet Dedicated to the Year of the Supplier:

On May 12, 2004, Ford Field in Detroit was transformed into a venue of elegance and sophistication for the SAE Foundation Banquet, the kick-off event for SAE's 100th Anniversary. Seven hundred people gathered to honor and recognize 28 supplier companies with innovation awards and four individuals with achievement awards.

Bill Agnew, Head of Research and Development at General Motors (retired), and Raymond A. Morris, Executive Vice President and COO of SAE International, were recipients of the first Ableson Award for Visionary Leadership. The award recognizes their efforts in the creation and development of "A World In Motion," SAE's math and science educational outreach program for students in grades four through 10.

Joseph B. Anderson Jr., Chairman and CEO of TAG Holdings LLC, was presented the Lifetime Achievement Award for his many accomplishments in the military and community and as a corporate leader. J.T. Battenberg III, Chairman, Chief Executive Officer and President of Delphi Corp., was awarded the Manufacturing Leadership Award.

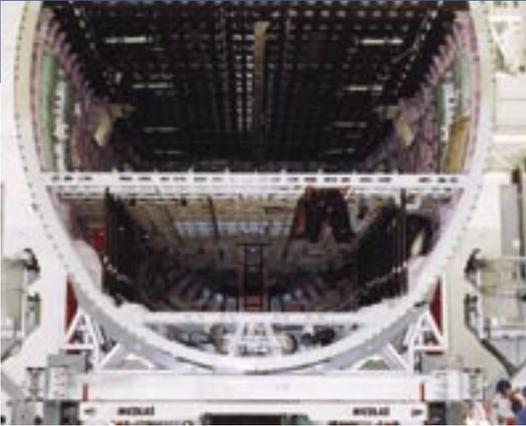
Unique Contribution: The SAE Foundation was the recipient of a 1933 Marmon 16-cylinder automobile valued at \$200,000. The Marmon Sixteen, a four-door, seven-passenger sedan, was the largest American passenger car of its era. Chris MacAllister, President and COO of MacAllister Machine Inc., purchased the Marmon from the SAE Foundation.

quality



PRI advances the
mobility industries through
development of performance standards
and administration of quality assurance,
accreditation, and certification programs

PRI develops performance standards and administers quality assurance, accreditation, and certification programs for the benefit of industry, government, and the general public.



Performance Review Institute

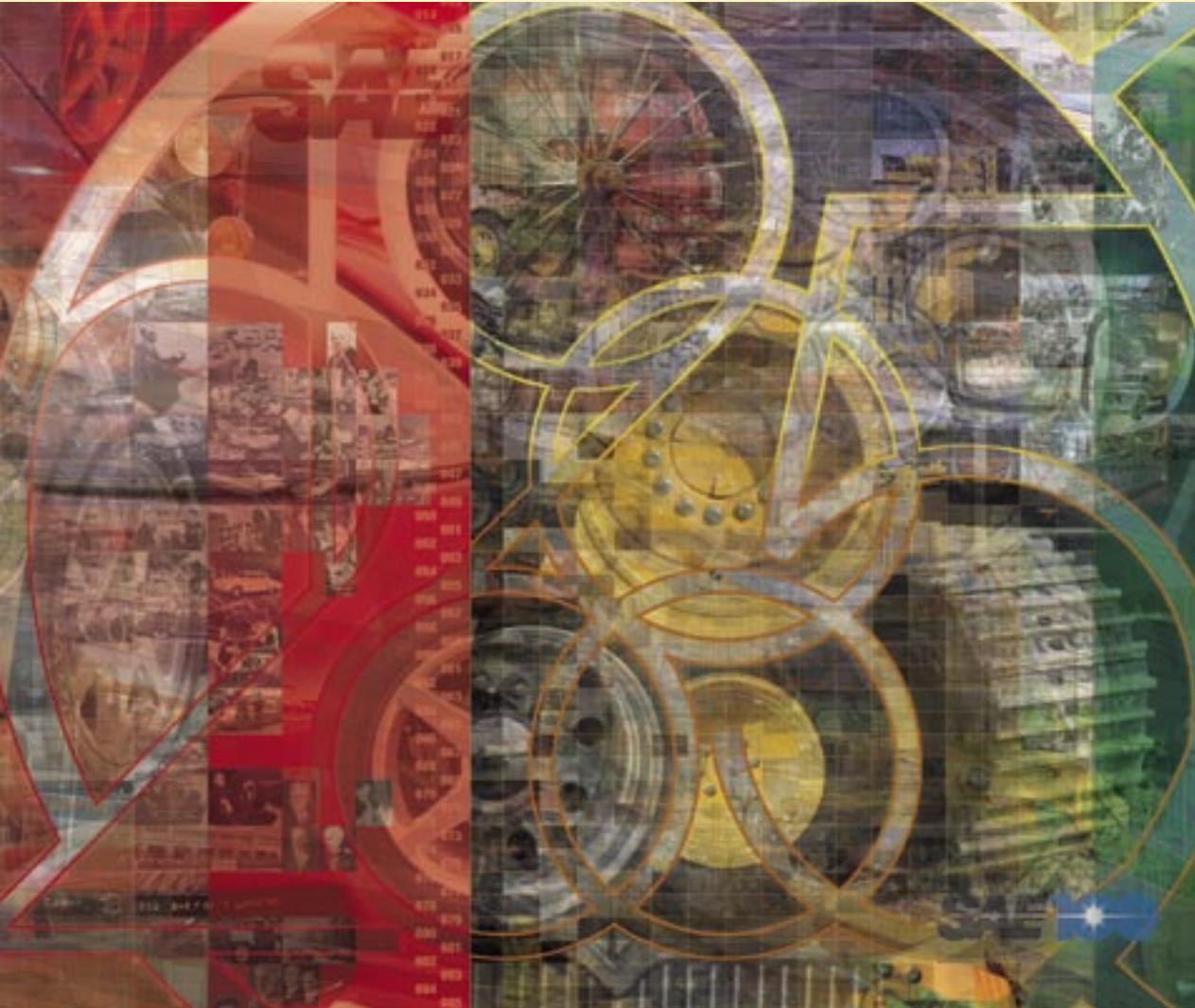
SAE's affiliate organization, the Performance Review Institute (PRI), completed another highly successful year in 2004. It is projected that PRI's revenue for the year will exceed \$18 million, with a positive margin of \$1.3 million. The international organization has offices in London, Beijing and Nagoya and additional staff in Derby, Los Angeles, Boston, Cincinnati and Columbus, Ohio. PRI conducted more than 3,000 audits for the mobility industry in 2004. Of these, approximately 675 were in Europe and 65 were in Asia. Driving PRI's global outreach is a Board of Directors comprised of members from Japan, France, the United Kingdom and United States. Additional members from Canada and China are likely to join the PRI Board in 2005.

Online Aerospace Supplier Information

The Online Aerospace Supplier Information System (OASIS) saw significant growth in 2004, generating approximately \$500,000. This database provides subscribers with direct access to a complete listing of suppliers certified to the industry's quality system. OASIS provides users the tool to convert audit data and QML information into easily-managed strategic intelligence.

By the end of the year, the database contained more than 2,500 individual site listings of aerospace suppliers certified to AS9100. PRI is the world's second largest contributor to the database.

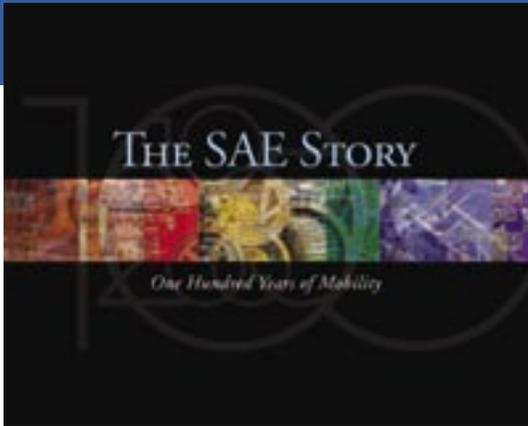
future



SAE maintains its role as the center for the free exchange of
ideas and achievement,
the sharing of science and technology.

Chronologically, 2004 was the year that SAE closed out its first 100 years of service.

But, it was really more of a beginning;
a beginning that is full of promise and limitless potential.



SAE's 100th Anniversary

SAE's 100th Anniversary celebration got under way in 2004 with a variety of products and events. These activities and memorabilia are designed to enhance key market and public awareness of SAE and its core products and services. In addition, SAE is attaining significant brand visibility and revenues from such activities.

The SAE 2005 World Congress will feature a 100th Anniversary banquet, sessions and celebrations with sister societies and industry partners. A coffee table book, *The SAE Story: One Hundred Years of Mobility*, has been published; a special Mini Baja 100 competition is scheduled for June 2005 in Tucson, Ariz.; and a 100th Anniversary Reception at the Smithsonian Air and Space Museum in Washington, D.C., is planned. These are just a few of the many products and events being created to celebrate the anniversary year.

SAE is proud of its past 100 years and the milestones reached. SAE – which began in the days of the horseless carriage – owes its successes to the thousands of talented people who comprise the organization. They are the reason SAE enters the next 100 years with great confidence and optimism.

vision



SAE International

the advancement of the mobility community
to serve humanity.

Corporate Directory

The 2004 SAE Board of Directors



2004 President

Duane Tiede

Vice President of Functional Engineering
CNH Global
(Retired)



2005 President & 2004 Assistant Treasurer

J. E. "Ted" Robertson, P.E.

Vice Chairman, Product Development
ASC Inc.
Chief Engineer Emeritus
General Motors Corp.



2003 President

Jack E. Thompson

Director, CAE & Concept Development
Advance Vehicle Engineering
DaimlerChrysler Corporation
(Retired)



2004 Vice President Aerospace

Robert E. Spitzer

Vice President, External Technical Affiliations
and University Relationships
The Boeing Company
(Retired)



2004 Vice President Automotive

Richard O. Schaum

Vice President & General Manager, Vehicle
Systems
WaveCrest Laboratories LLC



2004 Vice President Commercial Vehicle

Mark R. Pflederer

Vice President & Chief Technology Officer
Caterpillar, Inc



2004 Treasurer

Greg W. Henderson, P.E.

Director, Weight Management & Control
Lockheed Martin Aeronautics Company



2004 Secretary

Raymond A. Morris, CAE

Executive Vice President & COO
SAE International

Directors One-Year Term (2004)

Eden H. C. Chen

Principal Consultant
Chen Technology, Inc.

D. Brad Keleher

Staff Engineer
Deere & Company

Teresa A. Hundley

Manufacturing Area Manager
Delphi Corporation

Landon J. Sproull

Assistant Chief Engineer
Peterbilt Motors Company

Robert L. Ireland

Director, Training Devices &
Facilities
United Airlines, Inc.

Keith B. Termaat

Consultant and CEO
Suntree Associates Ltd.

Directors Two-Year Term (2004-2005)

Andrew Brown Jr.

Executive Director, Engineering
Competency
Delphi Corporation

Andrew C. Palmer

Program Director, LCV & President,
Light Truck
Nissan Motor Company, Ltd.

Nicholas P. Cernansky

Professor
Drexel University

V. Sumantran

Executive Director
Tata Motors, Ltd.

Derek J. Logan

Senior Project Engineer
Nissan Technical Center North
America, Inc.

Steven W. Woodard

Division Engineering Manager
Eaton Automotive

Michael D. Madley

Vice President, OEM Sales
Cloyes Gear & Products, Inc.

Directors Three-Year Term (2004-2005-2006)

Daniel R. Kapellen

Product Line Manager, Gas Engine
Products
Woodward

Robert J. Pfeiffer

Manager, Advanced Safety &
Regulations, Global Compliance
Ford Motor Company

Alan H. Nye

Professor
Rochester Institute of Technology

Ronald G. Rath

Managing Director
Marx Consulting Group, LLC

Eduardo Paredes

Director Commercial
Gleason SA de CV

Arnold W. Siegel P.E., FSAE

Retired
UCLA

THE FINANCIAL MESSAGE

To all SAE International Members

We are pleased to present the SAE 2004 audited financial statements for your information and review. The accompanying reports are: the Independent Auditor's Report, Statements of Financial Position, Statement of Activities and Changes in Net Assets, Statement of Cash Flows, and Notes to Financial Statements. The SAE Foundation is an unincorporated affiliate of SAE and, accordingly, is included in the accompanying financials. The actual accounts of SAE and the SAE Foundation are maintained separately and the respective funds are not combined.

The Statements of Financial Position reflect total assets of \$68.2 million at the end of 2004. The increase in total assets was \$7.4 million, or an increase of 12.2% over 2003. We believe you will find the Statements of Financial Position show SAE to be in excellent financial condition and well positioned to continue to provide strong member service activities in the future. We appreciate the efforts of the SAE staff and all who were involved in producing these favorable results.

In 2004 SAE adopted a new financial reporting period based on the calendar year beginning January 1, 2004 and ending December 31, 2004. For this period the Statement of Activities and Changes in Net Assets reflect SAE operating revenues of \$59.4 million. This was an increase of \$6.6 million or 12.5% from fiscal year 2003 (October 1, 2002 through September, 30, 2003). The net gain from operations was \$6.0 million in calendar year 2004, up from a \$1.3 million gain in fiscal year 2003.

In non-operating activities, SAE invested \$365,000 in development activities to fund new programs; these program costs were supported by returns from the General Investment Fund. In 2004, investment activities finished with a net gain of \$3.8 million, due primarily to increases in the market value of our long-term investments. The investment in development activities, when combined with long-term investment gains and an adjustment for pension expense, resulted in a total non-operating gain of \$4.3 million.

Net assets increased \$10.3 million during 2004 as a result of the operating and non-operating gains noted above. The increase in net assets for the year of \$10.3 million, when combined with net assets at the beginning of the year of \$44.4 million, resulted in \$54.7 million net assets at year-end.

Once again we received a favorable management letter from our independent auditors. Cited positively were SAE internal control activities including budgeting and reporting to the Finance Committee, and the SAE control environment including integrity and ethical values, commitment to competence, Board of Directors and Audit Committee participation, management's philosophy and operating style, etc. There were no auditor recommendations for strengthening SAE's internal controls.

As a reminder, please recall that SAE is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Ultimate responsibility for the financial statements and other information in the annual report rests with the

SAE Board of Directors. The Board, through its Finance Committee and Financial Audit Committee, monitors the system of accounting and internal controls, investment management, and the professional competency and integrity of persons performing these functions. The independent auditors have direct access to the Financial Audit Committee to discuss the scope and results of their audit, their comments on the adequacy of internal accounting controls, and the quality of financial reporting.

If you would like more details about the accompanying financial statements or any aspect of financial operations at SAE, please feel free to contact either of us or Dana Pless, Chief Financial Officer at SAE World Headquarters (dpless@sae.org).

Respectfully submitted,



Gregory W. Henderson
Treasurer
greg.henderson@email.sae.org



J. E. "Ted" Robertson
Assistant Treasurer
trobertson@sae.org

INDEPENDENT AUDITOR'S REPORT

Society of Automotive Engineers, Inc.

We have audited the accompanying statements of financial position of the Society of Automotive Engineers, Inc. as of December 31, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2003 financial statements and, in our report dated February 2, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society of Automotive Engineers, Inc. as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Stelmack Dobransky & Eannace, LLC

STELMACK DOBRANSKY & EANNACE, LLC
Pittsburgh, Pennsylvania

Joseph S. Stelmack, CPA, Member

Joseph S. Stelmack, CPA, Member

February 4, 2005

Society of Automotive Engineers, Inc.

Statements of Financial Position

December 31, 2004 AND 2003

(000's omitted)

	2004	2003
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and short-term investments	\$ 2,661	\$ 8,376
Current portion of long-term investments	1,432	1,400
Accounts receivable - less allowance for doubtful accounts of \$181 and \$147	2,804	3,051
Pledges receivable	929	396
Inventories and supplies	772	915
Prepaid expenses	2,175	2,464
Accrued interest and other receivables	2,246	2,099
Total current assets	<u>13,019</u>	<u>18,701</u>
LONG-TERM INVESTMENTS - market value	<u>42,635</u>	<u>34,005</u>
OTHER ASSETS		
Pledges receivable - amounts due after one year	4,454	138
FIXED ASSETS		
Land and buildings	10,704	10,539
Furniture and equipment	<u>17,668</u>	<u>18,943</u>
Total cost	28,372	29,482
Less accumulated depreciation	<u>20,330</u>	<u>21,578</u>
Net fixed assets	<u>8,042</u>	<u>7,904</u>
TOTAL ASSETS	<u>\$ 68,150</u>	<u>\$ 60,748</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 3,090	\$ 3,189
Accrued expenses	1,477	1,289
Deferred revenue:		
Conferences and publications	4,888	5,246
Dues and fees	<u>2,518</u>	<u>2,547</u>
Total current liabilities	<u>11,973</u>	<u>12,271</u>
LONG-TERM LIABILITIES		
Accrued pension costs	1,238	3,775
Charitable gift annuity	<u>277</u>	<u>318</u>
Total long-term liabilities	<u>1,515</u>	<u>4,093</u>
TOTAL LIABILITIES	<u>13,488</u>	<u>16,364</u>
NET ASSETS		
Unrestricted	43,485	38,629
Temporarily restricted	9,669	4,247
Permanently restricted	<u>1,508</u>	<u>1,508</u>
Total net assets	<u>54,662</u>	<u>44,384</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 68,150</u>	<u>\$ 60,748</u>

See Independent Auditor's Report and Notes to the Financial Statements

Society of Automotive Engineers, Inc.

Statement of Activities And Changes in Net Assets

For the Year Ended December 31, 2004

(000's Omitted)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Revenue				
Meetings and conferences	\$14,193	\$ -	\$ -	\$14,193
Magazines and publications	24,791	-	-	24,791
Membership	4,549	-	-	4,549
Technical standards	3,277	-	-	3,277
Other products and services	910	123	-	1,033
Contributions	579	6,262	-	6,841
Contributed services	4,744	-	-	4,744
Net assets released from restrictions	1,397	(1,397)	-	-
Total revenue	54,440	4,988	-	59,428
Expenses				
Meetings and conferences	10,980	-	-	10,980
Magazines and publications	10,124	-	-	10,124
Membership	2,345	-	-	2,345
Technical standards	3,501	-	-	3,501
Other products and services	6,467	-	-	6,467
Administrative services	12,492	-	-	12,492
SAE Foundation	2,799	-	-	2,799
Contributed services	4,744	-	-	4,744
Total expenses	53,452	-	-	53,452
Net change from operations	988	4,988	-	5,976
NONOPERATING ACTIVITIES				
Development activities	(365)	-	-	(365)
Investment activities – net of expenses of \$132	3,333	434	-	3,767
Pension adjustment	1,000	-	-	1,000
Contribution – SAE Foundation – Canada	(100)	-	-	(100)
Net change from nonoperations.....	3,868	434	-	4,302
CHANGE IN NET ASSETS	4,856	5,422	-	10,278
NET ASSETS - BEGINNING OF YEAR	38,629	4,247	1,508	44,384
NET ASSETS - END OF YEAR	\$43,485	\$9,669	\$1,508	\$54,662

Society of Automotive Engineers, Inc.

Statement Of Cash Flows

For the Year Ended December 31, 2004

(000's omitted)

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Change in net assets	\$ 10,278
Adjustments to reconcile change in net assets	
To net cash used by operating activities:	
Depreciation and amortization	2,141
Net (gain)/loss on investments	(2,739)
Net (gain)/loss on sale of fixed assets	29
Changes in assets (increase)/decrease	
Accounts receivable	247
Accrued interest and other receivables	(147)
Prepaid expenses	289
Inventories and supplies	143
Pledges receivable	(4,848)
Changes in liabilities (decrease)/increase	
Accounts payable	(99)
Accrued expenses	188
Deferred revenue	(387)
Accrued pension costs	(2,537)
Charitable gift annuity	(41)
Net cash from (used in) operating activities	<u>2,517</u>

CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES

Purchase of fixed assets	(2,468)
Proceeds from sale of fixed assets	160
Purchase of investments	(24,662)
Proceeds from sale of investments	<u>18,738</u>
Net cash from (used in) investing activities	<u>(8,232)</u>

NET INCREASE/(DECREASE) IN CASH BALANCES (5,715)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 8,376

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 2,661

SUPPLEMENTAL INFORMATION

Interest paid	\$ -
Income taxes paid	\$ -

Society of Automotive Engineers, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2004

1. GENERAL

The Society of Automotive Engineers, Inc. (SAE) is a not-for-profit corporation originally organized and incorporated in 1905 under the laws of New York and reincorporated in 1986 under the laws of Pennsylvania. SAE is a technical society aimed at developing, collecting and disseminating on a worldwide basis the knowledge of mobility technologies in order to advance these fields and their practitioners in a manner which serves humanity. The SAE Foundation is an unincorporated division of SAE and, accordingly, is included in the accompanying financial statements.

SAE Foundation-Canada is organized as a separate entity under the laws of Canada. It was formed to manage the activities, missions and goals in support of SAE in Canada, which requires SAE Foundation-Canada's solicitation and receipt of specific funding from individuals, public or private corporations, foundations, or government agencies. The SAE Foundation-Canada operates under the direction of a Board of Trustees with administrative support provided by the SAE Executive Vice President and reports directly to the SAE Board of Directors.

SAE is affiliated with Performance Review Institute, Inc. (PRI), a Pennsylvania corporation organized by SAE in April 1990 to compile and review performance standards, to promote and administer quality assurance, accreditation and certification programs for the benefit of the general public, industry and government. PRI also contributes funds, property and services to nonprofit organizations that develop and publish standards for maintaining and improving quality and performance within the automotive industry. The Internal Revenue Service has granted PRI tax-exempt status under Section 501(c)(6) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting and include only the assets, liabilities, net assets and financial activities of the international organization of the Society of Automotive Engineers, Inc. The funds and accounts of Society Sections are not included in the accompanying financial statements. However, Sections are permitted to invest in a money market investment pool and a long-term investment pool managed by the Society. Funds of Sections participating in the pool are included in the Short Term Investment Fund and are reflected as an accounts payable liability in the accompanying financial statements.

Comparative Financial Statements - The financial statements include certain prior-year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the three months ended December 31, 2003 from which the summarized information was derived.

Change in Year End - Effective October 1, 2003, SAE changed its fiscal year end from September 30 to December 31.

Financial Statement Presentation - SAE has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, SAE is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of SAE and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by SAE. Generally, the donors of these assets permit SAE to use all or part of the income earned on related investments for general or specific purposes.

Contributions - SAE has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, SAE considers all highly liquid investments with an initial maturity of year or less to be cash equivalents. For the year ended December 31, 2004, SAE had no noncash investing or financing activities for cash flow purposes.

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Investments - SAE has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." In accordance with SFAS No. 124, investments are presented at their current market value, which is established using published market prices.

Inventories - Inventories and supplies are stated at the lower of cost (determined on the first-in, first-out or average cost method) or market.

Fixed Assets - Fixed assets are recorded at cost and depreciated using the straight-line method over estimated useful lives of three to forty years. Depreciation expense, totaling \$2,141,000 for the year ended December 31, 2004, is allocated to the various activities based on usage.

Revenue and Expense Recognition - Income from membership dues, subscription fees, magazines and publications are deferred and recognized over the periods to which the specific types of income relate. Revenues related to continuing education programs, engineering meetings and displays are deferred and recognized in the period when the programs are held. Expenses related to such activities are also deferred as prepaid expenses and recognized in the period when the programs are held.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Tax Status - SAE is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the SAE's tax-exempt purpose such as advertising revenue is subject to taxation as unrelated business income. At December 31, 2004, there were no federal income taxes provided as business activities unrelated to exempt purposes resulted in no taxable income in those years. In addition, SAE qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Concentration of Credit Risk - Financial instruments which potentially subject the organization to concentrations of credit risk consist principally of marketable debt and equity securities and trade receivables. The organization's temporary cash investments are greater than the \$100,000 insured by the FDIC but are maintained by creditworthy, high quality financial institutions. The organization holds bonds and notes issued by the United States government and financially strong corporations. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade receivables is limited because SAE deals with a large number of customers in a wide geographic area. As of December 31, 2004, SAE had no significant concentrations of credit risk.

3. **INVESTMENTS**

At December 31, 2004, investments were as listed below:

	Cost \$(000)	Market \$(000)
U.S. Gov't and U.S. Gov't		
Agency bonds	\$ 1,582	\$ 1,554
Corporate bonds	10,189	10,966
Corporate stocks	25,495	28,828
Mutual funds	2,034	2,022
Money market funds	668	668
Certificates of deposit	29	29
 Total investments	 \$ 39,997	 \$ 44,067

The following schedule summarizes the investment return and its classification in the Statements of Activities for the year ended December 31, 2004:

	Unrestricted \$(000)	Temporarily Restricted \$(000)	Total \$(000)
OPERATING ACTIVITIES:			
Interest and dividend income	\$ 151	\$ 0	\$ 151
NON OPERATING ACTIVITIES:			
Interest and dividend income	\$ 977	\$ 183	\$ 1,160
Realized gains	1,214	86	1,300
Unrealized gains	1,439	0	1,439
Subtotal investment return	3,630	269	3,899
Less investment expenses	(132)	0	(132)
Over-allocation	(165)	165	0
Total investment return from non operating activities	\$ 3,333	\$ 434	\$ 3,767

Investment returns from operating activities are comprised of returns included in SAE's liquidity investment fund, which are included in the accompanying Statements of Activities as part of other products and services.

4. **PLEDGES RECEIVABLE (PROMISES TO GIVE)**

Pledges of contributions (or promises to give) have been classified as unconditional. Unconditional promises to give at December 31, 2004 are as follows \$(000):

Receivable in less than one year	\$ 929
Receivable in one to five years	3,967
Greater than five years	715
Total unconditional promises to give	5,611
Less discounts to net present value	228
Net unconditional promises to give	\$ 5,383

5. **EMPLOYEE BENEFIT PLANS**

Defined Benefit Pension Plan

SAE has a noncontributory defined benefit pension plan covering substantially all employees of SAE and PRI. Pension expense amounted to \$1,964,000 for the year ended December 31, 2004. The benefits are based on years of service and the employee's final average compensation, as defined, during the last ten years of employment. SAE's funding policy is to fund amounts on an actuarial basis, which complies with ERISA.

Society of Automotive Engineers, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2004

5. EMPLOYEE BENEFIT PLANS (Continued)

Net periodic pension costs charged to expense for year ended December 31, 2004 included the following components \$(000):

Service cost - benefits earned during the period	\$ 1,370
Interest cost on projected benefit obligation	1,860
Expected return on plan assets	(1,451)
Net amortization and deferral	185
Net periodic pension expense	<u>\$ 1,964</u>

In 2004, due to the change in the minimum liability requirements, SAE's pension expense was reduced by \$1,000,000, which is shown under Nonoperating Activities of the accompanying Statement of Activities.

The following table sets forth the funded status of the pension plan as of September 30, 2004 \$(000):

Accumulated benefit obligation:	<u>\$ 24,089</u>
Projected benefit obligation	<u>\$(30,039)</u>
Plan assets at fair value	<u>23,239</u>
Plan assets (deficit) in excess of projected benefit obligation (funded status)	(6,800)
Unrecognized actuarial net (gain) loss	5,763
Unrecognized net asset at July 1, 2004 being amortized over remaining three (3) years	(201)
Prepaid (accrued) pension costs	<u>\$ (1,238)</u>

The weighted average assumptions used in determining the net periodic pension costs and reconciliation of funded status as of December 31, 2004 is as follows:

Discount rate	6.75%
Long-term rate of return	8.00%
Average compensation increase	4.75%

SAE made a \$3,500,000 contribution to the pension plan for the year ended December 31, 2004. Benefits paid from the plan for the year ended December 31, 2004 amounted to \$917,000.

Group Tax Deferred Annuity Plan

SAE also has a group tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees. Employees may make voluntary matched and unmatched contributions. Employees not entitled to full benefits are not eligible to receive matching contributions. Employees may make voluntary matched contributions in a range from 1% to 6% (subject to maximums allowed by the Internal Revenue Code) and SAE will match up to 100% of the contributions based on the employee's years of service. Employee contributions in excess of 6%, also subject to maximums, are not matched by SAE. SAE's contributions were \$577,000 for the year ended December 31, 2004. Employees are immediately vested in all contributions but withdrawals are subject to plan withdrawal and distribution rules.

Beneficiary Association

SAE has established the SAE Employees and Retired Employees Beneficiary Association, which is exempt from federal income tax under Section 501(c)(9) of the Internal Revenue Code. The Beneficiary Association provides a means of accumulation and distribution of certain welfare plan benefits including benefits after retirement. The contributions to the Beneficiary Association are determined by reference to insurance premiums and estimated costs determined by SAE's independent outside actuary. SAE's contributions were \$24,000 for the year ending December 31, 2004.

6. SPLIT-INTEREST AGREEMENTS

During 1998, the SAE Foundation received a \$300,000 charitable gift annuity, which calls for annual annuity payments totaling \$24,000 for the term of the donor's natural life. The present value of estimated future payments to the donor, which totals \$146,000 using a discount rate of 1.5% and applicable mortality tables is included in the accompanying Statements of Financial Position.

During 2003, the SAE Foundation received a \$200,000 charitable gift annuity which calls for annual annuity payments totaling \$16,000 for the term of the donor's natural life. The value of estimated future payments to the donor, which totals \$169,000 using a discount rate of 1.5% and applicable mortality tables is included in the accompanying Statements of Financial Position.

7. TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Net assets restricted by donors as of December 31, 2004 provide support for the following purposes:

	Temporarily Restricted \$(000)	Permanently Restricted \$(000)
A World in Motion	\$ 8,857	\$ 386
Awards and recognition fund	807	1,018
Engineering activity support	5	104
Totals	<u>\$ 9,669</u>	<u>\$ 1,508</u>

8. OPERATING LEASES

SAE has noncancelable operating leases, primarily for off-site office space and copiers, that expire at various dates through September 30, 2008. Those leases generally contain renewal options and require SAE to pay all executory costs such as taxes, maintenance, and insurance. Rental expense for those leases amounted to \$923,000 for the year ended December 31, 2004.

Future minimum lease payments under operating leases, which have remaining terms in excess of one year as of December 31, 2004, are:

Period Ended December 31,	Amount \$(000)
2005	\$ 864
2006	864
2007	380
2008	190
	<u>\$2,298</u>

9. SAE FOUNDATION

The SAE Foundation is organized as part of the Society of Automotive Engineers, Inc. The SAE Foundation was created to facilitate financial contributions from members and others to provide an additional source of income, beyond those sources normally available to SAE, for activities in support of SAE's Purpose, Missions, and Goals. The Foundation has also adopted a Financial Management Policy so that the Foundation can maintain fiscal stability and viability, be self-sustaining and have the financial competency to meet its obligation to provide the required funding for programs as well as to pay for its fund raising and administrative costs.

The Foundation operates under the direction of a Board of Trustees, with administrative support provided by the SAE Executive Vice President, and reports directly to the SAE Board of Directors. The Foundation conducted fund raising activities that cost \$607,000 for the year ended December 31, 2004. In addition, SAE contributed \$900,000 to the Foundation during 2004.

10. CONTRIBUTED SERVICES

SFAS No. 116 requires contributed services to be recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by volunteers. SAE receives such services from numerous members who volunteer to serve on technical committees that are responsible for developing, reviewing, revising and updating technical standards for the ground vehicle and aerospace industries. The value of these services was calculated as \$4,744,000 for the year ended December 31, 2004 and is included in the accompanying Statements of Activities as revenue and expense.

11. RELATED PARTY TRANSACTIONS

PRI

SAE is related to PRI but their affiliation does not meet the criteria requiring consolidation in the accompanying financial statements.

PRI leases office space from SAE under an operating lease that expires December 31, 2005 unless thirty days notice of cancellation or modification is provided by either party to the other.

As of December 31, 2004, SAE's financial statements reflect the following balances and transactions with PRI:

	Amount \$(000)
Accounts receivable	\$ 73
Service fees revenue	141
Rental income	164

SAE Foundation - Canada

SAE is related to SAE Foundation - Canada, but their affiliation does not meet the criteria requiring consolidation in the accompanying financial statements.

As of December 31, 2004, there was a \$151,000 liability to SAE Foundation - Canada in the accompanying financial statements. Also, during 2004, SAE contributed \$100,000 to SAE Foundation - Canada, which is shown under nonoperating activities of the accompanying statement of activities.

12. CONTINGENT LIABILITIES

SAE Sections

While the funds and accounts of Society Sections are not included in the accompanying financial statements, the Sections Board minutes do not disclose any major potential liability to SAE from Section's activities.

Affiliates

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SAE Sections/Groups

Outside North America

Minsk, Belarus	St. Petersburg, Russia
Mogilev, Belarus	Volga, Russia
SAE Beijing, China	Aviation and Astronautics
Cairo, Egypt	Development, Russia
Hong Kong	Central Proving Ground, Russia
Naples, Italy	Orenburg, Russia
Kuala Lumpur, Malaysia	Zhukovsky (Moscow), Russia
Mexico	VTK, Russia
Bryansk, Russia	Taipei, Taiwan
Moscow, Russia	Kiev, Ukraine
Nizhni Novgorod, Russia	United Kingdom

Joint Sections

Bucharest, Romania
Brasov, Romania
Constantza, Romania

SAE International™

Staff Leadership Team

Raymond A. Morris, CAE
Executive Vice President & Chief Operating Officer

Antenor R. Willems
Executive Director

Dana M. Pless
Chief Financial Officer

V. Herbert Kaufman
Director – Commercial Vehicle Business & Chief
Technology Officer

Scott R. Klavon
Director – Aerospace Business

David L. Amati
Director – Automotive Business & Automotive
Headquarters

Robert H. Chalker
Director – Sales & Marketing

Maryann Ihrig
Director – Human Resources

William G. Wagner
Managing Director – PRI

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Raymond A. Morris, CAE

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SAE International*

Reed Smith

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Cohen & Grigsby, P.C.

Legal Counsel

Smith Barney Inc.

Investment Counsel

INVESCO National Asset Management

Investment Counsel

Roxbury Capital Management

Investment Counsel

Bowling Portfolio Management

Investment Counsel

Delaware Capital

Investment Counsel

Lord Abbett & Co.

Investment Counsel

Stelmack Dobransky & Eannace

Auditors

Mercer Human Resource Consulting

*Actuaries – SAE Pension and Beneficiary Association
Programs and Compensation Consultants*

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