1978

Accounting trends and techniques, 32nd annual survey, 1978 edition

American Institute of Certified Public Accountants

1978 Accounting Trends & Techniques

AICPA

Thirty-Second Edition **1978**

Accounting Trends & Techniques

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

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Thirty-Second Edition 1978

Accounting Trends & Techniques

Thirty-second annual cumulative survey of the accounting aspects of the annual reports of 600 industrial and commercial corporations to which are added excerpts from and comments upon unusual accounting treatments found in additional reports. The reports analyzed are those with fiscal years ended no later than January 31, 1978.

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Library of Congress Catalog Card Number: 48-2517

PREFACE

Accounting Trends & Techniques—1978, Thirty-second Edition, is a compilation of data obtained by a survey of 600 annual reports to stockholders undertaken for the purpose of analyzing the accounting information disclosed in such reports. The annual reports surveyed were those of selected industrial and merchandising companies for fiscal periods ending between February 25, 1977 and January 31, 1978.

Significant accounting trends, as revealed by a comparison of current survey findings with those of prior years, are highlighted in numerous comparative tabulations throughout this publication. These tables show trends in such diverse accounting matters as financial statement format and terminology and the accounting treatment of transactions and events reflected in the financial statements.

Accounting techniques are illustrated by excerpts from the annual reports of the survey companies and the annual reports of companies not included in the survey which presented items of particular interest or of an unusual nature. References (in the form of a listing of company identification numbers—see the following paragraph) to additional illustrations of an accounting technique may be requested from the American Institute of Certified Public Accountants.

Each of the 600 survey companies included in this edition has been assigned an identification number which is used for reference throughout the text in the discussion of pertinent information. 413 of the companies were listed in the twenty-first (1967) edition and each retained the number assigned in that edition. The other 187 companies in the 1967 edition have been eliminated, principally because of mergers and other acquisitions. Their numbers have not been reused; instead, numbers 601 through 833 have been assigned to their replacements. The 600 companies in the current edition are listed in the Company Appendix Section both alphabetically and by their identification number.

The Technical Information Division of the American Institute of Certified Public Accountants also produces *Financial Report Surveys*, a series of publications expanding on some of the data included in *Accounting Trends & Techniques.* These publications present illustrations of special aspects of financial statement presentation which are of current interest.

Special acknowledgement is due to James D. Blum, CPA; J. Richard Chaplin, CPA; Gregory Frydman, CPA; William A. Godla, CPA; Phyllis C. Johnson, CPA; Kevin J. McGrath; Joseph M. Nestor, CPA; and John G. Pate, Jr., CPA for their assistance in the analysis of the financial reports and preparation of the manuscript.

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Section 1: General

THIS SECTION OF THE SURVEY is concerned with general information about the 600 companies selected for the survey and with certain accounting information that cannot logically be included with a discussion of one of the customary financial statements.

COMPANIES SELECTED FOR SURVEY

Practically all 600 companies included in the survey are registered with the Securities and Exchange Commission and are reported in either *Moody's Industrial Manual* or *Moody's OTC Industrial Manual.* Ninety percent of the survey companies have securities traded on one of the major stock exchanges—75% on the New York and 15% on the American. Table 1-1 presents an industry classification of the 600 survey companies; Table 1-2 indicates the relative size of the survey companies as measured by dollar value of revenue.

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1977	1976	1975	1974
Foods:				
Meat products	9	9	9	11
Dairy products	5	5	5	5
Canning,, etc.	9	9	10	9
Packaged and bulk	20	19	19	21
Baking	5	5	5	5
Sugar, confections, etc.	6	7	7	6
Beverages	6	6	6	6
Tobacco products	7	7	7	8
Textiles	30	29	30	29
Paper products	15	16	16	16
Printing, publishing	7	8	8	7
Chemicals	23	25	25	25
Drugs, cosmetics, etc.	21	20	19	19
Petroleum	25	27	27	27
Rubber products, etc.	9	9	9	10
Shoes - manufacturing, merchandising, etc.	8	8	8	8
Building:				
Cement	3	4	4	5
Roofing, wallboard	12	11	12	12
Heating, plumbing	7	7	7	7
Other	18	17	18	16
Steel and Iron	21	23	23	23
Metal - nonferrous	17	18	19	18
Metal fabricating	11	9	11	13
Machinery, equipment and supplies	33	37	37	39
Electrical equipment, appliances	20	17	17	17
Electrical, electronic equipment	34	37	37	38
Business equipment and supplies	17	15	13	13
Containers - metal, glass, etc.	8	8	8	8
Autos and trucks (including parts, accessories)	23	23	23	21
Aircraft and equipment, aerospace	17	16	16	16
Railway equipment, shipbuilding, etc.	7	7	7	7
Controls, instruments, medical equipment, watches and clocks, etc.	15	16	14	13
Merchandising:				
Department stores	12	12	12	12
Mail order stores, variety stores	2	2	3	4
Grocery stores	14	15	15	16
Other	10	10	10	9
Motion pictures, broadcasting	6	6	6	6
Widely diversified, or not otherwise classified	88	81	78	75
Total Companies	**600**	**600**	**600**	**600**

TABLE 1-2: REVENUE OF SURVEY COMPANIES

	1977	1976	1975	1974
Less than $100,000,000	101	106	101	93
Between $100,000,000 and $500,000,000	153	159	178	199
Between $500,000,000 and $1,000,000,000	96	97	98	89
Between $1,000,000,000 and $2,000,000,000	110	113	102	114
More than $2,000,000,000	140	125	121	105
Total Companies	**600**	**600**	**600**	**600**

INFORMATION REQUIRED BY RULE 14c-3 TO BE INCLUDED IN ANNUAL REPORTS TO STOCKHOLDERS

Rule 14c-3 of the Securities Exchange Act of 1934 specifies that annual reports furnished to stockholders in connection with the annual meeting of stockholders include the following information:

1. "certified" comparative financial statements
2. a 5 year summary of operations
3. a management's analysis of the summary of operations
4. a brief description of the company's business
5. a 5 year line of business breakdown
6. identification of the company's directors and executive officers and their principal occupation.
7. a statement of the market price range and dividends paid on voting securities for each quarterly period during the past 2 fiscal years.

In order to make the Securities and Exchange Commission reporting requirements similar to those set forth by the Financial Accounting Standards Board in *Statement of Financial Accounting Standards No. 14,* the SEC issued *Regulation S-K* which requires a presentation of business segment information rather than line of business information.

Examples of items 2, 3, 4, and 7 follow. Examples of business segment disclosures are presented on pages 16-41.

Five Year Summary of Operations

BIRD & SON, INC. (DEC)

Five Year Comparative Record

Summary of Earnings

	1977	1976	1975 ($000)	1974	1973
Net sales:					
Building materials	$209,414	$176,801	$134,827	$128,174	$103,794
Paperboard products	13,147	13,838	13,150	15,152	11,349
Machinery	54,237	45,562	43,420	30,857	21,651
	276,798	236,201	191,397	174,183	136,794
Cost of sales	210,468	175,209	132,665	125,218	99,352
Selling, general and administrative expenses	29,448	26,156	20,703	18,682	16,619
Royalty income	(1,066)	(1,155)	(691)	(486)	(403)
Earnings before income taxes:					
Building materials	24,139	23,951	27,876	23,084	17,494
Paperboard products	404	1,105	1,776	1,980	429
Machinery	13,405	10,935	9,068	5,705	3,303
Operating profit	37,948	35,991	38,720	30,769	21,226
Interest expense	(460)	(331)	(92)	(96)	(98)
Interest income	105	253	467	405	477
Cooperative office expense	(4,256)	(3,864)	(3,265)	(2,964)	(2,500)
	33,337	32,049	35,830	28,114	19,105
Income taxes	16,595	16,043	17,693	13,700	9,493
Net earnings	$ 16,742	$ 16,006	$ 18,137	$ 14,414	$ 9,612
Assets used in the business:					
Building materials	$ 76,729	$ 64,908	$ 47,662	$ 44,713	$ 37,614
Paperboard products	8,836	7,989	8,000	7,939	7,048
Machinery	40,171	36,205	33,628	27,086	18,676
Corporate assets	10,727	11,114	19,518	15,190	13,079
	$136,463	$120,216	$108,808	$ 94,928	$ 76,417

CONGOLEUM CORPORATION (DEC)

Summary of Operations

The following is a summary of consolidated operations of Congoleum Corporation for the five years ended December 31, 1977. This summary of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

(Dollars in thousands except per share data)	1973	1974[1]	1975	1976	1977[2]
Net Sales	$238,483	$244,287	$272,000	$284,735	$375,466
Royalties	3,948	5,550	6,983	10,080	13,163
Total Revenues	$242,431	$249,937	$278,983	$294,815	$388,629
Cost of Sales	172,756	209,333	219,182	224,028	285,770
Operating Expenses	30,503	31,395	34,441	38,805	55,023
Operating Income	$ 39,352	$ 9,209	$ 25,360	$ 32,982	$ 47,836
Interest Expense	$ 3,458	$ 6,345	$ 5,192	$ 2,064	$ 1,734
Income Taxes	$ 17,810	$ 3,531	$ 11,985	$ 17,400	$ 24,900
Income from Continuing Operations	$ 20,573	$ 4,146	$ 13,354	$ 17,339	$ 24,740
Income (Loss) from Discontinued Operations	1,616	(3,618)	(3,796)	(19,500)	—
Patent Infringement Settlement	—	—	—	17,885	—
Net Income Applicable to Common Stock	$ 22,189	$ 528	$ 9,558	$ 15,724	$ 24,740
Per Share[3]					
Income from Continuing Operations	$2.62	$0.54	$1.74	$2.25	$3.20
Income (Loss) from Discontinued Operations	0.21	(0.47)	(0.49)	(2.53)	—
Patent Infringement Settlement	—	—	—	2.32	—
Net Income	$2.83	$0.07	$1.25	$2.04	$3.20
Dividends Declared Per Share of Common Stock	$0.30	$0.40	$0.40	$0.50	$0.60
Average Common and Common Equivalent Shares Outstanding	7,839,309	7,683,317	7,671,772	7,699,485	7,731,953

Notes to Summary of Operations

[1]Inventories

As of January 1, 1974, the Company adopted the LIFO method of determining cost for certain inventories. This change had the effect of reducing net income for 1974 by $2,528,000 ($.33 per share) below that which would have been reported using the Company's previous inventory valuation method.

[2]Acquisition

The Company, through its subsidiary CN Corporation, acquired Curtis Noll Corporation, as of October 31, 1977. The acquisition was accounted for as a purchase and the results of operations of Curtis Noll Corporation after October 31, 1977, were consolidated with the Company.

[3]Calculation of Income per Share

Income per share has been computed based on the average number of shares of common stock (after deducting treasury shares) and common stock equivalents outstanding during the years. See Exhibit I for the computations of average number of shares of common stock and common stock equivalents during the years.

FIRST NATIONAL STORES INC. (MAR)

Five Year Summary of Operations

(in thousands)

	Fiscal year ended				
	March 26, 1977	March 27, 1976	March 29, 1975	March 30, 1974	March 31, 1973 (53 Weeks)
Sales	$ 992,635	$ 974,086	$ 934,803	$ 859,598	$ 849,316
Costs and expenses:					
Cost of sales, warehousing, transportation and store occupancy expenses	829,125	819,723	790,220	735,148	717,737
Direct selling, advertising, general and administrative expenses	160,314	150,802	134,055	123,773	124,509
Depreciation and amortization	8,145	7,450	6,731	6,622	6,852
Estimated changes (credits) related to store closings	(370)	(1,173)	(449)	8,560	—
	997,214	976,802	930,557	874,130	849,098
Operating income (loss)	(4,579)	(2,716)	4,246	(14,505)	218
Other income (expense):					
Interest income	788	1,367	2,487	2,107	785
Interest expense	(327)	(395)	(933)	(1,242)	(856)
Other, net	144	242	199	108	514
	605	1,214	1,753	973	443
Income (loss) from continuing operations before income taxes	(3,974)	(1,502)	5,999	(13,532)	661
Federal and state income taxes	—	—	1,820	—	100
Income (loss) from continuing operations	(3,974)	(1,502)	4,179	(13,532)	561
Loss from discontinued operations, less applicable tax effect	—	—	—	—	(301)
Income (loss) before extraordinary items and before cumulative effect of change in accounting	(3,974)	(1,502)	4,179	(13,532)	260
Extraordinary items	—	—	1,595	572	(225)
Cumulative effect on prior years (to March 31, 1973) of change in method of accounting for costs related to store closings less $1,158 tax effect	—	—	—	(1,964)	—
Net income (loss)	(3,974)	(1,502)	5,774	(14,924)	35
Retained earnings at beginning of year, as restated	47,245	49,877	45,010	59,934	59,899
Dividends declared	(1,131)	(1,130)	(907)	—	—
Retained earnings at end of year	$ 42,140	$ 47,245	$ 49,877	$ 45,010	$ 59,934
Per share of common stock:					
Income (loss) from continuing operations	$ (3.50)	$ (1.32)	$ 3.35	$ (9.86)	$ .41
Loss from discontinued operations	—	—	—	—	(.22)
Income (loss) before extraordinary items and cumulative effect of change in accounting	(3.50)	(1.32)	3.35	(9.86)	.19
Extraordinary items	—	—	1.28	.41	(.16)
Cumulative effect of change in method of accounting for store closings	—	—	—	(1.43)	—
Net income (loss)	$ (3.50)	$ (1.32)	$ 4.63	$ (10.88)	$ .03
Shares outstanding for purposes of computing earnings per share	1,136,914	1,136,632	1,246,315	1,372,197	1,372,274
Cash dividends declared per share	$ 1.00	$ 1.00	$ .75	—	—
Pro forma amounts assuming the change in method of accounting for costs related to store closings had been applied retroactively:					
Loss from continuing operations				$ (13,532)	$ (227)
Per share of common stock				(9.86)	(.17)
Loss before extraordinary items				(13,532)	(438)
Per share of common stock				(9.86)	(.32)
Net loss				(12,960)	(618)
Per share of common stock				(9.45)	(.45)

NABISCO, INC. (DEC)

Summary of Operations(1)

(In millions except per share data)

	1977	1976	1975	1974	1973
Net sales	$2,073.3	$1,973.9	$1,904.9	$1,728.8	$1,394.7
Cost of sales	1,354.0	1,294.0	1,291.5	1,227.1	943.6
Selling, general and administrative expenses	505.0	485.6	438.9	382.9	347.6
Operating income	214.3	194.3	174.5	118.8	103.5
Miscellaneous expense (income), net	28.8	(5.3)	3.4	(9.3)	(6.8)
Interest expense	19.2	22.7	28.2	30.4	17.0
Income from continuing operations before income taxes	166.3	176.9	142.9	97.7	93.3
Income taxes	62.4	94.7	79.2	49.5	47.0
Income from continuing operations	103.9	82.2	63.7	48.2	46.3
Discontinued line of business					
Loss from operations(2)	(2.2)	(5.2)	(4.7)	(2.7)	(2.3)
Loss on disposal(3)	(23.7)	—	—	—	—
Net income	$ 78.0	$ 77.0	$ 59.0	$ 45.5	$ 44.0
Per share					
Income from continuing operations	$ 6.47	$ 5.14	$ 3.99	$ 3.03	$ 2.89
Loss from discontinued line of business	(1.61)(4)	(.32)	(.29)	(.17)	(.14)
Net income	$ 4.86	$ 4.82	$ 3.70	$ 2.85	$ 2.75
Dividends declared per share	$ 2.52	$ 2.40	$ 2.30	$ 2.30	$ 2.30
Average shares outstanding	16.05	15.98	15.96	15.96	15.98

(1)Amounts for the years prior to 1977 have been restated for the discontinued line of business.
(2)Net of income tax credits of $2.8, $4.4, $3.6, $2.3 and $2.0 for the years 1977 to 1973, respectively.
(3)Net of income tax credit of $22.6.
(4)Includes loss on disposal of $1.48 per share.

Management's Analysis of Summary of Operations

ANCHOR HOCKING CORPORATION (DEC)

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a discussion of significant issues affecting Anchor Hocking's performance for the past five years as shown in the Operations Section of the Ten-Year Summary. Additional information on the conpany's operations is included on page 24 of this report. Financial data attributable to the business segments of the company are set forth in Note 9 to the consolidated financial statements.

Net Sales

Consolidated sales of $641 million in 1977 increased slightly over 1976 despite the discontinuance of certain operations and product lines which affected the year-to-year comparison by approximately $27 million.

Within the overall consumer and industrial products group, the 1977 sales growth of the household products segment was adversely affected by the severe energy and weather-related disruptions early in the year and by the mid-year industry-wide softness in the glass tableware market. Other consumer and industrial products, and the hardware products segment (Amerock), experienced good sales growth in 1977 which resulted partially from the continued strength of the residential housing market.

Total 1977 sales of the packaging products segment were lower than the prior year due mainly to the sale of the two glass container plants which distorts the sales comparison for the two years. For continuing operations, packaging products sales increased approximately 5% over 1976.

However, sales growth was lower than expected due to the decreased demand caused by lower sales of coffee processors, a four-month strike at a major baby food company, and reduced volume in other customer markets. Delays and problems experienced in completing two major glass container expansion programs also adversely affected sales volume for certain products.

Consolidated sales for 1976 of $629 million increased 27% over 1975 with all operating units contributing to the increase. Increased shipments, higher prices for most products, and the inclusion of the hardware products segment (Amerock) for a full year were significant factors in the increase over 1975. The continuing increases in consolidated sales from 1973 to 1975 resulted from good growth in both the household and packaging products segments. Amerock Corporation, acquired effective September 28, 1975, contributed $16.5 million to consolidated sales in 1975.

Cost of Products Sold

As a percent of net sales, cost of products sold increased from 80.5% in 1973 to 83.0% in 1974 and then declined to 82.7% in 1975 and to 80.9% in 1976. Cost of products sold for 1974 increasd 2.8% as a result of the change to the LIFO method of inventory valuation for glass products. The percentage improvements in 1975 and 1976 principally reflected an increase in overall capacity utilization, increases in sales prices and volume, higher productivity, the inclusion of Amerock for a full year in 1976, and the improved effectiveness of cost reduction programs. These overall improvements were partially offset by increases in the cost of energy and raw materials, the increase in wages and fringe benefits under union contractual agreements and higher levels of maintenance and repair expenses.

For 1977, the percentage relationship increased to 82.1% due to several factors. Within the household products segment, the severe weather and restricted energy usage early in the year in the consumer products operations led to inventory imbalances, shorter production runs and manufacturing inefficiencies which were not overcome until late in the year. Operations of the packaging products group were adversely affected by increased labor and material costs not fully offset by price and productivity increases, an industry-wide strike by mold makers, heavy start-up costs for plant modernization projects, reduced demand caused by the lower sales volume of certain customers, an unfavorable change in sales mix in closure products during most of the year, and increased development and production costs related to the ALPHA program for institutional feeding.

Selling and Administrative Expenses

Selling and administrative expenses as a percent of net sales declined from 9.7% in 1973 to 9.1% in 1975 and 1976, and increased to 9.7% in 1977. The relationship in 1977 was affected by the relatively lower sales volume resulting from the plant disposals. Throughout the period, absolute dollars have increased due to expanded operations, including the acquisition of Amerock, and inflationary pressures, particularly to employee salaries and benefits.

Interest Expense

Interest expense increased in 1975 due mainly to the issuance of notes payable to The Stanley Works in connection with the Amerock acquisition. Interest expense increased further in 1976 and 1977 due principally to the one-half year's interest expense in 1976 and the full year's interest expense in 1977 on the $45 million of 8⅝% Sinking Fund Debentures issued in July, 1976.

Provision for Income Taxes

The consolidated effective tax rate declined during the period from 47.6% in 1973 to 40.9% in 1977. This decrease principally reflects the significant increases in investment tax credits, particularly in 1975 through 1977.

Net Income

Reflecting the combined effects of the above factors, net income declined from $18.7 million in 1973 to $16.3 in 1974 and then increased annually, reaching a level of $30.1 million in 1977. The comparison of 1976 and 1977 was affected by a net gain of $2.4 million, or $.36 per share, realized in 1977 from the sales of two glass container plants, less the write-off of an investment in a foreign glass container business. The favorable impact of this gain was partially offset by an increase in foreign currency translation losses of approximately $.16 per share.

Correspondingly, net income for 1976 was reduced by $4.0 million, or $.59 per share, as a result of the provision for the phase out of the Los Angeles glass container plant.

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF CURRENT AND RETAINED EARNINGS.

1977 vs. 1976

Net sales, a record $302,045,000 for 1977 increased $30,166,000 or 11% of 1976. Compared to 1976, all operating segments posted sales gains: Tool $10,581,000 or 12%; Components $10,291,000 or 17%; Instruments and Controls $6,045,000 or 31%; and Equipment $3,249,000 or 3%. Sales were particularly strong domestically reflecting the general upturn in the major markets, the effects of the introduction of new products accompanied by overall increases in selling prices. The Equipment group reflects a 3% increase even though the level of shipments was interrupted when its large plant, located in Franklin, Pennsylvania, was struck on May 2, 1977 by the International Association of Machinists after the expiration of the labor agreement on May 1. The strike was Settled on August 17, 1977. Overseas sales were impacted by labor troubles in the form of strike and "go-slow" actions in tool and equipment plants in Scotland and depressed economic conditions and price competition in many major markets. The labor troubles were a protest by the work force against the local effects of the U.K. government's national "voluntary" wage guidelines. The slowdown has ended and local negotiations have been concluded.

Other income increased by $992,000 primarily as a result of a gain on the sale of the lease of certain office facilities in the United Kingdom and income from unconsolidated affiliates.

Cost of products sold increased by $29,163,000 or 15% to $217,826,000. Costs increased at a greater rate than sales primarily due to the strike at the Franklin plant and labor related problems in Scotland within the Equipment group. Margins were affected by price competition and uncertain economic conditions overseas. Also affecting the Equipment group were start-up costs related to new facilities and a write-off of inventory and other assets related to certain compressor lines; and a lower proportion of higher margin spare parts sales domestically. During the first six months, additional costs associated with the introduction of certain new products and a low level of productivity at the Franklin, Pennsylvania plant are currently being realized. Factors within the Tool group were higher costs for foreign sourced products primarily resulting from the fluctuation in the Japanese yen and higher costs associated with adjustments in the rate of production necessary to meet the high demand, and also the labor problems in Scotland. The Instruments and Controls group experienced higher costs associated with the introduction of a new series of temperature recording devices.

Selling, administrative and general expenses increased by $3,357,000 or 6% to $58,563,000 but decreased slightly as a percent of sales. This was primarily due to increased sales, offset by the savings realized from reductions in administrative staff carried out in 1976 and 1977.

Depreciation increased as a result of the higher level of capital spending during 1977.

Interest expense increased by $1,686,000 to $3,882,000 due to increases of $4,575,000 in short term borrowings and $15,289,000 in long term borrowings. These borrowings were used primarily for capital expenditures and acquisitions.

Other expense increased to $900,000 primarily due to a write-off of an investment related to certain compressor lines.

Earnings before taxes decreased $3,984,000. The operating profit (earnings before taxes, interest and corporate expenses) of three of the company's four segments reflected increases: Tool $1,073,000 or 17%; Components $4,850,000 or 38%; and Instruments and Controls $1,172,000 or 29%. The Equipment group, reflecting the effects of the strike and the problems discussed above, operated at a loss which represents an unfavorable swing of $10,866,000 from the prior year. The earnings reflect the unfavorable impact of the translation of foreign currencies, although to a lesser extent than in 1976, primarily because of the relative stability of the Mexican peso and for most of 1977, the pound sterling and Canadian dollar. The unfavorable earnings effect in 1977 would have been less had the strengthening of the pound sterling not occurred towards the end of the fourth quarter. Despite this improvement, the company's major overseas operations continued to be adversely affected by the labor problems, severe price competition and uncertain economic conditions mentioned above.

U.S. and foreign income taxes provided represent an effective rate of 58% and 59% for 1977 and 1976 respectively. The provision for income taxes varies from the U.S. federal statutory rate primarily due to the effect of the translation of foreign currency financial statements and foreign income which is taxed at a higher rate than in the U.S.

Net earnings of $7,188,000 decreased $4,052,000 or 36% from 1976. The 1976 amount includes an extraordinary gain of $2,800,000 from the sale of a subsidiary.

Foreign currency. Translation of foreign currency financial statements, except for the effect on earnings of inventory cost of products sold, and other accounts translated at historic rates, resulted in a charge to earnings of $1,900,000 ($.34 per share) in 1977 and a credit to earnings of $1,300,000 ($.24 per share) in 1976.

Because inventories are translated at the rate in effect at the time of acquisition, a significant unfavorable effect is recognized on the subsequent sale of inventories which were acquired prior to devaluations. During 1977, the company recognized approximately $900,000 ($.16 per share) of costs at balance sheet exchange rates in excess of the average rate in effect at date of sale.

1976 vs. 1975

Net sales for 1976 of $271,879,000 decreased $8,338,000 or 3% from 1975. The reduction is primarily due to declines in foreign currency exchange rates versus the U.S. dollar. Overall, the physical volume of shipments during 1976 increased slightly over 1975. Tool operations increased 4% over 1975, primarily due to increased volume in the U.S. and Europe which offset the effects of domestic price competition and U.K. price controls. Equipment operations decreased 12% from the 1975 record levels due to volume declines, primarily attributable to the reduced level of domestic construction activity and product-related problems. Instruments and controls increased 6% over 1975.

Other income of $2,267,000 increased 3% over 1975 reflecting slight increases in non-operating revenues.

Cost of sales increased as a percentage of sales compared to 1975, principally due to increased unfavorable effects of foreign currency exchange rates and increased material and labor costs, especially in the U.K. In addition, the Equipment operations were affected by the reduced level of activity, resulting in lower recovery of fixed costs and expenses.

Selling, administrative and general expenses increased $676,000 or less than 1% of sales. This increase includes the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), and other increases in salaries and benefits, partly offset by planned reductions of approximately 310 administrative and general employees during the year.

Depreciation expense in 1976 of $5,343,000 is essentially unchanged from 1975, reflecting the comparable levels of capital spending during 1976 and 1975.

Interest expense and other decreased $971,000 principally due to reductions in the average level of short term borrowings during the year.

Earnings before taxes of $22,352,000 decreased $15,264,000 or 41% from the prior year.

U.S. and foreign income taxes provided increased significantly as a percentage of earnings before taxes due to losses from translation of foreign currency financial statements for which no tax benefit is available. Increased state and local income taxes were offset by the utilization of the tax incentives available through the Domestic International Sales Corporation (DISC).

Net earnings of $11,240,000 decreased $7,525,000 or 40% from 1975.

Foreign currency. In 1976 the effects of exchange rate fluctuations resulting from translating foreign currency balance sheets into U.S. dollars, and the effect of realized transaction gains, approximated $1,300,000 ($.24 per share).

Because inventories are translated at the rate in effect at the time of acquisition, a significant unfavorable effect is recognized on the subsequent sale of inventories which were acquired prior to devaluations. During 1976 the company recognized approximately $6,700,000 ($1.21 per share) of costs at balance sheet exchange rates in excess of the average rate in effect at date of sale.

GULF & WESTERN INDUSTRIES, INC. (JUL)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF EARNINGS

Net Sales and Other Operating Revenues and Operating Income

Due to the diverse nature of the Company's business, a discussion of revenues and operating income on an operating group basis is the most meaningful approach to commentary on changes in the line items "net sales and other operating revenues" through "operating income" as presented in the consolidated summary of earnings. Reference is made to the tables that present the net sales and other operating revenues and operating income of the Company's operating groups and its corporate expenses and intercompany items. Operating income of the Financial Services Group is after deducting interest expense and is included in the caption "equity in earnings before income taxes and foreign exchange gains and losses of unconsolidated affiliates" in the consolidated summary of earnings.

Manufacturing Group

In fiscal 1977, the Manufacturing Group achieved increased sales primarily as a result of the strong automotive market, which is a major industry served by the group, which more than offset the decline in sales of the group's energy products unit. However, the group's operating income was lower than in fiscal 1976 due primarily to the depressed market for energy equipment during fiscal 1977. In fiscal 1976, the increases in the group's sales and operating income in relation to fiscal 1975 were primarily the result of the improvement in the economy, particularly in areas affecting the group's automotive and appliance-related product lines, and further strengthening of the group's program of cost controls over all elements of its operations. These factors offset a decline in the contribution to operating income of the group's energy products unit as compared to the prior fiscal year.

Natural Resources Group

The Natural Resources Group achieved increased sales and operating income for the 1977 fiscal year as compared to fiscal 1976 largely because the operating results of Marquette Company, which was acquired during the first quarter of fiscal 1977, are included in the group for the first time. In fiscal 1977, sales and operating income were hurt by weakness in prices for zinc and by increased labor, material and energy costs. The recovery in the nation's industrial production and increased consumption of zinc products enabled this group to achieve increased operating results in the second half of fiscal 1976 and reflect increases in both sales and operating income for the full fiscal 1976 as compared to fiscal 1975. These results were achieved despite lower results as compared to fiscal 1975 of the Quebec Iron and Titanium Corporation and Flying Diamond Oil Corporation, owned one-third and 36%, respectively, by the Company, and which were accounted for on the equity basis.

Consumer and Agriculture Products Group

In fiscal 1977, the Consumer and Agricultural Products Group experienced a decrease in both sales and operating income due primarily to a continued world surplus of raw sugar and resulting depressed prices for sugar, the group's principal contributor to operating income. The group's cigar sales increased in fiscal 1977 due to aggressive marketing, new products and higher prices but operating income was down, reflecting the long-term decline in cigar consumption, which accelerated in fiscal 1977. In fiscal 1976, the group also experienced a decrease in both sales and operating income as a result of the drop in the average price of sugar from the abnormally high levels of fiscal 1975 and the continuing industry-wide decline in cigar consumption.

Apparel Products Group

In fiscal 1977, the Apparel Products Group had increased sales and operating income as compared to the prior year. The increase in operating income resulted from continued improvements in the group's hosiery and textile markets along with strengthened financial and inventory controls, and elimination of unprofitable and marginally-profitable products, which more than offset continued weakness in apparel markets. This group, which was organized at the beginning of the 1976 fiscal year, contributed substantially to fiscal 1976 sales and operating income (reflecting an increase in consumer spending for apparel and emphasis on improved control of costs and inventories) when its full year results were included for the first time.

Financial Services Group

The Financial Services Group had increased operating income for the 1977 fiscal year as compared to fiscal 1976. The group benefited from lower short-term interest rates, higher finance receivables outstanding, increased annuity sales and continuing improvements in property/casualty insurance operations. This increase was achieved despite a charge against operating income of $10.5 million related to Associates First Capital Corporation's operations in Tennessee which is more fully described in Note D to the Company's consolidated financial statements. In fiscal 1976, the Group had increased operating income as compared to fiscal 1975 when the group experienced a loss due to a provision established applicable to a subsidiary in Great Britain. The group contributed more to the Company's operating income in fiscal 1976 due to lower interest rates, a significant reduction in property/casualty insurance losses and improved life insurance operations. The contribution of the Company's investment in Amfac, Inc., which is accounted for on the equity basis and is held by the Financial Services Group, to operating income declined in each of the 1977 and 1976 fiscal years.

Lesiure Time Group

In fiscal 1977, the Leisure Time Group had increased revenues but a decrease in operating income as compared to the prior year. Operating income was down largely because of theatrical film rentals being less than anticipated, and the decline in theatre operations and real estate sales in Canada. Although the group's book publishing operations contributed more to fiscal 1977 operating income, the group's activities in the coin-operated amusement game business showed a substantial decline in operating income. The group experienced higher revenues and operating income in fiscal 1976 as compared to fiscal 1975 reflecting increased profits on television syndication sales, a number of best selling books, and an increased contribution from the group's theatre and real estate operations.

Automotive Replacement Parts Group

In fiscal 1977, this group achieved increased sales and operating income reflecting the continuing growth of the overall automotive replacement parts distribution business, particularly in its overseas markets, as well as internal growth, operating efficiencies and price increases. The group also experienced higher sales and operating income in fiscal 1976 reflecting the continuing rise in the demand for automotive replacement parts, both domestically and in foreign markets, and through cost reductions and price increases.

Paper and Building Products Group

In fiscal 1977, the Paper and Building Products Group had increased sales but a decrease in operating income as compared to the prior year. The decline in operating income was centered entirely in the group's paper operations, and occurred largely because of higher operating costs in the face of soft demand for pulp and commodity-grade paper products. The group's building products markets experienced an increase in operating income reflecting gains in construction activity. In fiscal 1976, the group had a slight increase in sales but a decrease in operating income due to start-up problems at a new secondary fiber pulp mill and rising costs that had not been absorbed by price increases.

Corporate Expenses and Intercompany Items

Corporate expenses have increased in fiscal 1976 and 1977 reflecting the increase in the cost of corporate administrative services, particularly increased payroll and related expenses, increased rental and outside service costs. The increase from fiscal 1975 to 1976 was offset in part by an increased contribution applicable to the Company's equity in earnings of certain investments which are accounted for on the equity basis and are included under this caption.

Other Items in Consolidated Summary of Earnings

Other Expense (Income)

The variance in this caption is primarily the result of foreign currency translation losses and a gain recognized in fiscal 1977 upon early extinguishment of debt. See Notes A and G to the Company's consolidated financial statements, included elsewhere here, for further information applicable to the implementation of the FASB accounting policy for the translation of foreign currencies and the gain recognized upon early extinguishment of debt.

Interest Expense-Net

The increase in interest expense in fiscal 1977 resulted from increased short-term and long-term borrowings which more than offset a decrease in interest rates. The decrease in interest expense in fiscal 1976 primarily reflects lower average short-term borrowings and significantly lower interest rates.

Minority Interest

The decrease in minority interest in net earnings in fiscal 1977 was primarily the result of decreases in the net earnings of majority-held subsidiaries, particularly Brown Company (see the discussion above of the Paper and Building Products Group) and Famous Players Limited (a Canadian subsidiary whose theatre and real estate operations are included i the Leisure Time Group). The increase in minority interest in net earnings in fiscal 1976 was primarily the result of increases in the net earnings of majority-held subsidiaries, particularly A.P.S., Inc. (see the discussion above of the Automotive Replacement Parts Group) and Famous Players Limited.

Provision for Income Taxes

The decrease in the provision for income taxes in fiscal 1977 primarily reflects a corresponding decrease in consolidated earnings before income taxes. The increase in the provision for income taxes in fiscal 1976 primarily reflects a corresponding increase in consolidated earnings before income taxes and an increase in the effective tax rate.

Dividends on Preferred Stock

The increase in dividends on preferred stock in fiscal 1977 is attributable to the shares of $2.50 Series D convertible preferred stock and $5.75 sinking fund (non-convertible) preferred stock issued in connection with the acquisition of Marquette Company. (Refer to Note B to the Company's consolidated financial statements.) The increase in fiscal 1976 is attributable to the shares of $2.50 Series D convertible preferred stock issued in late 1975 and early 1976 in connection with the acquisition of Kayser-Roth Corporation.

Average Common and Common Equivalent Shares Outstanding

The increase in average shares outstanding in fiscal 1976 and 1977 is primarily the result of conversions of debentures and preferred stock during those years.

Fully Diluted Net Earnings Per Share

Dilution of the Company's earnings per share is principally the result of (1) the market prices of the securities assumed in the computation to have been purchased with the proceeds of the exercise of outstanding warrants and options and (2) the relationship of (a) primary net earnings per share to (b) the assumed reduction of net interest expense and preferred dividends per common share issued (net of shares repurchased) upon exercise of warrants and options and conversion of convertible debt and preferred stock. Thus, all other things being equal, higher market prices of the securities and/or higher primary net earnings per share will result in greater dilution of earnings per share. The lower dilution in fiscal 1977 as compared to fiscal 1976 is principally attributable to the decrease in primary earnings per share. The greater dilution in fiscal 1976 as compared to fiscal 1975 is principally attributable to the increase in primary earnings per share, the increase in the price of the Company's common stock and other securities assumed to be purchased, and the issuance of the $2.50 Series D convertible preferred stock.

IPCO HOSPITAL SUPPLY CORPORATION (JUN)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Fiscal 1977 Compared to 1976

The following supplements the contents of the "President's letter" and the "Review of Operations" sections of this report.

Sales

Medical Operations—Distribution

The 1977 net sales increase over 1976 reflected substantial gains in the blood products and hospital supply areas.

Medical Operations—Manufacturing

The 1977 increase in net sales over 1976 was primarily realized in disposable fiber products.

Dental Operations

Net sales for 1977 reflect an increase over 1976 resulting from substantial increases in both domestic and foreign sales of proprietary products, capital equipment and related product systems for restorative dentistry.

Optical Operations

Continuation of the aggressive expansion program initiated in 1975 provided the basis for the significant sales increase realized in 1977 over 1976. The twenty-two new stores opened in 1977 and the ten new stores opened in 1976 contributed substantially to this operation's growth.

Operating Income

Medical Operations—Distribution

The net increase in operating income in 1977 over 1976 was primarily attributed to the increase in net sales as well as increased operating efficiencies.

Medical Operations—Manufacturing

The net increase of 1977's operating income over 1976's principally resulted from increased sales realized during 1977 offset somewhat by operating inefficiencies which occurred in the production of disposal products during the first half of fiscal 1977.

Dental Operations

The 1977 increase in operating income over 1976 resulted primarily from increased sales levels from both domestic and foreign sales.

Optical Operations

The reduction in operating income in 1977 from 1976 was attributed principally to operating costs related to the starting up (as planned) of a record twenty-two new stores in fiscal 1977.

Net Income

The reduction in net income in 1977 from 1976 was primarily due to a sharp increase in the tax rate, losses realized on the discontinuance and disposal of certain operations as described in Note 2 to the financial statements herein, and the non recurring gain in 1976 realized on the sale of our Valhalla facilities.

Interest expense for 1977 was lower than 1976 due to lower prevailing interest rates and average outstanding indebtedness during 1977.

The factors which contributed to the 47.6% effective tax rate in 1977 as compared to the 42.3% effective tax rate in 1976 are contained in Note 4 to the financial statements herein.

Fiscal 1976 Compared to 1975

Sales

Medical Operations—Distribution

The 1976 net sales increase over 1975 reflected substantial gains in medical x-ray film products.

Medical Operations—Manufacturing

The 1976 increase in net sales over 1975 was primarily realized in disposable fiber products.

Dental Operations

Net sales for 1976 reflect a substantial increase over 1975 resulting from gains in the areas of proprietary products, capital equipment and related product systems for restorative denistry, laboratory operations, precious and nonprecious dental alloys and export markets.

Optical Operations

The significant increase in 1976 net sales over 1975 reflects the continuing results of the expansion program commenced during fiscal 1975. The ten new stores opened in 1976 and the nine stores opened in 1975 contributed substantially to this operation's growth.

Operating Income

Medical Operations—Distribution

The 1976 net increase in operating income over 1975 was primarily attributed to improvements in operating expense controls.

Medical Operations—Manufacturing

The 1976 net increase in operating income over 1975 was primarily attributed to significant improvements in sales and operating efficiencies in the disposable fibers operations.

Dental Operations

Operating income increased in 1976 over 1975 due to increased sales levels in dental laboratory operations and manufacturing operations, as well as improvements in operating efficiency.

Optical Operations

The 1976 increase in operating income over 1975 resulted primarily from increased sales by established stores.

Net Income

The increase in net income in 1976 over 1975 was primarily due to increased sales, operating efficiencies, and lower interest costs. The increase is also attributable in part to the gain realized on the sale of our Valhalla facilities as detailed in Note 5 to the financial statements herein. The net income reported in 1975 reflected the negative impact of the "change in accounting" adopted in 1975 with respect to deferral of inceptive costs.

Interest expense for 1976 was lower than 1975 due to lower prevailing interest rates and outstanding indebtedness during the second half of the fiscal year. The reduction in debt resulted mainly from the application of proceeds received from the sale of the Valhalla facilities.

JOY MANUFACTURING COMPANY (SEP)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Fiscal 1977 in comparison with fiscal 1976

In spite of uncertainty concerning the direction of the U.S. energy policy, strikes in the U.S. coal fields, a depressed minerals and metals market and a slow rate of industrial construction, net sales increased 7% over the preceding year. Other revenues, generated principally from short-term cash investments, increased $1,662,000 over fiscal 1976.

Costs and expenses reflected $1,127,000 in additional charges for depreciation which resulted from fixed asset additions. Maintenance and repair costs increased 15% due primarily to continuing inflation. Payroll taxes increased 26% over fiscal 1976 due to increases in compensation, legislated benefits and the number of employees.

Cost of sales as a percentage of net sales was approximately 70% in both fiscal 1977 and fiscal 1976. Continuing efforts directed to product cost improvement and a favorable change in product mix resulted in the maintenance of a 30% gross profit rate in spite of some instances of adverse performance and the adoption, in fiscal 1977, of the last-in first-out (LIFO) method of inventory valuation for the non-U.S. subsidiaries. Product engineering increased 18% over the preceding year, reflecting a continued commitment to responding to present and future customer needs. The increase in selling, general and administrative expenses was due to expanded activities and the effects of inflation.

During fiscal 1977, a net currency translation gain of $1,136,000 was recorded as contrasted to a $2,031,000 net currency translation loss in fiscal 1976. This change, to a large extent, resulted from the effects of the adoption of the LIFO method for inventory valuation. There were exchange losses of $587,000 in fiscal 1977 compared to $1,279,000 in fiscal 1976. The decrease in exchange losses was attributable to the losses recorded in fiscal 1976 resulting from the Mexican peso devaluation.

Other costs and expenses increased $2,778,000 as compared to the previous year, primarily as a result of facility relocation costs of $1,976,000 and a loss on the sale of Task Corporation (629,000 pretax).

As a consequence of the aforementioned factors, fiscal 1977 net income was $48,215,000 as compared to $47,601,000 for fiscal 1976. Included in these consolidated results was net income from non-U.S. operations of $3,853,000 for fiscal 1977 versus $1,621,000 for fiscal 1976. The net income increase from non-U.S. operations was due to a current year net translation and exchange gain as compared to a loss last year. Improvements in the operating results in South Africa and Brazil only partially offset the effects of relocation costs for certain facilities and of sales volume decreases occurring principally in France, United Kingdom and Mexico.

JOY's backlog of unshipped orders at September 30, 1977 was $384,280,000 as compared to $489,181,000 at the beginning of the year as discussed by lines of business below. Of the current backlog, approximately 70% is shippable in fiscal 1978.

During fiscal 1977, short-term borrowings in Canada were replaced with a long-term note, thereby strengthening the capitalization structure of this subsidiary. Industrial revenue obligations of $4,300,000 were arranged to finance construction of a service center in Price, Utah and expansion of JOY's plants in Michigan City and Salt Lake City.

Mining systems equipment.

Increased production of coal mining equipment at our Robbins plant and in South Africa, a recovery in portable compressor business and price increases resulted in a net sales increase of 10%, or $34,628,000, over the fiscal 1976 level. In the U.S., the lack of a well defined energy policy, mine delays and production reductions due to increased restrictions caused by federal safety regulations, the effects of wild-cat strikes in the eastern U.S. and uncertainties surrounding the December, 1977 miners' contract termination all contributed to a lower level of bookings, some cancellations of existing orders and rescheduling of machine delivery into fiscal 1978. Net sales of non-U.S. subsidiaries registered a net gain for the year in spite of a volume decrease experienced in France, Poland and to some extent in the United Kingdom. Initial sales volume for the HEFTI was affected by the general state of the minerals and metals mining industry. Considerable interest in this new JOY-developed product is being expressed both in the U.S. and abroad and should result in better results for fiscal 1978.

Due to the aforementioned increased shipments and decline in bookings, backlog decreased 32% during the year.

Income before taxes was 13% of net sales as compared to 15% for fiscal 1976. An increase in income from U.S. operations resulted from the favorable effects of volume and pricing; however, excess costs associated with the Robbins plant shuttle car production, Claremont Foundry relocation ($202,000) start-up costs, the effects of low volume and escalating costs at the Claremont plant and increased start-up costs associated with the new Hard Rock Division, collectively had the effect of more than offsetting the increase in income. Income before income taxes for non-U.S. operating units declined approximately $1,000,000 primarily as a result of the combined effects of lower volume and relocation expenses in France and the United Kingdom. The factors contributing to the disappointing performance of the specific U.S. operating units are being reviewed and corrective actions are being planned and implemented. Corrective actions have been implemented with respect to the operations in the United Kingdom and an evaluation of the French operations is in progress.

Industrial and general products.

Net sales were $141,491,000 for fiscal 1977, a 9% increase over fiscal 1976. The growth in net sales was principally due to increased shipments of stationary and centrifugal compressors. The strike at New Philadelphia resulted in a $2,400,000 reduction in shipments originally scheduled for September.

Centrifugal compressor bookings for the year were steady while orders for other types of stationary compressors reflected a significant improvement. Fan business, both in the U.S. and Canada, decreased slightly due to a low level of commercial building construction and demand for mine fans. Year-end backlog was unchanged from the level at the beginning of the year.

Income before income taxes increased to 12% of net sales as compared to 11% in fiscal 1976, principally due to the aforementioned increase in net sales. The additional earnings resulting from improved cost performance for electrical products and the acquisition of Wheeling more than offset the loss on the sale of Task.

Ore processing and petroleum equipment.

Petroleum equipment net sales increased 9% whereas ore processing equipment sales decreased, principally in the non-U.S. operations, by 14%. Petroleum equipment bookings increased 44% over the preceding year as a direct consequence of an increased level of U.S. drilling activity and internal improvements made to meet the required delivery schedules. Ore processing equipment bookings decreased 6% as compared to the previous year because of the depressed minerals and metals mining market. The aforementioned factors contributed to a 17% net decrease in backlog during fiscal 1977.

Income before income taxes was 16% of net sales as compared to 18% in fiscal 1976. While the petroleum equipment products reflected greater income than in fiscal 1976, the ore processing equipment portion of the business reflected a decrease in income due to a decline in volume, lower margin orders and relocation expenses of $423,000.

Air pollution control equipment

Fiscal 1977 net sales were 6% greater than those of the preceding year in spite of a decline in non-U.S. markets. Although the level of customer inquiry remained relatively high in the year, bookings decreased 33% due largely to the uncertainty surrounding the direction of the U.S. energy policy. There is currently a good level of customer inquiry. Furthermore, it is expected that an improved market for our utility baghouses is emerging. Although the backlog was 10% less than that of the previous year-end due to the lower bookings level, fiscal 1978 sales levels are not expected to decline.

Income before income taxes was 18% of net sales versus 16% in fiscal 1976. The improvement was due to recovery of cost increases through escalation billings on some contracts, the ability to negotiate favorable prices on fabricated steel and significantly lower warranty costs. The results for the year also included a $461,000 charge for the relocation of our Canadian operations to Kitchener, Ontario.

Fiscal 1976 in comparison with fiscal 1975

Fiscal 1976 net sales increased 14% over the level experienced in fiscal 1975 principally as a result of a continued strong demand for JOY's products.

Increased levels of property additions were reflected in higher depreciation charges. Maintenance and repair costs were up 20% because of inflation and increased production activity. Payroll taxes increased 14% primarily due to the increases in benefits and the number of employees.

Cost of sales as a percentage of net sales were 70% versus 72% for fiscal 1975. The increased rate of gross profit was primarily due to the effects of product cost control and improvement, and improved sales price realization. Increases in selling, general and administrative expenses arising from increased activity and inflation as well as increases in JOY's continued commitment to invest in engineering research and development were reflected in the fiscal 1976 results when compared to fiscal 1975. The Mexican peso devaluation in fiscal 1976 was the primary cause for the increase of $1,268,000 in translation and exchange losses from fiscal 1975.

The interest expense reduction in fiscal 1976 reflected the lower short-term debt requirement following the 700,000 share common stock issue of May, 1 975. The effective book income tax rate for fiscal 1976 was 48.7% versus 47.0% for the previous year. Although there was a favorable increase in the investment tax credit for fiscal 1976, this was not enough to offset increased state taxes, the reduced DISC benefit, and the absence of miscellaneous fiscal 1975 nonrecurring favorable adjustments.

The increase in net income in fiscal 1976 reflected the aforementioned sales trends and generally a continuation of attention of product cost controls.

Mining systems equipment.

Fiscal 1976 net sales increased 23% over the level experienced in fiscal 1975 as a result of a significant increase in production rates and increases in prices. Shipment rates were increased particularly as a result of increased manufacturing capacity and the availability of a substantial backlog of orders. Backlog decreased 6% from the beginning of the year primarily as a result of the increase in shipping rate.

Income before income taxes was 15% of net sales for fiscal 1976 versus 14% for fiscal 1975. Although there were some adverse effects in fiscal 1976 of production inefficiencies, sales mix shifts, and start-up costs, these were more than offset by the overall increase in sales volume.

Industrial and general products.

Net sales of $130,172,000 were 13% greater than those of fiscal 1975. Improved pricing and an increased production level, in fans and compressors, were the primary causes of the increase. Backlog declined 2% in spite of an increase in the fiscal 1976 bookings rate.

Fiscal 1976 income before income taxes was 11% of net sales versus 8% for the preceding year. The increases in expense levels associated with compressor products were more than offset by the effects of the improved shipments. Income from fan and electrical products was also up over the preceding year due to the effects of improved marketing and better control over manufacturing costs.

Ore processing and petroleum equipment.

Fiscal 1976 net sales increased $9,031,000 or 12% over the fiscal 1975 level as a result of both price increases on ore processing equipment and an increased shipments rate for petroleum drilling equipment. Backlog for this line of business decreased 38% during the year. The ore processing bookings decrease reflected a depressed market both in the U.S. and to a lesser extent elsewhere. Petroleum equipment orders experienced a decline after the 1975 boom as customers reassessed their inventory needs in the light of market conditions.

Income before income taxes was substantially unchanged in spite of the gain in sales revenue. Ore processing realized the effects of price increases in income for the year by concurrent control over costs. Petroleum equipment income declined due to the fact that market conditions did not permit price increases commensurate with cost increases.

Air pollution control equipment.

The decline in fiscal 1976 net sales was primarily due to a lack of short turn-around business resulting from extreme price competition. Although new order bookings declined 22% in the year, ending backlog increased 19% as compared to a year ago.

The improvement in the rate of income before income taxes to 16% in fiscal 1976 from 7% in fiscal 1975 was principally due to the ability to realize procurement savings, a reduction in the number and severity of warranty claims and the ability to recover economic increases.

Description of Company's Business

ATI, INC. (SEP)

ABOUT THE COMPANY

ATI, Inc. is a contract packager, engaged primarily in manufacturing and packaging cosmetic, household, pharmaceutical and medicinal aerosol products for other concerns for sale by them under their own brand names. In addition, the company engages in liquid filling and in private label manufacturing and processing of cosmetics and toiletries. The products produced and packaged for customers include hair sprays, shaving creams, colognes and perfumes, roll-on, stick personal deoderants and anti-perspirants, mouth refreshers, room deodorants, multi-purpose cleaners, furniture waxes and polishes, starches and pharmaceutical and medicinal products.

In addition to contract packaging for other concerns, the Company also manufactures and sells a variety of its own proprietary products, consisting primarily of pharmaceutical, hospital and medicinal products, supplies and equipment, and automotive products. The automotive products such as starter fluids, solvents and refrigerants, are sold under the name "Surefire." The medicinal hospital and pharmaceutical products such as hospital antiseptics, surgical blades, water mattresses, stainless steel trays, and disinfectants, are sold under the name "Aeroceuticals."

The Company is engaged primarily in only one line of business. The following table shows the percentage of total sales attributable to each of the Company's major classes of products.

	Year Ended September				
	1977	1976	1975	1974	1973
Hair Spray	10%	10%	10%	15%	28%
Pharmaceutical and Medical Products(1)	7%	7%	8%	8%	4%
Other Personal Products	29%	29%	36%	33%	33%
Household Products	30%	30%	28%	34%	25%
Automotive	12%	—*	—*	—*	—*
Other(1)(2)	12%	24%	18%	10%	10%

(1)Includes the Company's own proprietary products.

(2)Includes the automotive products which account for less than 10% of the Company's total assets.

*Automotive products, as a percentage of sales, are included in the category "other" for the fiscal years 1973-1976.

COLGATE-PALMOLIVE COMPANY (DEC)

SCOPE OF BUSINESS

Colgate-Palmolive Company is a leading manufacturer and distributor of consumer laundry, cleaning, personal care, food, health care, nonwoven fabrics, cosmetics and sports products. Worldwide net sales contributed by the Company's business segments over the past five years are shown below (Thousands of Dollars):

	1977	1976	1975	1974	1973
Laundry and cleaning, personal care and leisure	$2,847,500	$2,665,769	$2,519,410	$2,265,609	$1,859,708
Food	518,983	435,084	433,662	406,271	245,896
Health care and nonwovens	470,721	410,639	358,974	363,660	347,407
	$3,837,204	$3,511,492	$3,312,046	$3,035,540	$2,453,011

Major products contributed the following percentages of worldwide sales for the five most recent years.

	1977	1976	1975	1974	1973
Included in laundry and cleaning, personal care and leisure:					
Laundry and dishwashing detergents	24%	26	25	25	26
Oral products	12	12	12	13	14

The prominent products included in each segment are as follows:

Laundry and cleaning, personal care and leisure—Laundry and dishwashing detergents, toothpaste, bar soaps, cleansers, cleaners, hair and shave products, cosmetics and fashion accessories, adhesive bandages, cloth and disposable diapers, plastic wraps, golf clubs, shoes, balls and accessories, hobby products, sports clothing and uniforms, tennis rackets, balls, shoes and accessories, racquetball racquets and supplies.

Food—Rice and rice products, restaurant business, meats and candy.

Health care and nonwovens—Health care supplies and equipment, nonwoven fabrics, pipeline coverings, specialty cotton and rayon.

Throughout the world, Company products are sold under conditions that are regarded as highly competitive. Success in the consumer fields is based primarily upon product quality, brand acceptance, and marketing capabilities while success in the health care and nonwoven markets is dependent upon technical competence.

MERCK & CO., INC. (DEC)

DESCRIPTION OF MERCK'S BUSINESS

Merck is a worldwide organization engaged primarily in the business of discovering, developing, producing, and marketing products and services for the maintenance or restoration of health. The Company offers more than 1,000 products in its health business.

Human and Animal Health products include a wide range of the therapeutic and prophylactic agents which are generally sold by prescription for the treatment of human disorders; a number of therapeutic and prophylactic agents for the control and alleviation of disease in livestock and poultry; and other products, most of which are for human and animal consumption.

Human and animal health products contributed 84% to total Company sales in 1977 and 1976, 85% in 1975, 84% in 1974, and 85% in 1973. Human pharmaceutical products accounted for 69% of Company sales in 1977, with the antihypertensive and cardiovascular products, of which *Aldomet* is the largest, contributing 27%; and the anti-inflammatory products, including steroids and non-steroids, of which *Indocin* is the largest, 19%. The Company also markets other prescription pharmaceuticals in a wide range of other therapeutic classes, including vaccines, biologicals, and psychotherapeutics. Prescription products are sold principally in dosage forms and promoted to the medical professions. Other products include vitamins, antibiotics, narcotics, and other fine chemicals sold in bulk to other manufacturers.

Important animal medicinal products, which as a group provided 8% of Company sales in 1977, include anthelmintics—of which *Thibenzole*, a worming agent, is the largest—and coccidiostates, for the treatment of poultry disease—of which *Amprol* is the largest. These medicinals are used extensively in the commercial production of livestock and poultry.

Other human and animal health products include poultry breeding stock and food additives.

Sales of the Company's prescription drug products are promoted by approximately 3,700 professional service employees throughout the world, who call on physicians and others concerned with the distribution and use of such products. Outside the U.S. the Company also uses independent representatives. Sales of prescription drug products, however, are made primarily to drug wholesalers and retailers, hospitals, clinics, and other institutions. Sales of other human and animal health products are made through various channels of trade. Specialized technical personnel are available to assist customers regarding most products.

Environmental Health products and services for the treatment of water and air pollution, which include granular activated carbon and various specialty chemicals, accounted for 16% of sales in 1977 and 1976, 15% in 1975, 16% in 1974, and 15% in 1973. The Company also manufactures and sells water temperature regulating equipment. In addition, the Company markets miscellaneous chemical products used in the manufacture of paints and paper and in oil field drilling. Sales of these products and services are made through and to many channels of trade, including retailers, contractors, manufacturers, municipalities, utilities, and other industrial users. Specialized technical personnel are available to assist customers regarding most of the products. Water temperature regulating products are sold primarily through independent manufacturers' representatives.

Foreign Operations. The Company's operations outside the United States are conducted primarily through subsidiaries and have grown over the years. Sales outside of the United States, including export sales to overseas markets, amounted to 48% of sales in 1977, 46% in 1976, 48% in 1975, and 47% in 1974 and 1973. The majority of such business resulted from the sale of products manufactured in the United States and Puerto Rico and shipped abroad for further manufacture into finished products at facilities located in foreign countries. The Company's worldwide business is subject to risks of adverse governmental actions, including possible nationalization, expropriation, and other governmental action abroad. Changes in the value of currencies take place from time to time. The transfer of profits from foreign subsidiaries is subject to the availability of dollar exchange and to restrictive regulations of certain foreign governments. The Company does not regard these factors as a deterrent to further expansion of its operations abroad.

MOSINEE PAPER CORPORATION (DEC)

DESCRIPTION OF THE BUSINESS

Mosinee Paper Corporation is a multi-division producer of paper and paper products. Included are papers for coffee filters, masking tapes, towels and towelettes, plus release papers, transformer papers, protective food papers, flame-retardant construction papers, and laminated industrial wrappers. In connection with paper towel products, the company leases or sells paper toweling dispensers and markets a windshield wiper solvent. A plastics division makes various plastic items including bottles, disposable hospital supplies, and wheels. Important to its papermaking operation is the 87,000 acres of company-owned timberlands. Additional pulpwood is provided by the company's forest operations in South Dakota, which also produces pine lumber.

REPUBLIC STEEL CORPORATION (DEC)

NATURE AND SCOPE OF BUSINESS . . .

Republic Steel Corporation, a major integrated steel company in the United States, produces a diversified line of steel mill products and a variety of fabricated steel products. Its markets include the principal domestic steel consuming industries. Steel mill products are produced in carbon steel grades as hot and cold rolled sheet and strip, galvanized and electroplated sheets, semi-finished steels, hot rolled and cold finished bars, welded and seamless pipe and tubing, wire and plates.

In addition, Republic produces sheet and strip, bars, plates, wire, pipe and tubing in alloy and stainless steel grades. The principal fabricated products include culverts, steel building products, shelving, lockers, containers and other contract manufacturing.

Steel products, which constitute the dominant line of business, accounted for substantially all of Republic's sales, operating profit and identifiable assets in 1977. Republic produces substantially all of the steel used in its fabricating operations.

Republic also has raw material reserves, principally for its own use, of iron ore, coal and limestone. Republic has a 50 percent interest in Reserve Mining Company, a major domestic producer of taconite pellets.

Republic steelmaking facilities are located at Cleveland, Warren and Canton, Ohio; Chicago, Illinois; Buffalo, New York and Gadsden, Alabama. Major finishing mills are also located in these communities and in Youngstown, Niles and Massillon, Ohio.

Market Price and Dividend Data

AEL INDUSTRIES, INC. (FEB)

MARKET PRICE PER SHARE OF COMMON STOCK

The Company's common stock, consisting of non-voting Class A common stock and Class B common stock, are both traded on the over-the-counter market. Class B common stock is infrequently traded and, therefore, the over-the-counter "Bid" and "Ask" prices set forth below relate primarily to transactions in the non-voting Class A common stock. Each share of Class B common stock is convertible into one share of Class A common stock. The over-the-counter price is an inter-dealer quotation, which does not include retail markup, markdown, or commission, and may not reflect actual sales prices. The Company has paid no dividends during these periods.

	High		Low	
	Bid	Ask	Bid	Ask
FISCAL 1976—				
First Quarter	1⅞	2⅛	⅞	1⅛
Second Quarter	2⅜	2¾	1⅛	1⅜
Third Quarter	1½	1⅞	¾	1⅛
Fourth Quarter	2	2⅜	⅝	1
FISCAL 1977—				
First Quarter	2	2⅜	1¼	1⅝
Second Quarter	1¼	1⅝	1	1⅜
Third Quarter	2½	2⅞	1⅛	1½
Fourth Quarter	4	4⅜	2¼	2⅝

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

FINANCIAL REVIEW

Stock Price and Dividend Review

The common stock of American Maize-Products Company is traded on the American Stock Exchange. The quarterly range of prices and dividends per share during the last two years were as follows:

	Market Price per Share				
	Class A		Class B		Dividends
1977	High	Low	High	Low	per Share
First Quarter	$10⅝	$ 8½	$10½	$ 8½	$.10
Second Quarter	9⅛	7⅝	9	7	.10
Third Quarter	8⅜	7¼	8¼	7½	.11
Fourth Quarter	8⅞	7½	8¾	7½	.11
Total					$.42
1976					
First Quarter	$16⅝	$11⅞	$15¾	$11⅝	$.10
Second Quarter	13⅞	11	13⅝	10¾	.10
Third Quarter	14	8½	13⅝	8½	.10
Fourth Quarter	10⅞	7½	10½	7½	.10
Total					$.40

WALT DISNEY PRODUCTIONS (SEP)

MARKET AND DIVIDEND INFORMATION

The principal market for trading Walt Disney Productions common stock is the New York Stock Exchange. Market and dividend data for the last two fiscal years are listed below:

	Market Price*		
1977	High	Low	Dividends
First quarter	$49¼	$39⅞	$ .03
Second quarter	47⅝	33⅞	.04
Third quarter	37⅝	32⅛	.04
Fourth quarter	41½	35½	.04
Year	49¼	32⅛	.15
1976			
First quarter	50⅝	39⅝	.03
Second quarter	61⅛	48⅝	.03
Third quarter	60⅞	48½	.03
Fourth quarter	55¼	45¾	.03
Year	61⅛	39⅝	.12

*Adjusted for stock dividends

JOHN FLUKE MFG. CO., INC. (SEP)

PRICE RANGE OF JOHN FLUKE MFG. CO., INC. STOCK

Quarter	High	Low
October 1975-December 1975	12⅛	10
January 1976-March 1976	17⅞	11⅞
April 1976-June 1976	17⅜	13⅛
July 1976-September 1976	16¾	15¼
October 1976-December 1976	15⅞	13⅛
January 1977-March 1977	17⅛	15
April 1977-June 1977	16	14½
July 1977-September 1977	19	14

John Fluke Mfg. Co., Inc. stock is traded on the American and Pacific Stock Exchanges. Stock dividends totaling 5% were paid in 1974, 1975, 1976 and 1977. Stock dividends of 3% per year were paid from 1968 through 1973. A two for one stock split was paid in July 1976. Prices listed above have been adjusted to reflect the effect of the split.

SEGMENT INFORMATION

Effective for fiscal years beginning after December 15, 1976, *Statement of Financial Accounting Standards No. 14* requires that financial statements presented in conformity with generally accepted accounting principles include specified information relating to a reporting entity's: operations in different industries, foreign operations and export sales, and major customers. Statement No. 14 describes the information to be presented and the formats for presenting such information. *Statement of Financial Accounting Standards No. 21*, issued in April 1978, amends Statement No. 14 by stating that the requirements of Statement No. 14 do not apply to nonpublic enterprises.

Table 1-3 shows the type of segment information most frequently presented as an integral part of the 1977 financial statements of the survey companies. In addition to the information tabulated in Table 1-3, the following segment information was disclosed by the survey companies:

total foreign revenue — 95 companies
total foreign identifiable assets— 53 companies
export sales — 59 companies
sales to major customers — 59 companies

Since Statement No. 14 was effective for fiscal years beginning after December 15, 1976, approximately 40% of the survey companies were not required to present segment information as an integral part of their financial statements. Examples of segment information disclosures follow.

TABLE 1-3: SEGMENT INFORMATION

	Industry Segments	Geographic Areas
Revenue	324	169
Operating income or loss	287	118
Identifiable assets	307	161
Depreciation expense	303	19
Capital expenditures	299	19

Industry Segments

AMAX INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 20: Industry Segments—Information pertaining to sales, earnings from operations and assets by industry segment for the year 1977 appears on page 29.

PAGE 29

AMAX Ten-Year Financial Summary—By Business Segments

(amounts for 1972-1968 omitted)
For the Year
(dollars in millions)

	1977	1976	1975	1974	1973
Sales					
Molybdenum, nickel and specialty metals	$ 451	$ 337	$ 242	$ 240	$ 179
Base metals(1)	382	398	331	639	571
Fuels	320	284	239	174	134
Iron ore	111	97	99	78	60
Chemicals	56	53	51	36	22
Forest products	18	2	—	—	—
Total sales(2)	$1,338	$1,171	$ 962	$1,167	$ 966
Earnings from operations before income taxes					
Molybdenum, nickel and specialty metals	$ 93	$ 82	$ 40	$ 33	$ 31
Base metals(1)	27	27	26	90	67
Fuels	35	41	44	13	7
Iron ore	32	28	37	29	38
Chemicals	14	16	22	15	6
Forest products	1	—	—	—	—
Unallocated corporate expenses	(33)	(35)	(33)	(36)	(24)
Earnings from operations before income taxes	$ 169	$ 159	$ 136	$ 144	$ 125
Assets					
Molybdenum, nickel and specialty metals	$1,099	$ 980	$ 751	$ 505	$ 339
Base metals	520	517	478	369	317
Fuels	619	537	448	310	250
Iron ore	222	212	207	173	168
Chemicals	44	33	27	18	17
Forest products	96	90	—	—	—
Unallocated corporate assets	396	430	561	398	564
Total assets	$2,996	$2,799	$2,472	$1,773	$1,655
Capital expenditures and investments					
Molybdenum, nickel and specialty metals	$ 101	$ 185	$ 222	$ 156	$ 61
Base metals	43	41	99	77	111
Fuels	195	180	132	90	67
Iron ore	20	17	47	33	11
Chemicals	8	8	4	1	1
Forest products	6	88	—	—	—
Corporate	20	12	31	51	3
Total capital expenditures and investments	$ 393	$ 531	$ 535	$ 408	$ 254
Depreciation and depletion					
Molybdenum, nickel and specialty metals	$ 26	$ 14	$ 11	$ 8	$ 10
Base metals	21	22	13	9	7
Fuels	29	25	21	17	14
Iron ore	11	11	12	10	5
Chemicals	2	1	1	1	1
Forest products	2	—	—	—	—
Corporate	3	2	1	1	1
Total depreciation and depletion	$ 94	$ 75	$ 59	$ 46	$ 38

(1)In 1975, AMAX began recording results from certain commodity exchange sale and purchase transactions as a single net item to improve reporting of the relationship between sales and costs of sales. Previously, each transaction was recorded as a purchase or sale. Both sales and costs include $124 million in 1974, and $169 million in 1973 applicable to such transactions; the amounts applicable to prior years were not significant. This change had no effect on net earnings. Fees and commissions and compensation from RCM have been included as part of Base Metals.

(2)Sales of molybdenum, coal and copper (excluding charges for copper toll refining and copper commodity exchange transactions) to total sales for the last five years were as follows

	1977	1976	1975	1974	1973
Molybdenum	26%	24%	20%	18%	16%
Coal	22	22	24	12	10
Copper	17	15	11	17	17

(3)Descriptions of the industry segments appear elsewhere in this report. Exploration expenditures have been allocated to each segment and prior years have been restated. Corporate assets are principally cash and equivalent and investments in Alumax Inc. and other companies.

AMERICAN BILTRITE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J: Industry Segments—The Company operates in three principal industries; industrial rubber and plastics, footwear and flooring. The Industrial Division principally manufactures industrial and fire hose, garden and automotive hose, sheet rubber packing, matting, pressure sensitive tape, and flat belts. These products are marketed through distributors as well as directly to original equipment manufacturers and end users. The Footwear Division produces and markets heels and soles, selling to shoe manufacturers and through distributors to shoe repair shops. Sheet vinyl and vinyl abestos floor coverings are manufactured by the Flooring Division with distribution primarily through floor covering distributors, retailers and contractors for commercial and residential use. The Company has a Canadian subsidiary which manufactures and markets products in each of the above industries.

Following is a tabulation of the 1977 business segment data:

Business Segments	Net Sales and Other Income	Operating Losses	Identifiable Assets	Depreciation Expense	Capital Expenditures
			(In thousands)		
Industrial products	$ 95,074	($5,505)	$ 55,310	$2,250	$4,421
Footwear products	51,414	(666)	20,485	1,345	894
Flooring products	50,979	(3,436)	35,537	1,364	1,620
Sales elimination	(4,510)				
	192,957	(9,607)*	111,332	$4,959	$6,935
Corporate other income	219	219			
	$193,176				
Investment in affiliates			4,680		
			$116,012		
General corporate expenses		(596)			
Interest expense		(3,941)			
		($13,925)			

*Includes provision for plant shutdown and product line rearrangement of $6,587 which affects the segments as follows: Industrial $3,020, Footwear $657 and Flooring $2,910.

Amounts included in the above segment information relating to the Company's Canadian subsidiary are summarized as follows:

Net sales and other income	$23,667
Sales elimination	237
Sales to unaffiliated customers	$23,430
Operating (loss)	($ 606)
Identifiable assets	12,857
Depreciation expense	537
Capital expenditures	1,157

Intersegment and interarea sales are accounted for at prices which generally approximate cost. Operating profit is total revenue less operating expenses, excluding interest and general corporate expenses. Identifiable assets by industry includes both assets directly identified with those operations and an allocable share of jointly used assets.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14: Business Segments—Information about the Company's operations in different businesses for the years ended December 31, 1977 and 1976 is as follows (See Note 17 regarding discontinuance of Furnishings business and Note 18 regarding dispositions of certain operating units.):

(in thousands of dollars)	Building Materials	Papers and Milk Cartons	Paper Packaging Products	Eliminations	Consolidated
Net Sales to Unaffiliated Customers:					
1977	$1,548,000	$1,056,918	$521,703	$ —	$3,126,621
1976	1,459,956	1,078,218	541,172	—	3,079,346
Intersegment Net Sales:					
1977	$ 27,660	$ 1,395	$ 304	$(29,359)	$ —
1976	22,522	980	—	(23,502)	—
Total Net Sales:					
1977	$1,575,660	$1,058,313	$522,007	$(29,359)	$3,126,621
1976	1,482,478	1,079,198	541,172	(23,502)	3,079,346
Segment Income from Operations:					
1977	$ 134,249	$ 134,753	$ 55,299	$ 24	$ 324,325
1976	100,566	126,995	71,139	285	298,985
Identifiable Assets:					
1977	$ 678,755	$ 780,067	$342,120	$ —	$1,800,942
1976	626,371	818,481	339,032	(4)	1,783,880
Capital Expenditures:					
1977	$ 57,251	$ 85,658	$ 40,185	$ —	$ 183,094
1976	25,193	77,228	16,553	—	118,974
Depreciation Expense and Cost of Timber Harvested:					
1977	$ 44,530	$ 42,691	$ 22,186	$ —	$ 109,407
1976	40,454	39,145	21,901	—	101,500

Information about the Company's operations in different geographic areas for the years ended December 31, 1977 and 1976 is as follows (See Note 17 regarding discontinuance of Furnishings business and Note 18 regarding dispositions of certain operating units.):

(in thousands of dollars)	U.S.	Canada	All Other	Eliminations	Consolidated
Net Sales to Unaffiliated Customers:					
1977	$2,646,898	$356,603	$123,120	$ —	$3,126,621
1976	2,522,752	330,215	226,379	—	3,079,346
Intersegment Net Sales:					
1977	$ 2,403	$ 6,902	$ 1,042	$(10,347)	$ —
1976	4,564	10,179	1,092	(15,835)	—
Total Net Sales:					
1977	$2,649,301	$363,505	$124,162	$(10,347)	$3,126,621
1976	2,527,316	340,394	227,471	(15,835)	3,079,346
Segment Income from Operations:					
1977	$ 282,252	$ 20,101	$ 21,988	$ (16)	$ 324,325
1976	262,232	24,132	12,465	156	298,985
Identifiable Assets:					
1977	$1,455,719	$198,641	$146,729	$ (147)	$1,800,942
1976	1,354,084	181,503	248,393	(100)	1,783,880
Capital Expenditures:					
1977	$ 165,233	$ 8,655	$ 9,206	$ —	$ 183,094
1976	71,364	5,286	42,324	—	118,974
Depreciation Expense and Cost of Timber Harvested:					
1977	$ 92,785	$ 10,112	$ 6,510	$ —	$ 109,407
1976	84,649	10,252	6,599	—	101,500

A reconciliation of the segment's information to consolidated amounts is as follows:

(in thousands of dollars)	(Years Ended December 31) 1977	1976
Consolidated segments' income from operations	$ 324,325	$ 298,985
General corporate expense	(38,555)	(27,615)
Consolidated income from operations	285,770	271,370
Equity in net income (loss) from real estate and 50% or less owned affiliates	4,491	(114)
Interest and debt expense (net of interest capitalized)	(53,725)	(58,973)
Other income (expense)—net	11,756	2,175
Income before income taxes—continuing operations	$ 248,292	$ 214,458
Consolidated segments' identifiable assets	$1,800,942	$1,783,880
Equity in and advances to real estate and 50% or less owned affiliates (exclusive of immaterial vertically integrated operation)	6,761	24,018
Timber, timberlands and corporate assets	656,954	756,590
Total assets	$2,464,657	$2,564,488
Consolidated segments' capital expenditures	$ 183,094	$ 118,974
Timber, timberlands and corporate capital expenditures	55,628	49,608
Total capital expenditures	$ 238,722	$ 168,582
Consolidated segments' depreciation expense and cost of timber harvested	$ 109,407	$ 101,500
General corporate depreciation expense	1,445	1,325
Total depreciation expense and cost of timber harvested	$ 110,852	$ 102,825

(a) Intersegment net sales are made at prevailing market prices. The majority of Building Materials' Intersegment net sales consists of pulp and chip sales to the Papers and Milk Cartons and Paper Packaging Products segments. Sales to foreign customers or to a single customer are insignificant. The accounting policies described in Note 1 are also applicable to the Company's business segments.

(b) Corporate identifiable assets and capital expenditures include the assets and capital expenditures of the Company's timber and timberlands operations and the discontinued Furnishings business. General corporate expenses are principally administrative and general expenses.

The Company's timber and timberlands assets (and capital expenditures) support all segments, but were not allocated to the various segments because the identification of the specific timber and timberlands assets associated with any one segment is impossible to determine and any allocation of these assets to the segments would be arbitrary. The timber that has been harvested and transferred as logs or pulpwood to the various business segments has been included in the operating results of the segments at cost.

(c) Net income before minority interest of the Company's foreign operations for 1977 and 1976 was $20,991,000 and $5,656,000, respectively, of which $11,091,000 and $11,073,000, respectively, was attributable to the Company's Canadian operations.

Net income after minority interest of the Company's foreign operations for 1977 and 1976 was $17,373,000 and $4,290,000, respectively, of which $7,899,000 and $7,858,000, respectively, was attributable to the Company's Canadian operations.

COLT INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9: Segment Information—The company's operations are conducted through divisions within five industry segments consisting of:

Industrial and Power Equipment—fabricated metal products, weighing systems, industrial diesel engines and accessories, compressors, machine tools and measuring equipment, transformers and firearms.

Materials—specialty carbon and low-alloy steels, stainless and other special-purpose steels.

Fluid Control Systems—automotive carburetors, pumps and aerospace fuel systems and controls.

Industrial Seals and Components—gaskets, packings, valves, and other devices to prevent leakage and seal out contaminants.

Shock Mitigation Systems—aircraft landing gear and other shock mitigation and flight control systems.

Information on the company's industry segments for the year ended December 31, 1977 is as follows (in millions):

Industry Segments	Sales	Operating Income	Total Assets	Depreciation and Amortization	Additions to Properties
Industrial and power equipment	$ 453	$ 48.2	$ 296	$ 8.0	$14.6
Materials	582	42.8	375	15.9	18.7
Fluid control systems	238	35.4	101	5.9	3.8
Industrial Seals and Components	206	25.3	177	5.6	6.9
Shock Mitigation Systems	77	11.0	65	1.5	2.0
Intersegment elimination	(31)	—	—	—	—
Total segments	1,525	162.7	1,014	36.9	46.0
Interest expense	—	(25.3)	—	—	—
Interest income	—	5.4	—	—	—
Corporate unallocated	—	(13.6)	98	.2	.1
Net sales, earnings before income taxes, and total assets	$1,525	$129.2	$1,112	$37.1	$46.1

Information on the company's operations by geographic segments for the year ended December 31, 1977 is as follows (in millions):

Geographic Segments	Sales	Earnings Before Income Taxes	Total Assets
Domestic operations	$1,404	$123.2	$1,044
Foreign operations	138	6.0	132
Intersegment elimination	(17)	—	(64)
Total consolidated	$1,525	$129.2	$1,112

CUTLER-HAMMER, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14: Industry Segment Information—The description of the industry segments of Cutler-Hammer is contained on pages 32 to 35 of this report. Intersegment and export sales are not material in relation to consolidated revenues. Income from operations represents net sales less operating expenses. Approximately 25 percent of consolidated sales are for products sold to the United States Government. Financial information by segments is presented below:

	Sales	Operating Income	Assets	Provision For Depreciation	Capital Expenditures
			(In Millions)		
Industrial control	$187.5	$26.3	$138.8	$2.8	$ 4.3
Specialty products	115.0	16.7	60.4	2.9	4.9
Instruments and systems	126.8	13.2	46.9	1.5	1.5
Construction apparatus	87.7	8.9	44.6	.9	2.1
	517.0	65.1	290.7	8.1	12.8
Unallocated items:					
Corporate	—	(8.1)	44.2	.5	2.1
Interest expense, net	—	(6.7)	—	—	—
Other	—	(3.5)	—	—	—
Consolidated	$517.0	$46.8	$334.9	$8.6	$14.9
Foreign operations (included above—principally industrial control)	$ 84.3	$ 5.0	$ 75.6	$1.4	$ 2.3

The foreign operations of the Company are widely dispersed in Europe, Africa, North and South America and the Pacific Far East, none of which individually is material in relation to consolidated revenues or assets employed. The effect of foreign currency fluctuations on cost of sales, amounting to $1.6 million, has been charged to foreign operations.

Corporate items include general corporate management costs, interest income, interest expense, and income related to corporate assets. Corporate assets include cash and marketable securities, the $30.5 million investment in Leeds & Northrup Company, investments in nonconsolidated affiliates, and fixed assets primarily used for corporate purposes.

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note N: Geographic and Industry Segments—In accordance with the requirements of Financial Accounting Standard No. 14, somewhat expanded segment information is presented for 1977. Comparative data on the basis previously presented, which is unaudited, appears on pages 20, 21, and 30.

The Company conducts its worldwide operations through separate geographic area organizations which represent major markets or combinations of related markets. Those areas and their results for 1977 were (in millions):

	United States	Europe/ Africa	Latin America	Canada	Pacific	Eliminations and Corporate Assets	Consolidated
Twelve months ended December 31, 1977:							
Sales to unaffiliated customers	$3,456.8	$1,618.6	$467.8	$396.4	$294.7		$6,234.3
Transfers between areas	534.8	77.7	1.0	25.4	.2	$(639.1)	
Total sales and transfers	$3,991.6	$1,696.3	$468.8	$421.8	$294.9	$(639.1)	$6,234.3
Operating income	$ 654.6	$ 200.5	$ 53.9	$ 64.8	$ 38.0		$1,011.8
Profit before income taxes	$ 621.7	$ 194.1	$ 26.6	$ 47.8	$ 43.1		$ 933.3
Identifiable assets at December 31, 1977	$3,952.2	$1,932.5	$686.8	$697.6	$362.3	$ 43.8	$7,675.2

Transfers between areas are valued at cost plus a markup.

There were no direct sales to foreign customers from domestic operations. However, products exported from the United States and sold by the other areas amounted to $602 million in 1977 compared with $567 million in 1976. These amounts exclude exports of intermediate products valued at $109 million in 1977 and $100 million in 1976.

During 1977 two new areas were designated: Brazil and Middle East/Africa. It is anticipated results for the new areas will be reported separately beginning in 1978.

Aggregation of products into industry segments is generally made on the basis of process technology and channels of distribution. The Chemicals/Metals segment embodies chemicals, hydrocarbon intermediates and the Company's magnesium business. The Plastics/Packaging segment includes large volume polyethylene and polystyrene products as well as a variety of plastic coatings, films and foams. The Bioproducts/Consumer Products segment encompasses human, animal and plant health care products, in addition to household films and cleaning chemicals.

Industry segment results for 1977 were (in millions):

	Chemicals/ Metals	Plastics/ Packaging	Bioproducts/ Consumer Products	Eliminations and Corporate Assets	Consolidated
Twelve months ended December 31, 1977:					
Sales to unaffiliated customers	$3,332.8	$2,146.2	$755.3		$6,234.3
Intersegment transfers	711.8	31.2	3.4	$(746.4)	
Total sales and transfers	$4,044.6	$2,177.4	$758.7	$(746.4)	$6,234.3
Operating income	$ 597.9	$ 370.6	$ 43.3		$1,011.8
Identifiable assets at December 31, 1977	$4,177.2	$1,844.5	$808.3	$ 845.2	$7,675.2
Depreciation	$ 321.7	$ 112.8	$ 44.1		$ 478.6
Additions to property	$ 837.4	$ 262.1	$ 63.5		$1,163.0

Transfers between industry segments are generally valued at standard cost.

DRAVO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment reporting—Information about the company's business segments and geographical areas of operation is provided on pages 29 and 30 of this report. 1977 financial data and segment descriptions on these pages are incorporated by reference in these notes.

Income contribution by segment or geographical area is total revenue less operating expenses, excluding: general corporate expenses, interest expense, interest income, income on sales between segments or geographical areas, income taxes and net earnings or losses of nonoperating subsidiaries including Dravo Leasing Company.

Tangible and intangible assets identified to a segment or geographical area, including an allocation of those that are jointly used, represent the assets employed in the operation of each segment. Cash, marketable securities, and other assets that are controlled and held for general corporate needs are included as corporate items.

Financial Review: Business Segments

Revenue and income contribution (In millions)	1977	1976	1975	1974	1973
Revenue:					
Engineering Construction	$529.7	$504.1	$502.8	$326.4	$237.8
Manufacturing	200.7	173.9	156.7	121.5	106.0
Natural Resources	36.8	31.0	21.2	19.6	18.6
Equipment	77.8	56.0	57.4	53.2	43.5
Transportation	47.0	47.3	39.2	41.7	28.1
Intersegment items	(39.8)	(77.3)	(27.7)	(22.8)	(18.5)
Total revenue	$852.2	$735.0	$749.6	$539.6	$415.5
Income contribution:					
Engineering Construction	$ 25.5	$ 22.7	$ 17.2	$ 18.6	$ 2.2
Manufacturing	15.0	12.5	10.0	1.3	10.0
Natural Resources	1.0	(1.1)	1.4	1.7	4.7
Equipment	3.5	2.3	4.5	4.4	2.0
Transportation	1.2	5.1	1.5	4.2	4.1
Interest expense	(8.2)	(8.0)	(10.7)	(9.1)	(4.1)
Intersegment and corporate items	(8.1)	(7.6)	(3.2)	(2.7)	(4.8)
Total pretax income	$ 29.9	$ 25.9	$ 20.7	$ 18.4	$ 14.1

Business segments

Dravo operates within five segments—Engineering Construction, Manufacturing, Natural Resources, Equipment and Transportation. The nature of the business and products and the current activity of each segment are described on pages 7 through 24. Management's analysis of revenue and earnings, on page 28, provides additional information on segment operating results.

Revenue shown by segment includes both sales to nonaffiliated customers, as reported on the company's consolidated statement of income, and intersegment sales, which are principally at competitive market price. Intersegment sales for 1977, totaling $39.8 million, are comprised of $3.4 million in Engineering Construction, $33.1 million in Manufacturing, $2.9 million in Equipment and $.4 million in Transportation revenues.

Revenue of Engineering Construction, while in excess of 50 percent of consolidated revenue, reflects the segment's efforts in the marketing of engineering and construction services throughout the world. Application of these talents is not limited to any particular area and typically encompasses many different types of projects from year to year. In 1977, revenue of this segment includes $168.9 million from contract activity with a customer engaged in the processing of iron ore for the steel industry.

Other segment information

(In millions)	Assets Employed as of December 31, 1977	Capital Expenditures 1977	Depreciaton and Amortization 1977
Engineering construction	$ 90.7	$ 2.4	$ 4.0
Manufacturing	61.8	1.9	2.6
Natural Resources	82.1	3.5	3.3
Equipment	52.0	.9	.6
Transportation	74.0	8.8	3.7
Intersegment and corporation items	35.1	(2.1)	.4
Total	$395.7	$ 15.4	$ 14.6

Operations by geographic areas

(In millions)	Revenue 1977	Income Contribution 1977	Assets Employed as of December 31, 1977
United States	$680.6	$ 34.1	$325.6
Foreign	171.6	10.4	22.6
Corporate items	—	(14.6)	47.5
Total	$852.2	$ 29.9	$395.7

Operations by geographic areas

Dravo conducts business on a worldwide scale by (a) exporting from the United States principally its engineering, technology and construction management services, fabricated and manufactured products, and constructor's equipment; (b) by construction operations in foreign areas; and (c) by operations of subsidiary companies in foreign areas. During 1977, Dravo's international business activities, conducted in about 30 foreign nations, produced revenue of $248 million compared to $154 million in 1976. This includes $76 million of exports in 1977 to nonaffiliated customers and nearly $172 million of revenue from foreign operations.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Industry segments—The Financial Accounting Standards Board in December, 1976 issued Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise" (FASB 14). FASB 14 requires FMC to report for fiscal years beginning after December 15, 1976 information about the components of FMC's operations engaged in providing related products (referred to as industry segments), its foreign operations, export sales and major customers. Information about foreign operations and export sales is presented in Note 13.

FMC operates worldwide in six industry segments: Food and Agricultural Machinery and Chemicals; Industrial Chemicals; Material and Natural Resource Handling Equipment; Construction and Power Transmission Products; Government and Municipal Equipment; and Special Products. The operations in each of these segments are described on pages 6 and 7 of this annual report.

Sales of industry segments include both sales to unaffiliated customers and intersegment sales which are recorded at normal selling prices. Such intersegment sales are not significant to the total revenue of any individual industry segment. Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items has been added or deducted: general corporate income and expenses, interest expense, income taxes, equity in net earnings of affiliated companies, loss from discontinued operations, or minority interest. Identifiable assets by industry segment are those assets that are used in FMC's operations in each segment. Corporate assets are principally marketable securities and investments in affiliated companies.

No single customer accounted for more than 10% of sales, except sales to various agencies of the U.S. Government which in the aggregate totaled $232,067,000 in 1977 and $261,278,000 in 1976. These sales are made primarily by the Government and Municipal Equipment operations.

Operations by industry segment
(Dollars in thousands)

	Food and agricultural machinery and chemicals	Industrial chemicals	Material and natural resource handling equipment	Construction and power transmission products	Government and municipal equipment	Special products	Eliminations	FMC consolidated
Year ended December 31, 1977:								
Sales	$406,773	$582,429	$540,503	$351,986	$348,427	$84,941	$(22,844)	$2,292,215
Operating profit......	$ 32,672	$113,162	$ 44,193	$ 11,552	$ 44,879	$ 4,614	$ 2	$ 251,074
Other*								(47,255)
Income before income taxes.............								$ 203,819
Identifiable assets....	$381,578	$506,492	$318,998	$324,613	$120,955	$47,558	$ (773)	$1,699,421
Corporate assets.....								422,122
Total assets at December 31, 1977								2,141,533
Depreciation	$ 14,971	$ 34,193	$ 8,805	$ 12,558	$ 4,371	$ 1,723		
Capital expenditures.	$ 47,278	$ 58,923	$ 20,706	$ 25,680	$ 11,332	$ 2,769		
Year ended December 31, 1976:								
Sales	$374,443	$523,356	$497,598	$319,680	$312,711	$73,840	$(35,751)	$2,065,877
Operating profit......	$ 24,354	$137,780	$ 41,636	$ 8,993	$ 31,491	$ 1,389	$ 418	$ 246,061
Other*								(55,625)
Income before income taxes.............								$ 190,436
Identifiable assets....	$292,028	$422,846	$285,323	$289,165	$103,658	$46,725	$ (948)	$1,438,797
Corporate assets.....								480,756
Total assets at December 31, 1976								$1,919,533
Depreciation	$ 12,000	$ 28,335	$ 6,292	$ 8,993	$ 3,469	$ 1,370		
Capital expenditures.	$ 49,475	$ 24,463	$ 16,406	$ 14,257	$ 5,247	$ 1,298		

*Includes general corporate expenses and other income, interest expense and equity in net earnings of affiliated companies as shown in the accompanying consolidated statement of income.

Note 13: Foreign operations—Foreign operations by geographic area are presented in conformity with Statement of Financial Accounting Standards No. 14 (see Note 12).

Operations by geographic area
(Dollars in thousands)

	United States	Latin America and Canada	Western Europe	Asia, Africa and others	Eliminations	FMC consolidated
Year ended December 31, 1977:						
Sales to unaffiliated customers	$2,040,405	$108,951	$125,319	$17,540	$ —	$2,292,215
Transfers between geographic areas	33,987	3,036	6,282	225	(43,560)	—
Total sales	$2,074,392	$111,987	$131,601	$17,795	$(43,560)	$2,292,215
Operating profit	$ 231,658	$ 8,703	$ 8,960	$ 1,503	$ 250	$ 251,074
Other*						(47,255)
Income before income taxes						$ 203,819
Identifiable assets	$1,443,932	$ 82,248	$160,002	$15,152	$ (1,913)	$1,699,421
Corporate assets						442,112
Total assets at December 31, 1977						$2,141,533
Year ended December 31, 1976:						
Sales to unaffiliated customers	$1,860,970	$ 95,549	$ 89,860	$19,498	$ —	$2,065,877
Transfers between geographic areas	25,719	1,023	3,076	490	(30,308)	—
Total sales	$1,886,689	$ 96,572	$ 92,936	$19,988	$(30,308)	$2,065,877
Operating profit	$ 218,716	$ 15,560	$ 8,675	$ 3,255	$ (145)	$ 246,061
Other*						(55,625)
Income before income taxes						$ 190,436
Identifiable assets	$1,295,853	$ 63,405	$ 63,207	$18,651	$ (2,319)	$1,438,797
Corporate assets						480,756
Total assets at December 31, 1976						$1,919,553

*Includes general corporate expenses and other income, interest expense and equity in net earnings of affiliated companies as shown in the accompanying consolidated statement of income.

Export sales to unaffiliated customers are summarized by destination of sales as follows:

(Dollars in thousands)

	Latin America and Canada	Western Europe	Middle East and Africa	Asia and Others	Total
1977	$83,192	96,845	127,314	77,579	$384,930
1976	$79,697	67,247	189,394	45,375	$381,713

The net assets and net income of consolidated foreign subsidiaries (including investments in, and equity in earnings of, foreign affiliates) were as follows:

	1977	1976
	(Dollars in thousands)	
Net assets at year-end	$147,415	$114,487
Net income	$ 12,893	$ 18,269

Dividends of $6,502,000 in 1977 and $6,362,000 in 1976 were received from such foreign operations. Foreign currency exchange adjustments amounted to a pre-tax loss of $8,765,000 in 1977 and $1,135,000 in 1976.

GENERAL SIGNAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

*Note 10: Net Sales, Operating Income and Identifiable Assets by Product Group**

(in thousands)	1977	1976	1975	1974	1973
Net sales:					
Environmental and industrial process controls	$318,572	$306,840	$261,820	$196,089	$148,388
Transportation controls	228,280	183,924	179,563	160,896	135,255
Energy distribution and control	277,279	259,756	224,310	235,017	207,698
Home appliances	51,382	47,362	38,215	47,124	52,543
Total	$875,513	$797,882	$704,908	$639,126	$543,884
Operating income (loss):					
Environmental and industrial process controls	$ 47,452	$ 44,853	$ 34,485	$ 24,107	$ 16,006
Transportation controls	33,301	22,443	18,794	19,490	17,072
Energy distribution and control	28,740	27,124	21,285	23,548	23,673
Home appliances	4,592	967	1,126	(104)	1,412
Total	$114,085	$ 95,387	$ 75,690	$ 67,041	$ 58,163
Equity income	1,241	519	286	1,109	1,422
Interest expense	(6,850)	(6,258)	(7,288)	(8,517)	(3,605)
Corporate expenses	(11,739)	(11,312)	(8,518)	(8,026)	(7,947)
Earnings before income taxes	$ 96,737	$ 78,336	$ 60,170	$ 51,607	$ 48,033
Identifiable assets:					
Environmental and industrial process controls	$188,046	$170,905	$167,871	$153,197	
Transportation controls	106,437	97,966	96,314	93,909	**
Energy distribution and control	161,397	151,395	136,632	139,633	
Home appliances	31,748	31,010	31,548	35,917	
Total	$487,628	$451,276	$432,365	$422,656	
General corporate assets	102,270	73,133	37,111	25,972	**
Investment in affiliates	11,083	9,556	10,758	11,107	
Total assets	$600,981	$533,965	$480,234	$459,735	$384,585
Depreciation and amortization:					
Environmental and industrial process controls	$ 5,375	$ 4,590	$ 3,664	$ 3,035	$ 2,657
Transportation controls	3,350	3,332	3,025	2,792	2,636
Energy distribution and control	3,964	3,919	3,652	3,230	2,938
Home appliances	1,556	1,566	1,421	1,413	1,195
Capital expenditures:					
Environmental and industrial process controls	$ 9,960	$ 9,830	$ 10,791	$ 7,433	$ 10,802
Transportation controls	4,106	4,440	4,723	3,506	3,167
Energy distribution and control	6,355	5,725	4,773	7,336	3,746
Home appliances	1,496	1,152	1,166	2,204	4,068
Equity in affiliates:					
Equity income	$ 1,241	$ 519	$ 286	$ 1,109	$ 1,422
Investment in affiliates	11,083	9,556	10,758	11,107	**

*Adjusted to segregate corporate expenses, interest expense and equity income in accordance with Financial Accounting Standards Board Statement No. 14.

**Details not available.

MCA INC.

Consolidated Statement of Income

	1977	1976
Revenues		
Filmed entertainment	$561,368,000	$506,919,000
Records and music publishing	99,800,000	112,378,000
Retail and mail order	136,520,000	117,235,000
Other operations	79,947,000	66,386,000
	877,635,000	802,918,000
Costs and Expenses of Operating Divisions		
Filmed entertainment	454,000,000	406,285,000
Records and music publishing	87,734,000	90,652,000
Retail and mail order	120,291,000	102,909,000
Other operations	64,028,000	52,918,000
	726,053,000	652,764,000
Operating Income of Divisions		
Filmed entertainment	107,368,000	100,634,000
Records and music publishing	12,066,000	21,726,000
Retail and mail order	16,229,000	14,326,000
Other operations	15,919,000	13,468,000
	$151,582,000	$150,154,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Business Segments and International Operations—The Company's business activities consist of four business segments: filmed entertainment, records and music publishing, retail and mail order and other operations. A description of these business segments is included on page 1 of this annual report. The revenues and operating income of each of these business segments are separately reported in the consolidated statement of income. Revenues between segments are insignificant.

A substantial amount of MCA's revenues are from the three national television networks and their affiliated companies. Revenues from thse television networks were $191,726,000 in 1977 and $166,460,000 in 1976.

Certain segment financial information follows (in thousands of dollars):

	1977	1976
Identifiable Assets		
Filmed entertainment (including investment in CIC)	$474,865	$385,369
Records and music publishing	50,011	46,840
Retail and mail order	55,867	46,683
Other operations (including investment in Columbia Savings and Loan)	144,013	104,018
	694,756	582,910
Corporate assets (primarily certificates of deposit and short term investments)	182,032	144,595
	$876,788	$727,505
Capital Expenditures		
Property, Plant and Equipment		
Filmed entertainment	$ 6,714	$ 6,345
Records and music publishing	2,018	1,735
Retail and mail order	4,475	5,482
Other operations	5,461	5,345
Corporate	7	114
	18,675	19,021
Less—retirements, sales and intersegment transfers	1,154	2,781
	$ 17,521	$ 16,240
Depreciation and Amortization		
Plant and Equipment		
Filmed entertainment	$ 5,988	$ 4,987
Records and music publishing	932	592
Retail and mail order	2,111	1,850
Other operations	2,754	2,730
Corporate	62	63
	$ 11,847	$ 10,222

The consolidated financial statements include the following amounts of the Company's fully consolidated foreign subsidiaries (in thousands of dollars):

	1977	1976
Revenues		
Export Revenues		
Europe	$ 45,761	$ 63,173
Western Hemisphere (excluding United States)	51,626	55,665
Asia	24,540	34,275
Other	11,016	14,170
	132,943	167,283
Foreign Revenues	32,420	26,635
	$165,363	$193,918
Net Assets	$100,385	$ 76,652
Net Income	$ 16,306	$ 20,609

Export revenues are foreign revenues produced by identifiable assets located in the United States while foreign revenues are generated by identifiable assets located in foreign countries.

The above net income of fully consolidated foreign subsidiaries is net of both foreign and United States income taxes. The provision for income taxes on foreign earnings includes full provision for both current and deferred federal, state and foreign income taxes at prevailing tax rates based on pretax income.

Foreign currency translation gains and losses included in the determination of net income have not been significant.

PHELPS DODGE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13: Segment Reporting—Information regarding segments of the Corporation's business is reported on the top of pages 16 and 17 of this Annual Report and is an integral part of these financial statements.

BUSINESS SEGMENTS (1976 AMOUNTS OMITTED)—

Our business consists of three segments: Primary Metal, Manufacturing and Energy. The principal activities of each segment are described below, and the accompanying table presents our results of operations by segment. Investments, including Consolidated Aluminum Corporation, are not included in any business segment.

Primary Metal includes copper mining, smelting and refining, copper rod rolling (conducted by our subsidiary, Phelps Dodge Industries, Inc.) and activities related to our mining and smelting operations. Our copper is sold mostly to others as refinery shapes or rods, and also to our manufacturing divisions. Primary Metal also includes smelting and refining copper and rolled copper into rod for others on a toll basis, producing small quantities of gold, silver and other precious metals and copper chemicals, principally as by-products, and sulfuric acid from air quality control facilities.

Manufacturing encompasses the operating divisions of Phelps Dodge Industries, Inc. (except for rod rolling) which manufacture a broad range of copper and copper-alloy products. Major products include magnet wire, power cables, building wire, telephone cables, copper tubing, bare and stranded wire, and castings, bushings and fittings. Non-operating income for 1976 includes a provision for losses related to Manufacturing (see Note 5 to Consolidated Financial Statements).

Energy includes exploring for and mining and milling uranium ore, principally by our subsidiary, Western Nuclear, Inc. Another subsidiary explores for oil and gas domestically. Non-operating income for 1977 includes a net gain on transactions related to Energy (see Note 5 to Consolidated Financial Statements).

Intersegment Sales reflect the transfer of our copper from Primary Metal to Manufacturing at producer price plus a rod rolling charge generally equal to that charged to others.

Year 1977
(In thousands of dollars)

	Primary Metal	Manufacturing	Energy	Total
Sales and other operating revenues—unaffiliated customers	$ 453,184	$474,476	$ 31,725	$ 959,385
Intersegment sales	111,857	—	—	
Total revenues	565,041	474,476	31,725	
Costs and operating expenses				
Costs and expenses exclusive of items shown below	460,956	302,091	21,698	784,745
Intersegment costs	—	111,857	—	
Exploration and research expense	10,160	2,948	8,328	21,436
Selling and general administrative expense	2,493	24,412	1,621	28,526
Depreciation, depletion and amortization	38,601	9,115	4,501	52,217
	512,210	450,423	36,148	
Operating income (loss) from segments	$ 52,831	$ 24,053	$(4,423)	72,461
General corporate expenses				(10,536)
Operating income				61,925
Interest expense				(48,420)
Non-operating income, net				14,358
Provision for taxes on income				(6,000)
Equity earnings (losses), less income tax effect				(5,813)
Income before extraordinary item				16,050
Extraordinary item				1,830
Net income				$ 17,880
Identifiable assets at December 31	$1,295,777	$269,162	$124,695	$1,689,634
Corporate assets				183,217
Intersegment profit in inventory				(12,932)
Total assets at December 31				$1,859,919
Capital outlays for year (excluding investments)	$ 56,549	$ 9,980	$ 45,353	$ 111,882

STANDARD OIL COMPANY (INDIANA)

Statement of Information by Industry Segment and Geographic Area

For the Years 1977 and 1976

	Petroleum Industry	Chemical Industry	Other Industries	Intersegment Eliminations	Consolidated
		(Dollars in thousands)			
Industry Segment—					
Year 1977					
Revenues other than intersegment sales	$12,568,703	$1,570,086	$ 12,179	$ —	$14,150,968
Intersegment sales	378,154	57,746	—	(435,900)	—
Total segment revenues	$12,946,857	$1,627,832	$ 12,179	$(435,900)	14,150,968
Corporate revenues and equity earnings					85,494
Total revenues					$14,236,462
Operating profit	$ 2,675,869	$ 91,691	$(61,862)		$ 2,705,698
Equity in earnings of others	21,116	2,112	1,266		24,494
General corporate (expenses) income	2,865	687	26		3,578
Interest expense	(156,642)	(37,542)	(1,448)		(195,632)
Income before income taxes	2,543,208	56,948	(62,018)		2,538,138
Income taxes	(1,519,268)	(17,323)	10,028		(1,526,563)
Net income	$ 1,023,940	$ 39,625	$(51,990)		$ 1,011,575
Identifiable assets	$ 9,063,248	$2,063,267	$113,815	$ (52,517)	$11,187,813
Equity investments	$ 75,594	$ 43,492	$ 18,793		137,879
Corporate assets					1,558,594
Total assets					$12,884,286
Capital expenditures	$ 1,170,376	$ 269,839	$ 2,968		
Depreciation, depletion, amortization, etc.	$ 690,206	$ 100,572	$ 5,758		
Year 1976*					
Revenues other than intersegment sales	$11,158,424	$1,429,037	$ 9,154	$ —	$12,596,615
Intersegment sales	292,628	64,153	—	(356,781)	—
Total segment revenues	$11,451,052	$1,493,190	$ 9,154	$(356,781)	12,596,615
Corporate revenues and equity earnings					71,496
Total revenues					$12,668,111
Operating profit	$ 2,328,101	$ 112,061	$(72,413)		$ 2,367,749
Equity in earnings of others	22,677	3,069	(272)		25,474
General corporate (expenses) income	(22,111)	(4,456)	(117)		(26,684)
Interest expense	(153,674)	(30,972)	(816)		(185,462)
Income before income taxes	2,174,993	79,702	(73,618)		2,181,077
Income taxes	(1,303,253)	7,914	2,442		(1,292,897)
Net income	$ 871,740	$ 87,616	$(71,176)		$ 888,180
Identifiable assets	$ 8,528,452	$1,832,737	$153,851	$ (75,264)	$10,439,776
Equity investments	$ 73,514	$ 33,057	$ 13,939		120,510
Corporate assets					1,088,872
Total assets					$11,649,158
Capital expenditures	$ 1,031,515	$ 368,847	$ 11,520		
Depreciation, depletion, amortization, etc.	$ 619,008	$ 87,040	$ 4,680		

	United States	Canada	Overseas	Intergeographic Eliminations	Consolidated
			(Dollars in thousands)		
Geographic Area—					
Year 1977					
Revenues other than intergeographic sales	$10,645,944	$568,543	$2,936,481	$ —	$14,150,968
Intergeographic sales	55,092	79,641	2,048,778	(2,183,511)	—
Total segment revenues	$10,701,036	$648,184	$4,985,259	$(2,183,511)	14,150,968
Corporate revenues and equity earnings					85,494
Total revenues					$14,236,462
Net income	$ 736,674	$ 84,181	$ 190,720		$ 1,011,575
Identifiable assets	$ 7,489,288	$760,639	$3,227,153	$ (289,267)	$11,187,813
Equity investments	$ 70,451	$ —	$ 67,428		137,879
Corporate assets					1,558,594
Total assets					$12,884,286
Year 1976*					
Revenues other than intergeographic sales	$ 9,599,011	$400,570	$2,597,034	$ —	$12,596,615
Intergeographic sales	53,483	105,001	1,535,150	(1,693,634)	—
Total segment revenues	$ 9,652,494	$505,571	$4,132,184	$(1,693,634)	12,596,615
Corporate revenues and equity earnings					71,496
Total revenues					$12,668,111
Net income	$ 751,723	$ 79,657	$ 56,800		$ 888,180
Identifiable assets	$ 6,946,481	$625,453	$3,059,435	$ (191,593)	$10,439,776
Equity investments	$ 62,161	$ —	$ 58,349		120,510
Corporate assets					1,088,872
Total assets					$11,649,158

*Restated—(Refer to Financial Review).

Intersegment and intergeographic sales are accounted for at prices which approximate arm's-length market prices. Operating profits include all revenues and expenses of the reportable segment, except for general corporate expenses net of corporate revenues, interest expense, income taxes, and equity in earnings of unconsolidated companies. General corporate expenses, net of related revenues, and interest expense are allocated based on the amount of capital employed in the applicable segment or geographic area. Income taxes are generally assigned to the reportable segment or geographic area whose operations give rise to the tax effects. Equity in earnings of unconsolidated subsidiaries and other investees is attributed to the industry segment and geographic area in which the companies operate. Such amounts applicable to geographic areas were as follows: 1977—United States $15,598,000 and overseas $8,896,000; and 1976—United States $13,651,000 and overseas $11,823,000.

Identifiable assets are assets used in the operations of each segment or area, including intersegment or intergeographic receivables. Corporate assets are these assets not used in the operations of a specific segment, and consist primarily of cash and marketable securities. Intersegment and intergeographic sales and receivables are eliminated in determining consolidated revenue and identifiable asset totals.

Foreign Operations

AMERICAN HOME PRODUCTS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Company Data by Industry Segment–1977

	Prescription Drugs	Packaged Medicines	Food Products	Household Products & Housewares	Consolidated Totals
		(Thousands of Dollars)			
Sales to customers	$1,116,262	$ 407,355	$ 596,622	$ 747,663	$2,867,902
Operating income	$ 329,743	$ 82,552	$ 78,478	$ 90,509	$ 581,282
General corporate income, net of expenses					15,155
Income before federal and foreign taxes on income					$ 596,437
Identifiable assets at December 31, 1977	$ 561,042	$ 131,890	$ 179,760	$ 372,755	$1,245,447
Adjustments and eliminations					(5,185)
Corporate assets					371,043
Total assets at December 31, 1977					$1,611,305
Depreciation expense	$ 13,349	$ 2,886	$ 5,676	$ 13,596	
Capital expenditures	$ 24,215	$ 4,553	$ 6,321	$ 23,119	

For a description of the products in each industry segment see pages 3 to 9 herein.

Sales between industry segments are immaterial.

Note 10: Company Data by Geographic Segment–1977

	United States	Canada and Latin America	Europe and Africa	Other Foreign	Consolidated Totals
		(Thousands of Dollars)			
Sales to customers	$1,972,144	$ 381,990	$ 443,007	$ 70,761	$2,867,902
Operating income	$ 426,944	$ 48,095	$ 95,104	$ 11,139	$ 581,282
General corporate income, net of expenses					15,155
Income before federal and foreign taxes on income					$ 596,437
Identifiable assets at December 31, 1977	$ 776,150	$ 192,365	$ 260,342	$ 44,667	$1,273,524
Adjustments and eliminations					(33,262)
Corporate assets					371,043
Total assets at December 31, 1977					$1,611,305

Sales between geographic segments are immaterial. Foreign exchange adjustments which are included in Operating Income in Notes 9 and 10, and in Other Income, Net, in the Consolidated Statements of Income on page 13, resulted in net charges to income of $10,167,000 in 1977 and $20,113,000 in 1976.

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Segment Information—Financial Accounting Standards Board Statement No. 14 requires disclosure of certain industry and world area "segment" data. Accordingly, the Operating Company and World Area data appearing on pages 40 and 44 of the Financial Review Section of this Annual Report are an integral part of the accompanying financial statements.

FINANCIAL REVIEW

Operating Company Data

Selected Financial Information

(Dollars in millions, except per share)

1977	Net Sales	Operating Income (Loss)	Total Assets	Depreciation, Obsolescence and Depletion	Capital Expenditures	Research and Development
Agriculture Products	$ 654.0	$273.4	$ 576.6	$ 29.6	$ 81.2	$ 19.6
Chemical Intermediates	505.0	132.3	715.4	41.0	208.4	15.9
Commercial Products	385.4	(15.2)	280.8	48.5	22.0	24.0
Industrial Chemicals	1,054.6	209.7	691.7	43.5	80.2	23.0
Plastics & Resins	1,111.2	76.3	891.9	50.4	86.4	24.2
Textiles	884.3	(39.0)	1,011.2	82.0	127.2	25.6
Eliminations		(1.1)	(3.1)			
Unallocated corporate expenses		(26.7)		1.0		
Total Operating	4,594.5	609.7	4,164.5	296.0	605.4	132.3
Income charges (credits)		86.0				
Nonoperating assets			185.6		1.7	
Total Company	$4,594.5	$523.7(1)	$4,350.1	$296.0	$607.1	$132.3
1976						
Agricultural Products	$ 573.2	$240.6	$ 460.6	$ 13.2	$127.0	$ 15.7
Chemical Intermediates	476.2	152.6	593.9	43.7	175.9	12.8
Commercial Products	398.2	(0.1)	291.2	27.5	32.1	21.4
Industrial Chemicals	950.4	206.6	588.6	35.1	79.1	21.7
Plastics & Resins	1,018.7	100.8	752.9	36.8	82.2	17.9
Textiles	853.5	(1.2)	947.5	69.2	147.8	24.8
Eliminations		(6.8)	(0.7)			
Unallocated corporate expenses		(24.7)		0.5		
Total Operating	4,270.2	667.8	3,634.0	226.0	644.1	114.3
Income charges (credits)		50.1				
Nonoperating assets			325.1		2.7	
Total Company	$4,270.2	$617.7(1)	$3,959.1	$226.0	$646.8	$114.3

(1)Income before income taxes.

The principal product lines included in each operating company are shown as the "Sales by Product Group" data on page 43. Total sales between operating companies made on a market basis were $195.0 and $181.7 for 1977 and 1976, respectively. These sales were not significant for any operating company except Chemical Intermediates ($127.2 for 1977; $123.8 for 1976) and Industrial Chemicals ($40.5 for 1977; $36.2 for 1976).

Included in Commercial Products' operating loss for 1977 was a $35.6 charge related to the *Cycle-Safe* container. Textiles' and Plastics & Resins' operating results for 1977 included $11.7 and $7.0 charges, respectively, related to terminating or divesting certain product lines. Included in Textiles' operating loss for 1976 was a $12.4 charge resulting from the closing of a plant. Commercial Products' operating loss for 1976 included a $9.4 charge resulting from the acceleration of provisions for obsolescence of certain machinery and equipment.

Intercompany receivables and profit derived from intercompany sales were the principal items reflected as eliminations in arriving at the consolidated totals. Certain corporate expenses, primarily those related to the overall management of the Company, were not allocated to the operating companies. Nonoperating assets principally include cash, short-term securities and time deposits, and investments.

World Area Data

Selected Financial Information

	Net Sales Outside Customers	Inter-Area	Operating Income	Total Assets	Capital Expenditures
1977					
United States	$3,409.5	$317.9	$614.1	$3,030.4	$424.6
Europe	706.0	43.4	8.5	910.8	162.7
Other Ex-USA	479.0	15.2	18.9	385.8	18.1
Eliminations		(376.5)	(5.1)	(162.5)	
Unallocated corporate expenses			(26.7)		
Total Operating	4,594.5	—	609.7	4,164.5	605.4
Income charges (credits)			86.0		
Nonoperating assets				185.6	1.7
Total Company	$4,594.5	$ —	$523.7(1)	$4,350.1	$607.1
1976					
United States	$3,165.7	$283.5	$616.1	$2,660.4	$473.5
Europe	669.4	54.5	54.8	752.0	143.3
Other Ex-USA	435.1	22.4	15.0	354.8	27.3
Eliminations		(360.4)	6.6	(133.2)	
Unallocated corporate expenses			(24.7)		
Total Operating	4,270.2	—	667.8	3,634.0	644.1
Income charges (credits)			50.1		
Nonoperating assets				325.1	2.7
Total Company	$4,270.2	$ —	$617.7(1)	$3,959.1	$646.8

(1)Income before income taxes

Inter-area sales, which are sales from one Monsanto location to another Monsanto location in a different world area, were made on a market basis. Export sales included in the United States net sales to outside customers were as follows:

	Europe	Other Ex-USA	Total
1977	$49.6	$198.8	$248.4
1976	32.5	169.6	202.1

United States operating income for 1977 included a charge of $35.6 related to the *Cycle-Safe* container. Europe operating income for 1977 included a $12.2 charge from terminating or divesting certain product lines. Included in United States operating income for 1976 were charges of $12.4 and $9.4 relating to the closing of a plant and accelerated provisions for obsolescence of certain machinery and equipment, respectively.

Inter-area receivables and profit derived from inter-area sales are the principal items reflected as eliminations in arriving at the consolidated totals. Unallocated corporate expenses and nonoperating assets are the same as those described in the Operating Company Data on page 40.

Following is a reconciliation of the Europe and Other Ex-USA operating income and total assets shown above to the Company's equity in the net loss and net assets of consolidated Ex-USA subsidiaries:

	1977	1976
Operating income	$ 27.4	$ 69.8
Income charges—net	81.0	54.0
Income taxes	14.7	30.0
Net loss	$(68.3)	$(14.2)

	1977	1976
Total assets	$1,296.6	$1,111.7
Total liabilities	764.2	619.6
Net assets	$ 532.4	$ 492.1

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Industry Segment Reporting and Information About Foreign Operations—In accordance with the provisions of SFAS No. 14, the table on page 22 entitled "Summary of 1977 Results of Continuing Operations by Industry Segment" presents audited information relating to the company's 1977 results in five industry segments—polymers, resins and monomers; plastics; industrial chemicals; agricultural chemicals; and "other industries." The company defines the industry segment for each product shipment (including intermediates) by the customer's use of the product shipped. Therefore, no intersegment sales or eliminations are shown. In computing each segment's identifiable assets, production facilities which are shared by more than one segment are allocated to each segment on an annual utilization basis.

In addition, the table below provides information pertaining to the company's 1977 operations in different geographic areas, in accordance with SFAS No. 14. Transfers between geographic areas are accounted for at market prices.

In both the industry segment and geographic presentations, general corporate expenses represent the portion of total expenses incurred at corporate headquarters which do not relate directly to the operations of any geographic area or industry segment, offset partially by interest income earned by general corporate assets. General corporate assets includes cash, marketable securities, advances to affiliates and a portion of the net fixed assets located at corporate headquarters.

Summary of 1977 Results of Continuing Operations by Geographic Areas

	United States	Canada	Europe	Latin America	Pacific	Adjustments and Eliminations	Total
				(millions of dollars)			
Sales to customers	$754.6	$50.0	$208.2	$75.8	$35.3	$ —	$1,123.9
Transfers between geographic areas	72.8	—	12.7	—	—	(85.5)	—
Total sales	827.4	50.0	220.9	75.8	35.3	(85.5)	1,123.9
Operating profit	78.7	3.3	28.4	2.7	3.8	(0.8)	116.1
Interest expense							(36.3)
General corporate expenses							(6.6)
Equity in net earnings (losses) of affiliates	(4.8)	—	0.1	—	3.4	—	(1.3)
Earnings before income taxes							$ 71.9
Identifiable assets at 12/31/77	$723.2	$17.0	$178.8	$64.0	$30.6	$(77.6)	$ 936.0
Investments in affiliates	(3.8)	—	0.7	0.3	20.3	—	17.5
General corporate assets							22.9
Total assets at 12/31/77							$ 976.4
1977 Depreciation expense	$58.7	$ 0.7	$ 11.7	$ 1.2	$ 0.7	—	$ 73.0
1977 Capital expenditures	62.9	0.5	8.3	4.7	1.2	—	$ 77.6

Summary of 1977 Results of Continuing operations by Industry Segment

	Polymers Resins & Monomers	Plastics	Industrial Chemicals	Agricultural Chemicals	Other Industries	Total
			(millions of dollars)			
Sales to customers	$474.9	$254.6	$198.5	$169.8	$26.1	$1,123.9
Operating profit (loss)	48.7	25.2	32.0	20.1	(9.9)	116.1
Interest expense						(36.3)
General corporate expenses						(6.6)
Equity in net earnings (losses) of affiliates	—	—	0.6	1.7	(3.6)	(1.3)
Earnings before income taxes						$ 71.9
Identifiable assets at 12/31/77	$428.6	$198.3	$129.3	$122.4	$57.4	$ 936.0
Investments in affiliates	2.0	—	4.8	8.0	2.7	17.5
General corporate assets						22.9
Total assets at 12/31/77						$ 976.4
1977 Depreciation expense	$ 44.3	$ 15.0	$ 7.5	$ 4.5	$ 1.7	$ 73.0
1977 Capital expenditures	28.9	5.3	17.3	7.8	18.3	$ 77.6

The agricultural and industrial chemicals segments showed substantially higher profits in 1977 than in the prior year, but the profitability in plastics and polymers, resins and monomers declined from 1976. Agricultural chemicals rebounded from depressed weather-related 1976 market conditions, while the improved industrial chemicals performance reflected generally better economic conditions. The decline in plastics was due to price weakness in domestic acrylic sheet from overcapacity in the industry and imports. Polymers, resins and monomers profitability was adversely affected by the need to operate an older acrylate plant for eight months during the proving phase of the new acrylate facility in Houston, Texas, and a less than normal increase in shipments to the U.S. paint industry. Both of the latter problems were peculiar to 1977, but the overcapacity and import problems remain in acrylic sheet. The loss in other industries increased primarily due to higher oil and gas exploration costs and a loss in 1977 related to the 1976 sale of Karex, Inc.

SCOVILL MANUFACTURING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K—The Company manufactures a wide variety of products, which are sold throughout the United States and abroad. Its business comprises four general product categories, namely Housing Products; Housewares; Sewing Notions and Apparel Fasteners; and Automotive and Fluid Power Products.

The Company operates 57 manufacturing facilities, of which 42 are located in North America. Foreign operations are carried on in England, Mexico, Canada, France, Australia, Brazil, South Africa, India, Japan and Germany and include principally the manufacture and sale of tire valves, valve parts, air control products for industrial use, notions and apparel fasteners. Each of the foreign operations is under the management of the domestic division producing the same line of products.

For a detailed description of the products manufactured and market distribution within each of the segments of the business, reference is made to pages 13-25 of this report.

Intersegment sales generally are priced with reference to prevailing market prices. Operating profit is total revenue less operating expenses and excluding interest. General corporate expenses of $8,552,000 which principally included Corporate administrative expenses and pension costs, have been allocated to segments on the basis of sales to unaffiliated customers. Equity in income or loss from unconsolidated subsidiaries is immaterial. Identifiable assets by industry includes both assets directly identified with those operations and an allocation of Corporate assets. The Corporate assets of $31,985,000 consist primarily of cash, deferred taxes and other investments and have been allocated to segments in the same proportion as the identifiable assets are to the total.

Sales to any single customer or to domestic or foreign government agencies did not exceed 10% or more of consolidated revenue.

Accounting policies followed by each segment do not vary significantly from those described in Note A.

Industry Data
Scovill Manufacturing Company and Subsidiaries

	Fiscal Year Ended December 25, 1977
Net Sales	
Housing Products	$259,484,000
Housewares	173,877,000
Sewing Notions and Apparel Fasteners	127,652,000
Automotive and Fluid Power	111,562,000
Total Net Sales	$672,575,000
Intersegment sales were immaterial.	
Operating Profit	
Housing Products	$ 21,161,000
Housewares	21,272,000
Sewing Notions and Apparel Fasteners	6,395,000
Automotive and Fluid Power	12,722,000
Total Operating Profit	61,550,000
Interest expense	7,538,000
Income before Income Taxes	$ 54,012,000

	Fiscal Year Ended December 25, 1977
Identifiable Assets	
Housing Products	$136,773,000
Housewares	55,270,000
Sewing Notions and Apparel Fasteners	114,243,000
Automotive and Fluid Power	82,452,000
Total Assets	$388,738,000
Depreciation and Amortization Expense	
Housing Products	$ 4,337,000
Housewares	3,244,000
Sewing Notions and Apparel Fasteners	4,962,000
Automotive and Fluid Power	2,784,000
Total Depreciation and Amortization Expense	$ 15,327,000
Capital Expenditures	
Housing Products	$ 5,853,000
Housewares	4,497,000
Sewing Notions and Apparel Fasteners	6,160,000
Automotive and Fluid Power	5,242,000
Corporate	1,037,000
Total Capital Expenditures	$ 22,789,000

Note L–

	Fiscal Year Ended December 25, 1977				
	Sales to Unaffiliated Customers	Transfers between Geographic Areas	Total Revenue	Operating* Profit	Identifiable Assets
United States	$547,070,000	$ 8,399,000	$555,469,000	$51,753,000	$477,165,000
Australia	13,074,000	—	13,074,000	(345,000)	15,700,000
Brazil	19,444,000	53,000	19,497,000	3,018,000	15,653,000
Canada	22,960,000	171,000	23,131,000	(182,000)	9,330,000
England	22,658,000	1,663,000	24,321,000	2,943,000	20,829,000
France	15,561,000	385,000	15,946,000	1,648,000	11,378,000
Germany	3,908,000	94,000	4,002,000	(218,000)	4,966,000
Mexico	27,900,000	—	27,900,000	2,463,000	20,270,000
India-Japan	—	—	—	470,000	—
Eliminations	—	(10,765,000)	(10,765,000)	—	(186,553,000)
Consolidated	$672,575,000	$ —	$672,575,000	$61,550,000	$388,738,000

*Before interest expense, income taxes and minority interest.

Total revenue by geographic area includes both sales to unaffiliated customers and transfers between geographic areas. Such transfers are accounted for at prices comparable to normal, unaffiliated customer sales.

U.S. Operations sales include $13,287,000 in 1977, and $10,763,000 in 1976 for export (primarily to Canada).

Export Sales

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share data)

Note 12: Industry Segment Information—The Company operates principally in two industries, (1) transportation equipment and related services and (2) missiles and space. Operations in transportation equipment and related services primarily involve production and sale of commercial and military aircraft, and provision of air transportation services. Operations in missiles and space primarily involve production and sale of various offensive and defensive missiles, and space exploration products.

In 1977 contracts with U. S. Government agencies accounted for approximately $923.6 of sales of transportation equipment. All missile/space products were sold to U. S. Government agencies.

Export sales for the year ended December 31, 1977 consisted of the following amounts by geographic area—

Asia	$ 696.4
Europe	411.4
Africa	183.8
Oceania	128.9
Western Hemisphere	48.6
	$1,469.1

Financial information for 1977 by industry segment is summarized as follows—

	Transportation equipment and related services	Missiles and space	Other industries	Consolidated
Identifiable assets at December 31, 1977	$1,157.7	$99.6	$76.6	$1,334.0
Corporate assets (principally cash and short-term investments)				1,106.4
				$2,440.4
Depreciation	$ 58.5	$ 7.0		
Capital expenditures, net	$ 77.7	$10.2		

See page 19 for summary of 1977 revenues and earnings contributed by industry segment.

ST. JOE MINERALS CORPORATION (DEC)

Business Segment Information

	Coal	Lead	Zinc	Iron	Oil and Gas	Other	Total
				(In thousands)			
Net Sales:							
1977:							
Domestic Operations	$223,360	$143,429	$139,464	$25,884	$ 18,867	$ 3,500	$554,504
Foreign Operations(1)	—	—	—	—	23,321	1,063	24,384
Export Sales(2)	206,914	3,851	1,627	—	—	—	212,392
Total	$430,274	$147,280	$141,091	$25,884	$ 42,188	$ 4,563	$791,280
1976:							
Domestic Operations	$217,859	$110,464	$157,636	$21,395	$ 16,878	$ 1,368	$525,600
Foreign Operations(1)	—	—	—	—	21,413	—	21,413
Export Sales(2)	238,178	5,418	799	—	—	—	244,395
Total	$456,037	$115,882	$158,435	$21,395	$ 38,291	$ 1,368	$791,408
Operating Profit(3):							
1977:							
Domestic Operations	$ 14,474	$ 66,009	$ 5,138	$ 2,835	$ 1,212	$ (193)	$ 89,475
Foreign Operations(1)	—	—	—	—	9,908	(227)	9,681
Total	$ 14,474	$ 66,009	$ 5,138	$ 2,835	$ 11,120	$ (420)	99,156
Unallocated Income/Expense							11,387
Income Before Income Taxes							$110,543
1976:							
Domestic Operations	$ 44,549	$ 39,539	$ 15,922	$ 4,706	$ 6,879	$ (428)	$111,167
Foreign Operations(1)	—	—	—	—	8,857	—	8,857
Total	$ 44,549	$ 39,539	$ 15,922	$ 4,706	$ 15,736	$ (428)	120,024
Unallocated Income/Expense							(8,658)
Income Before Income Taxes							$111,366
Assets at December 31(4):							
1977:							
Domestic Operations	$241,459	$111,069	$153,424	$13,576	$ 89,124	$28,969	$637,621
Foreign Operations(1)	—	—	15,765	—	115,873	10,813	142,451
Total	$241,459	$111,069	$169,189	$13,576	$204,997	$39,782	$780,072
1976:							
Domestic Operations	$225,385	$104,447	$132,207	$16,782	$ 80,923	$13,776	$573,520
Foreign Operations(1)	—	—	6,331	—	108,209	15,349	129,889
Total	$225,385	$104,447	$138,538	$16,782	$189,132	$29,125	$703,409
Depletion, Depreciation and Amortization:							
1977	$ 22,475	$ 5,163	$ 5,617	$ 1,410	$ 18,447	$ 498	$ 53,610
1976	$ 17,993	$ 4,999	$ 5,277	$ 1,249	$ 14,139	$ 207	$ 43,864
Capital Expenditures:							
1977	$ 62,375	$ 2,621	$ 29,716	$ 696	$ 48,094	$ 2,602	$146,103
1976	$ 52,055	$ 2,082	$ 9,928	$ 576	$ 49,693	$ 1,397	$115,731

(1)Principally Canadian operations.

(2)Export sales in 1977 were 42% to Japan, 32% to Europe, 18% to South America and 8% other. Export sales in 1976 were 38% to Japan, 44% to Europe, 15% to South America and 3% other.

(3)Operating profit is calculated as net sales plus/minus all items of income/expense directly associated with the business segment. In computing operating profit, none of the following items have been added or deducted: corporate overhead expenses, exploration, interest income/expense, dividends from unconsolidated subsidiaries, income taxes and sundry income/expense.

(4)Identifiable assets by industry are those assets that are used in the Corporation's operations in each segment of business. Corporate assets included under the caption "Other" are $32,760,000 and $18,238,000 for 1977 and 1976, respectively.

WHITE CONSOLIDATED INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note P—Industry Segments

(000's Omitted)

1977	Products for the Home	Machinery and Metal Castings	General Industrial Equipment	Eliminations	Consolidated
Sales to unaffiliated customers	$874,049	$329,083	$196,894	$ —	$1,400,026
Intersegment sales	—	1,998	4,522	(6,520)	—
Total sales	$874,049	$331,081	$201,416	$(6,520)	$1,400,026
Operating income	$ 65,823	$ 31,791	$ 43,726	$ —	$ 141,340
General corporate expenses					(15,749)
Interest expense					(25,228)
Income before income taxes					$ 100,363
				Corporate	
Identifiable assets at December 31, 1977	$545,972	$255,601	$116,221	$16,386	$ 934,180
Depreciation and amortization expense	$ 13,947	$ 5,500	$ 2,302	$ 221	$ 21,970
Capital expenditures	$ 24,886	$ 12,048	$ 7,403	$ 322	$ 44,659
1976				Eliminations	
Sales to unaffiliated customers	$714,547	$329,210	$204,303	$ —	$1,248,060
Intersegment sales	—	1,054	4,058	(5,112)	—
Total sales	$714,547	$330,264	$208,361	$(5,112)	$1,248,060
Operating income	$ 49,617	$ 48,709	$ 41,463	$ —	$ 139,789
General corporate expenses					(18,853)
Interest expense					(26,861)
Income before income taxes					$ 94,075
				Corporate	
Identifiable assets at December 31, 1976	$471,064	$220,685	$105,032	$19,001	$ 815,782
Depreciation and amortization expense	$ 11,892	$ 4,763	$ 1,954	$ 420	$ 19,029
Capital expenditures	$ 14,776	$ 17,053	$ 5,492	$ 89	$ 37,410

The Corporation operates in three principal segments: products for the home, machinery and metal castings and general industrial equipment. The products for the home segment consists principally of the manufacturing and selling of major home appliances. The machinery and metal castings segment manufactures steel mill machinery, machine tools, graphic arts equipment, and castings. The Corporation's general industrial equipment group manufactures construction equipment, food and chemical processing equipment, valves, controls, and instrumentation and distributes industrial and commercial supplies. No single customer accounts for ten percent or more of total consolidated revenues.

Intersegment sales are accounted for at prices comparable to normal, unaffiliated customer sales. Operating profit is total revenue less operating expenses, excluding interest, general corporate expenses, and equity in the net income of nonconsolidated companies. Corporate assets consist principally of cash and investments.

The Corporation's foreign operations are principally in Canada and represent less than 10% of total consolidated sales and assets. Domestic export sales approximated $190,000,000 in 1977 and $187,000,000 in 1976.

Major Customers

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

Note 14—Business Segment Information: The Company has four business segments: Automotive—manufacture of mufflers, exhaust and tail pipes, catalytic converters and other metal tubular parts; Consumer—manufacture of compact stereo and component systems, and portable electric heaters, electric fireplaces and electric humidifiers; Metals—production of vinyl-metal laminates in both sheet and coil form and of stampings and assemblies produced in accordance with customer specifications, and coating of steel and aluminum coils; Applied Technology—development and manufacture of video equipment for adverse environmental and specialized applications, and of video imaging, industrial surveillance and security systems and manufacture of special purpose machinery. Summarized financial information by business segment for 1977 follows:

	Automotive	Consumer	Metals	Applied Technology	Total
Sales to unaffiliated customers	$316,470	$69,758	$60,089	$13,952	$460,269
Operating profit	$ 51,150	$ 9,961	$10,103	$ (563)	$ 70,651
General corporate expenses					(4,969)
Interest expense					(8,133)
Earnings before income taxes					$ 57,549
Identifiable assets at year end	$139,630	$33,130	$34,508	$11,471	$218,739
Corporate assets					46,688*
Total					$265,427
Depreciation and amortization	$ 8,750	$ 869	$ 730	$ 589	
Additions to property, plant and equipment	6,837	1,047	7,708	323	

*Consists primarily of cosh, temporary investments, prepaid expenses, etc.

Sales between business segments (affiliated customers) were insignificant and are thus not separately reported. Operating profit of a segment is its sales less all operating expenses. Identifiable assets of a segment are those used by that segment in its operations.

Foreign operations of the Company were not material and are not separately set forth. Sales to two of the largest customers exceeded 10% of net sales during 1977; applicable amounts for each customers and the business segments making the sales were as follows:

% of Net Sales	Total	Automotive	Metals
35.6%	$163,739	$153,455	$10,284
18.0	82,859	82,367	492
53.6%	$246,598	$235,822	$10,776

CURTISS-WRIGHT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Business Segments—As described in the Review of Operations, the corporation and its consolidated subsidiaries operate principally in three segments of business: industrial, nuclear, and aerospace. Financial data for the Corporation's operations in these three segments of business and major geographical areas in which it operates for 1977 and 1976 are shown on pages 20 and 21.

Industrial segments of business products are comprised of the process equipment and systems, industrial gas turbine electric power generating equipment, and other industrial products.

Nuclear operations involve the production and sale of pressure vessels and heads, pressurizers and steam generators, extruded shapes and pipe, and valves of various types.

Aerospace products and services of the Corporation consist of replacement parts for jet and reciprocating aircraft propulsion engines originally manufactured by the Corporation, design, development and manufacture of aircraft control and actuation components and systems, and shot-peening and peen-forming operations.

Revenues by segments reflect sales to unaffiliated customers, as reported in the Corporation's consolidated earnings statement, and intersegment sales, which generally are accounted for on the same basis as products that are sold to unaffiliated customers. All material intercompany transactions, profits and balances have been eliminated. Sales to the General Electric Company amounted to approximately $34,400,000 and $42,050,000 in 1977 and 1976, respectively. The (i) industrial gas turbine electric generating equipment, (ii) other industrial products, (iii) nuclear, and (iv) aerospace accounted for $78,000, $162,000, $33,900 and $260,000 in 1977, respectively, and $285,000, $170,000, $41,275,000, and $320,000 in 1976, respectively, of those sales.

Operating income is total revenue less operating expenses. In computing operating income, none of the following items has been added or deducted: Revenues earned at the corporate level (securities income and gain or loss on sale of real estate), general corporate expenses, interest expense, income taxes, intercompany interest income, minority interests and equity in income or loss from affiliates accounted for on the equity method. Depreciation expense for (i) the process equipment and systems, (ii) industrial gas turbine electric power generating equipment, (iii) other industrial products, (iv) nuclear, and (v) aerospace were $1,435,000, $759,000, $368,000, $1,556,000, and $1,328,000 in 1977, respectively, and $1,104,000, $491,000, $325,000, $1,720,000, and $1,912,000 in 1976, respectively.

Capital expenditures for the segments were $5,947,000, $213,000, $821,000, $1,035,000, and $1,396,000 in 1977, respectively, and $3,089,000, $424,000, $318,000, $1,936,000 and $1,147,000 in 1976, respectively.

Identifiable assets by segment are those assets that are used in the Corporation's operations included in that segment.

Export sales to unaffiliated customers, in Canada, Europe and Other were $3,991,000, $19,984,000 and $27,500,000 in 1977, respectively, and $23,180,000, $23,631,000 and $42,405,000 in 1976, respectively.

TRW INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segments of Business (in part)

By Industry

The operations of the Company are in three industry segments: Car and Truck, Electronics and Space Systems and Industrial and Energy. Car and Truck operations include a broad range of chassis, engine and other components for passenger cars, trucks, farm machinery and other off-highway vehicles sold for use by original equipment manufacturers and by distributors and mass merchandisers for resale in the replacement parts market. Electronics and Space Systems includes electronic components; electronic systems, equipment & services; computer-based & analytical services; and spacecraft. Included within the Industrial and Energy segment are tools, fasteners and bearings; pumps, valves and other energy products and services; and aircraft components.

TABLE I *(See Page 36)* contains a summary of the net sales, operating profits, identifiable assets, depreciation, and property additions of each business segment for 1977 and 1976. Corporate assets are principally cash and marketable securities.

Intersegment sales are recorded at fair market value. The United States Government represented the only customer to whom sales were 10% or more of consolidated sales. Government sales by industry segment for the two years were as follows:

	1977	1976
	(In millions)	
Car and Truck	$ 7.1	$ 7.8
Electronics and Space Systems	521.7	472.3
Industrial and Energy	133.3	135.9
Total Government Sales	$662.1	$616.0

By Geographic Area

The operations of the Company are located primarily in the United States and Europe.

TABLE II *(See page 36)* contains a summary of the net sales, operating profits, and identifiable assets of each area for 1977 and 1976. Interarea sales are recorded at fair market value.

The total foreign identifiable assets for the operations reported in the geographic areas other than the United States amounted to $706.8 million in 1977 and $608.9 million in 1976. Total liabilities for these same operations amounted to $231.6 million in 1977 and $191.6 million in 1976.

NATURAL BUSINESS YEAR

For years, the accounting and legal professions, printers, the Securities and Exchange Commission, and others interested in various aspects of the year-end bottleneck have advocated that companies adopt a natural business year. A natural business year is the period of 12 consecutive months which ends when a business's activities have reached the lowest point in its annual cycle. In many instances, the natural business year of a company is December 31.

Table 1-4 summarizes, by the month in which a fiscal year ends, the fiscal year endings of the survey companies. For tabulation purposes, if a fiscal year ended in the first week of a month, the fiscal year was considered to have ended in the preceding month.

One hundred and fourteen survey companies used a 52-53 week fiscal year.

During 1977, seven companies changed the date of their fiscal year end. Examples of such changes and examples of fiscal year definitions follow.

Change in Date of Fiscal Year Ending

ALLEGHENY LUDLUM INDUSTRIES, INC.

Consolidated Balance Sheets

January 1, 1978 and December 31, 1976

Consolidated Statements of Earnings

Years ended January 1, 1978 and December 31, 1976

Consolidated Statements of Additional Paid-In Capital and Retained Earnings

Years ended January 1, 1978 and December 31, 1976

Consolidated Statements of Changes in Financial Position

Years ended January 1, 1978 and December 31, 1976

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JANUARY 1, 1978 AND DECEMBER 31, 1976

Note 1 (in part): Summary of accounting policies:

Fiscal year-end—In 1977 the Corporation changed its fiscal year from a calendar year to a year ending on the Sunday nearest December 31. Accordingly, fiscal year 1977 ended on January 1, 1978.

TABLE 1-4: MONTH OF FISCAL YEAR END

	1977	1976	1975	1974
January	26	21	22	22
February	12	13	14	15
March	16	19	16	19
April	7	7	7	5
May	10	11	10	8
June	38	37	36	37
July	15	13	12	13
August	19	16	17	18
September	41	41	38	38
October	34	31	30	28
November	13	10	12	13
Subtotal	**231**	**219**	**214**	**216**
December	369	381	386	384
Total Companies	**600**	**600**	**600**	**600**

THE AMALGAMATED SUGAR COMPANY

Consolidated Balance Sheet

December 26, 1977	September 27, 1976*

Consolidated Statement of Income (loss)

52 Weeks Ended Dec. 26, 1977	13 Weeks Ended Dec. 27, 1976 (Note 2)	52 Weeks Ended Sept. 27, 1976

Consolidated Statement of Retained Earnings

52 Weeks Ended Dec. 26, 1977	13 Weeks Ended Dec. 27, 1976 (Note 2)	52 Weeks Ended Sept. 27, 1976

Consolidated Statement of Changes in Financial Position

52 Weeks Ended Dec. 26, 1977	13 Weeks Ended Dec. 27, 1976 (Note 2)	52 Weeks Ended Sept. 27, 1976

Note 2: Fiscal Year Change—Beginning September 28, 1976 the Company changed its fiscal year from a 52 or 53 week period ending on the last Monday in September to a 52 or 53 week period ending on the last Monday in December. The change is effective for both reporting and income tax purposes and has been approved by the Internal Revenue Service. Because of the seasonal nature of the sugarbeet processing operation, the financial statements for the year ended December 26, 1977 are not fully comparable to those for the year ended September 27, 1976.

CHICAGO PNEUMATIC TOOL COMPANY

Statement of Financial Position

December 30, 1977	December 31, 1976

Statement of Current and Retained Earnings

For the Year	
1977	1976

Statement of Changes in Financial Position

For the Year	
1977	1976

1977 FINANCIAL SUMMARY

Summary of Significant Accounting Policies

Fiscal Year consisting of four thirteen-week quarters with the year ending on the Friday nearest December 31 was adopted by the company from January 1, 1977. The company had previously reported on a calendar year basis. The 1977 fiscal year ended on December 30, 1977, instead of December 31, as in previous years. This change does not have a material effect on the comparability of the fiscal statements.

INTERSTATE BRANDS CORPORATION

Consolidated Balance Sheet

May 28, 1977	January 1, 1977	December 27, 1975

Consolidated Statement of Income and Retained Earnings

May 28, 1977 (21 Weeks)	January 1, 1977 (53 Weeks)	December 27, 1975 (52 Weeks)

Consolidated Statement of Changes in Financial Position

May 28, 1977 (21 Weeks)	January 1, 1977 (53 Weeks)	December 27, 1975 (52 Weeks)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Fiscal Year Change—The Company changed the end of its fiscal year in 1977 to the Saturday closest to the end of May to approximate the May 31 fiscal year of DPF Incorporated. Summarized operating results for the fifty-two weeks ended May 28, 1977 are disclosed in note 11.

LAFAYETTE RADIO ELECTRONICS CORPORATION

Consolidated Balance Sheets

July 2, 1977 and June 30, 1976

Consolidated Statements of Income (Loss) and Retained Earnings

Years ended July 2, 1977 and June 30, 1976.

Consolidated Statements of Changes in Financial Position

Years ended July 2, 1977 and June 30, 1976.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 2, 1977 and June 30, 1976.

Note 1 (in part): Summary of significant accounting policies

Fiscal year: During 1977 the Company changed its accounting period from a full fiscal year to a 52/53 week year basis. This change has no material effect upon results of operations.

G.C. MURPHY COMPANY

Consolidated Balance Sheet

January 26, 1978	January 27, 1977

Consolidated Statement of Income and Income Retained in the Business

for the fiscal years 1977 and 1976
(52 weeks ended January 26, 1978 and January 27, 1977)

Consolidated Statement of Changes in Financial Position

for the fiscal years 1977 and 1976
(52 weeks ended January 26, 1978 and January 27, 1977)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies:

The accounting policies of the Company, a general merchandise retailer operating within the United States, conform with generally accepted accounting principles. The major accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Fiscal Year:

In 1977 the Company elected to change its fiscal year from a calendar year to one which ends the last Thursday in January. The accompanying consolidated financial statements for 1976 have been restated to conform with the new fiscal year.

THE SHERWIN-WILLIAMS COMPANY

Consolidated Balance Sheets

December 31,		August 31,
1977	1976	1976

Statements of Consolidated Operations

Years Ended		
December 31,		August 31,
1977	1976	1976
	(Unaudited)	

Statements of Changes in Consolidated Financial Position

Years Ended		
December 31,		August 31,
1977	1976	1976
	(Unaudited)	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Effective December 31, 1976, the Company changed its fiscal year end from August 31 to December 31. The unaudited consolidated statements of operations and changes in financial position for the twelve months ended December 31, 1976 are included in the accompanying financial statements for comparative purposes only. Condensed operating results for the four months ended December 31, 1976 are included in Note L. The year ended December 31, 1976 includes eight months of operations which are also included in the fiscal year ended August 31, 1976.

Definition of Fiscal Year

INTERCO INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies—The company and its subsidiaries employ generally accepted accounting principles on a consistent basis to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Fiscal Year—The company's fiscal year ends on the last day of February. In this report, all reference to fiscal 1977 refers to the fiscal year ended February 28, 1977, and fiscal 1976 refers to the fiscal year ended February 29, 1976.

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies: Accounting policies of the Company and its subsidiaries conform with generally accepted accounting principles and reflect practices appropriate to the businesses in which they operate. The significant policies are summarized below.

Fiscal Year—The Company's fiscal year ends on the Sunday nearest to December 31. The fiscal year 1977 ended January 1, 1978 and comprised 52 weeks; fiscal year 1977 ended January 2, 1977 and comprised 53 weeks.

HAMPTON INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Principles of Reporting and Accounting

Definition of Fiscal Year—The Company's fiscal year ends on the last Saturday in December. Fiscal year 1977 ended on December 31, 1977 and fiscal year 1976 on December 25, 1976. The years are comprised of 53 and 52 weeks, respectively.

JOHNSON & JOHNSON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Annual Closing Date—The Company has followed the concept of a fiscal year which ends on the Sunday nearest to the end of the calendar month of December. For the year 1977, the Sunday closest to the end of December was January 1, 1978, and Johnson & Johnson's 1977 fiscal year ended on that date. Normally, each fiscal year consists of 52 weeks, but every five or six years, as was the case in 1976, the fiscal year consists of 53 weeks.

PEPSICO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal year 1977 ended on December 31, 1977 and comprised fifty-three weeks; fiscal year 1976 ended on December 25, 1976 and comprised fifty-two weeks.

SEARS INDUSTRIES INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Acoounting Policies and Definition of Fiscal Year

Definition of Fiscal Year—The Corporation's fiscal year ends on the last business day of the last full week in December. The fiscal years ended December 31, 1977 and 1976 comprised 52 and 53 weeks, respectively.

SAFEWAY STORES, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies.

Fiscal Year: The fiscal year for the Company and its Canadian subsidiaries ends on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30.

TABLE 1-5: ROUNDING OF AMOUNTS

	1977	1976	1975	1974
To nearest dollar	184	200	226	244
To nearest thousand dollars:				
Omitting 000	233	211	188	174
Presenting 000	146	157	161	166
To nearest million dollars	37	32	25	16
Total Companies	**600**	**600**	**600**	**600**

ROUNDING OF AMOUNTS

Table 1-5 shows a continuing increase in the number of survey companies stating financial statement amounts in thousands of dollars with zeros omitted and in millions of dollars.

COMPARATIVE FINANCIAL STATEMENTS

Since 1970, practically all of the survey companies have issued annual reports which include all financial statements on a comparative basis. This practice coincides with a Securities and Exchange Commission requirement that Form 10-K's covering fiscal years ending after December 30, 1970 include comparative financial statements. Rule 14c-3 of the Securities Exchange Act of 1934, effective for fiscal years ending on or after December 20, 1974, extends the requirement for presenting comparative financial statements to include annual reports to stockholders issued in connection with proxy solicitations.

NOTES TO FINANCIAL STATEMENTS

Securities and Exchange Commission Regulation S-X and Sections 430 and 545 of *Statement on Auditing Standards No. 1* state the need for adequate disclosure in financial statements. Normally the financial statements alone cannot present all information necessary for adequate disclosure but must make reference to appended notes which disclose information of the sort listed below:

Changes in accounting principles.

Any material retroactive adjustments.

Long-term lease agreements.

Assets subject to lien.

Preferred stock data.

Pension and retirement plans.

Restrictions on the availability of retained earnings for cash dividend purposes.

Contingencies and commitments.

Depreciation and depletion policies.

Stock option or stock purchase plans.

Consolidation policies.

Business combinations.

Computation of earnings per share.

Subsequent events.

Quarterly data.

Replacement cost data.

The SEC interprets its requirements for presenting comparative statements to mean that notes for both years must also be presented.

Table 1-6 summarizes the manner in which financial statements refer to notes. Notes on specific topics are illustrated in this book in the sections dealing with such topics.

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	1977	1976	1975	1974
General and direct references	336	346	330	325
General reference only	257	235	236	237
Direct reference only	7	14	29	33
No reference to notes	—	5	5	5
Total Companies	**600**	**600**	**600**	**600**

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1977	1976	1975	1974
Consolidation basis	584	584	578	576
Depreciation methods	581	586	583	582
Inventory pricing	557	556	556	556
Interperiod tax allocation	546	543	557	558
Property	504	505	497	510
Employee benefits	360	360	359	312
Amortization of intangibles	320	307	333	168
Earnings per share calculation	295	299	234	174
Translation of foreign currency	238	301	401	378

DISCLOSURE OF ACCOUNTING POLICIES

APB Opinion No. 22 states a conclusion of the Accounting Principles Board "that information about the accounting policies adopted by a reporting entity is essential for financial statements users . . . (and) should be included as an integral part of the financial statements." *Opinion No. 22* sets forth guidelines as to the content and format of disclosures of accounting policies.

Table 1-7 shows the nature of information frequently disclosed in summaries of accounting policies and the number of survey companies disclosing such information. Examples of summaries of accounting policies and a *Glossary of Financial Accounting Terms,* presented by one of the survey companies, follow.

BELL & HOWELL COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A—Significant Accounting Policies:

Principles of Consolidation—The consolidated financial statements include all subsidiaries except the financing subsidiaries described in Note C, and Bell & Howell-Mamiya Company and Bell & Howell/Mamiya Company Canada Ltd., 50%-owned joint ventures. The investment in, and accounts with, unconsolidated subsidiaries are carried at cost plus equity in undistributed earnings. The net assets of international subsidiaries have been translated into U.S. dollars at exchange rates prevailing at year end, except for inventories and certain net property, plant and equipment, which are translated at historical rates. The statements of earnings, except for inventory cost of products sold and depreciation, have been translated at the average exchange rates in effect during the periods. Translation gains and losses are immaterial and are included in operating earnings.

Revenue Recognition—Sales of products and services are recorded based on shipment of products or performance of service. Revenues from service contracts and tuition from resident students are deferred and are recognized in earnings on a pro rata basis over the period of the service agreement or school term.

Income Taxes—Taxes are provided for all items included in the statement of earnings, regardless of the period when such items will be reported for tax purposes. Additional income taxes estimated to be payable upon distribution of earnings of international subsidiaries and the deferred taxes arising from the earnings of the Company's Domestic International Sales Corporations (DISC's) are also provided currently. Investment tax credits are deferred and amortized over the approximate useful lives of the acquired assets.

Earnings per Common Share—Earnings per share data are based on average outstanding shares of Common Stock and dilution resulting from stock options and conversion of Preferred Stock.

Inventories—Inventories are priced at the lower of cost or market, with cost being determined by the first-in, first-out method. Inventory cost includes material, labor and overhead.

Property and Depreciation—Property, plant and equipment is recorded at cost, and generally the double declining balance method of computing depreciation has been applied for both income tax and financial reporting purposes. Upon sale or retirement of depreciable properties, the related cost and accumulated depreciation are removed from the accounts and any resultant gain or loss is reflected in earnings.

Goodwill—Goodwill arising from the acquisition of businesses is amortized by charges to earnings over the estimated period to be benefited. The amortization periods used by the Company vary from five to ten years, depending upon the nature of the acquired businesses. The amounts unamortized were $1,560,000 and $1,920,000 at the end of 1977 and 1976, respectively.

Incentive Stock Plans—Proceeds from the sale of Common Stock issued under stock options granted and related federal tax benefits are credited to Common Stock at the time the option is exercised, and no charge is made against earnings with respect to stock options. The estimated liability resulting from stock appreciation rights granted is accrued and charged to earnings. The value of restricted stock (which was issued in prior years) is charged to operations over periods ranging up to ten years, depending upon the restrictions related to the stock.

BORG-WARNER CORPORATION (DEC)

SUMMARY OF ACCOUNTING POLICIES

The following paragraphs briefly describe the company's significant accounting policies. Certain amounts in the 1976 financial statements have been reclassified to conform to the 1977 presentation.

Principles of consolidation

The consolidated financial statements include all subsidiaries except those in Mexico and South America, which are carried at cost due to political and economic uncertainty, and the financial services companies. Investments in the financial services companies and in affiliated companies, at least 20% owned by Borg-Warner, are carried at equity in underlying net assets.

Marketable securities

Marketable securities are valued at cost, which approximates market.

Inventories

Inventories are valued at the lower of cost or market. In 1977, cost of substantially all inventories is determined by the last-in, first-out (LIFO) method. In 1976, the cost of non-domestic inventories was determined by the first-in, first-out (FIFO) method. The effect of this change on 1977 net earnings is not material.

Property, plant and equipment and depreciation

Property, plant and equipment is valued at cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are generally charged to earnings as incurred. Renewals of significant items are capitalized.

In 1977 all leases meeting certain criteria as defined in Financial Accounting Standards Board Statement No. 13 were capitalized and the assets included in property, plant and equipment and liabilities included in accounts payable and accrued expenses and long-term debt. The 1976 balance sheet has been restated to include the leases capitalized. Earnings for 1977 include a charge, which is not material, for both the current year and the cumulative effect through 1976 resulting from the change in accounting.

Depreciation is computed generally on a straight-line basis over the estimated useful lives of related assets. For income tax purposes, accelerated methods of depreciation are generally used.

Income taxes

For financial accounting purposes, investment tax credits are used to reduce income tax provisions over a seven-year period. For federal income tax purposes, investment tax credits are recognized currently.

Taxes on undistributed net earnings of subsidiaries and affiliates have not been provided since earnings are intended to be reinvested in those companies.

Deferred taxes have been provided on timing differences in reporting certain transactions for financial accounting and tax purposes.

Earnings per share

Earnings per common share are based on average outstanding common shares and common share equivalents. Common share equivalents recognize the dilutive effects of common shares which may be issued in the future upon conversion of preferred stock and upon exercise of certain stock options.

Retirement benefit plans

All eligible Borg-Warner domestic employees participate in non-contributory pension plans and substantially all non-U.S. employees participate in contributory or non-contributory pension plans. In addition, a number of employees are covered by non-contributory retirement benefit plans providing life insurance and medical benefits. The related expenses are based on independent actuarial valuations and substantially all are funded currently. Expenses include amortization of prior service costs over periods not exceeding 40 years.

Audit committee of the board of directors

The company has an Audit Committee of the board composed entirely of outside directors. This committee meets with the company's financial management and its independent accountants at least twice a year to review financial results and procedures, internal financial controls, and internal and external audit plans and recommendations.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies:

A. Consolidation

The consolidated financial statements include the accounts of the Company and all of its domestic and foreign subsidiaries, except for real estate and 50% or less owned affiliates. The accounts of these affiliates are recorded at the lower of the Company's equity in their net assets or estimated net realizable value. Certain foreign subsidiaries are included in the financial statements using years ended November 30. Significant intercompany accounts and transactions are eliminated.

See Note 16 concerning the acquisition of Hoerner Waldorf Corporation and Note 17 concerning the discontinuance of the Company's furnishings business.

B. Translation of Foreign Currency

The financial statements of companies outside the United States are translated into United States dollar equivalents as follows: cash, receivables, current liabilities and long-term debt at exchange rates prevailing at balance sheet dates; all other assets and liabilities at exchange rates prevailing at the dates of transactions; revenues and expenses at average exchange rates for the year, except for depreciation and cost of timber harvested, which are translated on the same basis as the related asset accounts. Unrealized translation gains and losses are reflected currently in consolidated net income. (See Note 11)

C. Inventories

Inventories, which include material, labor and factory overhead, are generally priced at the lower of average cost or market (approximates net realizable values), except for certain inventories of the papers and milk cartons, paper packaging products, and furnishings operations which are priced on the last-in, first-out (LIFO) method. (See Note 2)

D. Capitalization and Amortization of Certain Costs

Interest charges (net of temporary investment income) on funds borrowed to acquire or construct major properties are capitalized at the interest rates in effect as a part of the asset cost until the properties become operational. Subsequently, they are amortized over the life of the asset in order to properly match expenses with revenues resulting from the properties. Preoperating expenses and start-up costs incurred on such properties are deferred and amortized ratably over a five-year period. Financing expenses are deferred and amortized over the life of the related long-term liability.

The excess cost of businesses acquired over amounts assigned to net tangible assets acquired subsequent to October, 1970 is being amortized ratably over periods up to 40 years. Such excess applicable to businesses acquired prior to that date is not presently being amortized.

E. Fixed Assets

Fixed assets, including capitalized leases, are stated on the balance sheet at cost and do not purport to represent replacement or realizable values.

For financial reporting purposes, plant and equipment is depreciated on the straight-line method over the estimated service lives of the individual assets. Leasehold improvements are amortized over the lesser of the lives of the leases or estimated service lives. Cost of timber harvested is based on the estimated quantity of timber available during the growth cycle and is credited directly to the asset accounts.

Upon sale or retirement of items of equipment and improvements, the cost and related accumulated depreciation and amortization are eliminated from the accounts and the resulting gain or loss, if any, is reflected in income.

Maintenance and minor repairs and replacements are charged directly to income; major renewals and betterments are charged to the property accounts. (See Notes 4 and 7)

F. Income Taxes

The Company provides deferred taxes resulting from timing differences between financial and taxable income. These timing differences result principally from using accelerated methods of depreciation and amortization of fixed assets for tax purposes, and deducting currently from taxable income certain preoperating expenses, start-up costs and capitalized interest that, for financial reporting purposes, are deferred and subsequently amortized. Provision is also made for income taxes relating to undistributed earnings of subsidiaries for which remittance is anticipated. The Company follows the practice of including the investment credit in net income as a reduction of the provision for income taxes in the period in which it is allowed for tax purposes. (See Note 12)

G. Pensions

The Company and its subsidiaries have contributory and noncontributory employee pension and retirement plans covering salaried and hourly-paid employees. Pension costs are computed on the basis of accepted actuarial methods and include current service costs of all pension plans and the amortization of past service costs over periods up to 40 years. Actuarial gains and losses are generally amortized over a 10-year or 15-year period. Accrued pension costs are generally funded currently. (See Note 13)

H. Earnings Per Common Share

Primary earnings per common share is computed by dividing net income, after deducting from net income the dividends on the preferred and preference shares, by the average number of common shares outstanding during the year. Fully diluted earnings per common share assumes the average number of common shares outstanding are further increased by conversion at the beginning of the year of the $4.00 preferred and preference shares (with the elimination of the dividend requirements on the $4.00 preferred and preference shares), convertible preferred stock of a subsidiary and convertible long-term debt (with the addition to net income of the interest, net of taxes, on such debt). Stock options have not been included in per share calculations, since they have no material dilutive effect.

CHICAGO BRIDGE & IRON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Accounting Policies

The accounting policies employed by CBI are consistent with generally accepted accounting principles. In instances where more than one generally accepted accounting principle may be applied, CBI has adopted the one that it believes most accurately and fairly reflects the circumstances.

Consolidation—The financial statements present the results of CBI and its majority owned subsidiaries on a consolidated basis. Intercompany accounts and transactions are eliminated. CBI uses the equity method to account for investments in joint ventures and affiliated companies where CBI does not own more than 50%. There were no significant changes in the entities included in the financial statements.

Long-term contracts—CBI and its subsidiaries follow the completed contract method of accounting for income from long-term contracts. Therefore, the income statement reflects selling prices and costs of contracts completed during the year. In addition, losses expected to be incurred on contracts in progress are charged to income as soon as such losses are determined. Progress billings and costs of uncompleted contracts are deferred and shown in the balance sheet.

Certain long-term contracts contain retainage provisions which allow the customer to withhold amounts from payment until CBI has completed its work. It is CBI's policy to bill these amounts and to include them in accounts receivable after work has been completed and the amounts which were withheld are due.

Costs charged to contracts include materials, direct engineering, fabrication and construction labor and the applicable overheads. Selling and administrative expenses are charged to income in the year incurred and are not allocated to contracts in progress.

Property and equipment—Property and equipment are recorded at cost. Depreciation is provided on a straight line basis over the estimated useful life of the property. The principal estimated useful lives are: buildings, 10 to 50 years; plant machinery and equipment, 5 to 25 years; automotive equipment, 2 to 5 years; field equipment, 4 to 10 years; and office furniture and fixtures, 5 to 15 years.

Maintenance and repair of property and equipment are charged to expense as incurred. Renewals and betterments are treated as capital expenditures and depreciated accordingly. Undepreciated cost of property and equipment sold or retired, net of related proceeds, is included in other income (expense).

Stock option and stock purchase plans—Proceeds from the sale of common stock issued under the stock option and stock purchase plans are accounted for as capital transactions. CBI makes no charges to income for these sales. The difference between the selling price and the par value of new shares issued is added to additional paid-in capital. On sales of previously reacquired stock the difference between the selling price and the cost of the reacquired shares sold is charged to retained earnings.

Net income per share—Net income per share is based on the weighted average number of common shares outstanding during the year. The stock rights and options discussed in Notes 10 and 11, respectively, are common stock equivalents. They did not have a significant dilutive effect upon net income per share in either year. The weighted average number of common shares used in calculating net income per share was 9,625,000 in 1977, and 9,764,000 in 1976.

GRANGER ASSOCIATIONS (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its two wholly owned foreign subsidiaries, Granger Associates Limited (England) and Granger Associates Pty Limited (Australia), and Granger Sales Corporation, organized as a Domestic International Sales Corporation (DISC). All significant intercompany balances and transactions have been eliminated.

Inventories. Inventories are stated at the lower of standard cost (which approximates actual cost on an average basis) or market.

Long-Term Contracts. Revenues for contracts are recorded using the completed contract method except for long-term contracts where revenues are recognized using the percentage completion method. Under this method, costs are charged to operations as incurred. Sales are recognized according to the ratio of costs incurred to total currently estimated cost of the project after allowance for costs which may be incurred in excess of the estimate.

Equipment and Improvements. Equipment and improvements are stated at cost. Depreciation of equipment and leased equipment under capital leases with bargain purchase options is calculated using the straight-line method based on estimated useful lives of 6 to 12 years. Leasehold improvements are amortized over the length of the lease. Depreciation of leased equipment under capital leases that have no bargain purchase options is calculated using the straight-line method based on the life of the lease.

Research and Development Costs. Research and development costs are charged to operations as incurred and amounted to $1,364,230 (1976: $1,117,907).

Taxes on Income. Deferred taxes on income are provided for timing differences between financial and tax reporting principally for income recognized under long-term contracts, installment method reporting and DISC commission income.

The foreign subsidiaries compute income taxes on an individual company basis at rates in effect in the various countries. The earnings of such subsidiaries are subject to certain Federal income taxes when distributed to the parent company. No provision has been made in the financial statements for Federal income taxes on the undistributed earnings of the foreign subsidiaries as the Company intends to reinvest undistributed earnings. Foreign tax credits would be available as a reduction of Federal income taxes payable if the earnings were distributed. The undistributed earnings which are permanently reinvested amounted to approximately $333,000 as of August 31, 1977.

Investment tax credits reduce the provision for Federal income taxes in the year they are utilized.

Stock Options and Stock Purchase Plans. The issue price of shares issued under option and stock purchase plans is credited to common stock to the extent of par value and the excess over par value is credited to additional paid-in capital. Under the stock purchase plan, the Company makes a charge to income for its contribution.

Earnings Per Share. Earnings per share are computed based on the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares, consisting of unissued shares under option, are included to the extent that they have a dilutive effect on earnings per share using the "treasury stock" method.

Leases. The Company capitalizes all long-term leases that meet the criteria of Financial Accounting Standard No. 13, "Accounting for Leases." The Company was not required to restate prior year financial statements as a result of Financial Accounting Standard No. 13 as it had capitalized equipment leases in prior years.

P. R. MALLORY & CO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note (1): Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, all domestic subsidiaries and all significant foreign subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation. Minority interests in earnings of consolidated subsidiaries are charged to other deductions in the consolidated statements of earnings.

Financial statements of the consolidated subsidiaries cover twelve-month periods ending September 30 through December 31. Such fiscal periods have been adopted by the subsidiaries in order to provide for a timely consolidation.

Investments in unconsolidated subsidiaries and other companies in which there is an ownership interest of 20% or more are accounted for by the equity mehtod and such subsidiaries and companies are referred to herein as unconsolidated foreign subsidiaries and affiliates or investee companies. Under this method, the Company's equity in the net earnings or losses of the investee companies is included currently in the Company's net earnings except when the Company's share of accumulated losses exceeds the amount of the investment including advances. Dividends received from the investee companies are reflected as a reduction of the investment. The carrying value of these investments approximates the underlying equities in net assets.

Foreign Currency Translation

Accounts of foreign companies are translated into United States dollars as follows: (1) monetary assets and liabilities at year-end rates of the relevant foreign companies; (2) all other assets and liabilities at historical rates; and (3) income and expenses (other than those that relate to assets and liabilities translated at historical rates) at average rates during the year. Translation gains and losses are included currently in net earnings.

Inventories

Inventories of domestic operations are valued at cost (determined on a last-in, first-out basis) not in excess of replacement market. Inventories of foreign operations are valued generally at standard cost, which approximates actual cost (first-in, first-out) not in excess of replacement market.

Property, Plant and Equipment

Purchases of property, plant and equipment and expenditures which materially change capacities, or extend useful lives, are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

Depreciation is generally provided on a straight-line basis for buildings and improvements over estimated useful lives of twenty to fifty years and on accelerated methods for machinery and equipment over estimated useful lives of five to fifteen years.

When an asset is sold or retired before becoming fully depreciated, the cost and accumulated depreciation are removed from the respective accounts and the resultant gain or loss is included in earnings.

Excess of Cost of Investment

The excess of cost of investment over net assets acquried is being amortized on a straight-line basis over a forty-year period.

Pension and Profit-Sharing Plans

The Company and certain of its consolidated subsidiaries have pension plans and, prior to 1977, profit-sharing plans for the benefit of the majority of employees. Generally, pension plan expense is calculated on the basis of the actuarial cost of current service and amortization of prior service costs over periods of fifteen to forty years. The Company's policy is to fund accrued pension plan expense.

Capital Accumulation Plans

The cost of the Company's capital accumulation plans is accrued over the term of the performance periods. The cost of the Tandem Appreciation Plan is based on the greater of the increase in book value, as defined, or the increase in fair market value of the common stock at the end of the period. The cost of the Performance Share Unit Plan is based on the fair market value of the common stock at the end of the period and on the performance objective level attained during the period. The annual provision for the cost of these awards varies depending on the changes in the market value of the common stock during the performance periods.

Stock Options

No entries are made in the accounts for qualified stock options until such options are exercised. When non-qualified stock options are granted, compensation expense is charged and accrued compensation expense is credited for the excess of the aggregate fair market value of the shares on the date of grant over the aggregate option price. When qualified options are exercised, common stock is credited with the par value of the stock issued and the excess of the proceeds over par value is credited to additional paid-in capital. In the case of non-qualified stock options, such excess as well as the accrued compensation expense is credited to additional paid-in capital.

Taxes on Income

Provision is made annually for taxes on income including deferred taxes on differences between financial statement income and taxable income. Such provision recognizes additional United States taxes on income attributable to the Company's share of undistributed earnings of investee companies in which the Company cannot control investment policies. No provision is made for United States taxes on income of the Company's share of undistributed earnings of consolidated subsidiaries and investee companies in which the Company can control investment policies since such earnings have been invested or are expected to be invested for the indefinite future.

Investment tax credits are recognized currently as a reduction of taxes on income.

Earnings per Share

Earnings per share are based on the weighted average number of shares outstanding during the respective years excluding stock options since their inclusion would not have a dilutive effect.

CUMMINS ENGINE COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Terms italicized in these notes are defined in the Glossary on pages 43 and 44.

GLOSSARY OF FINANCIAL ACCOUNTING TERMS

This glossary is intended to aid readers of the financial statements. It explains some of the financial accounting terms used in the financial reviews, financial statements and notes that may not be commonly understood. By their nature, these terms are not easily defined.

Return on Net Sales: A measure of annual profitability showing the relationship of earnings to revenue. The ratio is net earnings divided by net sales for the year.

Return on Shareholders' Investment: A measure of annual profitability showing the relationship of earnings to the average shareholders' investment for the year.

Shareholders' Investment per Common Share: The measure of book value of a share of common stock. The value is based on the total of contributed capital allocated to common stock equity and earnings retained in the business divided by the number of common shares outstanding at year-end.

Debt-to-Capital Ratio: The relationship of total debt including both short-term and long-term borrowings to the sum of debt and shareholders' investment. The ratio measures the portion of financing supplied by lenders.

Equity Method: A method of accounting used by an investor company to record an investment in common stock of an unconsolidated company. The original investment is recorded at cost and increased (or decreased) for the investor's share of annual earnings (or losses) of the company and decreased for dividends received by the investor. The investor's share of the annual earnings (or losses) is included in its net earnings.

LIFO (Last-In, First-Out): An inventory valuation method which essentially charges to cost of goods sold the most recent costs of goods purchased and manufactured. Year-end inventory is valued using the costs of items included in the 1974 inventory (the year the LIFO method was first used) plus costs of quantities of inventory added in 1974 and subsequent years.

FIFO (First-In, First-Out): An inventory valuation method which values the items in year-end inventory by using the most recent costs of goods purchased and manufactured. This method assumes that the costs of the oldest items are deducted from inventory and included in costs of goods sold.

Depreciation: A portion of the cost of acquired tangible property, plant and equipment charged annually to earnings. The annual expense is determined by dividing the cost of the asset by the estimated number of years of its service life.

Amortization: A portion of the cost of goodwill, deferred debt issuance expense and prepaid expenses charged annually to earnings. The annual expense is determined by dividing the cost of the intangible asset by the estimated number of years expected to receive benefit from use of the asset.

Timing Difference: Revenue or expenses which are included in net earnings in a different year than reported in the Company's tax return. In contrast, permanent differences are revenue or expenses that are included in the measurement of the Company's earnings but are not included in taxable income. Permanent differences account for most of the difference between a federal income tax rate of 48 percent and the effective tax rate used to record the provision for income taxes.

Statement of Changes in Financial Position: A basic financial statement showing the major operating and financing activities of the Company and their effect on funds. Funds are defined by the Company as cash and short-term investments less loans payable. These elements are generally interchangeable to support short-term cash requirements. The net change in these elements is an indicator of the flow of funds in the Company during the year.

Capital Lease: Lease of property, plant and equipment which transfers many of the benefits and risks of ownership to the lessee. These leases are accounted for as the acquisition of an asset and as the creation of a liability by the lessee.

Operating Lease: A lease which does not meet the condition of a capital lease because most of the benefits and risks of ownership remain with the lessor. Lease payments are charged to rental expense by the lessee.

Earnings Per Share—Primary: The relationship of net earnings for the year to the weighted average number of shares of common stock outstanding during the year, adjusted for the possible dilutive effects of common stock equivalents, such as stock options and some convertible securities outstanding.

Earnings Per Share—Fully Diluted: Earnings per share based on the weighted average number of shares of common stock outstanding during the year, adjusted for the possible dilutive effects of all contingently issuable shares of common stock, including common stock equivalents and other outstanding rights to receive or convert to common stock.

Stock Appreciation Rights: Rights granted to officers and key employees allowing them to receive in cash or common shares the appreciation in the value of a specified number of shares of common stock under option.

Dividends Declared: Dividends to be paid to shareholders at a date and in an amount specified by the Board of Directors.

Replacement Cost: An estimate of the lowest amount that would have to be paid if the productive capacity of property, plant and equipment or the utility of inventory was to be replaced at the end of the year. Because of the effects of inflation, this amount is usually higher than the original cost of the asset.

Indexing Method: A method used to estimate the replacement cost of machinery and equipment which might be replaced, under current business conditions, with similar assets. The ratio of the original cost to current purchase price of similar assets is used to estimate replacement cost.

Unit Pricing Method: A method used to estimate the replacement cost of buildings and ground improvements. An estimate of current construction costs per square foot is multiplied by the number of square feet to be replaced to calculate an estimate of replacement cost of these assets.

Direct Pricing Method: A method used to estimate the replacement cost of equipment which might be replaced, under current business conditions, with assets of improved technology. The current purchase price of the assumed replacement asset is used as an estimate of the replacement cost of the older asset.

ACCOUNTING CHANGES

Table 1-8 summarizes the nature of accounting changes disclosed by the survey companies in 1977 and the frequency with which such accounting changes were disclosed. As indicated in Table 1-8, the accounting change most frequently disclosed by the survey companies in 1977 concerned leases. *Statement of Financial Accounting Standards No. 13,* issued in November 1976 by the Financial Accounting Standards Board, superseded all previously issued APB Opinions as the authorative pronouncement on accounting for leases by both lessees and lessors. Statement No. 13 requires that a lessee must capitalize capital leases, as defined, entered into on or after January 1, 1977 and that all capital leases, including those entered into before January 1, 1977, must be capitalized for financial statements for fiscal years beginning after December 31, 1980. Of the 97 survey companies disclosing a change to conform to the requirements of Statement No. 13, 35 companies made the change retroactively.

APB Opinion No. 20 "defines various types of accounting changes and establishes guides for determining the manner of reporting each type." Examples of accounting changes not involving a restatement of prior financial statements follow. Examples of accounting changes involving a restatement of prior year financial statements are presented in connection with Table 4-3.

TABLE 1-8: ACCOUNTING CHANGES

	Number of Companies			
	1977	1976	1975	1974
Lease capitalization	97	N/C	N/C	N/C
Actuarial cost methods or assumptions	37	75	62	32
Translation policy	15	96	82	2
LIFO method adopted or extended	10	13	32	198
Change in reporting entity	7	14	13	9
Loss contingencies	4	11	13	—
Other	21	32	100	74

N/C — Not Compiled.

Change in Accounting Estimates

ATI, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Excess of cost over equity in net assets acquired—In December 1977, because of the decline experienced in recent years in sales and earnings (see Note 12), the Company commenced amortizing the excess of cost over net assets acquired arising from an acquisition made in 1970. Such excess is being amortized over 15 years on a straight-line basis commencing September 26, 1976. The amortization had the effect of increasing the net loss for the year ended September 24, 1977 by $92,475 ($.06 per share).

SEARS, ROEBUCK AND CO. (JAN)

NOTES TO FINANCIAL STATEMENTS

Note 5 (in part): Credit operations—Installment accounts (easy payment) will be replaced by SearsCharge (a revolving charge plan) over the next several years. To state income more appropriately during the phase-out period of the installment accounts and the expansion of SearsCharge accounts, the company, effective February 1, 1977, has changed its estimation method for (a) amortizing unearned finance charges related to easy payment accounts, using actual contract lives rather than weighted average contract lives and, (b) computing its allowance for uncollectible customer receivables, incorporating an updated computer model for projecting probable losses in the collection process. The first change in estimate had the effect of reducing income by $35 million and the second change caused an increase in income of $31 million in 1977. The two changes reduced 1977 net income by less than $.01 per share.

Change in Accounting Principle

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1977	1976
	(000)	
Income before cumulative effect of accounting change	$205,781	$124,075
Cumulative effect on prior years of accounting change for capital leases	—	(3,451)
Net Income for the Year	$205,781	$120,624

NOTES TO FINANCIAL STATEMENTS

Accounting Change—Leased Assets: The method of accounting for certain leases in which the Company was lessee was changed in 1977 to comply retroactively with Statement of Financial Accounting Standards No. 13. The new method requires that property held under a lease which meets specific criteria must be capitalized as an asset and the present value of the related lease payments recorded as an obligation. Amortization of capitalized leased assets has been computed on the straight line method.

The effect of this change was not significant in relation to net income of any year. The financial statements for 1976 have been restated for comparative purposes and include the charge of $3,451,000 ($.05 per share) representing the cumulative effect on retained earnings of retroactively applying this accounting method to years prior to 1976. Consistent with the new method, obligations of $78,950,000 at December 31, 1977 ($57,615,000 at December 31, 1976) under leases previously described as"Industrial Revenue Bonds" have been renamed "Capital Lease Obligations."

Refer to note on Leased Assets for discussion of leasing activity.

INTERSTATE BRANDS CORPORATION (MAY)

	1977	1976	1975
Income before cumulative effect of change in accounting principle	$ 1,671,356	$ 3,638,489	$ 6,307,212
Cumulative effect on years prior to 1975 of capitalized leases (note 4)	—	—	(189,577)
Net income	1,671,356	3,638,489	6,117,635
Retained earnings at beginning of period as previously reported	49,382,985	47,464,546	42,327,467
Adjustment for retroactive capitalization of leases (note 4)	254,182	218,115	—
Retained earnings at beginning of period as restated	49,128,803	47,246,431	42,327,467
	$50,800,159	$50,884,920	$48,445,102

Note 4: Change in Accounting Principle—During 1977, the Company changed its method of accounting for leases to comply with Statement of Financial Accounting Standards No. 13 (FAS 13) issued in November, 1976. As a result, the assets and related obligations for property under capital leases have been recorded. In compliance with FAS 13, the financial statements for 1976 and 1975 have been restated and the cumulative effect of the change on 1974 and prior years has been included in net income for 1975. The effect of the change on net income and earnings per share for 1976 and 1975 is as follows:

	January 1, 1977 (53 Weeks)	December 27, 1975 (52 Weeks)
Net income as previously reported	$3,674,556	$6,335,750
Current year effect	(36,067)	(28,538)
Income before cumulative effect on change in accounting principle	3,638,489	6,307,212
Cumulative effect of change in accounting principle (net of income tax expense of $174,993)	—	(189,577)
Net income as restated	$3,638,489	$6,117,635
Earnings per common share		
Based on average shares outstanding		
Net income as previously reported	$ 1.57	$ 2.71
Current year effect	(.02)	(.01)
Income before cumulative effect of change in accounting principle	1.55	2.70
Cumulative effect of change in accounting principle	—	(.08)
Net income as restated	$ 1.55	$ 2.62
Assuming full dilution		
Net income as previously reported	$ 1.49	$ 2.53
Current year effect	(.02)	(.01)
Income before cumulative effect of change in accounting principle	1.47	2.52
Cumulative effect of change in accounting principle	—	(.08)
Net income as restated	$ 1.47	$ 2.44

CUTLER-HAMMER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Property, Plant and Equipment—Property, plant and equipment are carried at cost. Prior to January 1, 1977, the Company's provision for depreciation has generally been made using accelerated methods of computation based on estimated useful lives of assets. Generally, assets acquired after January 1, 1977, are being depreciated using the straight-line method to more closely relate to industry practices. The effect of this change in 1977 is not significant to the financial statements and results in an increase in net income of $160,000 or 3 cents per common share. Related costs and accumulated depreciation are eliminated from the accounts upon disposal of an asset and the resulting gain or loss is reflected in the income statement. Fully depreciated assets are eliminated from the asset and accumulated depreciation accounts, although they may still be used in operations. Renewals and betterments are capitalized and expenditures for maintenance, repairs, tools and dies are expensed as incurred.

GEO. A. HORMEL & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Change in Accounting Method—Through fiscal 1976, the Company provided for depreciation of buildings by the straight-line method and for depreciation of equipment by an accelerated method approximating the double-declining balance method. Effective October 31, 1976, the Company changed its method of depreciating newly-acquired equipment on a prospective basis to the straight line method in order to conform to prevailing industry practice. The effect of this change was to increase earnings before income taxes by $1,400,000, and net earnings by $700,000 ($.15 per share) in fiscal 1977.

SCOTT PAPER COMPANY (DEC)

	1977		1976	
	Amount In Thousands	Amount Per Common Share	Amount In Thousands	Amount Per Common Share
Income before cumulative effect of a change in accounting principle	62,110	$1.60	73,153	$2.01
Cumulative effect on years prior to 1977 of changing to the flow through method of accounting for investment tax credit	37,080	.96	—	—
Net income	$99,190	$2.56	$73,153	$2.01
Pro Forma Net Income				
Although prior years were not restated for the change to the flow through method of accounting for investment tax credit, these amounts indicate what the net income would have been if the flow through method had been used in prior years	$62,110	$1.60	$96,223	$2.65

FINANCIAL REVIEW

Deferred Income Taxes and Investment Credits

(Thousands)	1977	1976
Balance at beginning of year	$107,383	$ 81,789
Reduction resulting from change to flow through method	(37,080)	—
	70,303	81,789
Deferred taxes on timing differences		
Accelerated depreciation	17,220	16,307
Provision for mill closings	(6,790)	—
Investment tax credits	(5,805)	(13,672)
Other timing differences	34	(111)
Deferred investment tax credits	—	23,070
	4,659	25,594
Balance at end of year	$74,962	$107,383

Deferred taxes include deferred investment tax credits (in 1976 only) and the effects of timing differences where some items of income and expense are not recognized for taxation in the same period in which they affect earnings. Deferred taxes in the amount of $17,220,000 were provided because accelerated tax depreciation exceeds depreciation for financial statement purposes. Deferred taxes were reduced by $6,790,000 for the tax effect of the 1977 provision for mill closings which cannot be currently recognized for tax purposes.

In 1977, the Company changed from the deferral method of accounting for investment tax credits to the flow through method to make Scott's accounting policy consistent with those of most industrial companies and particularly those companies in the pulp and paper industry. This change will result in greater comparability of financial results between companies. Under the deferral method, the credits are taken into income over the lives of the applicable assets, while under the flow through method the credits are taken in the year the assets are placed in service. However, under either method, the amount of credit which can be utilized in any one year is subject to a limitation under federal tax law. The effect of the change in 1977 was to increase net income by $40,380,000 or $1.04 per share consisting of $37,080,000 or $.96 per share from the cumulative effect of prior years' investment tax credits and $3,300,000 or $.08 per share from the effect of current year investment tax credits.

The reductions in deferred taxes attributable to investment tax credits of $5,805,000 in 1977 and $13,672,000 in 1976 represent the amount by which the investment tax credits which can be recognized for financial reporting purposes exceed the amount which can be recognized for income tax purposes. In addition, the Company could not utilize approximately $6,500,000 of investment tax credits for financial reporting purposes due to the limitation. These credits will be available to reduce taxes on income in future years. For tax purposes, the Company has accumulated an investment tax credit carryforward of approximately $26,000,000, which is available to reduce taxes payable in future years.

The Company's policy concerning U.S. income tax on the earnings of its international and supplier affiliates reflects the view that because of the continuing capital needs of the affiliates, their undistributed earnings are expected to be, for the most part, permanently reinvested. To that extent, Scott has not provided U.S. income tax on its shares of these earnings. If these earnings were distributed, no material amount of U.S. income tax would be payable under existing tax laws.

CONSOLIDATION POLICIES

Accounting Research Bulletin No. 51 states in part:

1. The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

5. Consolidated statements should disclose the consolidation policy which is being followed. In most cases this can be made apparent by the headings or other information in the statements, but in other cases a footnote is required.

Paragraphs 2 and 3 of *ARB No. 51* and paragraph 8, Chapter 12 of *ARB No. 43* describe the conditions under which a subsidiary should or might not be consolidated.

Securities and Exchange Commission Regulation S-X stipulates when a company must present in Form 10-K separate financial statements for consolidated subsidiaries engaged in finance-related operations. As interpreted by the SEC Staff in *Staff Accounting Bulletin No. 2,* annual reports to shareholders do not have to present such separate financial statements but should, at least, include summarized financial information for such subsidiaries for which separate financial statements are required in Form 10-K. This requirement concerning consolidated finance-related operations has limited applicability to the survey companies because the survey companies usually do not consolidate finance-related operations.

Table 1-9 summarizes the consolidation policies of the survey companies. For the purpose of the aformentioned tabulations a subsidiary is a company described in an annual report as a subsidiary or as more than 50 per cent owned by its parent company. Notes to financial statements discussing consolidation policies follow.

TABLE 1-9: CONSOLIDATION POLICIES

	1977	1976
Nature of Subsidiaries Not Consolidated		
Finance related		
Credit	97	93
Insurance	35	36
Leasing	17	20
Banks	10	10
Real estate	30	33
Foreign	37	38
Number of Companies		
Consolidating all significant subsidiaries	423	411
Consolidating certain significant subsidiaries	167	178
Not presenting consolidated financial statements	10	11
Total Companies	**600**	**600**

All Subsidiaries Consolidated

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies

Principles of consolidation—The consolidated financial statements include the accounts of the company and its subpany and all domestic and foreign subsidiaries. All significant intercompany accounts and transactions, including intercompany profits in inventories, have been eliminated.

The Company accounts for its investment in its unconsolidated Japanese affiliate (49 percent owned) on the basis of its equity in the underlying net assets.

LOWE'S COMPANIES, INC. (JUL)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Principles of Consolidation—The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned. There are 154 subsidiary corporations: 149 store companies, two lumber distribution yards, a merchandise distribution center, a real estate company and an advertising agency. The practice of forming a subsidiary for each new market area has been discontinued and present plans call for new store locations and existing subsidiaries to be organized within state lines. All material intercompany accounts and transactions have been eliminated.

MELVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all subsidiaries. Included are foreign subsidiaries whose results of operations for 1977 and 1976 are insignificant in relation to the consolidated results of operations and financial position. The minority interest represents the participation on a 51%-49% basis, respectively, of the Company and K mart Corporation (K mart) in the ownership of all retail subsidiaries formed from 1975 through 1984 for the purpose of operating leased shoe departments in K mart stores. In addition, K mart is increasing its ownership in such leased departments in existence at December 31, 1974 from 25% to 49% over a four year period ending in 1978. All intercompany balances and transactions have been eliminated.

OUTBOARD MARINE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Basis of Consolidation—The accounts of all subsidiaries are included in the Consolidated Financial Statements. Intercompany accounts, transactions and earnings have been eliminated in consolidation. All subsidiary companies are wholly owned except Outboard Marine Australia Pty. Limited which is 70% owned; the minority interest in this subsidiary's earnings and stockholders' investment is included in other expense and other accounts payable in the Consolidated Financial Statements. The amounts included in other expense are $571,000 and $697,000 in 1977 and 1976, respectively. The amounts included in other accounts payable are $2,544,000 and $2,303,000 at September 30, 1977 and 1976, respectively.

THE SUPERIOR OIL COMPANY (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of all domestic and foreign subsidiaries owned more than fifty percent including Canadian Superior Oil Ltd. (Canadian Superior) which is 50.9 percent owned. The minority interest shareholders' equity in the net assets of subsidiaries is set forth in the Consolidated Balance Sheet and their equity in subsidiaries' net income has been deducted in arriving at consolidated net income. All significant intercompany accounts and transactions have been eliminated.

Superior's investments in all other companies owned twenty percent or more are stated at cost as adjusted for Superior's share of reported earnings or losses less amortization of excess costs. Investments in all other companies are carried at cost.

Certain prior year amounts have been reclassified to conform to 1977 presentation.

All Significant Subsidiaries Consolidated

THE ANSUL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of The Ansul Company and all significant subsidiaries. These subsidiaries are wholly owned, with the exception of Lane Limited (our Australian subsidiary) which is 73% owned. The non-U.S. consolidated subsidiaries are included in the financial statements on the basis of fiscal years ended November 30. Certain minor non-U.S. subsidiaries are included in the financial statements on an equity basis due to requirements in their respective countries that they eventually become majority owned by local citizens.

P. R. MALLORY & CO. INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company, all domestic subsidiaries and all significant foreign subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation. Minority interests in earnings of consolidated subsidiaries are charged to other deductions in the consolidated statements of earnings.

Financial statements of the consolidated subsidiaries cover twelve-month periods ending September 30 through December 31. Such fiscal periods have been adopted by the subsidiaries in order to provide for a timely consolidation.

Investments in unconsolidated subsidiaries and other companies in which there is an ownership interest of 20% or more are accounted for by the equity method and such subsidiaries and companies are referred to herein as unconsolidated foreign subsidiaries and affiliates or investee companies. Under this method, the Company's equity in the net earnings or losses of the investee companies is included currently in the Company's net earnings except when the Company's share of accumulated losses exceeds the amount of the investment including advances. Dividends received from the investee companies are reflected as a reduction of the investment. The carrying value of these investments approximates the underlying equities in net assets.

Finance-Related Subsidiaries Not Consolidated

ARCHER DANIELS MIDLAND COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries except National City Bancorporation and its banking affiliate, National City Bank of Minneapolis. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Investments in National City Bancorporation and 50%-owned companies are carried at cost plus equity in undistributed earnings since acquisition.

THE BENDIX CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Consolidated financial statements and related matters—The consolidated financial statements comprise those of the Corporation and all of its subsidiaries, except for its insurance subsidiaries. Equity in earnings of the nonconsolidated insurance subsidiaries and of other companies (where the Corporation's equity investments enable the use of significant influence over operating and financial policies) is included in consolidated income currently. The financial statements of subsidiaries outside the U.S. and Canada generally are included in the consolidated financial statements on the basis of fiscal years ending on August 31.

THE CONTINENTAL GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Statement of Accounting Policies (in part)—The consolidated financial statements include the accounts of The Continental Group, Inc. (the Company), and all significant subsidiaries other than the Richmond Company, which is engaged primarily in insurance operations, and a wholly-owned leasing company whose financial operations are dissimilar to the manufacturing operations of the consolidated group. These insurance and leasing companies are accounted for by the equity method.

THE DOW CHEMICAL COMPANY (DEC)

ACCOUNTING PRINCIPLES

Consolidation—The accompanying consolidated financial statements include the assets, liabilities, revenues and expenses of all significant subsidiaries except for a bank and two insurance companies. Because of the nature of their operations, the accounts of these companies are not consolidated. However, their earnings are included in consolidated net income under the equity method of accounting.

GENERAL ELECTRIC COMPANY (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation—The financial statements consolidate the accounts of the parent General Electric Company and those of all majority-owned and controlled companies ("affiliated companies"), except finance companies whose operations are not similar to those of the consolidated group. All significant items relating to transactions among the parent and affiliated companies are eliminated from the consolidated statements.

The nonconsolidated finance companies are included in the statement of financial position under investments and are valued at equity plus advances. In addition, companies in which GE and/or its consolidated affiliates own 20% to 50% of the voting stock ("associated companies") are included under investments, valued at the appropriate share of equity plus advances. After-tax earnings of nonconsolidated finance companies and associated companies are included in the statement of earnings under other income.

A nonconsolidated uranium mining company (see note 13) is also included under investments and is valued at cost.

JIM WALTER CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 1: Principles of Consolidation—The financial statements include the accounts of Jim Walter Corporation (the Company) and all companies which are over 50% owned, except First Brentwood Corporation and its subsidiaries (Brentwood). The investments in consolidated subsidiaries are carried at equity in underlying net assets plus the unamortized balance of the net excess of cost of investments over equity at dates of acquisition which is classified in consolidation as property, plant and equipment (credit amount shown separately) and other assets.

The investment in Brentwood (100% owned) is carried at equity in net assets. Substantially all of Brentwood's retained earnings of $24,099,000 has qualified as tax deductions and no provision for federal income tax has been made thereon; if such retained earnings are subsequently used for purposes other than to absorb loan losses, including distributions in liquidation, they will be subject to federal income tax at the the prevailing corporate rates. At August 31, 1977 $14,365,000 appropriated to general reserves, as required by regulatory authorities, is included in stockholder's equity of Brentwood Savings and Loan Association, Brentwood's wholly-owned savings and loan subsidiary.

NATIONAL CAN CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Statement of Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of the Corporation and all domestic operations, except for a wholly owned financial services subsidiary, which is insignificant. The investments in subsidiaries engaged in international operations and in financial services activities are carried at cost plus equity in earnings (loss) since acquisition. All significant intercompany accounts and transactions have been eliminated in consolidation.

Real Estate Subsidiaries Not Consolidated

POTLATCH CORPORATION (DEC)

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Consolidation—The financial statements include the accounts of Potlatch Corporation and subsidiaries except Brown & Kaufmann, Inc., a homebuilding and land development subsidiary, which is carried at cost of investment and advances, adjusted for equity in results of operations. Significant intercompany transactions and accounts are eliminated.

THE WILLIAMS COMPANIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of consolidation—The consolidated financial statements include the accounts of The Williams Companies ("Williams") and all significant majority owned subsidiaries. Companies engaged in real estate activities and companies in which Williams and its subsidiaries own 20% to 50% of the voting common stock are accounted for under the equity method, except for a 25% owned fertilizer company in the Republic of Korea which is accounted for under the cost method. The cost method is used because Williams does not have the ability to exercise sufficient influence over operating and financial policies of the company to warrant application of the equity method.

Foreign Subsidiaries Not Consolidated

BORG-WARNER CORPORATION (DEC)

SUMMARY OF ACCOUNTING POLICIES

The following paragraphs briefly describe the company's significant accounting policies. Certain amounts in the 1976 financial statements have been reclassified to conform to the 1977 presentation.

Principles of consolidation—The consolidated financial statements include all subsidiaries except those in Mexico and South America, which are carried at cost due to political and economic uncertainty, and the financial services companies. Investments in the financial services companies and in affiliated companies, at least 20% owned by Borg-Warner, are carried at equity in underlying net assets.

NOTES TO FINANCIAL STATEMENTS

Operations outside the United States—Borg-Warner's equity in net earnings of consolidated subsidiaries located outside the U.S. was $4.8 million in 1977 and $3.3 million in 1976.

Borg-Warner's equity in the net assets of these companies at December 31 is summarized as follows:

(millions of dollars)	1977	1976
Current assets	$235.6	$238.5
Non-current assets	145.3	149.4
Total assets	380.9	387.9
Current liabilities	96.5	103.6
Non-current liabilities	92.7	120.3
Net assets before minority interests	191.7	164.0
Minority interests	16.0	15.1
Borg-Warner's equity in net assets	$175.7	$148.9

Consolidated net earnings for the years 1977 and 1976 includes net exchange losses of $1.0 million and $12.2 million, respectively.

Borg-Warner's equity in underlying net assets of its Mexican and South American subsidiaries at December 31, translated at exchange rates in effect at each year-end, exceeded the carrying value of these companies by $11.6 million for 1977 and $9.4 million for 1976. Dividends from these companies, which are included in earnings, amounted to $.1 million in 1977 and $1.9 million in 1976.

EX-CELL-O CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company, all domestic subsidiaries and subsidiaries in Canada, England and West Germany with all significant intercompany balances and transactions eliminated. The investment in an immaterial foreign subsidiary operating in India, together with investments in certain foreign affiliated companies less than 50% owned, are recorded on the equity method.

HARNISCHFEGER CORPORATION (OCT)

FINANCIAL NOTES

Note 1 (in part): Summary of Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of all majority-owned subsidiaries except a wholly-owned domestic finance subsidiary, which is accounted for under the equity method, and a wholly-owned Brazilian subsidiary, which is carried at cost because its earnings are subject to material financial risks. Investments of less than 20% ownership are carried at cost. Intercompany transactions have been eliminated in the consolidated financial statements.

Subsidiaries Not Consolidated—Control Is Temporary

THE GILLETTE COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part):

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all major owned subsidiaries, except for Cambridge Shaver Imports, Inc. (see page 29). Investments in less than majority owned companies are accounted for on the equity method. Intercompany accounts and transactions have been eliminated. Accounts of subsidiaries outside the United States and Canada have been included on the basis of fiscal years generally ending November 30, except for the Braun group of companies, whose fiscal year ends September 30.

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Braun Antitrust Suit—At the end of 1975, the United States District Court in Boston approved a consent decree settling an antitrust suit brought by the Justice Department following the acquisition of Braun AG in 1967. Under the settlement a new company, Cambridge Shaver Imports, Inc., was formed to market Braun-made electric shavers in the United States. A total of $2.5 million is required to be invested in the capital stock of the new company in three annual installments, the second of which was completed in 1977.

The new company is to be divested no later than May, 1980, after approval by the Court, or the Court may then appoint a trustee to make the divestiture. The purchaser of the new company will receive rights to an exclusive supply contract for the United States, in addition to certain patent rights and manufacturing know-how.

Under the settlement Gillette retains its ownership of Braun AG, and Braun AG retains its foreign business and its existing business in the United States in lines other than electric shavers.

INSILCO CORPORATION (DEC)

SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its significant majority owned subsidiaries except its wholly-owned finance subsidiary and Times Fiber Communications, Inc., a joint venture in which the Company's 51% control is expected to be temporary. Investments in the finance subsidiary, joint ventures and other associated companies are accounted for using the equity method.

BUSINESS COMBINATIONS

Paragraph 8 of *APB Opinion No. 16* states:

> The Board concludes that the purchase method and the pooling of interests method are both acceptable in accounting for business combinations, although not as alternatives in accounting for the same business combination. A business combination which meets specified conditions requires accounting by the pooling of interests method. A new basis of accounting is not permitted for a combination that meets the specified conditions, and the assets and liabilities of the combining companies are combined at their recorded amounts. All other business combinations should be accounted for as an acquisition of one or more companies by a corporation. The cost to an acquiring corporation of an entire acquired company should be determined by the principles of accounting for the acquisition of an asset. The cost should then be allocated to the identifiable individual assets acquired and liabilities assumed based on their fair values; the unallocated costs should be recorded as goodwill.

Paragraphs 50 to 65 and 66 to 96 of *Opinion No. 16* describe the manner of reporting and disclosures required for a pooling of interests and a purchase, respectively.

Table 1-10 shows that in 1977 the survey companies reported 48 business combinations accounted for as a pooling of interests of which 17 such business combinations did not result in a restatement of prior year financial statements. Those companies not restating prior year's financial statements for a pooling of interests usually commented that the reason for not doing so was immateriality. Examples of poolings of interests and purchases follow.

POOLINGS OF INTERESTS

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 16: On February 24, 1977, Hoerner Waldorf Corporation, a manufacturer and marketer of paper packaging products, was merged into the Company in exchange for 14,386,657 shares of the Company's common stock. Each share of Hoerner Waldorf common stock was converted into .95 of a share of the Company's common stock. The Company reserved 1,252,908 shares of common stock for issuance on conversion of Hoerner Waldorf's convertible securities and on exercise of Hoerner Waldorf's employee stock options. Additionally, the number of authorized shares of common stock was increased from 60,000,000 to 100,000,000.

The transaction was accounted for as a pooling of interests, and 1976 and prior period amounts have been restated to include Hoerner Waldorf's fiscal year ended October 31 with the Company's calendar year ended December 31. In order to reflect the change in Hoerner Waldorf's fiscal year end to conform with the Company's calendar year end, the net income of Hoerner Waldorf for the two months ended December 31, 1976 of $3,667,000 (generated from net sales of $81,869,000) was credited to consolidated retained earnings. Hoerner Waldorf's dividends declared during this two-month period, totaling $3,411,000, were charged to consolidated retained earnings.

Net sales and net income for each of the previously separate companies and consolidated were:

(in thousands of dollars)	Champion International	Hoerner Waldorf	Consolidated
1977 (Unaudited):			
Three months ended March 31 for Champion International and Hoerner Waldorf:			
Net Sales	$ 640,594	$121,234	$ 761,828
Net Income	$ 24,841	$ 7,435	$ 32,276
1976:			
Year ended December 31 for Champion International and October 31 for Hoerner Waldorf:			
Net Sales	$2,568,016	$511,330	$3,079,346
Net Income	$ 103,023	$ 32,917	$ 135,940

TABLE 1-10: BUSINESS COMBINATIONS

	1977	1976	1975	1974
Poolings of Interests				
Prior year's financial statements restated	31	24	18	30
Prior year's financial statements not restated	17	19	13	20
Total	**48**	**43**	**31**	**50**
Purchase Method	**118**	**103**	**75**	**143**

COLT INDUSTRIES INC (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: During 1977, Colt acquired all of the outstanding stock of Menasco Manufacturing Company in exchange for 1,055,000 common shares of Colt in a combination accounted for as a pooling of interests, and prior years financial statements have been restated to include Menasco. Menasco is a leading supplier of landing gear assemblies for aircraft manufacturers.

Sales and net earnings for the six months ended July 3, 1977 were $714,105,000 and $27,626,000, respectively for Colt and $38,805,000 and $2,779,000, respectively for Menasco.

Sales and net earnings as previously reported for the years 1973 through 1976 have been restated as follows (in thousands):

	1976	1975	1974	1973
Sales—As previously reported	$1,266,511	$1,022,759	$1,143,508	$862,103
Adjustment for pooling of interests	79,253	80,922	67,401	51,950
As restated	$1,345,764	$1,103,681	$1,210,909	$914,053
Net earnings—As previously reported	$ 61,628	$ 52,127	$ 77,303	$ 26,734
Adjustment for pooling of interests	5,217	5,309	1,000	3,214
As restated	$ 66,845	$ 57,436	$ 78,303	$ 29,948

Prior to the pooling, Menasco's fiscal year ended on June 30. For the six months ended December 31, 1976, Menasco reported sales of $32,869,000, and net earnings of $2,760,000, and increased retained earnings net of dividends by $689,000. Retained earnings have been adjusted by this amount to give effect to the change in Menasco's fiscal year.

THE DEXTER CORPORATION (DEC)

FINANCIAL REVIEW

Business Combination—On May 9, 1977 the businesses of The Dexter Corporation and The Mogul Corporation were combined in a transaction accounted for as a pooling of interests. Dexter issued 1,907,121 of its common shares for a like number of Mogul shares. Mogul, which manufactures and markets water treatment chemicals and life science products, had a fiscal year ended October 31. Accordingly, the pooled results for 1976 combine Dexter's calendar year amounts with Mogul's October 31, 1976 amounts. Effective January 1, 1977 Mogul's fiscal year-end was changed to coincide with Dexter's fiscal year-end of December 31 and pooled results for 1977 are on a calendar basis. Mogul's results for the two months ended December 31, 1976 were charged directly to retained earnings in accordance with Accounting Principles Board Opinion No. 16. Sales of Mogul during this period were approximately $10,600,000.

The following table reconciles combined net sales and net income with those previously reported by Dexter for 1976 and the three months ended March 31, 1977 (the period prior to the combination):

(In Thousands of Dollars)	Year Ended December 31, 1976	Three Months Ended March 31, 1977 (Unaudited)
Net Sales:		
Previously Reported	$188,532	$59,782
The Mogul Corporation	66,555	18,142
Combined	$255,087	$77,924
Net Income:		
Previously Reported	$ 11,159	$ 3,276
The Mogul Corporation	4,178	814
Combined	$ 15,337	$ 4,090

JACK ECKERD CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Pooling of Interests—On January 8, 1977, the Company exchanged 4,152,428 shares of its common stock for all of the outstanding common stock of Eckerd Drugs, Inc. (EDI), primarily the operator of a chain of 236 drug stores in certain portions of the southern United States.

This acquisition was accounted for as a pooling of interests. The 1977 consolidated financial statements include premerger sales and net earnings of the Company and EDI for the 26 weeks ended January 29, 1977 (the end of the interim period nearest the date of merger) as follows:

	Net sales	Net earnings
Company	$362,113,839	$18,602,834
EDI	130,799,289	5,484,564
	$492,913,128	$24,087,398

The 1976 financial statements have been restated to include the financial statements of EDI for the 53 weeks ended

April 3, 1976. Sales and net earnings as previously reported have been restated as follows:

	Net sales	Net earnings
Jack Eckerd Corporation as previously reported......	$637,240,534	$31,254,084
Eckerd Drugs, Inc.	233,729,244	8,549,726
As restated...............	$870,969,778	$39,803,810

In 1976 EDI had 43,056 shares of 4% preferred stock outstanding, substantially all of which had been acquired as treasury stock and was retired in 1977. The excess of the par value of such stock over its cost has been treated as capital in excess of par value in the accompanying financial statements.

The fiscal closing of EDI was changed from the Saturday nearest March 31 to the Saturday nearest July 31 to conform to that of the Company. Net earnings of EDI for the 17 weeks ended July 31, 1976 excluded from the statement of earnings resulting from conforming fiscal years, are as follows:

Net sales	$74,080,712
Cost of sales and expenses............	71,906,678
Net earnings	$ 2,174,034

UNION OIL COMPANY OF CALIFORNIA (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Merger with Molycorp, Inc.—On July 29, 1977, the Company exchanged 4,193,885 shares of its Common Stock for all of the outstanding common stock of Molycorp, Inc., a company engaged primarily in mining, processing and marketing of molybdenum and rare earths.

The merger was accounted for as a "pooling of interests" whereby all financial data for periods prior to the merger have been restated to combine the operations of Union and Molycorp and to conform to the accounting policies of Union. Such conforming adjustments were not material to the accounts of the combined enterprise.

Unaudited quarterly revenues and earnings of the separate companies prior to the merger were as follows:

	Union		Molycorp		Pro Forma Combined	
	Revenues	Earnings	Revenues	Earnings	Revenues	Earnings
			Millions of Dollars			
1976—1st Quarter..	$1,456.3	$65.8	$19.6	$3.5	$1,475.6	$69.0
—2nd Quarter...	1,407.0	53.2	22.0	3.7	1,429.0	56.6
—3rd Quarter...	1,392.8	69.0	23.7	5.2	1,416.1	73.8
—4th Quarter...	1,524.6	80.8	26.6	5.7	1,551.2	86.4
1977—1st Quarter..	1,432.1	70.7	30.7	6.4	1,462.5	77.0
—2nd Quarter...	1,536.5	75.2	31.4	5.6	1,567.7	80.7

GENERAL SIGNAL CORPORATION (DEC)

Statement of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock in Treasury
Balance at December 31, 1975, as previously reported	$18,949,000	$44,985,000	$143,786,000	$(346,000)
Effect of 100 percent stock distribution reflecting transactions prior to payment date (note 5)	7,838,000	(7,838,000)		
Effect of pooling of interests with Sola Basic Industries, Inc., reflecting transactions prior to merger date (note 2)	3,892,000	23,080,000	49,052,000	
Balance at December 31, 1975, as restated	$30,679,000	$60,227,000	$192,838,000	$(346,000)
Net earnings			39,834,000	
Dividends declared			(10,036,000)	
Exercise of stock options (note 6)	126,000	702,000		
Issuance of common stock to Savings and Stock Ownership Trust (note 7)	42,000	1,162,000		46,000
Transactions in treasury stock (notes 2 and 5)		90,000		101,000
Balance at December 31, 1976	$30,847,000	$62,181,000	$222,636,000	$(199,000)
Effect of conforming fiscal year of Sola Basic Industries, Inc. to that of General Signal Corporation (note 2)	(29,000)	(745,000)	(1,867,000)	(60,000)
Net earnings			47,941,000	
Dividends declared			(13,873,000)	
Exercise of stock options (note 6)	45,000	662,000		
Issuance of common stock to Savings and Stock Ownership Trust (note 7)	38,000	950,000		
Transactions in treasury stock (note 5)				7,000
Balance at December 31, 1977	$30,901,000	$63,048,000	$254,837,000	$(252,000)

Data for both years reflect pooling of interests with Sola Basic Industries, Inc. (see notes 1 and 2).

Note 1 (in part): Summary of Significant Accounting Policies and Related Matters

Consolidation: The financial statements include the accounts of the Company and its foreign and domestic subsidiaries. Investments in certain minor foreign subsidiaries, as well as 50-percent-or-less owned companies, are stated at cost plus equity in undistributed earnings since acquisition.

The accompanying 1976 financial statements have been restated to reflect the 100 percent stock distribution (note 5), and the merger with Sola Basic Industries, Inc. as a pooling of interests (note 2).

Net assets outside the United States (including nonconsolidated subsidiaries) comprise approximately 9 percent of the total in 1977 and 10 percent of the total in 1976 and are located principally in Canada. Net sales were $102,799,000 in 1977 and $102,445,000 in 1976. Net earnings amounted to $2,679,000 in 1977 and $4,031,000 in 1976.

Exchange gains and losses were immaterial in both 1977 and 1976.

All significant intercompany transactions have been eliminated.

Note 2 (in part): A merger with Sola Basic Industries, Inc. ("Sola") was consummated as of September 30, 1977, whereby Sola became a subsidiary of the Company through the exchange of 3,982,854 shares of the Company's $1 par value common stock for all of the outstanding common shares of Sola. Sola is principally engaged in a single line of business which embraces the design, manufacture and sale of a broadly diversified range of equipment employed in the distribution, control and use of energy in electric form. Prior to the merger, the fiscal year of Sola ended on March 31. The merger was accounted for as a pooling of interests and accordingly, the accompanying 1976 financial statements include the accounts of Sola as of and for its fiscal year ended March 31, 1977. For the accompanying 1977 financial statements, the fiscal year of Sola has been conformed to that of the Company.

Net sales and net earnings of the Company and Sola for the years ended December 31, 1977 and 1976 are as follows:

	1977	1976
Net Sales:		
General Signal Corporation	$682,411,000	$616,644,000
Sola	183,102,000	181,238,000
	$875,513,000	$797,882,000
Net Earnings:		
General Signal Corporation	$ 39,061,000	$ 31,332,000
Sola	8,880,000	8,502,000
	$ 47,941,000	$ 39,834,000

In September 1976, the Company acquired Mission Coatings, Incorporated, a manufacturer of specialty chemical coatings, for 25,264 shares (note 5) of the Company's common stock. The acquisition was accounted for as a pooling of interests.

PURCHASES

FALCON SEABOARD INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Acquisition of Coal Companies—On December 15, 1977, Falcon, through its subsidiary Hawkeye Coal Company, acquired all of the outstanding capital stock of Hawkeye Elkhorn Coal Company, Inc. (Hawkeye Elkhorn) and Freeport Mining Co., Inc. (Freeport) for $2,610,000 of cash and $6,390,000 in notes payable. The acquisition was accounted for under the purchase method of accounting and the results of operations of the acquired companies have been included in the consolidated results of Falcon since the acquisition date.

The purchase price exceeded the net assets of the acquired companies by $8,190,000. Such amount was allocated principally to the coal reserves and will be amortized on a unit-of-production method as the reserves are produced.

The unaudited pro forma consolidated results of operations of Falcon for the years ended December 31, 1977 and 1976 (as though Hawkeye Elkhorn and Freeport had been acquired on January 1, 1976), are as follows:

	1977	1976
Revenues	$119,161,000	$103,931,000
Net Income	17,015,000	17,455,000
Net Income Per Share	2.28	2.36

LEAR SIEGLER, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Acquisitions—Effective January 1, 1977, the Company acquired for cash substantially all of the outstanding common stock of Royal Industries, Inc. (Royal) for approximately $86,600,000, including expenses, Royal is principally engaged in the manufacture and sale of automotive, farm machinery and energy products. The transaction has been accounted for as a purchase and, accordingly, the operations of Royal are included in the consolidated statement of earnings from January 1, 1977. The purchase price in excess of the fair value of net assets acquired, in the amount of $15,657,000, is included in goodwill and is being amortized on the straight-line basis over forty years.

On an unaudited pro forma basis, including the results of operations of Royal as if it had been acquired at the beginning of the 1976 fiscal year (with appropriate adjustments, primarily for imputed interest charges attributable to the financing of the transaction), results of operations for the years ended June 30, 1977 and 1976 would have been as follows:

	1977	1976
Net sales	$1,055,196,000	$966,704,000
Net earnings	39,264,000	29,815,000
Earnings for common stock	35,268,000	25,842,000
Earnings per common share	2.88	2.12
Earnings per common share—assuming full dilution	2.35	1.79

During fiscal year 1977, the Company also acquired for cash and a note all the outstanding capital stock of one company and certain operations of two other businesses. These acquisitions, which were accounted for as purchases, did not have a material effect on the Company's financial position or operations.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note C (in part): Acquisitions—Effective September 30, 1977, the company acquired all of the outstanding shares of Gulf Consolidated Services, Inc. (GCS) for $51,600,000 in cash (equity at September 30, 1977, plus 50% of the amount by which inventory at replacement cost exceeded inventory valued at LIFO cost). An additional amount, to a maximum of $10,000,000, provided for by the company's escrowed 6% note, may be paid based upon GCS earnings over the next five years. If specified levels of earnings are reached, payments including accrued interest will be made on the note and recorded as additional purchase price.

GCS, which is headquartered in Houston, Texas, is a large distributor of industrial materials, including pipe, valves, fittings, electrical supplies, insulation, and tools. The acquisition has been recorded as a purchase and the transaction is reflected in the accompanying financial statements from date of acquisition. There was no excess of purchase price over net assets acquired. Pro forma data (unaudited) with respect to operations as though GCS had been acquired as of January 1, 1976, follows:

Year Ended December 31	1977	1976
All dollar amounts in thousands except per share amounts		
Net sales	$2,033,546	$1,849,972
Net earnings	98,201	92,933
Net earnings per common share:		
Primary	4.11	3.79
Fully diluted	3.42	3.08

HERMAN MILLER, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Acquisition—On December 7, 1976, the Company acquired Star Industries, Inc. for $1,200,000 in cash and notes. Star is a metal fabrication operation and a primary supplier of the Company. This acquisition has been accounted for by the purchase method and the results of Star are included in the accompanying statement of income since the date of acquisition.

The net assets acquired are summarized as follows:

Excess of current liabilities over current assets	$ (487,819)
Plant and equipment	2,152,505
Cost in excess of net asset value acquired	155,070
Other assets	346,787
Long-term obligations assumed	(966,543)
	$1,200,000

The following unaudited pro forma summary represents the consolidated results of operations of the Company and Star Industries, Inc. (unaudited) for the years ended May 31, 1977 and 1976, as though the acquisition had been made as of June 1, 1975:

Year ended May 31,	1977	1976
Pro forma net sales	$82,278,126	$52,181,145
Pro forma net income	$ 4,115,319	$ 2,454,628
Pro forma earnings per share	$2.89	$1.76

SEARS INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: Acquisition of Miss Erika, Inc.—Effective July 22, 1977, the Corporation acquired in a purchase transaction, for $2,413,558, 100% of the capital stock of Miss Erika, Inc., a distributor of ladies' sweaters. The excess of the purchase price over the fair value of the acquired net assets (goodwill) amounted to $1,347,630, which will be amortized over a period of 40 years. The fair value of the assets acquired ($4,143,154) and the liabilities assumed ($3,077,226) consisted principally of accounts receivable and inventories and loans and accounts payable, respectively.

Summarized below are the pro forma results of operations from continuing operations for 1977 and 1976 (including amortization of goodwill and interest expense on debt incurred in connection with acquisition) if the acquisition of the Miss Erika Division had occurred at the beginning of 1976.

	1977	1976
	(In thousands, except per share amounts)	
Net Sales	$56,874	$52,723
Net Income	$ 710	$ 621
Net Income Per Share of Common Stock	$.37	$.32

STERNDENT CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2 (in part): Acquisitions—Universal Optical Company, Inc.—In February, 1977, the Company acquired all of the outstanding stock of Universal Optical Company, Inc., a designer, manufacturer, and importer of high quality eyeglass frames which are distributed through wholesalers, for a cash purchase price of $19,250,000. The acquisition was financed from the proceeds of a $22,000,000 financing from two insurance companies (see note 4).

The acquisition was accounted for as a purchase as of January 1, 1977 and the consolidated statement of operations includes the results of operations of Universal for the entire year. The excess of cost over the fair value of assets acquired of approximately $4,490,000 is being amortized on a straight-line basis over 40 years.

On a pro-forma basis, assuming the Universal purchase had occurred January 1, 1976, net sales, net loss, and primary loss per share for 1976 would have been $151,341,000, $4,004,000 and $2.07 respectively.

TIME INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Acquisitions—Book-of-the-Month Club, Inc., an operator of book clubs, was acquired on December 1, 1977. The combination was accounted for as a purchase and the financial results of Book-of-the-Month Club are included in the consolidated financial statements from December 1, 1977.

Book-of-the-Month Club was acquired for approximately $64,100,000 which includes $31,295,000 in cash and 1,087,100 shares of newly created Series A $1.575 Convertible Preferred Stock with a liquidation value of $30 per share. The Series A Preferred Stock is convertible into .72 shares of Time Common Stock and may be converted at any time. The Company is required to redeem on November 30, 1982 and each year thereafter at $30 per share plus accrued dividends, 5 per cent of the original number of shares of this Series. The excess of purchase price over net tangible assets of Book-of-the-Month Club of $26,369,000 is being amortized over a 40-year period.

The Federal Trade Commission has authorized an investigation of the acquisition of Book-of-the-Month Club to determine whether the effect of the proposed acquisition may be to lessen competition. At the request of the FTC, the Company has signed a "hold separate" agreement.

Below is pro forma financial information for the years ended December 31, 1977 and 1976 combining the consolidated income statements of Time and Book-of-the-Month Club:

	Year Ended December 31	
	1977	1976
	(in thousands except for per share amounts)	
Revenues	$1,305,837	$1,100,014
Net Income	93,654	70,660
Preferred Dividend	1,712	1,712
Net Income after Preferred Dividend	91,942	68,948
Net Income per share	4.51	3.41

TWENTIETH CENTURY-FOX FILM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Acquisitions—Effective September 27, 1977, a subsidiary of Fox acquired all of the outstanding common stock of Coca-Cola Bottling Midwest Inc. (Midwest), a bottler engaged primarily in producing and marketing Coca-Cola and other soft drinks in most of Minnesota and in portions of North Dakota, Wisconsin, Montana and Wyoming, for an aggregate cost of $27,835,000. The acquisition has been accounted for as a purchase and the excess of the purchase price over the fair value of assets acquired less liabilities assumed of $8,147,000 is being amortized over 40 years.

The following table summarizes, on an unaudited pro forma basis, the revenues, net earnings and earnings per common share of the Company as though Midwest had been acquired on December 28, 1975.

	1977	1976
	(in thousands except earnings per share data)	
Revenue	$560,117	$418,504
Net Earnings	$ 53,712	$ 13,266
Earnings per common share	$ 6.89	$ 1.75
Earnings per share—assuming full dilution	$ 6.19	$ 1.63

As reported on the Statements of Consolidated Earnings:

Earnings per common share	$ 6.52	$ 1.41
Earnings per share—assuming full dilution	$ 5.86	$ 2.34

CONTINGENCIES AND COMMITMENTS

Statement of Financial Accounting Standards No. 5 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." Statement No. 5, effective for fiscal years beginning on or after July 1, 1975, supersedes *Accounting Research Bulletin No. 50* as the authoritative pronouncement on accounting for and reporting loss contingencies but reaffirms the provisions of *ARB No. 50* that apply to gain contingencies and to commitments.

Table 1-11 summarizes the various contingencies and commitments (except leases which are summarized in Table 2-27) disclosed in the 1977 annual reports of the survey companies. The balance sheets of 196 survey companies showed a caption, without an amount, for contingencies and/or commitments. Examples of contingency and commitment disclosures follow.

TABLE 1-11: CONTINGENCIES AND COMMITMENTS

	Number of Companies			
	1977	1976	1975	1974
Loss Contingencies				
Litigation	330	311	290	225
Guarantee of indebtedness	128	140	164	140
Possible tax assessment	88	87	74	68
Sale of receivables with recourse	65	69	68	65
Renegotiation of government contracts	46	21	N/C	N/C
Other—identified	33	35	36	47
Gain Contingencies				
Operating loss carryforward	73	64	65	66
Investment credit carryforward	41	51	45	43
Plaintiff litigation	30	26	35	25
Commitments				
Dividend restrictions	418	437	420	428
Plant expansion	109	102	93	95
Purchase agreements	39	60	67	62
Employment contracts	25	15	N/C	N/C
Additional payments in connection with an acquisition	16	25	49	55
Other—identified	25	20	N/C	N/C

N/C — Not Compiled.

LOSS CONTINGENCIES

Litigation

BAIRD-ATOMIC, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Litigation—Xonics, Inc., has continued its action against the Company and its directors in the United States District Court for the Central District of California seeking (i) to enjoin the defendants from making certain statements in connection with any opposition to a proposed exchange offer, (ii) a declaration that approximately 201,100 shares of the Company's common stock were illegally issued in December, 1974, and (iii) recovery of alleged actual damages of $20,000,000 because of purported false and misleading statements made in connection with a proposed exchange offer. Such proposed exchange offer was withdrawn in 1977. The claim is also made that the defendants interfered with a business opportunity of Xonics by making misstatements designed to deter the Company's shareholders from accepting the proposed exchange offer. Punitive damages in the amount of $1,500,000 are sought. The Company has asserted various counter claims alleging violations by Xonics of the Securities Act of 1934 and other laws and seeking damages in excess of $10,000,000.

There is also pending in the United States District Court for the District of Massachusetts an action brought by Baird-Atomic and certain of its officers and directors against Xonics, Inc. and certain of its present and former directors. In such action, a counterclaim was asserted seeking the following relief against the Company: the cancellation of certain shares of stock which it is claimed are unlawfully issued to employees, and the enjoining of Baird-Atomic from violating the Securities Exchange Act of 1934.

In the opinion of counsel for the Company, Xonics does not have meritorious cause of action in either of the above actions.

CHAMPION INTERNATIONAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 20: Contingencies—In April, 1974, the Federal Trade Commission filed a complaint against the Company and six other corporations alleging that respondents had established and maintained a system of delivered prices for southern pine plywood based on computation of rail freight from the Pacific Northwest and certain estimated weights. After a hearing, an Administrative Law Judge of the Federal Trade Commission ordered the respondents to cease and desist from using the practices in question. The Company and the other corporate defendants have appealed the decision. The Company also has been named as defendant, along with a substantial number of other corporations, in approximately 20 private antitrust suits, 13 of which are class actions and all of which involve the same alleged practices challenged in the Federal Trade Commission proceeding. These suits, each of which seeks treble damages in an unspecified amount, have been consolidated for pre-trial purposes and five plaintiff classes have been certified. The Company has paid $2,000,000 in settlement of all claims against it in the foregoing actions, conditioned upon court approval and notice to the plaintiff classes.

In September, 1974, a misdemeanor criminal proceeding and a civil action under the antitrust laws and the Federal False Claims Act were instituted by the United States Department of Justice against the Company and several other defendants alleging a conspiracy related to bids for United States Forest Service timber in the Detroit Ranger District of the Willamette National Forest. The Company and a number of other defendants were convicted in the criminal case; the Company was fined $50,000. The conviction and fine were affirmed on appeal. No specific amount of damages has been claimed in the civil action.

In January, 1978, a federal grand jury indicted the Company and 13 other corporations alleging violations of the Sherman Act by manufacturers and sellers of corrugated containers. The Company's Hoerner Waldorf unit manufactures and sells corrugated containers. Hoerner Waldorf Corporation was originally the subject of the investigation by the grand jury and, by virtue of the Company's merger with Hoerner Waldorf, the Company now stands in the position of defendant and is also subject to any fine or injunction in lieu of Hoerner Waldorf. 26 individual employees of these corporations were indicted, including two employees of the Hoerner Waldorf unit of the Company. During the five fiscal years ended October 31, 1976, approximately 50% of Hoerner Waldorf's annual total sales were represented by corrugated containers, and the Company believes that these sales accounted for approximately 4% of total national sales during the five-year period. More than 40 private civil class actions for treble damages have been filed, all of which have been consolidated, against Hoerner Waldorf and other manufacturers of corrugated cartons alleging violations of the Sherman Act in the sale of corrugated containers.

The Department of Justice has filed civil antitrust suits against the Company and 22 other corporations in the folding carton industry (one of which was Hoerner Waldorf Corporation) seeking a prohibition against future price fixing agreements and damages in an unspecified total amount. The Company and Hoerner Waldorf have also been named defendants (among other corporate defendants) in more than 80 private antitrust suits, most of which purport to be class actions, all involving charges of conspiracy to fix, raise, maintain and stabilize the prices of folding cartons and seeking treble damages in unspecified amounts. Most of these suits have been consolidated into a single action for pre-trial purposes, and a class of plaintiffs has been certified. All of the above actions followed a grand jury indictment of the above corporations for fixing prices of folding cartons, to which the Company and Hoerner Waldorf pleaded nolo contendere. During the five fiscal years ended December 31, 1976, less than 1% of the Company's total annual sales were attributable to folding cartons, and from 13% to 16% of Hoerner Waldorf's annual total sales were attributable to folding cartons, It is believed that Hoerner Waldorf accounted for approximately 3% to 4% and the Company accounted for approximately 1% of total national sales during the five year period. Although milk cartons were not involved in the grand jury investigation or indictment, several of the private antitrust actions also allege conspiracy in the sale of milk cartons, as to which the Company believes that it ranks second in domestic sales.

In December, 1976, the Company was served with a subpoena by a federal grand jury conducting an investigation into possible violations of the Sherman Act in connection with the pricing of paper. Numerous other manufacturers of paper have received similar subpoenas. It is not possible at this time to predict the outcome of the investigation. Approximately 14 lawsuits purporting to be class actions have been filed against the Company and other corporate defendants alleging a conspiracy in violation of the antitrust laws to fix, raise, maintain and stabilize the prices of fine papers and seeking unspecified amounts of treble damages.

During 1977, the Company was served with two subpoenas in connection with grand jury investigations of possible violations of the antitrust laws in the sale of multiwall bags, and in the pricing of sanded plywood, and with a subpoena in connection with a Federal Trade Commission investigation into the distribution of fine paper. The Company believes that numerous other manufacturers of multiwall bags and sanded plywood and distributors of fine paper have received similar subpoenas. The Company is unable at this time to predict the outcome of any of these investigations.

While the result of any litigation necessarily contains an element of uncertainty, the Company's management presently believes that, with respect to the above and other known contingent liabilities, including other lawsuits, federal taxes, claims and guarantees, the aggregate amount of any liability and costs which might result would not have a material adverse effect on the Company's consolidated financial position or operating results.

COLONIAL STORES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Contingent Liabilities—Litigation—The Company was included as one of seventeen defendants, along with other members of the National Association of Food Chains, in an action filed on December 30, 1975, by seven Texas livestock producers. The action alleged violation of antitrust laws in the purchase and sale of meat and sought damages in excess of $20,000,000 against all defendants, before trebling, plus injunctive relief. In 1976 and 1977, several similar antitrust actions were brought against the Company and generally the same defendants named in the December 30, 1975, action. During 1977, the Company settled and obtained the dismissal with prejudice of the December 30, 1975, and four additional actions. These settlements resulted in the payment of relatively small sums, which are reflected in the accompanying consolidated financial statements. Three remaining antitrust actions have not been settled and are pending against the Company. In the opinion of legal counsel, the Company has good and meritorious defenses to these actions and, accordingly, the Company is of the opinion that the resulting liability, if any, and costs of defending such actions, will not materially affect the Company's consolidated earnings or financial position.

CUTLER-HAMMER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Contingent Liabilities—On December 29, 1976, a lawsuit was brought against the Company, Macrodata Corporation, and certain individuals by the PKL Companies, Inc., a former Macrodata shareholder. The lawsuit presents claims of $1,920,132 in special damages and $25,000,000 in punitive damages and charges a conspiracy to prevent PKL from selling its Macrodata shares and in damaging PKL by causing the value of Macrodata's stock to decline in price. It is the belief of management and legal counsel that there is no merit to these claims as they relate to Cutler-Hammer, Inc. and that no significant impact on Cutler-Hammer's financial position will result from these proceedings.

DIAMOND INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (in part): As disclosed in the 1976 annual report, the U.S. Government, as trustee, on behalf of two Indian tribes is suing the State of Maine for monetary damages, claiming that approximately two-thirds of the State of Maine still belongs to these tribes because the property was transferred over a century ago without proper Congressional approval. This area contains about one-half of the Company's timberlands and four of its plants. The U.S. Justice Department has stated its intention to amend the complaints to seek land recovery in a reduced area. On February 10, 1978, the Company was advised by a White House work group that it and the tribes had agreed (subject to Congressional approval) to a release of the tribes' claims in exchange for $25,000,000 payment by the Federal government to the tribes. However, this payment would not release claims against about 480,000 acres of land owned by the Company (in which area are timberlands, its large Old Town plant and two other plants), 2,475,000 acres owned by 13 other large landowners, and 350,000 acres owned by the State of Maine. In addition, at the same time, the Company was advised that the tribes would not sue the Company and the 13 other landowners regarding their property which was not released if together they contribute to the tribes 300,000 acres of timberland and grant options to purchase 200,000 acres at market value. It was suggested that the Company's portion would be a contribution of 49,000 acres and a grant of options on 33,000 acres. This proposal to contribute acreage and grant options is completely unacceptable to the Company, even though it would not have a material adverse effect on the Company's consolidated financial statements.

THE GILLETTE COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Litigation—On December 30, 1975, the United States District Court in Boston approved a consent decree settling the antitrust suit brought by the United States Department of Justice following the acquisition by the Company of the majority stock of Braun AG in 1967. For information relating to this settlement, see page 29.

Gillette is subject to additional legal proceedings and claims which involve both private and governmental parties and cover a wide range of matters, including antitrust and trade regulation, product liability, contracts, collection, customs, tax patent and trademark matters and three purported class actions alleging discrimination in employment practices. In some of them, amounts claimed involve millions of dollars. One of these is an action by a competitor alleging disparagement, misleading advertising and antitrust violations in connection with a television commercial for a Gillette product. Management believes that it has meritorious defenses to this action and that even if liability were found, it would be far less than the amount sought.

Management, after review, including consultation with counsel, considers that any ultimate liability which could arise from these proceedings and claims would not materially affect the consolidated financial position of the Company, although it could be material in relation to the earnings of any period in which any such determination were to occur.

HUMANA INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 14 (in part): Contingencies—The Company is a defendant in an action in which the plaintiff alleges that the Company breached a contract to build a hospital. The plaintiff seeks compensatory damages of $4,680,000 and punitive damages of $10,000,000. The Company is also a defendant in suits involving substantial claims brought by two former members of the medical staff of Company hospitals as a result of revocation of their staff privileges. One of these suits was dismissed and the plaintiff filed an amended complaint. The Company intends to vigorously defend all these actions and does not believe that losses, if any, which may result from the resolution of these actions will materially affect the Company's financial position. Should any losses be sustained, earnings will be charged in the future.

JIM WALTER CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 9: Litigation and Other Matters—In December 1973, a federal grand jury in Pittsburgh indicted The Celotex Corporation and five other gypsum companies and ten individuals of those companies, on charges of conspiring to violate the anti-trust laws in the sale of gypsum products. After conviction on July 15, 1975, Celotex appealed its conviction to the United States Court of Appeals for the Third Judicial Circuit. The conviction of Celotex was reversed on January 6, 1977 and the case remanded for a new trial. The United States Supreme Court, on October 3, 1977, agreed to hear arguments regarding the decision reversing and remanding the conviction.

The South Coast Corporation is co-defendent in five civil suits alleging violations of Section 1 of the Sherman Act and seeking relief pursuant to Section 16 of the Clayton Act for unspecified amounts in damages relating to the sale of refined sugar products. All cases involving South Coast have been transferred to the United States District Court for the Northern District of California for consolidation in discovery proceedings of previously transferred and consolidated class actions. However, in four cases involving South Coast, class certification has been denied. While it is not possible to determine the outcome of such litigation at this time, the suits will be defended vigorously and management is of the opinion that South Coast has meritorious defenses.

Various pollution suits have been brought against the Company and/or certain of its subsidiaries and numerous other defendants; generally these suits request abatement of alleged pollution and certain of the suits request damages.

In August 1974, the Federal Trade Commission filed a complaint alleging the 1972 acquisition of Panacon Corporation by Celotex violated Section 7 of the Clayton Act and requested divestiture of all Panacon operations. The Company has instituted vigorous defense in opposition to this action. A hearing before an Administrative Law Judge of the Federal Trade Commission was concluded January 21, 1976 and the Judge on May 6, 1976 filed an Initial Decision and Order finding the acquisition of Panacon in violation of Section 7 of the Clayton Act and ordering divestiture of all of the assets of the former Philip Carey Division of Panacon (assets used or associated with the production of asphalt or tar roofing products) and imposing a ten year restriction against the acquisition of similar assets. The Company has appealed this decision to the Federal Trade Commission.

On March 31, 1977, Alabama Power Company (Alabama Power) filed two complaints in the Circuit Court of Jefferson County, Alabama against Jim Walter Corporation and two of its wholly-owned subsidiaries, Jim Walter Resources, Inc. and United States Pipe and Foundry Company, (collectively referred to hereinafter as the "Company"). The suits involve the contracts for the sale of coal to Alabama Power from Blue Creek Mines Nos. 3 and 4.

Alabama Power alleges that the Company claimed that conditions of force majeure existed and that performance of these contracts was commercially impracticable. Alabama Power also alleges that this was a wrongful assertion which constitutes repudiation of such contracts, which forces it to attempt to cover its coal requirements from other sources at higher prices. It further alleges, as to the contract relating to Blue Creek Mine No. 3, that a portion of the coal has been and is being sold to others in violation of the contract.

Alabama Power seeks the following relief. In both complaints it contends that coal in the quantity, of the quality, and at the price specified in the contract is unique and that the Company should be required to specifically comply wtih the contracts by mining, selling, and deliverying the coal as provided in the contracts. In the complaint relating to Mine No. 3, Alabama Power also seeks an injunction to prevent the sale of coal by the Company to other persons, or other use thereof, unless the contract quantities are first delivered to Alabama Power to the extent possible. Alternatively, in the complaint relating to Mine No. 3, Alabama Power claims that the Company has breached and repudiated the contract, resulting in alleged damages which are "anticipated as being within the range of $131,000,000 to $196,500,000 and higher," plus interest, costs and expenses. Also alternatively in the complaint relating to Mine No. 4, Alabama Power claims damages for the alleged breach of the contract which are "anticipated as being within the range of $190,000,000 to $380,000,000 and higher," plus interest, costs and expenses. In both complaints Alabama Power further seeks an interpretation of certain provisions of Alabama law as they relate to the rights of the parties.

Management contends, and its counsel is of the opinion that, because of radical changes in the underlying assumptions of the contracts, the Company has meritorious defenses to the complaints and that the Company's position is legally sound and specifically recognized by Alabama law.

In the opinion of management, the ultimate outcome of the above pending proceedings will not have a materially adverse effect on the consolidated financial position of the Company or on its future results of operations.

JOHNSON & JOHNSON (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Pending Legal Proceedings—The Company is involved in numerous product liability cases in the United States, a large majority of which concern contraceptive products. The Company cannot predict what liability may be imposed on it in connection with such suits. It believes the liability, if any, resulting from such suits will be substantially covered by insurance and that any uninsured liability resulting from such cases will not have a materially adverse effect on its operations or financial position.

In March, 1976, the Federal Trade Commission served a comprehensive subpoena on the Company in connection with an investigation by the Commission into the Company's surgical dressings, sutures and first-aid products businesses. It is not possible at this time to predict the eventual outcome of this investigation. However, the Company is confident of the propriety of the conduct of its business.

Ethicon, Inc., a subsidiary of Johnson & Johnson, is involved in a series of related patent suits brought in the United States, Canada, the United Kingdom, Germany and France, charging infringement by Ethicon of patents covering a synthetic absorbable suture. These proceedings are still in progress and the Company cannot, as yet, assess their probable outcome. However, the Company believes that the suits will not have a materially adverse effect on its operations or financial position.

In addition, the Company is involved in a number of patent, trademark, private antitrust and other lawsuits incidental to its business. The Company believes that such proceedings in the aggregate will not have a materially adverse effect on its operations or financial position.

MAREMONT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (in part): Litigation and Contingent Liabilities—In July, 1977, the Company entered into a purchase agreement to acquire approximately 11.5% of the outstanding common stock of Pemcor, Inc. at $13 per share. Pemcor a Chicago-based company listed on the American Stock Exchange, manufactures and sells stereo speakers for home and auto use, including Jensen brand high-fidelity speaker systems. Pemcor is also engaged in the wholesale distribution of electrical components and equipment for commercial, industrial and residential use.

Subsequently, the Company advised Pemcor's Board of Directors of the Company's intention to make an offer to purchase the balance of Pemcor's common stock at $16.75 per share. Pemcor filed a lawsuit seeking to block the Company's proposed tender offer and demanding damages of $30,000,000, alleging, among other claims, the Company's violation of its 1971 Consent Order with the Federal Trade

Commission. Later, the shareholders who agreed to sell their shares of Pemcor to the Company also filed suit seeking rescission of the agreement and damages, alleging the applicability of the Consent Order and other grounds. The Company has filed an answer denying the allegations in the Pemcor suit. The Company, based on its review of the matter with outside counsel, believes that the likelihood of any substantial adverse monetary judgment against the Company and in favor of Pemcor is remote.

In September, the Company applied to the Federal Trade Commission for a determination that the Consent Order is not applicable to the proposed acquisition of Pemcor stock. In the alternative, the Company requested the Federal Trade Commission's approval of the acquisition. A decision by the Commission on the Company's application is expected in the near future.

PPG INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10: Litigation—There are a number of lawsuits and claims pending against the Company, some of which seek substantial money damages. The lawsuits include those brought against PPG and numerous other manufacturers of polyurethane foam products. These suits, in general, allege that polyurethane foam presents a fire hazard, the existence of which was concealed by various of the defendants. The claims against PPG include one made by Caribe Isoprene Corporation as a consequence of the alleged failure to Puerto Rico Olefins Company (a 50% owned joint venture with Commonwealth Oil Refining Company) to supply certain feedstocks under the terms of a 15-year contract. Management believes that the outcome of such lawsuits and claims will not have a material effect on PPG's consolidated financial position or results of operations.

Guarantee of Indebtedness of Others

BORG-WARNER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Contingent liabilities—Borg-Warner Corporation has guaranteed $94.3 million of receivables sold to its financial services companies at December 31, 1977 and $97.8 million at December 31, 1976.

The company has also guaranteed borrowings of $58.2 million of its financial services companies and $26.8 million of other unconsolidated subsidiaries and affiliates at December 31, 1977. These guarantees are $69 million and $17.8 million respectively at December 31, 1976.

It is the opinion of management and counsel that various claims and litigation in which Borg-Warner is currently involved will not materially affect the company's financial position or earnings.

INTERNATIONAL HARVESTER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 15: Commitments and Contingent Liabilities—At October 31, 1977, commitments on appropriations for capital expenditures in progress were approximately $99 million.

The Company was a guarantor of debt at October 31, 1977 of nonconsolidated companies and distributors in the amount of $39 million. In addition, certain subsidiaries were contingently liable for approximately $90 million primarily for notes receivable discounted and bills of exchange.

The Company remains contingently liable on certain obligations assumed by the purchase of Wisconsin Steel Division. These obligations include approximately $45 million in connection with joint ventures, $5 million for pollution-control facilities financing and an undetermined portion of unfunded vested pension benefits. The unfunded vested pension benefits liability for participants under the plans covered by this contingent liability was approximately $66 million as of January 1, 1977. If the purchaser is unable to provide benefits due under the various pension plans, the Company would not be required to make any payments for vested benefits until after the trust assets have been exhausted, the purchaser has made any required payments and the Federal Pension Benefit Guaranty Corporation has made all payments required by law. If the Company is not required to make any payments on such vested pension benefits by July 31, 1982, its commitments provide that a substantial portion of any remaining contingent liability shall terminate on that date.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (in part)—The Corporation and its subsidiaries consolidated have guaranteed the borrowings of others of approximately $201,000,000 (including $96,000,000 relating to finance subsidiaries) at December 31, 1977, and are contingently liable for receiveables discounted of approximately $825,000,000 (including $365,000,000 of receivables reflected in the statements of insurance and finance subsidiaries) arising principally from sales of telecommunication equipment to public administrations. The Corporation and its subsidiaries are also involved in lawsuits, including various class actions. The ultimate liability with respect to lawsuits, guarantees, taxes, claims, etc., is not considered to be material in relation to the financial position of the Corporation and its subsidiaries consolidated.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note M (in part): Commitments and Contingent Liabilities

Guarantees—The company has guaranteed borrowings of certain of its foreign operations totaling approximately $4,400,000 at December 31, 1977.

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Investments—In September 1977 the company and the other 50%-owner of Carodel, Teijin Limited, agreed that each will contribute its existing $5,000,000 subordinated loan to the equity of Carodel. Teijin will have no further obligation to provide additional funds required to finance Carodel's operations. Rohm and Haas will become sole guarantor of any outstanding bank loans by December 31, 1980. At December 31, 1977, bank loans to Carodel were a $53,000,000 long-term loan repayable in equal quarterly installments beginning in 1978 and ending in 1982, and a $6,600,000 short-term working-capital loan. Rohm and Haas has guaranteed $29,800,000 of these loans.

TEXACO INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Contingent Liabilities—The Company and its subsidiary companies were contingently liable in the amount of $41,000,000 as guarantors on loans outstanding, principally of certain associated companies. Also, under long-term agreements with certain pipe line companies in which capital stock interests are held, the Company and certain of its subsidiary companies guarantee specified revenue from product shipments through the pipe lines and, in the event such companies are unable to meet debt obligations, funds may be advanced against future transportation charges. Furthermore, a subsidiary company has an agreement with a refining company, in which it has a capital stock interest, to process crude oil or in lieu thereof to advance funds sufficient to enable the refining company to meet its debt obligations. Another subsidiary company has agreed to advance to a partnership, in which it has a partnership interest, funds, if required, to complete a fluid catalytic cracking unit and upon completion to process petroleum products through the unit or in lieu thereof to advance funds sufficient to enable the partnership to meet its debt obligations. No loss is anticipated by reason of such obligations.

At December 31, 1977, the states of Arizona, California, Connecticut, Florida, Kansas, Oregon, and Washington had suits pending against Texaco and several other petroleum companies alleging, among other things, that the defendants combined and conspired to restrain trade in the exploration, production, transportation, and sale of crude oil and the refining, distribution, and marketing of petroleum products in violation of the antitrust laws of the United States. Also, the Federal Trade Commission has issued a formal complaint against Texaco and seven other companies alleging violation of Section 5 of the Federal Trade Commission Act by maintaining a "noncompetitive market structure" in the refining of crude oil into petroleum products. These suits seek divestiture of certain of Texaco's operations, while the state suits also seek treble damages in unspecified amounts. The Company has denied all such allegations, and is vigorously defending against these actions.

On January 25, 1978, the Department of Energy served a Notice of Probable Violation alleging that the Company violated Federal regulations in calculating the proportions of new, old, and stripper oil it produced on properties in Texas, Oklahoma, Colorado, Louisiana, and California from September 1, 1973 through December 31, 1976. The Department of Energy seeks rebates of the alleged overcharges which total $363,200,000 over the period. The Company has denied such allegations and is vigorously contesting the Department of Energy's assertions that its crude oil pricing regulations were improperly applied by the Company.

In the opinion of the Company's General Counsel, while it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, Federal taxes, Federal regulations including those relating to allocations and pricing of crude oil and products, claims, guarantees, etc., the aggregate amount of such liability is not anticipated to be materially important in relation to the consolidated financial position of the Company and its subsidiaries.

Guarantees Other Than Of Indebtedness

ACME-CLEVELAND CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I: Contingencies—Under the provisions of certain sales contracts with several major foreign customers, the Corporation is required to guarantee compliance with contract provisions by obtaining letters of credit. Outstanding letters of credit under such contracts approximated $1,412,000 at September 30, 1977. The Corporation expects to continue to comply with all contract provisions, and no material losses are anticipated under these guarantees.

THE BENDIX CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (in part)—Certain properties and equipment are leased under long-term noncancellable agreements for varying periods (generally from 1 to 30 years) and are renewable in many instances. The minimum annual lease commitments for such properties and equipment are not considered to be material in relation to the consolidated financial statements. Also, the present value of minimum lease commitments of noncapitalized financing leases (as defined by the SEC) and the impact on net income are not material.

In connection with the April 1, 1976 divestiture of Facet Enterprises, Inc. (Facet), the Corporation has guaranteed certain pension benefits and insurance premium payments. The guarantees are generally limited to present and former employees of the divested units who had vested pension rights as of April 1, 1976 and who are now covered under Facet's plans. As of the latest date of determination prior to the divestiture, the actuarially computed present value of the guaranteed pension benefits in excess of related Facet fund assets at market and the guaranteed insurance premiums was approximately $51 million, as reported in the Corporation's fiscal 1976 Annual Report. Although complete information necessary to update the prior actuarial determination is not available to the Corporation, the actuarially computed present value at September 30, 1977 should not exceed the amount previously reported.

Any payments by the Corporation under the guarantee with respect to pensions would be reduced to the extent payments may be made under the insurance provisions of the Employee Retirement Income Security Act of 1974. By an indemnification agreement, dated February 16, 1976, Facet agreed to reimburse the Corporation for any payments made and expenses incurred in connection with such guarantees. Recently, Facet stated that the indemnification agreement is invalid. It is the opinion of officials of the Corporation, on the basis of information furnished by counsel, that the indemnification agreement is a valid contract enforceable by the Corporation against Facet.

THE UNITED STATES SHOE CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Contingencies—The company has guaranteed and is, therefore, contingently liable under leases of facilities, expiring between 1978 and 1994, that are operated by certain customers. Minimum annual rentals guaranteed under such leases range from $3,444,000 for fiscal 1978 to $2,989,000 in 1982 and aggregate $33,592,000.

Proposed Tax Assessments

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11: Contingent Liabilities—The Internal Revenue Service is conducting its normal examination of the Corporation's federal income tax returns for the years 1973 through 1975. In addition, the Internal Revenue Service, through its intelligence and audit divisions, is conducting investigations of the Corporation's income tax returns for the years 1965 through 1975. These investigations relate generally to the deductibility of certain costs associated with foreign sales as well as to other income and expense items.

With regard to the years 1965 through 1972, the Internal Revenue Service had proposed certain adjustments. The Corporation has entered into a Closing Agreement with the Service concerning some of the proposed adjustments and had reached an informal understanding with the Service with regard to many of the other proposed adjustments. On December 29, 1977, as a result of the Corporation's unwillingness to extend further the time within which the Service may assess additional tax, the Internal Revenue Service issued a Statutory Notice of Deficiency including civil fraud penalties for the above years. The Corporation intends to contest the Statutory Notice of Deficiency.

The Internal Revenue Service may propose adjustments and penalties with regard to the years 1973 through 1975. The Corporation has filed suit in the U.S. Court of Claims for a refund of a portion of the federal income taxes paid for the years 1965 through 1967 and 1969 through 1972.

Amounts to cover the Corporation's evaluation of its ultimate tax liability for the above years have been provided and are included in Current Liabilities. While the Corporation cannot predict what actions may be taken upon completion of the above examinations and investigations, it is the Corporation's position that no fraudulent tax returns have been filed and that the amounts provided for income tax liabilities are adequate.

Renegotiation refunds have been settled or clearances received through 1966. With respect to 1967, the Renegotiation Board (Statutory Board) issued its Final Determination in February 1977 that the Corporation realized excessive profits subject to renegotiation for that year of $2,400,000 which would be reduced by applicable state and federal income tax credits. The Corporation is of the opinion that no excessive profits were realized in 1967 and is contesting the Determination in the United States Court of Claims.

The Statutory Board also has issued a Final Determination that the Corporation did not realize excessive profits in 1968. With respect to the years 1969 through 1971, the Eastern Regional Renegotiation Board has forwarded to the Statutory Board its conclusions that the Corporation did not realize excessive profits in those years. The Corporation believes that no excessive profits were realized in 1972 and subsequent years to September 30, 1976, at which time the Renegotiation Act expired, or since October 1, 1976 under the Vinson-Trammell Act, which came into effect on the expiration of the Renegotiation Act.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE FINANCIAL STATEMENTS

Note 3 (in part): Taxes on income—In 1976, the United States Internal Revenue Service (the "Service") completed an examination of the Company's federal income tax returns for the two years ended October 31, 1973. The Company agreed to adjustments which resulted in additional income and related United States federal income taxes which were reported in 1976 (see note 6) With respect to other adjustments, additional United States federal income taxes of approximately $16 million (exclusive of interest) have been proposed to which the Company has not agreed. Of such amount, $8.5 million relates to the earnings of the Company's Domestic International Sales Corporation (DISC). The Service has contended that certain costs and expenses should have been allocated to DISC, the effect of which would be to lower its tax deferred income and increase the taxable income of the Company. Since DISC's inception in 1972, the Company has provided for all related deferred taxes. Consequently, such additional proposed taxes of $8.5 million and any additional taxes relating to DISC which may be proposed in future years have been fully accrued in prior years. The proposed adjustment relates only when the taxes are payable.

The remaining $7.5 million of the $16 million of adjustments proposed by the Service relates principally to the earnings of the Company's subsidiaries in Singapore and Malaysia, which are substantially tax free under pioneer status acts of these countries. The Service has challenged the Company's method of accounting for the earnings of these two subsidiaries in fiscal 1972 and 1973 and has asserted that substantially all of such earnings should have been reported as taxable earnings of the parent company. The Company believes that the earnings of these subsidiares in 1972 and 1973 are properly attributable to them, and not to the parent company. and has continued to report such earnings on substantially the same basis for all subsequent periods.

The Company has protested the proposed adjustments and the protest is currently being considered by the Service. After review of the matter with counsel, the Company believes it is unlikely the Service will be able to maintain successfully its current position that substantially all of the earnings of the subsidiaries should have been attributed to the parent company. Because of the preliminary nature of the case, the Company is unable to estimate the amount of additional taxes it might incur upon a final determination of this matter or when any such determination might occur. If the issues cannot be resolved to the Company's satisfaction, the Company intends to contest the proposed adjustments in the courts.

The Service is currently examining the Company's federal income tax returns for the two years ended October 31, 1975. Federal income tax returns for years subsequent to October 31, 1975 are also subject to examination by the Service. In 1974, 1975, 1976 and 1977 the Company's subsidiaries in Singapore and Malaysia reported tax free earnings of $22.4 million, $21.9 million, $15.6 million and $21.3 million, respectively. The Company expects that, upon examination, the Service will similarly propose reallocation of a substantial portion of such earnings to the parent company in the United States, in which case the Company would likewise protest any significant proposed tax adjustments. The Company is unable to estimate what additional liabilities it may incur for years subsequent to 1973. The tax liability as finally determined for 1972 and 1973 will not necessarily be determinative for the tax liability for any subsequent years.

The Company believes that the outcome of these matters will not have a material adverse effect on the Company's operations or financial position even if the Service were to prevail in its position with respect to fiscal 1972 and 1973 and even if all of the earnings of the Singapore and Malaysia subsidiaries from 1974 to 1977 were reallocated to the parent company. Should final determination of these matters occur in any one year, however, the amount of such determination could result in a material charge to that year's reported net earnings.

KING OPTICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (in part): Income Taxes—The Internal Revenue Service has examined the income tax returns of the Company and its subsidiaries for the years 1972 through 1975 and has proposed certain tax deficiencies relating to those years. In addition, the Company's franchise tax returns for the years 1974 through 1976 have recently been examined by the Comptroller of Public Accounts of the State of Texas, and certain deficiencies have also been proposed in connection with this examination. The Company is contesting both of these proposed deficiencies and estimates that the maximum potential exposure from both matters approximates $200,000 in excess of amounts previously provided.

OHIO FERRO-ALLOYS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Internal Revenue Service Examination—The Corporation's income tax returns for the years 1974 and 1975 are under examination by the Internal Revenue Service and the Revenue Agent has indicated he will propose adjustments, which could result in additional taxes for these years.

Among other issues, the Agent is questioning certain depreciation practices of the Corporation and the date when certain assets were placed in service. If the Agent's position prevails, these adjustments will not have a material effect on income since they related principally to timing differences between financial and tax accounting.

The Agent is also questioning whether the Corporation's pollution control facilities qualify for investment tax credit, and is in the process of requesting technical advice from the National Office of the Internal Revenue Service on this issue. The Corporation believes the Agent's position on this issue is without merit and, accordingly, has not made any provision in the accounts. If decided against the Corporation, this issue would result in additional taxes of approximately $975,000 for the two years in question.

In the opinion of management, there is adequate provision for all other income tax liabilities.

SEARS INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part): Income Taxes—The Internal Revenue Service (IRS) has completed its audit of the Corporation's returns for 1971 and 1972 and advised the Corporation that additional income taxes of approximately $2,500,000 were due for those years, representing principally timing differences. The Corporation contested a substantial portion of the asserted deficiencies before the Appellate Division of the IRS and has petitioned for a redetermination of the deficiencies before the United States tax court. In the opinion of management, the final additional tax will be substantially less than the amounts proposed. In the fourth quarter of 1977, the Corporation provided, in discontinued operations, approximately $597,000, representing, in management's opinion, the additional amount required (including interest) to satisfy the final additional net tax assessed.

Receivables Sold With Recourse

THE BENDIX CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (in part)—There are various suits pending against the Corporation and its consolidated subsidiaries, some of which are for substantial amounts. It is the opinion of officials of the Corporation, on the basis of information furnished by counsel, that the ultimate liability, if any, resulting from such suits will not materially affect the consolidated financial position or results of operations of the Corporation and consolidated subsidiaries.

Certain subsidiaries outside the U.S. and Canada have agreements with local banks to sell their receivables with recourse. The agreements provide for repurchase of receivables from the bank in the event of a customer's default. Losses resulting from the customer's defaults have not been significant and future losses are not expected to have a material adverse effect on the consolidated financial statements.

As is customary in the mobile home and recreational vehicle industry, Bendix Home Systems, Inc., a wholly-owned subsidiary of the Corporation, is a party to repurchase agreements with financing institutions which have provided floor-plan financing to its dealers. The agreements provide for repurchase of products from the financing institution for the balance due it in the event of repossessions upon a dealer's default. The risk of loss under the repurchase agreements is spread over numerous dealers and is further reduced by the resale value of the units repurchased. Losses experienced under these agreements have not been significant; further, officials of the Corporation do not expect future losses will have a material adverse effect on the consolidated financial statements.

BLISS & LAUGHLIN INDUSTRIES INCORPORATED (DEC)

FINANCIAL REVIEW

Commitments and Contingent Liabilities—At December 31, 1977 the Company was contingently liable on a note receivable of the Company which was sold with recourse in 1971. The note, which is not in default, is due in varying installments to December 1, 1980 with the December 31, 1977 balance being $3,039,000.

Renegotiation

THE BOEING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Contingent Liabilities—Substantially all of the Company's contracts with the U. S. Government are subject to renegotiation under The Renegotiation Act of 1951 or the excess profits provisions of The Vinson Act of 1934. Renegotiation Board proceedings for all years through 1971 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1972 and subsequent years. The provisions of The Vinson Act apply only to contracts entered into subsequent to the expiration of The Renegotiation Act as of September 30, 1976. The Vinson Act provisions are currently under review by the Internal Revenue Service and the continuation of renegotiation is under consideration by the Congress. In view of these uncertainties, and the belief of the Company that no excessive profits were realized, no provision for renegotiation or excess profits refunds have been made for the years 1972 through 1977.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

PALL CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (in part): Contingencies and Commitments—The Company and certain subsidiaries are subject to renegotiation of government contracts and subcontracts performed. With respect to all periods up to July 31, 1974, the Renegotiation Board has stated its intention not to take any action in the absence of unusual circumstances or subsequent indications of excess profit. Renegotiation proceedings have been commenced against three of the Company's subsidiaries for the fiscal year ended July 31, 1975. No provision has been made for this contingency since no precedent is available. In the opinion of management, these proceedings will not have a material effect on the financial position or results of operations of the Company

Compliance With Environmental Standards

MEDUSA CORPORATION (DEC)

FINANCIAL REIVEW

Contingencies (in part)—In 1976 the Department of Environment Resources of the Commonwealth of Pennsylvania filed complaints against the Company alleging emissions in excess of air quality standards. Federal authorities filed a similar notice of violations in September 1977 and filed notice of violations at Medusa's other Pennsylvania cement plant in January 1978. The Company believes it has substantial defenses to such complaints, and that the outcome of these matters will not have a material adverse effect on Medusa's consolidated financial position.

REPUBLIC STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I (in part): Environmental, Health and Safety Factors—Many environmental quality control regulations and standards are in a developmental stage or are undergoing continuing review and modification by environmental authorities, a situation which is expected to continue into the foreseeable future. Therefore, the full impact on the Corporation of such standards and regulations and related administrative and judicial proceedings (including the total cost of compliance) cannot be ascertained at this time. In the opinion of management, compliance with environmental laws, regulations, standards or policies will require substantial additional capital expenditures in the near future and increased annual operating expenses. Further, the Corporation is not able to predict at this time whether the permits and variances which it has applied for will be granted on the terms requested, the possible impact upon its operation of the failure to secure any of such permits or variances or whether enforcement action, if taken, would result in a curtailment or interruption of the Corporation's operations at any of its plant locations.

UNITED STATES STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 15: Contingencies—Many uncertainties exist concerning the capital requirements of and operating costs associated with the implementation of environmental and similar laws. These government-imposed requirements stem from various legislative enactments including the Water Pollution Control Act, the Clean Air Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, the Coal Mine Health and Safety Act, and the Surface Mining Reclamation and Enforcement Act. In some instances, regulations have not been issued, performance standards have not been established, and equipment requirements have not been defined. In other instances, the laws have been amended to the extent that facilities which have been installed to comply with then-existing law may require further investment. In still other areas, administrative or judicial proceedings are pending to clarify or establish the extent and type of facilities or facility modifications required for compliance.

Very substantial progress has been made already to comply with environmental regulations. In the past five years, U.S. Steel has spent $410 million for environmental facilities and at year-end, new projects are under various stages of construction which will require expenditures presently estimated at $250 million for completion. Expenditures are presently estimated to average $200 million for 1978 and 1979. Assuming approval by various governmental agencies, new projects planned for authorization in 1978 will exceed $200 million. Capital expenditures needed to meet the requirements of these laws and their implementing regulations, and the periods of time within which the required facilities can be placed in operation, depend upon resolution of the uncertainties referred to above as well as economic factors affecting particular facilities or processes to which the environmental requirements apply. The level of authorizations presently planned for 1978 may represent the average level of authorizations over the next five years for projects which the Corporation believes it will undertake; however, future events could cause the level of authorizations for this period to be higher.

Proposed government recognition in the tax laws allowing for accelerated recovery of these expenditures would materially aid in generating the necessary capital funds for these projects. Otherwise, the substantial sums which will be required for these non-income generating expenditures may well restrict the ability of the Corporation to continue to modernize and expand its facilities. The economics of such investment may, at the time they are to be made, dictate that certain facilities be abandoned instead of modified to comply with the requirements. To preclude a negative impact upon the Corporation's earnings in future years, the costs associated with compliance with all these regulations will have to be recovered through cost-covering price increases, market conditions permitting.

The outcome of pending and potential administrative and judicial proceedings, as well as future legislative and regulatory changes, in the area of environmental control will be significant factors in determining the specific amount of expenditures required for this purpose and the periods of time for achieving environmental goals. During 1977, the Federal Environmental Protection Agency adopted policies for the assessment of substantial civil penalties for noncompliance with environmental requirements under specified circumstances. It is not possible at this time to estimate the specific amount of such penalties that might be assessed against U.S. Steel or the outcome of any pending or future proceeding in which penalties are sought. However, it is not anticipated that the outcome of such proceedings should result in a material adverse effect upon the consolidated net worth of U. S. Steel.

Unasserted Claim

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except for per share data)

Note 15: Contingencies—The Company has claims against others, and there are claims by others against it, in a variety of matters arising out of the conduct of the Company's business. The ultimate liability, if any, which might arise from settlement of these claims would not, in the opinion of the Company's management, have a materially adverse effect on the Company's financial position.

During the period May 15, 1973 through December 31, 1974, the Company's natural gas liquids were sold at prices believed to be consistent with applicable regulations of the U.S. Department of Energy (formerly the Federal Energy Administration). However, the bringing by the U.S. Department of Energy of claims under such regulations against another producer (in pending contested proceedings) that overcharges were made during such period and the seeking of refunds to customers and possibly statutory penalties raise the possibility that similar claims might be made against the Company. In the opinion of special counsel, based on facts applicable to the Company, it is unlikely that such action would be successful; however, if it were, the Company estimates that the maximum amount of its liability for the years 1973 and 1974 would be approximately $20,000 before tax recovery.

Strike

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note G (in part): Commitments and Contingencies—On December 6, 1977, coal mines owned in whole or in part by the Corporation discontinued operations due to the United Mine Workers of America strike, which has not yet been settled.

Although the Corporation's steel-mining operations have not been curtailed as of this date due to the strike, the strike has adversely affected profits and will continue to have an adverse effect. Management believes there are adequate coal and coke supplies to maintain steel-making operations through mid-March, 1978.

Utility companies supplying electricity to the Corporation have indicated that they may curtail electricity supplied and/or increase the price of electricity if their coal supplies continue to liquidate. An extended period of curtailment and/or increased electricity cost would adversely affect the Corporation's operations, employment and profitability.

Quantity Purchase Discount Agreement

BEEHIVE INTERNATIONAL (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (in part): Commitments and Contingent Liabilities—At September 30, 1976 and 1977, the Company was contingently liable for possible price increases under quantity purchase discount agreements which provide for item price increases, applied retroactively, in the event the Company purchases fewer items under such agreements than originally estimated. A material decrease in the volume of the Company's sales and production could cause price increase adjustments under such agreements, which could have a materially adverse effect upon the Company.

Antitrust Investigation

HALLIBURTON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10: Contingency—A federal grand jury antitrust investigation of certain pricing and marketing practices in the marine pipeline and marine structures industry is being conducted. Brown & Root, Inc., the Company's subsidiary in the marine construction industry, was requested to produce documents with respect to Western Hemisphere operations for the period January 1, 1968 to December 1, 1976. In addition, certain present and former employees of Brown & Root received subpoenas to testify and to produce certain records relating to their involvement in such industry, and some of the subpoenas requested documents on a world-wide basis. The full scope of the investigation is not clear, but charges against Brown & Root could result. Under antitrust laws, parties alleging damages from violations of such laws could seek in civil suits recoveries equal to three times the amount, if any, by which prices actually charged exceed competitive prices. The Company cannot predict when the investigation will be completed or predict what civil suits or related damages, if any, might result. From January 1, 1968 to September 30, 1976, approximately $130 million, or about 7½% of total consolidated operating income before taxes, was derived from the Western Hemisphere marine pipeline and marine structures activities of Brown & Root.

GAIN CONTINGENCIES

Operating Loss or Investment Credit Carryforwards

BAYUK CIGARS INCORPORATED (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

($000 omitted from dollar amounts)

Note 6 (in part): Income taxes—A portion of the company's consolidated income was earned by its subsidiaries and branch which operated in Puerto Rico until June, 1977. The income earned in Puerto Rico was exempt from Puerto Rican taxes. These exemptions are the principal reason for the differences between state and federal statutory tax rates and the effective rates included in the financial statements. The Puerto Rican subsidiaries and branch were liquidated in 1977. Because of available exemptions under the federal income tax statutes the company anticipates that the Puerto Rican income earned by the subsidiaries will not be subject to United States federal income tax.

In 1977 net operating loss carryforwards were available to offset the current provision for income taxes. No provision for income taxes was required in 1976 since the company's U.S. operations did not generate taxable income for tax or financial reporting purposes.

At December 31, 1977 the company had net operating loss carryforwards of approximately $5,900 which expire as follows: 1978—$200, 1979—$3,400, 1980—$500 and 1983—$1,800. In addition, the company has investment tax and other credit carryforwards of approximately $381 expiring through 1984.

BOBBIE BROOKS, INCORPORATED (APR)

NOTES TO FINANCIAL STATEMENTS

Note 7: Federal Income Taxes—Following is a reconciliation of the income tax provision (continuing operations) which would have been reflected at the statutory federal income tax rate and the actual rates reflected in the statement of operations:

	1977	1976
Statutory rate	48.0%	48.0%
Surtax exemption and other items	(4.6)	(1.5)
Effective tax rate	43.4%	46.5%

A subsidiary company operating in Puerto Rico under a tax exemption in 1976 has been discontinued and liquidated in 1977.

The following tabulation summarizes the carryforwards available to the Company at April 30, 1977 for financial statement reporting purposes:

Available Through Fiscal Year Ending In	Operating Losses	Investment Tax Credits	Foreign Tax Credits
1978	$ —	$ —	$ 70,000
1979	—	140,000	50,000
1980	6,100,000	160,000	50,000
1981	—	30,000	70,000
1982	—	50,000	100,000
1983	—	70,000	—
1984	10,800,000	40,000	—
After 1984	5,700,000	—	—
	$22,600,000	$490,000	$340,000

Both investment and foreign tax credit carryforwards may be applied against subsequently accruing tax liabilities while the operating loss carryforwards are available for application against future consolidated earnings. The provision for loss on idle facilities amounting to $2,000,000 (Note 4), certain expenses relating to the provision for loss on disposal of discontinued operations amounting to $2,400,000 (Note 2), and various other timing differences aggregating $1,300,000, are not currently deductible for federal income tax purposes, but will become deductible as and when realized. Accordingly, the operating loss carryforward available for income tax purposes at April 30, 1977 approximates $16,900,000. The amount and availability of the Company's operating loss carryforward are subject to final determination by taxing authorities.

NATIONAL TEA CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Taxes on Income—The provision for income taxes for the fifty-two weeks ended December 31, 1977, of $5,664,000 includes $4,803,000 of federal taxes and represents the amount that would have been provided net of investment tax credits of $684,000, were a federal net operating loss carryforward not available. The balance of the provision represents state income taxes currently payable. The extraordinary item included in the accompanying consolidated statement of earnings represents a reduction in federal income taxes arising from the utilization of prior years' operating losses.

The net provision for taxes on income for 1976 was $105,000. The 1976 provision results from investment tax credit recapture and state income taxes payable net of a reduction of the deferred tax liability of $269,000. A tax benefit from the 1976 loss was not reflected in the earnings statement because the net operating loss could not be carried back to prior years and utilization in future years was not assured beyond a reasonable doubt.

As of December 31, 1977, the companies had tax operating loss carryforwards (subject to review by the Internal Revenue Service) of approximately $54 million which expire as follows: $10 million, 1978; $4 million, 1979; $6 million, 1980; and $34 million, 1983.

The companies also have unused investment tax credits of approximately $2,845,000 available to offset future taxes payable. The investment tax credits will expire in years 1978 through 1984 in amounts of $141,000, $484,000, $287,000, $485,000, $452,000, $312,000 and $684,000, respectively.

At December 31, 1977, the companies had approximately $70 million of net operating losses which had not been offset by tax credits to book income as follows:

Tax operating loss carryforward	$54,000,000
Expenses recorded on books, to be deducted on tax returns in future years	20,000,000
Depreciation recorded in tax returns to be deducted on books in future years	(4,000,000)
	$70,000,000

PHOENIX STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11—Taxes on Income: At December 31, 1977 loss carryforwards of approximately $52.5 million were available to offset future taxable income for financial reporting purposes. Such carryforwards for income tax purposes are approximately $45.2 million and expire $2.9 million in 1978, $1.4 million in 1980, $18.9 million in 1983 and $22 million in 1984. Investment tax credits of approximately $4.9 million are available through 1984 to reduce future federal income taxes to the extent permitted under the Internal Revenue Code with the largest portion ($3.2 million) expiring in 1978. The difference between the loss carryforwards for financial reporting and income tax purposes results principally from costs and expenses associated with the abandonment of the structural operations and pension expenses which are accrued for financial reporting purposes but are not deductible for tax purposes until paid and from differences in the timing of depreciation deductions.

SEARS INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part) Income Taxes—At December 31, 1977, the Corporation has estimated net operating loss carryforwards of approximately $17,700,000 which are available to be applied against taxable income for the years 1978 through 1984. Of this amount approximately $14,400,000 expires in 1983 and the remainder in 1984. In addition, the Corporation has estimated investment tax credit carryforwards of approximately $615,000 of which approximately $100,000, $215,000, $200,000 and $100,000 expires in 1978, 1980, 1983 and 1984, respectively.

TWENTIETH CENTURY-FOX FILM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Income Taxes—Income tax expense is summarized as follows:

	Federal	Foreign	State and Local	Total
	(in thousands)			
1977—				
Current	$15,726	$5,766	$3,950	$25,442
Deferred	75	624	—	717
	$15,801	$6,408	$3,950	$26,159
1976—				
Current	$ 2,759	$5,194	$1,120	$ 9,073
Deferred	(952)	(48)	—	(1,000)
	$ 1,807	$5,146	$1,120	$ 8,073

Investment tax credits of $15,801,000 and $1,807,000 were applied as a reduction of the provision for income taxes in 1977 and 1976, respectively. At December 31, 1977, the Company has approximately $14,914,000 of investment tax credit carryovers for financial statement purposes. Because of differences in the timing of certain revenue and expense items for tax and financial statement purposes, the Company has investment tax credit carryovers for tax purposes at the end of 1977 of approximately $13,008,000, which expire as follows:

Year	Amount (in thousands)
1982	$ 2,094
1983	4,776
1984	6,138
	$13,008

The difference of approximately $1,906,000 between the carryover for tax and financial statement purposes represents amounts of investment tax credit claimed in the tax returns in excess of amounts recognized in the financial statements. The tax effect of such excess has been used to reduce net deferred tax charges in the accompanying consolidated balance sheet. The utilization of all of the aforementioned carryovers is dependent upon the Company's ability to generate sufficient taxable income during the carryforward period.

Plaintiff Litigation

ATI, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Litigation—On July 9, 1976, the Company commenced an action in Supreme Court of the State of New York against a customer for $57,653 for work, labor and services and related charges. In answering the complaint, the customer alleged counterclaims for defective work and for overcharges, seeking $1,160,000 in damages. Counsel has advised that although pretrial discovery is in process, based upon information supplied to it, the Company would appear to have meritorious defenses to the counterclaims and the Company believes it has no liability for the counterclaims.

BOISE CASCADE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part): Litigation and Legal Matters—The Company and certain majority owned subsidiaries have claims certified by the U.S. Foreign Claims Settlement Commission of $55,600,000, plus interest at 6% from 1950 against the People's Republic of China and $279,300,000, plus interest at 6% from 1960 against Cuba. Other claims against the assets of these majority owned subsidiaries, if substantiated, may substantially reduce any settlement the Company might ultimately receive. No progress toward settlement of these claims occurred during 1977. Neither claim is reflected in the Company's assets.

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

1977 FINANCIAL SUMMARY

Litigation—In connection with the company's purchase of 280,000 shares of common stock of Easco Corporation (see "Easco Common Stock" on page 11), suit was filed by Easco against the company on December 30, 1977 in the United States District Court for the District of Maryland. The suit alleges certain violations of federal and state laws pertaining to tender offers and disclosure requirements relating thereto. The suit asks, among other things, that the company pay Easco money damages in an amount not less than $10,000,000, that the company divest itself of all shares of Easco common stock owned by it, and that the company be enjoined from acquiring additional shares of Easco common stock or taking steps to gain control of Easco.

In November 1977, the company filed suit in the United States District Court for the District of Rhode Island seeking to recover approximately $495,000 from a former distributor for goods sold and delivered. In January 1978, the former distributor filed a counterclaim alleging violations by the company of the Federal antitrust laws, breach of contract, interference with contract, deceit, slander and unfair competition. The former distributor seeks "treble damages in an amount as yet undetermined, but which exceeds 20 million dollars" for the alleged antitrust violations, damages for the alleged common law violations in an amount not specified in the counterclaim, and punitive damages.

In both instances the matters noted above are in the early pre-trial stage. After consultation with legal counsel the management of the company believes that the overall results of this litigation and other pending legal proceedings would not have a materially adverse effect on the company's financial condition.

IOWA BEEF PROCESSORS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Contingencies—The Company was plaintiff in a Federal court suit in Iowa against the Amalgamated Meat Cutters and Butcher Workmen of North America, AFL-CIO, and three local unions affiliated with the international union. The suit alleged that the defendants violated existing collective bargaining agreements by causing union members to engage in or support illegal strikes in 1969 and 1970. The Company sought both actual and punitive damages. On June 3, 1977, the jury returned a verdict against the defendants and awarded the Company $1,756,592 in actual damages and $840,374 in punitive damages, a total of $2,596,966. The defendants have indicated they will appeal the decision and accordingly, the amount of damages, including interest thereon, awarded has not been reflected in the accompanying financial statements.

LABARGE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Commitments and Contingencies—In May of 1976 the Company, relying upon representations made to it of significant U.S. patent protection, entered into agreements with a Swedish supplier to purchase a substantial number of medical lifting devices over a period of years. After the Company discovered evidence of the invalidity of the U.S. patent in question, it filed suit on February 15, 1977, against the Swedish supplier and the patent owner in the U.S. District Court of the District of Columbia, seeking a determination of the invalidity of the patent, recision of the agreements and actual and punitive damages totaling $1,000,000. Subsequently, the supplier filed a claim against the Company before a Swedish Arbitration Tribunal for approximately $3,500,000 (based upon the 1977 year-end exchange rate), alleging breach of contract. On December 12, 1977, the U.S. District Court ordered the parties to cease arbitration in Sweden for a period of one year, which order has been appealed by the Swedish supplier. The Company continues to prosecute its U.S. suit. Because of the legal complexities of this litigation, the ultimate outcome is not presently determinable.

MCA INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Income Taxes—On June 14, 1977 a United States District Court entered a judgment in favor of MCA INC. with respect to the Company's tax refund suit for the years 1962 through 1970, filed in 1975. The suit is based on the Company's previously filed refund claims in which it took the position that it was entitled to the investment tax credit on eligible theatrical and television films under the Revenue Act of 1962. The Court's judgment, if upheld on appeal, resolves in MCA's favor its claims to investment tax credits of approximately $34,500,000. Of that amount the judgment awards approximately $13,000,000 as tax refunds for the years 1962 through 1970 and the balance constitutes investment tax credit carryovers to years after 1970. The Government has appealed the District Court's judgment. The balance of MCA's claims, which approximate $12,900,000, is not currently before the Court and will be resolved at a later date.

The Company has not reflected the above judgment by the Court or any of the above investment tax credit carryovers or claims in its financial statements and presently does not intend to do so until the matter has been finally resolved. Although benefit for the investment tax credits related to films produced in 1962 through 1970 has not been reflected in the computation of the federal income tax provision for financial statement purposes, the Company has utilized such investment tax credit carryovers in its federal income tax returns for the years 1971 through 1977. If the abovementioned tax refund suit is finally resolved on the basis of the Court's judgment, and the investment tax credit carryovers are allowed for the years after 1970, the Company will be entitled to a refund of approximately $13,000,000 plus interest and approximately $20,000,000 of the amount shown as a current income tax liability on the consolidated balance sheet at December 31, 1977 would no longer be payable.

SPENCER COMPANIES, INC. (MAY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15 (in part): Contingencies and Commitments

Happy Legs, Inc.—The Company's Happy Legs subsidiary has submitted a claim to its insurance company under its fidelity bond for losses it believes it has suffered as a result of alleged improper activities of a former Happy Legs' officer who was in charge of certain of that subsidiary's foreign operations. It is believed that the officer diverted Company funds entrusted to him for the payment of certain suppliers, made improper charges to travel and office expense, and permitted other overcharges. These activities of the officer, which apparently occurred during the past year, were first discovered in May of 1977 in the course of a special investigation by Company management. The total amount of loss to Happy Legs appears to exceed $1,000,000. The maximum coverage under the fidelity bond for defalcations of this officer is $500,000. Prior to February 24, 1977 it was $350,000. As part of its proof of loss, the Company has submitted evidence from various suppliers and others with personal knowledge of the alleged improper activities, and the insurance company is conducting its own review of that proof of loss. Company officers, together with outside investigators, are continuing the investigation and have not only made the claim referred to above but have also instructed counsel to commence appropriate legal action against the former officer. Additional controls and procedures designed to prevent the recurrence of such conduct have been instituted.

ZENITH RADIO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Litigation—In 1974, Zenith filed a lawsuit against certain major Japanese television and electronics manufacturers and their Japanese and U.S. sales subsidiaries and a domestic manufacturer, alleging violations of U.S. antitrust laws and the U.S. Anti-Dumping Act of 1916 in that the Japanese defendants organized to develop and employ their joint economic power to launch a predatory invasion and seizure of the U.S. market in each consumer electronic product category. The complaint further alleges that this conspiracy consisted of a concerted scheme to fix and maintain high prices in the Japanese home market and to fix and maintain artificially low prices on consumer electronic products exported to the United States. The lawsuit seeks injunctive relief and damages in excess of $300 million, to be trebled as provided by law.

In December, 1976, certain of the defendants in the lawsuit filed a counterclaim against Zenith alleging violations of U.S. antitrust laws in that Zenith conspired with their distributors and other manufacturers to restrain trade by offering discounted prices to certain major dealers. The lawsuit seeks injunctive and other relief and treble damages in an unspecified amount. The Company is of the opinion that the counterclaim is without merit and that it will result in no adverse impact on the Company's consolidated financial statements.

At December 31, 1977, pretrial discovery proceedings were progressing and it is expected that in 1978 a trial date will be set.

COMMITMENTS

Obligations to Maintain Working Capital or Restrict Dividends

AMERICAN SEATING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Long-Term Debt—Among other things, the various loan agreements contain convenants with respect to working capital, total indebtedness, additional borrowings and payments of dividends. One of the Company's long-term loan agreements restricted its ability to declare and pay dividends or to repurchase Preferred or Common Shares. In 1977 the Company obtained a change in the agreement to allow the repurchase of shares under the tender offer described in Note 7, and to eliminate the restriction on the payment of dividends on preferred shares. The amended agreement now limits the payment of dividends on common shares and additional repurchases of any class of stock to $1,000,000 plus 70% of consolidated net earnings after December 31, 1976 (or minus 100% in the case of a loss) less all dividends paid after December 31, 1976. The amended agreement also requires the Company to eliminate all short-term indebtedness for at least 60 consecutive days during each 15-month period. The Company has been free of short-term indebtedness since October, 1975. The amount of unrestricted retained earnings at December 31, 1977 was $697,000.

THE BF GOODRICH COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Income Retained in the Business and Dividend Restrictions—Dividends on outstanding Series Preferred Stock must be declared and paid or set apart for payment, and funds required for sinking fund payments on the Series Preferred Stock must be paid or set apart for payment, before any dividends may be paid or set apart for payment on the Common Stock.

Agreements pertaining to certain of the Company's funded debt include, among other things, limitations on the payments of cash dividends on capital stock of the Company and amounts that can be expended to acquire or retire capital stock of the Company. Under the most restrictive of these agreements, income retained in the business in the amount of $124,394,000 was free from such limitations at December 31, 1977.

GRANITEVILLE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Long-Term Debt—On December 1, 1975, the Company entered into a note agreement providing for a loan of $25,000,000. The indebtedness is evidenced by unsecured promissory notes bearing interest at 9.625% per annum and due December 1, 1990. On December 1, 1975, the Company delivered a note to the lender in the principal amount of $20,000,000 in exchange for cash of $9,000,000 and surrender for cancellation of the Company's 7.70% promissory note due December 1, 1984, in the unpaid principal amount of $11,000,000. On March 1, 1976, the Company delivered a note to the lender in the principal amount of $5,000,000 in exchange for cash. The Company is required to make payments on the notes, as follows: $1,000,000 on December 1, in each of the years 1976 to 1979, inclusive; $1,200,000 on December 1, 1980; $1,800,000 on December 1, 1981; and $2,000,000 on December 1 in each of the years 1982 to 1990, inclusive. The Company is subject to additional requirements and restrictions under the terms of the notes, as follows:

1. The Company must maintain a consolidated working capital of at least $37,500,000. (At January 1, 1978, consolidated working capital totaled approximately $67,500,000).
2. The Company may not pay dividends or make "restricted investments" in excess of consolidated net earnings available for dividends or "restricted investment," as such earnings and "restricted investments" are defined in the note agreement. Approximately $17,500,000 was free of restriction at January 1, 1978.
3. The Company may not place or allow to exist an encumbrance of any of its assets with certain limited exceptions.
4. The Company may not incur debt or contingent liabilities, in addition to the promissory notes, in excess of amounts allowed under the note agreement, nor may the Company enter lease agreements requiring annual expenditures in excess of $1,000,000, such amount excluding sales office and data processing equipment rentals.
5. The Company may not merge or consolidate with any other corporation unless it is the continuing or surviving corporation.

On April 1, 1977, the Company entered into a note agreement with Aiken County, South Carolina providing for a loan of $2,100,000 through a Pollution Control Revenue Note. The proceeds of the loan were used to fund the Company's required capital contribution to the Aiken County Public Service Authority's waste water treatment facility (see Note 8). The note is repayable in semi-annual installments, due April 1 and October 1 of each year through April 1, 1999, of $90,375 including interest at the rate of 6½% per annum. The note is collateralized by revenues to be received by the Public Service Authority from the Company for participation in the waste water treatment facility. The note, and the related security interest in such revenues, was assigned on June 2, 1977, to an institutional investor which funded the loan.

THE MAY DEPARTMENT STORES COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Long-Term Debt—Under the most restrictive covenants of the various debt agreements with all of which the Company was in compliance: 1) stockholders' investment must exceed $261,259,000; 2) accumulated earnings retained in the business of approximately $280,522,000 at January 28, 1978, are subject to dividend restrictions; 3) additional long-term borrowing by the Company and its subsidiaries (excluding designated finance and real estate subsidiaries) is limited to approximately $55,861,000 at January 28, 1978; 4) working capital must be at least $120,000,000 for the Company and its subsidiaries (excluding designated finance and real estate subsidiaries); and 5) rentals under long-term leases are limited to 2% of net retail sales.

NATIONAL GYPSUM COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Dividend Limitations—The provisions of certain long-term debt arrangements limit, among other things, the payment of dividends other than stock dividends, and the repurchase or redemption of the Company's issued capital stock. Under the most restrictive provisions, retained earnings of $64,920,000 and $45,317,000 were available for either payment of dividends or the acquisition of capital stock at December 31, 1977 and 1976, respectively.

OWENS-ILLINOIS, INC. (DEC)

FINANCIAL REVIEW

Restrictions on Retained Earnings. The Amended Articles of Incorporation and certain long-term debt agreements include covenants restricting the payment of dividends, distributions on account of shares, redemptions, retirements or other acquisitions of shares of any class of the Company's stock. On a pro-forma basis at December 31, 1977, the amount of retained earnings available under the most restrictive covenants, including those contained in the note agreement signed in January, 1978, was $238.9 million.

Capital Expenditures

ANHEUSER-BUSCH, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments and Contingencies (in part)—In connection with the plant expansion and improvement program, the company has commitments for capital expenditures approximating $282,974,000 at December 31, 1977.

ATLANTIC RICHFIELD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (in part): Other Commitments and Contingencies—At December 31, 1977, the Company had entered into projects and commitments relating to the construction of facilities and other items amounting to approximately $1.6 billion including approximately $600 million for domestic oil and gas development of which $500 million is for the development of the North Slope of Alaska; $110 million for development of coal resources; $260 million for manufacturing facilities; and $250 million for transportation facilities including two tankers. The uncertainties inherent in such projects may result in curtailment, postponement or cost escalation of certain of these projects.

CANNON MILLS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10: Commitments—At December 29, 1977, the Company had committed approximately $5,400,000 for the purchase of machinery and equipment and plant expansion.

DAN RIVER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (in part): Other Matters—Commitments for additions to property, plant and equipment amounted to approximately $6,303,000 at December 31, 1977 and $3,918,000 at January 1, 1977.

LYKES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M: Commitments and Contingencies—In recent years Youngstown has purchased coke under long-term contracts to meet its coke requirements which have exceeded its internal coke productive capability. Under the terms of the contract, Youngstown has agreed to purchase coke during the period 1978-1981 at an estimated aggregate cost of approximately $48,000,000.

In connection with certain agreements, Youngstown has commitments to purchase iron ore in quantities which substantially exceed its present needs and as a result, may be required to invest funds in excess inventory, or sell the excess, perhaps at a loss. Under the agreements, Youngstown may refuse to accept the iron ore, however, such action would result in substantial cost penalties, the amount of which depend on various circumstances and operating levels at the iron ore mines.

Youngstown has entered into various agreements and commitments with environmental agencies regarding the installation of pollution control facilities. Although estimates of additional future expenditures have been reduced as a result of the shutdown of certain steelmaking facilities, Youngstown presently estimates that capital expenditures required for environmental improvement facilities during 1978 and 1979 will approximate $65,000,000 and that required expenditures for the period 1980-1985 will exceed $53,000,000. Funds needed to finance construction of environmental control facilities were obtained in prior years through the issuance of environmental improvement revenue bonds; the unexpended balance of such funds available for construction of environmental improvement facilities was $45,300,000 at December 31, 1977, of which $25,800,000 is available to be applied to the estimated capital expenditures discussed above and of which another $19,500,000 may also be available if appropriate government approvals are obtained. Youngstown is currently involved in negotiations with various environmental agencies regarding the discharge of pollutants at certain of its steelmaking facilities. The outcome of these negotiations may require adjustments to the estimated expenditures discussed above.

ROBLIN INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note K—Commitments: On November 15, 1977, Roblin announced plans to invest approximately $18,000,000 in a program to increase the steel making and finishing capacity of its Dunkirk steel plant (estimated to be completed in 1980). In connection with this expansion, Roblin has entered into a contract with a manufacturer for the purchase of a continuous forging machine for $7,065,000 with $3,586,000 to be financed by a bank with repayment over a five year period after acceptance. Roblin had also entered into other contractual obligations for this expansion amounting to approximately $5,300,000 at December 31, 1977.

The balance of the financing during construction will be provided by the November 22, 1977 agreements with banks as described in Note C and internally generated cash flow. Upon completion of the expansion, Roblin has made arrangements with an insurance company to borrow $20,000,000 (with interest at the rate of 9⅞% to 10¼% depending on Roblin's debt and earnings) for retirement of the above mentioned bank borrowing. Repayment of the insurance company loan will be semi-annual installments of $714,000 beginning twenty-six months after closing. The agreement provides for payment of a commitment fee of ½ of 1% per annum to the closing date of the borrowing. The agreement requires Roblin to make certain representations and to meet certain financial ratios and earnings objectives in order to proceed with closing. The agreement provides, among other covenants, a restriction on the payment of cash dividends of 30% of income after December 31, 1976 through 1982 and larger percentages thereafter and other restrictions similar to those included in the current agreements with banks as described in Note C.

THE STANDARD REGISTER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10 (in part): Commitments and Contingencies—Purchase commitments for capital improvements aggregated $8,298,000 at January 1, 1978. The principal commitment is for the construction of a new plant near Murfreesboro, Tennessee, which will produce small quantity orders of custom continuous business forms. The cost of this facility is expected to be approximately $5,000,000. Financing of the project will be derived from the sale of $4,600,000, 6⅛%, Industrial Revenue Bonds of Rutherford County, Tennessee, on February 23, 1978.

Purchase Agreements

CENTRONICS DATA COMPUTER CORP. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Commitment—The Company's requirements of mechanical assemblies for certain line printers will be supplied to them by a foreign vendor under an agreement expiring April, 1982. Subject to quality, delivery and certain other conditions, the Company has agreed to purchase approximately $40,000,000 of mechanical assemblies by April, 1982.

INTERLAKE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Commitments and Contingencies—With respect to the Company's interests in two mining joint ventures, the Company is required to take its ownership proportion of production for which it is committed to pay its proportionate share of the operating costs of these projects, either directly or as a part of the product price. Such costs include, as a minimum and regardless of the quantity of ore received, annual interest and sinking fund requirements of the funded debt of these projects of approximately $3,000,000 through 1983, and lesser amounts thereafter through 1991.

Noncancellable leases for pollution control facilities have been capitalized. All other lease commitments, considered in the aggregate, are not material in relation to the operations of the Company.

The Company is involved, on a continuing basis, as a party to enforcement and other proceedings with governmental agencies relating to the application of environmental laws and regulations to certain of the Company's plants. Several of such proceedings have recently been settled on the basis of Company commitments to meet certain emission standards and to install control facilities at substantial cost. The Company anticipates that capital expenditures for installation of environmentally-related facilities (including those agreed to in settlement of proceedings) will aggregate approximately $18,000,000 over the next three years.

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note G (in part): Commitments and Contingencies—The Corporation has long-term contracts with several raw material suppliers in which the Corporation and other corporations are participants. The Corporation is committed under these contracts to pay its share of costs incurred by the suppliers, including principal and interest on long-term debt. The Corporation's share of the principal amount of such debt was $50,900,000 at December 31, 1977, and $42,100,000 at December 31, 1976, which is payable by the suppliers in annual installments through 1996. The $50,900,000 includes the Corporation's share of borrowings through December 31, 1977, related to the expansion of production facilities of the Tilden iron ore complex. The Corporation's share of estimated future borrowings to finance completion of the expansion by 1979 approximates $12,600,000. It is anticipated that funds available through the raw material sales will be sufficient to meet both existing obligations and obligations expected to be incurred with respect to the Tilden expansion.

Employment Contracts

ARDEN-MAYFAIR, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12 (in part): Commitments and Contingent Liabilities—Two individuals, one of whom is a director of the Company, have entered into employment agreements with a wholly-owned subsidiary of the Company. The agreements in effect during 1976, provided for a base salary of $50,000 for each individual with a bonus based on net income (as defined) before income taxes to the extent of 16⅔% on the first $1,545,000 of net income in excess of $455,000, and 5% of net income in excess of $2,000,000. During 1976, the subsidiary accrued, and charged to expense, a bonus for each of the individuals in the amount of $283,997. Employment agreements between the individuals and the subsidiary, commencing January 2, 1977, provide for a base salary of $50,000 and a bonus based on net income (as defined) before income taxes each year through January 3, 1982 to the extent of 7½% of the first $1,000,000 of net income in excess of $500,000, 10% of the next $1,000,000 in excess of $1,500,000 and 12½% of all net income in excess of $2,500,000. The bonus accrued for each of the individuals during 1977 amounted to $232,343.

A wholly-owned subsidiary of the Company has entered into an employment agreement with its president, a director of the Company, which provides for a salary of $100,000 per year subject to cost of living increases, with a bonus of 1½% of the net pre-tax profits of the subsidiary up to a maximum of ½ of the annual salary. The agreement ends on February 28, 1981. The bonus accrued during 1977 amounted to $20,745.

FOOD FAIR, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Commitment—The Company has entered into an employment contract with an officer, providing for a minimum annual salary of $200,000 through 1982, plus a bonus based upon the achievement of defined levels of discount department store earnings, up to a maximum annual compensation of $450,000. The officer is obligated to purchase 100,000 shares of the Company's common stock at $5.625 per share through August 1, 1982 and 100,000 shares at $6.00 per share through August 2, 1987. Purchases of the latter shares may not exceed 10,000 in any twelve month period. No purchases have been made under the agreement.

PALL CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (in part): Contingencies and Commitments—Since fiscal 1972, the Company has had employment agreements with its chairman of the board, president and six vice presidents. Effective August 1, 1976, revised employment agreements were entered into with these persons, as well as with three key employees of its subsidiaries. Such agreements were further amended as of August 1, 1977. The agreements provide for minimum salary levels, adjusted annually for cost-of-living changes, as well as for incentive bonuses which are payable if specified management goals are attained. The aggregate commitment for future salaries at July 31, 1977, excluding bonuses, is approximately $3,450,000.

Sale and Purchase Agreement

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Other contingencies and commitments—At December 31, 1977, commitments made for major capital expenditures were approximately $710,000,000, including approximately $160,000,000 of additional expenditures for the Piper and Claymore fields in the U.K. North Sea.

Occidental also has estimated future expenditures of $277,000,000 which will be required in connection with certain agreements with the U.S.S.R. under which certain subsidiaries are to sell superphosphoric acid to the U.S.S.R. and are to purchase ammonia, urea and potash from the U.S.S.R. for delivery during the period from 1978 through 1997, involving substantial quantities. The selling prices for each of the fertilizer commodities are to be set periodically by agreement between the parties based on market prices. The future profitability of operations under these agreements and the realization of the related investments is dependent on the negotiation of satisfactory prices.

Further, Occidental has estimated significant additional expenditures for the completion of the Canvey Island refinery of approximately $330,000,000.

In Peru, a pipeline connecting Occidental's fields to a trans-Andean pipeline is under construction by the Peruvian national oil company (Petroperu). Occidental and Petroperu have agreed upon the tariff arrangements for Occidental's use of the pipeline system, including an annual pyament of $21,775,000 for 15 years or until Occidental's interest under its production-sharing agreement is surrendered or terminated, whichever occurs earlier.

Occidental has certain other contingent liabilities and claims under contracts as guarantors of debt, as joint ventures and with regard to other potential obligations, all in the ordinary course of business. Officials of Occidental are of the opinion that such contingent liabilities will not result in any significant financial liability in relation to the net assets of Occidental.

See also Note 7 regarding the union benefit plans.

Additional Payments Based on Future Earnings of Acquired Companies

BELDING HEMINWAY COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note G (in part)—In connection with the acquisition of a subsidiary in 1971, the Company is obligated to issue additional shares of Common Stock if earnings (as defined) are achieved by the subsidiary in the six year period, as amended, ended June 30, 1977. During 1977 and 1976, the Company issued 4,831 and 1,093 shares of Common Stock for earnings achieved through December 31, 1976 and 1975, respectively. The Company estimates that the fair value of the shares issuable for earnings achieved during the six months ended June 30, 1977 would not be material. The fair value of such shares is charged to "Intangibles Applicable to Subsidiaries Acquired" at the time of issuance.

Sales Contract

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Commitments—As of December 31, 1977, Western Nuclear, Inc., a subsidiary of the Corporation, had contracts to sell approximately 8,600,000 pounds of uranium oxide (U_3O_8) through 1983. In addition, Western Nuclear is obligated to repay in 1979 approximately 1,200,000 pounds of U_3O_8 borrowed in 1977 for delivery under an existing contract. It is anticipated that Western Nuclear's production, which is to come principally from mines under development and to be developed, will be sufficient to meet these commitments.

The Corporation's 1976 net income included a pre-tax provision for losses on U_3O_8 contracted for delivery in 1977 in the amount of $12,600,000.

Agreement to Establish Joint Venture

THE BF GOODRICH COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note I: Project Commitment—During 1977, the Company entered into a shareholders' agreement providing for the establishment of a joint venture corporation to construct, own and operate chlor-alkali and ethylene dichloride chemical plants to be managed by the Company.

The shareholders will each purchase 50% of the common stock of the joint venture for cash. The Company will also contribute its existing chlor-alkali chemical facility in exchange for all the convertible preferred stock of the joint venture. The Company will account for this investment on the equity method.

The joint venture is expected to borrow in excess of $200,000,000 for construction. It is expected that the Company will agree to purchase from the joint venture a specific minimum quantity of the joint venture's chemical production and under certain conditions, it may be required to purchase all the assets of the joint venture.

Letters of Credit

ENGELHARD MINERALS & CHEMICALS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Litigation, commitments and contingent liabilities—The Company and its consolidated subsidiaries make payment in the ordinary course of business by means of letters of credit in favor of suppliers. At December 31, 1977 the amount of unused balances of such letters of credit was $343,300,000.

Royalty Agreement

WALT DISNEY PRODUCTIONS (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Commitments and Contingencies—Pursuant to an agreement for the use of the name of Walt Disney, Retlaw Enterprises, Inc. (a company owned by the family of the late Walter E. Disney) received royalty payments of approximately $4,714,000 and $3,550,000 from the Company for fiscal years 1977 and 1976, respectively; in accordance with such name agreement, the payments in fiscal year 1977 included $2,649,000 ($1,817,000—1976) as a participation by Retlaw of 5% in the profits, as defined in that agreement, of certain Walt Disney World operations.

Under an agreement with a bank the Company has available an unsecured revolving line of credit of $50,000,000 under which the Company maintains on deposit 10% of the committed funds plus 10% of any borrowings. At September 30, 1977 the Company had no borrowings.

The Company is a defendant with other motion picture producers or distributors in a number of private treble damage actions asserting claims under the federal anti-trust laws. These actions, which seek damages aggregating hundreds of millions of dollars, are in various stages of pre-trial proceedings. The Company has denied the material allegations of the complaints in these actions and in the opinion of management and counsel the Company will not suffer any material liability by reason thereof.

Purchase Option

GENERAL MILLS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Other Commitments—At May 29, 1977, authorized but unexpended appropriations for property additions and improvements were $66,000,000.

In addition, there are options outstanding to purchase the remaining minority interests of some partially-owned companies. The options could have a maximum cost to General Mills of up to $61,000,000, the major portion of which could be payable with shares of common stock. In general, the option contracts provide for payments which are dependent upon actual earnings performance and evaluation of related return on investment through the exercise date. The main option periods run from 1979 to 1986.

SUBSEQUENT EVENTS

Events or transactions which occur subsequent to the balance sheet date but prior to the issuance of the financial statements and which have a material effect on the financial statements should be either reflected or disclosed in the statements. Section 560 of *Statement on Auditing Standards No. 1* sets forth criteria for the proper treatment of subsequent events.

Table 1-12 classifies disclosures of subsequent events included in the 1977 annual reports on the survey companies.

Examples of subsequent event disclosures follow.

TABLE 1-12: SUBSEQUENT EVENTS

	Number of Companies			
	1977	1976	1975	1974
Business combinations pending or effected	51	40	25	23
Debt incurred, reduced or refinanced	33	26	38	48
Litigation	19	10	23	20
Sale of assets	14	20	33	13
Stock splits or dividends	7	18	14	8
Other	19	41	96	41

Business Combinations

ARDEN-MAYFAIR, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 15: Subsequent Event—On March 19, 1978, the Company, through a newly formed subsidiary, acquired the business and certain assets of Food Giant Super Markets, Inc. (Food Giant), operator of a chain of 16 retail grocery stores in Arizona, for approximately $2,750,000 consisting of a combination of cash, notes, the assumption of certain liabilities, 20,000 shares of Preferred stock and 50,000 shares of Common stock. The Company will lease store fixtures from Food Giant and assume existing building leases. The acquisition will be accounted for by the purchase method and, accordingly, its operations will be included in the consolidated financial statements from the date of acquisition. An independent appraisal and/or management evaluation of assets acquired will be made as of the acquisition date to determine the fair value of the Food Giant assets for purchase cost allocation purposes.

For the year ended August 27, 1977, the financial statements of Food Giant reflected sales of approximately $32,600,000 and a net loss of approximately $656,000. Income from store operations for that period was approximately $286,000 before interest, general and administrative expenses of $1,050,000. Subsequent to August, 1977, Food Giant acquired two additional operating stores with combined annual revenue estimated to be in excess of $5,000,000.

CARRIER CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 15: Subsequent event (unaudited)—At a special meeting held December 14, 1977, the corporation's stockholders approved a plan providing for the merger of Inmont Corporation ("Inmont") into a wholly owned subsidiary of Carrier Corporation. The stockholders also approved an increase in the number of authorized shares of cumulative preferred stock from 5,000,000 shares to 10,000,000 shares.

The corporation paid $40,000,000 for 1,250,000 shares and issued 5,892,804 shares of cumulative preferred stock, $1.86 series, $31 stated value and 49,260 shares of cumulative preferred stock, 4½% series, $100 stated value in exchange for all of Inmont's outstanding common and preferred stock. Each share of the $1.86 series preferred stock is convertible into 1.815 shares of the corporation's common stock. The above amounts exclude the 747,200 Inmont common shares purchased by the corporation in August 1977 (see Note 3).

The merger will be accounted for under the purchase method. Accordingly, Inmont's results of operations will be included with the corporation's consolidated results of operations for periods subsequent to the date of acquisition.

The following table summarizes, on an unaudited pro forma basis, the combined results of operations as though Inmont had been acquired on November 1, 1975:

	1977	1976
	(in thousands of dollars except per share data)	
Net sales	$1,891,363	$1,646,126
Net income	81,858	54,848
Earnings per common share	$2.79	$1.78
Earnings per common share, assuming full dilution	$2.26	$1.52

The 1977 pro forma amounts are based on the corporation's audited results of operations for the twelve months ended October 31, 1977, and Inmont's unaudited results of operations for the twelve months ended September 30, 1977. The 1976 pro forma amounts are based on the corporation's audited results of operations for the twelve months ended October 31, 1976, and Inmont's audited results of operations for the twelve months ended December 31, 1976.

CROWN ZELLERBACH (DEC)

NOTES TO FINANCIAL STATEMENTS

Acquisition—On January 31, 1978 the Corporation acquired Virginia Paper Company, Incorporated for 360,181 common shares in a transaction to be accounted for as a pooling of interests. If the transaction had been consummated prior to December 31, 1977, the accompanying financial statements would have included the financial position and results of operations of Virginia Paper Company. Net sales, net income, and net income per share of common stock for 1977 would have been as follows:

Net sales	$2,340,084,000
Net income	$ 110,351,000
Net income per share of common stock	$4.32

PEPSICO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Merger with Taco Bell—In February 1978, PepsiCo and Taco Bell reached an agreement providing for the merger of Taco Bell and a subsidiary of PepsiCo. Under the agreement PepsiCo will issue shares of its capital stock in the ratio of 1.43 shares for each outstanding share of Taco Bell common stock or a total of approximately 4,900,000 shares. The transaction will be accounted for as a pooling of interests. Taco Bell reported net income of $8,450,000 for the year ended February 28, 1977.

UMC INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 15: Subsequent Event—On February 21, 1978, the Company entered into a definitive cash merger agreement with Resistoflex Corporation pursuant to which shareholders of Resistoflex would receive $22 for each share of Resistoflex common stock owned at the time the merger is effective. The merger agreement has been approved by the Board of Directors of each company and is subject to approval by the owners of two-thirds of the outstanding shares of common stock of Resistoflex. As of the date of the merger agreement, UMC held approximately 32% of the outstanding shares of common stock of Resistoflex, substantially all of which was acquired on February 21, 1978 at $22 per share. The total value of the transaction, including shares already owned, will be approximately $40,000,000.

Debt Incurred, Reduced or Refinanced

AMERICAN BILTRITE INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C: Credit Arrangements—Effective February 28, 1978, the Company entered into a new credit agreement with several banks which provides for a maximum line of credit of $12,000,000 through December 31, 1978. Under the terms of this Agreement interest is payable monthly at a rate of ½ of 1% above the prime commercial rate. In addition, the Company must maintain average daily collected balances equal to the sum of 10% of the available line and 10% of the average outstanding loan.

The Agreement, among other things, requires the Company to maintain minimum working capital and tangible net worth of $23 million and $43 million, respectively. In addition, the Company must achieve minimum specified quarterly earnings, as defined. The Agreement also prohibits the payment in 1978 of cash dividends to holders of Common Stock and limits the amount of capital expenditures.

Certain of the Company's real property, equipment and investments (net carrying amount—approximately $10 million at December 31, 1977) are pledged as collateral under the terms of this Agreement.

In addition, the Company's Canadian subsidiary has a line of credit of $3 million with its bank.

CADENCE INDUSTRIES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Subsequent Events—In March 1978, the Company and its principal lending institution reached an agreement (subject to the signing of a definitive loan agreement) for the extension of a $3,500,000 seasonal line of credit through December 31, 1980 and for a $15,000,000, revolving line of credit through December 31, 1980 with the balance payable over five years commencing in 1981.

On March 7, 1978 the Company announced an offer to repurchase 700,000 shares of its common stock at $8.00 per share. The Company has reserved the right to purchase additional shares if more are tendered pursuant to the offer.

DRAVO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes payable (in part)—Union Mechling Corporation, a wholly owned subsidiary, has a revolving credit agreement with a group of banks under which it may borrow up to $20 million at prime rate plus ¼% until December 31, 1979 and thereafter on a term loan with interest at prime rate plus ½% to ¾% which will be payable in equal quarterly installments to December 31, 1984. There is a ½% commitment fee on the unused portion. Restrictive covenants in the loan agreement include requirements for minimum tangible net worth, minimum value of vessels and other floating equipment, and limitations on additional debt, substantial sales of equipment, cumulative capital expenditures and cumulative dividends. There were no obligations outstanding under this agreement at December 31, 1977.

Assuming full issue of $20 million in term notes in 1979, annual installments payable on all notes due after 1978 are: 1979, $3.6 million; 1980, $6.5 million; 1981, $6.0 million; 1982, $5.9 million; 1983, $4.6 million; and after 1983, $6.4 million.

In January 1978, Union Mechling sold $11.2 million of bonds, guaranteed by the U.S. Maritime Administration, for financing of marine equipment. The bonds, bearing 8% interest, are repayable from 1978 through 2002.

IOWA BEEF PROCESSORS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (in part): Credit Arrangements—On October 28, 1977, the Company borrowed $16,000,000 against its term loan agreement and $3,000,000 against its short-term open line-of-credit. On October 31, 1977, $3,000,000 was repaid on the short-term open-line-of-credit and $1,000,000 was repaid on the term loan. On December 22, 1977, the remaining $15,000,000 term loan balance was repaid with loan proceeds obtained from a new long-term debt offering *(Note E)*.

Note E (in part): Long-Term Obligations—On December 22, 1977, the Company signed a senior note agreement with a group of institutional lenders. Under the agreement, the Company borrowed $15,000,000 on December 22, 1977 and used the proceeds to repay the term loan outstanding at October 29, 1977. The agreement provides for total borrowings of $30,000,000 evidenced by $19,500,000 in notes due December 15, 1992 and $10,500,000 in notes due December 15, 1982. The 1982 notes are payable in a lump sum at maturity and may be refinanced by the Company's issuance of additional 1992 notes. The remaining $15,000,000 in notes must be issued on or before June 15, 1978. The borrowings, which are unsecured, bear a stated interest rate of 8⅞% and are discounted to yield 8.95%. Annual principal payments of $1,625,000, beginning December 15, 1981, are required towards the 1992 notes.

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note D (in part): Long-Term Debt—Under the terms of a revolving and term loan agreement dated April 1, 1975, and amended at various dates subsequent thereto (including January 30, 1978), the Corporation had borrowed $52,800,000 as of December 31, 1977. Concurrent with the January 30, 1978, amendment, $11,880,000 was repaid and maximum borrowings under this agreement were reduced from $66,000,000 to $40,920,000 through March 31, 1978. The amended agreement provides that all or a portion of the amount borrowed can be converted to a five-year term loan payable in twenty equal quarterly installments commencing on June 30, 1978, with interest at the greater of the prime rate or prime commercial paper rate, plus ½%. Prior to conversion, the terms of the agreement provide for the payment of interest generally at the greater of the prime rate or the prime commercial paper rate plus a facility fee of ¼%. It is the Corporation's present intention to convert borrowings under the agreement to term loans.

The January 30, 1978, amendment, among other things, modified certain covenants related to maintenance of working capital and tangible net worth and a requirement for the ratio of liabilities to tangible net worth to make them less restrictive through June 30, 1980. As of July 1, 1980 and 1981, the requirements become more restrictive, generally consistent with the preamended agreement. In addition, compensating balance requirements were formalized, requiring payment of a "deficiency fee" in lieu of maintaining such balances at the option of the Corporation. As of December 31, 1976 and 1977, approximately $7,318,000 and $8,929,000, respectively, of cash represented compensating balances after adjustment for float.

Prior to the January 30, 1978, amendment, a commitment fee of ½% was charged for the unused credit.

Litigation

THE CONTINENTAL GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Other Matters (in part)—In January of 1978, the Federal Grand Jury in Houston issued indictments charging that the Company and one of its employees, together with thirteen other companies and twenty-five of their employees, violated Section 1 of the Sherman Act to fix, raise, maintain and stabilize the prices of corrugated containers and corrugated sheets in the continental United States east of the Rocky Mountains. The Company has been served with numerous complaints in private civil actions, purporting to be on behalf of a class, seeking injunctions and treble damages for essentially the same alleged violations in unspecified amounts. The Company has also been served with a complaint in a private civil action, purporting to be on behalf of a class, alleging a conspiracy to fix kraft liner board and corrugated box prices and to monopolize the corrugated box market. The complaint seeks injunctive relief, treble damages in an unspecified amount, but alleged to be in the millions of dollars, and divestiture of certain corrugated box manufacturing plants. Discovery in the private civil actions has not commenced yet. Based on the opinion of counsel, the Company believes that damages, if any, which may be recovered by the plaintiffs in these or similar actions will not have a material adverse effect on the Company's financial position or its results of operations.

NORTHWEST INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingent Liabilities (in part)

Subsequent Event—Contamination of animal feed by the unintended mixing by Michigan Farm Bureau Services of a flame retardant manufactured by Velsicol Chemical Corporation, a subsidiary, has given rise to a large number of claims, many of which have been settled. Evaluations are still continuing of the health of Michigan residents who may have consumed products affected by the contamination. In late February 1978, the State of Michigan brought a civil action in this matter to recover alleged past and prospective expenses of the state estimated by it to exceed $59,000,000 through 1982 and exemplary damages of $50,000,000. This suit will be vigorously resisted, and this matter is not expected to have a material effect on the company.

STONE CONTAINER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Other Matter: In January, 1978, the Company and two of its employees were indicted by a Federal grand jury on misdemeanor charges for alleged violations of the Sherman Anti-Trust Act in connection with the sales of corrugated containers. Thirteen other companies and twenty-four other individuals were also indicted for similar alleged violations. The Company has also been named as a defendant, along with other corporate defendants, in numerous private class action suits alleging price fixing violations and claiming unspecified treble damages.

The Company believes that neither it nor its employees have violated such laws and that it has meritorious defenses to the claims pending or threatened. The Company intends to vigorously defend against the charges and claims made. While any litigation has an element of uncertainty, it is the Company's present belief that the ultimate outcome of such matters will not have a material adverse effect upon the Company's business or financial condition.

Sale of Assets

THE ANSUL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Subsequent Event—On March 3, 1978 we entered into an agreement to sell our 73% interest in Lane Limited to Roche Products Pty., Ltd. an Australian company. The agreement is subject to approval by certain Australian government agencies.

The Consolidated Statements of Operations and Balance Sheets include Lane (See Note 1 to Notes to Consolidated Financial Statements) as a consolidated subsidiary. Following is summarized 1977 and 1976 financial data for Lane:

Statement of Operations	1977	1976
Net sales	$23,396,000	$29,489,000
Income (loss) after tax	$ 800,000	$ (36,000)
Minority interest	(193,000)	68,000
Net Income	$ 687,000	$ 32,000
Balance Sheet		
Working capital	$ 6,103,000	$ 4,596,000
Non-current assets	3,761,000	4,658,000
Non-current liabilities	(384,000)	(284,000)
Minority interest	(3,158,000)	(3,065,000)
Net investment	$ 6,322,000	$ 5,905,000

CHOCK FULL O'NUTS CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Discontinued Brewery Operations—Pursuant to an agreement dated October 7, 1977 the Company (through its Rheingold subsidiaries) sold to C. Schmidt & Sons, Incorporated substantially all of the assets (excepting receivables and packaged beer or brews in process), both tangible and intangible, used in the conduct of its brewery operations. The purchase price for the assets purchased amounts to $7,000,000 plus the Company's cost of raw materials and packaging supplies to be transferred to the purchaser provided such costs do not exceed $850,000 and $1,075,000, respectively (such inventories amounted to $425,000 and $796,295, respectively, at July 31, 1977). Upon execution of the agreement the Company received $5,000,000 of the purchase price in cash and $2,000,000 was placed in escrow of which amount $1,000,000 is evidenced by a promissory note due October 1, 1982 with interest at 6% per annum (payable monthly commencing December 1, 1977). The purchase price of the raw materials and packaging supplies inventories is payable upon transfer to the purchaser.

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Subsequent Events—On October 14, 1977 the Company sold *KEYC-TV,* Mankato, Minnesota for $5,000,000 cash and realized a gain on the sale of approximately $4,500,000 which will be deferred for income tax purposes under the applicable provisions of Section 1071 of the Internal Revenue Code.

The Company on October 21, 1977 acquired all the common stock of Mount Hood Radio & Television Broadcasting Corporation (*KOIN-TV,* Portland, Oregon) for approximately $27,000,000. The acquisition will be accounted for by the purchase method and will be included with the consolidated results of the Company in subsequent periods. The allocation of purchase price to tangible assets, goodwill and liabilities has not been completed at this date.

The acquisition was financed with $24,000,000 of unsecured revolving credit loans that on December 15, 1980 convert to four-year term loans on the then outstanding balance and are payable in sixteen equal quarterly installments commencing March 15, 1981. These loans have an effective borrowing rate, after consideration of compensating balance requirements, of approximately 115% of existing bank prime rates through 1979, 120% through 1980 and 125% through 1984. The loan agreements require certain covenants not considered restrictive to normal operations or anticipated dividends.

SQUIBB CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Subsequent Event—In early 1978, the fragrance and cosmetic subsidiary of the Company sold its rights to the "Lanvin" trademarks (which were limited to the United States, Puerto Rico and Canada) and the "Lanvin" inventory to Lanvin S.A. (Trade Marks), of which Mr. Bernard Lanvin is a director, for approximately $9,900,000 in cash and the assumption of certain obligations relating to returned merchandise. Mr. Lanvin resigned as a Director of Squibb Corporation on December 21, 1977. The sales and income of the "Lanvin" product line did not constitute a material portion of the consolidated financial results of the Company. The gain on this transaction will be reported in the first quarter of 1978.

Stock Dividends or Splits

BEECH AIRCRAFT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E (in part): Common Stock and Additional Paid-In Capital—On October 11, 1977 the Board of Directors declared a 2% stock dividend for each share outstanding, payable November 23, 1977 to shareholders of record on October 21, 1977. Payment of this dividend will result in the issuance of 147,423 additional shares of Common Stock (fractional shares will be paid in cash). The earnings per share and dividends per share shown on the consolidated statements of income and retained earnings, as well as information in Notes D, F, and K have been adjusted to give retroactive effect to this stock dividend.

KELLY SERVICES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event—Stock Split: On February 21, 1978, the Board of Directors approved a five-for-four stock split of the Company's common stock payable on March 31, 1978 to stockholders of record at the close of business March 3, 1978. In connection with the stock split, at January 1, 1978 an amount equal to the par value of common stock issued, $487,953, and the amount payable in lieu of fractional shares, $9,162, was charged first to Paid-in Capital and thereby eliminating that account, with the excess of $335,371 being charged to Earnings Invested in the Business.

Employee Benefits

AMETEK, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 10: Subsequent Event—In February 1978, the Board of Directors adopted, subject to the approval of stockholders, the 1978 Employees Non-Qualified Stock Option and Stock Appreciation Rights Plan, permitting the granting of options for 150,000 shares of common stock with stock appreciation rights.

Formation of Joint Venture

ALLIS-CHALMERS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event—Formation of Siemens-Allis. Effective January 1, 1978, the Company and Siemens Aktiengesellschaft of West Germany (Siemens) formed a corporation, Siemens-Allis, Inc. (Siemens-Allis) to manufacture, market and install equipment for the distribution, regulation and control of electrical energy. The Company contributed the business and net assets of $50,601,652 (book value at January 1, 1978) of its Electrical Products Group to the venture in exchange for an 80% equity interest. Siemens Corporation, a wholly-owned U. S. subsidiary of Siemens, is to contribute cash of $19,150,413 for a 20% equity. Siemens and the Company currently have equal representation on the board of directors of the new company. The Company also jointly owns with Kraftwerk Union, a wholly-owned subsidiary of Siemens, Allis-Chalmers Power Systems, Inc., which markets and installs turbine generators used by electrical utilities.

In the first quarter of 1978 the Company intends to recognize an after tax gain of $5.2 million relating to the acquisition by Siemens Corporation of the 20% interest in Siemens-Allis, Inc. at a premium over book value. Because the Company holds a majority interest, the net operating assets and revenues and expenses of Siemens-Allis will continue to be included in the Company's consolidated statements.

A summary of contributed net assets of the Electrical Products Group as of January 1, 1978 follows:

	(thousands of dollars)	
Assets		
Cash		$ 184
Receivables, less $27,390 retained by the Company		5,236
Inventories		50,581
Prepaid income taxes		6,763
Other current assets		144
Property, plants and equipment, at cost	$ 75,401	
Less accumulated depreciation	(30,302)	45,099
Total assets		108,007
Liabilities		
Accounts payable and payrolls		13,207
Accruals for product warranty and correction		9,296
Accruals for completion of contracts and plant rearrangement		4,230
Advance collections on contracts in excess of costs incurred		8,718
Other current liabilities		4,391
Long-term debt—variable rate notes		31,333
—other		1,406
Deferred income taxes		2,824
Total liabilities		57,405
Net Assets Contributed		$50,602

During the year ended December 31, 1977, the Electrical Products Group represented $226 million (15%) of the Company's unaffiliated customer sales and $26.3 million (19%) of the Company's pretax operating profit before interest charges.

The shareholder agreement with Siemens places restrictions of specified durations on sale or transfer of Siemens-Allis equity to third parties and effective January 1, 1979 provides Siemens an option to purchase for cash sufficient additional shares of Siemens-Allis from the Company to increase Siemens' total equity in the venture to 50%. The price for additional shares includes a premium over book value providing a pretax gain of $7.8 million to the Company in the event of sale. Manufacturing facilities located in the nine U. S. cities which were previously part of the Company's Electrical Products business are now part of Siemens-Allis.

Investment

SUN COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Event Subsequent to December 31, 1977—During January, 1978, the Company, through a newly formed wholly-owned subsidiary, purchased in private transactions approximately 34% (6,485,493 shares) of the common stock of Becton, Dickinson and Company for an aggregate cost of $293 million, consisting of cash of $260 million and notes of $33 million payable over eight years with interest at 8 percent. The investment in Becton, Dickinson will be accounted for on the equity method. For the year ended September 30, 1977 (date of latest available audited financial statements) Becton, Dickinson reported consolidated net income of approximately $47 million. The operations of Becton, Dickinson are primarily concentrated in the health care industry. Subsequent to the purchases of the Becton, Dickinson shares various legal proceedings have been commenced against the Company and others with respect to such purchases. Although such proceedings are in the early stages, the Company believes its purchases of such shares were made in full compliance with applicable legal requirements.

RELATED PARTY TRANSACTIONS

Statement on Auditing Standards No. 6 specifies the nature of information which should be disclosed about related party transactions in financial statements. In 1977, 114 survey companies disclosed related party transactions. Examples of such disclosures follow.

Transactions Between Affiliated Companies

ANDERSON, CLAYTON & CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): The accompanying consolidated financial statements include transactions of Anderson, Clayton & Co. and consolidated subsidiaries with the nonconsolidated subsidiaries as follows:

	1977	1976
Interest received from:		
Nonconsolidated international subsidiaries	$ 1,524,000	$ 390,000
Nonconsolidated domestic insurance subsidiaries	112,000	130,000
Purchases from nonconsolidated international subsidiaries	130,539,000	71,889,000
Sales to nonconsolidated international subsidiaries	1,014,000	411,000
Management and technical fees received from nonconsolidated international subsidiaries	1,183,000	1,880,000

AKZONA INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Transactions with affiliates—Approximately 65% of the Company's outstanding common stock is owned beneficially by Akzo N.V. (Akzo), a Netherlands-based company which operates internationally in many of the same businesses as the Company. The Company and Akzo have various agreements which provide for the sharing of business knowledge and research efforts. The more significant agreements are long-term and provide for sharing of specified research costs on percentage bases with maximum limits based on sales volume. The companies also engage in other transactions, principally related to the sale and purchase of products. Amounts included in the consolidated statement of income with respect to transactions with affiliates are as set forth below:

	1977	1976
Sales	$ 4,494,000	$3,492,000
Purchases	10,178,000	8,516,000
Commissions and royalty income	583,000	1,205,000
Research costs (net) and royalty expense	3,127,000	3,061,000

CANNON MILLS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: Related Party Transactions—The Company, in the normal course of business, sells cotton and certain manufactured products and provides administrative and selling services to companies in which it holds minority investments and purchases from certain of them cotton, yarn, and manufacturing services. Such sales and purchases are consummated at competitive prices and for fiscal 1977 amounted to $23,600,000 and $120,800,000, respectively, and for fiscal 1976 amounted to $19,700,000 and $97,100,000, respectively.

Loans, principally in connection with these activities, are made among the companies for short durations with interest charged at the rate of 6% per annum. The loans receivable from these related companies at December 29, 1977 and December 30, 1976 totalled $1,000,166 and $200,834, respectively, and are included in accounts receivable. The loans payable to the related companies at December 30, 1976 totalled $400,000 and are included in accounts payable.

MILTON ROY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Investments in joint ventures, at equity—At December 31, 1977 and for the two years then ended, the Company maintained 50% ownership of Dosapro-Milton Roy S.A. and Ichibishi Company, Ltd. These investments are stated at cost of acquisition plus the Company's equity in the undistributed net income since acquisition.

* * *

The Company engages in various transactions with its 50% owned companies. Agreements with these companies generally provide for a price structure projected to assure a reasonable return to the respective parties. Significant transactions with the companies that are accounted for on the equity method at December 31, 1977 and 1976 were as follows:

				December 31,	
	Sales to	Royalties charged to	Purchases from	Receivable from	Payable to
			(Thousands)		
1977	$132	$192	$ 63	$ 84	$ 39
1976	$200	$186	$290	$118	$18

SHELL OIL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 3: Transactions with Affiliated Companies—Shell continued in 1977 to have transactions, including the purchase, sale and transportation of crude oil, petroleum and chemical products in the ordinary course of business, with subsidiaries of the Royal Dutch Petroleum Company and the "Shell" transport and Trading Company, Limited, parent companies of Shell Oil Company. Such purchases and transportation amounted to $1,003,782,000 and sales amounted to $117,184,000 for the year 1977. This compares with $802,603,000 and $127,797,000, respectively, for the year 1976. The revenues and costs related to these transactions are commingled with other revenues and costs and the amount of profit thereon is not accurately determinable without effort and expense disproportionate to the relative importance of such amount. Transactions with such affiliated companies also include certain foreign venture arrangements with respect to the exploration for and development and production of crude oil and natural gas, a one-third stock ownership interest in a Netherlands Antilles transshipment terminal venture and an arrangement whereby Shell and a subsidiary of Shell Petroleum N.V. each perform for, and exchange with the other, research services related to petroleum technology, chemicals and other fields.

TOBIN PACKING CO., INC. (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 9: Related Parties—During August 1977 Halco Products Corporation purchased 311,003 shares of the Company's common stock which constitutes approximately 35% of the stock outstanding. Halco has since obtained representation on the Board of Directors.

An affiliate of Halco Products Corporation acts as a food broker for the Company in the greater New York City marketing area. The commissions for such services after August 1977 amounted to approximately $20,000.

Transactions Between Company and Management or Stockholders

DART DRUG CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Interest of Management and Others in Certain Transactions—The Company leases certain real property from Combined Properties Corporation and other entities in which Herbert H. Haft, President of the Company, or members of his family have substantial beneficial interests. The leased property presently consists of eighteen stores (sixteen of which are operated by the Company and two of which are subleased by the Company to independent third parties), the Company's executive office and warehouse facilities and approximately five acres of land adjacent to the existing warehouse facilities. These leases provide for various termination dates which, assuming renewal options are exercised, range from 1991 to 2034, and require the payment of minimum annual rentals aggregating approximately $2,600,000 at March 31, 1977 (net of annual rental income to be received from subtenants). Minimum rentals under these leases approximate $45,000,000 to their expiration. Certain of these leases also require the payment of a percentage of sales in excess of a stated minimum, as well as real estate tax increases. The Company has from time to time made lease payments to entities in which Mr. Haft or members of his family have a substantial beneficial interest prior to the date on which payment was required under the lease. In the opinion of the Board of Directors, the terms of these leases are not less favorable to the Company than leases made between the Company and independent parties.

As indicated above, the Company leased approximately five acres of land adjacent to its existing warehouse facilities from an entity in which members of Mr. Haft's family have substantial beneficial interests. The lease, which was executed for the purpose of supplying necessary land for the Company's future expansion needs, obligates the Company to lend on demand $275,000 to the lessor. Such loan is to bear interest at the prime rate and is to be repaid from the proceeds of any permanent loan placed on the land or any improvements subsequently constructed thereon. To date, the lessor has not executed this loan.

As of April, 1974, the Company entered into a ten-year employment contract with Mr. Haft. The agreement, as amended, provides for an annual salary of $175,000, with automatic annual cost-of-living increases based on the Consumer Price Index, and certain other benefits.

JOHNSON PRODUCTS CO., INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Transactions With Related Parties—The Company has a land-lease agreement with officers of the Company, George E. Johnson and Joan B. Johnson, under which the Company has constructed and furnished a residence in Jamaica for use by distributors and customers.

The annual land rental paid by the Company is $500 and the expiration date of the lease is June 6, 1986. George E. and Joan B. Johnson have the option to purchase the house and furnishings from the Company for approximately $64,000 upon expiration of the lease. The lease will be automatically renewed for a further term of 20 years, if the lessors fail to purchase the house from the Company, and the annual rental for the renewal period will remain at $500. All leasehold improvements and all operating expenses of this facility are paid for by the Company.

For the years 1977 and 1976, the Company contributed $110,000 and $175,000, respectively, to the George E. Johnson Foundation Inc. (an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code). Two officers who are major shareholders and an employee of the Company serve as directors of the Foundation.

The Company has an investment in the common stock of the Independence Bank of Chicago. The bank is controlled by certain officers and directors of the Company. At August 31, 1977, the Company had on deposit at the bank, $500,000 in interest-bearing certificates of deposit and $444,000 in demand deposits.

WINNEBAGO INDUSTRIES, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Related Party Transactions—On May 13, 1976, the Company purchased a jet aircraft from an officer of the Company for $900,000. Three independent appraisals of the current value of the aircraft were utilized in determining the purchase price.

INFLATION ACCOUNTING

Effective for fiscal years ending on or after December 25, 1976, Securities and Exchange Commission *Regulation S-X* requires the disclosure of replacement cost for inventories and productive facilities and the amount of cost of sales and depreciation based on replacement costs. This requirement applies to financial statements included in Form 10-K for most companies whose inventories and gross property aggregate more than $100 million and comprise more than 10% of total assets. Although this requirement does not apply to financial statements included in annual reports to shareholders; such financial statements, by not presenting replacement cost data, would vary significantly from financial statements included in Form 10-K. To avoid a variation, the SEC staff suggests in *Staff Accounting Bulletin No. 7* that the notes to financial statements in annual reports to shockholders "contain a generalized description of the impact of changes in the prices of specific goods and services on the registrant and a reference to the replacement cost data contained in the 10-K. Such generalized description need not contain any specific quantitative data." Due in part to the SEC requirement for certain replacement cost data, the Financial Accounting Standards Board has deferred consideration of inflation accounting.

In 1977, the financial statements of 430 survey companies contained inflation accounting information. Of these 430 survey companies, 50 presented replacement cost data, 377 referred to replacement cost data presented in Form 10-K; the respective totals for 1976 were 316, 50, and 263. In both 1977 and 1976, 2 companies presented supplementary inflation information adjusted for price level changes, and 1 presented both historical cost basis and current-value financial statements.

Reference To Replacement Cost Data In Form 10-K

AKZONA INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Replacement cost (unaudited)—The Company has calculated the replacement cost of inventories and the productive capacity of plant and equipment and the related effects on depreciation and cost of sales, all as required by the Securities and Exchange Commission (SEC). In general, the replacement cost of such plant and equipment and related depreciation is significantly higher than the comparable historical cost amounts reflected in the accompanying consolidated financial statements. The replacement cost of inventories and cost of sales does not differ significantly from comparable historical cost amounts. The replacement cost amounts are not presented in this note since the Company believes that such data may not be comparable to that presented by other companies and may not be meaningful because of the lack of explicit rules and methods of calculation which would serve to assure comparability. Such data will be presented, as required, in the Company's annual report on Form 10-K to be filed with the SEC.

AMF INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Asset Replacement Costs (Unaudited)—In 1977 and 1976, the Company's sales prices generally increased favorably in relation to inflationary cost increases which had reduced profit margins in 1974 and 1975. As the LIFO inventory method is used by most domestic operations, current costs of inventory replacement are generally matched against sales in the historical financial statements. The additional cost of sales on a replacement cost basis for operations (principally overseas) not on the LIFO method are relatively insignificant.

Due to the cumulative impact of inflation, the current cost of replacing long-lived assets in property, plant and equipment and machines leased to customers with items having equivalent productive capacity normally requires a substantially greater capital investment than was necessary to originally purchase the items being replaced.

The Company's Annual Report to the Securities and Exchange Commission (SEC) on Form 10-K will contain information with respect to 1977 and 1976 year end replacement costs of inventories, machines leased to customers, and property, plant and equipment, and the approximate effect which calculations based on replacement costs would have had on cost of sales and depreciation expense for the year. This information will be based on numerous subjective judgements and calculations, within guidelines set forth by the SEC, and will not necessarily be indicative of amounts for which assets can be sold, how assets will ultimately be replaced, or what costs (or related savings) will result from future replacement of existing productive capacity.

AMSTAR CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Note 11: Replacement cost (unaudited)—The Securities and Exchange Commission has adopted a rule to provide more information on the impact of inflation than is obtainable from historical cost financial statements taken alone. Pursuant to this rule, the Corporation has prepared information on the replacement cost of inventories and of the productive capacity of certain property, plant and equipment at June 30, 1977, and the determination on the basis of current replacement cost of depreciation and cost of sales for the year then ended. This information, together with a detailed discussion of the methods used and assumptions made in its preparation, will be included in the Corporation's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission, a copy of which may be obtained on request.

In general, this information indicates that the replacement cost of the productive capacity of certain property, plant and equipment and the related replacement cost depreciation and the replacement costs of inventories are higher than the corresponding amounts in the consolidated financial statements at and for the year ended June 30, 1977. This information also indicates that the estimated cost of sales, exclusive of depreciation based on current replacement cost at the time of sale, would not be significantly different from that set forth in the consolidated statement of income for the year ended June 30, 1977.

It should be noted that the determination of the replacement cost information has involved subjective judgments and hypothetical assumptions. Such data are not necessarily indicative of the costs that would be incurred to replace the Corporation's productive capacity and inventories or the manner in which such assets would be replaced, nor should such data be interpreted as representing the current market values of existing property, plant and equipment. The data provided do not give effect to possible related costs or savings which may result from future replacements of existing productive capacity nor do they purport to estimate or quantify the total impact of inflation on the Corporation's reported net income for the year ended June 30, 1977. In cautioning against the "simplistic use" of such information, the Securities and Exchange Commission has stated that the requirement to disclose depreciation and cost of sales on a current replacement cost basis was not designed to enable a simple determination of a net income effect.

ARMSTRONG CORK COMPANY (DEC)

FINANCIAL REVIEW

Replacement Cost Valuation (Unaudited)—In compliance with the rules of the Securities and Exchange Commission, the Company has estimated replacement costs for worldwide inventories and property, plant and equipment for year-end 1977 and 1976 and for cost of goods sold and depreciation expense for the years ended December 31, 1977, and December 31, 1976.

The estimated replacement cost of inventories was approximately 28% and 26% higher at December 31, 1977 and 1976, respectively, than that presented on an historical cost basis in the financial statements. In both years, the impact on cost of goods sold was insignificant.

The estimated replacement cost of property, plant and equipment, as compared with historical cost, was 80% greater at December 31, 1977, and 75% greater at December 31, 1976. Net property, plant and equipment on a similar basis was approximately 53% and 50% greater for those two years.

Depreciation expense for 1977 and 1976, based on the calculated higher property values, would be approximately 45% and 48% over the historical expense included in the financial statements.

The Securities and Exchange Commission has cautioned investors and analysts against "simplistic use" of replacement cost valuations. Although the replacement cost data have been estimated in a reasonable manner, following the advice of reputable consultants who have concurred with the methods employed, the estimating procedures do require that certain subjective decisions be made. Moreover, the data are based on the hypothetical assumption that the Company would replace its inventory and productive capacity at the end of its fiscal year, whether or not the funds to do so were available or such immediate replacement were physically possible. This assumption requires that management contemplate many actions at the end of each year that ordinarily would not be addressed at one time. Accordingly, this information should not be interpreted to indicate that the Company has present plans to replace its productive capacity or that actual replacement would or could take place in the manner assumed in estimating the information.

In addition, the data are based on costs as of December 31, 1977, and December 31, 1976. The actual cost of replacement could differ substantially from the amounts reported. In the normal course of business, productive capacity is replaced over an extended period of time. Decisions covering replacement will be based on economic, regulatory, technological, and competitive conditions existing at the time such determinations are made and which could differ substantially from the assumptions on which the presented information is based. As replacement actually takes place, funds will be provided through the normal source of earnings and/or external capital infusions, depending on financial conditions at the time.

No attempt has been made to reflect any operating cost savings that would probably result from the replacement of existing assets with assets of improved technology and efficiency, nor has recognition been given to the customary relationship between cost changes and changes in selling prices that would accompany any real increase in depreciation or other costs.

The Company believes that there are numerous limitations to the validity of the estimated values because of the subjective judgments and assumptions they contain. Because of these limitations the data will not be fully comparable among companies and will be subject to errors of estimation.

The Company's annual report on Form 10-K will contain specific information with respect to 1977 and 1976 estimated replacement cost data, including comments on the methods followed in estimating such costs and values.

THE BENDIX CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Replacement Cost Information (Unaudited)—The Corporation has experienced and will continue to experience the effects of inflation upon costs to replace inventories and productive capacity as well as other operating costs and expenses. However, increased cost of sales and depreciation expense are partially offset by gains in technology and improvements in operating efficiencies. As most cost increases would normally be recovered through adjustments in selling prices, the Corporation would not expect inflation to cause a significant change in its gross profit margins.

Regulations of the Securities and Exchange Commission (SEC) require the Corporation to furnish certain replacement cost information reflecting inflation and technological changes on inventories and productive capacity, and the resulting effects on cost of sales and depreciation expense. This information is available in the Corporation's Annual Report to the SEC on Form 10-K. While the replacement cost information generally reflects the increased cost of doing business, the Corporation advises against any simplistic use of the data. Since the information is highly theoretical, involving subjective assumptions and approximations, comparisons of the data with similar data from other companies should be made with extreme caution.

BROWN GROUP, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Replacement Cost Data (Unaudited)—As required by the Securities and Exchange Commission, the Corporation will include certain estimated replacement cost data in the Form 10-K filed with the Commission. Such data will consist of the replacement cost of inventories. fixed asset, and the impact of these costs upon depreciation and cost of sales.

Due to inflation and the cost of technological improvements, the replacement cost of the Corporation's productive capacity would require a greater capital investment than was originally required to purchase that capacity. In the normal course of business, the Corporation has been able to and expects to continue to replace its productive capacity in an orderly manner. Historically, the Corporation has been able to compensate for the cost increases by increases in productivity and selling prices.

Because the Corporation has adopted the LIFO method of inventory accounting, the effect of replacement cost on cost of goods sold is not significant. Under LIFO accounting substantially all inflation is reflected in cost of goods sold as incurred.

The Corporation's Form 10-K (a copy of which is available to stockholders upon request) contains specific information with respect to the replacement cost data.

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13: Asset Replacement Cost (Unaudited)—The Corporation believes that inflation has not had any significant effect on its operating results. The majority of the Corporation's business is conducted under long-term contracts, the prices for which include provisions for anticipated increases in labor and material costs during the period of performance. The Corporation's principal contracts, which are for production of A-10 aircraft, provide for sharing of cost underruns or overruns (within a ceiling price) between the government and the Corporation and for further adjustments of prices and ceilings if increases in the cost of labor and materials, as evidenced by government indices, exceed or are less than those anticipated at the time the contract prices were negotiated. Prices for Merlin and Metro aircraft marketed by Swearingen Aviation Corporation (a 90 percent owned subsidiary) are set at a time when the costs to be paid for major procurement items are known and these are included in arriving at the aircraft price.

Replacing items of property, plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets.

The Corporation's Annual Report to the Securities and Exchange Commission on Form 10-K contains additional information with respect to year-end 1977 and 1976 replacement cost of inventories and productive capacity and the approximate effect replacement cost would have had on the computation of cost of sales and depreciation expense for those years.

GENERAL FOODS CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Replacement Cost Information (Unaudited)—In fiscal 1977, General Foods experienced an increase in consolidated cost of sales resulting principally from an unprecedented rise in green coffee commodity costs. Since green coffee represents a significant percentage of the cost of finished coffee products, General Foods has, during fiscal 1977, found it necessary to take unprecedented price increases on its coffee products. While such pricing did recover full costs as incurred, the cost of sales for fiscal 1977 on a full replacement cost basis would significantly exceed the average cost of sales as reported. In addition, the estimated replacement cost of inventories on hand at the end of fiscal 1977 would also be greater than the reported average cost amounts for the reasons set forth above.

The calculated cumulative impact of inflation on existing plant and equipment would, of course, result in higher capital investment should it be necessary to replace the existing productive capacity. However, the replacement cost information is based upon hypothetical assumptions and substantial subjective judgments that may be affected by errors inherent in estimation. Therefore, it should not be construed to represent management's intent to replace existing productive capacity. In addition, replacement cost may not represent, because of possible future increases in cost levels, the actual cost that may be required of replacing productive capacity in the future. Nor does such data reflect the future benefits of replacing productive capacity.

As required by the Securities and Exchange Commission regulations, unaudited replacement cost information with respect to fiscal 1977 inventories, productive capacity, cost of sales and depreciation expense is included in the Annual Report Form 10-K, a copy of which is available upon request.

THE GRAND UNION COMPANY (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 13: Asset Replacement Cost (Unaudited)—The Securities and Exchange Commission has issued regulations which requires the Company's annual report on Form 10-K to include estimated additional costs which would be required if the Company were to replace its inventory and productive capacity at April 2, 1977 and the related estimated effect of such costs on depreciation expense and cost of sales. This requirement has been designed as an attempt to quantify the effects of inflation on the Company's financial position and its results of operation.

Replacement cost of inventories and cost of sales closely approximated the amounts reported on the consolidated balance sheet and income statement, due to the relatively short time lag between incurring inventory costs and their subsequent conversion into sales revenue.

Although the cumulative impact of inflation over a number of years has resulted in a substantially greater capital investment to replace productive capacity compared to historical cost, such greater replacement costs were partially offset by technological improvements and design changes which often resulted in increased productivity and a maintenance of the Company's profit margin.

The Commission's regulations do not specify uniform procedures for development of replacement costs. In addition, the above information necessarily reflects the subjective judgement of management and estimations based on available information.

MALONE & HYDE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K: Impact of Inflation (Unaudited)—The impact of inflation on the Company's costs was generally greater than the corresponding change in the general price level. The Company historically has been able to compensate for cost increases because it sells principally on a cost plus basis and has therefore maintained normal gross profit margins. Nevertheless, there can be no assurance that competitive or other factors will not adversely affect continuance of this practice.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of such assets.

The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to the year ended June 25, 1977 replacement cost of inventories and productive capacity (generally buildings, machinery and equipment), and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year.

The methods used to calculate the information are not precise and the determination of replacement cost data only applies to select amounts. The Company therefore cautions against the use of replacement cost data alone to estimate future effects of costs and capital needs. In addition such data may not be comparable with other companies because of different methods of determination and estimation variances.

MCGRAW-EDISON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: General Comments on the Impact of Inflation (unaudited)—Securities and Exchange Commission regulations require the Company to estimate the current replacement cost of inventories, productive capacity, cost of sales and depreciation. Although there are no generally accepted methods of computing the required data, the Company believes procedures followed by it are consistent with guidelines established by the Commission.

In recent years, primarily because of competitive factors, the Company was unable to raise selling prices sufficiently to compensate for escalating production costs. An easing of inflationary pressures in 1977 and 1976, however, has assisted the Company in restoring overall margins to an acceptable level.

The Company is principally on the LIFO method of inventory accounting, thus the income statement effect of converting historical cost of sales to replacement cost is less than it would be under other inventory valuation methods. Moreover, the Company follows accelerated depreciation methods (primarily sum-of-the-years-digits) for financial reporting purposes as well as for income tax purposes. These methods also reduce the difference between reported historical depreciation and the amount computed in accordance with the Commission's regulation, which is the straight-line method applied to the estimated replacement cost of plant and equipment.

For quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1977 and 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the years then ended, reference is made to the Company's annual report Form 10-K, a copy of which is available on request.

MELVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Asset Replacement Cost (Unaudited)—The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to year-end 1977 and 1976 replacement cost of inventories and productive capacity (generally manufacturing facilities, store facilities excluding those rented under operating leases, equipment and leasehold improvements), and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the respective years.

It has been the Company's experience that the replacement of their plants, equipment and leasehold improvements has usually required a greater capital investment than was required to purchase the assets being replaced. However, this additional capital investment which principally represents the cumulative impact of inflation on the long-lived nature of these assets (approximately 40 years for plants, 9 years for equipment and 7 years for leasehold improvements) is mitigated by the fact that inflationary increases have traditionally been partially offset by changes in the design and configuration of store facilities and technological improvements in manufacturing facilities which have contributed to increased sales for the newer stores and increased productivity of the newer manufacturing facilities. Also, a significant portion of the Company's productive capacity represents store facilities leased under operating leases which are required to be excluded from productive capacity in replacement cost calculations.

The impact of inflation on the calculation of replacement cost of the Company's inventories and cost of sales generally reflects the approximate three-four month time lag between incurring inventory costs and their subsequent conversion into sales revenues. The Company has historically been able to adjust prices to compensate for the impact of inflation and thus maintain gross profit margins.

NCR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Replacement Cost Information (Unaudited)—The replacement cost of NCR's productive capacity (principally buildings and machinery and equipment) at December 31, 1977, and December 31, 1976, would exceed the amount of the original investment (historical cost) due to effects of inflation on the current cost of these assets. The increased cost would be primarily related to the replacement cost of NCR's Appleton Papers Division's manufacturing facilities. Depreciation expense based on the replacement cost of productive capacity for the years ended December 31, 1977, and December 31, 1976, would be greater than the amount of depreciation expense reported in the results of operations during those periods; however, the effect on total depreciation expense would be offset by the reduction in depreciation charges related to the replacement cost of rental equipment. The replacement cost of NCR's investment in rental equipment and business equipment inventories as of December 31, 1977, and December 31, 1976, would decline due to cost reductions associated with advances in the state of technology which more than compensate for the effects of inflation in the general level of costs of personnel and productive capacity. Paper, business forms and supply inventories at December 31, 1977, and December 31, 1976, which were stated on a LIFO (last-in, first-out) basis would increase on a replacement cost basis. If the costs of inventory sold, exclusive of manufacturing depreciation expense, were adjusted to their replacement cost, the effect on 1977 and 1976 consolidated cost of products sold would not be material. Furthermore, operating cost savings in manpower and utility expenditures which could result from replacement of existing productive capacity with technologically superior equipment were not reflected in the replacement cost amounts. The replacement cost information should not be considered as plans by management to replace productive capacity, rental equipment or inventories. Additional information will be provided in NCR's annual report on Form 10-K filed with the Securities and Exchange Commission.

PFIZER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Replacement Cost Data (unaudited)—The Company's Annual Report on Form 10-K (a copy of which will be available on or about March 31, 1978 upon request) contains specific information with respect to 1977 and 1976 year-end replacement costs of inventories and productive capacity and the approximate effect which replacement costs would have had on the computation of cost of goods sold and depreciation expense for 1977 and 1976. This information was prepared pursuant to Rule 3-17 of Regulation S-X of the Securities and Exchange Commission.

The operating results of the Company reflect such general economic trends as changes in the relationship between the United States dollar and various foreign currencies, different rates of economic growth throughout the world and a continued high rate of inflation on both labor and material costs. Although certain cost increases were not fully compensated for by increases in selling prices, the Company will attempt to continue to increase its productivity, improve its manufacturing technology and, competitive and regulatory conditions permitting, adjust its selling prices in order to offset the negative impact on its profit margins.

It is the opinion of the Company that the limited replacement cost data, provided in Form 10-K, cannot be used to compute the effects of inflation on the Company's net income as reported, without considering other significant factors. For example, the impact of general price level changes must be recognized. Further, the impact of statutory taxing policies as they affect the Company, including the availability of substantial investment tax credits which would result from the replacement of productive capacity and the deductibility for income tax purposes of depreciation expense based on such replacement costs, must be evaluated.

Replacement Cost Data Presented In Annual Report

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Notes to Consolidated Financial Statements (in part)

Replacement Cost Data—Based on estimated replacement cost, the following items in the consolidated financial statements are (in millions):

	As shown in the financial statements		Based on estimated replacement cost	
	1977	1976	1977	1976
Inventories	$214.3	$176.3	$244	$207
Buildings	$170.7	$171.1	$420	$390
Equipment and improvements	166.6	149.2	270	210
	337.3	320.3	690	600
Less accumulated depreciation	144.0	130.1	285	237
Productive capacity—net	193.3	190.2	$405	$363
Land and construction in progress	43.3	36.1		
Property—net	$236.6	$226.3		
Cost of goods sold (excluding depreciation)	$578.5	$511.4	$608	$533
Depreciation (including depreciation applicable to cost of goods sold)	$ 19.6	$ 18.8	33	$ 27

The estimated replacement costs are not necessarily current market values of existing plant and equipment and inventories. They represent the Company's estimate of the cost of replacement that would be incurred at December 31, 1977 and 1976, if such assets had been replaced at that time.

The major portion of increases in the cost of raw materials have occurred outside the United States, and have included perfume oils, chemicals, plastics and glass packaging components, and paper products.

A more detailed description and analysis of replacement cost data is contained in the Company's Annual Report (Form 10K) for 1977, as filed with the Securities and Exchange Commission.

CLARK EQUIPMENT COMPANY (DEC)

FINANCIAL REVIEW

Current Replacement Cost Information (Unaudited)

This unaudited information as of December 31, 1977 and 1976 and for the years 1977 and 1976 contains disclosures of current replacement cost information required by the United States Securities and Exchange Commmission in filings on their Form 10-K and certain other filings (in millions of dollars):

	Replacement cost	Historical cost
1977		
Inventories	$ 477	$ 361
Cost of sales (exclusive of depreciation expense)	1,024	1,017
Productive capacity (exclusive of land)—		
Cost	850	454
Depreciated cost	489	270
Depreciation expense	56	34
1976		
Inventories	463	362
Cost of sales (exclusive of depreciation expense)	1,008	997
Productive capacity (exclusive of land)—		
Cost	756	402
Depreciated cost	454	246
Depreciation expense	53	33

Replacement cost information for 1976 has been restated to include assets located outside the North American continent and the countries of the European Economic Community. Cost of productive capacity and depreciation excludes minor operations in the Untied States and Europe which will not be replaced.

The replacement cost information is based on estimates and judgments which are subject to a high degree of imprecision. The information is not necessarily representative of current operating costs and current costs of inventories and productive capacity.

The replacement cost of inventories is based on the Fifo method of computing inventories, which we believe approximates the replacement cost of such inventories. The replacement cost of sales is based on the Lifo method, which we believe approximates the replacement cost method of computing cost of sales.

The replacement cost of productive capacity is calculated by applying machinery and equipment and structural price indexes to historical costs of individual categories of assets. The replacement cost of depreciation expense is based on the same lives used in the historical cost financial statements but on a straight line method, whereas the declining balance method is generally used in the historical statements. No consideration was given to the related effects on direct labor costs, repairs and maintenance, utility and other indirect costs as a result of the assumed replacement of productive capacity.

COLT INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13: Replacement Cost Data (Unaudited)—In compliance with rules of the Securities and Exchange Commission, management has estimated the replacement cost of certain inventories and productive capacity of the company and its consolidated subsidiaries as of December 31, 1977 and 1976, together with cost of sales and depreciation on the basis of replacement cost for the two years then ended.

The replacement cost information presented below does not reflect all of the effects of inflation and other economic factors on the company's current costs of operating the business. The SEC rule does not require consideration of these effects on assets and liabilities other than inventories and productive capacity. Further, the replacement cost information standing alone does not recognize the customary relationships between cost changes and changes in selling prices. The company has attempted over the years to adjust selling prices to maintain profit margins. Competitive conditions permitting, the company expects to modify its selling prices to recognize future cost changes. Accordingly, it is management's view that the limited replacement cost data presented herein cannot be used alone to compute the total effect of inflation on net earnings as reported.

Management also cautions that this information should not be interpreted to indicate that the company actually has present plans to replace such assets and that actual replacement would take place in the form and manner assumed in developing these estimates. The replacement cost information is based on the hypothetical assumption that the company would replace its entire inventory and productive capacity at the end of its fiscal year, whether or not such instant replacement were physically possible. In the normal course of business, the company will replace its productive capacity over an extended period of time. Decisions concerning replacement will be made in the light of economic, regulatory, and competitive conditions existing on the dates such determinations are made and could differ substantially from the assumptions on which the data included herein are based. If the company's productive capacity were to be replaced in the manner assumed in the calculation of replacement cost of existing productive capacity, many costs in addition to depreciation (e.g., direct labor costs, repairs and maintenance, utility, and other indirect costs) would be altered. Although these expected cost changes cannot be quantified with any precision, the current level of operating costs other than depreciation would be reduced as a result of the technological improvements assumed in the hypothetical replacement.

It must be recognized that this required replacement cost data is, by its nature, limited in scope, imprecise, and predicated upon certain assumptions and subjective judgments which may vary over time and from company to company.

Set forth below is an analysis of management's estimates of the replacement cost of certain of the inventories and productive capacity of the company and its subsidiaries at December 31, 1977 and 1976, together with an estimate of the replacement cost of sales and depreciation for the two years then ended. Comparable related historical amounts with respect to these same assets, as included in the accompanying consolidated balance sheet and statement of earnings, are also included for informational purposes.

	1977 Replacement Cost (Unaudited)	1977 Historical Cost(a)	1976 Replacement Cost (Unaudited)	1976 Historical Cost(a)
	(in thousands)			
Inventories—				
Finished goods	$ 112,466	$ 92,425	$ 104,039	$ 85,823
Work in process and finished parts	252,729	205,611	229,642	185,075
Raw materials and supplies	104,225	94,462	109,541	98,620
	469,420	392,498	443,222	369,518
Less allowance for slow-moving and obsolete items	27,550	27,550	23,665	23,665
	$ 441,870	$ 364,948	$ 419,557	$ 345,853
Property, Plant, and Equipment—				
Land improvements	$ 24,408	$ 11,949	$ 22,540	$ 11,317
Buildings and equipment	343,640	127,479	324,005	123,088
Machinery and equipment	1,088,227	584,330	1,014,273	554,431
Leasehold improvements	11,756	7,119	10,832	6,765
	1,468,031	730,877	1,371,650	695,601
Less accumulated depreciation and amortization	997,416	411,724	938,553	385,156
	$ 470,615	$ 319,153	$ 433,097	$ 310,445
Cost of sales	$1,235,782	$1,222,948	$1,087,572	$1,074,428
Depreciation—				
Included in cost of sales	$ 46,275	$ 33,793	$ 42,059	$ 32,741
Included in other operating costs	4,649	3,258	3,357	2,568
	$ 50,924	$ 37,051	$ 45,416	$ 35,309

(a)For purposes of comparison with replacement cost, the historical cost data excludes land, ($11,440,000 and $11,949,000), and construction in progress, ($21,538,000 and $21,139,000) at December 31, 1977 and 1976, respectively. Machinery and equipment, at historical cost, includes capital expenditures for pollution equipment of $9,179,000 and $7,190,000 at December 31, 1977 and 1976, respectively. This pollution equipment is reported as construction in progress ($7,512,000 and $2,352,000) and as funds held by custodian for pollution equipment ($1,667,000 and $4,838,000) at December 31, 1977 and 1976.

With respect to inventories, replacement cost has been estimated based on quantities on hand at the end of the year. The excess of replacement cost over historical cost, stated at LIFO included above, at both December 31, 1977 and 1976, was approximately $70,000,000. There is no significant effect on the components of inventory such as depreciation, direct labor costs, repairs and maintenance, utility, or other indirect costs as a result of the assumed replacement cost of productive capacity.

Replacement cost of sales was estimated through adjustment of historical cost of sales for the approximate time lag between incurring inventory costs and their subsequent conversion into sales revenue. The replacement cost of sales amount does not include any cost savings in direct labor, repairs and maintenance, utility, and other indirect costs which may result from the replacement of existing assets with assets of improved technology.

The estimated replacement cost of productive capacity was determined by adjusting historical cost by indices of reproduction cost relevant to the plant and equipment of the company. The result was modified by vendor quotations and engineering studies to reflect major technological improvements which management intends to incorporate into the productive capacity through normal capital expenditure programs and to reflect anticipated environmental expenditures.

Accumulated depreciation and depreciation expense, on a replacement cost basis, are based on the expired economic lives used for historical cost purposes and are calculated using the straight-line method. Accumulated depreciation and depreciation expense on a replacement cost basis were computed by adjusting historical cost depreciation by the same reproduction cost indices used to develop the estimated replacement cost of productive capacity. The result was modified by the effect on depreciation of changes to productive capacity resulting from technological replacements and anticipated environmental expenditures. In certain instances, historical depreciation is calculated on an accelerated basis with the corresponding replacement depreciation calculated on a straight-line basis.

CUMMINS ENGINE COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Replacement Cost Information (unaudited)—Estimated *replacement cost* data calculated in accordance with the regulations of the Securities and Exchange Commission follow:

	Estimated Replacement Cost		Comparable Historical Cost		Precentage RC over HC	
$ millions	1977	1976	1977	1976	1977	1976
Inventories	$275.7	$229.1	$232.7	$190.6	18%	20%
Property, plant and equipment:						
Buildings	$289.3	$245.9	$131.4	$115.4	120%	113%
Machinery, equipment and fixtures	686.6	563.6	351.9	315.5	95%	79%
	975.9	809.5	483.3	430.9	102%	88%
Less accumulated depreciation	485.8	384.6	212.8	183.5	128%	110%
	$490.1	$424.9	$270.5	$247.4	81%	72%
Cost of goods sold	$873.5	$706.8	$845.9	$691.1	3%	2%
Depreciation expense included in:						
Cost of goods sold	$ 47.5	$ 41.9	$ 27.5	$ 25.5	73%	64%
Selling, service, administrative, research and engineering	7.2	6.1	4.3	3.6	67%	69%
Total depreciation expense	$ 54.7	$ 48.0	$ 31.8	$ 29.1	72%	65%

Estimated replacement costs are imprecise and are based on a number of assumptions and subjective judgments, hypothetically assuming replacement of the Company's productive capacity and inventories at year-end. The comparable historical costs do not equal the amounts shown in the consolidated financial statements because land, construction in progress and minor amounts for discontinued operations and excess capacity have been excluded for replacement cost data and some leased facilities are included only for presenting replacement cost information.

The estimated gross replacement cost of property, plant and equipment increased by $166 million during 1977. Approximately 30 percent of the increase is attributable to the addition of productive capacity during the year, and approximately 14 percent of the increase was caused by the change in foreign exchange rates used to translate the replacement cost of the Company's facilities located in the United Kingdom. The remaining increase in the gross replacement cost of property, plant and equipment was caused primarily by general inflation, which rose at approximately a 10 percent rate.

The replacement cost of year-end inventory was estimated using the FIFO method adjusted for replacement cost depreciation and inflation in costs during the inventory holding period. Over 60 percent of the Company's cost of goods sold is based on the LIFO method of inventory accounting. The LIFO-computed amount is a reasonable approximation of the cost of goods sold on a replacement cost basis after adjusting for the effects of major fluctuations in LIFO inventory levels and for replacement cost depreciation expense. The remaining portion of replacement cost of goods sold was estimated from FIFO-determined amounts adjusted for inflation during the average period inventory was held prior to being sold and for replacement cost depreciation.

Indexing procedures were used to estimate the December 31, 1977 replacement cost of about 50 percent of the Company's property, plant and equipment, *unit pricing* method for over 30 percent, and *direct pricing* for less than 20 percent. The replacement cost of buildings, ground improvements and leasehold improvements was estimated by the Company's facilities engineers using the unit pricing method. The replacement cost of most machinery, equipment and fixtures was estimated by an indexing method utilizing a series of published and special price indexes. For selected items of machinery, engine test cells and certain production lines, the direct pricing method was used to compute replacement costs.

This replacement cost information does not try to report the full effect of inflation or other economic factors which influence operating costs and affect the valuation of monetary assets and liabilities. Therefore, the information should not be used simplistically to adjust reported net earnings. Further, the Company is unable to quantify the operating cost savings that could result by replacing productive capacity with new assets. During the last several years, the costs of raw materials and the investment in productive assets have increased substantially. The effect of these factors on profit margins has been minimized by improving manufacturing productivity, utilizing advance technologies and advancing product selling prices.

THE MAY DEPARTMENT STORES COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Replacement Cost Data (Unaudited)—The financial statements of the Company are prepared in accordance with "generally accepted accounting principles," which require the use of historical cost data. Under this principle, assets are generally reported at the amounts originally paid despite subsequent changes in (1) the purchasing power of the dollar, (2) the amount for which the assets could be sold—their market value—or (3) the current cost of replacing the asset. Liabilities are stated at the amount originally incurred even though the current cost of discharging the liability might differ therefrom.

In an attempt to begin providing readers of financial statements with the information as to the "current economics" of businesses, the Securities and Exchange Commission established rules that require certain larger companies to estimate and report selected replacement cost data. These rules require disclosure of the estimated replacement cost of inventories and plant and equipment, cost of sales and depreciation expense. These disclosures do not reflect the effect of inflation on other assets and liabilities of the Company which would be necessary to compute the full effect of inflation on the earnings of the Company.

Following are estimates of replacement cost for plant and equipment, excluding land and construction in progress as of:

January 28, 1978	Historical Cost	Replacement Cost
Total Cost	$1,114,677,000	$1,666,200,000
Accumulated depreciation and amortization	470,808,000	703,800,000
Net book value	$ 643,869,000	$ 962,400,000
Depreciation and amortization	$ 56,454,000	$ 84,400,000
January 29, 1977	**Historical Cost**	**Replacement Cost**
Total Cost	$1,040,616,000	$1,539,600,000
Accumulated depreciation and amortization	431,202,000	643,300,000
Net book value	$ 609,414,000	$ 896,300,000
Depreciation and amortization	$ 49,429,000	$ 70,700,000

The total historical cost figures above include $94,686,000 and $92,155,000 of noncapitalized operating lease values and an estimated $128,894,000 and $112,788,000 of fully depreciated assets still in use, and depreciation includes $2,138,000 and $2,059,000 of amortization of the noncapitalized operating lease values. Each of the above is not included in the accompanying financial statements.

The above replacement cost calculation was arrived at by reducing by approximately 16%, in both years, the total square footage of the existing space, principally in certain of the older stores to reflect the sales and productivity gains generally achieved in the Company's newer stores.

Historical cost of sales for 1977 and 1976 were computed using the LIFO inventory method which approximates replacement cost for cost of sales.

The replacement cost values do not necessarily represent (1) the amounts for which the assets might be sold, (2) future replacement cost which may be incurred in the ordinary course of business and which will be subject to operating requirements and price levels at the time of replacement, or (3) additional book value for shareholders. In addition, if and when present facilities are replaced, the additional depreciation expense resulting from replacement might be materially reduced by reduction in repair, maintenance, utility and other operating expenses due to such replacement.

The above data have been calculated under guidelines established by the Securities and Exchange Commission and a designated committee of the National Retail Merchants Association (NRMA). While the Company believes the principles employed are generally consistent with those used by the other major retailers who comprise the NRMA committee there may be sufficient variation in the methodology used by each company so as to impair the comparability of the figures.

For further details of the Company's determination of replacement cost values, including certain inventory data, calculation techniques and a reconciliation of balance sheet data to historical costs included in the table above, see the Company's annual report on Form 10K filed with the Securities and Exchange Commission.

Price Level Data

SHELL OIL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 18: Unaudited Information

(Not covered by report of independent accountants)

Replacement cost data: As explained in the Financial Review on page 39 the SEC requires certain replacement cost data be included in filings with the Commission. In the audited Supplementary Price Level Adjusted Financial Information appearing on pages 52 and 53, historical cost information has been restated for the effects of changes in the purchasing power of the dollar. Shell believes that this information more properly reflects the current economics of its business in an inflationary economy that does such replacement cost data. Replacement cost data will be included in Shell's Annual Report on Form 10-K filed with the SEC.

SUPPLEMENTARY PRICE LEVEL ADJUSTED FINANCIAL INFORMATION

Continued inflation over time erodes the purchasing power of the dollar and distorts traditional measurements of income and wealth. During the five years covered by this report the purchasing power of the dollar declined 30 percent. In the last thirty years it has been reduced to approximately one third of its former purchasing power. Financial statements prepared under generally accepted accounting principles report the actual number of dollars received or expended without regard to changes in the purchasing power of the currency. Investments made over extended periods of time are added together as though the dollars involved were common units of measurement. Amortization of these prior period costs is deducted from current period revenues in calculations of net income. Since the purchasing power of the dollar has changed materially, this change must be considered for a proper assessment of economic results.

Individual business enterprises are affected differently by inflation. Holders of monetary assets, such as cash or receivables, lose purchasing power during inflationary periods since these assets will purchase fewer goods and services in time. Conversely, holders of liabilities benefit during such periods because less purchasing power will be required to satisfy their obligations. Rates of return and other financial ratios are also influenced greatly by the ages of the investments and subsequent changes in the purchasing power of the dollar.

In the accompanying price level adjusted financial statements all historical dollar amounts have been restated to a common unit of measurement, i.e., the December 1977 dollar. For example, a capital asset acquired in 1967 for $1 is restated to $1.83 in terms of 1977 dollars for each year shown and depreciation is similarly restated. Each year is therefore expressed on a comparable basis which provides a better measure of economic progress.

Profitability ratios for Shell are substantially lower when both income and investments are stated in common units of measurement. Some of the profits reported for 1977 and prior years are therefore not a true economic gain, but merely the result of erosions in the purchasing power of the dollar. One of the principal factors is depreciation, depletion and amortization. When the historical cost of assets is restated in equivalent current dollars, the 1977 depreciation provision increased 28 percent or $205 million. Another meaningful comparison is the indicated purchasing power gain on long-term debt relative to the interest and discount amortization on this indebtedness. Also, a high proportion of income is absorbed by taxes. Because income taxation is not restricted to the true economic gain, the effective tax burden is often greater than that indicated by legislated rates.

Historical Dollars 1977	(Millions of dollars except per share amounts)	Dollars of Current Purchasing Power* 1977	1976	1975	1974	1973
	Summary Statement of Income					
$10,194	Revenues	$10,407	$10,046	$9,400	$9,566	$6,745
	Cost and expenses:					
731	Depreciation, depletion, etc.	936	881	826	778	745
765	Income and operating taxes	781	842	808	595	352
98	Interest and discount amortization on indebtedness	100	85	81	75	83
7,865	Other costs and expenses	8,041	7,684	7,254	7,510	5,261
	Income before purchasing power gain or loss on					
735	monetary items	549	554	431	608	304
	Purchasing power gain (loss) on:					
—	Long-term debt	75	69	76	139	98
—	Other monetary items	11	5	(2)	(6)	(5)
$ 735	Net income	$ 635	$ 628	$ 505	$ 741	$ 397
	Summary Balance Sheet					
$ 2,498	Current assets	$ 2,694	$ 2,767	$2,897	$2,570	$2,322
184	Investments and long-term receivables	220	293	137	154	131
6,156	Property, plant and equipment—net	7,896	7,035	6,511	6,118	5,865
39	Deferred charges	45	54	56	50	73
1,587	Current liabilities	1,587	1,749	1,709	1,513	1,305
1,501	Long-term debt	1,501	1,243	1,343	1,161	1,330
524	Deferred credits-federal income taxes	524	441	410	380	403
$ 5,265	Shareholders' equity	$ 7,243	$ 6,716	$6,139	$5,838	$5,353
	Per Share Data†					
$ 5.11	Net income	$ 4.42	$ 4.49	$ 3,73	$ 5.50	$ 2.94
$ 1.60	Cash dividends paid	$ 1.63	$ 1.51	$ 1.48	$ 1.52	$ 1.64
	Ratios					
16.0%	Net income to shareholders' equity	9.5%	10.2%	8.7%	13.9%	7.7%
13.6%	Net income to total capital	8.6%	9.0%	7.8%	11.7%	6.6%
7.2%	Net income to revenues	6.1%	6.2%	5.4%	7.7%	5.9%
31.1%	Dividends paid to net income	36.8%	33.5%	39.8%	27.7%	55.7%
22.2%	Long-term debt to total capital	17.2%	15.6%	17.9%	16.6%	20.0%

*Based on purchasing power of the dollar at December 31, 1977
†Per weighted average shares outstanding each year.

Explanatory Note

The accompanying supplementary price level adjusted financial information, expressed in terms of December 31, 1977 dollars, is based on the historical financial information. Both the supplementary and historical information presented here should be read in conjunction with the notes and other financial statement information in this Annual Report. The supplementary price level information reflects adjustments only for changes that have occurred in the general purchasing power of the dollar as measured by the Gross National Product Implicit Price Deflator. The amounts shown, therefore, do not purport to represent appraised value, replacement cost, or any other measure of the current value of assets.

The Accounting Principles Board Statement No. 3 and a proposal issued by the Financial Accounting Standards Board which give general guidance for the preparation of price level financial statements, treat deferred income taxes as non-monetary items. But for purposes of Shell's general price level restatement, such balances were classified as monetary items because Shell believes that when reversals of such tax differences take place, they give rise immediately to taxable income and to additional taxes payable in current dollars at that time. Had Shell followed the non-monetary treatment for deferred income taxes, it is estimated that restated net income and restated shareholders' equity would have been reduced by about 5 percent or less in each of the last five years.

Report of Independent Accountants

To the Board of Directors and Shareholders of Shell Oil Company:

We have examined the consolidated financial statements of Shell Oil Company appearing in the Annual Reports to Shareholders for the five years ended December 31, 1977. Those financial statements do not reflect the changes in the general purchasing power of the U.S. dollar from the time transactions took place. We have also examined the supplementary price level adjusted financial information for the five years ended December 31, 1977 restated for effects of changes in the general price level as described in the Explanatory Note on page 53. In our opinion, the supplementary Summary Statement of Income, Summary Balance Sheet and Per Share Data shown on page 53 present fairly the historical financial information restated in terms of the general purchasing power of the U.S. dollar at December 31, 1977 in accordance with guidelines, consistently applied, recommended in Accounting Principles Board Statement No. 3 and a Proposed Statement of Financial Accounting Standards, except for the treatment, with which we concur, of deferred income taxes as monetary items.

Current-Value Financial Statements

IOWA BEEF PROCESSORS, INC. (OCT)

Current-Value Consolidated Balance Sheets

	Current Value		Historical Cost
	1977	1976	1977
	Amounts in thousands		
Assets			
Current Assets:			
Cash	$ 15,549	$ 11,582	$ 15,549
Accounts receivable, less allowance for doubtful accounts	98,513	89,019	98,513
Inventories	32,239	38,199	32,239
Deferred tax benefit	—	—	1,578
Prepaid expenses	1,182	533	1,182
Total Current Assets.	147,483	139,333	149,061
Property, Plant and Equipment:			
Land and land improvements	19,136	16,284	13,224
Buildings and stockyards	73,875	77,390	43,675
Equipment	158,236	127,053	98,541
Construction in progress	11,101	4,251	10,830
	262,348	224,978	166,270
Less—accumulated depreciation	83,111	69,397	42,292
—imputed income taxes	41,696	35,925	—
	137,541	119,656	123,978
Other Assets	1,090	1,966	4,488
	$286,114	$260,955	$277,527
Liabilities and Stockholders' Equity			
Current Liabilities:			
Notes payable	$ 4,000	$ —	$ 4,000
Accounts payable and accrued liabilities	32,121	30,992	33,699
Federal and state income taxes	1,805	16,514	1,805
Current maturities on long-term obligations	2,019	2,325	2,019
Total Current Liabilities	39,945	49,831	41,523
Deferred Income Taxes	—	—	14,066
Long-term Obligations	58,079	54,284	59,307
Stockholders' Equity	188,090	156,840	162,631
	$286,114	$260,955	$277,527

Consolidated Statements of Net Results of Operations and Changes in Value

	Current Value 1977	Current Value 1976	Historical Cost 1977
	Amounts in Thousands		
Results of Operations:			
Sales	$2,023,765	$2,077,158	$2,023,765
Less—cost of products sold	1,947,130	1,991,188	1,937,823
—inventory value change	(3,700)	4,000	—
	1,943,430	1,995,188	1,937,823
	80,335	81,970	85,942
Expenses:			
Selling, general and administrative	27,926	24,746	27,787
Interest expense	3,258	3,703	3,281
Income taxes	21,742	30,302	24,909
	52,926	58,751	55,977
Net results of operations and inventory value change	27,409	23,219	29,965
Changes in Value:			
Change in current costs of depreciable assets during the year	6,383	5,709	—
Change in current value of debt and interest	173	(1,265)	—
Change in other imputed taxes	(1,072)	1,628	—
Amount required to recognize impact on stockholders' equity of increase in the general price level during the year	(9,003)	(6,402)	—
Total of Net Results of Operations and Changes in Value	$ 23,890	$ 22,889	$ 29,965

Current-Value Consolidated Statements of Stockholders' Equity

	Current Value 1977	Current Value 1976	Historical Cost 1977
	Amounts in Thousands		
Balance at beginning of year	$156,840	$129,602	$134,292
Amount required to recognize impact on stockholders' equity of increase in general price level during the year	9,003	6,402	—
Restated balance at beginning of year	165,843	136,004	134,292
Common stock options exercised	512	488	502
Shares acquired for treasury	(204)	(771)	(194)
Treasury shares issued	259	—	250
Cash dividends paid	(2,210)	(1,770)	(2,184)
Net results of operations and changes in value during the year	23,890	22,889	29,965
Balance at end of year	$188,090	$156,840	$162,631

NOTES TO CURRENT-VALUE CONSOLIDATED FINANCIAL STATEMENTS

1. General:

In the inflationary environment of the past several years, financial information reported on the conventional basis of historical costs fails to fully reflect economic reality of the financial condition and results of operations of business enterprises. As a result, the Company is presenting financial statements reflecting the current values of its assets, liabilities, operating results and changes in value by estimating:

a. The current replacement cost for assets and resources expected to be retained and net realizable value for assets expected to be disposed of.

b. The present value of estimated future cash out-flows for liabilities.

c. The imputed income taxes relative to the difference in current-value and income tax bases of assets and liabilities.

d. The effects of changes in general purchasing power on the net resources of the Company.

2. Current Assets and Liabilities:

Current assets and liabilities are stated on the same basis as the historical cost basis financial statements except for imputed taxes which have been deducted from accounts payable and accrued liabilities.

3. Inventories and Cost of Product Sold:

Inventories reported at the year ends are unchanged from the historical cost basis statements since the inventories are stated at amounts that approximate current replacement cost due to the short time span between purchases and sales of inventories. However, the prices for live cattle, dressed carcasses, processed cuts and by-products all fluctuated during the years. The prices of these products generally increased during fiscal 1977 and generally declined during fiscal 1976.

The inventory value changes (gain of $3,700,000 in 1977 and loss of $4,000,000 in 1976) as reported in the Consolidated Statements of Net Results of Operations and Changes in Value represent the net changes in the value of inventories held throughout the respective years. The inventory value changes are measured from the date the product is received until the product is shipped.

4. Property, Plant and Equipment:

Property, plant and equipment is stated at current replacement cost less accumulated depreciation and imputed income taxes. Current replacement cost was developed principally by using engineering estimates for the cost of replacing existing productive capacity after giving recognition to technological changes and methods by which replacement would be expected to be made. The costs so determined have not been adjusted for anticipated reductions in operating expenses as such reductions are not estimated to be significant. Accumulated depreciation has been restated to reflect depreciation which would have been incurred in 1977, 1976 and prior years based on the current replacement costs. Current-value depreciation expenses for 1977 and 1976 was $5,746,000 and $5,384,000 greater than the respective historical cost amounts. Such depreciation was calculated on average replacement costs using the straight-line method and the historical rates for existing facilities. Costs of products sold and selling, general and administrative expenses have been charged for the increased current-value depreciation during the years. The increase in replacement cost (net of imputed income taxes) of property, plant and equipment during the years is reported as a value change in the Consolidated Statements of Net Results of Operations and Changes in Value.

5. Long-term Obligations:

Long-term obligations are stated at the present value of future cash flows (net of imputed income taxes) based on the current applicable interest rates at the statement dates. The rates include an element for estimated financing costs. Current-value interest expense is calculated at average current rates for the years.

6. Income Taxes:

Income taxes at rates approximating 50% have been imputed on the differences between current-value and income tax bases of assets and liabilities. The amounts of imputed taxes that have been deducted from the related assets and liabilities (added in the case of other assets) in the current-value balance sheets are shown below:

	October 29, 1977	October 30, 1976
Property, plant and equipment	$41,696,000	$35,925,000
Accounts payable and accrued liabilities	1,578,000	2,139,000
Long-term obligations	1,228,000	1,406,000
Other assets	—	511,000

All changes in imputed taxes are reported as changes in value in the Consolidated Statements of Net Results of Operations and Changes in Value.

Income tax expense shown in the current-value results of operations is the amount currently payable.

7. Stockholders' Equity:

The amounts of aggregate earnings required during the years to maintain the general purchasing power of stockholders' equity are shown as decreases in changes in value. Such amounts are measured by the GNP Implicit Price Deflator and are comprised of the following:

	Year (52 Weeks) Ended	
	October 29 1977	October 30, 1976
Net non-monetary assets	$9,216,000	$7,306,000
Net monetary assets-liabilities	574,000	(330,000)
Operations	(787,000)	(574,000)
	$9,003,000	$6,402,000

Stockholders' equity at the beginning of the years and the amounts shown for sales and purchases of stock and dividends paid during the years have been restated as appropriate to give effect to the increase in general price level during the years.

8. Restatement of Prior Year's Current-Value Statements:

The current-value financial statements for 1976 have been restated for the imputation of income taxes on the differences between current-value and income tax bases of property, plant and equipment, other assets and long-term obligations.

9. Notes to Historical Cost Basis Financial Statements:

The current-value financial statements and the historical cost basis information contained therein should be read in conjunction with the notes to the historical cost basis financial statements.

Current-Value Accountants' Report

Board of Directors and Stockholders
Iowa Beef Processors, Inc.
Dakota City, Nebraska

The accompanying consolidated current-value balance sheets of Iowa Beef Processors, Inc. and subsidiaries as of October 29, 1977, and October 30, 1976 and the related current-value statements of net results of operations and changes in value and statements of stockholders' equity for the years then ended have been prepared on a current-value basis of accounting as more fully discussed in Note 1. The current-value basis differs significantly from, and is not in accordance with, generally accepted accounting principles. Further, the current-value financial statements are not intended to measure the net realizable value or market value of the Company taken as a whole.

Because current-value accounting is presently in an experimental stage, uniform criteria for the preparation and presentation of current-value financial information have not yet been established and acceptable alternatives exist as to the nature and content; accordingly, as experimentation proceeds, the principles followed in the accompanying current-value financial statements may be modified.

Our examination of the current-value financial statements was made in accordance with generally accepted auditing standards and, accordingly, included a review of selected data used to obtain current values and such other auditing procedures we considered necessary in the circumstances. In our opinion, the current-value financial statements referred to above are a reasonable and appropriate presentation of the information set forth therein on the basis indicated in Note 1, which basis has been applied in a manner consistent with that of the preceding year after restatement (Note 8).

QUARTERLY FINANCIAL DATA

Effective for fiscal periods beginning on or after December 26, 1976, Securities and Exchange Commission *Regulation S-X* requires that most companies with actively traded stock disclose selected quarterly financial data in a note to the financial statements. The note should disclose net sales, gross profit, income before extraordinary items and cumulative effect of accounting changes, per share amounts based on such income, and net income for each quarter within the two most recent fiscal years. The note should also describe any infrequently occurring items and the effect and nature of year-end or other adjustments.

The S-X requirement pertaining to the disclosure of quarterly data applies to financial statements included in Form 10-K and to financial statements included in annual reports to stockholders. Companies whose shares are not actively traded or whose size is below certain limits are not required to disclose quarterly data. Four hundred and thirty-nine survey companies disclosed in a note to their 1977 financial statements quarterly financial data for each quarter of the current and prior year; the corresponding number of survey companies for 1976 was 168. Examples of quarterly financial data disclosures follow.

ETHAN ALLAN, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I: Quarterly Financial Data (Unaudited)—Summarized quarterly financial data of the Company for fiscal years 1977 and 1976 are presented on page 8.

Quarterly Financial Data

(In thousands of dollars, except per share amounts)

Summarized quarterly financial data for 1977 and 1976 are as follows:

1977	First	Second	Third	Fourth	52 Weeks ended October 1, 1977
Net sales	$41,232	$44,315	$43,095	$42,636	$171,278
Gross profit	13,902	14,838	14,297	14,364	57,401
Income before extraordinary item	2,052	2,078	2,118	2,457	8,705
Net income	2,052	2,078	2,118	2,757	9,005
Earnings per share of					
Class A and B Stock					
Income before extraordinary item					
Primary	$.71	$.71	$ .73	$.85	$3.00
Fully diluted	.65	.65	.67	.77	2.74
Net income					
Primary	$.71	$.71	$ .73	$.96	$3.11
Fully diluted	.65	.65	.67	.86	2.83

1976					53 Weeks ended October 2, 1976
Net sales	$37,363	$40,788	$40,722	$43,754	$162,627
Gross profit	12,107	13,850	13,591	14,437	53,985
Income before extraordinary item	1,679	2,109	2,118	2,005	7,911
Net income	1,679	2,109	4,274	2,005	10,067
Earnings per share of					
Class A and B stock					
Income before extraordinary item					
Primary	$.58	$.72	$ .73	$.69	$2.72
Fully diluted	.53	.65	.66	.63	2.47
Net income					
Primary	$.58	$.72	$1.48	$.69	$3.47
Fully diluted	.53	.65	1.29	.63	3.10

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14: Quarterly Financial Information (Unaudited)—The quarterly results for the years 1977 and 1976 are set forth in the following tabulation (in thousands, except for share amounts):

	1977			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	$88,896	$95,542	$102,707	$112,196
Cost of sales (excluding depreciation and amortization)	77,784	83,449	86,824	92,229
Depreciation and amortization	1,790	1,612	1,725	1,722
Net earnings	1,195	1,719	3,116	3,542
Earnings per share:				
Primary	$.26	$.37	$.66	$.76
Fully diluted	$.24	$.32	$.57	$.64

	1976			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	$53,752	$64,203	$61,319	$84,336
Cost of sales (excluding depreciation and amortization)	45,223	54,224	50,941	73,027
Depreciation and amortization	1,365	1,487	1,795	1,576
Net earnings	769	1,242	1,300	1,593
Earnings per share:				
Primary	$.17	$.27	$.28	$.35
Fully diluted	$.16	$.25	$.25	$.31

HERSHEY FOODS CORPORATION (DEC)

NOTES

Note 9: Summary of Quarterly Data (unaudited)

Dollars in thousands except per share figures

Year 1977	First	Second	Third	Fourth	Year
Net sales	$173,070	$124,117	$177,543	$196,497	$671,227
Gross margin	54,625	40,505	52,555	69,581	217,266
Income from continuing operations	8,778	4,820	8,221	14,212	36,031
Gain on sale of discontinued operations	—	5,300	—	—	5,300
Net income	$ 8,778	$ 10,120	$ 8,221	$ 14,212	$ 41,331
Net income per common share					
Continuing operations	$ .64	$ .35	$.60	$1.03	$2.62
Gain on sale of discontinued operations	—	.39	—	—	.39
Net income per common share	$ .64	$ .74	$.60	$1.03	$3.01

Year 1976	First	Second	Third	Fourth	Year
Net sales	$164,123	$113,616	$147,958	$176,263	$601,960
Gross margin	62,774	40,466	52,752	62,304	218,296
Income from continuing operations	14,738	6,934	11,076	10,937	43,685
Income (loss) from discontinued operations	15	107	(42)	1,032	1,112
Net income	$14,753	$ 7,041	$ 11,034	$ 11,969	$ 44,797
Net income per common share					
Continuing operations	$1.07	$.51	$.80	$ .80	$3.18
Discontinued operations	—	.01	—	.07	.08
Net income per common share	$1.07	$.52	$.80	$ .87	$3.26

Data previously reported for 1976 and the first three quarters of 1977 have been adjusted for the acquisition of Y & S Candies Inc. on a pooling of interests basis.

H. J. HEINZ COMPANY (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Quarterly Results (Unaudited)—A summary of results of operations for each quarter of 1977 is shown on page 41 of the Financial Review and Management's Analysis.

FINANCIAL REVIEW AND MANAGEMENT'S ANALYSIS

(Page 41)

Quarterly Results—The following table shows sales, gross profit, net income, and earnings per share for each quarter of the past two years. Quarterly results have always been influenced by seasonal factors inherent in the company's business, and comparisons between quarters have always been most meaningful when made between the same quarters of different years. More recently, the required recognition of unrealized foreign currency fluctuations in income has resulted in an additional factor influencing quarterly earnings.

In thousands except earnings per share	Sales	Gross Profit	Net Income	Earnings Per Share
1977 by Quarter				
First	$ 429,560	$129,704	$15,286	$ .64
Second	471,552	140,367	19,924	.84
Third	441,194	137,916	17,334	.73
Fourth	526,514	198,573	31,272	1.34
Total	$1,868,820	$606,560	$83,816	$3.55
1976 by Quarter				
First	$ 401,481	$115,805	$15,232	$ .67
Second	430,251	128,541	15,511	.68
Third	427,785	127,288	13,837	.61
Fourth	490,174	149,828	29,380	1.25
Total	$1,749,691	$521,462	$73,960	$3.21

During the fourth quarter of 1977, certain promotional allowances previously charged to advertising were reclassified as a reduction of sales. Accordingly, sales and gross profit for previously reported periods have been restated with no effect on net income. These are restated for the affected quarters of 1977 and 1976 in the following table.

	Sales		Gross Profit	
In thousands	As Reported	As Restated	As Reported	As Restated
1977 by Quarter				
First	$ 463,453	$ 428,560	$163,597	$129,704
Second	510,054	471,552	178,869	140,367
Third	473,569	441,194	170,291	137,916
1976 by Quarter				
First	$ 434,313	$ 401,481	$148,637	$115,805
Second	464,018	430,251	162,308	128,541
Third	460,431	427,785	159,934	127,288
Fourth	523,597	490,174	183,251	149,828
Total	$1,882,359	$1,749,691	$654,130	$521,462

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE FINANCIAL STATEMENTS

Note 9: Quarterly earnings (unaudited)—The unaudited summary of quarterly earnings for years ended October 31, 1977 and 1976, is presented on page 26.

SUMMARY OF QUARTERLY EARNINGS (Unaudited)

	Three Months Ended			
	January 31	April 30	July 31	October 31
		(Millions)		
1977				
Total revenues	$301.5	$345.2	$345.1	$382.1
Cost of goods sold	140.6	154.1	155.4	172.1
Research and development	28.3	30.1	31.3	35.7
Marketing	44.6	50.9	52.2	59.8
Administrative and general	38.9	49.6	47.0	49.9
Interest	.9	1.0	1.0	1.3
Earnings before taxes on income	48.2	59.5	58.2	63.3
Taxes on income	22.1	27.4	27.7	30.5
Net earnings	$ 26.1	$ 32.1	$ 30.5	$ 32.8
Net earnings per share	$ .93	$ 1.13	$ 1.07	$ 1.14
1976				
Total revenues	$237.6	$283.3	$280.9	$321.8
Cost of goods sold	114.4	134.8	136.6	149.8
Research and development	24.8	27.1	27.8	27.9
Marketing	41.3	44.5	44.5	46.3
Administrative and general	30.1	34.6	34.5	39.9
Interest	.5	.8	1.2	1.6
Earnings before taxes on income	26.5	41.5	36.3	56.3
Taxes on income	11.4	17.8	17.8	22.8
Net earnings	$ 15.1	$ 23.7	$ 18.5	$ 33.5
Net earnings per share	$ .54	$ .86	$ .65	$ 1.19

On May 20, 1977, the Board of Directors approved in principle a Supplemental Pension Plan which became effective as of November 1, 1976 (see note 5 to the Financial Statements). To meet the anticipated 1977 expense of the approved plan, a $6 million accrual was made in the second quarter for the entire first half. Additional $3 million accruals were made in both the third and fourth quarters.

WALTER KIDDE & COMPANY INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Quarterly Results (Unaudited)—Quarterly net sales, gross margin (which is the difference between sales and cost of sales), income before extraordinary items and related per share amounts are as follows:

	Net Sales	Gross Margin	Income Before Extraordinary Items*	Per Share* Primary	Per Share* Fully Diluted
	(dollars in millions except per share amounts)				
First					
1977	$317.2	$74.3	$10.8	$ .98	$ .94
1976	282.2	66.1	9.9	.94	.90
Second					
1977	343.7	79.8	12.5	1.15	1.09
1976	304.8	72.9	11.6	1.07	1.01
Third					
1977	408.5	103.6	15.3	1.35	1.22
1976	325.5	73.2	11.9	1.09	1.03
Fourth					
1977	405.6	109.9	18.1	1.63	1.42
1976	320.5	80.2	15.1	1.40	1.30

*Income before extraordinary items and net income are the same for all quarters presented except for the fourth quarter of 1976, which includes a net extraordinary credit of $13,014,000 resulting in net income for that quarter of $28,065,000 and related per share amounts of: primary—$2.66 and fully diluted—$2.41—(see "Extraordinary Items").

As a result of shares issued during 1977 and 1976, earnings per share for each year's four quarters, which are based on average shares outstanding during each quarter, do not equal the annual earnings per share, which are based on the average shares outstanding during each year.

Results for the third and fourth quarters of 1977 include amounts of Victor Comptometer Corporation which was acquired in July 1977 (see "Acquisition of Victor Comptometer Corporation"). All of the above amounts include all normal and recurring adjustments including, in the fourth quarter, the effects of annual inventories.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Quarterly Earnings Information (Unaudited)

Quarter	First	Second	Third	Fourth
Fiscal 1977				
Net sales	$280.1	$301.2	$331.7	$367.2
Gross margins	65.0	73.6	75.3	75.7
Earnings before income taxes	39.1	44.7	43.6	36.7
Net earnings	24.6	27.9	27.1	28.5
Earnings per share				
Primary	$1.38	$1.59	$1.52	$1.60
Fully diluted	1.34	1.54	1.49	1.56
Fiscal 1976				
Net sales	$292.2	$313.7	$320.3	$333.8
Gross margins	82.5	89.3	85.9	67.9
Earnings before income taxes	56.4	65.0	63.9	39.9
Net earnings	32.1	37.7	36.2	29.2
Earnings per share				
Primary	$1.86	$2.16	$2.07	$1.64
Fully diluted	1.75	2.06	1.97	1.60

Income tax provisions in 1977's fourth quarter were lower than last year's fourth quarter and this year's third quarter due to lower pre-tax earnings and a change in the estimate of U.S. foreign tax credits. Income and tax provisions in 1976's fourth quarter were lower than 1976's third quarter as a result of lower earnings and a change in the estimate of the effective Canadian income tax rate.

INGERSOLL-RAND COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 13: Quarterly Financial Data (Unaudited)—The following quarterly financial data includes that reported for the first three quarters of 1977, restated to include the operating results of Western Land Roller Company, acquired in the fourth quarter of 1977 and accounted for as a pooling of interests.

	Net Sales	Cost of Goods Sold	Operating Income	Net Income	Primary Earnings Per Share	Fully Diluted Earnings Per Share
1976		(In thousands of dollars)				
First quarter	$ 457,282	$ 322,791	$ 58,698	$ 30,020	$1.51	$1.46
Second quarter	490,754	347,458	65,896	30,477	1.53	1.48
Third quarter	473,258	336,529	58,889	26,242	1.31	1.27
Fourth quarter	500,317	367,543	50,309	20,148	.98	.98
Year 1976	$1,921,611	$1,374,321	$233,792	$106,887	$5.33	$5.19
1977						
First quarter:						
As reported	$ 503,127	$ 355,299	$ 68,412	$ 29,190	$1.46	$1.42
Acquired company	7,087	5,775	887	450	—	—
As restated	510,214	361,074	69,299	29,640	1.47	1.43
Second quarter:						
As reported	513,518	362,897	66,289	27,058	1.35	1.31
Acquired company	8,913	6,657	1,715	871	—	—
As restated	522,431	369,554	68,004	27,929	1.38	1.34
Third quarter:						
As reported	507,102	358,995	64,545	26,682	1.33	1.30
Acquired company	4,268	3,073	692	356	—	—
As restated	511,370	362,068	65,237	27,038	1.33	1.30
Fourth quarter	568,803	392,928	84,471	33,059	1.65	1.59
Year 1977	$2,112,845	$1,485,624	$287,011	$117,666	$5.83	$5.66

Section 2: Balance Sheet

BALANCE SHEET TITLE

Table 2-1 summarizes the titles used to describe the statement of assets, liabilities and stockholders' equity.

TABLE 2-1: BALANCE SHEET TITLE

	1977	1976	1975	1974
Balance Sheet	534	534	537	526
Statement of Financial Position	53	54	48	58
Statement of Financial Condition	13	12	15	16
Total Companies	**600**	**600**	**600**	**600**

BALANCE SHEET FORMAT

Balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and stockholders' equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to stockholders' equity or total assets equal to total liabilities plus stockholders' equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to stockholders' equity. Table 2-2 summarizes the balance sheet formats used by the survey companies.

TABLE 2-2: BALANCE SHEET FORMAT

	1977	1976	1975	1974
Account form	386	409	409	424
Report form	202	181	180	163
Financial position form	12	10	11	13
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-3: CASH—BALANCE SHEET CAPTIONS

	1977	1976	1975	1974
Cash	459	468	469	469
Cash includes certificates of deposit or time deposits	76	68	64	75
Cash combined with marketable securities	65	64	67	56
Total Companies	**600**	**600**	**600**	**600**

CASH

Table 2-3 shows that more than 75% of the survey companies present cash as a single item and use the caption *cash*. Of the 65 companies showing a balance sheet caption combining cash and marketable securities, 24 disclosed separate amounts in a note to the financial statements. Eighty companies, in addition to showing a caption for cash, presented a separate caption for certificates of deposit or time deposits. Examples of captions for cash and cash items follow.

COLT INDUSTRIES INC (DEC)

	1977	1976
	($000)	
Current Assets		
Cash, including certificates of deposit of $34,506 and $17,911	$ 47,782	$ 23,722
Marketable securities, at cost (approximates market)	57,147	46,597
Accounts and notes receivable—		
Trade	211,500	173,580
Other	9,170	6,156
	220,670	179,736
Less allowance for doubtful accounts	5,106	4,293
	215,564	175,443
Inventories (Notes 1 and 13)—		
Finished goods	92,425	85,823
Work in process and finished parts	205,611	185,075
Raw materials and supplies	94,462	98,620
	392,498	369,518
Less allowance for slow-moving and obsolete items	27,550	23,665
	364,948	345,853
Deferred income taxes (Note 3)	16,515	12,530
Other current assets	6,973	9,936
Total current assets	$708,929	$614,081

CONSOLIDATED FOODS CORPORATION (JUN)

	1977	1976
	($000)	
Current Assets:		
Cash, short-term investments and marketable securities...	$100,766	$114,722
Trade accounts receivable, less allowances of $18,997 in 1977 and $18,180 in 1976	239,966	234,187

NOTES TO FINANCIAL STATEMENTS

Cash, Short-Term Investments and Marketable Securities—This balance sheet caption included:

(in thousands)	July 2, 1977	July 3, 1976
Cash	$ 10,243	$ 11,445
Certificates of deposit	71,590	72,894
Marketable securities, principally commercial paper, at cost which approximates market...........	18,933	30,383
	$100,766	$114,722

EVANS PRODUCTS COMPANY (DEC)

	1977	1976
	($000)	
Current Assets		
Cash	$31,170	$24,535

NOTES TO FINANCIAL STATEMENTS

Compensating Cash Balances—During 1977 and 1976, informal arrangements were maintained with a number of banks which generally required the Company and its unconsolidated subsidiaries to maintain compensating cash balances of 10% of the average daily loan commitments plus 10% of the average daily outstanding debt balances. As of December 30, 1977, both requirements under the Company's revolving credit agreement was reduced to 7½%. At December 31, 1977, the cash balance includes $12.7 million of such compensating balances.

JOHNS-MANVILLE CORPORATION (DEC)

	1977	1976
	($000)	
CURRENT ASSETS		
Cash (including time deposits of $19,450,000 in 1977, $9,580,000 in 1976).......	$ 39,471	$ 25,064
Marketable securities, at cost (approximates market)......	120,553	66,132
Accounts receivable (net of allowances of $5,497,000 in 1977, $4,909,000 in 1976)	262,655	239,318

NORTH AMERICAN PHILIPS CORPORATION (DEC)

	1977	1976
	(Thousands)	
Current assets		
Cash, including time deposits—$5,558,000 ($17,100,000—1976) (Note 2)	$ 13,812	$ 54,818
Commercial paper, at cost......	—	28,038
Accounts and notes receivable, less estimate for doubtful accounts, allowances and returns—$18,981,000 ($17,698,000—1976)......	356,422	301,272

Note 2: Cash—At December 31, 1977, $2,835,000 of time deposits were not available for general corporate use. Such deposits collateralize other current liabilities of an equivalent amount.

H. H. ROBERTSON COMPANY (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$ 7,464	$ 4,256
Time deposits	13,943	20,943
Accounts and notes receivable, less allowance for doubtful accounts: 1977, $2,742; 1976, $2,625	74,359	75,852

THE SINGER COMPANY (DEC)

	1977	1976
	(Amounts in Millions)	
Current Assets:		
Cash and cash equivalents (note 2)	$ 96.9	$ 108.6
Accounts receivable:		
Trade:		
Instalment (note 3)	172.2	156.2
Other	179.0	188.4
Miscellaneous	38.4	60.4
	389.6	405.0
Less:		
Unearned carrying charges .	40.0	31.6
Allowances for doubtful accounts.....................	16.6	17.7
	333.0	355.7
Inventories (note 4)	475.8	423.5
Prepaid expenses....................	10.4	10.9
Current assets of discontinued operations (note 9)................	62.7	167.8
Total current assets .	$978.8	$1,066.5

Note 2: Cash and Cash Equivalents—Included in cash and cash equivalents at December 31, 1977 and 1976, are $20.5 million and $48.1 million, respectively, representing compensating balances pursuant to various informal arrangements with banks in the United States requiring the maintenance of average balances. Such arrangements do not legally restrict

the availability or the use of these funds. Of the total compensating balances at December 31, 1977, $19.2 million relates to the Company's Revolving Credit and Term Loan Agreement, with a group of 30 banks. The remainder of $1.3 million was in connection with short-term bank lines to assure the availability of credit facilities to the Company. The monthly average of compensating balances during 1977 and 1976 was $31.0 million and $47.9 million, respectively.

Cash equivalents at December 31, 1977 and 1976, amounted to $15.3 million and $17.8 million, respectively, including bills of exchange accepted by a wholly owned, unconsolidated finance company located outside the United States of $8.3 million in 1977 and $12.7 million in 1976. The remainder of the cash equivalents consists primarily of time deposits.

SQUIBB CORPORATION (DEC)

	1977	1976
	($000)	
Current Assets:		
Cash	$ 22,037	$ 37,097
Time deposits	21,746	23,364
Marketable investments, at cost (approximates market)	7,369	445
Receivables, less allowance for doubtful items of $8,582 ($7,403 in 1976)	284,738	242,505

MARKETABLE SECURITIES IN CURRENT ASSETS

Chapter 3A of *ARB No. 43* states in part:

> 9. The amounts at which various current assets are carried do not always represent their present realizable cash values. . . . However, practice varies with respect to the carrying basis for current assets such as marketable securities and inventories. In the case of marketable securities where market value is less than cost by a substantial amount and it is evident that the decline in market value is not due to a mere temporary condition, the amount to be included as a current asset should not exceed the market value . . . It is important that the amounts at which current assets are stated be supplemented by information which reveals, for temporary investments, their market value at the balance sheet date . . .

FASB *Statement of Financial Accounting Standards No. 12* requires that marketable equity securities (capital stock, other than preferred stock subject to redemption or treasury stock, warrants and options) be carried at lower of aggregate cost or market value. Statement No. 12 also specifies information which the financial statements should disclose about marketable equity securities.

Table 2-4 shows the valuation bases at which marketable securities are included in the balance sheet. Although many of the survey companies presented marketable securities as current assets; only a few survey companies disclosed that the amounts shown for marketable securities included marketable equity securities. Examples of marketable security presentations follow.

TABLE 2-4: MARKETABLE SECURITIES—VALUATION

	1977	1976	1975	1974
Cost				
Approximates market	261	248	232	228
No reference to market	7	15	19	31
Market value disclosed	4	5	7	17
Lower of cost or market	30	28	25	15
Market value	3	4	8	7
	305	300	291	298
Valuation basis not disclosed	73	88	66	66
	378	388	357	364
Companies not showing marketable securities as current assets	222	212	243	236
Total Companies	**600**	**600**	**600**	**600**

Lower of Cost or Market

CANNON MILLS COMPANY (DEC)

	1977	1976
Current Assets:		
Cash	$ 10,049,954	$ 11,672,386
Marketable securities *(Note 1)*	12,022,107	32,438,437
Accounts receivable *(less allowances for doubtful accounts and discounts, December 29, 1977—$1,689,783; December 30 1976—$1,401,640) (Note 2)*	92,860,508	74,130,350
Inventories *(Notes 1 and 3)*	66,448,599	62,661,026
Prepaid expenses	476,522	439,678
Total current assets	181,857,690	181,341,877

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Marketable Securities—Marketable securities (including temporary cash investments, December 29, 1977—$10,000,000; December 30, 1976—$30,200,000) are carried at the lower of cost or quoted market value of each security.

The cost of marketable securities at December 29, 1977 and December 30, 1976 was $12,537,000 and $32,887,000, respectively, and at December 29, 1977 the gross unrealized gains and losses pertaining to these securities were $181,000 and $515,000, respectively.

During fiscal 1977 and 1976 there were no realized gains or losses from sales of marketable securities.

In fiscal 1977, $66,500 was deducted from income and in fiscal 1976, $289,000 was added to income as a result of the lower of cost or market adjustments.

CHRYSLER CORPORATION (DEC)

	1977	1976
	(in millions of dollars)	
Current Assets:		
Cash	$ 207.6	$ 168.4
Time deposits	41.7	218.1
Marketable securities—at lower of cost or market	159.5	185.5
Accounts receivable (less allowance for doubtful accounts: 1977—$21.9 million; 1976—$25.1 million)	896.7	797.6
Inventories—at the lower of cost (substantially first-in, first-out) or market	2,622,6	2,354.0
Prepaid insurance, taxes and other expenses	141.2	102.4
Income taxes allocable to the following year	83.5	52.3
Total Current Assets	$4,152.8	$3,878.3

THE PITTSTON COMPANY (DEC)

	1977	1976
Current Assets:		
Cash	$ 33,128,000	$ 21,515,000
Short-term investments	130,775,000	167,784,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Short-Term Investments—Short-term investments are carried at the lower of cost or market value.

Note 2: Short-Term Investments—Consist of the following:

	December 31 1977	1976
	(In thousands)	
Marketable equity securities, carried at cost (market $3,160,000 in 1977 and $1,713,000 in 1976)	$ 3,139	$ 1,314
Other investments:		
Certificates of deposit and time deposits	56,006	38,821
U.S. Treasury bills	29,403	2,788
U.S. Treasury notes	—	50,287
U.S. Government obligations acquired under repurchase agreements	27,800	60,000
Debentures of U.S. Export-Import Bank	14,427	14,574
	$130,775	$167,784

STAUFFER CHEMICAL COMPANY (DEC)

	1977	1976
	(Dollars in thousands)	
Current Assets		
Cash	$ 18,563	$ 20,507
Marketable Securities	78,221	101,941
Receivables:		
Trade—Net of Allowance for Doubtful Receivables (1977—$2,183; 1976—$2,243)	190,668	155,040
Notes and Other	21,538	20,982

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities—Marketable securities are stated at the lower of aggregate cost or market.

NOTES TO FINANCIAL STATEMENTS

MARKETABLE SECURITIES

	1977	1976
	(Dollars in thousands)	
Marketable Securities—at cost	$79,015	$102,596
Approximate gross unrealized losses	(1,171)	(1,309)
Approximate gross unrealized gains	377	654
Valuation allowances	(794)	(655)
Marketable Securities—at market	$78,221	$101,941
Valuation allowance decrease (increase) included in income	$ (139)	$ 2,629
Realized net gain (loss)—specific identification method	$ 301	$ (14)

At Cost—Approximates Market

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

	1977	1976
	($000)	
Current Assets:		
Cash	$ 2,110	$ 2,229
Short-term investments and marketable securities (Note 3)	38,163	41,520
Accounts receivable (net of allowance for doubtful accounts of $476 and $205 in 1977 and 1976)	25,646	21,630

Note 3: Short-Term Investments and Marketable Securities—Short-term investments and marketable securities are carried at cost plus accrued interest, which approximates quoted market value.

AMPCO-PITTSBURGH CORPORATION (DEC)

	1977	1976
Current Assets		
Cash	$ 2,042,226	$ 2,267,852
Time deposits	371,432	522,888
Commercial notes, at cost, which approximates market	4,489,676	—
Receivables, less allowance for doubtful accounts of $335,500 and $317,740	10,797,900	10,171,458

AVON PRODUCTS, INC. (DEC)

	1977	1976
Current assets		
Cash	$ 23,975,000	$ 23,086,000
Short-term investments	360,376,000	339,228,000
Accounts receivable (less allowance for doubtful accounts of $7,411,000 and $8,452,000)	124,196,000	107,375,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Short-term investments—Short-term investments are stated at cost plus accrued interest, which approximates market value.

Short-Term Investments—Short-term investments consisted primarily of certificates of deposit, time deposits in U.S. banks, commercial paper and U.S. government securities at December 31, 1977.

CUMMINS ENGINE COMPANY, INC. (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$ 9,005	$ 9,591
Short-term investments	34,566	40,870
Receivables less allowance for doubtful amounts of $6,808 and $5,848	164,458	143,982

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part):

Short-term Investments—Short-term investments are recorded at cost which approximates year-end market value. Investments at December 31, 1977 and 1976 include:

$ millions	1977	1976
Time deposits	$24.5	$ 4.0
Certificates of deposit	4.1	11.9
Short-term securities under repurchase agreements	6.0	25.0
	$34.6	$40.9

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$10,876	$14,606
Temporary cash investments at cost, which approximates market	32,165	12,292
Accounts and notes receivable, less allowance for doubtful amounts of $2,330,000 and $2,766,000	72,670	82,230

GULF OIL CORPORATION (DEC)

	1976	1975
	(Millions of Dollars)	
Current assets		
Cash and marketable securities (Note 4)	$1,989	$1,837
Receivables (less allowance of $48 and $45 million) (Note 5)	2,907	2,356

Note 4—Cash and Marketable Securities

	December 31 1976	1975
	Millions of Dollars	
Cash	$ 54	$ 83
Time deposits and certificates of deposit	1,028	910
Marketable securities	907	844
	$1,989	$1,837
United States	$ 821	$ 819
Canada	461	232
Other Foreign	707	786
	$1,989	$1,837

Marketable securities are stated at cost which approximates market.

ELI LILLY AND COMPANY (DEC)

	1977	1976
Current Assets		
Cash	$ 32,601,000	$ 33,507,000
United States government and government-guaranteed securities, and interest-bearing cash deposits—at cost (approximately market)	404,377,000	363,570,000
Accounts receivable, after deducting allowances of $12,463,000 (1977) and $11,270,000 (1976)	299,317,000	279,809,000

REPUBLIC STEEL CORPORATION (DEC)

	1977	1976
	(Thousands of Dollars)	
Current Assets		
Cash	$ 21,068	$ 17,085
Short-term money market investments	28,884	28,890
Accounts receivable—trade, less allowances for possible losses ($2,600,000 in each year)	255,173	187,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Short-Term Money Market Investments: Investments are valued at cost and accrued interest which approximates market.

SARGENT-WELCH SCIENTIFIC COMPANY (DEC)

	1977	1976
Current Assets:		
Cash	$ 828,000	$ 863,000
Marketable securities, at cost plus accrued interest, which approximates market (Note 9)	5,216,000	8,034,000
Accounts receivable, less allowance for doubtful accounts of $402,000 and $370,000, respectively (Note 11)	12,046,000	12,968,000

Note 9—Marketable Securities: Marketable securities at December 31, 1977 and 1976, carried at cost plus accrued interest, which approximates market, were as follows:

	1977		1976	
Name of Issuer and Title of Each Issue	Principal	Cost Plus Interest	Principal	Cost Plus Interest
Commercial Paper:				
General Motors Acceptance Corp.	$1,200,000	$1,201,000	$ 600,000	$ 608,000
Walter Heller			900,000	901,000
Montgomery Ward	800,000	800,000	800,000	801,000
International Harvester			250,000	250,000
Household Finance	1,000,000	1,001,000	1,000,000	1,001,000
Commercial Credit Corp.	500,000	502,000		
Ford Motor	500,000	503,000		
Westinghouse	500,000	503,000		
Prudential Leasing	200,000	200,000		
Certificates of Deposit:				
The Northern Trust Company			1,000,000	1,000,000
First National Bank of Kansas City			1,125,000	1,131,000
Bank of Commerce	500,000	506,000	350,000	350,000
U.S. Treasury Bills			2,000,000	1,992,000
		$5,216,000		$8,034,000

TABLE 2-5: CURRENT RECEIVABLES

	1977	1976	1975	1974
Trade Receivable Captions				
Accounts receivable	202	206	215	207
Receivables	156	169	174	172
Accounts and notes receivable	155	145	148	160
Trade accounts receivable	87	80	63	61
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables				
Tax refund claims	59	49	46	43
Investees	25	29	29	23
Installment notes or accounts	24	22	37	39
Government	18	19	30	25

RECEIVABLES

Table 2-5 summarizes both the descriptive titles used in the balance sheet to describe trade receivables and the types of receivables, other than trade receivables, which the survey companies showed as current assets. Examples of receivables shown as current assets follow.

Income Tax Refund Claims

BETHLEHEM STEEL CORPORATION (DEC)

	1977	1976
	(dollars in millions)	
Current Assets:		
Cash	$ 55.4	$ 45.6
Marketable securities, at cost (approximating market)	183.4	355.6
Receivables, less allowances of $6,300,000 and $6,100,000	496.7	421.5
Refund of income taxes paid in prior year (Note L)	134.0	38.4
Inventories (Note C)	626.2	834.1
Total Current Assets	$1,495.7	$1,695.2

Note L (in part): Taxes—The provision (credit) for taxes on income is comprised of:

	1977	1976
	(dollars in millions)	
Federal—current	$ (95)	$(36)
—deferred	(354)	30
Foreign—current	9	20
State—current	2	7
—deferred	(25)	5
Total income taxes	$(463)	$ 26

The credit for the current portion of the 1977 Federal income tax provision reflects primarily the estimated refund of $134 million of 1974 income taxes which will result from a carryback of the 1977 net operating loss. The credit is net of minimum tax liabilities for 1975, 1976 and 1977, which arise in 1977 due to the net operating loss. The credit for the current portion of the 1976 Federal income tax provision reflects, primarily, the refund of prior years' taxes resulting from a carryback of the 1976 investment tax credit. The credits for the deferred portions of the 1977 Federal and state income tax provisions are mainly due to expenses recorded for financial purposes in 1977 which will be deductible for tax purposes in future years. Also included in the deferred Federal income tax credit for 1977 are $88.1 million of investment tax credit carryovers which are realizable in future years.

EHRENREICH PHOTO-OPTICAL INDUSTRIES, INC. (APR)

	1977	1976
Current Assets:		
Cash (including Certificates of Deposit of $2,150 in 1976)	$ 2,178	$ 4,290
Trade recivables, less allowances of $1,528 in 1977; $1,258 in 1976	21,422	16,318
Notes receivable (Note 2)	236	—
Refundable income taxes (Note 3)	1,742	92

Note 3: Refundable Income Taxes—Refundable income taxes consists of the following:

	1977	1976
	(In Thousands of Dollars)	
Payments on account for the year ended April 30, 1977—Federal and state	$1,356	
Refund arising from carryback of operating loss for the year ended April 30, 1977:		
Federal	326	
State	17	
Prior years' franchise taxes	43	$92
Total	$1,742	$92

INLAND STEEL COMPANY (DEC)

	1977	1976
	($000)	
Current Assets:		
Cash	$ 5,459	$ 15,736
Marketable short-term securities, at cost and accrued interest	53,336	55,994
Receivables, less provision for allowances, claims and doubtful accounts of $7,465 on December 31, 1977 and $7,118 on December 31, 1976	274,669	219,297
Refundable income taxes due to investment credit	27,433	1,242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Taxes on Income—Total taxes on income, which include state and local taxes on income, equaled 4% of income before taxes in 1977 and 31% in 1976. The major factor in the variance from the Federal statutory rate of 48% is the investment tax credit. Other factors contributing to the variance include percentage depletion allowances and state and local taxes on income.

Deferred taxes of $10,625,000 in 1977 and $6,745,000 in 1976 were provided for the excess of depreciation for tax purposes over depreciation for financial reporting purposes. Other elements of deferred taxes include $2,428,000 in 1977 relating to the amortization of mine development expense and $3,790,000 in 1976 relating to vessel income deferred for tax purposes.

The elements of income tax expense for the years 1977 and 1976 were as follows:

	Year ended December 31	
dollars in thousands (except per share data)	1977	1976
Current taxes on income:		
Federal	$16,736	$49,910
State	4,593	5,829
Foreign (principally Canada)	1,027	2,236
	$22,356	$57,975
Deferred taxes on income:		
Federal	$16,241	$10,433
Foreign (principally Canada)	145	163
	$16,386	$10,596
Investment tax credit:		
Current year earned	$33,673	$19,509
Amortization of deferred credit.	1,309	1,482
	$34,982	$20,991
Investment tax credit per common share	$ 1.73	$ 1.07

The Company was eligible for income tax refunds under the investment tax credit carryback provisions of the Federal tax code on December 31, 1977 and 1976, in the amounts of $27,433,000 and $1,242,000, respectively.

POTLATCH CORPORATION (DEC)

	1977	1976
Current assets:		
Cash	$11,358,256	$10,368,597
Short-term investments, at cost which approximates market	21,063,089	386,002
Receivables (Note 2)	52,753,409	46,491,197

NOTES TO FINANCIAL STATEMENTS

Note 2: Receivables—Current accounts and notes receivable consist of:

	1977	1976
Trade accounts	$46,611,251	$44,316,130
Refundable federal income taxes	4,319,000	—
Other accounts and notes	3,053,083	3,516,440
	53,983,334	47,832,570
Less allowance for doubtful accounts	1,229,925	1,341,373
	$52,753,409	$46,491,197

Note 7 (in part): Taxes on Income—Included in the balance sheet caption "Prepaid expenses" are the tax effects of other timing differences in the amount of $5,029,755 and $7,422,255 at December 31, 1977 and 1976, respectively. Also, "Receivables" include the amount of $4,319,000, which represents the carryback of investment tax credit at December 31, 1977.

TRIANGLE INDUSTRIES, INC. (DEC)

	1977	1976
Current Assets		
Cash	$ 3,705,000	$ 3,979,000
Notes and accounts receivable, less allowance for doubtful accounts (1977—$3,480,000; 1976—$3,602,000)	38,324,000	34,830,000
Federal income tax carryback refund	4,565,000	5,683,000

WHEELING-PITTSBURGH STEEL CORPORATION (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$ 16,892	$ 15,387
Short-term investments, at cost (which approximates market)	21,800	21,500
Receivables, less allowance for doubtful accounts of $2,720 and $2,591	110,458	76,365
Inventories	141,760	153,707
Refundable income taxes	12,671	3,650
Prepaid expenses and other current assets	5,416	6,127
Total current assets	$308,997	$276,736

NOTES TO FINANCIAL STATEMENTS

Note C (in part): Income Taxes—Current federal and state income taxes reflect refundable income taxes of $12,671,000 in 1977 and $3,650,000 in 1976 which result from the carryback of 1977 and 1976 operating losses to 1974 less provisions for income taxes related to a 75% owned subsidiary not included in the Corporation's consolidated tax return and, in 1977, minimum tax related to "tax preferences."

Receivables from Investees

CLARK EQUIPMENT COMPANY (DEC)

	1977	1976
	($000)	
Current Assets:		
Cash, including $26,000,000 of time deposits in 1977	$49,527	$37,675
Accounts and notes receivable, less allowance for doubtful accounts of $5,251,000 and $2,738,000 at respective dates	51,207	71,983
Notes receivable from finance subsidiary	7,656	12,306

FRUEHAUF CORPORATION (DEC)

	1977	1976
Current Assets:		
Trade receivables:		
Accounts receivable	$191,925,871	$174,453,488
Installment contracts	16,595,371	29,282,109
From Fruehauf Finance Company	6,824,555	8,471,261
	215,345,797	212,206,858
Less allowance for doubtful receivables	4,250,000	4,250,000
	$211,095,797	$207,956,858

GULF OIL CORPORATION (DEC)

	1977	1976
	($ Millions)	
Current assets		
Receivables (less allowance of $44 and $48 million) (Note 3)	$2,596	$2,907

Note 3—Receivables

	Millions of Dollars December 31	
	1977	1976
Customers	$1,796	$2,145
Affiliated and associated companies	417	344
Other receivables	427	466
	2,640	2,955
Allowance for doubtful accounts	(44)	(48)
	$2,596	$2,907
United States	$ 606	$ 789
Canada	493	457
Europe	370	354
Other Foreign	1,127	1,307
	$2,596	$2,907

In 1977 and 1976, provisions of $18 and $15 million, respectively, were credited to the allowance for doubtful accounts. Other charges and credits, principally write-offs and recoveries, were $9 and $3 million, respectively, in 1977 and $15 and $3 million, respectively in, 1976. In addition, $16 million of the allowance for doubtful accounts was transferred to the Company's affiliated domestic financing subsidiary in 1977 in connection with the sale to it of customer receivables.

Installment Receivables

JIM WALTER CORPORATION (AUG)

	1977		1976	
	(in thousands)			
Current assets:				
Cash (Note 4)		$ 60,132		$ 64,811
Instalment notes receivable (Notes 2 and 5)	$896,802		$759,735	
Less—Provision for possible losses	(8,057)		(6,932)	
Unearned time charges	(452,728)	436,017	(377,551)	375,252
Trade receivables, less $8,608,000 and $7,380,000 provision for possible losses		235,416		191,628
Other notes and accounts receivable		11,302		14,217
Inventories, at lower of cost (first in, first out or average) or market:				
Finished goods	115,224		107,452	
Goods in process	30,673		24,573	
Raw materials and supplies	109,153		95,160	
Houses held for resale	993	256,043	513	227,698
Prepaid expenses and other current assets		6,315		4,762
Total current assets		$1,005,225		$878,368

Note 2: Instalment Notes Receivable—The instalment notes receivable arise from sales of partially-finished homes to customers for time payments primarily over periods of twelve to eighteen years. Of the gross amount of $896,802,000 an amount of $808,308,000 is due after one year. Instalment notes receivable are included in current assets since they are within the operating cycle of the partially-finished home business. Instalment payments estimated to be receivable within each of the five years from August 31, 1977 are $88,494,000, $86,138,000, $82,947,000, $78,773,000, and $73,419,000, respectively, and $487,031,000 after five years. Time charges are included in equal parts in each monthly payment and are taken into income as collected.

JOY MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Current Assets		
Receivables (Note 4)	$147,019	$130,278

Note 4: Receivables—Receivables include the following:

	1977	1976
	(In Thousands of Dollars)	
Trade receivables	$117,666	$115,523
Trade installment notes	14,956	5,139
Other installment notes	5,495	—
Retentions on long-term construction contracts	5,647	5,703
Unbilled sales on long-term construction contracts	3,001	3,364
Due from unconsolidated subsidiaries	1,175	1,447
	147,940	131,176
Less allowance for doubtful accounts	(921)	(898)
Receivables	$147,019	$130,278

In accordance with generally recognized trade practice, all trade installment notes including those which mature subsequent to one year, amounting to $8,291,000 at September 30, 1977 and $2,312,000 at September 24, 1976, have been included in current assets. The range of interest rates applicable to trade installment notes receivable was 6.0% to 15.4% at September 30, 1977 and September 24, 1976. The interest rate on other installment notes receivable was 8.1% at September 30, 1977.

Retentions on long-term construction contracts include $689,000 at September 30, 1977 and $1,179,000 at September 24, 1976, which are collectible after one year.

Substantially all amounts classified as unbilled sales on long-term construction contracts are collectible within one year.

Receivables from Government

LITTON INDUSTRIES, INC. (JUL)

	1977	1976
	(thousands of dollars)	
Current Assets:		
Cash (Note C)	$ 73,328	$ 65,734
Accounts receivable less allowance for doubtful accounts of $24,111 and $25,958 (Note K)	698,111	694,774
Inventories, at lower of cost or market, less progress billings of $418,134 and $438,751 (Notes A and K)	542,632	530,907
Prepaid expenses (Note G)	59,406	59,670
Total Current Assets	$1,373,477	$1,351,085

Note K (in part) Accounts Receivable and Inventories—Following are the details of accounts receivable and inventories at July 31, 1977 and 1976:

Accounts Receivable:	1977	1976
	(thousands of dollars)	
U.S. Government long-term contracts:		
Amounts billed	$ 38,738	$ 34,836
Recoverable costs and accrued profit on progress completed—not billed	5,319	20,650
Retentions—Marine contracts	135,061	136,567
Unrecovered costs subject to future litigation or negotiation—not billed	43,363	43,363
	222,481	235,416
Commercial customers—billed	475,630	459,358
	$698,111	$694,774

Of the retention balance at July 31, 1977, $19,000,000 is expected to be collected in fiscal 1978 with the balance to be collected in subsequent years, as long-term contract deliveries are made.

ROCKWELL INTERNATIONAL CORPORATION (SEP)

	1977	1976
	(In millions)	
Current Assets		
Cash (including time deposits and certificates of deposit: 1977, $384.1 million; 1976, $49.3 million)	$467.1	$113.5
Short-term investments—at cost, which approximates market	9.6	9.2
Receivables	917.2	750.3

NOTES TO FINANCIAL STATEMENTS

Note 3: Receivables—Receivables at September 30 are summarized as follows (in millions):

	1977	1976
Accounts and notes receivable:		
Commercial, less allowance for doubtful accounts (1977, $21.6 million; 1976 $18.3 million)	$534.8	$539.0
United States Government	29.5	34.3
United States income taxes receivable (Note 20)	55.5	
Short-term advances to unconsolidated financial subsidiaries	33.7	33.0
Estimated termination claims to be reimbursed under United States Government contracts	132.2	8.1
Other unreimbursed costs and accrued profits to be billed, principally related to United States Government contracts	131.5	135.9
Receivables	$917.2	$750.3

Accounts and notes receivable do not include significant amounts representing contract holdbacks or claims subject to uncertainty as to their determination. Substantially all amounts are expected to be collected within one year.

Estimated termination claims to be reimbursed represent principally unbilled costs associated with the termination of the B-1 production contracts by the United States Government. Such claims primarily represent accruals of estimated subcontractor termination claims and the Company's applicable overhead costs. It is anticipated that approximately $20.0 million of the termination claims at September 30, 1977 will not be collected within one year. The Company's related liability to subcontractors for their termination claims (see Note 11) will not be fully paid until settlement has been approved by the United States Government. The Company expects that substantial additional termination costs relating to the B-1 production contracts will be incurred for which full recovery is expected from the United States Government. The amount of such costs cannot be reasonably determined at September 30, 1977.

Other unreimbursed costs and accrued profits to be billed represent revenues recognized principally on United States Government contracts for which billings had not been presented. It is anticipated that approximately $100.0 million unbilled at September 30, 1977 will be billed within 45 days. The remainder principally represents amounts unbilled due to contract holdback and billing provisions. Substantially all amounts are expected to be collected within one year.

Other

SNAP-ON TOOLS CORPORATION (DEC)

	1977	1976
	($000)	
Current Assets		
Cash, including certificates of deposit—1977, $16,000,000 and—1976, $10,142,000	$ 18,364	$ 10,630
Marketable securities—at cost which approximates market	5,938	6,657
Receivables:		
Customers	14,427	14,910
Installment (Note 1b)...........	56,682	41,937
	71,109	56,847
Less:		
Unearned finance charges ..	8,924	6,575
Allowance for doubtful accounts....................	1,102	937
	10,026	7,512
	61,083	49,335
Dealers, salesmen and other ...	4,417	4,133
Total accounts receivable ...	65,500	53,468
Inventories (Notes 1c and 2)		
Finished stock	42,373	37,872
Work in process	13,154	11,957
Raw materials...................	9,524	10,074
Total inventories	65,051	59,903
Prepaid expenses..................	5,231	3,504
Total current assets	$160,084	$134,164

SUN CHEMICAL CORPORATION (DEC)

	1977	1976
	($000)	
Current assets		
Cash (including time deposits of $6,036,000 in 1977) (Note 4)	$ 15,353	$ 11,096
Due from issuance of senior notes (Note 5)	5,140	—
Accounts and notes receivable (less allowances 1977—$3,869,000; 1976—$3,181,000)................	62,208	51,237
Inventories (note 2).............	55,475	48,704
Deferred income tax benefits (Note 7)	—	3,107
Prepaid expenses and other current assets	1,631	2,018
Total current assets	$139,807	$116,162

Note 5 (in part): Long-term debt—In September 1977, the company entered into long-term note and credit agreements totaling $25,000,000 with a group of insurance companies and a group of banks for the purpose of repaying existing bank loans and financing planned capital improvements.

Prior to December 31, 1977, $19,860,000 in notes were issued and the balance of $5,140,000 was issued in January 1978.

TABLE 2-6: RECEIVABLES USED FOR FINANCING

	1977	1976	1975	1974
Receivables sold with recourse	65	69	68	69
Receivables sold without recourse	9	9	16	12
Receivables used as collateral	28	25	28	21
Total References.................	**102**	**103**	**112**	**102**
Reference to receivable financing	98	96	107	98
No reference to receivable financing	502	504	493	502
Total Companies.................	**600**	**600**	**600**	**600**

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that 98 of the survey companies referred to receivables sold with recourse, or receivables sold without recourse, or receivables used as collateral. In June 1974, the Accounting Standards Division of the American Institute of Certified Public Accountants issued a *Statement of Position-Recognition of Profit on Sales of Receivables With Recourse.* The Statement sets forth recommendations of the Accounting Standards Division to the Financial Accounting Standards Board as to the method of recognizing profit or loss on sales of receivables with recourse and as to the nature of information to be disclosed about such sales. The Statement states in part:

> .48. . . . In general, disclosure should include the nature and amount of the receivables sold during each period in which an income statement is presented, specifying the payment terms, and the amount of any receivables still outstanding at the date of the latest balance sheet presented. In addition, the financial statements should disclose the terms of the agreements, describing the conditions that would compel the seller to perform under the recourse provisions and any provisions for "dealers' reserves." The amount of funds in the "dealer' reserves" at the date of the latest balance sheet presented should also be given.
>
> .49 The Division believes that a company's accounting policy for profit or loss on the sale of receivables with recourse should be disclosed in accordance with the provisions of *APB Opinion No. 22, Disclosure of Accounting Policies.* The amount of differential included in each period for which an income statement is presented and the amount deferred at the date of the latest balance sheet presented should also be disclosed.

Examples of disclosures made in the reports of the survey companies financing receivables follow. Examples of receivables sold with recourse are also presented in connection with Table 1-11.

Receivables Sold With Recourse

AMF INCORPORATED (DEC)

	1977	1976
	($000)	
Current Assets		
Notes and accounts receivable (Note 4)	$242,739	$227,148

Note 4: Notes and Accounts Receivable—Notes and accounts receivable from customers at December 31 include the following, net of unearned interest of $25,927,000 and $17,353,000 at December 31, 1977 and December 31, 1976, respectively (in thousands of dollars):

	1977	1976
Amounts due within one year	$222,572	$220,696
Amounts due beyond one year	50,498	40,495
	273,070	261,191
Allowance for possible losses	(30,331)	(34,043)
	$242,739	$227,148

Amounts due beyond one year relate largely to the Company's bowling products business and are included in current assets in accordance with industry practice.

Interest rates on notes receivable of $69,775,000 at December 31, 1977 and $75,070,000 at December 31, 1976 range generally from 10% to 13% in the United States, and from 6% to 23% overseas.

Notes and accounts receivable due beyond one year at December 31, 1977 include approximately $10,732,000 of investment in sales-type leases, net of unearned interest of $7,551,000 (See note 8).

The Company is contingently liable on approximately $4,500,000 of accounts and notes receivable (principally overseas) sold with recourse and has guaranteed approximately $9,000,000 related to dealer floor plan arrangements.

CENTRAL SOYA COMPANY, INC. (AUG)

	1977	1976
	($000)	
Current assets:		
Notes and accounts receivable—net	$119,253	$102,241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes and Accounts receivable—Notes and accounts receivable are reduced by an allowance for doubtful accounts of $5.1 million at August 31, 1977 ($4.7 million at August 31, 1976). Receivables at August 31, 1977 include $13.3 million ($8.7 million at August 31, 1976) on notes due on demand or within one year.

The Company is contingently liable for receivables discounted aggregating approximately $3.9 million at August 31, 1977.

CITY STORES COMPANY (JAN)

	1978	1977
Current Assets		
Cash	$ 6,325,540	$ 6,325,524
Accounts receivable—Note C	37,888,626	90,603,190

Note C: Accounts Receivable—The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts Receivable		
Customers—net of allowances of $2,681,332 and $2,224,609, respectively, including $1,026,000 This Year and $644,000 Last Year for the former Lit Brothers division	$29,941,754	$86,337,372
Other—net of allowances of $238,763 and $256,919, respectively	7,946,872	4,265,818
City Stores Company and Retail Subsidiaries	37,888,626	90,603,190
Other Receivables	461,481	8,699
City Stores Company and Subsidiaries	$38,350,107	$90,611,889

Under its revolving credit agreement, the Company has assigned to banks a security interest in substantially all its customers accounts receivable (see Note H).

As of September 29, 1977, the Company and a wholly-owned subsidiary entered into a Purchase and Service Agreement (the "Agreement") with Citibank (New York State), N.A. and its affiliate, Retail Consumer Services, Inc. ("R.C.S.I.") pursuant to which the bank purchases and R.C.S.I. services, during a five-year period, accounts receivable arising from sales to customers by the Company's Maison Blanche, Richards and Loveman's divisions and its B. Lowenstein subsidiary.

The initial purchase by R.C.S.I. was of eligible accounts receivable (as defined) and was for a purchase price of their face amount. Continuing sales of the Company's aforementioned divisions and subsidiary to customers giving rise to accounts receivable are likewise purchased at their face amount. Twelve and one-half percent ("Reserve Percentage") of such face amount and the entire outstanding balance of any receivable which becomes ineligible (approximately $928,000 at January 28, 1978) is held as a reserve by R.C.S.I. aggregating approximately $5,778,000 at January 28, 1978. As a result of the timing of the periodic settlements with R.C.S.I., the Company had an advance against the reserve of $1,298,000. Accordingly, the net reserve, $4,480,000, is included in "Accounts Receivable—Other" in the accompanying Statements of Financial Condition. The Reserve Percentage was reduced to 10 percent February 1, 1978 and will be reduced to 5 percent effective July 1, 1978 for the remainder of the agreement. The reserve is remitted to the Company at the conclusion of the Agreement.

The terms of the Agreement provide, among other matters, that accounts receivable are purchased on a recourse basis. Accordingly, the Company continues to maintain an allowance for doubtful accounts applicable to the receivables sold to R.C.S.I. At January 28, 1978, the outstanding amount of such receivables sold aggregated approximately $39,730,000. Under the agreement, the Company retains the income from the carrying charges on customers receivables and pays R.C.S.I. annual interest at the same effective interest rate as is paid under the Revolving Credit Agreement (see Note H) calculated on the daily balance of customer accounts receivable purchased by them less the aforementioned reserve. Further, the Company will pay R.C.S.I. a monthly management and operation charge commencing February 1, 1978 for their administration of the retail credit program.

Accounts receivable from customers include installment accounts of approximately $28,500,000 and $84,300,000, respectively.

THE SINGER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Accounts Receivable—In accordance with trade practice, all instalment accounts receivable are classified as current assets irrespective of when payments are due.

Receivables discounted without recourse are excluded from the balance sheet, and earned carrying charges and discount expenses are recognized at the time the receivable is discounted. Receivables discounted with recourse are considered a financing arrangement, and accordingly the liability for such discounted receivables is included in notes and loans payable.

Earned carrying charges and discount and related financing expenses are recognized as the receivables are collected.

Note 7 (in part): Notes and Loans Payable—Notes and loans payable by type of borrowing are summarized as follows (dollar amounts in millions):

	1977			
	Amount at December 31, 1977	Maximum Month-End Outstanding	Average Borrowings	Average Interest Rate
Indebtedness of operations outside of the United States	$120.2	$158.2	$135.5	15.1%
Payable to banks in the United States	—	27.0	12.9	6.6
Liability for discounted receivables	13.8	26.6	20.0	various
	$134.0			

	1976			
	Amount at December 31, 1976	Maximum Month-End Outstanding	Average Borrowings	Average Interest Rate
Indebtedness of operations outside of the United States	$136.6	$154.5	$137.9	14.2%
Payable to banks in the United States	24.8	50.1	36.5	7.0
Liability for discounted receivables	26.1	41.5	33.0	various
	$187.5			

Indebtedness of operations outside of the United States is either in the form of overdraft borrowings or notes with maturities normally less than 90 days. Amounts payable to banks in the United States are evidenced by notes with maturities generally not exceeding 90 days under lines of credit.

Average interest rates and borrowings are computed on a daily basis for short-term borrowings payable to banks in the United States and on a monthly basis for short-term borrowings by operations outside of the United States.

Financing arrangements relating to the liability for receivables discounted with recourse vary widely from country to country and the receivables discounted have varying dates of maturity. Receivables are sold at discounts reflecting, among other things, local interest rates, risk evaluation, and servicing fees.

THE VENDO COMPANY (DEC)

	1977	1976
Current Assets:		
Cash (Note 8)	$ 3,098,392	$ 4,052,685
Receivables (Note 8):		
Accounts	13,164,562	14,035,677
Notes (Note 4)	6,062,085	7,735,434
	19,226,647	21,771,111
Less-Allowances for doubtful accounts (Note 19)	3,145,974	2,831,558
	16,080,673	18,939,553
Inventories (Notes 5 and 8):		
Finished goods	13,241,863	9,820,305
Work in process	13,804,067	13,951,699
Raw material	3,987,270	4,873,744
	31,033,200	28,645,748
Prepaid income taxes (Note 11)	—	1,145,000
Total current assets	$50,212,265	$52,782,986

Note 4: Receivables and Installment Contracts—Current notes receivable in the accompanying consolidated balance sheet consist of installment sales contracts with terms up to sixty months and $34,000 in 1977 and $50,000 in 1976 withheld as reserves by purchasers of installment sales contracts. Foreign subsidiaries have pledged receivables totaling $4,700,000 in 1977 and $3,600,000 in 1976 as collateral on short-term notes payable.

The Company is contingently liable to repurchase contracts sold by foreign subsidiaries should they become delinquent. Unpaid balances of contracts sold approximated $600,000 at December 31, 1977.

Receivables Sold Without Recourse

LOWE'S COMPANIES, INC. (JUL)

	1977	1976
Current Assets:		
Cash	$ 13,323,725	$ 15,620,103
Accounts Receivable Less Allowance for Doubtful Accounts—1977—$4,017,124; 1976—$2,873,569	76,162,294	52,321,613
Inventories at the Lower of Cost (First-In, First-Out) or Market (Notes 1 and 2)	96,164,370	77,962,738
Prepaid Expenses and Other Current Assets	547,964	530,496
Total Current Assets	$186,198,353	$146,434,950

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Accounts Receivable—Substantially all of the trade receivables are on a 30, 60 or 90-day basis. Service charges arising from certain classes of customer accounts are treated as a reduction of selling and administrative expenses in the statement of earnings.

Allowances for doubtful accounts are based on the experience encountered in the various locations. Installment receivables arising from consumer sales are sold without recourse to outside finance companies.

Receivables Used as Collateral

CHOCK FULL O'NUTS CORPORATION (JUL)

	1977	1976
Current Assets		
Receivables:		
Trade, substantially pledged (note 4(a))	$3,821,469	$4,587,962
Other	511,293	432,009
	4,332,762	5,019,971
Less allowance for doubtful accounts	190,108	364,337
	$4,142,654	$4,655,634

Note 4(a): Advances under Financing Agreements

Continuing Operations—Pursuant to an agreement dated January 24, 1977, Armstrong Business Credit Corp. and Lazere Financial Corp. (collectively, the "Lenders") agreed to make advances to Chock Full O'Nuts Coffee Corporation, a subsidiary (the borrower, "Coffee Corp.') to the extent of 90% of borrower's eligible receivables and 70% of borrower's eligible inventory up to a maximum amount of $10,000,000. Interest on the advances is to be computed at 3¾ per annum above the prime rate charged by Citibank, N.A., which at July 31, 1977 results in an effective rate of 10.5%. The agreement terminates January 24, 1979, at which time advances in excess of $6,000,000 are due and payable upon collection of receivables pledged thereagainst and the remaining $6,000,000 outstanding is not required to be repaid until September 30, 1979. The Company has agreed to maintain and pledge eligible receivables and inventory which, in the aggregate (computed at 90% and 70%, respectively, thereof) will not be less than the outstanding loan balance. Amounts outstanding under the agreement are guaranteed by the Company. At July 31, 1977, advances under this agreement amounted to $6,193,893, of which $193,893 is classified as a current liability. Since inception, the average balance outstanding and interest rate was $6,342,000 and 11.2% respectively.

On July 21, 1977, the Company and a subsidiary entered into agreements with the above mentioned Lenders for $2,000,000. The loans bear interest at 3¾% per annum above the prime rate charged by Citibank, N.A., (which at July 31, 1977 was an effective rate of 10.5%), are repayable on August 1, 1978. These loans were repaid in November 1977, before the due date.

In addition to the collateral previously mentioned in connection with the above agreements, the Lenders have a security interest in the Company's trademarks and machinery and equipment of the Company's Bakery and Coffee operations, having an aggregate net book value at July 31, 1977 of approximate $4,200,000.

UNITED TECHNOLOGIES CORPORATION (DEC)

	1977	1976
	($000)	
Current Assets:		
Accounts receivable	$672,958	$627,543

NOTES TO FINANCIAL STATEMENTS

Note 5—Accounts Receivable: Allowances for doubtful accounts of $23,062,000 and $18,530,000 have been applied as a reduction of current accounts receivable at December 31, 1977 and 1976, respectively.

The Corporation has pledged to the lenders under the Corporation's 5% Sinking Fund Notes, long-term receivables in an amount at least equal to the unpaid principal amount of the Notes outstanding, in consideration for elimination of the major restrictive covenants of the Note Agreements. The amount of receivables so pledged at December 31, 1977 aggregated $24,193,000, including $8,405,000 currently receivable.

UNITED FOODS, INC. (DEC)

	1977	1976
Current:		
Cash, includes certificate of deposit of $400,000 at 1976.	$ 1,688,833	$ 1,465,808
Bond retirement funds held by trustee	233,016	—
Notes and accounts receivable, less allowance of $81,651 and $109,255 for possible losses (Notes 1 and 3)	8,516,105	8,134,162
Inventories (Notes 1 and 3)	22,528,394	39,280,556
Prepaid expenses	1,135,666	1,411,620
Refundable income taxes (Note 7)	—	2,305,705
Total Current Assets	$34,102,014	$52,597,851

Note 1 (in part): Accounts Receivable and Inventories—Substantially all of the accounts receivable and inventories were pledged to collateralize notes payable to banks (see notes 3 and 4).

Note 3: Notes Payable to Banks and Others—Notes payable to banks and others consisted of the following:

	February 28 or 29, 1977	1976
Revolving credit notes to banks collateralized by trade receivables and inventories:		
Borrowing limit $22,500,000 with interest at 120% of prime rate plus ¼% (currently 7.8%)	$ 7,876,956	$17,044,292
Borrowing limit $15,000,000 with interest at 118% of prime rate	—	7,862,214
	7,876,956	24,906,506
Unsecured demand notes payable to others with interest up to 1½% above prime rate	—	500,000
Totals	$ 7,876,956	$25,406,506
Information with respect to short-term borrowings follows:		
Maximum outstanding at any month end	$22,545,872	$37,012,410
Approximate average borrowings outstanding during the year	$17,136,245	$32,776,143
Approximate weighted average interest rate (includes the effect of compensating balance in 1976)	8.7%	9.4%

See Note 4 for comments relative to certain negative covenants.

WHITTAKER CORPORATION (OCT)

	1977	1976
	(In thousands)	
Current Assets		
Cash	$ 20,488	$ 11,910
Receivables (Note 4):		
Notes receivable	9,251	7,900
Trade accounts receivable	106,053	94,251
Other accounts and claims receivable	9,737	9,794
Allowance for doubtful accounts	(6,715)	(5,927)

Note 4 (in part): Notes Payable and Long-Term Debt—At October 31, 1977, collateral for notes payable and for long-term debt, consisting primarily of receivables, real property and equipment, amounted to approximately $15,000,000.

Factoring Agreements

THE UNITED PIECE DYE WORKS (DEC)

	1977	1976
Current assets:		
Cash (including certificates of deposit of $2,950,000 and $3,175,000)	$3,364,861	$3,438,406
Due from factor, less estimated doubtful accounts of $48,000 and $2,300 (Note B)	930,886	3,041,194
Accounts receivable	24,000	10,944
Federal and state tax refunds	35,494	39,912
Inventories (Note C)	281,529	689,633
Prepaid expenses and other current assets (Note C)	538,916	451,290
Total current assets	$5,175,686	$7,671,379

Note B—Accounts Receivable and Factoring Agreement:

The Company has an agreement with a factor pursuant to which accounts receivable approved by the factor as to credit are assigned without recourse to the Company. The factor holds a security interest in the Company's receivables and all cash and non-cash proceeds thereof.

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1977	1976	1975	1974
Allowance for doubtful accounts	262	254	272	246
Allowance	129	117	125	122
Allowance for losses	38	38	34	44
Reserve	30	30	32	32
Reserve for doubtful accounts	7	11	13	12
Allowance for uncollectible accounts	9	11	9	12
Other caption titles	19	37	47	33
	494	498	532	501
Receivables shown net	15	14	7	9
No reference to doubtful accounts	91	88	61	90
Total Companies	**600**	**600**	**600**	**600**

ALLOWANCES FOR DOUBTFUL ACCOUNTS

Table 2-7 summarizes the captions used by the survey companies to describe an allowance for doubtful accounts. *APB Opinion No. 12* states that such allowances should be deducted from the related receivables and appropriately disclosed.

Approximately 10% of the survey companies, in addition to deducting an allowance for uncollectible accounts from receivables, also deducted amounts for unearned discounts or finance charges.

TABLE 2-8: INVENTORY COST DETERMINATION

	1977	1976	1975	1974
Methods				
First-in first-out (fifo)	392	389	376	375
Last-in first-out (lifo)	332	331	315	303
Average cost	227	232	235	236
Standard costs	37	31	48	49
Retail method	31	26	36	35
Other	47	50	34	56
Total Disclosures	**1066**	**1059**	**1044**	**1054**
Use Of LIFO				
All inventories	10	9	11	14
50% or more of inventories	194	167	125	135
Less than 50% of inventories	93	84	86	67
Not determinable	35	71	93	87
Not used	268	269	285	297
Total Companies	**600**	**600**	**600**	**600**

INVENTORIES

Chapter 4 of *ARB No. 43* states that "the primary basis of accounting for inventories is cost . . ." and "a departure from the cost basis of pricing inventories is required when the utility of the goods is no longer as great as its cost . . ." Approximately 90% of the survey companies use lower of cost or market, an acceptable basis for pricing inventories, when circumstances require a departure from cost, to price all or a portion of their inventories.

Table 2-8 summarizes the cost methods used by the survey companies and indicates the portion of inventory cost determined by LIFO. Table 2-9 shows by industry classification the number of companies using LIFO and the percentage relationship of those companies using LIFO to the total number of companies in a particular industry classification.

Thirty-six companies disclosed that certain LIFO inventory levels were reduced with the result that net income was increased due to the matching of older historical cost with present sales dollars.

Examples of disclosure and reporting practices for inventories follow.

FIFO

AMERICAN HOME PRODUCTS CORPORATION (DEC)

	1977	1976
Assets		
Cash and cash equivalents	$ 322,856,000	$ 358,823,000
Accounts receivable, less allowances (1977—$13,106,000; 1976—$11,477,000)	352,936,000	296,971,000
Inventories at the lower of cost (generally first-in, first-out) or market	393,160,000	345,941,000
Prepaid taxes and other current assets	45,232,000	28,855,000
Total current assets	$1,114,184,000	$1,030,590,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Inventories at December 31 consist of:

	1977	1976
Finished goods	$162,842,000	$141,517,000
Work in process	79,329,000	72,407,000
Materials and supplies	150,989,000	132,017,000
	$393,160,000	$345,941,000

THE BLACK AND DECKER MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Current Assets		
Cash	$ 8,137	$ 8,376
Short-term investments, at cost, which approximated market	22,450	22,000
Trade accounts receivable, less allowances (1977—$5,536; 1976—$4,482) for doubtful accounts and discounts	166,150	140,021
Inventories—at the lower of cost (first-in, first-out) or market:		
Finished products	166,688	148,724
Work in process	35,285	34,950
Raw materials	48,383	46,119
	250,356	229,793
Prepaid expenses	9,907	9,877
Total Current Assets	$457,000	$410,067

NORTHWEST INDUSTRIES, INC. (DEC)

	1977	1976
	($000)	
Current Assets		
Cash and cash equivalent	$ 55,090	$ 98,677
Notes and accounts receivable (less allowance for possible losses of $5,500 and $5,100, respectively)	279,830	205,294
Inventories:		
Finished goods	155,843	149,225
Work in process	83,527	71,856
Materials and supplies	169,880	147,122
Prepaid expenses and other	10,422	7,046
Total current assets	$754,592	$679,220

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Inventories—Approximately 68% of total inventories at December 31, 1977, and 70% of inventories at December 31, 1976, are stated at the lower of cost (first-in, first-out or average) or market. Market represents current replacement cost by purchase or reproduction, or net realizable value. The remaining inventories are stated on the last-in, first-out (Lifo) cost method. The Lifo cost was lower than the replacement cost of these inventories by approximately $79,900,000 at December 31, 1977, and $58,100,000 at December 31, 1976. Inventory costs include material, labor and factory overhead.

PALL CORPORATION (JUL)

	1977	1976
Current Assets:		
Cash	$ 2,183,288	$ 1,568,892
Short-term investments, at cost, which approximates market	5,115,568	7,518,162
Accounts receivable, net of allowance for doubtful accounts of $397,349 and $404,530, respectively	11,605,976	8,542,332
Inventories	13,955,897	11,031,443
Prepaid expenses	533,269	237,781
Other current assets	646,293	570,300
Total Current Assets	$34,040,291	$29,468,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Inventories—Inventories are priced at the lower of cost (principally on the first-in, first-out method) or market. Inventory costs consist of material, labor and overhead.

Note 3: Inventory—The major classes of inventory are as follows:

	1977	1976
Raw materials and components	$ 7,953,581	$ 6,124,835
Work-in-process	3,143,512	2,690,808
Finished goods	2,858,804	2,215,800
Total	$13,955,897	$11,031,443

PHILIP A. HUNT CHEMICAL CORPORATION (DEC)

	1977	1976
Current Assets		
Inventories—at the lower of cost (principally first-in, first-out) or market (Note 2)	$18,636,945	$14,763,962

Note 2: Inventories

	December 31, 1977	January 1, 1977
Raw materials and supplies	$ 7,053,329	$ 6,318,503
Work in process	3,959,815	2,844,880
Finished goods	7,623,801	5,600,579
	$18,636,945	$14,763,962

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1977 No.	%*	1976 No.	%*
Foods:				
Meat products	3	33	4	44
Dairy products	—	—	—	—
Canning, etc.	7	78	7	78
Packaged and bulk	9	45	7	37
Baking	2	40	1	20
Sugar, confections, etc.	6	100	7	100
Beverages	3	50	3	50
Tobacco products	3	43	3	43
Textiles	14	47	15	52
Paper products	12	80	15	94
Printing, publishing	3	43	3	38
Chemicals	19	83	22	88
Drugs, cosmetics, etc.	8	38	8	40
Petroleum	20	80	22	81
Rubber products	7	78	8	89
Shoes—manufacturing, merchandising, etc.	3	38	3	38
Building:				
Cement	1	33	2	50
Roofing, wallboard	11	92	10	91
Heating, plumbing	5	71	5	71
Other	10	56	9	53
Steel and iron	19	90	21	91
Metal—nonferrous	10	59	10	56
Metal fabricating	9	82	7	78
Machinery, equipment and supplies	21	64	19	53
Electrical equipment, appliances	11	55	9	50
Electrical, electronic equipment	14	41	12	32
Business equipment and supplies	8	47	8	53
Containers	6	75	6	75
Autos and trucks (including parts, accessories)	12	52	12	52
Aircraft and equipment, aerospace	9	53	8	50
Railway equipment, shipbuilding, etc.	3	43	3	43
Controls, instruments, medical equipment, watches and clocks, etc.	7	47	7	44
Merchandising:				
Department stores	10	83	10	83
Mail order stores, variety stores	2	100	2	100
Grocery stores	7	50	7	47
Other	3	30	4	40
Motion pictures, broadcasting	1	17	—	—
Widely diversified, or not otherwise classified	34	40	32	41
Total	**332**	**55**	**331**	**55**

*Percent of total number of companies for each industrial classification included in the survey.

LIFO

ADDRESSOGRAPH-MULTIGRAPH CORPORATION (JUL)

	1977	1976 (Restated)
	($000)	
Current assets:		
Cash	$ 4,059	$ 5,068
Time deposits and marketable securities at cost which approximates market value	52,248	36,715
Accounts receivable, less allowance of $5,471 in 1977 and $5,513 in 1976	111,971	113,630
Inventories	145,181	130,648
Prepaid income taxes and expenses	19,270	14,903
Total current assets	$332,729	$300,964

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part):

Inventory Pricing—Inventories are stated at the lower of cost or market. Beginning in 1977, cost is determined using the last-in, first-out method for the major portion of U.S. inventories and the first-in, first-out (FIFO) method for most other inventories. Prior to 1977 the cost of substantially all inventories was determined using the FIFO method.

Accounting Changes (in part)

Inventory Pricing—The Company has changed its method of pricing most U.S. inventories from the first-in, first-out method to the last-in, first-out (LIFO) method. This change was made because management believes the LIFO method of pricing these inventories will reflect earnings more realistically by matching the most recent inventory acquisition costs against current sales. The effect of this change was to increase the reported net loss for 1977 by $2,029,000 or $.25 per share. The cumulative effect of this change could not be determined because assumptions would have to be made that would furnish results different from what they would have been had LIFO been used in prior periods.

Inventories—The components of inventories at July 31 were as follows:

(Dollars in thousands)	1977	1976
Raw materials	$ 25,079	$ 26,312
Work-in-process	38,786	36,250
Finished parts, machines and supplies	97,880	86,559
	161,745	149,121
Less allowance for obsolescence	16,564	18,473
	$145,181	$130,648

At July 31, 1977 inventories priced using the last-in, first-out (LIFO) method amounted to $78,137,000. The excess of replacement cost of these inventories over their stated LIFO value was approximately $4,000,000. Inventories used in the computation of cost of products sold totaled $145,181,000 in 1977, $130,648,000 in 1976 and $148,970,000 in 1975.

BROWN GROUP, INC. (OCT)

	1977	1976
Current Assets		
Cash	$ 3,268,164	$ 3,349,038
Short-term investments, at cost which approximates market	28,500,000	25,626,010
Receivables, less allowances for doubtful accounts of $2,642,000 in 1977 and $2,592,000 in 1976	97,235,263	81,344,125
Inventories (less adjustment to last-in, first-out cost of $28,035,000 in 1977 and $18,199,000 in 1976)—Note A		
Finished products	139,650,856	140,767,963
Work in process	8,256,697	7,835,923
Raw materials and supplies	21,238,926	23,878,641
	169,146,479	172,482,527
Prepaid expenses and other current assets	9,833,650	11,637,639
Total Current Assets	$307,983,556	$294,439,339

Note A (in part): Accounting Policies

Inventories—Substantially all inventories are valued at the lower of cost or market, determined under the last-in, first-out (LIFO) method.

CANNON MILLS COMPANY (DEC)

	1977	1976
Current Assets:		
Cash	$ 10,049,954	$ 11,672,386
Marketable securities (Note 1)	12,022,107	32,438,437
Accounts receivable (less allowances for doubtful accounts and discounts, December 29, 1977—$1,689,783; December 30, 1976—$1,401,640) (Note 2)	92,860,508	74,130,350
Inventories (Notes 1 and 3)	66,448,599	62,661,026
Prepaid expenses	476,522	439,678
Total current assets	$181,857,690	$181,341,877

Note 1 (in part): Summary of Significant Accounting Policies:

Inventories—Inventories are valued at the lower of cost determined principally on the last-in, first-out (LIFO) method, or market (see Note 3).

Note 3 (in part): Inventories—In July 1976, Cannon Mills Company changed its LIFO method of determining cost for raw materials, goods in process and finished goods from the specific goods (multiple pools) method to the dollar value (single pool) method, and a subsidiary, as a separate natural business unit, adopted the LIFO dollar value method for valuing its textile inventories, such inventories previously having been valued at average costs which approximate first-in, first-out costs. The effect on 1976 net income of these changes was a decrease of approximately $893,000 ($.10 per share). The Cannon change from a multiple pool method to a single dollar value pool method of LIFO for valuing its textile inventories is subject to review by the Internal Revenue Service (IRS) District Director, although permission has been granted to change to the dollar value method by the Corporation Tax Branch of the IRS. Management believes that the above-mentioned pooling change and the extension of the use of LIFO have the effect of minimizing the impact of price level changes on inventory valuations and achieving a better matching of current costs with current revenues.

The partial liquidation of a LIFO inventory layer, which had been added during fiscal 1975, had the effect of increasing net income of fiscal 1976 by approximately $750,000 ($.08 per share).

Inasmuch as inventory costs are determined principally by use of the last-in, first-out dollar value method (under which the raw materials, goods in process, and finished goods are included in one pool) it is impracticable to separate LIFO inventory values as among raw materials, goods in process and finished goods.

CUTLER-HAMMER, INC. (DEC)

	1977	1976
Current Assets:		
Cash	$ 3,312,571	$ 2,493,811
Marketable securities, at cost, which approximates market	110,718	7,495,000
Accounts and notes receivable (Note 6)	84,551,124	70,237,339
Inventories (Note 2)	120,027,391	108,345,883
Other current assets	4,023,772	6,342,663
Total current assets	$212,025,576	$194,914,696

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Inventories—Inventories accounted for using the last-in, first-out method (approximately 38 percent in both 1977 and 1976) are stated at cost which does not exceed market. The remaining inventories are stated at the lower of cost or market using the first-in, first-out method. Inventory costs include material, labor and manufacturing and engineering overhead. Inventory costs relating to long-term contracts are stated at the actual cost incurred to date (including manufacturing and engineering overhead) reduced by amounts identified with revenue recognized on units delivered or progress completed. Such amounts are determined by relating the progress to date and cost incurred to the estimated total cost of the contract. General and administrative costs are expensed as incurred.

Note 2: Inventories—The classification of inventories is as follows:

	As of December 31, 1977	1976
Manufactured parts and finished apparatus	$ 44,991,122	$ 32,798,122
Work in Process		
Costs relating to long-term contracts net of amounts attributed to revenue recognized to date	35,166,814	33,015,256
Other	27,599,503	29,919,906
Raw materials, purchased parts and supplies	34,940,343	40,276,557
	142,697,782	136,009,841
Less progress payments	22,670,391	27,663,958
	$120,027,391	$108,345,883

Certain of the domestic inventories are stated on the last-in, first-out basis. If the first-in, first-out method of accounting had been used by the Company, inventories would have been $23,744,000 and $19,302,000 higher than reported at December 31, 1977 and 1976, respectively.

DEL MONTE CORPORATION (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (in part)

Inventories—Inventory values are recorded at cost or market, whichever is lower. The last-in, first-out (LIFO) method is used to determine the cost of domestic canned foods, dried fruit and tinplate inventories. Under this method it is assumed that the most recent additions to inventory are sold first. In times of rising production costs and when current packs approximate current sales, this method of inventory valuation tends to present a conservative statement of earnings in that the "last-in" item is frequently more expensive, and therefore generates a lower profit, than like items inventoried in earlier periods. On the other hand, when LIFO inventory quantities are reduced, cost of products sold and earnings are favorably affected by sales of merchandise packed in prior years to the extent of the difference between the LIFO carrying value and current production costs.

The first-in, first-out (FIFO) method of determining cost is used for most other inventories of merchandise and materials and supplies.

Inventories—At year-end, inventories were as follows:

	1977	1976
	(in thousands)	
Merchandise		
Valued at LIFO	$70,726	$ 82,408
Valued at FIFO	120,631	121,155
	191,357	203,563
Materials and Supplies		
Valued at LIFO	24,818	27,597
Valued at FIFO	97,239	97,092
	122,057	124,689
	$313,414	$328,252

During 1977, and to a lesser extent in 1976, LIFO inventory quantities were reduced. This resulted in a liquidation of inventories with lower recorded values than the estimated costs of the current year's merchandise inventories. The major portion of the LIFO liquidation in 1977 resulted from the sale of the light meat tuna operations in Puerto Rico. The effect of these liquidations was to increase earnings by approximately $3,400,000 in 1977 and $600,000 in 1976. If LIFO inventories had been valued at current costs, they would have been greater by $71,100,000 for 1977 and $66,800,000 for 1976.

ETHYL CORPORATION (DEC)

	1977	1976
Current assets:		
Inventories	$126,863,000	$118,283,000

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Inventories—Inventories are stated at the lower of cost or market with cost determined on the last-in, first-out basis for substantially all domestic inventories and on either average cost or first-in, first-out for other inventories. Cost elements included in work in process and finished goods inventories are raw materials, direct labor and manufacturing overhead. Raw materials include purchase and delivery costs. Stores and supplies include purchase costs.

Note 4: Inventories:

	1977	1976
Inventories include:		
Finished goods	$ 57,413,000	$ 53,597,000
Raw materials and work in process	49,501,000	48,281,000
Stores, supplies, etc.	19,949,000	16,405,000
	$126,863,000	$118,283,000

Inventories stated on the last-in, first-out basis amounted to $79,064,000 at December 31, 1977, and $67,477,000 at December 31, 1976, which are below replacement cost by approximately $59,700,000 and $46,800,000, respectively.

In 1975, inventory reductions resulted in liquidations of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with 1975 costs, the effect of which increased income from continuing operation by approximately $6,562,000, or 35 cents per share.

In 1974, the last-in, first-out method of valuing inventories was extended to substantially all the domestic inventories which were accounted for previously on first-in, first-out or average cost. The effect of this change was to reduce net income for 1974 by $5,756,000, or 30 cents per share, from what it would have been if the former inventory valuation methods had been continued.

The change in inventory method was made to minimize the impact of price level changes on inventory valuations and to achieve a better match of current costs with current revenues for determining profits. There is no cumulative effect of this change on prior years' reported earnings.

The following disclosure is made for the purpose of complying with Internal Revenue Procedure 72-29. The application of the principles of APB No. 16 to the valuation of LIFO inventories of subsidiaries acquired in 1974 caused inventories in the accompanying consolidated balance sheets at December 31, 1977, and December 31, 1976, to exceed inventories used for income tax reporting purposes by $443,000.

HERSHEY FOODS CORPORATION (DEC)

	1977	1976
Current Assets:		
Inventories (Note 1):		
Raw materials	$28,135,679	$31,394,665
Goods in process	6,805,500	7,730,739
Finished goods	27,008,347	27,178,130
	$61,949,526	$66,303,534

Note 1 (in part): Summary of Significant Accounting Policies

Inventories—Substantially all of the Chocolate and Confectionery Division (including Y & S Candies Inc.) inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to approximately $41,296,000 in 1977 and $45,622,000 in 1976. Current cost, which approximates FIFO cost, exceeds LIFO cost by approximately $99,632,000 at December 31, 1977 and $47,959,000 at December 31, 1976. The remaining inventories are stated at the lower of cost or market under the "first-in, first-out" or "average cost" methods.

During 1977, the Company reduced inventory quantities, primarily cocoa beans. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1977 purchases, the effect of which decreased cost of goods sold by approximately $8,500,000 and increased net income by approximately $4,000,000 or $.29 per share.

JOY MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Current Assets		
Inventories (Notes 1 and 5)		
Finished goods	$92,680	$62,935
Work in process and semi-finished goods	98,001	89,886
Raw material	28,823	27,101

STATEMENT OF ACCOUNTING POLICIES

Inventories—Inventories and supplies are valued at the lower of cost or market. Cost, except for supplies, is determined principally on the last-in, first-out (LIFO) method. Supplies are valued at current standard costs which approximate actual costs. As explained in Note 1 of the Notes to Consolidated Financial Statements, effective with the beginning of fiscal 1977, JOY changed the inventory valuation method of its non-U.S. subsidiaries from current standard costs, which approximated actual costs, to the LIFO method.

Note 1: Accounting Change—In fiscal 1977, JOY changed the inventory valuation method of its non-U.S. subsidiaries from current standard costs, which approximated actual costs, to the last-in, first-out (LIFO) method. The change was made principally because management believes that the LIFO method provides a better matching of current costs with current revenues in the statement of income. Additionally, the change results in a more uniform evaluation base for comparing return on investment and earnings between non-U.S. and U.S. operating units, which have heretofore employed the LIFO method.

As a result of changing to LIFO as of the beginning of fiscal 1977, foreign currency exchange rate fluctuations occurring in fiscal 1977 did not have an appreciable effect on the inventory value of non-U.S. subsidiaries since Statement of Financial Accounting Standards No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," requires use of historical exchange rates in translating inventories valued under the LIFO method. Accordingly, use of historical rates to translate non-U.S. inventories as of the beginning of fiscal 1977 and the effect of increasing net income $3,013,000 ($.25 per share) for fiscal 1977.

The total effect of the change to LIFO, including the related effect on translation, for fiscal 1977 was to increase net income $1,700,000 ($.14 per share). There is no cumulative effect of this change since the inventory value at the beginning of fiscal 1977, as previously stated, is also the amount of the beginning inventory under the LIFO method.

Note 5: Inventories—Fiscal 1976 inventories held in support of manufacturing operations were reclassified from finished goods to work in process and semifinished goods to be consistent with a redefinition of inventory categories adopted in the fourth quarter of fiscal 1977.

Total inventories at the end of fiscal years 1977, 1976 and 1975 amounted to $219,504,000, $179,922,000 and $181,243,000, respectively.

The excess of current cost over LIFO cost amounted to $77,645,000 at September 30, 1977 and $58,409,000 at September 24, 1976.

The book basis of U.S. LIFO inventories exceeded the tax basis by $12,953,000 at September 30, 1977 and $159,000 at September 24, 1976. The difference in the book and tax basis of LIFO inventories resulted from the assignment of fair value to net assets acquired in business acquisitions which were accounted for as purchase transactions.

GULF OIL CORPORATION (DEC)

	1977	1976
	($ Millions)	
Current assets		
Cash and marketable securities (Note 2)	$1,164	$1,989
Receivables (less allowance of $44 and $48 million) (Note 3)	2,596	2,907
Inventories (Note 4)	1,369	1,242
Prepaid expenses	58	41
Total current assets	$5,187	$6,179

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Inventory Valuation—Crude oil, petroleum products, chemicals and certain merchandise inventories generally are valued at annual average cost applied on the "last-in, first-out" (LIFO) basis, which in the aggregate is lower than market value. Inventories of the Canadian subsidiary and of certain industrial and specialty chemicals (Kewanee) generally are valued at the lower of cost applied on a "first-in, first-out" (FIFO) basis or market value. Materials and supplies are valued at average cost or less depending on the condition of the items.

Note 4—Inventories

	Millions of Dollars December 31 1977	1976
LIFO		
Petroleum		
United States	$ 279	$ 264
Europe	113	141
Other Foreign	74	85
Chemicals		
United States	74	67
Europe	24	30
Other Foreign	5	5
Merchandise	13	12
	582	604
FIFO		
Petroleum (Canada)	406	324
Chemicals	98	12
Merchandise	20	18
	524	354
Average Cost		
Materials and supplies	239	227
Other	24	57
	263	284
	$1,369	$1,242
United States	$ 571	$ 486
Canada	466	384
Europe	162	197
Other Foreign	170	175
	$1,369	$1,242

Quantity decreases in certain LIFO pools increased earnings by $54 and $14 million, after considering taxes, in 1977 and 1976, respectively. LIFO inventories were $1.19 and $1.14 billion less than current cost at December 31, 1977 and 1976 respectively.

Materials and supplies, and certain taxes on products carried in inventory, are not included in the computation of cost of sales. The inventory amounts included in purchase costs used in the computation of cost of sales were $1.13 and $1.01 billion and $873 million at December 31, 1977, 1976 and 1975, respectively.

KEYSTONE CONSOLIDATED INDUSTRIES, INC. (JUN)

	1977 ($000)	1976
Current assets:		
Cash	$ 4,150	$ 7,512
Notes and accounts receivable, net of allowances	37,445	41,124
Refundable income taxes	5,462	
Inventories, at the lower of principally last-in, first-out cost or market (Note C)	81,924	86,333
Prepaid expenses	1,775	2,219
Total current assets	$130,756	$137,188

Note C: Change in Accounting—

Inventories—In 1977 the Company adopted the last-in, first-out (LIFO) method of valuing domestic inventories from principally the average cost method used in prior years. Management believes the LIFO method minimizes inflation-induced inventory profits and achieves a better match of current costs with current revenues, and conforms to what is generally industry practice.

There is no cumulative effect on prior years because the June 30, 1976 inventory value is the beginning inventory value under the LIFO method. The change to LIFO had the effect of increasing the net loss for 1977 by $981,000 ($.52 per share). Inventories would have been $1,962,000 higher at June 30, 1977 if the average cost method had been used for domestic inventory valuation.

Inventories at June 30, 1977 and 1976 consisted of the following:

	1977 (In Thousands)	1976
Raw materials	$22,749	$27,875
Semifinished products	24,710	23,766
Finished products	24,755	26,350
Supplies	9,710	8,342
	$81,924	$86,333

MOBIL CORPORATION (DEC)

	1977 ($000)	1976
Current Assets		
Cash	$ 355,027	$ 338,311
Marketable securities, at amortized cost (approximating market)	1,109,879	941,506
Accounts and notes receivable (less estimated doubtful accounts)	3,919,092	3,496,285
Inventories		
Crude oil and petroleum products	2,291,665	2,020,918
Chemical products	163,862	141,359
Retail merchandising	959,832	858,081
Paperboard packaging	135,358	130,659
Other, including materials and supplies	224,290	229,863
Total Current Assets	$9,159,005	$8,156,982

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Major Accounting Policies (in part)

Inventories—Substantially all domestic inventories are valued at cost under the last-in, first-out (LIFO) method. Other inventories are valued generally at average cost. At the balance sheet date, inventories are valued at the lower of cost or market.

In certain foreign countries, Mobil is required to maintain crude oil and product inventories at levels, specified by government authorities, considered to be greater than normal working requirements. This portion of Mobil's foreign inventories is included on the balance sheet under "Investments and Long-Term Receivables" and is not revalued when changes occur in average cost. When compulsory storage volumes increase, the added quantities are valued at the then-current average cost.

Inventories—Cost of inventories at December 31, 1977, and December 31, 1976, was lower than market value at those dates. Inventories valued at cost under the LIFO method represented about 42% of Mobil's worldwide inventories at December 31, 1977 and 1976. For those inventories valued under the LIFO method, the excess of the value of the inventory based upon replacement cost was $805 million and $720 million over the stated value of the inventory on the LIFO basis at December 31, 1977, and 1976, respectively.

In accordance with Accounting Principles Board (A.P.B.) Opinion No. 16, inventories include the excess of the fair value of Marcor, Montgomery Ward, and Container Corporation LIFO inventories at the dates of Mobil's acquisitions over the tax basis for such inventories. As a result, LIFO inventories at December 31, 1977, exceeded their tax basis by $12 million and taxable income for the year ended December 31, 1977, was approximately $2 million greater than for financial accounting purposes.

At December 31, 1977, approximately 16 million barrels of crude oil and product inventories on hand because of foreign compulsory storage requirements were included in "Investments and Long-Term Receivables" at a value of $89 million. At December 31, 1976, 17 million barrels with a value of $87 million were so classified.

REXNORD INC. (DEC)

	1977	1976
	($000)	
Current Assets		
Inventories	$182,418	$165,868

OTHER FINANCIAL DATA ($000)

Inventories

	October, 31	
	1977	1976
Raw materials and supplies	$ 32,269	$ 29,962
Work in process	73,618	60,409
Finished goods	76,531	75,497
	$182,418	$165,868

Inventories would increase by $12,965 in 1977 and $4,256 in 1976 if the first-in, first-out method were used to value all inventories. The increase for 1977 includes an amount applicable to Fairfield Manufacturing Company, Inc., acquired November 9, 1976; at that date such difference amounted to $6,496.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Inventories—Inventories comprise material, labor and indirect manufacturing costs and are valued at the lower of cost (determined on a first-in, first-out basis) or realizable value, except for approximately 10% in 1977 and 8% in 1976 valued on a last-in, first-out basis.

TEMTEX INDUSTRIES, INC. (AUG)

	1977	1976
Current Assets:		
Cash (including restricted certificate of deposit of $1,000) (Note 4)	$ 694,843	$ 880,053
Accounts and notes receivable (Notes 1, 2, and 4):		
Trade, net of allowance for doubtful accounts of $108,054 in 1977 and $108,073 in 1976	3,267,229	2,247,129
United States Government agencies	958,110	1,022,761
Other	82,488	53,110
Inventories (Notes 1, 3, and 4)	4,432,610	4,341,277
Prepaid expenses	167,865	79,390
Total current assets	$9,603,145	$8,623,720

Note 1 (in part): Accounting Policies

Inventories—Raw materials and supplies are stated at the lower of cost or replacement market. Work in process and finished goods are stated at the lower of cost or net realizable value, which is less than replacement market. See Note 3.

Note 3: Inventories—Inventories are summarized below:

	First-in First-out	Last-in First-out ("LIFO")	Average Cost	Total
August 31, 1977:				
Finished goods	$ 376,524	$ 638,144	$ 58,077	$1,072,745
Work in process	711,819	398,782	752,292	1,862,893
Raw materials and supplies	834,698	599,678	62,596	1,496,972
Total	$1,923,041	$1,636,604	$ 872,965	$4,432,610
August 31, 1976:				
Finished goods	$ 299,888	$ 615,004	$ 401,844	$1,316,736
Work in process	207,430	204,770	1,358,371	1,770,571
Raw materials and supplies	613,850	582,265	57,855	1,253,970
Total	$1,121,168	$1,402,039	$1,818,070	$4,341,277

The work in process inventories valued at average cost include $696,656 in 1977 and $1,305,608 in 1976 related to United States Government contracts on which revenues and costs are recognized on the unit-of delivery method. Such inventory includes approximately $103,000 in 1977 and $172,000 in 1976 relating to unamortized plant mobilization, start-up, and related administrative costs during the period prior to production which are being amortized as a part of the cost of the units delivered.

During 1977 and 1976, the Company reduced quantities of certain inventories. Such reductions resulted in liquidations of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the costs of 1977 and 1976 purchases, the effect of which was to increase income before taxes by $141,000 and $180,000, respectively. However, those portions of the 1977, 1976, and 1975 inventory values determined by the LIFO method were less by approximately $854,000, $876,000, and $860,000, respectively, than such values based upon current costs.

Average Cost

BRISTOL-MYERS COMPANY (DEC)

	1977	1976
Current Assets:		
Cash	$ 16,490,000	$ 32,835,000
Time deposits	84,431,000	54,636,000
Marketable securities (at cost which approximates market)	174,719,000	177,790,000
Accounts receivable (less allowance for doubtful accounts: 1977—$19,418,000; 1976—$16,924,000)	343,024,000	291,737,000
Other receivables	39,432,000	34,891,000
Inventories (Note 4)	358,363,000	325,950,000
Prepaid expenses	27,689,000	21,711,000
Prepaid taxes	34,112,000	31,149,000
Total Current Assets	$1,078,260,000	$970,699,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Inventory Valuation—Inventories are generally stated at average cost, not in excess of market.

Note 4: Inventories

	December 31, 1977	December 31, 1976
Finished goods	$168,632,000	$150,690,000
Work in process	65,214,000	56,606,000
Raw materials	74,826,000	69,601,000
Packaging materials	49,691,000	49,053,000
	$358,363,000	$325,950,000

CLAROSTAT MFG. CO., INC. (DEC)

	1977	1976
Current assets:		
Cash	$ 419,160	$ 368,312
Trade accounts receivable, less allowance for doubtful accounts of $25,000	1,664,772	1,452,815
Inventories, at lower of average cost or market (Note 2)	3,804,663	3,840,742
Prepaid expenses and sundry receivables	188,890	265,060
Total current assets	$6,077,485	$5,926,929

Note 2: Inventories—Inventories are summarized as follows:

	December 31, 1977	January 1, 1977
Raw Materials	$1,463,977	$1,509,338
Work in process	1,150,550	925,937
Finished goods	1,190,136	1,405,467
	$3,804,663	$3,840,742

GENERAL REFRACTORIES COMPANY (DEC)

	1977	1976
	(dollars in thousands)	
Current Assets		
Cash, including certificates of deposit of $730,000 (1977) and $1,794,000 (1976)	$ 6,741	$ 7,362
Notes and accounts receivable trade, less allowance $950,000 (1977) and $664,000 (1976)	63,491	56,901
Other receivables	4,385	5,622
Inventories	84,852	79,343
Prepaid and other	3,034	2,554
Total current assets	$162,503	$151,782

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

	1977	1976
	(dollars in thousands)	
Finished products	$30,285	$23,715
Work in process	5,701	4,963
Raw materials........................	37,570	39,740
Supplies and repair parts	11,296	10,925
	$84,852	$79,343

Inventories are stated at the lower of cost or market. The Company uses the last-in, first-out (LIFO) method of determining costs for approximately 25% of the inventories, and the average cost method for substantially all other inventories.

If the average cost method utilizing current costs had been used for inventory valuation instead of the LIFO method, inventories would have been higher by $12,415,000 (1977) and $9,296,000 (1976). During 1977, certain inventory quantities were reduced, resulting in a liquidation of LIFO inventory carried at lower costs prevailing in prior years compared with 1977 costs, the effect of which reduced the net loss by approximately $735,000 or $.19 per share.

INTERNATIONAL HARVESTER COMPANY (OCT)

	1977	1976
	($000)	
Current Assets		
Inventories (Note 10)...........	$1,729,477	$1,584,387

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Inventory Valuation—Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which, with respect to labor and overhead, is the cost considered attainable under normal operating conditions.

Note 10: Inventories and Cost of Sales—Inventories at October 31 are summarized as follows:

	1977	1976
	(Thousands of dollars)	
Finished products	$ 887,209	$ 776,805
Work in process	321,739	306,048
Raw materials and supplies.........	520,529	501,534
Total	$1,729,477	$1,584,387

The inventory used in computing cost of sales was less than the inventory in the statements of financial condition as the latter includes items such as trade-ins, repossessions and freight on shipments to sales outlets. Inventories used in the computation for the years ended October 31, 1977 and 1976 were as follows, in thousands of dollars:

October 31:	
1977	$1,662,827
1976	1,531,060
1975	1,589,669

LIGGETT GROUP INC. (DEC)

	1977	1976
	($000)	
Current Assets		
Inventories (Page 19)	$339,332	$359,723

FINANCIAL REVIEW (PAGE 19)

Inventories—Inventories at December 31 were:

	1977	1976
	(Dollars in thousands)	
Leaf tobacco..........................	$199,645	$227,901
Bulk whiskeys........................	33,168	29,055
Finished goods and in process......	63,407	60,751
Raw materials and supplies.........	43,112	42,016
	$339,332	$359,723

The decrease in inventories is primarily due to the reduction of leaf tobacco inventory quantities. Bulk whiskeys increased due to greater requirements for increased sales of WILD TURKEY.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories—Inventories are valued at the lower of cost (principally average) or market. Imported inventories, stored in bond and in transit, do not include taxes to which they are subject upon withdrawal from bond. Upon payment, such taxes increase the cost of inventories. Although substantial portions of inventories of leaf tobacco, bulk whiskeys, and wines will not be used or sold within one year because of the time required for aging, they are included in current assets which is common practice in the respective industries.

SIMPLICITY PATTERN CO. INC. (JAN)

	1978	1977
Current Assets		
Cash (including time deposits of $2,142,552 and $4,951,159, respectively)	$ 4,570,300	$ 6,893,285
Short term investments, at cost (approximate market value)	55,938,115	51,067,758
Accounts receivable, less allowance for doubtful accounts—$3,154,481 and $3,372,533, respectively	20,252,729	20,725,275
Inventories	14,166,367	13,037,047
Prepaid expenses	1,395,693	1,368,781
	$96,323,204	$93,092,146

NOTES TO THE FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Inventories—Inventories generally are stated at average cost, not in excess of market.

Note 3: Inventories are summarized as follows:

	January 31, 1978	1977
Raw materials	$ 3,741,729	$ 3,939,526
Work in process	3,414,178	2,744,146
Finished goods	5,833,207	5,054,274
Materials and supplies	1,177,253	1,299,101
	$14,166,367	$13,037,047

WARNER COMMUNCIATIONS INC. (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$ 27,051	$ 19,274
Marketable equity securities, at cost (which approximates market)	—	24,208
Accounts and notes receivable, less allowances for doubtful receivables and magazine and record returns (1977—$143,843,000; 1976—$116,332,000)	259,969	167,826
Inventories	149,331	115,519
Other current assets	44,139	42,620
Total current assets	$480,490	$369,447

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting for Motion Pictures—Current assets include (1) the cost allocated to theatrical markets of films released, less amortization, and films completed not released, and (2) the cost of television films in production pursuant to a contract of sale. Costs allocated to secondary markets, films in production and all other costs related to film production are classified as non-current assets.

Production costs applicable to theatrical and television release of each film production are amortized based upon management's estimate of the total revenue that will be realized. Such estimates are revised periodically and losses, if any, are provided for in full.

Film rights for television exhibition include (1) a portion of the cost of released feature productions which is allocated to television exhibition based generally upon the income expected to be derived therefrom and (2) the cost of exclusive licenses to distribute certain feature motion pictures for television exhibition.

The Company recognizes income from television licensing agreements when each film is available for telecasting by the licensee, provided certain conditions of sale have been met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Inventories—Inventories consist of the following:

	As of December 31 (Thousands)			
	1977		1976	
	Current	Non-Current	Current	Non-Current
Film productions for theatrical exhibition:				
Released, less amortization	$ 21,800	—	$ 23,363	—
Completed and not released	18,349	—	27,723	—
In process	—	$ 9,907	—	$12,924
Film rights for television exhibition, less amortization	14,108	30,708	11,724	13,227
Records, tapes, magazines and books	39,547	—	33,885	—
Toys and electronic games	55,527	—	18,824	—
	$149,331	$40,615	$115,519	$26,151

Inventories of motion picture films are stated at the lower of cost less amortization, or estimated realizable value. Records, tapes, magazines, books, toys and electronic games are stated at the lower of average cost or estimated realizable value.

In accordance with industry practice, records, tapes, magazines and books are usually sold to customers with a right to return unsold items. Revenues from these and other sales represent gross sales less a provision for future returns. It is WCI's general policy to value returned goods included in inventory at estimated realizable value but not in excess of cost.

XEROX CORPORATION (DEC)

	1977	1976
	($000)	
Current Assets		
Cash	$ 73,327	$ 70,934
Bank time deposits, interest bearing	338,397	241,748
Marketable securities, at cost which approximates market	280,239	359,671
Trade receivables (less allowance for doubtful receivables: 1977—$46,281; 1976—$39,215)	731,043	617,193
Accrued rentals	191,615	177,209
Inventories, at the lower of average cost or market	525,274	473,080
Prepaid expenses and other current assets	128,668	118,954
Total current assets	$2,268,563	$2,058,789

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories—Inventories consist of:

(Dollars in thousands)	1977	1976
Finished products	$389,485	$354,898
Work in process	51,106	50,888
Raw materials and supplies	84,683	67,294
Total inventories	$525,274	$473,080

Inventories used in the computation of cost of sales were $525,274,000, $473,080,000 and $465,689,000 at December 31, 1977, 1976 and 1975, respectively.

Standard Cost

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION (DEC)

	1977	1976
	($000)	
Current assets:		
Cash	$ 10,876	$ 14,606
Temporary cash investments at cost, which approximates market	32,165	12,292
Accounts and notes receivable, less allowance for doubtful accounts of $2,330,000 and $2,766,000	72,670	82,230
Inventories	78,003	96,531
Accumulated income tax prepayments	8,101	6,906
Prepaid expenses and other current assets	5,877	3,669
Total current assets	$207,692	$216,234

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies: Accounting policies of the Company and its subsidiaries conform with generally accepted accounting principles and reflect practices appropriate to the businesses in which they operate. The significant policies are summarized below.

Inventories—Inventories are stated at the lower of cost or market. The major portion of the Company's inventories is based on standard costs, adjusted as required to reflect approximate actual costs; other inventories are based on average costs. Quantities in excess of estimated requirements are not valued. Progress payments received on contracts as to which title to the related inventories vest in the United States government are deducted from the applicable inventories.

Inventories consist of:

(in thousands)	January 1, 1978	January 2, 1977
Raw materials and parts	$18,473	$21,857
Work-in-process, less progress payments of $6,331 and $5,130	35,010	46,773
Finished goods	24,520	27,901
	$78,003	$96,531

JANTZEN INC. (AUG)

	1977	1976
Current Assets:		
Inventories—Note 2	$24,936,186	$32,851,839

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Inventories—Inventories of finished goods and work in process are stated at the lower of standard cost (approximates actual cost on the first-in, first-out basis) or market. Inventories of raw materials are stated at the lower of average cost or market.

Note 2: Inventories:

	1977	1976
Finished goods	$ 9,574,875	$13,393,913
Work in process	4,140,440	4,927,443
Raw materials	11,220,871	14,530,483
	$24,936,186	$32,851,839

PITNEY-BOWES, INC. (DEC)

	1977	1976
Current assets		
Cash	$ 8,072,000	$ 5,079,000
Marketable securities, at cost which approximates market	47,110,000	39,131,000
Accounts receivable, less allowances: 1977, $5,419,000; 1976, $5,085,000	113,302,000	102,213,000
Inventories	128,560,000	115,558,000
Receivables from wholly owned finance subsidiaries	2,526,000	—
Other current assets and prepayments	13,619,000	9,559,000
Total current assets	$313,189,000	$271,540,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies

Inventory valuation—Inventories are valued at the lower of cost or market with provision made for obsolete and slow-moving items. Raw materials, work-in-process, and service parts and supplies are valued at standard costs, which approximate actual costs on a first-in, first-out basis. Finished equipment is valued at standard costs, which approximate actual costs. Standard costs are reviewed and adjusted annually.

Note 3: Inventories

December 31	1977	1976
Raw materials and work-in-process	$ 59,890,000	$ 53,758,000
Supplies and service parts	26,534,000	23,459,000
Finished products	42,136,000	38,341,000
Total inventories	$128,560,000	$115,558,000

Retail Method

K MART CORPORATION (JAN)

	1978	1977
Current Assets:		
Merchandise inventories	$2,148,645,000	$1,738,262,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Inventory—Merchandise inventories are valued at the lower of cost or market, using the retail method, on the last-in, first-out basis for certain domestic inventories and the first-in, first-out basis for the remainder.

Note B: Merchandise Inventories—A summary of inventories by method of pricing and the excess of current cost over stated LIFO value follows:

	January 25, 1978	January 26, 1977
Last-in, first-out (cost not in excess of market)	$1,497,685,000	$1,168,588,000
Lower of cost (first-in, first-out) or market	650,960,000	569,674,000
	$2,148,645,000	$1,738,262,000
Excess of current cost over stated LIFO value	$ 72,797,000	$ 53,100,000

SPENCER COMPANIES, INC. (MAY)

	1977	1976
Current assets:		
Inventories (Note 5)	$12,164,326	$14,488,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Inventories—Merchandise inventories are stated at the lower of cost or market, determined by the retail method. Manufacturing inventories are stated at the lower of cost (FIFO basis) or market. Manufacturing inventory costs are stated at the actual production cost, including factory overhead.

Note 5: Inventories

	1977	1976
Merchandise	$ 6,234,726	$ 6,499,359
Manufacturing inventories:		
Finished goods	2,397,261	3,558,543
Raw materials	1,977,105	3,191,652
Goods in process	1,482,488	1,167,981
Supplies	72,746	71,435
	$12,164,326	$14,488,970

Inventories used in computing cost of sales were $9,990,454 at the beginning of 1976, $14,488,970 at May 29, 1976 and $12,164,326 at May 28, 1977.

Production Cost

THE AMERICAN DISTILLING COMPANY (SEP)

	1977	1976
Current assets:		
Cash	$ 3,660,000	$ 4,966,000
Commercial paper	—	1,500,000
Accounts receivable—trade (less allowance for doubtful accounts of $351,000 for 1977 and $355,000 for 1976)	17,070,000	16,336,000
Federal income tax receivable (Note 6)	498,000	—
Prepaid expenses and other current assets	537,000	825,000
Inventory, at lower of cost or market:		
Bulk whiskies and spirits	25,474,000	24,768,000
Case goods	3,116,000	2,726,000
Work in process, raw materials and supplies	2,051,000	1,651,000
	30,641,000	29,145,000
Total current assets	$52,406,000	$52,772,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Inventories—Bulk whiskies and spirits produced by the Company are stated at production cost plus storage and those purchased from others are stated at acquisition cost plus storage. Bulk whiskies and spirits are stored under government bond with cost thereof determined by specific identification and, following generally recognized industry practices, are included in current assets regardless of the duration of the aging process.

Case goods produced by the Company and those purchased from others are stated at lower of first-in, first-out cost or market.

Work in process is stated at production cost, and raw materials and supplies are stated at the lower of average cost or market.

Federal taxes on whiskies and spirits in bond constitute a lien on these goods that is not payable until the goods are bottled and sold; therefore, no liability for taxes is recorded until shipment to customers. The Company has included the federal and state taxes applicable to goods sold ($71,705,000 in 1977 and $78,164,000 in 1976) in cost of sales.

BEECH AIRCRAFT CORPORATION (SEP)

	1977	1976
Current Assets		
Cash	$ 2,883,889	$ 4,783,990
Marketable securities—at cost (approximate market)	6,433,248	239,618
Installment notes and accounts receivable:		
Installment receivables, less allowances for losses and unearned finance charges	40,034,408	29,610,041
United States Government and prime contractors	6,503,490	6,216,018
Other, less allowances of $329,848 in 1977 and $283,789 in 1976	7,541,834	6,966,163
	54,079,732	42,792,222
Inventories	124,940,146	106,044,518
Prepaid expenses	715,556	695,027
Total Current Assets	$189,052,571	$154,555,375

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Part A (in part): Accounting Policies

Inventories—Company operated and demonstrator aircraft are carried at estimated production cost and are reduced by allowances for usage, selling costs, and anticipated reconditioning costs upon disposition.

Work-in-process including finished aircraft are stated at total production cost incurred (including overhead and initial tooling) reduced by the estimated costs of units delivered.

Materials and parts and work-in-process inventories are carried at the lower of cost (last-in, first-out) or market.

In accordance with industry practice, inventories include costs relating to programs and contracts having production cycles longer than one year and, accordingly, a portion thereof will not be realized within one year.

Note C: Inventories—Following is a summary of inventories at the balance sheet dates:

	1977	1976
Company-operated and demonstrator aircraft	$ 13,199,929	$ 14,443,820
Work-in-process	95,064,942	77,609,417
Less progress payments	(17,907,209)	(21,379,556)
Materials and parts	45,090,264	39,898,235
	135,447,926	110,652,916
Less adjustments to LIFO costs	(10,507,780)	(4,608,398)
	$124,940,146	$106,044,518

LOCKHEED CORPORATION (DEC)

	1977 ($ Millions)	1976
Current assets:		
Cash and equivalents (Notes 3 and 8)	$132.8	$140.8
Restricted cash (Note 3)	86.4	36.7
Accounts receivable (Note 4)	235.0	195.8
Inventories (including TriStar inventories of $109.4 in 1977 and $166.0 in 1976) (Notes 2, 5, and 8)	341.7	405.4
Deferred tax charges		15.1
Prepaid expenses	53.0	45.0
Total current assets	$848.9	$838.8

Note 1 (in part): Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of all wholly owned subsidiaries except Lockheed Finance Corporation (accounted for on the equity basis), the accounts of which are not significant. The consolidated financial statements are based on the following accounting policies and practices:

a. Inventories:

—Stated at the lower of cost or estimated net realizable value;

—For materials and spare parts, cost represents average cost;

—Work in process includes direct costs (including commissions on foreign government contracts) and allocable operating overhead;

—General and administrative expenses are allocated to contracts or programs and:

—Included in work in process for U.S. and noncommercial foreign government fixed price contracts;

—Excluded from work in process and charged to earnings as incurred for commercial contracts and programs;

—Sales, both military and commercial, are principally under long-term contracts or programs. Accordingly, the Company's operating cycles are more than one year, and inventories related to such contracts and programs are included in current assets.

Note 2 (in part): L-1011 TriStar Program

Inventories and Orders—Through December 25, 1977, a total of 149 TriStar commercial jet transports had been delivered. During 1977 the Company received firm orders for five aircraft, including the conversion of second-buy orders for three aircraft. At December 25, 1977, there remained 18 unfilled firm orders and 43 second-buy orders. Second-buy orders generally have minimal down payments that are retained by the Company if the orders are canceled.

TriStar inventories were as follows (in millions of dollars):

	December 25, 1977	December 26, 1976
Completed and substantially complete aircraft	$ —	$ 55
Work in process	149	168
Materials and spare parts	55	57
Advances to subcontractors	28	26
Gross inventories	232	306
Less customer advances	123	140
Net inventories	$109	$166

Customers' advances at December 25, 1977, include $13.1 million of interest-bearing prepayments from an airline customer. These prepayments will be liquidated against scheduled deliveries. In addition, customer advances aggregating $14.7 million at December 25, 1977, are secured by specific equipment included in inventories.

Note 5: Inventories—Inventories consist of the following (in millions of dollars):

	December 25, 1977	December 26, 1976
Programs other than TriStar:		
Work in process, principally on long-term contracts	$453	$624
Materials and spare parts	94	87
Advances to subcontractors	237	184
Gross inventories	784	895
Less customer advances and progress payments	551	656
Net inventories—programs other than TriStar	233	239
TriStar net inventories (Note 2)	109	166
Net inventories	$342	$405

The cost of delivered items in excess of the estimated average cost of all units expected to be produced, claims, initial tooling, and other start-up costs included in work in process were not significant in either year and will be recovered in the selling prices under the applicable contracts.

A substantial portion of the non-TriStar inventories is applicable to U.S. Government contracts. Under the contractual arrangements by which the Company receives progress payments from the U.S. Government, title to inventories identified with related contracts is vested in the Government.

ROCKWELL INTERNATIONAL CORPORATION (SEP)

	1977	1976
	(In millions)	
Current Assets:		
Inventories	$863.2	$894.0

NOTES TO FINANCIAL STATEMENTS

Note 4: Inventories—Inventories at September 30 are summarized as follows (in millions):

	1977	1976
Finished goods	$ 274.1	$ 260.9
Inventoried costs related to United States Government contracts and other long-term contracts and programs	145.4	238.0
Work in process	383.1	376.2
Raw materials, parts and supplies	255.0	253.1
Total	1,057.6	1,128.2
Less allowance to adjust the carrying value of certain inventories (1977, $452.5 million; 1976, $422.2 million) to a last-in, first-out (LIFO) basis	135.6	127.9
Remainder	922.0	1,000.3
Less progress payments on long-term contracts and programs	58.8	106.3
Inventories	$ 863.2	$ 894.0

Inventories are stated at the lower of cost (using LIFO, FIFO, or average methods) or market (determined on the basis of estimated realizable values), less progress payments received. Title to all inventories related to those United States Government contracts that provide for progress payments vests in the United States Government.

Inventoried costs related to United States Government fixed-price-type contracts and other long-term contracts and programs of the aerospace and electronics businesses are stated generally at the total of the direct costs of manufacturing, engineering and tooling, and overhead costs applicable thereto, less costs allocated to delivered items and reductions, where applicable, to estimated realizable values. Except for the Collins and business aircraft divisions of these businesses, general and administrative expenses (including bidding expenses and independent research and development costs) allowable in accordance with United States Government procedure practices are included in overhead costs.

In accordance with industry practice, inventoried costs related to long-term contracts and programs of the aerospace and electronics business include amounts which are not expected to be realized within one year.

At September 30, 1977 and 1976 inventoried costs did not include any significant amounts of unamortized tooling, learning curve and other deferred costs, or claims or other similar items subject to uncertainty concerning their determination.

General and administrative expenses related to United States Government contracts incurred and charged to inventoried costs were $180.9 million and $158.1 million in 1977 and 1976, respectively. General and administrative expenses remaining in inventoried costs are estimated at $11.5 million and $16.8 million at September 30, 1977 and 1976, respectively. Such estimates assume that general and administrative expenses for each contract have been relieved from inventories on a basis proportional to total costs charged to inventories.

THE SINGER COMPANY (DEC)

	1977	1976
	(Amounts in Millions)	
Current Assets:		
Cash and cash equivalents (note 2)	$ 96.9	$ 108.6
Accounts receivable:		
Trade:		
Instalment (note 3)	172.2	156.2
Other	179.0	188.4
Miscellaneous	38.4	60.4
	389.6	405.0
Less:		
Unearned carrying charges	40.0	31.6
Allowances for doubtful accounts—Schedule XII	16.6	17.7
	333.0	355.7
Inventories (note 4)	475.8	423.5
Prepaid expenses	10.4	10.9
Current assets of discontinued operations (note 9)	62.7	167.8
Total current assets	$978.8	$1,066.5

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Inventories—Inventories are stated at the lower of cost (generally on a first-in, first-out basis) or market. Cost, other than for long-term contracts, includes all direct and indirect production costs. Inventories pertaining principally to long-term contracts are stated at their actual production cost, including factory overhead and general and administrative expenses, net of progress payments received.

Note 4: Inventories—Inventories at December 31, 1977 and 1976, are summarized as follows:

	1977	1976
	(Amounts in Millions)	
Finished goods	$262.7	$231.4
Inventoried costs relating to long-term contracts and programs	45.7	31.3
Work in process	124.1	121.8
Raw materials and supplies	63.3	56.6
	495.8	441.1
Less progress payments received	20.0	17.6
	$475.8	$423.5

Inventories relating to long-term contracts and programs include recoverable general and administrative costs. The amounts for 1977 and 1976 are as follows:

	1977	1976
	(Amounts in Millions)	
Included in inventory at beginning of year	$ 4.5	$ 5.5
Additions	44.6	44.8
Charged to cost of sales	(43.6)	(45.8)
Included in inventory at end of year	$ 5.5	$ 4.5

Deferred preproduction and related costs pertaining to long-term contracts are not material.

The opening and closing inventories, net of progress payments received, used in determining cost of sales from continuing operations are as follows:

December 31,	(Amounts in Millions)
1977	$475.8
1976	423.5
1975	423.6
1974	498.8
1973	441.2
1972	398.7

Market

ARCHER DANIELS MIDLAND COMPANY (JUN)

	1977	1976
Current Assets		
Inventories—Note 5	$281,567,418	$270,347,544

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Inventories—Inventories of most grains, flour and meal are valued on the basis of market prices in the applicable market location at June 30, including appropriate adjustments of open purchase and sale contracts. Advances received on sales of grain are netted against the applicable inventory accounts. The Company generally follows a policy of hedging its transactions in these and certain other commodities to minimize risk due to market fluctuations.

Note 5—Inventories

	1977	1976
Grains, flour and meal	$214,926,368	$187,142,197
Soybean oil and other LIFO inventories	24,097,813	49,300,420
Other raw materials, sundry products and supplies	42,543,237	33,904,927
Total	$281,567,418	$270,347,544

Soybean oil and other LIFO inventories have a FIFO cost in excess of the inventory basis used in the financial statements of $28,604,000 at June 30, 1977 and $26,573,000 at June 30, 1976. In addition, accounts payable include $3,833,000 ($8,961,000 for 1976) for the anticipated cost in excess of LIFO basis of replacing quantities of certain LIFO inventories by December 31, 1977, the end of the reporting year for income tax purposes.

During fiscal 1977, soybean oil and other LIFO inventory quantities were reduced. This resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1977 purchases. The impact of this liquidation was to increase net earnings by approximately $4,850,000.

THE PILLSBURY COMPANY (MAY)

	1977	1976
Current assets:		
Cash (Note 8)	$ 10,852,000	$ 15,131,000
Marketable securities, at cost (approximates market)	68,694,000	87,562,000
Receivables, less allowance for doubtful accounts of $6,108,000 and $4,446,000, respectively	187,661,000	146,057,000
Inventories (Notes 1 and 4)	169,192,000	157,082,000
Advances on purchases	156,084,000	68,933,000
Prepaid expenses	12,744,000	12,389,000
Assets of discontinued wine business (Note 2)	—	9,306,000
Total current assets	605,227,000	496,460,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies:

Inventories—Grain is stated on the basis of market prices at May 31, including adjustment to market of open contracts for purchases and sales. The Company follows a policy of hedging grain and certain other inventories to the extent considered practicable to minimize risk due to market price fluctuations. Other inventories are stated at cost (first-in, first-out) or market, whichever is lower.

Note 4: Inventories—Inventories, which include material, direct labor and manufacturing overhead, were as follows:

	May 31 1977	1976
Grain	$ 57,482,000	$ 52,469,000
Finished products	64,532,000	66,738,000
Raw materials, containers and supplies	47,178,000	37,875,000
	$169,192,000	$157,082,000

The amounts of opening and closing inventories used in determining cost of products sold were the total amounts above and $130,214,000 at May 31, 1975.

TABLE 2-10: PREPAID ITEMS

	Number of Companies 1977	1976	1975	1974
Nature				
Prepaid expenses	295	306	314	297
Prepaid expenses and other current assets	79	66	47	61
Prepaid expenses and taxes paid in advance	35	32	33	30
Taxes paid in advance	18	10	18	22
Supplies and prepaid expenses	10	11	12	13
Other captions indicating prepaid expenses	39	42	38	74

PREPAID EXPENSES

Table 2-10 summarizes the nature of prepaid expense items appearing in the current asset section of the survey companies' balance sheets. Table 2-10 shows that the caption *prepaid expenses* is frequently shown, without further explanation, as a current asset.

ALUMINUM COMPANY OF AMERICA (DEC)

	1977	1976
	(Millions)	
Current assets:		
Cash	$ 23.1	$ 28.3
Short-term investments, at cost approximating market	65.6	7.3
Receivables from customers, less allowances: 1977, $2.8; 1976, $2.9	450.6	401.6
Other receivables	41.7	33.4
Inventories (B)	640.0	604.3
Prepaid insurance and taxes	6.4	5.8
Total current assets	$1,227.4	$1,080.7

FRANKLIN MINT CORPORATION (DEC)

	1977	1976
Current Assets		
Cash	$ 7,769,000	$ 4,009,000
Accounts receivable, less allowance for doubtful accounts of $7,946,000 in 1977; and $6,988,000 in 1976	60,282,000	58,109,000
Inventories		
Precious metals	16,084,000	19,874,000
Other inventory, at lower of first-in, first-out cost or market	13,489,000	13,881,000
	29,573,000	33,755,000
Prepaid promotion costs, amortizable within one year	30,624,000	28,551,000
Deferred charges relating to future precious metal requirements	634,000	4,155,000
Other prepaid expenses	7,841,000	6,775,000
Total current assets	$136,723,000	$135,354,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sales Orders and Related Promotion Costs—The company's principal method of selling its products is through direct mail and newspaper or magazine advertisements. Advance payments from customers are received with the sales order on certain programs. Depending on the contractual agreement between the company and the customer, shipments are made either as single mailings, as a series over a number of months, or as single mailings of the remaining medals in a series program. Sales and income are not recognized until shipment is made. Printing and mailing costs of direct mail advertising, the cost of media advertisements and the cost of the collector albums or chests shipped to a customer at the beginning of a series are deferred and charged against income over the shorter of the shipment period or fifty months. For programs where promotion costs are amortized over the shipment period, adjustments are made to the deferred balances by additional charges to income whenever the company makes downward revisions to series fulfillment expectations. Costs incurred by company personnel in the development of sales programs, including salaries and wages, art work and other administrative expenses, are expensed in the period incurred.

GEO. A. HORMEL & COMPANY (OCT)

	1977	1976
Current Assets		
Cash	$ 7,671,882	$ 9,576,620
Short-term marketable securities—at cost which approximates market	21,791,957	12,243,567
Accounts receivable, less allowance for doubtful accounts (1977—$265,000; 1976—$207,500)...........	50,838,009	49,225,189
Inventories of products, livestock, packages and supplies—Note C	73,843,524	56,172,526
Prepaid insurance and other expenses	1,101,201	828,129
Total Current Assets.	$155,246,573	$128,046,031

JOHNSON PRODUCTS CO., INC. (AUG)

	1977	1976
Current assets:		
Cash (including certificates of deposit of $1,478,000 in 1977 and $1,542,000 in 1976)........................	$ 2,022,000	$ 1,920,000
Commercial paper	4,775,000	2,815,000
Receivables:		
Trade, less allowances for doubtful accounts of $160,000 in 1977 and $175,000 in 1976	7,610,000	9,670,000
Other	82,000	188,000
Inventories (Note 2)	4,523,000	6,185,000
Prepaid expenses (Note 3)......	1,014,000	774,000
Future income tax benefits		199,000
Total current assets	$20,026,000	$21,751,000

Note 3: Prepaid Expenses—Prepaid expenses are summarized as follows:

	1977	1976
Television production costs	$ 277,000	$187,000
Inventories of promotional materials	191,000	226,000
Insurance and other	546,000	361,000
	$1,014,000	$774,000

PENNWALT CORPORATION (DEC)

	1977	1976
	(Thousands of Dollars)	
Current assets		
Cash, including certificates of deposit of $37,000 and $946,000	$ 5,947	$ 3,255
Marketable securities, at cost, which approximates market	14,540	35,987
Total cash and marketable securities.........	20,487	39,242
Receivables	150,071	130,313
Inventories	154,511	147,455
Prepaid pension costs and other expenses	14,987	12,187
Total current assets	$340,056	$329,197

OTHER CURRENT ASSET CAPTIONS

Table 2-11 summarizes the nature of accounts (other than cash, marketable securities, inventories, and prepaid expenses) appearing in the current asset section of the balance sheets of the survey companies. Examples of captions describing such other current asset accounts follow.

Deferred Income Tax

BRIGGS & STRATTON CORPORATION (JUN)

	1977	1976
Current Assets:		
Future Income Tax Benefits.....	$4,407,000	$3,328,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Future Income Tax Benefits—Where timing differences relating to current assets and current liabilities result in a higher taxable income than that recorded in the accounts, the tax effect is shown as future income tax benefits, a current asset in the balance sheet.

Unbilled Costs

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

	1977	1976
	($000)	
Current Assets:		
Costs and estimated earnings in excess of billings on uncompleted contracts..............	$1,297	$390

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Construction Accounts—Earnings on long-term construction contracts are recognized on the percentage-of-

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1977	1976	1975	1974
Nature				
Deferred income taxes	62	74	76	68
Unbilled costs	26	22	35	45
Property held for resale	23	20	22	18
Advances or deposits	11	14	23	22
Other—identified	24	21	23	20
Other current assets	78	71	45	50

completion method in the ratio that costs incurred bear to total estimated costs. Revenues on contracts that are less than twenty percent complete are included in the same amounts as costs incurred, and the respective cumulative earnings are not recognized until the period in which such percentage is attained. Earnings and costs on contracts are subject to revision throughout the terms of the contracts, and any required adjustments are made in the periods in which revisions become known. Provisions are made for the full amounts of anticipated losses in the periods in which they are first determinable, and claims for additional contract revenues are not recognized in the accounts until such claims have been allowed.

Balances billed but not paid pursuant to retainage provisions under construction contracts generally become due upon completion of the contracts and acceptance by the owners. Construction contracts are normally completed within two to four years.

Costs and estimated earnings in excess of billings on uncompleted contracts comprise principally revenues recognized on contracts for which billings have not been presented to the contract owners at the balance sheet date. Such revenues are expected to be billed and collected generally within one year.

Revenues and costs and expenses relating to construction contracts include the Company's proportionate share of such items applicable to joint ventures. The investment in construction joint ventures is stated at cost plus the equity in unremitted earnings of the various joint ventures.

In accordance with the industry practice, the Company includes in current assets and liabilities amounts realizable and payable under long-term construction contracts. Consistent with this practice, equity in construction joint ventures has been classified as current.

EMERSON ELECTRIC CO. (SEP)

	1977	1976
	($000)	
Current assets		
Cash	$ 3,557	$ 3,904
Short-term investments, at cost which approximates market	75,598	96,788
Receivables, less allowance for doubtful accounts of $3,888,000 in 1977 and $3,350,000 in 1976	254,171	224,302
Costs and estimated earnings on long-term contracts, less progress billings of $2,807,000 in 1977 and $4,211,000 in 1976	4,613	4,156

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Long-Term Contracts—Income is recognized on the percentage of completion or unit of delivery basis on long-term contracts, which are principally government and defense contracts. The excess of accumulated costs and estimated earnings over progress payments received, on contracts accounted for using the percentage of completion method, is presented as a current asset in the accompanying balance sheets. Unbilled costs on other long-term contracts are included in inventories. When advance payments exceed costs incurred, the excess of such payments is presented as a current liability. Long-term contracts do not constitute a material part of the Company's business.

A.C. NIELSEN COMPANY (AUG)

	1977	1976
	($000)	
Current Assets:		
Cash and deposits earning interest	$ 17,282	$ 11,730
Marketable securities, at cost which approximates market	2,729	9,279
Accounts receivable:		
Clients (less allowance of $467,000 in 1977 and $582,000 in 1976 for doubtful accounts)	60,836	52,966
Other	2,886	2,433
Advances to clients (Note 1)	14,552	12,194
Unbilled expenditures for clients (Note 1)	39,266	25,749
Prepaid expenses	5,081	4,728
Total current assets	$142,632	$119,079

Note 1 (in part): Summary of Significant Accounting Policies

Advances to Clients—Under certain Clearing House contracts, advance payments are made to retailers before the submitted coupons are processed.

Unbilled Expenditures for Clients—Costs of coupons purchased in connection with Clearing House activities and expenditures under certain service contracts are billed to clients after processing of required data is complete.

Property Held for Sale

ALBERTSON'S, INC. (JAN)

	1978	1977
Current Assets:		
Property held for resale	$5,650,525	$4,268,363

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property Held for Resale—Property held for resale represents the cost of land and buildings committed by the Company for sale and leaseback during the next year and on which title has not transferred to a purchaser.

AMERICAN SEATING COMPANY (DEC)

	1977	1976
Current Assets:		
Assets relating to discontinued operations (Note 10)..............	1,463,499	6,457,132

Note 10 (in part): Discontinued Operations—In 1977 the Company sold the business of its E. H. Sheldon and Company Division in Muskegon, Michigan and terminated operations of its Art Laboratory Furniture Division in Montreal, which together constituted the laboratory furniture segment of the Company's business.

* * *

The remaining assets of the discontinued operations are expected to be sold or realized. The accompanying consolidated balance sheet includes the following amounts, at net realizable value, relating to operations of the laboratory furniture segment:

	1977	1976
Current Assets:		
Accounts and notes receivable	$1,444,486	$3,833,642
Inventories	19,013	2,444,831
Other	—	178,659
Total current assets	1,463,499	6,457,132
Property, plant and equipment:		
Land	—	168,149
Buildings and improvements	—	1,969,416
Machinery and equipment	—	1,194,875
Total	—	3,332,440
Less accumulated depreciation......	—	1,362,375
Less provision for loss on sale	—	405,000
Net property and equipment	—	1,565,065
Other assets..........................	1,183,835*	—
Total assets	$2,647,334	$8,022,197

*Includes notes receivable of $700,000, due one-half in 1979 and one-half in 1980. Also includes $483,835 of idle facilities expected to be sold during 1978.

NABISCO, INC. (DEC)

	1977	1976
Current assets		
Net assets of discontinued line of business	$21,783,000	—

NOTES TO FINANCIAL STATEMENTS

Disposals of Operations (in part)—Also in mid-1977, the Company announced its decision to discontinue certain product lines of Aurora Products Corp., its toy and game subsidiary, and a provision was made for estimated losses relative to discontinuing these product lines. On November 7, 1977 the Company entered into an agreement in principle for the disposition of substantially all of the assets of Aurora subject to the approval of the Board of Directors of Nabisco, Inc. and the prospective purchaser and the execution of a definitive agreement. Aurora's net loss from operations for 1977 and 1976 and the estimated loss on the disposal of the company's net assets are reported in the caption "Discontinued line of business" in the Consolidated Statement of Income and Retained Earnings. Net sales of Aurora, $44,296,000 and $53,382,000 in 1977 and 1976, respectively, together with applicable operating expenses have been excluded from the consolidated results of continuing operations. The net assets of Aurora at realizable value, principally accounts receivable, inventories and property, plant and equipment, appear in the caption "Net assets of discontinued line of business" in the Consolidated Balance Sheet and are expected to be disposed of during 1978.

Advances

AMAX INC. (DEC)

	1977	1976
	(Dollars in thousands)	
Current assets		
Coal equipment advance payments (Note 18)	$15,520	$37,040

NOTES TO FINANCIAL STATEMENTS (Dollars in Thousands)

Note 18 (in part): Leases—In January 1976, AMAX also entered into a lease agreement which will provide approximately $200,000 (representing the present value of the minimum lease commitment at a 10½% financing rate) for coal mining equipment. At December 31, 1977, the lessor had reimbursed AMAX $136,330 for advance payments to contractors. Rental payments in 1977 were $11,550. Future rental payments are estimated as follows: 1978-1982, $21,000 per year; 1983-87, $75,170; 1988-92, $23,730; and 1993, $970. AMAX may cancel the lease and acquire the equipment during the period 1983-1985 by assuming obligations which range from $194,920 to $129,380.

AMERICAN STANDARD INC. (DEC)

	1977	1976
	(Dollars in thousands)	
Current assets		
Cash	$ 20,378	$ 31,592
Marketable securities, at cost which approximates market, includes certificates of deposit—1977, $5,195; 1976, $20,460	7,515	66,278
Accounts receivable, less allowance for doubtful accounts—$1977, $10,020; 1976, $10,882	236,287	202,028
Inventories	338,366	283,818
Future income tax benefits	50,604	41,030
Other current assets	15,565	15,452
Advances to American Standard Credit Inc.	13,800	43,100
Total current assets	$682,515	$683,298

Deposits

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

	1977	1976
	Thousands of Dollars	
Current Assets		
Cash	$129,619	$ 85,399
Accounts receivable, less allowances	630,140	436,999
Deposits under tanker construction contracts	140,206	114,231
Prepaid Alaskan severance tax.	67,262	20,990
Other prepaid expenses and deferred charges	79,061	74,153

Film Broadcast Rights

COMBINED COMMUNICATIONS CORPORATION (DEC)

	1977	1976
Current Assets:		
Cash and short-term investments of $1,000,000 in 1977 and $5,430,000 in 1976	$19,591,000	$14,321,000
Accounts, notes and lease contracts receivable, less allowances of $2,001,000 in 1977 and $1,783,000 in 1976 (Note D)	39,734,000	31,217,000
Film broadcast rights (Notes A and L)	3,345,000	3,345,000
Inventories (Note A)	6,984,000	6,220,000
Prepaid expenses	4,528,000	3,203,000
Total current assets	$74,182,000	$58,306,000

Note A (in part): Summary of Significant Accounting Policies—

Film broadcast rights—Rights to broadcast films are recorded as an asset when the films are available for telecasting; the current portion of unused rights represents the estimated costs of film to be expensed in the succeeding year. The amount charged to expense is based on varying rates as management deems appropriate to match related revenues with these expenses. The liability for these rights, also recorded when the films are available for telecasting, is classified as current or noncurrent in accordance with the payment terms of the various agreements. The payment period is generally shorter than the useful life of the film.

Note L: Film broadcast rights—Amortization of film broadcast rights amounted to $4,860,000 and $4,534,000 for 1977 and 1976, respectively.

Annual payments due for such rights in the next five years are: 1978, $3,708,000; 1979, $1,758,000; 1980, $724,000; 1981, $112,000 and 1982, $32,000.

Film broadcast rights under contract but not yet available for telecasting which were not yet recorded on the Company's books totaled $6,271,000 and $4,496,000 for 1977 and 1976, respectively.

Salvage Jobs in Process

COMMERCIAL METALS COMPANY (AUG)

	1977	1976
Current Assets:		
Cash	$ 9,569,832	$ 3,932,295
Notes and accounts receivable (less allowance for collection losses of $1,530,944 and $1,480,372)	58,343,128	61,970,549
Inventories—at lower of cost (principally first-in, first-out method) or market (Note A)	47,951,424	56,604,808
Salvage jobs in process (Note A)	3,068,096	3,872,571
Prepaid expenses	759,818	427,980
Refundable income taxes	—	1,282,311
Total Current Assets	$119,692,298	$128,090,514

Note A (in part): Summary of Significant Accounting Policies:

Salvage jobs in process—Salvage jobs in process are stated at accumulated cost less credits resulting from the disposal of salvaged materials and less estimated losses if applicable.

Upon completion of a job, disposal credits and the related accumulated costs are taken into income as sales and cost of goods sold, respectively.

Short-Term Leases

UNION CAMP (DEC)

	1977	1976
Current Assets		
Cash	$ 10,033,000	$ 10,577,000
Short-term securities—at cost	86,423,000	149,752,000
Accounts receivable, less estimated doubtful accounts, discounts and allowances, 1977—$2,767,000; 1976—$3,402,000	92,928,000	89,939,000
Inventories, at lower of cost or market	114,344,000	115,849,000
Short-term timber leases	13,023,000	17,232,000
Total Current Assets	$316,751,000	$383,349,000

Rentals

XEROX CORPORATION (DEC)

	1977	1976
	($000)	
Current Assets		
Cash	$ 73,327	$ 70,934
Bank time deposits, interest bearing	338,397	241,748
Marketable securities, at cost which approximates market	280,239	359,671
Trade receivables (less allowance for doubtful receivables: 1977—$46,281; 1976—$39,215)	731,043	617,193
Accrued rentals	191,615	177,209
Inventories, at the lower of average cost or market	525,274	473,080
Prepaid expenses and other current assets	128,668	228,954
Total current assets	$2,268,563	$2,058,789

TABLE 2-12: LAND CAPTIONS

	1977	1976	1975	1974
Land	396	400	402	400
Land and improvements	99	100	91	88
Land and buildings	32	31	38	37
Land combined with other identified assets	27	21	28	36
No caption with term *land*	13	9	4	5
	567	561	563	566
Line of business classification	33	39	37	34
Total Companies	**600**	**600**	**600**	**600**

PROPERTY, PLANT, AND EQUIPMENT

Paragraph 5 of *APB Opinion No. 12* states:

> Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:
>
> a. Depreciation expense for the period,
>
> b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date,
>
> c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date, and
>
> d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

Tables 2-12 and 2-13 show the property, plant, and equipment captions presented by the survey companies. Captions

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1977	1976	1975	1974
Buildings				
Buildings	286	281	297	295
Buildings and improvements	176	169	143	147
Buildings and land or equipment	71	78	82	86
Buildings combined with other identified assets	15	17	31	23
No caption with term *buildings*	12	10	7	10
	560	555	560	561
Line of business classification	40	45	40	39
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions				
	Number of Companies			
Machinery and/or *equipment*	445	431	436	438
Machinery and/or *equipment* combined with other terms	129	92	92	95
Construction in progress	227	214	188	198
Leasehold improvements	122	115	98	106
Automobiles, marine equipment, etc.	73	84	78	80
Furniture, fixtures, etc.	52	76	77	67
Equipment held for rental or lease	34	29	36	42

indicating assets held by companies as lessees were presented by 71 survey companies. The average number of captions used per company was 4. Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

Examples of presentations of property, plant and equipment follow.

Breakdown by Nature of Property

AEL INDUSTRIES, INC. (FEB)

Consolidated Balance Sheet

	1977	1976
Property, plant and equipment, at cost (Note 1):		
Land	$ 185,733	$ 177,311
Buildings and improvements	5,110,816	5,058,466
Machinery and equipment	5,493,154	5,420,700
CATV system	3,334,593	1,615,412
Office furniture and equipment	641,750	645,702
Construction in progress	365,475	582,286
	15,131,521	13,499,877
Less accumulated depreciation and amortization	7,140,242	6,481,048
Net property, plant and equipment	$ 7,991,279	$ 7,018,829

Consolidated Statement of Changes in Financial Position

Source:		
Income before extraordinary item	$ 883,331	$ 142,832
Items not affecting working capital in the current period:		
Depreciation and amortization of property, plant and equipment (Note 1)	790,700	758,452
Amortization of debt discount	76,767	88,633
Provision for deferred income taxes	389,000	430,100
Gain on repurchase of debentures	(137,293)	(248,261)
Share in loss of unconsolidated affiliate, net of applicable income tax benefit	19,432	23,526
Working capital provided from operations, exclusive of extraordinary item	$2,021,937	$1,195,282

Note 1 (in part): Significant Accounting Policies

Depreciation and amortization—Depreciation and amortization are computed on the straight-line method.

TABLE 2-14: ACCUMULATED DEPRECIATION

	1977	1976	1975	1974
Accumulated depreciation	302	318	299	303
Accumulated depreciation and amortization	144	141	135	130
Allowance for depreciation	38	32	42	36
Accumulated depreciation, amortization and depletion	38	31	26	29
Accumulated depreciation and depletion	23	23	20	22
Allowance for depreciation and amortization	23	17	25	20
Allowance for depreciation and depletion	5	6	8	14
Other captions	27	32	45	46
Total Companies	**600**	**600**	**600**	**600**

CAMPBELL SOUP COMPANY (JUL)

Consolidated Balance Sheets

	1977	1976
	($000)	
Plant assets, less depreciation	$438,142	$402,004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depreciation—Depreciation provided in costs and expenses is on the straight-line method. The United States, Canadian and certain other foreign companies use accelerated methods of depreciation for income tax purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(000 omitted from dollar amounts)

Plant assets, at cost		
Land	$ 21,567	$ 19,700
Buildings	295,885	274,894
Machinery and equipment	529,142	491,414
Projects in progress	26,682	25,633
	873,276	811,641
Accumulated depreciation	435,134	409,637
	$438,142	$402,004

Depreciation provided in costs and expenses was $42,079 in 1977 and $40,697 in 1976. Approximately $49,800 is required to complete projects in progress at July 31, 1977.

COLONIAL STORES INCORPORATED (DEC)

Consolidated Balance Sheets

	1977	1976
	($000)	
Property and equipment, at cost (note 3):		
Land	$ 5,466	$ 6,944
Buildings and improvements	15,742	15,201
Fixtures and equipment	100,106	89,597
Transportation equipment	14,957	13,537
Improvements to leased premises	14,167	11,825
Construction in progress	1,190	347
	151,628	137,451
Less accumulated depreciation	71,285	63,477
Net property and equipment	$ 80,343	$ 73,974

Consolidated Statements of Changes in Financial Position

Funds provided:		
Net earnings	$ 10,907	$ 11,612
Charges (credits) not affecting working capital:		
Depreciation and amortization	11,638	10,777
Deferred income taxes	1,972	1,370
Gain on sales of properties held for resale	(781)	—
Gain on sales and abandonments of property and equipment	(27)	(202)
Other, net	15	73
Total provided by operations	$ 23,724	$ 23,600

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depreciation—The straight-line method is utilized for computing depreciation for financial reporting purposes, whereas for income tax purposes, accelerated methods are used for certain assets.

The annual rates used in computing depreciation of the principal property and equipment classifications are as follows: buildings and improvements—2½% to 12½%; fixtures and equipment—6⅔% to 33⅓%; transportation equipment—10% to 33⅓%. Improvements to leased premises are amortized by the straight-line method, principally over the current term of the lease or the useful life of the improvement, whichever is appropriate in the circumstances.

CHAMPION INTERNATIONAL CORPORATION (DEC)

Consolidated Balance Sheet

	1977	1976
	($000)	
Timber and Timberlands, at cost—less cost of timber harvested	$ 310,127	$ 301,738
Property, Plant and Equipment, at cost	1,890,046	1,947,167
Less—Accumulated depreciation	787,383	832,861
	1,102,663	1,114,306
Funds Held for Construction	21,421	2,095

Consolidated Changes in Financial Position

	1977	1976
Source of Funds:		
Income from Continuing Operations	$161,555	$125,233
Items not requiring outlay of working capital:		
Depreciation and cost of timber harvested	110,852	102,825
Deferred income taxes	23,785	25,331
Amortization of deferred charges	5,771	6,227
Equity in net (income) loss of unconsolidated affiliates	(4,491)	114
Minority interest in income of subsidiaries	3,618	1,366
(Gain) Loss on translation of non-current assets and liabilities	(5,753)	2,274
Write-down of operating units to be disposed of	—	5,824
Working capital provided from continuing operations	295,337	269,194
Income (Loss) from Discontinued Operations	(22,940)	10,707
Items not requiring outlay of working capital:		
Deferred income taxes	(37,754)	1,485
Write-down of discontinued operations	71,445	—
All other—net, principally depreciation	10,709	10,897
Working capital provided from discontinued operations	21,460	23,089
Total working capital provided from operations	$316,797	$292,283

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Fixed Assets—Fixed assets, including capitalized leases, are stated on the balance sheet at cost and do not purport to represent replacement or realizable values.

For financial reporting purposes, plant and equipment is depreciated on the straight-line method over the estimated service lives of the individual assets. Leasehold improvements are amortized over the lesser of the lives of the leases or estimated service lives. Cost of timber harvested is based on the estimated quantity of timber available during the growth cycle and is credited directly to the asset accounts.

Upon sale or retirement of items of equipment and improvements, the cost and related accumulated depreciation and amortization are eliminated from the accounts and the resulting gain or loss, if any, is reflected in income.

Maintenance and minor repairs and replacements are charged directly to income; major renewals and betterments are charged to the property accounts. (See Notes 4 and 7)

Note 4: Property, Plant and Equipment—Property, plant and equipment are summarized by major classifications as follows:

December 31 (in thousands of dollars)	1977 Total	1977 Owned	1977 Leased	1976 Total	1976 Owned	1976 Leased
Land and land improvements	$ 61,437	$ 51,958	$ 9,479	$ 65,748	$ 56,314	$ 9,434
Buildings	344,517	281,375	63,142	408,565	345,315	63,250
Machinery and equipment	1,315,325	1,122,950	192,375	1,362,447	1,161,792	200,655
Construction in progress	168,767	164,534	4,233	110,407	110,407	—
	1,890,046	1,620,817	269,229	1,947,167	1,673,828	273,339
Less— Accumulated depreciation	787,383	696,310	91,073	832,861	759,572	73,289
	$1,102,663	$ 924,507	$178,156	$1,114,306	$ 914,256	$200,050

EVANS PRODUCTS COMPANY (DEC)

Balance Sheet

	1977	1976
	($000)	
Property, Plant and Equipment	$158,078	$133,628

Statement of Earnings

	1977	1976
Costs and Expenses		
Costs of operations	$775,248	$670,579
Selling and administrative	63,841	53,648
Depreciation and amortization	14,339	13,495
Interest	16,108	17,851
Estimated losses of discontinued facilities	2,000	5,250
	$871,536	$760,823

SIGNIFICANT ACCOUNTING POLICIES

Plant and Equipment—Plant and equipment are carried at cost and depreciated over the estimated useful life on the straight-line method. Maintenance and repair costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

Property, Plant and Equipment—Property, plant and equipment details are as follows:

(in thousands)	1977	1976
Owned Assets:		
Land	$ 20,479	$ 18,055
Buildings	74,763	64,380
Machinery and equipment	136,985	122,325
	232,227	204,760
Less accumulated depreciation	92,874	85,687
	139,353	119,073
Capital Leases:		
Land	431	287
Buildings	4,018	3,653
Machinery and equipment	11,518	2,467
	15,967	6,407
Less accumulated amortization	5,972	847
	9,995	5,560
Timber and timber rights, less depletion	8,730	8,995
	$158,078	$133,628

The estimated useful lives of buildings and machinery and equipment are 10 to 40 years and 2 to 20 years, respectively.

Depletion of standing timber is determined by tract, based on the relationship of unamortized cost of timber to the estimated volume of recoverable timber.

GENERAL FOODS CORPORATION (MAR)

	1977	1976
	($000)	
Land, buildings, Equipment, at cost, less accumulated depreciation..	$717,424	$693,197
Long-Term Receivables and Sundry Assets	30,060	27,899
Goodwill, less accumulated amortization of $15,746 in 1977 and $5,383 in 1976	28,990	39,353

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Depreciation—For financial reporting purposes, generally the straight-line method is used to compute depreciation of buildings, machinery, and equipment

Note 3: Land, Buildings, Equipment

	1977	1976
Land	$ 40,097,000	$ 40,028,000
Buildings	373,786,000	360,695,000
Machinery and Equipment...	837,659,000	788,533,000
Construction Work in Progress	33,686,000	41,371,000
	1,285,228,000	1,230,627,000
Less Accumulated Depreciation	567,804,000	537,430,000
	$ 717,424,000	$ 693,197,000

The provision for depreciation was $59,667,000 for fiscal 1977 and $55,769,000 for fiscal 1976.

LOWE'S COMPANIES, INC. (JUL)

Consolidated Balance Sheets

	1977	1976
Property, Improvements and Equipment (Notes 1 and 3):		
At Cost Less Accumulated Depreciation—1977—$23,552,581; 1976—$18,982,648	$60,209,994	$50,433,835

Consolidated Statement of Current and Retained Earnings

Other Expenses:		
Advertising, Selling, Administrative and General Expenses..	$55,316,189	$45,385,900
Depreciation	6,212,137	4,976,213
Profit-Sharing Contribution (Note 8)	6,375,711	4,869,817
Provision for Bad Debts	3,722,631	2,456,551
Interest and Loan Cost	4,156,637	3,009,888
Total Other Expenses	$75,783,305	$60,698,369

Note 1 (in part): Summary of Accounting Policies:

Property and Equipment—Land, buildings and machinery and equipment are carried at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Upon disposal of fixed properties the cost and related accumulated depreciation are removed from the accounts. The gain or loss on an item traded is applied to the property accounts, and that of items otherwise disposed of is reflected in income.

The provision for depreciation is based generally on accelerated rates for both financial reporting and income tax purposes.

Note 3: Properties and Accumulated Depreciation—The properties and accumulated depreciation are summarized below by major classes with estimated lives in years as follows: Buildings, 20 to 50; Store and Office Equipment, 5 to 10; Transportation, 3 to 7; and Leasehold Improvements, 10 to 30.

	1977		1976	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 8,618,451	$	$ 7,997,843	$
Buildings	35,971,468	6,079,563	31,669,767	5,129,919
Equipment:				
Store	11,250,978	4,534,647	7,770,525	3,015,713
Office	2,597,784	1,341,832	2,408,727	1,012,579
Transportation	15,714,063	9,051,519	11,912,149	7,823,732
Leasehold	9,609,831	2,545,020	7,657,472	2,000,705
Totals	$83,762,575	$23,552,581	$69,416,483	$18,982,648

MARRIOTT CORPORATION (JUL)

Consolidated Balance Sheet

	1977	1976
	($000)	
Property and Equipment, at cost		
Land	$ 81,203,000	$ 73,784,000
Buildings and improvements	280,353,000	270,686,000
Leasehold improvements	210,338,000	198,280,000
Furniture and equipment	244,437,000	228,401,000
Cruise Ships	11,441,000	11,367,000
Land purchased for future operations or resale	24,425,000	37,610,000
Construction in progress	20,836,000	16,483,000
	873,033,000	836,611,000
Depreciation and amortization	(185,920,000)	(155,218,000)
	$687,113,000	$681,393,000

Consolidated Income Statement

Costs and Expenses		
Cost of sales and operating expenses	$736,147,000	$645,086,000
Administrative and general expenses	41,081,000	35,023,000
Rent	38,075,000	34,146,000
Depreciation and amortization of property and equipment	43,545,000	36,119,000
Taxes—payroll, real estate and other	42,736,000	35,929,000
Interest cost	27,946,000	31,187,000
Less interest capitalized	(1,938,000)	(10,432,000)
Advertising and sales promotion expenses	25,547,000	20,816,000
Pre-opening and development expenses	4,694,000	6,183,000
Profit sharing retirement contributions	5,291,000	4,582,000
	$963,124,000	$838,639,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Property and Equipment—Depreciation and amortization are calculated on the straight-line method for financial statement purposes based on the following lives:

Building and improvements	—25 to 45 years
Leasehold improvements	—Shorter of life of lease or asset
Furniture and equipment	—2 to 15 years
Cruise Ships	—20 years

Maintenance and repairs are expensed. New unit costs include interest, rent charges and real estate taxes incurred during construction, Replacements and improvements, including most costs of converting units, are capitalized.

Upon sale or retirement of property and equipment (excluding normal sales or retirements of theme park rides and equipment), the costs less accumulated depreciation and salvage are charged or credited to income. Theme park rides and equipment are depreciated under the composite method and no gain or loss is recognized on normal sales or retirements.

In connection with the development of properties, land was acquired to be used for future operations and/or for eventual resale. Carrying costs are capitalized to the extent that estimated realizable value exceeds the initial and accumulated carrying costs.

MWA COMPANY (JUN)

	1977	1976
Property, Plant and Equipment—At Cost—Note 1		
Land	$ 103,196	$ 53,367
Buildings	1,707,908	2,195,338
Machinery and other equipment	3,851,763	3,633,435
Construction in progress—Note 2	712,250	57,097
Idle plant facility—Note 3	502,527	—
	6,877,644	5,939,237
Less accumulated depreciation	2,642,190	2,275,420
	$4,235,454	$3,663,817

Note 1 (in part): Accounting Policies

Depreciation and Amortization—The Company provides for depreciation and amortization of its buildings, equipment and patents on a straight line basis over the following estimated useful lives:

Buildings	25 to 50 years
Machinery, equipment and fixtures	8 to 15 years
Transportation equipment	2 to 5 years
Patents	5 to 8 years

The amounts charged to operations were $440,410 and $418,462 for the years ended June 30, 1977 and 1976, respectively. The Company expenses, as incurred, all research and development costs of a general nature.

Note 2: Construction in Progress—In early 1977, as a result of studies made to improve the operating efficiencies of its Superior Hone Division, the Company approved a plan to construct three new buildings in the Bradenton-Sarasota, Florida area, at an approximate cost of $910,000. At June 30, 1977, $591,487 had been expended on this project. Machinery and equipment under construction at other locations amounted to $120,763.

The new buildings will replace plant locations in Erwin, Tennessee, Corbin, Kentucky, Durand, Michigan and Livonia, Michigan and will complement the manufacturing operation presently located in Sarasota, Florida, The relocation of Erwin and Livonia was accomplished during May and June 1977.

To facilitate construction financing for this project the Company borrowed $500,000 on short-term unsecured 5¾% loans from Mitchell Corporation of Owosso, owner of 38% of the Company's outstanding shares.

The Company anticipates that it will realize a profit on the sale of its plants in Erwin and Durand. Unexpired lease costs at Corbin and Livonia are not significant in the aggregate.

Note 3: Idle Plant Facility—In June 1976 the Company terminated its manufacturing operations in Marshall, Texas. The Company has currently engaged in arms-length negotiations with an unaffiliated corporation for a five year lease of the Texas plant at an annual net rent of $61,200 with an option to purchase for $500,000. This proposed transaction is presently under consideration by the officers and directors of the prospective tenant.

In the event the proposed lease with option is executed, the Company's Board of Directors, by vote of its disinterested Directors, has authorized the sale of the Texas plant to Mitchell Corporation of Owosso, subject to the lease and option, in consideration of cancellation of the Company's above described short-term loans (see Note 2) totalling $500,000. The proposed sale to Mitchell Corporation of Owosso was not contemplated at the time the loans were made. The lease and option to an unaffiliated corporate tenant will, if executed, establish the fair market value of the Texas plant at $500,000.

NORTH AMERICAN PHILIPS CORPORATION (DEC)

	1977	1976
	(Thousands)	
Total current assets	$790,947	$755,892
Notes and accounts receivable, due after one year, less estimate for doubtful accounts—$1,223,000 ($1,523,000—1976)	12,989	15,615
Property, plant and equipment, at cost, less accumulated depreciation (Note 5)	229,370	206,297

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Property, Plant and Equipment and Depreciation—Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the various properties, principally on the straight-line basis. Additions and betterments to properties are capitalized; maintenance and repairs are expensed in the year incurred. When properties are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Leases in effect at December 31, 1975, have been capitalized pursuant to Statement of Financial Accounting Standards No 13 and the financial statements have been restated to give effect thereto. (See Notes 5, 7 and 13.) The cumulative effect of the change in accounting at December 31, 1975, and the effect on net income for the years ending December 31, 1976 and 1977, were not material. The aggregate amount at December 31, 1977, has been included in other assets and will be charged to income in 1978.

Note 5: Property, Plant and Equipment Depreciation

	December 31, 1977	1976
	(Thousands)	
Land	$ 12,307	$ 12,359
Buildings and improvements	134,056	130,231
Machinery and equipment	220,740	195,764
Furniture and office equipment	20,855	19,796
Capitalized leased property	12,557	10,732
Other	40,966	29,893
	441,481	398,775
Less accumulated depreciation	212,111	192,478
	$229,370	$206,297
Capitalized lease property is comprised of:		
Land	$ 102	$ 120
Buildings and improvements	5,437	5,437
Machinery and equipment	1,686	1,413
Other	5,332	3,780
	12,557	10,732
Less accumulated depreciation	5,987	4,256
	$ 6,570	$ 6,476

Depreciation expense aggregated $30,895,000 in 1977 and $28,910,000 in 1976.

Functional Classification

QUAKER STATE OIL REFINING CORPORATION (DEC)

Consolidated Balance Sheet

	1977	1976
	($000)	
Total current assets	$121,899	$125,637
Other assets	12,682	13,604
Property, plant and equipment net of accumulated depreciation and depletion of $163,220 in 1977 and $143,691 in 1976 (Notes 3 and 4)	247,780	214,267
Total assets	$382,361	$353,508

Consolidated Statement of Income and Retained Earnings

Costs and expenses:		
Cost of sales and operating costs	$320,344	$317,229
Selling, administrative and general	48,049	45,519
Description and depletion	24,530	21,862
Interest, net of interest capitalized of $2,029,000 and $1,884,000 (Note 1)	5,613	3,761
	$398,536	$388,371

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Property, plant and equipment: Costs of buildings and equipment are charged against income over their estimated useful lives using the straight-line method of depreciation. Costs of oil and gas production properties and coal mineral lands are amortized by the unit of production method based on proved developed reserves. Repairs and maintenance, which are not considered betterments and do not extend the useful life of property, are charged to expenses as incurred.

Development costs of non-productive oil and gas properties and all exploration costs are charged to expense as incurred. Development costs of productive oil and gas properties are capitalized. The unamortized costs of oil and gas properties determined to be uneconomical are charged to expense when abandoned. Coal mine development costs are capitalized and amortized over the estimated productive lives of the mines on the straight-line method.

The accounting policies of the Company generally follow the "successful efforts" capitalization concept and other requirements of Statement of Financial Accounting Standards No. 19, entitled "Financial Accounting and Reporting by Oil and Gas Producing Companies" issued in December 1977. Accordingly, Statement No. 19, when effective, will not have a material effect on the Company's results of operations or financial position.

Note 3: Property—Major classes of property, including land and construction work in progress, at cost, are detailed below:

	Thousand of Dollars December 31	
	1977	1976
Petroleum properties and equipment:		
Production	$123,590	$100,401
Refining	97,389	86,405
Marketing	25,637	27,733
Transportation	7,082	6,489
Coal mining properties and equipment	133,121	118,576
Other	24,181	18,354
	411,000	357,958
Less: Accumulated depreciation and depletion	163,220	143,691
	$247,780	$214,267

SUN COMPANY, INC. (DEC)

Consolidated Balance Sheets

	1977	1976
Properties, Plant and Equipment		
Production	$1,911,934,000	$1,802,256,000
Manufacturing	1,186,989,000	1,114,008,000
Marketing	782,725,000	855,593,000
Transportation	523,404,000	455,483,000
Mining	479,238,000	452,245,000
Shipyard	109,204,000	105,434,000
Administrative and Others	86,964,000	81,444,000
Total, at cost	5,080,458,000	4,866,463,000
Less Depreciation, Cost Depletion and Amortization	2,121,138,000	1,956,034,000
	$2,959,320,000	$2,910,429,000

Consolidated Statements of Income

Costs and Expenses		
Costs and Operating Expenses	$4,585,691	$3,720,880
Selling, General and Administrative Expenses	447,341	369,134
Taxes, Other than Income Taxes	195,540	197,049
Intangible Development Costs	169,498	124,436
Depreciation, Cost Depletion, Amortization and Retirements	295,760	279,716
Interest and Debt Expense	65,970	60,015
Interest Capitalized	—	—
	$5,759,800	$4,751,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Depreciation, Cost Depletion, Amortization and Retirements—The depreciation policy for accounting purposes is designed to recover on a straight-line basis the cost of properties, plants and equipment during their estimated useful lives. A summary of the principal annual rates in effect is not considered practicable because of the varying types of property and rates applied thereto.

The cost of non-producing leaseholds (lease purchase costs or "bonuses") is amortized over their projected holding periods. Costs of leases surrendered are charged to accumulated amortization, and costs of successful leases are transferred to producing properties.

The cost of developed or producing leaseholds, which excludes intangible development costs, is depleted on the basis of crude oil and natural gas produced from proven reserves.

Profits and losses on the disposals of fixed assets are generally reflected in income. For certain property groups the cost, less salvage, of property sold or abandoned is charged to accumulated depreciation and depletion, except gains and losses for these groups are taken into income for unusual retirements or retirements involving an entire property group.

THE WILLIAMS COMPANIES (DEC)

Consolidated Balance Sheet

	1977	1976
	($000)	
Property, plant and equipment, at cost	$1,407,626	$1,262,555
Less accumulated depreciation and depletion	254,216	203,701
Property, plant and equipment—net	$1,153,410	$1,058,854

Consolidated Statement of Changes in Financial Position

Working capital provided:		
Net income	$ 65,311	$ 61,196
Add (deduct):		
Depreciation and depletion	59,941	48,799
Provision for deferred income taxes	34,806	37,108
Other—net	8,450	(538)
Total from operations	$168,508	$146,565

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation and depletion—Depreciation (including amortization of capitalized leases) is provided substantially on the straight-line method over estimated useful lives. Depletion of oil and gas reserves and phosphate mineral deposits and depreciation of certain mining equipment are calculated on the unit-of-production method based on estimated recoverable reserves.

Note 6: Property, plant and equipment—Property, plant and equipment is summarized as follows:

	(Thousands)			
	1977		1976	
	Cost	Net	Cost	Net
Fertilizer	$ 610,509	$ 522,310	$ 562,235	$ 504,487
Pipeline system and related assets	423,076	323,218	390,339	299,540
Oil and gas	230,867	216,510	178,073	172,626
LP-gas	76,941	41,731	71,272	38,722
Metals	39,976	28,783	35,326	25,406
Other	26,257	20,858	25,310	18,073
	$1,407,626	$1,153,410	$1,262,555	$1,058,854

Oil and gas properties include pipeline gathering and transmission facilities with a net cost of $38,862,000 in 1977 and $36,018,000 in 1976. Although a significant portion of the remaining oil and gas properties are undeveloped and realization of the investment depends upon successful future operations, the year-end reserve estimates indicate the value of the proved reserves is in excess of carrying values of both producing and undeveloped properties.

TABLE 2-15: INVESTMENTS—VALUATION BASES

	Number of Companies			
	1977	1976	1975	1974
Equity	330	335	348	345
Cost	136	136	163	156
Cost less allowances for decline in value	27	27	34	32
Lower of cost or market	19	19	13	N/C

N/C — Not Compiled.

INVESTMENTS

Although there is a presumption that consolidated financial statements are usually necessary for a fair presentation when one company has a controlling interest in another company, there are instances when consolidation of a subsidiary is not appropriate. *APB Opinion No. 18* stipulates that the equity method should be used to account for investments in subsidiaries as well as for investments in corporate joint ventures, and investments in minority owned companies when an investor has "the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50% or less of the voting stock." *Opinion No. 18* considers an investor to have the ability to exercise significant influence when it owns 20% or more of the voting stock of an investee. *Opinion No. 18* also sets forth procedures to be followed and disclosures to be made by an investor in applying the equity method.

In addition to investments accounted for by the equity method many of the survey companies used the term *investments* to describe holdings of marketable equity securities, bonds, or property not held for productive purposes. As mentioned in the Section on "Marketable Securities in Current Assets," FASB *Statement No. 12* stipulates that marketable equity securities, whether presented as a current or noncurrent asset, should be carried at lower of aggregate cost or market value.

Examples of investment presentations and disclosures follow.

Equity Method

AMERON, INC. (NOV)

Consolidated Balance Sheet

	1977	1976
Investments and Advances		
Jointly owned domestic companies (Note 3)	$12,047,000	$11,089,000
Unconsolidated subsidiaries and affiliates, operating outside of the United States, at cost (Note 4)	3,889,000	4,024,000
	$15,936,000	$15,113,000

Statement of Consolidated Income

Income from Affiliates		
Equity in earnings of jointly owned domestic companies (Note 3)	$1,426,000	$2,077,000
Other (Note 4)	679,000	506,000
	$2,105,000	$2,583,000

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of subsidiaries operating in the United States, Europe and Canada. All significant transactions with consolidated subsidiaries were eliminated. See Notes 3 and 4 regarding accounting policies relating to other subsidiaries and affiliates.

Note 3: Jointly Owned Domestic Companies—The Company has a 50 percent ownership in Gifford-Hill-American, Inc. and Tamco, the investments in which are accounted for on the equity method.

The Company's investment in Gifford-Hill-American, Inc., a manufacturer of concrete pressure pipe in Texas, is recorded at cost of $85,000 plus equity in undistributed earnings of $7,528,000 at November 30, 1977, based on audited financial statements as of the preceding December 31, and unaudited financial statements as of October 31, 1977. Since it is intended that a substantial portion of the undistributed earnings of Gifford-Hill-American represents a permanent investment, dividend income taxes have been provided only on earnings expected to be received as dividends during the next fiscal year. Dividend income taxes have not been provided on approximately $6,600,000 of undistributed earnings at November 30, 1977 and $6,000,000 at November 30, 1976. Financial information on Gifford-Hill-American follows:

Financial Condition	October 31, 1977 (unaudited)	December 31, 1976 (audited)
	(In Thousands)	
Assets		
Current assets	$13,397	$12,779
Property, plant and equipment, net	4,649	4,875
	$18,046	$17,654
Liabilities	$ 2,539	$ 3,677
Stockholders' equity	15,507	13,977
	$18,046	$17,654

Results of Operations	Ten Months Ended October 31, 1977 (unaudited)	Year Ended December 31, 1976 (audited)
	(In Thousands)	
Sales	$18,763	$29,639
Costs and expenses	14,139	22,439
Income before taxes	4,624	7,200
Federal income taxes	2,194	3,379
Net income	$ 2,430	$ 3,821
Cash dividends paid	$ 900	$ 1,600

Tamco completed construction and commenced operation early in 1977 of a facility for the manufacture of steel billets to be sold to the Company and other shareholders. The Company has agreed to purchase from Tamco a minimum of 150,000 tons of steel billets annually for 15 years, at periodically adjusted prices based on costs. Pre-operating costs and higher-than-normal operating costs during Tamco's start-up period to November 30, 1977 have been deferred and are being amortized on a unit-of-production basis over 4,500,000 tons of billet production.

The investment in Tamco is comprised of the following:

Cost of original investment	$1,482,000
Equity in undistributed earnings for the period ended November 30, 1977 ($375,000 of which is reflected as a reduction of cost of sales)	407,000
Long-term advances made in 1976	2,500,000
Total	$4,389,000

Since it is intended that the undistributed earnings of Tamco for 1977 represent a permanent investment, no dividend income taxes have been provided.

Following is a summary of financial information on Tamco, based on audited financial statements:

Financial Condition at November 30, 1977
(In Thousands)

Assets	
Current assets	$ 7,600
Property, plant and equipment, net	20,390
Deferred pre-operating and start-up costs, net	6,674
	$34,664
Liabilities and Equity	
Bank loans	$ 6,500
Advances from stockholders	5,000
Long-term lease obligation	8,975
Other liabilities and reserves	7,853
	28,328
Stockholders' equity	6,336
	$34,664

Results of Operations from Commencement to November 30, 1977
(In thousands)

Sales (133,000 tons of billets)	$19,910
Costs and expenses	18,100
Income before taxes	1,810
Income taxes	996
Net income	$ 814

Reference is made to Note 8 with respect to commitments and contingencies relating to Tamco.

Note 4 (in part): Foreign Operations—The Company has investments in several unconsolidated companies operating outside the United States. These investments, which represent ownership interests ranging from 25 to 100 percent, are stated at cost, less a $229,000 reserve for losses, as of November 30, 1977. The financial statements of these companies have not been consolidated nor have the investments been accounted for by the equity method because (1) one of the subsidiaries (investment and advances $2,858,000) operates under conditions of currency restrictions, and (2) the operations of the remaining companies are not significant in relation to the Company's consolidated activities.

Based on the latest available unaudited financial statements at November 30, 1977, the equity in underlying book value of these companies exceeded the net carrying value of the investments therein by approximately $1,900,000, which amount represents the net equity in undistributed earnings and losses since inception. These financial statements also indicate that the Company's equity in the net income of these companies in 1977 approximated $350,000. In 1976, the Company's equity in the total net income of unconsolidated companies was approximately $700,000.

LEE ENTERPRISES, INCORPORATED (SEP)

Consolidated Balance Sheets

	1977	1976
Investments, associated companies (Note 2)	$12,004,000	$ 9,831,000

Consolidated Statements of Income

Operating Revenue:		
Newspaper advertising	$41,665,000	$35,926,000
Newspaper circulation	13,633,000	12,212,000
Broadcasting	15,752,000	10,856,000
Associated companies (Note 2):		
Editorial service and management fees	3,715,000	3,316,000
Equity in net income	3,324,000	2,360,000
Other	4,878,000	5,100,000
	$82,967,000	$69,770,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Investments in associated companies—Investments in the common stock of associated companies are reported at cost plus the Company's share of undistributed earnings since acquisition.

Note 2: Investments in Associated Companies—The Company has an effective 50% ownership interest in NAPP Systems (USA) Inc., a manufacturer of specialized graphic products, and two newspaper publishing companies operating at Lincoln, Nebraska (Journal-Star Printing Co.) and Madison, Wisconsin (Madison Newspapers, Inc.). Certain information relating to Company investments in these associated companies is as follows:

	1977	1976
Combined Associates		
Assets	$41,674,000	$35,944,000
Liabilities	17,638,000	16,258,000
Stockholders' equity	$24,036,000	$19,686,000
Revenue:		
Newspaper associates	$35,560,000	$31,740,000
NAPP Systems (USA) Inc.	25,553,000	20,089,000
	$61,113,000	$51,829,000
Net income:		
Newspaper associates	$ 4,237,000	$ 3,192,000
NAPP Systems (USA) Inc.	2,423,000	1,535,000
	$ 6,660,000	$ 4,727,000
Lee Information		
Share of:		
Stockholders' equity	$12,004,000	$ 9,831,000
Undistributed earnings	$10,148,000	$ 7,975,000
Net income	$ 3,324,000	$ 2,360,000
Contribution to net income before allocated Lee internal costs:		
Newspaper associates	$ 2,304,000	$ 1,768,000
NAPP Systems (USA) Inc.	1,721,000	1,167,000
	$ 4,025,000	$ 2,935,000

THE MEAD CORPORATION (DEC)

Statements of Financial Condition

	1977	1976
	($000)	
Total current assets	$ 499,332	$,466,981
Investments and other assets:		
Investments in and advances to jointly-owned companies (Note E)	199,036	170,149
Construction funds	7,452	18,378
Other assets and investments	35,225	32,524
	241,713	221,051
Property, plant and equipment, at cost less accumulated depreciation (Notes F and G)	632,948	561,269
Total assets	$1,373,993	$1,249,301

Statements of Earnings

Net sales	$1,821,826	$1,599,342
Cost of products sold	1,476,218	1,289,638
	345,608	309,704
Selling, administrative, and research expenses	183,628	152,399
Earnings from wholly-owned operations	161,980	157,305
Equity in earnings before taxes of:		
Jointly-owned companies	28,904	20,110
Overseas operations	344	631
Earnings from operations	$ 191,228	$ 178,046

Note E: Jointly-Owned Companies

Description and Operations. The company's principal domestic jointly-owned companies are Georgia Kraft Company and Brunswick Pulp & Paper Company. Georgia Kraft manufactures coated carrier stock and uncoated kraft linerboard; and Brunswick manufactures bleached kraft pulp and board. Each of these companies is 50% owned, produces lumber, and supplies the company with raw materials used in its packaging, container, and paper operations.

The company's principal Canadian investments are Northwood Pulp and Timber Limited and British Columbia Forest Products Limited. Mead owns 50% of Northwood and 28.5% of BCFP. Both manufacture bleached softwood kraft pulp and produce lumber in their sawmill operations. BCFP also manufactures paper, newsprint, and plywood.

The company has long-term purchase contracts with Georgia Kraft, Brunswick, and Northwood. Under the purchase contracts with Georgia Kraft and Brunswick, Mead is obligated to purchase 50% of the output of each of these companies at prices sufficient to provide for its share of all costs and expenses including interest on indebtedness, but excluding taxes on income. Additionally, the payments must provide adequate funds to meet all obligations and pay current installments of funded indebtedness. In the case of Northwood, Mead is not obligated to purchase a fixed amount of output; however, it is obligated to purchase sufficient pulp to meet 50% of current installments of funded indebtedness.

Financial Reporting. Mead's investments in unconsolidated jointly-owned companies are stated at cost plus equity in undistributed earnings, which approximates Mead's share of the net assets of these companies. The composition of Mead's total investments in these companies is:

December 31	1977	1976
All dollar amounts in thousands		
Investments—at cost	$ 53,473	$ 53,458
Equity in undistributed earnings	141,953	112,652
Mead's investments in jointly-owned companies	195,426	166,110
Advances	3,610	4,039
Total investments in and advances to jointly-owned companies	$199,036	$170,149

Pulp and board produced by the affiliates, including Georgia Kraft, Brunswick, and Northwood, are part of Mead's raw material supply system. Therefore, the pre-tax earnings on these products of jointly-owned companies are recorded as an offset to Mead's cost of products sold. All pre-tax earnings from BCFP, the sawmill operations of Northwood, and certain other affiliates are reported as equity in earnings of jointly-owned companies. Applicable taxes on these earnings are included in the provision for income taxes.

Jointly-Owned Companies—Financial Condition Presented in relation to Mead's reporting for these companies:

December 31	1977						1976
All dollar amounts in thousands—U.S.	Georgia Kraft	Brunswick	Northwood	BCFP	Other	Combined	Combined
Working capital......	$ 22,429	$ 42,226	$ 20,680	$ 88,153	$ 7,635	$181,123	$144,646
Investments and other assets......	4,778	636	4,707	42,638	50	52,809	40,806
Property, plant and equipment, at cost less accumulated depreciation of $512,996 in 1977 and $413,930 in 1976 (combined).	108,174	104,092	75,038	317,932[1]	17,672	622,908	516,418
Timber resources, at cost—less cost of timber harvested.	63,210		5,352	23,670		92,232	73,812
	198,591	146,954	105,777	472,393	25,357	949,072	775,682
Less—long-term debt due through 1992 (including $570 in 1977 and $5,945 in 1976 due to parent companies —combined).....	43,388	74,030	29,365	219,641[1]	2,273	368,697	275,093
Deferred income taxes..........	20,427	16,431	12,500	68,927	1,439	119,724	107,885
Shareholders' equity.	$134,776	$ 56,493	$ 63,912	$183,825	$21,645	$460,651	$392,704
Mead's share of equity............	$ 67,413	$ 27,023	$ 31,956	$ 59,443	$ 9,591	$195,426	$166,110

[1]Approximately $88,789,000 of property, plant and equipment and $101,454,000 of long-term debt at December 31, 1977, arose in connection with an acquisition by BCFP during 1977.

Jointly-Owned Companies—Operating Data Presented in relation to Mead's reporting for these companies:

Year Ended December 31	1977						1976
All dollar amounts in thousands—U.S.	Georgia Kraft	Brunswick	Northwood	BCFP	Other	Combined	Combined
Sales	$231,340	$140,306	$140,588	$463,787	$55,437	$1,031,458	$914,178
Costs and expenses .	202,166	122,902	108,877	391,570	49,101	874,616	777,703
Interest expense.....	5,274	7,440	3,197	13,980	214	30,105	25,440
Income taxes.........	8,421	4,181	13,202	25,815	2,660	54,279	47,807
Net earnings .	$ 15,479	$ 5,783	$ 15,312	$ 32,422	$ 3,462	$ 72,458	$ 63,228
Sales to Mead included above.....	$119,021	$ 72,151	$ 20,700	$ 5,843	$ 4,870	$ 222,585	$216,446
Mead's share of net earnings..........	$ 7,741	$ 2,778	$ 7,656	$ 9,107	$ 1,694	$ 28,976	$ 25,087
Reported in Mead's statement of earnings as:							
Reduction of cost of products sold...........	$ 10,036	$ 4,952	$ 4,835	$	$ 2,580	$ 22,403	$ 23,799
Equity in earnings before taxes of jointly-owned companies.........	2,600		9,421	16,396	487	28,904	20,110
	12,636	4,952	14,256	16,396	3,067	51,307	43,909
Income taxes.....	4,895	2,174	6,600	7,289	1,373	22,331	18,822
	$ 7,741	$ 2,778	$ 7,656	$ 9,107	$ 1,694	$ 28,976	$ 25,087

THE SIGNAL COMPANIES, INC. (DEC)

Consolidated Balance Sheet

	1977	1976
	($000)	
Investments and Long-term Receivables:		
Investments in and advances to unconsolidated companies...	$268,290	$242,740
Long-term receivables and other investments	41,618	32,198
Total investments and long-term receivables	$309,908	$274,938

Consolidated Statement of Income

Income from consolidated companies before minority interest.	$ 87,055	$ 53,650
Equity in income of unconsolidated companies	26,494	18,194
Minority interest.....................	(12,042)	(7,644)
Income from continuing operations.	$101,507	$ 64,200

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Principles of Consolidation—All significant majority owned subsidiaries of The Signal Companies, Inc. (Signal) are consolidated except for Mack Financial Corporation and Signal Landmark Properties, Inc., whose finance and real estate activities are dissimilar to the operations of the consolidated group. Investments in unconsolidated companies are accounted for under the equity method.

Note 6: Investments and Advances—Information concerning investments in and long-term advances to unconsolidated companies is as follows:

		Total Assets	Total Liabilities	At December 31, 1977 Equity in Net Assets	Investments and Advances	Equity in Income (Loss) Years Ended 1977	1976
				(Dollars in thousands)			
Mack Financial Corporation—100% owned:......	Stock	$562,556	$469,006	$93,550	$ 93,550	$10,105	$ 9,095
	Advances				20,000		
Signal Landmark Properties, Inc.—100% owned:	Stock	82,659	33,317	49,342	49,342	8,090	3,304
	Advances				3,155		
Golden West Broadcasters—49.9% owned:......	Stock	60,766	30,311	15,196	34,739	2,178	2,338
American President Lines, Ltd.—45% owned: ...	Stock	340,839	207,763	58,961	46,428	6,420	4,294
Other companies:	Stock	70,351	42,691	11,206	10,966	(299)	(837)
	Advances				10,110		
					$268,290	$26,494	$18,194

Dividends received from unconsolidated companies amounted to $7,203,000 and $2,393,000 in 1977 and 1976.

The excess of Signal's investment over its equity in net assets of Golden West Broadcasters ($19,543,000) is considered by Signal to have a continuing value, principally radio and television station licenses, and accordingly is not being amortized. Signal has the exclusive option under certain conditions, to purchase the other 50.1% interest in Golden West Broadcasters for $18,250,000. To maintain the option, Signal must pay $250,000 per year which is applied to reduce the purchase price.

For information with respect to the industries and geographic areas in which the above unconsolidated companies operate, refer to pages 9 through 29.

THE SUPERIOR OIL COMPANY (DEC)

Consolidated Balance Sheet

	1977	1976
Investments (Notes 2 and 7)		
Affiliated companies		
McIntyre Mines Limited (owned 40.5%)..........	$ 83,774,000	$ 94,812,000
Austral Oil Company Incorporated (owned 20.6%)	17,865,000	15,459,000
Western Platinum Limited (owned 24.0%)..........	12,425,000	13,173,000
Marketable securities, at cost		
Texaco Inc.	—	16,155,000
Other	22,946,000	27,053,000
	$137,010,000	$166,652,000

Consolidated Statement of Income

Other Income (Expense)		
Dividends and miscellaneous income..........................	$9,001,000	$ 9,505,000
Gain on sale of 949,072 shares of Texaco stock (Note 2)....	9,325,000	—
Equity in earnings (losses) of affiliated companies (Note 2) .	(9,953,000)	4,199,000
Interest expense................	(7,452,000)	(10,045,000)
	$ 921,000	$ 3,659,000

Note 2 (in part): Investments—The Company's investments in McIntyre Mines Limited (McIntyre), a Canadian corporation engaged in coal mining, Austral Oil Company Incorporated (Austral), a U.S. corporation engaged in oil and gas operations, and Western Platinum Limited (Western Platinum), a South African corporation engaged in platinum mining, are accounted for on the equity method. An analysis of Superior's investment in these affiliated companies is presented in the following table, in thousands of U.S. dollars.

	Total	McIntyre (owned 40.5%(a))	Austral (owned 20.6%)	Western Platinum (owned 24.0%)
Transactions of prior years				
Cost of capital stock..........	111,763	91,661	14,207	5,895
Cash advances..........	5,118	—	—	5,118
Equity in earnings..........	24,842	21,356	831	2,655
Dividends received..........	(8,819)	(8,819)	—	—
Amortization of excess cost(b)..........	(14,162)	(13,468)	(322)	(372)
Investment at December 31, 1975..........	118,742	90,730	14,716	13,296
Cost of capital stock..........	398	—	398	—
Equity in 1976 earnings before extraordinary items..........	6,313	5,569	743	1
Equity in extraordinary items(c)..........	1,102	1,102	—	—
Dividends received..........	(997)	(997)	—	—
Amortization of excess cost..........	(2,114)	(1,592)	(398)	(124)
Investment at December 31, 1976..........	123,444	94,812	15,459	13,173
Loans to affiliated companies..........	1,500	—	1,500	—
Equity in earnings (losses)..........	(7,836)	(8,519)	1,307	(624)
Dividends received..........	(927)	(927)	—	—
Amortization of excess cost..........	(2,117)	(1,592)	(401)	(124)
Investment at December 31, 1977..........	114,064	83,774	17,865	12,425
Quoted market price at December 31, 1977..........		23,300	30,000	Not Quoted
Unamortized excess cost at December 31, 1977..........		30,242	4,809	1,855
Remaining years over which excess cost will be amortized on straight-line basis		19	12	15

(a)McIntyre capital stock is owned 36.2% directly by Superior and 4.3% indirectly through Canadian Superior.

(b)The term "excess cost" is used to denote the amount by which the cost of Superior's investment in the capital stock of each of its affiliates exceeded Superior's equity in the affiliate's net assets at the date of acquisition.

(c)Reduction in deferred income tax expense resulting from carryforward of prior years' losses.

* * *

Marketable Securities

A summary of the Company's marketable securities is set forth below (in thousands of dollars).

	December 31, 1977		December 31, 1976	
	Market	Cost	Market	Cost
Texaco Inc. (949,072 shares in 1976)..........	—	—	26,337	16,155
Other	24,043	22,946	28,809	27,053
	24,043	22,946	55,146	43,208

At December 31, 1977 and 1976, the gross unrealized gains of all marketable securities were $6,221,000 and $17,237,000, respectively, and the gross unrealized losses were $5,124,000 and $5,299,000, respectively. The net realized gains included in the consolidated statements of income were $7,342,000 in 1977 and $376,000 in 1976. The cost of securities sold was determined on a specific share basis.

Cost

AMPCO-PITTSBURGH CORPORATION (DEC)

	1977	1976
Investment in Pittsburgh Forgings Company, at cost (889,411 shares and 745,858 shares, approximate market value $17,455,000 and $14,171,000)	$10,723,358	$8,277,686

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Investment in Pittsburgh Forgings Company—The investment in Pittsburgh Forgings Company at December 31, 1977 and 1976 represented an approximate 29% and 26% equity interest, respectively. The Corporation accounts for this investment under the cost method because the criteria for use of the equity method are not satisfied. Under the equity method, the Corporation's share of Pittsburgh Forgings Company after tax earnings would have been approximately $1,600,000 and $2,000,000 in 1977 and 1976, respectively. The method utilized by the Corporation (cost method) reflects in net income the cash dividends actually received (less applicable income tax) in the approximate amounts of $660,000 and $550,000 in 1977 and 1976, respectively.

THE BLACK AND DECKER MANUFACTURING COMPANY (SEP)

	1977	1976
	(thousands of dollars)	
Other Assets		
Goodwill	$17,423	$17,907
Investment in 2,216,931 shares (12.7%) of common stock of McCulloch Oil Corporation —at cost, which approximated market	7,390	7,390
Sundry advances, deposits and accounts	16,472	9,736
	$41,285	$35,033

RUSS TOGS, INC. (JAN)

	1978	1977
Total current assets	$58,543,000	$55,666,000
Property and equipment (at cost, less depreciation and amortization of $5,454,000 in 1978, and $6,249,000 in 1977) (Notes A(3), D and F)	8,461,000	9,504,000
Net investment in direct financing lease (Notes A(7), F(3) and H(4))	4,807,000	
Investments in long-term debt securities-at cost (Notes A(4) and E)	1,507,000	3,359,000
Other assets	526,000	683,000
Total	$73,844,000	$69,212,000

Note A(4): Investments in Long-Term Debt Securities—Notes as to which payment is guaranteed by the U.S. Government which are being held to maturity are carried at cost (which may be in excess of market) and as noncurrent assets (Note E).

Note E: Investments in Long-Term Debt Securities—Investments in long-term debt securities at January 28, 1978 ($1,507,000) comprise V.A. and F.H.A. Mortgage Notes guaranteed by the U.S. Government. These notes are due in various installments to 2003 with interest at 6¾% to 7% a year.

The investments are stated at cost; market value at January 28, 1978 approximates $1,200,000.

Lower of Aggregate Cost or Market Value

THE KROGER CO. (DEC)

	1977	1976
Investments		
Marketable investment securities	$28,422,085	$45,063,765
Investments in and advances to unconsolidated companies	43,281,511	26,622,385
Other investments, at cost	7,370,999	5,920,166
Total investments	$79,094,595	$77,606,316

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Marketable Investment Securities—Marketable investment securities consist of bonds, notes and common and preferred stocks held for long-term investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (common and preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in shareowners' equity. Other marketable investment securities (bonds and notes) are carried at cost unless there is a permanent impairment of value, at which time the securities are valued at market. In management's opinion there is no indication of a permanent loss in value in any portion of the portfolio and there is no present intention to liquidate the securities portfolio at less than cost.

Marketable Investment Securities—Marketable investment securities include:

	1977	1976
Equity securities, at cost	$ 34,193,635	$ 40,654,944
Less valuation allowance	(14,266,420)	(8,651,432)
Equity securities, at market	$ 19,927,215	$ 32,003,512
Bonds and notes, at cost	8,514,870	13,060,253
	$ 28,442,085	$ 45,063,765

Marketable investment securities earned $1,015,626 and $1,246,997 in dividend income and $462,230 and $586,472 in interest income during 1977 and 1976, respectively.

The portfolio of equity securities included gross unrealized gains and losses of $189,433 and $14,455,853, respectively at December 31, 1977. Net realized gains on the sale of securities, after applicable taxes, included in the determination of net earnings for 1977 and 1976 amounted to $42,655 and $581,526, respectively. The valuation allowance decreased $1,094,045 during 1976 as compared to the previous year and increased $5,614,988 during 1977.

TIME INCORPORATED (DEC)

	1977	1976
	($000)	
Investments		
Unconsolidated subsidiaries	$14,180	$11,691
Companies 20% to 50% owned ...	31,240	5,527
Others—at cost less allowances of $2,196,000 in 1977 and $912,000 in 1976	26,906	28,532
Marketable equity securities—quoted market price of $25,956,000 in 1977 and $32,664,000 in 1976	20,588	27,034
Total Investments	$92,914	$72,784

NOTES TO FINANCIAL STATEMENTS

Marketable Equity Securities—Preferred and common stocks are classified as noncurrent investments and carried at cost.

At December 31, 1977 gross unrealized gains and losses pertaining to marketable equity securities were approximately $6,851,000 and $1,483,000, respectively. In 1977 a net realized gain of $368,000 and a small 1976 net realized gain of $368,000 and a small 1976 net realized loss on the sale of marketable equity securities are included in Other Income—Net. The cost of the securities sold was based on specific identification of the securities sold.

WARNER COMMUNICATIONS INC. (DEC)

	1977	1976
	($000)	
Total current assets	$480,490	$369,447
Marketable equity securities, carried at lower of cost (1976) or market (1977)	105,164	119,130
Accounts and notes receivable due after one year	31,785	33,817
Non-current inventories	40,615	26,151

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Equity Securities—At December 31, 1977, the portfolio of marketable equity securities is carried at its aggregate quoted market value of $105,164,000 (cost $111,473,000) and at December 31, 1976, the non-current portfolio is carried at its aggregate cost of $119,130,000 (market value $122,943,000). To reduce the portfolio to its aggregate market value at December 31, 1977, a valuation allowance of $6,309,000 was deducted from shareholders' equity.

The $24,208,000 portion of the marketable equity securities portfolio that has been classified as a current asset at December 31, 1976, represents those securities which were sold in January and February 1977 and on which no material gain or loss was realized.

Gross unrealized gains and gross unrealized losses pertaining to the marketable equity securities were $7,073,000 and $13,382,000, respectively, at December 31, 1977, and $10,649,000 and $6,836,000, respectively, at December 31, 1976. Realized gains and losses during 1977 and 1976 were not material.

It is management's present intention to maintain a portfolio of marketable equity securities as a source of capital for long-term investments. Accordingly, the investment in these marketable equity securities has been classified as a noncurrent asset.

THE WILLIAMS COMPANIES (DEC)

	1977	1976
Total current assets	$ 458,997	$ 376,555
Noncurrent investments (Notes 2 and 10)	203,088	206,616
Property, plant and equipment, at cost (Notes 6 and 9)	1,407,626	1,262,555
Less accumulated depreciation and depletion	254,216	203,701
Property, plant and equipment—net	1,153,410	1,058,854

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Investments—The noncurrent portfolio of marketable equity securities is carried at lower of cost or aggregate market. Changes in the valuation allowance, which reduces the carrying amount to market, are charged or credited directly to stockholders' equity. Other investments, including those carried in current assets but excluding companies carried on the equity method of accounting, are carried at cost. Interest and dividends are recorded on the accrual basis. Realized gain or loss is recognized based on first-in, first-out cost upon disposition of securities.

Note 2 (in part): Investments—Williams' investments at December 31, 1977 and 1976 and investing income for the years then ended are summarized as follows:

	1977	1976
	(Thousands)	
Included in current assets:		
Eurodollar deposits and domestic certificates of deposit	$ 36,581	$ 30,084
Other money market obligations	2,583	7,219
Preferred stock of Valley Distributing Company (redeemed at face value in January 1978)	14,338	—
Notes receivable	3,874	3,790
Noninterest bearing certificates of deposit used as compensating balances	6,805	6,600
	$ 64,181	$ 47,693
Included in noncurrent investments:		
Notes receivable:		
Williams International Group, Inc.:		
Notes maturing in increasing annual amounts through 1985.................	$ 47,408	$ 48,451
Revolving credit agreement	—	5,000
Other	3,603	3,553
	51,011	57,004
Preferred stocks and unregistered securities:		
Marketable equity securities:		
Cost	43,329	41,701
Allowance for unrealized loss	(3,187)	(2,718)
Carrying value (market value)................	40,142	38,983
Preferred stock of Valley Distributing Company (see above)..............	—	14,338
Other	4,045	10,878
	44,187	64,199
Unconsolidated subsidiaries (principally real estate)......	8,972	7,837
Partially owned companies:		
Peabody Holding Company, Inc.	21,586	—
Alton Box Board Company..	17,662	17,250
BancOklahoma Corp.	12,440	11,925
Fertilizer companies, by location:		
United States............	16,043	12,909
Republic of Korea, at cost	17,500	17,500
Republic of Ireland.......	8,618	9,215
South America	5,002	2,869
Middle East..............	—	4,070
Other	67	1,838
	98,918	77,576
	$203,088	$206,616

Investing income includes:		
Interest	$7,756	$ 8,291
Dividends	4,267	4,451
Realized gains on marketable equity securities	124	1,399
Equity in earnings (losses) of partially owned companies except Peabody Holding:		
Alton Box Board Company	1,005	1,629
BancOklahoma Corp. ...	938	1,190
Fertilizer companies, by location:		
United States.........	(445)	(491)
Republic of Ireland...	(1,677)	(565)
South America	(623)	65
Other losses......................	(1,670)	(53)
	$9,675	$15,916

At December 31, 1977, gross unrealized gains and gross unrealized losses pertaining to marketable equity securities were $1,580,000 and $4,767,000, respectively. The change in the valuation allowance, which reduces the carrying amount of noncurrent marketable equity securities to market, resulted in a $469,000 charge to stockholders' equity in 1977 and a $5,076,000 credit (net of income taxes) to stockholders' equity in 1976.

Cost Recovery Method

THE BFGOODRICH COMPANY (DEC)

Balance Sheet

	1977	1976
	($000)	
Investments and Receivables		
Associate companies	$40,857	$51,881

Statement of Income

Other (charges) credits:		
Provision for disposal of certain foreign operations	$(5,973)	$(17,605)
Equity in losses of associate companies	(4,937)	(5,562)
Gain on extinguishment of debt	1,278	—
Exchange gain (loss)............	932	(4,281)
Other income—net	1,244	910
	$(7,456)	$(26,538)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Principles of Consolidation—The financial statements include the accounts of all subsidiaries except BFGoodrich Finance Company (BFGFC) which is included on the equity method. Its total assets (primarily purchased receivables of the Company) approximate the Company's investment in BFGFC. The pre-tax income of BFGFC is included in the Statement of Income as a reduction of interest expense and its provision for income taxes is included in the income tax provision. Inter-company accounts, transactions and profits in inventories of consolidated subsidiaries have been eliminated upon consolidation.

Investments in associate companies (20% to 50% owned) are carried at equity except for The Yokohama Rubber Co., which is being accounted for by the cost recovery method (see Note C). Because financial data is not available on a timely basis for four of these companies, the Company recognizes its equity in the earnings or losses of such associates based on a period ending three months prior to the end of the Company's reporting period.

Note C (in part): Foreign Operations

Associate Companies—The Company has had an investment in The Yokohama Rubber Company (YRC) for 60 years and currently owns 33.6% of its outstanding common stock. Prior to 1977, the Company, as the holder of the largest block of YRC stock, was able to exercise significant influence over certain operating policies of YRC. In accordance with Accounting Principles Board Opinion No. 18, the Company accounted for its investment in YRC by the equity method on a six months delay basis.

In early 1977, the Company, discerning changes in its relationship with YRC, undertook a study of the Company's activities regarding YRC. That study indicated that, in fact, the Company's relationship with YRC had changed during 1977 and that the Company had lost its ability to influence significantly the policies of YRC, although the cause of the change was not then apparent. The Company subsequently learned that in the first half of 1977, a Japanese business group, of which YRC is a member, reorganized and expanded. The members of this group own and control a substantial block of the voting stock of YRC. Discussions in Japan confirmed management's conclusion in the initial study that the Company no longer possessed the ability to influence significantly YRC's financial and operating policies. Due to this change in circumstances, the Company, with the approval of the Board of Directors, decided to realign its investment interest in YRC.

Accordingly, as of June 30, 1977, the Company ceased equity accounting for its investment in YRC. In September 1977, YRC instituted a special tire inspection and replacement program for tires manufactured by YRC prior to 1976. Considering this action, the management's decision to realign the investment, the Company provided $3,177,000 in the third quarter which reduced the amount of the stock investment to the Company's cost of $10,825,000. Had conditions not changed and the Company continued to account for its investment in YRC under the equity method, the Company's equity in losses of YRC reported for 1977 would have been increased by $10,825,000 resulting principally from a foreign currency translation loss caused by the appreciation of the Yen relative to the dollar.

Although there may be Japanese legal and other restrictions on the Company regarding the sale of the YRC stock, the market value of the Company's stock investment at December 31, 1977 as indicated by quotations on the Tokyo Stock Exchange is $41,500,000. Any sales may not be at this value. However, in the opinion of management, the carrying value of $10,825,000 at December 31, 1977 is fully realizable.

The Company will apply the cost recovery method to its stock investment in YRC. Under this method, no income will be recognized from any future dividends or sales of YRC stock until the carrying value of the investment has been fully realized.

The caption "Equity in losses of associate companies" in the Statement of Income is comprised of the following amounts:

(Dollars in thousands)	1977	1976
The Yokohama Rubber Co.	$(4,811)	$(5,087)
Other Associate Companies	(126)	(475)
	$(4,937)	$(5,562)

NONCURRENT RECEIVABLES

Chapter 3, Section A of *ARB No. 43* states that the concept of current assets excludes "receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) which are not expected to be collected within twelve months." *APB Opinion No. 21* requires the imputation of a realistic interest rate to most long-term receivables not bearing interest or bearing an interest rate lower than the prevailing rate. Exceptions to the aforementioned requirement are listed in paragraph 3 of *Opinion No. 21.* Table 2-16 summarizes the balance sheet captions used to describe noncurrent receivables. Examples of noncurrent receivables follow.

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

	1977	1976
Long Term Receivables	$1,906,000	$1,128,000

1977 FINANCIAL SUMMARY

Long Term Receivables—Long term receivables consist of notes maturing after one year, and are generally collectible in installments over periods ranging up to four years. Interest rates on major receivable items range from 9% to 10.5% simple interest.

COLECO INDUSTRIES, INC. (DEC)

	1977	1976
Other Assets:		
Future income tax benefits (Note 7)	$ 588,000	$ 826,000
Intangible assets (Note 6)	4,242,000	4,454,000
Mortgage note receivable (Note 6)	1,831,000	2,033,000
Miscellaneous (Note 6)	1,013,000	1,069,000
Total other assets	$7,674,000	$8,382,000

Note 6 (in part): Other Assets

Mortgage Note Receivable—In 1975, the Company sold its former snowmobile manufacturing facility for cash and an 8% note receivable for $2,100,000 collateralized by a first mortgage on the facility, and collectible in Canadian dollars over the ensuing 15 years in amounts ranging from $51,000 in 1978 to $1,060,000 in 1990. All scheduled mortgage payments have been received.

GANNETT CO. INC. (DEC)

	1977	1976
Long-term receivables, less unamortized discount (Note 4)	$12,944,943	$14,410,623

Note 4: Long-Term Receivables—A summary of long-term receivables at December 25, 1977 and December 26, 1976, is as follows:

	1977	1976
Secured 5⅜% note receivable, due in annual installments of $666,000 to December 24, 1982 and a final payment of $4,006,000 on December 24, 1983	$ 7,336,000	$ 8,002,000
Less-unamortized discount (based on imputed interest of 9¾%)..........	1,486,932	1,836,888
	5,849,068	6,165,112
Note receivable, due in annual installments of $568,000 to December 30, 1984, interest at 80% of prime rate	3,976,000	5,112,000
Less-unamortized discount (based on imputed interest of 10¼%)	246,712	308,267
	3,729,288	4,803,733
7½% note receivable, due in annual installments of $121,587 including interest to January 4, 1979 and balance due January 4, 1980	932,904	980,923
8% note receivable in quarterly installments of $30,893 including interest, with balance due December 22, 1981...............	674,832	725,000
Other receivables..................	3,013,423	2,957,102
	14,199,515	15,631,870
Less amount included in current assets—other receivables	1,254,572	1,221,247
	$12,944,943	$14,410,623

K MART CORPORATION (JAN)

	1978	1977
Investment in and Advances to Insurance Operations	$57,890,000	$47,464,000
Other Assets and Deferred Charges	50,192,000	45,379,000
Receivables from Sub-Tenants under direct financing leases ...	12,495,000	

THE MARLEY COMPANY (OCT)

	1977	1976
Other Assets:		
Sundry accounts and deposits ..	$2,325,827	$2,024,515
Customer receivables due after one year......................	1,402,303	1,279,783
Total other assets	$3,728,130	$3,304,298

TABLE 2-16: NONCURRENT RECEIVABLES

	1977	1976	1975	1974
Balance Sheet Description				
Long-Term Receivables ...	55	60	51	52
Notes Receivable	32	19	28	36
Notes and accounts receivables combined	9	20	19	17
Accounts Receivable	2	4	11	11
Other—described	23	21	36	20
Receivables combined with other investments, deposits, etc.	84	92	105	110
Total Presentations..............	**205**	**216**	**250**	**246**
Number of Companies				
Presenting noncurrent receivables	191	210	224	215
Not presenting noncurrent receivables	409	390	376	385
Total	**600**	**600**	**600**	**600**

PRATT-READ CORPORATION (JUN)

	1977	1976
Total current assets	$13,076,449	$11,760,935
Note Receivable (Note C)	204,147	254,151

Note C: Note Receivable—This note was received in connection with the sale of the common stock of a former wholly owned subsidiary, Tech-Art Plastics Company, on June 30, 1972. The 6% note, which is collateralized by all of the common stock of Tech-Art, is payable in monthly installments ($50,000 annually) to July 1, 1977, at which time the balance of $250,000 is due.

On July 1, 1977 the note was rewritten for $250,000 at 8% payable in monthly installments ($50,000 annually) to July 1, 1980, at which time the balance of $100,000 is due.

UNITED FOODS, INC. (FEB)

	1977	1976
Other:		
Property and equipment, held for disposal, at estimated realizable value	$ 661,102	$2,034,475
Notes receivable, less current maturities.....................	257,123	121,450
Due from related parties (Note 2)	540,940	564,092
Deferred costs	348,950	419,879
Excess of cost over underlying equity in assets purchased..	266,841	344,302
Total Other Assets.......	$2,074,956	$3,484,198

Note 2: Due From Related Parties—The amounts due from related parties are summarized as follows:

	February 28 or 29, 1977	1976
Notes receivable from officer and stockholders, less current maturities	$299,068	$ 80,679
Account receivable—William Inglis & Sons Baking Co. (WIBCO)	—	230,393
Revolving fund certificates due from Agricultural Services Association, Inc. (ASA)	203,000	253,000
Accounts receivable—ASA	38,852	—
Certificates of membership—ASA	20	20
	$540,940	$564,092

The notes receivable from officer and stockholders (John Inglis, an officer and stockholder and Weston Inglis, a stockholder) reflects the non-current balance of a note dated April 30, 1976, in the original amount of $315,331 consisting of the unpaid balance plus interest on the note receivable from them and the account receivable from William Inglis & Sons Baking Co.

The notes are due in semi-monthly installments which began May 15, 1976, and bear interest at 120% of prime rate plus ¼% (currently 7.8%). Each installment is an amount equal to the lesser of $1,500 or 25% of the aggregate gross salaries of John and Weston Inglis and is being withheld from their salaries. In addition to the semi-monthly installments, each has also assigned to the company 100% of any and all bonuses, after withholding taxes. Such bonuses are to be applied to principal at the time they would otherwise become payable by the company.

As additional collateral John and Weston Inglis transferred and assigned life insurance policies of $100,000 each to the company.

Subsidiaries of the company have made advances to and investments in Agricultural Services Association, Inc. (ASA), Bells, Tennessee, a member-owned cooperative, with over 2,000 memberships, of which two were held by subsidiaries of the company at February 28, 1977.

The revolving fund certificates, transferable only on the books of the association, are non-interest bearing, retirable numerically in the order of issuance at the discretion of the board of directors of the association and are subordinate to all other debts of the association.

Subsidiaries of the company incurred the following amounts for raw product purchases, transportation charges and other items from the association:

	Year ended February 28 or 29, 1977	1976
Raw product purchases	$3,792,624	$5,870,502
Transportation charges	2,577,483	2,481,572
Other items	5,357	35,309
Totals	$6,375,464	$8,387,383

INTANGIBLE ASSETS

APB Opinion No. 17, as amended by *APB Opinion No. 30,* sets forth requirements as to accounting for intangible assets. *Opinion 17* stipulates that all intangible assets acquired after October 31, 1970 or recognized in business combinations initiated after October 31, 1970 be amortized over a period not to exceed 40 years and that "financial statements should disclose the method and period of amortization."

Table 2-17, which summarizes intangible assets by type and by accounting treatment, shows the prevalance of goodwill recognized in a business combination. Table 2-17 excludes certain assets often considered to be intangible which were presented with land or depreciable assets.

Goodwill

BRISTOL-MYERS COMPANY (DEC)

	1977	1976
Excess of cost over net tangible assets received in business acquisitions	$71,769,000	$70,954,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Excess of Cost over Net Tangible Assets—The excess of cost over net tangible assets received in business acquisitions subsequent to October 31, 1970 is being amortized on a straight-line basis, over forty years, in compliance with Opinion No. 17 of the Accounting Principles Board. The management of the company believes that the underlying value of excess cost over net tangible assets received in business acquisitions has not diminished and therefore does not amortize that recorded prior to October 31, 1970.

CENTRAL SOYA COMPANY, INC. (AUG)

	1977	1976
	($000)	
Total current assets	$306,048	$301,725
Property, plant and equipment—net	146,036	125,873
Cost in excess of net assets of subsidiaries	12,630	1,821
Other assets	3,966	2,425
	$468,680	$431,844

STATEMENT OF ACCOUNTING POLICIES

Cost in excess of net assets of subsidiaries—Cost in excess of the net assets of purchased subsidiaries is amortized, on a straight line basis, over periods ranging from 15 to 20 years. Accumulated amortization totaled $2.6 million at August 31, 1977 ($2.0 million at August 31, 1976).

TABLE 2-17: INTANGIBLE ASSET VALUATION

	1977	1976	1975	1974
Assets Being Amortized				
Goodwill recognized in a business combination....	255	222	234	235
Goodwill—source not indicated	33	31	27	27
Patents, patent rights	45	60	75	78
Trademarks, brand names, copyrights	20	28	21	21
Licenses, franchises, memberships	20	20	22	22
Other—described	25	38	21	21
Intangible assets (not otherwise described)	12	19	31	29
Total Disclosures	**410**	**418**	**431**	**433**
Assets Not Being Amortized				
Goodwill recognized in a business combination....	160	156	162	168
Goodwill—source not indicated	15	18	20	19
Trademarks, brand names, copyrights	7	10	10	10
Other—described	4	10	8	4
Intangible assets (not otherwise described)	1	2	11	11
Total Disclosures	**187**	**196**	**211**	**212**
Other Bases				
Nominal value...............	5	12	26	26
Basis not determinable	13	33	30	32
Total Disclosures	**18**	**45**	**56**	**58**

FMC CORPORATION (DEC)

	1977	1976
	($000)	
Intangibles of companies acquired	$38,538	$34,886

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Principal accounting policies

Intangibles of companies acquired. Intangibles represent the difference between the consideration paid for companies acquired in purchase transactions and the net assets of such companies. Intangibles acquired since October 31, 1970 are being amortized on a straight-line basis over periods not exceeding 20 years; intangibles acquired before that date ($32,998,000 at December 31, 1977) are not being amortized, as management believes that there has been no diminution of value.

GENERAL FOODS CORPORATION (MAR)

	1977	1976
	($000)	
Current Assets	$1,568,543	$1,252,483
Land, Buildings, Equipment, at cost, less accumulated depreciation ..	717,424	693,197
Long-Term Receivables and Sundry Assets	30,060	27,899
Goodwill, less accumulated amortization of $15,746 in 1977 and $5,383 in 1976	28,990	39,353
Total	$2,345,017	$2,012,932

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Goodwill—Goodwill represents the excess of cost over the fair value of net tangible assets of acquired business, and all goodwill is being amortized by the straight-line method over periods not to exceed 40 years.

LYNNWEAR CORPORATION (NOV)

	1977	1976
Total current assets	$13,622,000	$14,228,000
Property and equipment—at cost less accumulated depreciation ..	648,000	570,000
Goodwill—at cost less accumulated amortization of $333,000 and $276,000	3,580,000	3,810,000
Investment in 50% owned company—at equity	—	212,000
Other assets.........................	751,000	561,000
	$18,601,000	$19,381,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Goodwill—The excess of investment cost over fair value of the net assets of purchased businesses has been capitalized as an intangible. Goodwill of $1,198,000 incurred in connection with acquisitions prior to October 31, 1970 represents an asset of continuing value and no periodic amortization is anticipated. Goodwill resulting from a 1972 acquisition is being amortized by the straight-line method over 40 years.

As a result of its program of continually evaluating the utility of goodwill, the Company determined that $155,000, representing the remaining unamortized goodwill incurred in the acquistion of Premier Fabrics, Inc., whose operations have become unprofitable, should be charged to operations in fiscal 1977.

MILTON ROY COMPANY (DEC)

	1977	1976
Notes receivable	$396,118	$779,993
Other assets	351,017	318,657
Goodwill, less accumulated amortization of $208,322 and $128,527	816,746	896,541

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amortization of goodwill: Costs of investments in purchased companies in excess of the underlying fair value of net assets at dates of acquisition are recorded as goodwill and amortized over 6 to 40 years on a straight-line basis.

PHILIP A. HUNT CHEMICAL CORPORATION (DEC)

	1977	1976
Other Assets		
Excess of cost over net assets of subsidiaries purchased	$1,440,969	$1,469,237

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

The excess cost of a subsidiary purchased in January 1972 over the fair value of net assets acquired is being amortized on a straight-line basis over a thirty year period from date of acquisition. Similar excess costs for other companies acquired prior to 1970 are not being amortized as there is no present indication that the intangible assets have determinable lives, and, in management's opinion, there has been no decline in original value.

SCOVILL MANUFACTURING COMPANY (DEC)

	1977	1976
Excess of cost over net tangible assets of businesses purchased	$19,809,000	$19,876,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): A summary of significant accounting policies follows:

Intangibles—Excess of cost over net tangible assets of businesses purchased prior to November 1, 1970 ($17,433,000 at December 25, 1977 and December 26, 1976) is not being amortized. The amounts (1977—$2,376,000; 1976—$2,443,000) arising from acquisitions after October, 1970 are amortized on a straight-line basis over a 40-year period.

TRIANGLE INDUSTRIES, INC. (DEC)

	1977	1976
Other Assets		
Receivables due after one year, less allowance for doubtful accounts (1977—$296,000; 1976—$114,000)	$ 223,000	$2,091,000
Excess of cost over tangible value of businesses acquired	2,380,000	2,206,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Amortization of Intangibles—The excess of cost over tangible value of businesses acquired, arising from acquisitions accounted for as purchases prior to October 31, 1970, is not being amortized since there is no present indication of any impairment in the value of these intangibles. The excess of cost over tangible value of businesses acquired during 1977 is being amortized on a straight-line basis over their estimated lives, but not in excess of ten years. Other intangibles are amortized over their estimated useful lives.

Patents

BENTLEY LABORATORIES, INC. (NOV)

	1977	1976
Other Assets:		
Patents and patent rights (less accumulated amortization of $325,000 in 1977 and $285,000 in 1976) (Note 1)	$ 197,000	$ 204,000
Excess of cost over carrying value of net assets acquired (less accumulated amortization of $140,000 in 1977 and $113,000 in 1976) (Note 1)	616,000	674,000
Miscellaneous	208,000	376,000
Total other assets	$1,021,000	$1,254,000

Note 1 (in part): Summary of Significant Accounting Policies

Patents and Patent Rights—The cost of patents, patent rights, and a license agreement are amortized over the estimated useful lives of the assets, generally ten years, on a straight-line basis.

DANIEL INDUSTRIES, INC. (SEP)

	1977	1976
Total current assets	$40,295,109	$32,291,248
Property, plant and equipment, at cost, less accumulated depreciation	21,943,947	14,762,083
Intangible assets	1,626,505	—
Other assets	104,163	167,480
	$63,969,724	$47,220,811

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Intangible assets are amortized over their estimated useful lives using the straight-line method.

Note 6: Intangible Assets—Intangible assets included in the acquisition described in Note 2 comprised the following at September 30, 1977:

	Acquisition Cost	Estimated Useful Life in Years
Patents	$ 971,145	10
License agreements	534,131	10
Engineering drawings	147,629	10
	1,652,905	
Less accumulated amortization	26,400	
	$1,626,505	

Patents are being amortized over an average life of approximately 13 years. Patent amortization was $.7 million in 1977 and $.1 million in 1976. The excess of cost over net assets for acquisitions prior to October 31, 1970 (approximately $18.1 million) is not being amortized. Amortization of excess of cost over net assets for acquisitions after October 31, 1970 was $2.3 million in 1977 and $2.5 million in 1976.

DRESSER INDUSTRIES, INC. (OCT)

	1977	1976
	(Millions)	
Investments and Other Assets		
Investments in unconsolidated subsidiaries and affiliates—Notes A and B	$ 46.1	$ 49.2
Intangible assets of businesses acquired—Note G	58.1	25.1
Long-term receivables and investments	32.5	22.8
Common shares of the Company held for deferred compensation—at cost—Note K	4.0	4.2
Other assets	17.5	17.6
Total Investments and Other Assets	$158.2	$118.9

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible assets—The excess of cost over net assets of businesses acquired after October 31, 1970 is amortized on a straight line basis over the estimated period benefited, not to exceed 40 years. The excess of cost over net assets of businesses acquired prior to October 31, 1970 will not be amortized unless it should develop that such intangible assets have a limited or readily determinable useful life.

The costs of patents acquired in connection with business acquisitions are amortized on a straight-line basis over the remaining economic life of the respective patents, but in no event longer than the remaining legal life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G—Intangible Assets of Businesses Acquired—Intangible assets of businesses acquired at October 31, 1977 consist principally of the acquisition costs allocated to patents of $31.2 million ($30 million acquired in 1977—see Note D) and the excess of cost over net assets at date of acquisition of $20.9 million.

ESMARK, INC. (OCT)

	1977	1976
	($000)	
Working capital	$ 468,776	$ 369,230
Investments and other assets	57,815	68,684
Property and operating facilities	759,850	736,527
Patents and trademarks	48,693	51,933
Excess of cost over net assets of purchased businesses	29,229	28,541
Total assets less current liabilities	$1,364,363	$1,254,915

FINANCIAL COMMENTS

Intangible assets—Patents and trademarks, primarily acquired in the purchase of Playtex, are being amortized on the straight line method over their expected useful lives but not in excess of forty years.

The excess of cost over net assets of businesses purchased subsequent to 1971 ($9.7 million at October 29, 1977) is being amortized using the straight line method over forty years. The remainder of such excess cost is not required to be amortized.

MULTI-AMP CORPORATION (APR)

	1977	1976
Total current assets	$55,593,637	$64,080,155
Fixed assets at cost:		
Land and building	1,485,456	2,556,814
Machinery and equipment	6,903,030	5,791,061
Tools and dies	2,392,976	1,808,930
Leasehold improvements	2,249,217	2,033,495
	13,030,679	12,190,300
Less: Accumulated depreciation and amortization (Note 4)	5,608,874	3,439,141
	7,421,805	8,751,159
Patent and trademarks, net of accumulated amortization of $1,197,488 and $237,459 (Note 6c)	4,183,603	4,670,024
Other assets	1,881,323	2,370,745
Total Assets	$69,080,368	$79,872,083

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Patent and Trademarks—Patents and trademarks, including related legal fees, are stated at cost less accumulated amortization, and are being amortized over their estimated lives.

Note 6 (in part): Long Term Debt

(c) As of January 1, 1976, the Company, which had been a defendant in a patent infringement lawsuit, acquired through a new wholly-owned subsidiary organized for this purpose, one of the primary patents involved in the manufacture of FM stereo radio receivers together with most of the licenses theretofore granted thereunder. The purchase price of the patent, which expires February 25, 1981, was $4,430,000. The purchase price is to be paid principally from the license fee income received from licensees. The Company has guaranteed payment of $1,500,000 of the purchase price to be paid to the seller according to a five year payment schedule. As security for the obligation, the seller received a security interest in the patent and licenses. The agreement also provides that upon default in payment or the occurrence of certain events, the patent is to revert to the seller. Income received under the patent and turned over to the seller through March 31, 1977 was $1,232,402 leaving a balance guaranteed by the Company of $267,598. The patent cost and expenses, including legal fees amounting to $477,000, is being amortized over the remaining life of the patent.

WHITTAKER CORPORATION (OCT)

	1977	1976
	($000)	
Other Assets		
Goodwill, net of amortization.......	$34,149	$33,095
Notes receivable—non current (with interest rates ranging from 6% to 11%)....................	24,418	23,721
Deferred income tax benefits.......	7,671	5,975
Patents, net of amortization........	2,254	3,181

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Financial Statements

Intangibles: Goodwill resulting from acquisitions made prior to November 1, 1970 is not amortized unless, in the opinion of management, it has diminished in value. Goodwill arising from acquisitions subsequent to October 31, 1970 is amortized using the straight-line method over 40 years in accordance with Accounting Principles Board Opinion No. 17.

Patents are amortized using the straight-line method over the lesser of economic or legal life.

Franchise Costs

MCDONALD'S CORPORATION (DEC)

	1977	1976
	($000)	
Intangible assets, net	$42,668	$33,370

FINANCIAL COMMENTS

Summary of significant accounting policies (in part):

Franchise and operating rights—Costs applicable to the underlying rights to the McDonald's System acquired by the Company in 1961 are not being amortized. The costs allocated to unlimited term franchise rights reacquired after October 1970 are being amortized on the straight line method over 40 years. The costs allocated to such rights reacquired prior to November 1970 are not being amortized. The costs allocated to limited term franchise rights reacquired from licensees are being amortized on the straight line method over their estimated lives.

Intangible assets—In 1961, the Company acquired the underlying rights (previously covered by a 99-year franchise agreement) to the McDonald's System, trademarks and tradenames. Remaining costs of these rights, after application of credits in prior years from sales of certain exclusive foreign territorial rights, amounted to $1,839,000 at December 31, 1977 and 1976.

The Company has reacquired certain unlimited term territorial franchise and operating rights. The unamortized cost of these rights amounted to $14,701,000 and $14,285,000 at December 31, 1977 and 1976, respectively, of which $11,760,000 is not being amortized.

The Company and its subsidiaries have also reacquired limited term franchise rights in conjunction with the purchase of businesses operating McDonald's restaurants under limited term license agreements. The unamortized costs of such rights totaled $25,468,000 and $16,606,000 at December 31, 1977 and 1976, respectively.

PUROLATOR, INC. (DEC)

	1977	1976
Intangible assets (note 7)...........	$16,685,521	$18,782,174
Less accumulated amortization .	1,614,333	1,758,321
Net intangible assets	$15,071,188	$17,023,853

Note 7: Intangible Assets—Intangible assets consist of the following:

December 31	1977	1976
Excess of cost over underlying value of net assets of companies acquired............................	$13,029,985	$14,958,445
Franchise costs and other intangibles	3,655,536	3,823,729
	$16,685,521	$18,782,174

The excess of cost over the underlying value of the net assets of companies acquired prior to November 1, 1970 is not being amortized as, in the opinion of management, there has been no diminution in the value of the investments. The excess of cost over the underlying value of the net assets of companies acquired after October 31, 1970 is being amortized on a straight-line basis over its estimated life, not exceeding forty years, in accordance with accounting principles related to acquisitions subsequent to such date.

Franchise costs and other intangibles are being amortized on a straight-line basis over their estimated lives.

At December 31, 1977, approximately $6,990,000 of the excess of cost over the underlying value of net assets of companies acquired is being amortized.

License

MICROFORM DATA SYSTEMS, INC. (JUL)

	1977	1976
Intangibles		
Software license, less amortization (1977—$92,103; 1976—$18,168)—Note B .	$ 646,931	$ 720,866
Goodwill, less amortization (1977—$135,636; 1976—$87,764)............	343,053	390,925
Patents and other intangibles, less amortization (1977—$758,417; 1976—$673,417)	92,083	177,083
	$1,082,067	$1,288,874

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Intangibles—Intangibles are being amortized by the straight-line method over a ten-year period.

Note B: Acquisition—Effective April 15, 1976, the Company acquired certain assets and a twenty-year software license relating to a clinical laboratory data processing system product line for cash and a short-term note aggregating $1,050,000 and 100,000 shares of Common Stock (fair market value $250,000). The purchase price was allocated to the tangible assets based on fair market values. The excess of the purchase price over the fair market value of the tangible assets ($739,000) was allocated to the software license. The amount allocated to the software license is being amortized over ten years. The agreement also required the Company to pay a royalty based on the subsequent sales or leases of the system for a three-year period. The royalty provision of the agreement was amended in 1977 and the Company prepaid a $150,000 royalty to cover all sales and leases of the system subsequent to April 15, 1977.

Leasehold Rights

THE RATH PACKING COMPANY (OCT)

	1977	1976
Other Assets:		
Leasehold rights and other intangible assets less accumulated amortization: 1977—$268,000, 1976—$176,000 (Note 1)	$1,679,000	$1,771,000
Miscellaneous noncurrent assets ...	82,000	202,000
	$1,771,000	$1,973,000

Note 1 (in part): Accounting Policies—

Leasehold Rights and Other Intangible Assets—With minor exceptions, the costs of leasehold rights and other intangible assets are being amortized on a straight-line basis over 25 years, which is the term (including optional renewal periods) of the related lease.

TABLE 2-18: OTHER NONCURRENT ASSETS

	Number of Companies			
	1977	1976	1975	1974
Segregated cash or securities	58	63	77	66
Deferred income taxes	31	30	41	39
Property held for sale	30	33	34	31
Debt expense	22	30	48	49
Cash surrender value of life insurance	20	23	27	26
Prepaid expenses	16	28	44	44
Assets leased to others	13	14	24	N/C
Start up costs	9	5	10	18
Employee benefits	8	8	10	13
Other identified noncurret assets	35	39	56	30
Deferred charges or Other Noncurrent assets—not described	487	511	555	560

N/C — Not Compiled.

OTHER NONCURRENT ASSET CAPTIONS

Table 2-18 summarizes the nature of accounts (other than property, investments, noncurrent receivables, and intangible assets) identified as noncurrent assets on the balance sheets of the survey companies. Effective for fiscal periods beginning on or after January 1, 1975, *Statement of Financial Accounting Standards No. 2,* issued in October 1974 by the Financial Accounting Standards Board, stipulates that research and development costs be charged to expense when incurred. Excluded from the above mentioned requirement are costs of research and development activities conducted for others under a contractual arrangement.

Examples of other noncurrent assets follow.

Segregated Funds

ASARCO INCORPORATED (DEC)

	1977		1976	
	($000)			
Property:				
Buildings and equipment	$839,935		$794,753	
Mineral land	123,521		146,164	
Land, other than mineral	30,336		28,277	
Automobiles	3,424		3,145	
Total Property	997,216		972,339	
Less: Accumulated depreciation and depletion	343,679		326,409	
Net Property		653,537		645,930
Borrowed Funds Escrowed for Construction (note 5)		41,092		69,525
Other Assets		22,172		26,003

Note 5 (in part): Long-Term Debt and Available Credit Facilities (in millions)

	1977 Long-Term Amount	1977 Due Within One Year	1976 Long-Term Amount	1976 Due Within One Year
Obligations under Nueces River Authority (Texas) 7⅜% Environmental Improvement Revenue Bonds, Series 1976-A and B (authorized $55.0) due 2006. Payable in annual installments commencing in 1991 of $0.8; $1.3—1992/94; $1.5—1995/98; $2.0—1999/2002; $2.5—2003/4; $3.5—2005 with balance payable at maturity. (b)	55.0	—	55.0	—
Obligations under Lewis and Clark County (Montana) 6¾% Pollution Control Bonds 1976 Series (authorized $37.0) due 2006. Payable in annual installments of $0.6 commencing in 1992 through 2005 with balance payable at maturity. (b)	37.0	—	37.0	—

(b)Proceeds from these borrowings have been committed to construction at the Company's El Paso, East Helena and Corpus Christi plants. At December 31, 1977, $53,470,000 had been expended from these funds. Remaining funds are included in the caption "Borrowed funds escrowed for construction."

THE DOW CHEMICAL COMPANY (DEC)

	1977	1976
Plant Properties	$6,985,210,244	$5,987,278,500
Less—Accumulated depreciation	2,785,671,301	2,433,358,376
	4,119,538,943	3,553,920,124
Unexpended Pollution Control Funds	38,867,349	67,503,406
Goodwill	83,478,798	83,588,887
Deferred Charges and Other Assets	85,838,945	81,493,663

NOTES TO FINANCIAL STATEMENTS

Note F: Unexpended Pollution Control Funds—Proceeds from the sale of pollution control bonds by various local municipalities have been deposited with trustees pending reimbursement to the Company for qualified expenditures. These funds are restricted to the use for which they were intended. The unpaid liability is included in long-term debt (See Note G).

STANADYNE, INC. (DEC)

	1977	1976
	(In Thousands)	
Property, Plant and Equipment		
Land	$ 949	$ 766
Buildings and land improvements	30,150	28,658
Machinery and equipment	77,593	67,118
Capitalized lease facilities	3,596	1,451
	112,288	97,993
Less accumulated depreciation	58,333	56,139
Net Property, Plant and Equipment	53,955	41,854
Unexpended Plant and Equipment Funds	1,254	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (in part): Debt—In June 1977 the Company entered into a noncancellable lease agreement with Onslow County, North Carolina Industrial Facilities and Pollution Control Financing Authority for property, plant and equipment in Jacksonville, North Carolina. The transaction has been accounted for as a capital lease and accordingly the principal amount of the related bonds ($4,000,000) issued by the Authority are included in the Company's long-term debt in 1977. As of December 31, 1977, $2,746,000 of the proceeds from issuance of the bonds had been used for the acquisition or construction of the facilities. The remaining portion of the funds are on deposit with a trustee for additional plant and equipment which may be purchased under the terms of the agreement. Unexpended amounts, if any, remaining at the completion of the project will be refunded to the Authority as a reduction of the principal amount of the debt outstanding.

Deferred Income Taxes

NCR CORPORATION (DEC)

	1977	1976
	($000)	
Property, plant and equipment		
Land	$ 25,003	$ 25,098
Buildings	252,325	239,873
Machinery and equipment	486,766	486,265
	764,094	751,236
Less: Accumulated depreciation	384,581	373,844
	379,513	377,392
Deferred income taxes and future income tax benefits	43,438	54,075
Other assets	77,091	59,506

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Income Taxes—Certain revenue and expense items in the Statement of Consolidated Results of Operations are recorded in a year different from the year in which they are recorded for income tax purposes. Thus, several significant differences exist between financial statement income and taxable income. In years prior to 1973, these differences resulted in financial statement loss carryforwards. Accordingly, anticipating that NCR would be profitable in future years and that the charges which resulted in the financial statement loss carryforwards would reduce future taxable income, NCR recorded anticipated future income tax benefits. NCR has not incurred net operating losses for income tax purposes and, therefore, does not have tax loss carrybacks or carryforwards under definitions of the Internal Revenue Code.

The amount of United States income generated since 1972 has enabled NCR to realize large amounts of the anticipated future income tax benefits: the remaining balance at December 31, 1977, totals $17,191,000 ($54,075,000 at December 31, 1976). Large recurring timing differences, however, have resulted in continued significant cumulative differences between financial statement income and taxable income. The tax effects of these recurring timing differences are reflected in the Statement of Consolidated Financial Position in "Deferred income taxes" (current), and "Deferred income taxes and future income tax benefits" (non-current).

SAFEWAY STORES, INCORPORATED (DEC)

	1977	1976
Other assets:		
Licenses, notes receivable and investments	$25,735,000	$24,572,000
Deferred income tax charges	3,534,000	6,624,000
Excess of cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	2,613,000	2,831,000
	$31,882,000	$34,027,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies.

Provision For Income Taxes: The Company provides for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the capitalization for financial statement purposes of leases considered capital and from the use, for tax purposes, of accelerated depreciation. Current U.S. taxes are reduced for investment tax credits in the year in which they arise.

WHITTAKER CORPORATION (OCT)

	1977	1976
	($000)	
Other Assets		
Goodwill, net of amortization	$34,149	$33,095
Notes receivable—non current (with interest rates ranging from 6% to 11%)	24,418	23,721
Deferred income tax benefits (Note 9)	7,671	5,975

Note 9 (in Part): Income Taxes—Deferred income tax benefits result from differences in the timing of revenue and expense recognition for tax purposes and financial reporting purposes. The realization of these deferred income tax benefits is dependent upon obtaining sufficient future taxable income, which, in the opinion of management, appears to be assured beyond any reasonable doubt.

The Consolidated Financial Statements do not reflect significant contingent tax benefits associated with certain tax credits arising out of Whittaker's operations, since realization of such benefits is uncertain. If and to the extent such uncertainities are resolved in Whittaker's favor, the benefits will be reflected in the Consolidated Financial Statements at the time of resolution.

Property Held for Sale

AMERICAN BILTRITE INC. (DEC)

	1977	1976
Other Assets		
Equity investments in and advances to affiliated companies—Notes A and C.	$4,679,738	$4,574,458
Deposits and other assets	725,486	1,508,217
Land, buildings and equipment held for sale at estimated realizable value—Note G	2,350,000	
	$7,755,224	$6,082,675

Note G: Plant Shutdown and Rearrangement Expenses—In the fourth quarter of 1977, the Company developed a plan which provides for the shutdown of certain plants, the relocation and rearrangement of other productive facilities and the elimination of various product lines. The total estimated cost associated with these actions has been provided in 1977 and is summarized as follows:

Loss on disposition of inventories and collection of accounts receivable	$1,838,000
Liability for unfunded vested pension benefits related to plant shutdown	1,100,000
Reduction in the carrying amount of land, buildings and equipment to estimated realizable value	950,000
Other estimated expenses	2,699,000
	$6,587,000

The Company has received approval from the Pension Benefit Guarantee Corporation to continue to fund the pension liability as it has on an historical basis. Other estimated expenses include provisions for personnel severance pay, equipment dismantling and relocation expenses and the carrying costs of idle facilities which are being offered for sale.

SITKIN SMELTING & REFINING, INC. (JUN)

	1977	1976
Property, Plant and Equipment Held For Investment or Disposal—net of accumulated depreciation of $233,074 and $331,771 (Notes A-3 and H)	$556,053	$855,494

Note A (in Part): Summary of Significant Accounting Policies

(3) Property, Plant and Equipment Held For Investment or Disposal—Property, plant and equipment held for disposal is stated at the lower of its depreciated cost or net realizable value; no depreciation is being currently provided. Property, plant and equipment held for investment is stated at cost less accumulated depreciation. Related costs, including depreciation on assets held for investment, are expensed as incurred.

FDI, INC. (APR)

	1977	1976
Other Assets:		
Deferred charges	$ 198,909	$ 235,149
Cash surrender value of insurance on lives of officers	128,379	111,579
Cost in excess of net assets of acquired companies	7,749,618	7,499,613
Long-term accounts receivable and other	1,462,128	1,370,937
Total other assets	$9,539,034	$9,217,278

GOLDBLATT BROS., INC. (JAN)

	1978	1977
Cash Surrender Value of Life Insurance (face amount $620,849) (Notes 1 & 2) and Other Investments	$901,553	$1,089,217

Note 1 (in part): Long-term debt, less current maturities, consists of the following:

	January 28, 1978	January 29, 1977
5% and 6% notes payable to insurance companies, collateralized by cash surrender value of life insurance	$ 370,574	$ 501,951

Note 2: The Company has agreed with an officer that, upon his demise, it will, upon request, lend to the estate of such officer an amount not to exceed the face value ($520,849) of the life insurance policies owned by the Company on the life of such officer. This loan, if made, would be evidenced by a ten-year noninterest-bearing note collateralized by common shares of the Company or other marketable securities.

Cash Surrender Value of Life Insurance

THE AAV COMPANIES (FEB)

	1978	1977
Non-current advances and receivables, less allowance for doubtful accounts of $51,000 in 1978 and $80,000 in 1977	$ 531,833	$ 522,251
Deferred charges	334,498	332,477
Cash surrender value of life insurance (note G)	428,710	380,987
Other non-current assets	143,513	158,237
Intangible assets (note B)	8,936,213	9,388,838

Note G (in part): Notes Payable and Long-Term Debt—Land, buildings and certain equipment are pledged as security for mortgage notes and capitalized leases. Life insurance policies with a cash value of $318,296 at February 28, 1978, are pledged as security for certain long-term debt.

Prepaid Expenses

FRANKLIN MINT CORPORATION (DEC)

	1977	1976
Other Assets		
Prepaid promotion costs, amortizable after one year	$32,173,000	$29,006,000
Accounts receivable due after one year	7,579,000	8,827,000
Intangibles arising in acquisitions, net of amortization	2,814,000	2,902,000
Other	1,979,000	2,364,000
	$44,545,000	$43,099,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sales Orders and Related Promotion Costs—The company's principal method of selling its products is through direct mail and newspaper or magazine advertisements. Advance payments from customers are received with the sales order on certain programs. Depending on the contractual agreement between the company and the customer, shipments are made either as single mailings, as a series over a number of months, or as single mailings of the remaining medals in a series program. Sales and income are not recognized until shipment is made. Printing and mailing costs of direct mail advertising, the cost of media advertisements and the cost of the collector albums or chests shipped to a customer at the beginning of a series are deferred and charged against income over the shorter of the shipment period or fifty months. For programs where promotion costs are amortized over the shipment period, adjustments are made to the deferred balances by additional charges to income whenever the company makes downward revisions to series fulfillment expectations. Costs incurred by company personnel in the development of sales programs, including salaries and wages, art work and other administrative expenses, are expensed in the period incurred.

MILTON ROY COMPANY (DEC)

	1977	1976
Total current assets	$30,338,133	$24,813,155
Investments in joint ventures, at equity	1,657,550	1,585,316
Prepaid royalties	1,819,355	733,044

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Prepaid royalties—The company's wholly-owned subsidiary, Milton Roy Soft Contact Lens, Inc., manufactures and markets soft contact lenses under a license agreement utilizing the material supplied by the licensor. Pursuant to the license agreement, the Company pays the licensor a royalty on lens sales with a partial advance payment on receipt of the lens material. The license agreement further provides that all lens material rejected, spoiled or otherwise not resulting in the ultimate sale of finished lenses will be replaced by the licensor without charge. Advance royalty payments for lens material are charged to expense as the related lenses are sold.

Commencing in the second quarter of 1977, the Company's production yields were significantly reduced due principally to excess dust levels within the soft lens facility. Due to the abnormally high rejection rate in 1977, as well as start up problems experienced in 1976, additional quantities of lens material (in excess of current expected sales levels) were ordered with a corresponding increase in advance royalty payments. Accordingly, at December 31, 1977, advance royalty payments of $1,819,355 ($733,044 at December 31, 1976) for lens material not expected to be sold as finished lenses within the current operating cycle have been classified as non-current assets in the accompanying balance sheet.

Management is of the opinion that the production problems encountered in 1977 were non-recurring in nature and that present improved production yields compare favorably to expected results. Management further believes that the lens material will be sold as finished lenses and the prepaid royalties will be fully realized over a three to four year period, and no losses will result therefrom. In order to accelerate the realization period of the prepaid royalty, management is presently renegotiating the terms of the license agreement to provide for, among other things, more timely and equitable replacement of lens material.

In addition, management believes that the excessive dust levels referred to above resulted from local road construction activity adjacent to the soft lens facility and resultant damages are covered under its business interruption insurance policy. Accordingly, a claim, with attendant "proof of loss," was filed with the Company's insurance carrier. However, there is no certainty as to what amount, if any, will be recovered.

Start-Up Costs

UNIFI, INC. (JUN)

	1977	1976
Note Receivable	$868,750	$993,750
Deferred Start-up Costs	250,041	332,470
Other Assets	254,565	193,243

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Deferred Start-Up Cost—Start-up costs are deferred and amortized to income over a sixty-month period after commencement of income producing operations for the respective operations.

Tooling Costs

THE CESSNA AIRCRAFT COMPANY (SEP)

	1977	1976
Property, plant and equipment—at cost		
Land	$ 1,330,977	$ 1,319,995
Buildings and improvements	61,402,836	54,864,867
Machinery and equipment	75,048,348	69,146,950
	137,782,161	125,331,812
Less accumulated depreciation and amortization	70,353,037	63,867,378
	67,429,124	61,464,434
Deferred tooling (Note 1e)	20,568,020	12,064,165
Other assets	3,259,827	3,575,306

Note 1 Deferred tooling—The cost of production tooling is deferred and amortized to expense, primarily by the unit-of-production method. Production tooling is amortized over an estimated three years of deliveries.

CURRENT LIABILITIES

Paragraphs 7 and 8 of Chapter 3A of *Accounting Research Bulletin No. 43*, as amended by *Statement of Financial Accounting Standards No. 6*, discuss the nature of current liabilities. Examples of the various types of current liabilities follow:

SHORT-TERM DEBT

Table 2-19 shows the number of survey companies disclosing short-term debt. Amounts of long-term debt due within one year are detailed separately in Table 2-23.

TABLE 2-19: SHORT-TERM DEBT

	1977	1976	1975	1974
Description				
Notes or loans				
Payee indicated	152	175	256	207
Payee not indicated	223	216	213	224
Short-term debt or borrowings	67	56	26	36
Commercial paper	19	22	35	36
Other	12	11	13	10
Total Presentations	**473**	**480**	**543**	**513**
Number of Companies				
Showing short-term debt	444	435	447	452
Not showing short-term debt	156	165	153	148
Total	**600**	**600**	**600**	**600**

ABBOTT LABORATORIES (DEC)

	1977	1976
Current Liabilities:		
Short-term borrowings (Note 4)	$ 76,575,000	$ 65,489,000
Trade accounts payable	57,342,000	57,346,000
Other accrued liabilities	89,992,000	64,077,000
Salaries, wages and commissions	31,061,000	25,881,000
Payroll savings plan	5,240,000	5,555,000
Dividends payable	8,946,000	7,432,000
Income taxes payable	51,933,000	21,764,000
Current portion of long-term debt	14,951,000	11,545,000
Total Current Liabilities	$336,040,000	$259,089,000

Note 4: Short-Term Borrowings—Short-term borrowings consisted of international bank loans at December 31, 1977 and 1976. Following is a summary of such borrowings during the years:

International	1977	1976
Average borrowings during the year	$72,093,000	$59,616,000
Weighted average interest rate during the year	17.4%	12.9%
Highest level of borrowings at any month end during the year	$80,505,000	$65,489,000
Weighted average interest rate at December 31	21.4%	13.7%
Borrowings at December 31	$76,575,000	$65,489,000

In addition, during 1976, average domestic borrowings were $15,965,000; the weighted average interest rate during the year was 5.6%; the highest level of borrowings at any month end was $29,350,000; and there were no borrowings outstanding at December 31, 1976. During 1977, there were no domestic borrowings outstanding at any month end.

At December 31, 1977, there were $25,000,000 of domestic short-term lines of credit (of which none were used) that were available for general corporate purposes or to support commercial paper issued. These lines require maintenance of compensating balances equal to 10 percent of the line plus 10 percent of any portion that is used. The compensating balances are subject to withdrawal by the Company at its option.

CHAMPION INTERNATIONAL CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities:		
Notes payable (Note 5)	$ 27,935	$ 64,578
Accounts payable and accrued liabilities	269,013	314,822
Income taxes	28,768	49,500
Current installments of long-term debt	29,317	42,418
Total current liabilities	$355,033	$471,318

Note 5: Notes Payable and Lines of Credit—The following summarizes short-term borrowing activity (principally bank) and lines of credit for 1977 and 1976:

(in thousands of dollars)	1977	1976
Notes payable at December 31	$ 9,742	$ 58,678
Commercial paper at December 31	18,193	5,900
Total short-term borrowings	$ 27,935	$ 64,578
Average interest rate at December 31	6.2%	11.2%
Average amount of short-term borrowings outstanding for the year	$ 33,000	$ 87,000
Average interest rate for the year	7.6%	8.3%
Maximum amount of short-term borrowings at any month end	$58,000	$112,000
Compensating balances on certain U.S. borrowings and lines of credit under informal arrangements (determined on the basis of 20% of debt outstanding plus 10% of unused lines of credit)	$ 15,200	$ 17,700
Unused lines of credit at end of year—U.S.	$279,000	$180,000
Unused lines of credit at end of year—foreign	$ 48,000	$ 81,000

The average amount of short-term borrowings is determined by using the average of month-end balances. The average interest rate is determined by using the interest rate in effect on month-end short-term borrowings. The decrease in the average interest rate at December 31, 1977 compared to December 31, 1976 was primarily due to a reduction in borrowings at a high interest rate related to the disposition of a foreign subsidiary (Intermills S.A.) which was disposed of during the year.

At December 31, 1977, interest rates on unused lines of credit were no higher than ½% above prime or its equivalent. A commitment fee of ½% is required on $215,000,000 of the U.S. currency lines, which includes $125,000,000 of long-term notes to be drawn down in 1978. (See Note 6(c))

JOY MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Current Liabilities		
Non-U.S. bank debt (Note 7) ...	$ 19,117	$ 23,613
Long-term debt payable within one year	6,939	465
Accounts payable	48,394	40,043
Advances from customers	10,686	13,730
Accrued payrolls and employee benefits	13,755	15,103
Income taxes	1,424	17,024
Deferred income taxes—current	6,384	1,113
Dividends payable	4,850	3,939
Other current liabilities	14,259	11,200
Total Current Liabilities	$125,808	$126,230

Note 7: Short-term Borrowings and Compensating Balances

U.S. Arrangements

At September 30, 1977 and September 24, 1976, JOY had $36,000,000 available for use under U.S. short-term lines of credit with banks but had no borrowings outstanding at these dates. The terms of these borrowing arrangements require JOY to maintain average annual compensating bank balances generally at 10% of the total credit lines extended plus an additional 10% of the usage. Withdrawal of compensating balances by JOY is not legally restricted.

Non-U.S. Arrangements

Following is a summary of information regarding all non-U.S. bank debt:

	1977	1976
	(In Thousands of Dollars)	
Short-term lines of credit available and unused at the end of fiscal year	$21,879	$12,574
Maximum short-term borrowings outstanding at any month end	23,189	24,914
Average daily short-term borrowings during the fiscal year	19,050	18,155
Average daily interest rate*	10.4%	10.8%
Average interest rate at end of fiscal year	10.4%	10.3%

*The average daily interest rate was determined by dividing annual interest expense on short-term borrowings by average daily short-term borrowings.

Except for certain lines of credit extended to a Canadian subsidiary, non-U.S. borrowing arrangements do not require compensating balances. The terms under which the lines of credit have been granted to the Canadian subsidiary call for maintenance of average annual compensating bank balances, which are not legally restricted as to withdrawal, amounting to 10% of the lines extended. At September 30, 1977 and September 24, 1976, the lines of credit extended to the Canadian subsidiary amounted to $15,847,000 and $17,354,000, respectively.

Generally, both U.S. and non-U.S. lines of credit may be withdrawn at the discretion of the lending institutions. There were no material commitment fees under any of JOY's borrowing agreements and interest rates charged generally reflect the lending institutions' prime interest rates.

NATIONAL CAN CORPORATION (DEC)

	1977	1976
Current Liabilities:		
Notes payable	$ 1,000,000	$ —
Commercial paper	24,905,000	
Accounts payable	60,438,673	66,833,606
Payrolls, employee benefits and withholdings	18,326,390	15,704,750
Other accrued expenses	19,500,164	13,536,207
Pensions	11,434,991	11,033,888
Income taxes	5,021,857	1,688,217
Current maturities on long-term debt	6,218,776	4,677,134
Total Current Liabilities	$146,845,851	$113,473,802

SEARS, ROEBUCK AND CO. (JAN)

	1978	1977
	($000)	
Current Liabilities		
Short-term borrowings (note 12)		
Commercial paper	$2,586,051	$1,940,578
Banks	404,936	305,869
Agreements with bank trust departments	717,958	655,046
Current maturity of long-term debt	30,473	54,969
Accounts payable and accrued expenses	1,124,713	990,762
Unearned maintenance agreement income	276,969	242,143
Deferred income taxes	917,645	855,893
Total Current Liabilities	$6,058,745	$5,045,260

Note 12: Short-term borrowings—Sears obtains required short-term funds by the issuance of notes to Sears Roebuck Acceptance Corp. (SRAC) and through borrowings from banks. SRAC obtains funds primarily through the placement of commercial paper and under agreements with bank trust departments. At January 31, 1978, the company had unused lines of bank credit approximating $2.5 billion of which more than $400 million is also available for use by a designated subsidiary. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no formal or informal compensating balance arrangements with any of the banks.

Selected details of the company's short-term borrowings are as follows:

	Commercial paper		Banks		Agreements with Bank trust departments	
(millions)	Amount	Weighted interest rate	Amount	Weighted interest rate	Amount	Weighted interest rate
Balance, January 31, 1978	$2,586	6.8%	$405	8.1%	$711*	7.1%
Average during 1977	2,431	5.7	320	7.1	672	6.1
Maximum during year (month end)	2,972		405		711	
Balance, January 31, 1977	$1,941	4.8%	$305	6.4%	$655	5.1%
Average during 1976	1,963	5.1	257	6.9	648	5.5
Maximum during year (month end)	2,337		340		684	

*Excludes $7 million of current maturities of 13 month notes.

STANDARD CONTAINER COMPANY (SEP)

	1977	1976
Current Liabilities:		
Current maturities of long-term debt	$ 183,883	$ 516,840
Notes payable:		
Bank	50,000	840,000
Other	51,375	75,000
Accounts payable and accrued expenses	4,697,450	4,028,007
Advance payments from customers	211,336	—
Federal income tax	132,800	312,747
Taxes other than Federal income tax	204,403	183,534
Total Current Liabilities	$5,541,247	$5,956,128

TABLE 2-20: CURRENT LIABILITIES—TRADE CREDITORS

	1977	1976	1975	1974
Description				
Accounts payable, payables, or trade payables in a separate caption	422	417	388	392
Accounts payable combined with accrued liabilities or accrued expenses	167	163	189	184
Other captions	11	20	23	24
Total Companies	**600**	**600**	**600**	**600**

TRADE ACCOUNTS PAYABLE

THE CLEVELAND-CLIFFS IRON COMPANY (DEC)

	1977	1976
Current Liabilities		
Accounts payable, including $6,740,000 (1976—$8,187,000) to associated companies	$23,807,000	$23,368,000
Accrued expenses	2,638,000	1,404,000
Employment costs	8,979,000	5,369,000
Royalties payable	1,440,000	2,374,000
Income taxes	4,745,000	5,036,000
Current portion of long-term debt	-0-	2,000,000
Other liabilities	2,567,000	4,444,000
Total Current Liabilities	$44,176,000	$43,995,000

CENTRONICS DATA COMPUTER CORP. (JUN)

	1977	1976
Current liabilities:		
Notes payable, bank, due on demand	$11,900,000	$ 900,000
Accounts payable, trade	3,944,734	3,612,583
Accounts payable, mechanisms in transit	714,654	1,306,839
Accrued expenses	1,638,314	1,480,165
Dividends payable	1,158,622	481,278
Income taxes	4,803,993	1,232,113
Deferred income taxes	20,316	103,979
Other current liabilities	62,384	180,353
Total current liabilities	$24,243,017	$9,297,310

THE SINGER COMPANY (DEC)

	1977	1976
	(Amounts in Millions)	
Current Liabilities:		
Notes and loans payable	$134.0	$187.5
Accounts payable:		
Trade	72.5	89.4
Drafts	51.2	34.3
Other	48.0	56.8
	171.7	180.5
Accrued expenses:		
Taxes, other than income taxes	13.9	16.7
Salaries, wages, and commissions	33.0	28.1
Interest	12.2	11.6
Other	130.6	125.9
	189.7	182.3
Long-term debt instalments due within one year	28.8	1.7
Income taxes payable	10.0	10.9
Income taxes deferred	5.6	7.9

EMPLOYEE RELATED LIABILITIES

Table 2-21 shows the nature of accounts identified as current liabilities to or for employees.

BLISS & LAUGHLIN INDUSTRIES INCORPORATED (DEC)

	1977	1976
Current Liabilities:		
Short-term loans	$ 225,000	$ —
Current maturities of long-term debt	381,000	227,000
Accounts payable—trade	5,364,000	3,125,000
Customer deposits	1,914,000	1,497,000
Accrued liabilities—		
Taxes, other than income taxes	691,000	1,195,000
Salaries, wages and vacations	3,081,000	2,757,000
Interest	768,000	216,000
Pension costs	728,000	1,865,000
Other	2,976,000	2,331,000
Income taxes	2,473,000	2,758,000
Total current liabilities	$18,601,000	$15,971,000

TABLE 2-21: CURRENT LIABILITIES RELATING TO EMPLOYEES

	1977	1976	1975	1974
Description				
Salaries, wages, payrolls, commissions	211	213	197	196
Withholdings, payroll taxes	18	31	36	37
Pension or retirement plan contributions	52	50	28	37
Profit-sharing contributions	14	15	28	22
Other captions	52	57	44	44
Total Presentations	**347**	**366**	**333**	**336**
Number of Companies				
Showing liabilities to or for employees	229	239	202	206
No such liabilities	371	361	398	394
Total	**600**	**600**	**600**	**600**

CYCLOPS CORPORATION (DEC)

	1977	1976
	($000)	
Current liabilities:		
Notes payable to banks	$ 10,800	$10,800
Current portion of long-term debt	7,574	7,260
Accounts payable	38,122	26,695
Employment costs	34,636	31,108
Income taxes	1,580	7,086
Taxes other than income taxes	7,900	6,701
Other	6,644	5,766
Total current liabilities	$107,256	$95,416

JOHNS-MANVILLE CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities		
Short-term debt	$ 18,459	$ 20,380
Accounts payable	68,657	57,954
Wages and compensation	36,845	31,582
Income taxes	56,973	31,506
Other taxes	11,102	10,747
Other accrued liabilities	43,044	36,999
Total Current Liabilities	$235,080	$189,168

HUMANA INC. (AUG)

	1977	1976
	($000)	
Current liabilities:		
Short-term bank borrowings....	$ —	$ 9,000
Trade accounts payable.........	16,084	12,351
Accrued expenses (Note 11)....	16,693	11,399
Income taxes, including deferred taxes of $1,142-1977 and $1,666-1976	9,566	3,705
Long-term debt due within one year..........................	10,949	7,354
Total current liabilities ..	$53,292	$43,809

Note 11: Accrued Expenses—The major classes of accrued expenses are summarized as follows:

	1977	1976
	(Thousands of dollars)	
Salaries, wages and other compensation............................	$ 5,183	$ 3,791
Interest	3,065	2,090
Property taxes......................	2,816	2,054
Pension	1,256	1,012
Insurance	2,361	954
Payroll taxes.........................	702	668
Other	1,310	830
	$16,693	$11,399

LOCKHEED CORPORATION (DEC)

	1977	1976
	($ Millions)	
Current liabilities:		
Accounts payable	$189.9	$195.7
Salaries and wages.............	138.2	111.7
Income taxes (including $3.0 deferred in 1977)	17.6	9.8
Other taxes	34.1	36.2
Customers' advances in excess of related costs	196.1	208.5
Retirement plan contribution (Note 7)	66.3	63.1
Other liabilities..................	119.2	116.8
Current portion of long-term debt..........................	19.1	111.8
Total current liabilities ..	$780.5	$853.6

Note 7: Retirement Plans—Most of the Company's employees are covered by retirement plans that are paid for entirely by Company contributions to trust accounts. The provisions for retirement plan costs in 1977 were $103 million and in 1976 were $96 million. The increased provision in 1977 was due primarily to amortization of actuarial losses and the increase in the recently negotiated hourly employee benefits.

These provisions consist of both normal pension costs that are recorded over the remaining service lives of the individual participants, and a provision for unfunded prior service costs and actuarial gains and losses which are amortized over 15-to-30 year periods.

At December 25, 1977, the book value of assets in the plans, held by trustees, amounted to $1,142 million, and the market value amounted to $1,074 million. At December 25, 1977, the unfunded prior service costs (i.e., costs of retirement benefits related to employees' service in prior years) of all vested and unvested plan participants amounted to approximately $821 million. Included in this total is $404 million, representing the amount by which the value of vested benefits exceeded the total market value of the plans' assets and the Company's accrued liability for contributions. Under ERISA, the Company, upon termination of any of its retirement plans, could become liable for additional funding of such plans.

REXNORD INC. (OCT)

	1977	1976
	($000)	
Current Liabilities		
Notes payable........................	$ 16,891	$ 2,413
Accounts payable	30,544	26,871
Accrued liabilities....................	43,917	47,355
Federal, state and foreign taxes on income...........................	21,636	14,298
Current maturities of long-term debt	1,938	1,555
	$114,926	$92,492

OTHER FINANCIAL DATA

(Dollars in Thousands)

Accrued Liabilities—Principal items included in accrued liabilities follow:

	October 31, 1977	1976
Accrued wages, salaries and commissions	$10,019	$ 7,723
Accrued vacation pay	4,531	4,575
Accrued pension and benefit costs .	813	2,747
Interest payable.....................	1,148	1,263
Accrued general taxes and taxes withheld	9,140	6,385
Dividends payable	171	387
Customer advance payments	4,848	6,879
Other current liabilities.............	13,247	17,396
	$43,917	$47,355

INCOME TAX LIABILITY

Table 2-22 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

THE AMERICAN SHIP BUILDING COMPANY (SEP)

	1977	1976
Current Liabilities:		
Current maturities of long-term debt	$ 674,801	$ 3,184,751
Accounts payable	10,617,922	6,002,813
Accrued wages and salaries	1,016,373	769,678
Accrued state and local taxes, other than income taxes	1,582,529	1,089,451
Dividends payable	1,840,026	83,143
Other accrued liabilities	1,813,667	3,104,554
Accrued and deferred Federal income taxes	8,655,286	4,252,856
Total current liabilities	$26,200,604	$18,487,246

CURTISS-WRIGHT CORPORATION (DEC)

	1977	1976
Notes payable	$ 1,490,000	$ 1,891,000
Accounts payable and accrued expenses	56,817,000	40,357,000
Federal and foreign income taxes	12,295,000	9,267,000
Advances and billings in excess of costs and estimated earnings on incomplete projects	15,335,000	16,391,000
Estimated warranty and field service costs	8,760,000	9,718,000
Other current liabilities	10,425,000	11,350,000
Total current liabilities	$105,122,000	$88,974,000

MAREMONT CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities:		
Current maturities of long-term obligations	$ 3,476	$22,886
Notes payable of domestic operation	—	5,000
Notes payable of foreign operations	7,005	5,558
Accounts payable	25,162	26,212
Accrued liabilities	13,046	12,854
Income taxes payable	2,258	738
Total Current Liabilities	$50,947	$73,248

MCGRAW-EDISON COMPANY (DEC)

	1977	1976
	($000)	
Current Liabilities:		
Notes payable and commercial paper	$ 6,562	$ 13,911
Portion of long-term debt due within one year	2,248	1,522
Accounts payable	48,281	56,880
Accrued liabilities	52,523	54,296
Federal, state and foreign taxes on income	10,874	30,433
Total current liabilities	$120,488	$157,042

TABLE 2-22: CURRENT INCOME TAX LIABILITY

	1977	1976	1975	1974
Income taxes	341	314	282	289
Federal income taxes	45	45	59	61
Taxes—type not specified	45	50	41	40
Federal and state income taxes	33	33	45	56
U.S. and foreign income taxes	32	31	42	37
Federal and foreign income taxes	22	25	40	30
Federal, state, and foreign income taxes	26	23	24	23
Other captions	16	48	42	35
	560	569	575	571
No caption for taxes payable	40	31	25	29
Total Companies	**600**	**600**	**600**	**600**

OUTBOARD MARINE CORPORATION (SEP)

	1977	1976
Current Liabilities:		
Notes payable	$15,430,000	$ —
Accounts payable—		
Trade	18,373,000	22,486,000
Other	12,835,000	10,062,000
	31,208,000	32,548,000
Accrued liabilities—		
Compensation	8,655,000	10,535,000
Pension programs	9,459,000	7,622,000
Taxes, other than income taxes	4,769,000	4,436,000
Other, including interest of $3,010,000 in 1977 and $3,203,000 in 1976	12,067,000	12,787,000
	34,950,000	35,380,000
Accrued income taxes—		
Federal	1,231,000	2,827,000
State	—	694,000
Foreign	2,617,000	2,444,000
	3,848,000	5,965,000
Current maturities and sinking fund requirements of long-term debt	2,217,000	933,000
Total current liabilities	$87,653,000	$74,826,000

SIMMONS COMPANY (DEC)

	1977	1976
Current liabilities:		
Notes payable to banks	$ 9,320,000	$ 2,308,000
Current portion of long-term debt	3,342,000	2,306,000
Accounts payable	24,217,000	17,347,000
Accrued interest, payroll and other expenses	17,833,000	17,214,000
Accrued federal, state, local and foreign taxes	6,614,000	6,132,000
Total current liabilities	$61,326,000	$45,307,000

TABLE 2-23: CURRENT AMOUNT OF LONG-TERM DEBT

	1977	1976	1975	1974
Current *portion* of long-term debt	186	176	145	152
Current *maturities* of long-term debt	180	188	157	165
Long-term debt *due* or *payable* within one year	79	67	89	92
Current *installment* of long-term debt	44	50	60	66
Current amount of long-term leases	29	—	—	—
Other captions	16	27	63	46
Total Companies	**534**	**508**	**514**	**521**

CURRENT AMOUNT OF LONG TERM DEBT

Table 2-23 summarizes the descriptive balance sheet captions used to describe the amount of long term debt payable during the next year.

THE BARDEN CORPORATION (OCT)

	1977	1976
Current Liabilities:		
Current installments of long-term debt	$ 350,000	$ 391,725
Loans payable—bank	567,957	236,587
Accounts payable, accrued expenses and sundry liabilities	3,262,610	2,863,608
Taxes accrued and withheld, other than U.S. and foreign income taxes	1,118,593	928,693
U.S. and foreign income taxes	3,256,756	991,360
Total Current Liabilities	$8,555,916	$5,411,973

MIDLAND-ROSS CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities		
Accounts payable	$42,391	$33,986
Advance billings on contracts in process	17,122	20,117
Accrued compensation and benefits	16,140	13,337
Other liabilities	11,189	11,364
Income taxes	8,088	6,388
Current portion of long-term liabilities	2,878	1,601
Total Current Liabilities	$97,808	$86,793

THE PANTASOTE COMPANY (DEC)

	1977	1976
Current Liabilities		
Current maturities of long-term debt	$ 709,000	$ 538,000
Notes payable—foreign banks	3,554,000	2,397,000
Accounts payable	12,428,000	10,671,000
Dividends payable	292,000	273,000
Income taxes payable	645,000	670,000
Other current liabilities	5,288,000	4,184,000
Total Current Liabilities	$22,916,000	$18,733,000

XEROX CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities		
Notes payable	$ 109,601	$ 71,745
Payments due within one year on long-term debt	34,436	71,399
Accounts payable	209,369	187,656
Salaries, profit sharing and other accruals	521,241	401,821
Income taxes	232,308	288,120
Dividends payable	31,683	23,761
Deferred rentals and subscriptions	30,016	36,122
Total current liabilities	$1,168,654	$1,080,624

OTHER CURRENT LIABILITIES

Table 2-24 summarizes other identified current liabilities. The most common types of other current liabilities were dividends payable and taxes not combined with federal income taxes. Unidentified other current liabilities, generally described as *accrued expenses, accrued liabilities,* or *other current liabilities* are not included in Table 2-24.

TABLE 2-24: OTHER CURRENT LIABILITIES

	Number of Companies			
	1977	1976	1975	1974
Dividends payable	106	99	109	109
Taxes not combined with Federal income taxes	103	116	93	95
Customer advances, deposits	54	51	36	34
Deferred taxes	51	39	60	43
Interest	43	62	34	35
Billings on uncompleted contracts	22	21	15	15
Estimated costs relating to discontinued operations	20	23	21	20
Guarantees, warranties, service contract obligations	15	17	14	13
Due to affiliated companies	15	13	10	12
Other — Described	67	71	61	66

BAIRD-ATOMIC, INC. (SEP)

	1977	1976
Current liabilities:		
Foreign bank loans (note 4)	$1,188,673	$ 992,997
Current portion of long-term debt (note 5)	585,046	543,466
Advance payments from customers	470,775	—
Accounts payable	2,135,064	1,998,376
Accrued expenses	1,261,606	1,184,190
Federal and state income taxes (notes 1 and 11).............	462,619	204,278
Total current liabilities	$6,103,783	$4,923,307

BEEHIVE INTERNATIONAL (SEP)

	1977	1976
Current Liabilities		
Accounts payable—trade	$4,013,767	$1,486,379
Notes payable—current.........	1,930,000	3,380,000
Current portion of long-term debt...........................	281,356	201,889
Accrued liabilities................	515,133	381,906
State and federal income taxes	147,581	477,151
Estimated warranty costs (Note C)	112,127	86,184
Royalties (Note D)...............	58,734	41,403
Total current liabilities	$7,058,698	$6,054,912

Note C: Estimated Warranty Costs—The Company provides a warranty of one year on parts and labor for manufacturing and material defects on all units sold. The liability for estimated warranty costs is shown in the accompanying balance sheets under current liabilities.

COLGATE-PALMOLIVE COMPANY (DEC)

	1977	1976
	($000)	
Current Liabilities		
Notes and loans payable to banks	$224,934	$137,793
Current portion of long-term debt...........................	16,284	15,577
Accounts payable	186,461	172,754
Accrued payroll	32,549	27,048
Dividends payable	19,497	16,954
Accrued advertising	42,211	49,155
Accrued income taxes...........	51,810	92,770
Other accrued taxes.............	30,825	26,195
Other accruals	66,679	72,050
Total current liabilities	$671,250	$610,296

DAN RIVER INC. (DEC)

	1977	1976
	(amounts in thousands)	
Current liabilities:		
Notes payable....................	$11,067	$ —
Long-term debt due currently...	3,482	4,885
Accounts payable	19,898	18,031
Accrued expenses	16,320	15,780
Dividends payable	1,091	752
Accrued income taxes...........	294	5,066
Total current liabilities	$52,152	$44,514

HEUBLEIN, INC. (JUN)

	1977	1976
	($000)	
Current liabilities:		
Notes payable....................	$31,596	$29,510
Current portion of long-term debt...........................	2,839	3,872
Accounts payable	53,698	60,332
Accrued expenses	56,419	47,851
Taxes:		
Federal, state and foreign income taxes..................	19,454	26,977
Deferred income taxes	451	8,953
Excise taxes..................	29,691	36,485
Other taxes	11,164	9,597
Cash dividends payable	7,057	6,395

J. RAY McDERMOTT & CO., INC. (MAR)

	1977	1976
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 2,328,001	$ 10,414,741
Accounts payable and accrued expenses	126,973,132	122,132,810
Dividend payable	6,289,128	3,910,925
Billings on uncompleted contracts (in excess of related costs, 1977, $389,432,839; 1976, $354,283,710).............	173,991,306	152,327,603
Accrued employees' pension plan contributions............	7,630,205	4,976,711
Accrued interest	6,059,888	6,233,539
Accrued taxes, other than taxes on income	13,190,484	10,892,621
Deferred income taxes..........	3,322,139	4,714,404
Accrued taxes on income	85,683,855	61,309,513
Total current liabilities	$425,468,138	$376,912,867

INSILCO CORPORATION (DEC)

	1977	1976
	($000)	
Current Liabilities		
Notes payable	$ 8,666	$10,850
Accounts payable and accrued expenses	36,040	33,255
Customers' deposits	11,479	11,077
Current portion of long-term debt	1,416	1,516
Estimated taxes on income:		
Currently payable	4,239	10,143
Deferred	3,553	2,782
Total current liabilities	$65,393	$69,623

MCGRAW-HILL, INC. (DEC)

	1977	1976
	(Thousands of dollars)	
Current liabilities		
Notes payable	$ 2,950	$ 3,637
Current portion of long-term debt	7,117	6,973
Accounts payable	33,054	25,360
Accrued royalties	16,206	14,576
Accrued contributions to retirement plans	11,618	9,784
Other accrued liabilities	27,021	20,295
Accrued taxes:		
Currently payable	38,016	26,805
Deferred	9,346	10,704
Unearned service contracts	33,780	31,135
Total current liabilities	$179,108	$149,269

PAXALL, INC. (OCT)

	1976	1977
Current Liabilities:		
Notes payable to banks	$1,199,547	$ 271,335
Current portion of long-term debt	197,338	96,945
Accounts payable	1,588,393	2,056,420
Accrued expenses—		
Wages, commissions, etc.	550,646	689,996
Taxes, other than income taxes	230,562	227,727
Warranties	284,000	292,058
Pensions	30,000	28,500
Customer deposits	736,280	1,007,822
Other	1,103,111	944,311
Income taxes payable	109,755	231,420
Total current liabilities	$6,029,632	$5,846,534

ROCKWELL INTERNATIONAL CORPORATION (SEP)

	1977	1976
	(In millions)	
Current Liabilities:		
Short-term borrowings	$ 106.7	$ 46.8
Current portion of long-term debt	15.8	11.5
Accounts payable—trade	384.3	389.0
Accrued salaries and wages and amounts withheld	122.3	117.2
Accrued retirement plan costs	105.9	108.1
Accrued income taxes	89.4	78.4
Deferred income taxes	197.5	
Other current liabilities	513.6	328.9
Total current liabilities	$1,535.5	$1,079.9

NOTES TO FINANCIAL STATEMENTS

Note 11: Other Current Liabilities—Other current liabilities at September 30 are summarized as follows (in millions):

	1977	1976
Advance payments from customers	$139.7	$ 91.1
Accrued subcontractor termination claims under United States Government contracts (Note 3)	101.3	5.0
Accrued product warranties	48.4	43.0
Accrued taxes other than income taxes	38.8	37.6
Accrued interest	12.9	13.5
Advances from unconsolidated finance subsidiaries	9.0	6.9
Dividends payable	1.7	2.1
Other	161.8	129.7
Other current liabilities	$513.6	$328.9

STANLEY HOME PRODUCTS, INC. (DEC)

	1977	1976
Current Liabilities:		
Notes and accounts payable	$16,468,359	$15,318,706
Dealer's security deposits	4,246,175	4,192,388
Federal, state and foreign taxes on income	8,352,427	3,294,795
Unredeemed coupons and certificates	2,573,495	2,546,730
Accrued payroll and commissions	1,450,335	1,179,096
Other accrued expenses	8,055,166	6,931,585
Dividends payable	994,947	852,954
Total current liabilities	$42,140,904	$34,316,254

TOBIN PACKING CO., INC. (OCT)

	1977	1976
Current Liabilities:		
Notes payable	$ 600,000	$ 200,000
Trade accounts payable	1,433,000	996,000
Accrued Expenses:		
Salaries and wages	417,000	537,000
Pension costs	737,000	449,000
Taxes other than income	121,000	157,000
Other	124,000	61,000
	1,399,000	1,204,000
Current portion of obligation under capital leases	37,000	—
Allowance for plant closing costs (Note 8)	1,116,000	824,000
Total current liabilities	$4,585,000	$3,224,000

Note 8: Property Held for Sale and Provision for Plant Relocation and Closing Costs—During 1975, the Company adopted a plan for the consolidation of its manufacturing facilities by the discontinuance of the processing performed by its Rochester, New York plant, and the relocating of such manufacturing operations to its Albany and Buffalo, New York plants. Provision was made in 1975 for the costs incurred and expected to be incurred in connection with this plan.

The consolidated statements of operations and retained earnings for both 1977 and 1976 include adjustments of the amounts originally provided. In 1977 the adjustment of $516,000 related principally to higher than expected costs for terminated pension plans and to additional costs of carrying the Rochester facility held for sale. For 1976 the adjustment of $200,000 represented additional unanticipated expenses of $400,000 offset by higher than anticipated proceeds for sales and transfers of machinery and equipment.

The remaining allowance of $1,116,000 for plant closing costs relates principally to terminated pension plans. The Internal Revenue Service has approved the proposed terminations, but final determination by the Pension Benefit Guaranty Corporation (a federal agency created under the Employee Retirement Income Security Act of 1974) has not been issued. The Company believes the amounts provided will be adequate to fully satisfy the resulting funding requirements.

The estimated net realizable value of the Rochester Plant, which was closed in 1975, has been segregated in the consolidated balance sheet. In November of 1977, the Rochester facility was sold at an amount in excess of the amount at which it was carried.

TABLE 2-25: LONG TERM DEBT

	Number of Companies			
	1977	1976	1975	1974
Unsecured				
Notes	471	455	460	463
Debentures	283	280	228	286
Loans	122	112	101	102
Collateralized				
Capitalized leases	333	201	173	175
Mortgages	176	196	218	213
Notes or loans	55	79	79	77
Convertible				
Debentures	158	174	203	196
Notes	20	34	37	33

LONG TERM DEBT

Table 2-25 summarizes the types of long-term debt most frequently disclosed by the survey companies. As shown in Table 2-25, the accounting and reporting requirements set forth in FASB *Statement of Financial Accounting Standards No. 13* caused a large increase in the number of survey companies capitalizing long term leases. Examples of long-term debt presentations and disclosures follow. Examples of long-term lease presentations and disclosures are shown in connection with Table 2-27.

ASARCO INCORPORATED (DEC)

	1977	1976
	($000)	
Long-Term Debt (note 5)	$393,347	$401,053
Noncurrent Accounts Payable	13,372	13,275

Note 5: Long-Term Debt and Available Credit Facilities (in millions)

	1977 Long-Term Amount	1977 Due Within One Year	1976 Long-Term Amount	1976 Due Within One Year
9¾% Sinking Fund Debentures (authorized $100.0) due 2000. Annual Sinking Fund payments of $6.0 commencing in 1986	$100.0	—	$100.0	—
8.8% notes (authorized $50.0) due 1983	50.0	—	50.0	—
7⅞% notes (authorized $70.0) due April 1, 1994. Payable in annual installments of $4.1 commencing in 1978	65.9	$4.1	70.0	—
Revolving credit notes (a)....	50.0	—	55.0	—
Obligations under Nueces River Authority (Texas) 7⅜% Environmental Improvement Revenue Bonds, Series 1976-A and B (authorized $55.0) due 2006. Payable in annual installments commencing in 1991 of $0.8; $1.3—1992/94; $1.5—1995/98; $2.0—1999/2002; $2.5—2003/4; $3.5—2005 with balance payment at maturity. (b)	55.0	—	55.0	—
Obligations under Lewis and Clark County (Montana) 6¾% Pollution Control Bonds 1976 Series (authorized $37.0) due 2006. Payable in annual installments of $0.6 commencing in 1992 through 2005 with balance payable at maturity. (b)	37.0	—	37.0	—
Other notes (various rates and maturities)	19.1	4.0	17.6	$5.2
4⅝% Twenty-Five Year Subordinated Debentures (authorized $50.0) due 1988—Sinking Fund payments of $1.6 required annually. Debentures have been purchased covering payments through 1979.....	16.3	—	16.5	—
Total (c)	$393.3	$8.1	$401.1	$5.2

(a)At December 31, 1977, there was an additional $205.0 million of committed credit available in the form of $135.0 million in two Revolving Credit and Term Loan Agreements of $75 and $80 million, and $70.0 million in a $100 million Term Loan Agreement discussed below.

The $75 million Agreement was entered into in October 1977. Borrowings bear interest at the prime rate for three years, ¼ percent above prime for the next two years, and ½ percent above prime thereafter. Any outstanding borrowings at September 30, 1980, convert to term loans maturing in sixteen quarterly installments commencing December 31, 1981.

The $80 million Agreement was entered into in December 1977. Borrowings bear interest at the prime rate for four years, ¼ percent above prime for the next two years, and ½ percent above prime thereafter. Any outstanding borrowings at September 30, 1981, convert to term loans maturing in twelve quarterly installments commencing December 31, 1981.

The $100 million Agreement, repayable by 1984, was entered into in 1976. Borrowings bear interest at 110% of: prime to February 1, 1979; prime plus ¼ percent to 1981; prime plus ½ percent thereafter. Outstanding borrowings mature in twenty quarterly installments commencing May 1, 1979.

Informal understandings exist with respect to each Agreement that balances will be maintained equal to 10% of the line of credit or, at Asarco's option, fees paid in lieu of such balances. In addition under the $75 and $80 million Agreements, balances will be maintained equal to 5% of the borrowings or, at Asarco's option, fees paid in lieu thereof.

Commitment fees of ½ percent per annum on the Agreements are payable on the unused portions. Asarco may terminate any of the above Agreements or reduce the commitments at any time.

(b)Proceeds from these borrowings have been committed to construction at the Company's El Paso, East Helena and Corpus Christi plants. At December 31, 1977, $53,470,000 had been expended from these funds. Remaining funds are included in the caption "Borrowed funds escrowed for construction."

(c)At December 31, 1977, debt maturities were (in millions): 1978—$8.1; 1979—$8.2; 1980—$8.8; 1981—$9.5; 1982—$9.2 and $357.6 thereafter.

Various loan agreements contain covenants relating to maintenance of current assets at not less than 175% of current liabilities, as defined under the terms of the loan agreements, declaration of cash dividends and limitation of long-term debt. Under the most restrictive covenants, current assets were 195% of current liabilities at December 31, 1977, while retained earnings available for cash dividends amounted to $30.0 million.

BAKER INTERNATIONAL CORPORATION (SEP)

	1977	1976
	($000)	
Long-term debt (Note 3)	$132,795	$106,134

Note 3: Indebtedness—Long-term debt at September 30, 1977 and 1976 consisted of the following:

	1977	1976
Unsecured 7.80% debentures with minimum annual sinking fund payments of $1,100,000 to begin in 1980	$ 20,000,000	$ 20,000,000
Unsecured 7.55% notes due in 1987	25,000,000	
Unsecured 9.25% senior notes with minimum semi-annual installments of $670,000 to begin in 1979	20,000,000	20,000,000
Unsecured 8.75% senior notes with minimum annual installments of $3,300,000 to begin in 1982	20,000,000	
Unsecured loans under bank credit agreements with interest ranging from prime rate to 115% of prime due $35,000 in 1979, $1,500,000 in 1980, $2,500,000 in 1981 and $3,000,000 in both 1982 and 1983	10,035,000	33,125,000
Commercial paper with an average interest rate of 6.21% at September 30, 1977, effectively due, because of the backup line of credit, $3,608,000 in 1980, $6,012,000 in 1981, $7,215,000 in both 1982 and 1983	24,050,000	20,000,000
Unsecured 5.75% note payable in 1979	5,500,000	5,800,000
Other notes with an average interest rate of 8.0% at September 30, 1977, due $1,908,000 in 1979, $1,342,000 in 1980, $1,143,000 in 1981, $2,529,000 in 1982, $474,000 in 1983 and $814,000 thereafter	8,120,000	7,209,000
	$132,795,000	$106,134,000

Aggregate maturities during the next five years are as follows:

Year ending September 30	
1978	$ 4,598,000
1979	8,113,000
1980	8,890,000
1981	12,096,000
1982	18,483,000

Other than through required sinking fund payments, redemption of the 7.80% debentures (beginning in 1980) the 9.25% senior notes (beginning in 1979) and the 8.75% senior notes (beginning 1982) can occur (generally without premium) by prepaying additional amounts up to an amount equal to the normal periodic installments. Redemption of the 7.80% debentures may be further accelerated by paying a premium which decreases proportionately from 5.85% at September 30, 1977 until it is eliminated in March 1992. Redemption of the 9.25% senior notes may be further accelerated commencing on July 1, 1979 by paying a premium which decreases proportionately from 6.6% at that date until it is eliminated in 1993. Redemption of 8.75% senior notes, issued in November 1976, may be further accelerated commencing November 1, 1979 by paying a premium which decreases proportionately from 5.83% at that date until it is eliminated in 1985. Redemption of the 7.55% notes, issued in July 1977, may be made at the option of the Company, in whole or in part, on or after July 15, 1984, at par plus accrued interest. All such prepayments with premium cannot be made, directly or indirectly, from proceeds of any indebtedness having an interest rate less than the rate applicable to the indebtedness being redeemed.

At September 30, 1977, the Company's principal bank credit agreement provides for borrowings of up to $45,000,000 ($10,000,000 borrowed at that date), excluding the commercial paper backup facility described below, as revolving credit at 115% of prime. In addition, the agreement provides $20,000,000 reserved as backup for commercial paper which the Company may issue from time to time. The revolving credit and commercial paper provisions of the agreement require a commitment fee ranging generally from ½% to 1% of the undrawn balances and the borrowings are due in July, 1979, at which time the Company may, at its option, convert the unpaid principal amounts into a term loan which would be payable in 1980 to 1983 and which would bear interest at 118% of prime plus ½% to ¾%. In connection with the agreement, there is an informal requirement for compensating balances of $1,000,000.

Additional lines of credit at September 30, 1977 include (a) $27,500,000 which bears interest at the prime rate, had undrawn balances of $27,465,000, had informal requirements for compensating balances of $2,000,000, and is repayable in 1979 and 1980; and (b) $20,000,000 of short-term lines of credit available in connection with bankers' acceptance financing with undrawn balances of $17,278,000.

The provisions of the Notes, Debentures, Senior Notes and unsecured credit agreements limit, without prior written consent, among other things, borrowings, sale of certain assets, payment of cash dividends and acquisitions of the Company's capital stock. At September 30, 1977, retained earnings of approximately $53,000,000 were not limited thereunder.

During 1977 and 1976 the maximum aggregate short-term borrowings outstanding at any month end was $16,073,000 and $11,856,000, respectively, the average aggregate short-term borrowings outstanding based on quarter end balances was $11,753,000 and $8,538,000, respectively, and the weighted average interest rates were 9% and 11%, respectively. The average interest rates on short-term borrowings outstanding at September 30, 1977 and 1976 were 9% and 12%, respectively.

CYCLOPS CORPORATION (DEC)

	1977	1976
	($000)	
Liabilities and Shareholders' Equity		
Long-term debt (Note 4)	$39,621	$38,217

Note 4: Long Term Debt

	December 31, 1977	1976
	(Dollars in Thousands)	
Payable to insurance companies:		
6⅝% Notes, payable through 1981	$12,400	$15,500
5⅝% Notes, payable through 1981	8,500	10,000
8½% Subordinated notes, payable through 1984 (less unamortized discount based on imputed interest rate of 13%—1977, $441,000—1976, $566,000)	9,012	10,108
5½% Notes, payable through 1984 (less unamortized discount based on imputed interest rate of 10%—1977, $283,000—1976, $364,000)	4,964	5,562
5¼% Notes, payable through 1978	500	800
Payable to banks:		
Prime plus ¾% notes, payable through 1979	521	780
Payable to others:		
6⅞% Environmental and Industrial Development Bonds, payable 1988 through 1997	8,000	—
6% Mortgage, payable through 1986	1,398	1,461
Other mortgaged debt, payable through 2000	1,900	1,266
	47,195	45,477
Less—Amounts payable in one year	7,574	7,260
	$39,621	$38,217

The aggregate annual principal payments for the five years subsequent to December 31, 1977 are: 1978—$7,574,000, 1979—$6,735,000, 1980—$6,657,000, 1981—$9,169,000, 1982—$2,082,000.

The loan agreements contain, among other things, provisions regarding maintenance of working capital and payment of cash dividends. Working capital at December 31, 1977 and 1976 was substantially in excess of the minimum requirement and the amount of retained earnings available for payment of cash dividends at each date was $24,631,000 and $21,691,000, respectively.

The notes payable to banks at prime plus ¾% interest are collateralized by Cyclops' stock investments in its subsidiary, Busy Beaver Building Centers, Inc. The 6% mortgage and the "other mortgaged debt" is collateralized by certain property, plant and equipment of the Company.

DIAMOND SHAMROCK CORPORATION (DEC)

	1977	1976
	(In thousands)	
Total current liabilities	$255,139	$225,321
Long-Term Debt	540,497	428,730
Long-Term Capital Lease Obligations	41,629	39,226
Advances for Gas Exploration and Development, etc.	12,429	13,632

FINANCIAL SUMMARY

(Dollar amounts in tables are in thousands, except per share)

Long-Term Debt—At December 31, 1977 the Company reclassified $69,568,000 of short-term borrowings, all of the Company's domestic short-term borrowings then outstanding, to long-term debt. Such reclassification is based upon the Company's intention to refinance these amounts on a long-term basis and its ability to do so under its existing Bank Credit Agreement (see Credit Arrangements).

In December 1976, the Company offered $125,000,000 of 7.70% Sinking Fund Debentures due December 15, 2001. The proceeds of the Debentures were received $118,250,000 on January 4, 1977 and the remaining $6,750,000 on April 6, 1977. Of the proceeds received by the Company on January 4, 1977, $100,706,000 was used to retire all of the Company's domestic short-term borrowings then outstanding, and accordingly that amount has been included as long-term debt in the 1976 consolidated financial statements. The balance of the proceeds received was added to the general funds of the Company.

In October 1976, in accordance with the indenture provisions, the Company called its 3⅜% Sinking Fund Debentures for redemption. The call was completed on November 30, 1976.

	December 31, 1977	1976
Sinking Fund Debentures		
4⅝% due 1986-1987	$ 5,231	$ 15,579
7¾% due 1978-1994	40,415	42,725
8¼% due 1979-1996	60,000	60,000
9% due 1984-1999	75,000	75,000
9⅛% due 1985-2000	100,000	100,000
7.70% due 1986-2001	125,000	100,706
Notes		
4.65% due 1978-1989	18,000	19,500
4⅞% due 1978-1987	3,750	4,125
Pollution control/Industrial revenue financings	22,456	4,342
Other loans	27,443	13,650
Short-term debt to be refinanced	69,568	—
	$546,863	$435,627
Less—Due within one year	6,366	6,897
	$540,497	$428,730

The aggregate maturities of outstanding long-term debt during the next five years are as follows: 1978 — $6,366,000, 1979 — $9,567,000, 1980 — $9,748,000, 1981 — $9,698,000 and 1982 — $9,589,000.

GULF & WESTERN INDUSTRIES, INC. (JUL)

	1977	1976
Deferred Liabilities	$238,261,000	$201,723,000
Long-Term Debt, less current maturities—Notes A and E	1,347,980,000	1,006,960,000
Minority Interest	154,959,000	108,596,000
Convertible Subordinated Debt—Note E	308,478,000	369,044,000

Note A (in part): Significant Accounting Policies

Unamortized Debt Discount—Debt discount is amortized over the term of the related debt using the interest method.

Note E—Long-Term and Convertible Subordinated Debt

	1977	1976
Long-term debt includes:		
Notes payable to institutional investors, interest 5¾ to 11%, averaging approximately 7.9%, due 1978 to 2002	$ 293,394,000	$ 233,580,000
6% subordinated debentures due 1978 to 1988	46,555,000	47,128,000
7% subordinated debentures due 2003, net of unamortized discount of $66,748,000 at July 31, 1977 and $47,443,000 at July 31, 1976 (effective interest rates of 10% to 14%)	135,264,000	83,579,000
5% debentures due 1979 to 1988, convertible into common stock of the Company at $19.46 a share	45,884,000	45,884,000
Notes payable to banks due 1978 to 1999:		
Interest at or above (primarily ½% to ¾%) the prevailing prime rates	71,269,000	73,175,000
Interest ½% above the prevailing prime rates, with effective interest limited to a maximum of 7½% to 8¼% from date of note to date of interest payment	110,000,000	100,000,000
Interest at 115% to 122% of the prevailing prime rates	57,000,000	47,500,000
Interest 6% to 12¼%, averaging approximately 8¼%	361,496,000	226,256,000
Other notes and debentures, interest 3% to 12%, averaging approximately 8.3%, due 1978 to 2027, net of unamortized discount of $6,526,000 at July 31, 1977 and $1,120,000 at July 31, 1976	319,468,000	211,362,000
	$1,440,330,000	$1,068,464,000
Less current maturities	92,350,000	61,504,000
	$1,347,980,000	$1,006,960,000
Convertible subordinated debt includes:		
5½% debentures, due 1992 and 1993, convertible into common stock of the Company at $20.49 a share, may be redeemed at 103½% of face	$ 275,350,000	$ 335,872,000
5¼% debentures and notes, due 1980 to 1989, convertible into common stock of the Company from $15.75 to $17.14 a share, may be redeemed at 102.7% of face	13,128,000	13,172,000
5½% notes, due 1979 to 1987, convertible into $2.50 Series D convertible preferred stock at $87.50 a share, may be redeemed at 104.14% of face	20,000,000	20,000,000
	$ 308,478,000	$ 369,044,000

Maturities of long-term and convertible subordinated debt during the five years ending July 31, 1982, are:

1978	$ 92,350,000
1979	86,845,000
1980	105,335,000
1981	134,480,000
1982	193,552,000

The Company has complied with restrictions and limitations required under terms of various loan agreements. Consolidated retained earnings unrestricted as to the payment of cash dividends at July 31, 1977 was $122,000,000.

Assets and liabilities recorded under capitalized lease obligations are not material.

The conversion prices of convertible debt are subject to anti-dilution provisions.

HARNISCHFEGER CORPORATION (OCT)

	1977	1976
Deferred Income Taxes	$ 2,331,021	$ 2,058,066
Long-Term Debt	132,867,749	88,204,684
Capitalized Lease Obligations	1,152,242	—
Minority Interest	8,742,272	11,431,894

FINANCIAL NOTES

Note 4: Long-Term Debt and Bank Credit Lines—A summary of long-term debt, excluding current installments, is as follows:

	(Thousands of Dollars) October 31, 1977	1976
Promissory Notes		
4½% note due 1978	$ —	$ 100
6% note due $470,000 annually to 1979 and $540,000 in 1980	1,010	1,480
9% notes due $1,000,000 annually to December, 1981 and $2,000,000 annually thereafter to December, 1991	24,000	25,000
Less: Unamortized discount resulting in an effective interest rate of 9.77%	(894)	(984)
9⅞% notes due $3,750,000 annually 1980-1991, and $5,000,000 in 1992	50,000	50,000
8⅞% notes due annually, $2,250,000 in 1981-1986, $2,700,000 in 1987-1992, $4,950,000 in 1993-1994, and $5,400,000 in 1995 ...	45,000	—
	119,116	75,596
Eurodollar Revolving Credit Note, due $100,000 semi-annually to March, 1979, currently 7¾% .	100	300
Notes, in German marks, issued by a German subsidiary—		
Bank notes, due $1,732,800 in fiscal 1979 and $10,396,800 in fiscal 1980	12,130	12,309
Minority shareholder subordinated loan, due in fiscal 1981	1,061	—
Mortgage Loan, in rands, issued by a South African subsidiary, due $115,220 annually to August, 1982, currently 14%	461	—
	$132,868	$88,205

In December, 1976, the Corporation entered into note purchase agreements with four institutional lenders, for the sale of its 8⅞% Promissory Notes due 1981-1995 in the aggregate amount of $45 million; $17.5 million of the notes were issued in December, 1976 and $27.5 million in March, 1977.

Under the most restrictive terms of the Corporation's long-term loan agreements, the amount available for cash dividends and restricted investments approximated $17,300,000 at October 31, 1977.

Installments payable to holders of the long-term debt during the five years ending October 31, 1982 are $2,752,000, $3,418,000, $15,802,000, $8,177,000 and $7,115,000, respectively.

The Corporation borrows, at prime interest rates, 7% at October 31, 1977, from six banks on a short-term unsecured basis under lines of credit the amounts of which are adjusted from time to time in line with the Corporation's needs. As of October 31, 1977, the total amount of such lines of credit was $30,000,000. The weighted average amount of these short-term bank notes outstanding during the year ended October 31, 1977 was $3,526,000 and the related weighted average interest rate was 6.8%. The maximum amount of the Corporation's short-term bank notes outstanding during the period was $15,000,000.

The Corporation is expected to maintain satisfactory cash balances with its lending banks; currently such balances approximate 15% of its total lines of credit, an amount normally necessary to meet the Corporation's operating requirements. There are no legal restrictions on these or any other collected balances, all of which are fully available to the Corporation for use at all times.

Consolidated subsidiaries borrow under local short-term bank lines, and under German bank term-loan agreements; there are no compensating balance requirements. As of October 31, 1977, the total amount of such long-term and short-term bank credit lines was $29,600,000, the outstanding borrowings were $13,006,000 under the short-term lines and $12,996,000 under the German term-loan lines, and the weighted average interest rate was 6.7%, both on the short-term bank loans and the term loans. The weighted average amount of such aggregate bank borrowings during fiscal year 1977 was $26,480,000, the maximum amount outstanding at any month-end was $28,687,000, and the weighted average interest rate was 6.8%.

G. C. MURPHY COMPANY (JAN)

	1978	1977
Total current liabilities	$ 76,634,000	$ 67,776,000
Long-term debt (Note 4)	46,502,000	49,491,000
Deferred income taxes (Note 9)....	16,925,000	15,734,000
Total liablilities..................	$140,061,000	$133,001,000

Note 4: Long-Term Debt—At January 26, 1978, long-term debt comprised:

7⅜% Sinking Fund Debentures due 1981-96	$23,982,000
9% Notes due in installments 1982-91	10,000,000
5¼% to 6% Capitalized lease obligation due 1983-98	4,000,000
9% Note due in installments through 1986	4,167,000
8⅜% Mortgage note due in installments through 2001	3,815,000
7% Capitalized lease obligation due through 2007	538,000
	$46,502,000

The various loan agreements contain certain restrictive covenants which, among other things, require the maintenance of specified levels of working capital and limit payment of dividends, sale and leaseback arrangements, acquisition and disposition of subsidiaries and issuance of additional long-term debt. At January 26, 1978, income retained in the business in the amount of $16,377,000 was free of restrictions.

Property and equipment with an original cost of $7,757,000 is pledged as collateral for the capitalized lease obligations and mortgage note.

The aggregate amounts of long-term debt which will become due during the next 5 fiscal years are: 1978, $614,000; 1979, $619,000; 1980, $625,000; 1981, $2,112,000; 1982, $3,137,000.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

	1977	1976
	(In millions)	
Long-term debt, less current maturities	$387.0	$389.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Long-term Debt—Long-term debt at June 30, 1977 and 1976, was as follows:

	1977	1976
9.35% debentures due 2000 in annual installments of $6.5 million, beginning 1986, with final payment of $9.0 million in 2000	$100.0	$100.0
7.45% promissory notes due 1994 in annual installments of $7.5 million, beginning 1978, with final payment of $20 million in 1994	140.0	140.0
8.25% promissory notes due 1988 with quarterly payments averaging $2.3 million, beginning 1982	52.0	52.0
Variable interest notes due 1982 (1977—8.1%; 1976—8.7%) at 120% of prime with quarterly payments averaging $1.5 million	29.1	34.0
7.75% industrial development revenue bonds due 2001 in equal annual installments of $.8 million, beginning 1992	8.5	8.5
4% convertible subordinated debentures due in 1991	7.5	11.8
4.5% subordinated debentures due in 1991	7.6	7.9
Variable interest note (6.75%) due 1983 at prime with quarterly payments of $.3 million, beginning 1978 and increasing to $.8 million in 1980	13.5	—
Capital lease obligations	19.1	20.6
Other (5.0% to 9.75%) due 1978 to 1990	29.6	24.6
	406.9	399.4
Less current maturities	19.9	9.9
	$387.0	$389.5

The 9.35 percent debentures are redeemable at the option of IMC at prices ranging from 108.882 percent at June 30, 1977, to 100 percent in 1995 and thereafter.

The capital stock of New Wales Chemicals, Inc. (formerly IMC Chemicals Corp.) and its rights under certain contracts including long-term sales arrangements covering a substantial portion of output of its phosphate chemical facility, serve as collateral for the 8.25 percent and the variable interest notes; IMC is obligated to purchase the notes in the event of default in payment by New Wales Chemicals.

The 7.75 percent industrial development revenue bonds are limited obligations of The Industrial Development Board of the City of Bridgeport, Alabama, and are guaranteed by IMC. The bonds are redeemable at prices ranging from 103 percent in 1986 to 100 percent in 1992.

The 4 percent convertible subordinated debentures require annual sinking fund payments of approximately $1.9 million. As of June 30, 1977, IMC held a total of $12.1 million principal amount of these debentures which may be applied toward any sinking fund payment. The debentures are currently convertible into common stock at $37.98 per share and are redeemable at prices ranging from 102.70 percent in 1977 to 100 percent in 1986 and thereafter. In 1977 and 1976, $4.3 million and $22.9 million principal amount were converted into 113,666 and 600,717 common shares, respectively.

The 4.5 percent subordinated debentures may be converted at any time for cash at the rate of $662 per $1,000 principal amount of debentures. Annual sinking fund payments of $1 million are required from 1978 through 1990. At June 30, 1977, a total of $3.3 million had been purchased and $7.4 million had been converted, all of which may be applied toward any sinking fund payments.

Maturities of long-term debt, excluding capital lease obligations, in millions for the next five years, assuming application of purchased 4 percent convertible debentures and purchased and converted 4.5 percent debentures to the earliest sinking fund payments, are as follows: 1978—$18.3; 1979—$19.8; 1980—$23.1; 1981—$22.2; 1982—$22.3.

Certain debt agreements require maintenance of $120 million consolidated working capital and restrict the payment of dividends and purchase, retirement, or redemption of capital stock. Consolidated retained earnings not restricted under these provisions amounted to $225 million at June 30, 1977.

QUAKER STATE OIL REFINING CORPORATION (DEC)

	1977	1976
	($000)	
Total current liabilities	$ 51,287	$ 49,034
Long-term debt, less current installments (Note 4)	91,477	86,993
Deferred income taxes and investment credit	42,546	32,746
Total liabilities	$185,310	$168,773

Note 4: Long-Term Debt—Long-term debt consisted of:

	December 31 1977	1976
	Thousands of Dollars	
9% Sinking Fund Debentures due August 1995 (annual sinking fund payments of $1,250,000 commence in 1980)	$25,000	$25,000
Collateralized notes	30,459	22,760
Revolving Credit Agreement	25,000	20,000
5¾% Note payable in annual installments of $600,000 to 1986	5,800	6,400
6¾% Federal tax-free industrial revenue debt payable in quarterly installments of $156,250 to 1984	4,219	4,843
7¼% Serial Debentures	3,281	3,411
Others, 6% to 7¾%, due in various installments to 1987	8,272	7,550
	102,031	89,964
Less payments due within one year	10,554	2,971
	$91,477	$86,993

The collateralized notes relate to the expansion of the Donaldson Mines and provide for borrowings up to $33,000,000 with interest at 7.9% plus a 10% interest surcharge. The interest rate may vary depending upon rates charged by the bank participating in the financing of the project. The notes are 8 and 20 year notes for $12,335,000 and $18,124,000 respectively, and are payable in equal monthly installments of principal and interest which commenced September 1, 1977. The notes are collateralized by the pledged stock and substantially all the assets ($32,000,000 at December 31, 1977) of the Donaldson Mine Company, a subsidiary of The Valley Camp Coal Company, and assignment of all rights under the long-term coal sales agreement. An amount sufficient to repay the notes will be recoverable through the coal sales agreement. The coal purchasers, under certain conditions of default, may terminate the contract and acquire the assets or stock of the Donaldson Mine Company. The notes are an obligation of the Donaldson Mine Company and are not guaranteed by Valley Camp or Quaker State.

On January 1, 1978, Valley Camp converted the interim loans of $25,000,000 under the revolving credit into a term loan, bearing interest at 1¼% over the bank's prime rate, and payable in 20 quarterly installments of $1,250,000 plus interest beginning in 1978. Additionally, the loan is subject to a principal repayment escalation clause based on earnings in excess of established limits.

The 7¼% Serial Debentures are payable annually in increasing amounts of $138,000 in December 1978 to $368,000 in December 1992. Annual receipts from an iron ore pellet handling facility are pledged as collateral for the debentures. The debentures are an obligation of one of Valley Camp's subsidiaries and not guaranteed by Quaker State or Valley Camp.

Under the most restrictive covenants of debt instruments, cash dividends may not be paid or capital stock purchased if such action would reduce retained earnings or working capital below stipulated amounts. At December 31, 1977, $47,000,000 was free from these restrictions.

At December 31, 1977, the Company had additional unused lines of credit aggregating $37,500,000 whereby banks provide for borrowings at the prime rates in effect at the respective banks. Under informal agreements with these banks, the Company maintains bank compensating balances, $1,450,000 at December 31, 1977, which are not restricted as to use.

WHITTAKER CORPORATION (OCT)

	1977	1976
	($000)	
Total Current Liabilities	$174,181	$137,184
Long-Term Debt (Note 4)	137,689	175,673
Minority Interest in Subsidiaries	4,502	3,976

Note 4: Notes Payable and Long-Term Debt—At October 31, 1977, Whittaker had available under a bank loan agreement a line of credit of $50,000,000 through November, 1980, decreasing to $37,500,000 through November, 1981, and to $25,000,000 through May, 1982. None of this line was drawn upon at October 31, 1977. Interest under the loan is at the prime rate through November, 1978, increasing to ¼% above prime through November, 1979, and ½% above prime through May, 1982. Whittaker has the option, under the agreement, to borrow at rates 1% above the London Interbank Offered Rate through November, 1978. In addition, the company is expected to maintain unrestricted compensating balances averaging 10% of amounts committed, plus 10% of amounts borrowed (5% if borrowed at the London Interbank Offered Rate) and pays an annual agent's fee of ⅛% of amounts committed and a commitment fee of ½% per annum on the unused portion of the line.

The other notes payable to banks of $18,594,000 have interest rates ranging from 4⅞% to 10¼% (the upper range being attributable to notes of Whittaker's foreign subsidiaries). The average interest rate at October 31, 1977 on notes payable to banks (after giving effect to fees but not compensating balances) is 10.2%.

The maximum amount of short-term borrowing outstanding at any month-end during the year ended October 31, 1977, was approximately $33,000,000, the average amount outstanding during 1977 was approximately $18,000,000 and the average interest rate (after giving effect to fees but not compensating balances) during 1977 was approximately 9.0%.

Long-term debt consisted of the following:	October 31 1977	1976
Collateralized debt—		
Notes collateralized by certain receivables, real property, equipment and other assets, maturing at various dates to 1993, with interest rates ranging to 10½%	$ 10,986	$ 11,555
Capitalized lease obligations—		
Obligations payable in varying monthly or quarterly installments through 1997, with interest rates ranging to 15% (Note 11)	12,921	15,188

Uncollateralized debt—		
Bank term loan due 1978 to 1980 with interest at prime rate plus 1%	—	32,000
Bank loan due 1982 with interest at 8½%	10,000	—
Notes maturing at various dates to 1991, with interest rates ranging to 9½%	9,415	13,826
Notes due 1977 to 1980 with variable interest keyed to the three-month Eurodollar rate plus 1½%	—	4,941
Subordinated debt—		
5% subordinated notes due 1978 through 1982	3,193	3,849
9⅝% subordinated debentures due 1981 through 1993	20,055	20,055
10% subordinated debentures due 1978 through 1988	16,884	16,884
10% subordinated debentures due 1986 through 1996 (less unamortized discount of $2,541,000 at October 31, 1977 and $2,710,000 at October 31, 1976) (Note 6)	33,623	33,425
Note payable in equal annual installments through 1978 with variable interest keyed to the three-month Eurodollar rate plus 1%	—	3,600
Subordinated notes maturing 1979, with interest rates ranging to 8%	338	502
Convertible subordinated debt—		
4½% convertible subordinated debentures due 1978 through 1988, convertible into common stock at $47 per share	8,198	10,028
Convertible subordinated notes due 1979 to 1981, convertible into common stock at $15 per share, with variable interest keyed to the three-month Eurodollar rate plus 1% (at October 31, 1977 the three-month Eurodollar rate was approximately 7¼%)	15,000	15,000
4¾% convertible subordinated debentures due 1977 through 1987, convertible into common stock at $17 per share	1,355	1,544
4½% convertible subordinated promissory note due 1988, convertible into common stock at $18 per share	500	500
	142,468	182,897
Less current maturities	4,779	7,224
	$137,689	$175,673

At October 31, 1977, collateral for notes payable and for long-term debt, consisting primarily of receivables, real property and equipment, amounted to approximately $15,000,000.

Long-term debt issued by subsidiaries of Whittaker and included in the above table amounted to $34,302,000 at October 31, 1977 and $37,302,000 at October 31, 1976.

During 1977, Whittaker, in connection with future sinking fund requirements, acquired $2,019,000 principal amount of its various outstanding debentures which resulted in a gain of $632,000 on early extinguishment of debt.

A consolidated foreign subsidiary of Whittaker owned $5,081,000 principal amount of Whittaker's 4½% convertible subordinated debentures due 1988 at October 31, 1977 and 1976, $607,000 principal amount of Whittaker's 4¾% convertible subordinated debentures due 1987 at October 31, 1977 and 1976, $900,000 and $1,900,000 principal amount of Whittaker's 10% subordinated debentures due 1988 at October 31, 1977 and 1976, respectively, and $4,622,000 principal amount of Whittaker's 9⅝% subordinated debentures due 1993 at October 31, 1977 and 1976. These amounts have been eliminated in consolidation.

Maturities of long-term debt were as follows for the periods stated:

Year ending October 31,	(In thousands)
1978	$ 4,779
1979	5,948
1980	11,012
1981	14,415
1982	21,890

Covenants in connection with bank loan agreements, indentures, lines of credit, other long-term loan agreements and preferred stock impose restrictions with respect to, among other things, the payment of dividends, maintenance of financial ratios, and redemption of capital stock, and require payments to sinking funds.

CREDIT AGREEMENTS

As shown in Table 2-26, many of the survey companies disclosed the existence of loan commitments from banks or insurance companies for future loans. Examples of such loan commitments follow.

AEL INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Short-term borrowings—During fiscal 1977, aggregate short-term borrowings averaged $1,642,000 at an average interest rate of 9.0% and did not exceed $2,217,000 at any month-end. During fiscal 1976, aggregate short-term borrowings averaged $5,059,000 at an average interest rate of 9.5% and did not exceed $6,400,000 at any month-end.

Under the terms of a line of credit available to the Company at February 25, 1977, the Company was permitted to borrow funds or obtain letters of credit not to exceed a total of $8 million. Related borrowings of $3 million bear interest at 1¾% above the prevailing prime interest rate and expire on June 30, 1977. Borrowings of $2 million bear interest at 2% above the prevailing prime interest rate; expire on February 28, 1978; are convertible, at the Company's option, into a five-year term loan and require a commitment fee of ½ of 1% on the unused portion. As a result of the Company's receipt of a significant purchase order from a customer, the credit

TABLE 2-26: CREDIT AGREEMENTS

	1977	1976	1975	1974
Type of Agreement				
Revolving credit	127	157	198	200
Other	386	287	277	281
Total Disclosures	**513**	**444**	**475**	**481**
Number of Companies				
Disclosing credit agreement.	418	382	385	389
Not disclosing such agreement	182	218	215	211
Total	**600**	**600**	**600**	**600**
Compensating Balances	272	259	274	255

agreement has been amended to provide an additional $3 million of borrowing availability at 2% above the prevailing prime interest rate and to extend the expiration date of all lines of credit to October 31, 1978 to the extent specifically needed by the Company to finance production of the purchase order referred to above. The provisions of the credit agreement prohibit the Company from paying cash dividends. The lines are collateralized by receivables, including unbilled amounts, and inventories aggregating approximately $14,700,000 at February 25, 1977.

At February 25, 1977, the only utilization of the line of credit was represented by letters of credit amounting to $4,809,000 of which $4,500,000, together with $2,646,000 of the Company's marketable securities, provide a guarantee and collateral for a $7,146,000 letter of credit issued by an unrelated lender to secure the repayment of a $7,146,000 advance deposit made by a customer on future deliveries and service associated with the purchase order referred to above.

THE AMERICAN SHIP BUILDING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Long-term Debt: The Company, on July 21, 1977, entered into a $20,000,000 credit agreement with a group of banks. From inception through July 30, 1980, the new credit arrangement operates as a revolving credit facility. At any time up to July 30, 1980, the Company, at its option, may convert the agreement, up to the amount of the commitment, to a term loan to be repaid in sixteen equal quarterly installments.

Interest under the revolving credit agreement is to be computed at the prime commercial rate through June 30, 1978; at the prime rate plus ¼ of one percent from July 1, 1978 to June 30, 1980; and on the term loan, if any, at the prime rate plus ½ of one percent.

During the period of revolving credit, the Company is obligated to pay a commitment fee equal to ½ of one percent per year on the daily average unused amount of the available commitment. This fee amounted to $19,000 for 1977.

Unless the banks' advance approval is received, the credit agreement provides, among other things, for restrictions on additional borrowings, limits the amount of fixed asset expenditures, establishes maximum levels of contingent liabilities, guarantees, and leases; and requires the maintenance of certain specified working capital, debt-to-net worth ratios, interest-lease payment coverage, and net-worth levels. In addition, the future payment of cash dividends on common shares is limited to 40 percent of net earnings after preferred dividends. As of September 30, 1977, the Company was in compliance with the credit agreement provisions.

In connection with the credit agreement, the Company has agreed to maintain compensating balances, which are not legally restricted, at the various banks equal to ten percent of the total commitment and ten percent of the amount borrowed and outstanding during the revolving credit period, and an amount equal to twenty percent of the outstanding indebtedness during the term loan period.

At the Company's request, $5,000,000 in lines of credit were terminated upon establishment of the new credit agreement. There were no short-term borrowings during 1977. During 1976, short-term borrowings were $3,300,000 at 6.75% for a period of 50 days.

AMSTED INDUSTRIES INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revolving Credit Agreement—The company has a Revolving Credit Agreement with three banks expiring on December 31, 1979. Although there were no borrowings under this agreement during the year, the agreement permits aggregate borrowing up to $25,000,000 at the prime commercial rate. The company is required to pay a commitment fee of ½ of one percent on the unused principal balance.

The company has additional unused lines of credit aggregating $6,500,000.

On or prior to December 31, 1979, any borrowings under the Revolving Credit Agreement may be converted into a term loan, payable over a five-year period, which would bear interest at ¼ percent above the prime commercial rate in effect from time to time. This agreement contains certain restrictions with respect to the maintenance of total capital invested. At September 30, 1977, approximately $53,000,000 of total capital invested was not affected by these restrictions.

Average compensating balances included in cash during 1977 amounted to $2,500,000. The balances were maintained to support the Revolving Credit Agreement, the additional unused lines of credit and other bank services.

CHRYSLER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Revolving Credit Agreements and Lines of Credit—In April, 1977, the Chrysler Corporation entered into a new Credit Agreement in the U.S. which now totals $560.0 million, replacing the previous agreement for $463.1 million. The new Agreement runs until 1982, with a revolving credit feature for the first three years, and a term loan feature during the last two years for half the amount. The Agreement requires the payment of a commitment fee of ½% per annum on the unused portion of the commitment. The Corporation is required by the Agreement, among other things, to maintain at least $600.0 million of consolidated working capital. At December 31, 1977, the Corporation's working capital exceeded the requirement by $462.9 million.

Chrysler Corporation also has Eurodollar Revolving Credit Agreements with international banks which terminate on various dates through December, 1979, provide for borrowings at various rates, and generally require payment of a fee of from 3/8% to 1/2% on the unused portion of the commitment.

Total revolving credit agreements and lines of credit with banks as of December 31, 1977 were as follows:

	Used	Unused	Total
	(in millions of dollars)		
Revolving Credit Agreements			
Chrysler Corporation:			
U.S. Credit Agreement	$ —	$560	$560
Eurodollar Credit Agreements	251	13	264
Subsidiaries Outside the U.S.	105	49	154
Total	$356	$622	$978
Lines of Credit			
Chrysler Corporation	$ —	$110	$110
Subsidiaries Outside the U.S.	208	448	656
Total	$208	$558	$766

Chrysler Corporation also uses the other normal services of U.S. banks and maintains compensating balances with them for credit facilities and other services.

FRANKLIN MINT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Short-Term Borrowings and Compensating Balances—At December 31, 1977, the company had unsecured lines of credit with banks of $60 million. In support of $31 million of these bank lines, the company has agreed to maintain compensating balances of average collected funds, averaging 8.9 percent of the available lines of credit, and an additional 11.3 percent of any amounts borrowed. In lieu of the compensating balance requirements in support of $19 million of the aforementioned bank lines, the company may elect to be charged a fee averaging 10.9 percent of prime interest rate of available lines of credit, and an additional 10.0 percent of prime interest rate of any amounts borrowed. In support of the remaining $29 million of bank lines, the company is charged a fee averaging 9.3 percent of prime interest rate of available lines of credit in lieu of compensating balance requirements, and an additional 9.4 percent of prime interest rate of any amounts borrowed. Although the company has agreed to maintain these funds, they are not formally restricted and may be drawn down for daily operations as needed. During 1977, the company was in compliance with all compensating balance requirements. The lines are reaffirmed annually by the banks and can be cancelled at any time at the option of either the banks or the company. At December 31, 1977, $2,500,000 was borrowed under these agreements.

During 1977, average borrowing under these lines of credit was $4,823,000. The maximum amount used at any month end was $8,000,000. The weighted average interest rate of these loans was 7.2 percent. At December 31, 1977, the interest rate on outstanding borrowings was 8.2 percent.

In addition, several foreign subsidiaries of the company have aggregate credit arrangements with banks under which they may borrow up to approximately $7,300,000 based on year-end exchange rates. At December 31, 1977, $2,901,000 was borrowed under these arrangements, at a weighted average interest rate of 11.4 percent. During 1977, the average amount borrowed was $3,511,000. The maximum amount borrowed at any month end was $5,115,000.

GEORGIA-PACIFIC CORPORATION (DEC)

FINANCIAL FOOTNOTES

All dollar amounts, except per share amounts, are in thousands

Note 9 (in part): Long-Term Debt—In May 1977, the corporation replaced a $300,000 confirmed seasonal line of credit with a $250,000 unsecured revolving line of credit ("evergreen line") and a $100,000 unsecured seasonal line of credit ("seasonal line"). The evergreen line, which expires on June 30, 1980, consists of separate agreements with a number of banks. Each agreement may be terminated upon ten days' notice by the corporation or upon fifteen months' written notice by a participating bank. The seasonal line also consists of separate agreements which have varying provisions relating to review and renewal of each bank's participation in the line. Neither of the lines carry commitment fees or long-term conversion features. Under the evergreen line, the corporation has agreed to maintain bank deposits on an annual average basis amounting to 10% of the evergreen line plus 10% of all loans outstanding thereunder. The Board of Directors of the corporation has authorized the use of these lines up to a maximum of $300,000.

The corporation uses the evergreen line of credit to support short-term borrowings. The maximum amount of short-term borrowings outstanding at any time during 1977 was $256,000. The daily average amount of such borrowings outstanding during 1977 was $110,000 and the average interest rate for such borrowings was 5.7% during the period. As of December 31, 1977, current liabilities exclude and long-term debt includes $100,000 of commercial paper and short-term notes. The corporation currently intends to maintain borrowings of at least $100,000 supported by the evergreen line.

GRUMMAN CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4: Revolving Credit Agreement—In 1976, the Company entered into a Revolving Credit and Term Loan Agreement with a group of banks to provide it with $135,000,000 of credit to be reduced quarterly. During December 1977, when the remaining commitment was $90,000,000, the agreement was amended to provide the Company with additional credit of $50,000,000 in connection with the acquisition of The Flxible Company (see Note 11). The total commitment of $140,000,000 at December 31, 1977 will continue to be reduced quarterly through September 30, 1978, when the maximum will be $50,000,000. At that time the Company has the option of converting the outstanding advances to a term loan repayable in twenty equal quarterly installments.

Letter agreements between the Company and each of the banks provide lines of credit for short-term needs, totaling $35,000,000 at December 31, 1977, an increase over the December 31, 1976 total of $25,000,000.

Borrowings under the agreement bear interest at 1/4% over prime until September 30, 1978, and 1/2% over prime thereafter, with a commitment fee of ½% per annum on the average unused amount of the remaining portion of the bank credit, as amended.

Under the agreement and lines of credit with the banks, Grumman Corporation is the borrower, with Grumman Aerospace Corporation guaranteeing the loans. As security for the loans, the Company has pledged the capital stock of its principal subsidiaries (except for the common stock of Grumman American Aviation Corporation) and all indebtedness of those subsidiaries to the Company.

The book value of the net assets of the subsidiaries whose capital stock has been pledged was $177,780,000 at December 31, 1977, including property, plant and equipment having a depreciated value of $106,007,000. In addition, Grumman Aerospace Corporation has granted a security interest in all of its accounts receivable and inventory to such banks to the extent that title has not attached to the Government and has established a collateral account into which payments under its major Government contracts and all extensions, renewals, replacements, substitutions and modifications thereto, are deposited. Grumman Aerospace Corporation has unrestricted access to this collateral account unless an event of default under the agreement has occurred.

The agreement includes covenants limiting certain activities of the Company, which covenants can be changed with prior consent of the majority banks. Among these covenants are restrictions as to mergers, additional debt, expenditures for capital assets, and sales of capital assets. Cash dividends by Grumman Corporation may not exceed 35% of consolidated net income computed on a cumulative basis from December 31, 1975, but there is no restriction on dividends payable in capital stock of the Company.

The unrestricted amount available for cash dividends at December 31, 1977 was $6,507,392. In addition, minimum amounts of consolidated working capital and consolidated net worth are to be maintained both by the Company and by Grumman Aerospace Corporation. The agreement provides that a failure to meet these tests, a material adverse change in the financial condition or operation of the Company or Grumman Aerospace Corporation, and violation of other covenants in the agreement would constitute events of default.

Under informal arrangements with the banks involved in the revolving credit agreement and other bank credit, the Company maintains compensating balances, which are not legally restricted with such banks, averaging 10% of the credit available and 10% of the outstanding borrowings. Compensating balance requirements, net of float, at December 31, 1977, amounted to $12,952,000.

HOLLY SUGAR CORPORATION (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 2: Notes Payable and Long-Term Debt—At March 31, 1977, long-term debt consisted of a $10,000,000 promissory note due January 31, 1984, bearing interest at 8.625%, payable in twenty equal quarterly installments beginning April 30, 1979. The loan agreement relating to this note places certain restrictions on the corporation, including maintenance of $20,000,000 working capital, $75,000,000 net worth and a total debt (excluding accrued liabilities for sugarbeets) to equity ratio not to exceed 1.2 to 1. At March 31, 1977, retained earnings available for dividend payments under the loan agreement totaled $2,010,349. There was no long-term debt outstanding at March 31, 1976.

The corporation had available lines of credit of $59,000,000 at March 31, 1977 and $46,150,000 at March 31, 1976. The lines of credit at March 31, 1977 include $10,000,000 under a revolving credit and term loan agreement dated January 31, 1977 which may be converted to a term loan on or before January 31, 1979. Short-term borrowings against these lines of credit was $38,500,000 at March 31, 1977 and $35,650,000 at March 31, 1976 at average interest rates of 6.7% and 7%, respectively. Average aggregate borrowings were $32,916,500 in fiscal 1977 and $14,750,000 in fiscal 1976. Maximum aggregate borrowings at any one month-end were $61,500,000 in fiscal 1977 and $45,150,000 in fiscal 1976. The daily weighted average interest rate was 6.9% in fiscal 1977 and 7.5% in fiscal 1976.

In fiscal 1977, the lines of credit generally provided for compensating balances equal to 15% of borrowings under the line or for a surcharge on the prime rate of 15% in lieu of compensating balances. In fiscal 1976, the lines provided for compensating balances of 10% and 20% of borrowings or for a surcharge on the prime rate of 10% or 20%. The cost of the surcharges is included in interest expense. There are no legal restrictions on withdrawal of cash balances.

OUTBOARD MARINE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Short-term Borrowings and Compensating Balances—A summary of short-term borrowing activity follows:

	1977	1976
Lines of credit at September 30—		
At U.S. banks	$30,000,000	$30,000,000
At foreign banks	50,256,000	46,098,000
Total	$80,256,000	$76,098,000
Outstanding at September 30—		
Bank borrowing	$ 430,000	$ —
Commercial paper	15,000,000	—
Total	$15,430,000	$ —
Average aggregate interest rate	6.2%	—%
Average fo the year—		
Aggregate borrowing	$25,687,000	$19,552,000
Interest rate	5.9%	7.8%
Maximum borrowing outstanding at any month end	$51,882,000	$45,982,000

The Company maintains average compensating balances at U.S. banks of 10% of available lines of credit and an additional 10% of such credit used. These compensating balances, which are on deposit at the various lender banks, are not legally restricted as to usage or withdrawal. No such compensating balances are maintained at foreign banks.

LONG TERM LEASES

Effective for leasing transactions entered into on or after January 1, 1977, FASB *Statement of Financial Accounting Standards No. 13* is the authoritative pronouncement on the reporting of leases in the financial statements of lessees. Statement No. 13 did not require that financial statements reflecting lease transactions prior to January 1, 1977 be restated in 1977, but Statement No. 13 does require that financial statements reflecting lease transactions prior to January 1, 1977 be restated no later than fiscal periods beginning after December 31, 1980. Thirty-five survey companies restated their financial statements in 1977 to give retroactive effect to the requirements of Statement No. 13.

Table 2-27, in addition to showing the number of survey companies reporting capitalized and/or noncapitalized leases, shows the nature of information most frequently disclosed by the survey companies for noncapitalized leases. Since, as shown in Table 2-27, there was a sharp increase in the number of companies reporting capitalized leases and also because Statement No. 13 set forth more detailed disclosure requirements than predecessor pronouncements for capitalized leases, the 1977 financial statements of the survey companies disclosed much more information about capitalized leases than in preceding years. The information most frequently disclosed in 1977 about capitalized leases included the amount of future minimum rentals and the amount of implicit interest to reduce minimum lease payments to present value.

Examples of long term lease presentations and disclosures follow.

TABLE 2-27: LONG TERM LEASES

	Number of Companies			
	1977	1976	1975	1974
Information Disclosed as to Noncapitalized Leases				
Rental Expense				
Basic	440	393	336	335
Sublease	122	78	N/C	N/C
Contingent	109	70	72	73
Minimum Rental Commitments				
Schedule of	425	290	245	240
Classified by major categories of property	86	164	155	157
Present Value	62	129	115	116
Renewal or Purchase Options	124	69	62	63
Number of Companies				
Capitalized and non-capitalized leases	274	164	126	130
Noncapitalized leases only	194	300	319	314
Capitalized leases only	59	37	47	45
No leases disclosed	73	99	108	111
Total	**600**	**600**	**600**	**600**

N/C — Not Compiled.

AIRCO, INC. (DEC)

	1977	1976
Property, Plant and Equipment (at cost)		
Land	$ 10,210,000	$ 9,076,000
Buildings and Leasehold Improvements	146,578,000	141,443,000
Machinery and Equipment	563,944,000	481,678,000
Construction in Progress	29,506,000	47,624,000
Leased Property under Capital Leases (Note 13)	6,577,000	—
Total	756,815,000	679,821,000
Less Accumulated Allowances for Depreciation, Amortization and Obsolescence	321,640,000	294,458,000
Property, Plant and Equipment—Net	$435,175,000	$385,363,000
Current Liabilities		
Accounts Payable	$ 64,594,000	$ 55,467,000
Bank Loans and Currently Maturing Long-Term Debt (Notes 6 and 13)	42,694,000	15,545,000
Accruals	41,950,000	52,048,000
Income Taxes Payable	3,575,000	7,725,000
Total Current Liabilities	152,813,000	130,785,000
Long-Term Debt		
Industrial Revenue Bonds, 5¾%, due 1984-93	6,600,000	6,600,000
Pollution Control Notes, 7-8¼%, due 1991-2006	20,900,000	20,900,000
Convertible Subordinated Debentures, 3⅞%, due 1983-87	12,027,000	22,800,000
Sinking Fund Debentures, 9⅜%, due 1986-2000	74,488,000	74,466,000
Industrial Revenue Refunding Notes, 6% due 1997-2007	11,220,000	—
Promissory Notes, 4.85-5%, due 1979-88	44,150,000	48,580,000
Other Debt, 2-11.95%, due 1979-2007	14,081,000	8,682,000
Capital Lease Obligations (Note 13)	4,310,000	—
Total Long-Term Debt	187,776,000	182,028,000

Note 13 (in part): Commitments and contingent Liabilities—In late 1976, the Financial Accounting Standards Board adopted Statement No. 13 "Accounting for Leases" which establishes standards of financial accounting and reporting for leases. Leases meeting certain criteria are considered capital leases and the related asset and lease obligation are required to be recorded at their present value in the financial statements. Other leases not meeting such criteria are operating leases and the related rentals are charged to expense as incurred. The provisions of the Statement have been applied to all lease transactions entered into after January 1, 1977, but retroactive compliance is not currently required. Leased property recorded at December 31, 1977, under capital leases consists principally of distribution equipment of $6,577,000 less accumulated amortization of $663,000, all of which was recorded in 1977.

Minimum future obligations on all leases in effect as of December 31, 1977, are as follows:

	Capital Leases Entered into after January 1, 1977	Capital Leases Entered into prior to January 1, 1977	Operating Leases
1978	$2,031,000	$ 8,900,000	$ 2,200,000
1979	2,031,000	7,700,000	1,600,000
1980	2,031,000	6,700,000	1,200,000
1981	1,183,000	5,500,000	1,000,000
1982	117,000	4,600,000	1,000,000
1983-1987	145,000	13,200,000	3,700,000
1988-1992	—	8,800,000	700,000
1993-1997	—	900,000	100,000
Total minimum lease payments	7,538,000	$56,300,000	$11,500,000
Less: Amount representing interest	1,624,000		
Present value of net minimum lease payments	5,914,000		
Less: Current portion	1,604,000		
Long-term obligation at December 31, 1977	$4,310,000		

If the provisions of the Statement were retroactively applied at December 31, 1977 and 1976, to capital leases entered into prior to January 1, 1977, the approximate amounts of assets and related obligations recorded in the balance sheet would be as follows:

	1977	1976
Tonnage gas plants	$78,500,000	$96,500,000
Less amortization	51,500,000	56,300,000
Present value(1)	27,000,000	40,200,000
Distribution and other equipment	31,300,000	35,400,000
Less amortization	19,200,000	20,500,000
Present value	12,100,000	14,900,000
Total present value	$39,100,000	$55,100,000

(1)Airco's tonnage gas plants supply customers under long-term sales contracts, the terms of which provide for aggregate minimum revenues which more than cover the aggregate rentals under such leases.

Interest rates determined as of the date the lease agreements were entered into and used to calculate such present values ranged from 5% to 11% for 1977 and 4.3% to 11% for 1976. If capital leases entered into prior to January 1, 1977 had been capitalized, the related assets amortized using the straight-line method, and interest expense accrued on the assumed outstanding liability, Airco's net income would have been affected by less than 1% of the average net income for the most recent three years.

Rental expense in 1977 and 1976 was $20,207,000 and $20,531,000, respectively, of which $10,824,000 and $12,919,000, respectively, related to capital leases entered into prior to January 1, 1977.

The unexpended portion of amounts authorized for capital expenditures at December 31, 1977 approximated $70,000,000, as to which commitments have been made for approximately $18,700,000.

ALBERTSON'S, INC. (JAN)

Consolidated Balance Sheets

	1978	1977
Land, Buildings and Equipment:		
Land	$ 12,549,051	$ 10,369,281
Buildings	20,692,488	11,567,104
Fixtures and equipment	128,198,802	108,240,636
Leasehold improvements	24,943,585	21,090,096
Assets under capital leases	128,123,934	109,570,885
	314,507,860	260,838,002
Less accumulated depreciation and amortization	89,143,135	74,708,128
	$225,364,725	$186,129,874
Current Liabilities:		
Accounts payable	$87,797,213	$ 69,938,316
Salaries and related liabilities	10,519,108	9,260,696
Taxes other than income taxes	8,777,481	6,845,531
Interest payable	2,184,086	2,605,787
Taxes on income	7,874,024	3,188,031
Dividends payable	1,467,704	1,314,390
Current maturities of long-term debt	1,397,796	1,750,180
Current obligations under capital leases	2,608,213	2,359,411
Total Current Liabilities	122,625,625	97,262,342
Long-Term Debt, due after one year	43,290,584	34,205,466
Obligations Under Capital Leases	113,937,675	96,902,232
Deferred Compensation	1,936,730	1,328,396
Deferred Income Taxes	1,187,977	1,768,274
Deferred Investment Credit	6,467,851	5,007,365

Consolidated Changes in Financial Position

Source of Funds:		
Operations:		
Net earnings	$24,832,450	$17,072,638
Add charges (credits) not requiring funds:		
Depreciation and amortization	14,918,989	12,388,937
Amortization of assets under capital leases	5,069,226	4,266,657
Amortization of deferred costs	2,100,573	2,030,030
Increase in deferred compensation	608,334	613,417
Increase (decrease) in deferred income taxes	(580,297)	707,506
Amortization of deferred investment credit	(1,019,726)	(911,641)
Working capital provided from operations	$45,929,549	$36,167,544

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lease and Commitments—The Company leases most of its real estate. The standard lease period is 20 to 25 years and most leases contain renewal options. Exercise of such options is dependent on the level of business conducted at the location. In addition, the Company leases certain equipment. Most leases contain contingent rental provisions based on sales volume at retail units and miles traveled for trucks.

All leases and subleases with an initial term greater than one year are accounted for under Financial Accounting Standards Board Statement No. 13, Accounting for Leases. These leases are classified as capital leases, capital subleases, operating leases and operating subleases.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. Contingent rents associated with capital leases in 1977 and 1976 were $1,149,298 and $884,543. Following is an analysis of the Company's assets under capital leases:

	January 28, 1978	January 29, 1977
Real Estate	$123,687,641	$105,547,192
Equipment	4,436,293	4,023,693
	$128,123,934	$109,570,885

Future minimum lease payments for the above assets under capital leases at January 28, 1978 are as follows (in thousands):

	Real Estate	Equipment	Total
1978	$ 13,068	$ 966	$ 14,034
1979	13,119	857	13,976
1980	13,062	831	13,893
1981	13,024	653	13,677
1982	12,942	612	13,554
Remainder	221,928	1,020	222,948
Total minimum obligations	287,143	4,939	292,082
Less executory costs	(2,166)	-0-	(2,166)
Net minimum obligations	284,977	4,939	289,916
Less interest	(171,815)	(1,555)	(173,370)
Present value of net minimum obligations	113,162	3,384	116,546
Less current portion	(2,088)	(520)	(2,608)
Long-term obligations at January 28, 1978	$111,074	$2,864	$113,938

Minimum obligations have not been reduced by minimum capital sublease rentals of $6,449,000 receivable in the future under noncancellable capital subleases. Executory costs include such items as property taxes and insurance.

Rent expense under operating leases is as follows:

	1977	1976
Minimum rent	$11,968,063	$ 8,504,580
Contingent rent	2,763,312	2,881,970
	14,731,375	11,386,550
Less sublease rent	(2,489,742)	(2,245,946)
	$12,241,633	$ 9,140,604

Future minimum lease payments for all noncancellable operating leases and related subleases having a remaining term in excess of one year at January 28, 1978 are as follows (in thousands):

	Real Estate	Subleases
1978	$ 9,358	$ (1,295)
1979	9,006	(1,223)
1980	8,643	(1,103)
1981	8,465	(946)
1982	8,287	(857)
Remainder	121,727	(4,678)
Total minimum obligations (receivables)	$165,486	$(10,102)

At January 28, 1978, the Company was committed under contracts and purchase orders for approximately $6,450,000 for property held for resale and for land, buildings and equipment.

FABRI-CENTERS OF AMERICA, INC. (JAN)

	1978	1977
Property and Equipment, at cost (Notes 3 and 7):		
Land	$ 364,196	$ 364,196
Building	2,006,094	1,985,980
Building under capital lease	2,635,475	2,635,475
Furniture and fixtures	11,947,076	10,458,315
Leasehold improvements	2,950,915	2,654,055
	19,903,756	18,098,021
Less—Accumulated depreciation and amortization	5,557,647	4,437,778
	$14,346,109	$13,660,243
Current Liabilities:		
Current maturities of long-term debt and capital lease obligation (Notes 3 and 7)	$ 512,114	$ 444,130
Short-term bank loan	2,000,000	—
Accounts payable	8,559,985	7,760,327
Accrued expenses	1,747,968	1,810,860
Federal and other taxes on income	965,268	1,099,990
Total current liabilities	13,785,335	11,115,307
Long-Term Debt	12,314,708	12,163,036
Long-Term Obligation Under Capital Lease (Note 3)	2,373,743	2,400,357

Note 3: Leases:

Accounting Policy—

In the fourth quarter of the fiscal year ended January 28, 1978, the Company changed its method of accounting for leases through early adoption of Financial Accounting Standards Board Statement No. 13, as is encouraged by that Statement. The accompanying financial statements have been retroactively restated in accordance with the requirements of Statement 13. Accordingly, the Company's general office and warehouse lease, which was previously accounted for as an operating lease, is now accounted for as a capital lease. Minimum rentals have been capitalized and the related asset and obligation recorded at the fair value at the inception of the lease. The asset is amortized on a straight line basis over the lease term and interest expense is accrued on the basis of the outstanding lease obligation.

The effect of the accounting change was to decrease net income for the fiscal years ended January 28, 1978 and January 29, 1977 by approximately $35,000 and $36,000 respectively. The cumulative effect of the change on prior years, as previously reported, was an aggregate reduction of net income of approximately $184,000. The effect on financial position and net income for such periods and the unaudited effect of the change on all quarterly financial data, as previously reported, is not material.

Description of Leasing Agreements—
All Company operations are conducted in leased facilities. The Company's store leases are generally for periods up to fifteen years with renewal options for principally up to 10 years, provide for fixed rentals and, in some cases, additional rents based on a percentage of sales. The Company is generally not required to pay insurance, taxes, except increases over a base year, and maintenance, except common area maintenance. The Company's general office and warehouse is leased through 1999, from a partnership consisting of three of the principal officers and shareholders of the Company, and the Company is required to pay insurance, taxes and maintenance. The Company's general office and warehouse lease is classified as a capital lease, while the store leases are treated as operating leases.

Capital Lease—
The following is a schedule by years of future minimum payments under the capital lease and the present value of future minimum rentals as of January 28, 1978:

Fiscal Year	Amount
1979	$ 312,000
1980	312,000
1981	312,000
1982	312,000
1983	312,000
Later Years	5,044,000
Total minimum lease payments	$6,604,000
Less: Amount representing interest	4,203,643
Total obligation under capital lease	$2,400,357
Less: Current portion of obligation under capital lease	26,614
Long-term obligation under capital lease	$2,373,743

Amortization of leased property under the capital lease was $91,308 and $91,308, and interest expense on the outstanding obligation under such lease was $288,134 and $290,809, in fiscal 1978 and 1977, respectively. Accumulated amortization of leased property under the capital lease at January 28, 1978 and January 29, 1977 is $702,730 and $611,422, respectively.

Operating Leases—
The following is a schedule by years of future minimum rental payments to be made under noncancelable operating leases as of January 28, 1978.

Fiscal Year	Minimum Rentals
1979	$ 9,030,358
1980	8,791,882
1981	8,415,645
1982	7,935,772
1983	7,221,856
Later Years	28,547,581
	$69,943,094

Rent expense on noncancelable operating leases was as follows:

	52 Weeks Ended	
	January 28, 1978	January 29, 1977
Minimum Rentals	$8,689,878	$7,272,423
Contingent Rentals	119,006	149,085
	$8,808,884	$7,421,508

The Company has entered into lease commitments for new stores scheduled to open after January 28, 1978, for which the approximate aggregate minimum rentals are as follows:

Year of Lease	Aggregate Minimum Rentals
1-5	$2,032,414
6-10	$2,032,414
11-15	$1,097,877

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1977	1976
	($000)	
Long-Term Debt	$967,168	$872,620
Long-Term Capital Lease Obligations	158,672	141,260
Other Long-Term Liabilities	76,176	51,000
Deferred Income Taxes	162,427	147,579
Minority Equity in Foreign Subsidiary Companies	44,810	41,071

NOTES TO FINANCIAL STATEMENTS

Leased Assets—Certain manufacturing, retail store, transportation, data processing and other facilities and equipment are held under leases which generally expire within ten years but may be renewed by the Company. Many of the leases provide that the Company will pay taxes assessed against leased property and the cost of insurance and maintenance.

Total rental expense charged to income was $88,263,000 in 1977 ($82,952,000 in 1976) which included contingent rentals of $6,735,000 ($6,060,000 in 1976).

The Company's property held under capital leases, included with owned property in the balance sheet, consists of:

(In Thousands)	1977	1976 (Restated)
Land and improvements	$ 5,444	$ 4,223
Buildings	122,806	117,484
Machinery and equipment	77,326	72,378
Construction in progress	17,080	—
Properties and plants, at cost	222,656	194,085
Less accumulated depreciation	79,325	67,807
	$143,331	$126,278

The annual amortization for capital leases included in Depreciation in the Consolidated Statement of Income was $12,689,000 in 1977 ($11,619,000 in 1976).

Minimum lease commitments are as follows:

(In Thousands)	Capital Leases	Operating Leases
1978	$ 26,052	$ 57,358
1979	25,536	50,373
1980	24,443	39,128
1981	22,331	31,015
1982	19,498	23,541
1983 and thereafter	170,515	97,093
Total minimum lease payments	288,375	$298,508
Less estimated executory costs	2,297	
Net minimum lease payments	286,078	
Less amounts estimated to represent interest	114,797	
Present value of net minimum lease obligations	171,281	
Less current accounts payable	12,609	
Long term capital lease obligations	$158,672	

K MART CORPORATION (JAN)

Consolidated Balance Sheets

	1978	1977
Property, at cost:		
Land	$ 34,062,000	$ 28,409,000
Buildings	88,602,000	89,782,000
Leasehold improvements	93,777,000	84,328,000
Furniture and fixtures	761,066,000	662,916,000
Construction in progress	40,763,000	8,229,000
	1,018,270,000	873,664,000
Less—Depreciation and amortization	404,311,000	350,013,000
Total property owned	613,959,000	523,651,000
Leased property under capital leases	141,463,000	
Total property	$ 755,422,000	$ 523,651,000
Current Liabilities:		
Portion of long-term debt due within one year	$ 1,381,000	$ 1,388,000
Obligations under capital leases due within one year	3,027,000	
Accounts payable—trade	870,039,000	761,511,000
Accrued taxes, other than U.S. and foreign income taxes	99,368,000	79,328,000
Accrued payrolls and other liabilities	184,830,000	175,043,000
Dividends payable	17,031,000	9,696,000
U.S. and foreign income taxes	104,008,000	108,068,000
Total current liabilities	1,279,684,000	1,135,034,000
Deferred Gain on Sales and Leasebacks	7,770,000	8,073,000
Deferred U.S. and Foreign Income Taxes	71,385,000	61,026,000
Long-Term Debt, less portion due within one year	210,798,000	210,858,000
Obligations Under Capital Leases, less portion due within one year	152,113,000	
Minority Interest in Australian Subsidiary	18,543,000	8,788,000

Consolidated Statements of Changes In Financial Position

Financial Resources Were Provided by:		
Net income for the year	$302,919,000	$266,574,000
Add (deduct) income charges (credits) not affecting working capital—		
Depreciation and amortization:		
Leased property under capital leases	2,101,000	
Property owned	64,513,000	55,877,000
Increase in deferred U.S. and foreign income taxes	10,359,000	9,959,000
Undistributed net income from insurance operations	(1,940,000)	(344,000)
Other	(12,219,000)	(5,134,000)
Working capital provided by operations	$365,733,000	$326,932,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Leases—During 1976, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 13 (FAS 13)—Accounting for Leases. The provisions of FAS 13 derive from the view that leases which transfer substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee (i.e. capital leases). Under this method of accounting for leases, the asset is amortized on a straight-line basis and the obligation, including interest thereon, is liquidated over the life of the lease. All other leases should be accounted for by recording periodic rental expenses over the life of the lease (i.e. operating leases).

Prior to 1977, the company accounted for all leases of retail facilities as operating. However, capital leases relating to retail facilities opened in 1977 of approximately $156 million were recorded as obligations under capital leases with a corresponding increase in fixed assets or receivables from sub-tenants, when applicable. The effect of this change was to decrease 1977 net income for the year by $556,000, which is reconciled as follows:

	Effect on 1977 Net Income for the Year (Increase) Decrease
Minimum lease payments relating to capitalized leases	$(5,425,000)
Amortization of leased property under capital leases	2,101,000
Interest expense related to obligations under capital leases (included in cost of merchandise sold)	4,295,000
Currency fluctuation loss	46,000
Decrease in income before estimated income taxes	1,017,000
Estimated income taxes—timing differences	(461,000)
Decrease in net income for the year	$ 556,000

Additionally, while FAS 13 requires that capital leases entered into prior to 1977 be recorded retroactively no later than 1981, the Securities and Exchange Commission generally requires retroactive application in 1978 and the company intends to comply. Under the company's present understanding of the criteria, if FAS 13 had been retroactively adopted in 1977 for leases relating to retail facilities opened prior to 1977, including sales and leasebacks, the effect on the accompanying financial statements would have been as follows:

Financial Statement Caption	Fiscal Year Ended January 25, 1978 Increase (Decrease)	Fiscal Year Ended January 26, 1977 Increase (Decrease)
Leased property under capital leases ..... $	958,724,000	$1 ,007,476,000
Receivables from sub-tenants under direct financing leases $	100,945,000	$ 109,026,000
Deferred gain on sales and leasebacks ..... $	(7,770,000)	$ (8,073,000)
Deferred U.S. and foreign income taxes ..... $	(36,424,000)	$ (28,084,000)
Obligations under capital leases $	1,131,725,000	$ 1,174,540,000
Income retained for use in the business at end of year ..... $	(29,635,000)	$ (25,305,000)
Net income for the year ..... $	(4,330,000)	$ (5,062,000)
Earnings per common and common equivalent share	$(.03)	$(.04)

The caption "Net income for the year," shown above, includes currency fluctuation gains of $4,841,000 in 1977 and $3,377,000 in 1976. If such currency fluctuations had been excluded from the caption "Earnings per common and common equivalent share," the resultant per share charge would have been $.07 in both 1977 and 1976.

Description of Leasing Arrangements: The company conducts operations primarily in leased facilities. Store leases are generally for terms of 25 years with multiple five-year renewal options which allow the company the option to extend the life of the lease up to 50 years beyond the initial noncancellable term. Certain leases provide for additional rental payments based on sales volume in excess of a specified base. Also, certain leases provide for the payment by the lessee of executory costs (taxes, maintenance and insurance), and selling space has been sublet to other retailers in certain of the company's leased facilities.

Capital Leases: The following is an analysis of leased property under capital leases:

	Balance at January 25, 1978
Retail facilities	$143,564,000
Less accumulated amortization	(2,101,000)
	$141,463,000

The following is a schedule, by years, of future minimum lease payments under capital leases and amounts receivable from sub-tenants under direct financing leases together with the present value of the net minimum lease payments payable and receivable as of January 25, 1978:

	Minimum Lease Payments	Sub-Tenant Lease Payments Receivable
Fiscal Year Ended January:		
1979	$18,083,000	$ 1,215,000
1980	18,083,000	1,215,000
1981	18,083,000	1,215,000
1982	18,083,000	1,215,000
1983	18,083,000	1,215,000
Later years	356,478,000	24,399,000
Total minimum lease payments	446,893,000	30,474,000
Less amount representing estimated executory costs	(90,631,000)	
Net minimum lease payments	356,262,000	30,474,000
Less amount representing interest	(201,122,000)	(17,814,000)
Present value of net minimum lease payments of which $3,027,000 and $165,000 are included in current liabilities and current assets, respectively	$155,140,000	$12,660,000

Operating Leases: The following is a schedule, by years, of future minimum rental payments required, less minimum sublease rental income, under operating leases that have initial lease terms in excess of one year as of January 25, 1978:

Fiscal Year Ended January:	
1979	$ 269,230,000
1980	268,066,000
1981	266,541,000
1982	265,135,000
1983	263,662,000
Later years	3,589,088,000
Total minimum payments required	4,921,722,000
Minimum sublease rental income	(207,487,000)
Net minimum annual rentals	$4,714,235,000

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Fiscal Year Ended January 25, 1978	Fiscal Year Ended January 26, 1977
Minimum rentals	$288,434,000	$251,539,000
Rentals based on sales volume	18,371,000	15,436,000
Less sublease rentals	(28,039,000)	(29,055,000)
	$278,766,000	$237,920,000

THE KROGER CO. (DEC)

	1977	1976
Property, Plant and Equipment		
Land	$ 14,189,891	$ 14,894,621
Buildings	80,476,555	80,464,968
Equipment	509,969,465	463,184,072
Leaseholds and leasehold improvements	116,939,019	159,936,945
Leased property under capital leases	3,403,527	
	774,978,457	718,480,606
Allowance for depreciation and amortization	321,710,959	296,363,852
Property, plant and equipment, net	$453,267,498	$422,116,754
Current Liabilities		
Current portion of long-term debt	$ 5,805,154	$ 5,381,265
Notes payable		8,900,000
Accounts payable	343,789,464	289,654,324
Accrued expenses	149,615,964	140,839,659
Accrued federal income and other taxes	37,569,120	32,336,344
Current portion of unredeemed trading stamps	26,926,973	26,985,895
Current portion of obligations under capital leases	62,853	
Total current liabilities	$563,769,528	$504,097,487
Other Liabilities		
Long-term debt	$215,578,291	$232,982,894
Unredeemed trading stamps	26,926,973	216,985,895
Deferred federal income taxes	79,290,159	69,401,864
Employees' benefit fund	31,934,419	34,106,565
Obligations under capital leases	3,313,919	
Total other liabilities	$357,043,761	$363,477,218

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation and amortization, which includes the amortization of assets recorded under capital leases, is computed principally on the straight-line basis. All maintenance and repairs are charged to earnings. Betterments and renewals which increase the value or productive capacity of assets are capitalized.

Leases—The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for reduced rentals and/or the right to purchase.

Lease arrangements entered into in 1977 have been classified as capital leases or operating leases in accordance with Statement of Financial Accounting Standards No. 13 which became effective for 1977.

Rent expense for 1977 and 1976 consists of:

	1977	1976
Minimum rentals, net of minor sublease rentals	$ 95,191,032	$89,705,575
Contingent rentals, operating leases	6,984,803	6,799,984
Total	$102,175,835	$96,505,559

Certain of the leases provide for contingent rental based upon a percent of sales. No contingent rentals were incurred for capital leases during 1977.

Assets recorded under capital leases as of December 31, 1977 consist of:

Store facilities	$3,403,527
Less accumulated amortization	(77,752)
	$3,325,775

Minimum annual rentals, net of subleased rentals which are minor in amount, for the five years subsequent to 1977 and in the aggregate are as follows:

	Capital Leases	Operating Leases
1978	$ 412,956	$ 96,041,000
1979	412,956	92,310,000
1980	412,956	88,912,000
1981	412,956	85,919,000
1982	412,956	82,951,000
1983 and thereafter	6,022,275	925,453,000
	$8,087,055	$1,371,586,000
Less estimated executory costs included in capital leases	685,279	
Net minimum lease payments under capital leases	$7,401,776	
Less amount representing interest	4,025,004	
Present value of net minimum lease payments under capital leases	$3,376,772	

Lease arrangements entered into prior to 1977 have been accounted for as operating leases. Had such leases been accounted for in accordance with Statement of Financial Accounting Standards No. 13, the following amounts of assets and liabilities would have been recorded as of the dates indicated:

	Dec. 31, 1977	Jan. 1, 1977
Total capital leases, net of accumulated amortization	$101,057,000	$105,894,000
Total obligations under capital leases	$103,508,000	$108,010,000

Capitalization of lease arrangements entered into prior to 1977, in accordance with Statement of Financial Accounting Standards No. 13, would have reduced net earnings by an estimated $335,000 for the year ended December 31, 1977 and by an estimated $235,000 for the year ended January 1, 1977.

LYNCH CORPORATION (DEC)

	1977	1976
Property, Plant and Equipment (Note E)		
Land	$ 178,528	$ 178,528
Buildings and improvements	3,416,408	3,441,036
Machinery and equipment	2,305,648	3,055,699
	5,900,584	6,675,263
Less accumulated depreciation	3,836,179	3,650,372
	2,064,405	3,024,891
Leased machinery and equipment, less accumulated depreciation of $42,319 in 1977 (Note F)	296,228	338,547
	$2,360,633	$3,363,438
Current Liabilities		
Current installments of long-term debt	$ 257,934	$ 920,008
Current installment of capital lease obligation	171,556	155,207
Trade accounts payable	321,866	450,363
Compensation, taxes, pension and other accruals	2,245,292	2,002,803
Customers' advances	413,197	274,478
Total Current Liabilities	3,409,845	3,802,859
Long-term Debt, less current installments (Note E)	1,379,651	4,725,086
Capital Lease Obligation, less current installments (Note F)	1,482,884	1,654,443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting and Reporting Policies

Properties and Depreciation—Property, plant and equipment is recorded at cost and includes expenditures for additions, major improvements and amounts recorded under capital leases. Maintenance and repairs are charged to operations as incurred. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets and includes amortization of assets under capital leases.

Note F: Leases—On December 30, 1976, the Company sold substantially all of the machinery and equipment of its Lynch Machinery Division to Manufacturers Hanover Leasing Corporation for $1,809,650. Simultaneously, the Company entered into a lease agreement with the leasing company covering such assets for a term of eight years at an annual rental of $332,943 with an option to renew for one year at the then fair rental rates. The Company also has an option to purchase the property at the end of the lease term or renewal term at the then fair market value as determined by independent appraisal.

This lease has been capitalized during 1977 in accordance with the provisions of Statement of Financial Accounting Standards No. 13 and the financial statements for 1976 have accordingly been restated. The restatement had no effect on income as previously reported.

The following table summarizes the Company's future lease obligations under the aforementioned capital lease and various operating leases as of December 31, 1977. All of the leases are on a net basis, and the Company is also responsible for all operating costs such as insurance, taxes and maintenance:

Years Ending December 31	Capital Lease	Operating Leases
1978	$ 332,943	$23,906
1979	332,943	20,906
1980	332,943	11,906
1981	332,943	11,906
1982	332,943	3,968
1983-1984	665,886	-0-
Total future lease obligations	2,330,601	$72,592
Less interest at 10.14%	676,161	
Present value of future lease obligations	$1,654,440	

Rental expense for operating leases amounted to approximately $132,000 and $153,000 in 1977 and 1976, respectively. Operations for 1977 also include a charge of $201,000, representing future noncancellable lease obligations for plant facilities no longer used in operations.

PPG INDUSTRIES, INC. (DEC)

	1977	1976
	($ Millions)	
Current liabilities:		
Short-term borrowings	$ 22.2	$ 20.8
Accounts payable and accrued expenses	279.3	235.9
Domestic and foreign income taxes	15,0	70.9
Obligations under capital leases	6.9	6.5
Total current liabilities	323.4	334.1
Long-term debt	445.3	453.2
Obligations under capital leases	59.0	63.4

NOTES TO FINANCIAL STATEMENTS

Note 7: Lease arrangements and rent expense

PPG utilizes assets under lease arrangements in several areas of its operations:

Transportation equipment, which includes a tanker ship, automobiles, trucks, rail tank cars, etc., is generally leased under arrangements which qualify as a capital lease.

Several manufacturing facilities, which are technically classified as leases under industrial development type loan arrangements, are essentially installment purchases of the facilities. Such leases have been accounted for as capital leases.

Most of the distribution facilities, warehouses and store facilities are leased under relatively short-term arrangements and are classified as operating leases.

Capital Leases:

In 1977, PPG changed its criteria for capitalizing leases to conform to the Financial Accounting Standards Board Statement No. 13—Accounting for Leases. This accounting change was applied on a retroactive basis.

The following is an analysis of leased property under capital leases by major classes:

	December 31 1977	1976
	(Millions)	
Buildings	$ 11.7	$ 11.7
Transportation equipment	53.6	53.2
Machinery and equipment	18.9	18.2
Other	19.6	19.5
Total capitalized leases	103.8	102.6
Accumulated amortization	(40.4)	(33.9)
Net capitalized leases	$ 63.4	$ 68.7

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 1977:

Year ending December 31	(Millions)
1978	$ 13.4
1979	11.8
1980	9.7
1981	8.7
1982	8.5
After 1982	64.1
Total minimum lease payments	116.2
Executory costs	(13.7)
Net minimum lease payments	102.5
Amount representing interest	(36.6)
Present value of net minimum lease payments	$ 65.9

Amortization of capital leases amounted to $8.2 million in 1977. Such amortization is included in depreciation expense in the Statement of Earnings.

Operating Leases:

The following is a schedule of future minimum rental payments excluding executory costs required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 1977:

Year ending December 31	(Millions)
1978	$17.9
1979	9.0
1980	6.7
1981	5.6
1982	4.3
After 1982	13.5
Total minimum payments required	$57.0

The total rental expense for all operating leases for the years ended December 31, 1977 and 1976 was $23.5 million and $20.2 million, respectively. There were no significant amounts of contingent or sublease rentals during these years.

SCOA INDUSTRIES INC. (JAN)

	1978	1977
Leased property under capital leases, net of accumulated amortization (note 5)	$15,127,000	
Current liabilities:		
Accounts payable and accrued expenses	$68,415,000	$52,344,000
Federal and Canadian income taxes	8,340,000	6,209,000
Dividends payable	842,000	672,000
Current installments of long-term debt (Note 3)	7,065,000	6,805,000
Current obligations under capital leases (Note 5)	242,000	
Total current liabilities	84,904,000	66,030,000
Non-current obligations under capital leases (Note 5)	14,979,000	

Note 5: Long-term leases (tables in thousands)—In January 1977, the Company adopted a policy for financial accounting and reporting for leases consistent with the standards established by the Financial Accounting Standards Board. Accordingly, leasing agreements entered into on or after January 1, 1977 have been evaluated under such standards and accounted for as capital or operating leases, as appropriate.

At January 28, 1978, the Company was obligated under lease agreements covering both real and personal property. Many of the real property leases and some personal property leases contain renewal options. Some leases provide for additional rentals based on sales. Consolidated, net rent expense for all operating leases was as follows:

	Fiscal year ended January 28, 1978	January 29, 1977
Non-capitalized capital leases:		
Minimum rentals	$ 4,303	$ 4,317
Rentals based on sales	348	385
Other leases, including cancellable and short-term leases:		
Minimum rentals	21,980	20,320
Rentals based on sales	7,135	6,626
	$33,766	$31,648

As of January 28, 1978, the majority of the lease agreements covering personal property were cancellable or had a duration of less than one year. Minimum rental commitments under all noncancellable leases (primarily real property leases), including capital leases, in effect at January 28, 1978, were as follows:

Fiscal year ending in January	Total	Capital leases	Non-capitalized capital leases	Other operating leases
1979	$ 21,272	$ 1,794	$ 4,292	$ 15,186
1980	19,418	1,794	4,292	13,332
1981	18,102	1,794	4,252	12,056
1982	16,905	1,794	4,186	10,925
1983	15,883	1,794	4,186	9,903
Thereafter	184,921	29,037	65,928	89,956
Total minimum rental commitments	$276,501	38,007	$87,136	$151,358
Less amount representing estimated executory costs		631		
Net minimum rental commitment		37,376		
Less amount representing interest (interest rates ranging from 8.8% to 9.7%)		22,155		
Present value of net minimum lease commitments		$15,221		

The following is an analysis of the composition of leased property under capital leases, net of accumulated amortization as of January 28, 1978:

	Asset balances at January 28, 1978
Retail outlets	$13,275
Other	2,266
	15,541
Less accumulated amortization	414
Leased property under capital leases, net of accumulated amortization	$15,127

For the year ended January 28, 1978, net income and related expense accounts were charged or credited for the effect of capital leases as follows:

	Fiscal year ended January 28, 1978
Interest expense	$634
Depreciation expense	414
Rent expense—credit	(834)
Income tax—credit	(103)
Net income—decrease	$111

In accordance with the standards established for lease accounting, the financial statements have not been restated for the effects of capital lease agreements entered into prior to January 1, 1977. If such leases had been capitalized at the balance sheet dates, the following is the amount of the asset and the liability that would have been included:

	Fiscal year ended January 28, 1978	Fiscal year ended January 29, 1977
Leased property under capital leases:		
Retail outlets	$41,158	$41,158
Other	1,617	1,617
	42,775	42,775
Less accumulated amortization	11,878	10,284
Leased property under capital leases, net of accumulated amortization	$30,897	$32,491
Obligations under capital leases:		
Current	$ 833	$ 779
Non-current	36,172	37,005
	$37,005	$37,784

The aggregate present value of minimum rental commitments (obligations under capital leases) of non-capitalized capital leases was determined by discounting minimum commitments under the lease agreements at interest rates in effect at the time the lease agreements were signed. Interest rates ranged from 4.4% to 11.9% during the years leases commenced. If the non-capitalized capital leases had been capitalized, the related asset values amortized on a straight-line basis, and interest expense accrued on outstanding lease obligations, net income and related expense accounts would be changed as follows:

	Fiscal year ended January 28, 1978	Fiscal year ended January 29, 1977
Interest expense	$3,288	$3,347
Depreciation expense	1,594	1,594
Rent expense—credit	(4,067)	(4,067)
Other charges, net—credit		(6)
Income tax—credit	(391)	(417)
Net income—decrease	$ 424	$ 451

SQUIBB CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Leases—The Company is obligated at December 31, 1977 under long-term operating leases for various types of property and equipment, with minimum aggregate rentals totaling $159,844,000, as follows: $17,130,000 in 1978, $14,460,000 in 1979, $12,651,000 in 1980, $10,762,000 in 1981, $9,571,000 in 1982, and $95,270,000 in later years. Minimum aggregate rentals have not been reduced by minimum sublease rentals of $12,973,000 under non-cancelable subleases.

Most of the Company's leases are renewable for periods of three to five years and contain clauses for escalations, payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties. Certain leases are expected to be renewed or replaced at expiration. Total rental expense for operating leases was:

	1977	1976
	(Amounts in thousands)	
Minimum rentals	$26,055	$24,807
Contingent rentals	7,208	6,033
Sublease rentals	(2,783)	(2,508)
	$30,480	$28,332

Contingent rentals on certain leased facilities are based on a percentage of sales in excess of stipulated minimums.

The Company's obligations under capital leases are not material.

WEST POINT-PEPPERELL, INC. (AUG)

Consolidated Balance Sheet

	1977	1976
Property, Plant and Equipment, At Cost (Note C):		
Land	$ 3,388,274	$ 3,169,016
Buildings	77,846,617	74,135,045
Machinery and equipment	265,038,818	246,750,022
Leasehold improvements	1,337,894	1,481,690
	347,611,603	325,535,773
Less accumulated depreciation	194,791,436	184,156,184
	152,820,167	141,379,589
Leased property under capital leases net of amortization (Note I)	9,205,000	8,253,000
Net property, plant and equipment	$162,025,167	$149,632,589
Current Liabilities:		
Notes payable—banks	$ —	$ 750,000
Notes payable—commercial paper	14,500,000	39,770,000
Current maturity of long-term debt	624,149	2,910,192
Current obligations under capital leases (Note I)	2,288,000	1,954,000
Accounts payable	47,480,243	41,984,268
Federal income tax	5,097,306	6,457,041
Other accrued taxes	3,873,022	4,130,595
Accrued payrolls and related expenses	7,646,849	7,523,327
Other accrued liabilities	9,225,299	7,089,319
Total current liabilities	90,734,868	112,568,742
Long-term Debt	109,735,509	68,120,882
Long-term Obligations Under Capital Leases (Note I)	7,535,000	6,864,000
Deferred Compensation	1,393,369	1,487,594
Deferred Federal Income Tax	10,270,000	7,870,000

Consolidated Statement of Income and Retained Earnings

Costs and expenses:		
Cost of goods sold	$662,720,895	$571,428,770
Depreciation (Note C)	15,686,629	14,711,993
Amortization of capital leases (Note I)	2,288,000	1,954,000
Selling and administrative expense	77,971,532	70,819,960
Interest expense:		
Long-term debt	8,110,497	5,316,551
Capital leases	919,000	823,000
Other	1,897,112	1,945,210
Total costs and expenses	$769,593,665	$666,999,484

Note I: Leases—In order to comply with Statement of Financial Accounting Standards No. 13, Accounting for Leases, the accounting for fiscal years ended August 25, 1973 through August 28, 1976 has been restated. The effect of restating these prior years was to decrease net income and related net income per share by the following amounts:

	(000 omitted) Net Income	Earnings Per Share Primary	Fully Diluted
1976	$ 49	$.01	$.01
1975	61	.01	.01
1974	60	.01	.01
1973	124	.03	.03

Fiscal year ended August 25, 1973, the earliest year restated, included $75,000 ($.02/share) applicable to prior years.

The Company's leases consist primarily of sales offices, warehouses, telephone equipment, automotive equipment, data processing equipment and a 152,000 square foot knitting plant. The sales offices, warehouses and knitting plant are considered to be operating leases that expire over the next 23 years. The telephone equipment, automotive equipment and data processing equipment are generally considered to be capital leases, the longest of which expires in 1987.

Some of the operating leases stipulate that the Company can (a) purchase the property at its fair market value or (b) renew the lease at its then fair rented value. Some of the Company's leased space, principally sales office space, is sublet under leases expiring over the next 13 years.

The following is an analysis of the leased property under capital leases by major classes:

	Asset Balances at August 27, 1977	August 28, 1976
	(000 omitted)	
Classes of Property		
Telephone equipment	$ 2,886	$ 2,910
Automotive equipment	8,672	6,700
Data processing equipment	3,730	4,082
	15,288	13,692
Less accumulated amortization	6,083	5,439
	$ 9,205	$ 8,253

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of August 27, 1977:

Fiscal Year	(000 omitted)
1978	$ 3,022
1979	2,532
1980	2,166
1981	1,806
1982	1,086
Later	2,088
Total minimum lease payments	12,700
Amount representing interest	(2,877)
Present value of net minimum lease payments (including $2,288 classified as current obligations under capital leases)	$ 9,823

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of August 27, 1977:

Fiscal Year	(000 omitted)
1978	$ 3,598
1979	3,269
1980	2,857
1981	2,586
1982	2,411
Later	35,273
Total minimum lease payments	49,994
Less minimum sublease rentals	(6,053)
Net minimum lease payments required	$43,941

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Fiscal Year Ended August 27, 1977	August 28, 1976
	(000 omitted)	
Minimum rentals	$5,685	$5,728
Less sublease rentals	(895)	(852)
	$4,790	$4,866

OTHER NONCURRENT LIABILITIES

In addition to long-term debt, many of the survey companies presented captions for deferred taxes, minority interests, liabilities to or for employees, estimated losses or expenses, and deferred credits. Table 2-28 summarizes the nature of such noncurrent liabilities and deferred credits.

TABLE 2-28: OTHER NONCURRENT LIABILITIES

	1977	1976	1975	1974
Deferred income taxes	474	466	479	481
Minority interest	156	173	179	205
Employee Liabilities				
Deferred compensation, bonus, etc.	101	102	86	73
Pension or retirement plan	61	70	69	62
Other — described	10	14	27	28
Estimated losses or expenses				
Discontinued operations	21	19	29	29
Insurance	10	7	14	22
Warranties	8	8	8	8
Other — described	42	43	62	63
Deferred credits				
Production payments	12	21	15	13
Payments received prior to rendering service	11	12	17	14
Deferred profit on sales	9	12	13	12
Excess of acquired net assets over cost	6	4	7	6
Other — described	11	20	18	41
"Miscellaneous" or "other"	**232**	**222**	**240**	**247**

Deferred Taxes

ABBOTT LABORATORIES (DEC)

	1977	1976
Other Liabilities and Deferrals:		
Deferred income taxes (Note 1)	$31,417,000	$30,084,000
Other	28,831,000	20,226,000
Total Other Liabilities and Deferrals	$60,248,000	$50,310,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies.

Income Taxes—Provisions are made for the estimated amount of income taxes on reported earnings which are payable currently and in the future. Investment tax credits, which are not material, are reflected in income by amortization over the lives of the related assets. At December 31, 1977, unamortized investment tax credits have been reclassified from equipment to deferred income taxes; related 1976 amounts have been restated. U.S. income taxes are accrued, as applicable, on those earnings of subsidiaries which are intended to be remitted to the parent company. Undistributed earnings reinvested indefinitely in subsidiaries, as working capital and plant and equipment, aggregated $123,400,000 at December 31, 1977.

HOUDAILLE INDUSTRIES, INC. (DEC)

	1977	1976
Other Liabilities (current portion included in current liabilities):		
Long-term debt	$22,555,000	$23,985,000
Capital lease obligations—net	1,029,048	195,367
Deferred compensation plans	3,103,382	2,961,667
Taxes on income deferred to future periods (Notes A and J)	5,476,935	5,688,680
Total other liabilities	$32,164,365	$32,830,714

Note A (in part): Accounting Policies:

Income Taxes—The Corporation provides for deferred income taxes on all significant timing differences which represent the tax effects of transactions reported for tax purposes in periods different than for book purposes. Investment tax credits are accounted for on the flow-through method as a reduction of the provision for income taxes in the year in which the related property is placed in service.

RAYBESTOS-MANHATTAN, INC. (DEC)

	1977	1976
Long-Term Debt	$47,533,844	$43,890,928
Deferred Income Taxes (Note I)	3,710,885	986,120
Deferred Credits Other	766,963	

Note I: Deferred Income Taxes—The deferred income taxes of $2,516,533 shown as a current asset at January 1, 1978 result principally from the difference between book and tax expenses, which will reverse in 1978.

The long-term deferred income taxes payable of $3,710,885 at January 1, 1978 consist principally of (1) a tax benefit resulting from a pension deduction on the Company's 1971 consolidated tax return, which will reverse over the 40-year period of funding the past service costs; (2) a tax liability resulting from the adoption of full absorption costing for tax purposes, payable ratably through 1986; (3) the deferred tax benefit on deferred termination pay which will reverse over a 23-year period; (4) and the deferred tax arising from the installment method of accounting for the gain on the sale of the roll business for tax purposes which will reverse over a 10-year period.

Based upon current anticipated expenditures and operations, it is not expected that the reversal of deferred income taxes will have a material effect upon the cash outlay for taxes in any one future year.

Minority Interests

AMERICAN CAN COMPANY (DEC)

	1977	1976
	($ millions)	
Total current liabilities	$617.0	$476.2
Long-term debt	360.4	364.2
Unfunded employee benefits related to plants closed or to be closed	141.6	124.1
Deferred income taxes	101.3	102.9
Minority interest	19.4	18.5
	$1,239.7	$1,085.9

ESMARK, INC. (OCT)

	1977	1976
	($000)	
Total assets less current liabilities	$1,364,363	$1,254,915
Less		
Long-term debt	444,054	401,134
Deferred income taxes	90,987	69,928
Other noncurrent amounts	66,545	56,350
Minority interests in subsidiaries	18,556	16,915
Total	620,142	544,327
Net assets applicable to stockholders' equity	$ 744,221	$ 710,588

FINANCIAL COMMENTS

Minority interests—Substantially all of the amounts shown for minority interests in subsidiaries relate to the publicly owned 12% interest in TransOcean.

FAIRCHILD INDUSTRIES, INC. (DEC)

	1977	1976
Total Current Liabilities	98,905,948	$65,262,977
Long-Term Debt, Less Current Maturities	30,105,389	31,495,395
Deferred Income Taxes	2,451,183	1,964,700
Deferred Income	2,180,585	1,873,471
Minority Interest in Swearingen Aviation Corporation	179,580	—

GULF OIL CORPORATION (DEC)

	1977	1976
	($ millions)	
Total current liabilities	$4,232	$4,191
Long-term debt	1,307	1,168
Deferred production payment proceeds	120	123
Deferred income taxes	619	483
Other long-term liabilities	179	145
Minority interests (Note 23)	431	397
Total Liabilities	$6,888	$6,507

Note 23: Minority Interests—Minority interests in the equity of consolidated subsidiaries, primarily Gulf Oil Canada Limited of which the Company owned 68.2 percent at December 31, 1977 and 68.3 percent at December 31, 1976, were comprised of the following:

	Millions of Dollars December 31	
	1977	1976
Capital stock	$112	$110
Retained earnings	317	285
Other	2	2
	$431	$397

UNITED STATES STEEL CORPORATION (DEC)

	1977	1976
	(In millions)	
Total Current Liabilities	$1,712.5	$1,637.4
Long-term debt, less unamortized discount	2,300.2	1,959.9
Deferred income taxes	445.8	405.3
Deferred credits and other liabilities	64.2	36.3
Preferred stock of consolidated subsidiary (Note 12)	250.0	—
Total Liabilities	$4,772.7	$4,038.9

Note 12: Preferred Stock of Consolidated Subsidiary—Two and one half million shares of $100 par ($250.0 million), nonvoting floating rate preferred stock of Quebec Cartier Mining Company (QCM) were issued in 1977 to financial institutions. Dividends are cumulative and payable quarterly. These dividends amounted to $4.5 million in 1977 and are included in interest and other costs on debt. This financing allowed QCM to replace a substantial part of its existing debt at a lower carrying cost, and also to provide financing for current expenditures.

Shares may be tendered by the holders and/or redeemed by QCM in three equal installments from 1983 through 1985. U. S. Steel has agreed that upon the happening of certain stated events, it will, upon tender by any holder, purchase such shares at par plus 200% of accrued and unpaid dividends.

Employee Related Liabilities

BRIGGS & STRATTON CORPORATION (JUN)

	1977	1976
Total Current Liabilities	$47,090,000	$44,927,000
Deferred Income Taxes	3,085,000	1,838,000
Accrued Employee Benefits	5,943,000	4,734,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Accrued Employee Benefits: The Company's life insurance program includes payment of a death benefit to beneficiaries of retired employees. The Company accrues for the estimated cost of these benefits over the estimated working life of the employee. Past service costs for all retired employees have been fully provided for and the Company is accruing for the prior service costs associated with active employees over thirty years. The Company also accrues for the estimated cost of supplemental retirement and death benefit agreements with certain officers.

DOYLE DANE BERNBACH INC. (DEC)

	1976	1977
	($000)	
Other Liabilities and Deferred Credit:		
Estimated taxes payable (Note K (a))	$895,800	$ 895,800
Deferred compensation benefits (Note E (b))	—	89,702
Deferred income	—	125,000
	$895,800	$1,110,502

Note E (in part): Employee Benefit Plans

(b) The Registrant has deferred compensation agreements with certain key executives providing that a portion of their compensation would be deferred over a period of years, which in no event would extend beyond 1984, in exchange for aggregate annual payments ranging from $7,000 to $49,500 per year, for fifteen years certain beginning when the executive reaches the age of 65 or at his death. The Registrant has also entered into a deferred compensation agreement with another key executive providing for annual payments of $50,000 per year for fifteen years certain beginning when the executive reaches the age of 65 or date of termination of his employment, whichever is later, or at his death if he should die before reaching age 65, provided that his employment with the Registrant shall not have terminated except by reason of death or disability before December 31, 1987. The agreement provides that if employment is terminated for reasons other than death or disability after December 31, 1983 but prior to December 31, 1987, the amount of deferred benefits would be reduced.

The deferred compensation expense for the year ended December 31, 1977 was $89,702 which is the present value of the retirement benefits computed at the balance sheet date. These plans do not qualify under the Internal Revenue Code, and therefore tax deductions are allowable only when benefits are paid. Appropriate provision has been made for deferred taxes associated with the deferred compensation liability.

The Registrant has insured the lives of these executives for amounts sufficient to discharge its obligations thereunder.

Note K (in part): Income Taxes

(a) Material tax differences will probably be assessed against the Registrant in connection with certain positions it has taken in its 1976 tax returns pertaining to an investment in a tax shelter. Management has accrued $895,800 of estimated tax liability in 1976 in order to fully provide for any assessment in the event that the matter is finally determined contrary to its position. The provision is classified as a noncurrent liability since final resolution of the issue cannot take place for at least several years.

GEORGIA-PACIFIC CORPORATION (DEC)

	1977	1976
	($000)	
Long-term debt, excluding current portion	$607,000	$318,000
Convertible subordinated debentures 5¼% due 1996	125,000	125,000
Deferred income taxes	280,000	250,000
Employee stock purchase plan (Note 11)	10,000	6,000

Note 11 (in part): Capital Stock—As of December 31, 1977, 440,000 shares of common stock were subscribed at $26.54 per share under the 1976 Employee Stock Purchase Plan. Subscribers have the option to receive their payments plus interest at the rate of 6% per annum in lieu of stock. The Plan expires on March 31, 1978.

The shares and prices relating to the Stock Option Plans and the Employee Stock Purchase Plan are subject to adjustment for certain changes in the capital structure, including common stock splits.

GIDDINGS & LEWIS, INC. (DEC)

	1977	1976
Long-term debt due after one year	26,532,578	28,008,523
Accrued pension liability (Note 6)	867,590	898,585
Deferred items:		
Income taxes	1,124,983	863,334
Unamortized gain on disposal of property	120,822	151,147

Note 6 (in part): Pension plans—For the PST hourly pension plan, the excess at organization of vested benefits over fund assets that were transferred to the PST trustees, net of applicable income taxes, is reported in the consolidated balance sheet as an accrued pension liability.

(PST refers to Pressed Steel Tank Co. which merged with Giddings & Lewis, Inc. during 1977.)

GRANGER ASSOCIATES (AUG)

	1977	1976
Long-term loans......................	$4,000,000	$1,500,000
Capitalized lease obligations........	596,308	292,033
Accrued severance pay	106,319	78,049
Deferred taxes on income	300,642	68,070

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Severance Pay Plan—The Company has a severance pay plan whereby all employees who were employed on August 31, 1973, and had then completed at least 2 years of continuous service, are covered under the plan. The unfunded amounts committed to the plan are not deductible for income tax purposes until paid to the participants and are determined by the Board of Directors on a discretionary basis. The Company accrued $25,000 plus interest on the balance for 1977 and 1976.

OUTBOARD MARINE CORPORATION (SEP)

	1977	1976
Long-Term Debt......................	$86,710,000	$89,007,000
Deferred Incentive Compensation (Note 13).........................	964,000	2,427,000
Deferred Income Taxes	23,191,000	21,406,000

Note 13: Pension and Incentive Compensation Programs—The Company and its subsidiaries have trusteed or insured pension programs for substantially all employees. Total pension expense charged to earnings was $10,266,000 and $9,094,000, respectively, for 1977 and 1976, including prior service cost, which is being charged to expense over a thirty-year period, plus interest. The Company intends to contribute amounts sufficient to satisfy funding requirements of the Employees Retirement Income Security Act (ERISA). At September 1, 1977, the date of the latest actuarial valuation, the unfunded prior service cost was $50,426,000 and pension program assets exceeded the actuarial determined value of vested benefits.

Under the Company's Management Incentive Compensation Plan, the Board of Directors has the authority to determine the aggregate management incentive compensation for officers and key employees of the Corporation and its subsidiaries not to exceed 7½% of consolidated net earnings (as defined in the plan). The amount of incentive compensation is further limited by conditions relating to the amount of capital employed by the Company and the amount of dividends paid. The Plan is administered by an Incentive Plan Committee of directors who are not participants in the Plan. The aggregate amount of management incentive compensation charged to earnings in 1977 and 1976 was $17,000 and $2,109,000, respectively. In 1977, the Committee approved for payment in 1978 $1,403,000 provided in previous years but deferred as to allocation and payment.

Estimated Losses or Expenses

BETHLEHEM STEEL CORPORATION (DEC)

	1977	1976
	(Dollars in Millions)	
Total Current Liabilities	$ 978.5	$ 822.4
Liabilities Payable after One Year..	150.8	140.8
Deferred Income Taxes (Note L)....	—	298.6
Estimated Future Liability For Costs Attributable to the Closedown of Certain Steelmaking and Related Facilities (Note B)................	435.9	—
Long-term Debt (Note G)...........	1,154.8	1,023.1
Total Liabilities..........	$2,720.0	$2,284.9

FEDDERS CORPORATION (OCT)

	1977	1976
	($000)	
Long-term debt......................	$55,255	$67,962
Deferred taxes......................	2,177	4,698
Long-term portion of accrued warranty............................	8,013	11,633
Other long-term liabilities..........	2,999	1,311

H.J. HEINZ COMPANY (APR)

	1977	1976
Long-Term Debt and Other Liabilities:		
Long-term debt......................	$140,068,000	$144,436,000
Incentive profit-sharing plans.......	6,437,000	6,806,000
Deferred Federal and foreign income taxes......................	32,376,000	31,096,000
Future United Kingdom income taxes............................	32,573,000	25,270,000
Sundry	15,895,000	15,851,000
	227,249,000	223,459,000
Minority interests..................	15,159,000	17,039,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Income Taxes—Payment of certain income taxes has been postponed by the United Kingdom government. These taxes are reflected in the future United Kingdom income tax liability as shown on the Consolidated Balance Sheets. When these taxes become payable, the appropriate amount will be transferred to the current liability account.

HUMANA INC. (AUG)

	1977	1976
	($000)	
Long-term debt due after one year	$224,305	$205,749
Allowance for professional liability risks (Note 8)	5,444	—
Deferred third-party revenues......	1,900	1,650
Deferred income taxes	18,997	15,174

Note 8: Insurance Subsidiary—During August 1976 the Company formed a wholly-owned Colorado subsidiary for the purpose of insuring, effective September 1, 1976, professional liability risks of Company hospitals for initial losses of up to $2,000,000 per occurrence, $2,000,000 per hospital and $10,000,000 in the aggregate. Coverage in excess of these limits has been obtained in the commercial insurance markets. The annual premiums paid to the subsidiary are determined by independent actuaries, subject to the approval of the Colorado insurance commissioner. Provision for professional liability risks underwritten by the insurance subsidiary was approximately $5,480,000 for 1977. Should actual claims exceed the provision for losses, earnings will be charged in future years.

The Company intends to utilize the subsidiary's assets solely for the payment of claims and related administrative expenses.

NORTHROP CORPORATION (DEC)

	1977	1976
Long-term debt—Note F	$25,945,000	$48,719,000
Other long-term obligations—Note F..................................	34,151,000	18,156,000

Note F (in part): Long-Term Obligations—Long-term obligations, net of current maturities, consisted of the following as of December 31:

	1977	1976
Other long-term obligations		
Accrued product support costs	$17,707,000	$ 7,136,000
Capital lease obligations—Note H..................	15,211,000	10,280,000
Deferred compensation......	1,233,000	740,000
	$34,151,000	$18,156,000

During 1977, in view of their increasing size, the long-term portion of accrued product support costs and deferred compensation amounts were segregated from Advances on Contracts and Accrued Employees' Compensation, respectively, and classified as other long-term obligations. The corresponding figures for 1976 were reclassified for comparative purposes.

Accrued product support costs represent the additional funds collected on foreign sales of F-5 aircraft to be expended over the life of the F-5 support program on such activities as flight demonstrations, configuration studies, training films, manuals, and technical field service support.

Amounts Due Affiliates

CONTROL DATA CORPORATION (DEC)

	1977	1976
	($000)	
Long-Term Debt, less Current Maturities	$151,462	$159,246
Amounts Due Affiliates, less Current Portion (Note H)............	153,367	195,152
Other Non-Current Liabilities	33,526	31,179
Deferred Income Taxes, net........	49,657	56,399
Minority Interest in Consolidated Subsidiaries	20,986	19,889

Note H: Transactions with Affiliates—Substantially all computer systems and peripheral products held by customers under domestic short-term leases are transferred to a Commercial Credit finance subsidiary and concurrently leased back by the company, which continues to carry such systems as property. The agreement calls for initial lease-backs over a five-year period at rentals which yield a rate of return, fixed at the date of transfer, ranging from a minimum of 7½% to a maximum rate of 2% above the prime rate, and additional income equal to a portion of amounts realized from purchase conversions during the initial term and, if the company does not elect to reacquire the equipment (for 3% of the original consideration), from sale or lease after expiration of the lease-back term. A portion of the company's domestic data centers equipment is financed under a similar agreement.

Some domestic long-term leases are financed under an agreement whereby the company leases computing systems to a Commercial Credit subsidiary, which in turn subleases the systems to third-party users for a stated term of at least three years. The subsidiary advances to the company the discounted amount of its lease rentals, which are identical to the rentals payable by the sublessee over the initial term of the sublease. Commercial Credit subsidiaries have also financed leases and lease receivables of the company's international subsidiaries, and certain of the company's export receivables owing from its international subsidiaries.

The company accounts for all advances under the foregoing arrangements as intercompany borrowings, and unpaid balances comprise the principal portion of amounts due affiliates. Intercompany interest charges aggregated $25,204,000 in 1977 and $29,397,000 in 1976.

Commercial Credit's finance subsidiaries furnish automotive fleet leasing and equipment leasing to the company, provide tuition loans and financing to students attending educational institutes owned by the company, have from time to time, purchased notes and accounts receivable and installment contracts from the company, and have engaged in various other transactions with the company and its affiliates.

Deferred Credits

THE FLINTKOTE COMPANY (DEC)

	1977	1976
	($000)	
Total current liabilities	$ 72,839	$ 65,005
Long-term debt	108,183	$ 115,500
Deferred income taxes	34,114	33,437
Proceeds from sale of future production	12,500	—
	$227,636	$213,942

NOTES TO FINANCIAL STATEMENTS

(All dollar amounts except per share amounts, expressed in thousands of dollars)

Proceeds from Sale of Future Production—In June, 1977, the Company sold future production from certain limestone deposits for $25,000. Under the agreement, the Company received $12,500 in June and the remainder will be received not later than December 29, 1978 subject to the fulfillment by the Company of certain contract conditions. The proceeds have been deferred and will be reflected in income, together with related costs and expenses, as the limestone is produced and sold. An amount equivalent to interest is payable by the Company at an average rate of 8.9% of the outstanding production payment.

SUN COMPANY, INC. (DEC)

	1977	1976
Deferred Credits		
Coal Production Payment	$72,000,000	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred Income—Coal Production Payment: At December 31, 1977, a subsidiary of the Company had received $72,000,000 from the sale of future coal production. During 1978 an additional $28,000,000 will be received under the agreement. The deferred income associated therewith and related producing costs and expenses will be reflected in earnings as production occurs. It is anticipated that the liquidation of the production payment, which is to be solely from coal mined from certain properties in Campbell County, Wyoming, will commence in January 1979, with 83 consecutive monthly payments of $1,200,000 and a final payment of $400,000.

Interest is at 119% of the prime rate through December 31, 1978 and 123% of the prime rate thereafter (the applicable prime rate at December 31, 1977 was 8 percent).

PORTEC, INC. (DEC)

	1977	1976
	($000)	
Deferred credits		
Deferred income taxes	$1,840	$1,251
Excess of net assets acquired over cost	392	549
Other	259	378
Total deferred credits	$2,491	$2,178

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Excess of net assets acquired over cost—The excess of the fair value of net assets acquired over the cost thereof at date of acquisition is being amortized on a straight-line basis over five years.

THE STANDARD REGISTER COMPANY (DEC)

	1977	1976
Deferred Taxes and Income		
Federal income tax	$2,850,039	$2,649,792
Investment tax credit	1,402,848	1,344,986
Unrealized gain on sale of real estate (Note 7)	642,881	653,804
Total deferred taxes and income	$4,895,768	$4,648,582

Note 7: Deferred Gain on Sale of Real Estate—The Company sold its former Glendale, California, manufacturing plant in September, 1976 for $1,000,000. It accepted a note from the buyer for the unpaid balance of $850,000 payable in monthly installments of $8,203 including interest at 10% until fully paid on November 30, 1991. The Company has elected to report the gain from this sale by the installment method for both financial and tax accounting purposes.

UNITED NUCLEAR CORPORATION (MAR)

	1977	1976
Long-term debt	$72,712,000	$55,525,000
Deposits and deferred income	26,461,000	20,080,000
Deferred income taxes	13,083,000	4,577,000
Minority interest	4,318,000	4,273,000

Note 7: Customers' deposits and Deferred Income—Deposits against future deliveries of concentrate totalling $28,521,000 at March 31, 1977 and $22,045,000 at March 31, 1976 (including $6,000,000 relating to a uranium sales contract which is being litigated—see note 13) have been received from customers; $2,300,000 is classified in current liabilities and relates to deliveries scheduled for fiscal year 1978.

Included in deposits is approximately $8,300,000 of receipts from the sale of borrowed uranium. The production cost and sales price will be reflected in fiscal 1980 when the borrowed uranium is returned.

NATIONAL SYSTEMS CORPORATION (DEC)

	1977	1976
Long-term Debt, less portion due within one year	$ 612,000	$ 764,000
Other Noncurrent Liabilities	322,000	376,000
Commitments and Contingencies		
Future Tuition Income (Note 6)	7,888,000	7,979,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Revenue and Costs

Home Study Contracts

Revenues are deferred and recognized as income when cash is received, but only to the extent such cash can be retained by the Company. Generally, the Company follows the guidelines of the National Home Study Council in determining retention rights.

Promotional literature costs are amortized on a declining-balance basis over 12 months.

Resident Schools

Revenues are recorded ratably over the terms of the courses, which range from three months to eighteen months, except for certain short-term courses where the first month's revenue is incrementally higher to provide for related selling costs incurred and expensed prior to the student's matriculation.

Course service costs are charged to expense as incurred. The Company provides support services such as transportation and housing under contract to certain resident students. The cost portion of deferred tuition income related to support services is classified as estimated costs to service contracts. Advertising costs and salesmen's commissions are charged to expense within 12 months of the student's enrollment date.

Note 6—Future Tuition Income: Future tuition income represents contract balances which will be recognized as revenue in subsequent years as services are rendered and when cash is collected as described in Note 1.

Future tuition income is net of an allowance for cancellations and doubtful contracts which represents the estimated portion of the contracts that will not be collected or earned. The future tuition income has also been reduced by deferred selling and promotional expenses incurred in obtaining the contracts and by the estimated costs for support services.

	December 31	
	1977	1976
Gross future tuition revenue	$18,293,000	$18,525,000
Less:		
Allowance for cancellations and doubtful contracts	(9,018,000)	(8,143,000)
Deferred selling and promotional expenses	(823,000)	(750,000)
Cost related to support services	(564,000)	(1,653,000)
Future tuition income	$ 7,888,000	$ 7,979,000

U. S. INDUSTRIES, INC. (DEC)

	1977	1976
	($000)	
Other liabilities and credits		
Deferred income taxes	$16,309	$24,278
Amounts due unconsolidated subsidiaries	15,317	16,043
Deferred membership revenues—Note A	5,201	5,463
Minority interest	—	8,076
	$36,827	$53,860

Note A (in part): Summary of Significant Accounting Policies

Specialized Industries—The Corporation has subsidiaries or divisions engaged in various specialized industries such as construction, finance and land development. The accounting principles followed by these businesses conform to practices generally accepted in the respective industries.

The Corporation's health spa subsidiaries recognize revenue from the sale of memberships and associated costs over the period of membership.

RESERVES—USE OF THE TERM "RESERVE"

Accounting Terminology Bulletin No. 1 recommends that the term *reserve* be used only to indicate, as an appropriation of retained earnings, that "an undivided portion of the assets is being held or retained for general or specific purposes . . ." Table 2-29 shows that while the term *Reserve* appeared occasionally in the 1977 annual reports of the survey companies, there has been a decrease over the past few years in the number of survey companies using the term *Reserve*.

TABLE 2-29: USE OF TERM "RESERVE"

	Number of Companies			
	1977	1976	1975	1974
To describe deductions from assets for				
Uncollectible accounts	37	41	45	44
Accumulated depreciation	12	12	15	18
Reducing inventories to LIFO cost	7	6	N/C	N/C
Decline in value of investments	4	3	11	11
Other	10	11	29	29
To describe accruals for				
Employee benefits or compensation	18	24	27	29
Estimated expenses relating to property abandonments or discontinued operations	15	8	19	17
Insurance	9	6	10	15
Other — identified	12	29	35	49
Other — not identified	15	16	30	39

N/C — Not Compiled.

TITLE OF STOCKHOLDERS' EQUITY SECTION

Table 2-30 summarizes the titles in the 1977 published annual reports of the survey companies to describe the stockholders' equity section of the balance sheet. There were no significant changes from the prior year. Most of the survey companies use either the title *stockholders' equity* or *shareholders' equity.*

TABLE 2-30: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1977	1976	1975	1974
Stockholders' equity	294	298	298	289
Shareholders' equity	232	235	217	210
Shareholders' investment	24	18	25	29
Shareowners' equity	17	14	23	23
Stockholders' investment	12	9	13	13
Other or no title	21	26	24	36
Total Companies	**600**	**600**	**600**	**600**

CAPITAL STRUCTURES

Table 2-31 summarizes the various classes and combinations of capital stock outstanding disclosed in the balance sheets of the survey companies. The need for disclosure in connection with complex capital structures is stated in Paragraph 19 of *APB Opinion No. 15.*

> 19. The use of complex securities complicates earnings per share computations and makes additional disclosures necessary. The Board has concluded that financial statements should include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding. Examples of information which should be disclosed are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, etc.

Examples of complex capital structures follow.

AEL INDUSTRIES, INC. (FEB)

	1977	1976
Shareholders' equity (Note 10):		
Preferred stock, $1 par value; 200,000 shares authorized; none issued		
Class A common stock (nonvoting), $1 par value; 3,500,000 shares authorized, shares issued, 1977—1,481,115; 1976—1,479,015	$1,481,115	$1,479,015
Class B common stock (voting), $1 par value; 500,000 shares authorized; shares issued and outstanding, 1977—252,646; 1976—254,746	252,646	254,746
Capital in excess of par value	4,159,982	4,159,982
Retained earnings	2,164,179	1,280,848
	8,057,922	7,174,591
Less 62,181 shares of Class A common stock in treasury, at cost	322,816	322,816
Total shareholders' equity	7,735,106	6,851,775

Note 10: Common stock and stock option plans—At February 25, 1977, 776,151 shares of Class A common stock was reserved; 133,190 shares for the exercise of stock options, 154,965 shares for the conversion of the 6¼% convertible subordinated sinking fund debentures (convertible at $15.81 per share), 252,646 shares for the conversion of Class B common stock, and 235,350 shares for the exercise of warrants issued in connection with the 6½% subordinated sinking fund debentures exercisable at $12.05 per share until April 3, 1978. The Company has the right to increase or reduce the exercise price of the warrants by up to $3 per share and to call the warrants at $5 per share.

Class B common shares are convertible into Class A common shares on a one-for-one basis. If, at any one time, a majority of Class B common shareholders vote in favor of conversion or if less than 50,000 Class B common shares remain outstanding, all Class B common shares would automatically be deemed converted into Class A common shares, which would then assume voting rights. During 1977, 2,100 shares of Class B common stock were converted into 2,100 shares of Class A common stock (739 shares in 1976).

Under the Company's stock option plan for officers and other key employees, options may be granted at not less than 100% of the closing market price on the date of grant. At February 25, 1977, options for 45,000 shares were outstanding at prices ranging from $.75 to $4.50 per share. During the year, no options were exercised. Options to purchase 1,200 shares were granted and options for 4,800 shares were terminated.

TABLE 2-31: CAPITAL STRUCTURES

	1977	1976
Common stock with:		
No preferred stock	368	363
One class of preferred stock	146	155
Two classes of preferred stock	56	61
Three or more classes of preferred stock	30	21
Total Companies	**600**	**600**
Companies included above with two or more classes of common stock	20	17

ATLANTIC RICHFIELD COMPANY (DEC)

	1977	1976
Shareholders' Equity:		
Cumulative preferred stock 3.75% series B, par $100 (aggregate value in voluntary liquidation $35,728,000); shares authorized and issued 352,000...	$ 35,200,000	$ 35,200,000
$3 cumulative convertible preference stock, par $1 (aggregate value in liquidation $62,683,000); shares authorized 1,020,536; shares issued 783,542	784,000	927,000
$2.80 cumulative convertible preference stock, par $1 (aggregate value in liquidation $847,744,000); shares authorized 15,220,677; shares issued 12,110,629	12,111,000	12,108,000
Common stock, par $5; shares authorized 150,000,000; shares issued 104,647,948	523,240,000	480,558,000
Capital in excess of par value of stock	903,467,000	530,320,000
Net income retained for use in the business	3,508,443,000	3,032,020,000
	4,983,245,000	4,091,133,000
Less cost of common shares in treasury	31,398,000	—
	$4,951,847,000	$4,091,133,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Shareholders' Equity—The 3.75% series B preferred stock is redeemable at the option of the Board of Directors, and is entitled to $101.50 per share upon redemption or voluntary liquidation.

The $3 cumulative convertible preference stock is convertible into 3.4 shares of common stock. The 4⅜% convertible debentures due 1986 are convertible into 1 share of $2.80 cumulative convertible preference stock and 0.6 share of common stock for each $64.39 of principal amount until December 1, 1981, and thereafter at $68.18. The $2.80 cumulative convertible preference stock is convertible into 1.2 shares of common stock.

The Company's articles of incorporation contain a provision restricting dividend payments; however, at December 31, 1977 net income retained for use in the business was substantially free from such restriction.

At December 31, 1977 shares of the Company's authorized and unissued capital stock were reserved as follows:

$3 Preference Stock:	
Conversion of 4⅜% debentures due 1983	6,900
$2.80 Preference Stock:	
Conversion of 4⅜% debentures due 1986	109,194
Common Stock:	
Conversions:	
$3 Preference Stock	2,687,503
$2.80 Preference Stock	14,729,304
Stock Option Plans	1,505,331
Employee Thrift Plans	206,500
	19,128,638

Under the Company's incentive compensation plan awards of the Company's common stock may be made to directors, officers and key employees.

MONSANTO COMPANY (DEC)

	1977	1976
	(Dollars in millions)	
Shareowners' Equity:		
Preferred stock—authorized, 10,000,000 shares without par value, issuable in series; outstanding, 271,306 shares in 1977 and 382,587 shares in 1976; involuntary liquidation preference, $35 per share, or an aggregate of $9.5 and $13.4 at December 31, 1977 and 1976, respectively	$ 0.6	$ 0.8
Common stock—authorized, 100,000,000 shares, par value $2 each; issued, 36,872,323 shares in 1977 and 36,708,144 shares in 1976	73.7	73.4
Additional contributed capital	650.6	648.2
Reinvested earnings	1,705.3	1,541.1
	2,430.2	2,263.5
Less common stock in treasury, at cost (591,603 shares in 1977 and 268,903 shares in 1976)	29.3	11.0
	$2,400.9	$2,252.5

NOTES TO FINANCIAL STATEMENTS

Capital Stock—The outstanding preferred stock is stated at $2.24 per share and has a cumulative dividend of $2.75 per share. The preferred stock is convertible into Monsanto Company common stock at the rate of 1.12 shares of common for each share of preferred, subject to adjustment in certain events under antidilution provisions. During 1977, 111,281 preferred shares were converted into 124,561 common shares; in 1976, 1,283,597 preferred shares were converted into 1,437,537 common shares. Of 2,330,510 total preferred shares originally issued in the period 1969 through 1974, 2,059,204 preferred shares have been converted to 2,306,033 shares of common stock through December 31, 1977. The preferred stock may be redeemed at the Company's option at $73 per share, which amount is also the voluntary liquidation preference.

The Company issued 2,096 and 34,471 shares of common stock in 1977 and 1976, respectively, to holders of convertible loan stock issued by Monsanto Limited, a United Kingdom subsidiary, upon exercise of their conversion rights.

The Company also issued 21,458 shares of common stock in 1976 to holders of convertible debentures issued by Monsanto International Finance Company upon exercise of their conversion rights.

The Company held 37,754 shares of its common stock for specific purposes which are included in Miscellaneous Investments in the accompanying Statement of Consolidated Financial Position at December 31, 1977.

There were 1,810,068 shares of common stock reserved for the following purposes at December 31, 1977:

	Shares
Conversion of $2.75 Preferred Stock	303,863
Stock option plans	1,035,485
Conversion of convertible loan stock of Monsanto Limited	258,313
Conversion of debentures of Monsanto International Finance Company	212,407
	1,810,068

WARNER COMMUNICATIONS INC. (DEC)

	1977	1976
	($000)	
Shareholders' equity:		
Convertible Preferred shares, par value $1 per share, 20,000,000 shares authorized (excess of preference upon involuntary liquidation over par value of outstanding Preferred shares—$23,128,000 in 1977)	$ 2,529	$ 3,000
Common shares issued, par value $1 per share, 40,000,000 shares authorized	13,383	12,278
Paid in capital	104,342	102,724
Retained earnings	236,574	176,994
Net unrealized loss on non-current marketable equity securities	(6,309)	—
	350,519	294,996
Less Common shares in treasury, at cost	26,641	26,641
Total shareholders' equity	$323,878	$268,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Capital Shares—Transactions involving capital shares were as follows:

	Common Shares $1 Par Value		Preferred Shares $1 Par Value		
	Issued	Treasury	Series B	Series C	Series D
Shares at January 1, 1976	20,837,823	(7,652,989)	284,276	4,811,733	1,016,643
Shares issued and purchased during year:					
Conversion of Preferred shares	418,170	—	(25,549)	(334)	(164,632)
Under stock option plans	21,840	—	—	15,400	—
Purchase of treasury stock	—	(195,800)	—	—	—
Exchange of Debentures for Common stock	—	(2,625,044)	—	—	—
Purchased pursuant to tender offer	—	—	—	(2,937,789)	—
Retirement of treasury stock	(9,000,000)	9,000,000	—	—	—
Shares at December 31, 1976	12,277,833	(1,473,833)	258,727	1,889,010	852,011
Shares issued during year:					
Conversion of Preferred shares	998,509	—	(24,821)	(562)	(456,050)
Under stock option plans	106,691	—	—	10,500	—
Shares at December 31, 1977	13,383,033	(1,473,833)	233,906	1,898,948	395,961
Shares authorized	40,000,000		700,000	10,000,000	6,500,000

Each Series B share is (1) entitled to earn cumulative quarterly dividends at an annual rate of $4.25, (2) convertible into 3.48 Common shares, and (3) entitled to a $50 preference upon liquidation, plus accrued and unpaid dividends. WCI may redeem these shares, in whole or in part, at a price of $102.25 a share, which is reduced each year to a minimum of $100 in 1982 and thereafter, plus accrued and unpaid dividends.

Each Series C share is (1) entitled to earn cumulative annual dividends of $.05 per share, (2) convertible until January 8, 1980, into one Common share with the surrender of one share of Series C stock together with $37 or, alternatively, is convertible at any time into one Common share with the surrender of one share of Series C stock together with certificates representing 15 additional shares of Series C stock, and (3) entitled to a $2.74 preference upon liquidation plus accrued and unpaid dividends. After July 7, 1979, WCI may redeem these shares, in whole or in part, at a price of $2.50 a share, plus accrued and unpaid dividends.

Each Series D share is (1) entitled to earn cumulative quarterly dividends at an annual rate of $1.25, (2) convertible into two Common shares and (3) entitled to a $22.12 preference upon liquidation plus accrued and unpaid dividends. WCI may redeem these shares in whole or in part at a price of $100 a share, plus accrued and unpaid dividends.

During 1976, the Company purchased 2,937,789 shares of its Series C Convertible Preferred Stock pursuant to a cash tender offer of $6 per share and exchanged $71,458,200 in principal amount of 9⅛% Subordinated Sinking Fund Debentures for 2,625,044 Common shares pursuant to an exchange offer. The shares so acquired were subsequently retired.

During 1976, 9,000,000 common treasury shares, $1 par value, having an aggregate cost of $157,798,000, were retired resulting in charges of $9,000,000 to capital stock, $36,440,000 to paid in capital and $112,358,000 to retained earnings.

The aggregate excess of preference upon involuntary liquidation of the outstanding Preferred shares over the par value thereof ($23,128,000 at December 31, 1977) does not, in the opinion of counsel, constitute a restriction on the payment of dividends.

At December 31, 1977, Common shares reserved for future issuance for specified purposes were as follows:

Conversion of Preferred shares outstanding:		
Series B	813,993	
Series C	1,898,948	
Series D	791,922	3,504,863
Common Stock Option Plans		2,042,639
Conversion of Preferred shares to be issued under the Series C Stock Option Plans		824,100
Other convertible obligations		163,637
		6,535,239

TABLE 2-32: COMMON STOCK

	1977	1976	1975	1974
Par value stock shown at par value	496	502	501	501
Par value stock shown at amount in excess of per share par value	30	34	38	35
Par value stock shown at assigned value per share	20	14	13	15
No par value stock shown at assigned value per share	21	14	15	14
No par value stock shown at assigned value — per share value not disclosed	55	55	51	55
Issues Outstanding	**622**	**619**	**618**	**620**

COMMON STOCK

Table 2-32 summarizes the valuation bases of common stock. As in prior years, the majority of the survey companies show common stock at par value.

Examples of common stock presentations are shown in connection with Table 2-31.

TABLE 2-33: PREFERRED STOCK

	1977	1976	1975	1974
Valuation Bases				
Par value stock shown at par value	211	195	186	184
Par value stock shown at assigned value per share	12	9	9	9
Par value stock shown at liquidation or redemption value	4	9	4	4
No par value stock shown at assigned value per share	54	59	47	45
No par value stock shown at assigned value — per share value not disclosed	54	63	56	57
No par value stock shown at liquidating value	7	11	12	11
Other	7	12	8	8
Issues Outstanding	**349**	**358**	**322**	**318**
Number of Companies				
Showing preferred stock outstanding	232	237	242	238
Not showing preferred stock outstanding	368	363	358	362
Total	**600**	**600**	**600**	**600**

PREFERRED STOCK

Table 2-33 summarizes the valuation bases of preferred stock. As with common stock, the majority of the survey companies show preferred stock at par value.

APB Opinion No. 10 recommends that a liquidation preference (excess of involuntary liquidation value over par or stated value) be disclosed in the equity section of the balance sheet in the aggregate.

Examples of preferred stock presentation are shown below and in connection with Table 2-31.

Preferred Stock Extended at Par Value

BAUSCH & LOMB INCORPORATED (DEC)

		1977	1976
Shareholders' Equity:			
4% cumulative preferred stock, par value $100 per share—	Shares		
Authorized	60,000		
Issued and outstanding	50,000	$ 5,000,000	$ 5,000,000
Class A preferred stock, par value $1 per share—			
Authorized	600,000		
Issued and outstanding	None		
Common stock, par value $2.50 per share—			
Authorized	8,000,000		
Issued and outstanding	5,666,116	14,166,000	14,110,000
Class B stock, par value $.50 per share—			
Authorized	550,000		
Issued and outstanding	114,490	57,000	55,000
Capital in excess of par value		25,821,000	25,158,000
Earnings retained		107,767,000	89,284,000
		$152,811,000	$133,607,000

COLONIAL STORES INCORPORATED (DEC)

	1977	1976
	($000)	
Stockholders' equity:		
4% cumulative preferred stock of $50 par value per share, redeemable 1,200 shares per annum at par plus accrued dividends. Authorized and issued 17,819 shares in 1977 and 1976	$ 891	$ 891
Common stock of $2.50 par value per share. Authorized 8,000,000 shares; issued 4,388,649 shares in 1977 and 1976	10,972	10,972
Capital in excess of par value of capital stock	1,551	1,549
Unrealized loss on market decline of investments in preferred stock	(271)	(254)
Retained earnings	103,652	98,277
	116,795	111,435
Less common stock held in treasury, 598,215 shares (1976, 598,831 shares), at cost	11,562	11,574
Total stockholders' equity	$105,233	$99,861

DART INDUSTRIES INC. (DEC)

	1977	1976
Stockholders' equity:		
Preferred Stock, $5.00 par value		
Authorized, 3,000,000 shares		
Series A $2 Cumulative Convertible (aggregate liquidating preference in 1977—$149,050,000)		
Issued, 2,981,000 shares in 1977 and 2,986,000 shares in 1976	$ 14,905,000	$ 14,930,000
Common Stock, $1.25 par value		
Authorized, 35,000,000 shares		
Issued, 23,133,300 shares in 1977 and 22,438,800 shares in 1976	28,917,000	28,048,000
Capital in excess of par value	299,828,000	279,029,000
Retained earnings	503,910,000	444,617,000
	847,560,000	766,624,000
Less cost of reacquired shares of capital stock—		
Preferred—32,500;		
Common—700	1,547,000	1,547,000
Total stockholders' equity	$846,013,000	$765,077,000

NOTES TO FINANCIAL STATEMENTS

Preferred Stock—Holders of the Series A $2 Cumulative Convertible Preferred Stock are entitled to receive $2 per share annual cash dividends, to one vote per share and, upon any voluntary liquidation, dissolution or winding up, to receive $50 per share plus accrued unpaid dividends. Each share of the Preferred Stock is convertible by the holder into Common Stock on a share for share basis adjusted for stock dividends in excess of 3% in any one year or for recapitalization. The Preferred Stock may be called for redemption at $55 per share plus accrued unpaid dividends.

HUDSON PULP & PAPER CORP. (DEC)

	1977	1976
Stockholders' Equity:		
Capital Stock:		
Cumulative Preferred Stock outstanding, par value $25 per share: 5% Series A—9,576 shares (1976)	$ —	$ 239,400
6¼% Series D—12,000 shares (1977); 18,000 shares (1976)	300,000	450,000
	300,000	689,400
Cumulative Second Preferred Stock, $1.41 Series, par value $24.50 per share—outstanding—53,885 shares (1977); 63,146 shares (1976)	1,320,182	1,547,077
Common Stock, par value $1 per share—issued 2,351,877 shares	2,351,877	2,351,877
	3,972,059	4,588,354
Additional Capital	7,059,917	7,056,082
Retained Earnings	69,233,848	73,132,918
	80,265,824	84,777,354
Less: Common Stock in treasury at cost—1,419 shares	36,824	36,824
Total Stockholders' Equity	$80,229,000	$84,740,530

NOTES TO FINANCIAL STATEMENTS

Stockholders' Equity (in part)—As at December 31, 1977, the authorized capital stock of the Company consists of (a) 34,036 shares of Cumulative Preferred Stock (decreased during 1977 by 19,181 shares) with a par value of $25.00 per share, (b) 114,850 shares of Cumulative Second Preferred Stock $1.41 Series (decreased during 1977 by 10,000 shares), with a par value of $24.50 per share and (c) 10,000,000 shares of Common Stock with a par value of $1.00 per share. Preferred shares are redeemable at par.

As at December 31, 1977 and 1976, respectively, shares of Cumulative Second Preferred Stock shown as outstanding are net of 965 and 1,704 shares held for sinking fund. As at December 31, 1976, shares of Cumulative Preferred Stock shown as outstanding are net of 424 Series A shares for sinking fund.

During 1977 and 1976, respectively, the Company purchased or redeemed 15,576 and 19,937 shares of Cumulative Preferred Stock (par value $389,400 and $498,425) and retired 19,181 and 20,567 shares (par value $479,525 and $514,175); and purchased 9,261 and 10,473 shares of Cumulative Second Preferred Stock (par value $226,895 and $256,589) and retired 10,000 shares in each year (par value $245,000). The foregoing purchases resulted in increases in Additional Capital of $3,835 in 1977 and $9,724 in 1976. The annual sinking fund requirements have been met as at December 31, 1977.

STANDARD CONTAINER COMPANY (SEP)

	1977	1976
Shareholders' Equity		
Capital Stock:		
6% Cumulative first preferred stock—$100 par value: Authorized, issued and outstanding—1,755 shares	$ 175,500	$ 175,500
5% Cumulative second preferred stock—$100 par value: Authorized, issued and outstanding—6,500 shares	650,000	650,000
Common stock—$1 par value Authorized—2,000,000 shares Issued—1977—951,507 shares; 1976—859,358 shares (including 2,000 shares held in treasury).	951,507	859,358
Additional Paid-in Capital	2,100,802	1,662,082
Retained Earnings	7,234,578	6,438,191
	11,112,387	9,785,131
Less: Treasury stock, at cost—2,000 shares	5,500	5,500
Total Shareholders' Equity	$11,106,887	$9,779,631

Preferred Stock Extended at Stated Value

BEATRICE FOODS CO. (FEB)

	1977	1976
Stockholders' equity:		
Preference stock (without par value). Authorized 2,500,000 shares. Issued 144,473 shares (1976—282,580 shares) at stated value with aggregate liquidation preference of $14,089,660 (1976—$27,786,360)...........	$ 6,960,490	$ 8,529,960
Common stock (without par value). Authorized 125,000,000 shares (1976—100,000,000 shares). Issued and oustanding 85,128,846 shares (1976—83,853,459 shares) at $1.85 stated value.....................	156,488,365	155,128,899
Other Capital....................	44,153,217	32,096,148
Earnings invested in the business..........................	949,613,139	836,208,700
Total stockholders' equity................	$1,158,215,211	$1,031,963,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Preference Stock—A summary of outstanding preference stock follows:

	1977	1976
	(in thousands)	
$2.70 convertible, $60 stated value, 8,941 shares (1976—11,791 shares).................	$ 536	$ 707
$4.00 convertible, $10 stated value,* 79,213 shares (1976—213,960 shares).......	792	2,140
$4.50 convertible, $100 stated value, 56,319 shares (1976—56,829 shares).................	5,632	5,683
	$6,960	$8,530

*Liquidation preference $100 per share.

In 1977, 138,107 shares of preference stock were converted into 689,250 shares of common stock. There are 686,711 shares of common stock reserved for conversion of outstanding preference shares at February 28, 1977.

INTERSTATE BRANDS CORPORATION (MAY)

	May 28, 1977	January 1, 1977*	December 27, 1975*
Stockholders' Equity			
$4.80 dividend cumulative preferred stock without par value, stated at $100 per share; shares authorized and outstanding 7,515 in 1977, 7,579 in 1976 and 7,836 in 1975.............	$ 751,500	$ 757,900	$ 783,600
Preference stock, without par value; authorized 500,000 shares, issued—none	—	—	—
Common stock, $1 par value; authorized 5,000,000 shares, issued 2,339,871 shares	2,339,871	2,339,871	2,339,871
Additional paid-in capital	3,399,111	3,396,050	3,382,664
Retained earnings....	50,782,046	49,128,803	47,246,431
Less common shares held in treasury, 16,800 shares, at cost...........	(325,860)	(325,860)	(325,860)
	$56,946,668	$55,296,764	$53,426,706

PNEUMO CORPORATION (NOV)

	1977	1976
Stockholders' equity—Note B		
Series Preferred Stock, without par value—		
$1 Cumulative Convertible, Series A, stated at redemption and involuntary liquidation value of $25 per share................	$ 806,700	$ 806,700
$4 Cumulative Convertible, Series B, stated at redemption and involuntary liquidation value of $100 per share................	4,917,000	5,296,800
Common Stock, $1 par value...	2,707,957	2,273,482
Capital in excess of par or stated value of shares	10,246,694	4,648,850
Accumulated earnings	46,322,149	39,955,191
	65,000,500	52,981,023
Less cost of Common Stock in treasury	(198,638)	(198,638)
	$64,801,862	$52,782,385

Note B: Capital Stock—The following table sets forth the authorized and outstanding shares of the various classes of capital stock at November 30, 1977 and 1976:

	Authorized	Outstanding 1977	1976
Series Preferred Stock	500,000		
$1 Cumulative Convertible Preferred Stock Series A		32,268	32,268
$4 Cumulative Convertible Preferred Stock Series B		49,170	52,968
Common Stock (after deducting 26,700 shares held in treasury)..............	5,000,000	2,681,257	2,246,782

Each share of Series Preferred Stock and Common Stock is entitled to one vote.

The Series Preferred Stock is redeemable by the Company and is convertible into Common Stock at the rate of 1.013 Common Shares for each share of Series A and four Common Shares for each share of Series B.

On November 30, 1977, an aggregate of 344,818 shares (subject to certain antidilution adjustments) of Common Stock were reserved for conversion of Series Preferred Stock and exercise or grant of stock options and warrants.

PORTEC, INC. (DEC)

	1977	1976
	($000)	
Stockholders' equity		
Preferred stock, without par value; authorized 1,000,000 shares; issued 111,365 and 111,744 shares of $1.60 cumulative convertible, stated at $19 per share	$ 2,116	$ 2,123
Common stock, $1 par value in 1977 and $10 par value in 1976; authorized 10,000,000 shares; issued 3,051,896 and 2,577,204 shares	3,052	25,772
Additional capital	40,969	9,501
Retained earnings................	5,789	9,806
	51,926	47,202
Less—cost of treasury common stock, 15,761 and 21,999 shares	(247)	(344)
Total stockholders' equity................	$51,679	$46,858

Note 10 (in part): Capital Stock—Each share of preferred stock is convertible into 1.815 shares of common stock. At December 31, 1977, the Company had reserved 202,127 shares of common stock for issuance in the event of conversion. The Company may redeem this preferred stock, in whole or in part, commencing July 10, 1980 at a price of $19 a share, which redemption price is reduced each year to a minimum of $1 in 2011 and thereafter, plus accrued and unpaid dividends. Upon liquidation, each share of preferred stock is entitled to a $19 preference plus accrued and unpaid dividends.

WHITTAKER CORPORATION (OCT)

	1977	1976
	($000)	
Stockholders' Equity		
Capital Stock (Note 5):		
Preferred stock, stated value $1 per share, authorized 5,000,000 shares—		
$1.25 cumulative convertible preferred stock, outstanding 241,731 shares at October 31, 1977 and 241,814 shares at October 31, 1976..........	$ 242	$ 242
$5.00 cumulative convertible preferred stock (preference in involuntary liquidation of $6,336,000) outstanding 126,717 shares at October 31, 1977 and 135,545 shares at October 31, 1976..........	126	134
Common stock, stated value $1 per share, authorized 40,000,000 shares— Outstanding 13,264,029 shares at October 31, 1977 and 14,355,656 shares at October 31, 1976.....................	20,260	21,347
Additional paid-in capital...........	89,297	89,238
Retained earnings....................	54,870	46,577
Total Stockholders' Equity	$164,795	$157,538

Note 5 (in part): Capital Stock—All shares of preferred stock outstanding are voting, cumulative and convertible into common stock. Each share of the $5.00 preferred stock is convertible into 1.854 shares of common stock, and each share of the $1.25 preferred stock is convertible into 2.06 shares of common stock. The $5.00 preferred stock is redeemable, at the option of Whittaker, at $100 per share and is entitled to preference of $100 per share upon voluntary liquidation and $50 per share upon involuntary liquidation (aggregate of $6,336,000 at October 31, 1977). There is no restriction on retained earnings resulting from the fact that upon involuntary liquidation the preference of the $5.00 preferred stock exceeds its stated value. The $1.25 preferred stock is redeemable, at the option of Whittaker, at $35 per share and has no preference in liquidation. The Board of Directors is authorized to issue preferred stock in series and to fix dividend rates, conversion rights, voting rights, rights and terms of redemption and liquidation preferences and to increase or decrease the number of shares of any series.

ADDITIONAL PAID-IN CAPITAL

Table 2-34, summarizes captions used to describe additional paid-in capital and indicates a continuing gradual decline in the use of the term *surplus* to describe additional paid-in capital. This trend is in accord with a recommendation expressed by the Committee on Terminlogy of the American Institute of Certified Public Accountants that use of the term *surplus*, either alone or combined, be discontinued in the balance sheet presentation of stockholders' equity.

Examples of descriptive captions used for additional paid-in capital, other than those italized in Table 2-34, follow. Examples of descriptive captions used for additional paid-in capital are also shown in this section in connection with discussions of the other components of stockholders' equity.

TABLE 2-34: ADDITIONAL PAID-IN CAPITAL — CAPTION TITLE

	1977	1976	1975	1974
Additional paid-in capital..	174	170	163	152
Capital in excess of par or stated value	162	154	151	147
Capital surplus.............	77	85	86	87
Additional capital, or other capital	51	48	56	53
Paid-in capital, or other paid-in capital	36	38	35	29
Paid-in surplus.............	18	14	18	19
Other captions	11	19	19	36
	529	528	528	523
No additional paid-in capital account	71	72	72	77
Total Companies..................	**600**	**600**	**600**	**600**

AMERICAN AIR FILTER COMPANY, INC. (OCT)

	1977	1976
Shareholders' equity:		
Preferred stock of $25 par value per share. Authorized 1,000,000 shares; none issued.		
Common stock of $1 par value per share. Authorized 10,000,000 shares; outstanding 4,088,712 shares in 1977, and 4,087,487 in 1976.........................	$ 4,089,000	$ 4,088,000
Other capital in excess of par value of shares	8,292,000	8,275,000
Retained earnings................	57,700,000	50,809,000
Total shareholders' equity ...	$70,081,000	$63,172,000

AMERICAN STORES COMPANY (MAR)

	1977	1976
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares; issued none	$ —	$ —
Common stock of $1 par value. Authorized 10,000,000 shares; issued 5,305,004 shares in 1977 and 5,282,154 shares in 1976......................	5,305,000	5,282,000
Capital in excess of par value of common stock....................	132,792,000	132,443,000
Earnings retained for use in the business	117,464,000	101,634,000
	255,561,000	239,359,000
Less 41,064 shares common treasury stock, at cost...............	1,019,000	1,019,000
Total shareholders' equity	$254,542,000	$238,340,000

CARRIER CORPORATION (OCT)

	1977	1976
	($000)	
Stockholders' equity		
Senior preferred stock, par value $50 per share; 4½% series—authorized 162,651 shares; outstanding 88,766 shares in 1977 and 116,626 shares in 1976.............................	$ 4,438	$ 5,831
Cumulative preferred stock, without par value; authorized 5,000,000 shares; $2.25 series (convertible), stated at $50 per share; authorized 9,000 shares; outstanding 8,000 shares	400	400
$3.00 series (convertible), stated at $50 per share; authorized 115,031 shares; outstanding 108,807 shares in 1977 and 109,810 shares in 1976.............................	5,440	5,491
Common stock, par value $2.50 per share; authorized 50,000,000 shares; issued 24,660,583 shares in 1977 and 24,640,025 shares in 1976	61,652	61,600
	71,930	73,322
Amounts contributed in excess of par value	24,729	24,365
Earnings retained	300,255	261,091
	396,914	358,778
Less—common stock in treasury at cost, 454,063 shares in 1977 and 457,226 shares in 1976...	6,333	6,377
Total stockholders' equity.......	$390,581	$352,401

COPPERWELD CORPORATION (DEC)

	1977	1976
	($000)	
Shareholders' Equity		
Preferred Stock, par value $50 a share—authorized and unissued 130,000 shares......		
Common Stock, par value $1.25 a share—authorized 10,000,000 shares; outstanding shares (less 2,624 shares in treasury): 1977—5,615,668; 1976—5,593,288	$ 7,019	$ 6,992
Capital in excess of par value..	23,401	23,080
Retained earnings...............	100,220	90,645
	$130,640	$120,717

GENERAL ELECTRIC COMPANY (DEC)

	1977	1976
	(In millions)	
Preferred stock ($1 par value; 2,000,000 shares authorized; none issued).....................	$ —	$ —
Common stock ($2.50 par value; 251,500,000 shares authorized; 231,410,196 shares issued 1977; 230,368,572 shares issued 1976)............	578.5	575.9
Amounts received for stock in excess of par value	668.4	618.3
Retained earnings....................	4,862.5	4,251.2
	6,109.4	5,445.4
Deduct common stock held in treasury	(166.5)	(192.5)
Total share owners' equity	$5,942.9	$5,252.9

TABLE 2-35: RETAINED EARNINGS — CAPTION TITLE

	1977	1976	1975	1974
Retained Earnings	451	450	439	440
Retained earnings with additional words............	14	18	40	20
Earnings with additional words....................	81	77	56	80
Income with additional words	24	27	35	28
Earned Surplus	6	8	11	10
Companies with deficits.....	24	20	19	22
Total Companies	**600**	**600**	**600**	**600**

RETAINED EARNINGS

Accounting Terminology Bulletin No. 1, recommends:

> The term *earned surplus* be replaced by terms which will indicate source, such as *retained income, retained earnings, accumulated earnings,* or *earnings retained for use in the business.* In the case of a deficit, the amount should be shown as a deduction from contributed capital with appropriate description.

Table 2-35 indicates a continuing decline in the use of the term *earned surplus* and an increase in the use of the term *retained earnings*.

Examples of descriptive captions used for retained earnings are shown below and in connection with discussions of the other components of stockholders' equity in this section.

AMERICAN CYANAMID COMPANY (DEC)

	1977	1976
	($000)	
Stockholders' Equity		
Common stock—par value $5 per share Authorized—60,000,000 shares Issued—48,905,338 shares	$ 244,527	$ 244,527
Additional paid-in capital........	38,898	38,891
Earnings employed in the business..........................	916,826	848,773
	1,200,251	1,132,191
Less cost of 1,133,744 shares of common stock held in treasury (1,141,050 shares in 1976).....................	31,360	31,522
Total Stockholders' Equity................	$1,168,891	$1,100,669

AMPCO-PITTSBURGH CORPORATION (DEC)

	1977	1976
Shareholders' Equity		
Cumulative preference stock—no par value; authorized 500,000 shares; issued (none).........................	$ —	$ —
Common stock—par value $1; authorized 5,000,000 shares; issued 3,457,430 shares	3,457,430	3,457,430
Other capital contributed upon issuance of shares...........	5,967,695	5,967,695
Earnings invested in business...	51,745,052	48,250,571
	61,170,177	57,675,696
Less—Cost of 573,368 and 573,366 shares in treasury	4,603,739	4,603,722
Total shareholders' equity................	56,566,438	53,071,974
	$72,284,872	$64,277,270

ARCHER DANIELS MIDLAND COMPANY (JUN)

	1977	1976
Shareholders' Equity		
Common Stock, at stated capital amount	$131,440,542	$129,562,159
Additional paid-in capital	5,214,536	5,214,536
Reinvested earnings	278,815,063	223,335,586
	415,470,141	358,112,281
Less cost of Common Stock in treasury	40,420	40,420
	$415,429,721	$358,071,861

ASG INDUSTRIES, INC. (DEC)

	1977	1976
Shareowners' Equity:		
Common Stock, par value—$1 per share; authorized 10,000,000 shares; issued and outstanding 3,006,052	$ 3,006,052	$ 3,006,052
Paid-in capital	17,208,195	17,050,195
Deficit from January 1, 1971	(9,135,597)	(9,187,368)
	$11,078,650	$10,868,879

THE BLACK AND DECKER MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Stockholders' Equity		
Common Stock, par value $.50 per share: Authorized 50,000,000 shares: outstanding—1977—41,862,685 shares; 1976—41,764,504 shares	$ 20,932	$ 20,882
Capital in excess of par value of Common Stock	193,399	192,182
Earnings retained and used in the business	188,390	155,959
	$402,721	$369,023

BUCYRUS-ERIE COMPANY (DEC)

	1977	1976
	($000)	
Shareholders' Investment		
Preferred stock—par value $100 a share—Authorized—300,000 shares; issued—none	$ —	$ —
Common stock—par value $5 a share—Authorized—30,000,000 shares; issued and outstanding (excluding 173,432 shares in treasury)—20,362,150 shares in 1977 and 20,334,080 shares in 1976	101,810,750	101,670,400
Additional paid-in capital	584,572	381,740
Earnings reinvested in the business	181,129,323	142,577,282
	$283,524,645	$244,629,422

ELECTRIC HOSE & RUBBER COMPANY (AUG)

	1977	1976
Shareholders' equity:		
Preferred stock, $5 par value, 1,500,000 shares authorized; issued 200,000 shares in 1977	$ 1,000,000	$ —
Common stock, $5 par value, 3,000,000 shares authorized; issued—1,669,735 shares in 1977, 1,604,897 shares in 1976	8,348,700	8,024,500
Capital in excess of par value	466,000	457,900
Accumulated deficit	(2,897,800)	(4,234,800)
Less—treasury stock at cost—95,193 shares in 1977, 91,498 shares in 1976	(1,791,600)	(1,791,600)
Total Shareholders' Equity	$ 5,125,300	$ 2,456,000

GENERAL RECREATION, INC. (DEC)

	1977	1976
Shareholders' Equity:		
Convertible preferred stock, par value $1 per share, 500,000 shares authorized; 20,000 shares outstanding in 1977 and 1976 with liquidation preference of $2,200,000	$ 20,000	$ 20,000
Capital stock, par value $1 per share, 3,000,000 shares authorized; 1,640,190 shares outstanding in 1977 and 1976	1,640,190	1,640,190
Capital in excess of par value	5,857,324	5,857,324
Retained earnings (deficit)	(9,907,877)	(4,971,126)
Total shareholders' equity	$(2,390,363)	$ 2,546,388

STOCK OPTION AND STOCK PURCHASE PLANS

Chapter 13B of *Accounting Research Bulletin No. 43*, which discusses stock option and stock purchase plans, states in paragraph 15:

> In connection with financial statements, disclosure should be made as to the status of the option or plan at the end of the period of report, including the number of shares under option, the option price, and the number of shares as to which options were exercisable. As to options exercised during the period, disclosure should be made of the number of shares involved and the option price thereof.

APB Opinion No. 25, issued in October 1972 and applying "to all stock option, purchase, award, and bonus rights granted by an employer corporation to an individual employee after December 31, 1972," reaffirms the disclosure requirements of paragraph 15.

Five hundred-thirty companies disclosed the existence of stock option plans. Examples of stock option and stock purchase plans follow.

STOCK OPTION PLANS

AIRCO, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8: Stock Option, Stock Purchase and Employee Stock Ownership Plans—Under Airco's stock option plans, shares of common stock have been made available to certain key employees at the fair market value on the date the options were granted.

Under the individual plan, which expired on April 28, 1975, and the 1967 option plan, which expired on April 26, 1977, 70,000 and 100,000 shares of common stock, respectively, were authorized to be granted to certain employees including officers at the market price of the stock at date of grant. Options became exercisable equally (20%) over a five-year period with the final 20% exercisable 60 days before the end of the fifth year. At December 31, 1977 and 1976, 15,100 and 19,300 shares, respectively, remained exercisable.

Additional pertinent option data follows:

	Number of Shares	Option Price Per Share	Option Price Total	Market Value Per Share	Market Value Total
Shares under option and outstanding					
1977	49,900	$12-$20	$ 869,000	$12-$20	$ 869,000
1976	72,000	12- 24	1,229,000	12- 24	1,229,000
Options granted					
1977	—	—	—	—	—
1976	—	—	—	—	—
Options which became exercisable during					
1977	17,600	12- 20	287,000	28- 33	525,000
1976	25,000	12- 24	444,000	20- 34	693,000
Options exercised during					
1977	21,800	12- 24	360,000	28- 33	677,000
1976	18,900	12- 22	276,000	23- 33	546,000

The Performance Unit Stock Option Plan (the "Plan"), as approved by the stockholders in 1977, provides for the granting to key executives of long-term awards, consisting of (1) a non-qualified stock option to buy Airco common stock at the market price of the stock at the time of grant and (2) an award of performance units, which will accrue value by an amount equal to the primary earnings per share of Airco common stock during the term of the performance unit. No amounts will be accrued to performance units in any year in which Airco's earnings are less than $4.00 per share, dividends are less than $1.15 per share or pretax income is less than 16% of stockholders' equity at the close of the preceding year. The maximum number of shares that may be issued or delivered against options granted under the Plan is 200,000. The maximum number of performance units that may be awarded pursuant to the Plan is limited to 350,000 and the Plan will expire in 1982. Options granted under the Plan may be exercisable for a period of up to 10 years and performance units will have a term of three to five years, all as determined by the Committee of the Board of Directors administering the Plan. Under the terms of the Plan, options for 97,350 shares of common stock were granted in 1977 at an option price of $32.25 per share with a total option price and a market value of $3,140,000 and are first exercisable in 1981. In 1977, $818,000 was charged to expense to accrue for performance unit awards.

AMERADA HESS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Stock Option Plans—Under the stock option plans, options have been granted to key employees to purchase common shares of the Corporation at a price of not less than 100% of fair market value at date of grant. In May 1973, the stockholders approved a stock option plan for key employees to replace the 1968 qualified stock option plan under which no additional options may be granted. Under the 1973 Stock Option Plan, a total of 565,616* shares of common stock of the Corporation were reserved for granting to key employees at a price of not less than 100% of the fair market value of the stock at date of grant. The transactions during 1976 and 1977 are summarized as follows:

	Common stock	
Outstanding January 1	Number of shares*	Option price per share*
1976	218,974	$14.21-$40.54
1977	540,496	$14.21-$40.54
Granted		
1976	344,913	$17.55-$27.85
1977	6,000	$28.38-$31.63
Exercised		
1976	4,731	$15.21-$18.98
1977	25,336	$14.21-$33.73
Cancelled		
1976	18,660	$16.31-$26.55
1977	46,979	$17.55-$40.54
Outstanding December 31		
1976	540,496	$14.21-$40.54
1977	474,181	$14.21-$33.73
Options exercisable December 31		
1976	132,362	$14.21-$40.54
1977	190,141	$14.21-$33.73
Available for future grants December 31		
1976	115,294	
1977	112,221	

*Adjusted for 2½% stock dividends paid.

AMPEX CORPORATION (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shareowners' Equity—Authorized shares consist of 20,000,000 shares of $1 par value common shares (at April 30, 1977, 1,304,347 shares were reserved for conversion of debentures and 550,490 for exercise of stock options) and 1,000,000 shares of no par value preferred shares. Common shares issued and outstanding were 10,918,458 at April 30, 1977 and 10,885,178 at May 1, 1976. No preferred shares have been issued.

Options outstanding at the end of 1977 and 1976 were all nonqualified. Details of stock option activity are as follows:

	1977		1976	
	Shares	Price Per Share	Shares	Price Per Share
Outstanding at beginning of year	514,925	$3.20-$7.50	445,575	$3.20-$5.00
Granted	54,800	6.15-8.95	93,250	4.60-7.50
Exercised	(19,630)	3.20-6.15	(13,200)	3.20-4.20
Canceled, expired or terminated	(26,062)	3.20-7.50	(10,700)	3.90-6.15
Outstanding at end of year	524,033	3.20-8.95	514,925	3.20-7.50
Exercisable at end of year	277,573	3.20-7.50	233,330	3.20-5.20
Reserved for future grants	26,457		55,195	

ANHEUSER-BUSCH, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options—The company's stock option plan terminated during the current year. At December 31, 1977, options to purchase 564,300 shares at $23.06 per share were outstanding. The options expire in 1981 and the option price is 100% of fair market value of the shares at the date granted. At December 31, 1977, 188,072 options were exercisable, with the remaining options becoming exercisable through 1979. No options were exercised in 1977.

BROWN GROUP, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (in part): Employee Benefit Plans

Stock Options, Stock Appreciation and Performance Bonus Plans—The Corporation has two non-qualified stock option and stock appreciation plans (1974 and 1976) under which certain officers and employees are participants. All options are granted at market value and are exercisable over periods up to ten years.

Under the plans, the Corporation may grant a maximum of 550,000 stock appreciation units in tandem with options. The units entitle the participants to payment of the increase in market price per share five years from date of award. Under the plans, if the awards and options were issued in tandem, the exercise of either serves to cancel the other.

Under one of the plans, approved December 9, 1976, the Corporation may grant performance bonus awards. The awards, payable four years from the date of grant, are subject to adjustment based on the Corporation's growth in earnings per share and return on invested capital during the four year period. At October 29, 1977 $1,341,600 in performance bonus awards were outstanding.

No charges or credits to income are made with regard to options granted under the plans. Compensation expense of $535,000 in 1977 and $596,000 in 1976 was recognized in connection with the stock appreciation units and performance bonus awards granted to date.

During the year the Corporation terminated stock option plans other than those discussed above. Options outstanding under terms of the former plans continue to be exercisable; shares previously available for future options, aggregating 95,675 at date of termination, are no longer reserved.

The following summary sets forth the activity under the plans for the two years ended October 29, 1977:

	Number of Shares	Number of Appreciation Units	Option or Award Price
Options and units outstanding November 1, 1975	487,700	121,500	$15 to $40
Granted and awarded	50,650	25,000	19 to 24
Exercised	(1,825)		15 to 22
Terminated	(91,975)	(5,750)	15 to 40
Options and units outstanding October 30, 1976	444,550	140,750	15 to 40
Granted and awarded	90,144	90,144	22
Exercised	(1,000)		15 to 17
Terminated	(22,736)	(786)	15 to 40
Options and units outstanding October 29, 1977	510,958	230,108	$15 to $40

Options outstanding at October 29, 1977 included 230,108 granted in tandem with the stock appreciation units. Options for 268,990 shares were exercisable at October 29, 1977 at prices ranging from $15 to $40 and 318,592 shares of Common Stock were reserved for future options.

COOPER INDUSTRIES, INC (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 5: Stock options and employee stock purchase plan

Stock Options. Stock options are granted under the Company's stock option plans at not less than 100% of the market value of the Company's stock at the date of grant and are exercisable over varying periods up to ten years from date of grant. A summary of activity in the Company's stock option plans is presented below:

	Number of Shares 1977	Number of Shares 1976
Common stock options outstanding at beginning of year	384,574	392,796
Granted:		
$28.75 per share	—	104,100
$40.75 to $43.38 per share	135,150	—
Exercised:		
$11.31 to $20.44 per share	—	(98,652)
$11.31 to $25.38 per share	(96,351)	—
Cancelled	(8,434)	(13,670)
Outstanding at end of year	414,939	384,574

At December 31, 1977, options for 55,688 common shares were exercisable at $11.31 to $20.44 per share, and 141,022 common shares were reserved for future grants.

Employee Stock Purchase Plan. At December 31, 1977 subscriptions to the 1977 Employee Stock Purchase Plan for 142,450 shares of common stock were outstanding at $41.68 per share or, if lower, the market price at September 14, 1979. The subscriptions may not be exercised (but may be withdrawn or reduced by the participant) until that date.

DANA CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Stock Option Plans—Dana has in effect several stock option plans through which options have been granted to officers and other key employees for the purchase of common stock. Options may be granted at prices equal to the fair market value at the date of grant and are exercisable during periods of five to ten years from that date. One plan provides that, at the discretion of the compensation committee of the Board of Directors, an optionee may surrender one non-qualified option for each option exercised and receive in cash the difference between the exercise price and the fair market value of the stock at date of surrender. Dana paid $357,000 and $146,000 in 1977 and 1976, respectively for stock options surrendered. Charges to compensation expense for the estimated amount which will be paid in future years to employees who elect to surrender options amounted to $288,000 and $1,235,000 in 1977 and 1976, respectively.

The following summarizes the stock option transactions for the two years ended August 31, 1977:

	Number of shares	Per share option price
Outstanding at August 31, 1975	1,198,654	$ 7.00-18.69
Granted	14,100	$15.00-22.50
Exercised	(208,798)	$ 8.00-18.69
Surrendered	(9,873)	$ 7.00-18.69
Cancelled	(13,171)	
Outstanding at August 31, 1976	980,912	$ 7.00-22.50
Granted	366,400	$24,25-27.75
Exercised	(280,461)	$ 8.00-18.69
Surrendered	(18,883)	$ 8.00-10.31
Cancelled	(26,103)	
Outstanding at August 31, 1977	1,021,865	$ 7.00-27.75
Exercisable at August 31, 1977	375,457	

At August 31, 1977 there were 12,288 shares available for future grants.

EASCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Incentive Plans—The Company has two qualified stock option plans which were established in 1968 and 1973. The plans are substantially the same and at December 31, 1977 provided an aggregate of 61,176 shares for the granting of options to officers and other key employees of the Company and its subsidiaries at not less than 100% of the fair market value of the stock on the date of grant. The options expire five years from the date of grant. The following tabulation summarizes the changes in qualified stock options during 1976 and 1977:

	Number of shares under option	Average price per share
Outstanding at		
December 31, 1975	71,557	$13.86
Granted	4,460	19.05
Exercised	(18,347)	13.08
Cancelled or expired	(4,351)	16.28
Outstanding at December 31, 1976	53,319	14.36
Granted	—	—
Exercised	(28,570)	13.66
Cancelled or expired	(1,863)	16.42
Outstanding at December 31, 1977	22,886	$15.07

At December 31, 1977, options of 21,406 shares were exercisable and options for 38,290 shares could be granted under the various plans.

In April, 1975, the Company adopted an executive compensation plan consisting of two programs, an executive cash incentive compensation program and a nonqualified incentive stock option program. The plan is effective from January 1, 1975 until December 31, 1984.

Under the executive cash incentive compensation program, a cash bonus fund is established each year if adjusted net income equals at least 15% of average shareholders' equity. The amount of cash appropriated to the fund and available for distribution will vary from 20% to 80% of the aggregate base salaries of all participants in the program for that year, depending on the level of the ratio of adjusted net income to average shareholders' equity. The charges to income in 1977 and 1976 relating to the cash bonus fund were $203,000 and $202,000 respectively.

The nonqualified incentive stock option program provides for the granting of options to officers and other key employees for the purchase of 88,750 shares of common stock, plus 38,290 shares authorized but not issued under the third and fourth qualified stock option plans. The option price per share shall not be less than 100% of the fair market value of the stock on the date granted reduced by the excess of the fair market value of the stock at the time the option is exercised over the fair market value of the stock at the date granted, but in no event less than zero. The options expire six years from the date of grant and only 20% of the options granted can be exercised each year, commencing the year following the year granted provided a 5% improvement in earnings, a 15% return on average shareholders' equity and other conditions of the program are met.

The following tabulation summarizes the changes in nonqualified stock options during 1976 and 1977:

	Number of shares under option
Outstanding at December 31, 1975	107,950
Granted	1,200
Exercised (average $1.24 per share)	(13,590)
Cancelled	(6,420)
Outstanding at December 31, 1976	89,140
Granted	16,950
Exercised (average $1.88 per share)	(22,660)
Cancelled	(17,400)
Outstanding at December 31, 1977	66,030

During 1978, options for 17,990 shares become exercisable. Compensation expense of $446,000 in 1977 and $324,000 in 1976 was charged to income under the plan.

FLUOR CORPORATION (OCT)

FINANCIAL REVIEW

Stock Options—The company has two stock option plans, the 1971 Fluor Stock Option Plan and the 1977 Fluor Executive Stock Plan, under which various officers and key employees held options or awards at October 31, 1977.

1971 Fluor Stock Option Plan—This plan, as approved by the shareholders, provides for grants of qualified and nonqualified options at prices equal to the fair market value at date of grant. The options are generally exercisable one year after issuance and expire five years after date of grant for qualified options and 10 years after date of grant for nonqualified options. Under this plan, 1,097,506 shares were authorized for grant and 2,835 shares were available for grant at October 31, 1977. At October 31, 1977, options were outstanding under this plan to purchase 511,891 shares of common stock at prices ranging from $12.90 to $42.19 per share with a weighted average price of $28.09. In accordance with the terms of this plan, certain holders of nonqualified options have the right to receive the excess of the market value of the shares exercisable over the aggregate option price thereof in cash or stock in lieu of exercising their options. Total outstanding nonqualified options for 126,832 shares have such rights and were issued between October 31, 1973, and December 9, 1974, at an average price of $27.79. For such shares and for any future issuance of similar nonqualified options, changes in the market value over the option price are accounted for currently as increases or (decreases) in compensation expense [$247,000 in 1977 and ($417,000) in 1976].

1977 Fluor Executive Stock Plan—This plan, as approved by the shareholders on March 14, 1977, provides for grant of the right to purchase shares of common stock under both nonqualified stock option agreements (options) and restricted stock purchase agreements (awards). The number of shares of common stock which may be issued or sold under this plan may not exceed 700,000 shares, but no more than 250,000 shares may be awarded as restricted stock. At October 31, 1977, 538,500 shares are available for grant under this plan.

The options are generally exercisable one year after issuance at a price equal to the fair market value at the date of grant and expire 10 years after date of grant. At October 31, 1977, options to purchase 64,500 shares of common stock at prices ranging from $38.31 to $39.31 per share with a weighted average price of $39.21 were outstanding under this plan.

Upon issuance of an award, various officers and key employees may purchase restricted stock of the company for $1.00 per share. Until either the retirement, death or permanent disability of the recipient, the stock can only be sold back to the company at $1.00 per share. For such shares awarded, the difference between $1.00 and the fair market value of the shares at date of the award is charged to shareholders' equity as unamortized 1977 executive stock plan expense and amortized over the period of time from date of the award to the estimated date of retirement for each recipient. Total awards of 97,000 shares were granted during the year, all of which shares are outstanding as of October

31, 1977. Total amortization for 1977 relating to these awards was $199,000.

Fiscal 1977 and 1976 stock option transactions under both plans are summarized as follows:

	Common Shares Under Option	
	1977	1976
Balance, November 1	571,095	765,953
Exercised	(102,304)	(296,358)
Expired	(3,600)	(12,400)
Granted	111,200	113,900
Balance, October 31	576,391	571,095
Exercisable at October 31	466,291	469,595

MALONE & HYDE, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Stock Option and Stock Purchase Plans—The Company has reserved a total of 731,218 shares of Common Stock for issuance in connection with its stock option and stock purchase plans.

The Company has in effect three stock option plans under which options to purchase shares may be granted to officers and key employees. Under the provisions of the 1974 Option Plan, qualified or nonqualified options may be granted, while the two remaining plans authorize the granting of qualified options only. The option price of qualified options may not be less than the market price on the date of grant, whereas the option price of nonqualified options may not be less than 85% of the market price on the date of grant. Nonqualified options may include an alternative option whereby the holder may elect to receive shares equivalent in value to the aggregate market value of his option above the option price at no cost.

Stock option activity under all plans is summarized as follows:

	Number of Shares	Average Option Price	Aggregate (Thousands Of Dollars)
Outstanding at June 29, 1975	183,118	$20.12	$3,685
Granted	70,000	21.54	1,508
Exercised	(1,198)	20.87	(25)
Cancelled	(6,389)	21.60	(138)
Outstanding at June 26, 1976	245,531	20.49	5,030
Granted	98,950	18.91	1,871
Exercised	(609)	17.00	(10)
Cancelled	(21,203)	25.39	(538)
Outstanding at June 25, 1977	322,669	$19.69	$6,353

At the time options are exercised, the par value of the shares issued is credited to Common Stock and the excess of the proceeds over the par value is credited to additional paid-in capital. There are no charges or credits to income in connection with qualified options. Compensation cost associated with nonqualified options, is accounted for over a three- or four-year period. The portion of such costs charged to income in 1977 amounted to $262,000 ($75,000 in 1976). Options to purchase 99,100 shares are currently exercisable.

The Company also has an employee stock purchase plan under which a total of 400,000 shares of the Company's Common Stock may be purchased by employees through payroll deductions at prices not to exceed 85% of the market price of the Company's stock on the date the offering is made. There are no charges or credits to income in connection with the plan. Offerings under the plan extend for a period of two years. The most recent offering was made on October 12, 1976, at which date 85% of the market price of the Common Stock was $17.32 per share. Previous offerings under the plan were made at prices of $11.48 and $18.70. At June 25, 1977, a total of 187,681 shares had been sold under the plan at an average price of $12.83 per share.

MOTOROLA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies: Following is a summary of significant accounting policies used in the preparation of these consolidated financial statements, which policies are in accordance with generally accepted accounting principles.

Share Options—When share options are exercised, the proceeds received are credited to the common stock account to the extent of the par value of shares issued, and the excess is credited to additional paid-in capital. The tax benefit that the company receives from disqualifying dispositions by optionees of exercised qualified share options, and from the exercise of non-qualified share options is credited to additional paid-in capital.

Note 6: Share Option Plans—Under the company's employee share option plans, shares of common stock have been made available for grant to employees of the company and certain subsidiaries. The exercise price of options granted may not be less than 100% of market value on date of grant.

The Share Option Plan of 1972 permitted granting of qualified (all of which have been cancelled and replaced with non-qualified options, or have expired) or non-qualified options, exercisable one year from date of grant. Non-qualified options expire ten years from date of grant. Authority to grant options under the 1972 plan was suspended upon implementation of the Share Option Plan of 1977.

The Share Option Plan of 1977 permits the grant of non-qualified options only, which are exercisable in installments commencing one year from the date of grant and expire ten years from such date.

In 1977, outstanding options previously granted to employees of Codex Corporation and its subsidiaries pursuant to the Codex Corporation Qualified Stock Option Plan and the Codex Corporation 1975 Qualified Stock Option Plan were assumed by Motorola. All of the options currently outstanding may be exercised in installments commencing six months after the date of grant, and expire five years from such date.

Information on share options is summarized below:

	1977	1976
Options outstanding beginning of year	1,198,462	1,147,321
Additional options granted	295,765	334,770
Options exercised	(33,870)	(228,463)
Options terminated for discontinued employment	(31,266)	(49,370)
Options expired	—	(5,796)
Options outstanding end of year	1,429,091	1,198,462
Shares reserved for possible future option grants	767,912	32,411
Total shares reserved	2,197,003	1,230,873
Total options exercisable	1,114,572	837,017
Aggregate exercise price of outstanding options	$67,321,000	$54,938,000
Aggregate exercise price of exercisable options	$52,593,000	$39,106,000

In addition, 5,775 warrants to purchase common stock were exercised by employees of Codex in 1977 (10,653 in 1976).

Options exercised during 1977, including options previously granted to employees of Codex, were at per share prices of $8.57 to $46.25 ($6.93 to $52.56 in 1976). Options outstanding at December 31, 1977, were at per share prices of $9.53 to $63.75.

On January 30, 1978, the company authorized the Compensation Committee to request the mutual cancellation of certain of the company's share options previously granted, and the granting of replacement share options at 100% of market price on date of grant. Qualifying tendered share options will be replaced with share options at the rate of three shares for every four shares offered for cancellation, which are exercisable to the extent, at the times, and in the manner of the cancelled share options. Also, it is the intention of the Compensation Committee that share options for the one share out of every four shares offered for cancellation which were not regranted, will be granted to eligible employees in a new share option grant at the earliest possible date following the regrant.

XEROX CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option and Long-Term Incentive Plans—The Company has an executive long-term incentive plan approved by shareholders in 1976 under which approximately 3,700,000 shares of common stock were reserved for issue. These shares included approximately 2,000,000 shares reserved under the 1973 plan. Under the 1976 plan eligible employees may be granted incentive stock rights, non-qualified stock options, stock appreciation rights and performance unit rights.

There are outstanding non-qualified options and stock appreciation rights under prior plans. These are similar in nature to comparable awards under the 1976 plan. Options are also outstanding under merger agreements. No options were granted under plans of acquired companies subsequent to the dates of acquisition. With the adoption of the executive long-term incentive plan in 1976, no further options will be granted under prior plans.

Incentive stock rights entitle the employee to receive, without payment to the Company, shares of common stock in consideration for services performed during specified incentive periods ranging up to five years from the date of grant. The compensation expense of incentive stock rights is equivalent to the fair value of the common stock on the date of grant.

Non-qualified options are granted for the purchase of common shares at not less than 100% of the fair value of the common stock on the date of grant. Non-qualified options may be exercised within seven or ten years from the date of grant and are exercisable in installments varying from 20% to 25% per year after a specified waiting period.

Stock appreciation rights, which relate to specific non-qualified options, entitle the employee to receive, without payment to the Company, the value of the stock appreciation right in cash, shares of common stock, or a combination of the two at the Company's discretion, in lieu of exercise of the option. The value of the stock appreciation right is related to the increase in market value of the Company's common stock. Stock appreciation rights become exercisable and expire on the same dates as the related options.

Performance unit rights entitle the employee to receive the value of the performance unit in cash, shares of common stock, or a combination of the two at the Company's discretion. The value of a performance unit is determined by a formula based upon the achievement of specific performance goals. When granted in conjunction with a non-qualified stock option, payment of the performance unit right is in lieu of exercise of the option. Performance unit rights are payable at the end of a three- or five-year award period.

During 1977, 54,000 incentive units were granted (436,000 in 1976) with an average value of $51 ($54 in 1976); 15,000 incentive units were canceled in 1977 (2,000 in 1976). No incentive stock units vested in 1977 or 1976. During 1977, 40,000 performance units were granted (483,000 in 1976) with a maximum unit value of $26 in both 1977 and 1976; 22,000 performance units were canceled in 1977 (1,000 in 1976). No cash payments or distributions were made during 1977 or 1976 relating to the performance unit rights.

During 1977, 3,000 shares of common stock were issued under a management stock bonus plan of acquired company (3,000 in 1976).

A summary of option and stock appreciation right transactions under all plans during 1977 and 1976 is shown below:

	Non-Qualified Options		Stock Appreciation Rights		Qualified Options	
(Shares in thousands)	1977	1976	1977	1976	1977	1976
Outstanding at beginning of year	2,626	2,469	1,377	1,312	207	573
Granted	112	334	26	124	—	—
Canceled	(158)	(164)	(83)	(59)	(197)	(362)
Exercised	(20)	(13)	—	—	(2)	(4)
Outstanding at end of year	2,560	2,626	1,320	1,377	8	207
Initially exercisable during the year	514	453	254	244	4	42
Exercisable at end of year	1,590	1,146	842	622	4	199
Average price of outstanding options and rights	$ 88	$ 90	$110	$111	$ 21	$140
Average price of exercises						
Xerox Corporation	$ —	$ 58	$ —	$ —	$ —	$ —
Acquired companies	$ 10	$ 22	$ —	$ —	$ 17	$ 18
Average market price at dates of exercise	$ 48	$ 62	$ —	$ —	$ 48	$ 60

The number of shares issuable under outstanding options and rights is 3,039,000 because non-qualified options and rights which have been granted concurrently will be proportionately reduced in relation to the options or rights which are exercised. Compensation expense related to incentive stock, performance unit and stock appreciation rights is charged to income over periods earned and amounted to $10,653,000 in 1977 ($9,771,000 in 1976).

The number of shares available for grant of options or rights under all plans at the end of the year was: 1977—1,465,000; 1976—1,281,000; and 1975—430,000.

STOCK PURCHASE PLANS

THE BLACK AND DECKER MANUFACTURING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option and Employee Purchase Plans—Under qualified and nonqualified stock option plans, options may be granted until January 26, 1986 at not less than fair market value on the date of grants. The options are exercisable in four equal installments beginning one year from the date granted. Qualified options expire at the end of five years and nonqualified options expire at the end of ten years. At September 25, 1977, there were 1,424,670 shares of Common Stock reserved for future grants (1,611,100 shares at September 26, 1976). Transactions are summarized as follows:

	Shares Under Option	Price Range
Outstanding at September 28, 1975 (164,981 shares exercisable)	352,718	$18.51-41.33
Granted	873,502	19.88-24.13
Exercised	(4,680)	18.51
Canceled or expired	(64,002)	24.00-41.33
Outstanding at September 26, 1976 (230,627 shares exercisable)	1,157,538	19.88-41.33
Granted	338,525	16.88-19.88
Exercised	—	—
Canceled or expired	(157,711)	16.88-41.33
Outstanding at September 25, 1977 (390,001 shares exercisable)	1,338,352	16.88-41.33

Under the Employees' Stock Purchase Plan, employees may subscribe through April 1980, to common shares at 90% of the market value on the date offered or purchased, whichever is lower. As of September 25, 1977 there were 412,856 shares reserved for future subscriptions (478,773 shares at September 26, 1976).

Transactions are summarized as follows:

	Shares Under Option	Price Range
Balance September 28, 1975	55,066	$29.50
Subscriptions	75,204	21.88
Purchases	(43,664)	21.25
Cancellations	(15,319)	21.25-29.50
Balance September 26, 1976	71,227	21.88
Subscriptions	89,578	15.25
Purchases	(53,859)	15.25
Cancellations	(23,661)	15.25-21.88
Balance September 25, 1977	83,285	15.25

CHICAGO BRIDGE & IRON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Stock option and stock purchase plans—Proceeds from the sale of common stock issued under the stock option and stock purchase plans are accounted for as capital transactions. CBI makes no charges to income for these sales. The difference between the selling price and the par value of new shares issued is added to additional paid-in capital. On sales of previously reacquired stock the difference between the selling price and the cost of the reacquired shares sold is charged to retained earnings.

Note 10: Employee Stock Purchase Plans—During 1977, CBI had three employee stock purchase plans, of which two became effective in 1977 and one, adopted in 1971, expired May 31, 1977.

On April 12, 1977, the Shareholders approved the CBI Employee Stock Purchase and Savings Plan (1977) (parent plan) and the Employee Stock Purchase Plan for Participating CBI Subsidiaries (subsidiary plan). The plans expire in 1982. Under both plans, CBI will sell shares of its common stock, on January 15 and July 15 of each year, at 85% of the fair market value on those dates. These shares may be newly issued or reacquired.

Under the parent plan, effective January 1, 1977, employees may purchase a total of 400,000 common shares only through a payroll deduction savings plan.

The subsidiary plan, effective April 12, 1977, permits designated employees of participating subsidiaries to purchase a total of 50,000 common shares. Under this plan cash payment is required at time of purchase.

On July 15, 1977, employees purchased 25,843 shares at $52.59 per share. The per share fair market value on the purchase date was $61.87. All sales were from shares previously reacquired by CBI.

Under the 1971 Plan which expired, CBI granted employees rights to purchase shares of its common stock at 95% of the fair market value on the grant date. Generally, these rights could be exercised between March 1 and May 31 of the second year following the year of grant.

In 1977, employees purchased 23,203 shares at $56.76 per share under rights granted in 1975. In 1976, employees purchased 56,600 shares at $64.84 under rights granted in 1974. A total of 475,577 shares were sold under this plan. All sales were from previously reacquired shares by CBI. The average fair market value per share at date of purchase was $56.73 in 1977 and $70.00 in 1976.

DANA CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Stock Purchase Plan—All full-time domestic employees other than recipients of corporate awards under the additional compensation plan are eligible to join Dana's employee stock purchase plan. The plan provides that employees may authorize Dana to withhold up to 10% of earnings of $25,000 or less, and deposit such amounts with the plan's independent trustee. The trustee purchases, as nominee for the participants, common stock of Dana at prevailing market prices and distributes shares purchased to the participants.

In 1976, the plan was amended to provide a basis for contributions by Dana, on behalf of each participating employee, of specified percentages (20% to 50%) of participants' contributions when consolidated return on sales, as defined in the plan is 5.5% or more. Dana's contributions are included in the participants' gross wages and appropriate taxes withheld. Dana awarded each participant in the amended plan during February 1976, two shares of common stock held in treasury. Dana contributions under the amended plan which were charged to income amounted to $1,881,000 in 1977 and $1,371,000 (including the value of the two shares of common stock awarded to each participant) in 1976.

DEERE & COMPANY (OCT)

FINANCIAL REVIEW

Stock Purchase Plan—In July 1977 the Company instituted the John Deere Stock Purchase Plan for Salaried Employees. Under the plan, participating employees authorize payroll deductions of one to six percent of their earnings. The Company contributes an amount equal to 50 percent of the participating employee payroll deductions, in cash or Company shares. The payroll deductions and Company contributions are used by a designated broker to purchase Company shares, either in the open market or from the Company at prevailing market prices, for the accounts of participating employees. During 1977 the Company contributions amounted to $1.5 million, all of which were in cash.

LIGGETT GROUP INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9: Employee Stock Purchase Plan—The Employee Stock Purchase Plan was approved by the stockholders in April 1975 and expires December 31, 1984. It provides, to substantially all employees, the right to subscribe to shares of the Company's common stock on periodic offering dates at a purchase price of 85 percent of either the fair market value of the shares on the offering date or, if lower, the fair market value of the shares on the exercise date. A maximum of 400,000 shares is reserved for offerings under the Plan.

The first offering was made on October 1, 1975 and employees subscribed to 135,275 shares. During 1977 and 1976, eligible employees purchased 1,285 and 1,408 shares, respectively, and other employees withdrew subscriptions to purchase 22,182 and 15,020 shares, respectively. The remaining subscribed shares were issued during January 1978 at $22.58 per share, 85 percent of the fair market value per share on December 31, 1977.

EMPLOYEE STOCK OWNERSHIP PLANS

EDO CORPORATION (DEC)

	1977	1976
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable (note 4)	$ 2,100,000	$ —
Current installments of long-term debt	714,000	714,000
Accounts payable	3,580,130	3,422,104
Accrued liabilities	3,269,063	2,919,831
Contract advances and deposits	1,565,947	3,987,853
Federal income taxes (note 3) .	1,065,153	1,342,980
Total current liabilities .	12,294,293	12,386,768
Long-term debt, less current installments (note 4)	5,186,000	6,082,000
Employee Stock Ownership Trust obligation (note 6)	1,500,000	1,800,000
Shareholders' equity (notes 4,6,7, and 8):		
Preferred shares, par value $1 per share		
Authorized 500,000 shares; none issued	—	—
Common shares, par value $1 per share		
Authorized 3,000,000 shares; issued 1,250,805 shares	1,250,805	1,250,805
Additional paid-in capital	9,958,424	9,958,424
Retained earnings	11,335,574	9,429,123
	22,544,803	20,638,352
Less Employee Stock Ownership Trust obligation (note 6)	1,500,000	1,800,000
Total shareholders' equity	21,044,803	18,838,352
	$40,025,096	$39,107,120

Note 6: Employee Stock Ownership Plan—In 1975, the Company established an Employee Stock Ownership Plan (ESOP) to provide additional retirement benefits to substantially all employees. Contributions under the Plan amounted to $377,000 in 1977 and $300,000 in 1976. Through December 31, 1977, 243,971 EDO common shares were held by the Employee Stock Ownership Trust (ESOT), which was established to fund the ESOP. Included in this amount are the 200,982 newly issued EDO common shares purchased by the trust in 1976 with the proceeds of a $1,800,000 bank loan. The Company has guaranteed the repayment of the loan to the ESOT. Under the guarantee agreement, the Company is obligated to make contributions to the trust to enable the trust to make similar payments against the bank loan. The guarantee agreement also provides that the Company may be obligated to repay the trust loan upon the occurrence of specific prepayment events. Such events were not more restrictive than those under the Company's revolving credit agreement. The agreement requires quarterly principal payments of $75,000, plus interest at the annual rate of 110% of prime, plus at the annual rate of 110% of prime, plus 1½%. For financial statement purposes, the outstanding trust obligation has been reflected as a liability and shareholders' equity has been reduced by the same amount.

TREASURY STOCK

Chapter 1B of *Accounting Research Bulletin No. 43*, as revised by *APB Opinion No. 6*, deals with accounting for treasury stock. Table 2-36 shows that the prevalent method of presenting both common treasury stock and preferred treasury stock is to deduct treasury stock at cost from all other stockholders' equity accounts.

Examples of treasury stock presentations follow.

TABLE 2-36: TREASURY STOCK — BALANCE SHEET PRESENTATION

	1977	1976	1975	1974
Common Stock				
Cost of treasury stock deducted from total of capital stock, additional paid-in capital (if any), and retained earnings ...	349	341	357	355
Par or stated value of treasury stock deducted from issued stock of the same class	45	51	70	67
Cost of treasury stock deducted from stock of the same class	15	11	7	7
Shown as a noncurrent asset	8	9	8	9
Other	6	12	13	12
Total Presentations.............	**423**	**424**	**455**	**450**
Preferred Stock				
Cost of treasury stock deducted from total of capital stock, additional paid-in capital (if any) and retained earnings ...	29	30	45	44
Par or stated value of treasury stock deducted from issued stock of the same class	8	12	24	23
Other	1	9	3	3
Total Presentations.............	**38**	**51**	**72**	**70**
Number of Companies				
Disclosing treasury stock....	424	433	443	449
Not disclosing treasury stock	176	167	157	151
Total	**600**	**600**	**600**	**600**

Cost of Treasury Stock Deducted From Stockholders Equity

BIRD & SON, INC. (DEC)

	1977	1976
Stockholders' Equity:		
5% cumulative preferred stock, par value $100 per share, callable at $110 per share:		
Authorized and issued—15,000 shares	$ 1,500,000	$ 1,500,000
$2.75 convertible preference stock without par value, stated at $65 per share:		
Authorized and issued—150,000 shares in 1976	—	9,750,000
Common stock, without par value, stated at $0.83^1/_3$ per share:		
Authorized and issued—3,600,000 shares	3,000,000	3,000,000
Other capital	1,425,000	1,425,000
Retained earnings	100,033,000	89,099,000
	105,958,000	104,774,000
Less: Treasury stock, at cost:		
5% preferred—2,281, shares in 1977 (2,087 in 1976)	(159,000)	(147,000)
$2.75 convertible preference—150,000 shares in 1976	—	(9,750,000)
Common—495,084 shares	(4,555,000)	(4,555,000)
	$101,244,000	$90,322,000

GULTON INDUSTRIES, INC. (FEB)

	1977	1976
Stockholders' Equity:		
Cumulative Convertible Preferred Stock, par value $10 per share, issuable in series:		
Authorized 500,000 shares		
Issued 117,559 shares $2 Series A, liquidating preference $5,878,000	$ 1,176,000	$ 1,176,000
Common Stock, par value $1 per share:		
Authorized 6,000,000 shares		
Issued 2,677,082 and 2,674,946 shares	2,677,000	2,674,000
Capital in excess of par value	9,736,000	9,733,000
Retained earnings	17,393,000	15,764,000
	30,982,000	29,347,000
Less: Held in treasury — 13,039 preferred shares—at cost	506,000	506,000
Total Stockholders' Equity	$30,476,000	$28,841,000

CHICAGO BRIDGE & IRON COMPANY (DEC)

	1977	1976
Shareholders' investment:		
Common stock	$ 49,399,000	$ 49,377,000
Additional paid-in capital	4,582,000	4,405,000
Retained earnings	254,718,000	218,347,000
Cost of reacquired stock (Note 8)	(20,194,000)	(9,792,000)
Total shareholders' investment	$288,505,000	$262,337,000

Note 8: Reacquired Stock—Changes in reacquired stock in 1977 and 1976 were:

	Shares Reacquired	Cost (thousands of dollars)
Balance January 1, 1976	110,631	$ 8,752
Reacquired stock	95,205	5,926
Shares sold under the employee stock purchase plan	(56,600)	(4,886)
Balance December 31, 1976	149,236	$ 9,792
Reacquired stock	260,003	13,956
Shares sold under the employee stock purchase plans	(49,046)	(3,554)
Balance December 31, 1977	360,193	$20,194

GAF CORPORATION (DEC)

	1977	1976
Shareholders' Equity		
Preferred stock, $1 par value; authorized 6,000,000 shares; $1.20 convertible series issued—1977, 3,105,957 shares; 1976, 3,106,002 shares; at assigned value of $1.25 per share (liquidation value 1977, $83,313,000)	$ 3,883,000	$ 3,883,000
Common stock, $1 par value; authorized 25,000,000 shares; issued—1977, 13,770,010 shares; 1976, 13,770,347 shares	13,770,000	13,770,000
Additional paid-in capital	53,846,000	53,629,000
Retained earnings	263,542,000	321,935,000
Total	335,041,000	393,217,000
Less stock held in treasury, at cost:		
Common—1977, 550,207 shares; 1976, 531,599 shares	4,438,000	4,338,000
Preferred—76,400 shares in 1977 and 1976	932,000	932,000
Total Shareholders' Equity	$329,671,000	$387,947,000

STANLEY HOME PRODUCTS, INC. (DEC)

	1977	1976
Stockholders Equity (Note 6):		
Common stock (voting), par value $1—		
Authorized 1,058,310 shares		
Issued 529,155 shares......	$ 529,155	$ 529,155
Common stock non-voting, par value $1—		
Authorized 6,000,000 shares		
Issued 2,624,375 shares ...	2,624,375	2,624,375
Capital in excess of par value..	1,727,047	1,726,961
Retained earnings...............	67,591,495	62,042,600
	72,472,072	66,923,091
Less—Shares held in treasury, at cost—		
Common stock (voting), 69,393 in 1977 and 68,250 shares in 1976.	774,695	756,500
Common stock non-voting, 241,431 shares	2,446,217	2,446,217
	3,220,912	3,202,717
Total stockholders' equity................	$69,251,160	$63,720,374

KELLOGG COMPANY (DEC)

	1977	1976
	(In millions)	
Shareholders' Equity		
3½% Cumulative preferred stock, $100 par value:		
Authorized and issued 70,513 shares less 47,686 shares in treasury (74,263 less 51,159 in 1976)............	$ 2.3	$ 2.3
Common stock, $.50 par value:		
Authorized 80,000,000 shares; issued 76,389,877 shares (76,219,064 in 1976)......	38.2	38.1
Capital in excess of par value......	31.0	28.3
Retained earnings....................	473.1	420.8
Total Shareholders' Equity................	$544.6	$489.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Preferred Stock—The Company may redeem its outstanding preferred shares at a price of $101 ($100 after 1985). Each year the Company must offer to purchase 3,750 shares of preferred stock at a maximum price of $100, or apply previously acquired shares (47,686 in treasury December 31, 1977) against this requirement.

Treasury Stock Deducted From Stock of Same Class

DAN RIVER INC. (DEC)

	1977	1976
	($000)	
Stockholders' equity:		
Preferred stock of $5 par value per share.		
Authorized, 2,000,000 shares issuable in series:		
$1.10 Cumulative Convertible Series. Authorized 292,552 shares; issued and outstanding 288,115 shares (289,615 in 1976)................	$ 1,441	$ 1,448
Common stock of $5 par value per share. Authorized, 10,000,000 shares; outstanding 5,607,935 shares (5,625,435 in 1976) after deducting 44,175 shares (25,175 in 1976) held in treasury	28,040	28,127
Capital in excess of par value..	28,758	28,892
Retained earnings...............	100,272	92,988
Total stockholders' equity................	$158,511	$151,455

Treasury Stock Shown as Noncurrent Asset

DRESSER INDUSTRIES, INC. (OCT)

	1977	1976
	($ Millions)	
Investments and Other Assets		
Investments in unconsolidated subsidiaries and affiliates—Notes A and B...	$ 46.1	$ 49.2
Intangible assets of businesses acquired—Note G	58.1	25.1
Long-term receivables and investments	32.5	22.8
Common shares of the Company held for deferred compensation—at cost—Note K........................	4.0	4.2
Other assets......................	17.5	17.6
Total Investments and Other Assets	$158.2	$118.9

Note K—Deferred Compensation: A portion of the incentive compensation for officers and key employees is deferred for payment after termination of employment, either in common shares of the Company or in cash at the equivalent market value of the common shares. The accrued deferred compensation liability may be satisfied by the future issuance of authorized but unissued common shares or treasury shares. At October 31, 1977, 460,399 treasury shares have been designated for that purpose.

Section 3: Income Statement

TITLE OF INCOME STATEMENT

Table 3-1 summarizes the key word terms used in income statement titles. Examples of income statement titles follow.

Income

BOWNE & CO., INC.

Consolidated Statement of Income and Retained Earnings

DUN & BRADSTREET COMPANIES, INC.

Consolidated Statement of Income

H. J. HEINZ COMPANY

Statements of Consolidated Income and Retained Earnings

Earnings

ARMSTRONG CORK COMPANY

Consolidated Statements of Earnings

CAMPBELL SOUP COMPANY

Consolidated Statement of Earnings and Earnings Retained in the Business

CMI CORPORATION

Consolidated Statements of Earnings

GENESCO INC.

Consolidated Earnings Statement

GULTON INDUSTRIES, INC.

Consolidated Statement of Earnings

Operations

AMPEX CORPORATION

Consolidated Statement of Operations

TABLE 3-1: INCOME STATEMENT TITLE

	1977	1976	1975	1974
Income	357	369	376	386
Earnings	179	175	163	170
Operations	60	51	60	43
Other	4	5	1	1
Total Companies	**600**	**600**	**600**	**600**

ARVIN INDUSTRIES, INC.

Consolidated Statement of Operations and Retained Earnings

CATERPILLAR TRACTOR CO.

Consolidated Results of Operations

INCOME STATEMENT FORMAT

Table 3-2 shows that more survey companies used a single step income statement to summarize revenue and expense amounts than a multiple step income statement. A substantial number of income statements, both single-step and multiple-step, showed income taxes, equity in earnings or losses of investees, and minority interest as separate captions immediately preceding *net income* or *income before extraordinary item*.

TABLE 3-2: INCOME STATEMENT FORMAT

	1977	1976	1975	1974
Single-step form				
Federal income tax shown as separate last item	312	301	308	301
Federal income tax listed among operating items	59	59	59	86
Multiple-step form				
Costs and expenses deducted from sales to show operating income	101	114	133	109
Costs deducted from sales to show gross margin	128	126	100	104
Total Companies	**600**	**600**	**600**	**600**

REVENUE

Paragraph 148 of *APB Statement No. 4* defines revenue.

148. *Revenue and Realization.* Revenue is a gross increase in assets or a gross decrease in liabilities recognized and measured in conformity with generally accepted accounting principles that results from those types of profit-directed activities of an enterprise that can change owners' equity (see paragraph 134). Revenue under present generally accepted accounting principles is derived from three general activities: (a) selling products, (b) rendering services and permitting others to use enterprise resources, which result in interest, rent, royalties, fees, and the like, and (c) disposing of resources other than products—for example, plant and equipment or investments in other entities. Revenue does not include receipt of assets purchased, proceeds of borrowing, investments by owners, or adjustments of revenue of prior periods.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of revenue items.

19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph 11). The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.

26. A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction should be disclosed on the face of the income statement or, alternatively, in notes to the financial statements. Gains or losses of a similar nature that are not individually material should be aggregated. Such items should not be reported on the face of the income statement net of income taxes or in any manner inconsistent with the provisions of paragraphs 8 and 11 of this Opinion or in any other manner that may imply that they are extraordinary items. Similarly, the earnings per share effects of those items should not be disclosed on the face of the income statement.

Table 3-3 summarizes the descriptive income statement captions used by the survey companies to describe revenue derived from selling products. Sources of revenue, other than the selling of products, most frequently disclosed by the survey companies are listed in Table 3-4. Excluded from Table 3-4 are those revenue items shown after the caption for income taxes (see Table 3-16) or shown as extraordinary gains (see Table 3-17). Examples of revenue items, other than foreign currency translation gains, follow. See Translation of Foreign Currency Accounts for examples of translation gains.

TABLE 3-3: SALES—CAPTION TITLE

	1977	1976	1975	1974
Net Sales				
Net sales	380	364	375	364
Net sales and operating revenue	25	25	22	27
Net sales combined with other terms	12	21	15	17
Sales				
Sales	94	102	98	94
Sales and operating revenue	29	28	40	45
Sales combined with other terms	12	14	10	12
Other Captions				
Revenue or gross operating income	36	32	28	24
Gross sales, income, billings, shipments, etc.	12	14	12	17
Total Companies	**600**	**600**	**600**	**600**

Net Sales

ALLEGHENY LUDLUM INDUSTRIES, INC. (DEC)

	1977	1976
	(In thousands)	
Net sales	$1,002,065	$888,956
Equity in net earnings of unconsolidated subsidiaries and affiliated companies	2,080	9,866
Other income, net	5,318	3,272
	$1,009,463	$902,094

DRESSER INDUSTRIES, INC. (OCT)

	1977	1976
	(In Millions of Dollars)	
Net sales and service revenues	$2,538.8	$2,232.2
Cost of sales and services	1,658.5	1,475.8
	$ 880.3	$ 756.4

ELTRA CORPORATION (SEP)

	1977	1976
Sales and other income:		
Net sales	$922,096,470	$816,606,651
Equity in earnings of equipment leasing companies	3,404,344	2,870,099
Other income	7,328,971	7,240,280
	$932,829,785	$826,717,030

JOHNS-MANVILLE CORPORATION (DEC)

	1977	1976
	($000)	
Revenues		
Net sales	$1,461,432	$1,308,771
Interest income	7,564	3,417
Royalties and fees	5,067	5,113
Equity in earnings of associated companies	2,688	2,721
Other income, net	2,155	1,137
Total	$1,478,906	$1,321,159

PALL CORPORATION (JUL)

	1977	1976
Revenues:		
Net sales	$67,064,988	$56,259,133
Interest earned	435,557	247,555
Total Revenues	$67,500,545	$56,506,688

THE PARKER PEN COMPANY (FEB)

	1977	1976
Net sales of products and services	$348,421,537	$140,713,316
Cost of products and services sold	216,880,167	63,493,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Revenue Recognition—Revenue is recognized on sales of products at the time of shipment and on temporary help services at the time service is rendered. Initial license fees are recorded as income when received and when the licensee starts operating. Expenses associated with the issuance of license agreements are charged to expense as incurred. Continuing franchise fees from license agreements are recorded as revenue as the fees are earned.

H. H. ROBERTSON COMPANY (DEC)

	1977	1976
	($000)	
Net sales (Note 1):		
Product	$253,768	$251,336
Construction and other services	75,213	75,793
Total	$328,981	$327,129

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of accounting policies

Construction contracts—Depending on contract terms, revenue from sales of products is recognized upon passage of title, acceptance at job site, or when affixed to a building structure. Revenue from construction services is recognized generally on the completed contract basis with provision for losses on construction services in progress made at the time a contract is determined to be unprofitable.

Sales

BAKER INTERNATIONAL CORPORATION (SEP)

	1977	1976
	($000)	
Revenues:		
Sales	$532,473	$417,218
Service and rentals	176,223	135,364
	$708,696	$552,582

BELL & HOWELL COMPANY (DEC)

	1977	1976
	(in thousands)	
Revenues:		
Sales	$491,570	$437,437
Interest	1,681	2,307
Other income	994	1,834
Total revenues	$494,245	$441,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part)—Significant Accounting Policies:

Revenue Recognition—Sales of products and services are recorded based on shipment of products or performance of services. Revenues from service contracts and tuition from resident students are deferred and are recognized in earnings on a pro rata basis over the period of the service agreement or school term.

EASTMAN KODAK COMPANY (DEC)

	1977	1976
	(in thousands)	
Sales to: Customers in the United States	$3,506,979	$3,166,292
Customers outside the United States	2,460,007	2,271,878
Total sales	$5,966,986	$5,438,170

NOTES TO FINANCIAL STATEMENTS

Major Accounting Policies (in part)

Sales—The amount reported as sales represents revenue from sales of products and services, equipment rentals and other operating fees.

W. R. GRACE & CO. (DEC)

	1977	1976
	(in thousands)	
Sales and operating revenues	$3,976,233	$3,628,406
Dividends, interest and other income	16,261	19,320
	$3,992,494	$3,647,726

PITNEY-BOWES, INC. (DEC)

	1977	1976
Revenue from		
Sales	$357,391,000	$321,312,000
Rentals	166,045,000	142,460,000
Service	82,537,000	75,397,000
Total revenue	$605,973,000	$539,169,000

THE SIGNAL COMPANIES, INC. (DEC)

	1977	1976
	($000)	
Sales	$2,964,439	$2,451,639
Royalties	39,112	28,660
Interest (including $3,633 in 1977 and $2,460 in 1976 from unconsolidated companies) and other	24,109	19,815
	$3,027,660	$2,500,114

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Recognition of Income—Aerospace contract accounting—Sales and related costs under fixed-price contracts are recorded as deliveries are made. Anticipated future losses on contracts are evaluated on an overall program basis and charged to income as soon as such losses become evident. Sales and related costs under cost-reimbursable contracts are recorded as costs are incurred.

Long-term construction contracts—Sales and related costs under cost-reimbursable contracts are recorded as costs are incurred. Sales and related costs under all other contracts are deferred until completion of the contract. Anticipated losses from construction contracts are charged against income as soon as such losses become evident. Claims for supplemental contract costs, increasing revenue, are not recorded as income until they are agreed to by the customer upon completion of the contract.

Royalties—Royalty income for a paid-up license is deferred until the installment payments are due; however, where a paid-up license is sold and promissory notes are received in payment thereof, the income is recorded currently.

Leased manufactured trucks—Income from leases of manufactured trucks is recognized over the lease period under the operating method of accounting.

Finance operations—Finance fees included in the face amount of retail installment receivables and vehicle lease receivables are taken into income over the lives of the contracts under the sum-of-the-digits method. Income on floor plan receivables is recorded as earned based on the outstanding balances, and income on other simple interest bearing receivables is recorded as installments are collected.

Real estate operations—Sales are recorded at the time of escrow closings, provided the buyer has made an adequate financial commitment. Income from construction contracts is recorded under the completed contract method of accounting. Interest and property taxes are charged to income as incurred.

Revenue

THE AMERICAN SHIP BUILDING COMPANY (SEP)

	1977	1976
Revenues:		
Ship and barge construction, conversion and repair	$126,432,420	$104,236,948
Building products	25,686,666	27,056,904
	$152,119,086	$131,293,852

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Accounting for Long-Term Contracts—Revenues, costs, and profit applicable to long-term construction contracts are included in the consolidated statements of income on the labor percentage-of-completion accounting method. Contract losses are recognized, in full, in the year the loss is identified.

The performance of such contracts may extend over several years and revisions in the contract estimates during performance and upon final contract settlements have the effect of including in subsequent accounting periods adjustments necessary to reflect the results of these revised estimates and final contract settlements.

TWENTIETH CENTURY-FOX FILM CORPORATION (DEC)

	1977	1976
	($000)	
Revenues:		
Operating revenues	$501,479	$351,474
Interest and non-operating income (note 17)	5,277	3,564
	$506,756	$355,038

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Revenue Recognition—Revenues from theatrical exhibition of feature films are recorded as of the dates of exhibition.

Revenues and related expenses from all television licensing agreements are recorded as of the date the film is contractually available for telecasting by the licensee.

Interest Income

AMERICAN STANDARD INC. (DEC)

	1977	1976
	(Dollars in thousands)	
Income from operations	$176,702	$145,612
Net foreign exchange loss	(6,307)	(1,468)
Other income	17,392	16,569
Interest expense	(24,597)	(22,588)
	(13,512)	(7,487)
Income before taxes on income and extraordinary credits	$163,190	$138,125

NOTES TO FINANCIAL STATEMENTS

Note 4: Other Income—Other income was as follows:

	1977	1976
	(Dollars in millions)	
Dividends	$ .8	$ 1.5
Interest income	9.7	10.1
Royalties	3.4	3.3
Equity in net income of American Standard Credit Inc.	1.5	1.4
Other	2.0	.3
	$17.4	$16.6

INTERNATIONAL PAPER COMPANY (DEC)

	1977	1976
	($millions)	
Income		
Net sales	$3,668.9	$3,540.6
Other income, net (Note 8)	47.9	40.9
Total Income	$3,716.8	$3,581.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Other Income, Net—The components of other income follow:

In millions	1977	1976
Interest income	$19.5	$18.8
Equity in earnings of affiliates	12.4	9.3
Sale of capital assets[1]	10.1	5.5
Foreign currency exchange	(6.7)	(1.1)
Sale of warrant[2]	4.3	—
Miscellaneous	8.3	8.4
Total	$47.9	$40.9

[1]In 1977 includes the expense of charitable contributions of appreciated properties net of the gain of substantially an equal amount recognized on the appreciation of these properties.

[2]During 1977, the Company sold a warrant to purchase a 49 percent interest in the Donald L. Bren Company.

TABLE 3-4: OTHER REVENUE

	Number of Companies			
	1977	1976	1975	1974
Interest	182	192	T69	197
Equity in earnings of investees	106	103	82	104
Gains on dispositions of assets	63	47	49	45
Royalties	43	49	48	58
Dividends	40	56	60	71
Rentals	19	N/C	N/C	N/C
Translation adjustments	16	37	17	10

N/C — Not Compiled.

TECUMSEH PRODUCTS COMPANY (DEC)

	1977	1976
Other income and (deductions):		
Foreign engineering fees	$5,052,264	$3,503,133
Interest income	4,283,333	4,103,185
Other—net	(419,837)	(107,701)
	$8,915,760	$7,498,617

Royalty Income

BIRD & SON, INC. (DEC)

	1977	1976
Earnings from operations	$32,626,000	$30,972,000
Other income (charges):		
Interest expense	(460,000)	(331,000)
Interest income	105,000	253,000
Royalties	1,066,000	1,155,000
	711,000	1,077,000
Earnings before income taxes	$33,337,000	$32,049,000

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION (DEC)

	1977	1976
	($000)	
Revenues:		
Net Sales	$460,108	$443,221
Royalties and other income	10,340	7,157
	$470,448	$450,378

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part) Summary of Accounting Policies: Accounting policies of the Company and its subsidiaries conform with generally accepted accounting principles and reflect practices appropriate to the businesses in which they operate. The significant policies are summarized below.

Royalty Income—The Company owns certain patents related to the processes of manufacturing semiconductor devices and the resulting structures. Licenses to use these patented processes and structures and other technical knowledge of the Company have been granted to a number of companies. Royalty income is based upon either a percentage of sales of licensed products or a fixed schedule of payments. Royalties are included in income in the period that payments are scheduled to be received. Substantially all of the Company's royalty income is derived from semiconductor license agreements under which payments will terminate at the end of 1979.

Rental Income

CONTROL DATA CORPORATION (DEC)

	1977	1976
	(Dollars in thousands)	
Revenue		
Sales revenue	$ 716,543	$ 663,810
Rental and services revenue	776,810	667,202
Other income	19,522	27,247
Total revenue	$1,512,875	$1,358,259

ACCOUNTING POLICIES

Lease revenues and lease costs—Noncancellable long-term lease contracts which qualify as sales-type leases in accordance with Financial Accounting Standards Board Statement No. 13, "Accounting for Leases," are accounted for as outright sales at the discounted present value of rentals to be collected. The related cost of the leased equipment, plus a provision for other costs to be incurred over the lease period, is charged to cost of sales. Other lease contracts are accounted for as operating leases and rentals are included in rental revenue over the terms of the leases.

Allocated portions of certain marketing expenses related to the acquisition of operating leases are deferred for amortization over a three-year period. Unamortized deferred marketing expenses related to leases cancelled or converted to sale prior to expiration of the three-year period are charged to cost of sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note O (in part): Leases—In November 1976, the Financial Accounting Standards Board issued Statement No. 13 "Accounting for Leases." The statement is effective for lease agreements entered into on or after January 1, 1977.

Leasing Arrangements with Company as Lessor—The company leases computer equipment under agreements with terms ranging from one to seven years. All leases entered into prior to 1977 have been accounted for under the operating method or as leases equivalent to sales in accordance with Accounting Principles Board Opinions Nos. 7 and 27. If these leases had been accounted for in accordance with Statement No. 13 the effect on stockholders' equity at December 31, 1977 and 1976 and on net income for the year ended December 31, 1977 would not have been material.

The company's cost of equipment on operating leases, excluding cost of equipment under sales-type leases at December 31, 1977, was $442,085,000 less accumulated depreciation of $253,388,000.

The net investment in sales-type leases as of December 31, 1977 was as follows:

	(Dollars in Thousands)
Total minimum lease payments receivable	$63,165
Estimated residual value of equipment	11
Less unearned income	(6,745)
Net investment in sales-type leases	$56,431

Minimum lease payments, including amounts representing executory costs and any related profit, to be received in each of the next five years under the above lease agreements are as follows:

	(Dollars in thousands)	
	Sales-Type Leases	Operating Leases
1978	$24,683	$167,976
1979	17,793	119,428
1980	10,274	78,392
1981	7,380	43,535
1982	2,022	16,409
Later years	1,013	
	$63,165	$425,740

Income in 1977 was charged with initial direct costs, primarily sales commissions and related administrative expenses, incurred in negotiating and consummating sales-type leases. In accordance with Statement No. 13, initial direct costs associated with negotiation and consummation of operating leases have been deferred and allocated over the average lease period in proportion to the recognition of rental income.

HONEYWELL INC. (DEC)

	1977	1976
	($000)	
Revenue and Other Income		
Sales	$2,312,648	$1,973,182
Computer rental and service revenue	598,445	522,113
Total revenue	$2,911,093	$2,495,295

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands)

Note 1 (in part): Accounting Policies

Revenue—Revenue from sales of manufactured products is recognized upon passage of title to the customer which generally coincides with physical delivery or acceptance. Revenue under cost reimbursement type contracts is recorded as cost is incurred and includes applicable fees. Revenue from long-term engineering and construction contracts is recognized on the percentage-of-completion basis.

Most lease agreements involving computer equipment are accounted for under the operating method and the rentals under such leases are included in rental revenue as earned over the term of the lease, normally one to five years in duration. Future rentals under operating lease contracts sold to nonconsolidated finance subsidiaries are credited to obligation for rental contracts conveyed (formerly entitled deferred rental income) and included in rental revenue when earned. Sales-type lease contracts and installment sales contracts, normally five years in duration, are accounted for as sales.

Note 7: Leasing Arrangements—As Lessor—Receivables from sales-types lease contracts for computer equipment are as follows:

	1977	1976
Total minimum lease payments to be received	$71,429	$61,564
Less: unearned income	(18,254)	(14,945)
Allowance for doubtful accounts	(758)	(684)
Net investment in sales-type leases	$52,517	$45,935

Executory costs (insurance and property taxes) are not material.

The net investment in sales-type leases included in current receivables was $10,202 and $9,317 in 1977 and 1976, respectively. The remainder is included in long-term receivables.

Minimum future rentals to be received as of December 31, 1977 under noncancellable leases for computer equipment are as follows:

	Sales-Type Leases	Operating Leases
1978	$ 59,212	$279,493
1979	54,645	184,212
1980	45,386	135,670
1981	37,956	83,266
1982	28,116	41,823
1983 and beyond	35,453	6,771
	260,768	731,235
Less amounts sold to nonconsolidated finance subsidiaries	(189,239)	(120,159)
Total	$ 71,529	$611,076

In addition to the above amounts, contingent rentals may be received based on hourly equipment usage exceeding the maximum allowed under certain lease agreements. Contingent rentals included in revenue for operating leases amounted to $8,595 in 1977 and $9,153 in 1976.

Gain From Sale of Assets

ALCO STANDARD CORPORATION (SEP)

	1977	1976
Income from operations	$66,235,380	$59,076,913
Gain on sale of Canadian coal properties (Note 2)	9,723,662	
Income before taxes	75,959,042	59,076,913
Taxes on income	32,093,000	26,050,000
Net income	$43,866,042	$33,026,913

Note 2: Acquisitions and Divestitures—During 1977 the Company made acquisitions in new businesses and market extensions for approximately $28,000,000 in cash, notes and common stock. During 1976 one company was acquired for $7,000,000. These acquisitions are accounted for as purchases and the consolidated financial statements include the results of their operations from the dates of acquisition. The pro forma results of operations, assuming that the 1977 acquisitions were made on October 1, 1975, are as follows:

	Fiscal Year Ended September 30	
	1977	1976
Total revenues	$1,326,290,000	$1,175,300,000
Net income	45,927,000	36,345,000
Primary earnings per share	4.26	3.24

In 1977 the Company sold at a net gain of $6,730,000 ($.65 per share) a 20% interest in Canadian coal properties for $3,000,000 in cash and long-term notes having a then present value of $8,259,000. The Company anticipates selling its remaining 16.75% interest for approximately $10,400,000 in interest-bearing notes. During the two year period, the Company also divested itself of certain operations which in the aggregate were not material to the consolidated results of operations.

AMAX INC. (DEC)

	1977	1976
	($000)	
Earnings from operations	$169,300	$159,240
Gain on sale of Canadian potash assets (Note 2)	61,960	—
Provision for loss on African investments	(125,000)	—
Equity in earnings of Alumax Inc. (after Alumax taxes on income of $17,770 and $13,910)	20,140	15,030
Interest expense, net	(60,730)	(20,890)
Other income, net	6,120	3,180
Earnings before income taxes	$ 71,790	$156,560

NOTES TO FINANCIAL STATEMENTS

Note 2: Gain on Sale of Canadian Potash Assets—In December 1977, AMAX sold its Canadian potash assets for $77,350. The sale resulted in a gain of $30,960 ($.96) per share) after applicable income taxes of $31,000.

THE GREYHOUND CORPORATION (DEC)

	1977	1976
	($000)	
Income Before Unusual Items and Income Taxes	$103,871	$109,003
Unusual Items (Note A):		
Gain on sale of pharmaceutical business	24,783	
Provision for food plant closing and relocation costs	(19,700)	
Income Before Income Taxes	$108,954	$109,003

Note A (in part): Acquisitions and Other Changes in 1977 Operations:

On November 10, 1977, Armour sold its pharmaceutical business for $87,342,000, resulting in a gain on the sale of $24,783,000 ($12,271,000 after income taxes) after write-off of $4,000,000 of the Dial intangible attributable thereto. Revenues attributable to the business sold were approximately $73,000,000 in 1977 and $84,000,000 in 1976.

In addition, in late 1977, Armour announced the closing of two livestock slaughtering plants and the relocation of certain food processing operations. The estimated cost of the plant closings and relocation of $19,700,000 ($9,713,000 after income taxes), charged to income in 1977, includes $1,070,000 for the estimated loss on the facilities to be closed, $4,644,000 for separation pay and $13,986,000 for the present value of pension benefits and insurance costs applicable to the employees resultantly terminated.

The after-tax gain on the sale of the pharmaceutical businss is 28 cents per share and the after-tax provision for plant closing and relocation costs is 22 cents per share.

SULLAIR CORPORATION (DEC)

	1977	1976
Income from operations	$ 9,714,098	$4,533,576
Interest Expense	(1,718,132)	(1,385,825)
Gain on Sale of Equity Interest in Subsidiary (Note 1)	2,004,587	—
Income before Federal income taxes	$10,000,553	$3,147,751

Note 1 (in part): Principles of Consolidation—The accompanying consolidated financial statements include the accounts of Sullair Corporation and its majority-owned subsidiaries. All significant inter-company transactions have been eliminated in consolidation.

In December, 1977 Sullair Corporation sold 47% of its equity in Sullair Europe Corporation. The sale reduced Sullair's equity interest in Sullair Europe Corporation to 43%. Since Sullair no longer owns a majority of the stock of Sullair Europe Corporation, its investment is now accounted for by the equity method. All prior period financial statements have been restated to reflect this change. This restatement has no effect on prior period earnings or earnings per share. This sale resulted in an after tax gain of $1,566,000 or $1.08 per share.

THE SUPERIOR OIL COMPANY (DEC)

	1977	1976
Other Income (Expense)		
Dividends and miscellaneous income	$9,001,000	$9,505,000
Gain on sale of 949,072 shares of Texaco stock (Note 2)	9,325,000	—
Equity in earnings (losses) of affiliated companies (note 2)	(9,953,000)	4,199,000
Interest expense	(7,452,000)	(10,045,000)
	$ 921,000	$ 3,659,000

Note 2 (in part): Investments

Marketable Securities—A summary of the Company's marketable securities is set forth below (in thousands of dollars).

	December 31, 1977		December 31, 1976	
	Market	Cost	Market	Cost
Texaco Inc. (949,072 shares in 1976)	—	—	26,337	16,155
Other	24,043	22,946	28,809	27,053
	24,043	22,946	55,146	43,208

At December 31, 1977 and 1976, the gross unrealized gains of all marketable securities were $6,221,000 and $17,237,000, respectively, and the gross unrealized losses were $5,124,000 and $5,299,000, respectively. The net realized gains included in the consolidated statements of income were $7,342,000 in 1977 and $376,000 in 1976. The cost of securities sold was determined on a specific share basis.

Finance Charge Revenue

SEARS, ROEBUCK AND CO. (JAN)

	1978	1977
	($000)	
Net sales (including finance charge revenues—Note 5)	$17,224,033	$14,950,208
Cost of sales, buying and occupancy expenses	11,172,965	9,399,491
Selling and administrative expenses	4,839,653	4,293,933
Operating income from sales and services	$ 1,211,415	$ 1,256,784

Note 5: Credit operations—Installment accounts (easy payment) will be replaced by SearsCharge (a revolving charge plan) over the next several years. To state income more appropriately during the phase-out period of the installment accounts and the expansion of SearsCharge accounts, the company, effective February 1, 1977, has changed its estimation method for (a) amortizing unearned finance charges related to easy payment accounts, using actual contract lives rather than weighted average contract lives and, (b) computing its allowance for uncollectible customer receivables, incorporating an updated computer model for projecting probable losses in the collection process. The first change in estimate had the effect of reducing income by

$35 million and the second change caused an increase in income of $31 million in 1977. The two changes reduced 1977 net income by less than $.01 per share.

Details of finance charge revenues and credit costs are presented in conformity with industry standards, and exclude the adjustments resulting from the changes in estimates discussed above. Pro forma interest was computed on average installment receivables less applicable net deferred taxes.

	Year Ended January 31	
(millions)	1978	1977
Finance charge revenues (included in net sales)		
Revolving charge accounts	$529	$428
Easy payment accounts	292	300
	$821	$728
Credit sales expense, including expenses in stores	$450	$406
Provision for uncollectible accounts	59	55
Pro forma interest (at percentage rates below)	306	244
Income taxes	3	11
	$818	$716
Income over expenses	$ 3	$ 12
Average cost of funds borrowed	6.3%	5.9%

EXPENSES

Paragraph 154 of *APB Statement No. 4* defines expenses.

154. *Expense Recognition.* Expenses are gross decreases in assets or gross increases in liabilities recognized and measured in conformity with generally accepted accounting principles that result from those types of profit-directed activities of an enterprise that can change owners' equity (see paragraph 134). Important classes of expenses are (1) cost of assets used to produce revenue (for example, cost of goods sold, selling and administrative expenses, and interest expense), (2) expenses from non-reciprocal transfers and casualties (for example, taxes, fires and theft), (3) costs of assets other than products (for example, plant and equipment or investments in other companies) disposed of, (4) costs incurred in unsuccessful efforts, and (5) declines in market prices of inventories held for sale. Expenses do not include repayments of borrowing, expenditures to acquire assets, distributions to owners (including acquisition of treasury stock), or adjustments of expenses of prior periods.

Paragraphs 19 and 26 of *APB Opinion No. 30* comment on the presentation and disclosure of expenses.

19. Judgment is required to segregate in the income statement the effects of events or transactions that are extraordinary items (as required by paragraph 11). The Board concludes that an event or transaction should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion.

TABLE 3-5: COST OF GOODS SOLD

	1977	1976	1975	1974
Single Amount				
Cost of sales	217	220	243	207
Cost of goods sold	181	180	179	216
Cost of products sold	127	122	124	120
Elements of cost	19	13	14	15
Other captions	37	43	27	24
	581	**578**	**587**	**582**
More Than One Amount	**19**	**22**	**13**	**18**
Total Companies	**600**	**600**	**600**	**600**

26. A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction should be disclosed on the face of the income statement or, alternatively, in notes to the financial statements. Gains or losses of a similar nature that are not individually material should be aggregated. Such items should not be reported on the face of the income statement net of income taxes or in any manner inconsistent with the provisions of paragraphs 8 and 11 of this Opinion or in any other manner that may imply that they are extraordinary items. Similarly, the earnings per share effects of those items should not be disclosed on the face of the income statement.

Table 3-5 reveals that most of the survey companies show a single caption and amount for cost of goods sold. Tables 3-6 and 3-7 summarize the nature of expenses, other than cost of goods sold, and losses most frequently disclosed by the survey companies. Excluded from Tables 3-6 and 3-7 are rent (Table 2-27), employee benefits (Tables 3-8 and 3-9), depreciation (Table 3-10), income taxes (Table 3-11), expenses or losses shown after the caption for income taxes (Table 3-16), and extraordinary losses (Table 3-17). Examples of expenses and losses summarized in Tables 3-6 and 3-7, other than foreign translation losses, follow. See Translation of Foreign Currency Accounts for examples of translation losses.

Cost of Goods Sold

BAUSCH & LOMB INCORPORATED (DEC)

	1977	1976
Costs and Expenses:		
Cost of products sold	$180,571,000	$177,370,000
Depreciation of properties	8,145,000	7,429,000
Research and development	11,635,000	10,730,000
Selling, administrative and general	120,610,000	107,488,000
Interest	7,591,000	6,660,000
Federal, foreign and other taxes on income	24,310,000	18,608,000
	$352,862,000	$328,285,000

CENTRONICS DATA COMPUTER CORP. (JUN)

	1977	1976
Cost and expenses:		
Cost of sales	$29,652,375	$29,109,713
Selling	3,921,028	3,548,564
General and administrative	4,088,541	2,461,353
Research and product development	3,461,409	2,849,530
Depreciation on leased equipment	63,687	41,578
Interest	218,254	538,960
Write-off of accounts receivable due from former European distributors	—	1,798,320
	$41,585,294	$40,348,018

COPPERWELD CORPORATION (DEC)

	1977	1976
	($000)	
Cost and Expenses:		
Cost of products sold	$286,957	$238,067
Selling and administrative	28,040	21,926
Depreciation	6,429	4,875
Interest expense:		
Long-term debt	4,334	1,325
Other	200	483
Total	$325,960	$266,676

CUMMINS ENGINE COMPANY, INC. (DEC)

	1977	1976
	($000)	
Net sales	$1,263,814	$1,030,532
Cost of goods sold	853,316	698,235
Gross profit on sales	$ 410,498	$ 332,297

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

	1977	1976
	($000)	
Sales	$7,235,854	$6,537,897
Cost of merchandise sold	5,770,698	5,260,844
Gross margin	$1,465,156	$1,277,053

HUDSON PULP & PAPER CORP. (DEC)

	1977	1976
Costs and expenses:		
Cost of goods sold	$149,056,407	$127,229,236
Selling, distributing, general and administrative	28,256,484	23,850,045
Interest	6,523,952	1,637,729
Other deductions	349,552	1,471,957
Federal income taxes/(credit):		
Current	(5,400,000)	(3,680,000)
Deferred	2,400,000	580,000
	$181,186,395	$151,088,967

NOTES TO FINANCIAL STATEMENTS

Other Comments (in part)

(1) As part of the Company's pulp making process, a spent cooking liquid called "black liquor" is generated. This liquor has both fuel and chemical values which can be recovered by burning in a recovery boiler. In recent years, the Company produced, in increasing quantities, more black liquor than it had been able to recover and accordingly re-enter into the process because of the Company's old, inefficient recovery boilers.

As at December 31, 1976, the Company carried as an asset only the value of that quantity of black liquor (which approximated 34% of the total black liquor on hand at such date) which management estimated would be recovered and reentered into the process during the ensuing year. The major component of the Company's Air Quality Improvement and Expansion Program (which was operational near the end of December 1976) was a new recovery boiler, having greater chemical recovery capacity. Based upon actual results experienced during 1977, it became apparent that the new recovery boiler would enable the Company to recover during 1977 all of the black liquor currently being produced as well as virtually all the black liquor on hand. As a result of the foregoing, during 1977, cost of goods sold was decreased by approximately $1,580,000 as a result of using black liquor in production.

MEDUSA CORPORATION (DEC)

	1977	1976
Costs and expenses:		
Cost of products sold	$198,104,000	$165,802,000
Selling and administrative	16,662,000	14,865,000
Interest	3,859,000	3,606,000
Other expenses	1,596,000	2,237,000
Loss on sale of assets of a subsidiary	0	1,677,000
	$220,221,000	$188,187,000

MELVILLE CORPORATION (DEC)

	1977	1976
Net sales	$1,473,586,522	$1,228,175,603
Cost of goods sold, buying and warehousing costs	867,167,420	723,220,884
	$ 606,419,102	$ 504,954,719

MONSANTO COMPANY (DEC)

	1977	1976
Net Sales	$4,594.5	$4,270.2
Cost of Goods Sold	3,409.7	3,096.8
Marketing and Administrative Expenses	399.6	350.7
Technological Expenses	175.5	154.9
	3,984.8	3,602.4
Operating Income	$ 609.7	$ 667.8

NORTHROP CORPORATION (DEC)

	1977	1976
Net sales	$1,601,374,000	$1,265,009,000
Cost of sales, including administrative and general expenses	1,485,210,000	1,173,569,000
Operating margin	$ 116,164,000	$ 91,440,000

REEVES BROTHERS, INC. (JUN)

	1977	1976
Net sales	$272,433,697	$238,579,901
Cost of sales	227,544,011	197,419,883
Gross profit on sales	$ 44,889,686	$ 41,160,018

REPUBLIC STEEL CORPORATION (DEC)

	1977	1976
	($000)	
Costs and expenses:		
Manufacturing cost of products sold	$2,482,060	$2,155,013
Pension expense	86,064	83,784
Administrative and selling expenses	95,505	89,069
Depreciation and depletion	94,417	87,982
Interest and other debt expense	33,798	27,652
Sundry other deductions	2,113	1,192
Taxes:		
Income taxes (credit)	$ 500	$ (24,800)
Other taxes	96,215	84,840
Total taxes	$ 96,715	$ 60,040
	$2,890,672	$2,504,732

STERNDENT CORPORATION (DEC)

	1977	1976
Costs and Expenses		
Costs of goods sold (Note 3)	$132,627,633	$110,993,449
Selling, general and administrative	21,251,722	18,651,114
Interest	3,989,376	1,677,042
Minority interest	357,004	—
	$158,225,735	$131,321,605

Note 3: Inventories—For domestic inventories of gold and silver stated on the last-in, first-out (LIFO) basis, the current replacement cost exceeds LIFO value by $13,900,000 and $13,100,000 at December 31, 1977 and 1976, respectively.

A substantial portion of the Company's gold and silver inventories owned at year-ends 1976 and 1975 were sold early in 1977 and 1976 and repurchased at various times during the respective years. In 1977, the repurchase price was approximately $1,890,000 higher than the selling price. These excess costs were offset by a reduction of inventory quantities, which resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with current costs. As a result of these offsetting transactions, there was no impact on cost of goods sold in 1977. In 1976, cost of goods sold had been reduced by approximately $300,000 representing the profit derived on repurchasing such inventories at prices lower than the prior selling prices.

Expenses Incurred to Produce Revenue

THE CONTINENTAL GROUP, INC. (DEC)

	1977	1976
	($ millions)	
Costs and Expenses		
Cost of goods sold and operating expenses	$3,198.5	$2,982.2
Selling and administrative	214.8	191.8
Research and development	37.7	40.3
Foreign exchange loss	13.4	11.4
Interest	36.1	34.7
	$3,500.5	$3,260.4

HERSHEY FOODS CORPORATION (DEC)

	1977	1976
Costs and Expenses:		
Cost of goods sold	$453,960,322	$383,663,981
Selling, administrative and general	109,585,083	93,503,079
Shipping	28,816,271	27,649,942
Depreciation	7,994,778	7,538,977
Interest expense (income)—net	(509,263)	356,397
Total costs and expenses	$599,847,191	$512,712,376

TABLE 3-6: EXPENSES INCURRED TO PRODUCE REVENUE

	Number of Companies			
	1977	1976	1975	1974
Selling, general and administrative	323	316	332	329
Selling and administrative or general	181	172	178	183
General and/or administrative	71	82	54	55
Selling	29	30	30	31
Interest	557	543	535	539
Research, development, engineering, etc.	135	133	123	115
Advertising	34	35	34	33
Maintenance and repairs	34	24	12	10
Exploration, dry holes, abandonments:	22	20	25	20
Bad debts	8	12	9	9

TABLE 3-7: OTHER EXPENSES

	Number of Companies			
	1977	1976	1975	1974
Taxes other than income taxes	70	60	52	53
Translation losses	56	59	24	15
Minority interest	37	44	51	51
Losses on dispositions of assets	30	23	N/C	26
Write-down of assets	19	17	N/C	N/C
Equity in losses of investees	15	15	18	15

N/C — Not Compiled.

HONEYWELL INC. (DEC)

	1977	1976
	($000)	
Costs and Expenses		
Cost of revenue	$1,869,639	$1,637,398
Research and development	152,331	125,552
Selling, general and administrative	636,393	560,796
Interest-net (includes interest charges: 1977, $38,777; 1976, $37,593)	23,968	24,939
Total	$2,682,331	$2,348,685

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands)

Note 4: Interest-Net
Interest-net consists of the following:

	1977	1976
Interest charges	$38,777	$37,593
Fees paid to nonconsolidated finance subsidiaries	29,413	28,052
Income before income taxes of nonconsolidated finance subsidiaries	(15,423)	(14,280)
Interest income	(28,799)	(26,426)
Total	$23,968	$24,939

INTERLAKE, INC. (DEC)

	1977	1976
	($000)	
Costs and Expenses:		
Cost of products sold	$604,064	$526,358
Depreciation, depletion and amortization	21,058	20,960
Selling and administrative expenses	82,466	77,907
State, local and miscellaneous taxes	22,594	20,928
Interest expense	8,592	8,932
	$738,774	$655,085

JOY MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Costs and Expenses (Note 14)		
Cost of sales	$476,296	$441,148
Product engineering (Note 13)	18,206	15,388
Selling, general and administrative	86,869	75,321
Interest	7,444	7,369
Translation and exchange (gains) losses—net	(549)	3,310
Other costs and expenses	4,082	1,304
Total Costs and Expenses	$592,348	$543,840

Note 13: Product Engineering—Research and development costs, as defined by Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs," amounted to $7,392,000 in fiscal 1977 and $10,052,000 in fiscal 1976. However, the product engineering activity at JOY requires substantial additional expenditures not defined as research and development to maintain product quality and meet existing and future customer needs. Total engineering expenditures including research and development but excluding specific customer required modification engineering were $18,206,000 in fiscal 1977 and $15,388,000 in fiscal 1976.

Note 14: Supplementary Income Statement Information—The following amounts were charged to costs and expenses:

	1977	1976
	(In Thousands of Dollars)	
Maintenance and repairs	$13,385	$11,683
Depreciation and amortization of property, plant and equipment	12,314	11,187
Payroll taxes	11,996	9,547
Rent	8,810	7,751

ELI LILLY AND COMPANY (DEC)

	1977	1976
Costs and Expenses		
Manufacturing costs of products sold	$ 571,737,000	$ 525,432,000
Research and development	124,608,000	113,988,000
Marketing	257,096,000	227,035,000
Shipping	39,605,000	35,548,000
General administrative	135,766,000	119,334,000
Foreign exchange losses (gains)	10,129,000	(644,000)
Interest	17,046,000	20,058,000
Other deductions	11,155,000	11,009,000
	$1,167,142,000	$1,051,760,000

MARRIOTT CORPORATION (JUL)

	1977	1976
Costs and Expenses		
Cost of sales and operating expenses	$736,147,000	$645,086,000
Administrative and general expenses	41,081,000	35,023,000
Rent	38,075,000	34,146,000
Depreciation and amortization of property and equipment	43,545,000	36,119,000
Taxes—payroll, real estate and other	42,736,000	35,929,000
Interest cost	27,946,000	31,187,000
Less interest capitalized	(1,938,000)	(10,432,000)
Advertising and sales promotion expenses	25,547,000	20,816,000
Pre-opening and development expenses	4,694,000	6,183,000
Profit sharing retirement contributions	5,291,000	4,582,000
	$963,124,000	$838,639,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Capitalized Interest—Interest cost is capitalized as part of construction costs or carrying costs of land to properly reflect the total costs of property. Interest is capitalized by applying the effective interest rate on the related borrowings to costs incurred. If all interest had been expensed when incurred, net income as reported would have been increased by $213,000 ($.01 per share) in 1977 and reduced by $4,375,000 ($.12 per share) in 1976.

MARSHALL FIELD & COMPANY (JAN)

	1978	1977
Cost of goods sold and expenses, exclusive of items listed below	$556,540,406	$513,677,584
Advertising	23,261,700	21,340,219
Taxes other than income taxes	21,142,126	20,079,134
Depreciation (note 1c)	10,473,817	9,877,396
Maintenance and repairs (note 1c)	8,041,163	7,520,337
Rentals paid	5,859,320	5,812,079
Interest expense, net	2,831,399	2,196,339
Total costs	$628,149,931	$580,503,088

Note 1 (in part): Summary of Significant Accounting Policies

c. Property and Depreciation—Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment for financial reporting purposes. Accelerated depreciation is used for income tax purposes. Maintainence, repairs and minor renewals are charged to expense as incurred. Significant replacements, betterments and major renewals are capitalized. The cost and accumulated depreciation of fully depreciated equipment are removed from the accounts. Gain or loss is recognized upon sale or other disposition of real estate or major units of equipment.

PEPSICO , INC. (DEC)

	1977	1976
	($000)	
Costs and Expenses		
Cost of sales	$1,502,163	$1,327,454
Cost of other operating revenues	344,273	284,050
Marketing, administrative and other expenses	1,343,203	1,119,341
Interest expense	42,091	41,439
Interest income	(23,222)	(23,865)
	$3,208,508	$2,748,419

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies:

Marketing Costs—Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

PHILIP MORRIS INCORPORATED (DEC)

	1977	1976
Operating income of operating companies	$782,732,000	$634,539,000
Corporate expense	38,523,000	35,229,000
Interest expense (excluding interest capitalized of $7,163,000 in 1977 and $6,424,000 in 1976)	101,584,000	102,834,000
Currency translation and hedging costs, net	11,633,000	15,520,000
Other deductions, net	5,476,000	9,028,000
Earnings before income taxes	$625,516,000	$471,928,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capitalized Interest—The effect of the policy to capitalize interest relating to major facilities was an increase in pre-tax income of $513,000 in 1977 and $643,000 in 1976; the effect relating to real estate operations was an increase in pre-tax income of $2,037,000 in 1977 and $1,959,000 in 1976. The combined effect on net income was an increase of $1,228,000 in 1977 and $1,257,000 in 1976.

RAYTHEON COMPANY (DEC)

	1977	1976
	($000)	
Cost of sales	$2,342,042	$2,058,830
Administrative and selling expenses	250,987	218,982
Research and development expenses (note A)	51,680	46,877
Interest expense	14,481	11,236
Interest income	(41,495)	(22,189)
Other income—net	(1,210)	(3,161)
Total costs and expenses	$2,616,485	$2,310,575

Note A (in part): Accounting Policies

Research and Development Expenses—Research and development expenditures for company-sponsored projects are expensed as incurred.

UNION OIL COMPANY OF CALIFORNIA (DEC)

	1977	1976
Costs and other deductions		
Cost of products sold and operating expense (Note 15)	$4,152,001,000	$3,962,713,000
Selling, administrative and general expense	268,333,000	262,832,000
Depletion and depreciation	308,155,000	279,238,000
Amortization of nonproductive acreage costs	51,100,000	100,300,000
Provision for dry hole losses	96,600,000	104,700,000
Interest expense	78,111,000	67,940,000
Excise, property and other operating taxes (Note 14)	536,827,000	522,648,000
Earnings applicable to minority interests	2,109,000	3,689,000
Total costs and other deductions	$5,493,236,000	$5,304,060,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (in part)

Amortization of Nonproductive Acreage Costs—Acquisition costs of exploratory acreage are capitalized. Full amortization of the nonproductive portion of such costs is provided over the shorter of the exploratory period or the lease holding period. Costs of successful leases are transferred to productive properties and depleted. Geophysical costs are capitalized and the portion applicable to acreage acquired is amortized in the same manner as the acquisition cost. The portion not related to acreage acquired is fully amortized currently. Leasehold rentals are charged to income as incurred.

Provision for Dry Hole Losses—The costs of drilling and equipping exploratory and development wells are capitalized. Dry holes are fully provided for currently.

Minority Interest

CURTISS-WRIGHT CORPORATION (DEC)

	1977	1976
Costs and expenses:		
Product and engineering	$235,819,000	$267,270,000
Selling and service	22,921,000	21,755,000
Administrative and general	21,028,000	22,221,000
Research and development	6,144,000	4,630,000
Interest	885,000	712,000
Minority interest in net earnings of subsidiaries	2,813,000	3,573,000
Equity in net (earnings) loss of affiliates	379,000	(119,000)
	$289,989,000	$320,042,000

FAIRCHILD INDUSTRIES, INC. (DEC)

	1977	1976
Cost and Expenses:		
Cost of sales	$340,285,596	$223,414,955
Depreciation and amortization	6,848,614	6,222,517
General, administrative, marketing and development	33,379,964	27,099,611
Interest	3,452,760	3,105,333
Other costs and expenses	128,161	183,818
Minority interest in earnings of Swearingen Aviation Corporation	179,580	—
	$384,274,675	$260,026,234

Estimated Losses On Disposal Of Assets

BELDING HEMINWAY COMPANY, INC. (DEC)

	1977	1976
Net sales	$108,037,000	$106,314,000
Cost of sales	75,374,000	72,163,000
Gross profit on sales	32,663,000	34,151,000
Selling, general and administrative expenses	23,616,000	24,766,000
	9,047,000	9,385,000
Depreciation and amortization	2,084,000	2,018,000
	6,963,000	7,367,000
Provision for loss on discontinuance of a product line (Note D)	1,058,000	
	5,905,000	7,367,000
Other deductions—net (including interest expense of $1,626,000 and $1,697,000)	1,473,000	1,739,000
Income before Federal income taxes	$ 4,432,000	$ 5,628,000

Note D—In the fourth quarter of 1977, the Company provided $1,058,000, before a tax benefit of $508,000 ($.16 per share, net) for losses incurred and estimated to be incurred on the discontinuance of its Texturized Yarn product line. This provision includes a loss on disposal of fixed assets and inventory of $913,000 and estimated operating losses during the phaseout period of $145,000. Net sales and results of operations, exclusive of the provision for losses mentioned above, of the Texturized Yarn product line that are included in the consolidated statements of income are as follows:

	1977	1976
Net sales	$3,780,000	$7,189,000
Loss from operations	$ 343,000	$ 370,000

OHIO FERRO-ALLOYS CORPORATION (DEC)

	1977	1976
	($000)	
Costs and Expenses		
Cost of products sold (exclusive of depreciation shown separately below)	$ 93,138	$ 96,341
Selling, administrative and general expenses	2,892	2,751
Provisions for depreciation and amortization	5,968	5,004
Provision for loss on plant closing	7,141	0
Interest charges	1,175	1,197
Other deductions	58	89
Total Costs and Expenses	$110,372	$105,382

NOTES TO FINANCIAL STATEMENTS

Plant Closing—On November 28, 1977, the Corporation announced the closing of its Brilliant, Ohio plant. The decision to close this facility reflects its losses of viability caused by the combination of an aging plant, increasing competition from foreign imports and escalating coal and power costs.

The Brilliant plant assets have been valued at estimated net realizable value and all costs expected to be incurred in future periods by this facility were recognized at the date the decision was made for the closing.

Closing this plant results in a charge of $7,141,000 (before reduction for income tax benefits of approximately $3,181,000). This charge includes the net book value of assets to be disposed of, plus provision for demolition costs, employee termination costs and other related costs, less estimated salvage value.

In the opinion of the Corporation's independent accountants, this plant closing in 1977 did not constitute a segment of the Corporation's business and, accordingly, under the provisions of Accounting Principles Board Opinion No. 30 the provisions for losses and related operating losses of these operations have been included in the determination of income or loss from continuing operations.

SCOTT PAPER COMPANY (DEC)

	1977	1976
	($000)	
Cost and expenses		
Product costs	$1,067,011	$ 940,323
Marketing and distribution	274,936	233,004
Research, administration and general	65,804	61,388
Interest	31,264	29,642
Provision for mill closings	14,115	—
	$1,453,130	$1,264,357

THE FINANCIAL REVIEW

Provision for Mill Closings—The Company has made decisions to close two small pulp mills in Oconto Falls, Wisconsin, and Anacortes, Washington, and to write off its investment in a 50%-owned supplier affiliate, Lake Woods Forest Products, Inc. in Grayling, Michigan. These decisions resulted in a provision for mill closings in the amount of $14,115,000 in the fourth quarter of 1977.

The Company decided to close the two pulp mills because they would not yield a satisfactory return considering the capital investments required to bring them into compliance with the applicable environmental standards. The amount of the pulp mill write-offs includes the net book value of plant assets of $8,693,000 (net of estimated salvage value) and personnel termination and other costs of $2,561,000.

The investment in the Lake Woods sawmill was written off after it had performed below expectations for several years. The $2,861,000 write-off includes the Company's net investment and debt it has guaranteed.

Excise Taxes

GETTY OIL COMPANY (DEC)

	1977	1976
	($000)	
Costs and Expenses		
Product and material costs, including operating expenses	$1,826,419	$1,777,417
Selling, general and administrative expenses	155,418	149,777
Exploratory costs, including dry holes, lease rentals and undeveloped lease amortization	226,817	166,917
Depreciation and depletion	188,588	152,920
Interest expense	9,668	3,166
Excise, property and other operating taxes—Note 3	243,927	239,803
	$2,650,837	$2,490,000

Note 3: Excise, Property and Other Operating Taxes—Excise, property and other operating taxes for 1977 and 1976 consisted of the following:

	1977	1976
	(In thousands)	
Excise	$158,362	$159,213
Property	34,304	28,522
Severance and production	36,665	36,777
Payroll and other	14,596	15,291
	$243,927	$239,803

Excise taxes collected have been included in sales and operating revenue in the consolidated statement of income.

Adjustment of Asset Values

AMAX INC. (DEC)

	1977	1976
	($000)	
Earnings from operations	$169,300	$159,240
Gain on sale of Canadian potash assets (Note 2)	61,960	—
Provision for loss on African investments (Note 3)	(125,000)	—
Equity in earnings of Alumax Inc. (after Alumax taxes on income of $17,770 and $13,910) (Note 10)	20,140	15,030
Interest expense, net (Note 6)	(60,730)	(20,890)
Other income, net	6,120	3,180
Earnings before income taxes	$ 71,790	$156,560

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Note 3: Provision for Loss on African Investments—Declining nickel and copper prices have adversely affected the current and projected earnings and cash requirements of Botswana RST Limited (BRST) and Roan Consolidated Mines Limited (RCM). As a result, the Board of Directors concluded that there have been permanent impairments in the carrying amounts of the Company's investments in these companies of $94,400 and $30,600, respectively. Accordingly, the Statement of Earnings includes a charge of $81,000 ($2.50 per share), after anticipated Federal income tax benefits of $44,000, to reduce these carrying amounts.

PPG INDUSTRIES, INC. (DEC)

	1977	1976
	(Millions)	
Net sales	$2,505.8	$2,254.8
Cost of sales	1,653.9	1,440.1
Gross margin	851.9	814.7
Other expenses:		
Selling, general and administrative	312.5	300.2
Depreciation	98.6	92.8
Taxes—exclusive of income taxes	68.1	66.6
Research and development	60.6	56.3
Interest	45.9	46.8
Share of net losses of equity affiliates	12.1	2.1
Other charges	9.7	8.0
Total other expenses	607.5	572.8
Other earnings	30.8	35.5
Write-down of Puerto Rico assets	74.4	—
Earnings before income taxes and minority interest	$ 200.8	$ 277.4

NOTES TO FINANCIAL STATEMENTS

Note 12: Other matters—Information related to write-down of certain assets in Puerto Rico is included in the Operations by Business Segment portion of the Financial & Operating Review section on page 8 of this report. Reference also is made to this section for additional information related to Business Segment Information for the year 1977, Translation of Foreign Currencies, Pensions, Capital Expenditures as to amounts required to complete capital projects approved prior to December 31, 1977, and Replacement Cost Information (unaudited).

FINANCIAL & OPERATING REVIEW (PAGE 8)

Chemicals operating earnings, including the write-down of the Puerto Rico assets, declined by 59 per cent. The write-down followed a comprehensive review by management of the Puerto Rico operations. As a result of this review, it was determined that certain Puerto Rico assets had been impaired because of adverse economic factors. The major factor was the effect of the oil embargo in eliminating the feedstock and electrical power cost advantages that the Puerto Rico location was expected to provide. This factor, combined with plant and other operating problems, created an economic disadvantage. To reflect the impairment in the economic value of its assets, PPG has taken additional depreciation and amortization of $54.3 million in 1977 on certain assets of the wholly owned complex and has reduced its investment in the jointly owned olefins operation by $20.1 million. After the writedown, the remaining net book value of the fixed assets of PPG's wholly owned complex and its share of the joint venture is $41 million.

Cost of Proxy Contest

ELECTRIC HOSE & RUBBER COMPANY (AUG)

	1977	1976
Net sales	$58,987,600	$55,253,200
Other revenues	107,300	157,500
	59,094,900	55,410,700
Costs and expenses:		
Cost of goods sold	47,899,100	45,619,600
Selling, general and administrative expenses	6,688,200	6,465,300
Depreciation	901,600	1,381,200
Interest expense (including in 1977 imputed interest $908,900)	1,701,700	863,200
	57,190,600	54,329,300
	1,904,300	1,081,400
Proxy contest costs—Note 12	235,000	—
Provision for Wilmington plant abandonment	—	(19,024,000)
Income (loss) before taxes and extraordinary item	1,669,300	(17,942,600)
Charge in lieu of (recovery of) income taxes	848,000	(3,041,000)
Income (loss) before extraordinary item	$ 821,300	$(14,901,600)

Note 12: Related Party Transactions—The election of directors and solicitation of proxies at the January 13, 1977 annual meeting of the Company's shareholders was contested by a group of shareholders referred to as the Electric Hose & Rubber Company Stockholders Committee (the Committee). In order to terminate the resultant controversy, the Board of Directors, on January 26, 1977, approved a plan

consisting of three interdependent transactions. Under the first transaction the Company and the Committee, considering it to be in their best mutual interest, entered into an agreement to release each other from all claims, counterclaims and potential litigation. In consideration for this mutual release, the Company paid $150,000 to the Committee. The Committee represented in the agreement that it incurred proxy solicitation costs in excess of $150,000. The amount of this payment and direct proxy solicitation costs incurred by the Company amounting to $85,000 have been charged as Proxy Contest Costs and included in the accompanying Statement of Operations.

In fulfillment of the second and third transactions of the aforementioned plan, Dayco Corporation purchased from members of the Committee substantially all their holdings of the Company's common stock and also purchased from the Company 200,000 shares of Series A Preferred Stock—see Note 8.

During 1977 the Company made trade sales to Dayco and purchased raw materials from a division of Dayco amounting to $602,000 and $1,810,000, respectively. In the opinion of management such transactions were consummated on terms no more or less favorable than those that would have been obtained had the aforementioned relationship not existed.

Relocation Costs

AMERICAN BILTRITE INC. (DEC)

	1977	1976
Costs and expenses:		
Cost of products sold	$158,726,731	$148,981,336
Selling, general and administrative expenses	37,846,903	35,593,098
Provision for plant shutdown and product line rearrangement expenses—Note G	6,587,000	
Interest	3,940,669	3,360,133
	$207,101,303	$187,934,567

Note G: Plant Shutdown and Rearrangement Expenses—In the fourth quarter of 1977, the Company developed a plan which provides for the shutdown of certain plants, the relocation and rearrangement of other productive facilities and the elimination of various product lines. The total estimated cost associated with these actions has been provided in 1977 and is summarized as follows:

Loss of disposition of inventories and collection of accounts receivable	$1,838,000
Liability for unfunded vested pension benefits related to plant shutdown	1,100,000
Reduction in the carrying amount of land, buildings and equipment to estimated realizable value	950,000
Other estimated expenses	2,699,000
	$6,587,000

The Company has received approval from the Pension Benefit Guarantee Corporation to continue to fund the pension liability as it has on an historical basis. Other estimated expenses include provisions for personnel severance pay, equipment dismantling and relocation expenses and the carrying costs of idle facilities which are being offered for sale.

DICTAPHONE CORPORATION (DEC)

	1977	1976
Costs and Expenses		
Cost of products sold	$119,137,000	$ 60,666,000
Cost of service income and equipment rental	12,770,000	12,582,000
Selling, general and administrative	64,412,000	51,027,000
Provision for relocation costs	3,500,000	—
Interest	2,720,000	937,000
	$202,539,000	$125,212,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Relocation—In 1977, the company announced that production of its desktop cassette Thought Master dictating machine products would be transferred from its Bridgeport, Connecticut plant to facilities of a subsidiary of Pioneer Electronic Corporation in Japan and that remaining production at its Bridgeport plant would be transferred to a new facility being built in Melbourne, Florida.

A non-recurring charge of $3,500,000 ($1,674,000, or $.41 per share after taxes) was recorded in the third quarter of 1977 to provide for anticipated costs associated with these moves.

"Unusual" or "Non-Recurring" Expenses

CENTRAL SOYA COMPANY, INC. (AUG)

	1977	1976
	($000)	
Costs and expenses:		
Cost of goods sold	$2,054,369	$1,687,433
Selling and administrative	83,245	73,503
Interest	15,739	10,774
Unusual charges (credit)	4,600	(3,000)
	$2,157,953	$1,768,710

Notes to Consolidated Financial Statements

Unusual charges (credit)—During late 1974, the Company was named as a defendant in a series of antitrust actions along with the National Broiler Marketing Association and a number of other parties alleged to be engaged in the production, processing and marketing of broiler chickens. On July 31, 1977, the Company and the plaintiffs filed a settlement agreement, subject to the approval of the court, in which the Company has agreed to pay damages of $2.1 million. This amount together with the losses from the disposition of the assets of two subsidiaries (see "Changes in the business") have been charged to 1977 operations.

In July 1975, the Company decided to dispose of its French subsidiary and made a provision for estimated loss on such disposition of $7.5 million. At August 31, 1976, the disposition of this subsidiary was substantially completed and the excess ($3 million) of the amount provided in 1975 over costs actually incurred or expected to be incurred was included in income.

ADDRESSOGRAPH-MULTIGRAPH CORPORATION (JUL)

	1977	1976
	($000)	
Revenues:		
Net sales	$462,368	$440,517
Service and machine rental	133,882	132,403
	596,250	572,920
Cost and expenses:		
Cost of products and services sold	360,731	347,521
Selling, general and administrative	201,527	188,450
Research, development and engineering	17,158	15,844
Interest on indebtedness	9,629	9,700
Interest on obligations under capital leases	1,897	1,623
	590,942	563,138
Other income	7,976	6,697
Unusual expenses and (income):		
Discontinued products and operations	15,347	—
Realignment of operations	16,308	—
Settlement of claim	(8,000)	—
	23,655	—
Income (loss) before income taxes	(10,371)	16,749
Income taxes	3,633	10,140
Income (loss) before cumulative effect of accounting changes	$(14,004)	$ 6,609

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unusual Expenses and Income—Note 3

Discontinued Products and Operations—During the year the Company implemented programs to phase out certain unprofitable products and to dispose of three unprofitable subsidiaries. The principal products involved are the model 5000 console electrostatic copier, the model 550 tabletop electrostatic copier, the model 6000 plain paper copier, the model 9000 direct lithography convenience duplicator, the Delta duplicating system and the AMCAT electronic terminals and systems.

The related costs of $15,347,000 (approximately $11,213,000 or $1.36 per share after tax) have been provided for in the 1977 financial statements. In determination of these costs, provisions have been made to reduce inventories ($4,273,000), rental equipment ($2,549,000), production equipment ($2,228,000) and other assets related to the products and the investments in subsidiaries to estimated net realizable values. Estimated income to be generated from these products and operations during the phase-out period has been applied as a reduction of the estimated costs.

Realignment of Operations—The Company has also initiated several actions designed to realign operations to more effectively utilize facilities and to produce other cost efficiencies. These actions include the relocation of various manufacturing and engineering operations and certain administrative functions in the United States and abroad. The estimated costs and expenses associated with these realignments of $16,308,000 (approximately $10,992,000 or $1.33 per share after tax) include severance pay and pension costs for terminated employees, inventory and equipment relocation expenses and the write-off of certain unamortized excess of cost over net assets of businesses acquired. Estimated gains on disposals of facilities have been taken into account in arriving at the 1977 charges to income.

In 1975 the Company established a long-term program to restructure several operations and provided for the related costs. Inplementation of this program except for one subsidiary was completed in 1977.

Settlement of Claim—In November, 1976 the Company received $8,000,000 (approximately $4,520,000 or $.55 per share after tax) from Xerox Corporation in settlement of the Company's claims against Xerox based on alleged monopolistic practices. In connection with the settlement, Xerox also agreed to provide the Company with certain technical information, and the Company assigned to Xerox certain patents relating to facsimile transmission.

Strike Expense

KENNECOTT COPPER CORPORATION (DEC)

	1977	1976
	($000)	
Cost of goods sold	$810,319	$831,799
Depreciation, depletion and amortization	45,207	50,544
Selling and general administrative expenses	42,078	38,076
Shutdown expenses during strikes	19,936	—
Interest expense	45,793	45,788
Research, exploration and other expenses	22,488	29,821
Reduction of estimated loss on liquidation of Chase Brass & Copper Co., Waterbury Plant	—	(5,900)
Provision (credit) for income taxes	(12,400)	(18,200)
Minority interests in net income of subsidiaries	3,033	4,711
	$976,454	$976,629

Tender Offer Expense

PHILIP A. HUNT CHEMICAL CORPORATION (DEC)

	1977	1976
Costs and Expenses		
Cost of goods sold	$40,640,551	$34,895,549
Selling, general and administrative	19,634,138	15,553,354
Research and development	3,810,292	3,093,042
Interest expense	431,910	108,770
Interest income	(226,244)	(199,959)
Tender offer expenses	933,578	—
Other income-net	(489,792)	(378,393)
Total Costs and Expenses	$64,734,433	$53,072,363

Flood Loss

AKZONA INCORPORATED (DEC)

	1977	1976
	($000)	
Costs and expenses:		
Cost of sales (excluding depreciation and depletion)	$648,741	$592,902
Depreciation and depletion	37,921	36,701
Selling, administrative and general	88,360	84,158
Interest	16,516	14,098
	791,538	727,859
Income before income taxes and flood loss	18,881	2,991
Flood loss	(12,143)	—
Income before income taxes	6,738	2,991
Provision (credit) for income taxes	(785)	(2,631)
Net income	$ 7,523	$ 5,622

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Flood loss—The Company's nylon and telephone cable plants at Enka, North Carolina experienced a flash flood in November, 1977, resulting in extensive damage to equipment and inventories. The flood loss of $12.1 million (approximately $6.1 million or $.49 per share, net of applicable taxes) represents estimated damages to inventories and equipment, as well as the cost of restoring those facilities to full operation. The amount of future recoveries, if any, through insurance and/or successful claims against third parties who might have caused the flooding conditions, will not be known for some time.

TABLE 3-8: PENSION AND RETIREMENT PLANS

	1977	1976
Current Year Expense		
Normal cost and amortization of prior service cost	467	467
Normal cost and interest on unfunded prior service cost	5	12
Normal cost—no reference to prior service cost	33	27
Normal cost—no unfunded prior service cost	29	30
Companies Disclosing Amount of Pension Plan Expense	**534**	**536**

PENSION PLANS

APB Opinion No. 8, issued in November 1966 to clarify accounting for pension plan costs, states in part:

46. The Board believes that pension plans are of sufficient importance to an understanding of financial position and results of operations that the following disclosures should be made in financial statements or their notes:

1. A statement that such plans exist, identifying or describing the employee groups covered.

2. A statement of the company's accounting and funding policies.

3. The provision for pension cost for the period.

4. The excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund and any balance-sheet pension accruals, less any pension prepayments or deferred charges.

5. Nature and effect of significant matters affecting comparability for all periods presented, such as changes in accounting methods (actuarial cost method, amortization of past and prior service cost, treatment of actuarial gains and losses, etc.), changes in circumstances (actuarial assumptions, etc.), or adoption or amendment of a plan.

An example of what the Board considers to be appropriate disclosure is as follows:

> The company and its subsidiaries have several pension plans covering substantially all of their employees, including certain employees in foreign countries. The total pension expense for the year was $ . . ., which includes, as to certain of the plans, amortization of prior service cost over periods ranging from 25 to 40 years. The company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits for all plans as of December 31, 19 . . ., exceeded the total of the pension fund and balance-sheet accruals by approximately $ . . . A change during the year in the actuarial cost method used in computing pension cost had the effect of reducing net income for the past year by approximately $ . . .

Table 3-8 shows that most of the survey companies disclosed that the current year pension plan expense consisted of normal cost plus amortization of prior service cost. In addition to the information shown in Table 3-8, 347 survey companies reported that vested benefits were in excess of amounts funded or accrued; while 107 survey companies reported that amounts funded or accrued were in excess of vested benefits. Examples of notes disclosing pension expense and policies follow.

Normal Cost Plus Amortization of Prior Service Cost

AMERICAN STORES COMPANY (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Pension Costs—Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to forty years. The company's policy is to fund pension costs accrued.

Note 7: Pension Plans—Substantially all employees of the company and its subsidiaries are covered by pension plans funded currently by payments to plan trustees or insurers. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes specified contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company.

At the January 1, 1977 actuarial valuation date, the computed value of vested benefits for the principal plans which are funded through group annuity contracts exceeded the applicable plan assets by $10,186,000 and unfunded past service cost amounted to approximately $14,693,000. Amendments to the plans during 1976 necessitated by the Employee Retirement Income Security Act increased pension expense for the year by $661,000.

The total charge to earnings for all plans for the year ended April 2, 1977 was approximately $30,085,000 compared with $24,115,000 for the preceding fiscal year.

AMPCO-PITTSBURGH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of accounting policies

Pension costs—The Corporation has noncontributory pension plans covering substantially all its employees. The Corporation generally follows the practice of funding the annual pension expense which includes current service costs and amortization of prior service costs over periods not exceeding 40 years. Increases in prior service costs subsequent to January 1, 1976 are amortized over 30 years.

Note 6: Pension Costs—Total pension expense was $1,922,372 for 1977 and $1,749,311 for 1976. The actuarially computed value of vested benefits for certain plans exceeded pension fund assets (at market) and balance sheet accruals as of the latest valuation dates by approximately $5,306,127. Unfunded past service costs at the latest valuation dates approximated $12,452,853.

THE CLEVELAND-CLIFFS IRON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Significant accounting policies

Pension Costs: Pension expense, which is funded, includes current service cost and amortization of prior service cost over periods ranging from 10 to 35 years.

Note G: Pensions—The Company and the North American associated companies which it manages have pension plans covering substantially all employees, including the Company's employees at unincorporated joint ventures. The following tabulation sets forth information with respect to expense of these pension plans:

	1977	1976
Pension expense relating to employees of the Company* (excluding unincorporated joint ventures)	$3,700,000	$3,803,000
The Company's share of the pension expense of associated companies and unincorporated joint venture	1,687,000	1,923,000
Total	$5,387,000	$5,726,000

*A significant portion of this pension expense relating to the Company's employees is charged to associated companies for services performed under management agreements.

The excess of actuarially computed present value of vested benefits as of January 1, 1977, the latest valuation date, over the December 31, 1977, pension fund assets at cost amounted to $4.0 million for the Company (including unincorporated joint ventures) and $1.4 million for the Company's share of its associated companies. At December 31, 1977, the market value of pension fund assets for all plans was in excess of cost.

The unfunded past service cost as of January 1, 1977, less 1977 past service pension payments, amounted to $19.6 million for the Company and $3.7 million for the Company's share of its associated companies and unincorporated joint ventures.

COLONIAL STORES INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Retirement Plan For Employees—The Company has a trusteed noncontributory pension plan covering all of its employees and a supplemental nonqualified and nontrusteed plan for certain executives. Pension costs for the trusteed noncontributory plan are based on current service costs and amortization of prior service costs over a period of forty years. The Company's funding policy has been to make contributions sufficient to maintain the fund in sound condition. Total pension costs charged to operations amounted to $3,025,000 in 1977 and $2,650,000 in 1976, of which $2,975,000 and $2,600,000, respectively, were funded. The Company also funded an additional $1,000,000 in 1977 and $850,000 in 1976, which were charged to operations in previous years. As of the latest valuation date, the actuarially computed value of vested benefits exceeded the market value of the pension fund assets and the accrual for pension costs by approximately $16,790,000 and the unfunded past service costs amounted to approximately $16,760,000.

FEDDERS CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. (in part): Summary of significant accounting policies

Pension plans—Substantially all of the Company's employees are covered under one of the Company's pension plans or under one of the union-sponsored plans to which the Company contributes. Pension expense (see Note 10) for the Company's plans comprises normal cost and amortization of past service costs over a period of 30 years. It is the Company's policy to fund pension costs accrued.

Note 10: Pension plan—Pension expense connected with the Company's plans (see Note 1) was approximately $2,197,000 and $1,929,000 for the years ended October 31, 1977 and 1976, respectively.

For those Company pension plans where the actuarially computed value of the vested benefits exceeded the total of the applicable pension fund and related balance sheet accrual, such aggregate excess value amounted to approximately $2,154,000 at October 31, 1977 based on the latest actuarial reports available.

Contributions to union-sponsored pension plans amounted to $312,000 in 1977 and $273,000 in 1976.

GENERAL FOODS CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Retirement Plans—The corporation and certain of its subsidiaries have plans that provide retirement benefits for hourly and salaried employees. The corporation funds current service cost, amortization of the unfunded actuarial liability at September 1, 1975, over a 30-year period and amortization of actuarial experience since that date over a 15-year period.

Note 7: Retirement Plans—Charges against income for retirement plans aggregated $41,077,000 and $34,340,000 during fiscal 1977 and 1976, respectively, of which $37,815,000 and $31,258,000, respectively, pertained to the plans for U.S. and Canadian employees. The company's funding provisions for U.S. retirement plans meet the funding requirements of the Employee Retirement Income Security Act of 1974. The increase in costs is primarily attributable to higher normal costs, actuarial experience and plan improvements partially offset by the full year impact of other changes in the funding provisions.

The market value of assets held by trustees and the reserves provided for by insurance companies with respect to U.S. and Canadian retirement plans approximated $399,000,000 at April 2, 1977, and at that date, in the opinion of the independent actuaries, these plans were substantially fully funded as to vested benefits.

INTERNATIONAL HARVESTER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Retirement Plans—Income is charged with pension costs applicable to current service and the amortization of prior service cost, generally over the period ending in the year 2006, on the basis of accepted actuarial methods. The costs of supplemental allowance benefits resulting from retirements before age 64 are charged to income as incurred.

Note 18: Retirement Plans—The parent Company and its domestic and Canadian subsidiaries have pension plans covering substantially all of their employees. Generally, the plans are noncontributory for wage earners and benefits are related to an employee's length of service and wage rate. Plans covering salaried employees are both contributory and noncontributory and benefits are related to the length of service, salary and contributions of the employee.

Most foreign subsidiaries have separate retirement plans that are integrated with and supplement the benefits provided by laws of the various countries.

Total pension costs charged to income were $155 million for 1977 and $121 million for 1976. This increase results primarily from an increase in retirement benefit levels under the Company's domestic retirement plans. It is the Company's policy to fund accrued pension costs. The plans vary in the extent to which they are funded, but at October 31, 1977, all current funding obligations have been fulfilled. At January 1, 1977, unfunded prior service costs for all plans in the United States and Canada, exclusive of Wisconsin Steel Division, approximated $1,097 million.

The actuarially computed value of vested benefits for all plans in the United States and Canada, exclusive of Wisconsin Steel Division, was estimated to exceed the total market value of the pension funds by $929 million as of June 30, 1977.

Normal Cost Plus Interest On Unfunded Prior Service Cost

THE AMALGAMATED SUGAR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Pension—The Company has contributory pension plans covering substantially all full-time employees. It is the Company's policy to charge to income normal costs and interest on unfunded prior service costs as actuarially determined.

Note 6: Pension Plans—Pension expense for each period was as follows:

Period	Pension Expense
52 weeks ended December 26, 1977	$1,568,000
13 weeks ended December 27, 1976	385,000
52 weeks ended September 27, 1976	1,382,000

The pension expense for 1977 is the minimum required contribution to the funding standard account. Such amount approximates the normal cost and interest on the unfunded prior service costs. At the most recent valuation date, the actuarially computed value of vested benefits was $1,018,000 in excess of the total of the retirement funds and balance sheet accruals. At the most recent valuation date, the unfunded liability of the pension plans was $4,475,000.

Payments To Union Sponsored Plans

CONTINENTAL OIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Employee benefits—The Company and certain of its subsidiaries have retirement plans covering substantially all employees not covered by various union or industry retirement plans. The plans are funded based on pension costs accrued. Total pension expense under the plans was $31,952,000 in 1977 and $28,838,000 in 1976. There are no significant unfunded prior service liabilities under these plans at December 31, 1977.

A subsidiary of the Company, Consolidated Coal Company (Consol), under a contract with the United Mine Workers of America (UMWA) which expired as of December 6, 1977, made payments based on coal production and hours worked into two multiemployer pension plans maintained for the benefit of union employees. Total pension expenses, representing amounts paid and accrued by Consol, aggregated $43,580,000 in 1977 and $46,378,000 in 1976.

The Employees' Retirement Income Security Act (ERISA) imposes certain contingent liabilities on contributors to pension plans, including multiemployer plans such as the UMWA plans. In the event of plan termination, a contributor to a multiemployer pension plan may be liable to the government-established Pension Benefit Guaranty Corporation (PBGC) for the pension benefits guaranteed by ERISA, in proportion to the contributor's payments to the plan for the five preceding years as compared with all contributions to the plan. The PBGC may, however, vary this formula. Should such a liability occur, it probably would be payable over an extended period.

As of June 30, 1977, the date of the latest actuary's report to the trustees of the UMWA plans, vested liabilities of the plans exceeded the market value of plan assets; and prior service liabilities, including vested amounts, exceeded the actuarial value of the plan assets. Consol's contributions to the plans since their inception in 1974 through June 30, 1977, as a percent of total industry contributions, approximated 12% for one plan and 10% for the other plan. For the two plans combined, these percentages of the unfunded vested liabilities and of the unfunded prior service liabilities would approximate $382,000,000 and $439,000,000, respectively. These amounts are not additive, as prior service liabilities include both vested and nonvested amounts.

The Company has an incentive compensation plan under which awards payable in cash or stock of the Company may be granted to key employees of the Company and of certain subsidiaries. Aggregate annual awards may not exceed the lesser of 3% of the incentive compensation base as defined in the plan or 5% of cash dividends paid to stockholders during the year. Provision for awards under the plan was $3,200,000 in 1977 and $3,500,000 in 1976.

Effective July 1, 1973, Consol became liable under the Federal Coal Mine Health and Safety Act of 1969 for medical and disability benefits to employees and their dependents resulting from occurrences of Coal Workers' Pneumoconiosis (CWP) disease in employees. The estimated costs of the benefits are being provided over the remaining service lives of present employees. The amounts provided in 1977 and 1976 were $32,029,000 and $29,626,000, respectively.

THE PITTSTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Pension Plans—The Company and its subsidiaries have several noncontributory pension plans which provide eligible employees with retirement and disability benefits based on past and future services. The total pension expense was $9,911,000 in 1977 and $9,145,000 in 1976, which includes amortization of prior service costs over 10 years for the major plan and over periods up to 30 years for other plans. The plans provide for the funding of the pension costs accrued. The actuarially computed value of vested benefits in excess of the total of pension funds and balance sheet accruals less pension prepayments was approximately $1,560,000 at December 31, 1977 and $5,649,000 at December 31, 1976.

Under the labor contract with the United Mine Workers of America which expired on December 6, 1977, the Company's Coal Group made payments into two multiemployer pension plan trusts established for the benefit of union employees based on tons of coal produced and hours worked. Such payments totalled $13,391,000 in 1977 and $16,627,000 in 1976. Under the Employee Retirement Income Security Act, a contributor to a multiemployer pension plan may be liable, upon termination of such a plan, for its share of the plan's unfunded liabilities. The Company estimates that its share of the unfunded vested liabilities of the plans amounted to $140,000,000 at June 30, 1977, the date of the latest actuarial valuation reports.

Vested Benefits Exceed Plan Assets

AIRCO, INC. (DEC)

STATEMENT OF ACCOUNTING POLICIES

Retirement Plans—Airco and its subsidiaries maintain retirement plans covering substantially all officers and employees. It is Airco's policy to accrue currently for pension cost and fund amounts accrued. Unfunded prior service cost is amortized generally over a 30-year period.

NOTES TO FINANCIAL STATEMENTS

Note 12: Retirement Plans—Total pension expense for the years ended December 31, 1977 and 1976, was approximately $10,520,000 and $9,697,000, respectively. The increase in expense in 1977 was due principally to an increase in the number of eligible employees and improved negotiated benefits. As of December 31, 1976, the most recent valuation date, fund assets for one of the retirement plans were approximately $897,000 in excess of the actuarially computed value of vested benefits, while for other plans funds assets were approximately $28,095,000 less than the actuarially computed value of vested benefits. This results in the value of such vested benefits exceeding, in the aggregate, fund assets by approximately $27,198,000 compared to $26,828,000 at the end of the prior year. As of the above valuation date total unfunded prior service cost for all plans was approximately $62,687,000; such amount includes a portion of the actuarially computed vested benefits referred to above.

W. F. HALL PRINTING COMPANY (MAR)

NOTES TO FINANCIAL STATEMENTS

Summary of significant accounting policies (in part)

For the Company's pension plans, expense includes normal cost, interest and amortization of prior service cost over a forty-year period. The Company's policy is to fund pension costs accrued.

Retirement plans—Substantially all employees of the Company and its subsidiaries are covered by retirement plans. The Company has funded-trusteed plans for salaried employees and certain hourly employees. Other hourly employees are covered by industry-wide retirement plans under which contributions are made in accordance with the agreements. Total pension expense for the years ended March 31, 1977, and 1976 aggregated $2,083,000 and $1,867,000, respectively. The increase in pension expense is principally due to an increase in the number of plan participants resulting from certain plan amendments. The actuarially computed value of vested benefits for the hourly plan exceeded plan assets and accrued retirement plan expense by approximately $3,200,000 at March 31, 1977.

HOUDAILLE INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note L: Employee Benefits—Most of the Corporation's employees are covered by Company-sponsored pension plans although some hourly employees are covered by multi-employer union-sponsored plans. All contributions made under the Company-sponsored plans are placed in trust and administered by independent trustees.

The Corporation's policy is to fund pension costs accrued. Pension costs charged to income, representing current service costs for all plans and amortization of past service costs, generally over 30 years or less, for Company-sponsored plans, were $7,019,000 and $6,269,000 for 1977 and 1976, respectively.

The increase in pension costs for 1977 was principally attributable to changes in benefit levels of union negotiated plans, although increases in compensation and employment also increased costs.

The actuarially computed value of vested benefits for certain Company-sponsored plans, using the rates of interest assumed in valuing plan liabilities (5½% in the United States and 6% in Canada), exceeded the market value of the plans' assets by approximately $18,700,000 as of January 1, 1977, the date of the last actuarial valuation. The market value of assets for the remaining Company-sponsored plans exceeded vested liabilities. The unfunded past service liability for all Company-sponsored plans was approximately $29,066,000 at that date.

The Corporation has not experienced any significant increase in the required contributions to the pension funds as a result of the Employee Retirement Income Security Act of 1974. However, under the Act, the Corporation is liable in the event of termination of plans for any guaranteed benefits (as defined by the Act) in excess of the plans' net assets, limited to 30% of the Corporation's net worth at the time of termination. Such liability for guaranteed benefits (which is generally less than vested benefits) at January 1, 1977 is not readily determinable; however, vested benefits for certain Company-sponsored plans at that date, assuming such vested benefits were funded at a current annuity rate of 7½%, exceeded the market value of the plans' assets by approximately $10,200,000. Assets exceeded vested liabilities at the 7½% interest assumption in the other Company-sponsored plans.

TRW INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)—Substantially all employees of the Company and its domestic and Canadian subsidiaries and certain employees of other international subsidiaries are covered by one or more of several pension plans. Pension expense, which is accrued and funded, includes current costs and amortization of prior service liabilities over periods from ten to thirty years.

Pension Plans—Total pension expense for 1977 was $70.9 million and for 1976 was $63.3 million. The increased cost in 1977 resulted principally from benefit increases which became effective in 1977 related to plan changes and from compensation increases to employees.

As of December 31, 1977, the actuarially computed value of vested benefits of certain pension plans was estimated to exceed the market value of plan assets by $158 million and, as to the remaining plans, assets were estimated to be $6 million in excess of the actuarially computed value of vested benefits. Such excesses and deficiencies may not be offset against each other.

The foregoing amounts are based upon the valuation of pension fund assets at quoted market prices at December 31, 1977 and actuarial valuations of vested benefits (generally as of January 1, 1977) up-dated through December 31, 1977.

Plan Assets Exceed Vested Benefits

WALT DISNEY PRODUCTIONS (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Pension Plans—The Company contributes to various domestic trusteed pension plans under union and industry-wide agreements. Contributions are based on the hours worked by or gross wages paid to covered employees. The Company has no past service liability under these plans.

The Company has pension plans covering substantially all of its domestic employees not covered by union or industry pension plans. The plans are funded by Company and employee payments to a trust administered by a bank. At June 30, 1977, the date of the latest actuarial evaluation, the market value of the fund's assets exceeded the actuarially computed vested benefits by $4,939,000. In October 1976, the Company prepaid to the trust the actuarially computed past service liability of the plans as of June 30, 1976, in the amount of $4,335,000. This amount is being amortized to expense over twelve years. The Company has also established a non-qualified and unfunded key employee retirement plan providing for Company and domestic employee contributions. The amount accrued under this plan was $5,810,000 at September 30, 1977 ($4,355,000—1976); the actuarially computed unaccrued past service liability at the date of the latest computation was approximately $4,300,000.

The aggregate cost of all these plans was $4,668,000 and $3,974,000 for fiscal years 1977 and 1976, respectively, including amortization of actuarially computed prior service costs, where applicable, over periods ranging to thirty-five more years.

The Employee Retirement Income Security Act of 1974 has required certain revisions to the Company's pension plans. Management believes these revisions will not have a material effect on future pension expense or funding requirements.

LENOX, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

Pension Plans—The Company maintains and administers pension plans, in conformity with the Employees Retirement Income Security Act of 1974, covering salaried and in some cases hourly employees. Total pension expense under the plans for 1977 and 1976 was $766,000 and $720,000, respectively.

The value of the assets of these plans exceeds the actuarially computed present value of vested benefits. The total unfunded prior service cost of these plans were approximately $829,000 at December 31, 1977. Pension expense includes amortization of prior service costs over 10 years. The Company's policy is to fund pension costs accrued.

Contributions of $391,000 in 1977 and $363,000 in 1976 were also made to plans jointly administered by Company and Union representatives.

MERCK & CO., INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Pension Plans—Current service costs, as determined on an actuarial basis, are accrued and funded currently. Prior service costs are amortized over 20 years for financial statement purposes, and over 10 years for tax purposes.

Note 8: Pension Plans—In addition to required governmental retirement plans, the Company and certain of its subsidiaries have pension plans for eligible employees. Expense for such Company and subsidiary plans was $27,922,000 in 1977 and $25,910,000 in 1976.

As of December 31, 1977, the market value of assets of Company and subsidiary plans funded through trustees totaled $245 million, and exceeded the actuarial value of vested benefits. Unfunded prior service costs, which arise when plans are amended to provide increased benefits for past years' service, totaled $30,472,000 at December 31, 1977. Such costs are being funded as rapidly as permitted for tax-deduction purposes.

Pension plans maintained by foreign subsidiaries are principally on an insured basis.

STANDARD BRANDS INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retirement Plans—The Company and its domestic and international subsidiaries contribute to several pension plans covering substantially all employees who have met certain age and experience requirements. The contributions are charged to expense and amounted to $9,988,000 for 1977 and $8,012,000 for 1976, which include amortization of prior service costs principally over periods not exceeding twenty years. The increased 1977 expense resulted primarily from the consolidation of Van Nelle N.V. Pension costs have been funded by deposits with trustees or reserves have been provided.

Unfunded prior service liabilities of the various plans declined from $35,660,000 at the end of 1976 to $33,013,000 at December 31, 1977, primarily due to favorable market experience. In the aggregate, the market value of pension fund assets at December 31, 1977, plus pension accruals, exceeded the vested benefits payable under the respective plans. The market values of fund assets as of December 31, 1977 and 1976, were $99,428,000 (including $22,900,000 related to Van Nelle N.V.) and $74,608,000, respectively.

Amortization Period Of Unfunded Prior Service Costs Changed

JANTZEN INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Pension Plans—The Company's policy is to fund pension costs accrued, including amortization of past service costs over approximately 30 years. Such amortization was provided over 17 years for 1976. (See Note 6.)

Note 6: Employee Profit Sharing, Retirement and Incentive Plans—The Company and certain of the subsidiaries have established profit sharing, thrift and pension plans which provide retirement benefits.

Provisions under the combined profit sharing and thrift plan were $162,050 for 1977 and $443,548 for 1976. The Company's regular contribution is 25% of employee investments in the plan up to 6% of employee compensation. In 1976 the Board of Directors authorized an additional Company contribution equal to 63% of employee investments up to 6% of employee compensation; no additional contribution was made in 1977.

Provisions for retirement under the non-contributory pension plan amounted to $767,658 in 1977 and $366,012 in 1976. Improved benefits arising from 1977 plan amendments, less the effect of the change from 17 to 30 years in the amortization period of unfunded past service costs, increased pension expense by approximately $416,000 in 1977, and thereby reduced net income by approximately $216,000 ($.12 per share). Unfunded past service costs as of January 1, 1977, after giving effect to the 1977 plan amendments, were approximately $2,550,000.

The Company's incentive compensation plan provides for incentive payments to executive employees, the aggregate of which is limited to 10% of that portion of consolidated income before income taxes, profit sharing and thrift plan contribution which exceeds 14% of consolidated stockholders' equity at the beginning of the year. Provisions for incentive payments amounted to $404,705 for 1976; no provision was made in 1977.

Amounts In Excess Of Current Period Accrued Costs Funded

JOY MANUFACTURING COMPANY (SEP)

STATEMENT OF ACCOUNTING POLICIES

Pensions—The parent company, its U.S. subsidiaries, and certain non-U.S. subsidiaries provide retirement benefits under a variety of pension plans. While the majority of the U.S. salaried employees are covered by plans which require employee contributions, the plans covering hourly employees and certain other salaried employees do not require employee contributions. Certain non-U.S. subsidiaries do not directly provide retirement benefits but contribute to government-administered plans based upon the regulations of the particular country. JOY also contributes to certain multi-employer plans which are not sponsored by JOY.

Pension costs for plans sponsored by JOY are actuarially computed based principally upon projected benefit cost methods. Pension expense includes the amortization of prior service costs principally over 40 years. JOY's policy with respect to sponsored plans is to fund pension costs accrued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Pensions—Pension expense amounted to $9,638,000 in 1977 and $8,039,000 in 1976. The increase in pension expense was primarily attributable to improvements in benefits under certain major plans, higher compensation levels and a revision in actuarial assumptions under a major contributory plan to reflect higher anticipated compensation levels.

Since enactment of the Employee Retirement Income Security Act of 1974 (ERISA), management has taken affirmative action, with respect to the pension plans in the U.S., to comply with its requirements. Additional amendments and changes were made in certain plans during fiscal 1977 to fully comply with ERISA. These changes did not have a significant impact on the provision for pension expense, funding of pension costs or unfunded vested benefits.

The actuarially estimated value of vested benefits exceeded the total of the market value of pension funds and net balance sheet accruals by approximately $18,604,000 as of September 30, 1977. The value of vested benefits was computed using interest rates and mortality assumptions as published by the Pension Benefit Guaranty Corporation, a U.S. governmental agency created under ERISA.

The actuarially estimated unfunded prior service cost of JOY's pension plans at September 30, 1977 was approximately $60,514,000. In addition to the funding of pension costs accrued, JOY elected to fund $4,136,000 and $2,044,000 in fiscal 1977 and 1976, respectively. These additional contributions, which had no effect on fiscal 1977 or 1976 pension expense, are included in prepaid expenses and deposits and are available to offset future funding requirements of the plans.

Funding Deficiency

MARHOEFER PACKING COMPANY, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies:

Pension and Retirement Plans—The company and its subsidiary have pension plans covering substantially all union and nonunion employees. Pension plan expense covers normal costs, interest on unfunded prior service costs and amortization of prior service costs over a forty-year period. See Note 5 for current funding policy.

Note 5: Retirement Plans—Pension expense for fiscal 1977 and 1976 amounted to $800,000 and $642,000, respectively. The increase is principally due to increased benefits granted hourly employees under the existing union agreement.

The actuarially computed value of vested benefits under the plans exceeded the plans' assets (at market) and balance sheet accruals on November 1, 1976, the date of the most recent actuarial report, by $2,658,000. The unfunded prior service costs exceeded the plans' assets (at market) and balance sheet accruals at that date by approximately $4,706,000. Effective November 1, 1976, the plans were amended to comply with the Employee Retirement Income Security Act of 1974. In addition, actuarial assumptions were revised to reflect current plan conditions and more recent experience of the plans. The amendments and changes in assumptions did not materially affect pension expense; however, unfunded vested benefits and prior service costs were substantially reduced by an increased interest rate assumption.

Pension expense for 1972, 1974, 1975 and 1976 has not been funded. As a result, at November 1, 1976, the plans did not meet an Internal Revenue Service funding guideline by approximately $1,517,000. On November 1, 1976 the company entered into an agreement with the union to correct this underfunding situation. By the terms of the agreement, beginning in fiscal 1977, the current year's normal cost and interest on the unfunded prior service costs are funded annually in periodic instalments. In addition, the funding deficiency is being funded over 20 years and the remaining unfunded prior service costs over 40 years. This funding arrangement complies with the Employee Retirement Income Security Act of 1974 funding requirements. The company is similarly funding the nonunion plan. The portion of the 1978 payments representing funding of the October 29, 1977 balance sheet liability has been classified as a current liability.

Pension Plan Overfunded

REXHAM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting and Reporting Policies

Income and Expense: The provision for pensions is based on generally accepted actuarial cost methods and assumptions. A portion of the amounts accrued may not be paid due to the favorable funding status of certain plans; amounts unpaid, if any, will be amortized over a ten-year period as a reduction of pension expense.

Note 3. Pensions—Under the Company's noncontributory pension plans for hourly employees and contributory plans for salaried employees, retirement benefits are provided generally at age sixty-five.

Annual pension expense for certain plans, to the extent it exceeds amounts required to be funded under the 1974 Pension Reform Act, is being amortized over ten-year periods from the date such excess amount is identified. A net overfunding of the plans resulting from the allocation of pension assets in connection with the spin-off of the Company from Riegel Paper Corporation in 1972 is being amortized through 1981. Deferred Credits—Pensions include the unamortized portions of such excess annual pension expense and net overfunding. Pension expense for fiscal 1977 and 1976 amounted to $883,000 and $914,000, respectively, after the amortization described above.

At the latest valuation date, the actuarially computed value of vested benefits exceeded pension fund assets for certain plans by approximately $1,200,000; however, total pension fund assets exceeded the actuarially computed value of vested benefits for the combined plans by approximately $3,250,000.

Pension Plan Amended

THE NARDA MICROWAVE CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Pension Plan. The Company and its subsidiaries have a non-contributory pension plan covering substantially all employees. The Plan is funded through actuarially computed payments to a trustee. In 1977, the Plan was amended to be more fully integrated with benefits provided by the Social Security Act. The change, which minimally reduces future retirement benefits, has eliminated all remaining unfunded past service costs ($643,000 at June 30, 1976). On June 27, 1977, the Internal Revenue Service issued a favorable Letter of Determination approving the amended plan.

Note 6: Pension Plan—In 1977 the Company amended its pension plan (see note 1). The effect of the amendment was to increase net income by approximately $52,000. Normal pension costs charged to earnings in 1977 were $182,000 ($231,000 in 1976). Past service costs ($71,000 in 1976) were eliminated in 1977. As of January 1, 1977, the latest valuation date, the total assets of the Plan exceeded the actuarially computed value of vested benefits.

Pension Plan Statement

E. I. DU PONT DE NEMOURS & COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 16: Pensions—The Pension and Retirement Plan of E. I. du Pont de Nemours & Company is a noncontributory plan which covers substantially all parent Company employees. The number of pension recipients at December 31, 1977, was 34,472.

The cost of the Plan is determined on the basis of various actuarial assumptions and procedures including: a 6% assumed rate of future earnings on Pension Trust assets; recognition, as appropriate, of a portion of the unrealized appreciation expected over the long term in the common stock portfolio; Company experience with respect to mortality, turnover, and selection of retirement options; advancing pay scales; and amortization of unfunded prior service cost over a 20-year period. The cost so determined was $260.2 in 1977 and $212.8 in 1976. The increase in cost for 1977 is due to the impact of higher payrolls and liberalizations of Plan benefits.

The Company's practice is to fund total pension expense in a Pension Trust maintained in conjunction with the Plan; contributions to the Trust are deductible for Federal income tax purposes and Trust income is exempt from such taxes.

Statement of Changes
In Pension Trust Fund Assets
(assets at amortized cost plus accrued income)

	1977	1976
Total Assets at January 1	$2,297.5	$2,125.9
Add: Company contributions	260.1	212.7
Income from investments, including net gain or loss on disposition	159.7	79.4
	2,717.3	2,418.0
Deduct: Pension payments	147.2	120.5
Total Assets at December 31	$2,570.1	$2,297.5
Comprised of:		
Cash, accrued income, and U.S. Government obligations	$ 390.2	$ 122.5
Corporate obligations	518.7	767.1
Common stocks	1,661.2	1,407.9

The Trust held no securities of the Company or affiliated companies. The aggregate market value of Trust assets was about equal to cost at December 31, 1977. Since the Pension Trust Fund is not the property of the Company, it is not included in the consolidated financial statements.

Pension coverage for employees of the Company's consolidated subsidiaries is provided, to the extent deemed appropriate, through plans maintained by the respective companies. Obligations under such plans are systematically provided for by depositing funds with trustees, under insurance policies, or by book reserves. Charges to consolidated income for plans of these consolidated subsidiaries were $37.0 in 1977 and $30.8 in 1976.

At December 31, 1977, the amount of unfunded vested liability was estimated at $693.0. The estimated value of unfunded prior service cost, whether vested or not, was $1,288.1.

Pension Plan Adopted

ETHAN ALLEN, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E: Retirement Plan and Related Matters—Effective October 3, 1976, the Company established a trusteed noncontributory retirement plan covering substantially all employees who meet specified age and service requirements. The Company's policy is to fund the accrued retirement cost. Retirement expense, based on actuarial calculations, aggregated $1,200,000, which includes amortization of past service costs over 30 years. Actuarial assumptions include, among other things, an annual contribution of 1% of base salary of covered employees to the Company's profit sharing and stock bonus plan. At October 3, 1976, the estimated value of unfunded vested benefits was $3,000,000 and of unfunded past service costs was approximately $6,100,000.

The Company maintains a non-contributory profit sharing and stock bonus plan and two of its subsidiaries each maintains a non-contributory profit-sharing plan. Contributions to the plans, which are made at the discretion of the Company or the applicable subsidiaries, aggregated $480,000 in 1977 and $987,000 in 1976.

The Company has unfunded retirement and death benefit contracts with certain officers and key employees. Retirement and death benefit costs of these contracts aggregated $34,000 in 1977 and $180,000 in 1976.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 5: Pension and profit sharing retirement plans—Substantially all employees are covered under various pension and profit sharing retirement plans. In 1977, the Company adopted a Supplemental Pension Plan for its U.S. employees, effective November 1, 1976, which supplements the existing U.S. Deferred Profit-Sharing Retirement Plan. The adoption of the plan caused a reduction in 1977 net earnings of approximately $5.9 million, or 21 cents a share. See page 26 for the effect on interim periods. Contributions to the existing U.S. Deferred Profit-Sharing Retirement Plan are discretionary on the part of the Board of Directors; however, the Supplemental Pension Plan requires the Company to make contributions to assure the specified minimum retirement benefits.

Prior to the adoption of the Supplemental Pension Plan, all foreign and domestic pension and deferred profit sharing plans were essentially fully funded. Since past service costs incident to the Supplemental Pension Plan cannot be deducted in one year for financial or U.S. tax purposes, the Company now has an unfunded pension liability. At October 31, 1976, the date of the Plan's valuation, the unfunded past service cost was approximately $69 million. Past service costs are being funded and amortized over 30 years. The Company plans to continue fully funding all plans except the Supplemental Pension Plan which will be funded as described above.

Total expenses for worldwide profit sharing retirement and pension plans were $37.5 million in 1977 and $17.8 million in 1976.

Pension Plan Terminated

DICTAPHONE CORPORATION (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pension Plans—Pension costs, including prior service costs which are being amortized principally over a thirty-year period, are accrued on the basis of accepted actuarial cost methods and are being funded to the extent allowable as current tax deductions under the Internal Revenue Code.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Plans—The company and its subsidiaries have a number of trusteed and insured pension plans for qualified employees, including certain employees in foreign countries. These plans provide for the payment of retirement benefits based on earnings, years of service and attainment of specified ages. The amounts charged to income under the plans for the years 1977 and 1976 were $1,328,000 and $1,061,000, respectively. At December 31, 1977, unfunded liability for prior service costs and unfunded vested liability approximated $745,000 and $128,000, respectively. The $1,945,000 decrease in unfunded prior service costs from 1976 to 1977 is primarily attributable to the termination of the pension plan covering hourly employees of the Bridgeport manufacturing plant.

Supplemental Payments to Retired Employees

REXNORD INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Pension Plans—The company and its subsidiaries have pension plans covering substantially all employees. Total pension expense, which includes amortization of prior service cost principally over forty years, was $15,066,000 in 1977 and $11,020,000 in 1976. The company's policy is to fund pension costs accrued. The actuarially computed value of vested benefits for the plans exceeded the amounts in the funds and balance sheet accruals by $31,154,000 as of the date of the latest available actuarial reports, generally November 1, 1976.

In November, 1977, the company announced the establishment of supplemental monthly payments to be made to employees who had retired prior to 1972. The actuarially computed present value of such payments (approximately $1,400,000) was charged to expense during 1977.

COMPENSATORY PLANS

TABLE 3-9: COMPENSATORY PLANS

	Number of Companies			
	1977	1976	1975	1974
Inventive compensation plan	145	138	145	93
Stock award plan	73	41	N/C	N/C
Profit-sharing plan	68	90	130	118
Savings fund plan	26	37	27	30
Deferred compensation agreement	24	50	56	88

N/C — Not Compiled.

In addition to pension plans (Table 3-8) and "traditional" stock option and purchase plans (pages 226-233), many companies disclosed the existence of compensatory plans of the nature indicated in Table 3-9. *APB Opinion No. 25* states in part:

> 8. Plans that do not possess the four characteristics of noncompensatory plans are classified as compensatory plans. Since the major principles of Chapter 13B of *ARB No. 43* are not changed, classification as a compensatory plan does not necessarily require that compensation cost be recognized.
>
> 10. *Measuring Compensation for Services*. Compensation for services that a corporation receives as consideration for stock issued through employee stock option, purchase, and award plans should be measured by the quoted market price of the stock at the measurement date less the amount, if any, that the employee is required to pay. That is the principle in Chapter 13B or *ARB No. 43* with two modifications: (a) the meaning of fair value of stock for compensatory plans is narrowed and (b) the measurement date for plans with a variable number of shares of stock or a variable option or purchase price is different . . .
>
> Thus a corporation recognizes compensation cost for stock issued through compensatory plans unless the employee pays an amount that is at least equal to the quoted market price of the stock at the measurement date.
>
> 12. *Accruing Compensation Cost*. Compensation cost in stock option, purchase, and award plans should be recognized as an expense of one or more periods in which an employee performs services and also as part or all of the consideration received for stock issued to the employee through a plan. The grant or award may specify the period or periods during which the employee performs services, or the period or periods may be inferred from the terms or from the past pattern of grants or awards (*ARB No. 43,* Chapter 13B, paragraph 14; *APB Opinion No. 12, Omnibus Opinion-1967,* paragraph 6).
>
> 14. If stock is issued in a plan before some or all of the services are performed, part of the consideration recorded for the stock issued is unearned compensation and should be shown as a separate reduction of stockholders' equity. The unearned compensation should be accounted for as expense of the period or periods in which the employee performs service.
>
> 16. *Accounting for Income Tax Benefits*. An employer corporation may obtain an income tax benefit related to stock issued to an employee through a stock option, purchase, or award plan. A corporation is usually entitled to a deduction for income tax purposes of the amount that an employee reports as ordinary income, and the deduction is allowable to the corporation in the year in which the amount is includable in the gross income of the employee. Thus, a deduction for income tax purposes may differ from the related compensation expense that the corporation recognizes, and the deduction may be allowable in a period that differs from the one in which the corporation recognizes compensation expense in measuring net income.
>
> 20. This Opinion applies to all stock option, purchase, award and bonus rights granted by an employer corporation to an individual employee after December 31, 1972 under both existing and new arrangements and to reductions of income taxes resulting from deductions as of a date after December 31, 1972 that are related to stock option, purchase, award, and bonus rights granted before as well as after the effective date of this Opinion.

Examples of compensatory plan disclosures follows.

Incentive Compensation Plans

DANA CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Additional Compensation Plans—Dana has various additional compensation plans covering many of its employees. Most of these employees participate in individual incentive plans, group incentive plans and Scanlon plans. Pay-outs under these plans are computed under various formulas recognizing increased productivity and improved performance. Additional compensation earned by Dana employees under these plans amounted to $40,645,000 and $32,378,000 in 1977 and 1976, respectively.

Certain officers and other key employees participate in an additional compensation plan. Under the plan, if consolidated net income for the fiscal year exceeds 6% of consolidated stockholders' equity then, at the discretion of the Board of Directors, an amount equal to 6% of such excess may be accrued for additional compensation. The plan generally provides that, at the option of the compensation committee comprised of outside directors of the Board, awards made to participants may be paid out in cash or deferred and later paid in cash or in shares of the Company's common stock. Deferred awards, expressed in "units" of the Company's common stock, are credited with amounts equivalent to dividends on common stock. In 1977 Dana awarded $2,587,000 in such compensation and in 1976 awards aggregated $1,906,000; 11,824 and 12,878 shares of Dana's common stock held in treasury were issued and amounts equivalent to dividends of $231,000 and $184,000 were credited to deferred awards in 1977 and 1976, respectively. Total charges to expense relating to the plan amounted to $4,833,000 in 1977 and $3,859,000 in 1976. At August 31, 1977, 263,770 common shares held in treasury were reserved for issuance under this plan.

HUMANA INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 4: Incentive Compensation and Stock Bonus Plans—The Company has incentive compensation plans covering certain employees, some of whom are directors and officers. The plans provide for maximum payments of 30% to 50% of the employee's base salary based upon actual performance measured against financial objectives established by the Compensation Committee of the Board of Directors of the Company. Amounts charged to expense under these plans were $1,030,000 for 1977 and $600,000 for 1976.

In January 1976 the stockholders approved a stock bonus plan whereby hospital administrators may be granted shares of Humana common stock having a value equivalent to 20% to 30% of incentive compensation earned pursuant to plans described in the preceding paragraph. Such percentages may increase to a maximum of 50% if an administrator continues to achieve certain operating objectives. Shares awarded under this plan are deliverable over a five-year period and any shares not delivered are forfeited if the administrator's employment is terminated. Compensation is recognized in each of such five years as shares are delivered. Charges to expense under this plan have not been material.

INTERNATIONAL PAPER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Incentive Plans—The Company has a Profit Improvement Plan under which a maximum of 750,000 shares of treasury stock may be awarded. Under the Plan, which terminates in 1980, contingent awards of shares of common stock, covering a three-year period, are granted by a committee composed of members of the Board of Directors who are not eligible for awards. Awards are earned in any year in which earnings per share, as defined, exceed the predetermined profit base. Through December 31, 1977, 240,882 shares have been earned under the plan, including 28,141 shares earned in 1977, and 51,601 shares earned in 1976. At December 31, 1977, a total of 154,167 shares have been contingently awarded for the three-year period ending December 31, 1980.

The Company also has an Incentive Compensation Plan. Participants include those employees who are in a position to make substantial contributions to the management of the Company. Awards may be made in any year in which net earnings, as defined, exceed 6 percent of share owners' equity, but are limited to the lesser amount of 8 percent of such excess or 10 percent of the cash dividends declared on the outstanding common stock of the Company during the year. The awards may be in cash, payable immediately, or in treasury common shares, payable in the future

Provision for the cost of the Company's two incentive plans amounted to $7.1 million and $12.2 million for the respective years 1977 and 1976.

JOY MANUFACTURING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Incentive Compensation—Under JOY's Incentive Compensation Plan amended and restated in 1975, JOY is separated into operating units and appropriate bases are established for measuring the performance of each unit. Incentive compensation for the individual participants in each unit is determined by formula under a procedure issued pursuant to the Plan. Incentive is awarded for maintenance or improvement of the performance of each operating unit in each of the following areas of fiscal control, which together reflect the total operating performance of that unit: Return on Average Total Investment, Control of Working Investment and Control of Earned Profit Volume. The actual results attained by the unit in each area for the year for which incentive compensation is to be calculated are compared to the average performance of that unit in each such area over the latest three fiscal years, in order to determine the relative change in the unit's performance for such year from its historical performance. Under the formula, incentive compensation increases as the relationship of the unit's investment and earnings improves. Deterioration in the unit's performance in Control of Working Investment and Control of Earned Profit Volume results in the imposition of a penalty in computing incentive compensation. Under the provisions of the Plan, $2,775,000 in fiscal 1977 and $2,547,000 in fiscal 1976 were provided for payment of incentive.

PAXALL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Pension and Bonus Plans—The Company has noncontributory pension plans which cover substantially all hourly and salaried employees. Pension provisions charged to income each year for financial reporting purposes are sufficient to cover current costs and prior-service costs amortized over periods not exceeding forty years. Pension expense was $252,000 in 1976 and $260,000 in 1977.

Unfunded past-service costs as of November 1, 1976, were approximately $1,271,000. The actuarially computed value of vested benefits for all plans exceeded the total of the pension funds' assets and the Company's balance sheet accruals by approximately $784,000 at October 31, 1977.

The Company has a management incentive plan in which corporate officers and other selected management personnel participate. The provision for incentive compensation is primarily based on pretax income in excess of a target return, and the payment to any individual is limited to 50% of his base salary. The provisions for incentive compensation for the years ended October 31 were $184,000 in 1976 and $288,000 in 1977.

THE PENN TRAFFIC COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Pension and Incentive Compensation Plans: The Company has several noncontributory retirement plans for eligible employees and also contributes to a fund jointly administered by management and union representatives.

The total pension expense for all plans for 1977 and 1976 was $1,015,000 and $997,000, respectively. The Company's policy is to annually fund pension costs accrued.

As of the date of the latest actuarial valuations, the actuarially computed value of the vested benefits for certain of the Company's plans exceeded the total of the pension fund assets and the balance sheet accruals by approximately $2,934,000 and the Company's actuaries estimated that the amount of the unfunded past service costs was approximately $3,395,000. All pension plans comply with the provisions of the Employee Retirement Income Security Act.

In 1977, the Company amended its corporate incentive compensation program for executives and key employees whereby 6% of income before income taxes reduced by an amount equal to 16% of beginning consolidated shareholders' equity is set aside for the payment of bonuses. The incentive bonus was approximately the same as compared to the former method of calculation. The amount charged to earnings was $198,000 for 1977 and $233,000 for 1976.

SQUIBB CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Incentive Compensation Plan—The Company's Management Incentive Compensation Plan provides for awards to officers and key employees in cash and/or stock of the Company, payable currently or deferred. The plan limits the total amount which can be credited in any one year to 6% of that part of consolidated net income (before taxes on income and before provision for incentive compensation) which is in excess of 9% of consolidated shareholders' equity. The amount charged to income was $4,449,000 in 1977 ($4,779,000 in 1976).

Profit Sharing Plans

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Pension and Profit Sharing Plans—Pension expense charged against operations was $2,400,000 in 1977 and $1,800,000 in 1976. The benefit formula under two of the hourly pension plans was increased in 1977. The pension fund assets and the Company's balance sheet accruals exceed the actuarially computed value of vested benefits under the plans.

The Company has a qualified, noncontributory profit sharing plan for eligible employees of the Company and participating subsidiaries. The Company's contribution to the plan, as determined by the Board of Directors, is discretionary but may not exceed 15% of the annual aggregate compensation (as defined) paid to all participating employees. In addition, the maximum contribution may not exceed 15% of the amount by which Income Before Income Taxes (as defined) for the year exceeds 10% of Shareholders' Equity (as defined).

The Company also has an incentive compensation plan for awarding bonuses to certain officers and other key employees. The aggregate awards, which may be in cash or common stock, shall not exceed 6% of the amount by which Income Before Income Taxes (as defined) for the year exceeds 10% of Shareholders' Equity (as defined).

There were no contributions to the profit sharing and incentive compensation plans during 1977 and 1976.

GENERAL MILLS, INC. (MAY)

	1977	1976
	(in thousands)	
Costs and Expenses:		
Costs of sales, exclusive of items shown below	$1,786,210	$1,654,169
Depreciation expense	46,206	45,006
Amortization expense	1,919	1,701
Interest expense	26,739	29,400
Contributions to employees' retirement plans	20,617	17,903
Profit sharing distribution (Note 10)	4,275	3,527
Selling, general and administrative expenses	794,846	692,985
Total costs and expenses	$2,680,812	$2,444,691

Note 10: Profit-Sharing Plans—General Mills and some subsidiaries have certain profit-sharing plans which function as incentives. These plans cover key individuals who have

the greatest opportunity to contribute to current earnings and successful future operations.

The awards under these particular plans generally depend on profit performance in relation to pre-established goals, and are mostly available in cash shortly after year-end. These plans and payments are approved by the Board of Directors upon recommendation of the Compensation Committee. This committee consists of Directors who are not members of General Mills' management.

SULLAIR CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Profit Sharing Plan—Under the Sullair Corporation Profit Sharing Plan approved by the shareholders in April, 1977, all of the employees of the company and each of its subsidiaries participate (generally after 6 months of employment) in the profits generated by their respective companies. The plan is administered by a committee composed of non-employee directors of the company who determine the amounts to be distributed to eligible employees under the formulas established at the beginning of each year.

Distributions under the plan are made quarterly and may be either in cash or in common shares of the company, at the discretion of the administrative committee.

Provisions under the plan amounted to $2,647,412 in 1977 and $1,006,480 in 1976. During 1977 a total of 61,983 common shares, with a market value of $871,665, were distributed to employees; of these shares, 25,687, with a market value of $301,904 were in payment of profit sharing provided in 1976, and the remaining 36,296 shares, with a market value of $569,761, were in payment of profit sharing provided in 1977. The remainder of the provisions for both years have been paid in cash.

TEXAS INSTRUMENTS INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Profit Sharing and Retirement Plans—Total expense for all deferred profit sharing plans was $31,925,000 in 1977 and $25,296,000 in 1976. Under the plans, except in France where a government-prescribed formula is used, the annual contributions are a function of consolidated after-tax return on assets, a People Effectiveness Index (defined as consolidated net sales billed divided by total payroll) and the aggregate compensation of the participants. Total payroll of Texas Instruments Incorporated and all subsidiaries in 1977 was $764,224,000. The annual contributions are subject to a ceiling of the lesser of 25% of consolidated income before profit sharing and income taxes, or an amount which, together with all previous contributions, does not exceed 15% of the cumulative compensation paid to all participating employees for all plan years. These plans are stock bonus plans under which each year's cash contributions are invested in TI common stock through purchases of outstanding shares by the trustees. During 1977, the trustees of the plans purchased 350,170 outstanding shares of TI common stock.

Employees of the company and certain of its subsidiaries are covered by TI retirement plans. The company's policy is to fund retirement costs annually. Total expense under the plans was $18,226,000 in 1977 and 19,370,000 in 1976, The decrease in 1977 expense compared with 1976 was the net result of several factors, principally plan amendments and changes in actuarial assumptions. These changes had no material effect on net income for the year.

Performance Share Plans

BEMIS COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Performance Share Plan: Effective January 1, 1974, the Company adopted a Performance Share Plan for certain key executive employees. The Plan authorizes issuance of up to 315,000 performance share units over a 10-year period. Each unit is equivalent to one share of Bemis Company common stock. Under the Plan, executives earn their awards only if the company meets specific performance targets.

Payments to participants are to be made four years after the date of the award in shares or cash, or both, in such proportion as the Compensation Committee shall determine. However, for the first award period only a partial payment of up to 25% was permitted and a total of 18,374 shares were issued in 1976. A total of 73,500 performance shares were awarded in 1974 and 79,550 in 1976. Additional performance shares may be awarded in the years 1978 and 1980. The cost of the awards made under the Plan is being charged to income over the applicable four-year periods: $704,000 was expensed in 1977 and $995,000 in 1976.

COLT INDUSTRIES INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8: Incentive Compensation Plans—The Colt Industries Incentive Plan, approved by shareholders at the 1965 annual meeting, provides that if net earnings of the company for any year, after deducting therefrom the amount of all dividends accruing during such year in respect of preferred stocks, exceeds an amount equal to 6 percent of common shareholders' average equity for the year, then there shall become available for incentive awards for that year an amount equal to 6 percent of earnings before income taxes. Under this plan, the company made cash awards of $1,903,000, $1,731,000, $1,505,000, $1,719,000, and $1,125,000 for 1977, 1976, 1975, 1974, and 1973, respectively.

In 1977, the shareholders approved the 1977 Long-Term Performance Plan which provides for awarding performance shares. Under this plan, performance shares outstanding accrue value depending upon net earnings of the company. If net earnings in any year are less than $50,000,000, performance shares will not accrue value. If net earnings are $50,000,000 or more, the plan provides that each performance share will accrue $5.00 in value plus $.15 for each additional $1,000,000 of net earnings in excess of $50,000,000 to a maximum of $12.50. The charge to earnings in 1977 to provide for awards under this plan was $1,240,000.

The persons to receive awards under these plans and the amounts thereof are determined by a committee consisting of three directors, none of whom is eligible to receive an award.

PEPSICO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Capital stock and capital in excess of par value—Under the 1972 Performance Share Plan for key executive employees, as amended, the Compensation Committee of the Board of Directors may award up to 1,950,000 performance share units, each unit being limited to the market value of a share of PepsiCo capital stock on date of grant. A participant's award is forfeited unless he remains continuously in the employ of PepsiCo during the award period, except in the case of death, disability, or early retirement at the request of PepsiCo. Units are not earned or paid unless PepsiCo achieves stated cumulative growth rates in net income per share over the four-year period following the award.

Payments may be made in cash, or in capital stock, or combination thereof, as the Committee decides. By January 1978, 477,873 units had been earned by participants under the 1972 and 1974 awards. During 1976, additional units were awarded of which 384,351 units were outstanding at December 31, 1977. The cost of the awards made under the Plan is being charged to income ($3,577,000 in 1977 and $4,305,000 in 1976) over the applicable four-year period. Participants may elect in advance to defer receipt of payment of awards.

Stock Bonus Plans

DOYLE DANE BERNBACH INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (in part): Capital Stock—On February 28, 1977 the Board of Directors adopted a stock bonus plan (the "Anniversary Award Plan") which is designed to reward employees upon reaching certain levels of continued employment with the Registrant or its subsidiaries as to 2,500 shares of common stock.

Under this plan an employee, upon reaching the completion of his tenth year of employment, will be awarded shares having a fair market value of $100; upon reaching completion of his fifteenth year of employment will be awarded shares having a fair market value of $150; upon reaching completion of his twentieth year of employment will be awarded shares having a fair market value of $200; and upon reaching completion of his twenty-fifth year of employment will be awarded shares having a fair market value of $250. No awards may be granted under this plan after December 31, 1981. During 1977 the Registrant awarded 402 shares of its common stock.

The fair market value of the shares issued is considered compensation at the time an award is granted. The charge to operations for the year ended December 31, 1977 amounted to $7,594.

ENGELHARD MINERALS & CHEMICALS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Stock options and awards—The Company has granted common stock options to key employees under the Non-Qualified Stock Option Plan of 1976, providing for the granting of common stock options for up to 750,000 shares prior to termination of the plan on April 30, 1986, at the average closing prices of the common stock during a 60-day period beginning 30 days before the date of grant, but not more than 115% nor less than 85% of the average market price on the date of grant. Options may be made exercisable in installments over the option period, but no options may be exercised before one year or after ten years from the date of grant. Common stock options also were granted in earlier years under certain qualified plans terminated in 1976, at prices equivalent to market prices at date of grant, exercisable in installments over a period of five years from the date of grant; in addition, options were granted to key employees in foreign countries under similar terms and conditions.

Common stock awards have been granted under the Company's Key Employees Stock Bonus Plan, providing for the award of up to 800,000 common shares to key employees as additional compensation for their services, not exceeding 160,000 shares in any year. The plan terminates December 31, 1981. Shares awarded vest at the rate of 20% annually commencing one year from the date of award, provided the recipient is still employed by the Company on the vesting date.

Changes in outstanding shares under option and available for award during the year 1977 and the status at December 31, 1977 are summarized as follows:

Options:	
Outstanding at December 31, 1976	400,562
Granted (at $25.36 to $31.50 per share)	330,250
Exercised (at $16.42 to $29.11 per share)	(129,069)
Cancelled	(48,670)
Outstanding at December 31, 1977 (at $16.42 to $34.17 per share)	553,073
Exercisable—	
1977 and prior	101,533
1978	161,852
1979-1981	289,688
	553,073
Available for future grant	335,750
Awards:	
Available at December 31, 1976	644,389
Granted	(160,000)
Cancelled	4,726
Available at December 31, 1977	489,115

Earnings in 1977 were charged with $3,762,000, the fair market value of the stock awards at the time of the grant, net of cancellations (1976—$5,390,000).

SUPERMARKETS GENERAL CORPORATION (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option and Incentive Plans (in part)—On June 22, 1977, the stockholders approved a new Long Term Incentive Plan. The Company's 1970 Stock Option and Tandem Plans were simultaneously terminated, but all outstanding options and units previously awarded remain in effect. The new plan has several components: stock options, or various forms of alternative cash payments; and stock incentive rights, which allow the holders to receive shares of common stock upon the completion of incentive periods ranging from three to five years, without any payment to the Company. During the year ended January 28, 1978, 124,230 options were issued at prices ranging from $8.00 to $9.00 per share and 94,135 stock incentive rights were awarded. There have not been any charges to income with respect to stock options. Proceeds in excess of par value resulting from their exercise are credited to paid-in capital. During the year ended January 28, 1978, $109,000 was charged against income in order to recognize the proportionate share of employee compensation expense which will be recognized over the stock incentive period.

Deferred Compensation Plans

COPPERWELD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Pension and Incentive Compensation Plans—Costs of providing retirement benefits under the Corporation's pension plans amounted to $10,195,000 in 1977 and $9,245,000 in 1976.

Vested benefits as of the respective anniversary dates of the plans exceeded the fund assets at those dates by approximately $34,800,000 in 1977 and $33,600,000 in 1976. Unfunded prior service costs at the valuation dates in 1977 were approximately $99,200,000.

On October 5, 1977 Mr. Phillip H. Smith resigned as Chairman of the Board, President, and Chief Executive Officer of the Corporation, and the Corporation will be making certain future payments under Mr. Smith's prior employment agreement. The present value of such future payments (amounting to $1.2 million, or $.11 per share after taxes), representing $75,000 per year for a period of 20 years and additional payments commencing after January 31, 1987, in the nature of a pension, have been accrued as of December 31, 1977, and have been included in selling and administrative expenses for the year then ended. Under Mr. Smith's employment termination agreement, the Corporation also agreed to certain termination benefits to Mr. Smith, the cost thereof to be expensed as incurred. The Corporation does not deem the cost of such other termination benefits to be material.

The Corporation has an Executive Incentive Compensation Plan administered by a committee of the Board of Directors. The Plan provides for incentive awards to officers and key employees each year based on earnings of the Corporation and its subsidiaries and divisions. Charges to earnings under the Plan amounted to $604,000 in 1977 and $631,000 in 1976.

HERMAN MILLER, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Employee Benefit Plans—Total costs of the various plans charged against income are as follows:

Year ended May 31,	1977	1976
Pension	$ 652,700	$529,000
Profit sharing	240,000	153,500
Deferred compensation	200,300	10,000
Total	$1,093,000	$692,000

The Company has a noncontributory, defined benefit pension plan which covers its full-time employees and certain part-time employees. During 1977, certain changes were made in actuarial assumptions; however, the effect thereof on current plan costs is not considered material. The actuarially computed value of vested benefits of the plan at January 1, 1977, (the date of the latest actuarial report) exceeded the plan assets by approximately $620,000. The Company's consulting actuary estimates that the amount required to fund the past service cost was approximately $4,100,000 at that date.

Several of the Company's subsidiaries have similar plans. The pension costs shown above include approximately $59,000 in 1977 and $26,000 in 1976 related to these plans.

The Company has a trusteed profit sharing plan which covers all employees who have completed one year of employment. The plan provides for annual contributions by the Company of 3% of pretax domestic earnings or such other amounts as may be established by the Board of Directors.

The deferred compensation plan represents a plan for certain key employees who are not participants in the Company's stock option program. Under this plan, the participants receive retirement benefits which are computed as if they had received and exercised stock options; however, no stock is actually issued or issuable. For financial reporting purposes, the estimated present value of future retirement benefits to be paid is being accrued over the expected term of active employment of the participants.

ZENITH RADIO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Profit-sharing, retirement and incentive award plans—The Company has consulting and deferred compensation agreements with certain of its officers and senior management employees. Under the terms of these agreements, the officers and senior management employees will provide consulting services to the Company for a period of years after their normal retirement. In addition, on May 31, 1977, the Company entered into a supplemental employment agreement with the Chairman of the Board. This supplemental agreement provides that if the Chairman remains in the Company's employ until May 31, 1987, or if his employment ends prior to May 31, 1987, for reasons of death, permanent diability or termination by the Company, he will receive 25,000 shares of the Company's common stock, its equivalent in cash or a combination thereof. Under certain other conditions, if the Chairman does not remain in the Company's employ for the ten-year period and does not accept employment with a competitor, a percentage distribution will be made. In 1977 and 1976, provisions of $.4 million and $.7 million, respectively, were recorded for these consulting, deferred compensation and employment agreements.

Savings Or Investment Plans

CUTLER-HAMMER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Employee Benefit and Incentive Plans—Effective July 1, 1977, the Company established the Employees' Incentive Savings Plan for certain eligible employees. The Company makes regular monthly contributions equal to 25% of certain defined amounts of employee contributions plus an annual additional contribution based upon the increase in the Company's net earnings per share for the year. The Company's contribution during 1977 totaled $621,000 which is paid or payable in Cutler-Hammer, Inc. common stock.

DIAMOND SHAMROCK CORPORATION (DEC)

FINANCIAL SUMMARY

Employee Savings Plan—Under the Company's Employee Savings Plan eligible participating employees may elect to contribute up to 6% of their salaries to a trust for investment in either a corporate stock fund (Common Stock of the Company) or a government securities fund. The Company contributes an amount equal to 50% of the participant's monthly contribution, for investment in the corporate stock fund. Company contributions are fully vested to the participant after three years of continued employment. Company contributions to the Plan amounted to $1,641,000 in 1977 and $1,814,000 in 1976.

The Plan Trustee may purchase from the Company shares of the Company's Common Stock, for the corporate stock fund, at a price equal to the closing market price on the New York Stock Exchange on the date of purchase. At December 31, 1977, 788,616 Common shares were reserved for issuance under the Plan.

OWENS-ILLINOIS, INC. (DEC)

FINANCIAL REVIEW

Employee Benefits (in part)—The Owens-Illinois Stock Purchase and Savings Plan offers salaried employees with a minimum of one year of service the opportunity to invest 2%, 4%, 6%, 8% 10% or 12% of their salaries in an Owens-Illinois common stock fund, a government securities fund or a diversified stock fund; or in equal parts in any two of the funds. The Company contributes an amount equal to 50% of the monthly contribution (up to 6% of monthly base salary), made by each participant in the Plan, such contributions by the Company not to exceed $1,500 per year as to any participant. Company contributions, which are invested only in the Owens-Illinois common stock fund for the participant's account, are fully vested after 60 months of contributions by the participant. At December 31, 1977, there were approximately 9,200 participants in the Plan. Company contributions to the Plan amounted to $3.7 million ($2.2 million of which represented a contribution of treasury shares) in 1977 and $3.3 million ($2.7 million in treasury shares) in 1976.

STANADYNE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Common Stock—Under the provisions of the Company's stock investment plan approved by the stockholders in March 1975, certain executives are entitled to purchase, in each of the five years of the plan's duration, shares of the Company's Common Stock equivalent to a specified percentage (not in excess of 10%) of the employee's base salary for the preceding fiscal year. The purchase price of these shares shall be the market value on the award date. For each share so purchased the Company will award the participant, without cost, one additional share of Common Stock. Stock certificates for the awarded shares are held in the custody of the Company pending delivery to the participants. Delivery will be made after a period of five years from the award date provided the participant remains in the employment of the Company for such period of time. Under certain conditions, delivery of the shares free of the limitations and conditions of the plan may be made earlier. Up to 75,000 treasury shares are authorized to be issued under the plan.

During 1977 and 1976 participants under the plan purchased 2,712 shares and 2,905 shares (including 800 and 1,445 on the open market) respectively, of the Company's Common Stock and the Company awarded to such participants an equal number of shares. The market value of the shares awarded ($70,000 and $63,000 in 1977 and 1976, respectively) has been charged to compensation expense in the year awarded. The excess ($38,000 and $44,000 in 1977 and 1976, respectively) of market value over cost of treasury shares issued has been credited to capital in excess of par value. There remain 59,987 treasury shares reserved for issuance under the plan.

TABLE 3-10: DEPRECIATION METHODS

	Number of Companies			
	1977	1976	1975	1974
Straight-line	559	567	567	563
Declining balance	67	66	80	71
Sum-of-the-years digits	34	37	46	45
Accelerated method-not specified	60	71	73	74
Unit of production	40	41	38	35
Sinking fund	1	1	1	1

DEPRECIATION EXPENSE

Paragraph 5 of *APB Opinion No. 12* stipulates that both the amount of depreciation expense and method or methods of depreciation should be disclosed in the financial statements or in notes thereto. Paragraph 5, Chapter 9C of *Accounting Research Bulletin No. 43* defines depreciation accounting (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as "a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation." If the depreciation methods used for tax purposes and, for financial statement reporting differ, *APB Opinion No. 11* requires that the income tax expense shown in a company's financial statements reflect the tax effects of such a difference.

Table 3-10 summarizes the methods of depreciation used to allocate the cost of productive facilities. Examples of depreciation expense disclosures are presented below and in property, plant and equipment of Section 2 of this book.

Straight Line Method

ALCO STANDARD CORPORATION (SEP)

	1977	1976
Costs and Expenses		
Cost of goods sold	$1,008,251,895	$ 858,136,264
Selling and administrative	152,538,464	127,914,899
Depreciation, depletion and amortization	9,303,580	7,546,724
Interest	7,241,657	6,520,668
	$1,177,335,596	$1,000,118,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies—

Depreciation and Amortization—The Company computes depreciation by the straight-line method over the useful lives of buildings (20-45 years) and machinery and equipment (3-20 years). The cost of coal deposits and mine development is capitalized and amortized by units of production based on total estimated coal reserves.

EMPIRE GAS CORPORATION (JUN)

	1977	1976
Operating Expenses		
Selling, general, and administrative	$25,306,353	$20,175,369
Depreciation	3,583,919	3,514,593
Interest	1,749,912	1,446,380
	$30,640,184	$25,136,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting policies—

Property, Plant and Equipment and Depreciation—Property, plant and equipment is stated at cost. Depreciation charged to operations for financial statement purposes is computed by the straight-line method over the following estimated useful lives:

Buildings	20-40 years
Storage facilities	33 years
Consumer service facilities	25 years
Transportation equipment	4-10 years
Office and other equipment	10 years

Expenditures which significantly increase values or extend useful lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current earnings.

Costs of installing consumer service facilities are added to property, plant and equipment. When the equipment is removed from customer's premises, the installation costs, reduced by accumulated depreciation, are charged to expense.

THE FLINTKOTE COMPANY (DEC)

Statements of Changes in Financial Position

	1977	1976
	(In Thousands of Dollars)	
Funds provided from:		
Income from continuing operations	$20,809	$10,040
Items not affecting working capital:		
Depreciation and depletion	19,633	20,224
Provision for loss on disposal of Middlebranch plant	—	3,200
Deferred income taxes	677	660
	41,119	34,124
Discontinued pipe operations	—	(35)
Funds provided from operations	$41,119	$34,089

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Annual depreciation is provided on the group composite basis, using the straight-line method, generally at the following rates: Land fixtures, 4 to 5%; Buildings, 2½ to 5%; Machinery, equipment and furniture, 4 to 12½%. Depletion is provided on the unit-of-production basis. Gains or losses on disposition of significant assets are included in earnings.

INTERCO INCORPORATED (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Property, Plant & Equipment—Property, plant and equipment is stated at cost, less accumulated depreciation. For financial reporting purposes, the company employs both accelerated and straight-line methods in computing depreciation. Generally, accelerated methods are used for tax purposes and provision is made for deferred income taxes.

Note 4: Property, Plant and Equipment—The major classes of property, plant and equipment, at cost, are as follows (in thousands):

	1977	1976
Land	$ 7,274	$ 6,343
Buildings and improvements	120,025	103,884
Machinery and equipment	128,540	116,565
Construction in progress	—	8,705
	$255,839	$235,497

Construction in progress at February 29, 1976, represented expenditures for the new warehouse and office facilities in Eldersburg, Maryland, which were completed in May, 1976.

Capital expenditures, including construction in progress, amounted to $28,653,000 and $21,977,000 for fiscal 1977 and fiscal 1976, respectively.

Approximately 79% and 77% of depreciation expense was computed on the straight-line method in fiscal 1977 and fiscal 1976, respectively, Depreciation charged to operations amounted to $16,669,000 and $14,886,000 in fiscal 1977 and fiscal 1976, respectively.

MONSANTO COMPANY (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depreciation—The Company generally uses the straight line method of computing depreciation on assets; however, the sum of the years digits method is used on most domestic assets placed in service prior to January 1, 1972.

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Depreciation, Obsolescence and Repairs

Charges to expense were:

	1977	1976
Depreciation, amortization and depletion	$239.5	$189.3
Obsolescence	56.5	36.7
	$296.0	$226.0
Repairs and maintenance	$289.3	$222.7

THE STANDARD REGISTER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation—For financial statement purposes, depreciation is computed by the straight-line method at rates adequate to recover the cost of the applicable assets over their expected useful lives. For income tax purposes, depreciation is computed by accelerated methods.

Note 3: Plant and Equipment—Plant and equipment are carried at cost less accumulated depreciation. Depreciation, computed on the straight-line basis for financial reporting purposes, amounted to $4,229,735 in 1977 ($4,195,453 in 1976). Depreciation rates are based on reasonable estimates of useful lives:

Classification	Annual Rate
Buildings and improvements	2½ to 5%
Machinery and equipment	6⅔ to 16⅔%
Office equipment	6⅔ to 16⅔%
Trucks and autos	25%
Rental equipment	33⅓%
Leasehold improvements	Life of leases

When equipment is retired or has been fully depreciated, its cost and the related accumulated depreciation are eliminated from the respective accounts, and gains or losses arising from the disposition are reflected in income.

Declining-Balance Method

AMPCO-PITTSBURGH CORPORATION (DEC)

	1977	1976
Cost and expenses:		
Cost of products sold	$105,974,617	$91,561,898
Selling and administrative expenses	5,711,692	4,873,471
Depreciation	2,257,445	2,036,530
Interest expense	83,506	248,882
	$114,027,260	$98,720,781

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of accounting policies

Property, Plant and Equipment—For financial reporting purposes, depreciation is computed on the declining-balance composite basis except for certain buildings and machinery and equipment which is computed on the straight-line method. Depreciation rates are based on estimated useful lives of the asset groups as follows: buildings 18 to 45 years; machinery and equipment 4 to 14 years; land improvements 20 to 40 years. Depreciation claimed for income tax purposes for substantially all depreciable assets is computed by accelerated methods.

BEECH AIRCRAFT CORPORATION (SEP)

	1977	1976
Costs and Expenses		
Wages, materials, and other costs	$317,909,910	$264,309,156
Selling, general, and administrative expenses	40,435,377	35,310,755
Interest	3,455,903	4,134,748
Depreciation	3,354,028	3,238,641
Taxes, other than income taxes	8,847,425	7,996,536
	$374,002,643	$314,989,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting Policies—

Depreciation—Property, plant, and equipment is carried at cost and depreciation is determined using principally the declining balance method over periods ranging from 8 to 33 years for buildings and improvements and 3 to 20 years for machinery and equipment.

HARSCO CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Working capital provided from:		
Net income	$43,213	$37,990
Items not involving working capital:		
Depreciation	26,837	24,926
Other	137	(903)
Total from operations	$70,187	$62,013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Property, Plant and Equipment—Property, plant and equipment is depreciated over the estimated useful lives of the assets. For domestic facilities, depreciation is computed principally on the declining-balance method. Foreign facilities are depreciated principally using the straight-line method.

Maintenance, repairs and minor renewals are charged to expense; major renewals and improvements are capitalized.

Generally, when property is retired from service, the cost of the retirement is charged to the allowance for depreciation to the extent of the accumulated depreciation thereon, and the balance is charged to income. Proceeds from sales are credited to income.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies

Depreciation and amortization—The principal methods and depreciable lives used in computing depreciation and amortization are listed below:

Buildings and improvements	150% declining-balance (15 to 40 years)
Machinery and equipment	sum-of-the-years digits (3 to 10 years)
Other	sum-of-the-years digits (4 to 10 years)
Leaseholds and leasehold improvements	straight-line (period of the lease)

Depreciation and amortization on such assets charged to operations amounted to $46.5 million in 1977 and $38.6 million in 1976. Maintenance and repairs are charged to expense as incurred. When property is sold or otherwise disposed of, the asset and accumulated depreciation accounts are relieved and the difference between the net carrying value and the net proceeds is included in other income.

LEE ENTERPRISES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Property and equipment—Property and equipment is carried at cost. Expenditures for maintenance, repairs, renewals and improvements which do not significantly extend the useful lives of assets are charged to earnings as incurred. Gain or loss at disposition is reflected in current earnings and, concurrently, cost and accumulated depreciation are eliminated. Approximately $12,500,000 of production and other equipment is being depreciated by the declining balance method, whereas primarily the straight-line method is used for all other assets. Depreciation charged to operations was $4,151,000 in 1977 and $3,484,000 in 1976. Primary useful life in years is as follows:

Buildings and improvements	25
Newspaper electronic copy processing equipment	6
Newspaper presses	20
Other major newspaper equipment	11
Broadcast towers	20
Other major broadcast equipment	8

STANDARD MOTOR PRODUCTS, INC. (DEC)

Statement of Consolidated Changes in Financial Position

	1977	1976
Working capital was provided by:		
Net earnings	$5,736,000	$4,696,000
Charge against current net earnings not requiring current outlay of working capital:		
Depreciation and amortization	1,621,000	1,501,000
Total from operations	$7,357,000	$6,197,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Property, Plant and Equipment—These assets are recorded at cost and are depreciated over their respective useful lives using, in general, the double-declining balance method. Investment credits are amortized over the useful life of the related asset.

THE TIMKEN COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
Source of Funds		
From operations:		
Net income	$ 74,441,048	$ 60,888,150
Items included in net income not affecting working capital:		
Depreciation and amortization	42,599,790	38,154,201
Deferred income taxes	2,484,000	1,919,000
Equity in (earnings) loss of affiliated companies	(6,980)	1,345,747
Total from operations	$119,517,858	$102,307,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Significant Accounting Policies

Property, plant and equipment—Property, plant and equipment is valued at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to operations as incurred, while expenditures for additions and improvements are generally capitalized.

Provision for depreciation is computed generally by the double-declining balance method based upon the estimated useful lives of the assets.

Rental expense and the estimated present value of financing leases are not material; and, if all financing leases had been capitalized, the impact on net income would not have been material.

Sum-Of-The-Years-Digits Method

BLUE BELL, INC. (SEP)

Statements of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Source of Funds:		
Income from Continuing Operations	$69,532	$56,171
Add (deduct) amounts not affecting working capital:		
Depreciation and amortization of property	10,279	7,837
Deferred income taxes—non-current portion	9,181	6,982
Other	527	(651)
Working Capital Provided from Continuing Operations	$89,519	$70,339

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation and Amortization—Depreciation on a major portion of property is computed using the sum-of-the-years digits or other accelerated methods; on the remaining portion, depreciation or amortization is computed using the straight-line method.

CANNON MILLS COMPANY (DEC)

Statements of Changes in Consolidated Financial Position

	1977	1976
Working Capital Provided By:		
Operations:		
Net income	$17,965,602	$15,975,109
Charges (credits) to income not currently requiring (providing) working capital:		
Depreciation	19,941,368	17,946,525
Equity in earnings of minority investments	(1,320,683)	(685,159)
Deferred pension credits, net	(212,933)	2,268,859
Deferred income taxes	849,839	(795,351)
Increase in allowance for workmen's compensation claims and expenses	135,773	20,223
Total from operations	$37,358,966	$34,630,206

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies:

Property and Depreciation—Property is carried at cost. The Company has consistently followed the policy of maintaining its plant at a high level of technological development and uses for both tax and accounting purposes those depreciation methods (principally sum of the years digits) and lives which, in management's opinion, reflect the Company's continuing modernization of its plant. Accordingly, the Company has adopted the new Asset Depreciation Range (ADR) lives determined to be appropriate by the Office of Industrial Economics for property additions in 1976 and subsequent years. The cumulative effect of using these new lives instead of the longer ADR lives previously authorized was to decrease net income for fiscal 1977 by approximately $440,000, or $.05 per share. The effect on net income for fiscal 1976 was not significant.

The provision for depreciation computed by the method described above exceeded by approximately $2,100,000, the provision which would have resulted from using solely the straight-line method and the same estimated useful lives.

Maintenance and repairs are deducted from income when incurred. When property is retired from item accounts, the resulting gains or losses are taken into income. When property is retired from multiple asset accounts or ADR vintage accounts, the cost of the assets, reduced by salvage, is deducted from accumulated depreciation.

SPERRY RAND CORPORATION (MAR)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Source of Working Capital		
Net income	$156,826	$145,294
Add income charges not affecting working capital		
Depreciation, amortization and obsolescence:		
Rental machines	88,143	102,706
Other property, plant and equipment	45,453	43,373
	133,596	146,079
Deferred income taxes	48,500	29,804
	182,096	175,883
Deduct income credits not affecting working capital		
Net income of Sperry Rand Financial Corporation	14,135	18,698
Equity adjustment applicable to other companies, less dividends received: 1977, $1,115; 1976, $1,285	2,758	(2,287)
	16,893	16,411
Working capital provided from operations	$322,029	$304,766

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation—Depreciation of property, plant, and equipment is generally provided on the sum-of-the-years'-digits method over the estimated economic lives of the assets. Rental machines are depreciated over a life of five years. Leasehold improvements are amortized over the lease period or the estimated useful life, whichever is shorter. Maintenance and repairs are charged to income as incurred and renewals and betterments are capitalized.

THE VENDO COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
Working Capital Provided by (used in) Operations:		
Net loss	$(3,650,311)	$ (856,911)
Charges (credits) not affecting working capital in the current period—		
Depreciation and amortization	1,075,626	1,033,227
(Decrease) increase in deferred income taxes	(1,145,000)	1,343,000
Minority interest in earnings (losses) of subsidiaries	73,552	(68,135)
Earnings of VFC Acceptance Corporation	(176,591)	(157,004)
Gain on sales of manufacturing facilities	—	(2,189,195)
Gain on sales of fixed assets	(678,981)	(48,555)
Provided by (used in) operations	$(4,501,705)	$ (943,573)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Plant and Equipment—Depreciation of machinery and other equipment is provided by charges to operations over the estimated useful lives of the assets by the sum-of-the-years-digits method, and generally by the straight-line method for all other assets. The lives used for the more important items within each property classification are as follows:

Buildings	25 years
Machinery and equipment	12½ years
Transportation equipment	4 years
Office equipment	10 years
Leasehold improvements	Lease period

WINN-DIXIE STORES, INC. (JUN)

Consolidated Statements of Changes in Financial Position

	1977	1976
	(Amounts in thousands)	
Working Capital Provided By:		
Operations:		
Net earnings	$70,400	63,026
Charges (credits) not affecting working capital:		
Depreciation and amortization	48,970	40,358

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation and Amortization: Depreciation of plant and equipment is provided over the estimated useful lives principally by the sum-of-the-years-digits method except for used property for which the straight-line method is used. Amortization of improvements to leased premises is provided by the straight-line method over the periods of the leases or the estimated useful lives of the improvements, whichever is less.

Unit of Production Method

ARMCO STEEL CORPORATION (DEC)

Statement of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Source of Funds		
Operations		
Income before cumulative effect of depreciation change	$119,832	$119,774
Add (deduct) items not involving cash in the period:		
Depreciation	110,958	93,115
Lease right amortization	14,819	15,003
Deferred income taxes	(51,917)	(26,583)
Equity in undistributed net income of Armco Financial Corporation and subsidiaries	(15,047)	(7,329)
Equity in undistributed net income of associated companies	(6,530)	(7,974)
Other—net	1,159	(728)
Total from operations	$173,274	$185,278

NOTES TO FINANCIAL STATEMENTS

(Dollars in the thousands except per share amounts)

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation—In 1976, Armco adopted a method of depreciating steel-making plant and equipment which adjusts, within limits, straight line depreciation for the level of production for the year. This method approximates the unit-of-production method of depreciation and is similar to that used by certain other large companies in the steel industry. The cumulative effect of such change reflected on the statement of consolidated income is net of related income taxes of $3,648.

Other depreciation and amortization is calculated on the straight line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives. Leasehold improvements are amortized over the shorter of the life of the related asset or the life of the lease.

BOISE CASCADE CORPORATION (DEC)

	1977	1976
	($000)	
Costs and expenses		
Cost of sales	$1,791,320	$1,506,290
Depreciation and cost of company timber harvested	84,270	72,420
Selling and administrative expenses	214,170	199,070
Interest expense	38,130	31,950
	$2,127,890	$1,809,730

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Property—In January 1977, the Company adopted the units-of-production method of depreciation for property and equipment at certain of its wood products and paper manufacturing facilities in order to achieve a better matching of costs and revenues during the service lives of the facilities. This change did not have a material effect on consolidated earnings or on earnings of either segment during 1977 or on a cumulative basis for prior years. Facilities not affected by the change will continue to be depreciated on the straight-line method. The estimated service lives of the principal items of property and equipment range from 3 to 40 years.

FREEPORT MINERALS COMPANY (DEC)

	1977	1976
Costs and expenses:		
Production and delivery costs	$216,796,000	$211,334,000
Exploration and development costs.	15,257,000	11,943,000
Depreciation and amortization (including $6,769,000 in 1977 and $3,388,000 in 1976 for amortization of nonproducing oil and gas leases)	26,249,000	20,382,000
Selling, general and administrative expenses	13,929,000	11,831,000
	$272,231,000	$255,490,000

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Depreciation and Amortization—The Company computes depreciation and amortization of property, plant and equipment over estimated useful lives, generally on the unit-of-production method for producing mineral and oil and gas properties and on the straight-line method for other assets. The cost of any property retired, less any salvage, is generally charged against accumulated depreciation and amortization.

Capitalized lease acquisition costs for nonproducing oil and gas properties are amortized over their basic lease term unless abandoned, in which case the applicable unamortized cost is written off. If a commercial discovery is made, the applicable unamortized cost is amortized on the unit-of-production method over production from the proved reserves for that property.

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

	1977	1976
	($000)	
Costs and Expenses		
Crude oil, products, merchandise and material costs, and operating expenses	$2,582,007	$2,317,277
Selling, general, and administrative expenses	323,119	292,601
Depreciation, depletion, and amortization	169,373	81,514
	$3,074,499	$2,691,392

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting and Financial Reporting Policies

Depreciation, Depletion, and Amortization—Depreciation of the trans-Alaska pipeline and a provision for dismantlement are computed by the unit-of-throughput method based on estimated recoverable crude oil reserves. Depletion and depreciation of producing oil and gas properties and depletion of mine development costs, mineral lands, and leaseholds are computed for each oil and/or gas reservoir or coal mine using the unit-of-production method based on estimated proved development reserves. Undeveloped leasehold costs are amortized based on experience, except that no amortization was provided for Prudhoe Bay properties until production commenced.

Depreciation of other property, plant, and equipment is provided principally by the straight-line method over estimated useful lives which are periodically reviewed and revised based on experience. It is not practicable to summarize depreciation rates applicable to other property, plant, and equipment because of the variety of properties and range of rates.

Depletion

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

Consolidated Statement of Changes in Financial Position

	1977	1976
	(In millions)	
Source of funds		
Net earnings	$108.2	$135.2
Depreciation and depletion	67.7	54.8
Deferred income taxes	7.2	10.7
Other	6.2	15.9
Total from operations	$189.3	$216.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part):

Property, Plant, and Equipment—Property, plant, and equipment are recorded at cost. Repairs and maintenance are charged to expense as incurred; major renewals and improvements are capitalized. Upon sale or other retirement of property, the cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss is included in earnings. Depreciation is provided over estimated useful lives of 17 to 50 years for buildings and 5 to 20 years for machinery and equipment, using principally straight-line and unit-of-production methods. Depletion and amortization of mineral, gas, and oil properties and rights are provided under the unit-of-production method based upon estimates of recoverable reserves or deliveries under contract.

NATIONAL STEEL CORPORATION (DEC)

	1977	1976
	($000)	
Costs and Expenses		
Cost of products sold and operating expenses	$2,790,974	$2,497,506
Selling, administrative and general expenses	115,945	104,230
Depreciation and depletion	136,874	127,310
Interest and other debt expense	56,091	48,047
	$3,099,884	$2,777,093

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Significant Accounting Policies

Depreciation and Depletion: Depreciation of production and transportation facilities is provided by charges to income computed by the straight-line method. Provisions for depreciation of certain raw material facilities and furnace relinings are computed on the basis of tonnage produced in relation to estimated total production to be obtained from such facilities. Depreciation for income tax purposes is computed by accelerated methods. Depletion of coal and iron ore properties is computed on a tonnage basis calculated to fully amortize their costs when estimated deposits have been exhausted.

INCOME TAXES

PRESENTATION OF INCOME TAXES

APB Opinion No. 11 states in part:

60. In reporting the results of operations the components of income tax expense for the period should be disclosed, for example:

a. Taxes estimated to be payable.
b. Tax effects of timing differences.
c. Tax effects of operating losses.

These amounts should be allocated to (a) income before extraordinary items and (b) extraordinary items and may be presented as separate items in the income statement or, alternatively, as combined amounts with disclosure of the components parenthetically or in a note to the financial statements.

61. When the tax benefit of an operating loss carry forward is realized in full or in part in a subsequent period, and has not been previously recognized in the loss period, the tax benefit should be reported as an extraordinary item in the results of operations of the period in which realized.

In addition to the aforementioned required disclosures, the Securities and Exchange Commission, in *Accounting Series Release No. 149*, specifies that financial statements filed with it must 1) Disclose the reasons for timing differences resulting in deferred taxes, 2) Include a reconciliation explaining why the effective income tax rate for financial statement purposes differs from the statutory Federal income tax of 48%, and 3) Disclose deferred tax reversals if cash outlays for income taxes are expected to substantially exceed income tax expense for any of three succeeding years.

Table 3-11 summarizes the descriptive captions used by the survey companies to identify income tax expense. Table 3-12 shows the nature of frequently disclosed timing differences giving rise to deferred taxes. Examples of income tax expense presentations and disclosures follow.

TABLE 3-11: FEDERAL INCOME TAX EXPENSE

	1977	1976	1975	1974
Description Terms				
Income taxes	447	440	391	396
Federal income taxes	114	102	157	163
United States (U.S.) income taxes	19	31	48	36
	580	573	596	595
Other or no caption for expense	20	27	4	5
Total Companies	**600**	**600**	**600**	**600**

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

	1977	1976
	($000)	
Income Before Income Taxes and Minority Interest	$15,491	$16,353
Income Taxes—(Note 1)	8,374	8,256
Minority Interest in Earnings of Subsidiary		483
Net Income	$ 7,117	$ 7,614

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes—The Company computes and records taxes currently payable based upon determination of taxable income which is different from pre-tax financial statement income. Such difference arises from the reporting of financial statement amounts in different periods for tax purposes. The tax effect of such "timing" difference is provided as deferred taxes.

Investment credits recognized, including those utilized in computing deferred income taxes for timing differences, are reflected as a reduction of income tax expense over the productive lives of the related acquired properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Income Taxes—Income tax provisions are as follows

	1977	1976
	(in thousands)	
Federal—Before amortization of investment tax credit:		
Current	$1,538	$ 767
Deferred	4,598	5,832
State and city:		
Current	1,133	183
Deferred	1,428	1,764
	8,697	8,546
Amortization of investment tax credit	(323)	(290)
Income taxes	$8,374	$8,256

Deferred income taxes arise principally from reporting earnings on construction contracts for income tax purposes in the period in which the contracts are completed, rather than on the percentage-of-completion method used for financial reporting purposes. Deferred taxes on construction contracts are classified as current liabilities, since the assets related to such contracts are included in current assets. The liability for non-current deferred income taxes represents principally the effect of depreciation reported for tax purposes in excess of depreciation for financial statement purposes.

The differences between the statutory and effective tax rates are as follows:

	1977	1976
Statutory tax rate	48%	48%
State and city income taxes, net of Federal tax effect	9	6
Percentage depletion	(1)	(2)
Amortization of investment tax credit	(2)	(2)
Effective tax rate	54%	50%

TABLE 3-12: TIMING DIFFERENCES — REASONS

	Number of Companies			
	1977	1976	1975	1974
Depreciation	456	469	504	477
Unremitted earnings	107	146	156	122
Installment sales	71	77	68	72
Inventory valuation	61	69	88	56
Pensions	49	53	55	62
Other employee benefits	59	67	60	66
Long-term contracts	44	47	40	35
Discontinued operations	35	44	N/C	N/C
Intangible drilling costs	28	34	N/C	N/C
Warranties and guaranties	26	21	30	26
Interest and taxes during construction	22	18	N/C	N/C

N/C — Not Compiled.

ARMCO STEEL CORPORATION (DEC)

	1977	1976
	($000)	
Income Taxes (Note 6)		
Currently Paid or Payable		
Federal (after Investment Tax Credits of $16,727 for 1977 and $17,370 for 1976)	$23,651	$ (5,884)
State and Foreign	29,629	28,655
Total	53,180	22,771
Deferred (to be recovered in future years)	(51,917)	(26,583)
Total	$ 1,263	$ (3,812)

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

Note 1 (in part): Summary of Significant Accounting Policies

Income Taxes—Armco files a consolidated federal income tax return which includes Armco Financial Corporation and its domestic subsidiaries (see Note 7). Armco allocates to the companies included in the consolidated tax return an amount equivalent to the reduction or increase in the consolidated provision for federal income tax (both current and deferred) arising from such inclusion. Armco also allocates to certain companies interest on unremitted tax benefits or charges utilized in the consolidated tax return.

No provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of the foreign subsidiaries were paid as dividends to Armco, since substantially all of these undistributed earnings ($130,297 for 1977 and $123,887 for 1976) have been reinvested in working capital and fixed assets and foreign tax credits would be available as a reduction of United States income taxes in the event of distribution.

Note 6: Income Taxes—The differences between the provision for income taxes at the statutory rate of 48% and that shown in the statement of consolidated income are summarized as follows:

	1977		1976	
	Amount	Percent	Amount	Percent
Tax at statutory rate	$58,126	48.0	$55,662	48.0
Investment tax credits	(45,249)	(37.4)	(42,586)	(36.7)
Equity in net income of Armco Financial Corporation and associated companies	(9,983)	(8.3)	(6,377)	(5.5)
Percentage depletion allowance	(6,186)	(5.1)	(13,360)	(11.5)
Other	4,555	3.8	2,849	2.4
Total	$ 1,263	1.0	$(3,812)	(3.3)

The provision for deferred income taxes results from reporting the following items in different years for financial accounting purposes and income tax purposes:

	1977	1976
Capitalization of repairs	$(79,786)	$(54,561)
Pension funding	—	18,561
Excess of tax over book depreciation	52,715	30,581
Investment tax credits	(28,522)	(25,216)
Other:	3,676	4,052
Total	$(51,917)	$(26,583)

When the 1976 financial statements were prepared, Armco recorded a deferred income tax provision relating to an estimated timing difference which would create sufficient taxable income to allow utilization of available foreign tax credits. Armco initially estimated that such timing difference would not generate any additional investment tax credit. During 1977, Armco decided to capitalize, for income tax purposes only, certain repairs and maintenance related to production facilities. Such capitalization generated investment tax credits amounting to $13,505 which have been included in the 1977 provision for income taxes.

Armco uses the flow-through method to account for investment tax credits. Armco has an investment tax credit carry-forward of $54,791 for income tax purposes (expiring $22,079 in 1983 and $32,712 in 1984) which has been recorded for financial accounting purposes as a reduction of previously recorded deferred tax credits that will reverse in the investment tax credit carry-forward period. Effective January 1, 1976, the Federal income tax laws were changed to require the utilization of investment tax credit carry-forwards as a reduction of income taxes payable before using investment tax credits generated in the current year. This change virtually assures utilization of investment tax credits during the carry-forward period.

Federal income tax returns of Armco and its subsidiaries for the years 1962 through 1972 have been examined by the Internal Revenue Service and adjustments have been proposed, a major portion of which Armco is contesting. Armco believes that it has made adequate provision for final settlement of the proposed adjustments arising from such examinations. Tax returns for 1973 and 1974 are currently under examination. See Note 11 for a discussion of possible additional tax liability.

BAKER INTERNATIONAL CORPORATION (SEP)

	1977	1976
	($000)	
Income before income taxes	$106,083	$83,932
Income taxes (Note 1 and 5):		
United States	33,394	26,896
Foreign	12,275	8,189
	45,699	35,085
Net income	$ 60,414	$48,847

Note 1 (in part): Summary of Significant Accounting Policies:

Income taxes—United States investment tax credits are accounted for on the flow-through method. The Company accrues United States income taxes on foreign earnings expected to be repatriated in the foreseeable future. If such earnings are not repatriated during the forecast period, the taxes previously accrued are credited against the provision for United States income taxes on foreign earnings.

Note 5: Income Taxes—The expected provision for income taxes, computed by applying the United States statutory income tax rate to income before income taxes, is reconciled to the provision for income taxes as follows:

1977	Amount	% of Income Before Taxes
Computed expected provision for income taxes	$50,920,000	48.0
State taxes based on income—net of United States income tax benefit	1,241,000	1.2
United States taxes not provided on foreign earnings	(2,324,000)	(2.2)
United States investment tax credits	(2,471,000)	(2.3)
Other—net	(1,697,000)	(1.6)
Actual provision for income taxes	$45,669,000	43.1

1976	Amount	% of Income Before Taxes
Computed expected provision for income taxes	$40,287,000	48.0
State taxes based on income—net of United States income tax benefit	864,000	1.0
United States taxes not provided on foreign earnings	(2,885,000)	(3.4)
United States investment tax credits	(2,704,000)	(3.2)
Other—net	(477,000)	(.6)
Actual provision for income taxes	$35,085,000	41.8

The sources of deferred income taxes for 1977 and 1976, and the tax effect of each were as follows:

	1977	1976
Depreciation expense	$4,949,000	$4,596,000
Pension expense	793,000	418,000
U.S. income tax on:		
Foreign earnings	510,000	2,796,000
DISC earnings	2,105,000	2,559,000
Provisions for inventory obsolescence	(919,000)	(1,715,000)
Other—net	232,000	(170,000)
Total deferred tax provision	$7,670,000	$8,484,000

With the exception of $1,223,000 in 1977 and $2,244,000 in 1976, related to excess tax depreciation expense of foreign entities, substantially all of the amounts in the above table result from timing differences for United States income tax purposes.

Repatriation of all foreign earnings, excluding DISC earnings on which full U.S. income taxes have been provided, accumulated at September 30, 1977 and 1976 would have resulted in tax liabilities of $18,481,000 and $14,317,000, respectively, for which the Company had provided deferred tax liabilities of $8,770,000 and $8,096,000, respectively (Note 1). The 1977 tax liability reflects the recent change in the federal income tax law pertaining to the foreign tax credit available for dividends from certain less developed countries.

BELL & HOWELL COMPANY (DEC)

	1977	1976
	($000)	
Earnings from continuing operations before taxes	$22,998	$27,390
Income taxes	11,195	14,621
Earnings from continuing operations	$11,803	$12,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part) Significant Accounting Policies:

Income Taxes—Taxes are provided for all items included in the statement of earnings, regardless of the period when such items will be reported for tax purposes. Additional income taxes estimated to be payable upon distribution of earnings of international subsidiaries and the deferred taxes arising from the earnings of the Company's Domestic International Sales Corporations (DISC's) are also provided currently. Investment tax credits are deferred and amortized over the approximate useful lives of the acquired assets.

Note F: Income Taxes—The provision for income taxes on continuing operations includes the following:

	1977	1976
	(in thousands)	
Federal	$ 6,477	$ 8,755
State	1,755	1,243
Non-U.S.	3,288	4,900
Investment credit amortization	(325)	(277)
	$11,195	$14,621
Taxes currently payable	$ 9,520	$ 9,954
Net decrease in prepaid taxes	937	1,574
Long-term deferred taxes	738	3,093
	$11,195	$14,621

The segments of the 1977 provision for income taxes not currently payable arose principally from taxes deferred under the United Kingdom inventory relief provisions ($1,078,000) and accelerated amortization of tooling cost ($500,000). The segments of the 1976 provision for income taxes not currently payable arose principally from the use of the cash basis tax reporting for the Resident Schools' operations ($1,025,000), taxes deferred under the United Kingdom inventory relief provisions ($1,142,000) and accelerated amortization of tooling costs ($1,134,000).

The Company's effective income tax rate for continuing operations varies from the statutory federal income tax rate as a result of the following factors:

	1977	1976
Statutory federal income tax rate..	48.0%	48.0%
State taxes on income, net of federal tax	2.7	2.4
Higher effective foreign tax rates..	1.0	2.8
Investment credit amortization......	(1.4)	(1.0)
Puerto Rican earnings subject to lower tax rate	(1.2)	—
Other—net	(.4)	1.2
Effective tax rate	48.7%	53.4%

Unamortized investment tax credits available for future periods were $1,574,000 and $1,441,000 at the end of 1977 and 1976, respectively.

In connection with the examination of the federal income tax returns of the Company and its domestic subsidiaries for the years 1971-1975, the Internal Revenue Service proposed adjustments which principally relate to the use by Bell & Howell Schools of the cash method for reporting taxable income. Because of the taxable income generated from the sale of the FISL notes (referred to in Notes B and C) the Company has accepted an IRS proposal, accordingly $27 million of taxes for the years 1971-1975, the major portion of which was previously included in deferred taxes, has been transferred to the current liability for taxes. Interest payable on the settlement has been accrued, principally in prior years. Acceptance of the proposed settlement is not expected to require payment of additional income taxes for 1976.

CENTRONICS DATA COMPUTER CORP. (JUN)

	1977	1976
Income before income taxes	$16,452,151	$11,828,615
Income taxes (Notes 1 and 7):		
Current	3,847,574	1,969,774
Deferred	58,426	95,226
	3,906,000	2,065,000
Net income	$12,546,151	$ 9,763,615

Note 1 (in part): Summary of Significant Accounting Policies:

Income taxes—The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries, which earnings to date have been insignificant, and on the undistributed earnings of its domestic international sales corporation (DISC) because such earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely. See Note 7.

The deferred income taxes in the accompanying financial statements reflect the timing differences in reporting results of operations for income tax and financial accounting purposes. Such timing differences relate primarily to depreciation and DISC earnings.

Investment tax credits are treated as reductions of income tax expense in the year in which they are utilized. This policy has not had a significant effect on net income or earnings per share.

Note 7: Income taxes—The Company has not provided for federal income taxes on the undistributed earnings of its wholly-owned domestic international sales corporation (DISC) subsidiary. It is the Company's intention to reinvest undistributed earnings of the subsidiary (amounting to approximately $4,288,000 as of June 30, 1977 and approximately $3,894,000 as of June 30, 1976) so as to continue to be eligible for deferral of such earnings for federal income tax purposes.

The Company's wholly-owned domestic subsidiary, Centronics of Puerto Rico, Inc., is operating as a "possessions corporation," as defined in Section 936 of the Internal Revenue Code. The earnings of this subsidiary which are derived from Puerto Rican sources (amounting to approximately $16,972,000 as of June 30, 1977 and approximately $8,910,000 as of June 30, 1976) are not subject to federal income taxes.

In addition, Centronics of Puerto Rico, Inc. has been granted various incentive tax exemptions available to new manufacturing enterprises under Puerto Rican law, the principal tax incentive being an exemption from local taxation on manufacturing income earned in Puerto Rico for a period of twelve years expiring in 1986. It is the Company's present intention to continue reinvesting the earnings of this subsidiary until the expiration of this tax exemption grant. Repatriation of these funds at an earlier date could result in a 7 to 10 percent Puerto Rico tax unless the subsidiary were liquidated.

Income taxes as shown in the consolidated statement of income for the years ended June 30, 1977 and 1976 consist of the following:

	Federal	State	Total
June 30, 1977:			
Current income taxes	$3,444,808	$402,766	$3,847,574
Deferred income taxes..	61,192	(2,766)	58,426
	$3,506,000	$400,000	$3,906,000
June 30, 1976:			
Current income taxes	$1,655,147	$314,627	$1,969,774
Deferred income taxes..	72,853	22,373	95,226
	$1,728,000	$337,000	$2,065,000

The taxes on earnings in 1977 and 1976 are less than the respective amounts that would result from applying the statutory federal income tax rate of 48 percent to the consolidated earnings before taxes. The tax savings are principally related to the tax-exempt earnings of the Company's domestic subsidiary operating in Puerto Rico. The estimated tax savings on the earnings of this subsidiary amounted to approximately $3,870,000 in 1977 and $3,173,000 in 1976. Additional savings of approximately $180,000 in 1977 and $504,000 in 1976, resulted from the indefinitely deferred income of the Company's domestic international sales corporation.

FOOTE MINERAL COMPANY (DEC)

	1977	1976
Costs and expenses:		
Cost of sales and other operating charges	$102,733,000	$ 93,380,000
Depreciation and amortization	8,416,000	5,981,000
Selling, general and administrative expenses	6,714,000	6,075,000
Employees' retirement plans	2,755,000	2,622,000
Write-down of investment in foreign joint venture	4,116,000	-0-
Interest expense (net of $1,720,000 capitalized in 1976)	2,644,000	563,000
Provision (Benefit) for Federal and State income taxes (notes 1 and 3)	(2,323,000)	1,599,000
	$125,055,000	$110,220,000

Note 1 (in part): Summary of Significant Accounting Policies

Income Taxes—The Company has deferred to future periods the income tax effect resulting from timing differences between income for financial reporting purposes and taxable income. See note 3 for details of deferred tax expense. The company follows the "flow-through" method of accounting for the investment tax credit. The Company's taxable income is included in the consolidated Federal income tax return filed by Newmont Mining Corporation. The Company's share of the consolidated tax is computed on a separate return basis. All Federal income tax amounts are due to or from Newmont Mining Corporation and tax benefits not due within one year are included in Other Assets.

Note 3: Income Taxes—Federal and state income tax expense consists of the following:

	1977	1976
Current:		
Federal	$(909,000)	$(3,000)
State	(19,000)	240,000
	$(928,000)	$ 237,000
Deferred:		
Federal	$(1,468,000)	$ 1,308,000
State	73,000	54,000
	$(1,395,000)	$ 1,362,000
Total income tax expense (benefit)	$(2,323,000)	$ 1,599,000

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1977	1976
Extended vacation benefits previously deducted for tax purposes but deferred for book purposes	$(85,000)	$(58,000)
Tax depreciation in excess of book depreciation	1,537,000	381,000
Deferred compensation previously deducted for book purposes and now deducted for tax purposes	41,000	41,000
Construction interest deductible for tax purposes but capitalized for book purposes	-0-	860,000
Mine development costs deductible for tax purposes but deferred for book purposes	328,000	138,000
Write-down of investment in foreign joint venture not currently deductible for tax purposes	(3,216,000)	-0-
	$(1,395,000)	$ 1,362,000

The tax provisions for 1977 and 1976 are different from amounts computed by applying the U.S. Federal income tax rate of 48% to income before tax. The reasons for these differences are as follows:

	1977	1976
	(Thousands of dollars)	
Expected tax expense	$ 2	$ 3,950
Increase (decrease) in tax expense resulting from:		
Depletion	(1,440)	(888)
Investment tax credit	(600)	(2,400)
Equity in loss of and write-down of foreign joint venture	(482)	816
State income taxes	28	125
Miscellaneous items	169	(4)
Actual tax expense	$(2,323)	$ 1,599

JOY MANUFACTURING COMPANY (SEP)

	1977	1976
	($000)	
Income Before Income Taxes	$93,090	$92,759
Provision for Income taxes (Note 9)	44,875	45,158
Net Income	$48,215	$47,601

STATEMENT OF ACCOUNTING POLICIES

Income Taxes—Deferred income taxes are recorded for timing differences between financial and tax reporting. Principal timing differences relate to depreciation expense, income on long-term construction contracts and pension costs. Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for income taxes.

Provision is made for additional taxes that might result from the distribution to the parent company of retained earnings of consolidated non-U.S. subsidiaries and equity companies in accordance with the prevailing policy of distribution for each entity. JOY does not provide taxes on that portion of undistributed earnings which is being or is intended to be reinvested to meet permanent business requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Income Taxes—Summaries of the provisions for income taxes are as follows:

	1977	1976
	(In Thousands of Dollars)	
Current:		
Federal	$30,200	$33,200
State	4,792	5,048
Non-U.S.	2,383	4,824
Total current provision	37,375	43,072
Deferred:		
Federal	6,021	2,102
State	778	487
Non-U.S.	701	(503)
Total deferred provision	7,500	2,086
Total provision for income taxes	$44,875	$45,158

The major components of the deferred provision are as follows:

	1977	1976
	(In Thousands of Dollars)	
Depreciation	$ 2,748	$ 1,400
Income on long-term construction contracts*	5,542	—
Pension prepayment	2,124	1,048
DISC income—taxed on a calendar year basis	(75)	1,011
Non-U.S. income expected to be repatriated	13	(698)
Exchange losses not realized	49	(494)
Compensation earned—not paid	(950)	(468)
Miscellaneous items—net	(1,951)	287
Total deferred provision	$ 7,500	$ 2,086

*During fiscal 1977, JOY with the approval of the Internal Revenue Service, made a change for tax purposes from the percentage-of-completion method to the completed contract method of revenue recognition.

Reconciliations of the difference between the 48% U.S. statutory tax rate and the consolidated effective book income tax rate are as follows:

	1977	1976
U.S. statutory tax rate	48.0%	48.0%
State income tax provisions net of Federal income tax benefits	3.1	3.1
Unrealized (gains) losses on foreign currency translation	(.6)	1.1
Investment tax credit ($1,688,000—1977; $2,249,000—1976)	(1.8)	(2.4)
Domestic International Sales Corporation	(1.1)	(1.4)
Other—net	.6	.3
Effective book income tax rate	48.2%	48.7%

Undistributed earnings of non-U.S. subsidiaries amounting to $35,174,000 at September 30, 1977 were considered by management to be permanent business requirements of the subsidiaries under present circumstances; consequently no provision was made for the additional income taxes which might result if these undistributed earnings were remitted to the parent company. However, any decision to remit such income in the future in the form of dividends is not expected to result in significant additional income taxes because of the availability of foreign tax credits.

Income taxes have not been provided on a portion of JOY's Domestic International Sales Corporation's (DISC) accumulated earnings which are considered to be permanently reinvested. The amounts of the DISC's income on which income taxes have not been provided were $2,073,000 in fiscal 1977 and $2,643,000 in fiscal 1976. The cumulative amount of such earnings at September 30, 1977 was $11,637,000.

Federal income tax returns through 1969 have been settled. Management believes that adequate tax accruals have been provided for all subsequent years.

K MART CORPORATION (JAN)

	1978	1977
Estimated income taxes:		
U.S.	$222,051,000	$198,236,000
Foreign	15,109,000	12,253,000
State and local	31,909,000	16,252,000
Tax effects of timing differences	8,146,000	4,969,000
	$277,215,000	$231,710,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Income Taxes—Deferred income taxes are provided on non-permanent differences between financial statement and taxable income, resulting principally from the use for tax purposes of accelerated depreciation methods.

The company accrues appropriate U.S. and foreign taxes payable upon distribution of earnings of subsidiaries, except on those earnings which have been or are intended to be permanently reinvested, or which are expected to be distributed free of additional tax by operation of relevant statutes currently in effect and by utilization of available tax credits and deductions.

Note E: Estimated Income Taxes—The effective income tax rate is reconciled to the Federal statutory rate as follows:

	Fiscal Year Ended January 25, 1978	January 26, 1977
Book income before income taxes	$578,194,000	$497,940,000
Tax thereon, computed at statutory rate (48%)	$277,533,000	$239,011,000
Increases (reductions) in taxes resulting from:		
State and local income taxes, net of Federal income tax benefit	16,593,000	8,451,000
Investment tax credit	(10,253,000)	(10,355,000)
Foreign income subject to foreign income tax but not expected to be subject to U.S. tax in foreseeable future	(474,000)	(800,000)
Other	(6,184,000)	(4,597,000)
Estimated income taxes	$277,215,000	$231,710,000
Effective rate	47.9%	46.5%
Tax effects of major timing differences are:		
Excess of tax depreciation over book depreciation	$ 10,359,000	$ 9,959,000
Other	(2,213,000)	(4,990,000)
	$ 8,146,000	$ 4,969,000

The current liability for U.S. and foreign income taxes includes $781,000 at January 25, 1978, and $2,994,000 at January 26, 1977, arising from the tax effects of timing differences related principally to property taxes net of certain book expenses not currently deductible for tax purposes. The amounts shown on the balance sheets for deferred U.S. and foreign income taxes result from the differences between financial statement and income tax depreciation.

Undistributed earnings of subsidiaries which have been or are intended to be permanently reinvested, or which are expected to be distributed free of additional tax by operation of relevant statutes currently in effect and by utilization of available tax credits and deductions, totaled approximately $338,000,000 at January 25, 1978.

TABLE 3-13: INVESTMENT TAX CREDIT

	1977	1976	1975	1974
Flow-through method	504	502	518	504
Deferral method	75	76	60	72
No reference to investment credit	21	22	22	24
Total Companies	**600**	**600**	**600**	**600**

INVESTMENT CREDIT

The Revenue Acts of 1962 and 1964 allowed a credit against Federal income taxes of up to seven percent of the cost of certain depreciable assets purchased and placed in service during the tax year. Effective for property acquired, constructed or reconstructed after April 19, 1969, the Tax Reform Act of 1969 terminated the credit but permitted unused credits to be carried back three years and carried forward seven (in some instances ten) years. The Revenue Act of 1971 reinstated the credit for property ordered after March 31, 1971 and for property ordered prior to March 31, 1971 but acquired subsequent to August 15, 1971. The Revenue Act of 1971 did not require a particular method of accounting but did require that once an accounting method was adopted no change could be made without the consent of the Secretary of the Treasury or his delegate. Treasury releases issued subsequent to the enactment of the Revenue Act of 1971 stipulate that only the flow-through method or deferral method be used to account for the investment credit and specify December 10, 1971 as the effective date for the accounting requirements of the Act. *Accounting Interpretations*, published in the April 1972 issue of *The Journal of Accountancy* and reprinted in Section U 4094 of *AICPA Professional Standards-Accounting* discuss various aspects of the reinstated investment credit.

Table 3-13 shows that the survey companies usually use the flow-through method to account for the investment credit. Examples of disclosures of the accounting for the investment credit follow.

Flow-Through Method

ARCHER DANIELS MIDLAND COMPANY (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Income Taxes—Provision is made in the financial statements for deferred income taxes which result from timing differences between financial and taxable income, principally depreciation and undistributed earnings of a domestic international sales corporation (DISC) and certain foreign subsidiaries. No provision is made for income taxes on the taxable income which would result from dividend distributions of one foreign subsidiary as the Company plans to finance expansion by reinvestment of undistributed earnings of that subsidiary.

Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

Note 10: Income Taxes—Income tax expense consists of the following:

	1977	1976
Federal	$36,490,218	$45,450,440
State	3,316,652	3,697,000
Deferred federal and state	5,338,130	11,757,749
Investment credit	(8,400,000)	(8,056,250)
Investment credit—TRASOP	(1,100,000)	-0-
Total	$35,645.000	$52,848,939

Income taxes for 1977 have been reduced by $1,100,000 for additional investment credit earned by contributing the same amount to the Company's Tax Reduction Act Stock Ownership Plan (TRASOP). This transaction had no effect on net earnings.

Reconciliation of the Company's effective tax rate to the statutory federal income tax rate of 48% as applied to earnings before income taxes and equity in National City Bancorporation for the years ended June 30, 1977 and 1976 follows:

	1977	1976
Federal income tax at statutory rate of 48%	48.0%	48.0%
Increase (reduction) resulting from:		
State income taxes, net of federal tax benefit	2.0	2.1
Investment credit	(10.0)	(6.9)
Income taxes related to undistributed earnings of foreign subsidiary	(2.9)	-0-
Additional provision	-0-	2.4
Other	.4	(.1)
Effective tax rate	37.5%	45.5%

No provision has been made for income taxes on $6,160,000 of undistributed earnings of a foreign subsidiary which are planned to be indefinitely reinvested.

GAF CORPORATION (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Tax Credit—The company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Income Taxes—Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of $29,924,000, since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits or because the remittance of such earnings has been indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating $10,663,000 through December 31, 1977, since the company intends to postpone indefinitely the remittance of such earnings.

The provision for income taxes on continuing operations consists of the following:

	1977	1976
	Dollars in Thousands	
United States-current	$17,962	$15,554
United States-deferred	3,000	3,952
United States investment tax credit	(2,812)	(2,359)
Amortization of deferred United States investment tax credit arising prior to 1971	(573)	(573)
Foreign	3,681	1,693
State	1,330	2,173
Total income taxes	$22,588	$20,440

HON INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Investment Tax Credit: Investment tax credits are included in income as a reduction of the federal income tax provision in the year the credits are realized, other than investment tax credits relating to leveraged equipment leases which are recognized in income over the terms of the leases.

Note F: Income Taxes—Details of the provision for income taxes are as follows:

	Year Ended December 31 1977	January 1 1977
Currently payable:		
Federal	$9,160,000	$6,619,000
State	538,000	377,000
Investment tax credit	(1,255,000)	(314,000)
	$8,443,000	$6,682,000
Deferred (including deferred investment tax credit)	1,170,000	217,000
	$9,613,000	$6,899,000

$925,000 of the above amount of investment tax credit to be realized for income-tax purposes in 1977 relates to the Company's investment in leveraged equipment leases. Of this amount, $468,000 has been deferred for financial reporting purposes and will be recognized over the term of the respective lease to which it relates.

MARRIOTT CORPORATION (JUL)

	1977	1976
United States and Foreign Income Taxes		
Current—U.S. and State	$17,786,000	$10,164,000
—Foreign	2,486,000	2,536,000
Deferred	9,045,000	14,119,000
Investment tax credit—Theme Parks	(850,000)	(3,250,000)
—Other	(3,250,000)	(2,650,000)
	$25,217,000	$20,919,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Income Taxes—United States and foreign income taxes are based on reported income. Deferred income taxes are provided for timing differences between book and taxable income, principally depreciation, interest and stock compensation.

Investment tax credits are accounted for using the "flow-through" method.

Provision for United States taxes has not been made on unremitted earnings of foreign subsidiaries because management considers these earnings to be permanently invested.

Income Taxes—Reconciliation of the United States statutory tax rate of 48% and the Company's consolidated income tax rate follows:

	1977	1976
United States income tax rate	48.0%	48.0%
State income taxes, net of U.S. tax benefit	3.7	3.5
Foreign earnings and losses subject to aggregate tax rate less than 48%	(2.6)	(0.6)
Tax benefit on dispositions of businesses	(2.1)	—
Other items, net	0.8	0.9
Effective gross income tax rate	47.8	51.8
Investment tax credit—		
Theme Parks	(1.4)	(6.3)
Other	(5.3)	(5.1)
Effective net income tax rate	41.1%	40.4%

Deferred income tax provisions are attributable to:

	1977	1976
Excess of tax over book deduction—		
Depreciation	$8,140,000	$ 7,522,000
Interest	424,000	3,953,000
Other items, net	481,000	2,644,000
	$9,045,000	$14,119,000

Deferred Method

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Major Accounting Policies

Investment Tax Credit and Foreign Investment Grants—The Company takes United States investment tax credit into income over the composite average lives of the applicable assets. The amortization of the credit is included in consolidated income as a reduction of the provision for income taxes. The additional one percent investment tax credit resulting from the adoption of a Tax Reduction Act Employee Stock Ownership Plan (TRASOP) is recorded as a reduction of the provision for current income taxes when the Company's contribution to the plan is included in operating costs. Foreign investment grants are deferred and amortized over the useful lives of the related assets.

Note 5: Income Taxes—The components of the provision for income taxes are as follows:

	1977	1976
	(in thousands)	
Federal:		
Current	$21,399	$26,562
Deferred	9,985	4,880
Deferred investment credit, net of amortization	7,690	7,789
	39,074	39,231
State:		
Current	4,579	6,208
Deferred	1,334	660
	5,913	6,868
Foreign:		
Current	8,034	8.205
Deferred	3,529	3,146
	11,563	11,351
Total Provision for Income Taxes	$56,550	$57,450

Deferred taxes result primarily from the tax effect of the excess of tax depreciation over book depreciation.

The effective tax rates of 45.5% for 1977 and 48.0% for 1976 can be reconciled to the United States Federal income tax rate of 48% as follows:

	1977	1976
	(Percent of profit before income taxes)	
United States Federal statutory rate	48.0%	48.0%
State taxes, net of Federal tax benefit	2.5	3.0
Amortization of investment credit	(3.1)	(2.3)
Additional investment credit from TRASOP contribution	(.9)	—
Domestic International Sales Corporation (DISC) tax benefit	(1.2)	(1.4)
Other	.2	.7
Effective tax rate	45.5%	48.0%

The Company has made no provision for United States income taxes on the undistributed earnings of its foreign subsidiaries and 50% owned joint ventures where such earnings have been permanently reinvested or on the undistributed earnings of its Domestic International Sales Corporation which have been invested in qualified export-related assets. The amount of such undistributed earnings included in consolidated retained earnings at 30 September 1977 was $51,000,000.

The expense of taxes other than income taxes amounted to $24,350,000 in 1977 and $20,394,000 in 1976 including payroll taxes of $17,745,000 and $14,071,000, respectively.

AKZONA INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant accounting policies

Investment tax credit—Investment tax credits are deferred and amortized into income over the average useful lives of the related assets.

Note 6: Income taxes—The income tax provision is comprised of the following:

	1977	1976
Provision (credit) for income taxes:		
Current—Federal	$(6,041,000)	$(8,402,000)
State	980,000	(126,000)
Deferred—Federal	4,236,000	5,499,000
State	40,000	398,000
	$ (785,000)	$(2,631,000)

The effective tax rate differs from the 48% federal statutory rate because of investment tax credit amortization, depletion and other less significant items. Deferred income taxes, principally federal, result from timing differences in the recognition of income and expense for tax and financial reporting purposes. The use of accelerated methods of depreciation for tax reporting and the straight-line method for financial reporting represents the most significant timing difference.

Investment tax credits amortized into income were $2,800,000 in 1977 and $2,313,000 in 1976. For tax purposes, the full credit earned is normally used to reduce current federal taxes payable. Credits of $6,306,000, earned in 1976 and 1977 and available through 1984 for the reduction of future federal income tax liabilities, have been reflected as reductions of deferred income taxes in the accompanying consolidated statement of financial condition.

ANHEUSER-BUSCH, INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Principles and Policies

Income Taxes—The provision for income taxes is based on elements of income and expense as reported in the Statement of Income. The company has elected to utilize certain provisions of federal income tax laws and regulations to reduce current taxes payable, the primary item being the calculation of depreciation for tax purposes on the basis of shorter lives permitted by the Treasury Department. The resulting tax benefit has been deferred until such time as depreciation reported in the Statement of Income exceeds that taken for income tax purposes.

The company follows the practice of adding investment tax credit to income over the productive lives of the assets generating such credit, rather than in the year in which the assets are placed in service. Accordingly, benefits realized from investment tax credit have been deferred and will be recognized as reductions in the provisions for income taxes in the appropriate years.

Income Taxes—The provision for income taxes for the years ended December 31, 1977 and 1976, includes the following:

	1977	1976
Current tax provision:		
Federal	$45,306	$ 7,478
Other	1,490	2,241
	46,796	9,719
Deferred tax provision:		
Federal	24,666	17,669
Other	1,382	1,479
	26,048	19,148
Deferred investment tax credit:		
Reduction in current taxes payable	11,363	22,158
Less:		
Amortization of deferred investment tax credit	(3,986)	(3,073)
TRASOP investment tax credit	(2,180)	—
	5,197	19,085
Total	$78,041	$47,952

The deferred tax provision results from timing differences in the recognition of revenue and expense for tax and financial purposes. The primary timing difference is the use of accelerated depreciation for tax purposes which had a tax effect of $25,772,000 in 1977 and $20,084,000 in 1976.

During the current year, the company established a TRASOP (Tax Reduction Act Stock Ownership Plan) and as a result obtained an additional 1% investment tax credit. This additional credit offsets a corresponding charge to expense in the company's Statement of Income.

BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Investment Credit—The Company follows the deferral method of accounting for the Federal investment tax credit. The remaining balance of $3,819,000 at year end is being amortized over the lives of the related assets. The investment credit amounted to $928,000 and $954,000 in 1977 and 1976, respectively. Amortization of $406,000 and $322,000 was reflected in income in 1977 and 1976, respectively.

TAXES ON UNDISTRIBUTED EARNINGS

APB Opinion No. 23 stipulates that income taxes should be accrued for undistributed earnings of subsidiaries and corporate joint ventures included in consolidated earnings and that such accruals should be accounted for as timing differences. If there is evidence that the undistributed earnings of a subsidiary or corporate joint venture will not be transferred to the investor, income taxes should not be accrued, but disclosures should be made as to the reason for not accruing taxes (earnings will be reinvested or remitted in the form of a tax-free liquidation) and as to the cumulative amount of undistributed earnings. With regard to the undistributed earnings of other investees which are included in consolidated earnings *APB Opinion No. 24* stipulates that income taxes should be accrued and treated as a timing difference.

An *Accounting Interpretation* of Opinion No. 23, published in the March 1973 issue of *The Journal of Accountancy* and reprinted in Section U 4095 of *AICPA Professional Standards-Accounting* discusses disclosure of untaxed undistributed earnings of subsidiary. The Interpretation states in part:

> Care should be exercised in drafting the footnote required by paragraph 14-b of *APB Opinion No. 23* so that readers may be fully apprised of tax implications of unremitted earnings of subsidiaries. The following is illustrative.
>
> "It is the policy of the company to accrue appropriate U.S. and foreign income taxes on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future. Unremitted earnings of subsidiaries which have been, or are intended to be, permanently reinvested (disclosure of purpose), exclusive of those amounts which if remitted in the near future would result in little or no such tax by operation of relevant statutes currently in effect, aggregated $ at December 31, 1972."

Table 3-14 shows the extent to which the survey companies accrued taxes on undistributed earnings.

TABLE 3-14: TAXES ON UNDISTRIBUTED EARNINGS

	1977	1976	1975	1974
Taxes accrued on all undistributed earnings.........	28	44	33	35
Taxes accrued on a portion of undistributed earnings	108	119	108	140
Taxes not accrued on undistributed earnings.........	248	236	227	223
No mention of undistributed earnings	216	201	232	202
Total Companies	**600**	**600**	**600**	**600**

Accrual For Taxes

BOISE CASCADE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 3 (in part): Income Taxes—The Company has undistributed earnings of approximately $90,625,000 from certain of its foreign subsidiaries. U.S. income taxes, net of allowable foreign income tax credits, have been provided on $10,002,000 of the undistributed earnings. The Company has not provided U.S. income taxes on $80,623,000 of the undistributed earnings of its Canadian subsidiaries because of its plans to reinvest those earnings in Canada.

ST. REGIS PAPER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Taxes on income, investment credits, and capital gains—The company computes and records taxes currently payable based upon determination of taxable income, which is different from pretax financial statement income. To the extent such difference is not permanent and arises from recording transactions which apply to the computation of taxable income in another period, the tax effect is provided for as deferred taxes.

The provision for Federal income taxes gives effect to the capital gains treatment of timber cutting and to investment credits deductible for purchase or construction of qualified equipment and facilities. Such credits are reflected as a reduction of income tax expense on a flow-through basis in the year in which they arise.

Deferred income taxes are provided at capital gains rates on undistributed earnings of less-than-50-percent-owned companies where St. Regis' investment is accounted for by the equity method, based on the determination that the undistributed earnings will be realized by the ultimate disposition of the investment rather than in the form of dividends. No provision is made for income taxes on undistributed earnings of consolidated foreign subsidiaries, 50-percent-owned joint ventures, and the company's Domestic International Sales Corporation subsidiary, since these earnings normally have been or will be reinvested in the business.

Income Taxes (in part)—Income taxes for the years ended 1977 and 1976 are shown in the following table:

	1977	1976
Federal		
Current	$33,980,000	$34,571,000
Less: Investment tax credit	7,843,000	17,190,000
Employee stock ownership plan	2,251,000	
Current, net	23,886,000	17,381,000
Deferred:		
Accelerated methods of computing depreciation	16,803,000	12,330,000
Accelerated funding of pension costs	3,641,000	
Deferred gain on sale of assets	1,056,000	
Deferred compensation not deductible until paid	39,000	316,000
Taxes provided on undistributed earnings of non-consolidated affiliates	233,000	333,000
Realized foreign-currency (gains) losses	(78,000)	3,361,000
Unrealized foreign-currency losses	(800,000)	(225,000)
Other, net	1,991,000	838,000
Deferred	22,885,000	16,953,000
Total Federal	46,771,000	34,334,000
Foreign		
Current	12,743,000	13,189,000
Deferred:		
Taxes provided on undistributed earnings of non-consolidated affiliates	580,000	51,000
Other, net	3,535,000	996,000
Deferred	4,115,000	1,047,000
Total foreign	16,858,000	14,236,000
State and local	3,500,000	5,200,000
Provision for income taxes	$67,129,000	$53,770,000

Deferred taxes on the balance sheet will be reflected as a component of current tax expense in subsequent years as timing differences reverse. It is anticipated that the tax expense will continue to exceed the cash outflow because of new deferrals.

* * *

The cumulative amount of undistributed earnings of consolidated subsidiaries and 50-percent-owned joint ventures on which the company has not provided income taxes was approximately $133,000,000 in 1977 and $137,000,000 in 1976. The Domestic International Sales Corporation subsidiary represents $10,500,000 of such earnings in both 1977 and 1976.

JOHNS-MANVILLE CORPORATION (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes—Income taxes are provided at rates applicable in the countries in which the income is earned.

The investment tax credit is accounted for as a reduction of income tax expense in the year in which the related capital expenditure becomes eligible for investment benefit under applicable tax regulations.

Deferred income taxes are provided on items recognized in different periods for financial reporting purposes than for income tax purposes. Deferred income taxes result principally from the use of accelerated methods of depreciation for tax purposes.

Deferred income taxes are also provided on such undistributed earnings of subsidiaries outside the United States as the Company anticipates it will receive as dividends as well as on undistributed earnings of associated companies in which investments are recorded on the equity basis. However, deferred taxes have not been provided on a portion of the undistributed earnings of subsidiaries outside the United States and a domestic international sales corporation, since it is intended that such earnings are permanently reinvested in these companies.

OTHER FINANCIAL INFORMATION

Income Taxes—Income tax expense consisted of the following:

	1977	1976
	(Thousands of Dollars)	
Current:		
U.S. Federal	$34,599	$ 9,695
U.S. State and Local	3,860	2,155
Foreign		
Canadian Federal and Provincial	12,842	10,911
Canadian Provincial Mines	10,705	8,893
Other	7,042	6,935
	69,048	38,589
Deferred:		
U.S.	11,464	5,190
Foreign		
Canadian Federal and Provincial	4,764	(973)
Canadian Provincial Mines	1,553	3,141
Other	2,091	1,857
	19,872	9,215
	$88,920	$47,804

The investment tax credit amounted to $3,720,000 in 1977 and $3,915,000 in 1976.

The cumulative amount of the portion of undistributed earnings of subsidiaries outside the United States and of a domestic international sales corporation on which the Company has not provided deferred income taxes at December 31, 1977 was approximately $272,700,000.

No Accrual For Taxes

ALLEGHENY LUDLUM INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

Income taxes—Investment tax credits are applied as a reduction of income taxes currently payable in the year in which the credits are earned.

Deferred income taxes are not provided on undistributed earnings of foreign subsidiaries and affiliated companies that have been reinvested.

Note 10 (in part): Income taxes—Income taxes for the years 1977 and 1976 applicable to continuing operations and discontinued operations include current and deferred taxes as follows:

	1977	1976
	(In thousands)	
Taxes currently payable (refundable):		
Federal	$ 9,402	$(3,934)
Foreign	470	633
State	1,877	2,125
	11,749	(1,176)
Less investment tax credits	4,747	3,761
	7,002	(4,937)
Deferred taxes:		
Federal	1,920	(2,214)
State	435	320
	2,355	(1,894)
	$ 9,357	$(6,831)

Prior to the fourth quarter of 1977, the Corporation followed the policy of providing deferred income taxes on undistributed earnings of its Domestic International Sales Corporation (DISC). As a result of its continuing experience with this export subsidiary and other factors, the Corporation determined in late 1977 that all undistributed DISC earnings will be permanently reinvested and accordingly will not be available for taxable distribution to the Corporation in the foreseeable future. The Corporation believes that the recognition of DISC earnings, without provision for deferred taxes, more accurately reflects the operations of its exporting activities. As a result of not providing deferred income taxes on the DISC earnings, 1977 net earnings were increased by $2,694,000 or $.37 per share, of which $2,415,000 or $.33 per share was attributable to years prior to 1977.

Income tax expense of continuing operations in each year varied from the amount which would be provided by applying the Federal statutory income tax rate to earnings from continuing operations before income taxes. The following reconciles the Federal statutory tax rate to the effective tax rate for the years 1977 and 1976:

	1977	1976
Federal statutory tax rate	48.0%	48.0%
Investment tax credits	(13.6)	(8.2)
Equity in net earnings of unconsolidated subsidiaries and affiliated companies	(3.2)	(10.7)
Undistributed current and prior years' earnings of DISC	(7.7)	—
State income taxes, less Federal income tax benefit	3.4	2.9
Other	—	.6
Effective tax rate	26.9%	32.6%

Cumulative undistributed earnings of affiliates and foreign subsidiaries that have been reinvested and on which income taxes have not been provided by the Corporation amounted to approximately $63,000,000 at January 1, 1978.

THE BENDIX CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

U.S. and foreign income taxes—U.S. and foreign income taxes have been provided on the undistributed earnings of subsidiaries outside the U.S., except to the extent such earnings are considered permanently invested in the subsidiary operations.

Investment credit is deferred and amortized over the estimated useful lives of the assets to which it applies.

U.S. and Foreign Income Taxes (in part)—The undistributed earnings considered permanently invested in subsidiary operations outside the U.S. approximate $185 million at September 30, 1977; no provision has been made for taxes which could result in the event of remission of these undistributed earnings. Any such U.S. income taxes payable would be reduced through utilization of available foreign tax credits.

HEUBLEIN, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taxes (in part)—Provision for foreign income taxes is made where applicable. No provision for federal income taxes has been made on the undistributed earnings of foreign subsidiaries since it is management's intent to reinvest substantially all earnings of foreign subsidiaries abroad. The undistributed earnings of foreign subsidiaries for which federal income taxes have not been provided at June 30, 1977 aggregate $16,063,000. If such earnings were distributed, income tax credits would be available to reduce any resulting income tax liability.

RANCO INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies:

International Subsidiaries—At September 30, 1977, the cumulative amount of undistributed earnings of International subsidiaries for which the Company had not recognized the tax effect of receiving a taxable transaction, was approximately $8,164,000. If such undistributed earnings were ever remitted to the Company in a taxable distribution, it is expected that the U.S. income taxes would be substantially offset by available tax credits. In addition, the Company's "Domestic International Sales Corporation" (DISC) has cumulative undistributed earnings of approximately $935,000. In accordance with generally accepted accounting principles, no income taxes have been provided on undistributed DISC earnings.

Net sales of the International operations were approximately $47,428,000 and $39,655,000 in 1977 and 1976, respectively.

TRANSLATION OF FOREIGN CURRENCY ACCOUNTS

During 1975, the Financial Accounting Standards Board issued *Statement of Financial Accounting Standards No. 8* which, effective for fiscal periods beginning after December 31, 1975, is the authorative pronouncement on accounting for translation of foreign currency accounts.

Of the 416 survey companies having foreign operations, 306 disclosed details as to their translation policies. Examples of such translation disclosures follow.

AMP INCORPORATED AND PAMCOR, INC. (DEC)

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3: International Operations—Net income from international operations amounted to $27,316,000 in 1977 and $20,197,000 in 1976.

Availability of remittances to the parent company is subject to exchange controls and other restrictions of the various countries.

Exchange gains and losses, after adjustment for income taxes to the extent appropriate, decreased net income by $2,069,000 in 1977 and increased net income by $489,000 in 1976. However, the total cumulative quantifiable effect of foreign currency rate changes on net income, including the effect of consuming in operations non-monetary assets translated to U.S. dollars at historical exchange rates (principally inventories charged to cost of sales on a first-in, first-out basis), decreased net income by approximately $.01 per share in 1977 and $.09 per share in 1976. Economic effects of foreign currency exchange rate changes, such as changes in selling prices, sales volumes and cost structures, are not quantifiable by practicable means.

ARMSTRONG CORK COMPANY (DEC)

	1977	1976
	($000)	
Earnings before other income (expense), income taxes and extraordinary gain	$112,764	$108,284
Other income (expense):		
Interest expense	(14,995)	(13,046)
Unrealized foreign exchange gains (losses)	(8,999)	1,916
Miscellaneous, net	6,566	5,293
	(17,428)	(5,837)
Earnings before income taxes and extraordinary gain	95,336	102,447
Taxes on income	54,961	50,197
Earnings before extraordinary gain	$40,375	$52,250

FINANCIAL REVIEW

Net earnings of $40.4 million for 1977 are 23% below the earnings of $52.3 million reported for 1976, excluding the extraordinary gain in 1976 of $12.4 million ($.48 per common share) resulting from the sale of surplus woodlands which had been held essentially for investment purposes.

Effect of foreign exchange gains (losses) on earnings	1977 (000)	1976 (000)
Earnings exclusive of foreign currency exchange fluctuations	$47,818	$50,216
Foreign exchange gains (losses):		
Realized:		
Related to long-term debt	(22)	—
Other	(119)	(800)
	(141)	(800)
Unrealized:		
Related to long-term debt	(7,327)	2,221
Other	25	613
	(7,302)	2,834
Total foreign exchange	(7,443)	2,034
Earnings before extraordinary gain	$40,375	$52,250

THE ANSUL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Translation of Foreign Currencies—The accounts of foreign subsidiaries have been translated using current exchange rates for current assets (excluding inventories and certain prepaid items), current liabilities, and long-term debt and appropriate historical rates for all other balance sheet accounts. Revenue and expense accounts are translated at average exchange rates during the year, except for amounts related to balance sheet accounts translated at historic rates. Foreign currency translation adjustments are included in income currently.

Note 7: Effect of Currency Exchange Rate Changes—Our consolidated results from continuing operations have been reduced by $67,000 in 1977 and $235,000 in 1976 as a result of currency exchange rate fluctuations. The 1977 loss includes unrealized translation losses of $407,000 offset by a $340,000 decrease to cost of sales related to the historical translation of inventories sold during the year. The 1976 reduction was due to unrealized translation losses of $80,000 and a $155,000 increase to cost of sales. In addition, a 1976 devaluation of the Australian dollar caused the U.S. dollar valuation of our inventories in Australia to be in excess of replacement value, necessitating a $790,000 write down to market at November 30, 1976.

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Exchange—Net earnings were unfavorably affected by $20,211,000 in 1977 and by $26,358,000 in 1976 by foreign currency fluctuations. An analysis follows (in thousands):

	1977	1976
Foreign exchange gains-net:		
Translation of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions	$ 632	$ 8,222
Translation of certain items, principally inventories, at historical rates	(14,051)	(22,494)
Effect of foreign currency rate changes on revenues and expenses	(6,792)	(12,086)
	$(20,211)	$(26,358)

	1977	1976
Detail by country:		
Brazil	$(11,774)	$10,552)
Argentina	(3,908)	(5,715)
Mexico	(1,788)	(7,823)
Spain	(1,477)	(659)
Australia	(1,124)	(3)
Germany	2,368	1,172
All other—net	(2,508)	(2,778)
	$(20,211)	$(26,358)

The adverse effect on net earnings of foreign exchange fluctuations does not reflect the favorable effect of increases in selling prices or of other business actions taken to minimize the impact of inflation.

BRISTOL-MYERS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Operations Outside the United States—Amounts included in the consolidated financial statements for subsidiaries operating outside the United States and Puerto Rico are as follows:

	Year Ended December 31, 1977	1976
Net sales	$672,178,000	$637,934,000
Cost of products sold	281,727,000	270,521,000
Earnings before income taxes	74,407,000	69,287,000
Net earnings	41,570,000	39,352,000
Current assets	$411,339,000	$375,828,000
Property, plant and equipment-net.	82,248,000	81,678,000
Total assets	554,040,000	523,286,000
Current liabilities	210,789,000	184,430,000
Total liabilities	241,567,000	213,748,000
Net assets	312,473,000	309,538,000

The translation effects on earnings from exchange rate fluctuations were as follows:

	Year Ended December 31, 1977	1976
	Increase (Decrease)	
Effect on gross margin from charging costs of products sold with inventory at historic rates	$(10,407,000)	$(10,547,000)
Effect of balance sheet translations	(3,318,000)	(5,824,000)
Earnings before income taxes	(13,725,000)	(16,371,000)
Provision for income taxes	1,879,000	(643,000)
Net earnings	$(11,846,000)	$(17,014,000)
Per share effect	$(.19)	$(.27)

CHRYSLER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Foreign Currency Exchange Losses—The combined effect of the foreign currency translation and conversion, the margin reduction on inventory turnover, and the inventory write-down was a reduction of after tax earnings of $64 million in 1977 compared to a $31 million reduction in 1976.

The Financial Accounting Standards Board Statement No. 8 requires the disclosure of the effect on net income of foreign currency exchange gains or losses resulting from the following: (1) translating foreign operations' financial statements denominated in foreign currencies, (2) conversion of foreign currencies, (3) the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded, and (4) realized and unrealized gains and losses on forward exchange contracts undertaken to protect net assets.

Throughout the year, the translation of inventories at historic rates (at cost in dollars at the time acquired) rather than current rates of exchange caused profit margins to decrease in certain foreign operations as inventories were sold subsequent to exchange rate changes. In addition, the write-down of inventory values to market (under the lower of cost or market principle) as the result of exchange rate changes caused charges to net earnings.

	1977 (in millions of dollars)	1976
Gain (loss) from translation and conversion	$(33)	$ 58
Aggregate decrease in operating margins as inventories were sold subsequent to changes in foreign currency values	(12)	(24)
Write-down of inventories to market caused by declines in foreign currency values	(19)	(65)
Total effect on net earnings	$(64)	$(31)

In addition, changes in relative values of foreign currencies have an impact on operating margins of the company. Generally, this impact cannot be separately determined because product pricing changes are occurring simultaneously. In Canada, however, no price increases could be obtained during 1977 as the value of the Canadian dollar declined resulting in a reduction in net earnings of $13 million from 1976.

DRESSER INDUSTRIES, INC. (OCT)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currencies: The assets and liabilities of foreign subsidiaries are translated into U.S. dollars on the following basis:

Balances representing cash and amounts receivable or payable that are denominated in foreign currencies are translated at rates that approximate the year-end foreign exchange rates.

Other assets and liabilities (principally inventories and property, plant and equipment and related depreciation) are translated at historical exchange rates prevailing at the dates of acquisition.

Revenue and expense transactions are translated in a manner that produces approximately the same U.S. dollar amounts that would have resulted had the underlying transactions been translated into U.S. dollars on the dates they occurred. Revenue and expenses that relate to assets and liabilities translated at historical rates are translated at these historical rates.

Losses accruing on forward exchange contracts are recognized in net earnings in the current period. Gains accruing on these same type contracts are recognized currently if the contracts are intended to hedge general exposed foreign currency net asset or liability positions. Gains are deferred if the contracts are intended to hedge identifiable foreign currency commitments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C: Foreign Subsidiaries—The consolidated balance sheets and statements of earnings include the accounts of certain foreign subsidiaries operating outside the United States. These foreign subsidiaries had net earnings of $23.1 million in 1977 and $26.1 million in 1976 (after provision for deferred Federal income taxes on undistributed foreign earnings), and they had net assets of $209.1 million at October 31, 1977.

Net foreign exchange adjustments (including gains and losses from both settlement of commercial transactions and translation of the accounts of foreign subsidiaries) resulted in net losses of $2.9 million in 1977 and net gains of $2.4 million in 1976. Net foreign exchange adjustments are included in other deductions in the consolidated statement of earnings.

FORD MOTOR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Foreign Currency Translation—The Company follows the translation principles established by Statement No. 8 of the Financial Accounting Standards Board. Net property, inventories and certain deferred items of foreign operations are translated at the historical rates of exchange in effect when the related assets were acquired or the liabilities were incurred. The remaining assets and liabilities of foreign operations are translated at the rates of exchange in effect at the end of the period. Revenues and expenses are translated at rates of exchange prevailing during the period, except for depreciation, amortization and cost of sales, which are based on historical rates.

In 1977, changes in exchange rates reduced profits by $44 million or $.16 a share. A net exchange gain of $36 million was more than offset by reduced profit margins of $80 million on the subsequent sale of inventories on hand when exchange rates changed.

In 1976, changes in exchange rates reduced profits by $49 million or $.17 a share. A net exchange gain of $85 million (restated in accordance with Financial Accounting Standards Board Interpretation No. 17) was more than offset by reduced profit margins of $134 million on the subsequent sale of inventories on hand when exchange rates changed.

GULF OIL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Translation of Foreign Currency—Balances and transactions in foreign currencies have been translated to U.S. dollars as follows: inventories, prepaid expenses, long-term investments and properties—at rates current on dates of acquisition; deferred taxes—at the average monthly rate in the year of deferral; accumulated depreciation, depletion and amortization and related provisions against income—on the basis of dollar value of the related assets; all other assets and liabilities—at rates current at end of period; and operating income and other expenses—at average monthly rates. Gains or losses on foreign currency translation are included in results of operations in the period incurred.

Note 20: Foreign Currency Adjustments—An analysis of the net foreign currency exchange adjustments included in income follows:

	Gain (Loss) 1977	1976
	Millions of Dollars	
Long-term debt	$ 16	$11
Working capital	(16)	4
Exchange gain (loss)	—	15
Exchange rate effect—Canadian inventories	(34)	4
Minority interest	12	(2)
Tax effect	2	(1)
	$(20)	$16
Canada	$(26)	$ 4
Europe	7	(3)
Other Foreign	(1)	15
	$(20)	$16

Exchange gains (losses) are included in other revenues. Included in the net adjustments were unrealized gains of $4 million in 1977 and unrealized losses of $1 million in 1976.

PHILIP MORRIS INCORPORATED (DEC)

	1977	1976
Operating income of operating companies	$782,732,000	$634,539,000
Corporate expense	38,523,000	35,229,000
Interest expense (excluding interest capitalized of $7,163,000 in 1977 and $6,424,000 in 1976)	101,584,000	102,834,000
Currency translation and hedging costs, net	11,633,000	15,520,000
Other deductions, net	5,476,000	9,028,000
Earnings before income taxes	$625,516,000	$471,928,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Foreign operations—Foreign currency accounts are translated into U.S. dollars as follows: (1) current assets (except inventories), current liabilities, long-term receivables and long-term debt at year end rates; (2) inventories, other assets and liabilities generally at historical rates; and (3) revenues, costs and expenses at average rates during the year except for the cost of inventories sold and depreciation and amortization which are based upon the historical dollar cost. The Company enters into forward exchange contracts and other hedging activities to minimize the effect of currency fluctuations on net earnings. Gains and losses on such transactions and other currency gains and losses are included in income in the period in which they occur.

RELIANCE ELECTRIC COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Translation of Non-United States Financial Statements—Effective November 1, 1976 the Company adopted the provisions of Statement of Financial Accounting Standards No. 8 for translating financial statements denominated in other currencies into United States dollar equivalents. The accounts of non-United States subsidiaries and affiliated companies have been translated into U. S. dollars at the following rates of exchange: cash and amounts receivable or payable at current rates; all other assets at rates in effect when such assets were acquired; and income and expense accounts at a weighted average of exchange rates in effect during the year except for depreciation, amortization and cost of products sold which are translated at historic exchange rates.

The major changes from the Company's previous method of translation are: (1) the Company's new policy recognizes unrealized gains and unrealized losses in income on a current basis. Under the previous method, with the exception of translations related to the Company's Brazilian subsidiaries, unrealized translation gains were credited to a reserve for translation adjustments, and unrealized losses were charged to this reserve. Any excess of unrealized losses over unrealized gains was charged to earnings. In Brazil, where an official devaluation policy is in effect, unrealized losses are now and have always been charged to earnings; (2) Inventories are now translated at rates in effect at dates acquired, while previous practice used current rates; (3) Long-term payables are now translated at current rates versus the historic rate under the old method.

The Company has restated prior period financial statements to give effect to the new method. As a result, net earnings for 1976 were decreased by $1,306,000 ($.12 primary and $.09 fully diluted net earnings per share). The change decreased net earnings for 1977 by $674,000 ($.05 primary and $.04 fully diluted net earnings per share).

Net translation and exchange losses included in net earnings were $1,155,000 and $1,544,000 for 1977 and 1976 respectively.

WHITTAKER CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Foreign Exchange Translation—The fluctuations in currency exchange rates during 1977 and 1976 affected the Consolidated Statements of Income for those years in two major respects. First, the aggregate exchange gains or losses, net of gains or losses on taxable hedge transactions, included in cost of sales for the two years amounted to a loss of $1,040,000 in 1977 and a gain of $4,420,000 in 1976. After considering the effect of income taxes, the impact on net income amounted to a loss of $830,000 in 1977 and a gain of $3,559,000 in 1976. In addition to these exchange gains and losses, the rate fluctuations also had a significant effect on the United States dollar gross profit of the foreign subsidiaries since, under Statement No. 8 of the Financial Accounting Standards Board, sales are translated into dollars at the average rate in effect during the year while cost of sales is translated at rates reflecting the historical dollar cost of the inventory sold. This use of different translation rates for sales and cost of sales, resulted in a reduction of gross profit and net income amounting to $401,000 in 1977 and $3,227,000 in 1976.

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	1977	1976	1975	1974
Percentage-of-completion	75	75	56	50
Completed contract	14	12	9	11
Not determinable	8	9	8	10
Referring to long-term contracts	**97**	**96**	**73**	**71**
Not referring to such contracts	503	504	527	529
Total Companies	**600**	**600**	**600**	**600**

LONG-TERM CONTRACTS

Accounting Research Bulletin No. 45 discusses the percentage of completion method and completed contract method which are the two accounting methods usually followed in accounting for long term construction-type contracts. Chapter 11 of *Accounting Research Bulletin No. 43* presents a detailed discussion of accounting procedures appropriate for United States Government contracts. *Accounting Series Release No. 164*, issued in November 1974 by the Securities and Exchange Commission to amend *Regulation S-X,* specifies expanded disclosures for such aspects of long-term contract activity as "the nature of costs accumulated in inventories, the effect of cost accumulation policies on cost of sales, and the effect of revenue recognition practices on receivables and inventories." The expanded disclosure requirements of *ASR No. 164* apply to financial statements for periods ending on or after December 20, 1974 which are included in SEC filings.

Table 3-15 summarizes accounting methods used by the survey companies for long-term contracts. Examples of disclosures regarding long-term contracts follow.

Percentage Of Completion Method

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Construction Accounts—Earnings on long-term construction contracts are recognized on the percentage-of-completion method in the ratio that costs incurred bear to total estimated costs. Revenues on contracts that are less than twenty percent complete are included in the same amounts as costs incurred, and the respective cumulative earnings are not recognized until the period in which such percentage is attained. Earnings and costs on contracts are subject to revision throughout the terms of the contracts, and any required adjustments are made in the periods in which revisions become known. Provisions are made for the full amounts of anticipated losses in the periods in which they are first determinable, and claims for additional contract revenues are not recognized in the accounts until such claims have been allowed.

Balances billed but not paid pursuant to retainage provisions under construction contracts generally become due upon completion of the contracts and acceptance by the owners. Construction contracts are normally completed within two to four years.

Costs and estimated earnings in excess of billings on uncompleted contracts comprise principally revenues recognized on contracts for which billings have not been presented to the contract owners at the balance sheet date. Such revenues are expected to be billed and collected generally within one year.

Revenues and costs and expenses relating to construction contracts include the Company's proportionate share of such items applicable to joint ventures. The investment in construction joint ventures is stated at cost plus the equity in unremitted earnings of the various joint ventures.

In accordance with industry practice, the Company includes in current assets and liabilities amounts realizable and payable under long-term construction contracts. Consistent with this practice, equity in construction joint ventures has been classified as current.

AMERICAN AIR FILTER COMPANY INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Long-Term Contracts—The Company records sales on its long-term contracts generally on the percentage-of-completion method. Contract revenues are accrued based upon the percentage that accrued costs to date bear to total estimated costs. Value of contracts in progress represents the recoverable costs and estimated earnings recognized on the percentage-of-completion method less billings-to-date on all contracts in progress. Certain contracts contain cost escalation and incentive provisions to which applicable recognition is given at the time the amounts can be reasonably determined. Accrued costs on contracts in progress represent costs charged against revenues accrued under the percent-of-completion method less costs incurred and charged to inventory on all contracts in progress. As contracts can extend over one or more years, revisions in costs and earnings (or losses, if any) estimates during the course of the work are reflected during the accounting period in which the facts which require the revision become known. The Company reports income from long-term contracts on the completed contract method for income tax purposes.

BAIRD-ATOMIC, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Revenue Recognition—In general, except for a domestic subsidiary, the Company and its subsidiaries recognize revenues on equipment sales when units are shipped. Shipment of a complete unit is sometimes delayed at the customer's request. However, in such instances revenues are recognized when the customer accepts the related billing. With respect to large multi-year fixed price contracts, principally with the United States Government, as to which no shipments will be made until late in the contract, the Company uses the percentage of completion method of accounting.

In those instances where the Company is responsible for installing equipment, the estimated costs for such services are accrued when revenue is recognized.

With respect to cost-plus-fixed-fee contracts with the U.S. Government, the Company recognized revenue on the basis of allowable monthly incurred costs plus fee.

The Company's domestic subsidiary uses the completed contract method of accounting for its contracts.

EMERSON ELECTRIC CO. (SEP)

	1977	1976
Current assets		
Cash	$ 3,557	$ 3,904
Short-term investments, at cost which approximates market	75,598	96,788
Receivables, less allowance for doubtful accounts of $3,888,000 in 1977 and $3,350,000 in 1976	254,171	224,302
Costs and estimated earnings on long-term contracts, less progress billings of $2,807,000 in 1977 and $4,211,000 in 1976	4,613	4,156
Current liabilities		
Current maturities on long-term debt and foreign borrowings	$ 27,876	$ 20,801
Accounts payable	87,074	76,407
Advance payments on long-term contracts, less costs incurred of $29,255,000 in 1977 and $13,646,000 in 1976	22,774	23,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Long-Term Contracts—Income is recognized on the percentage of completion or unit of delivery basis on long-term contracts, which are principally government and defense contracts. The excess of accumulated costs and estimated earnings over progress payments received, on contracts accounted for using the percentage of completion method, is presented as a current asset in the accompanying balance sheets. Unbilled costs on other long-term contracts are included in inventories. When advance payments exceed costs incurred, the excess of such payments is presented as a current liability. Long-term contracts do not constitute a material part of the Company's business.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Principle Accounting Policies

Revenue recognition for long-term contracts. Sales are recorded under fixed-price and fixed-price incentive contracts as deliveries are made. Sales under cost reimbursement contracts are recorded as costs are incurred and include estimated fees in the proportion that costs incurred to date bear to total estimated costs. The fees under certain Government contracts may be increased or decreased in accordance with cost or performance incentive provisions which measure actual performance against established targets or other criteria. Such incentive fee awards or penalties are recognized at the time the amounts can be reasonably determined.

NEPTUNE INTERNATIONAL CORPORATION (DEC)

STATEMENT OF ACCOUNTING POLICIES

Recognition of Contract Revenue—The corporation recognizes contract revenue using the percentage-of-completion method. Under this method, the percentage of contract revenue to be recognized currently is computed as that percentage of estimated total revenue that incurred cost to date bears to total estimated cost, after giving effect to the most recent estimate of costs to complete. Revisions in cost and revenue estimates are reflected in the period in which the facts which require the revision become known. When revised cost estimates indicate a loss on an individual contract, the total estimated loss is provided for currently in its entirety without regard to the percentage of completion.

NORTHROP CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Sales—Sales under cost-reimbursement, service, and construction-type contracts are recorded as costs are incurred and include the estimated earned fees or profits based upon the relationship that costs incurred to date bear to total estimated costs (cost-to-cost type of percentage-of-completion method of accounting). Other contract sales are recorded as deliveries are made and are computed using the estimated final contract average unit cost plus profit (units-of-delivery type of percentage-of-completion method of accounting). Certain fixed-price contracts contain price redetermination and cost or performance incentive provisions. Such incentives or redetermined amounts are included in sales when the amounts can reasonably be determined.

In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income.

PULLMAN INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Long-Term Contracts: Revenues on engineering and construction contracts are recognized on the percentage of completion method based generally on the ratio of costs incurred to date on the contract to total estimated contract costs. Revenues on passenger car contracts are recognized as cars are delivered and accepted by the customer. Estimates of total contract costs are reviewed periodically during each year and the cumulative effects of changes in total estimated contract costs are recognized in the period determined and losses, if any, are recognized fully when identified. For engineering and construction contracts, revenues recognized or costs incurred in excess of amounts billed are classified under current assets as costs and earnings on uncompleted contracts not yet billed. Amounts billed in excess of revenue recognized to date for both engineering and construction and passenger car contracts are classified under current liabilities as advance billings on uncompleted contracts.

Note 5: Long-Term Engineering and Construction Contracts—Accounts receivable at December 31, 1977 include $65,653,000 ($102,242,000 at December 31, 1976) relating to long-term engineering and construction contracts. Except for retainage of $7,376,000 ($30,097,000 in 1976), these amounts are billed.

The amounts by which billings exceed total costs and earnings recognized to date under uncompleted engineering and construction contracts at December 31 consist of:

	1977	1976
	(Thousands of dollars)	
Project costs and earnings	$4,300,104	$3,376,589
Less billings to date	4,445,215	3,547,484
	$ (145,111)	$ (170,895)
Included in current assets as costs and earnings on uncompleted contracts not yet billed	$ 17,741	$ 8,194
Included in current liabilities as advance billings on uncompleted contracts	(162,852)	(179,089)
	$ (145,111)	$ (170,895)

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Contracts in Process—Sales under long-term contracts are recorded under the percentage of completion method, wherein costs and estimated gross margin are recorded as sales as the work is performed. Costs include direct engineering and manufacturing costs, applicable overheads and special tooling and test equipment. Estimated gross margin provides for the recovery of allocable research, development, marketing (including bid proposal) and administration costs and for accrued income. Accrued income is based on the percentage of estimated total income that incurred costs to date bear to estimated total costs after giving effect to the most recent estimates of cost and funding at completion. When appropriate, increased funding is assumed based on expected adjustments of contract prices for increased scope and other changes ordered by the customer. Some contracts contain incentive provisions based upon performance in relation to established targets to which applicable recognition has been given in the contract estimates. Since many contracts extend over a long period of time, revisions in cost and funding estimates during the progress of work have the effect of adjusting in the current period earnings applicable to performance in prior periods. When the current contract estimate indicates a loss, provision is made for the total anticipated loss. In accordance with these practices, contracts in process are stated at cost plus estimated profit but not in excess of realizable value.

ROCKWELL INTERNATIONAL CORPORATION (SEP)

NOTES TO FINANCIAL STATEMENTS

Note 15: United States Government Sales and Renegotiation—Sales under cost-type contracts are recorded for costs, as incurred, plus a proportion of the profit expected to be realized on the contract in the ratio that costs incurred bear to total estimated costs. Sales under fixed-price-incentive-type contracts are recorded as deliveries are made at the cost of items delivered plus a proportion of the profit expected to be realized on the contract. Sales under firm-fixed-price-type contracts are recorded generally as deliveries are made at the contract sales price of the items delivered.

The major portion of work performed for the United States Government is under contracts that contain cost or performance incentives or both. These incentives provide for increases in fees or profits for surpassing stated targets or other criteria, or for decreases in fees or profits for failure to achieve such targets or other criteria. Performance incentives for which a reasonable prediction of accomplishment cannot be made in advance are included in sales at the time there is sufficient information to relate actual performance to targets or other criteria. Profits expected to be realized on these contracts are based on the Company's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Losses on contracts are recorded in full as they are identified.

Sales under United States Government contracts accounted for 44% of total sales in 1977 and 39% in 1976. Approximately 77% of the 1977 sales under these contracts were of the cost type, 15% were of the firm-fixed-price type and 8% were of the fixed-price-incentive type. Corresponding percentages for 1976 sales were approximately 73% cost type, 18% firm-fixed-price type and 9% fixed-price-incentive type.

Substantially all sales under United States Government contracts for 1976 and prior years have been subject to the Renegotiation Act of 1951, as amended, which provides for recovery by the United States Government of any profits deemed excessive. That Act expired on September 30, 1976; however, certain of the Company's United States Government contracts continue to be subject to the profit limitation provisions of the Vinson-Trammell Act. Renegotiation proceedings have been completed for all years through fiscal 1972. Management believes that no excessive profits were realized in subsequent fiscal years under either of these Acts and, therefore, no provisions for refunds have been made for these years.

WASTE MANAGEMENT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Principles of Consolidation—The Company's financial statements are prepared on a consolidated basis and include the Company and its subsidiaries, all of which are wholly owned at December 31, 1977 and 1976. As of December 31, 1977, a consolidated subsidiary of the Company had a 60% interest in a joint venture which has a contract to establish and operate a department of streets and sanitation for the capital city of Riyadh, Saudi Arabia. All significant intercompany transactions and balances are eliminated.

Appropriate exchange rates are used to translate foreign currencies to United States dollars if a material difference in valuation is present. There were no material exchange gains or losses included in the accompanying Consolidated Statement of Income.

Accounting for Saudi Arabian Project—The percentage of completion method of accounting for long-term contracts is being used to reflect the revenue and income from operations from the Saudi Arabian project in the Company's financial statements. Percentage of completion is calculated using the "value added" method, which is based on labor costs expended in relation to the total estimated labor costs of the contract. Bond carrying costs, interest income, and exchange gains and losses are reflected in income as period items.

Completed Contract Method

H.H. ROBERTSON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Construction contracts—Depending on contract terms, revenue from sales of products is recognized upon passage of title, acceptance at job site, or when affixed to a building structure. Revenue from construction services is recognized generally on the completed contract basis with provision for losses on construction services in progress made at the time a contract is determined to be unprofitable.

UNITED STATES STEEL CORPORATION (DEC)

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Income recognition—Revenues from products and services and related costs are included in income when goods are shipped or services are rendered to the customer, except those related to construction projects which are accounted for on the completed contract method.

DISCONTINUED OPERATIONS

Paragraph 8 of *APB Opinion No. 30* states:

Discontinued Operations of a Segment of a Business. For purposes of this Opinion, the term discontinued operations refers to the operations of a segment of a business as defined in paragraph 13 that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal (see paragraph 14). The Board concludes that the results of continuing operations should be reported separately from discontinued operations and that any gain or loss from disposal of a segment of a business (determined in accordance with paragraphs 15 and 16) should be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. Accordingly, operations of a segment that has been or will be discontinued should be reported separately as a component of income before extraordinary items and the cumulative effect of accounting changes (if applicable) in the following manner:

Income from continuing operations before income taxes	$xxx	
Provision for income taxes	xxx	
Income from continuing operations		$xxx
Discontinued operations (Note —):		
Income (loss) from operations of discontinued Division X (less applicable income taxes of $—)	$xxx	
Loss on disposal of Division X, including provision of $— for operating losses during phase-out period (less applicable income taxes of $—)	xxx	xxx
Net income		$xxx

Amounts of income taxes applicable to the results of discontinued operations and the gain or loss from disposal of the segment should be disclosed on the face of the income statement or in related notes. Revenues applicable to the discontinued operations should be separately disclosed in the related notes.

An *Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* and reprinted in Section U 2012 of *AICPA Professional Standards-Accounting* provides illustrations of transactions which should and should not be accounted for as a business segment disposal.

In 1977, 37 survey companies discontinued the operations of a business segment, and 24 survey companies disposed of assets of a business segment whose operations managemnt had decided to discontinue in a prior year. Examples of discontinued operations accounted for as a disposal of a business segment follow.

CHAMPION INTERNATIONAL CORPORATION (DEC)

	1977	1976
	($000)	
Income From Continuing Operations	$161,555	$125,233
Discontinued Operations (Note 17):		
Income from operations, less applicable income taxes of 8,208 in 1977 and $12,539 in 1976	9,164	10,707
Loss on disposal, less applicable income tax benefit of $39,341	(32,104)	—
Income (Loss) From Discontinued Operations	(22,940)	10,707
Net Income	$138,615	$135,940

Note 17: Discontinued Furnishings Business—In November, 1977, the Company announced its intention to discontinue its Furnishings business and to dispose of all net assets related to these operations. The sale of the net assets and business of Drexel Heritage Furnishings was completed in August. In November, an agreement in principle was reached for the sale of Trend Carpet, the Company's domestic carpet operation; at that time, all of the assets of both the domestic and European carpet operations were written down to estimated net realizable value.

In connection with these planned discontinuances and dispositions, the Company recorded a charge of $71,445,000 before taxes to write down all related assets, net of liabilities, to estimated net realizable value. This amount was determined after giving consideration to the operating income of approximately $7,600,000 before taxes, which is expected to be generated by these operations during the period until final disposition, and to additional expenses to be incurred by the Company in effecting these dispositions. This charge, net of related tax benefit of $39,341,000, is shown in the accompanying Statement of Consolidated Income as loss on disposal of discontinued operations. The usually high tax benefit of 55.1% arises principally because the tax basis of assets associated with the European carpet operations is higher than the book basis.

The 1977 operating results of the discontinued Furnishings business have been segregated in the Statement of Consolidated Income so as to show separately the results of continuing operations. Similarly, 1976 and prior Statements of Consolidated Income have been restated to show the same segregation. The income from operations of discontinued operations consists of:

(Years Ended December 31) (in thousands of dollars)	1977	1976
Net sales	$315,631	$342,508
Costs and expenses	298,259	319,262
Income taxes	8,208	12,539
Income from operations	$ 9,164	$ 10,707

The remaining assets, net of liabilities, of the domestic and European carpet operations are shown in the Consolidated Balance Sheet at December 31, 1977, as "Net assets of discontinued operations at net realizable value." The 1976 Consolidated Balance Sheet has not been restated to segregate the amounts relating to discontinued operations into this caption. The amounts included in this caption for 1977 and the amounts reflected in the 1976 Consolidated Balance Sheet for all furnishings operations, including those already disposed of, are as follows:

(in thousands of dollars)	1977	1976
Current assets	$ 94,272	$118,527
Excess cost of business acquired over amounts assigned to net tangible assets	63,688	65,449
Property, plant and equipment—net	56,464	83,554
Other assets	2,702	4,354
Total Assets	217,126	271,884
Current liabilities	44,136	43,647
Long-term debt	4,414	5,264
Deferred income taxes and other liabilities	2,165	4,767
Total Liabilities	50,715	53,678
Net Assets	166,411	$218,206
Writedown of net assets	(68,389)	
Net assets of discontinued operations at net realizable value	$ 98,022	

In connection with the sale of Drexel Heritage Furnishings in August, the Company received $37,500,000 cash and preferred stock of the purchaser to be redeemed within five years. The preferred stock has been recorded at its discounted present value and is included in "Long-term receivables from sales of discontinued operations and other operating units" in the Consolidated Balance Sheet. The Company believes that the sale of Trend Carpet will be completed early in 1978. It is actively considering alternative methods of disposition of the remaining European carpet operations. Management does not anticipate any additional loss from the operations and final disposal of these units.

HMW INDUSTRIES, INC. (JAN)

	1978	1977
Income from continuing operations	$1,397,000	$1,456,000
Discontinued operation (Note 2):		
Loss from operation, net of applicable income tax benefits of $807,000 and $1,011,000	(1,105,000)	(5,079,000)
Loss of disposal, net of applicable income tax benefit of $558,000	(6,692,000)	—
Loss from discontinued operation	(7,797,000)	(5,079,000)
Net loss	$(6,400,000)	$(3,623,000)

Note 2 (in part): Discontinued Operation—On June 30, 1977 the Company announced the discontinuance of its solid-state watch business operations by its subsidiary, Time Computer, Inc. (TCI) and the sale of substantially all of its watch inventory and related trademarks.

The results of operations of this business are included in the consolidated statements of operations under the caption "Discontinued Operation" and include:

	Year ended January 31 1978	1977
Net sales	$3,025,000	$13,510,000
Costs and expenses	(4,937,000)	(19,600,000)
Income tax benefit	807,000	1,011,000
Loss from operation	$(1,105,000)	$ (5,079,000)

To provide for the disposal of this business, the Company established a provision of $7,250,000 before applicable tax benefits, which includes a provision of $1,150,000 during the quarter ended January 31, 1978. This provision includes a write down of certain TCI assets to net realizable value and the costs estimated to be incurred during the phase-out period.

IPCO HOSPITAL SUPPLY CORPORATION (JUN)

	1977	1976
	($000)	
Income from continuing operations before provision for income taxes	$6,006	$5,445
Provision for income taxes	2,857	2,301
Income from continuing operations	3,149	3,144
Loss from discontinued operations, net of tax benefits of $286,000 in 1977 and $53,000 in 1976	(285)	(53)
Loss on disposal of discontinued operations, net of tax benefits of $203,000 in 1977	(202)	—
Net Income	$2,662	$3,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Discontinued Operations—In August 1976, the Company sold its Maryland Plastics Division for approximately $3,000,000 in cash and in June 1977 shutdown the institutional and career apparel manufacturing operations of its Harco Division, which included the bulk sale of certain inventories for approximately $445,000.

The loss on disposal of discontinued operations of $202,000, net of tax benefits of $203,000, includes estimated losses associated with the disposal of remaining assets and a provision for the estimated costs and expenses to be incurred in connection with the shutdown of its plant facilities.

At June 30, 1977 assets related to discontinued operations are stated at estimated realizable value and consist principally of trade receivables ($126,000), inventories ($28,000) and machinery and equipment ($127,000).

Sales from discontinued operations for the period July 1, 1976 through the date operations were discontinued in fiscal 1977 and for the fiscal year ended June 30, 1976 are summarized as follows:

	1977	1976
	(In Thousands of Dollars)	
Maryland Plastics Division	$ 765	$4,486
Harco Division	2,146	2,825
	$2,911	$7,311

To facilitate comparison with the current year, the Company's 1976 consolidated financial statements have been restated for operations discontinued in fiscal 1977.

P. R. MALLORY & CO. INC. (DEC)

	1977	1976
	($000)	
Earnings from continuing operations	$13,567	$10,082
Discontinued operations:		
Earnings, net of income taxes of $350 and $(425)	1,715	149
Loss on disposal, including income taxes	(2,072)	—
	(357)	149
Net earnings	$13,210	$10,231

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Discontinued Operations—Effective December 1977, the Board of Directors determined that the Company's metallurgical activities, including its investments in two metallurgical related investee companies, Johnson Matthey & Mallory Limited (JM&M), of Canada, and Contactos y Electrodos Mallory, S.A., of Mexico, be treated as discontinued operations and authorized management to pursue a plan to dispose of Mallory Metallurgical Company, a division engaged in the manufacture and sale of electrical contacts, resistance welding components and special metals and materials. On March 6, 1978, the Company entered into an agreement whereby the majority of the assets and the business of the domestic Metallurgical division were sold on that date to Contacts, Metals and Welding Inc., a corporation formed by an employee management group of that division, for cash and notes receivable. The loss on this transaction includes expenses directly associated with this disposition.

On December 22, 1977, the Company sold its interest in JM&M for cash. The Company had acquired JM&M's timers and components business earlier in December through the payment by JM&M of a dividend to the Company that included in part the properties related to JM&M's timers and components business, which business is being continued in Canada by a newly formed wholly owned subsidiary, Mallory Components Limited.

The Company has reached an understanding to sell its 49% minority interest in Contactos y Electrodos Mallory, S.A. and affiliated companies in Mexico. After providing for U.S. income taxes, the cash proceeds the Company will receive will be equal to the carrying value of this investment.

The following summarizes operating results of the discontinued operations for the years 1977 and 1976:

In thousands of dollars	1977	1976
Net sales	$25,251	$25,530
Costs and expenses	(24,539)	(26,281)
Taxes on income, including investment tax credit of $65 in 1976	(350)	425
Earnings before equity earnings	362	(326)
Equity earnings, including foreign exchange adjustments	1,353	475
Earnings from discontinued operations	$ 1,714	$ 149

The loss on disposal of the discontinued operations is as follows:

In thousands of dollars	Pretax Gain (Loss)	Income Tax (Provision) Credit	Net (Loss)
Mallory Metallurgical Company	$(2,084)	$ 892	$(1,192)
Johnson Matthey & Mallory Limited	780	(1,660)	(880)
	$(1,304)	$ (768)	$(2,072)

The tax credit attributable to the loss on disposal of Mallory Metallurgical Company includes investment tax credits to be recaptured of $171,000. Income taxes applicable to the disposal of JM&M exceed the amount of pretax gain. This results from the determination of income taxes on the difference between sales proceeds and the tax basis of this investment, rather than the higher book value which determined the amount of the pretax accounting gain.

At December 31, 1977, assets of the discontinued operations held for disposal aggregated $6,651,000, which consisted principally of inventories, property, plant and equipment, and the investment in Contactos y Electrodos Mallory, S.A. and affiliated companies.

CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

Table 3-16 indicates the nature of charges or credits, other than extraordinary items, positioned on an income statement after the caption for income taxes applicable to income from continuing operations. Examples of charges or credits shown after the caption for income taxes applicable to income from continuing operations follow.

Minority Interest

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

	1977	1976
	($ Millions)	
Income before income taxes and minority interests	$215.8	$188.6
Domestic and foreign income taxes	102.9	89.9
Minority interests in income of subsidiary companies	2.7	2.7
Net income	$110.2	$ 96.0

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1977	1976	1975	1974
Minority interest	64	60	56	64
Equity in earnings or losses of investees	50	53	55	57
Cumulative effect of accounting change	4	4	16	13
Other	—	7	N/C	10

N/C — Not Compiled.

INTERLAKE, INC. (DEC)

	1977	1976
	($000)	
Income before Taxes on Income and Minority Interest	$34,284	$63,558
Provision for Income Taxes	14,010	24,682
	20,274	38,876
Minority Interest in Net Income of Subsidiary	1,542	971
Net Income for the Year	$18,732	$37,905

OWENS-ILLINOIS, INC. (DEC)

	1977	1976
	($000)	
Revenues:		
Net sales	$2,767,330	$2,571,709
Interest and dividends	7,884	12,088
Royalties and net technical assistance	20,471	18,130
Equity in earnings of associates	17,211	13,916
Other	17,970	9,952
	2,830,866	2,625,795
Costs and expenses:		
Manufacturing, shipping and delivery	2,353,903	2,123,326
Research and development	31,166	33,904
Engineering	27,983	24,676
Selling and administrative	214,053	214,245
Interest	42,073	42,584
Other	25,205	13,023
	2,694,383	2,451,758
	136,483	174,037
Provision for income taxes	40,800	63,100
	95,683	110,937
Minority shareholders' interests in earnings of subsidiaries	4,379	4,219
Earnings before extraordinary items	91,304	106,718
Extraordinary items	—	71,618
Net earnings	$ 91,304	$ 178,336

Equity in Investee Operating Results

JEWEL COMPANIES, INC. (JAN)

	1978	1977
	($000)	
Earnings of U.S. Companies Before Income Taxes	$33,589	$40,766
Income Taxes	11,528	16,657
Earnings of U.S. Companies	22,061	24,109
Equity in Aurrera, S.A.:		
Earnings	4,786	8,747
Unrealized gain on foreign currency translation	103	3,309
Net Earnings	$26,950	$36,165

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in Aurrera, S.A.—The Company's investment in Aurrera, S.A. (Mexico), 45.2% owned as of January 28, 1978 and 46.5% owned as of January 29, 1977, is carried at cost plus equity in undistributed earnings since acquisition.

EXTRAORDINARY ITEMS

APB Opinion No. 30, effective for events and transactions occurring after September 30, 1973, defines extraordinary items as "events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence," and states that an event or transaction "should be presumed to be an ordinary and usual activity of the reporting entity, the effects of which should be included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Opinion." Opinion No. 30, along with its *Accounting Interpretation* published in the November 1973 issue of the *Journal of Accountancy* and reprinted in Section U 2012 of *AICPA Professional Standards-Accounting* illustrate events and transactions which should and should not be classified as extraordinary items. Effective for transactions agreed to or occurring on or after April 1, 1975, *FASB Statement of Financial Accounting Standards No. 4* specifies that material debt extinguishment gains and losses be classified as extraordinary items.

Table 3-17 shows the nature of items classified as extraordinary by the survey companies. Examples of extraordinary items follow.

TABLE 3-17: EXTRAORDINARY ITEMS

	1977	1976	1975	1974
Nature				
Operating loss carryforwards and other tax adjustments	38	52	31	55
Major casualties	6	N/C	N/C	N/C
Debt extinguishments	5	5	9	—
Other	8	24	11	27
Total Extraordinary Items	**57**	**81**	**51**	**82**
Number of Companies				
Presenting extraordinary items	51	69	49	75
Not presenting extraordinary items	549	531	551	525
Total	**600**	**600**	**600**	**600**

N/C — Not Compiled.

Tax Loss Carryovers

WHITE MOTOR CORPORATION (DEC)

	1977	1976
	($000)	
Income Before Extraordinary Credit	$10,658	$17,867
Extraordinary credit—Note E	8,900	3,875
Net Income	$19,558	$21,742

Note E (in part): Income Taxes and Extraordinary Credit—A summary of income taxes (including amounts for finance subsidiaries) included in the statements of income is as follows:

	1977 Continuing Operations	1977 Discontinued Operations	1976 Continuing Operations	1976 Discontinued Operations
	(In Thousands)			
United States:				
Charges in lieu of income taxes	$3,000	$5,900	$(4,725)	$ 8,600
Current	—	—	(397)	—
Foreign:				
Current	4,150	541	5,947	2,659
Deferred	(695)	—	174	—
State and Local	124	42	73	368
Total	$6,579	$6,483	$ 1,072	$11,627

The charges in lieu of income taxes in 1977 and 1976 represent income taxes which would have been required in the absence of operating loss carryforward from prior years. The income tax benefits of $8,900,000 in 1977 and $3,875,000 in 1976 resulting from partial utilization of the operating loss carryforward are presented as extraordinary credits in the statements of income. The current U.S. income tax credit of $397,000 from continuing operations in 1976 reflects a reversal of a prior year provision no longer required.

THE WURLITZER COMPANY (MAR)

	1977	1976
Earnings Before Extraordinary Credit	$2,575,904	$1,446,567
Extraordinary Credit	520,000	568,000
Net Earnings for the Year	$3,095,904	$2,014,567

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part): Income Taxes—The Wurlitzer Company and its United States subsidiaries file Federal income tax returns on a consolidated basis. Federal income tax returns have been examined by the Internal Revenue Service through the fiscal year ended March 31, 1972.

The provision for income taxes is summarized as follows:

	1977	1976
Current:		
Federal	$1,255,000	$1,729,000
State	56,000	38,000
Foreign	602,000	202,000
Total	1,913,000	1,969,000
Charge equivalent to tax effects of foreign operating loss carryforward	520,000	568,000
Deferred (credit):		
Federal	(156,000)	(1,501,000)
Foreign	94,000	44,000
Total	(62,000)	(1,457,000)
Total	$2,371,000	$1,080,000

In 1977 and 1976 the Company's German subsidiary utilized all prior years' net operating loss carryforwards, aggregating $1,235,000. The related tax benefits of $174,000 in 1977 and $568,000 in 1976 have been recognized in earnings and have been reported as extraordinary credits. In addition, in 1977 the Company liquidated its Swiss subsidiary and recognized in earnings the U.S. tax benefit of $346,000 resulting from prior years' losses of the subsidiary; such tax benefit of prior years' losses has also been reported as an extraordinary credit.

Major Casualties

THE PENN TRAFFIC COMPANY (JAN)

	1978	1977
Sales and Revenues:		
Net sales and service fees	$242,980	$210,295
Business interruption insurance (Note 11)	525	—
Other revenues	765	788
	244,270	211,083
Costs and Expenses:		
Cost of sales (including buying and occupancy costs)	194,690	166,514
Selling and administrative expenses	41,110	35,717
Interest expense	202	161
	236,002	202,392
Income before income taxes	8,268	8,691
Provision for income taxes	4,065	4,209
Income before extraordinary charge	4,203	4,482
Extraordinary charge—flood loss net of applicable income taxes of 302,000 (Note 11)	(262)	—
Net Income	$ 3,941	$ 4,482

Note 11—Extraordinary Charge: On July 20, 1977 a flash flood in the Johnstown, Pennsylvania area damaged the Company's milk processing and ice cream manufacturing plant and its largest department store. The resultant extraordinary charge is computed as follows:

	(In Thousands)
Physical damage and other losses—net	$2,039
Business interruption	525
Flood loss	2,564
Less: Insurance proceeds	2,000
Income tax benefits	302
Extraordinary charge	$ 262

Following the flood, the Company suspended all retail operations in the downtown area. The Company currently owns the building formerly used for the department store (239,700 square feet) and a supporting warehouse building (41,300 square feet). Disposition or alternative use of the two buildings is presently being investigated. The Company's milk processing and ice cream manufacturing plant was back in full operation by September, 1977.

G.C. MURPHY COMPANY (JAN)

	1978	1977
Income before extraordinary item	$9,421,000	$10,126,000
Extraordinary item less income taxes (Note 8)	921,000	—
Net income	$8,500,000	$10,126,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Extraordinary Item—In April 1977, a serious flood severely damaged merchandise inventories and fixtures at 1 Mart and 1 conventional store. Two other conventional stores sustained moderate damage. The loss, less insurance recoveries, amounted to $1,863,000. This extraordinary loss has been reduced by applicable federal and state income taxes of $850,000 and $92,000, respectively.

EARNINGS PER SHARE

APB Opinion No. 15 states in part:

> 12. The Board believes that the significance attached by investors and others to earnings per share data, together with the importance of evaluating the data in conjunction with the financial statements, requires that such data be presented prominently in the financial statements. The Board has therefore concluded that earnings per share or net loss per share data should be shown on the face of the income statement. The extent of the data to be presented and the captions used will vary with the complexity of the company's capital structure, as discussed in the following paragraphs.

Examples of earnings per share presentations follow.

TABLE 3-18: EARNINGS PER SHARE—1977

	Additional shares issuable for			
	Debt	Preferred Stock	Options	Warrants
Included in primary per share calculation	16	43	153	25
Included in fully diluted per share calculation	104	92	62	8
No dilution	48	25	185	15
Not disclosed	16	3	134	17
No additional shares issuable	416	437	66	535
Total Companies	**600**	**600**	**600**	**600**

Primary Earnings Per Share

THE AMERICAN DISTILLING COMPANY (SEP)

	1977	1976
(Loss) earnings per common and common equivalent share:		
(Loss) earnings before extraordinary credit	$(2.30)	$ .88
Extraordinary credit	—	.33
Net (loss) earnings	$(2.30)	$1.21
Weighted average number of common and common equivalent shares	1,507,593	1,564,717

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Earnings per share—Earnings per share are calculated based on weighted number of common shares outstanding. Common equivalent shares representing stock options, included in 1976, were excluded in 1977 because of their anti-dilutive effect.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

	1977	1976
Earnings (loss) per common and common equivalent share (primary and assuming full dilution) (Note 10):		
Continuing operations	$1.04	$ .87
Discontinued operations	—	(.11)
Net income	$1.04	$ .76

Note 10: Earnings per share—Earnings per share was computed by dividing net income, after deducting $134,000 representing amortization of discount and dividends on serial preferred stock not considered a common stock equivalent, by the weighted average number of common and common equivalent shares outstanding each year.

The following table reconciles the number of shares outstanding with the number of shares used in computing earnings per share:

	1977	1976
	In Thousands	
Common shares outstanding	16,761	16,757
Serial preferred stock considered as common equivalent shares	76	184
Shares to be issued for a purchased subsidiary	—	4
Effect of using weighted average common shares outstanding	17	70
Effect of shares issuable under stock option plans as determined by the treasury stock method	26	—
Shares used in computing earnings per share	16,880	17,015

CHOCK FULL O'NUTS CORPORATION (JUL)

	1977	1976
Earnings (loss) per share of common stock (based on weighted average number of shares outstanding—1977, 4,697,080; 1976, 4,697,084):		
Continuing operations	$ (.11)	$ .78
Discontinued operations	(1.53)	(2.34)
Net loss	$(1.64)	$(1.56)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Net Income (Loss) Per Share of Common Stock—Net income (loss) per share of common stock is based on the weighted average number of common shares outstanding during each year after giving effect to shares issued in connection with 1976 stock dividends as being outstanding at the beginning of such fiscal periods. Stock options are considered common stock equivalents; however, they are anti-dilutive in fiscal 1977 and 1976. Shares issuable on conversion of debentures are not considered common stock equivalents and a computation of fully-diluted net income per share for fiscal 1977 and 1976 is not presented as it is anti-dilutive.

LEE ENTERPRISES, INCORPORATED (SEP)

	1977	1976
Net Income	$11,670,000	$9,424,000
Weighted average number of common stock and common stock equivalent shares	4,974,000	5,022,000
Earnings per common and common equivalent share	$ 2.35	$ 1.88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Earnings per common share—Earnings per common share is calculated using the weighted-average number of common stock and common stock equivalent (stock options) shares outstanding.

MCGRAW-HILL, INC. (DEC)

Earnings per common share and common equivalent share (Note 3)	$2.08	$1.64

Note 3: Earnings per common share—Earnings per common share and common equivalent share are based on the average number of such shares outstanding during the year. Common share equivalents consist of $1.20 preference stock and stock options. The number of shares issuable upon exercise of stock options has been reduced by the number of common shares assumed to have been purchased with the proceeds from the exercise of the options. Earnings per common share are based on 24,681,978 shares for 1977 and 24,626,329 shares for 1976. The conversion of the 3⅞ percent debentures would not result in any dilution of earnings per common share.

SELIGMAN & LATZ, INC. (OCT)

	1977	1976
Earnings per common share and common equivalent share—Note E-5	$2.29	$2.49

Note E-5: Computations of earnings per common share and common equivalent share were computed based on the total shares as set forth below, after giving retroactive effect for shares issued in connection with 5% Common Stock dividends declared in 1977 and 1976 and after deducting dividend requirements on preferred stock.

Year	Weighted average number of common shares outstanding	Weighted average number of equivalent shares	Total for computation
1976	1,811,897	173,018	1,984,915
1977	1,954,628	79,654	2,034,282

For 1977 and 1976, such computation was made in accordance with the treasury stock method as set forth in Opinion No. 15 of the Accounting Principles Board.

WASTE MANAGEMENT, INC. (DEC)

	1977	1976
	(000's omitted except per share amounts)	
Net Income for the Year	$18,236	$11,647
Average Shares Outstanding During the Year	9,927	9,903
Earnings Per Common and Common Equivalent Share	$1.84	$1.18

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Earnings Per Share and Ratio of Earnings To Fixed Charges—Earnings per share are computed on the basis of the weighted average number of common and common equivalent shares outstanding during each year. Common stock equivalents relate to shares reserved for issuance under the Company's employee stock option plan and an outstanding warrant for purchase of common shares. The computation of fully diluted earnings per share does not materially differ from that presented in the consolidated statement of income.

The following table reconciles the number of common shares shown as outstanding in the consolidated balance sheet with the number of common shares used in computing earnings per share:

	1977	1976
Common shares outstanding per balance sheet (net of treasury shares)	9,807	9,636
Effect of shares issuable under stock options and warrant after applying the "treasury stock" method	238	151
Effect of using weighted average common shares outstanding during the year	(118)	116
Common shares used in computing earnings per share	9,927	9,903

Fully Diluted Earnings Per Share

BELDEN CORPORATION (DEC)

Net income per share:		
Based upon common shares and common share equivalents outstanding	$3.58	$2.85
Fully diluted for conversion of debentures outstanding	2.98	2.41

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Net Income Per Share—Net income per share is computed by dividing net income by the weighted average number of common shares and common share equivalents (preferred stock) outstanding during the year. The number of shares for the primary computation was 2,038,041 for 1977 and 2,022,946 for 1976.

Net income per share, fully diluted, assumes conversion of the outstanding 8% convertible debentures as of the beginning of the year. For this computation, debenture interest charges have been added to net income, net of taxes. The number of shares for the fully diluted computation was 2,657,681 for 1977 and 2,642,586 for 1976.

The effect of the outstanding stock options is not material and has not been included in either computation.

BORDEN, INC. (DEC)

	1977	1976
Net income per share:		
Primary	$ 4.07	$ 3.64
Fully diluted	3.89	3.48
Cash dividends per common share	1.52	1.35
Average number of common shares and equivalents assumed outstanding during the year	31,190,088	30,997,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Significant Accounting Policies

Earnings Per Share—Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Convertible Preferred Stock and Stock Options) assumed outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year, as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

Note 10: Earnings per Share—The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1977	1976
Common Shares	30,947,110	30,667,214
Convertible Preferred Series B	111,140	212,476
Stock options and incentive compensation	131,838	118,152
Total for primary calculation	31,190,088	30,997,842
Convertible Debentures:		
6¾%	1,031,712	1,043,479
5%	905,232	949,245
Total for fully diluted calculation	33,127,032	32,990,566

COLT INDUSTRIES INC (DEC)

Earnings Per Share Data	1977	1976
Earnings per common share including common equivalent share (Note 1)	$8.10	$7.87
Earnings per common share assuming full dilution (Note 1)	$7.30	$7.07
Average number of shares (Note 1)—		
Common and common equivalent basis	8,048,000	7,941,000
Fully diluted basis	9,486,000	9,430,000
Cash dividends per common share	$2.56¼	$2.25

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Earnings Per Share—Earnings per common share, including common equivalent share, are computed by dividing net earnings less dividends on preferred stock by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents are shares issuable on the exercise of stock options when dilutive, net of shares assumed to have been purchased with the proceeds.

Earnings per share, assuming full dilution, are computed as above with additional assumptions that all of the dilutive convertible securities were converted and related dividends were eliminated.

THE MACKE COMPANY (SEP)

	1977	1976
Earnings per common share and common equivalent share (note 1):		
Continuing operations	$1.30	$1.04
Discontinued operations	—	.02
Net income	$1.30	$1.06
Earnings per common share assuming full dilution (note 1)	$1.20	$ .99

Note 1 (in part): Summary of Accounting Policies:

Earnings per Common Share—Earnings per share have been computed on the weighted average number of shares of Common Stock and dilutive common stock equivalents (i.e. stock options) outstanding in each year. The weighted average number of common shares and dilutive common share equivalents for 1977 and 1976 were 2,962,971 and 2,951,084, respectively. All of the Company's outstanding 4-7/8% convertible subordinated debentures and Preference Stock are classified as senior securities and, therefore, are considered only for computing earnings per share assuming full dilution. The debentures were dilutive in 1977 and 1976 and the related interest expense (less applicable income taxes) was added to net income for computing earnings per share assuming full dilution. The Preference Stock was antidilutive in 1977 and 1976 and was not considered in computing earnings per share assuming full dilution.

MACMILLAN, INC. (DEC)

	1977	1976
Earnings per common and common equivalent share (Note 16)	$1.51	$1.36
Earnings per common share, assuming full dilution (Note 16)	$1.46	$1.31

Note 16: Earnings per Share—

Earnings per common and common equivalent share have been computed based on earnings applicable to the average number of common shares outstanding, adjusted to reflect the common shares issuable for shares of the $1.20 series convertible preferred stock which are common equivalent shares. The average number of common and common equivalent shares was 12,671,000 in 1977 and 12,668,000 in 1976.

Earnings per common share, assuming full dilution, have been computed based on the average number of common and common equivalent shares and the assumed conversion into common shares of the 4% convertible subordinated debentures and the preferred stock of subsidiary, after elimination of related interest expense (net of taxes) on the debentures and dividends on the preferred stock of subsidiary. The assumed conversion into common shares of the $2.50 series convertible preferred stock has not been included in these computations as the effect of such inclusion would be to increase per share earnings. The average number of shares used to compute earnings per common share, assuming full dilution, was 13,433,000 in 1977 and 13,446,000 in 1976.

MONSANTO COMPANY (DEC)

	1977	1976
Earnings per Common Share:		
Primary	$7.46	$10.05
Fully diluted	7.37	9.77

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Earnings per Common Share—Income and the number of shares used in the computation of earnings per common and common equivalent share were determined as follows:

	1977		1976	
Income	Primary	Fully Diluted	Primary	Fully Diluted
Net income	$275.6	$275.6	$366.3	$366.3
Preferred dividends	(0.9)		(2.2)	
Interest (less tax) on:				
Loan stock of Monsanto Limited	0.2	0.2	0.3	0.3
Debentures of Monsanto International Finance Company		0.5		0.5
	$274.9	$276.3	$364.4	$367.1
Number of Shares (In thousands)				
Weighted average shares:				
Outstanding	36,511	36,511	35,835	35,835
Incremental shares for outstanding stock options	67	69	161	167
Shares issuable upon conversion:				
Loan stock of Monsanto Limited	259	259	276	276
Debentures of Monsanto International Finance Company		237		269
$2.75 Preferred Stock		352		983
	36,837	37,428	36,272	37,530

PNEUMO CORPORATION (NOV)

	1977	1976
Earnings per share of Common Stock and Common Stock equivalents—Note H:		
Primary	$3.30	$3.56
Fully diluted	3.12	3.15

Note H: Earnings per Share—Primary earnings per share of Common Stock and equivalents is based on the weighted average number of Common Shares outstanding during the year plus the equivalent shares issuable upon conversion of the Series Preferred Stock and the exercise of dilutive stock options (2,771,735 shares in 1977; 2,448,364 in 1976).

Fully diluted earnings per share further assumes the exercise of dilutive warrants issued prior to June 1, 1969 and conversion of the 7% Convertible Subordinated Debentures due July 1, 1980, as of the beginning of the year, after adding to net earnings debenture interest expense and other related adjustments, net of applicable income taxes.

If the conversions of the 7% Convertible Subordinated Debentures had occurred as of the beginning of 1977, primary would have approximated fully diluted earnings per share.

ST. REGIS PAPER COMPANY (DEC)

	1977	1976
Earnings per common and common equivalent share	$3.36	$3.43
Earnings per common share, assuming full dilution	$3.30	$3.34

NOTES TO FINANCIAL STATEMENTS

Earnings Per Share—Earnings per common and common equivalent share have been computed by dividing net earnings less preferred dividend requirements by the weighted average number of common shares and common equivalent shares outstanding, after giving retroactive effect to the common shares issued in the pooling of interests with Southland Paper Mills, Inc.

Shares issuable under the management incentive compensation plan and deferred compensation agreements, and shares exercisable under the company's stock option plan, are classified as common equivalent shares and are included in the average number of common shares and common equivalent shares outstanding of 31,628,000 shares in 1977 and 31,128,000 shares in 1976.

Earnings per common share, assuming full dilution, have been computed based upon the weighted average number of common shares and common equivalent shares outstanding, after giving retroactive effect to the common shares issued in the pooling of interests with Southland Paper Mills, Inc., and the assumed conversion into common shares outstanding of the 4⅞% convertible subordinated debentures and the $5.50 Series A preferred stock. Earnings for such computations have been adjusted to eliminate the related interest expense on such debentures, net of taxes. The average number of shares used to compute earnings per share, assuming full dilution, was 32,477,000 in 1977 and 32,381,000 in 1976.

SUNDSTRAND CORPORATION (DEC)

	1977	1976	1975	1974	1973
	(Amounts in thousands except per share data)				
Earnings applicable to common stock	$32,553	$30,009	$19,252	$15,050	$10,400
Weighted average number of common and common equivalent shares outstanding	7,049	6,795	5,857	5,596	5,554
Earnings per common and common equivalent share	$ 4.62	$ 4.42	$ 3.29	$ 2.69	$ 1.87
Earnings per common share assuming full dilution	$ 4.17	$ 3.95	$ 3.02	$ 2.52	$ 1.80

THE FINANCIAL SUMMARY

Earnings Per Share—Earnings per common and common equivalent share are based on the weighted average number of shares and equivalent shares of Common Stock outstanding. Earnings per common share assuming full dilution considers the effect of conversion of convertible subordinated notes and debentures for the years 1973 and 1974, and convertible subordinated notes and debentures and $3.50 Cumulative Convertible Preferred Stock for the years 1975, 1976 and 1977, the periods in which they are dilutive. Computations are as follows:

	1977	1976	1975	1974	1973
	(Amounts in thousands except per share data)				
Earnings applicable to common stock (a)	$32,553	$30,009	$19,252	$15,050	$10,400
Preferred dividends	2,718	2,718	2,718	—	—
Interest expense on convertible subordinated debt—net of taxes	818	936	961	976	979
Total (b)	$36,089	$33,663	$22,931	$16,026	$11,379
Weighted average common and common equivalent shares—no dilution (c)	7,049	6,795	5,857	5,596	5,554
Common shares reserved for conversion of:					
Preferred Stock	945	945	945	—	—
Convertible debt and other	669	777	793	761	780
Weighted average common and common equivalent shares—full dilution (d)	8,663	8,517	7,595	6,357	6,334
Earnings per common and common equivalent share:					
No dilution (a) / (c)	$4.62	$4.42	$3.29	$2.69	$1.87
No dilution (b) / (d)	$4.17	$3.95	$3.02	$2.52	$1.80

WARNER COMMUNICATIONS INC. (DEC)

	1977	1976
	(Thousands, except per share amounts)	
Earnings per share:		
Average Common and Common equivalent share—		
Income from continuing operations	$5.01	$3.73
Income from discontinued operations	.29	.24
Net income	$5.30	$3.97
Assuming full dilution—		
Income from continuing operations	$4.64	$3.46
Income from discontinued operation	.27	.22
Net income	$4.91	$3.68
Average number of shares outstanding:		
Common and Common equivalent	13,136	15,106
Assuming full dilution	14,458	16,752

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Share—Earnings per Common and Common equivalent share are based on the weighted average of Common shares outstanding and give effect to the conversion of Series D Preferred shares into Common shares, and the exercise of applicable stock options and the use of the cash funds thereby obtained to acquire Common treasury shares. Such per share amounts were determined after deducting the pro forma preferred dividend requirements.

Earnings per share on a fully diluted basis further (a) assume the conversion of the Series B Preferred shares (and the elimination of the dividend requirements thereon) and (b) give effect to the possible issuance of additional WCI securities under stock option plans and other stock agreements (and the use of the cash funds thereby obtained to acquire Common treasury shares).

During 1976, WCI acquired 2,820,844 shares of its Common stock (including 2,625,044 shares acquired pursuant to an exchange offer, see Note 5). The purchase of these shares has been reflected in the computation of earnings per share on a weighted average basis.

Section 4: Stockholders' Equity

TABLE 4-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1977	1976	1975	1974
Statement of Stockholders' Equity	251	241	214	220
Combined statement of income and retained earnings	169	172	175	185
Separate statement of retained earnings	167	178	199	183
Changes shown in balance sheet or notes	13	9	12	12
Total Companies	**600**	**600**	**600**	**600**

TABLE 4-2: DIVIDENDS

	Number of Companies 1977	1976	1975	1974
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statement	439	417	423	425
Per share amount not disclosed in retained earnings statement	90	107	79	81
Total	**529**	**524**	**502**	**506**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statement	134	166	168	168
Per share amount not disclosed in retained earnings statement	94	103	65	64
Total	**228**	**269**	**233**	**232**
Dividends Paid By Pooled Companies	**10**	**13**	**8**	**8**
Stock Dividends	**39**	**41**	**42**	**36**
Dividends In Kind	**—**	**1**	**1**	**3**

This section reviews the presentation of transactions, other than net income (loss) for the year, affecting the stockholders' equity accounts.

RETAINED EARNINGS

PRESENTATION OF CHANGES IN RETAINED EARNINGS

Table 4-1 summarizes the presentation formats used by the survey companies to present changes in retained earnings. Examples of statements showing the increase or decrease in retained earnings resulting from 1977 fiscal year transactions are presented throughout this section.

DIVIDENDS

Chapter 7B of *Accounting Research Bulletin No. 43* discusses the accounting for stock dividends. *APB Opinion No. 15* refers to Chapter 7B and states in part:

> 48. *Stock dividends or splits.* If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-2 shows the nature of distributions made by the survey companies to their shareholders. Approximately 83% of the survey companies paying cash dividends to common stock shareholders indicate the per share amount of such dividends in the statement of retained earnings; approximately 60% of the survey companies make a similar disclosure for cash dividends paid to preferred stock shareholders.

Examples of distributions to shareholders follow.

Cash Dividends

AMERICAN BAKERIES COMPANY (DEC)

Consolidated Statements of Paid-In Capital and Retained Earnings

	1977	1976	1975	1974	1973
			(In thousands)		
Paid-In Capital					
Beginning of year	$ 965	$ 940	$ 1,147	$ 989	$ 814
Excess of cost (first-in, first-out basis) over proceeds of common stock options exercised	142	(70)	(344)	—	—
Excess of the par value over the cost of preferred stock (in treasury) retired.	49	95	137	158	175
End of year	$ 1,156	$ 965	$ 940	$ 1,147	$ 989
Retained Earnings					
Beginning of year	$30,428	$27,208	$22,680	$25,261	$28,214
Net earnings (loss) for the year	5,822	5,289	5,739	(1,698)	(2,019)
Dividends declared—					
Cumulative prior preferred stock—					
$1.80 series ($1.80 per share)	(108)	(113)	(120)	(128)	(136)
$1.80 convertible series ($1.80 per share)	(122)	(162)	(171)	(180)	(180)
5% cumulative convertible preferred stock ($5 per share)	(166)	(172)	(182)	(198)	(219)
Common stock ($1.10 per share in 1977, $.95 per share in 1976, $.45 per share in 1975, and $.20 per share in 1974 and 1973)	(1,956)	(1,622)	(738)	(377)	(399)
End of year	$33,898	$30,428	$27,208	$22,680	$25,261

BIRD & SON, INC. (DEC)

Consolidated Statements of Earnings and Retained Earnings

	1977	1976
Net earnings	$ 16,742,000	$16,006,000
Retained earnings at beginning of year	89,099,000	78,886,000
Dividends declared:		
5% cumulative preferred stock—$5 per share	(64,000)	(65,000)
$2.75 convertible preference stock—$2.75 per share	—	(6,000)
Common stock—$1.85 per share	(5,744,000)	(5,722,000)
Retained earnings at end of year	$100,033,000	$89,099,000

CURTISS-WRIGHT CORPORATION (DEC)

Consolidated Statements of Earnings and Retained Earnings

	1977	1976
Net earnings	$ 16,299,000	$ 19,078,000
Retained earnings:		
Balance at beginning of year	170,769,000	156,794,000
Less, Dividends:		
Class A—$2.00 per share	483,000	492,000
Common—$.60 per share ($.55 in 1976)	4,977,000	4,611,000
Balance at end of year	$181,608,000	$170,769,000

CAMPBELL SOUP COMPANY (JUL)

Consolidated Statements of Earnings and Earnings Retained in the Business

	1977	1976
	(000 omitted)	
Earnings		
Net sales	$1,769,132	$1,634,762
Costs and expenses		
Cost of products sold	1,360,790	1,259,776
Marketing and administrative expenses	201,739	182,247
	1,562,529	1,442,023
Earnings before taxes	206,603	192,739
Taxes on earnings	99,500	91,700
Net earnings for the year	$ 107,103	$ 101,039
Net earnings per share (based on average shares outstanding)	$3.28	$3.07
Earnings Retained In The Business		
Beginning of year	$ 690,980	$ 633,701
Net earnings for the year	107,103	101,039
Cash dividends ($1.45 per share in 1977 and $1.33 per share in 1976)	(47,394)	(43,760)
End of year	$ 750,689	$ 690,980

HARRIS CORPORATION (JUN)

Statements of Consolidated Common Stock, Other Capital and Retained Earnings

	1977	1976
Common Stock		
Balance at beginning of year	$ 6,495,610	$ 6,486,175
Sale of shares under stock option plan	21,329	9,435
Shares issued for conversion of debentures	5,472	—
Par value of shares issued in two-for-one stock split	6,503,948	—
Balance at End of Year	$ 13,026,359	$ 6,495,610
Other Capital		
Balance at beginning of year	$ 41,228,079	$ 42,674,373
Par value of shares issued in two-for-one stock split	(6,503,948)	—
Sale of shares under stock option and employee stock purchase plans	927,990	(1,446,294)
Adjustment resulting from conversion of debentures	160,366	—
Balance at End of Year	$ 35,812,487	$ 41,228,079
Retained Earnings		
Balance at beginning of year	$162,894,709	$145,162,654
Charge resulting from change in accounting for warranties	—	(1,206,062)
Net earnings for the year	40,058,838	26,838,134
Cash dividends ($.77½ per share in 1977 and $.65 per share in 1976)	(9,550,962)	(7,900,017)
Balance at End of Year	$193,402,585	$162,894,709

LEE ENTERPRISES, INCORPORATED (SEP)

Consolidated Statements of Stockholders' Equity

	1977	1976
Common Stock		
Balance, beginning	$10,075,000	$ 6,717,000
Add common stock split	—	3,358,000
Balance, ending	$10,075,000	$10,075,000
Additional Paid-In Capital		
Balance, beginning	$ 3,624,000	$ 6,986,000
Deduct:		
Common stock split	—	3,358,000
Stock options exercised	248,000	4,000
Balance, ending	$ 3,376,000	$ 3,624,000
Retained Earnings		
Balance, beginning	$46,032,000	$38,763,000
Add net income	11,670,000	9,424,000
	$57,702,000	$48,187,000
Deduct cash dividends 1977 $.60 per share; 1976 $.44 per share	2,912,000	2,155,000
Balance, ending	$54,790,000	$46,032,000
Treasury Stock		
Balance, beginning	$ 1,960,000	$ 715,000
Add treasury stock reacquired 1977 114,381 shares; 1976 81,258 shares	2,702,000	1,256,000
	$ 4,662,000	$ 1,971,000
Deduct stock options exercised 1977 40,250 shares; 1976 900 shares	584,000	11,000
Balance, ending	$ 4,078,000	$ 1,960,000
Stockholders' Equity, ending	$64,163,000	$57,771,000

Stock Dividends

AMERADA HESS CORPORATION (DEC)

Statement of Consolidated Retained Earnings

	1977	1976
Balance at beginning of year	$ 977,944,000	$870,541,000
Net income	178,881,000	152,637,000
Dividends		
Cash		
$3.50 cumulative convertible preferred stock	(23,030,000)	(23,734,000)
Common stock ($.75 per share in 1977; $.375 per share in 1976)...	(18,496,000)	(8,677,000)
Common stock—2½%..	(21,345,000)	(12,823,000)
Retirement of treasury stock	(4,782,000)	—
Balance at end of year......	$1,089,172,000	$977,944,000

Statement of Consolidated Changes in Capital Stock and Capital in Excess of Par Value

	$3.50 cumulative convertible preferred stock		Common stock		
	Number of shares issued	Amount	Number of shares issued (including shares in treasury)	Amount	Capital in excess of par value
Balance at December 31, 1975	6,781,142	$6,781,000	24,682,906	$24,683,000	$147,844,000
Conversion of $3.50 cumulative convertible preferred stock .	(392)	—	859	1,000	—
Employee stock options exercised	—	—	4,591	4,000	72,000
2½% common stock dividend..	—	—	569,920	570,000	12,253,000
Issuance of 21,013 shares (from treasury) for adjustment of purchase of remaining interest in an affiliated company	—	—	—	—	(1,639,000)
Balance at December 31, 1976	6,780,750	6,781,000	25,258,276	25,258,000	158,530,000
Conversion of $3.50 cumulative convertible preferred stock .	(794,920)	(795,000)	1,748,771	1,749,000	(954,000)
Employee stock options exercised	—	—	24,870	25,000	426,000
2½% common stock dividend..	—	—	627,767	628,000	20,717,000
Retirement of treasury stock ...	—	—	(1,887,596)	(1,888,000)	—
Balance at December 31, 1977	5,985,830	$5,986,000	25,772,088	$25,772,000	$178,719,000

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

Changes in Shareholders' Equity

	Common Stock $1 Par Value (number of shares)	Capital in Excess of Par Value (in thousands of dollars)	Retained Earnings (in thousands of dollars)
Balance, Beginning of Year 1976, as previously reported	13,489,003	$122,768	$164,943
Adjustments for changes in accounting (Note 1)			(335)
Balance, Beginning of Year 1976, as restated	13,489,003	122,768	164,608
Net Income, as restated			62,299
Cash Dividends			
Common Stock, $.125 per share			(3,435)
Treasury shares issued at market price for:			
Employees Savings and Stock Ownership Plan—Savings Year 1975	14,200	854	
Incentive Compensation Plan Awards	10,908	513	
Original shares issued for:			
2% Stock Dividend, at quoted market price, less cost of issue	270,327	20,768	(21,085)
Stock Options	7,980	250	
Two-for-one stock split	13,792,418	(13,827)	
Balance, Beginning of Year 1977	27,584,836	131,326	202,387
Net Income			67,707
Cash Dividends			
Common Stock, $.25 per share			(7,028)
Treasury shares issued at market price for:			
Employees Savings and Stock Ownership Plan—Savings Year 1976	29,393	1,031	
Incentive Compensation Plan and Performance Share Plan Awards	42,730	1,121	
Original shares issued for:			
2% Stock Dividend, at quoted market price, less cost of issue	553,031	15,860	(16,453)
Stock Options	37,713	549	
Other		701	
Balance, End of Year 1977 ($151,000 of Retained Earnings restricted) (Note 2)	28,247,703	$150,588	$246,613

INSILCO CORPORATION (DEC)

Consolidated Statement of Retained Earnings

	1977 ($000)	1976 ($000)
Retained earnings at beginning of year	$ 83,442	$71,707
Net earnings for the year	22,065	19,616
	105,507	91,323
Deduct—		
Dividends declared on:—		
8% convertible preferred stock ($2.00)	72	75
Convertible second preferred stock, Series A ($1.25)	945	946
Common stock:		
Cash (1977—$.85; 1976—$.74)	7,882	6,860
Stock (5% or 442,939 shares at market value)	5,696	—
	14,595	7,881
Retained earnings at end of year	$ 90,912	$83,442

STANDARD CONTAINER COMPANY (SEP)

Statement of Consolidated Shareholders' Equity

	6% Cumulative First Preferred Stock	5% Cumulative Second Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional paid-in Capital	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount
Balance at September 28, 1975	$175,500	$650,000	766,816	$766,816	$1,364,090	$5,445,114	2,000	$5,500
Exercise of stock option under qualified stock option plan	—	—	14,700	14,700	10,950	—	—	—
Net income for the period	—	—	—	—	—	1,517,238	—	—
Cash dividends paid:								
$6.00 per share on 6% Cumulative preferred stock	—	—	—	—	—	(10,530)	—	—
$5.00 per share on 5% Cumulative preferred stock	—	—	—	—	—	(32,500)	—	—
$.123 per share on common stock	—	—	—	—	—	(116,061)	—	—
10% stock dividend ($186 paid in cash in lieu of fractional shares)	—	—	77,842	77,842	287,042	(365,070)	—	—
Balance at September 26, 1976	175,500	650,000	859,358	859,358	1,662,082	6,438,191	2,000	5,500
Exercise of stock option under qualified stock option plan	—	—	6,100	6,100	8,475	—	—	—
Net income for the period	—	—	—	—	—	1,493,375	—	—
Cash dividends paid:								
$6.00 per share on 6% Cumulative preferred stock	—	—	—	—	—	(10,530)	—	—
$5.00 per share on 5% Cumulative preferred stock	—	—	—	—	—	(32,500)	—	—
$.145 per share on common stock	—	—	—	—	—	(137,083)	—	—
10% stock dividend ($581 paid in cash in lieu of fractional shares)	—	—	86,049	86,049	430,245	(516,875)	—	—
Balance at September 25, 1977	$175,500	$650,000	951,507	$951,507	$2,100,802	$7,234,578	2,000	$5,500

METRO-GOLDWYN-MAYER INC. (AUG)

Consolidated Statements of Stockholders' Equity

	Common Stock Issued Number of Shares	Stated Value	Retained Earnings	Treasury Stock Number of Shares	At Cost	Total Stockholders' Equity
Balance August 31, 1975	12,352,266	$67,944,000	$56,321,000	(105,585)	($ 908,000)	$123,357,000
Net income for year	—	—	35,557,000	—	—	35,557,000
Cash dividends	—	—	(12,600,000)	—	—	(12,600,000)
4% stock dividend	487,357	7,029,000	(7,074,000)	—	—	(45,000)
Stock options exercised	—	(76,000)	—	41,941	403,000	327,000
5% Convertible Subordinated Debentures converted	3,400	62,000	—	—	—	62,000
Open-market Common Stock purchases (note 4)	—	—	—	(118,900)	(1,681,000)	(1,681,000)
Balance August 31, 1976	12,843,023	74,959,000	72,204,000	(182,544)	(2,186,000)	144,977,000
Net income for year	—	—	33,188,000	—	—	33,188,000
Cash dividends	—	—	(13,414,000)	—	—	(13,414,000)
9% stock dividend	1,132,009	15,056,000	(15,135,000)	—	—	(79,000)
Stock options exercised	—	(3,135,000)	—	318,649	5,217,000	2,082,000
Open-market Common Stock purchases (note 4)	—	—	—	(462,398)	(8,914,000)	(8,914,000)
Balance August 31, 1977	13,975,032	$86,880,000	$76,843,000	(326,293)	($5,883,000)	$157,840,000

NOTES TO FINANCIAL STATEMENTS

Note 8: Stock Dividend—The Board of Directors on November 9, 1976, declared a 9% stock dividend payable December 23, 1976, to stockholders of record November 22, 1976. Dividends per share, stock options, prices at which options are exercisable and earnings per share have been computed giving retroactive effect to the aforesaid stock dividend.

Dividend of Pooled Company

INGERSOLL-RAND COMPANY (DEC)

Changes in Retained Earnings

	1977	1976
Earnings retained for use in the business at beginning of year	$704,011,000	$641,221,000
Retained earnings of pooled companies	7,433,000	12,121,000
Net earnings for the year	117,666,000	106,887,000
	829,110,000	760,229,000
Cash dividends:		
Preference stock, $2.35 per share	7,120,000	7,120,000
Common stock, $2.80 per share in 1977 and $2.68 in 1976	52,641,000	48,025,000
By acquired companies prior to pooling	361,000	1,073,000
	60,122,000	56,218,000
Earnings retained for use in the business at end of year	$768,988,000	$704,011,000

ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in reporting entity, and prior period adjustments. Effective for financial statements for fiscal periods beginning after October 15, 1977, FASB *Statement of Financial Accounting Standards No. 16* stipulates that only corrections of errors and "Adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries", are properly accounted for as prior period adjustments.

Table 4-3 summarizes the reasons disclosed by the survey companies as to why the opening balance of retained earnings was adjusted. Examples of adjustments to the opening balance of retained earnings follow.

TABLE 4-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies 1977	1976	1975	1974
Change in accounting for leases	35	—	—	—
Poolings of interests	31	24	18	30
Litigation or income tax settlements	9	8	22	12
Change in translation policies	5	29	82	—
Other	10	21	45	41

Change in Accounting Principles

ALBERTSON'S INC. (JAN)

Consolidated Stockholders' Equity

	Common Stock $1.00 Par Value	Capital in Excess of Par Value	Retained Earnings	Total
Balance at January 31, 1976:				
As previously reported	$7,293,621	$32,726,167	$51,221,709	$ 91,241,497
Adjustment for change in accounting for leases			(3,793,195)	(3,793,195)
Exercise of stock options	8,550	110,700		119,250
Cash dividends, $.72 per share			(5,254,444)	(5,254,444)
Net earnings			17,072,638	17,072,638
Balance at January 29, 1977	7,302,171	32,836,867	59,246,708	99,385,746
Exercise of stock options	36,350	472,218		508,568
Cash dividends, $.80 per share			(5,862,971)	(5,862,971)
Net earnings			24,832,450	24,832,450
Balance at January 28, 1978	$7,338,521	$33,309,085	$78,216,187	$118,863,793

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Change in Accounting—The Company elected early adoption of the retroactive provisions of Financial Accounting Standards Board Statement No. 13, Accounting for Leases. This Statement requires capitalization of leases which meet certain criteria. A capital lease must be recorded as if the Company had acquired assets through debt financing. This asset is classified on the balance sheet as "Assets Under Capital Leases" and the related liability as "Obligations Under Capital Leases." This results in reporting interest expense and depreciation as opposed to the traditional treatment of rents. Rental payments are recorded as reductions of obligations and the interest liability on capital leases. This results in a decrease in reported net earnings in earlier years of the lease term and an increase in net earnings during the later years of the lease term. The expense recognized over the life of the lease is the same as it would have been under the old method. The majority of the Company's leases are in the earlier years of the lease term, thereby resulting in a reduction of previously reported retained earnings. Capital subleases are accounted for on the balance sheet as "Receivables for Capital Subleases" and the related liability as "Obligations Under Capital Leases." All other leases are classified as operating leases or operating subleases and rent expense and rent income are recorded during the period in which they are incurred. This new accounting rule has no effect on the Company's earnings for tax purposes.

All the Company's leases and subleases have been accounted for under this new Statement and all financial statements presented have been restated to apply this method retroactively. Earnings for the year ended January 28, 1978 were reduced by $1,217,665 or $.16 per share. The following is an analysis of the effect on earnings per share for prior years:

	52 Weeks January 29, 1977	52 Weeks January 31, 1976	52 Weeks February 1, 1975	52 Weeks February 2, 1974
Net earnings as previously reported	$18,183,030	$15,792,467	$11,701,540	$9,138,293
Adjustment for effect of change in accounting for leases	(1,110,392)	(542,149)	(357,208)	(282,323)
Net earnings restated	$17,072,638	$15,250,318	$11,344,332	$8,855,970
Net earnings per share as previously reported	$2.41	$2.38	$1.85	$1.45
Adjustment for effect of change in accounting for leases	(.15)	(.08)	(.05)	(.05)
Net earnings per share restated	$2.26	$2.30	$1.80	$1.40

CITIES SERVICE COMPANY (DEC)

Consolidated Retained Earnings

	1977	1976
	(Thousands of dollars except per share data)	
Amount at beginning of year		
As previously reported	$	$1,382,500
Adjustment for capitalization of leases (note 9)		(2,700)
As restated	1,526,100	1,379,800
Net income	210,200	217,000
Cash dividends paid (per share: 1977—$3.00; 1976—$2.60)	(82,700)	(70,700)
Amount at end of year	$1,653,600	$1,526,100

Note 9 (in part): Leases—In the fourth quarter of 1977, the Company adopted, retroactive to January 1, 1975 (the earliest date practicable), Statement No. 13 of the Financial Accounting Standards Board, Accounting for Leases.

Accordingly, the consolidated financial statements for 1975 and 1976 have been restated. Net income was reduced as follows: 1975—$2.7 million, including the cumulative effect of the change of $2.4 million; 1976—no restatement due to immateriality. The effect of the change on 1977 was not significant.

PHILLIPS PETROLEUM COMPANY (DEC)

Consolidated Statements of Income and Earnings Employed in the Business

	1977	1976
	($000)	
Net Income	$ 516,902	$ 411,656
Earnings Employed in the Business at Beginning of Year:		
As previously reported		1,779,002
Adjustment—Note 4		(18,170)
As restated	2,038,812	1,760,832
	2,555,714	2,172,488
Dividends Paid (1977—$.975 a share; 1976—$.875 a share)	149,517	133,676
Earnings Employed in the Business at End of Year	$2,406,197	$2,038,812

Note 4—Change in Accounting for Leases: In 1977 the Company changed its method of accounting for non-mineral leases in accordance with Financial Accounting Standards Board Statement No. 13 to retroactively apply the provisions of the Statement to January 1, 1973, the earliest practical date for recovering sufficient lease data. The 1973 financial statements have been restated to reflect this accounting change and, accordingly, net income for that year has been reduced $18,170,000 ($.12 per share) for the cumulative effect of the change to January 1, 1973. This change had no material effect on earnings for 1977 or any of the previous four years.

PULLMAN INCORPORATED (DEC)

Consolidated Statement of Income and Retained Earnings

	1977	1976
	($000)	
Net Income	$ 33,123	$ 30,896
Retained earnings at beginning of year:		
As previously reported		193,032
Retroactive adjustment resulting from change in lease accounting		(2,154)
As restated	208,340	190,878
Cash dividends ($1.34 per common share in 1977; $1.23 in 1976)	(14,668)	(13,434)
Retained earnings at end of year	$226,795	$208,340

Note 2: Accounting Change—Financial Accounting Standards Board Statement No. 13, "Accounting for Leases," establishes new standards of financial accounting and reporting for leases. The statement is effective for leases entered into during 1977 and encourages retroactive application for leases entered into in prior years. During 1977 the Company and its nonconsolidated leasing and financing subsidiaries elected to retroactively apply the Statement and, accordingly, have restated their financial statements. As a result of this change, net income has been increased $53,000 in 1977 and previously reported 1976 net income of $30,309,000 ($2.77 per share), has been increased $587,000 ($.06 per share). The retroactive adjustment for the effects of leases that were in existence during periods subsequent to December 31, 1972, except for leases carried in the accounts of the leasing and financial subsidiaries, resulting from the change prior to January 1, 1976 has been charged to retained earnings. The cumulative effect of the change on retained earnings at January 1, 1976 for leases carried in the accounts of the leasing and financing subsidiaries, amounting to $779,000, has been credited to net income in 1976 because it is not practicable to obtain or reconstruct the information necessary for restatement, particularly for leases expiring prior to 1976.

In addition, certain amounts in the 1976 financial statements have been reclassified to conform with the 1977 presentation.

DUPLEX PRODUCTS INC. (OCT)

Statements of Retained Earnings

	1977	1976
Beginning of year—as originally reported	$20,571,000	$19,385,000
Change in accounting method for capital leases (note B)	(102,000)	(95,000)
Beginning of year—as restated	20,469,000	19,290,000
Net earnings	3,259,000	1,907,000
Less cash dividends—.95 per share in 1977 and $.75 per share in 1976	(927,000)	(728,000)
End of year	$22,801,000	$20,469,000

Note B: Accounting Changes—At August 1, 1977, the company changed its method of accounting for leased property under capital leases to be in conformity with Financial

Accounting Standards Board Statement No. 13 which established a new standard of accounting for capital leases. As required by Statement No. 13, the company's financial statements have been restated for prior periods to give retroactive effect for the change in accounting as if Statement No. 13 had been in effect for prior years. The change in accounting involved the capitalization of equipment obligations at discounted amounts totaling $2,027,000; the amortization of the related lease assets over the lease periods which approximate the lives of the equipment; the reduction of the lease obligations by monthly lease payments net of charges to interest expense, and the recognition of the deferred income tax effects. In addition to the equipment leases which were capitalized at August 1, 1977, the company has capital leases for plant facilities which were capitalized in prior periods at the inception of the leases and consequently do not require retroactive treatment.

The effects of the change on retained earnings, earnings and per share amounts were as follows:

	Earnings as previously reported	Add back rent on equipment leases	Adjustments for restatement*	Earnings as restated	Increase (decrease) Per share amounts
		(amounts in thousands)			
Year ended October 31,					
1972	921	211	(236)	896	(.02)
1973	1,498	287	(309)	1,476	(.02)
1974	5,225	308	(331)	5,202	(.02)
1975	4,649	308	(323)	4,634	(.01)
1976	1,914	308	(315)	1,907	—

*Adjustments for restatement include amortization, interest and deferred income taxes.

ASHLAND OIL, INC. (SEP)

Statement of Consolidated Stockholders' Equity

	Capital stock				
	Preferred stocks	Common stock	Other capital	Retained earnings	Treasury shares
			(In thousands)		
Balance at October 1, 1975—as reported	$ 77,094	$24,238	$118,136	$511,589	$5,440
Adjustment for change in accounting method—Note A				(26,464)	
Adjustments for poolings of interests—Note B		846	(874)	9,415	
Balance at October 1, 1975—as restated	77,094	25,084	117,262	494,540	5,440
Net income for 1976				141,295	
Cash dividends:					
Preferred stocks				(11,177)	
Common stock—$1.65 a share				(40,324)	
Converted—247,000 shares of $2.40 series of 1966 and 46,000 shares of $2.40 series of 1970	(14,864)	562	14,302		
Redemption of 12,000 shares of $2.40 series of 1966	(750)				
Acquisitions of other companies		149	401	2,601	
Adjustment for 202,000 shares of common stock previously recorded as issuable for property rights and other changes		61	(3,605)		1
Balance at September 30, 1976	61,480	25,856	128,360	586,935	5,441
Net income for 1977				164,265	
Cash dividends:					
Preferred stocks				(13,306)	
Common stock—$1.90 a share				(49,854)	
Converted—83,000 shares of $2.40 series of 1966 and 550,000 shares of $2.40 series of 1970	(5,813)	990	4,823		
Redemption of 53,000 shares of $2.40 series of 1966 including 37,000 shares from Treasury	(3,195)		(245)		(2,452)
Acquisition of other companies		478	13,672		
Issuance of 8.50% series of 1976 preferred stock—50,000 shares	50,000				
Other changes		66	1,659	(449)	
Balance at September 30, 1977	$102,472	$27,390	$148,269	$687,591	$2,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A: Significant Accounting Policies—The information presented on page 40 of this Annual Report summarizes the significant Accounting Policies of Ashland and is an integral part of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Exploration and development costs—In 1977, Ashland changed from the full cost method to the successful efforts method of accounting for exploration and development costs in foreign areas, Alaska and Canada. Under the successful efforts method of accounting (which has been principally utilized by Ashland for its domestic operations), exploratory costs, including geophysical and geological expenses, lease rentals, and intangible drilling costs applicable to dry holes are charged to expense as incurred. Lease acquisition costs, intangible drilling costs on productive wells and tangible equipment costs related to the development of oil and gas reserves are capitalized and amortized by the unit-of-production method.

The effect of this change in accounting method was to increase net income by $184,000 ($.01 per share) in 1977 and $1,280,000 ($.05 per share) in 1976 and to decrease retained earnings at October 1, 1975 by $26,464,000 for the cumulative effect of the change on net income for prior years.

This change was made in recognition of changing operating and economic conditions affecting oil and gas exploration activities. In addition, in July 1977 the Financial Accounting Standards Board issued an "Exposure Draft" of a Statement on Financial Accounting and Reporting by Oil and Gas Producing Companies which would require, if adopted, companies to utilize the successful efforts method of accounting.

Coal lease acquisition, exploration and development costs which are recoverable are capitalized and amortized on a unit-of-production method over the respective estimated coal reserves.

TEXASGULF INC. (DEC)

Consolidated Statements of Retained Earnings

	1977	1976
	($000)	
Retained Earnings at January 1, as previously reported	$639,016	$612,984
Adjustment for the cumulative effect on prior years of adopting FASB Statement No. 19	(45,222)	(43,152)
Retained Earnings at January 1, as adjusted	593,794	569,832
Net income	46,285	60,844
Cash Dividends—preferred ($3.00 per share in 1977)	(9,000)	—
—common ($1.20 per share each year)	(36,976)	(36,882)
Retained Earnings at December 31	$594,103	$593,794

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies and Related Matters

Changes in Accounting Policies. Prior to 1977 all expenditures on major oil and gas exploration projects were capitalized pending determination of commercially recoverable reserves. As described in section F of this note, during 1977 the company adopted the successful efforts method of accounting for oil and gas activities in accordance with Financial Accounting Standards Board Statement No. 19 and accordingly, financial statements of prior periods have been restated to give effect to this change. All companies will be required to adopt the methods of accounting and reporting for oil and gas activities required by FASB Statement No. 19 for fiscal years beginning after December 15, 1978. It has generally been the policy of the company to elect early adoption of new accounting pronouncements and therefore the change to the required method of accounting in FASB Statement No. 19 was effected during 1977. The effect of this change on net income in 1977 was insignificant. Prior years' net income has been increased (decreased) as follows: 1976 ($2,070,000), (07) cents per share; 1975 ($9,512,000), (31) cents per share; 1974 ($3,646,000), (12) cents per share; 1973 $2,870,000, 10 cents per share; 1972 ($13,591,000), (44) cents per share; 1971 ($7,263,000), (24) cents per share; 1970 ($9,972,000), (33) cents per share; 1969 ($1,693,000), (05) cents per share; 1968 and years prior ($345,000). Lands, contract rights and development and unproven properties and exploration projects have been reduced $4,410,000 and $52,560,000 respectively, and deferred income taxes have been reduced $11,850,000.

In 1977 the company also elected early adoption of the recommendations contained in FASB Statement No. 13 pertaining to accounting for leases. The effect of this change on net income of the current year and prior years was not significant, consequently no adjustments have been made to prior years' net income as a result of this change.

ORANGE-CO, INC. (AUG)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Accounting Change—During the year ended August 31, 1977 the Company changed the valuation method for citrus inventories from LIFO (last-in, first-out) method to the season's average cost method. Citrus inventories had been valued on the LIFO method since September 1, 1973. The change in valuation method was made to minimize the effects of accounting estimates used in computing interim inventories and cost of sales which are difficult to determine due to the nature and timing of the Company's production and selling cycles and the cyclical pattern of fruit costs, together with a desire to improve comparability of Orange-co's financial statements with the financial statements of other companies in the citrus and food processing industry, most of which do not use the LIFO method of inventory valuation.

The change in method of valuing citrus inventories has been applied retroactively pursuant to the provisions of Accounting Principles Board Opinion No. 20. As a result of adopting the average cost method, net loss for the year ended August 31, 1977 is approximately $725,000 or $.18 per share less than it would have been on a LIFO basis. The financial statements for years 1976, 1975 and 1974 have been retroactively restated for this change and the effect of the accounting change on net income as previously reported is as follows:

	(In thousands of dollars except per share data)		
	1976	1975	1974
Net income as previously reported	$4,038	$3,382	$2,670
Adjustment for effect of the change in method of valuation	695	121	517
Net income as adjusted	$4,733	$3,503	$3,187
Earnings per common share:			
Assuming no dilution:			
Net income as previously reported	$ .95	$ .92	$ .68
Adjustment for effect of the change in method of valuation	.18	.03	.15
Net income as adjusted	$ 1.13	$ .95	$ .83
Assuming full dilution:			
Net income as previously reported	$ .92	$ .88	$ .68
Adjustment for effect of the change in method of valuation	.15	.03	.13
Net income as adjusted	$ 1.07	$ .91	$ .81

The Company has made application to the Internal Revenue Service for approval of the accounting change for tax purposes and permission to pay the resulting tax liability of approximately $237,000 per year for eight years beginning in fiscal 1978.

CHILTON COMPANY (DEC)

Consolidated Statement of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock held in Treasury Shares	Common Stock held in Treasury Amount
Balance—January 1, 1976, as previously reported	$5,641,070	$2,809,516	$16,208,064	6,443	($102,311)
Adjustment for book returns (Note 2)			(229,381)		
Balance—January 1, 1976 as adjusted	5,641,070	2,809,516	15,978,683	6,443	(102,311)
Distribution of bonus shares in excess of shares set aside in prior year		(101)		(115)	(1,826)
Purchase of treasury stock				1,415	(22,329)
Cash dividend paid ($1 per share)			(557,419)		
Treasury stock set aside for incentive bonus (A)		(840)		(2,159)	36,909
Net income (restated Note 2)			1,200,759		
Balance—December 31, 1976	5,641,070	2,808,575	16,622,023	5,584	(85,905)
Purchase of treasury stock				13	(195)
Cash dividends paid ($1 per share)			(557,974)		
Treasury stock set aside for incentive bonus (A)		7,051		(2,226)	32,639
6% stock dividend (Note 12)	336,440	285,974	(622,414)		
Net income			2,358,470		
Balance—December 31, 1977	$5,977,510	$3,101,600	$17,800,105	3,371	($ 53,461)

Note 2: Accounting Change—The Company has adopted a policy of providing for estimated returns on sales of books made during the year. The Company had formerly followed the policy of recording their sales returns as received. The change was adopted retroactively in accordance with the provisions of statements No. 5 and 11 of the Financial Accounting Standards Board and, accordingly, the 1976 financial statements have been restated to reflect this change. The effect of this change was an increase in net income of $3,628 or $0.01 per share in 1977, and a decrease of $9,811 or $0.02 per share in 1976 after giving retroactive effect for the 6% stock dividend (Note 12). The effect of this change on net income for years prior to 1976 of $229,381 (net of income taxes of $261,000) has been charged to retained earnings at January 1, 1976.

Change in Reporting Entity

INTERCO INCORPORATED (FEB)

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share data)

	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Total
Balance February 28, 1975:					
As originally reported	$15,984	$ 85,862	$41,778	$261,932	$405,556
Adjustments for pooled companies		15,201	(9,488)	47,740	53,453
As restated	15,984	101,063	32,290	309,672	459,009
Net earnings				69,027	69,027
Cash dividends:					
Preferred stock				(791)	(791)
Common stock—$1.47½ per share				(16,935)	(16,935)
By pooled companies prior to combination				(1,215)	(1,215)
Stock dividends by pooled companies prior to combination—160,912 shares		1,207	1,999	(3,208)	(2)
Purchase and retirement of preferred stock:					
Series B—2,615 shares	(105)		(6)		(111)
Conversion of preferred stock:					
Series B—1,082 shares	(43)	16	27		
Series C—17,032 shares	(1,703)	390	1,313		
Exercise of stock options:					
Common—37,017 shares		278	718		996
Adjustment to conform pooled companies' fiscal years				818	818
Balance February 29, 1976, as restated	14,133	102,954	36,341	357,368	510,796
Net earnings				76,759	76,759
Cash dividends:					
Preferred stock				(729)	(729)
Common stock—$1.62½ per share				(21,733)	(21,733)
By pooled company prior to combination				(265)	(265)
Stock dividend by pooled company prior to combination—20,185 shares		151	505	(662)	(6)
Conversion of preferred stock:					
Series C—5,196 shares	(520)	119	401		
Excise of stock options:					
Common—100,945 shares		757	1,815		2,572
Restricted stock plan:					
Common—4,107 shares		31	132		163
Issuance of 18,141 contingent common shares		136	516		652
Adjustment to conform pooled company's fiscal year				(74)	(74)
Balance February 28, 1977	$13,613	$104,148	$39,710	$410,664	$568,135

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Business Combinations—During fiscal 1977, the company acquired all the outstanding stock of Sky City Stores, Inc. in exchange for 427,079 shares of the company's common stock. This transaction was accounted for as a pooling of interests; and, accordingly, the accounts of this company have been included in the accompanying consolidated financial statements for fiscal 1977 and fiscal 1976. Consolidated net sales and net earnings for fiscal 1976, prior to restatement for this business combination, were $1,376,365,000 and $67,009,000, respectively. The net sales and net earnings of Sky City Stores, Inc. for fiscal 1977, prior to combining, were $62,189,000 and $2,512,000, respectively.

Historically, Sky City Stores, Inc. has reported on a fiscal year ended January 31 of each year. In the consolidated statements of earnings, results for the pooled company for its fiscal year ended January 31, 1977 and 1976 have been included with INTERCO INCORPORATED consolidated results for fiscal 1977 and fiscal 1976, respectively. Retained earnings have been adjusted for the pooled company's operations for the month of February, 1977.

ELI LILLY AND COMPANY (DEC)

Consolidated Statements of Income and Reinvested Earnings

	1977	1976
Net income	$ 218,684,000	$202,682,000
Reinvested earnings at beginning of year, as previously reported	950,940,000	837,180,000
Reinvested earnings (deficit) of acquired company (unaudited)—Note B	1,779,000	(243,000)
Reinvested earnings at beginning of year, as restated	952,719,000	836,937,000
Deduct cash dividends: 1977—$1.42 per share; 1976—$1.25 per share	98,183,000	86,411,000
By acquired company prior to date of acquisition	808,000	489,000
Reinvested Earnings at End of Year	$1,072,412,000	$952,719,000

Note B: Acquisition—In November, 1977, the company exchanged 1,438,114 shares (.95 of a share for each share acquired) of its common stock for all the outstanding shares of IVAC Corporation (IVAC). IVAC's business is the design, development, manufacture and marketing of electronic medical instrument systems, including related disposable products. The acquisition has been accounted for under the pooling of interests method and, accordingly, the company's 1976 consolidated financial statements have been restated to include the accounts and operations of IVAC. IVAC's previously reported financial results have been recast to reflect years ended December 31.

Net sales and net income included in the consolidated statements of income and reinvested earnings for 1976 and 1977 are as follows:

	Net Sales	Net Income
Year Ended December 31, 1976		
As previously reported	$1,340,588,000	$200,171,000
IVAC (unaudited)	20,163,000	2,511,000
Combined	$1,360,751,000	$202,682,000
Year Ended December 31, 1977		
Lilly	$1,492,796,000	$215,550,000
IVAC (unaudited)	25,216,000	3,134,000
Combined	$1,518,012,000	$218,684,000

RELIANCE ELECTRIC COMPANY (OCT)

Statements of Consolidated Stockholders' Equity

	Serial Preferred Stock Series A	Series B	Common Stock	Other Capital	Retained Earnings
	(Thousands of Dollars)				
Year Ended October 31, 1976:					
Balance at November 1, 1975, as previously reported	$6,656	$8,179	$24,580	$4,269	$150,711
Pooling of interests-Reliable Electric Company			3,842	(2,882)	21,029
Cumulative effect of accounting change					136
Balance at November 1, 1975, as restated	6,656	8,179	28,422	1,387	171,876
Net earnings					43,755
Cash dividends:					
Series A—$3.00 per share					(2,361)
Series B—$1.60 per share					(998)
Common—$1.025 per share					(11,239)
Sale of 20,892 common shares under option plans			52	264	
Purchase of 11,657 common shares for treasury			(29)	(5)	(173)
Issuance of 2,202,733 common shares on conversion of 237,892 Series A shares and 852,131 Series B shares and other	(1,760)	(6,281)	5,507	2,590	(115)
Capital stock transactions (41,084 common shares) and dividends of pooled company prior to merger			103	322	(973)
Balance at October 31, 1976	4,896	1,898	34,055	4,558	199,772
Year Ended October 31, 1977:					
Net earnings					53,516
Cash dividends:					
Series A—$3.00 per share					(1,564)
Series B—$1.60 per share					(297)
Common—$1.15 per share					(15,484)
Sale of 34,858 common shares under option plans			87	553	
Purchase 15,268 of common shares for treasury			(38)	(9)	(435)
Issuance of 900,134 common shares on conversion of 230,986 Series A shares and 111,984 Series B shares and other	(1,709)	(825)	2,250	824	
Capital stock transactions (14,050 common shares), dividends and adjustment for change in fiscal year of pooled company			35	140	(818)
Balance at October 31, 1977	$3,187	$1,073	$36,389	$6,066	$234,690

NOTES TO FINANCIAL STATEMNETS

Note B: Acquisitions—In May 1977 the Company acquired Reliable Electric Company for 1,592,000 common shares in a transaction accounted for as a pooling of interests. For 1977 the fiscal closing of Reliable Electric was changed from December to October to conform to that of the Company. The results of operations of Reliable Electric for its year ended December 31, 1976 are included in the statement of consolidated earnings for the fiscal year ended October 31, 1976. Fully diluted net earnings per common share of the Company were reduced by $.06 in 1977 and for 1976 were reduced by $.11 as a result of the acquisition. Net sales and net earnings of both companies for the periods preceding acquisition were:

	Net Sales	Net Earnings
	(Thousands of Dollars)	
Six months ended April 30, 1977 (unaudited)		
Reliance Electric Company	$373,114	$22,146
Reliable Electric Company	27,592	1,826
	$400,706	$23,972
Year Ended October 31, 1976		
Reliance Electric Company	$664,065	$40,884
Reliable Electric Company	47,942	2,871
	$712,007	$43,755

Intercompany sales from the Company to Reliable Electric and estimated intercompany profits have been eliminated; such items were not material.

Prior Period Adjustments

LAFAYETTE RADIO ELECTRONICS CORPORATION

Consolidated Balance Sheets—July 2, 1977 and June 30, 1976

	1977 (Revised) (Note 6)	1976

Consolidated Statements of Income (Loss) and Retained Earnings

Years ended July 2, 1977 and June 30, 1976

	1977 (Revised) (Note 6)	1976(a)

Consolidated Statements of Changes in Financial Position

Years ended July 2, 1977 and June 30, 1976

	1977 (Revised) (Note 6)	1976

Note 6: Revision of 1977 financial statements—Subsequent to the issuance of its financial statements the Company discovered a computational error in the amount of $1,046,000 in the calculation of its July 2, 1977 inventory used to determine cost of sales for the year then ended. Accordingly, the 1977 financial statements have been restated. The effect of the correction of the error resulted in an increase in the 1977 net loss from $3,101,000 to $3,621,000 or from $1.42 to $1.65 per share.

TABLE 4-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1977	1976	1975	1974
Charges				
Treasury stock transactions.	63	49	28	80
Poolings of interests adjustments	4	6	6	10
Other	18	19	18	16
Credits				
Poolings of interests	6	10	8	11
Other	5	4	7	8

OTHER CHANGES IN RETAINED EARNINGS

In addition to opening balance adjustments, the retained earnings account is affected by direct charges and credits. Direct charges result usually from one or more of the following (1) net loss for the year, (2) cash or stock dividends, (3) creation of or additions to appropriated retained earnings, or (4) losses on treasury stock transactions. Direct credits result usually from either net income for the year or restorations of appropriated retained earnings. Direct charges and credits—other than net loss, net income, dividends and stock splits—are summarized in Table 4-4. Examples of such charges and credits follow.

Treasury Stock Transactions

AMERICAN SEATING COMPANY (DEC)

Consolidated Statement of Stockholders' Equity

	1977	1976
Preferred Stock		
Beginning of year	$ 2,712,829	$ 2,712,829
Purchase of shares under Tender Offer (Note 7)	(30,269)	—
End of year	2,682,560	2,712,829
Common Stock		
Beginning of year	7,062,400	7,062,400
Issuance of 8,000 shares under stock options (Note 9)	40,000	—
Purchase of shares under Tender Offer (Note 7)	(2,495,050)	—
Retirement of 49,465 shares of Treasury Stock	(247,325)	—
End of year	4,360,025	7,062,400
Additional Paid-in Capital		
Beginning of year	1,225,981	1,225,981
Excess of proceeds over par value of 8,000 common shares issued under stock options (Note 9)	22,625	—
Purchase of shares under Tender Offer (Note 7)	(437,381)	—
Retirement of Treasury Stock	(43,356)	—
End of year	767,869	1,225,981
Retained Earnings		
Beginning of year	24,274,617	23,512,317
Net income	876,512	1,549,847
Cash dividends paid:		
Common—$.40 per share	(447,204)	(545,206)
Preferred	(240,441)	(242,341)
Purchase of shares under Tender Offer (Note 7)	(4,791,206)	—
Retirement of Treasury Stock	(1,037,862)	—
End of year	18,634,416	24,274,617
Treasury Stock		
Beginning of year	(1,328,543)	(1,328,543)
Retirement of 49,465 shares	1,328,543	—
End of year	—	(1,328,543)
Total Stockholders' Equity	$26,444,870	$33,947,284

Note 7: Tender Offer for Repurchase of Stock—On June 16, 1977 the Company completed the purchase of 499,010 shares of Common Stock for $7,485,150 ($15 per share), 28 shares of Series A Preferred Stock for $1,680 ($60 per share) and 601⅔ shares of Series B Preferred Stock for $30,083 ($50 per share) pursuant to tender offers made on April 29, 1977 to all holders of Common and Preferred Stock. The tender offers expired on May 20, 1977. Expenses and fees relating to the tender offer were approximately $237,000.

All shares thus purchased have been retired and cancelled. This has resulted in a reduction of stockholders' equity by approximately $7,754,000 (preferred stock by $30,000, common stock by $2,495,000, additional paid-in capital by $438,000 and retained earnings by $4,791,000).

THE BARDEN CORPORATION (OCT)

Consolidated Statement of Income and Retained Earnings

	1977	1976
Net earnings	$ 4,099,057	$ 992,786
Retained Earnings at beginning of year	16,453,050	15,876,800
	20,552,107	16,869,586
Less: Cash dividends	519,587	416,536
Excess cost of treasury stock over proceeds from exercise of stock options—Note C	20,626	
	540,213	416,536
Retained Earnings at end of year	$20,011,894	$16,453,050

Note C–Changes in the status of options (after giving retroactive effect to the two-for-one stock split) under the Company's 1964, 1966 and 1969 Qualified Stock Option Plans are summarized as follows:

	Shares	
	1977	1976
Outstanding at beginning of year	70,600	56,100
Granted	10,900	20,000
Terminated	(11,650)	(5,500)
Exercised ($4.0625 and $4.375)	(22,770)	None
Outstanding at end of year	47,080	70,600
Exercisable at end of year	13,906	27,052
Available for grant at end of year	1,484	8,866
Price range of outstanding options	$4.0625-$7.4375	$4.0625-$4.375

The Company granted in 1976, subject to stockholder approval, a nonqualified stock option to an officer for 10,000 shares at a price of $4.375 per share.

Of the 22,770 shares exercised under the Company's stock option plans, 17,770 shares represent unissued shares, and the proceeds were credited to the Capital Stock account. The balance, 5,000 shares, was issued from treasury stock, and the excess of the cost over the proceeds was charged to Retained Earnings.

THE MEAD CORPORATION (DEC)

Statements of Retained Earnings

	1977	1976
	($000)	
Balance—beginning of year as previously reported	$402,774	$344,871
Restatement (Note B)	(1,965)	(1,965)
Balance—beginning of year as restated	400,809	342,906
Add—net earnings for the year	98,047	88,796
Less—cash dividends:		
Preferred dividends:		
Voting cumulative preferred—$2.80 a share	(6,461)	(7,955)
Preferred—$4.25 a share	(49)	(53)
Preferred—$5.00 a share	(98)	(114)
Preferred—$6.00 a share	(49)	(51)
Total preferred dividends	(6,657)	(8,173)
Common dividends—$.98 a share in 1977; $.89 a share in 1976	(21,915)	(19,921)
Less—excess of purchase price over stated value:		
Preferred shares	(30,006)	
Common shares	(10,597)	(2,799)
Balance—end of year	$429,681	$400,809

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Shareholders' Equity—The following table summarizes the repurchases of Mead's shares for the years ended December 31, 1977 and 1976.

	1977		1976	
	Shares	Stated Value	Shares	Stated Value
All dollar amounts in thousands				
Common	728,200	$4,344	223,400	$1,332
Cumulative preferred:				
6% series	15	1	911	91
5% series	2,022	202	3,944	395
4¼% series	2,138	214	10,477	1,047
Voting cumulative preferred:				
$2.80 series A	179,917	4,537		
1968 $2.80 series B	491,791	5,674		

CENTRONICS DATA COMPUTER CORP. (JUN)

Consolidated Statements of Stockholders' Equity

	Shares	Common Stock par value $.01	Capital in excess of par value	Retained earnings
Balance, June 30, 1975	5,941,438	$59,415	$6,190,018	$19,399,278
Shares issued on pooling of interests and retained earnings of pooled company	38,750	387	19,895	246,549
Shares issued upon exercise of stock options (Note 6)	34,765	348	192,087	—
Income tax reductions relating to stock options (Note 6)	—	—	257,077	—
Net income for the year	—	—	—	9,763,615
Dividends on common stock ($.24 per share)	—	—	—	(1,438,159)
Balance, June 30, 1976	6,014,953	60,150	6,659,077	27,971,283
Shares issued upon exercise of stock options (Note 6)	18,797	188	206,043	—
Income tax reductions relating to stock options (Note 6)	—	—	46,853	—
Constructive retirement of treasury shares (Note 5)	(250,750)	(2,508)	(281,903)	(4,663,095)
Net income for the year	—	—	—	12,546,151
Dividends on common stock ($.68 per share)	—	—	—	(4,049,918)
Balance, June 30, 1977	5,783,000	$57,830	$6,630,070	$31,804,421

Note 5: Common stock—During the year ended June 30, 1977, the Company purchased 250,750 shares (as restated, see Note 10) of its outstanding common stock at an aggregate cost of $4,947,506. For purposes of financial statement presentation these shares have been treated as constructively retired.

Spin-off

OXFORD INDUSTRIES, INC. (MAY)

Consolidated Statements of Stockholders' Equity

	Total	Common Stock (1)	Additional Paid-In Capital	Retained Earnings (Note G)	Treasury Stock—at Cost Shares	Treasury Stock—at Cost Amount
Balance, May 30, 1975	$62,290,000	$2,814,000	$17,665,000	$41,938,000	14,782	$(127,000)
Net earnings	11,700,000			11,700,000		
Exercise of stock options	47,000	4,000	43,000			
Cash dividends paid—$.64 per share	(1,792,000)			(1,792,000)		
Balance, May 28, 1976	72,245,000	2,818,000	17,708,000	51,846,000	14,782	(127,000)
Net earnings	11,863,000			11,863,000		
Spin-off of Lanier Business Products, Inc. (Note B)	(25,116,000)		(6,420,000)	(18,696,000)		
Exercise of stock options	171,000	20,000	151,000			
Cash dividends paid—$.72 per share	(2,021,000)			(2,021,000)		
Balance, June 3, 1977	$57,142,000	$2,838,000	$11,439,000	$42,992,000	14,782	$(127,000)

(1) Par value $1 a share; authorized 10,000,000 shares, issued 2,838,051 shares in 1977 and 2,817,669 shares in 1976; outstanding 2,823,269 shares in 1977 and 2,802,917 shares in 1976.

Note B: Spin-Off of Lanier Business Products, Inc.—Pursuant to a plan adopted in May, 1977, the Company spun off its Lanier Business Products, Inc. ("Lanier") operations through a distribution on July 1, 1977, of 1.5 shares of Lanier common stock for each share of Oxford common stock held of record on June 13, 1977. Effective with the spin-off, Lanier became a separate publicly-owned company.

The spin-off of Lanier has been reflected for accounting purposes as of June 3, 1977. The financial statements include the results of the spun-off operations of Lanier as a single line item on a comparative basis, and the balance sheet at May 28, 1976 has been reclassified to reflect the net assets of Lanier as a single line item. A summary of the net assets of Lanier at the date of the spin-off and at May 28, 1976 is as follows:

	Net Assets Spun-Off At June 3, 1977	Balance, May 28, 1976
Cash	$ 2,060,000	$ 5,000
Receivables	31,735,000	11,844,000
Inventories	18,762,000	11,086,000
Property, plant and equipment	2,625,000	1,010,000
Other assets	1,132,000	1,156,000
	56,314,000	25,101,000
Accounts payable	3,329,000	2,083,000
Income taxes	3,101,000	2,229,000
Unearned income on service contracts	7,458,000	5,037,000
Other current liabilities	5,976,000	4,482,000
Due to (from) Oxford	1,090,000	(5,545,000)
Long-term debt	10,244,000	502,000
	31,198,000	8,788,000
Net assets	$25,116,000	$16,313,000

The results of spun-off operations are detailed as follows:

	Year Ended June 3, 1977	Year Ended May 28, 1976
Revenues	$91,204,000	$71,664,000
Costs and expenses	77,846,000	60,137,000
Earnings before income taxes	13,358,000	11,527,000
Income taxes	6,633,000	5,733,000
Net earnings	$ 6,725,000	$ 5,794,000

The results of spun-off operations include an allocation of certain administrative expenses incurred by Oxford and interest on advances to and from Oxford. Interest rates charged by Oxford have been substantially equivalent to market rates. In the opinion of management of Oxford, these administrative and interest charges represent a fair and reasonable allocation of expenses to Lanier.

On an historical basis, the assets and liabilities of the Lanier operations had been carried in various subsidiaries and a division of Oxford. Through an internal reorganization at May 28, 1976, certain Lanier assets and liabilities, consisting principally of trade receivables aggregating $13,439,000 and related unearned service contract income, were retained by the division of Oxford. The excess of $3,575,000 of liabilities over assets retained by Oxford was contributed to the capital of Lanier. Concurrently, Lanier paid a dividend to Oxford of $5,000,000 by cancelling indebtedness of Oxford in that amount.

At June 3, 1977, the balance of the installment receivables retained by Oxford is $1,106,000 (net of unearned finance charges of $468,000). Under an agreement dated May 20, 1977, Lanier continues to administer collection of these receivables, and is entitled to receive the portion of the contract collections it receives that is attributable to finance charges and service contract income.

In March, 1977, Oxford made an additional contribution of $2,078,000 to the capital of Lanier for the purpose of giving Lanier the benefit of the cumulative net earnings of the business products division of Oxford.

The amount of charges (credits) to Lanier included in administrative and interest expense in the statements of earnings is as follows:

	Administrative	Interest
Year ended:		
May 28, 1976	$720,000	$(71,000)
June 3, 1977	797,000	378,000

Oxford and Lanier have entered into an agreement whereby Lanier has assumed all commitments and contingent liabilities which relate to its operations prior to June 3, 1977.

The $1,090,000 due from Lanier at June 3, 1977 was repaid in July, 1977.

PAID-IN CAPITAL

PRESENTATION OF CHANGES IN PAID-IN CAPITAL

APB Opinion No. 12 states in part:

> 10. When both financial position and results of operations are present, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

Table 4-5 summarizes the presentation formats used by the survey companies to present changes in paid-in capital.

TABLE 4-5: PRESENTATION OF CHANGES IN PAID-IN CAPITAL

	1977	1976	1975	1974
Statement of stockholders' equity	241	223	168	153
Statement of paid-in capital	54	59	80	85
Schedule in notes	101	90	65	59
No statement or schedule but changes disclosed	67	87	101	59
Balance unchanged during year	67	72	114	165
Subtotal	**530**	**531**	**528**	**521**
Paid-in capital account not presented	70	69	72	79
Total Companies	**600**	**600**	**600**	**600**

TABLE 4-6: STOCK SPLITS

	1977	1976	1975	1974
Ratio				
Less than three-for-two	6	5	4	—
Three-for-two (50%) to two-for-one	17	21	5	4
Two-for-one (100%)	28	31	12	10
Greater than two-for-one	2	3	1	2
Total Companies	**53**	**60**	**22**	**16**
Account Charged				
Paid-in capital	30	32	9	10
Retained earnings	12	12	6	2
No charge	11	16	7	4
Total Companies	**53**	**60**	**22**	**16**

STOCK SPLITS

Chapter 7B of *Accounting Research Bulletin No. 43* discusses the accounting for stock splits. *APB Opinion No. 15* refers to Chapter 7B and states in part:

> 48. Stock dividends or splits. If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse split, the computations should give retroactive recognition to an appropriate equivalent change in capital structure for all periods presented. If changes in common stock resulting from stock dividends or stock splits or reverse splits have been consummated after the close of the period but before completion of the financial report, the per share computations should be based on the new number of shares because the readers' primary interest is presumed to be related to the current capitalization. When per share computations reflect such changes in the number of shares after the close of the period, this fact should be disclosed.

Table 4-6 shows the number of survey companies disclosing stock splits and summarizes the accounting treatments for stock splits. Examples of stock splits follow.

ANDERSON, CLAYTON & CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: At the annual meeting of the stockholders on October 25, 1976, the authorized Preferred Stock was increased from 2,000,000 shares to 4,000,000 shares and authorized Common Stock was increased from 10,000,000 shares to 20,000,000 shares.

On December 6, 1976, the Company's Board of Directors authorized a two-for-one split of Common Stock effected in the form of a stock dividend to be distributed on January 17, 1977, to holders of record on December 22, 1976. Accordingly, as of December 22, 1976, common shares have been increased 6,986,488 shares reflecting the two-for-one stock split and Common Stock has been created and additional paid-in capital charged for $6,987,000.

BRISTOL-MYERS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Stockholders' Equity—Effective April 28, 1977, the stockholders approved a two-for-one split of the company's common stock and an increase in authorized common shares from 40 million shares to 100 million shares. In the accompanying financial statements, all numbers of common shares and per common share amounts have been adjusted to reflect the stock split.

	Common Stock	Preferred Stock
Shares authorized	100,000,000	10,000,000
Shares issued		
January 1, 1977	63,084,278*	1,286,538
Exercise of options	36,900	—
Conversions of debentures	15,702	—
Conversions of preferred stock	1,805	(1,728)
December 31, 1977	63,138,685	1,284,810

*31,542,139 before the two-for-one stock split.

Each share of preferred stock, $2 convertible series, is convertible into 1.06 shares of common stock, is callable at the company's option and has a liquidation value of $50 per share which aggregates $64,241,000 at December 31, 1977.

Changes in capital in excess of par value of stock were:

	1977	1976
Balance, January 1	$71,688,000	$63,471,000
Transferred to common stock in connection with stock split	(31,542,000)	
Excess of proceeds over par value of stock issued under stock option plans	946,000	5,176,000
Conversions of debentures	436,000	3,044,000
Other	(2,000)	(3,000)
Balance, December 31	$41,526,000	$71,688,000

Under the 1975 Stock Option Plan, officers and key employees may be granted qualified and nonqualified options to purchase the company's common stock at 100% of the market price on the day the option is granted.

At December 31, 1977, 5,774,974 shares of common stock were reserved for issuance upon exercise of options and conversions of preferred stock and debentures.

Stock option transactions during 1977 were:

	Shares of Common Stock	
	Under Option	Available for Option
Balance, January 1	1,234,790	2,975,270
Options granted	466,750	(466,750)
Options exercised	(36,900)	—
Options lapsed	(28,505)	10,265
Balance, December 31	1,636,135	2,518,785

The company received $983,000 for options exercised during the year. At December 31, 1977, there were exercisable options outstanding to purchase 1,179,650 shares of common stock at prices ranging from $22.84 to $36.34 per share.

COPPERWELD CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Common Stock—At the annual meeting held on April 27, 1977, the shareholders approved an amendment to the Articles of Incorporation increasing the number of authorized shares of Common Stock from 5,000,000 (par value $2.50 per share) to 10,000,000 (par value $1.25 per share) and splitting each outstanding share of Common Stock two-for-one. All references in the Consolidated Financial Statements to the number of common shares, price per share and other per share amounts have been adjusted to reflect the above-mentioned Common Stock split.

Changes in Common Stock and Capital In Excess of Par Value were as follows:

	Common Stock		Capital In Excess of Par Value
	Shares	Amount	
		(in thousands)	
Balance January 1, 1976	5,476,108	$6,845	$21,841
Stock options exercised	81,168	102	812
Conversion of 5% Convertible Subordinated Debentures	36,012	45	427
Balance December 31, 1976	5,593,288	6,992	23,080
Stock options exercised	16,440	20	197
Contribution to TRASOP Plan	5,940	7	124
Balance December 31, 1977	5,615,668	$7,019	$23,401

THE EASTERN COMPANY (DEC)

Statements of Retained Earnings

	1977	1976
Retained earnings, beginning of year	$11,313,995	$ 9,936,716
Net income	2,126,400	2,627,248
	13,440,395	12,563,964
Cash dividends (Per share: 1977—$1.08; 1976—$1.06)	(1,223,145)	(1,249,969)
Transfer to Common Stock account for par value of 379,961 shares of Common Stock issued as a stock distribution—Note C	(3,799,610)	—
Retained earnings, end of year	$ 8,417,640	$11,313,995

Note C: Stock Options and Stock Split (in part)—On April 27, 1977, the Board of Directors approved a stock dividend in the form of a three-for-two stock split which resulted in the distribution on June 28, 1977 of 379,961 shares. Accordingly, $3,799,610, representing the par value of additional shares issued, was transferred from retained earnings to the Common Stock account. All per share information shown herein for both 1977 and 1976 and all stock option data are based on adjusted number of shares of Common Stock.

CUTLER-HAMMER, INC. (DEC)

Consolidated Statement of Stockholders' Equity

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance, December 31, 1975	3,895,549	$19,477,745	$1,223,277	$109,826,125	(65,314)	$(2,345,977)	$128,181,170
Net income	—	—	—	18,442,852	—	—	18,442,852
Dividends paid	—	—	—	(6,540,214)	—	—	(6,540,214)
Treasury shares distributed	—	—	—	—	406	14,428	14,428
Stock options exercised	—	—	(388,474)	—	24,857	898,672	510,198
Balance, December 31, 1976	3,895,549	19,477,745	834,803	121,728,763	(40,051)	(1,432,877)	140,608,434
Net income	—	—	—	23,998,053	—	—	23,998,053
Dividends paid	—	—	—	(7,585,027)	—	—	(7,585,027)
Treasury shares distributed	—	—	—	—	173	6,359	6,359
Stock options exercised	13,252	66,260	67,605	—	11,689	429,653	563,518
Shares issued under Incentive Savings Plan	8,402	42,010	240,160	—	764	28,268	310,438
Shares issued under 3 for 2 stock split	1,952,711	9,763,555	(1,002,399)	(8,781,449)	(3,712)	14	(20,279)
Shares issued for acquisitions	13,814	69,070	434,585	—	20,000	699,254	1,202,909
Balance, December 31, 1977	5,883,728	$29,418,640	$ 574,754	$129,360,340	(11,137)	$ (269,329)	$159,084,405

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Three For Two Stock Split—On September 15, 1977, the Company issued 1,952,711 shares of common stock in connection with a three for two stock split effected in the form of a 50% stock dividend. All per share figures included in the financial statements and notes are based on the increased number of shares of common stock giving effect to this stock split.

NEPTUNE INTERNATIONAL CORPORATION (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Total Stockholders' Equity
			(thousands of dollars)		
Balance at December 31, 1975....	$12,858	$165	$26,486	$(1,395)	$38,114
Net income..........................	—	—	5,487	—	5,487
Dividends paid ($.40 per share)...	—	—	(1,490)	—	(1,490)
Issuance of 17,293 shares in connection with acquisition.........	—	20	—	170	190
Exercise of stock options..........	—	(27)	—	73	46
Purchase of 8,073 common shares	—	—	—	(87)	(87)
Balance at December 31, 1976....	12,858	158	30,483	(1,239)	42,260
Net income..........................	—	—	6,356	—	6,356
Dividends paid ($.50 per share)...	—	—	(1,875)	—	(1,875)
Three-for-two stock split effected in the form of a stock dividend (1,285,608 shares)............	6,428	—	(6,428)	—	—
Issuance of 6,346 shares in connection with acquisition............	—	16	—	62	78
Exercise of stock options..........	—	(51)	—	190	139
Balance at December 31, 1977....	$19,286	$123	$28,536	$ (987)	$46,958

OPELIKA MANUFACTURING CORPORATION (SEP)

Consolidated Statement of Changes in Shareholders' Equity

	Capital Stock Shares	Capital Stock Amount	Capital in Excess of Par Value	Retained Earnings
Balance—September 27, 1975........	762,417	$3,812,085	$2,366,147	$15,187,182
Net income..............................				2,167,389
Cash dividends declared—$.75 per share................................				(762,417)
Stock options exercised................	1,400	7,000	10,238	
Balance October 2, 1976..............	763,817	3,819,085	2,376,385	16,592,154
Net income..............................				1,180,451
Four-for-three stock split...............	253,564	1,267,820	(1,267,820)	
Cash paid in lieu of fractional shares..			(18,953)	
Cash dividends declared—$.84 per share................................				(855,974)
Stock options exercised................	2,433	12,165	14,425	
Balance—October 1, 1977............	1,019,814	$5,099,070	$1,104,037	$16,916,631

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Shareholders' equity—In November 1976, the Board of Directors declared a four-for-three stock split effected in the form of a stock dividend paid in January 1977. Stock option data and earnings and dividend per share amounts in the Consolidated Financial Statements have been restated to give effect to the stock split.

H.J. HEINZ COMPANY (APR)

Statements of Consolidated Additional Capital

	1977	1976
Amount at beginning of year	$87,376,000	$62,812,000
Change in par value of common stock in connection with stock split	(5,054,000)	—
Excess of:		
Net assets acquired over par value of preferred shares issued in connection with acquisition	—	23,235,000
Option price over par value of common shares issued under employees' incentive stock option plans	522,000	1,283,000
Par value over cost of preference stock retired (United Kingdom subsidiary)	2,000	14,000
Par value of preferred shares over par value of common shares issued in exchange therefor......................	—	12,000
Par value over cost of cumulative preferred stock retired.	36,000	51,000
Other	—	(31,000)
Amount at end of year.............	$82,882,000	$87,376,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Capital Stock—The number of shares authorized, outstanding, issued, retired or converted, and the par values of the company's capital stock appear in the table following this note.

Effective September 20, 1976, the company's restated Articles of Incorporation were amended to: (a) increase the number of authorized shares of the company's common stock from 20,000,000 to 30,000,000, (b) reclassify and change each two shares of the company's common stock, par value $4.16⅔ per share, outstanding or held in the treasury of the company into three shares of common stock, par value $3.00 per share, thereby effecting a 3-for-2 split of the company's common stock, and (c) increase the aggregate par value of the common stock of the company. All information on number of common shares and all per share data have been restated for this stock split.

The number of shares of common stock outstanding at the time of the stock split was increased from 15,161,019 to 22,741,529 as a result of the split. In addition, these changes resulted in a transfer of $5,054,000 from the Additional Capital account to the Common Stock account for the difference between the aggregate par value of the common stock before and after the split. This had no effect on total shareholders' equity. The stock split also resulted in a change in the conversion rate of the $1.70 first series third cumulative preferred stock from .5 share to .75 share of common stock.

CHANGES IN PAID-IN CAPITAL

Table 4-7 summarizes credits and charges to paid-in capital. Examples of such credits and charges follow.

Stock Issued in Connection with Employee Benefit Plans

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (in part): Stockholders' Equity:

Common Stock, Capital in Excess of Par Value and Common Stock Held in Treasury: The changes in common stock, capital in excess of par value and common stock held in treasury were as follows:

	Common Stock Shares	Common Stock Amount	Capital in Excess at Par Value
Balance at January 3, 1976.................	17,886,116	$17,886,000	$121,000,000
Excess of fair market value over cost of treasury shares at dates of stock bonus awards	—	—	952,000
Excess of consideration received over cost of treasury shares upon exercise of stock options...........	—	—	117,000
Federal income tax benefit from employees' options	—	—	498,000
Other	—	—	2,000
Balance at January 1, 1977.................	17,886,116	17,886,000	122,569,000
Excess of fair market value over cost of treasury shares at dates of stock bonus awards	—	—	2,066,000
Excess of consideration received over cost of treasury shares upon exercise of stock options...........	—	—	1,725,000
Exercise of employees' stock options...........	20,950	21,000	545,000
Federal income tax benefit from employees' options	—	—	1,305,000
Exercise of warrants	400	—	9,000
Other	—	—	(4,000)
Balance at December 31, 1977.................	17,907,466	$17,907,000	$128,215,000

	Common Stock Held in Treasury Shares	Cost
Balance at January 3, 1976	596,662	$13,283,000
Shares distributed to employees upon exercise of stock options	(154,655)	(3,487,000)
Shares distributed under the Key Employees Incentive Compensation Plan	(1,026)	(21,000)
Shares used for restricted stock bonus awards	(71,670)	(1,616,000)
Balance at January 1, 1977(1)	369,311	8,159,000
Shares distributed to employees upon exercise of stock options	(241,400)	(5,444,000)
Shares distributed under the Key Employees Incentive Compensation Plan	(2,068)	(42,000)
Shares used for restricted stock bonus awards	(81,410)	(1,671,000)
Balance at December 31, 1977	44,433	$ 1,002,000

TABLE 4-7: CHANGES IN PAID-IN CAPITAL

	Number of Companies 1977	1976	1975	1974
Credits				
Common stock issuances:				
Employee benefits	353	319	205	233
Conversion of debt	53	62	26	52
Conversion of preferred	58	53	32	40
Business combination	43	40	27	44
Purchase or retirement of capital stock	34	47	24	42
Stock option tax benefits	42	34	12	17
Other	52	54	18	26
Charges				
Purchase or retirement of capital stock	50	51	32	56
Treasury stock issued for less than cost	35	34	16	43
Conversion of Preferred stock	19	14	10	13
Business combinations	13	9	5	28
Other	36	36	20	34

AMF INCORPORATED (DEC)

Consolidated Statements of Stockholders' Equity

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total Stockholders' Equity
			(in thousands of dollars)			
Balance at December 31, 1975	$3,000	$36,229	$65,882	$230,775	$(32,686)	$303,200
Net Income—1976				40,337		40,337
Cash Dividends						
Preferred—3.90%				(63)		(63)
Common—$1.24 per share				(23,318)		(23,318)
Dividends of pooled company				(696)		(696)
Shares issued under stock option plans (20,040 from treasury) and Thrift Incentive plan		84	357		784	1,225
Retirement of preferred stock, and other (2,550 common shares from treasury)	(200)		16		234	50
Balance at December 31, 1976	2,800	36,313	66,255	247,035	(31,668)	320,735
Net Income—1977				42,720		42,720
Cash Dividends						
Preferred—3.90%				(63)		(63)
Common—$1.24 per share				(23,803)		(23,803)
Dividends of pooled company				(110)		(110)
Shares issued under stock option plans (7,493 from treasury) and Thrift Incentive plan		172	1,512		293	1,977
Retirement of preferred stock	(200)		64		136	
Balance at December 31, 1977	$2,600	$36,485	$67,831	$265,779	$(31,239)	$341,456

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Stock Options—The Company has stock option plans for officers, executives and key managerial employees, under which options were outstanding at December 31, 1977, at prices ranging from $9.88 to $65.25 per share, the fair market value of the date of grant. The options expire at various dates to December 1987.

The Company's 1971 Stock Option Plan was amended to provide stock appreciation rights on certain options, whereby optionees may surrender non-qualified options granted under the Plan for payment to the optionees of an amount equal to the excess of the fair market value, at date of surrender, over option price of the optioned shares surrendered. Such payments can be made in shares, or in shares and cash, at the discretion of the Company's Compensation Committee. Compensation cost for 1977 associated with stock appreciation rights was not material.

Data relating to these plans is summarized as follows:

	1977	1976
Shares under option, January 1....	647,012	500,502
Options granted during the year ...	231,500	203,100
Options cancelled or terminated or appreciation rights surrendered	(68,087)	(36,550)
Options or appreciation rights exercised and shares issued:		
1977 ($9.88 to $18.13 per share)........................	(7,493)	—
1976 ($6.39 to $19.63 per share)*.......................	—	(20,040)
Shares under option, December 31	802,932	647,012
Options exercisable, December 31.	488,332	392,542
Shares reserved, December 31	1,349,272	1,363,732

*Includes 2,200 options in 1976 from the plan of an acquired company at $6.39 per share.

Note 10: Retirement and Thrift Incentive Plan—Pension expense in connection with the Company's retirement plans was approximately $10,500,000 in 1977 and $9,000,000 in 1976.

Under the Company's Thrift Incentive Plan, approved by stockholders in April 1976, eligible salaried and commission-paid employees may contribute up to 6% of their base compensation to the Plan. The Company contributes, in AMF common stock, an amount equal to 50% of the employees' contributions, the cost of which is charged against current earnings. A total of 900,000 shares were reserved for issuance under the Plan, of which 146,295 have been issued to the plan trustee, including 98,499 shares in 1977.

HEWLETT-PACKARD COMPANY (OCT)

Consolidated Statement of Capital in Excess of Par Value

	1977 (Thousands of shares)	1976	1977 (Millions)	1976
Capital in excess of par value:				
Amount at beginning of year			$171.4	$138.4
Excess of market value of proceeds received, less expenses, over par value of common stock issued under:				
Stock option plans	48	58		
Stock purchase plans..........	424	289		
Service award plan...........	11	11		
			36.6	32.1
Income tax benefit from employees' compensation relating to stock options			0.3	0.9
Amount at end of year..........................			$208.3	$171.4

FLUOR CORPORATION (OCT)

Consolidated Statement of Shareholders' Equity

	Series B Preferred Stock	Common Stock	Additional Capital	Retirement Earnings	Unamortized 1977 Executive Stock Plan Expense
Balances at November 1, 1975.......................	$567,000	$9,368,000	$116,636,000	$117,748,000	$ —
Net earnings				64,880,000	
Cash dividends on preferred ($3.00 per share)				(1,639,000)	
Cash dividends on common ($.70 per share)				(10,666,000)	
Conversion of preferred shares into common	(19,000)	19,000			
Exercise of stock options		167,000	3,751,000		
Balances at October 31, 1976........................	548,000	9,554,000	120,387,000	170,323,000	
Net earnings				75,466,000	
Cash dividends on preferred ($3.00 per share)				(1,615,000)	
Cash dividends on common ($1.00 per share)........				(15,397,000)	
Conversion of preferred shares into common	(13,000)	13,000			
Exercise of stock options		54,000	1,521,000		
Issuance of restricted stock............................		61,000	3,390,000		(3,354,000)
Amortization of 1977 executive stock plan expense.					199,000
Balances at October 31, 1977........................	$535,000	$9,682,000	$125,298,000	$228,777,000	$(3,155,000)

FINANCIAL REVIEW

1977 Fluor Executive Stock Plan—This plan, as approved by the shareholders on March 14, 1977, provides for grant of the right to purchase shares of common stock under both nonqualified stock option agreements (options) and restricted stock purchase agreements (awards). The number of shares of common stock which may be issued or sold under this plan may not exceed 700,000 shares, but no more than 250,000 shares may be awarded as restricted stock. At October 31, 1977, 538,500 shares were available for grant under this plan.

The options are generally exercisable one year after issuance at a price equal to the fair market value at the date of grant and expire 10 years after date of grant. At October 31, 1977, options to purchase 64,500 shares of common stock at prices ranging from $38.31 to $39.31 per share with a weighted average price of $39.21 were outstanding under this plan.

Upon issuance of an award, various officers and key employees may purchase restricted stock of the company for $1.00 per share. Until either the retirement, death or permanent disability of the recipient, the stock can only be sold back to the company at $1.00 per share. For such shares awarded, the difference between $1.00 and the fair market value of the shares at date of the award is charged to shareholders' equity as unamortized 1977 executive stock plan expense and amortized over the period of time from date of the award to the estimated date of retirement for each recipient. Total awards of 97,000 shares were granted during the year, all of which shares are outstanding as of October 31, 1977. Total amortization for 1977 relating to these awards was $199,000.

TRIANGLE PACIFIC CORP. (DEC)

Consolidated Statement of Changes in Shareholders' Investment

	Common stock $.50 par value; authorized six million shares		Additional paid-in capital	Retained earnings (Note 4)	Total
	Shares	Amount			
			(In thousands)		
Balance December 26, 1975	1,803(A)	$902	$11,466	$20,133	$32,501
Net income	—	—	—	7,671	7,671
Cash dividends declared ($.40 per share)	—	—	—	(726)	(726)
Stock incentive bonus shares issued (Note 6)	12	6	97	—	103
Balance, December 31, 1976	1,815(B)	$908	$11,563	$27,078	$39,549
Net income	—	—	—	8,224	8,224
Cash dividends declared ($.625 per share)	—	—	—	(1,176)	(1,176)
Stock incentive bonus shares issued (Note 6)	24	12	429	—	441
Contribution of stock to profit sharing plan (Note 8)	11	5	157	—	162
Exercise of stock options	21	10	245	—	255
Exercise of warrants	92	46	1,986	—	2,032
Sale of stock to employee	2	1	25	—	26
Balance, December 30, 1977	1,965(C)	$982	$14,405	$34,126	$49,513

(A)Net of 168,552 treasury shares.

(B)Net of 156,552 treasury shares.

(C)Net of 119,970 treasury shares.

Note 6: Capital Stock—The following summarizes the changes during 1977 in outstanding options to purchase Common Stock:

	Shares subject to option	Option price per share
Balance—December 31, 1976	51,500	$7.00-$18.00
Granted	50,000	$15.00
Exercised	20,650	$7.00-$18.00
Cancelled	7,750	$7.00-$18.00
Balance—December 30, 1977	73,100	$7.00-$15.00
Options exercisable at December 30, 1977	11,850	$7.00-$12.375

Of the 73,100 shares subject to option at December 30, 1977, 23,100 are exercisable within five years from the date of grant and 50,000 are exercisable on or before January 3, 1987, at prices equal to the market prices on the dates such options were granted. In addition, at December 30, 1977, the company had reserved 102,231 shares for incentive stock bonuses granted to employees, which are generally deliverable five years after date of grant, subject to certain conditions. The compensation cost of these shares, which is equal to the quoted market value at the date of grant, is being charged to income over the vesting period. Charges to income were $414,000 in 1977 and $252,000 in 1976; $711,000 relating to the 102,231 shares will be charged to income in future years assuming all vesting requirements are met. The total number of shares available for future stock options or incentive stock bonuses is 5,500.

In October, 1977, the Board of Directors approved, subject to stockholder ratification at the 1978 annual meeting, the reservation of an additional 100,000 shares for stock incentive bonuses and stock options.

Transferable warrants were converted into 92,244 shares of common stock at $22.05 per share. The remaining unexercised warrants to purchase shares expired on November 15, 1977.

Stock Issued in Conversions

J. RAY MCDERMOTT & CO., INC. (MAR)

Consolidated Statements of Retained Earnings and Capital in Excess of Par Value

	1977	1976
Retained Earnings:		
Balance, beginning of year (Restated)	$380,227,408	$233,326,000
Add—Net income	191,642,483	160,184,494
	$571,869,891	$393,510,494
Deduct—Cash dividends paid on common stock ($1.15 per share 1977; $.85 per share 1976)	18,038,064	13,283,086
Balance, end of year	$553,831,827	$380,227,408
Capital in Excess of Par Value:		
Balance, beginning of year	$134,010,519	$140,777,743
Add:		
Excess of principal amount of 4¾% convertible subordinated debentures over the par value of 78,618 shares of common stock in 1977 and 32,980 shares of common stock in 1976 issued upon conversion, less related expenses	2,498,731	1,055,825
Income tax savings attributible to income tax deductions for career executive stock plan amortization in excess of amortization for financial statement purposes	58,647	—
Excess of market value over par value of common stock issued in connection with the career executive stock plan	188,100	—
Stock returned to the company in connection with the career executive stock plan	6,106	58,375
	$136,762,103	$141,891,943
Deduct—Par value of 7,881,424 shares of common stock issued as a two-for-one stock split	—	7,881,424
Balance, end of year	$136,762,103	$134,010,519

LEAR SIEGLER, INC. (JUN)

Consolidated Statement of Changes in Shareholders' Equity

	Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock
Balance at June 30, 1975	$7,399,000	$12,861,000	$15,606,000	$143,032,000	$(7,094,000)
Net earnings for the year				25,412,000	
Cash dividends					
Preferred				(4,009,000)	
Common—at $.32 per share				(3,905,000)	
Exercise of stock options—534 shares of treasury stock issued			(2,000)		6,000
Purchase of treasury stock— 65,718 common shares					(436,000)
Balance at June 30, 1976	7,399,000	12,861,000	15,604,000	160,530,000	(7,524,000)
Net earnings for the year				37,055,000	
Cash dividends					
Preferred				(3,999,000)	
Common—at $.50 per share				(6,122,000)	
Exercise of stock options— 113,963 shares of treasury stock issued			(224,000)		1,169,000
Conversion of 7,510 shares of Series E Preferred and 50 shares of $2.25 Preferred for 50,189 shares of treasury stock	(751,000)		236,000		515,000
Purchase of treasury stock— 752 common shares					(5,000)
Balance at June 30, 1977	$6,648,000	$12,861,000	$15,616,000	$187,464,000	$(5,845,000)

MCGRAW-HILL, INC. (DEC)

Consolidated Statement of Capital Stock and Additional Paid-in Capital

	Preference stock	Common stock	Add'l paid-in capital	Treasury stock
		(Thousands of dollars)		
Balance at January 1, 1976	$8,902	$24,018	$15,968	$7,477
Conversion of 95,200 shares of preference stock into 157,080 shares of common	(952)	157	795	—
Exercise of options for 31,815 shares	—	—	26	(260)
Balance at December 31, 1976	7,950	24,175	16,789	7,217
Conversion of 467,833 shares of preference stock into 771,917 shares of common	(4,679)	773	3,906	—
Purchase of 7,185 shares of treasury stock	—	—	—	125
Exercise of options for 45,785 shares	—	—	49	(374)
Issuance of 7,170 shares in lieu of royalties	—	—	—	(125)
Balance at December 31, 1977	$3,271	$24,948	$20,744	$6,843

Treasury Stock Transactions

VARIAN ASSOCIATES, INC. (SEP)

Consolidated Statement of Shareholders' Equity

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Subtotal	Less Treasury Stock, at Cost	Total
			(Dollars in thousands)			
Balances, September 30, 1975	$7,759	$66,373	$72,600	$146,732	$(10,973)	$135,759
Net earnings for year ended September 30, 1976...........................			9,424	9,424		9,424
Issuance of treasury stock under employee stock purchase and stock option plans		281		281	2,523	2,804
Purchase of Clinitex, Inc.		16		16	626	642
Dividends declared ($.20 per share)...			(1,457)	(1,457)		(1,457)
Balances, September 30, 1976	7,759	66,670	80,567	154,996	(7,824)	147,172
Net earnings for year ended September 30, 1977...........................			12,301	12,301		12,301
Cancellation of treasury stock	(444)	(7,380)		(7,824)	7,824	—
Purchase of treasury stock					(1,271)	(1,271)
Issuance of stock under employee stock purchase and stock option plans ...	181	2,244		2,425	889	3,314
Dividends declared ($.28 per share)...			(2,090)	(2,090)		(2,090)
Balances, September 30, 1977	$7,496	$61,534	$90,778	$159,808	$ (382)	$159,426

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Treasury Stock–The reincorporation of Varian Associates as a Delaware corporation, approved by Directors and Shareholders in March, 1976, was completed effective October 1, 1976 by merger of the Company into a newly formed Delaware subsidiary, Varian Associates, Inc. At the time of the merger, the 444,280 shares of treasury stock of Varian Associates carried at a cost of $7.8 million, were canceled.

Income Tax Benefit from Issuance of Stock to Employees

CERTAINTEED CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

	Series C Convertible Preferred Stock	Series D Preferred Stock	Common Stock Issued and Issuable	Capital in Excess of Par Value	Retained Earnings
Balance at December 31, 1975	$1,000,000		$13,064,000	$ 99,794,000	$102,528,000
Net income					36,633,000
Tax credits related to stock options				773,000	
Exercise of stock options			208,000	1,792,000	
Dividends declared on Common Stock ($.65 per share)					(8,456,000)
Dividends declared on Series C Convertible Preferred Stock ($1.60 per share)					(1,600,000)
Balance at December 31, 1976	1,000,000		13,272,000	102,359,000	129,105,000
Net income					54,183,000
Proceeds and associated costs from sale of Series D Preferred Stock		$40,000,000		(206,000)	
Tax credits related to stock options				562,000	
Exercise of stock options			106,000	1,238,000	
Dividends declared on Common Stock ($.71 per share)					(9,383,000)
Dividends declared on Series C Convertible Preferred Stock ($1.55 per share)					(1,550,000)
Dividends declared on Series D Preferred Stock ($.09 per share)					(144,000)
Balance at December 31, 1977	$1,000,000	$40,000,000	$13,378,000	$103,953,000	$172,211,000

DANA CORPORATION (AUG)

Additional Paid-In Capital

	1977	1976
	(in thousands)	
Balance at beginning of year	$ 82,967	$77,232
Issuance of common stock—		
Employee's stock option plans	3,824	2,573
Deferred compensation plans	23	71
Employees' stock purchase plan		313
Employees' pension plans		2,463
Contribution to Dana Corporation Foundation	87	
Acquisition of Wichita Clutch Co., Inc. and Wilson Manufacturing Co., Inc.	14,332	
Tax benefits arising from exercise of non-qualified stock options and disqualifying dispositions	641	315
Balance at end of year	$101,874	$82,967

ROHM AND HAAS COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Additional Paid-in Capital—The changes in additional paid-in capital are summarized as follows:

	1977	1976
	(thousands of dollars)	
Additional paid-in capital at beginning of year	$280,777	$282,284
Excess of cost over market value at date of grant of reacquired shares issued to employees as stock options	—	(419)
Excess of cost of reacquired shares issued over net assets of subsidiaries acquired	(44)	(1,122)
Tax benefits from sale by employees of stock issued under option plan	—	34
Tax benefits from lapse of restrictions on restricted stock options	24	—
Additional paid-in capital at year end	$280,757	$280,777

Purchase Adjustment

KOPPERS COMPANY, INC. (DEC)

Consolidated Statement of Shareholders' Equity

	Cumulative Preferred Stock	Common Stock	Capital in Excess of Par Value	Earnings Retained in the Business	Total Preferred and Common Shareholders' Equity
	($ Thousands, except per share figures)				
Balance at January 1, 1976........	$15,000	$30,304	$72,949	$250,049	$368,302
Net income for the year 1976	—	—	—	66,841	66,841
Cash dividends paid:					
On preferred stock, $4.00 per share..........................	—	—	—	(600)	(600)
On common stock, 80c per share..........................	—	—	—	(19,640)	(19,640)
Common stock issued during 1976:					
80,000 shares for acquisitions accounted for as purchases.	—	100	1,705	—	1,805
536,094 shares for acquisition accounted for as a pooling..	—	670	1,052	5,989	7,711
Balance at December 31, 1976....	15,000	31,074	75,706	302,639	424,419
Net income for the year 1977	—	—	—	66,199	66,199
Cash dividends paid:					
On preferred stock, $4.00 per share..........................	—	—	—	(600)	(600)
On common stock, 95c per share..........................	—	—	—	(23,650)	(23,650)
Common stock issued during 1977:					
92,448 additional shares for acquisition accounted for as a purchase in 1975	—	116	1,859	—	1,975
26,402 shares contributed to Employee Stock Ownership Plan trust.....................	—	33	515	—	548
Balance at December 31, 1977....	$15,000	$31,223	$78,080	$344,588	$468,891

Public Offering of Stock

PHELPS DODGE CORPORATION (DEC)

Schedule A—Changes in Capital Accounts

	Preferred shares par value $1.00		Common shares par value $6.25		
	Number of shares outstanding	Amount	Number of shares outstanding	Amount	Capital in excess of par value
Balance at December 31, 1975................................			20,561,336	$128,508,000	$14,565,000
Stock options exercised..			33,045	207,000	1,118,000
Employee stock ownership plan			33,765	211,000	1,192,000
Balance at December 31, 1976................................			20,628,146	128,926,000	16,875,000
Sale of preferred shares	750,000	$750,000			73,840,000
Stock options exercised..			390	2,000	10,000
Employee stock ownership plan			38,379	240,000	715,000
Balance at December 31, 1977................................	750,000	$750,000	20,666,915	$129,168,000	$91,440,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Preferred Shares—The Corporation issued 750,000 cumulative preferred shares in 1977. The terms of the preferred shares prohibit the payment of dividends on common shares in the event that dividends on the preferred shares have not been paid. If dividends on the preferred shares have not been paid in an aggregate amount equal to or greater than six quarter-annual dividends, the holders of the preferred shares would be entitled to elect two directors to the Corporation's Board of Directors. The Corporation is required to redeem, at $100 per share, 70,000 shares annually from 1983 to 1987 and 40,000 shares annually from 1988 to 1997. In the event of an involuntary liquidation, preferred shareholders would be entitled to receive, as a liquidation preference, $100 per share plus accrued but unpaid dividends. The dividends of $1,819,000 paid in 1977 on the preferred shares reflected an average annual dividend rate of approximately $8.08 per share.

Private Offering of Stock

BORG-WARNER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Capital in excess of par value—Capital in excess of par value for the years ended December 31 is summarized as follows:

(millions of dollars)	1977	1976
Capital in excess of par value at January 1	$ 45.6	$45.2
Capital in excess of par value on 2 million shares issued	$ 57.4	$-0-
Net difference between cost and proceeds of shares issued under employee investment plans (217,700 shares in 1977 and 260,154 shares in 1976)	.9	.9
Excess of cost over proceeds on shares issued under stock option plans (59,700 shares in 1977 and 125,750 in 1976)	(.2)	(.5)
Excess of market price over cost on shares issued as stock incentive rights under stock option plans (13,819 shares in 1977 and 4,507 shares in 1976)	—	—
Excess of market price over cost on shares awarded to certain employees (38 shares in 1977 and 54 shares in 1976)	—	—
Capital in excess of par value at December 31	$103.7	$45.6

Sales of shares to Robert Bosch, GmbH—On February 16, 1977, Borg-Warner sold two million previously unissued shares of its common stock to Robert Bosch, GmbH. The net proceeds were $62.4 million. The shares issued are subject to certain restrictive convenants including a limitation on ownership to less than 10% of shares outstanding.

HESSTON CORPORATION (SEP)

Consolidated Statement of Stockholders' Equity

	$1.60 Preferred stock, $2 par value	$.60 Preferred stock, $2 par value	Common stock, $2 par value	Capital in excess of par value	Retained earnings	Total
			(000's Omitted)			
Balance, September 30, 1975	$1,000		$3,975	$18,318	$32,849	$56,142
Net loss					(6,152)	(6,152)
Less cash dividends:						
Common stock—$.60 per share					(1,192)	(1,192)
Preferred stock—$1.60 per share.....					(800)	(800)
Balance, September 30, 1976	1,000		3,975	18,318	24,705	47,998
Net loss					(9,316)	(9,316)
Preferred stock issued for cash—600,000 shares (Note 1)		$1,200		4,703		5,903
Common stock issued for cash—1,400,000 shares (Note 1)............			2,800	10,975		13,775
Less cash dividends:						
Preferred stock—$1.60 per share.....					(800)	(800)
Balance, September 30, 1977	$1,000	$1,200	$6,775	$33,996	$14,589	$57,560

Note 1: Sale of Company stock—In September 1977, the Company sold a controlling interest (50.2%) comprised of 1,400,000 shares of previously unissued common stock and 600,000 shares of previously unissued, voting $.60 Cumulative Convertible Preferred Stock of the Company to Internazionale Holding Fiat S.A. (IHF), a wholly owned Swiss subsidiary of Fiat S.p.A. IHF also has an option to purchase an additional 615,000 shares of common stock at the current market price at the date of exercise. The stock was sold for $10 per share and the excess over par value of $15,678,000 (net of $322,000 issue expenses) was credited to capital in excess of par value. This transaction was approved by the stockholders at a special meeting in September 1977.

Reduction of Par Value

REXNORD INC. (OCT)

Other Financial Data

Changes in capital in excess of par value follow:

	1977	1976
	(Dollars in Thousands)	
Balance at beginning of year	$ 5,311	$ 282
Change in par value of common stock from $10 to $1	76,376	—
Par value of common shares issued in two-for-one stock split	(8,486)	—
Excess of par value of shares issued in business combination over stated value of shares of company acquired	(2,584)	—
Excess of stated or par value of convertible securities over par value of common shares issued over conversion	383	336
Excess of option price over par value of shares issued upon exercise of options	263	643
Excess of redemption price over stated value of preferred shares redeemed	(195)	—
Excess of market value over par value of shares issued in business combination	—	4,050
Balance at end of year	$71,068	$5,311

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Shareholders' Ownership—On August 24, 1977, the shareholders approved an increase in the authorized number of shares of common stock to 40,000,000 and a reduction of the par value per share from $10 to $1. In addition, the shareholders approved a two-for-one stock split in the form of a distribution of one additional share of common stock for each share outstanding to shareholders of record on September 6, 1977.

On July 8, 1977, the company called for redemption all of its Series A and C convertible preferred shares. As of August 15, 1977, all such shares were converted into common shares, except for 5,617 shares which were redeemed for cash.

The Series B preferred shares are cumulative, convertible into 3 shares of Rexnord common stock, and may be redeemed by the company at any time. The redemption price at October 31, 1977 was $45.48. The stock is entitled to $45 per share in addition to accrued and unpaid dividends at an annual rate of $2.36 in the event of involuntary liquidation. The involuntary liquidation value at October 31, 1977 amounted to $12,770,000.

The company has granted to officers and key employees options to purchase common shares at the market price of the shares on the date of grant. Generally, options are exercisable any time after one year and expire five or ten years from date of grant.

As to the 1977 stock options granted, the optionee may elect to surrender options in exchange for stock or a combination of stock and cash equal to the value of the appreciation of the option surrendered.

Under the terms of the 8.95% indenture, approximately $165,213,000 of retained earnings was available for the declaration of cash dividends at October 31, 1977.

Section 5: Statement of Changes in Financial Position

This section reviews the format and content of the Statement of Changes in Financial Position. *APB Opinion No. 19-Reporting Changes in Financial Position* requires that "a statement summarizing changes in financial position . . . be presented as a basic financial statement for each period for which an income statement is presented." The Statements appearing as examples in this section have been edited to show, if not already so shown in the annual report, all dollar amounts in thousands. Except for several examples at the end of this section, disclosures of changes in elements of working capital (required by *Opinion No. 19*) have been omitted to emphasize other information contained within the statement.

PRESENTATION IN ANNUAL REPORT

Table 5-1 shows the placement of Statements of Changes in Financial Position in relation to other financial statements.

TABLE 5-1: PRESENTATION IN ANNUAL REPORT

	1977	1976
Final statement	437	428
Follows income statement and balance sheet	103	101
Between income statement and balance sheet	52	54
First statement	5	5
Other	3	12
Total Companies	**600**	**600**

TITLE

Paragraph 8 of *Opinion No. 19* states:

> The Board also concludes that the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position and that the title of the statement should reflect this broad concept. The Board therefore recommends that the title be Statement of Changes in Financial Position (referred to below as "the Statement"). The Statement of each reporting entity should disclose all important aspects of its financing and investing activities regardless of whether cash or other elements of working capital are directly affected. For example, acquisitions of property by issuance of securities or in exchange for other property, and conversions of long-term debt or preferred stock to common stock, should be appropriately reflected in the Statement.

Practically all of the survey companies use the recommended title.

FORMAT

Paragraph 11 of *Opinion No. 19* states:

> Provided that these guides are met, the Statement may take whatever form gives the most useful portrayal of the financing and investing activities and the changes in financial position of the reporting entity. The Statement may be in balanced form or in a form expressing the changes in financial position in terms of cash, of cash and temporary investments combined, of all quick assets, or of working capital. The Statement should disclose all important changes in financial position for the period covered; accordingly, types of transactions reported may vary substantially in relative importance from one period to another.

The survey companies, with very few exceptions, showed changes in working capital or cash and cash equivalents in one of three forms—as a balancing amount added to either sources or applications; as the statement's final amount; or as an addition to a beginning balance to obtain an ending balance. Table 5-2 summarizes the frequency of the presentation of the three above mentioned forms.

Sources Equal Uses

CARNATION COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Financial Resources Were Provided By:		
Net income	$109,123	$103,693
Add (deduct) items not affecting working capital—		
Depreciation and amortization (including excess purchase price)	35,723	33,107
Deferred income taxes and investment tax credits	3,290	6,901
Other items	(1,367)	(1,956)
Working capital provided by operations	146,770	141,747
Sale of plant assets	7,363	2,695
Increase in long-term debt	3,188	63
Increase in obligations under capitalized leases	427	8,122
Decrease in non-current receivables and miscellaneous investments		2,465
Decrease in investments in and advances to affiliated companies	1,422	1,063
Proceeds from exercise of employee stock options and stock purchase warrants of pooled company	2,134	1,012
Other	1,616	2,217
	162,921	159,385
Financial Resources Were Used For:		
Purchase of plant assets	42,790	51,612
Cash dividends	41,014	30,714
Reduction of long-term debt	8,490	5,877
Decrease in obligations under capitalized leases	638	810
Increase in non-current receivables and miscellaneous investments	375	
Excess of purchase price of companies acquired over net assets at dates of acquisition	267	760
Increase in working capital	69,343	69,610
	$162,921	$159,385

TABLE 5-2: FORMAT

	1977	1976	1975	1974
Changes in Working Capital:				
Sources equal uses	73	79	69	75
Increase (decrease) in working capital	404	398	415	404
Ending working capital	80	87	85	89
Changes in Cash				
Sources equal uses	6	5	8	6
Increase (decrease) in cash or cash and cash equivalent	20	19	13	15
Ending cash or cash and cash equivalent	17	12	10	11
Total Companies	**600**	**600**	**600**	**600**

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1977	1976
	(millions of dollars)	
Resources were provided by:		
Operations:		
Net income	$112.1	$ 44.5
Expenses (income) not involving funds:		
Depreciation	62.0	58.5
Deferred income taxes	16.0	16.9
Equity in undistributed earnings of companies not consolidated	(29.9)	(.1)
Net (gain) loss on disposition of property and investments	(.7)	20.4
Funds provided by operations	159.5	140.2
Long-term borrowings	70.1	130.3
Capital stock issued	4.7	6.3
Proceeds from disposition of property and investments	37.3	4.0
Return of advances	5.1	11.2
Other—net	(3.4)	1.5
Total	$273.3	$293.5
Resources were used for:		
Property, plant, and equipment	$119.8	$118.1
Investments and advances	34.4	12.1
Reduction of long-term obligations	80.4	137.9
Dividends	29.4	26.1
Increase (decrease) in working capital	9.3	(.7)
Total	$273.3	$293.5

HUMANA INC. (AUG)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Funds provided:		
From operations:		
Net income	$ 11,773	$ 8,845
Add charges which did not require working capital during the year:		
Depreciation and amortization	21,502	17,423
Deferred income taxes (noncurrent)	3,823	2,946
Other	2,011	219
Funds provided by operations	39,109	29,433
Additional long-term debt	50,540	25,467
Increase in allowance for professional liability risks	5,444	—
Decrease in long-term receivables	122	2,457
Disposition of properties	5,439	3,730
Other	1,052	664
Total funds provided.	$101,706	$61,751
Funds applied:		
Additions to property and equipment	$46,446	$35,808
Reduction of long-term debt	32,107	14,598
Insurance subsidiary's investments	5,127	250
Acquisition of 49% interest in and advances to English hospital (elimination in consolidation upon purchase of remaining 51% interest) (Note 1)	(5,666)	5,576
Increase (decrease) in undisbursed construction and other restricted funds	8,744	(904)
Increase in deferred charges	2,711	1,295
Payment of dividends	2,338	1,460
Increase in working capital	9,899	3,668
Total funds applied	$101,706	$61,751

MOHASCO CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Funds provided:		
Net earnings	$10,828	13,770
Add non-cash items included in results of operations:		
Depreciation and amortization	13,405	13,330
Other, net	256	132
Minority interest in subsidiary company	47	63
Funds provided from operations	24,536	27,295
Additional long-term debt	53,047	1,462
Disposition of property, plant, equipment and rental furniture	3,951	2,423
Proceeds upon exercise of common stock options	7	158
Increase in other non-current liabilities	1,137	1,283
Other, net	—	360
	$82,678	32,981
Funds applied:		
Additions to property, plant and equipment	$13,204	12,081
Property, plant and equipment of acquired companies	—	66
Additions to rental furniture	5,995	4,354
Cash dividends	6,010	6,026
Reduction of long-term debt	45,556	7,637
Purchase of preferred stock	135	509
Additional investment in foreign subsidiary	—	832
Increase in other assets	42	944
Increase in working capital	11,736	532
	$82,678	32,981

Increase (Decrease) in Working Capital or Cash

AMERICAN STORES COMPANY (MAR)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Source:		
Net earnings	$ 25,819	31,965
Expenditures charged against earnings not involving the current expenditure of funds:		
Depreciation and amortization	30,460	28,267
Deferred income taxes	4,916	2,403
Other	190	127
Total funds provided from operations	61,385	62,762
Long-term borrowing	53,614	11,739
Disposals of properties	3,031	2,227
Proceeds from sales of common stock pursuant to exercise of options	372	298
Total source of funds	118,402	77,026
Disposition:		
Expended for property, plant and equipment	37,689	40,632
Reduction of long-term debt	10,389	9,286
Cash dividends	9,989	8,373
Investments and deferred charges (reduction)	2,418	(2,548)
Miscellaneous, net	38	308
Total disposition of funds	60,523	56,051
Increase in working capital	$ 57,879	20,975

JOHNSON & JOHNSON (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Resources Provided		
Net Earnings	$247,318	$205,376
Expenses not requiring the outlay of working capital:		
Depreciation and amortization	86,496	77,542
Other	22,342	29,758
Working capital provided from operations	356,156	312,676
Decrease (increase) in marketable securities, non-current	13,648	(25,465)
Increase (decrease) in long-term debt	10,401	(12,694)
Proceeds from the sales of property, plant and equipment	9,145	1,357
	389,350	275,874
Resources Used		
Additions to property, plant and equipment	171,718	119,207
Cash dividends paid	81,770	61,009
Other items	5,074	8,449
	258,562	188,665
Increase in Working Capital	$130,788	$ 87,209

MALONE & HYDE, INC. (JUN)

Statements of Changes in Consolidated Financial Position

	1977	1976
	(Thousands of Dollars)	
Source of funds		
Net income	$15,450	$14,054
Items not currently affecting working capital:		
Depreciation	6,640	5,569
Deferred income taxes	1,131	301
Deferred portion of provision for trading stamp redemption	(185)	251
Deferred compensation	262	75
Net income of unconsolidated finance subsidiary	(581)	(465)
Total from Operations	22,717	19,785
Proceeds from long-term borrowings	7,000	-0-
Proceeds from sale of Common Stock under stock option and stock purchase plans	1,113	974
Reduction in advances to unconsolidated finance subsidiary	2,169	-0-
Disposals of property plant and equipment, net of accumulated depreciation	119	1,220
Other	328	87
	33,446	22,066
Application of funds		
Additions to property, plant and equipment	9,071	8,701
Purchase of Grocery Division of Hill Bros., Inc. (excluding acquired working capital of $10,025,000)—Note C	1,205	-0-
Payment on long-term debt	400	400
Cash dividends on Common Stock	4,594	3,738
Increase in other assets	1,197	1,489
Investment in and advances to unconsolidated finance subsidiary	-0-	1,765
	16,467	16,093
Increase in Working Capital	$16,979	$ 5,973

NATIONAL STARCH AND CHEMICAL CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Working Capital Provided:		
Operations:		
Income before extraordinary charge	$26,091	$24,486
Add charges (deduct credits) not affecting working capital:		
Depreciation and amortization	9,339	7,985
Deferred taxes and other credits	3,078	3,261
Equity in undistributed earnings of joint ventures	(1,102)	(672)
Working capital provided from operations before extraordinary charge	37,406	35,060
Extraordinary charge	(871)	—
Long term debt—new	9,500	279
Common stock issuances and sales	899	104
Proceeds from sale of investments and fixed assets	1,284	200
Other—net	523	(130)
Total	48,741	35,513
Working Capital Used:		
Purchase of fixed assets	15,713	14,916
Purchase of intangibles and other assets	97	1,643
Investments	380	1,781
Cash dividends	7,081	5,759
Long term debt—reduction	26,885	2,125
Total	50,156	26,215
Increase (Decrease) in Working Capital	$(1,415)	$ 9,298

End of Year Working Capital or Cash

HUDSON PULP & PAPER CORP. (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Funds Provided By:		
Net (loss)/income	$(1,908)	$ 7,235
Charges not affecting funds:		
Depreciation and depletion	10,246	7,891
Deferred Federal income taxes	2,400	580
Total from operations	10,737	15,706
Issuance of long-term debt, net of refinancing of $31,000,000 of revolving credit notes in 1976	2,500	35,990
Decrease in inventories	319	—
Increase in accounts payable and accrued expenses	—	1,944
Total funds provided	13,557	53,641
Funds Used For:		
Additions to plant assets and timber resources	11,944	33,681
Dividends	1,990	2,025
Capital stock acquired	612	745
Current maturities of long-term debt	2,359	2,533
Decrease in current portion of long-term debt	173	229
Increase in receivables	1,884	889
Increase in refundable Federal income taxes	186	1,859
Increase in inventories	—	4,950
Increase in other current assets	1,196	38
Decrease in accounts payable and accrued expenses	1,698	—
Decrease in dividends payable	—	352
Other items—net	32	613
Total funds used	22,079	47,919
(Decrease)/increase in cash and short-term investments	(8,521)	5,721
Cash and short-term investments at beginning of year	12,356	6,635
Cash and short-term investments at end of year	$ 3,834	$12,356

AMERICAN BAKERIES COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976	1975	1974	1973
			(In thousands)		
Sources of Working Capitol:					
Net earnings (loss)	$ 5,822	$ 5,289	$ 5,739	$(1,698)	$(2,019)
Add (Deduct) items not affecting working capital—					
Depreciation and amortization	8,954	7,935	7,312	7,280	7,114
Deferred income taxes	2,275	751	(763)	(1,500)	(1,135)
Provisions for closing plants and idle equipment	650	—	789	1,315	372
Working capital provided from operations	$17,701	$13,975	$13,077	$ 5,397	$ 4,332
Property dispositions	1,217	1,202	976	1,431	2,023
Proceeds from stock options exercised	252	335	376	—	—
Additions to long-term liabilities	16,638	18,271	6,488	4,502	2,200
	$35,808	$33,783	$20,917	$11,330	$ 8,555
Applications of Working Capital:					
Reduction of long-term liabilities	$ 6,651	$10,384	$ 5,435	$ 4,474	$ 1,411
Additions to plant and equipment	18,800	16,388	11,778	8,945	6,461
Dividends declared	2,352	2,069	1,211	883	934
Deferred charges	2,919	358	—	—	—
Long-term note receivable	1,007	—	—	—	—
Purchase of stock, since retired—					
Cumulative prior preferred, $1.80 series	25	73	91	79	103
5% cumulative convertible preferred	87	122	150	342	451
Purchase of common stock for the treasury	—	—	—	1,176	642
Redemption of cumulative prior preferred, $1.80 convertible series	65	125	125	125	—
Charges incurred relating to closed plants and idle equipment	898	870	489	1,010	1,164
Other items, net	(119)	(71)	(106)	1,039	891
	$32,685	$30,318	$19,173	$18,073	$12,057
Increase (Decrease) in Working Capital	$ 3,123	$ 3,465	$ 1,744	$(6,743)	$(3,502)
Working Capital:					
Beginning of Year	15,705	12,240	10,496	17,239	20,741
End of Year	$18,828	$15,705	$12,240	$10,496	$17,239

HEWLETT-PACKARD COMPANY (OCT)

Consolidated Statement of Changes in Financial Position

	1977	1976
	(Millions)	
Working capital provided:		
Net earnings	$121.5	$ 90.8
Add charges (deduct credits) not affecting working capital:		
Depreciation and amortization	47.6	39.5
Deferred taxes on income	3.5	3.7
Stock purchase and award plans	9.3	8.3
Other	(1.9)	—
Working capital provided from operations	180.0	142.3
Proceeds from sale of common stock	27.8	24.2
Proceeds of additional long-term debt	7.8	3.4
Other, net	.5	(3.5)
Total working capital provided	216.1	166.4
Working capital used:		
Investment in property, plant and equipment	115.5	103.4
Dividends to shareowners	11.3	8.4
Reduction in long-term debt	3.3	0.7
Total working capital used	130.1	112.5
Increase in working capital	86.0	53.9
Working capital at beginning of year	374.0	320.1
Working capital at end of year	$460.0	$374.0

STANGE CO. (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Sources of working capital		
From continuing operations		
Net earnings for the year	$ 1,692	$ 1,181
Charges (credits) to earnings not using (providing) working capital		
Depreciation and amortization of property, plant and equipment	726	587
Amortization of other assets	12	94
Deferred income taxes	(39)	(14)
Equity in (earnings) loss of affiliated companies	(413)	176
Working capital provided from continuing operations	1,978	2,024
From discontinued operations		
Net earnings (loss) for the year	(172)	69
Charges to earnings not using working capital		
Depreciation and amortization of property, plant and equipment	43	32
Working capital provided (used) from discontinued operations	(129)	101
Working capital provided from operations	1,849	2,125
Proceeds from exercise of stock options	—	4
Proceeds from long-term debt	45	—
	1,894	2,129
Applications of working capital		
Additions to property, plant and equipment-net	2,161	1,348
Payments of long-term debt	304	222
Dividends paid on common stock	274	201
Increase in investments and advances to affiliated companies	155	956
Increase in other-net	4	19
	2,898	2,746
Decrease in Working Capital	(1,004)	(617)
Working capital at beginning of year	9,963	10,580
Working capital at end of year	$ 8,959	$ 9,963

WORKING CAPITAL OR CASH PROVIDED FROM OR USED IN OPERATIONS

Paragraph 10 of *Option No. 19* states:

> The ability of an enterprise to provide working capital or cash from operations is an important factor in considering its financing and investing activities. Accordingly, the Statement should prominently disclose working capital or cash provided from or used in operations for the period, and the Board believes that the disclosure is most informative if the effects of extraordinary items . . . are reported separately from the effects of normal items. The Statement for the period should begin with income or loss before extraordinary items, if any, and add back (or deduct) items recognized in determining that income or loss which did not use (or provide) working capital or cash during the period. Items added and deducted in accordance with this procedure are not sources or uses of working capital or cash, and the related captions should make this clear, e.g., "Add—Expenses not requiring outlay of working capital in the current period." An acceptable alternative procedure, which gives the same result, is to begin with total revenue that provided working capital or cash during the period and deduct operating costs and expenses that required the outlay of working capital or cash during the period. In either case the resulting amount of working capital or cash should be appropriately described, e.g., "Working capital provided from (used in) operations for the period, exclusive of extraordinary items." This total should be immediately followed by working capital or cash provided or used by income or loss from extraordinary items, if any; extraordinary income or loss should be similarly adjusted for items recognized that did not provide or use working capital or cash during the period.

Table 5-3 shows those items most frequently included in the calculation of working capital or cash provided from (or used in) operations. Examples of the aforementioned calculation follow.

TABLE 5-3: WORKING CAPITAL OR CASH PROVIDED FROM OPERATION—COMPONENTS

	Number of Companies			
	1977	1976	1975	1974
Net income or loss	495	497	455	530
Income or loss from continuing operations	46	49	90	N/C
Income or loss before extraordinary items	48	54	55	70
Depreciation and/or amortization and/or depletion	599	599	599	599
Deferred taxes and/or deferred investment credit	481	482	473	467
Equity in earnings or losses of investees	174	178	186	181
Minority interest	66	63	72	68

N/C—Not Compiled.

Net Income or Loss

AMERICAN BILTRITE INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Use of Funds		
Use (source) from operations		
Net loss (earnings)	$12,217	($ 2,839)
(Add) deduct items not affecting working capital:		
Depreciation and amortization	(4,958)	(4,759)
Credit (provision) for deferred income taxes	1,804	(213)
Provision for plant rearrangement and shutdown and product line discontinuance	(2,010)	
Other	100	521
Total Applied To (From) Operations	7,153	(7,291)
Reduction in long-term debt	3,206	2,022
Additions to property, plant and equipment	6,935	10,843
Cash dividends declared	501	1,325
	17,797	6,899
Source of Funds		
Sales of equipment	258	607
Decrease in miscellaneous noncurrent assets and other	744	642
Proceeds from long-term borrowings		1,600
Proceeds from sales of investments, less gain included in operations		1,707
	1,002	4,557
Decrease in Working Capital	$16,794	$ 2,341

BEMIS COMPANY, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Financial resources were provided by:		
Operations:		
Net income	$16,778	$15,694
Add (deduct) items not requiring the use of working capital:		
Depreciation and amortization	14,674	13,797
Amortization of capitalized leases	795	
Minority interest in net income	837	567
Write-off of patents and goodwill	384	215
Deferred income taxes	3,278	2,501
Equity in undistributed earnings of affiliates	(130)	(422)
Write-off fixed assets of a subsidiary company		5,456
Working capital provided by operations	36,616	37,808
Additional long-term borrowings	12,242	5,846
Decrease (increase) in deferred charges and special deposits	1,781	(1,642)
Proceeds from property retirements	1,372	916
Long-term lease obligations	8,080	
Sundry, net	429	1,111
Decreased investment in affiliated company		338
Total resources provided	60,520	44,377
Financial resources were applied to:		
Additions to property and equipment	37,910	25,441
Acquisition of minority interest in subsidiary company	135	104
Capital leases	9,537	
Reduction in long-term borrowings	14,484	11,419
Purchase of debentures	1,867	670
Cash dividends declared	7,001	6,623
Purchase of common stock for the treasury	425	96
Redemption of Series 1974 8½% preferred stock		1,076
Reduction in long-term lease obligations	750	
Total resources used	72,109	45,429
Decrease in working capital	$11,589	$ 1,052

FIRST NATIONAL STORES INC. (MAR)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Financial resources were provided by:		
Operations:		
Net loss	$(3,974)	$(1,502)
Charges (credits) not requiring outlay of working capital in the current period:		
Depreciation and amortization	8,145	7,450
Credits related to provision for store closings	(46)	(569)
Other, principally gain on sale of closed store fixed assets	(288)	(751)
Working capital provided by operations	3,837	4,628
Net proceeds from sale and lease back of fixed assets treated as capital leases	3,200	—
Proceeds from disposal of fixed assets	2,600	1,376
	9,637	6,004
Financial resources were used for:		
Additions to fixed assets	18,864	13,082
Current portion of capital lease obligation	75	—
Reduction in long-term portion of accrued costs related to store closings	477	921
Cash dividends declared	1,131	1,130
Other	974	179
	21,521	15,312
Decrease in working capital	(11,884)	(9,308)
Working capital at beginning of year	9,567	18,875
Working capital at end of year	$(2,317)	$ 9,567

THE BFGOODRICH COMPANY (DEC)

Statement of Changes in Financial Position

	1977	1976
	($000)	
Source of Working Capital		
From Operations:		
Net income	$ 60,103	$ 15,793
Charges not affecting working capital:		
Depreciation and amortization	67,780	67,729
Deferred income taxes	14,426	4,647
Equity in losses of associate companies, net of dividends received	6,458	6,973
Financial accruals for other non-current liabilities	9,433	7,013
Provisions for disposal of certain foreign operations not affecting working capital	6,088	11,317
Other items—net	2,067	5,774
Working Capital Provided from Operations	166,355	119,246
Additional funded debt	42,570	13,300
Capitalized lease obligations	—	1,450
Common Stock transactions	3,686	6,632
Retirement or sale of property	10,163	10,126
Current maturity or collection of long-term receivables	8,146	8,695
Other items—net	—	5,325
Total Source of Working Capital	230,920	164,774
Use of Working Capital		
Additions to property (including capitalized leases)	104,615	70,537
Current maturity or payment of funded debt	21,237	45,317
Cash dividends paid	19,839	18,153
Other items—net	3,252	—
Total Use of Working Capital	148,943	134,007
Increase in Working Capital	$ 81,977	$ 30,767

LYKES CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Financial Resources were Provided by		
Net income (loss)	$(189,746)	$ 19,071
Add (deduct) income charges (credits) not affecting working capital		
Depreciation and depletion	68,947	79,494
Tax effect of timing differences	(30,326)	(13,481)
Plant closing costs not affecting working capital	117,853	
Equity in undistributed earnings of affiliated companies	(9,066)	(11,452)
Other	1,654	1,395
Working capital provided by (used in) operations	(40,684)	75,027
Additions to long-term debt	58,405	193,888
Decrease in investments and advances	34,924	
Increase in other non-current liabilities and deferred credits	18,419	2,310
Other	(2,819)	2,898
	68,245	274,123
Financial Resources were Used for		
Property additions	80,502	117,680
Reduction of long-term debt	73,762	48,286
Dividends declared	3,318	17,467
Increase in restricted funds	16,650	7,279
	174,232	190,712
Increase (Decrease) in Working Capital	$(105,987)	$ 83,411

Income or Loss From Continuing Operations

FMC CORPORATION (DEC)

Consolidated Changes in Financial Position

	1977	1976
	($000)	
Source of working capital		
Income from continuing operations.	$127,114	$117,568
Items not affecting working capital:		
Provision for depreciation.......	77,986	61,853
Provision for deferred Federal income tax regarding non-current assets...............	8,178	9,678
Dividends received in excess of (less than) equity in earnings of affiliated companies	(5,525)	1,648
Unrealized translation loss on long-term debt	7,536	2,184
Working capital provided from continuing operations...............	215,289	192,931
Loss from discontinued operations .	(6,469)	(37,411)
Items not affecting working capital:		
Loss on disposal of non-current assets........................	9,267	122,812
Provision for depreciation.......	1,198	9,145
Deferred Federal income tax charge (credit) regarding non-current assets..........	82	(4,670)
Dividends received in excess of equity in earnings of affiliated company	—	2,135
Working capital provided from discontinued operations	4,078	92,011
Total working capital provided from operations.......................	219,367	284,942
Disposal of property, plant and equipment	5,128	7,217
Proceeds from long-term financing.	29,270	2,051
Sale of investment in affiliate	31,593	—
Decrease in investment due to acquisition of controlling interest in affiliates	20,534	—
Decrease in other investments	5,363	6,407
Decrease (increase) in patents and deferred charges................	3,191	(2,574)
Total	314,446	298,043
Application of working capital		
Additions to property, plant and equipment	171,135	117,032
Non-current assets of companies acquired:		
Property, plant and equipment .	54,680	—
Other, net	5,239	—
Dividends paid to stockholders	39,402	36,117
Retirement of long-term debt.......	29,431	5,503
Other, net	3,210	(1,700)
Total	303,097	156,952
Increase in working capital	$ 11,349	$141,091

P. R. MALLORY & CO. INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	(000)	
Funds become available from:		
Earnings from continuing operations	$13,567	$10,082
Charges (credits) not affecting funds:		
Depreciation and amortization.......................	7,789	6,582
Minority interests in net earnings of consolidated subsidiaries..............	1,046	756
Equity in net earnings of unconsolidated foreign subsidiaries and affiliates, net of dividends received	(212)	1,139
Funds provided by continuing operations....	22,190	18,559
Discontinued operations	(357)	149
Charges (credits) not affecting funds:		
Depreciation.................	463	454
Equity earnings, net of dividends	1,640	(39)
Provision for noncurrent liabilities, net of income taxes.....................	632	—
Funds provided by discontinued operations	2,378	564
Funds provided by operations	24,568	19,123
Sale of common stock and exercise of stock options	1,409	14,956
Issuance of sinking fund debentures	—	30,000
Increase in other long-term debt	1,067	913
Proceeds from metallurgical equity investments...........	4,742	—
Proceeds from disposal of property, plant and equipment ..	4,272	545
Other.............................	(980)	(566)
	35,078	64,971
These funds were used for:		
Purchase of minority interest in European battery subsidiaries	19,140	—
Payment of revolving credit indebtedness	—	20,000
Additions to property, plant and equipment	21,624	17,185
Dividend payments to shareholders..........................	5,052	4,028
	45,816	41,213
Resulting in increase (decrease) in working capital	$(10,738)	$23,758

NATIONAL CAN CORPORATION (DEC)

Statements of Changes in Financial Position

	1977	1976
	($000)	
Source of Funds:		
Continuing Operations:		
Earnings from continuing operations	$25,265	$21,336
Non-cash items:		
Depreciation	17,913	16,530
Deferred income tax provision	2,109	4,790
Total from continuing operations before extraordinary item	45,287	42,686
Discontinued Operations:		
Operating loss from discontinued operations	(2,191)	(700)
Non-cash items:		
Depreciation	1,141	1,060
Writeoff of goodwill	7,728	
Deferred income taxes from discontinued operations	147	141
Reserve for loss on disposal of discontinued operations	(11,561)	
Deferred income taxes (benefit) from loss on disposal	(3,539)	
Total (for) from discontinued operations	(8,274)	500
Total from operations, before extraordinary item	37,013	43,187
Extraordinary item—utilization of net operating loss carryforwards of unconsolidated international operations	2,050	
Increase in:		
Short-term notes payable and commercial paper	25,905	
Accounts payable and other liabilities	7,832	19,899
Proceeds from financing		45,000
Issuance of Series C Preferred Stock		15,000
Notes issued and debt assumed in connection with acquired businesses		7,124
Common stock issued for acquisition of companies		4,518
Capitalized lease financing	3,700	2,000
Carrying value of property, plant and equipment disposals and reserves for discontinued facilities of $2,946,000 in 1977	4,842	2,718
Other, net	805	(491)
	82,148	138,956
Use of Funds:		
Principal payments on long-term debt	5,783	8,010
Expenditures for property, plant and equipment	29,376	25,647
Capitalized leases	3,700	2,000
Cash dividends	6,786	5,265
Increase in:		
Inventories	12,441	17,748
Investments in and advances to international operations	6,272	11,380
Receivables	17,449	21,426
Purchase of businesses, exclusive of net current assets and long-term debt assumed		12,007
Decrease in short-term notes payable and commercial paper		37,375
Investment in unconsolidated financial services subsidiary	93	1,604
	81,902	142,465
Increase (Decrease) in Cash	$ 246	($ 3,509)

Income or Loss Before Extraordinary Item

GULTON INDUSTRIES, INC. (FEB)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Sources of Working Capital:		
From operations:		
Earnings before extraordinary credit	$1,849	$1,578
Items not affecting working capital in the current period:		
Depreciation and amortization	2,008	1,955
Deferred taxes	248	(383)
Loss on investment and notes receivable	466	500
Other	244	40
Working capital provided by operations before extraordinary credit	4,795	3,699
Extraordinary credit	123	556
Additions to long-term debt	745	400
Disposals of property, plant and equipment	36	190
Other		74
	5,699	4,559
Uses of Working Capital:		
Purchases of property, plant and equipment	2,449	1,935
Reduction of long-term debt	1,341	1,442
Dividends	343	209
Other	114	
	4,247	3,586
Increase in working capital	$1,452	$ 973

ETHAN ALLEN, INC. (SEP)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Sources of working capital		
From operations		
Income (before extraordinary items)	$ 8,705	$ 7,911
Add items not consuming working capital		
Depreciation and amortization	2,979	2,898
Deferred charges and credits, principally income taxes	957	1,158
Working capital provided by operations	12,641	11,967
Extraordinary items of $300,000 and $2,156,000, respectively, plus related deferred taxes of $300,000 and $2,363,000 less insurance proceeds of $836,000 in 1976, collectible after one year	600	3,683
Increase in long-term debt—capitalized lease obligations	1,937	—
Disposals and other property, plant and equipment transactions	402	899
Issuance of stock—upon exercise of stock options	10	31
Decrease in other assets and investments	836	130
Tax benefits on exercise of employee stock options	15	12
Total	16,441	16,722
Use of working capital		
Additions to property, plant and equipment	6,987	4,134
Additions to property, plant and equipment from capitalized leases	935	—
Dividends	1,609	1,615
Purchase of Class B stock warrants	—	1,028
Current maturities and payments of long-term debt	1,235	930
Increase in deferred charges	204	448
Increase in investments in and advances to unconsolidated companies	75	291
Acquisition of treasury stock	140	158
Increase in other assets and investments, principally funds held by trustees for construction	1,194	—
Total	12,379	8,604
Increase in working capital	4,062	8,118
Working capital—beginning	74,770	66,652
Working capital—end	$78,832	$74,770

Income Before Cumulative Effect of Accounting Change

BURNDY CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Additions to Working Capital:		
Operations:		
Earnings before cumulative effect of accounting change...	$11,994	$10,159
Items not requiring an outlay of working capital:		
Depreciation and amortization...	4,579	4,230
Deferred income taxes......	159	238
Equity in net earnings of unconsolidated affiliates	(152)	(370)
Working capital provided from operations..........	16,580	14,257
Cumulative effect of accounting change................	450	—
	17,030	14,257
Proceeds from long-term debt......	3,899	—
Stock options and awards...........	348	901
	$21,277	$15,158
Applications of Working Capital:		
Acquisitions of property, plant and equipment	$ 7,262	$ 5,842
Dividends on common stock	4,181	3,722
Purchase of treasury stock	1,254	1,148
Reduction in long-term debt	2,499	1,471
Increase in investments and other assets.............................	817	228
Increase in working capital	5,264	2,747
	$21,277	$15,158

SOURCES AND USES

Paragraph 14 of *Opinion No. 19* states:

In addition to working capital or cash provided from operations (see paragraph 10) and changes in elements of working capital (see paragraph 12), the Statement should clearly disclose:

a. Outlays for purchase of long-term assets (identifying separately such items as investments, property, and intangibles).

b. Proceeds from sale (or working capital or cash provided by sale) of long-term assets (identifying separately such items as investments, property, and intangibles) not in the normal course of business, less related expenses involving the current use of working capital or cash.

c. Conversion of long-term debt or preferred stock to common stock.

d. Issuance, assumption, redemption, and repayment of long-term debt.

e. Issuance, redemption, or purchase of capital stock for cash or for assets other than cash.

f. Dividends in cash or in kind or other distributions to shareholders (except stock dividends and stock split-ups as defined in ARB No. 43, Chapter 7B—Stock Dividends and Stock Split-Ups).

Table 5-4 summarizes sources and uses most frequently disclosed in the statements of the survey companies. In addition to the information shown in Table 5-4, 56 companies presented a caption showing capitalized leases as a source, and 54 companies presented a caption showing decreases in capitalized leases as a use. Examples of sources and uses follow.

TABLE 5-4: SOURCES AND USES

	Number of Companies			
	1977	1976	1975	1974
Sources				
Issuance of long-term debt .	461	478	483	497
Sale, disposal, or retirement of property	417	427	428	405
Issuance of capital stock....	354	331	274	296
Investments	125	115	108	112
Noncurrent receivables......	76	63	53	56
Uses				
Property	594	594	595	595
Long-term Debt	541	578	553	566
Dividends	533	536	530	539
Investments	211	212	207	219
Purchase, redemption, or retirement of capital stock	193	168	243	258
Noncurrent receivables......	74	61	34	34
Intangibles	51	44	46	49

Property

ST. REGIS PAPER COMPANY (DEC)

Statements of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Source of funds:		
Operations:		
Net earnings	$106,786	$107,533
Changes (credits) not requiring current outlays of working capital:		
Depreciation, depletion, and amortization	77,127	71,723
Equity in undistributed earnings of non-consolidated affiliates	(4,481)	(1,362)
Deferred income taxes	27,000	18,000
Other non-cash charges (credits), net	4,230	(1,937)
Funds provided from operations	210,662	193,957
Issuance of long-term debt:		
Foreign	666	15,464
8⅞% promissory notes	175,481	
10% promissory notes		45,000
Other	19,824	29,934
Capitalized lease obligations	5,033	
Total	201,004	90,398
Issuance of common stock	6,527	35,595
Other:		
Property, plant, and equipment retirements	2,231	5,244
Other, net	4,106	2,299
Total	6,337	7,543
Total source of funds	$424,530	$327,493
Application of funds:		
Property, plant, and equipment additions:		
Land, buildings, and equipment	$ 73,056	$133,037
Timberlands and cutting rights	19,865	39,985
Leased property	7,927	
Total	100,848	172,022
Decrease in unexpended construction funds	(413)	(4,125)
Reduction of long-term debt	30,723	44,835
Exchange of long-term debt	75,000	
Conversion of long-term debt	3,543	34,177
Cash dividends	44,735	40,061
Additions to investments	8,013	14,894
Increase in advance payments under timber-purchase contracts	399	11,078
Increase in working capital (see below)	161,682	14,551
Total application of funds	$424,530	$327,493

Debt

BOBBIE BROOKS, INCORPORATED (APR)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Sources of working capital:		
Provided by (applied to) operations:		
Income (loss) before extraordinary tax credit	$(17,942)	$ 381
Items not involving working capital:		
Depreciation	2,263	3,088
Deferred income taxes and other credits	(186)	(307)
Goodwill charged to operations	2,188	211
Provision for loss on idle facilities	2,000	—
Total provided by (applied to) operations, before extraordinary tax credit	(11,677)	3,373
Extraordinary tax credit—utilization of operating loss carryforward	—	341
Total provided by (applied to) operations	(11,677)	3,714
Long-term debt incurred	—	274
Unamortized cost of property assets sold	8,266	1,292
Total	(3,411)	5,280
Applications of working capital:		
Additions to property assets	1,000	1,328
Long-term debt:		
Current maturities and other prepayments	3,518	4,574
Amount to be repaid upon consummation of refinancing agreement	2,856	—
Sundry—net	84	(139)
Total	7,458	5,763
Decrease in working capital	(10,869)	(483)
Working capital at beginning of year	34,874	35,357
Working capital at end of year	$24,005	$34,874

ELECTRIC HOSE & RUBBER COMPANY (AUG)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Working Capital Provided By:—		
Operations:		
Income (loss) before extraordinary item	$ 821	$(14,901)
Expenses (income) not affecting working capital—		
Provision for Wilmington plant abandonment	—	18,103
Depreciation and amortization	1,212	1,578
Deferred taxes on income—non-current portion	—	(1,632)
Gain on sale of property	(6)	(25)
Working capital provided by operations	2,027	3,122
Working capital provided by extraordinary item—utilization of net operating loss carryforward	848	—
Additions to long-term debt, including $1,733,300 reclassified non-current as a result of obtaining waivers for debt defaults in 1977 and $1,178,100 in connection with acquisition of Hein Companies in 1976	1,826	1,239
Proceeds from sale of Wilmington equipment	266	—
Proceeds from property sales	23	33
Proceeds from sale of preferred stock	1,000	—
Utilization of construction funds in escrow	—	164
	5,991	4,559
Working Capital Used For:		
Reduction of long-term indebtedness, including $5,843,800 classified current as a result of debt defaults in 1976	185	6,883
Adjustment to carry value of estimated net recoverable cost of Wilmington plant and equipment	400	—
Reduction in estimated costs and expenses relating to Wilmington plant abandonment and related adjustments not affecting working capital	494	—
Property additions including $477,300 in 1976 relating to acquisition of Hein Companies	2,330	1,912
Cash dividends paid	—	290
Deferred plant start-up costs	156	34
Intangibles arising as part of purchase of Hein Companies	—	307
Other, net	20	8
	3,587	9,437
Increase (decrease) in working capital, including $617,700 in 1976 of working capital of Hein Companies at acquisition	2,404	(4,877)
Working capital:		
At beginning of year	5,133	10,011
At end of year	$7,538	$ 5,133

M. H. FISHMAN CO. INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Financial resources provided by:		
Operations:		
Income before extraordinary credits	$107	$320
Items not affecting working capital during the year:		
Loss on sale of land and building		53
Depreciation and amortization	182	177
Amortization of imputed interest on long-term debt	128	157
Working capital provided by operations, exclusive of extraordinary credits	419	708
Extraordinary credit—utilization of net operating loss carryover	120	420
Obligation under capital lease	190	
Proceeds from sale of fixed assets—net		35
Other—net	9	80
Total resources provided	739	1,245
Financial resources used for:		
Assets under capital leases	190	
Purchase of fixed assets	11	19
Current payment due under Plan of Arrangement	603	729
Decrease in long-term debt, other than amounts due to Pre-Chapter XI Creditors	137	27
Increase in other assets	143	
Total resources used	1,085	776
Increase/(decrease) in working capital	($346)	$469

XEROX CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Working Capital Provided by Operations		
Net income	$ 406,627	$ 361,683
Charges (credits) not affecting working capital		
Depreciation of rental equipment	484,176	501,682
Depreciation of buildings and equipment	136,276	121,681
Outside shareholders' interests in income	69,303	68,500
Trade receivables due after one year	(84,606)	(17,799)
Net book value of rental equipment sales and disposals	69,147	42,109
Other	24,691	11,447
Working capital provided by operations	1,105,614	1,089,303
Disposals of discontinued operations' assets	33,472	41,702
Deferred income taxes becoming current	(2,247)	64,686
New long-term debt	34,117	71,994
Other	3,276	31,112
Working capital provided	1,174,232	1,298,797
Working Capital Used for		
Additions to rental equipment and related inventories	551,668	455,445
Additions to land, buildings and equipment	168,173	141,231
Payments made or due within one year on long-term debt	141,185	181,047
Repurchases of 5% and 6% convertible subordinated debentures	15,904	—
Dividends declared—Xerox Corporation shareholders	119,285	87,518
Dividends declared—outside shareholders	56,273	28,246
Working capital used	1,052,488	893,487
Working Capital Increased	121,744	405,310
Working Capital at Beginning of Year	978,165	572,855
Working Capital at End of Year	$1,099,909	$ 978,165

Capital Stock

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	(Dollars in thousands)	
Source of Working Capital:		
Net earnings	$2,719,414	$2,398,093
Depreciation and other items not requiring the current use of working capital	2,553,852	2,237,970
Total from operations	5,273,266	4,636,063
Proceeds from stock sold under employee plans	305,698	293,862
Long-term borrowings	22,701	24,800
	5,601,665	4,954,725
Application of Working Capital:		
Investment in plant, rental machines and other property	3,394,741	2,518,234
Less: Depreciation of manufacturing facilities capitalized in rental machines	193,353	141,115
	3,201,388	2,377,119
Increase in deferred charges and other assets	176,351	88,083
Cash dividends paid or payable	1,910,747	1,203,791
Reduction of long-term debt	42,052	44,788
Treasury stock purchased for employee plan	340,641	154,648
Capital stock purchased and canceled	904,538	—
	6,575,717	3,868,429
Increase (Decrease) in Working Capital	$ (974,052)	$1,086,296

MEDUSA CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Funds provided from:		
Operations:		
Net earnings for the year	$13,924	$11,545
Items not requiring outlay of current funds:		
Depreciation and depletion	13,822	12,936
Income tax and investment credit deferments	1,496	667
Loss on disposal of fixed assets	155	983
Other	92	103
Total from operations	29,489	26,234
Long-term debt issued		15,000
Proceeds (less gain in 1977) from sale of fixed assets	1,243	1,238
Common shares issued under purchase agreements	8,163	36
Common shares issued upon conversion of debentures	398	
Common shares issued upon exercise of stock options	230	
Sundry sources	85	434
	39,608	42,942
Funds used for:		
Property, plant and equipment expenditures	14,982	9,182
Reduction of long-term debt	2,348	15,179
Conversion of debentures	398	
Cash dividends	4,998	3,997
Property, plant and equipment of businesses purchased (excluding net current assets acquired of $4,823,000 in 1977)	13,365	2,176
Sundry purposes	2,073	1,146
	38,164	31,660
Increase in working capital	1,444	11,282
Working capital at beginning of year	44,984	33,702
Working capital at end of year	$46,428	$44,984

NATIONAL STEEL CORPORATION (DEC)

Statements of Consolidated Changes in Financial Position

	1977	1976
	($000)	
Source of Funds		
From operations:		
Net income	$ 60,125	$ 85,737
Charges (credits) to income which did not involve current expenditure or receipt of funds:		
Depreciation and depletion	136,874	127,310
Deferred income taxes	41,819	52,169
Equity in undistributed earnings of associated companies	(11,969)	(10,679)
Total From Operations	226,849	254,537
Long-term borrowings	-0-	231,379
Assets sold and retired	3,218	4,035
Common stock issued for stock option and sold to employees' stock investment plans	7,916	14,447
All other—net	11,167	-0-
Total Source of Funds	$249,150	$504,398
Use of Funds		
Expenditures for plant and equipment, including investments in raw materials companies	$161,694	$270,931
Cash dividends	48,232	47,370
Payments and other reductions of long-term debt	21,560	21,856
Increase in working capital	13,914	160,980
Purchase of common stock for treasury	3,750	-0-
All other—net	-0-	3,261
Total Use of Funds	$249,150	$504,398

THE PANTASOTE COMPANY (DEC)

Statements of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Resources Provided		
Income before extraordinary income	$ 2,064	$ 3,128
Add (deduct) items not affecting working capital:		
Depreciation	2,646	1,993
Amortization of deferred charges	44	63
Deferred income taxes	25	205
Deferred investment credits	133	83
Deferred compensation and termination indemnity pay	430	395
Equity in net income of 50%-owned affiliates	(27)	(155)
Gain on sale of property and plant	(246)	
Resources provided from operations exclusive of extraordinary income	5,069	5,712
Extraordinary income	217	253
Proceeds from disposal of property and plant	1,054	
Additions to long-term debt	6,359	2,608
Sale of common stock	105	
Other		52
Total Resources Provided	12,804	8,625
Resources Applied		
Additions to property, plant and equipment	6,530	3,540
Reduction of long-term debt	3,017	538
Dividends on common stock	1,091	628
Payments of termination indemnity pay	115	288
Investments in and advances to (repayments from) 50%-owned affiliates	(60)	510
Additions to deferred charges	113	15
Assets of acquired companies, net of working capital	299	
Common stock purchased	42	18
Other	32	
Total Resources Applied	11,179	5,537
Increase in Working Capital	1,625	3,088
Working Capital at beginning	15,138	12,050
Working Capital at end	$16,763	$15,138

Dividends

DART INDUSTRIES INC. (DEC)

Statement of Changes in Financial Position

	1977	1976
	($000)	
Working Capital Provided by:		
Net earnings	$109,196	$101,613
Items not affecting working capital—		
Depreciation and amortization	59,423	52,422
Deferred income taxes	4,300	5,100
Provided by operations	172,919	159,135
Increase in long term debt and capital lease obligations	7,848	35,530
Reduction of investment in resort development	3,902	12,010
Dispositions of properties, investments and other assets	7,261	13,246
Other	3,676	7,568
Total Working Capital Provided	195,606	227,489
Working Capital Used for:		
Properties acquired	94,571	120,604
Cash dividends paid—		
Preferred Stock	5,902	5,908
Common Stock	22,787	15,045
Decrease in long term debt and capital lease obligations	10,945	10,869
Other	6,450	3,540
Total Working Capital Used	140,655	155,966
Working Capital Increase	$ 54,951	$ 71,523

ELTRA CORPORATION (SEP)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Financial resources provided by:		
Net income	$42,520	$ 40,696
Income charges (credits) not affecting working capital:		
Depreciation	18,973	16,851
Minority interests	1,605	649
Deferred taxes on income	6,828	7,441
Equity in earnings of equipment leasing companies	(3,404)	(2,870)
Working capital provided by operations	66,523	62,769
Proceeds of long-term borrowings	6,332	54,905
Proceeds from exercise of stock options	853	458
Disposals of property, plant and equipment	1,666	973
	75,376	119,106
Financial resources used for:		
Additions to property, plant and equipment	34,241	30,446
Advances to equipment leasing companies, principally for current leveraged lease tax deductions and payments for earned investment tax credits	4,672	2,909
Repayment and retirement of long-term debt	2,501	21,146
Purchase of treasury shares	165	27
Cash dividends	13,180	12,876
Dividends paid by subsidiaries to minority shareholders	496	392
Other	546	1,337
	55,805	69,136
Increase in working capital	$19,570	$ 49,970

Purchase Method Business Combination

LEAR SIEGLER, INC. (JUN)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Sources of Working Capital		
Net earnings	$ 37,055	$ 25,412
Charges (credits) to net earnings not affecting working capital:		
Depreciation and amortization	16,361	12,676
Deferred income taxes	(1,606)	(143)
Other	1,303	171
Working capital provided by operations	53,113	38,116
Long-term obligations:		
Financing of Royal acquisition	50,000	
Other additions	17,041	14,154
Dispositions of property, plant and equipment	3,547	5,169
Increase in other deferred liabilities	519	629
	124,220	58,068
Uses of Working Capital		
Acquisitions, principally Royal (including working capital acquired of $78,546,000):		
Property, plant and equipment	44,213	1,817
Long-term obligations	(49,676)	
Other assets	20,857	
Deferred liabilities	(4,186)	
	11,208	1,817
Additions to property, plant and equipment	19,067	12,711
Increase in other assets	2,359	7,290
Reductions of long-term obligations	33,422	27,141
Cash dividends	10,121	7,914
Treasury stock transactions	(940)	432
	75,237	57,305
Increase in Working Capital	48,983	763
Working capital at beginning of year	164,430	163,667
Working capital at end of year	$213,413	$164,430

LIGGETT GROUP INC. (DEC)

Statement of Changes in Consolidated Financial Position

	1977	1976
	(Dollars in thousands)	
Source of Funds		
From operations		
Net earnings	$ 2,604	$ 38,987
Items not affecting working capital		
Revaluation of assets of Perk Foods Co. Incorporated, net of $7,700 reduction in working capital	28,800	—
Depreciation and amortization	18,693	16,508
Provision (credit) for deferred income taxes	(1,634)	3,683
Other	(481)	(216)
Working capital from operations	47,982	58,962
Additional long-term debt	287	79,904
Proceeds from sale of property, plant and equipment	2,669	1,973
Issuance of $5.25 preference stock	—	2,188
Other	2,517	1,971
Total	53,455	144,998
Application of Funds		
Dividends	24,289	22,256
Business purchased in 1977, less net current assets of $1,206		
Property, plant, and equipment, and other assets	10,126	—
Goodwill	9,980	—
Long-term debt assumed	(2,312)	—
Purchase of property, plant, and equipment	19,243	25,026
Reduction of long-term debt	9,303	7,678
Additions to franchises and goodwill	—	2,193
Other	421	4,432
Total	71,050	61,585
Increase (Decrease) in Working Capital	$(17,595)	$ 83,413

NEPTUNE INTERNATIONAL CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	(thousands of dollars)	
Source of Funds		
Net income	$ 6,356	$ 5,487
Items not using funds:		
Depreciation and amortization	2,475	2,859
Other	200	428
Working capital provided from operations	9,031	8,774
Increase in long-term debt	3,657	7,290
Other	956	1,175
Total source of funds	13,644	17,239
Application of Funds		
Acquired companies at dates of acquisition less working capital acquired— 1977, $1,405; 1976, $388		
Property	3,664	148
Purchased technology	3,445	2,225
Other assets	360	24
Long-term debt acquired	(1,016)	—
	6,453	2,397
Investment in property	2,153	2,134
Reduction of long-term debt	872	798
Cash dividends	1,875	1,490
Other	1,307	1,498
Total funds applied	12,660	8,317
Net increase in working capital	$ 984	$ 8,922

TWENTIETH CENTURY-FOX FILM CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1977	1976
	(in thousands)	
Financial Resources Provided By:		
Net earnings	$ 50,780	$ 10,702
Add (deduct) items not affecting working capital:		
Depreciation and amortization of non-current assets	11,192	7,800
Changes in long-term network receivables	3,421	(2,627)
Other	1,298	628
Working capital provided by operations	66,691	16,503
Borrowings under credit agreement	4,500	25,500
Bank borrowings—other	—	7,455
Increase in mortgages payable and other long term liabilities	1,656	—
Borrowings from insurance companies	—	20,000
Working capital provided by reduction of non-current film costs	91,533	82,295
	$164,380	$151,753
Financial Resources Used For:		
Purchase of Coca-Cola Bottling Midwest Inc.:		
Working capital acquired	$ 5,845	$ —
Long-term liabilities assumed	(4,930)	—
Property, plant and equipment	18,534	—
Other assets	8,386	—
Total acquisition cost	27,835	—
Additions to non-current film costs	76,173	90,282
Additions to property and equipment	6,713	15,150
Payments of cash dividends	4,583	3,785
Increase in investments, long-term receivables and other	4,713	321
Decrease in mortgages payable and other long-term liabilities	—	1,466
Decrease in guarantees of producers' borrowings	607	5,835
Payment of bank borrowings under credit agreement	4,500	33,500
Payment of bank borrowings—other	2,639	—
Increase in working capital	36,617	1,414
	$164,380	$151,753

Spin-Off

OXFORD INDUSTRIES, INC. (MAY)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Source of Funds:		
Earnings from continuing operations	$ 5,138	$ 5,906
Add expenses not requiring outlay of working capital:		
Depreciation and leasehold amortization	2,798	2,740
Deferred income taxes	(402)	(11)
Funds provided from continuing operations	7,534	8,635
Dividend received from Lanier Business Products, Inc.		5,000
Earnings transferred from Lanier Business Products Division		2,135
Proceeds from sale of property, plant and equipment	1,983	
Increase in long-term debt	243	269
Proceeds from exercise of stock options	171	47
	9,931	16,086
Application of Funds:		
Acquisition of property, plant and equipment	3,997	3,603
Contribution to capital of Lanier Business Products, Inc.	2,078	3,575
Reduction of long-term debt	2,121	1,736
Dividends paid	2,021	1,792
Other, net	(40)	102
	10,177	10,808
(Decrease) Increase in Working Capital	$ (246)	$ 5,278
Other Changes—Spin-off of net assets of Lanier Business Products, Inc.:		
Net assets at May 28, 1976	$16,313	
Net earnings for year	6,725	
Contribution to capital by Oxford Industries, Inc.	2,078	
Net assets at June 3, 1977	25,116	
Distribution to stockholders	(25,116)	
	$ —	

Investments

THE CLEVELAND-CLIFFS IRON COMPANY (DEC)

Statement of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Source of Funds		
Net income	$26,111	$37,449
Charges (credits) to income not requiring (providing) working capital:		
Depreciation, depletion and amortization, including $3,163,000 (1976—$3,186,000) of certain associated companies	7,101	6,796
Deferred income taxes, non-current portion	4,458	9,442
Deferred investment tax credit, net of amortization	2,629	4,368
Equity in net income of associated companies in excess of distributions	(2,331)	(6,683)
Loss on the sale of listed securities—Note H	1,760	—
Total From Operations	39,728	51,372
Proceeds from sale of listed securities	9,421	—
Sale of long-term receivables	27,000	—
Proceeds received upon exercise of stock options	111	613
Other, including property retirements	4,086	2,280
	80,346	54,265
Application of Funds		
Capital expenditures	9,547	4,800
Capital advances to and additional investments in associated companies	22,891	21,393
Cash dividends	12,250	11,614
Purchase of listed securities	10,000	—
Decrease in long-term liabilities	451	2,776
Other	866	1,863
	56,005	42,446
Increase in Working Capital	$24,341	$11,819

INSILCO CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	Dollars in Thousands	
Financial Resources Were Provided By:		
Net earnings	$22,065	$19,616
Expenses (income) not affecting working capital—		
Depreciation	6,457	6,842
Deferred income taxes—noncurrent	3,769	1,340
Amortization of intangible assets and deferred charges	1,358	1,254
Equity in unremitted earnings of unconsolidated associated companies	(1,867)	(251)
Other	604	2,239
Working capital provided by operations	32,386	31,040
Issuance of long-term debt	20,000	424
Exchange of investment in Times Wire and Cable Company for investment in joint venture, less Times' working capital of $10,714	3,864	—
Payment of note receivable from joint venture company	5,000	—
Reduction of long-term receivables	2,601	1,614
Reclassification of deferred taxes on income applicable to installment receivables sold to finance subsidiary	—	23,926
Other sources	4,107	2,253
	67,958	59,257
Financial Resources Were Used For:		
Cash dividends on common and preferred stock	8,899	7,881
Expended for fixed assets	9,118	6,626
Investment in joint venture	14,578	—
Investment in finance subsidiary	3,578	22,021
Reduction in long-term debt in connection with sale of accounts receivable to finance subsidiary	—	57,320
Other reductions in long-term debt	5,530	5,180
Other uses	4,371	4,334
	46,074	103,362
Increase (Decrease) in Working Capital	$21,884	$(44,105)

LONE STAR INDUSTRIES, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1977	1976
	($000)	
Funds Provided By		
Current operations:		
Net income	$ 29,710	$27,228
Items not requiring working capital:		
Depreciation and depletion	25,077	23,521
Deferred income taxes	5,205	3,560
Other, net	619	12
Funds provided by operations	60,611	54,321
Debt assumed from Citadel joint venture	35,290	—
Termination of Citadel joint venture	24,829	—
Long-term debt	14,318	(38,838)
Disposition of property, plant and equipment	7,083	8,006
Other, net	1,238	(10,109)
	143,369	13,390
Funds Used For		
Property, plant and equipment received from Citadel joint venture	62,554	—
Capital expenditures	41,986	39,815
Payments of dividends	12,455	11,621
Production payment	4,000	(50,000)
	120,995	1,436
Increase in working capital	$ 22,374	$11,954

Investment Tax Credit

MASONITE CORPORATION (AUG)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Source of Funds:		
Net income	$30,992	$24,133
Expenses (income) not affecting working capital:		
Depreciation	18,930	18,298
Investment tax credits amortized	(1,438)	(1,127)
Depletion	2,266	703
Foreign equity (income) loss	39	(2,019)
Deferred Federal income taxes	2,489	3,355
Working capital provided from operations	$53,278	$43,343
Long-term financing	$ 987	$ 703
Disposition of property, plant and equipment	368	3,446
Investment tax credits deferred	3,107	1,975
Common stock issued under option plans	48	—
Dividends from foreign affiliates	512	—
	$58,300	$49,467
Disposition of Funds:		
Property, plant, and equipment additions	$25,920	$24,363
Cash dividends	10,110	9,049
Long-term debt maturities	2,038	1,657
Other long-term assets	279	2,038
Purchase of additional equity in foreign affiliate	—	176
	$38,347	$37,283
Increase in Working Capital	$19,953	$12,184

Leases

AIRCO, INC. (DEC)

Statement of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Sources of Working Capital		
From Operations		
Net Income	$ 55,536	$ 54,003
Charges Not Requiring Working Capital		
Depreciation and Amortization	39,058	36,902
Deferred Income Taxes	10,243	188
Working Capital Provided from Operations	104,837	91,093
Proceeds from Long-Term Debt	18,693	6,519
Stock Issued for Debentures Converted	10,697	6,293
Capitalization of Lease Obligations	6,577	—
Sales of Stock to Officers and Employees	3,059	2,536
Working Capital Provided from Sale of Viking Division	—	4,554
All Other Sources—Net	457	3,734
Total Sources of Working Capital	144,320	114,729
Uses of Working Capital		
Capital Expenditures for Property, Plant and Equipment	71,800	71,900
Capitalization of Leased Property	6,577	—
Capitalization of Previously Leased Property due to Refinancing	10,610	—
Dividends on Common Stock	14,796	12,449
Debentures Converted	10,773	6,343
Reduction in Long-Term Debt and Capitalized Lease Obligations	8,749	5,863
Increase in Investments	456	8,056
Total Uses of Working Capital	123,761	104,611
Increase in Working Capital During Year	20,559	10,118
Working Capital at Beginning of Year	219,203	209,085
Working Capital at End of Year	$239,762	$219,203

Exchange of Common Stock for Preferred Stock

THE FLINTKOTE COMPANY (DEC)

Statements of Changes in Financial Position

	1977	1976
	(In Thousands of Dollars)	
Funds provided from:		
Income from continuing operations	$20,809	$10,040
Items not affecting working capital:		
Depreciation and depletion	19,633	20,224
Provision for loss on disposal of Middlebranch plant	—	3,200
Deferred income taxes	677	660
	41,119	34,124
Discontinued pipe operations	—	(35)
Funds provided from operations	41,119	34,089
Proceeds from sale of future production	12,500	—
Disposal of property, plant and equipment	5,647	7,741
Issuance of common stock in exchange for preferred stock	15,909	—
	75,175	41,830
Funds used for:		
Additions to property, plant and equipment	29,524	20,777
Acquisition of preferred stock exchanged for common stock	16,482	—
Acquisition of preferred stock for cash	2,130	38
Reduction of long-term debt	9,214	6,701
Dividends paid	8,328	8,095
Funds held by Trustees for construction	1,844	—
Other, net	2,151	(619)
	69,673	34,992
Net increase in working capital	$ 5,502	$ 6,838

CASH FLOW

Paragraph 15 of *Opinion No. 19* states:

> The amount of working capital or cash provided from operations is not a substitute for or an improvement upon properly determined net income as a measure of results of operations and the consequent effect on financial position. Terms referring to "cash" should not be used to describe amounts provided from operations unless all non-cash items have been appropriately ad justed. The adjusted amount should be described accurately, in conformity with the nature of the adjustments, e.g. "Cash provided from operations for the period" or "Working capital provided from operations for the period" as appropriate. The Board strongly recommends that isolated statistics of working capital or cash provided from operations, especially per-share amounts, not be presented in annual reports to shareholders. If any per-share data relating to flow of working capital or cash are presented, they should as a minimum include amounts for inflow from operations, inflow from other sources, and total outflow, and each per-share amount should be clearly identified with the corresponding total amount shown in the Statement

Accounting Series Release No. 142, issued in March 1973 by the Securities and Exchange Commission, states that a company should avoid presenting per share cash flow data in its annual reports to stockholders and in its SEC filings.

TABLE 5-5: ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS—PRESENTATION

	1977	1976	1975	1974
Analysis included as part of statement of changes in financial position	50	40	42	44
Analysis presented in a tabulation at bottom of statement of changes in financial position	523	536	535	536
Analysis presented in a tabulation apart from statement of changes in financial position	27	24	23	20
Total Companies	**600**	**600**	**600**	**600**

ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS

Paragraph 12 of *Opinion No. 19* states:

Whether or not working capital flow is presented in the Statement, net changes in each element of working capital (as customarily defined) should be appropriately disclosed for at least the current period, either in the Statement or in a related tabulation.

a. If the format shows the flow of cash, changes in other elements of working capital (e.g., in receivables, inventories, and payables) constitute sources and uses of cash and should accordingly be disclosed in appropriate detail in the body of the Statement.

b. If the format shows the flow of working capital and two-year comparative balance sheets are presented, the changes in each element of working capital for the current period (but not for earlier periods) can be computed by the user of the statements. Nevertheless, the Board believes that the objectives of the Statement usually require that the net change in working capital be analyzed in appropriate detail in a tabulation accompanying the Statement, and accordingly this detail should be furnished.

Table 5-5 shows the manner in which the survey companies disclosed details of this information. Table 5-6 summarizes the titles or introductory phrases used for the schedule of changes in working capital elements when such data is not contained within the main body of the statement of changes in financial position.

Examples of tabulations analyzing changes in working capital elements are shown below. Such data has been omitted from previous examples in this section in order to emphasize other information contained within the statement of changes in financial position.

TABLE 5-6: TITLES IDENTIFYING ANALYSIS OF WORKING CAPITAL ELEMENTS

	1977	1976	1975	1974
Change in working capital ..	262	216	247	254
Increase (decrease) in working capital	224	267	246	229
Analysis of changes in working capital	33	38	42	49
Summary of changes in working capital	18	22	15	17
Other titles	13	17	8	7
Subtotal	**550**	**560**	**558**	**556**
Analysis included within statement of changes in financial position.........	50	40	42	44
Total Companies	**600**	**600**	**600**	**600**

Analysis Included as Part of Statement

NORTHROP CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Factors increasing cash		
Net income	$ 66,160	$36,252
Add non-cash items		
Depreciation and amortization of property, plant, and equipment, including $4,819,000 for capital leases in 1977..........	22,757	15,026
Increase in deferred income taxes and credit	88,632	6,810
From operations..........	177,549	58,088
Increase in advances on contracts	42,364	5,545
Increase in trade accounts payable, other current liabilities, and accrued employees' compensation ...	24,018	31,929
Increase in other long-term obligations, including $7,173,000 for capital leases in 1977..............	18,237	7,876
Issuance of common stock	9,276	13,845
Decrease in accounts receivable	7,343	3,766
Carrying value of disposals of property, plant, and equipment	4,143	1,496
Decrease in other assets........	223	(27,553)
Additional long-term borrowings	169	2,286
	283,322	97,278
Factors decreasing cash		
Increase in short-term investments	181,643	55,866
Additions to property, plant, and equipment, including $10,561,000 for capital leases in 1977..............	34,087	25,930
Repayment of senior long-term debt	19,040	5,262
Cash dividends	15,959	8,707
Increase in inventories	15,939	56,579
Decrease in income taxes currently payable...............	9,376	4,567
Principal amount of subordinated debt converted and redeemed....................	7,983	10,407
Increase in refundable federal income taxes................	5,115	
Increase in prepaid expenses...	1,186	2,372
Decrease in progress payments received	812	(77,607)
Conversion, redemption, and retirement of preferred stock.		562
	291,140	92,645
Increase (decrease) in cash.........	(7,818)	4,633
Cash balance at beginning of year.	13,738	9,105
Cash balance at end of year........	$ 5,920	$13,738

DOYLE DANE BERNBACH INC. (DEC)

Statement of Consolidated Changes in Financial Position

	1976	1977
	(In Thousands of Dollars)	
Sources of Funds:		
Income from operations before extraordinary item	$ 5,640	$ 6,242
Items not requiring outlay of funds:		
Depreciation and amortization	1,148	1,169
Minority interest	56	(1)
Estimated taxes	896	—
Write-off of investment in capital stock of another company	66	—
Deferred taxes	141	(48)
Deferred compensation benefits	—	90
Compensation re:		
Employee anniversary award plan	—	8
Exercise of non-qualified stock options	—	2
Total from operations before extraordinary item	7,947	7,462
Extraordinary item	—	102
Total from operations	7,947	7,564
Disposal of fixed assets—net	111	105
Decrease in investment in an affiliated company	87	—
Sale of common stock	356	356
Increase in long-term debt	19	—
Increase in deferred income	—	125
Exercise of non-qualified stock options	—	2
Decrease in marketable securities—net	3,802	3
Decrease (increase) in other current assets	1,049	(1,137)
Increase in:		
Accounts payable	13,501	10,039
Notes payable to banks	196	2,044
Pension and profit sharing plan contributions	719	153
Other current liabilities	2,920	390
Dividends payable	—	566
Increase (decrease) in taxes withheld and accrued	(170)	276
	30,537	20,486
Uses of Funds:		
Cash dividends	2,101	2,180
Acquisition of fixed assets	5,041	1,341
Increase in excess of purchase price over net assets acquired	2,029	352
Investment in capital stock of a Japanese advertising agency	—	563
Increase (decrease) in receivables, deferred charges, etc.	(238)	105
Dividends paid to minority interest	68	18
Decrease in long-term debt	100	876
Purchase of treasury stock	—	3,154
Increase in:		
Accounts receivable—net	15,237	16,897
Expenditures billable to clients	559	1,422
(Increase) decrease in federal and foreign taxes on income	(830)	1,162
(Increase) decrease in current portion of long-term debt	(3)	17
	24,084	28,087
Increase (Decrease) in Cash and Temporary Cash Investments	$ 6,453	$(7,601)

Analysis Presented in a Tabulation at Bottom of Statement

ANDERSON, CLAYTON & CO. (JUN)

Statements of Changes in Consolidated Financial Position

	1977	1976
	($000)	
Source of Funds:		
Income before extraordinary credit	$38,811	$34,646
Add (deduct) items not requiring (providing) funds:		
Earnings of domestic insurance subsidiaries	(8,240)	(1,286)
Depreciation and amortization	7,481	7,429
Deferred taxes on income	(971)	293
Profit on disposition of property, plant and equipment	(4,045)	(4,309)
Funds derived from operations before extraordinary credit	33,036	36,773
Extraordinary credit	2,040	974
Extraordinary credit not providing funds	(2,040)	(974)
Funds derived from operations	33,036	36,773
Proceeds from sale of property, plant and equipment	6,308	7,896
Dividends from domestic insurance subsidiaries	2,901	2,800
Decrease in treasury stock	2,277	2,080
Other items—net	(330)	303
	$44,192	$49,852
Disposition of Funds:		
Dividends	$12,529	$ 8,432
New expenditures for property, plant and equipment	8,377	10,674
Additional investment in domestic insurance subsidiaries	—	12,000
Current retirement of long-term debt	4,468	4,162
Increase in securities of companies not controlled	2,740	90
Increase in noncurrent receivables	275	1,751
Increase in working capital	15,803	12,743
	$44,192	$49,852
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	$ 2,442	$(3,171)
Marketable securities	69,842	11,237
Notes and accounts receivable	20,825	7,354
Receivables from nonconsolidated subsidiaries	(6,659)	2,296
Inventories	11,172	(3,006)
	97,622	14,710
Increase (decrease) in current liabilities:		
Notes and acceptances payable	43,000	—
Accounts payable	32,892	6,334
Payables to nonconsolidated subsidiaries	5,011	—
Accrued liabilities	898	(5,123)
Long-term debt due within one year	18	756
	81,819	1,967
Increase in working capital	$15,803	$12,743

GRANGER ASSOCIATES (AUG)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Sources of working capital:		
Funds from operations:		
Income before extraordinary item	$1,070	$1,044
Add charges to (deduct credits from) income not affecting working capital:		
Depreciation and amortization	157	147
Gain on sale of assets	(3)	(671)
Deferred taxes on income	232	68
Company's contribution under employees' stock purchase plan	40	26
Accrued severance pay	28	29
Total provided by operations exclusive of extraordinary item	1,525	644
Extraordinary item	—	469
Working capital provided by operations	1,525	1,113
Tax benefit from stock option transactions	30	—
Proceeds from sale of assets	9	723
Reduction of long-term notes receivable	171	—
Additions to long-term loans	5,450	204
Additions to capitalized lease obligations	460	—
Proceeds from sale of common stock	207	58
Decrease in other assets	17	36
	7,871	2,135
Uses of working capital:		
Additions to long-term notes receivable	306	306
Purchases of equipment and improvements	746	252
Reduction in long-term loans	2,950	105
Purchases of treasury stock	17	27
Reduction in long-term lease obligations	156	—
	4,176	692
Increase in working capital	$3,694	$1,443
Increases (decreases) in working capital consisted of:		
Cash	$ (14)	$ (121)
Receivables	2,315	2,927
Inventories	1,067	928
Prepaid expenses	301	(29)
Notes payable	—	(1,075)
Current portion of long-term loans	200	(5)
Current portion of capitalized lease obligations	(91)	(20)
Accounts payable	244	(559)
Other current liabilities	(189)	(590)
Customer deposits	298	97
Taxes on income	(437)	(106)
Increase in working capital	$3,694	$1,443

MOUNT VERNON MILLS, INC. (DEC)

Statement of Consolidated Changes in Financial Position

	1977	1976
	($000)	
Working Capital Provided:		
Operations:		
Net income	$ 280	$ 536
Charges not requiring current outlay of working capital:		
Depreciation	2,892	2,797
Deferred income taxes—non-current	362	81
Total from operations	3,534	3,415
Issuance of long-term debt		4,000
Collections on non-current receivable	277	108
Disposition of property, plant and equipment:	78	208
Total	3,890	7,732
Working Capital Applied:		
Plant additions and replacements	1,706	3,783
Non-current receivables		181
Reduction of long-term debt	262	228
Cash dividends	874	1,012
Purchases of treasury stock	99	445
Total	2,942	5,651
Increase in Working Capital	$ 947	$2,080
Increase (Decrease) in Working Capital, by Components:		
Cash	$ (424)	$ 9
Marketable securities		(497)
Receivables	186	4,285
Inventories	1,993	933
Refundable income taxes	(330)	(172)
Future income tax benefits		(236)
Prepaid expenses	57	(70)
Notes payable—banks	(800)	(800)
Current maturities of long-term debt	(33)	(11)
Accounts payable and accrued expenses	159	(1,220)
Income taxes	138	(138)
Increase in Working Capital	$ 947	$2,080

SELIGMAN & LATZ, INC. (OCT)

Consolidated Statements of Changes in Financial Position

	1977	1976
	($000)	
Financial Resources Provided From:		
Net income	$4,680	$4,953
Add/(deduct)—items not currently requiring outlay of (or providing) working capital:		
Amortization of debt discount	90	90
Accrued retirement benefits	69	(47)
Depreciation and amortization of fixed assets	2,632	1,970
Deferred taxes	603	262
Other	43	30
Provided from operations	8,117	7,258
Proceeds from sale of fixed assets	211	73
Issuance of long-term debt	68	1,483
Proceeds from exercise of stock options	166	68
Proceeds from exercise of warrants	140	1,073
	8,702	9,955
Financial Resources Used For:		
Reduction of long-term debt	572	905
Additions to fixed assets	7,630	6,411
Payment of retirement benefits	152	161
Cash dividends	2,306	2,010
Costs incurred in connection with registration of warrants		188
Other—net	151	60
	10,811	9,735
(Decrease)/Increase in Working Capital	($2,109)	$ 220
Changes in Working Capital by element:		
Current Assets — increase/(decrease):		
Cash	$ 118	$1,347
Receivables	1,340	1,018
Refundable Federal income taxes	(1,285)	1,285
Merchandise inventories	2,760	2,061
Prepaid expenses and other assets	215	385
	3,148	6,096
Current Liabilities — increase/(decrease):		
Short-term notes payable—banks	3,000	7,000
Current portion of long-term debt	(407)	1
Accounts payable and sundry liabilities	2,530	(20)
Federal and foreign taxes on income	134	(1,105)
	5,257	5,876
(Decrease)/Increase in Working Capital	($2,109)	$ 220

Analysis Presented in a Tabulation Apart from Statement

CHAMPION INTERNATIONAL CORPORATION (DEC)

Consolidated Changes in Financial Position

	1977	1976
	($000)	
Source of Funds:		
Income from Continuing Operations	$161,555	$125,233
Items not requiring outlay of working capital:		
Depreciation and cost of timber harvested	110,852	102,825
Deferred income taxes	23,785	25,331
Amortization of deferred charges	5,771	6,227
Equity in net (income) loss of unconsolidated affiliates	(4,491)	114
Minority interest in income of subsidiaries	3,618	1,366
(Gain) Loss on translation of non-current assets and liabilities	(5,753)	2,274
Write-down of operating units to be disposed of	—	5,824
Working capital provided from continuing operations	295,337	269,194
Income (Loss) from Discontinued Operations	(22,940)	10,707
Items not requiring outlay of working capital:		
Deferred income taxes	(37,754)	1,485
Write-down of discontinued operations	71,445	—
All other—net, principally depreciation	10,709	10,897
Working capital provided from discontinued operations	21,460	23,089
Total working capital provided from operations	316,797	292,283
Proceeds from long-term debt	61,718	51,314
Issuance of capital shares on exercise of stock options and conversion of long-term debt	17,663	8,581
Decrease (Increase) in investments	24,396	(806)
Retirements and sales of property, plant and equipment	11,810	14,899
Sales of operations, net of long-term proceeds of $24,464 in 1977 and $7,428 in 1976	15,225	367
Proceeds from sale of common stock	—	90,230
Total funds provided	447,609	456,868
Application of Funds:		
Cash dividends declared	59,538	53,288
Expenditures for property, plant and equipment	204,527	140,860
Timber and timberlands expenditures	34,195	27,722
Reduction and reclassifications of long-term debt	92,154	94,105
Preferred stock called for redemption	10,588	—
Increase (Decrease) in funds held for construction	19,453	(667)
Reclassification of working capital of discontinued operations to be disposed of	50,212	—
Increase in other assets	2,586	22,428
Transactions of Hoerner Waldorf during period November 1, 1976 through December 31, 1976	1,814	—
All other—net	931	14,060
Total funds applied	475,998	351,796
Increase (Decrease) in Working Capital (Note 10)	$(28,389)	$105,072

Note 10: Components of Working Capital—Changes in the components of working capital were as follows:

(Years Ended December 31)	1977	1976
Increase (Decrease) in current assets:		
Cash	$ (8,539)	$ (4,457)
Certificates of deposit	(4,514)	76,461
Receivables	(57,387)	28,339
Inventories	(71,043)	69,186
Prepaid expenses	(1,968)	3,330
Total	(143,451)	172,859
Increase (Decrease) in current liabilities:		
Notes payable	(36,643)	(25,615)
Accounts payable and accrued liabilities	(43,612)	41,330
Income taxes	(23,527)	34,414
Current installments of long-term debt	(13,094)	17,658
	(116,876)	67,787
Transactions of Hoerner Waldorf during period November 1, 1976 through December 31, 1976	(1,814)	—
Increase (Decrease) in Working Capital	$ (28,389)	$105,072

Section 6: Auditors' Report

This section reviews the format and content of Auditors' Reports appearing in the annual reports of the 600 survey companies. Effective November 1972, *Statement on Auditing Standards No. 1,* issued by the Auditing Standards Executive Committee of the AICPA, codified and superseded *Statements on Auditing Procedures Nos. 33-54* previously issued by the Committee on Auditing Procedure. Subsequent to Statement No. 1, twenty-two Statements on Auditing Standards have been issued; some of which superseded sections of Statement No. 1. In 1978, the Auditing Standards Executive Committee issued *Codification of Statements on Auditing Standards* which is a codification of Statements on Auditing Standards Nos. 1-21.

TITLE OF AUDITORS' REPORT

Table 6-1 shows the descriptive titles used by the survey companies to identify the Auditors' Report.

ADDRESSEE OF THE AUDITORS' REPORT

Paragraph 8 of *Statement on Auditing Standards No. 2* states:

> The report may be addressed to the company whose financial statements are being examined or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to examine the financial statements of a company that is not his client; in such a case, the report customarily is addressed to the client and not to the directors or stockholders of the company whose financial statements are being examined.

Table 6-2 summarizes the addressee mentioned in the Auditors' Reports of the survey companies. The various forms of address used by auditors in presenting their opinions may be observed from the Auditors' Reports presented as examples throughout this section.

TABLE 6-1: TITLE OF AUDITORS' REPORT

	1977	1976	1975	1974
Independent accountants' report	127	113	103	106
Auditors' report	121	129	123	125
Accountants' report	115	127	159	158
Independent auditors' report	56	41	N/C	N/C
Certified public accountants' report	51	39	42	42
Independent certified public accountants' report	33	34	28	27
Auditors' opinion	31	28	10	11
Accountants' opinion	11	12	30	28
Independent accountants' opinion	5	5	15	15
Independent certified public accountants' opinion	5	6	9	9
Other titles	3	20	33	30
No title	42	46	48	49
Total Companies	**600**	**600**	**600**	**600**

N/C—Not Compiled.

TABLE 6-2: ADDRESSEE OF AUDITORS' REPORT

	1977	1976	1975	1974
The Directors (Board of Directors) and Shareholders	438	429	402	403
The Stockholders	79	80	82	83
The Directors	71	75	93	92
The Company	11	12	18	17
Other, or no addressee	1	4	5	5
Total Companies	**600**	**600**	**600**	**600**

AUDITORS' STANDARD REPORT

The auditors' standard report outlines in general terms the scope of the auditors' examination and states concisely the auditors' opinion as to whether the financial statements fairly present, in conformity with generally accepted accounting principles, the information included therein. Table 6-3, which summarizes the format of auditors' reports included in the 1977 annual reports of the survey companies, shows that occasionally a modified form of auditors' report is presented. A modified report differs from the standard report in that the opinion and scope are combined in a single paragraph with the opinion sentence appearing first.

Appropriate wording for an auditor's standard report on comparative financial statements, as stated in paragraph 3 of *Statement on Auditing Standards No. 15*, follows:

> We have examined the balance sheets of ABC Company as of (at) December 31, 19x2 and December 31, 19x1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of (at) December 31, 19x2, and 19x1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Paragraph 9 of *SAS No. 2* lists circumstances which require a departure from the auditors' standard report. Paragraph 9 states:

> The circumstances that result in a departure from the auditor's standard report are as follows:
>
> a. The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures he considers necessary in the circumstances.
>
> b. The auditor's opinion is based in part on the report of another auditor.
>
> c. The financial statements are affected by a departure from a generally accepted accounting principle.
>
> d. The financial statements are affected by a departure from an accounting principle promulgated by the body designated by the AICPA Council to establish such principles.
>
> e. Accounting principles have not been applied consistently.
>
> f. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report.
>
> g. The auditor wishes to emphasize a matter regarding the financial statements.

TABLE 6-3: FORMAT OF AUDITORS' REPORT

	1977	1976	1975	1974
Standard report	366	321	301	293
Variations to standard report	155	195	229	245
Modified report	79	84	70	62
Total Companies	**600**	**600**	**600**	**600**
Variations to Standard Report				
Sentence in scope paragraph referring to:				
Examination by other accountants	62	61	68	67
Prior year examination	8	28	67	71
Other	6	16	25	14
Middle paragraph between scope and opinion paragraphs referring to:				
Matter for which opinion qualified	66	97	99	118
Other	25	13	16	10
Sentence or paragraph following opinion paragraph	16	20	15	21
Total Variations	***183**	***235**	***290**	***301**

*Some Auditors' reports had more than one variation.

Examples of auditor's reports relating to items b, e, and f are presented in connection with Tables 6-4 and 6-5.

TABLE 6-4: REFERENCES TO OTHER AUDITORS

	1977	1976	1975	1974
Examination by Other Auditors Covers:				
Statements for branch or consolidated subsidiary	39	42	41	43
Statements of investee only	16	19	22	18
Statements for prior years only	12	6	7	8
Total Companies	**67**	**67**	**70**	**69**

REFERENCE TO OTHER AUDITORS

Section 543 of *Statement on Auditing Standards No. 1,* which offers "guidelines for reporting on financial statements" when the principal auditor refers to the work of other independent auditors, states in part:

> .07 When the principal auditor decides that he will make reference to the examination of the other auditor, his report should indicate clearly, in both the scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own examination and that covered by the examination of the other auditor. The report should disclose the magnitude of the portion of the financial statements examined by the other auditor. This may be done by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements examined by the other auditor. The other auditor may be named but only with his express permission and provided his report is presented together with that of the principal auditor.

Table 6-4 summarizes the scope of work done by other auditors as disclosed in the reports of the principal auditors. Examples of such disclosures follow.

Consolidated Subsidiaries

To The Board of Directors
The Black and Decker Manufacturing Company
Towson, Maryland

We have examined the consolidated statement of financial condition of The Black and Decker Manufacturing Company and subsidiaries as of September 25, 1977 and September 26, 1976 and the related consolidated statements of earnings, changes in stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, include such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries located outside the United States which statements reflect total assets and revenues constituting 29% and 36% in 1977 and 31% and 41% in 1976 respectively, of the related consolidated totals. These statements were examined by other independent accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other independent accountants.

In our opinion, based upon our examinations and the reports of the other independent accountants, the financial statements referred to above present fairly the consolidated financial position of The Black and Decker Manufacturing Company and subsidiaries at September 25, 1977 and September 26, 1976 and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

The Board of Directors and Stockholders,
Continental Oil Company

We have examined the accompanying consolidated balance sheet of Continental Oil Company and subsidiaries at December 31, 1977 and 1976 and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the years then ended. Our examinations were 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. We did not examine the financial statements of a consolidated subsidiary representing total assets and revenues of 11% and 4%, respectively, in 1977 and 10% and 3%, respectively, in 1976 in the related consolidated totals after intercompany eliminations. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for this subsidiary, is based solely upon the report of the other auditors.

In our opinion, based on our examination and the report of other auditors, the statements mentioned above present fairly the consolidated financial position of Continental Oil Company and subsidiaries at December 31, 1977 and 1976 and the consolidated results of their operations and the changes in their consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applies on a consistent basis during the period, after restatement for the change, with which we concur, in the method of accounting for capital leases described in Note 1.—*Report of Certified Public Accountants.*

Board of Directors
GATX Corporation
Chicago, Illinois

We have examined the consolidated balance sheets of GATX Corporation and subsidiaries as of December 31, 1977 and 1976, and the related statements of consolidated operations, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of American Steamship Company, a consolidated subsidiary which accounted for 10% of consolidated revenues and 7% of total assets in each year, nor of certain unconsolidated subsidiaries, principally General American Transportation International Finance Corporation and subsidiaries (known as the MTL Group of Companies). GATX Corporation's investment in and advances to these unconsolidated subsidiaries accounted for 4% and 5% of total assets, and its share of their net loss amounted to $24,918,000 and $2,180,000 in 1977 and 1976, respectively. These statements were examined by other independent auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon the reports of the other independent auditors.

In our opinion, based upon our examinations and the aforementioned reports of other independent auditors, the consolidated financial statements referred to above present fairly the consolidated financial position of GATX Corporation and subsidiaries at December 31 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

To the Board of Directors and Shareholders
of Lone Star Industries, Inc.:

We have examined the consolidated balance sheets of Lone Star Industries, Inc. and Consolidated Subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the foreign subsidiaries, which financial statements reflect total assets and revenues of 12% and 10%, respectively, for 1977 and 13% and 11%, respectively, for 1976 of the related consolidated totals. These financial statements were examined by other public accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for foreign subsidiaries, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other public accountants, the aforementioned financial statements present fairly the consolidated financial position of Lone Star Industries, Inc. and Consolidated Subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Accountants.*

Investees

To the Board of Directors and Shareholders of
Phelps Dodge Corporation

We have examined the accompanying statements of consolidated financial position of Phelps Dodge Corporation and its subsidiaries as of December 31, 1977 and 1976, and the related statements of consolidated income, of consolidated retained earnings and of changes in consolidated financial position for the years then ended. Our examinations were 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.

The financial statements of Consolidated Aluminum Corporation as well as certain foreign companies in which Phelps Dodge Corporation has investments were examined by other independent accountants, whose reports thereon were furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these companies, is based solely upon the reports of the other independent accountants. Phelps Dodge Corporation's equity in the net assets of these companies at December 31, 1977 and 1976 amounted to 5.2% and 4.4%, respectively, of Phelps Dodge Corporation's consolidated total assets; equity in net income amounted to $980,000 and $3,240,000 in 1977 and 1976, respectively.

As described in Note 2 to the Consolidated Financial Statements, Phelps Dodge Corporation adopted the equity method of accounting during 1977 for investments in certain unconsolidated foreign companies.

In our opinion, based upon our examinations and the reports of other independent accountants, the consolidated financial statements appearing on pages 19 to 27, inclusive, of this Annual Report present fairly the financial position of Phelps Dodge Corporation and its subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, referred to in the preceding paragraph.—*Report of Independent Accountants.*

To the Stockholders and Board of Directors of
The Sperry and Hutchinson Company

We have examined the consolidated balance sheets of The Sperry and Hutchinson Company and subsidiaries consolidated as of December 31, 1977 and January 1, 1977 and the related consolidated statements of earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of The State National Bank of Connecticut, an unconsolidated subsidiary. Amounts for this subsidiary, included in the consolidated financial statements, represent 5% and 6% of consolidated assets and 14% and 10% of consolidated earnings for 1977 and 1976, respectively. These statements were examined by other auditors whose unqualified report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for The State National Bank of Connecticut, is based solely upon such report.

In our opinion, based upon our examinations and the report of other auditors, the financial statements identified above present fairly the consolidated financial position of The Sperry and Hutchinson Company and subsidiaries consolidated at December 31, 1977 and January 1, 1977 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in consolidation policy as described in the summary of significant accounting policies.—*Report of Independent Certified Public Accountants.*

Prior Year Statements

The Board of Directors and Stockholders
General Signal Corporation:

We have examined the balance sheet of General Signal Corporation and consolidated subsidiaries as of December 31, 1977 and 1976, and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements as of and for the year ended December 31, 1976, have been restated to reflect the pooling of interests with Sola Basic Industries, Inc. described in note 2 of the Notes to Financial Statements. For 1976 we did not examine the consolidated financial statements of Sola Basic Industries, Inc. and consolidated subsidiaries, which statements reflect total assets and net sales each constituting 23 percent of the related 1976 consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion for 1976 expressed herein, insofar as it relates to the amounts included for Sola Basic Industries, Inc. and consolidated subsidiaries, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and in 1976 the report of other auditors, the aforementioned financial statements present fairly the financial position of General Signal Corporation and consolidated subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Certified Public Accountants.*

Shareowners and Board of Directors
Medusa Corporation, Cleveland, Ohio

We have examined the consolidated balance sheets of Medusa Corporation and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of earnings, shareowners' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of certain consolidated subsidiaries (representing less than 11% of consolidated assets and sales for 1976) were examined by and reported upon by other independent accountants, and, as to such subsidiaries, we have relied solely upon the reports of other independent accountants.

In our opinion, based upon our examinations and, for 1976, the aforementioned reports of other independent accountants, the financial statements referred to above present fairly the consolidated financial position of Medusa Corporation and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

To the Shareholders of United Technologies Corporation

We have examined the consolidated balance sheets of United Technologies Corporation and its subsidiaries at December 31, 1977 and 1976, and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In 1976 we did not examine the consolidated financial statements of Otis Elevator Company, a consolidated subsidiary, which statements reflect total assets and revenues constituting 28 percent and 22 percent, respectively, of the related consolidated totals. These statements were examined by other independent accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Otis Elevator Company in 1976, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other independent accountants, the accompanying consolidated financial statements present fairly the financial position of United Technologies Corporation and its subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

QUALIFIED OPINIONS

Statement on Auditing Standards No. 2 states in part:

29. A qualified opinion states that, "except for" or "subject to" the effects of the matter to which the qualification relates, the financial statements present fairly financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles consistently applied. Such an opinion is expressed when a lack of sufficient competent evidential matter or restrictions on the scope of the auditor's examination have led him to conclude that he cannot express an unqualified opinion, or when the auditor believes, on the basis of his examination, that

a. the financial statements contain a departure from generally accepted accounting principles, the effect of which is material,

b. there has been a material change between periods in accounting principles or in the method of their application, or

c. there are significant uncertainties affecting the financial statements,

and he has decided not to express an adverse opinion or to disclaim an opinion.

32. When the auditor intends to express a qualified opinion, he should disclose all the substantive reasons in a separate explanatory paragraph(s) of his report, and should include, in the opinion paragraph, the appropriate qualifying language and a reference to the explanatory paragraph(s). The requirement for an explanatory paragraph does not apply when the opinion paragraph has been modified because of a change in accounting principle (see paragraph 20).

33. The explanatory paragraph(s) should disclose the principal effects of the subject matter of the qualification on financial position, results of operations and changes in financial position, if reasonably determinable. If the effects are not reasonably determinable, the

report should so state. If such disclosures are made in a note to the financial statements, the explanatory paragraph(s) may be shortened by referring to it. The explanatory paragraph(s) also should make clear whether the matter is (a) one as to which there is a difference of opinion between the auditor and his client and for which the auditor believes an adjustment should be made or (b) one involving an uncertainty that cannot presently be resolved because the outcome depends on future events. If an auditor wishes to emphasize a matter or disclosure regarding the financial statements but does not intend to qualify his opinion (see paragraph 27), he should not refer to this information in the opinion paragraph of his report.

Table 6-5 shows the various reasons for which the auditors' opinions included in the survey company annual reports are qualified. In addition to the 47 auditors' opinions qualified as to uncertainties, there were 2 disclaimers of an opinion.

TABLE 6-5: QUALIFIED OPINIONS

	1977	1976	1975	1974
Uncertainties				
Litigation	29	38	40	32
Valuation or realization of assets	8	10	13	16
Going concern	6	8	N/C	N/C
Tax or renegotiation liability	5	7	8	11
Discontinued operations	5	6	8	9
Contract claims	4	2	4	4
Other	3	4	4	4
Total Uncertainties	**60**	**75**	**77**	**76**
Total Companies	**47**	**59**	**60**	**62**
Accounting Principle Changes				
Lease capitalization	40	—	—	—
Translation policy	9	35	72	N/C
LIFO adopted	6	15	50	192
Consolidation policy	4	5	3	8
Loss contingencies	3	8	12	—
Other	10	22	88	69
Total Changes	**72**	**85**	**225**	**269**
Total Companies	**65**	**73**	**183**	**239**

N/C—Not Compiled

UNCERTAINTIES

Statement on Auditing Standards No. 2 states in part:

22. In certain instances, the outcome of matters that may affect the financial statements or the disclosures required therein is not susceptible of reasonable estimation; such matters are to be regarded as uncertainties for purposes of this Statement. When such uncertainties exist, it cannot be determined whether the financial statements should be adjusted, or in what amount.

23. There may be uncertainties with respect to specific matters whose possible effects on the financial statements can be isolated and therefore readily understood. Examples are the recoverability of a deferred cost or the likelihood that a material amount will become collectible or payable because of income tax adjustments or litigation. Also, there may be multiple uncertainties or uncertainties whose possible effects are complex and whose impact on the financial statements consequently is difficult for a reader to assess. Examples of conditions indicating the existence of uncertainties of the latter kind are recurring operating losses, serious deficiencies in working capital, an inability to obtain financing sufficient for continued business operations, and failure to comply with the terms of loan agreements. In some situations an adverse outcome of matters in either category could imperil the continued existence of the entity. In any event, if the effects of the matters on the financial statements could be material, their nature and their possible effects should be disclosed in the statements.

25. In cases involving uncertainties, the auditor should be able to form an opinion whether the financial statement items affected have been stated in conformity with generally accepted accounting principles in all respects other than those contingent on the outcome of the uncertainties. If he is satisfied that they have been so stated, he may appropriately express an opinion qualified by reason of the uncertainties (see paragraphs 35 and 39). If the auditor believes that the financial statement items affected by uncertainties reflect the application of accounting principles that are not generally accepted, he also should modify his report to state his reservations regarding departures from generally accepted accounting principles.

Examples of auditors opinions qualified because of uncertainties follow.

Litigation

To the Stockholders and Board of Directors of
The Amalgamated Sugar Company:

We have examined the consolidated financial statements and schedules of The Amalgamated Sugar Company and subsidiary, all as listed in the index in Item 13 (a)(1) on page 16. Our examinations were 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.

As more fully described in note 7 to the financial statements, the Company recorded a provision in the amount of $6,000,000 during 1977 to settle certain antitrust lawsuits. The settlement is not yet final. In addition, the Company remains a defendant in other antitrust lawsuits. The ultimate amount of any liabilities that may be incurred in connection with this litigation, in addition to the amount already recorded, is not presently determinable.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matters discussed in the preceding paragraph, the aforementioned consolidated financial statements present fairly the consolidated financial position of The Amalgamated Sugar Company and subsidiary at December 26, 1977 and September 27, 1976 and the consolidated results of operations and changes in financial position for the 52 weeks ended December 26, 1977, the 13 weeks ended December 27, 1976 and the 52 weeks ended September 27, 1976, and the supporting schedules present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Certified Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

Note 7: Litigation—In 1974, indictments were returned by a Federal Grand Jury in San Francisco charging the Company and certain other sugar companies with antitrust violations in marketing refined sugar in a number of states. In 1975, the Company and certain other sugar companies entered pleas of nolo contendere to the indictments and the Company was fined $50,000. The same companies have been sued by the government in a companion civil suit. The Company has denied the allegations of the complaint, but is negotiating a possible consent decree.

The Company has also been named as a defendant in approximately 100 private antitrust suits, most of which were alleged to be Class Actions, filed in various Federal and State courts. In each of these cases, plaintiffs allege certain violations of antitrust laws by the Company and other sellers of refined sugar and seek injunctive relief, attorneys' fees, litigation expenses, and treble damages in an unspecified but substantial amount. The most important of these cases, from the Company's point of view, have been coordinated for discovery and pretrial proceedings in the U.S. District Court in San Francisco.

In October 1977, the Company announced an agreement to settle most of these antitrust cases for $6,000,000. The settlement is not yet final, remains subject to certain conditions, and must be finally approved by the Court prior to the disbursement of money to plaintiffs. If the settlement does not become final according to its terms, the Company would again become an active defendant in these cases and their outcome would again become uncertain. In the event of an unfavorable outcome, it is probable the loss would be substantial; however, the amount of the loss cannot be reasonably estimated at this time. The settlement has been included in the financial statements as an extraordinary item.

The settlement does not cover all the antitrust claims made against the Company. The Company has denied the allegations in each of these unsettled cases and is vigorously defending them. The outcome of this remaining litigation is uncertain. In the event of an unfavorable outcome, it is possible the loss could be substantial; however, the amount of any such loss cannot be reasonably estimated at this time. No provision for any such liability for unsettled cases has been made in the consolidated financial statements.

In addition, the Company is a defendant in other lawsuits arising in the ordinary course of business, none of which is considered material.

To American Bakeries Company:

We have examined the consolidated balance sheets of AMERICAN BAKERIES COMPANY (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1977, and January 1, 1977, and the consolidated statements of operations, paid-in capital, retained earnings and changes in financial position for the five fiscal years ended December 31, 1977. 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.

As discussed further in Note 6, one legal action has been filed by the Company and one against the Company claiming substantial damages as a result of alleged violations of antitrust laws during prior years. The ultimate outcome of these legal actions is uncertain at this time.

In our opinion, subject to the effect on the consolidated financial statements of any adjustments that may result from the legal actions mentioned in the preceding paragraph, the accompanying consolidated financial statements referred to above present fairly the financial position of American Bakeries Company and Subsidiaries as of December 31, 1977, and January 1, 1977, and the results of their operations and changes in financial position for the five fiscal years ended December 31, 1977, in conformity with generally accepted accounting principles consistently applied during the periods.— *Report of Independent Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Contingencies—The Company is the plaintiff in an antitrust action arising out of the purchase of ingredients for its baking business, and counterclaims are pending therein against the Company. Management believes that the Company will prevail, but is unable at this time to estimate the ultimate recovery.

The Company is one of a number of defendants in an antitrust case filed by competitors in the baking business. Management believes that the Company has meritorious defenses, is vigorously opposing this action and has filed counterclaims, but management is unable at this time to estimate the ultimate aggregate liability or recovery, if any, of the Company therefrom.

During 1977, the Company received final settlements related to an antitrust action arising out of the purchase of ingredients. This settlement plus settlements received in 1975 and 1976 less legal fees amounted to $991,000 which was included in the statement of operations in the second quarter of 1977.

In prior years, the Company was a defendant in a lawsuit which, if successful, would have resulted in the return of 178,200 common shares which the Company purchased from a mutual fund for $3.00 per share. This lawsuit was dismissed on October 19, 1977.

To the Shareholders and Board of
Directors of Gulf Oil Corporation

We have examined the accompanying consolidated statement of financial position of Gulf Oil Corporation and its subsidiaries at December 31, 1977 and 1976, and the related consolidated statements of income and retained earnings and of changes in financial position for the years then ended, and the supplemental schedules on pages 65 to 67. Our examinations were 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. We did not examine the consolidated financial statements of Gulf Oil Canada Limited and its subsidiaries, which constitute no more than 13 percent of total revenues in each of the two years ended December 31, 1977 and 17 percent of total assets at December 31, 1977 and December 31, 1976. These statements were examined by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely upon the report of the other independent accountants.

As discussed in Notes 6 and 16, the Company, a subsidiary of the Company, and a partnership in which the Company has a 50 percent interest are involved in a number of legal proceedings concerning uranium matters including the alleged effect of certain foreign marketing arrangements. While the Company believes that the resolution of these matters taken as a whole will not result in a material loss to the Company, there have been developments in 1977 with respect to these proceedings and we are unable to conclude on the possible effects, if any, on the Company's consolidated financial statements of the resolution of the uranium litigation. In our report dated February 23, 1977, our opinion on the 1976 consolidated financial statements was unqualified. However, in view of the current uncertainty, our present opinion on the 1976 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, based on our examinations and the report of other independent accountants mentioned above, and subject to the effects, if any, on the consolidated financial statements as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the accompanying consolidated financial statements and supplemental schedules referred to above present fairly the financial position of Gulf Oil Corporation and its subsidiaries at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants*

The Shareholders and Board of Directors,
St. Regis Paper Company:

We have examined the consolidated balance sheets of St. Regis Paper Company and consolidated subsidiaries as of December 31, 1977 and 1976, and the related statements of earnings, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Southland Paper Mills, Inc. and subsidiary for the year ended December 31, 1976, which statements reflect assets and revenues constituting 17 percent and 9 percent, respectively, of the related consolidated totals for that year. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Southland Paper Mills, Inc. and subsidiary for the year ended December 31, 1976, is based solely upon the report of such other auditors.

As indicated in the note to the financial statements captioned "Other Matters," St. Regis has been named as a defendant in a number of legal actions. St. Regis cannot now assess the extent of its exposure for damages in such actions. Accordingly, no provision for any liability has been made in the 1977 or 1976 financial statements.

In our opinion, based upon our examinations and the report of other auditors referred to above and subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matters discussed in the preceding paragraph, the consolidated financial statements present fairly the financial position of the companies at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Opinion.*

NOTES TO FINANCIAL STATEMENTS

Other Matters—In 1976, St. Regis Paper Company was indicted by Federal grand juries in Chicago and Philadelphia, which charged violations of the Sherman Act because of alleged participation in conspiracies to fix, raise, maintain, and stabilize the prices of folding cartons and the prices and terms and conditions of sale of consumer bags. The company pleaded *nolo contendere* in Chicago and was fined. The company was tried and acquitted in Philadelphia. In 1975, an investigation into the container industry was commenced in Texas. Indictments were voted, but the company was not named. In 1977, an investigation of antitrust violations in the sale of primary papers was commenced in Philadelphia. The company has been named as a defendant in many private treble damage actions charging violations of the antitrust laws in the same industries as those investigated. In addition, on August 1, 1977, an arbitration proceeding commenced with respect to monetary and other equitable relief sought by an owner against St. Regis under an exclusive timber cutting contract between St. Regis and the owner. The proceeding was concluded in December 1977. The company cannot now assess the extent of its exposure for damages in the above actions or the damages and cost of complying with any injunction which may be issued in the arbitration proceedings. Accordingly, no provision for any liability has been made in the 1977 and 1976 financial statements.

Valuation or Realization of Assets

To the Stockholders and Board of Directors
Coleco Industries, Inc.

We have examined the consolidated balance sheet of Coleco Industries, Inc. and its subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of earnings and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 3 to the consolidated financial statements, at December 31, 1977 the Company had inventories of electronic video game products and commitments for future purchases of components for these products, the ultimate realization of which is dependent on future operations and market conditions which cannot be evaluated currently with a sufficient degree of certainty.

In our opinion, subject to the effect on the 1977 consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Coleco Industries, Inc. and its subsidiaries as of December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Inventories—Inventories at December 31 are summarized as follows:

	1977	1976
	(Amounts in thousands)	
Raw materials	$11,023	$ 7,300
Work-in-process	8,869	4,542
Finished goods	18,980	7,861
	$38,872	$19,703

At December 31, 1977 and 1976, inventories of finished goods and work-in-process include a cost recovery factor of $5,588,000 and $867,000, respectively, for products estimated to be returned subsequent to year-end. At March 31, 1978, the cost recovery factor of actual returns relating to 1977 sales approximated $3,400,000, including approximately $3,000,000 attributable to electronic video game products.

Included in inventories at December 31, 1977 are amounts related to electronic video game products of $15,200,000, net of a $353,000 write down from cost to estimated market value. In addition, at December 31, 1977, the Company had commitments for future purchases of electronic video game product components of approximately $2,600,000. Sales of these products are seasonal in nature and are expected to occur primarily in the second half of the year. In management's opinion, the amount of ultimate realization of this inventory will be substantially equal to its carrying value and the commitments for future purchases are at prices which will not result in loss.

Mount Vernon Mills, Inc.:

We have examined the consolidated balance sheet of Mount Vernon Mills, Inc. and subsidiaries as of December 31, 1977 and 1976 and the related statements of consolidated income, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 5 to the Consolidated Financial Statements, the Company and a wholly-owned subsidiary have a total of approximately $350,000 in accounts receivable from customers who are in various stages of bankruptcy proceedings. Because the bankruptcy proceedings are in the early stages, the ultimate amount realizable from such receivables is not presently determinable.

In our opinion, subject to the effects on the 1977 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the companies at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

Going Concern

To the Board of Directors and
Stockholders of Lykes Corporation

We have examined the consolidated statements of financial position of Lykes Corporation and its subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

For the year ended December 31, 1977, Lykes incurred a net loss of $189,746,000 and had used practically all of its available lines of credit (Note H). In connection with an agreement in principle to merge into another company announced on November 4, 1977 (Note T), certain materials were filed with the U.S. Department of Justice on January 13, 1978 which stated that for a variety of reasons, including the state of the steel industry, a realistic current assessment of Youngstown Sheet and Tube Company's (a wholly-owned subsidiary) prospects of continuing for the long term its present posture in the steel industry, absent significant external relief, are dim. It was further stated that, absent such relief and without the sale of significant assets, Lykes (and Youngstown) would experience severe cash shortages sometime in 1978 and, without the merger, would in all probability have to sell substantial assets to produce sufficient cash for 1978 requirements. These circumstances raise the question as to whether or not Lykes will be able to continue in business as a going concern unless it is able to attain future profitable operations and/or obtain additional financing or capital. The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not purport to give effect to adjustments, if any, that may be necessary should Lykes be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those shown in the accompanying financial statements.

As described in Note B, Lykes closed down a significant part of its steelmaking operations during 1977 and recorded a provision for the estimated costs and expenses to be incurred in connection therewith. Management believes that the provision represents a reasonable estimation of the costs and expenses associated with the shutdown, however, the ultimate amount of costs and expenses to be incurred is not presently determinable.

In our opinion, subject to the effects of the 1977 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the two preceding paragraphs been known, the consolidated financial statements examined by us present fairly the financial position of Lykes Corporation and its subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

Board of Directors
Morse Electro Products Corp.

We have examined the consolidated balance sheet of Morse Electro Products Corp. and Subsidiaries as of March 31, 1977 and the related consolidated statements of operations and deficit, paid-in capital and changes in financial position for the year then ended and the supporting schedules. 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. We did not examine the financial statements of Morse Electro Products (Canada) Corp. Ltd. and Morse Electrophonic (Hong Kong) Ltd., wholly-owned consolidated subsidiaries, which statements reflect total assets and net sales constituting 14.7% and 8.1%, respectively, of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors appearing elsewhere herein. The consolidated financial statements of Morse Electro Products Corp. and Subsidiaries for the year ended March 31, 1976, were examined by other auditors whose report thereon appears elsewhere herein.

The aforementioned consolidated financial statements have been prepared on a going concern basis which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. The Company has incurred significant operating losses during the three fiscal years ended March 31, 1977 and as a result thereof, the historical consolidated balance sheet as of March 31, 1977 indicates substantial shareholders' and working capital deficiencies. As described more fully in Note 12 to the consolidated financial statements and as reflected in the pro-forma consolidated balance sheet, the Company has entered into a Plan of Recapitalization providing for the exchange of approximately $69 million of debt held and credit provided by its principal lenders and two major suppliers for preferred stock ($15.6 million), subordinated notes ($2.4 million), a term loan ($31 million) and loans and available credit under a revolving credit facility ($20 million). Management believes the Company should be able to make the payments required under the Plan in January, 1978 ($9,879,026) and to comply with other provisions of the Plan, through July 1978. However, the Company anticipates that it will require at least $1 million of additional credit facilities during the summer of 1977. Furthermore, if budgeted sales and expense levels are not attained, the Company may not be able to make the required payments or comply with the provisions of the Plan. Furthermore, the Company will not be able to make the payments due under the Plan commencing July 1978 and thereafter. The Company intends prior to that date to renegotiate the terms of the Plan but there can be no assurance that it will be able to obtain a further restructuring agreement, or if successful, on what terms. If the Company is unable to make payments due in January, 1978 or comply with the other provisions and covenants of the Plan prior to July, 1978, or is unable to obtain waivers or major modifications of the payment terms with the lenders in July 1978, the Company could be forced into a proceeding under the Bankruptcy Act. Accordingly, the Company's ability to continue as a going concern is dependent upon the attainment of future profitable operations, the ability to comply with the provisions of the aforementioned Plan of Recapitalization and the ability to obtain a further restructuring agreement on or before July 31, 1978.

As discussed in Note 5 to the consolidated financial statements, the Company's Federal income tax returns for years prior to that ended March 31, 1968 are not subject to examination by the Internal Revenue Service; however, net operating loss carryovers arising in such prior years and applied through the fiscal year ended March 31, 1969 are subject to review. The Company is presently being examined for all years through 1975. Although adjustments have not yet been formally proposed by the Service, questions have been raised informally concerning deductions taken and income reported for such years. The questions raised by the Service could result in a significant tax assessment. The Company intends to contest a substantial portion of such assessment if formally proposed by the Service. Accordingly, no provision for such assessment has been made in the accompanying financial statements.

In our opinion, based upon our examination and the reports of the other auditors, subject to the effects of such adjustments, if any, as may result from the matters discussed in the second and third paragraphs hereof, the aforementioned consolidated financial statements present fairly the consolidated financial position of Morse Electro Products Corp. and Subsidiaries as of March 31, 1977 and the results of their operations and changes in their financial position for the year then ended, and the supporting schedules present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Report of Independent Certified Public Accountants.*

Income Tax Liability

The Board of Directors and Shareholders
Food Fair, Inc.

We have examined the consolidated balance sheet of Food Fair, Inc. and Subsidiaries as at July 30, 1977 and July 31, 1976 and the related consolidated statements of income, shareholders' equity and changes in financial position for the fifty-two week periods 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.

As more fully discussed in Note 4, during 1977 the Company became involved in certain matters whose outcome is not susceptible to reasonable estimation. These matters consist of a legal action to recover workmen's compensation, automobile and general liability claims of $5,289,000 in excess of the deductible amount provided in the related insurance policies; the election of the Company to self-insure individual claims of $100,000 or less for the risks described above; and an action which alleges violations of certain sections of the Federal Securities Laws and common law principles.

As described in Note 4, the Federal income tax returns of the Company and certain subsidiaries have been examined by Internal Revenue Service for the fiscal years 1964 through 1968. The Service has proposed adjustments which would result in additional taxes of approximately $6,200,000 exclusive of interest. Since the material issues are being litigated, it is not presently possible to estimate the ultimate outcome of the tax controversies.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the second and third above paragraphs, with respect to the 1977 financial statements, and the third above paragraph, with respect to the 1977 and 1976 financial statements, been known, the financial statements described above present fairly the consolidated financial position of Food Fair, Inc. and Subsidiaries at July 30, 1977 and July 31, 1976 and the consolidated results of their operations and changes in their financial position for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis, other than for the changes, with which we concur, in the accounting methods described in Note 2 to the consolidated financial statements.—*Report of Independent Certified Public Accountants.*

Discontinued Operations

To the Board of Directors and Stockholders
of Bethlehem Steel Corporation:

We have examined the Consolidated Balance Sheets of Bethlehem Steel Corporation and its consolidated subsidiaries at December 31, 1977 and 1976 and the related Consolidated Statements of Income and Income Invested in the Business and Changes in Financial Position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note B, Bethlehem announced, in August 1977, a plan to close down certain steelmaking and related facilities and accordingly recorded a provision for the estimated costs and expenses to be incurred in connection therewith. Management believes, and we concur, that the provision represents a reasonable estimation of the costs and expenses associated with the closedown. However, the ultimate amount of costs and expenses to be incurred is not presently determinable.

In our opinion, subject to the effect, if any, on the 1977 financial statements of the ultimate determination of the actual costs and expenses associated with the decision referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of Bethlehem Steel Corporation and consolidated subsidiaries at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Accountants.*

Board of Directors and Stockholders
Scovill Manufacturing Company

We have examined the consolidated balance sheet of Scovill Manufacturing Company and consolidated subsidiaries as of December 25, 1977 and December 26, 1976, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the fiscal years then ended. Our examinations were 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.

As described in Note B, the Company made provision in 1975 for loss on disposition of its Metals and General Products division. While it is management's opinion, with which we concur, that the balance of the provision at December 25, 1977 is more than adequate to cover all future costs and expenses which may arise as a result of the disposition, the ultimate amount of such costs and expenses is dependent on factors which are not presently determinable.

In our opinion, subject to the effect on the financial statements of determining the ultimate amount of costs and expenses referred to in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Scovill Manufacturing Company and consolidated subsidiaries at December 25, 1977 and December 26, 1976, and the consolidated results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Auditors.*

CHANGE IN ACCOUNTING PRINCIPLE

Section 546 of *Statement on Auditing Standards No. 1* states in part:

> .01 When there is a change in accounting principle, the independent auditor should modify his opinion as to consistency, indicating the nature of the change. The auditor's concurrence with a change is implicit unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. Nevertheless, in order to be more informative the auditor should make his concurrence explicit (unless the change is the correction of an error) using the expression "with which we concur." The form of modification of the opinion depends on the method of accounting for the effect of the change, as explained in paragraphs .02 and .03.
>
> .02 If there has been a change in accounting principle which should be reported by restating the financial statements of prior years, the appropriate reference to consistency is that the statements are consistent after giving retroactive effect to the change. . . .
>
> The auditor's report need not refer to a change in accounting principle and restatement made in conformity with generally accepted accounting principles if the statements for the year of change are reported upon together with the financial statements for a year subsequent to the year of change.
>
> .03 If there has been a change in accounting principle which should be reported by means other than by restating the financial statements of prior years and the independent auditor is reporting only on the year during which the change was made, his report should state that accounting principles have been consistently applied except for the change. . . .
>
> If the independent auditor is reporting on two or more years when reporting on a subsequent year's financial statements, he should make appropriate reference to the change as long as the year of change is included in the years being reported upon. . . .
>
> If the year of change is the earliest year being reported upon, there is no inconsistency in the application of accounting principles during the period subsequent to the change, but the auditor should make reference to the change having been made in such year. . . .

Lease Capitalization

The Board of Directors and Stockholders,
The Continental Group, Inc.:

We have examined the consolidated balance sheets of The Continental Group, Inc. and subsidiaries as of December 31, 1977 and 1976 and the related statements of earnings, changes in financial position and changes in stockholders' equity for the years then ended. Our examinations were 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, such consolidated financial statements present fairly the financial position of the companies at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change in 1977, with which we concur, in the method of accounting for leases described in the leases note to the financial statements.—*Auditors' Opinion.*

NOTES TO FINANCIAL STATEMENTS

Leases (in part) In 1977, the Company changed the method of accounting for leases to comply with Statement No. 13 issued by the Financial Accounting Standards Board, The effect of this change on 1977 net earnings was immaterial. If the Company had accounted for all leases in existence before January 1, 1977 in accordance with Statement No. 13, net property, plant and equipment would have increased by approximately $72 million and $86 million and liabilities would have increased by approximately $70 million and $86 million at December 31, 1977 and 1976, respectively. The effect on 1977 net earnings for the year would have been immaterial.

Board of Directors
Duplex Products Inc.

We have examined the balance sheets of Duplex Products Inc. as of October 31, 1977 and 1976, and the related statements of earnings, stockholders' equity and changes in financial position for each of the years then ended. Our examinations were 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 financial statements referred to above present fairly the financial position of Duplex Products Inc. as of October 31, 1977 and 1976, and the results of its operations and changes in its financial position for each of the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leased property under capital leases as explained in Note B to the financial statements.—*Auditor's Report.*

NOTES TO FINANCIAL STATEMENTS

Note B: Accounting Changes—At August 1, 1977, the company changed its method of accounting for leased property under capital leases to be in conformity with Financial Accounting Standards Board Statement No. 13 which established a new standard of accounting for capital leases. As required by Statement No. 13, the company's financial statements have been restated for prior periods to give retroactive effect for the change in accounting as if Statement No. 13 had been in effect for prior years. The change in accounting involved the capitalization of equipment obligations at discounted amounts totaling $2,027,000; the amortization of the related lease assets over the lease periods which approximate the lives of the equipment; the reduction of the lease obligations by monthly lease payments net of charges to interest expense, and the recognition of the deferred income tax effects. In addition to the equipment leases which were capitalized at August 1, 1977, the company has capital leases for plant facilities which were capitalized in prior periods at the inception of the leases and consequently do not require retroactive treatment.

The effects of the change on retained earnings, earnings and per share amounts were as follows:

	Earnings as previously reported	Add back rent on equipment leases	Adjustments for restatement*	Earnings as restated	Increase (decrease) Per share amounts
	(amounts in thousands)				
Year ended October 31,					
1972	921	211	(236)	896	(.02)
1973	1,498	287	(309)	1,476	(.02)
1974	5,225	308	(331)	5,202	(.02)
1975	4,649	308	(323)	4,634	(.01)
1976	1,914	308	(315)	1,907	—

*Adjustments for restatement include amortization, interest and deferred income taxes.

To the Stockholders and Board of Directors of
Levi Strauss & Co.:

We have examined the consolidated balance sheets of Levi Strauss & Co. (a Delaware corporation) and subsidiaries as of November 27, 1977 and November 28, 1976, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years 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 accompanying financial statements present fairly the financial position of Levi Strauss & Co. and subsidiaries as of November 27, 1977 and November 28, 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for leases as required by Statement of Financial Accounting Standards No. 13 and explained in the Accounting Policies (Accounting for Leases) to the consolidated financial statements.—*Report of Independent Public Accountants.*

ACCOUNTING POLICIES

Accounting for Leases—Late in 1976 the Financial Accounting Standards Board issued a Statement of Financial Accounting Standards No. 13—Accounting for Leases which expanded the definition and, therefore, the number and types of leases that must be recorded in the accounts as assets and obligations (capital leases). Further, this statement requires retroactive application of these accounting procedures. As a result, the Company has restated its 1976 financial statements. The effect on years prior to 1976 is not material and, therefore, the cumulative effect of such restatement has been included in the 1976 Consolidated Statement of Income. The effect of the change was to decrease 1977 and 1976 net income by $115,000 and $132,000, respectively. There was no effect on net income per share in either year. Also the 1976 restated Consolidated Balance Sheet reflects an increase in Property, Plant and Equipment, net, of $13,609,000 and related Long-Term Debt of $12,604,000.

To the Board of Directors and
Shareowners of Walgreen Co.:

We have examined the consolidated balance sheet of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 1977, and 1976, and the related consolidated statements of earnings, retained earnings and changes in financial position for the years 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 consolidated financial statements referred to above present fairly the financial position of Walgreen Co. and Subsidiaries as of August 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for leases as required by Statement of Financial Accounting Standards No. 13 and explained in the accompanying Notes to Consolidated Financial Statements, were consistently applied during the periods.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (in part)—The Company generally operates in leased premises. Original non-cancelable lease terms typically range from ten to twenty years, and normally have options that permit renewals for additional periods. In addition to minimum fixed rentals, a number of leases provide for contingent rentals based upon sales. Certain of these leases arising subsequent to December 31, 1976, are considered to be capital leases as defined by the Financial Accounting Standards Board in Statement of Financial Accounting Standards No. 13 (S.F.A.S. No. 13) and have been capitalized. The charge to income for the amortization of capital leases in the amount of $59,744 is included in the depreciation expense reported for the fiscal year ended August 31, 1977. This change in the method of accounting for leases did not materially affect the results of operations for 1977.

Translation of Foreign Currency Accounts

The Board of Directors and Shareholders
Burlington Industries, Inc.:

We have examined the consolidated balance sheets of Burlington Industries, Inc. and subsidiary companies as of October 1, 1977 and October 2, 1976, and the related consolidated statements of earnings and retained earnings and changes in financial position for the 52 weeks ended October 1, 1977 and the 53 weeks ended October 2, 1976. 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 aforementioned consolidated financial statements present fairly the financial position of Burlington Industries, Inc. and subsidiary companies at October 1, 1977 and October 2, 1976, and the results of their operations and the changes in their financial position for the 52 weeks ended October 1, 1977 and the 53 weeks ended October 2, 1976, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of determining cost of certain inventory and after restatement for the change, with which we concur, in the method of accounting for foreign currency translation, both of which are described in Note A to the consolidated financial statements—*Report of Independent Certified Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Summary of Significant Accounting Policies

Foreign currency translation—Beginning in fiscal 1977 foreign currency transactions and financial statements are recorded in conformity with Financial Accounting Standards Board Statement No. 8, which requires that cash and amounts owed by or to an enterprise that are denominated in foreign currencies be translated at exchange rates in effect on the balance sheet date. Inventories, fixed assets and other nonmonetary assets and liabilities are translated at exchange rates in effect on the dates the related assets were acquired or the liabilities incurred. Income and expense accounts are translated at the average rate of exchange in effect during the year, except that depreciation and amortization are translated at historical rates. Realized and unrealized exchange gains and losses are included in the determination of current earnings. In prior years, the Company's policy was to defer unrealized gains or losses from translation of foreign currency amounts included in financial statements. The excess of deferred losses over gains was being amortized by an annual charge to earnings of $1,000,000. Realized foreign exchange gains and losses were recognized in earnings.

Implementation of the FASB Statement No. 8 during 1977 decreased net earnings by $4,944,000 (equal to $.17 per share). Prior year financial statements have been restated to reflect this accounting change which decreased previously reported net earnings for 1976 by $410,000 (equal to $.01 per share) and decreased retained earnings at September 27, 1975 by $16,032,000 and at October 2, 1976 by $16,442,000.

Net realized and unrealized exchange losses totalled $4,203,000 in 1977 and $2,435,000 in 1976.

To the Shareholders and
Board of Directors of
J. Ray McDermott & Co., Inc.

We have examined the consolidated balance sheet of J. Ray McDermott & Co., Inc. and subsidiaries as of March 31, 1977 and 1976, and the related statements of consolidated income, retained earnings, capital in excess of par value and changes in financial position for the years 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 accompanying consolidated financial statements referred to above present fairly the financial position of J. Ray McDermott & Co., Inc. and subsidiaries at March 31, 1977 and 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, in accounting for contingencies and accounting for the translation of foreign currency transactions as described in Note P of notes to the consolidated financial statements.—*Auditor's Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note P—Effect of Accounting Pronouncements on Financial Statements: Effective for the current fiscal year the Company has adopted Statement of Financial Accounting Standards No. 5 (FASB No. 5 Accounting for Contingencies), Statement of Financial Accounting Standards No. 11 (FASB No. 11 Accounting for Contingencies—Transition Method) and Statement of Financial Accounting Standards No. 8 (FASB No. 8 Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements).

The effect of increase in net income before extraordinary items and on net income (including earnings per share) for the fiscal year ended March 31, 1976 which has been restated and on the current fiscal year is as follows:

	Fiscal Year Ended March 31, 1977	1976
Effect of FASB No. 5 and FASB No. 11	$(625,454)	$ 199,042
Effect of FASB No. 8	(274,081)	2,192,848
	$(899,535)	$2,391,890
Net income per share:		
Primary earnings and fully diluted earnings:		
Effect of FASB No. 5 and FASB No. 11	$ (.04)	$ .01
Effect of FASB No. 8	(.02)	.14
	$ (.06)	$ .15

LIFO Adopted

To the Stockholders and Board of Directors of
Keystone Consolidated Industries, Inc.

We have examined the consolidated balance sheets of Keystone Consolidated Industries, Inc. as of June 30, 1977 and 1976, and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Keystone Consolidated Industries, Inc. at June 30, 1977 and 1976, and the consolidated results of its operations and consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of valuing inventories as discussed in Note C to the consolidated financial statements.—*Auditor's Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C: Change in Accounting—Inventories—In 1977 the Company adopted the last-in, first-out (LIFO) method of valuing domestic inventories from principally the average cost method used in prior years. Management believes the LIFO method minimizes inflation-induced inventory profits and achieves a better match of current costs with current revenues, and conforms to what is generally industry practice.

There is no cumulative effect on prior years because the June 30, 1976 inventory value is the beginning inventory value under the LIFO method. The change to LIFO had the effect of increasing the net loss for 1977 by $981,000 ($.52 per share). Inventories would have been $1,962,000 higher at June 30, 1977 if the average cost method had been used for domestic inventory valuation.

Consolidation Policy

To the Shareowners and Board of Directors
The Kroger Co.

We have examined the consolidated balance sheets of The Kroger Co. and Consolidated Subsidiary Companies as of December 31, 1977 and January 1, 1977, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the fiscal years then ended. Our examinations were 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. For fiscal 1976 we did not examine the financial statements of Top Value Enterprises, Inc., a wholly-owned subsidiary, which statements reflect total assets constituting 9.2% of the related 1976 consolidated total. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion for fiscal 1976 expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other accountants.

In our opinion, based upon our examinations and the report of other accountants in fiscal 1976, the financial statements referred to above present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 31, 1977 and January 1, 1977, and the consolidated results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the consolidation policy as described in Notes to Consolidated Financial Statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)—The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied after restatement for the change in the consolidation policy.

Principles of Consolidation—The consolidated financial statements include the Company and all of its subsidiaries. Certain partially-owned affiliated companies are included in the financial statements on the equity basis.

In 1977, the Company adopted the policy of including Top Value Enterprises, Inc., a subsidiary company, on a consolidated basis. This subsidiary had previously been reported on the equity basis. The change in consolidation policy had no effect on 1977 or previously reported net earnings, although certain individual financial statement categories were restated for 1976 to give retroactive effect to this policy.

Depreciation Method

To the Stockholders and
Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statement of consolidated financial position of Geo. A. Hormel & Company and subsidiaries as of October 29, 1977 and October 30, 1976, and the related statements of consolidated earnings, changes in stockholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Geo. A. Hormel & Company and subsidiaries at October 29, 1977 and October 30, 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of computing depreciation of newly-acquired assets as described in Note B to the financial statements—*Report of Independent Auditors.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B—Change in Accounting Method: Through fiscal 1976, the Company provided for depreciation of buildings by the straight-line method and for depreciation of equipment by an accelerated method approximating the double-declining balance method. Effective October 31, 1976, the Company changed its method of depreciating newly-acquired equipment on a prospective basis to the straight line method in order to conform to prevailing industry practice. The effect of this change was to increase earnings before income taxes by $1,400,000, and net earnings by $700,000 ($.15 per share) in fiscal 1977.

Prior Year Change

To the Stockholders and Board of Directors
Stone Container Corporation

We have examined the consolidated balance sheets of Stone Container Corporation and subsidiaries as at December 31, 1977 and 1976, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Stone Container Corporation and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods subsequent to the changes, with which we concur, made as of January 1, 1976 by a subsidiary in its methods of accounting for investment tax credits and interest and commitment fees on funds borrowed during construction.—*Accountants' report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Changes—In 1976, SCI changed its method of accounting for investment tax credits from the deferral to the flow-through method and changed its method of accounting for interest and commitment fees on funds borrowed during construction from capitalizing to expensing such costs as incurred. These changes were made to conform SCI's methods to those followed by the Company and its other subsidiaries. The cumulative effect (on years prior to 1976) of these accounting changes is comprised of the following:

(dollars in thousands except per share)	Amount	Per share
Investment tax credits	$2,224	$.44
Capitalized interest and commitment fees, net of deferred income taxes of $1,271	(1,220)	(.24)
	1,004	.20
Amount applicable to minority interest	(70)	(.01)
Cumulative effect of accounting changes	$ 934	$.19

The effect of the changes on 1976 income before cumulative effect of accounting changes was not significant.

SPECIAL REPORTS

Statement on Auditing Standards No. 14 discusses auditor's reports covering financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. An example of an auditor's report on liquidation basis financial statements follows.

To the Stockholders and Board of Directors of
Apco Oil Corporation:

We have examined the consolidated statement of net assets in liquidation (on a liquidation basis) of Apco Oil Corporation (a Delaware corporation) and subsidiaries as of December 31, 1977, and the related consolidated statement of changes in net assets in liquidation for the six months 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, including an examination of the summary of consolidated results of operations and changes in stockholders' equity (on an historical cost basis) for the six-month period ending June 30, 1977, included in Note L to the accompanying statements.

As indicated in Note A to the accompanying statements, on October 27, 1977, the Company's stockholders adopted a plan of complete liquidation and also approved three agreements for the sale by the Company of substantially all of its major assets. As a result, effective July 1, 1977, the Company commenced reporting its activities by stating assets at estimated realizable values and adjusting liabilities to reflect estimated remaining obligations in consideration of the adoption of the plan of liquidation. The accompanying consolidated statement of net assets in liquidation as of December 31, 1977, and the related consolidated statement of changes in net assets for the six months then ended have been prepared utilizing such accounting concepts. The statements do not purport to present, and in our opinion do not present, the consolidated financial position and results of operations of APCO Oil Corporation and subsidiaries as of December 31, 1977, and for the six months then ended in accordance with generally accepted accounting principles on an historical cost basis.

As discussed in Note C to the accompanying statements, the net assets in liquidation exclude certain assets for which the Company is unable to estimate realizable values. Furthermore, as stated in Note G a contingency reserve of $19,100,000 has been provided as an estimate of potential future obligations and liabilities of the Company. The amounts, if any, ultimately available to the stockholders resulting from the sale of the excluded assets and after settlement of the liabilities and obligations which the contingency reserve is intended to satisfy are not presently determinable.

Note B to the accompanying statements includes a discussion of several agreements relating to the sale of the more significant assets of the Company. Two of the agreements discussed therein were contingent upon the receipt by the Company of satisfactory orders from the Department of Energy. Orders were received in February 1978, which were generally satisfactory with respect to one of the agreements.

However, the Department of Energy order with regard to the agreement involving the Company and Oklahoma Refining Corporation, did not grant certain requested relief. A notice of objection has been filed with the Department of Energy which essentially requests a reconsideration of the original order. Apco is presently unable to predict the outcome of this matter. At December 31, 1977, consolidated net assets in liquidation (net of taxes) included approximately $25,190,000 (of which $11,300,000 is for inventory) applicable to the transaction with Oklahoma Refining Corporation.

In our opinion, subject to the effect of the matters discussed in the preceding two paragraphs, the accompanying consolidated statements present fairly the consolidated net assets of APCO Oil Corporation and subsidiaries as of December 31, 1977, and their liquidating transactions for the six months then ended, on a liquidating basis as described in Note A to the accompanying statements. Also, in our opinion the summary of consolidated results of operations and changes in stockholders' equity (on an historical cost basis) contained in Note L fairly summarize the consolidated results of operations of Apco Oil Corporation and subsidiaries for the six months ended June 30, 1977, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.—*Auditors' Report.*

NOTES TO LIQUIDATION FINANCIAL STATEMENTS

Note A: Accounting Policies and Basis of Presentation

Plan of Liquidation

On October 27, 1977, the holders of a majority of the outstanding shares of common stock of Apco Oil Corporation (the "Company") adopted a Plan of Complete Liquidation and Dissolution (the "Plan") of the Company and thereby also approved three agreements for the sale by the Company of substantially all of its major assets (see note B). Pursuant to the Plan, the Company will attempt to sell all the assets of the Company and the proceeds of the sales, together with those assets which cannot be sold, will be distributed to or for the benefit of the stockholders in cancellation and redemption of the outstanding Common Stock of the Company, after payment of, or provision for the payment of, accrued and contingent claims and liabilities.

The Plan contemplates that non-operating assets which prove both unmarketable at a price acceptable to management within a twelve-month period following the adoption of the Plan, and not distributable in kind to stockholders, will be distributed to a liquidating trust along with all corporate books and records, and funds and assets retained to meet unascertained and contingent liabilities and liquidating expenses (see note G). The liquidating trustee will undertake to dispose of all assets distributed to the liquidating trust as efficiently as possible. The liquidating trustee will pay and settle the obligations of the Company, including its liability as transferee of Apco, pay the expenses of the liquidating trustee, pay liquidating distributions and uncollected dividends to stockholders who do not surrender their stock within the twelve-month period, and attempt to convert unsold assets to cash for distribution to stockholders of any amounts in the liquidating trust that are not reasonably required to be retained to meet unascertained and contingent liabilities and expenses.

Basis of Presentation

The accompanying consolidated financial statements as of December 31, 1977 and for the six months then ended, reflect the transactions of the Company utilizing liquidation accounting concepts. Under this method of accounting, assets are recorded at estimated realizable values and provisions are made for obligations of the Company. Liquidation accounting methods were adopted as of July 1, 1977; prior to that date Apco reported its consolidated financial position and results of operations using accounting principles applicable to an on-going enterprise. Consolidated operating results and changes in stockholders' equity for the six months ended June 30, 1977 are summarized in note L to the accompanying statements.

Certain assets held for sale which are not at this time covered by sales agreements have been excluded from the statement of net assets in liquidation and will continue to be excluded until sales agreements are negotiated or realizable values can reasonably be determined (see note C). The investments in marketable securities are recorded at quoted market value as of the date of these statements. Liabilities, including trade payables, notes payable, retirement and other employee benefits, income taxes, etc. have been recorded to the extent they are known or may be reasonably estimated. Additionally, an amount has been reserved for unascertained claims and contingent liabilities (see note G).

REPORTS ON COMPARATIVE FINANCIAL STATEMENTS

Statement on Auditing Standards No. 15 "provides guidance to an auditor reporting on financial statements of one or more prior periods that are presented on a comparative basis with financial statements of the current period." Examples illustrating various aspects of reporting on one or more prior periods follow.

Qualification As To Prior Period Statements Removed

To the Shareholders and
Board of Directors of
The Ansul Company

We have examined the consolidated balance sheets of The Ansul Company and its subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of operations, of shareholders' equity and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 9, 1977, our opinion on the 1976 financial statements was qualified as being subject to the effects on the 1976 financial statements of such adjustments, if any, as might have been required had the Company's Belgian subsidiary's negotiations to refinance its debt arrangements been unsuccessful. As explained in Note 5, the debt arrangements were renegotiated in August, 1977 and, accordingly, our present opinion on the 1976 financial statements, as presented herein, is no longer qualified with respect to this matter.

In our opinion, the financial statements examined by us present fairly the financial position of The Ansul Company and its subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.—*Report of Independent Accountants.*

Armco Steel Corporation,
Its Shareholders and Directors:

We have examined the statements of consolidated financial position of Armco Steel Corporation and consolidated subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 11, 1977, our opinion on the 1976 financial statements was qualified as being subject to the effects on the financial statements of such adjustments as might have been required had the outcome of the litigation regarding Reserve Mining Company ("Reserve") and the resolution of certain income tax matters been known. As more fully discussed in Notes 10 and 11 the litigation was resolved in favor of Reserve and management is now of the opinion that settlement of the income tax matters will have no material effect on Armco's financial position or results of operations. Accordingly, our present opinion on the 1976 financial statements is different from that expressed in our previous report.

In our opinion, the above-mentioned financial statements present fairly the financial position of Armco Steel Corporation and consolidated subsidiaries at December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change with which we concur, made as of January 1, 1976, in the method of computing depreciation on steelmaking facilities as described in Note 1 to the financial statements.—*Accountants' Opinion.*

Stockholders and Board of Directors
National Gypsum Company

We have examined the consolidated balance sheets of National Gypsum Company and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our previous opinion dated February 14, 1977, on the 1976 consolidated financial statements was qualified subject to the effects, if any, of the ultimate resolution of the anti-trust action more fully described in the Litigation footnote to the financial statements. Although not concluded, the potential effect of this matter is not considered material to the financial position of the Company. Accordingly, we have removed the qualification from our opinion on the 1976 financial statements.

In our opinion, the financial statement referred to above present fairly the consolidated financial position of National Gypsum Company and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Change In Auditors

Board of Directors and Stockholders
ATI, Inc.

We have examined the consolidated balance sheet of ATI, Inc. and subsidiaries as of September 24, 1977 and the related statements of operations, stockholders' equity and changes in financial position 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 financial statements referred to above present fairly the financial position of ATI, Inc. at September 24, 1977, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles which except for the change, with which we concur, in the amortization of the excess of cost over equity in net assets acquired as discussed in Note 1 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year. The financial statements for the prior year were examined by other certified public accountants.

December 22, 1977

The Board of Directors
ATI, Inc.

We have examined the balance sheet of ATI, Inc. and subsidiaries as of September 25, 1976 and the related statements of operations, stockholders' equity and changes in financial position 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 accompanying financial statements present fairly the financial position of ATI, Inc. and subsidiaries at September 25, 1976 and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 8, 1976

(except for Note 3, for which the date is December 23, 1976)

To the Board of Directors and
Stockholders of Genesco Inc.

We have examined the consolidated balance sheet of Genesco Inc. and its subsidiaries as of July 31, 1977, and the related consolidated statements of earnings, of stockholders' equity, of additional paid-in capital, of retained earnings (deficit) and of changes in financial position for the year. 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. The consolidated financial statements of Genesco Inc. for the year ended July 31, 1976 were examined by other auditors whose report dated August 23, 1976 (August 31, 1977 as to the effect of the reclassifications described in the summary of accounting policies) expressed an unqualified opinion on those statements.

The accounting policy for costs related to retail store closings was changed in 1977, as described in the summary of accounting policies and accompanying note to financial statements on operations to be divested and retail store closings.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Genesco Inc. and its consolidated subsidiaries at July 31, 1977, and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles which, except for the change, with which we concur, referred to in the preceding paragraph have been applied on a basis consistent with that of the preceding year.—*Independent Accountants' Report.*

To the Stockholders and Board of Directors of
Union Camp Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of changes in financial position present fairly the financial position of Union Camp Corporation and its consolidated subsidiaries at December 31, 1977, and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

The consolidated financial statements of Union Camp Corporation and its consolidated subsidiaries for the year 1976 were examined by other independent accountants, whose report dated February 14, 1977 expressed an unqualified opinion on those statements.—*Report of Independent Accountants.*

Opinion Expressed On More Than One Prior Period

To the Board of Directors and Stockholders of ASARCO Incorporated

We have examined the consolidated balance sheets of ASARCO Incorporated and Consolidated Subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of earnings, additional capital, retained earnings and changes in financial position for each of the five years in the period ended December 31, 1977. Our examinations were 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 consolidated financial statements referred to above present fairly the financial position of ASARCO Incorporated and Consolidated Subsidiaries at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for each of the five years in the period then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Auditors' Report.*

To the Board of Directors and Shareholders of
Colt Industries Inc:

We have examined the consolidated balance sheet of Colt Industries Inc. (a Pennsylvania corporation) and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for the five years ended December 31, 1977. 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 accompanying financial statements present fairly the financial position of Colt Industries Inc. and subsidiaries as of December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the five years ended December 31, 1977, in conformity with generally accepted accounting principles consistently applied during the periods.—*Auditors' Report.*

OPINIONS EXPRESSED ON SUPPLEMENTARY STATEMENTS OR SCHEDULES

Table 6-6 shows that occasionally the annual reports of the survey companies present either an auditors' report which expresses an opinion on both the basic financial statements of a company and supplementary statements or schedules, or an auditor's report which expresses an opinion on the basic financial statements and an auditors' report which expresses an opinion on supplementary statements or schedules. Examples of auditors' reports expressing opinions on statements and schedules other than basic financial statements follow.

TABLE 6-6: OPINION EXPRESSED ON SUPPLEMENTARY STATEMENTS OR SCHEDULES

	Number of Companies			
	1977	1976	1975	1974
Financial statements of subsidiaries	19	30	34	31
Financial statements other than those of subsidiaries (pension trust fund, price level)......................	4	4	4	4
Historical summaries or five year summaries of operations	11	11	11	8
Other—financial highlights, pro forma data, etc. ...	6	10	5	8

Financial Statements of Subsidiaries

The Board of Directors
Anderson, Clayton & Co.:

We have examined the consolidated balance sheets of Anderson, Clayton & Co. and Consolidated Subsidiaries and the combined balance sheets of the Nonconsolidated International Subsidiaries of Anderson, Clayton & Co. as of June 30, 1977 and June 30, 1976 and their related statements of income, retained earnings and changes in financial position for the years 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 aforementioned financial statements present fairly the respective financial positions of Anderson, Clayton & Co. and Consolidated Subsidiaries and of the combined Nonconsolidated International Subsidiaries of Anderson, Clayton & Co. at June 30, 1977 and June 30, 1976 and the results of their operations and the changes in their financial positions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement, for the change, with which we concur, in the method of accounting for foreign currency translations in the combined financial statements of the nonconsolidated subsidiaries as described in Note 1 to the combined financial statements.—*Accountants' Report.*

Board of Directors and Shareholders
of Evans Products Company:

We have examined the balance sheets of Evans Products Company and Consolidated Subsidiaries and the combined balance sheets of the Company's Finance and Leasing Subsidiaries as of December 31, 1977 and 1976, and the related statements of earnings, shareholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Evans Products Company and Consolidated Subsidiaries and the combined financial position of the Company's Finance and Leasing Subsidiaries at December 31, 1977 and 1976, and the respective results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the accounting for leases as described in the Notes to Financial Statements.—*Accountants' Report.*

Board of Directors and Shareholders
Fruehauf Corporation
Detroit, Michigan

We have examined the accompanying consolidated balance sheets of Fruehauf Corporation and consolidated subsidiaries as of December 31, 1977, and December 31, 1976, and the related statements of net earnings, earnings retained for use in the business, additional paid-in capital, and changes in financial position for the years then ended. We have also examined the accompanying consolidated balance sheets of Fruehauf Finance Company and consolidated subsidiaries as of December 31, 1977, and December 31, 1976, and the related statements of net earnings and earnings retained for use in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Freuhauf Corporation and consolidated subsidiaries and the financial position of Freuhauf Finance Company and consolidated subsidiaries at December 31, 1977, and December 31, 1976, and the respective results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Report.*

To the Board of Directors and
Shareholders of R. H. Macy & Co., Inc.
New York, NY 10001

We have examined the consolidated statements of financial condition of R. H. Macy & Co., Inc. and consolidated subsidiaries as of July 30, 1977 and July 31, 1976, and the related statements of earnings, retained earnings, additional paid-in capital and changes in financial position for the years then ended, and the consolidated statements of financial condition of Macy Credit Corp. and subsidiary as of July 30, 1977 and July 31, 1976, and the related statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of R. H. Macy & Co., Inc. and consolidated subsidiaries and Macy Credit Corp. and subsidiary as of July 30, 1977 and July 31, 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Independent Auditors' Report.*

To The Board of Directors of
Sears, Roebuck and Co.:

We have examined the statements of financial position of Allstate Insurance Company and consolidated subsidiaries as of December 31, 1977 and 1976, and the related statements of income, capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Allstate Insurance Company and consolidated subsidiaries at December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Certified Public Accountants.*

Historical Summaries or Five Year Summaries of Operations

To the Shareholders and
Board of Directors
Aluminum Company of America:

We have examined the consolidated balance sheets of Aluminum Company of America and consolidated subsidiaries as of December 31, 1977 and 1976 and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the years then ended. Our examinations were 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 aforementioned financial statements present fairly the consolidated financial position of Aluminum Company of America and consolidated subsidiaries at December 31, 1977 and 1976 and the consolidated results of their operations and changes in their consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In addition, we have read the financial information included in the Financial highlights on the inside front cover and in the Historical summary under the captions, "Earnings," "Financial position" and "Share data" on pages 28 and 29 of this annual report, have compared it to data taken from the audited financial statements, subjected it to audit procedures, and verified its mathematical accuracy. In our opinion, such data is fairly stated in relation to the audited financial statements taken as a whole—*Independent auditors' report.*

To the Board of Directors and Shareholders
of Giant Food Inc.

We have examined the consolidated balance sheet of Giant Food Inc. and subsidiaries as of February 26, 1977 and February 28, 1976, and the related consolidated statements of income, retained earnings and changes in financial position for the fifty-two and fifty-three week periods, respectively, then ended. Our examinations were 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 financial statements referred to above present fairly the consolidated financial position of Giant Food Inc. and subsidiaries as of February 26, 1977 and February 28, 1976, and the consolidated results of their operations and changes in their financial position for the fifty-two and fifty-three week periods, respectively, then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the five-year summary of consolidated operations presents fairly the information included therein—*Accountants' report.*

To the Shareholders and the Board of Directors of
Hercules Incorporated
Wilmington, Delaware

We have examined the consolidated balance sheet of Hercules Incorporated and subsidiary companies as of December 31, 1977 and 1976, and the related consolidated statements of income, stockholders' equity and changes in financial position for the two years then ended. Our examinations were 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 aforementioned consolidated financial statements (pages 3-A to 7-A and 10-A to 15-A) present fairly the consolidated financial position of Hercules Incorporated and subsidiary companies at December 31, 1977 and 1976, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the presentation of the statement of changes in financial position as described in a footnote to that statement.

In addition, we have read the operating and financial review information in the ten-year digest on pages 8-A and 9-A, have compared it with data taken from audited consolidated financial statements, subjected it to audit procedures, and verified its mathematical accuracy. In our opinion, such information is fairly stated in relation to the audited consolidated financial statements taken as a whole for the respective years.—*Auditors' Report.*

Financial Statements of Pension Fund

Board of Directors
Republic Steel Corporation
Cleveland, Ohio

We have examined the statement of assets of the Trust Fund under the 1950 and 1970 Pension Plans of Republic Steel Corporation as of December 31, 1977 and 1976, and the related statement of changes in fund balance for the years then ended. Our examinations were 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 financial statements referred to above present fairly the financial position of the Trust Fund at December 31, 1977 and 1976, and the changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Appendix of 600 Companies

List of 600 Companies on Which Tabulations are Based

(In this edition, companies have been assigned the same number as in the Thirty-first (1977) edition. Twenty-nine companies included in the 1977 edition have been eliminated and their numbers left unused. The companies selected as replacements have been assigned numbers 809 to 833, inclusive. Companies numbered out of alphabetical order are shown in *italics* and have been given an additional listing in alphabetical order.)

Co. No.		*Month in which fiscal year ends
	ACF Industries, Incorporated—see *3*	
	AEL Industries, Inc.—see *701*	
	AMAX, Inc.—see *35*	
	AMETEK, Inc.—see *47*	
	AMF Incorporated—see *33*	
	AMP Incorporated and Pamcor, Inc.—see *49*	
	ASARCO Incorporated—see *43*	
	ASG Industries, Inc.—see *40*	
	ATI, Inc.—see *602*	
1	Abbott Laboratories	12
3	*ACF Industries, Incorporated*	12
4	*American Stores Company*	3
	Acme-Cleveland Corporation—see *809*	
	Action Industries, Inc.—see *756*	
5	Adams-Millis Corporation	12
	Adams-Russell Co., Inc.—see *741*	
6	Addressograph Multigraph Corporation	7
8	Air Products and Chemicals, Inc.	9
9	Airco, Inc.	12
	Akzona Incorporated—see *30*	
	Albertson's, Inc.—see *603*	
	Alco Standard Corporation—see *771*	
11	Allegheny Ludlum Industries, Inc.	12
13	Allied Chemical Corporation	12
16	Allied Stores Corporation	1
17	Allis-Chalmers Corporation	12
18	Alpha Portland Industries, Inc.	12
19	Aluminum Company of America	12
20	The Amalgamated Sugar Company	12
21	Amerada Hess Corporation	12
22	American Air Filter Company, Inc.	10
23	American Bakeries Company	12
25	American Biltrite Inc.	12
	American Brands, Inc.—see *45*	
	American Broadcasting Companies, Inc.—see *810*	
	American Building Maintenance Industries—see *605*	
26	American Can Company	12
28	American Cyanamid Company	12
29	The American Distilling Company	9
30	*Akzona Incorporated*	12
	American Garden Products, Inc.—see *778*	
31	American Home Products Corporation	12
32	American Hospital Supply Corporation	12
33	*AMF Incorporated*	12
34	American Maize-Products Company	12
35	*AMAX Inc.*	12
36	American Motors Corporation	9
39	*American Standard Inc.*	12
40	*ASG Industries, Inc.*	12
41	American Seating Company	12
42	The American Ship Building Company	9
43	*ASARCO Incorporated*	12
	American Standard Inc.—see *39*	
	American Stores Company—see *4*	
44	*Amstar Corporation*	6
45	*American Brands, Inc.*	12
47	*AMETEK, Inc.*	12
	Ampco-Pittsburgh Corporation—see *486*	
48	Ampex Corporation	4
49	*AMP Incorporated and Pamcor, Inc.*	12
	Amstar Corporation—see *44*	
51	AMSTED Industries Incorporated	9
53	Anchor Hocking Corporation	12
55	Anderson, Clayton & Co.	6
56	Anheuser-Busch, Incorporated	12
	The Ansul Company—see *607*	
58	Archer Daniels Midland Company	6
59	Arden-Mayfair, Inc.	12
	Armada Corporation—see *67*	
60	Armco Steel Corporation	12
62	Armstrong Cork Company	12
64	The Arundel Corporation	12
65	Arvin Industries, Inc.	12
66	Ashland Oil, Inc.	9
67	*Armada Corporation*	12
68	Associated Dry Goods Corporation	1
69	Atlantic Richfield Company	12
71	Avco Corporation	11

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
72	Avon Products, Inc.	12
	Baird-Atomic, Inc.—see *793*	
74	Baker International Corporation	9
75	The Barden Corporation	10
76	Basic Incorporated	12
77	Bates Manufacturing Company, Incorporated	12
78	*Congoleum Corporation*	12
79	Bausch & Lomb Incorporated	12
80	Bayuk Cigars Incorporated	12
81	Beatrice Foods Co.	2
83	Beech Aircraft Corporation	9
	Beehive International—see *811*	
84	*Squibb Corporation*	12
	Belden Corporation—see *610*	
85	Belding Heminway Company, Inc.	12
86	Bell & Howell Company	12
87	Bemis Company, Inc.	12
88	The Bendix Corporation	9
89	Bethlehem Steel Corporation	12
	Bird & Son, Inc.—see *92*	
91	The Black and Decker Manufacturing Company	9
92	*Bird & Son, Inc.*	12
95	Bliss & Laughlin Industries Incorporated	12
96	Blue Bell, Inc.	9
	Bobbie Brooks, Incorporated—see *611*	
97	The Boeing Company	12
	Boise Cascade Corporation—see *612*	
100	Borden, Inc.	12
101	Borg-Warner Corporation	12
	Bowne & Co., Inc.—see *718*	
	Brenco, Incorporated—see *652*	
103	Briggs & Stratton Corporation	6
104	The Bristol Brass Corporation	12
105	Bristol-Myers Company	12
	Bristol Products, Inc.—see *742*	
106	Brockway Glass Company, Inc.	12
107	Brown & Sharpe Manufacturing Company	12
108	Brown Group, Inc.	10
	Browning-Ferris Industries, Inc.—see *795*	
109	Brunswick Corporation	12
	Buckbee-Mears Company—see *653*	
110	Bucyrus-Erie Company	12
113	Burlington Industries, Inc.	9
114	Burndy Corporation	12
115	Burroughs Corporation	12
	CBS Inc.—see *152*	
	CMI Corporation—see *797*	
	CPC International Inc.—see *172*	
	Cadence Industries Corporation—see *572*	
	Caesars World, Inc.—see *779*	
116	*Del Monte Corporation*	5
118	Campbell Soup Company	7
120	Cannon Mills Company	12
123	Carnation Company	12
124	Carrier Corporation	10
	Castle & Cooke, Inc.—see *780*	
126	Caterpillar Tractor Co.	12
127	Celanese Corporation	12

Co. No.		*Month in which fiscal year ends
128	Central Soya Company, Inc.	8
	Centronics Data Computer Corp.—see *796*	
130	CertainTeed Corporation	12
	Certified Corp.—see *812*	
131	The Cessna Aircraft Company	9
	Champion International Corporation—see *566*	
133	Champion Spark Plug Company	12
135	*Paxall, Inc.*	10
	Chicago Bridge & Iron Company—see *654*	
136	Chicago Pneumatic Tool Company	12
137	Chock Full O'Nuts Corporation	7
138	Chrysler Corporation	12
	Citation Manufacturing Company, Inc.—see *743*	
139	Cities Service Company	12
140	City Stores Company	1
141	Clark Equipment Company	12
	Clarostat Mfg. Co., Inc.—see *615*	
142	The Cleveland-Cliffs Iron Company	12
144	Cluett, Peabody & Co., Inc.	12
145	The Coca-Cola Company	12
	Coleco Industries, Inc.—see *813*	
146	Colgate-Palmolive Company	12
147	Collins & Aikman Corporation	2
149	Colonial Stores Incorporated	12
151	Colt Industries Inc.	12
152	*CBS Inc.*	12
	Combined Communications Corporation—see *781*	
153	Combustion Engineering, Inc.	12
	Commercial Metals Company—see *814*	
	Compugraphic Corporation—see *798*	
	ConAgra, Inc.—see *406*	
	Congoleum Corporation—see *78*	
	Conroy, Inc.—see *815*	
157	*North American Philips Corporation*	12
158	Consolidated Foods Corporation	6
159	*Sears Industries Inc.*	12
163	The Continental Group, Inc.	12
165	Continental Oil Company	12
167	Control Data Corporation	12
168	Cook Paint and Varnish Company	11
169	Cooper Industries, Inc.	12
170	Copperweld Corporation	12
171	Corning Glass Works	12
172	*CPC International Inc.*	12
173	Craddock-Terry Shoe Corporation	9
174	Crane Co.	12
175	Crown Central Petroleum Corporation	12
176	Crown Cork & Seal Company, Inc.	12
177	Crown Zellerbach	12
	Culbro Corporation—see *245*	
180	Cummins Engine Company, Inc.	12
183	Curtiss-Wright Corporation	12
184	Cutler-Hammer, Inc.	12
185	Cyclops Corporation	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
186	Dan River Inc.	12
	Dana Corporation—see *656*	
	Dart Drug Corporation—see *744*	
	Dart Industries Inc.—see *467*	
	Day Mines, Inc.—see *782*	
187	Dayco Corporation	10
188	Deere & Company	10
	Del Monte Corporation—see *116*	
	Den-Tal-Ez, Inc.—see *783*	
189	Dennison Manufacturing Company	12
	Dentsply International Inc.—see *799*	
191	Diamond International Corporation	12
	Diamond Shamrock Corporation—see *658*	
193	Dictaphone Corporation	12
195	Walt Disney Productions	9
197	The Dow Chemical Company	12
	Doyle Dane Bernbach Inc.—see *616*	
198	Dravo Corporation	12
199	Dresser Industries, Inc.	10
	Dun & Bradstreet Companies, Inc.—see *784*	
201	*The Duplan Corporation*	9
202	E.I. du Pont de Nemours & Company	12
	The Duplan Corporation—see *201*	
	Duplex Products Inc.—see *800*	
	Dynamics Corporation of America—see *785*	
	ELTRA Corporation—see *213*	
204	Eagle-Picher Industries, Inc.	11
	Easco Corporation—see *206*	
205	The Eastern Company	12
206	*Easco Corporation*	12
207	Eastman Kodak Company	12
208	Eaton Corporation	12
	Electric Hose & Rubber Company—see *617*	
213	*ELTRA Corporation*	9
214	Emerson Electric Co.	9
215	Emhart Corporation	12
	Empire Gas Corporation—see *721*	
	Engelhard Minerals & Chemicals Corporation—see *659*	
	Esmark, Inc.—see *535*	
	Ethan Allen, Inc.—see *746*	
	Ethyl Corporation—see *660*	
218	Evans Products Company	12
220	Ex-Cell-O Corporation	11
	Exxon Corporation—see *518*	
	FDI, Inc.—see *733*	
	FMC Corporation—see *231*	
221	Fairchild Camera and Instrument Corporation	12
222	Fairchild Industries, Inc.	12
	Falcon Seaboard Inc.—see *801*	
225	Fedders Corporation	10
226	Federated Department Stores, Inc.	1
227	The Firestone Tire & Rubber Company	10
228	First National Stores Inc.	3
229	M. H. Fishman Co. Inc.	12
	Fluor Corporation—see *802*	
	John Fluke Mfg. Co., Inc.—see *723*	
230	The Flintkote Company	12
231	*FMC Corporation*	12
	Food Fair, Inc.—see *618*	
232	Foote Mineral Company	12
233	Ford Motor Company	12
	Foremost-McKesson, Inc.—see *662*	
	Franklin Mint Corporation—see *803*	
235	Freeport Minerals Company	12
236	Fruehauf Corporation	12
	GAF Corporation—see *240*	
	GATX Corporation—see *239*	
	Gamble-Skogmo, Inc.—see *724*	
	Gearhart-Owen Industries, Inc.—see *758*	
239	*GATX Corporation*	12
240	*GAF Corporation*	12
241	*General Host Corporation*	12
245	*Culbro Corporation*	12
246	General Dynamics Corporation	12
247	General Electric Company	12
248	General Foods Corporation	3
	General Host Corporation—see *241*	
249	General Mills, Inc.	5
250	General Motors Corporation	12
	General Recreation, Inc.—see *787*	
252	General Refractories Company	12
253	General Signal Corporation	12
254	The General Tire & Rubber Company	11
255	Genesco Inc.	7
256	Georgia-Pacific Corporation	12
257	Gerber Products Company	3
	Getty Oil Company—see *620*	
	Giant Food Inc.—see *621*	
258	Giddings & Lewis, Inc.	12
259	The Gillette Company	12
	Gloucester Engineering Co. Inc.—see *759*	
262	Goldblatt Bros., Inc.	1
263	The BFGoodrich Company	12
264	The Goodyear Tire & Rubber Company	12
	Gould Inc.—see *816*	
	W.R. Grace & Co.—see *622*	
265	The Grand Union Company	3
	Granger Associates—see *623*	
267	Graniteville Company	12
269	The Great Atlantic & Pacific Tea Company, Inc.	2
	The Greyhound Corporation—see *735*	
272	Grumman Corporation	12
273	Gulf Oil Corporation	12
	Gulf & Western Industries, Inc.—see *624*	
	Gulton Industries, Inc.—see *788*	
	HMW Industries, Inc.—see *276*	
	HON Industries Inc.—see *726*	
	W. F. Hall Printing Company—see *275*	
274	Halliburton Company	12
275	*W. F. Hall Printing Company*	3
276	*HMW Industries, Inc.*	1
	Hampton Industries, Inc.—see *703*	
278	Harnischfeger Corporation	10
279	Harris Corporation	6
280	Harsco Corporation	12
282	Hart Schaffner & Marx	11

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
284	Hazeltine Corporation	12
285	H. J. Heinz Company	4
286	Hercules Incorporated	12
287	Hershey Foods Corporation	12
	Heublein, Inc.—see *789*	
288	Hewlett-Packard Company	10
290	Hobart Corporation	12
292	Holly Sugar Corporation	3
	Homasote Company—see *666*	
293	Honeywell Inc.	12
295	The Hoover Company	12
296	Geo. A. Hormel & Company	10
297	Houdaille Industries, Inc.	12
299	Hudson Pulp & Paper Corp.	12
	Humana Inc.—see *702*	
	Philip A. Hunt Chemical Corporation—see *736*	
300	*Norton Simon Inc.*	6
	IC Industries, Inc.—see *761*	
	IPCO Hospital Supply Corporation—see *627*	
304	Ingersoll-Rand Company	12
305	Inland Steel Company	12
	Insilco Corporation—see *313*	
307	Interco Incorporated	2
308	Interlake, Inc.	12
309	International Business Machines Corporation	12
310	International Harvester Company	10
311	International Minerals & Chemical Corporation	6
	International Multifoods Corporation—see *667*	
312	International Paper Company	12
313	*Insilco Corporation*	12
	International Telephone and Telegraph Corporation—see *668*	
314	Interstate Brands Corporation	5
	Iowa Beef Processors, Inc.—see *670*	
315	Jantzen, Inc.	8
	Jewel Companies, inc.—see *671*	
316	*Jim Walter Corporation*	8
317	Johns-Manville Corporation	12
318	Johnson & Johnson	12
	Johnson Products Co., Inc.—see *817*	
320	Joslyn Mfg. and Supply Co.	12
321	Joy Manufacturing Company	9
	K mart Corporation—see *331*	
322	Kaiser Aluminum & Chemical Corporation	12
323	Kellogg Company	12
326	Kennecott Copper Corporation	12
327	Keystone Consolidated Industries, Inc.	6
328	Walter Kidde & Company, Inc.	12
329	Kimberly-Clark Corporation	12
	King Optical Corporation—see *790*	
	Knape & Vogt Manufacturing Company—see *762*	
330	Koppers Company, Inc.	12
	Kraft, Inc.—see *397*	
331	*K mart Corporation*	1
	Kroehler Mfg. Co.—see *818*	

Co. No.		*Month in which fiscal year ends
332	The Kroger Co.	12
333	Kuhlman Corporation	12
	The LTV Corporation—see *628*	
	La Maur Inc.—see *673*	
	LaBarge, Inc.—see *704*	
	Lafayette Radio Electronics Corporation—see *672*	
334	Lear Siegler, Inc.	6
	Lee Enterprises, Incorporated—see *763*	
	Lenox, Incorporated—see *804*	
	Leslie Fay Inc.—see *674*	
336	Leslie Salt Co.	12
	Levi Strauss* & Co.-see *749	
338	Libbey-Owens-Ford Company	12
340	Liggett Group Inc.	12
341	Eli Lilly and Company	12
344	Litton Industries, Inc.	7
345	Lockheed Corporation	12
347	Lone Star Industries, Inc.	12
	Louisville Cement Company—see *630*	
	Lowe's Companies, Inc.—see *706*	
349	Lukens Steel Company	12
	Lykes Corporation—see *707*	
	Lynch Corporation—see *751*	
	Lynnwear Corporation—see *764*	
	MCA Inc.—see *364*	
	MWA Company—see *635*	
350	The Macke Company	9
352	R. H. Macy & Co., Inc.	7
354	P. R. Mallory & Co., Inc.	12
	Malone & Hyde, Inc.—see *675*	
355	Marathon Oil Company	12
356	Maremont Corporation	12
	Marhoefer Packing Company, Inc.—see *631*	
	The Marley Company—see *819*	
	Marriott Corporation—see *805*	
357	Marshall Field & Company	1
358	Martin Marietta Corporation	12
359	Masonite Corporation	8
361	The May Department Stores Company	1
362	Oscar Mayer & Co. Inc.	12
363	The Maytag Company	12
364	*MCA Inc.*	12
366	McCormick & Company, Incorporated	11
	J. Ray McDermott & Co., Inc.—see *632*	
	McDonald's Corporation—see *820*	
367	McDonnell Douglas Corporation	12
368	McGraw-Edison Company	12
369	McGraw-Hill, Inc.	12
372	The Mead Corporation	12
373	Medusa Corporation	12
374	Melville Corporation	12
375	Merck & Co., Inc.	12
376	Meredith Corporation	6
377	Metro-Goldwyn-Mayer Inc.	8
	Microform Data Systems, Inc.—see *821*	
378	Midland-Ross Corporation	12
	Herman Miller, Inc.—see *766*	
	Milton Roy Company—see *737*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
380	Minnesota Mining and Manufacturing Company	12
381	Mirro Aluminum Company	12
382	Mobil Corporation	12
383	Mohasco Corporation	12
384	The Mohawk Rubber Company	12
385	Monsanto Company	12
	Morse Electro Products Corp.—*see 677*	
	Mosinee Paper Corporation—*see 752*	
389	Motorola, Inc.	12
390	Mount Vernon Mills, Inc.	12
	Multi-Amp Corporation—*see 767*	
392	Munsingwear, Inc.	12
393	G. C. Murphy Company	1
	The Murray Ohio Manufacturing Company—*see 806*	
	NCR Corporation—*see 395*	
	NL Industries, Inc.—*see 400*	
394	Nabisco, Inc.	12
	The Narda Microwave Corporation—*see 768*	
	National Can Corporation—*see 637*	
395	*NCR Corporation*	12
397	*Kraft, Inc.*	12
398	National Distillers and Chemical Corporation	12
399	National Gypsum Company	12
400	*NL Industries, Inc.*	12
401	National Presto Industries, Inc.	12
402	National Starch and Chemical Corporation	12
403	National Steel Corporation	12
405	National Tea Co.	12
406	*ConAgra, Inc.*	5
407	Neptune International Corporation	12
	New England Nuclear Corporation—*see 679*	
	A. C. Nielsen Company—*see 680*	
	North American Philips Corporation—*see 157*	
413	*Rockwell International Corporation*	9
415	Northrop Corporation	12
	Northwest Industries, Inc.—*see 738*	
	Norton Simon Inc.—*see 300*	
	Occidental Petroleum Corporation—*see 681*	
	Ogden Corporation—*see 639*	
	Ohio Ferro-Alloys Corporation—*see 682*	
416	Olin Corporation	12
	Opelika Manufacturing Corporation—*see 807*	
419	Outboard Marine Corporation	9
420	Owens-Illinois, Inc.	12
	Oxford Industries, Inc.—*see 640*	
	PPG Industries, Inc.—*see 443*	
	Paccar Inc.—*see 822*	
	Pall Corporation—*see 709*	
	The Pantasote Company—*see 641*	
423	Parker-Hannifin Corporation	6
424	The Parker Pen Company	2
	Paxall, Inc.—*see 135*	
	The Penn Traffic Company—*see 683*	
427	J. C. Penney Company, Inc.	1
429	Pennwalt Corporation	12
	Pennzoil Company—*see 775*	

Co. No.		*Month in which fiscal year ends
430	Peoples Drug Stores, Incorporated	9
431	PepsiCo, Inc.	12
432	Pet Incorporated	3
433	Pfizer Inc.	12
434	Phelps Dodge Corporation	12
436	Philip Morris Incorporated	12
437	Phillips Petroleum Company	12
438	Phoenix Steel Corporation	12
439	The Pillsbury Company	5
	Pioneer Hi-Bred International, Inc.—*see 823*	
441	Pitney-Bowes, Inc.	12
443	*PPG Industries, Inc.*	12
445	The Pittston Company	12
	Pneumo Corporation—*see 824*	
447	Polaroid Corporation	12
448	Portec, Inc.	12
	Potlatch Corporation—*see 685*	
	Pratt-Read Corporation—*see 713*	
	Premier Industrial Corporation—*see 825*	
451	The Procter & Gamble Company	6
452	Pullman Incorporated	12
453	Purolator, Inc.	12
454	The Quaker Oats Company	6
455	Quaker State Oil Refining Corporation	12
456	RCA Corporation	12
457	Ralston Purina Company	9
458	Ranco Incorporated	9
459	The Rath Packing Company	9
460	Raybestos-Manhattan, Inc.	12
462	Raytheon Company	12
	Reeves Brothers, Inc.—*see 710*	
463	Reliance Electric Company	10
	Reliance Universal Inc.—*see 826*	
465	Republic Steel Corporation	12
467	*Dart Industries Inc.*	12
468	Rexnord Inc.	10
	R. J. Reynolds Industries, Inc.—*see 470*	
469	Reynolds Metals Company	12
470	*R. J. Reynolds Industries, Inc.*	12
472	Richardson-Merrell Inc.	6
	Rival Manufacturing Company—*see 827*	
474	*Sybron Corporation*	12
475	H. H. Robertson Company	12
	Rockwell International Corporation—*see 413*	
476	Rohm and Haas Company	12
	Rowe Furniture Corporation—*see 769*	
	Russ Togs, Inc.—*see 687*	
	SCM Corporation—*see 483*	
	SCOA Industries Inc.—*see 496*	
479	Safeway Stores, Incorporated	12
480	St. Joe Minerals Corporation	12
481	St. Regis Paper Company	12
	Sav-A-Stop Incorporated—*see 711*	
483	*SCM Corporation*	6
	Schlumberger Limited—*see 776*	
	Scope Industries—*see 730*	
484	Scott Paper Company	12
485	Scovill Manufacturing Company	12
486	*Ampco-Pittsburgh Corporation*	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
488	G. D. Searle & Co.	12
	Sears Industries, Inc.—*see 159*	
489	Sears, Roebuck and Co.	1
	Seligman & Latz, Inc.—*see 808*	
	Service Corporation International—*see 828*	
	Seton Company—*see 688*	
494	Shell Oil Company	12
495	The Sherwin-Williams Company	12
496	*SCOA Industries Inc.*	1
497	The Signal Companies, Inc.	12
498	Signode Corporation	12
	Simkins Industries, Inc.—*see 689*	
499	Simmons Company	12
500	Simplicity Pattern Co. Inc.	1
502	The Singer Company	12
504	A. O. Smith Corporation	12
505	Snap-on Tools Corporation	12
506	Sola Basic Industries, Inc.	3
509	Sparton Corporation	6
	Spencer Companies, Inc.—*see 691*	
	The Sperry and Hutchinson Company—*see 644*	
510	Sperry Rand Corporation	3
512	Square D Company	12
	Squibb Corporation—*see 84*	
513	A. E. Staley Manufacturing Company	9
	Stanadyne, Inc.—*see 522*	
514	Standard Brands Incorporated	12
	Standard Container Company—*see 753*	
	Standard Motor Products, Inc.—*see 645*	
516	Standard Oil Company of California	12
517	Standard Oil Company (Indiana)	12
518	*Exxon Corporation*	12
519	The Standard Oil Company *(an Ohio Corporation)*	12
521	Standard Pressed Steel Co.	12
	The Standard Register Company—*see 712*	
522	*Stanadyne, Inc.*	12
	Stange Co.—*see 829*	
524	The L. S. Starrett Company	6
	Sterling Drug Inc.—*see 693*	
	Sterndent Corporation—*see 777*	
525	J. P. Stevens & Co., Inc.	10
526	Stewart-Warner Corporation	12
527	Stokely-Van Camp, Inc.	5
528	Stone Container Corporation	12
	Struthers Wells Corporation—*see 694*	
529	Studebaker-Worthington, Inc.	12
530	Sun Chemical Corporation	12
	Sun Company, Inc.—*see 532*	
531	Sunstrand Corporation	12
532	*Sun Company, Inc.*	12
534	The Superior Oil Company	12
	Supermarkets General Corporation—*see 646*	
	Supreme Equipment & Systems Corp.—*see 830*	
535	*Esmark, Inc.*	10
	Sybron Corporation—*see 474*	
	TRW Inc.—*see 548*	
537	Tecumseh Products Company	12
	Teledyne, Inc.—*see 695*	
	Temtex Industries, Inc.—*see 831*	
	Tenneco Inc.—*see 647*	
538	Texaco Inc.	12
	Texas Instruments Incorporated—*see 540*	
539	Texasgulf Inc.	12
540	*Texas Instruments Incorporated*	12
541	Textron Inc.	12
543	Time Incorporated	12
544	The Timken Company	12
545	Tobin Packing Co., Inc.	10
	J. Walter Thompson Company—*see 791*	
	Trans Union Corporation—*see 554*	
547	Triangle Industries, Inc.	12
	Triangle Pacific Corp.—*see 648*	
548	*TRW Inc.*	12
549	Twentieth Century-Fox Film Corporation	12
	Tyson Foods, Inc.—*see 740*	
	U and I Incorporated—*see 575*	
550	UMC Industries, Inc.	12
	UV Industries, Inc.—*see 569*	
551	Union Camp Corporation	12
552	Union Carbide Corporation	12
553	Union Oil Company of California	12
554	*Trans Union Corporation*	12
	Unifi, Inc.—*see 770*	
	Uniroyal, Inc.—*see 567*	
555	*United Technologies Corporation*	12
	United Brands Company—*see 601*	
	United Foods, Inc.—*see 649*	
560	United Merchants and Manufacturers, Inc.	6
	United Nuclear Corporation—*see 792*	
562	The United Piece Dye Works	12
564	United States Gypsum Company	12
565	U.S. Industries, Inc.	12
566	*Champion International Corporation*	12
567	*Uniroyal, Inc.*	12
568	The United States Shoe Corporation	7
569	*UV Industries, Inc.*	12
570	United States Steel Corporation	12
571	United States Tobacco Company	12
572	*Cadence Industries Corporation*	12
	United Technologies Corporation—*see 555*	
574	Universal Leaf Tobacco Company, Incorporated	6
575	*U and I Incorporated*	2
576	Varian Associates, Inc.	9
	Velvet-O'Donnell Corporation—*see 754*	
578	The Vendo Company	12
580	Walgreen Co.	8
	Jim Walter Corporation—*see 316*	
582	Ward Foods, Inc.	12
	Warner Communications Inc.—*see 728*	
584	Warner-Lambert Company	12
	Waste Management, Inc.—*see 832*	
586	*Westinghouse Electric Corporation*	12
587	West Point-Pepperell, Inc.	8
	Westinghouse Electric Corporation—*see 586*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
588	Westvaco Corporation	10
589	Weyerhaeuser Company	12
590	Wheeling-Pittsburgh Steel Corporation	12
	Whirlpool Corporation—see *650*	
	White Consolidated Industries, Inc.—see *698*	
591	White Motor Corporation	12
	Whittaker Corporation—see *699*	
	The Williams Companies—see *833*	
	Winn-Dixie Stores, Inc.—see *714*	
	Winnebago Industries, Inc.—see *715*	
594	F. W. Woolworth Co.	1
596	Wm. Wrigley Jr. Company	12
597	The Wurlitzer Company	3
598	Xerox Corporation	12
600	Zenith Radio Corporation	12

ADDED FOR 1968 EDITION

601	*United Brands Company*	12
602	*ATI, Inc.*	9
603	*Albertson's, Inc.*	1
605	*American Building Maintenance Industries*	10
607	*The Ansul Company*	12
610	*Belden Corporation*	12
611	*Bobbie Brooks, Incorporated*	4
612	*Boise Cascade Corporation*	12
615	*Clarostat Mfg. Co., Inc.*	12
616	*Doyle Dane Bernbach, Inc.*	12
617	*Electric Hose & Rubber Company*	8
618	*Food Fair, Inc.*	7
620	*Getty Oil Company*	12
621	*Giant Food Inc.*	2
622	*W. R. Grace & Co.*	12
623	*Granger Associates*	8
624	*Gulf & Western Industries, Inc.*	7
627	*IPCO Hospital Supply Corporation*	6
628	*The LTV Corporation*	12
630	*Louisville Cement Company*	12
631	*Marhoefer Packing Company, Inc.*	10
632	*J. Ray McDermott & Co., Inc.*	3
635	*MWA Company*	6
637	*National Can Corporation*	12
639	*Ogden Corporation*	12
640	*Oxford Industries, Inc.*	5
641	*The Pantasote Company*	12
644	*The Sperry and Hutchinson Company*	12
645	*Standard Motor Products, Inc.*	12
646	*Supermarkets General Corporation*	1
647	*Tenneco Inc.*	12
648	*Triangle Pacific Corp.*	12
649	*United Foods, Inc.*	2
650	*Whirlpool Corporation*	12

ADDED FOR 1969 EDITION

652	*Brenco, Incorporated*	12
653	*Buckbee-Mears Company*	12
654	*Chicago Bridge & Iron Company*	12
656	*Dana Corporation*	8
658	*Diamond Shamrock Corporation*	12
659	*Engelhard Minerals & Chemicals Corporation*	12
660	*Ethyl Corporation*	12
662	*Foremost-McKesson, Inc.*	3
666	*Homasote Company*	12
667	*International Multifoods Corporation*	2
668	*International Telephone and Telegraph Corporation*	12
670	*Iowa Beef Processors, Inc.*	10
671	*Jewel Companies, Inc.*	1
672	*Lafayette Radio Electronics Corporation*	6
673	*La Maur Inc.*	12
674	*Leslie Fay Inc.*	4
675	*Malone & Hyde, Inc.*	6
677	*Morse Electro Products Corp.*	3
679	*New England Nuclear Corporation*	2
680	*A. C. Nielsen Company*	8
681	*Occidental Petroleum Corporation*	12
682	*Ohio Ferro-Alloys Corporation*	12
683	*The Penn Traffic Company*	1
685	*Potlatch Corporation*	12
687	*Russ Togs, Inc.*	1
688	*Seton Company*	12
689	*Simkins Industries, Inc.*	9
691	*Spencer Companies, Inc.*	5
692	*Stanley Home Products, Inc.*	12
693	*Sterling Drug Inc.*	12
694	*Struthers Wells Corporation*	11
695	*Teledyne, Inc.*	12
698	*White Consolidated Industries, Inc.*	12
699	*Whittaker Corporation*	10

ADDED FOR 1970 EDITION

701	*AEL Industries, Inc.*	2
702	*Humana Inc.*	8
703	*Hampton Industries, Inc.*	12
704	*LaBarge, Inc.*	12
706	*Lowe's Companies, Inc.*	7
707	*Lykes Corporation*	12
709	*Pall Corporation*	7
710	*Reeves Brothers, Inc.*	6
711	*Sav-A-Stop Incorporated*	8
712	*The Standard Register Company*	12
713	*Pratt-Read Corporation*	6
714	*Winn-Dixie Stores, Inc.*	6
715	*Winnebago Industries, Inc.*	8

ADDED FOR 1971 EDITION

718	*Bowne & Co., Inc.*	10
721	*Empire Gas Corporation*	6
723	*John Fluke Mfg. Co., Inc.*	9
724	*Gamble-Skogmo, Inc.*	1
726	*HON Industries Inc.*	12
728	*Warner Communications Inc.*	12
730	*Scope Industries*	6

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
ADDED FOR 1972 EDITION		
733	*FDI, Inc.*	4
735	*The Greyhound Corporation*	12
736	*Philip A. Hunt Chemical Corporation*	12
737	*Milton Roy Company*	12
738	*Northwest Industries, Inc.*	12
740	*Tyson Foods, Inc.*	9
ADDED FOR 1973 EDITION		
741	*Adams-Russell Co., Inc.*	9
742	*Bristol Products, Inc.*	12
743	*Citation Manufacturing Company, Inc.*	6
744	*Dart Drug Corporation*	3
746	*Ethan Allen, Inc.*	9
749	*Levi Strauss & Co.*	11
751	*Lynch Corporation*	12
752	*Mosinee Paper Corporation*	12
753	*Standard Container Company*	9
754	*Velvet-O'Donnell Corporation*	10
ADDED FOR 1974 EDITION		
756	*Action Industries, Inc.*	6
758	*Gearhart-Owen Industries, Inc.*	1
759	*Gloucester Engineering Co., Inc.*	6
761	*IC Industries, Inc.*	12
762	*Knape & Vogt Manufacturing Company*	6
763	*Lee Enterprises, Incorporated*	9
764	*Lynnwear Corporation*	11
766	*Herman Miller, Inc.*	5
767	*Multi-Amp Corporation*	4
768	*The Narda Microwave Corporation*	6
769	*Rowe Furniture Corporation*	11
770	*Unifi, Inc.*	6
ADDED FOR 1975 EDITION		
771	*Alco Standard Corporation*	9
775	*Pennzoil Company*	12
776	*Schlumberger Limited*	12
777	*Sterndent Corporation*	12
ADDED FOR 1976 EDITION		
778	*American Garden Products, Inc.*	10
779	*Caesars World, Inc.*	7
780	*Castle & Cooke, Inc.*	12
781	*Combined Communications Corporation*	12
782	*Day Mines, Inc.*	12
783	*Den-Tal-Ez, Inc.*	12
784	*Dun & Bradstreet Companies, Inc.*	12
785	*Dynamics Corporation of America*	12
787	*General Recreation, Inc.*	12
788	*Gulton Industries, Inc.*	2
789	*Heublein, Inc.*	6
790	*King Optical Corporation*	12
791	*J. Walter Thompson Company*	12
792	*United Nuclear Corporation*	3

Co. No.		*Month in which fiscal year ends
ADDED FOR 1977 EDITION		
793	*Baird-Atomic, Inc.*	9
795	*Browning-Ferris Industries, Inc.*	9
796	*Centronics Data Computer Corp.*	6
797	*CMI Corporation*	12
798	*Compugraphic Corporation*	9
799	*Dentsply International Inc.*	12
800	*Duplex Products Inc.*	10
801	*Falcon Seaboard Inc.*	12
802	*Fluor Corporation*	10
803	*Franklin Mint Corporation*	12
804	*Lenox, Incorporated*	12
805	*Marriott Corporation*	7
806	*The Murray Ohio Manufacturing Company*	12
807	*Opelika Manufacturing Corporation*	9
808	*Seligman & Latz, Inc.*	10
ADDED FOR 1978 EDITION		
809	*Acme-Cleveland Corporation*	9
810	*American Broadcasting Companies, Inc.*	12
811	*Beehive International*	9
812	*Certified Corp.*	6
813	*Coleco Industries, Inc.*	12
814	*Commercial Metals Company*	8
815	*Conroy, Inc.*	8
816	*Gould Inc.*	12
817	*Johnson Products Co., Inc.*	8
818	*Kroehler Mfg. Co.*	12
819	*The Marley Company*	10
820	*McDonald's Corporation*	12
821	*Microform Data Systems, Inc.*	7
822	*Paccar Inc.*	12
823	*Pioneer Hi-Bred International, Inc.*	8
824	*Pneumo Corporation*	11
825	*Premier Industrial Corporation*	5
826	*Reliance Universal Inc.*	11
827	*Rival Manufacturing Company*	12
828	*Service Corporation International*	4
829	*Stange Co.*	12
830	*Supreme Equipment & Systems Corp.*	7
831	*Temtex Industries, Inc.*	8
832	*Waste Management, Inc.*	12
833	*The Williams Companies*	12

Companies Included in Thirty-first Edition Not Included in this Edition of the Survey

10	Alan Wood Steel Company
57	Apco Oil Corporation
73	The Babcock & Wilcox Company
111	The Budd Company
122	The Carborundum Company
134	Chemetron Corporation
150	Great Western United Corporation
160	Consolidated Packaging Corporation
271	Gruen Industries, Inc.

*Months numbered in sequence, January through December

Co. No.

291 Hoffman Electronics Corporation
306 Inmont Corporation
335 Lehigh Portland Cement Company
417 O'Sullivan Corporation
450 Pratt & Lambert, Inc.
511 Sprague Electric Company
523 Stanray Corporation
676 Molycorp, Inc.
678 Mott's Super Markets, Inc.
697 Victor Comptometer Corporation
716 Aberdeen Manufacturing Corporation
719 The Maple Plain Company, Inc.
739 SMC Industries, Inc.
747 F & B/CECO Industries, Inc.
750 J. B. Lippincott Company
765 MPB Corporation
772 Commonwealth Oil Refining Company, Inc.
773 Kaiser Industries Corporation
786 Fields Plastics and Chemicals, Inc.
794 Bally Manufacturing Corporation

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