1980

Accounting trends and techniques, 34th annual survey, 1980 edition

American Institute of Certified Public Accountants

1980 Accounting Trends & Techniques

Thirty-Fourth Edition **1980**

Accounting Trends & Techniques

Annual Survey of Accounting Practices Followed in 600 Stockholders' Reports

AICPA

American Institute of Certified Public Accountants

Thirty-Fourth Edition **1980**

Accounting Trends & Techniques

Thirty-fourth annual cumulative survey of the accounting aspects of the annual reports of 600 industrial and merchandising 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 not later than February 3, 1980.

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Library of Congress Catalog Card Number: 48-2517

PREFACE

Accounting Trends & Techniques—1980, Thirty-fourth 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 23, 1979 and February 3, 1980.

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. 365 of the companies were listed in the twenty-first (1967) edition and each retained the number assigned in that edition. The other 235 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 888 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 American Institute of Certified Public Accountants has established the National Automated Accounting Research System (NAARS) as an additional means of information retrieval. NAARS includes a computerized data bank consisting of the full text of several thousand company annual reports to stockholders supplemented by a literature file of authoritative pronouncements. Information may be retrieved through individual computer terminal subscription or by requesting Institute personnel to perform searches on an AICPA terminal. For further information concerning NAARS, contact Hortense Goodman, American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036. Telephone (212) 575-6393.

Special acknowledgement is due to J. Richard Chaplin, CPA; Gregory Frydman, CPA; William A. Godla, CPA; Phyllis C. Johnson, CPA; 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

TABLE 1-1: INDUSTRY CLASSIFICATIONS

	1979	1978	1977	1976
Foods:				
Meat products	10	10	9	9
Dairy products	4	5	5	5
Canning, etc.	6	7	9	9
Packaged and bulk	19	19	20	19
Baking	5	4	5	5
Sugar, confections, etc.	6	7	6	7
Beverages	7	5	6	6
Tobacco products	6	6	7	7
Textiles	31	32	30	29
Paper products	17	15	15	16
Printing, publishing	9	8	7	8
Chemicals	25	23	23	25
Drugs, cosmetics, etc.	29	24	21	20
Petroleum	26	26	25	27
Rubber products, etc.	8	8	9	9
Shoes - manufacturing, merchandising, etc.	7	7	8	8
Building:				
Cement	2	3	3	4
Roofing, wallboard	10	11	12	11
Heating, plumbing	5	6	7	7
Other	16	16	18	17
Steel and Iron	19	18	21	23
Metal - nonferrous	18	20	17	18
Metal fabricating	20	18	11	9
Machinery, equipment and supplies	36	34	33	37
Electrical equipment, appliances	20	22	20	17
Electrical, electronic equipment	25	25	34	37
Business equipment and supplies	16	17	17	15
Containers - metal, glass, etc.	11	12	8	8
Autos and trucks (including parts, accessories)	22	20	23	23
Aircraft and equipment, aerospace	13	12	17	16
Railway equipment, shipbuilding, etc.	6	7	7	7
Controls, instruments, medical equipment, watches and clocks, etc.	13	12	15	16
Merchandising:				
Department stores	8	12	12	12
Mail order stores, variety stores	2	2	2	2
Grocery stores	17	17	14	15
Other	6	8	10	10
Motion pictures, broadcasting	7	6	6	6
Widely diversified, or not otherwise classified	93	96	88	81
Total Companies	**600**	**600**	**600**	**600**

THIS SECTION OF THE SURVEY is concerned with general information about the 600 companies selected for the survey and with certain accounting information usually disclosed in notes accompanying the basic financial statements.

COMPANIES SELECTED FOR SURVEY

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—80% on the New York and 10% 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 1-2: REVENUE OF SURVEY COMPANIES

	1979	1978	1977	1976
Less than $100,000,000	71	90	101	106
Between $100,000,000 and $500,000,000	129	139	153	159
Between $500,000,000 and $1,000,000,000	98	100	96	97
Between $1,000,000,000 and $2,000,000,000	115	110	110	113
More than $2,000,000,000	187	161	140	125
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 16-39.

Five Year Summary of Operations

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

Consolidated Summary of Operations (dollars in thousands, except per share amounts)

	1979	1978	1977	1976	1975
Revenues* (1)	$2,053,570	$1,783,985	$1,535,667	$1,269,795	$981,747
Expenses*					
Operating expenses and cost of sales	1,312,500	1,138,383	995,354	862,190	730,613
Selling, general and administrative	379,941	339,188	282,238	236,339	199,680
Depreciation and amortization of property and equipment	23,897	18,367	15,208	13,696	12,871
Interest	17,815	16,857	16,050	15,756	12,131
Total expenses	1,734,153	1,512,795	1,308,850	1,127,981	955,295
Earnings before income taxes*	319,517	271,190	226,817	141,814	26,452
Provision for income taxes	160,107	143,680	119,853	73,822	14,354
Earnings*	159,310	127,510	106,964	67,992	12,098
Discontinued operations:					
Earnings from operations of discontinued theatre division, net of income taxes (2)	—	2,491	2,831	3,755	4,998
Gain from disposal of theatre division net of income taxes of $5,056	—	5,574	—	—	—
Earnings from discontinued operations	—	8,065	2,831	3,755	4,998
Net earnings	$ 159,310	$ 135,575	$ 109,795	$ 71,747	$ 17,096
Earnings per common and common equivalent share:					
Continuing operations	$ 5.67	$ 4.60	$ 3.92	$ 2.56	$ .47
Discontinued operations	—	.29	.11	.14	.19
Net earnings per share	$ 5.67	$ 4.89	$ 4.03	$ 2.70	$ .66
Average common and common equivalent shares (in thousands)	28,080	27,700	27,266	26,544	25,853
(1) Revenues of discontinued operations excluded above	$ —	$ 66,839	$ 81,205	$ 72,386	$ 82,901
(2) Income taxes on earnings of discontinued operations	$ —	$ 1,688	$ 2,012	$ 3,332	$ 4,272

*From continuing operations

THE ARUNDEL CORPORATION (DEC)

Consolidated Summary of Operations

	1979	1978	1977	1976	1975
	Years Ended December 31, (Dollars in thousands except per share data)				
Net Sales and Revenues					
Construction Materials Division	$ 41,240	$ 34,041	$ 31,091	$ 27,025	$ 25,417
Construction Division	36,808	33,483	23,372	24,415	14,083
Real Estate Division—Continuing	5,773	10,590	4,048	1,724	1,647
	$ 83,821	$ 78,114	$ 58,511	$53,164	$ 41,147
Earnings Before Administrative, General, Interest Expense and Other					
Construction Materials Division	$ 3,545	$ 3,180	$ 3,255	$ 2,802	$ 2,591
Construction Division	2,482	1,868	3,287	4,667	(5,063)
Real Estate Division—Continuing	1,049	7,495	2,709	817	882
	7,076	12,543	9,251	8,286	(1,590)
Administrative Expenses	1,620	1,581	1,402	1,280	1,338
Interest Expense	3,470	3,465	1,846	1,732	1,197
Other—Net	381	44	(124)	(23)	(66)
Earnings (Loss) from Continuing Operations Before Income Taxes	1,605	7,453	6,127	5,297	(4,059)
Income Taxes	872	3,674	2,983	2,561	369
Earnings (Loss) from Continuing Operations	733	3,779	3,144	2,736	(4,428)
Discontinued Operations:					
Income (Loss) Before Taxes	—	—	(1,450)	(2,000)	(9,079)
Income Taxes	—	—	(696)	(960)	(369)
Income (Loss) After Taxes	—	—	(754)	(1,040)	(8,710)
Earnings (Loss) Before Extraordinary Item	733	3,779	2,390	1,696	(13,138)
Extraordinary Item:					
Tax Benefit from Utilization of Loss Carryforward	418	3,345	2,017	1,268	—
Net Earnings (Loss)	1,151	7,124	4,407	2,964	(13,138)
Preferred Dividend Requirements	37	37	37	37	37
Net Earnings (Loss) to Common Stock	$ 1,114	$ 7,087	$ 4,370	$ 2,927	$ (13,175)
Earnings (Loss) per Common Share:					
Average Common Shares Outstanding During the Year	1,696,527	1,652,291	1,647,574	1,647,574	1,654,876
Additional Average Shares on Conversion of Preferred Stock	72,944	72,944	72,944	72,944	73,291
From Continuing Operations					
Primary	$ .41	$ 2.27	$ 1.89	$ 1.64	$ (2.70)
Fully Diluted	$ .41	$ 2.19	$ 1.83	$ 1.59	$ (a)
Before Extraordinary Item					
Primary	$ .41	$ 2.27	$ 1.43	$ 1.01	$ (7.96)
Fully Diluted	$ .41	$ 2.19	$ 1.39	$ .99	$ (a)
Net Earnings (Loss)					
Primary	$ .66	$ 4.29	$ 2.65	$ 1.78	$ (7.96)
Fully Diluted	$ .65	$ 4.13	$ 2.56	$ 1.72	$ (a)
Cash Dividends Paid per Share: Common	$ .10	$ —	$ —	$ —	$ —
Preferred—Series A	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
—Series B	$ 1.60	$ 1.60	$ 1.60	$ 1.60	$ 1.60

(a) Results are anti-delutive.

COMMERCIAL METALS COMPANY (AUG)

Five Year Statement of Consolidated Operations

	Year ended August 31				
	1979	1978	1977	1976	1975
Revenues (Note B):					
Net sales	$1,141,850,819	$698,542,310	$555,616,685	$501,260,106	$471,769,002
Other revenues	3,928,187	3,710,253	1,585,265	2,188,510	2,831,600
	1,145,779,006	702,252,563	557,201,950	503,448,616	474,600,602
Costs and Expenses:					
Costs of goods sold (Note 3)	1,071,548,275	657,273,203	529,991,690	471,853,268	429,631,476
Selling, general, and administrative expenses (Notes G and O)	35,827,009	26,623,403	23,058,705	21,843,756	21,712,529
Interest expense	6,188,933	4,356,820	4,302,649	2,948,201	2,893,942
Plant closing costs (Note N)	—	825,456	—	—	—
Employees' pension and profitsharing plans (Notes H and S)	3,497,628	1,469,201	604,781	1,181,947	2,179,622
	1,117,061,845	690,548,083	557,957,825	497,827,172	456,417,569
Earnings (Loss) before Income Taxes	28,717,161	11,704,480	(755,875)	5,621,444	18,183,033
Income Taxes (Notes E and 2)	13,600,000	6,100,000	(488,000)	2,610,000	8,800,000
Net Earnings (Loss)	$ 15,117,161	$ 5,604,480	$(267,875)	$ 3,011,444	$ 9,383,033
Earnings (Loss) Per Share (Notes 1 and K):					
Before November 1979 stock dividend	$5.86	$2.26	$(.11)	$1.23	$3.89
After November 1979 stock dividend	$5.33	$2.05	$(.10)	$1.12	$3.54
Cash dividends	$ .60	$ .30	$ .50	$ .56	$ .52

Alphabetic note references relate to Notes to Consolidated Financial Statements included elsewhere herein.
Numeric note references appear on the following page.

NOTES TO CONSOLIDATED STATEMENTS OF OPERATIONS

(1) Per share earnings were computed on the basis of the average number of shares of Commercial Metals Company common stock outstanding and common stock equivalents resulting from the stock option and purchase plans, if material, during the respective periods after giving effect to the 25% stock dividend in 1975 and the 10% stock dividend in 1976. The number of shares used in the calculation before the adjustment for the 10% stock dividend declared in November 1979 were: 1975-2,411,297; 1976-2,445,113; 1977-2,473,657; 1978-2,483,877; 1979-2,578,220. After adjustment for this stock dividend, the number of shares used in the calculation were: 1975-2,652,427; 1976-2,689,624; 1977-2,721,023; 1978-2,732,265; 1979-2,836,042.

Potential dilution of earnings per share resulting from exercise of employees stock options and purchase agreements was not material for 1975 through 1978.

(2) Investment credits are applied against federal income taxes payable in the periods in which allowable. Amounts involved for 1979, 1978, 1977, 1976, and 1975 were $314,000, $461,000, $406,000, $363,000, and $171,000, respectively.

(3) During fiscal 1976 a subsidiary of the Company manufacturing copper tubing changed its method of costing inventory from the first-in, first-out method to the last-in, first-out method. This change had the effect of reducing net income by $189,000. During fiscal 1977 a subsidiary of the Company changed its method of costing certain semi-finished nonferrous metals from the first-in, first-out method to the last-in, first-out method. This change had the effect of increasing the net loss by $213,000. During 1979, the Company changed its method of costing virtually all inventories from the first-in, first-out method to the last-in, first-out method. This change had the effect of reducing net income by $5,615,000. Because of this change, the current year's financial statements are not comparable with those of any prior year.

DIAMOND SHAMROCK CORPORATION (DEC)

Summary of Operations

(Dollars in thousands) Year Ended December 31,	1979	1978	1977	1976	1975
Revenues					
Sales and operating revenues	$2,356,858	$1,817,983	$1,637,995	$1,446,008	$1,199,063
Interest, dividends, royalties, etc.	22,743	25,179	17,753	14,072	23,056
Equity earnings	14,334	8,689	6,023	4,824	6,002
	2,393,935	1,851,851	1,661,771	1,464,904	1,228,121
Cost and expense					
Cost of products sold	1,811,787	1,419,472	1,193,273	1,043,268	888,889
Selling and administrative	192,782	156,950	127,919	114,378	97,920
Research and development	41,842	36,131	29,266	24,046	19,555
Interest	71,301	59,154	45,423	34,541	26,792
Facility sales and shutdowns	—	(13,323)	(9,300)	5,000	—
	2,117,712	1,658,384	1,386,581	1,221,233	1,033,156
Income Before Tax Provision	276,223	193,467	275,190	243,671	194,965
Provision for income taxes	98,100	54,335	97,522	95,671	74,264
Income before extraordinary item and cumulative effect of accounting change	178,123	139,132	177,668	148,000	120,701
Extraordinary item	—	—	—	—	400
Cumulative effect of accounting change	—	—	—	(1,154)	—
Net Income	$ 178,123	$ 139,132	$ 177,668	$ 146,846	$ 121,101
Earnings per Common share, after Preferred dividends					
Before extraordinary item and cumulative effect of accounting change	$ 3.37	$ 2.66	$ 3.55	$3.07	$2.66
Extraordinary item	—	—	—	—	.01
Cumulative effect of accounting change	—	—	—	(.02)	—
Net income	$ 3.37	$ 2.66	$ 3.55	$3.05	$2.67
Earnings per Common share, assuming full dilution					
Before extraordinary item and cumulative effect of accounting change			$ 3.42	$ 2.89	$ 2.46
Extraordinary item			—	—	.01
Cumulative effect of accounting change			—	(.02)	—
Net income			$ 3.42	$ 2.87	$ 2.47
Dividends per Common share	$ 1.51	$ 1.42	$1.175	$ .95	$ .80
Book value per Common share	$19.16	$17.18	$15.69	$13.20	$12.16

GULTON INDUSTRIES, INC. (FEB)

Summary of Operations (Dollars in thousands except per share amounts)

	1979	1978	1977	1976	1975
Net sales	$133,229	$108,166	$100,519	$97,003	$98,947
Cost and expenses:					
Cost of sales	94,000	77,550	72,918	71,167	75,192
Selling, general and administrative expenses	30,260	24,261	22,462	20,053	19,939
Interest expense	1,832	1,646	1,682	1,809	2,162
Other expenses (income)—net	(573)	(578)	(67)	1,111	(222)
	125,519	102,879	96,995	94,140	97,071
Earnings before taxes on income and extraordinary items	7,710	5,287	3,524	2,863	1,876
Taxes on income	3,479	2,441	1,677	1,278	925
Earnings before extraordinary items	4,231	2,846	1,847	1,585	951
Extraordinary items	—	—	123	556	561
Net earnings	$ 4,231	$ 2,846	$ 1,970	$ 2,141	$ 1,512
Net earnings applicable to Common Stock (after preferred dividends)	$ 4,022	$ 2,637	$ 1,761	$ 1,932	$ 1,303
Per share of Common Stock:					
Earnings before extraordinary items	$1.45	$.96	$.60	$.51	$.28
Extraordinary items	—	—	.05	.20	.21
Net earnings	$1.45	$.96	$.65	$.71	$.49
Dividends per share:					
Preferred Stock	$2.00	$2.00	$2.00	$2.00	$2.00
Common Stock	$.325	$.225	$.05	—	—
Average number of common shares and share equivalents used for computation of per share amounts-in thousands.	2,775	2,742	2,717	2,714	2,684
Depreciation and amortization	$ 2,391	$ 2,256	$ 2,191	$ 2,126	$ 2,166

LIBBEY-OWENS-FORD COMPANY (DEC)

Summary of Operations
(See Financial Review Page 15 for Discussion)

	1979	1978	1977	1976	1975
	(Dollars Expressed in Thousands, Except Per Share Data)				
Net Sales	$1,208,061	$1,107,128	$978,692	$871,505	$684,105
Cost of Products Sold	966,568	882,362	760,312	663,840	552,695
Interest Expense	16,038	9,526	8,151	8,400	11,046
Income Taxes	35,300	42,300	43,900	46,600	19,000
Net Earnings	58,078	65,800(a)	58,944	58,864	31,895(b)
Dividends on Series A Preferred Stock	4,817	4,818	4,830	4,992	5,164
Earnings Attributable to Common Stock	53,261	60,982	54,114	53,872	26,731
Per Share Data:					
Primary:					
*Average Shares Outstanding	11,093	11,084	11,084	10,958	11,005
Per Share Amount	4.80	5.50	4.88	4.92	2.43
Fully Diluted:					
*Average Shares Outstanding	12,615	12,605	12,608	12,542	12,638
Per Share Amount	4.60	5.22	4.67	4.69	2.43
Cash Dividends Per Share:					
Preferred	4.75	4.75	5.75	4.75	4.75
Common	2.30	2.30	2.20	2.00	1.075

(a) Includes charge for provision for plant closing costs—$12,000 pretax, $5,952 net, equal to $.53 per share and credit for gain on sale of securities—$16,885 pretax, $11,820 net, equal to $1.07 per share.

(b) Includes credit for gain on sale of securities—$5,821 pretax, $4,139 net, equal to $.38 per share.

Management's Analysis of Summary of Operations

ACTION INDUSTRIES, INC. (JUN)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF OPERATIONS

Comparison of Fiscal 1979 with Fiscal 1978

(Fiscal 1978 reclassified to conform to current classifications.)

Revenues

Net Sales. The decrease of $10,328,000 (17.6%) consisted of the following:

1. Sales to Other Retailers

Promotional Program sales decreased $9,195,100 (25%).

Other Sales in this segment decreased $2,427,000 (24%). In the first six months of the 1979 fiscal year such Other Sales decreased approximately $3,771,000 (49%), mainly due to the Company having discontinued, in January 1978, selling electric light bulbs to customers who are not users of the Company's promotional programs. Since January, 1978 Action Tungsram, Inc., in which the Company holds a 41% interest, has under taken sales of electric light bulbs to such customers. In the last six months of the 1979 fiscal year, Other Sales in this segment increased approximately $1,344,000 (50%).

2. Sales at Retail

Sales in Company-owned stores (35 in 1979 and 34 in 1978) increased $1,705,400 (15%). Sales in departments in stores owned by others decreased $411,300 (100%), the Company having discontinued operating such departments.

Other Revenues. The increase of $290,500 (208%) was due mainly to increased interest income from short-term commercial paper.

Costs and Expenses

Cost of Products Sold. The increase as a percentage of sales (from 68.7% in 1978 to 71.6% in 1979) was due to a decline in the gross profit margin percentage realized on all categories of sales.

Operating Expenses. The increase as a percentage of revenues (from 27.7% in 1978 to 33% in 1979) was due primarily to the greater impact of fixed expenses on the lower level of revenues.

Interest Expense. The increase of $181,600 (9%) was due mainly to an increase in the average amount of Long-Term Debt and in the interest rate on that Debt, and to increased interest charges related to capitalized equipment leases.

Earnings (Loss) Before Income Taxes and Equity in Net Earnings (Loss) of Minority Owned Entities. The decrease in earnings of $4,309,600 (from earnings of 0.3% to a loss of 8.5% as a percentage of revenues) reflects the combined effect of all the above.

Taxes on Income (Loss). The difference in the effective tax credit rate of 6.0% in 1978 and the effective tax credit rate of 39% in 1979 was due primarily to higher investment tax and job tax credits in 1978 and to a difference in various other nondeductible items.

Earnings (Loss) Before Equity in Net Earnings (Loss) of Minority Owned Entities. The decrease in earnings of $2,696,600 (from earnings of 0.3% to a loss of 5.2% as a percentage of revenues) reflects the combined effect of all the above.

Equity in Net Earnings (Loss) of Minority Owned Entities. The increase in earnings of $322,500 (from a loss of $90,600 in 1978 in earnings of $231,900 in 1979) reflects the Company's 41% interest in the net earnings of Action Tungsram, Inc. and its 50% interest in the net loss of Actrol Supply Co., Inc., which incurred start-up costs in connection with the setting up of a Home Center store which opened for business in April, 1979.

Net Earnings (Loss). The decrease in earnings of $2,374,100 (from earnings of 0.1% to a loss of 4.7% as a percentage of revenues) reflects the combined effect of all the above.

Comparison of Fiscal 1978 with Fiscal 1977

(Both years reclassified to conform to current classifications.)

Revenues

Net Sales. The decrease of $5,970,900 (9%) consisted of the following:

1. Sales to Other Retailers

Promotional Program sales decreased $3,426,600 (9%).

Other Sales in this segment decreased $21,000 (less than 1%). In the last six months of the 1978 fiscal year such Other Sales decreased approximately $1,667,000 (39%), mainly due to the Company having discontinued, in January 1978, selling electric light bulbs to customers who are not users of the Company's promotional programs. Since January, 1978 Action Tungsram, Inc., in which the Company holds a 41% interest, has undertaken sales of electric light bulbs to such customers.

2. Sales at Retail

Sales in Company-owned stores (34 in 1978 and 33 in 1977) increased $1,270,400 (13%.) Sales in departments in stores owned by others decreased $3,793,700 (90%), the Company having discontinued operating such departments.

Other Revenues. The increase of $188,600 was due mainly to interest income from short-term commercial paper and to a gain on the sale of certain production equipment.

Costs and Expenses

Costs of Products Sold. The increase as a percentage of sales (from 66.4% in 1977 to 68.7% in 1978) was due to a decline in the gross profit margin percentage realized on Sales to Other Retailers, offset in part by an increase in the gross profit margin percentage realized on Sales at Retail.

Operating Expenses. The increase as a percentage of revenues (from 25.7% in 1977 to 27.7% in 1978) was due primarily to increased fixed expenses in anticipation of higher sales than were realized and to increased distribution costs.

Interest Expense. The increase of $1,074,204 (from 1.5% to 3.5% as a percentage of revenues) was due principally to the increase in Long-Term Debt and in the interest rate on that Debt.

Earnings (Loss) Before Income Taxes and Equity in Net Earnings (Loss) of Minority Owned Entities. The decrease of \$3,955,560 (from 6.4% to 0.3% as a percentage of revenues) reflects the combined effect of all the above.

Taxes on Income. The decrease in the effective tax rate from 46.3% to (6.0%) was due primarily to investment tax and job tax credits.

Earnings (Loss) Before Equity in Net Earnings (Loss) of Minority Owned Entity. The decrease of \$2,046,590 (from 3.4% to 0.3% as a percentage of revenues) reflects the combined effect of all the above.

Equity in Net Earnings (Loss) of Minority Owned Entities. This reflects the Company's 41% interest in the net loss of Action Tungsram, Inc., which was formed in January, 1978. The loss incurred by that company was due primarily to the impact of start-up costs.

Net Earnings. The decrease of \$2,137,234 (from 3.4% to 0.1% as a percentage of revenues) reflects the combined effect of all the above.

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

MANAGEMENT'S ANALYSIS

1979 Compared to 1978

In fiscal 1979, sales were \$1,229.9 million, 18% higher than the prior year. Net income of \$97.5 million increased 28% over 1978.

The combined worldwide sales of merchant and tonnage industrial gases increased 15% over the prior year primarily due to higher volumes. Operating income was up 11% mainly as a result of the volume increases and the strengthening of European currencies in relation to the dollar. This gain reflects the dampening effect of increased operating costs not fully recovered in the marketplace. In addition, both operating and net income were reduced by provisions of \$2.5 million for the termination of the operations of a major customer in Puerto Rico and \$1.0 million for the insolvency of the sole customer of a French joint venture.

Equipment and services sales were 52% above 1978 primarily as a result of increased shipments of LNG heat exchangers, a higher level of intersegment transfers and sales of other services. Operating income rose substantially as a result of sales to third parties. Improved margins in metallurgical products and services which experienced losses in 1978 also contributed to this gain. Operating income also improved by \$5.5 million (\$3.4 million after taxes) because the medical equipment product line, which was sold early in fiscal 1979, incurred losses in 1978.

Sales of the chemicals segment were 18% above last year as a result of volume and price improvements in most product lines. Despite these gains, operating income and related margins declined primarily because of the lower income from fertilizer products, and operating difficulties with the polyvinyl alcohol plant.

Catalytic sales and operating income were well above last year. This improvement resulted from increased contract completions, which include an intercompany contract, and higher interest income.

Consolidated interest income short-term investments increased by more than \$6 million over 1978.

Pre-tax foreign exchange gains were lower in 1979. More importantly, on an after-tax basis these gains were \$1.3 million compared with an \$0.8 million loss in 1978.

The reduction in the U.S. statutory income tax rate and the effect of foreign currency translation were the major reasons for the lower effective tax rate of 44.4% in 1979 compared to 50.0% in 1978.

1978 Compared to 1977

In fiscal 1978, sales were \$1,039.1 million, which was 10% over 1977 sales of \$947.2 million. Net income of \$76.2 million rose 13% over 1977's amount of \$67.7 million.

Worldwide industrial gas sales, both merchant and tonnage, increased 18% over 1977 primarily due to higher volumes. Operating income was up 16%. The income gain was the result of improvements in all major products except domestic oxygen and nitrogen, which experienced margin declines caused by higher costs not fully recovered in the marketplace. In addition, the strengthening of foreign currencies in relation to the U.S. dollar caused an increase in sales and a significant increase in income of the European operations as expressed in U.S. dollars.

Equipment and services sales and operating income decreased 12% and 46%, respectively. In 1978, shipments of LNG heat exchangers, and sales of environmental products, were lower. Higher sales were achieved in domestic air separation plants and other cryogenic equipment. Medical equipment continued in a loss condition. Losses were also experienced in metallurgical products and services. Certain assets of the medical equipment product line were revalued downward by \$2,500,000 in 1978.

Chemicals sales and operating income increased 4% and 5%, respectively. Volume increases were achieved in most products. Gains in operating income in amines and polyvinyl chloride resins were mostly offset by the weak fertilizer market and the absence in 1978 of auto catalysts sales. The contract for auto catalysts supply was completed in 1977. Lower margins were earned in polyvinyl alcohol due to added costs associated with the plant expansion, and higher operating costs.

Catalytic, Inc. sales were down 20% and operating income decreased 8%. This reflects the previously low levels of construction activity which affected contract completions during the period.

The increase in other income is attributable primarily to the significant increase in foreign exchange gains. These gains resulted from the company's parallel hedging program. After considering the associated tax effect, the impact of foreign exchange gains and losses on 1978 net income was minimal.

The effective tax rate for 1978 was 50% compared to 45.5% in 1977. Much of the difference in tax rates is due to variations in the amount of non-taxable foreign exchange translation losses.

CENTRONICS DATA COMPUTER CORP. (JUN)

FINANCIAL STATEMENT ANALYSIS

1979 vs. 1978

Revenues

The increase in revenues of $46.5 million or 62% reflects growth of sales of newer printer products, principally the 700 Series partially offset by decreases in sales of older series printers. Increases are also reflected in sales of accessories, parts, and service income. Interest income increased $794,000 or 46% as additional funds, generated by the Company's wholly-owned domestic subsidiary operating in Puerto Rico, were invested.

Costs and Expenses

Cost of sales, as a percentage of sales, increased from 56% to 61% as a result of lower gross profit margins on newer printer products sales, increased manufacturing costs associated with the introduction of these products, and expansion of manufacturing facilities and staff, primarily in New Hampshire where the Company's printer assembly operations were moved into new facilities.

Selling expenses increased $1.2 million or 23% worldwide. Domestically, the increase was $.7 million due to continued expansion of marketing efforts and promotional programs related to new products and increases in sales commissions and related expenses. An additional $.5 million increase was due to the expansion of international sales operations.

General and administrative expenses, including provision for doubtful accounts, increased $3.6 million or 57%. Domestically, the increase was $1.9 million due to expansion of administration, data processing, accounting, personnel staffs, related facilities and equipment. An additional $.9 million increase was due to the expansion of international staffs, facilities and related expenses. The provision for doubtful accounts increased $.8 million.

Interest expense increased $3.9 million due to higher average borrowing and a higher average interest rate.

Income Taxes

The effective tax rate increased from 18% to 20% partially due to increased volumes and product mix changes for the Company's wholly-owned subsidiaries operating in Puerto Rico and Ireland. This resulted in a decrease in tax benefit from unrepatriated tax exempt earnings of the Puerto Rico Subsidiary partially offset by an increased tax benefit from unrepatriated tax exempt earnings of the Ireland Subsidiary. In addition, tax benefits were realized from the effect of certain foreign subsidiaries' prior year losses used in the current period and a decrease in the maximum federal income tax rate as a result of the Revenue Act of 1978. See footnote 9 of the accompanying Financial Statements for additional information regarding the foregoing tax benefits.

1978 vs. 1977

Revenues

The increase in revenues of $17.0 million or 29% reflects growth of sales of the newer 700 Series of printer products, partially offset by decreases in sales of the older series printers. Revenues from the sale of parts, accessorites and service increased as a result of customers ordering more optional items with their printers and a greater population of units in the field. Interest income increased as additional funds generated by the company's wholly-owned domestic subsidiary operating in Puerto Rico were invested.

Costs and Expenses

Cost of sales as a percentage of sales increased from 52% to 56% as a result of increased manufacturing costs associated with the introduction of new printer products and expansion of facilities and staff in New Hampshire, Puerto Rico and Ireland.

Selling expenses increased $1.5 million or 38% worldwide. Domestically, the increase was $1.2 million due to continued expansion of marketing efforts and promotional programs related to new products and increases in sales commissions and related expenses. An additional $.3 million increase was due to the expansion of international sales operations.

General and administrative expenses increased $2.3 million or 56%. Domestically, the increase was $1.1 million due to expansion of administration, data processing, accounting, personnel staffs, related facilities and equipment. An additional $1.2 million increase was due to the expansion of international staffs, facilities and related expenses.

Interest expense increased $1.9 million due to higher average borrowings and a higher average interest rate.

Income Taxes

The effective tax rate decreased from 24% to 18% due primarily to an increase in unrepatriated tax exempt earnings of the Company's wholly-owned domestic subsidiary operating in Puerto Rico, and foreign subsidiary operating in Ireland, and an increase in tax benefits from the Company's wholly-owned domestic international sales corporation (DISC) subsidiary. See footnote 9 of the Consolidated Financial Statements for additional information regarding the foregoing tax benefits.

COOPER INDUSTRIES, INC. (DEC)

MANAGEMENT'S ANALYSIS OF OPERATING RESULTS

1979. The predominant cause of the change from 1978 in each revenue and cost classification is the inclusion of the results of operations of the Gardner-Denver Company, purchased April 30, 1979. The Company's revenues increased 62% as a result of the acquisition and 16% from internal growth balanced throughout the Company's traditional business lines. Gross margins excluding the effect of Gardner-Denver, were comparable to those achieved in 1978, as were selling and administration expenses as a percentage of sales. The improvement in the consolidated gross margin is attributable to the inclusion of Gardner-Denver. Consolidated selling and administrative expense increased in relation to sales as a consequence of including the Gardner-Denver operations. Depreciation and amortization exceeds that of 1978 as a result of including both depreciation on the plant and equipment of Gardner-Denver and amortization of goodwill resulting from the acquisition. The higher level of interest expense relates to funds borrowed in connection with the acquisition and, to a lesser extend, to borrowings of Gardner-Denver assumed in the acquisition. The lower effective income tax rate is attributable to the 2% reduction in the United States statutory rate.

Increases in primary (23%) and fully diluted (21%) net income per common share result from the factors described above and are less than the increase in net income because of the additional common and preferred shares issued in the acquisition of Gardner-Denver.

1978. The company achieved revenue and net income growth during the year of 15% and 27%, respectively. Each of the Company's business lines contributed to the increase in revenues with the most significant gains registered by Energy Services (21%) and Hand Tools (14%). Operating income improvements of 35% and 29% were recorded by Hand Tools and Energy Services, respectively, while Aircraft Services' earnings declined 10%. The gain in Hand Tools' earnings was principally attributable to gross margin improvements resulting from reductions in product costs realized at new facilities placed in service in late 1976 and during 1977, as well as reduced relocation and start-up costs of the plant modernization programs. Energy Services' earnings improvements were accomplished through increased shipments of both units and parts and effective control of administrative costs. The decline in Aircraft Services' operating income resulted from reduced earnings from aircraft completions and refurbishments and higher selling and administrative costs associated with new marketing programs and administrative reorganizations.

On a consolidated basis, selling and administrative expenses increased 15% as a result of the Aircraft Services costs discussed above, increased Hand Tools expenses consistent with revenue growth, and charitable contributions in excess of those for 1977. Depreciation expense increased 18%, reflecting substantial capital additions by all business lines in recent years. Interest expense was 13% less than in 1977 due to reduced levels of borrowing.

EVANS PRODUCTS COMPANY (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Record revenues and earnings in 1978 were followed by another record year in 1979. All-time high earnings were reported by the Retail, Homes, Shelter Products and Transportation Systems and Industrial Groups in 1979. Building products related businesses benefited from a favorable home improvement market in both years, and strong new residential construction activity in 1978. The Transportation Systems and Industrial Group had its eighth consecutive year of record earnings in 1979. Railcar and truck trailer leasing and manufacturing activities, as well as specialty steel castings operations, all experienced increased earnings.

The impact of market conditions and other factors on each of the Company's major operations for 1979 and 1978 is summarized in the following analysis.

Retail: The number of retail stores in operation at the end of each year increased from 268 in 1977 to 272 in 1978 and 328 in 1979. In addition to the purchase of 40 Lindsley stores in 1979, there were 23 new stores opened and 7 stores closed. While store additions, particularly the Lindsley purchase, have contributed to increased operating results, gains in 1979 and 1978 were also attributable to steadily increasing sales to the home improvement and maintenance market. Higher sales volume, favorable pricing and cost controls resulted in improved profit margins in both years.

Homes: Home deliveries rose from 3,768 in 1977 to 4,090 in 1978 and 4,436 in 1979. Significant revenue and earnings gains in 1979 and 1978 resulted from increased deliveries as well as improved average selling prices associated with increased sales of larger homes and selling price adjustments. Earnings increased despite a rise in interest costs caused by higher interest rates and expanded borrowings to support construction loans to customers.

Shelter Products: The aluminum door and window operations, benefiting from continuing strong demand for energy conserving products, were chiefly responsible for the revenue and earnings gains in 1979, and also contributed to 1978 increases. While revenues from kitchen cabinet sales were up significantly in 1979, earnings were lower because of sharp increases in raw material costs. Kitchen cabinet operations provided more than half of the Group's revenues and earnings gains in 1978. Excellent market conditions and expanded production capacity were chiefly responsible for the 1978 improvement.

Fiber Products: Battery separator and glass fiber roofing operations accounted for most of the revenue gains in 1979. A strike at a major customer's operations, softening demand for automotive batteries related to unseasonably mild fourth quarter weather and lower auto sales, coupled with rising operating costs, caused the Group's profit margins and earnings to decline in 1979.

In 1978 all product lines reported higher revenues, primarily from increased unit sales. Price increases were largely offset by higher production costs, but profit margins improved from better plant capacity utilization, resulting in significant earnings gains.

Forest Products: In 1979 the declining housing market adversely affected lumber and plywood sales realizations and volume, particularly commodity plywood, resulting in a substantial drop in earnings. Rising costs, especially for stumpage, led to fourth quarter losses for the Canadian operations; however, they were profitable for the year. The Aberdeen, Washington, plywood mill reported earnings gains, benefiting from increased operating efficiencies. The Group's earnings include an operating loss of $1.5 million in 1979 and an operating profit of $1.2 million in 1978 for the Missoula, Montana, complex which is being discontinued.

In 1978 strong demand for lumber and plywood, associated with high levels of new residential construction activity, resulted in increased sales volume and prices. Earnings rose substantially as improved sales realizations and operating rates as well as an increased emphasis on specialty products more than offset higher raw material and labor costs.

Transportation Systems & Industrial: Leasing has been an important contributor to the Group's earnings improvement over the past two years. The lease fleet's profitability has benefited from expansion, maturation and more favorable renewal rentals. The number of railcars and truck trailers in the lease fleet at the end of each year increased from 23,502 and 2,287 in 1977, to 24,460 and 3,244 in 1978 and to 26,487 and 4,892 in 1979, respectively. Lease fleet additions also generated investment tax credits of $11.4 million in 1979 and $7.5 million in 1978. (See "Taxes on Earnings on page 36.) Manufacturing profits on railcar and truck trailer additions to the lease fleet are deferred, lowering current earnings while enhancing the future profitability of the fleet.

In 1979 railcar manufacturing plants operated at or near capacity, except for the Washington, Indiana, plant which has been closed as the result of a strike since November 10. High operating rates and an increased number of specialty railcars contributed to improved profit margins for the railcar operations in total. Increased demand in the railcar market produced strong year-to-year gains in 1978 revenues and earnings from railcar and component manufacturing.

Revenues and earnings from truck trailer production have benefited over the past two years from favorable market conditions and the 1978 start-up of a new production facility, which will eventually allow current unit production to double. The profit margin increased in 1979 with higher operating rates and improved efficiencies from the new plant's second year of operation.

In 1979 customer demand for specialty steel castings exceeded capacity, producing favorable revenue and earnings comparisons despite start-up costs for the new Duluth finishing operation. In 1978 earnings declined as a result of a strike at the Minneapolis foundry, which reduced pretax earnings by about $3 million, offset partially by favorable market conditions.

Estimated Losses of Discontinued Facilities: The $4,250,000 charge in 1979 resulted from the Company's decision to discontinue operations at the Missoula, Montana, forest products complex.

Interest Expense: Higher prime interest rates and increases in average debt outstanding were primarily responsible for increased interest expense in 1979 and 1978. Interest expense in 1978 also included $2 million relating to an income tax settlement.

Unallocated Other Expenses: Unallocated other expenses in 1978 included foreign exchange losses of $1,474,000 due primarily to the effect of the decline in the value of the Canadian dollar on Canadian operations.

Taxes on Earnings: Lower effective income tax rates in 1979 and 1978 reflect increased investment tax credits, primarily attributable to increased lease fleet additions. Also in 1979 the Federal income tax rate was reduced from 48% to 46%, and in 1978 the Company had a $2 million tax benefit from a Federal income tax settlement.

Extraordinary Item: The extraordinary item in 1978 was due to the utilization of previously unrecognized Canadian tax benefits arising from timing differences between financial and tax reporting.

Earnings Per Share: During 1979 the Company exchanged $2.10 Cumulative Junior Preferred Stock for 350,000 shares of its common stock. If this transaction had not taken place, preferred dividends would not have increased in 1979. During 1977 and 1978 the Company purchased for cash 559,000 and 343,000 shares, respectively, of its common stock for the treasury. If these transactions had not taken place, interest expense for the years 1979, 1978 and 1977 would have been lower. Earnings per share, restated to reflect these adjustments, would have been $4.36, $3.72 and $2.82 for 1979 1978 and 1977, respectively.

Subsequent Event: See Notes to Financial Statements, page 42.

FAIRCHILD INDUSTRIES, INC. (DEC)

MANAGEMENT DISCUSSION AND ANALYSIS OF CONSOLIDATED STATEMENTS OF EARNINGS

For a detailed statement of the Corporation's operating results, see Business Segment Information (Note 8).

Sales

Sales for 1979 exceeded those for 1978 by $174 million (32 percent); the gain was mainly the result of the increased delivery of units of military aircraft (A-10), commercial aircraft (Metro and Merlin turboprops), commercial aircraft components (Boeing 747) and accessories and increased sales from domestic communications satellite business. Sales in 1978, as compared to 1977, increased by $144 million (36 percent), predominantly as a result of the increase of military and commercial aircraft sales.

Other Income

Other income in 1979 was $4.3 million (170 percent) more than in 1978, principally because of the sale of certain industrial facilities and land as well as higher interest income and dividends on an investment in 1979. Other income for 1978 was $603,000 (19 percent) less than in 1977, due principally to higher interest income in 1977.

Cost of Sales

Cost of sales as a percentage of sales decreased to 80.2 percent in 1979 from 81.0 percent in 1978. This improvement was due primarily to increased deliveries on military and commercial aircraft and improved manufacturing performance on commercial aircraft. Cost of sales as a percentage of sales decreased to 81.0 percent in 1978 from 85.2 percent in 1977. This improvement was due essentially to increased deliveries and improved manufacturing performance on the military and commercial aircraft programs. To a lesser extent, the improvement in 1978 from 1977 was aided by the reduction of satellite lease costs by American Satellite Corporation.

Depreciation and Amortization

Depreciation and amortization increased $733,000 (7 percent) in 1979 despite the additional $2 million of amortization expense related to Fairchild KLIF, Inc. in 1978. The 1979 increase is due predominantly to a full year's depreciation on numerical-control machine tool equipment in support of the A-10 program, continued placement in service of domestic communications satellite equipment of American Satellite Corporation and electronic data processing equipment at the Corporate office. In 1978, depreciation and amortization increased $4.2 million (61 percent) as compared to 1977, due primarily to 1) an additional provision of amortization expense in 1978 of $2 million which decreased the excess of the cost of the investment in Fairchild KLIF, Inc. over net assets at the acquisition date, 2) continuing investments in American Satellite Corporation's domestic communications system and 3) continuing investments in support of the A-10 program.

General Administrative, Marketing and Development

General, administrative, marketing and development expenses in 1979 increased $13.1 million (31 percent) over 1978. A substantial portion of the increase was related directly to marketing and development expenditures for follow-on military aircraft and commercial aircraft component programs, a fatigue-testing program for commercial aircraft and a major spacecraft proposal. The balance of the increase was due to an expanded level of business throughout the Corporation. In 1978, these expenses increased $9.4 million

(28 percent) over 1977 due to increased marketing and development expenditures and a higher business volume.

Interest

Interest expense was $2 million (52 percent) greater in 1979 as compared to 1978, predominantly as a result of higher interest rates and a $27,500,000 bank term loan (repaid in October and November 1979) to finance the purchase of common stock of Bunker Ramo Corporation (Note 3), offset by lower borrowings during 1979 to support the Corporation's operations.

Provision for Income Taxes

The effective income tax rate in 1979 was 46.8 percent, as compared to 51.3 percent in 1978, or 51.4 percent before an extraordinary item, and 47.4 percent in 1977. The lower effective tax rate in 1979 resulted primarily from a lower federal corporate statutory tax rate (46 percent versus 48 percent), the decrease in non-deductible amortization expense in 1979, an additional provision required in 1978 due to the loss of capital gains benefits taken in prior years and dividends received on an investment in 1979 of which only 15 percent is taxable. The higher effective tax rate in 1978 as compared to 1977 resulted primarily from a higher amount of income subject to the full statutory tax rate in 1978, increased provision of non-deductible amortization expense and a relatively lesser effect from investment tax credits.

Net Earnings

Net earnings for 1979 were $15.4 million (63 percent) higher than those for the previous year and 1.1 percent higher (5.6 percent versus 4.5 percent) as a percentage of sales. This increase was due primarily to increased deliveries of military and commercial aircraft, commercial aircraft components and accessories, improved manufacturing performance on commercial aircraft and the sale of industrial facilities and land. The net earnings for 1978 included an extraordinary item of $1.4 million (after taxes) resulting from the Debenture exchange as discussed in Note 5 to the Financial Statements.

Net earnings for 1978 were $15 million (156 percent) higher than for 1977 and 2.1 percent higher as a percentage of sales, due principally to increased deliveries and improved manufacturing performance on the military and commercial aircraft programs, the extraordinary item of $1.4 million mentioned above as well as reduced satellite lease costs by American Satellite Corporation.

Description of Company's Business

CLARK EQUIPMENT COMPANY (DEC)

DESCRIPTION OF BUSINESS

The Company is a highly integrated manufacturer of capital goods. Its present business is axles and transmissions and related components, material handling equipment and construction machinery. Approximately one-third of the output of axles, transmissions and related components is transferred to other product plants and used in the production of material handling equipment and construction machinery, where it is estimated that such axles, transmissions and components represent between 20% and 30% of manufacturing costs. The rental of products and the sale of replacement parts are important phases of the Company's operations. Sales to the United States Government account for less than 2% of total sales.

Specified financial information by industry segments and geographic areas for the five years ended December 31, 1979 is summarized as follows (in millions of dollars) and is discussed on Page 14.

GEO. A. HORMEL & COMPANY (OCT)

COMPANY PROFILE

Geo. A. Hormel & Company is a federally-inspected food processor which slaughters livestock for processing into meat and meat products which are sold at the wholesale trade level.

The principal products of the Company are meat and meat products—boneless hams, sausage items, wieners, sliced bacon, luncheon meats, stews, chilis, hash and meat spreads—which are sold fresh, frozen, cured, smoked, cooked or canned. The Company's products are sold in all 50 states by salesmen operating in assigned territories coordinated from district sales offices located in most of the larger cities, and by brokers and distributors who handle carload lot sales.

Hormel operates 20 plants for slaughtering and/or processing and has 12 distribution plants located along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii. In addition, the Company operates in international areas, including the Philippines, Okinawa, Dominican Republic, and in various European countries through Hormel International, a wholly-owned subsidiary.

Hormel employs over 8,300 people and has approximately 4,700 stockholders.

KIMBERLY-CLARK CORPORATION (DEC)

DESCRIPTION OF THE COMPANY

Kimberly-Clark, its consolidated subsidiaries and equity companies are principally engaged in a single, worldwide manufacturing and marketing business. This business primarily involves the use of fibers to serve many diverse markets. Since land is a main source of fiber, the company owns or controls extensive forestland.

Essentially, the company converts fibers into products which serve the needs of people in many areas of the world. Mostly, these are cellulose fibers derived from trees, other plants and reclaimed materials, and they are formed in a papermaking process. However, synthetic fibers and other methods of forming are of growing importance in the development of new products and markets. With a few important exceptions, the company emphasizes products of relatively high value derived from technology, creativity, imaginative packaging and well-known brand names rather than commodity products.

Major Product Classes. Kimberly-Clark products are grouped into three major classes: Consumer and Service; Newsprint, Pulp and Forest Products; and Paper and Specialties.

Consumer and Service is the largest of the three classes, accounting for more than 60 percent of sales. Products in this class include facial tissue, bathroom tissue, feminine napkins and tampons, disposable diapers, and household towels which are sold worldwide under a variety of brand names including Kleenex, Kotex and New Freedom. This class includes not only products for use in the home but also the same or similar products for away-from-home markets (industrial, commercial and institutional markets), as well as products such as industrial wipers.

Also in this class are nonwoven materials made by a process of bonding or interlocking fibers, yarns or filaments. These materials have characteristics similar to some woven textiles. Nonwoven fabrics are used in Kimberly-Clark products for the health care, industrial wiping, infant care and menstrual care markets, and are also sold as a base material to other converters.

In the Consumer and Service Class, products for home use are sold directly to supermarkets, mass merchandisers, drug stores, variety stores and department stores; and also to wholesalers, brokers and distributors. Other products in this class are sold directly to end users and converters and through wholesalers.

The Newsprint, Pulp and Forest Products Class accounts for slightly more than 20 percent of sales. Products in this class include lumber, pulp, groundwood printing papers and newsprint. Newsprint and lumber are among the few important commodity products made by Kimberly-Clark for sale to others.

In the Newsprint, Pulp and Forest Products Class, newsprint and groundwood printing papers are sold directly to newspaper and other publishers and through sales agents; lumber is sold to retailers, distributors and other customers. Substantially all of the pulp produced by the company is consumed in its operations, but small amounts occasionally are sold directly to other companies.

The Paper and Specialties Class accounts for a little over 15 percent of sales. Products in this class include capacitor papers, dielectric films and metallized products for electrical and electronic markets; cigarette papers, reconstituted tobacco and other products for tobacco markets; cotton content and premium sulphite correspondence, cover and text papers; thin and lightweight specialties for use in bibles, forms and carbon papers; adhesive-coated papers, films and foils; specialty envelopes; saturated base papers for abrasives, labels and tape; and other products which require unusual technology in their development or application.

Products in the Paper and Specialties Class are sold through paper merchants, brokers, sales agents and other resale agencies. Some products are also sold directly to users, converters, manufacturers, publishers and printers.

In addition to these product classes, the company is engaged in some comparatively small and unrelated activities such as aircraft maintenance, finishing and refurbishing, and machinery design, fabrication and installation.

Employees and Stockholders. In its worldwide consolidated operations, Kimberly-Clark has 30,838 employees as of December 31, 1979. The company had 24,639 stockholders as of the same date.

HAMPTON INDUSTRIES, INC. (DEC)

DESCRIPTION OF BUSINESS

Hampton Industries, Inc., founded in 1925, is a major producer of wearing apparel. Its principal products include men's and boys' shirts, women's and girls' blouses, pajamas, robes and a line of related imported items and outerwear. The Company's domestic manufacturing and distribution facilities, all of which are company-owned, are located in the Southeastern part of the United States.

While the majority of the Company's products are sold under either private or store labels, sales of its branded merchandise has increased significantly in recent years. The principal name brands manufactured and distributed by the Company are "McGregor for Boys" in the boys' shirt field and "Sasson" in the women's blouse field.

The Company's principal sales offices and showrooms are located in New York City and Kinston, North Carolina. In addition, sales offices and showrooms are maintained by the Company sales agents in Los Angeles, Miami, Boston, Baltimore, Chicago and Dallas. The Company's 3,200 customers include most of the major national and regional chain department and specialty stores. The Company's two largest customers account for approximately 19% of its total sales volume. This percentage has remained relatively constant over the past few years.

Advance bookings of orders are important in terms of understanding the Company's business in that the levels thereof have a significant effect on its ability to plan production and control inventory. The Company has experienced a tremendous surge in orders since the end of December when they totalled $21,500,000. During the latter part of March 1980, the amount had increased to $53,000,000. Such amounts were $27,000,000 and $39,000,000 at those respective dates a year ago.

NATIONAL STEEL CORPORATION (DEC)

BUSINESS AND PRODUCTS

National Steel Corporation and its subsidiaries are primarily engaged in the manufacture and sale of iron and steel and aluminum products. Principal steel products include hot- and cold-rolled sheets and strip, galvanized sheets, tinplate, pig iron, and a variety of other steel products. Aluminum products include primary aluminum and a wide range of finished aluminum products such as foil, siding, building products and extruded forms. The Corporation is vertically integrated in its steel operations and has reserves of iron ore and coal substantially in excess of its anticipated requirements.

Steel products accounted for approximately 94% of total sales during each of the last five years. The distribution of sales, revenue, and identifiable assets between steel and aluminum products for 1979 and 1978 is set forth in Note H on page 29.

The automotive industry accounted for approximately 26½% of total steel shipments by tonnage during 1979 and the container industry accounted for approximately 17½%. The remainder of steel products and aluminum production are sold to a wide variety of users.

See pages 15 and 27 in regard to the Corporation's recent entry into the financial services field.

Market Price and Dividend Data

THE AMERICAN DISTILLING COMPANY (SEP)

MARKET PRICES OF COMMON STOCK AND DIVIDENDS PAID

The Company's Common Stock is traded on the New York Stock Exchange. The following table sets forth the high and low sale prices of the Common Stock as reported on the New York Stock Exchange for each quarterly period within the past two fiscal years of the Company ending September 30, 1979:

Fiscal Quarters	High	Low
1979		
First quarter	$11⅜	$ 8⅜
Second quarter	11¾	9½
Third quarter	14½	11
Fourth quarter	15⅝	12¾
1978		
First quarter	$ 9⅞	$ 8
Second quarter	9¾	8
Third quarter	13¼	8
Fourth quarter	12⅛	9⅞

No dividends have been paid in any of the foregoing periods.

CASTLE & COOKE, INC. (DEC)

COMMON STOCK DATA (UNAUDITED)

	1979		1978	
Quarter	Cash Dividends Paid Per Share	Market Price Range	Cash Dividends Paid Per Share	Market Price Range
First	$.19	$14¼-16⅝	$.17¼	$14 -15⅞
Second	.19	13⅝-15½	.17¼	14¼-18
Third	.19	14¾-16⅜	.17¼	15⅞-20¼
Fourth	.19	12⅜-18	.17¼	14¾-19¼
Year	$.76	$12⅜-18	$.69	$14 -20¼

Note: Adjusted for stock dividends (current annual cash dividend rate is $.80).

CONROY, INC. (AUG)

STOCK INFORMATION

Conroy's common stock is listed on the American Stock Exchange (Symbol-CRY). The market prices shown below are the highest and lowest prices for each quarter as reported by the Exchange.

In fiscal 1978, a semi-annual dividend of 7 cents per share was paid on October 3, 1977. Thereafter dividends were declared on a quarterly basis with payments of 4 cents per share being made on January 25, 1978, April 25, 1978, and July 25, 1978.

In fiscal 1979, quarterly dividends of 4 cents per share were paid on October 25, 1978, January 25, 1979, April 25, 1979, and July 25, 1979.

	Market Prices High	Market Prices Low
Fiscal 1979		
Fourth—June-August, 1979	5	3¾
Third—March-May, 1979	4⅝	3⅞
Second—December, 1978-February, 1979	5⅜	3½
First—September-November, 1978	5⅜	3½
Fiscal 1978		
Fourth—June-August, 1978	5½	4
Third—March-May, 1978	5⅜	4¼
Second—December, 1977-February, 1978	4¾	3⅝
First—September-November, 1977	4¼	3¼

COOPER INDUSTRIES, INC. (DEC)

DIVIDEND AND STOCK INFORMATION

Dividends: Cash dividends paid to common shareholders during 1979 totaled $.92 a share ($.23 per quarter) compared to $.77 a share ($.18 for the first three quarters and $.23 for the fourth quarter) in 1978. (Dividend figures are adjusted to reflect the two-for-one common stock split of March 21, 1980.)

On February 19, 1980, the Board of Directors declared an increase in the quarterly cash dividend on common shares to $.27 or $1.08 on an annual basis. This rate represents a 17 percent increase ofer the amount paid in 1979. The first quarterly dividend of $.27 a share will be paid March 20 to shareholders of record March 3.

During both 1979 and 1978, the annual share dividend for Series B Preferred stock was $2.50 ($.625 per quarter). Dividends paid during 1979 on the $2.90 Series Preferred stock (which has an annual share dividend of $2.90 and a quarterly dividend of $.725) totaled $1.935 (rounded) a share since issuance on May 1.

Stock Information: Cooper Industries common stock (symbol—CBE) is listed on the New York and Pacific stock exchanges. Series B Preferred stock and $2.90 Series Preferred stock are listed on the New York Stock Exchange.

On February 19, 1980, the Board of Directors authorized a two-for-one stock split of common shares. Common shareholders of record on March 21 will receive one additional share of common stock for each share held on that date. Series B Preferred stock and $2.90 Preferred stock will be convertible into twice the number of common shares as before the split.

The high and low quarterly sales prices for the past two years of common and preferred shares, as reported in *The Wall Street Journal*, (and not adjusted for the two-for-one stock split authorized in February 1980) are as follows:

1979 (by quarter)

		1	2	3	4
Common	High	$ 51.00	$ 55.75	$ 60.50	$ 66.25
	Low	46.13	46.25	53.63	56.00
Series B Preferred	High	$170.00	$182.00	$210.00	$247.00
	Low	168.00	180.00	193.00	210.00
$2.90 Preferred	High	—	$ 34.50*	$ 37.00	$ 39.50
	Low	—	31.63*	33.75	34.75

1978 (by quarter)

		1	2	3	4
Common	High	$ 46.00	$ 60.00	$ 56.50	$ 50.00
	Low	40.63	43.00	46.25	41.50
Series B Preferred	High	$157.50	$194.50	$196.00	$155.00
	Low	150.00	172.00	196.00	155.00

*Beginning May 1, 1979.

DAYTON MALLEABLE INC. (AUG)

COMMON STOCK PRICES AND DIVIDENDS PER SHARE

Fiscal 1978	Price Range* High	Low	Dividends
Quarter ended December 4	26	23	$.25
Quarter ended March 5	25½	20	.25
Quarter ended June 4	26	22½	.25
Quarter ended August 31	27	22	.75
			$1.50
Fiscal 1979			
Quarter ended December 3	27	21	$25
Quarter ended March 4	24	21½	.25
Quarter ended June 3	25	22½	.25
Quarter ended August 31	25	19¾	.75
			$1.50

*Common Stock trade Over-the-Counter (DMAL). Prices indicated are the mean of bid and asked quotations.

KUHLMAN CORPORATION (DEC)

STOCK AND DIVIDEND INFORMATION

The common stock of Kuhlman Corporation is listed on the New York Stock Exchange and is quoted daily by the Exchange in most of the major newspapers. The table to the right shows the price range per share for the last two years, and dividends declared per share for the two-year period. There were 2,041,700 shares of common stock outstanding at December 31, 1979 including 16,000 shares held in Treasury.

	Common Stock Price Range 1979		1978		Dividends Declared Per Share 1979		1978	
Quarter	High	Low	High	Low	Amount	Date Paid	Amount	Date Paid
First	16¼	14⅛	15½	14	$.20	April 10	$.175	April 10
Second	15½	13¼	19⅜	14⅝	.20	July 10	.175	July 10
Third	14¼	12⅝	18½	16⅛			.25*	Sept. 8
					.20	Oct. 10	.175	Oct. 10
Fourth	13¾	9½	17½	13⅛	.20	Jan. 10	.20	Jan. 10
						1980	.25*	1979
					$.80		$1.225	

*Extra Dividend

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 1979 financial statements of the survey companies.

Industry Segments

BORG-WARNER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Sales to major customers

Sales to Ford Motor Company were approximately 11% of consolidated sales in 1978. No other single customer accounted for more than 10% of consolidated sales in either 1979 or 1978.

Industry segments

Borg-Warner manufacturing operations are classified among four principal industry segments: Air Conditioning, Chemicals & Plastics, Industrial Products, and Transportation Equipment. General corporate assets primarily include cash, marketable securities, and investments and advances. The nature of continuing operations within each segment is discussed in pages 4 through 12. Financial highlights for these segments are as follows for the years ended December 31, 1976 through 1979.

Sales (millions of dollars)	1979	1978	1977	1976
Air Conditioning	$ 570.3	$ 516.9	$ 439.2	$ 352.5
Chemicals & Plastics	595.4	472.1	421.8	399.1
Industrial Products	552.3	474.1	434.3	410.4
Transportation Equipment	986.5	844.5	718.5	652.4
Sales of segments	$2,704.6	$2,307.6	$2,013.8	$1,814.4
Earnings				
Air Conditioning	$ 24.5	$ 42.5	$ 40.9	$ 25.4
Chemicals & Plastics	56.6	43.4	24.1	37.0
Industrial Products	79.5	71.5	71.0	53.3
Transportation Equipment	81.9	89.2	71.9	64.5
Operating profit of segments	242.5	246.6	207.9	180.2
Financial Services	21.1*	16.1*	12.8*	10.6*
Protective Services	6.2*	1.9*		
Affiliates at equity	8.7	6.9	4.9	.8
General corporate expense	(22.7)	(24.1)	(25.4)	(17.9)
Interest expense	(33.1)	(26.7)	(25.8)	(26.0)
Earnings before taxes of continuing operations	$ 222.7*	$ 220.7*	$ 174.4*	$ 147.7*

*Earnings for the financial and protective services companies are reflected on an after tax basis.

Identifiable assets	1979	1978	1977	1976
Air Conditioning	$ 257.0	$ 226.7	$ 198.7	$ 184.3
Chemicals & Plastics	303.6	262.2	241.4	222.7
Industrial Products	314.0	281.0	242.9	222.5
Transportation Equipment	479.0	398.7	353.7	344.8
Identifiable assets of segments	1,353.6	1,168.6	1,036.7	974.3
Financial Services	156.5	134.4	115.7	104.8
Protective Services	125.1	121.7	112.0	
Affiliates at equity	41.3	34.3	29.3	23.7
General corporate assets	140.2	177.1	140.8	228.1
Identifiable assets of continuing operations	$1,816.7	$1,636.1	$1,434.5	$1,330.9

Capital expenditures and depreciation by industry segment are as follows for the years ended December 31, 1976 through 1979.

TABLE 1-3: SEGMENT INFORMATION

	Number of Companies		
	1979	1978	1977
Industry segments			
Revenue	457	445	324
Operating income or loss	410	397	287
Identifiable assets	452	444	307
Depreciation expense	450	439	303
Capital expenditures	443	432	299
Geographic areas			
Revenue	210	205	169
Operating income or loss	174	168	118
Identifiable assets	214	205	161
Depreciation expense	20	24	19
Capital expenditures	22	26	19
Export sales	88	101	59
Sales to major customers	85	85	59

Capital expenditures (millions of dollars)	1979	1978	1977	1976
Air Conditioning...	$ 11.2	$ 9.1	$ 8.9	$ 3.5
Chemicals & Plastics.............	33.0	46.9	22.5	6.6
Industrial Products	26.4	22.2	16.8	12.0
Transportation Equipment......	54.2	30.7	23.0	12.9
Corporate.........	5.9	5.0	2.3	.6
Total...........	$130.7	$113.9	$73.5	$35.6
Depreciation				
Air Conditioning...	$ 6.4	$6.2	$ 5.5	$ 4.9
Chemicals & Plastics.............	15.0	14.9	13.3	10.9
Industrial Products	11.3	10.0	9.8	7.5
Transportation Equipment......	24.2	21.1	20.4	19.1
Corporate.........	2.7	2.2	1.3	.5
Total...........	$59.6	$54.4	$50.3	$42.9

Geographic segments

Borg-Warner sales, operating profit, and identifiable assets by major geographic area are summarized as follows for the years ended December 31, 1976 through 1979.

Sales unaffiliated customers (millions of dollars)	1979	1978	1977	1976
United States......	$1,910.7	$1,674.3	$1,478.8	$1,288.2
Australia..........	198.1	166.7	145.6	150.7
Canada............	134.3	107.0	100.3	97.0
Europe............	454.9	355.2	285.0	254.4
Other foreign......	6.6	4.4	4.1	24.1
Total continuing operations...	$2,704.6	$2,307.6	$2,013.8	$1,814.4
Sales inter-segment				
United States......	$80.9	$65.7	$57.6	$54.7
Australia..........	1.2	.8	.3	.7
Canada............	1.8	2.6	1.0	3.9
Europe............	8.6	5.1	3.6	1.0
Other foreign......	—	—	—	.1
Total continuing operations...	$92.5	$74.2	$62.5	$60.4
Operating profit				
United States......	$194.7	$195.9	$179.8	$148.8
Australia..........	18.7	19.6	17.6	17.1
Canada............	12.5	11.0	7.5	10.4
Europe............	15.5	20.3	3.0	5.3
Other foreign......	1.1	(.2)	—	(1.4)
Total continuing operations...	$242.5	$246.6	$207.9	$180.2
Identifiable assets				
United States......	$ 850.3	$ 746.7	$ 680.6	$606.7
Australia..........	112.5	101.9	86.5	86.9
Canada............	68.0	46.7	40.2	44.0
Europe............	318.9	270.5	266.7	217.1
Other foreign......	3.9	2.8	2.7	19.6
Total continuing operations...	$1,353.6	$1,168.6	$1,076.7	$974.3

CERTAINTEED CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies:

Industry Segments

The Company's industry segments are building materials, fiber glass products, and piping products. "Building materials" is comprised of the manufacture and sale of roofing, vinyl siding and millwork products and the wholesale distribution of these and other materials. "Fiber glass products" is comprised of the manufacture and sale of residential, industrial and automotive insulations and fiber glass reinforcements. "Piping products" is comprised of the manufacture and sale of PVC and asbestos-cement piping and the jobber distribution of pipe and pipe system components.

Reference is made to the separate schedule included in this report on page F-18 entitled "Financial Information About Industry Segments." The information included in that schedule for 1979 and 1978 is an integral part of the financial statements.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

	1975	1976	1977	1978	1979
(Dollars in Millions)	Unaudited				
Net Sales:					
Building materials	$257.8	$306.8	$353.6	$376.7	$402.8
Fiber glass products	159.4	198.6	258.0	280.2	259.7
Piping products	140.3	166.8	216.5	254.7	275.6
Intersegment sales	(4.5)	(7.2)	(10.0)	(16.2)	(21.9)
	$553.0	$665.0	$818.1	$895.4	$916.2
Operating Profit:					
Building materials	$ 29.3	$ 37.7	$ 45.5	$ 45.8	$ 42.0
Fiber glass products	29.2	33.1	54.1	31.5	(13.3)
Piping products	8.8	11.9	18.5	27.9	25.9
	67.3	82.7	118.1	105.2	54.6
General corporate expenses	(6.0)	(7.4)	(10.6)	(14.7)	(11.9)
	61.3	75.3	107.5	90.5	42.7
Interest expense, net of interest income	(12.3)	(11.9)	(12.5)	(11.9)	(21.6)
Other income, net	2.2	4.7	2.4	10.4	2.6
Profit before income taxes	$ 51.2	$ 68.1	$ 97.4	$ 89.0	$ 23.7
Depreciation and Amortization:					
Building materials	$ 3.9	$ 4.2	$ 4.4	$ 5.6	$ 6.6
Fiber glass products	8.1	9.0	13.9	19.3	30.5
Piping products	5.6	6.3	7.0	7.1	6.7
General corporate	.4	.6	1.1	.9	1.1
	$ 18.0	$ 20.1	$ 26.4	$ 32.9	$ 44.9
Capital Expenditures:					
Building materials	$ 5.0	$ 12.4	$ 20.8	$ 15.3	$ 13.7
Fiber glass products	17.2	38.3	49.6	118.1	58.7
Piping products	6.7	3.4	6.7	8.7	12.5
General corporate	2.0	6.6	4.3	3.4	1.6
	$ 30.9	$ 60.7	$ 81.4	$145.5	$ 86.5
Identifiable Assets at end of year:					
Building materials	$112.1	$126.9	$145.7	$170.1	$169.3
Fiber glass products	136.1	169.5	218.6	307.6	341.0
Piping products	109.8	116.1	131.3	146.1	159.7
General corporate (includes short-term investments)	70.9	62.3	115.7	45.9	50.3
	$428.9	$474.8	$611.3	$669.7	$720.3

DIAMOND INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (in part): Other Matters

Financial Data by Business Segments appears on pages 30 and 31.

FINANCIAL DATA BY BUSINESS SEGMENTS

(in millions of dollars)

1979	Total Sales	Inter-Segment Sales	Net Customer Sales	Operating Income	Total Assets	Capital Expenditures	Depreciation, Depletion, Amortization
Lumber	$ 155	$20	$ 135	$ 18	$ 77	$ 7	$ 7
Retail	356	1	355	28	141	9	3
Packaging	464	2	462	33	298	48	16
Pulp and Paper	199	11	188	8	201	26	11
Specialty Printing	66	—	66	11	37	1	1
Other	83	6	77	7	38	3	2
Total Segments	$1,323	$40	1,283	105	792	94	40
Corporate Office				(3)	28	2	1
Interest Expense				(9)			
Total			$1,283	$ 93	$820	$96	$41
Total Foreign included above			$ 83	$ 13	$ 59	$ 2	$ 4
1978							
Lumber	$ 151	$19	$ 132	$ 21	$ 77	$ 7	$ 7
Retail	248	1	247	19	140	5	2
Packaging	424	3	421	31	247	23	15
Pulp and Paper	173	10	163	15	181	20	10
Specialty Printing	69	—	69	10	34	1	2
Other	80	4	76	5	42	1	1
Total Segments	$1,145	$37	1,108	101	721	57	37
Corporate Office				(4)	31	1	1
Interest Expense				(5)			
Total			$1,108	$ 92	$752	$58	$38
Total Foreign included above			$ 74	$ 11	$ 50	$ 2	$ 4

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Industry segments

FMC operates worldwide in six industry segments: food and agricultural machinery and chemicals; industrial chemicals; material and natural resources 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 20 and 21 of this annual report.

Industry segment sales 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 defined as total revenue less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate income and expenses, interest expense, income taxes, equity in net earnings of affiliated companies, 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 in 1979 or 1978, except for various agencies of the U.S. government which in the aggregate totaled $337,433,000 in 1979. In 1978, sales to these agencies aggregated $286,929,000. These sales were made primarily by the government and municipal equipment segment.

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, 1979:								
Sales	$617,309	$762,273	$726,159	$559,928	$525,196	$139,113	$(22,494)	$3,307,484
Operating profit......	$ 41,640	$ 86,615	$ 44,123	$ 21,206	$ 63,782	$ 6,636	$ 375	$ 264,377
Other*								(69,387)
Income before income taxes..............								$ 194,990
Identifiable assets....	$455,199	$710,231	$372,013	$410,364	$172,460	$ 66,373	$ (998)	$2,185,642
Corporate assets.....								249,132
Total assets at December 31, 1979.								$2,434,774
Depreciation	$ 24,152	$ 46,811	$ 11,853	$ 16,037	$ 6,197	$ 2,258		
Capital expenditures.	$ 35,860	$144,923	$ 30,294	$ 36,136	$ 25,987	$ 4,112		
Year ended December 31, 1978:								
Sales	$536,801	$680,151	$658,095	$458,237	$500,092	$106,099	$(26,709)	$2,912,766
Operating profit......	$ 49,566	$ 84,282	$ 64,791	$ 21,244	$ 51,085	$ 3,697	$ (584)	$ 274,081
Other*								(64,815)
Income before income taxes..............								$ 209,266
Identifiable assets....	$411,460	$584,103	$354,148	$394,081	$127,330	$ 60,166	$ (1,372)	$1,929,916
Corporate assets.....								318,912
Total assets at December 31, 1978.								$2,248,828
Depreciation	$ 21,776	$ 40,761	$ 10,501	$ 14,914	$ 5,696	$ 2,097		
Capital expenditures.	$ 31,365	$ 89,970	$ 20,733	$ 28,757	$ 15,386	$ 2,920		

*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.

GENERAL MILLS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Sixteen: Segment Information

General Mills classifies its operations into five major product segments—Food Processing; Restaurant Activities; Creative Products; Fashion Activities; and Specialty Retailing and Other. These segments are similar to those which have been reported in prior years as "Major Product Groups" except that Fashion Activities was previously reported as part of Apparel, Accessories, Specialty Retailing and Other; and Crafts, Games and Toys has been renamed Creative Products.

Data for General Mills' product segments are shown below. Both transfers between segments and export sales are immaterial. Corporate expenses include interest expense, profit sharing and general corporate expenses. Corporate assets consist mainly of cash, time deposits, marketable securities and investments in unconsolidated companies.

(In Millions)

	Food Processing	Restaurant Activities	Creative Products	Fashion Activities	Specialty Retailing and Other	General Corporate Items	Consolidated Total
Fiscal 1979							
Sales	$2,062.4	436.3	609.5	360.4	276.4	—	3,745.0
Operating profits	$ 193.2	42.6	59.7	20.3	15.7	(67.6)	263.9
Identifiable assets	$ 686.5	217.3	387.5	241.2	135.1	167.6	1,835.2
Capital expenditures	$ 68.9	31.0	25.9	9.8	13.0	5.5	154.1
Depreciation expense	$ 31.9	11.9	18.8	3.7	3.2	1.0	70.5
Fiscal 1978							
Sales	$1,861.6	354.9	492.3	298.1	236.1	—	3,243.0
Operating profits	$ 169.0	35.9	62.7	39.5	8.5	(70.4)	245.2
Identifiable assets	$ 673.8	193.6	337.2	202.0	127.7	78.4	1,612.7
Capital expenditures	$ 58.2	34.5	26.0	10.2	5.0	6.6(a)	140.5
Depreciation expense	$ 26.6	8.7	13.3	2.8	2.7	2.0	56.1

(a) Includes $1.8 relating to the discontinued Specialty Chemicals operations.

A summary of sales, profits and indentifiable assets, by geographic areas in which the company operates, is shown below. Transfers between areas are not material.

(In Millions)

	U.S.A.	Other Western Hemisphere	Europe	Other	Unallocated Corporate Items	Consolidated Total
Fiscal 1979						
Sales	$3,187.5	161.8	377.8	17.9	—	3,745.0
Operating profits	$ 299.4	16.6	14.2(a)	1.3	(67.7)	263.9
Identifiable assets	$1,384.2	97.6	172.6	13.2	167.6	1,835.2
Fiscal 1978						
Sales	$2,735.6	152.8	339.0	15.6	—	3,243.0
Operating profits	$ 286.5	11.7	16.1	1.3	(70.4)	245.2
Identifiable assets	$1,245.7	90.5	191.1	7.0	78.4	1,612.7

(a) Includes the $4.4 gain on the sale of Smiths U.K. (see Note 12).

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Information by Industry Segment and Geographic Area

The following financial information is presented in accordance with the provisions of Financial Accounting Standards Board Statement No. 14:

INDUSTRY SEGMENT (In millions)	1979	1978
Net Sales to Unaffiliated Customers		
Primary Metals	$317.4	$268.1
Construction	264.9	224.1
Fabricated Metals	236.2	170.7
Defense	126.8	151.9
Total	$945.3	$814.8
Segment Operating Profit		
Primary Metals	$ 47.2	$ 47.9
Construction	21.8	20.2
Fabricated Metals	28.5	20.0
Defense	10.4	6.5
Subtotal	107.9	94.6
General corporate expense, net	(4.2)	(2.8)
Interest income, etc., net	.9	1.8
Interest expense	(8.9)	(7.0)
Equity in net income of unconsolidated foreign companies	3.5	3.5
Income before provision for income taxes	$ 99.2	$ 90.1
Identifiable Assets at December 31		
Primary Metals	$171.6	$151.2
Construction	141.4	111.7
Fabricated Metals	144.2	94.7
Defense	64.7	58.8
Subtotal	521.9	416.4
Corporate assets	40.9	53.7
Investments in unconsolidated foreign companies	11.2	10.0
Total assets	$574.0	$480.1
Depreciation		
Primary Metals	$ 18.3	$ 16.7
Construction	9.4	7.6
Fabricated Metals	3.9	2.8
Defense	1.4	1.1
Corporate	.7	.2
	$ 33.7	$ 28.4
Capital Expenditures		
Primary Metals	$ 30.2	$ 24.7
Construction	26.3	8.4
Fabricated Metals*	7.9	5.1
Defense	3.1	6.5
Corporate	3.9	.2
	$ 71.4	$ 44.9

*Excludes property, plant and equipment from acquired companies of $9.4 and $2.5 for 1979 and 1978, respectively.

Segment operating profit is total identifiable sales, interest income and other income (net) less operating expenses. In computing segment operating profit, the following items are excluded: general corporate expenses and revenues, interest expense, income taxes and equity in net income of unconsolidated foreign companies. Identifiable assets are those assets used in each segment. Corporate assets are principally cash, short-term investments and property. There are no significant intersegment sales.

GEOGRAPHIC AREA (In millions)	1979	1978
Net Sales to Unaffiliated Customers		
United States	$860.5	$753.8
International	84.8	61.0
Total	$945.3	$814.8
Geographic Operating Profit		
United States	$ 87.0	$ 77.8
International	20.9	16.8
Total	$107.9	$ 94.6
Identifiable Assets at December 31		
United States	$455.4	$377.3
International	66.5	39.1
Total	$521.9	$416.4
Export Sales and Major Customer Information		
Export sales from the United States	$ 28.8	$ 29.0
Sales to U.S. Government agencies	$122.6	$136.0

JOHNS-MANVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Business Segment Information

See "Results By Major Business Segments and Geographic Areas" on pages 26 and 27 for summarized financial information relating to the Company's operations in different businesses and geographic areas during 1979 and 1978.

RESULTS BY MAJOR BUSINESS SEGMENTS AND GEOGRAPHIC AREAS
(All figures are in thousands)

The following tables summarize financial information relating to the Company's operations within different industries:

				Years Ended December 31
	1979	1978	1977	1976
Revenues:				
Fiber Glass Products	$ 573,198	$ 514,287	$ 407,242	$ 357,823
Forest Products (e)	497,398			
Pipe Products and Systems	304,856	303,334	273,512	217,526
Roofing Products	272,677	253,807	203,612	171,197
Non-Fiber Glass Insulations	267,862	231,190	195,223	158,721
Asbestos Fiber	168,199	157,291	160,682	154,625
Industrial and Specialty Products and Services	308,390	290,845	301,173	309,450
Corporate revenues, net (f)	11,020	19,894	12,447	(22,574)
Elimination of intersegment sales (a)	(106,238)	(94,059)	(74,096)	(55,568)
	$2,297,362	$1,676,589	$1,479,795	$1,291,200
Income From Operations:				
Fiber Glass Products	$ 95,650	$ 107,279	$ 81,661	$ 59,823
Forest Products (e)	50,320			
Pipe Products and Systems	17,983	25,861	23,552	(2,688)
Roofing Products	14,360	23,219	13,754	8,363
Non-Fiber Glass Insulations	27,190	35,484	28,237	18,457
Asbestos Fiber	56,477	54,592	59,815	60,237
Industrial and Specialty Products and Services	43,474	35,911	25,431	18,741
Corporate expense, net (f)	(23,436)	(22,971)	(24,290)	(48,556)
Eliminations and adjustments (c)	(1,751)	944	3,492	1,997
	$ 280,267	$ 260,319	$ 211,652	$ 116,374
Depreciation and Depletion:				
Fiber Glass Products	$ 21,474	$ 17,995	$ 13,716	$ 10,598
Forest Products (e)	26,921			
Pipe Products and Systems	5,996	5,629	5,698	5,795
Roofing Products	2,343	1,964	1,818	1,688
Non-Fiber Glass Insulations	5,548	4,554	4,175	4,149
Asbestos Fiber	5,891	5,856	5,674	4,743
Industrial and Specialty Products and Services	4,872	4,343	5,198	5,274
Corporate	1,798	2,060	2,296	2,156
	$ 74,843	$ 42,401	$ 38,575	$ 34,403
Additions to Property, Plant and Equipment:				
Fiber Glass Products	$ 84,740	$ 109,554	$ 57,791	$ 20,224
Forest Products (e)	35,793			
Pipe Products and Systems	14,280	8.515	6,624	8,685
Roofing Products	11,497	5,065	3,707	4,034
Non-Fiber Glass Insulations	23,313	19,923	6,974	5,579
Asbestos Fiber	5,440	10,761	10,232	9,419
Industrial and Specialty Products and Services	9,264	12,416	9,389	10,693
Corporate	4,994	7.773	5,436	14,433
	$ 189,321	$ 174,007	$ 100,153	$ 73,067
				December 31
	1979	1978	1977	1976
Assets:				
Fiber Glass Products	$ 561,625	$ 474,575	$ 361,545	$ 308,043
Forest Products (e)	826,447	805,798		
Pipe Products and Systems	193,303	204,440	197,138	188,772
Roofing Products	112,111	92,288	83,404	72,838
Non-Fiber Glass Insulations	190,612	156,990	130,868	122,265
Asbestos Fiber	146,045	137,232	141,034	129,582
Industrial and Specialty Products and Services	190,419	188,863	177,199	194,078
Corporate (d)	208,688	245,630	321,494	245,326
Eliminations and adjustments (c)	(104,870)	(88,861)	(78,882)	(72,704)
	$2,324,380	$2,216,955	$1,333,800	$1,188,200

The following tables set forth the Company's operations by geographic area:

				Years Ended December 31
	1979	1978	1977	1976
Revenues:				
United States	$1,802,860	$1,315,728	$1,147,680	$ 997,131
Canada	289,117	267,007	270,510	267,623
Overseas	308,751	195,400	152,436	148,312
Corporate revenues, net (f)	11,020	19,894	12,447	(22,574)
Elimination of intergeographic sales (b)	(114,386)	(121,440)	(103,278)	(99,292)
	$2,297,362	$1,676,589	$1,479,795	$1,291,200
Income From Operations:				
United States	$ 192,540	$ 185,227	$ 157,902	$ 84,723
Canada	57,366	61,456	54,571	53,987
Overseas	55,845	35,668	19,978	24,254
Corporate expense, net (f)	(23,436)	(22,971)	(24,290)	(48,556)
Eliminations and adjustments (c)	(2,048)	939	3,491	1,966
	$ 280,267	$ 260,319	$ 211,652	$ 116,374

				December 31
	1979	1978	1977	1976
Assets:				
United States	$1,661,749	$1,538,673	$722,479	$ 676,011
Canada	229,598	210,174	216,162	206,850
Overseas	328,998	311,238	152,734	132,935
Corporate (d)	208,688	245,630	321,494	245,326
Eliminations and adjustments (c)	(104,653)	(88,760)	(79,069)	(72,922)
	$2,324,380	$2,216,955	$1,333,800	$1,188,200

Notes:

a/ Intersegment sales were as follows (at prices approximating market):

				Years Ended December 31
	1979	1978	1977	1976
Fiber Glass Products	$ 46,725	$ 32,666	$ 20,626	$13,304
Roofing Products	539	504	530	255
Asbestos Fiber	36,565	41,109	35,308	29,186
Industrial and Specialty Products and Services	22,409	19,780	17,632	12,823
	$106,238	$ 94,059	$74,096	$55,568

b/ Intergeographic sales were as follows (at prices approximating market):

	1979	1978	1977	1976
United States	$ 34,649	$ 28,679	$ 28,751	$33,363
Canada	77,459	85,339	72,477	65,601
Overseas	2,278	7,422	2,050	328
	$114,386	$121,440	$103,278	$99,292

c/ Includes the elimination of intersegment and intergeographic inventory profits and the adjustment of business segment and geographic inventories, which are carried at standard costs, to the historical inventory bases used in consolidation.

d/ Corporate assets are principally cash, marketable securities, prepaid income taxes, investments in and advances to associated companies, and the assets of the real estate subsidiary.

e/ The "Forest Products" segment was acquired in a purchase acquisition of Olinkraft, Inc. and has been included in the consolidated balance sheet at December 31, 1978. The results of the Olinkraft operations have been consolidated in the statement of consolidated earnings beginning January 1, 1979.

f/ Includes a $30 million charge in 1976 for asset dispositions, reduction of intangibles and Flextran pipe claims.

LIBBEY-OWENS-FORD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N: Business Segments and Foreign Operations

Financial data concerning the Company's business segments and foreign operations for 1979 and 1978 are presented on pages 16-18 of this report and should be considered a part of these financial statements.

BUSINESS SEGMENTS INFORMATION

The company operates in three principal industries: Glass Division—flat glass products principally for the transportation and construction industries; Aeroquip Corporation—fluid power and fluid system components serving many major markets including aircraft, aerospace, marine, construction, mining, logging, machine tool, farm and transportation equipment; LOF Plastics Inc.—laminated and molded plastic products for the transportation, construction and furniture industries. The company's organization and management responsibilities are structured in a similar manner. Refer to the inside front cover of this annual report for further information about the company's business, products and markets.

Operating earnings are net sales less operating expenses, excluding interest and general corporate expenses. General corporate expenses include corporate officers' salaries and related expenses, general legal expenses, proxy and related shareholder costs less corporate earnings. Identifiable assets by business segment include all assets directly identified with those operations. Corporate assets consist primarily of cash, short-term and other investments, corporate headquarters building and related assets.

Sales from all of the company's business segments to domestic and foreign operations of General Motors Corporation and its affiliates were $342.0 million in 1979, $342.1 million in 1978, $341.2 million in 1977, $311.1 million in 1976 and $225.2 million in 1975.

Following is a tabulation of business segment information for each of the past five years 1979-1975 respectively. Also see notes to Consolidated Financial Statements.

	Year Ended December 31				
	1979	1978	1977	1976	1975
			(In Millions)		
Net Sales					
Glass Division	$ 630.5	$ 617.9	$574.2	$527.8	$408.7
Aeroquip Corporation	419.9	340.9	277.1	240.2	226.1
LOF Plastics Inc.	148.1	142.5	121.8	99.5	46.5
Other	12.0	7.4	7.1	5.2	3.8
Eliminations—Intersegment	(2.4)	(1.6)	(1.5)	(1.2)	(1.0)
Total Sales	$1,208.1	$1,107.1	$978.7	$871.5	$684.1
Operating Earnings					
Glass Division	$ 44.7	$ 49.2	$ 61.6	$ 74.0	$ 26.0
Aeroquip Corporation	55.2	51.1	39.4	34.4	29.3
LOF Plastics Inc.	10.7	10.9	11.1	7.5	0.0
Other	1.8	1.1	0.9	0.3	(0.5)
Total Operating Earnings	112.4	112.3	113.0	116.2	54.8
Corporate Expenses—Net	(4.1)	(2.9)	(3.0)	(2.7)	0.3
Interest Expense	(16.0)	(9.5)	(8.2)	(8.4)	(11.0)
Equity in Undistributed Earnings of Affiliates	1.1	3.3	1.0	0.4	1.0
Provision for Plant Closing Costs		(12.0)			
Gain on Sale of Securities		16.9			5.8
Earnings Before Income Taxes	$ 93.4	$ 108.1	$102.8	$105.5	$ 50.9
Identifiable Assets					
Glass Division	$ 423.0	$ 337.4	$318.6	$290.8	$294.4
Aeroquip Corporation	309.0	262.6	216.6	191.1	180.9
LOF Plastics Inc.	67.9	71.1	71.4	59.8	58.4
Other	9.3	7.9	6.4	6.6	4.9
General corporate assets	21.7	34.4	29.9	70.0	27.0
Investment in affiliates	13.8	11.9	9.4	7.9	7.5
Total Assets	$ 844.7	$ 725.3	$652.3	$626.2	$573.1
Depreciation Expense					
Glass Division	$ 24.2	$ 22.0	$ 20.9	$ 22.5	$ 22.8
Aeroquip Corporation	8.4	6.8	6.3	6.0	5.4
LOF Plastics Inc.	3.4	3.5	3.2	3.2	1.8
Other	0.5	0.4	0.3	0.3	0.3
General corporate assets	0.7	0.6	0.6	0.4	0.5
Total Depreciation Expense	$ 37.2	33.3	$ 31.3	$ 32.4	$ 30.8
Capital Expenditures					
Glass Division	$ 97.5	$ 42.3	$ 21.6	$ 14.1	$ 4.9
Aeroquip Corporation	26.3	15.5	9.6	7.4	8.7
LOF Plastics Inc.	3.9	2.8	7.8	2.1	12.2
Other	0.6	1.2	0.6	0.3	
General corporate assets	0.1	2.2		0.3	
Total Capital Expenditures	$ 128.4	$ 64.0	$ 39.6	$ 24.2	$ 25.8

FOREIGN OPERATIONS

The following summary of financial data pertains to the company and its foreign operations. The geographic groupings of foreign operations have been based on similarities of business environments and geographic proximity.

(In Millions)	United States	Canada	Western Europe	Other	Eliminations	Consolidated
1979						
Sales to unaffiliated customers	$ 978.8	$107.0	$111.0	$11.3	$	$1,208.1
Transfers between geographic areas	28.6	1.3	2.6		32.5	
Total Sales	$1,007.4	$108.3	$113.6	$11.3	$32.5	$1,208.1
Net earnings (loss)	$ 34.1	$ 10.6	$ 14.1	$(0.7)	$	$ 58.1
Identifiable assets	648.5	71.4	115.5	12.2	16.7	830.9
Total assets	726.0	71.4	116.8	12.2	81.7	844.7
Total liabilities	288.6	26.7	60.4	6.0	44.1	337.6
1978						
Sales to unaffiliated customers	$ 924.8	$ 88.2	$ 82.0	$12.1	$	$1,107.1
Transfers between geographic areas	24.1	0.1	1.3		25.5	
Total Sales	$ 948.9	$ 88.3	$ 83.3	$12.1	$25.5	$1,107.1
Net earnings	$ 50.7	$ 4.8	$ 9.5	$ 0.7	$(0.1)	$ 65.8
Identifiable assets	563.0	60.1	97.7	15.3	22.7	713.4
Total assets	636.9	62.8	98.7	15.3	88.4	725.3
Total liabilities	214.6	22.1	52.6	8.4	51.6	246.1
1977						
Sales to unaffiliated customers	$ 814.4	$ 87.2	$ 66.1	$11.0	$	$ 978.7
Transfers between geographic areas	29.6	0.2	0.3		30.1	
Total Sales	$ 844.0	$ 87.4	$ 66.4	$11.0	$30.1	$ 978.7
Net earnings	$ 47.7	$ 4.1	$ 6.3	$ 1.0	$ 0.2	$ 58.9
Identifiable assets	522.5	47.7	80.4	13.9	21.5	643.0
Total assets	585.4	47.7	81.6	13.9	76.3	652.3
Total liabilities	186.1	11.8	49.2	8.5	46.9	208.7
1976						
Sales to unaffiliated customers	$ 727.1	$ 79.3	$ 54.2	$10.9	$	$ 871.5
Transfers between geographic areas	24.5	0.2	0.7		25.4	
Total Sales	$ 751.6	$ 79.5	$ 54.9	$10.9	$25.4	$ 871.5
Net earnings	$ 45.4	$ 6.3	$ 6.1	$ 1.1	$	$ 58.9
Identifiable assets	509.5	45.6	67.7	11.7	16.2	618.3
Total assets	568.4	45.6	68.8	11.7	68.3	626.2
Total liabilities	193.3	12.0	43.1	7.9	42.5	213.8

Total sales by geographic area (before eliminations) include both sales to unaffiliated customers and transfers between areas. These transfers are accounted for at prices comparable to unaffiliated customer prices.

United States sales include export sales to unaffiliated foreign customers of $51 million, $47.4 million, $43.2 million and $35 million in years 1979, 1978, 1977 and 1976 respectively.

Foreign currency exchange losses, resulting primarily from translation of foreign subsidiaries' financial statements, resulted in losses of $685,000 (6 cents per share), $410,000 (4 cents per share), $3.1 million (28 cents per share) in years 1979, 1978 and 1977 respectively and $770,000 (7 cents per share) gain in 1976.

Foreign Operations

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note R: Geographic and Industry Segments—The Company conducts its worldwide operations through separate geographic area organizations which represent major markets or combinations of related markets. The results for all areas for 1979 and 1978 were (in millions):

	United States	Europe/ Africa	Canada	Pacific	Latin America	Brazil	Eliminations and Corporate Assets	Consolidated
Year ended December 31, 1979:								
Sales to unaffiliated customers	$4,583	$2,663	$ 630	$627	$476	$276		$ 9,255
Transfers between areas	816	188	44		4	18	$(1,070)	
Total sales and transfers	$5,399	$2,851	$ 674	$627	$480	$294	$(1,070)	$ 9,255
Operating income	$ 685	$ 349	$ 66	$117	$102	$ 15		$ 1,334
Profit (loss) before income taxes	$ 626	$ 334	$ 135	$130	$101	$ 4	$ (17)	$ 1,313
Identifiable assets at December 31, 1979	$4,851	$2,458	$1,317	$636	$364	$614	$ 12	$10,252
Year ended December 31, 1978:								
Sales to unaffiliated customers	$3,646	$1,813	$ 439	$404	$337	$249		$ 6,888
Transfers between areas	606	123	25	1	2	9	$ (766)	
Total sales and transfers	$4,252	$1,936	$ 464	$405	$339	$258	$ (766)	$ 6,888
Operating income	$ 682	$ 212	$ 44	$ 55	$ 41	$ 17		$ 1,051
Profit (loss) before income taxes	$ 617	$ 218	$ 28	$ 73	$ 38	$ (6)		$ 968
Identifiable assets at December 31, 1978	$4,330	$2,058	$ 922	$536	$261	$625	$ 57	$ 8,789

Transfers between areas are valued at cost plus a markup. There were no direct sales to foreign customers from domestic operations.

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 1979 and 1978 were (in millions):

	Chemicals/ Metals	Plastics/ Packaging	Bioproducts/ Consumer Products	Eliminations and Corporate Assets	Consolidated
Year ended December 31, 1979:					
Sales to unaffiliated customers	$4,786	$3,458	$1,011		$ 9,255
Intersegment transfers	1,170	37	39	$(1,246)	
Total sales and transfers	$5,956	$3,495	$1,050	$(1,246)	$ 9,255
Operating income	$ 578	$ 693	$ 63		$ 1,334
Identifiable assets at December 31, 1979	$5,668	$2,206	$1,033	$ 1,345	$10,252
Depreciation	$ 428	$ 154	$ 52		$ 634
Additions to property	$ 992	$ 205	$ 71		$ 1,268
Year ended December 31, 1978:					
Sales to unaffiliated customers	$3,535	$2,479	$ 874		$ 6,888
Intersegment transfers	862	40	9	$ (911)	
Total sales and transfers	$4,397	$2,519	$ 883	$ (911)	$ 6,888
Operating income	$ 543	$ 414	$ 94		$ 1,051
Identifiable assets at December 31, 1978	$4,868	$1,911	$ 874	$ 1,136	$ 8,789
Depreciation	$ 376	$ 137	$ 49		$ 562
Additions to property	$ 841	$ 180	$ 54		$ 1,075

Transfers between industry segments are generally valued at standard cost.

It is not practicable to estimate what the impact might be upon the revenue or profitability of geographic areas or industry segments if transfers/purchases had been made at the prevailing market prices.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: 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, 1979:						
Sales to unaffiliated customers	$2,865,740	$150,904	$270,177	$20,663	$ —	$3,307,484
Transfers between geographic areas	47,973	7,231	16,043	286	(71,533)	—
Total sales	$2,913,713	$158,135	$286,220	$20,949	$(71,533)	$3,307,484
Operating profit	$ 237,525	$ 4,152	$ 24,678	$ 1,774	$ (3,752)	$ 264,377
Other*						(69,387)
Income before income taxes						$ 194,990
Identifiable assets	$1,822,554	$133,588	$217,733	$19,234	$ (7,467)	$2,185,642
Corporate assets						249,132
Total assets at December 31, 1979						$2,434,774
Year ended December 31, 1978:						
Sales to unaffiliated customers	$2,535,925	$140,249	$219,249	$17,347	$ —	$2,912,766
Transfers between geographic areas	49,136	6,463	11,354	160	(67,113)	—
Total sales	$2,585,061	$146,712	$230,599	$17,507	$(67,113)	$2,912,766
Operating profit	$ 246,619	$ 12,184	$ 15,884	$ 1,374	$ (1,980)	$ 274,081
Other*						(64,815)
Income before income taxes						$ 209,266
Identifiable assets	$1,612,998	$116,546	$187,001	$17,212	$ (3,841)	$1,929,916
Corporate assets						318,912
Total assets at December 31, 1978						$2,248,828

*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 sale as follows:

(Dollars in thousands)

	Latin America and Canada	Western Europe	Middle East and Africa	Asia and others	Total
1979	$127,479	$105,651	$ 81,657	$147,611	$462,398
1978	$108,566	$136,433	$163,791	$ 65,558	$474,348

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

	1979	1978
	(Dollars in thousands)	
Net assets at year end	$189,133	$165,297
Net income	$ 25,246	$ 15,727

Dividends of $6,052,000 in 1979 and $6,404,000 in 1978 were received from such foreign operations. Foreign currency exchange adjustments amounted to a gain of $5,110,000 in 1979 and a loss of $8,355,000 in 1978. Income taxes have not been provided for the equity in undistributed earnings of foreign subsidiaries ($73,150,000 at December 31, 1979).

HUGHES TOOL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Operations in Different Industries and Geographic Areas

The Company operates principally in two industries, the manufacture and sale of tools and equipment for oil and gas and other extractive industries and the providing of cementing, stimulation and drilling fluids services for oil and gas wells. Operations in these industries and the respective geographic locations in which revenues were generated are summarized below (in thousands):

	Industry Segments			Geographic Areas			
	Oilfield, Mining and Construction Tools and Equipment	Oilfield Services	Consolidated	United States	Mexico, Central and South America	Europe, Middle East, and Africa	Other
1979							
Sales to unaffiliated customers(1)	$571,994	$232,567	$804,561	$580,141	$128,862	$50,227	$45,331
Transfers between segments or geographic areas(2)	$ 4,994			$ 39,873	$ 2,641	$ 2,451	$ 1
Operating profit	$131,920	$ 35,001	$166,921	$107,775	$ 35,644	$11,741	$11,761
Equity in net loss of affiliates			(66)				
General corporate expenses			(1,669)				
Interest expense			(28,632)				
Income before provision for income taxes			$136,554				
Identifiable assets	$628,801	$344,942	$973,743	$687,229	$159,588	$87,085	$39,841
Investment in and advances to affiliates(3)			7,940				
Total assets			$981,683				
Depreciation and amortization	$ 18,763	$ 16,812	$ 35,575				
Capital expenditures	$ 59,338	$ 50,512	$109,850				
U.S. export sales to unaffiliated customers			$123,591		$ 21,030	$46,110	$56,451
1978							
Sales to unaffiliated customers(1)	$476,541	$182,864	$659,405	$489,186	$ 90,025	$48,802	$31,392
Transfers between segments or geographic areas(2)	$ 1,901			$ 26,731	$ 5,163	$ 2,161	$ 51
Operating profit	$103,445	$ 31,660	$135,105	$ 94,472	$ 23,641	$12,794	$ 4,198
Equity in net income of affiliates			141				
General corporate expenses			(1,021)				
Interest expense			(14,114)				
Income before provision for income taxes			$120,111				
Identifiable assets	$496,801	$167,055	$663,856	$459,732	$111,696	$60,012	$32,416
Investment in and advances to affiliates(3)			5,532				
Total assets			$669,388				
Depreciation and amortization	$ 15,999	$ 12,742	$ 28,741				
Capital expenditures	$ 42,183	$ 34,679	$ 76,862				
U.S. export sales to unaffiliated customers			$106,262		$ 18,058	$47,599	$40,605

(1) No single customer accounts for 10% of consolidated revenue.
(2) Intersegment sales and transfers are recorded based on the prevailing market price.
(3) The Company's affiliates, operating in Mexico, Central and South America, are not vertically integrated with either segment.

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Operations by Geographic Area (See Table 2 on page 51.)

Transfers of product between geographic areas are at prices approximating those charged to unaffiliated customers.

Net earnings of consolidated foreign subsidiaries amounted to $56.3 million in 1979 and $30.4 million in 1978. Net assets of such subsidiaries were $194.8 million at June 30, 1979 ($213.8 million at June 30, 1978), including retained earnings of $164.4 million at June 30, 1979 ($186.8 million at June 30, 1978). A substantial portion of these retained earnings is considered to be permanently invested.

Sales from the United States to unaffiliated customers in other geographic areas for 1979 and 1978 were as follows:

	1979	1978
Latin America	$ 72.0	$ 42.2
Europe	59.3	80.7
Far East	96.2	90.1
Other	8.4	21.5
	$235.9	$234.5

Table 2	United States	Canada	Europe	Other	Eliminations	Consolidated
1979						
Sales to unaffiliated customers	$1,186.4	$128.4	$142.5	$17.4		$1,474.7
Transfers between geographic areas	102.0	120.4	2.5	2.7	$(227.6)	
Total sales	1,288.4	248.8	145.0	20.1	(227.6)	1,474.7
Operating earnings	164.0	94.4	7.9	7.1		273.4
Corporate income and expense, net						(24.3)
Interest charges						(35.3)
Earnings before income taxes						213.8
Identifiable assets	1,209.9	137.9	81.0	31.3	(5.4)	1,454.7
Corporate assets						82.9
Total assets at June 30, 1979						$1,537.6
	United States	Canada	Europe	Other	Eliminations	Consolidated
1978						
Sales to unaffiliated customers	$1,119.7	$ 96.1	$128.8	$19.8		$1,364.4
Transfers between geographic areas	92.6	72.8	2.1	1.8	$(169.3)	
Total sales	1,212.3	168.9	130.9	21.6	(169.3)	1,364.4
Operating earnings	196.4	41.7	5.6	10.8	.2	254.7
Corporate income and expense, net						(18.7)
Interest charges						(37.1)
Earnings before income taxes						198.9
Identifiable assets	1,117.0	152.9	93.0	26.8	(2.8)	1,386.9
Corporate assets						75.0
Total assets at June 30, 1978						$1,461.9

Foreign currency translation losses in 1979 and 1978, included in corporate expense, amounted to $.1 million and $.9 million, respectively.

Note: For additional details on Operations by Geographic Area, see page 49.

SCOVILL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L—Information concerning geographic distribution of operations and assets is as follows:

	Fiscal Year Ended December 30, 1979	December 31, 1978	December 25, 1977*
	(In millions of dollars)		
Sales to unaffiliated customers			
United States	$670.6	$598.8	$547.1
Europe	146.6	55.6	42.1
Other countries	124.4	101.9	83.4
Consolidated	$941.6	$756.3	$672.6
Transfers between Geographic areas			
United States	$ 12.0	$ 10.0	$ 8.4
Europe	2.5	2.4	1.4
Other countries	.4	.4	.2
Eliminations	(14.9)	(12.8)	(10.0)
Consolidated	$ —	$ —	$ —
Total Revenue			
United States	$682.6	$608.8	$555.5
Europe	149.1	58.0	43.6
Other countries	124.8	102.3	83.5
Eliminations	(14.9)	(12.8)	(10.0)
Consolidated	$941.6	$756.3	$672.6
Operating Income**			
United States	$ 57.8	$ 56.1	$ 53.1
Europe	16.2	7.2	4.4
Other countries	13.7	12.4	5.4
Consolidated	$ 87.7	$ 75.7	$ 62.9
Identifiable Assets			
United States	$659.7	$619.8	$493.2
Europe	121.2	48.8	37.2
Other countries	85.4	76.8	61.4
Eliminations	(293.6)	(260.0)	(186.5)
Consolidated	$572.7	$485.4	$405.3

*Not reported upon.

**Before interest, 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 $18,377,000 in 1979, $15,946,000 in 1978 and $13,287,000 in 1977 for export (primarily to Canada).

Accumulated unremitted earnings and liabilities of foreign branches and consolidated foreign subsidiaries were as follows:

	Fiscal Year Ended December 30, 1979	December 31, 1978	December 25, 1977*
	(In millions of dollars)		
Accumulated unremitted earnings	$46.1	$34.5	$27.5
Liabilities	$96.3	$56.2	$46.0

*Not reported upon.

SPS TECHNOLOGIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 (in part): Industry Segment and Geographic Area Information

Geographic Areas (Thousands of dollars)	1979	1978
Sales:		
United States	$215,659	$153,903
Europe	63,723	48,970
Other	16,850	12,908
Interarea	(19,278)	(19,478)
Net sales	$276,954	$196,303
Operating Income:		
United States	$ 26,027	$ 10,796
Europe	6,464	4,119
Other	3,764	2,514
Eliminations	187	445
Operating income	$ 36,442	$ 17,874
Interest expense	6,559	4,191
Earnings before income taxes	$ 29,883	$ 13,683
Identifiable Assets:		
United States	$109,663	$ 87,928
Europe	60,402	44,461
Other	15,393	12,344
Total assets	$185,458	$144,733

Depreciation and Amortization and Capital Additions:

	Depreciation and Amortization		Capital Additions	
	1979	1978	1979	1978
United States	$6,102	$4,338	$ 8,236	$4,312
Europe	1,952	1,588	2,447	1,366
Other	241	241	505	295
Total	$8,295	$6,167	$11,188	$5,973

THE SINGER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 (in part): Financial Information for Business Segments and Geographic Areas

Financial information for the Company's business segments and geographic areas for the two years ended December 31, 1979 and 1978 is incorporated herein by reference to "Business—Financial Information for Business Segments" and "Financial Information by Geographic Areas" included on page 8 to 11.

FINANCIAL INFORMATION BY GEOGRAPHIC AREAS

The Company's operations are conducted in many international locations and are grouped into four major geographic areas for financial reporting purposes. Latin America includes the operations of South America, Central America, and Mexico. Included in Africa and Far East are the operations located in Africa, the Pacific and Asian regions, the Middle East, and certain other areas. Certain financial information for each of the four years in the period ended December 31, 1979 is as follows:

	Year Ended December 31,			
	1979	1978	1977	1976
	(Amounts in Millions)			
Net Sales to Unaffiliated Customers				
United States	$1,481.8	$1,429.5	$1,306.3	$1,169.8
Europe and Canada	580.5	537.6	520.4	506.1
Latin America	249.4	215.8	190.4	194.3
Africa and Far East	286.4	286.3	267.7	244.5
Total	2,598.1	$2,469.2	$2,284.8	$2,114.7
Net Sales between Geographic Areas				
United States	$ 46.4	$ 45.1	$ 43.2	$ 37.8
Europe and Canada	64.1	62.5	63.8	58.7
Latin America	10.8	11.6	8.7	10.2
Africa and Far East	2.4	.8	2.2	1.5
Total (eliminated in consolidation)	$ 123.7	$ 120.0	$ 117.9	$ 108.2
Operating Income				
United States	$ 42.0	$ 80.1	$ 104.2	$ 91.3
Europe and Canada	17.1	24.4	20.7	23.3
Latin America	46.9	42.7	36.2	25.8
Africa and Far East	41.7	33.9	32.1	32.7
Operating Income before General Corporate Expenses	147.7	181.1	193.2	173.1
Less General Corporate Expenses	21.0	20.2	19.5	21.5
Total	$ 126.7	$ 160.9	$ 173.7	$ 151.6
Assets				
United States	$ 624.3	$ 584.7	$ 567.3	$ 510.5
Europe and Canada	317.4	308.7	282.3	312.5
Latin America	151.0	146.5	141.2	133.0
Africa and Far East	203.3	189.9	183.9	176.6
Operating assets	1,296.0	1,229.8	1,174.7	1,132.6
Corporate assets	186.4	205.6	193.7	227.9
Discontinued assets	—	—	93.5	228.5
Total	$1,482.4	$1,435.4	$1,461.9	$1,589.0
Net Assets				
United States	$ 125.8	$ 185.8	$ 171.8	$ 108.4
Europe and Canada	72.7	147.1	112.8	100.0
Latin America	85.0	74.6	86.0	86.6
Africa and Far East	112.8	94.8	86.8	78.3
Total	$ 396.3	$ 502.3	$ 457.4	$ 373.3

Net sales between geographic areas, which are eliminated in consolidation, consist principally of the transfer of consumer sewing machines and related products of marketing locations in the respective geographic areas and are generally at amounts designed to recover the cost of production plus a reasonable return.

Operating income of each geographic area is determined by deducting from net sales the related cost of sales and selling and administrative expenses directly attributable to the geographic area. The net change in the intercompany profit in inventories for each of the four years in the period ended December 31, 1979 was not material. Assets by geographic area include those assets which are specifically identifiable with the operations in the respective geographic area.

Net assets of operations located outside of the United States include all assets, net of liabilities, identified with the operations in each geographic area, except that substantially all of the Company's long-term debt is reflected as obligations within the United States.

Export sales from the United States were less than 10 percent of net sales for each of the four years in the period ended December 31, 1979.

The cumulative equity in undistributed income of foreign subsidiaries was $87.9 million, $133 million, $144.2 million, and $115.7 million at December 31, 1979, 1978, 1977, and 1976, respectively.

STANDARD OIL COMPANY OF CALIFORNIA (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Geographic Segments (Millions of Dollars) The following tables summarize the geographic distribution of the Company's sales and other operating revenues, net income and identifiable assets:

	United States	Other Western Hemisphere	Europe	Other Eastern Hemisphere	International Marine	Adjustments & Eliminations	Consolidated Worldwide
1979							
Sales and Other Operating Revenues							
Petroleum							
Products	$11,236	$1,080	$4,259	$ 2,068	$ —		$18,643
Crude Oil	605	1,571	51	8,013	—		10,240
Natural Gas	489	134	15	7	—		645
Other Petroleum Revenues	216	22	19	5	58		320
Total Petroleum	12,546	2,807	4,344	10,093	58		29,848
Chemicals	707	194	133	9	—		1,043
Total	$13,253	$3,001	$4,477	$10,102	$ 58		30,891
Corporate and Other							47
Consolidated Total							$30,938
Memo: Inter-area sales	$ 238	$1,055	$ 65	$ 7,037	$524	$(8,919)	—
Net Income							
Petroleum	$ 646	$ 513	$ 190	$ 261	$(14)		$ 1,596
Chemicals	12	18	8	1	—		39
Total	$ 658	$ 531	$ 198	$ 262	$(14)		1,635
Corporate and Other							150
Consolidated Total							$ 1,785
Identifiable Assets							
Petroleum	$ 7,088	$2,374	$2,034	$ 4,395	$916	$(1,869)	$14,938
Chemicals	602	99	70	26	—	(19)	778
Total	$ 7,690	$2,473	$2,104	$ 4,421	$916	$(1,888)	15,716
Corporate and Other							2,387
Consolidated Total							$18,103
1978							
Sales and other Operating Revenues							
Petroleum							
Products	$ 8,231	$ 772	$3,195	$ 1,436	$ —		$13,634
Crude Oil	494	1,188	36	7,215	—		8,933
Natural Gas	379	111	9	7	—		506
Other Petroleum Revenues	130	10	10	2	39		191
Total Petroleum	9,234	2,081	3,250	8,660	39		23,264
Chemicals	586	158	81	6	—		831
Total	$ 9,820	$2,239	$3,331	$ 8,666	$ 39		24,095
Corporate and Other							11
Consolidated Total							$24,106
Memo: Inter-area sales	$ 195	$ 479	$ 38	$ 3,492	$388	$(4,592)	—
Net Income							
Petroleum	$ 467	$ 99	$ (59)	$ 491	$ 3		$ 1,001
Chemicals	8	10		7	—		25
Total	$ 475	$ 109	$ (59)	$ 498	$ 3		1,026
Corporate and Other							63
Consolidated Total							$ 1,089
Identifiable Assets							
Petroleum	$ 6,115	$1,824	$1,715	$ 3,683	$919	$ (955)	$13,301
Chemicals	516	74	49	26	—	(16)	649
Total	$ 6,631	$1,898	$1,764	$ 3,709	$919	$ (971)	13,950
Corporate and Other							2,367
Consolidated Total							$16,317

Export Sales

McDONNELL DOUGLAS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Segment Financial Data

Financial data related to commercial aircraft, military aircraft, space systems and missiles, and all other industry segments are shown below. These data were developed by classifying each division and subsidiary according to its principal products (except for allocations necessary to segregate commercial and military aircraft operations) and combining related operations into industry segments, and so the segment data include immaterial amounts related to other products and services. Intersegment transfers were immaterial and were made at cost. Sales and other income, earnings and assets of these segments are reconciled to the consolidated financial statements amounts in the tables presented below.

The commercial aircraft segment's products were primarily DC-series transport aircraft, spare parts and related services, sold to airline customers worldwide. The military aircraft segment's products include the design, development and production of attack and fighter aircraft, and transport aircraft (including military versions of the DC-series). The attack and fighter aircraft cover a full spectrum of missions (air superiority, close-support, reconnaissance, electronic countermeasures, etc.) and include land-based and aircraft-carrier-based versions and the latest in vertical-take-off-and-landing technology. The space systems and missiles segment's products include advanced studies and development and production of satellite launching vehicles, planetary probes and missions, space shuttle components and payloads, space manufacturing processes, ballistic missile defense systems and tactical and strategic missiles. The caption, All Other, presents non-reportable segments which are engaged in computer sales and services, electronics, and other industries.

	Years Ended 31 December 1979	1978
Sales and other income		
Military aircraft	$2,349,477,077	$2,321,556,701
Commercial aircraft	1,968,260,343	970,594,318
Space systems and missiles	791,914,904	728,733,097
All other	222,043,558	171,053,860
Operating income	5,331,695,882	4,191,937,976
Net earnings of MDFC	14,310,658	12,209,567
Non-operating income	79,835,307	53,904,144
	$5,425,841,847	$4,258,051,687
Earnings		
Military aircraft	$ 232,099,446	$ 230,339,665
Commercial aircraft	(55,593,002)	(60,336,866)
Space systems and missiles	54,786,888	59,171,381
All other	7,024,211	3,135,306
Earnings from operations	238,317,543	232,309,486
Net earnings of MDFC	14,310,658	12,209,567
Non-operating income and expenses	72,124,848	46,758,009
General corporate expenses	(3,473,318)	(3,025,858)
Interest and debt expense	(10,774,639)	(6,823,370)
Income taxes	(111,402,067)	(120,321,562)
	$ 199,103,025	$ 161,106,272
Assets		
Military aircraft	$1,402,086,087	$1,287,851,748
Commercial aircraft	2,055,111,516	1,814,062,858
Space systems and missiles	503,808,252	376,875,389
All other	366,489,525	184,498,206
Assets used in operations	4,327,495,380	3,663,288,201
Less applicable progress payments	(1,573,006,058)	(1,361,272,603)
Investment in and advances to MDFC	232,772,187	164,931,529
Corporate assets, principally cash and short-term investments	393,342,931	631,282,245
	$3,380,604,440	$3,098,229,372
Depreciation and amortization		
Military aircraft	$ 16,668,624	$ 14,669,159
Commercial aircraft	21,732,459	24,472,559
Space systems and missiles	9,215,285	6,694,332
All other	29,845,286	14,155,598
Facilities acquired		
Military aircraft	$ 32,537,546	$ 23,556,959
Commercial aircraft	28,680,266	14,636,130
Space systems and missiles	28,984,326	18,188,095
All other	83,099,036	82,195,362

All segments made sales to U.S. Government agencies (including sales to foreign governments through foreign military sales contracts with U.S. Government agencies), amounting to approximately $3,002,000,000 in 1979 and $2,864,000,000 in 1978. No other single customer accounted for 10% or more of consolidated revenues in 1979 or 1978.

Note M: Foreign Operations and Export Sales

The only material foreign operation of MDC is a Canadian subsidiary almost exclusively engaged in producing commercial aircraft components for shipment to the United States for assembly into complete aircraft.

All business segments made sales to foreign customers, although a significant portion of the export sales were through foreign military sales contracts with the U.S. Government. Foreign sales for 1979 and 1978, by geographical area, are shown in the table below:

	Years Ended 31 December 1979	1978
North America	$ 136,576,980	$ 90,038,470
South America	91,742,846	33,828,127
Europe	764,012,550	470,626,332
Asia/Pacific	563,631,285	318,148,006
Mideast/Africa	232,460,884	231,135,751
	$1,788,424,545	$1,143,776,686

PULLMAN INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Information concerning industry segments, foreign operations, export sales and major customers

Operating revenues and profit information by industry segment for the years ended December 31, 1979 and 1978 as well as a description of each industry segment is provided in the "Summary of Operations" on page F1 of this annual report. Total revenues reported in the Consolidated Statement of Income and Retained Earnings are reconciled to operating revenues, as noted in the Summary of Operations and below, by adding thereto other revenues—net. Other financial information follows:

Industry Segment	Engineering and construction			Transportation equipment			Other industries		
	1979	1978	1977	1979	1978	1977	1979	1978	1977
					(Thousands)				
Identifiable assets	$ 221,055	$ 221,560	$ 172,994	$601,569	$548,935	$396,955	$ 70,172	$ 49,970	$48,871
Capital expenditures	5,586	8,149	7,695	48,812	33,210	25,981	24,278	913	1,114
Depreciation	3,655	2,821	2,470	19,908	16,053	12,882	2,498	878	934
Equity in earnings of leasing, financing and insurance subsidiaries	2,072	2,114	302	26,971	18,727	14,089	3,944	2,854	—
Investments in and advances to leasing, financing and insurance subsidiaries	7,947	5,875	3,761	188,456	163,985	145,569	42,044	32,204	—
Geographic Area	**United States**			**Western Europe**			**Other areas**		
	1979	1978	1977	1979	1978	1977	1979	1978	1977
Operating revenues	$2,535,334	$1,724,490	$1,375,299	$525,214	$733,205	$475,061	$147,800	$114,560	$89,017
Operating profit	125,165	89,608	51,308	22,278	16,937	20,992	8,744	5,342	2,479
Identifiable assets	653,935	541,837	416,225	185,491	230,525	163,606	53,370	48,103	38,989

The leasing, financing and insurance subsidiaries operate principally in the United States.

Other Information	1979	1978 (Thousands)	1977
Reconciliation of total company assets to combined identifiable assets			
Total company assets	$1,299,397	$1,181,109	$918,234
Less: Investments in and advances to leasing, financing and insurance subsidiaries	(238,447)	(202,064)	(149,330)
Total net assets of discontinued operations	(137,821)	(99,286)	(50,762)
Total corporate assets	(30,333)	(59,294)	(99,322)
Combined identifiable assets	$ 892,796	$ 820,465	$618,820
Foreign exchange gains (losses), including those of nonconsolidated subsidiaries	$ (4,429)	$ 1,994	$ (900)
Export sales included in operating revenues			
Middle East	$ 58,224	$ 28,000	$ 14,000
Asia	55,630	139,000	189,000
Latin America	76,068	70,000	64,000
Africa	428,776	224,000	62,000
Other	11,127	8,000	16,000
Total	$ 629,825	$ 469,000	$345,000
Sales to a foreign government included in revenues of the engineering and construction segment	$ 471,000	$ 251,000	$ —

Major Customers

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13—Business Segment Information:

The Company has four business segments: *Automotive*—manufacture of mufflers, exhaust and tail pipes, catalytic converters, corrosion resistant coatings and other metal tubular parts, interior trim parts and exterior trim mouldings, vinyl-metal truck and bus parts, and restraint systems and tire testing services; *Appliance and Hardware*—manufacture of AM/FM stereo phonographs and tape players, fan-forced fireplace heat exchangers, portable electric heaters, electric fireplaces, wind turbine home attic ventilators, and various painted and vinyl-laminated steel appliance housings; *Government and Utilities*—aerodynamic, environmental, thermal and flight research, manufacture of airport radar transmission cameras, security systems for power generating plants, airborne video recorders and bulkhead panels for U. S. Navy and Coast Guard ships; *Commercial and Industrial*—coated metal for various uses in products such as commercial refrigeration, water coolers, freezers, video recorders, etc. Summarized financial information by business segment is as follows:

1979 (Dollars in thousands)	Automotive	Appliance And Hardware	Government And Utilities	Commercial And Industrial	Total
Sales to unaffiliated customers	$325,613	$88,118	$44,326	$35,154	$493,211
Operating profit	$ 30,594	$ 7,059	$ 1,866	$ 3,197	$ 42,716
Corporate charges (including interest)					10,752
Earnings before income taxes					$ 31,964
Identifiable assets at year end	$184,676	$37,692	$24,261	$21,935	$268,564
Corporate assets					34,562*
Total					$303,126
Depreciation and amortization	$ 10,554	$ 1,524	$ 633	$ 652	
Additions to property, plant and equipment	$ 17,943	$ 2,158	$ 1,257	$ 2,336	

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

1978 (Dollars in thousands)	Automotive	Appliance And Hardware	Government And Utilities	Commercial And Industrial	Total
Sales to unaffiliated customers	$340,722	$87,578	$32,910	$27,869	$489,079
Operating profit	$ 42,017	$11,385	$ 1,281	$ 1,835	$ 56,518
Corporate charges (including interest)					11,401
Earnings before income taxes					$ 45,117
Identifiable assets at year end	$185,705	$40,175	$23,976	$15,472	$265,328
Corporate assets					42,720*
Total					$308,048
Depreciation and amortization	$ 10,019	$ 1,292	$ 606	$ 495	
Additions to property, plant and equipment	$ 19,105	$ 1,823	$ 4,764	$ 1,852	

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

Sales between business segments (affiliated customers) were insignificant and are thus not separately reported. Foreign operations of the Company were not material and are not separately set forth.

Sales to two customers exceeded 10% of net sales during 1979 and 1978 and are included in the Automotive segment as:

1979 Amount	1979 Percent of Net Sales	1978 Amount	1978 Percent of Net Sales
$118,598	24.0%	$142,111	29.1%
118,292	24.0	88,606	18.1
$236,890	48.0%	$230,717	47.2%

EX-CELL-O CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15: SEGMENT INFORMATION

(Tabular amounts in thousands of dollars)

Industry Segments

The description of the industry segments of the Company appears on the inside front cover of the Annual Report.

	Sales and Operating Revenues(a)		Operating Profit	
Segments:	1979	1978	1979	1978
Industrial Equipment	$321,798	$259,021	$ 37,129(b)	$20,750
Automotive Components	241,642	187,214	19,940	17,546
Aerospace	167,008	116,716	21,068	16,606
Ordnance	81,022	58,954	12,546	9,294
Other Products	150,397	107,887	14,603	10,366
Total	961,867	729,792	105,286	74,562
Corporate expenses			(17,643)	(9,058)
Interest expense			(5,769)	(4,695)
Miscellaneous income, net			19,094	14,259
Consolidated	$961,867	$729,792	$100,968	$75,068

	Identifiable Assets		Capital Expenditures		Depreciation	
Segments:	1979	1978	1979	1978	1979	1978
Industrial Equipment	$236,168	$217,465	$10,360	$11,187	$15,193	$18,113
Automotive Components	133,109	117,246	11,396	6,340	6,896	5,491
Aerospace	77,089	56,885	7,694	3,038	2,352	1,892
Ordnance	24,012	39,873	734	2,083	399	268
Other Products	94,240	67,739	8,320	7,267	2,281	1,439
Total	564,618	499,208	38,504	29,915	27,121	27,203
Corporate(c)	54,227	34,435	3,440	(1,825)	(142)	(121)
Consolidated	$618,845	$533,643	$41,944	$28,090	$26,979	$27,082

(a)Sales between segments are immaterial.
(b)Does not include charge of $5.0 million for phase out of machine tool plant. (See note 13.)
(c)Primarily cash and investments.

Foreign Operations

	Sales and Operating Revenues(a)		Operating Profit	
	1979	1978	1979	1978
United States Operations	$859,249	$664,132	$ 89,243	$66,795
International Operations	102,618	65,660	16,043	7,767
Total	961,867	729,792	105,286	74,562
Corporate Expenses			(17,643)	(9,058)
Interest Expense			(5,769)	(4,695)
Miscellaneous Income, net			19,094	14,259
Consolidated	$961,867	$729,792	$100,968	$75,068

	Identifiable Assets	
	1979	1978
United States Operations	$508,267	$451,852
International Operations	56,351	47,356
Total	564,618	499,208
Corporate(b)	54,227	34,435
Consolidated	$618,845	$533,643

(a)Sales between geographic areas are immaterial.
(b)Primarily cash and investments.

Undistributed earnings of foreign affiliated companies included in consolidated reinvested earnings amounted to approximately $7,926,000 at November 30, 1979 and $6,278,000 at November 30, 1978.

Currency exchange gains or losses included in the results of operations for 1979 and 1978 were not significant.

Export Sales

Sales by geographic area are as follows:

	Total	Asia	Canada	Western Europe	Middle East & Africa	Other
1979..................	$137,223	$44,771	$29,499	$28,099	$21,116	$13,738
1978..................	93,162	24,612	20,802	19,336	17,263	11,149

Of these amounts, management estimates that approximately $66,500,000 in 1979 and $50,000,000 in 1978 were obtained through the services of sales representatives to whom commissions of approximately $6,100,000 and $4,000,000 were paid or accrued in 1979 and 1978, respectively.

Major Customers

Sales to two major customers exceeded 10% of total sales and operating revenue in 1979 and 1978; amounts and related business segments follow:

	Percent of Total Sales	Total	Industrial Equipment	Automotive Components	Aerospace	Other
1979..................	16.2	$155,527	$55,839	$92,651	$ 6,172	$865
	15.3	147,055	1,105	141	144,997	812
1978..................	16.7	$121,855	$43,363	$71,488	$ 6,409	$595
	13.8	100,867	3,342	152	96,978	395

SPARTON CORPORATION (JUN)

SEGMENT INFORMATION

The Corporation's operations have been classified into four major segments. (1) Defense and commercial electronic products include sonobuoys (anti-submarine warfare devices used by the U.S. Navy and other free world military establishments), high reliability switches and printed circuit boards, pressure transducers, miniature hybrid thick-film circuits, and other electro-mechanical devices. (2) Auto parts and marine accessories include electric and air horns for passenger cars, trucks and boats, automotive stampings for a variety of passenger car and truck uses, buzzers for telecommunication applications, and other automotive parts and marine devices. (3) Conveyors and automated materials handling systems include automated tire mounting and inflating systems for automotive assembly plants, and highly engineered conveyors and other materials handling equipment for the automotive and other industries. (4) Oil and gas operations include the exploration for and production of crude oil and natural gas.

Segment information for the five years ended June 30, 1979 is as follows:

	Years ended June 30				
	1979	1978	1977	1976	1975
Sales and operating revenues:					
Defense and commercial electronic products	$47,381,109	$46,260,044	$41,722,093	$38,999,410	$35,025,609
Auto parts and marine accessories	23,851,993	19,368,292	18,022,120	16,866,670	15,133,375
Conveyors	10,350,607	11,528,533	5,817,039	5,270,551	9,590,386
Oil and gas	2,015,747	1,896,696	2,059,625	1,650,516	1,047,592
	$83,599,456	$79,053,565	$67,620,877	$62,787,147	$60,796,962
Operating profit (loss):					
Defense and commercial electronic products	$ 6,417,977	$ 5,981,457	$ 5,312,245	$ 4,608,484	$ 4,768,152
Auto parts and marine accessories	3,641,688	2,733,035	2,985,054	2,573,521	2,200,778
Conveyors	1,267,336	428,313	272,959	547,677	1,843,648
Oil and gas	(1,169,183)	(4,990,263)	(829,682)	(1,022,960)	(623,908)
	10,157,818	4,152,542	7,740,576	6,706,722	8,188,670
General corporate expenses	(1,083,654)	(932,890)	(851,496)	(821,843)	(838,643)
Income from operations	9,074,164	3,219,652	6,889,080	5,884,879	7,350,027
Interest expense	(526,127)	(589,041)	(331,273)	(334,860)	(446,075)
Other income (expense)	320,696	(45,230)	(27,059)	(13,253)	(100,451)
Income before provision for income taxes and extraordinary credit	$ 8,868,733	$ 2,585,381	$ 6,530,748	$ 5,536,766	$ 6,803,501
Identifiable assets:					
Defense and commercial electronic products	$28,262,020	$19,549,855	$16,937,341	$17,639,761	$17,399,861
Auto parts and marine accessories	12,720,721	9,986,183	9,175,277	8,563,196	9,075,455
Conveyors	3,879,200	4,674,969	3,955,496	1,996,905	3,392,227
Oil and gas	6,289,914	6,017,109	9,623,442	7,352,983	3,404,764
Other	1,986,916	3,720,042	1,964,434	2,973,845	1,898,088
	$53,138,771	$43,948,158	$41,655,990	$38,526,690	$35,170,395
Provision for depreciation and depletion:					
Defense and commercial electronic products	$ 720,388	$ 681,014	$ 583,854	$ 543,057	$ 517,647
Auto parts and marine accessories	294,708	275,029	274,198	294,470	287,938
Conveyors	62,647	71,156	68,452	75,976	83,950
Oil and gas	498,539	599,833	312,186	142,495	54,467
Other	4,569	4,484	4,550	4,069	3,997
	$ 1,580,851	$ 1,631,516	$ 1,243,240	$ 1,060,067	$ 947,999
Capital expenditures:					
Defense and commercial electronic products	$ 863,757	$ 1,676,285	$ 712,724	$ 604,134	$ 632,171
Auto parts and marine accessories	696,126	234,503	275,408	91,228	306,437
Conveyors	64,900	126,851	14,096	7,411	25,115
Oil and gas	772,573	901,397	3,095,702	567,995	682,963
Other	—	10,140	7,634	—	9,538
	$ 2,397,356	$ 2,949,176	$ 4,105,564	$ 1,270,768	$ 1,656,224

Total direct sales on prime contracts to United States government agencies approximated $30,600,000 for 1979 and $29,500,000 for 1978, principally from the defense and commercial electronic products segment. Total sales to General Motors Corporation approximated $13,700,000 for 1979 and $12,100,000 for 1978, of which 45% and 55%, respectively, relates to the conveyors and automated materials handling systems segment, and the remainder to the auto parts and marine accessories segment. No other customer accounted for 10% or more of consolidated sales and revenues in 1979 or 1978.

Sales of sonobuoys for the years 1979-1975, contributed approximately 43%, 43%, 45%, 48% and 48%, respectively, to total sales and operating revenues; sales of horns contributed approximately 13%, 13%, 14%, 13% and 16%, respectively. Intersegment sales were not significant in any of the years.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items has been added or deducted: general corporate expenses, interest expense (except amounts specifically attributable to the oil and gas segment), income taxes, or the extraordinary credit in 1979 and 1978.

As more fully discussed in Note 2 to the consolidated financial statements, the results of operations for the oil and gas segment for the year ended June 30, 1978 reflect a provision for loss on a receivable of $3,550,916.

The sales and operating revenues, and income (loss) before provisions for income taxes for the three years ended June 30, 1977 is the same information as previously reported under line of business disclosures except that general corporate expenses previously allocated to the various segments have been separately disclosed.

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 twenty-five survey companies used a 52-53 week fiscal year.

During 1979, four companies changed the date of their fiscal year end. Examples of such changes and examples of fiscal year definitions follow.

TABLE 1-4: MONTH OF FISCAL YEAR END

	1979	1978	1977	1976
January	21	25	22	21
February	15	14	12	13
March	12	12	16	19
April	8	9	7	7
May	10	11	10	11
June	39	38	38	37
July	13	13	15	13
August	20	19	19	16
September	45	44	43	41
October	27	30	32	31
November	11	12	13	10
Subtotal	**221**	**227**	**227**	**219**
December	379	373	373	381
Total Companies	**600**	**600**	**600**	**600**

Change in Date of Fiscal Year Ending

DUPLEX PRODUCTS INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part)

In 1979 the company changed its accounting period from a fiscal year ending October 31 to one which ends the last Saturday in October. As a result of this change, fiscal year 1979 ended on October 27, 1979. This change had no material effect upon the company's 1979 financial statements.

JOHNSON CONTROLS, INC. (SEP)

Consolidated Statements of Financial Position

September 30, 1979	December 31, 1978

Consolidated Statements of Income

	Year Ended Pro Forma (Unaudited)	
September 30, 1979	September 30, 1978	December 31, 1978

Consolidated Statements of Changes in Financial Position

Year Ended	
September 30, 1979	December 31, 1978

Consolidated Statements of Shareholders' Equity

Nine Months Ended	Year Ended
September 30, 1979	December 31, 1978

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Fiscal Year Change—In 1979 the Company changed its fiscal year-end from December 31 (calendar year) to September 30. Results of operations for the fiscal quarter ended December 31, 1978, summarized in Note 14, are included in the Consolidated Statements of Income for both the year ended September 30, 1979 and the year ended December 31, 1978. Pro forma (unaudited) results of operations for the year ended September 30, 1978 are presented in the Consolidated Statements of Income for comparative purposes only.

Definition of Fiscal Year

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Fiscal Year: The Company's fiscal year ends on the Sunday nearest December 31.

THE MAY DEPARTMENT STORES COMPANY (JAN)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year—The Company's fiscal year ends on the Saturday closest to January 31. Fiscal year 1979 ended on February 2, 1980, and included 52 weeks. Fiscal year 1978 ended on February 3, 1979, and included 53 weeks.

J.C. PENNEY COMPANY, INC. (JAN)

SUMMARY OF ACCOUNTING POLICIES

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1979 ended January 26, 1980; fiscal year 1978 ended January 27, 1979. Each year comprised 52 weeks. The accounts of several subsidiaries, including JCPenney Financial Services, are on a calendar year basis.

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.

TABLE 1-5: ROUNDING OF AMOUNTS

	1979	1978	1977	1976
To nearest dollar	134	161	184	200
To nearest thousand dollars:				
Omitting 000	274	254	233	211
Presenting 000	141	139	146	157
To nearest million dollars	51	46	37	32
Total Companies	**600**	**600**	**600**	**600**

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.

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 publication in the sections dealing with such topics.

TABLE 1-6: NOTES TO FINANCIAL STATEMENTS

	1979	1978	1977	1976
General and direct references	341	343	336	346
General reference only	250	247	255	235
Direct reference only	6	7	7	14
No reference to notes	3	3	2	5
Total Companies	**600**	**600**	**600**	**600**

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 follow.

TABLE 1-7: DISCLOSURE OF ACCOUNTING POLICIES

	Number of Companies			
	1979	1978	1977	1976
Depreciation methods	595	589	581	586
Consolidation basis	589	589	584	584
Inventory pricing	559	555	557	556
Interperiod tax allocation	541	544	546	543
Property	506	514	504	505
Employee benefits	376	355	360	360
Earnings per share calculation	336	311	295	299
Amortization of intangibles	304	309	320	307
Translation of foreign currency	188	213	238	301
Leasing transactions	117	116	N/C	N/C

N/C—Not Compiled.

BORDEN, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Intangibles—The excess cost of investments over net tangible assets of businesses acquired is carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized over a forty-year period.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined generally using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to cost and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expenses as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

The Company leases certain property and equipment (primarily buildings and transportation equipment) under operating and capital leases as defined by the Financial Accounting Standards Board in their Statement No. 13. Property and equipment, meeting the definition of capital leases, are capitalized and accounted for accordingly, with the corresponding obligations carried as a liability. All other lease agreements are classified and accounted for as operating leases with payments expensed as incurred.

Income Taxes—The provision for income taxes includes federal, foreign and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statements and income tax purposes. These timing differences principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

Investment tax credits are applied as reductions of income taxes in the year realized.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries, or on the earnings of a Domestic International Sales Corporation (DISC) that are eligible for tax deferral, because the Company presently plans to reinvest such earnings indefinitely.

Pension Plans—Substantially all of the Company's employees in the United States and Canada are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expenses for the Company's plans, determined for domestic employees in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, comprises current service costs and amortization of prior service costs, effectively, over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

Development and Promotion Expenses—Research and development expenditures are expensed as incurred as are advertising and promotion expenditures.

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.

CLUETT, PEABODY & CO., INC. (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The Company's consolidated financial statements include the accounts of all domestic and foreign subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliates in which the Company has approximately a 20% but not more than a 50% interest are accounted for under the equity method.

Collateral Advances—Two of the Company's subsidiaries contractually manufacture and warehouse products for shipment at the discretion of a customer. The related inventories and accounts receivable are used as collateral for cash advances obtained under security agreements with banks. Such advances are liquidated as accounts receivable are collected. The customer has related agreements with the banks covering the purchase of products collateralizing the advances. The Company deducts collateral advances from related accounts receivable and inventories.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined principally by the average method, except for retail stores which use the last-in, first-out (LIFO) method (Note 2). Market represents net realizable value with respect to finished goods and work in process and replacement cost with respect to materials and supplies.

Plant and Equipment—Plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed evenly over the estimated useful lives of the assets. Leasehold improvements are amortized evenly over the lesser of the terms of related leases or lives of the improvements.

Leases—Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

Cost in Excess of Net Assets Acquired—The cost in excess of the net assets of companies acquired is amortized over various periods up to forty years.

Income Taxes—Deferred income taxes represent tax effects of items reported for tax purposes in periods different from those used for book purposes and include income on retail installment sales, obligations under capital leases, certain deferred charges and provisions for depreciation, accrued retirement, deferred compensation awards, doubtful accounts, inventory valuation allowances, and dispositions and relocations. Deferred income taxes are not provided on that portion of the earnings of foreign subsidiaries deemed to be permanently invested. The Company treats the investment tax credit as a reduction of the provision for income taxes in the year in which the credit arises.

Retirement Plans—The Company and most of its subsidiaries have retirement plans which, with union plans, cover substantially all employees. Under Company plans, pension costs accrued are funded and prior service costs are amortized over periods not in excess of thirty years.

Earnings Per Share—Primary earnings per share is computed by dividing net income, less the dividend requirement of preferred stock, by the average common shares outstanding during the year including average common shares attributable to dilutive stock options. Fully diluted earnings per share is computed using such average shares increased by the number of shares that would result from the conversion of convertible debentures and preferred stock. Conversion is assumed only if it has a dilutive effect on earnings per share. For purposes of computing fully diluted earnings per share, net income is increased by interest (net of income taxes) on the convertible debentures when such debentures are dilutive and is decreased by the dividend requirement of the preferred stock when such stock is antidilutive.

Stock Options and Stock Appreciation Rights—The Company makes no charges to expense with respect to stock options. As options are exercised, common stock is credited with the par value of the shares sold and paid-in capital is credited with the excess of sales price over par value. Charges to expense are made for stock appreciation rights granted to option holders. The charge is measured by the difference between the average market price of the common stock and the stock option price. Credits to income are limited to amounts previously provided for the increase in average market value.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Principal accounting policies

Principles of consolidation. The financial statements reflect the consolidation of all subsidiaries except those excluded because of the different nature of their operations, of which only FMC Finance Corporation (see Note 6) is significant.

Foreign currency translation. Balance sheet accounts of foreign subsidiaries are translated at rates of exchange in effect at the end of the year, except that inventories, investments, property, plant and equipment and intangibles are translated at approximate rates of exchange in effect at the dates the assets were acquired. Income statement accounts are translated at the approximate rates of exchange in effect during the year, except for cost of sales and depreciation which are at historical rates. Translation gains and losses are charged or credited directly to income (see Note 13).

Marketable securities. Marketable securities are stated at cost, which approximates market.

Revenue recognition for long-term contracts. Sales are recorded under most production contracts as deliveries are made. Sales under cost reimbursement contracts for research, engineering, prototypes, repair and maintenance and certain production 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.

Inventories. Inventories are stated at the lower of cost or realizable value. Substantially all domestic inventories other than those relating to long-term contracts are stated on a last-in, first-out (LIFO) cost basis (see Note 3). Inventoried costs relating to long-term contracts are stated at the actual production cost incurred to date, reduced by amounts identified with revenue recognized. The costs attributed to units delivered under long-term contracts (except cost reimbursement contracts noted above) are based on the estimated average cost of all units expected to be produced. For substantially all other inventories, primarily non-U.S., the first-in, first-out (FIFO) method is used to determine cost.

Inventory costs include manufacturing overhead, less, for most inventories, depreciation, factory administration, property taxes and certain other fixed expenses.

Investments in affiliated companies. The investments in FMC Finance Corporation, which is 100% owned, and other affiliated companies are stated at cost plus FMC's equity in undistributed earnings since acquisition. Income tax is not provided on such equity in undistributed earnings, as it is intended that such funds remain invested in those companies, or because the potential tax effect of a distribution would not be material.

Property, plant and equipment. Property, plant and equipment is capitalized at cost. Depreciation for financial reporting purposes is provided principally on a straight-line basis using lives which approximate those permitted by the 1962 Internal Revenue Service guideline regulations. Because of the diversity of facilities it is not practical to list herein the various rates used in computing annual depreciation.

Maintenance and repairs are charged to expense in the year incurred. Renewals are charged to plant and equipment accounts which have been relieved of items renewed or replaced. Betterments are capitalized. Gains and losses on normal retirements of property are credited or charged to accumulated depreciation, and gains and losses on abnormal retirements are reflected in the income statement.

Patents and deferred charges. Purchases of patents are capitalized and amortized over their remaining legal lives. Debt expense is amortized over the term of the debt.

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 ($32,357,000 at December 31, 1979) are not being amortized as management believes that there has been no diminution of value.

Income taxes. Income tax provisions are based on income reported for financial statement purposes, adjusted for transactions that will never enter into the computation of income taxes payable. Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Deferred taxes are not provided on Domestic International Sales Corporation (DISC) income, as management intends to follow policies assuring permanent deferral as allowed under current regulations, nor on undistributed earnings of subsidiaries, as it is intended that such earnings remain invested in those companies, or, if distributed, the tax effect would not be material.

Investment tax credits are recognized as a reduction of the provision for income taxes in the year in which the assets are placed in service.

Research and development and start-up expenses. Research and development expenses are charged against income in the year incurred, as are start-up expenses related to new products and facilities.

Retirement plan costs. Current service costs are accrued and funded on a current basis. Prior service costs are amortized and funded principally over a period of 30 years from the dates such costs were established.

Earnings per share. Primary earnings per share of common stock are computed by dividing the net earnings applicable to common stock by the weighted average number of shares of common stock and common stock equivalents (incentive plan shares and stock options) outstanding during the year—32,415,582 in 1979 and 32,398,816 in 1978. Fully diluted earnings per share of common stock are computed using (1) the average number of shares of common stock and common stock equivalents outstanding during the year and (2) shares of common stock issuable upon conversion of convertible debentures and preferred stock. The average number of shares used in the fully diluted computation was 36,673,382 in 1979 and 36,872,938 in 1978. The fully diluted computation also adds back to net income the after-tax interest on convertible debentures and eliminates preferred stock dividends.

GETTY OIL COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The accounts of corporations in which Getty owns more than 50 percent of the common or voting stock are consolidated in the financial statements, along with Getty's interests in assets, liabilities and operations of unincorporated joint ventures. Corporations in which Getty has common or voting stock ownership of 20 percent, but not over 50 percent, are accounted for by the equity method. Getty's equity in the earnings or losses of the latter companies is included in the dividends, interest and other income caption in the consolidated statement of income. Investments in companies in which Getty owns less than 20 percent are carried at cost, with dividends recorded in income as received.

Translation of Foreign Subsidiary and Affiliate Accounts

Accounts of foreign subsidiaries and affiliates are stated in United States dollars. Cash, receivables, payables and long-term debt are translated at the current rate of exchange at the fiscal year end of the subsidiary or affiliate. Inventories, other current assets, property, plant and equipment and the related depreciation, depletion and amortization are translated at the rates which were in effect when the assets were acquired. Deferred taxes are translated at the average rate in the year of deferral. Income accounts are translated at average rates except for depreciation, depletion and amortization charges, which are translated at the rates which were in effect when the related assets were acquired. Net foreign exchange losses in 1979 were $3,209,000, compared with net foreign exchange gains in 1978 of $1,566,000. These net losses and gains are included in the dividends, interest and other income caption in the consolidated statement of income.

Research and Development Costs

Expenditures for research and development activities are charged to expense as incurred. These amounts are not material.

Inventories

Crude oil and refined products are carried at the lower of cost or market (principally last in, first out). Cost elements of refined products are crude oil and manufacturing costs. Materials and supplies are valued at or below cost.

Leasehold Costs

Undeveloped leasehold acquisition costs are capitalized and amortized at rates which should provide full amortization upon abandonment of unproductive leases. Costs of abandoned leases are charged to the accumulated amortization accounts and costs of productive leases are transferred to the developed property accounts.

Development Costs

Both tangible and intangible costs of drilling and developing producing wells and related facilities, including development dry holes, are capitalized and amortized on a unit-of-production basis within each operating field. Costs of developing solid mineral reserves and related facilities, including both tangible and intangible expenditures, are capitalized and amortized on a unit-of-production basis with each mining area.

Exploratory Costs

Exploratory costs, including exploratory dry holes, geophysical costs and delay rentals, are charged to expense.

Depreciation and Depletion

Depreciation and depletion of developed oil and gas properties are provided on a unit-of-production basis within each operating field. Included in depreciation and depletion are depreciable investments, intangible drilling costs and leasehold costs. The costs of other categories of property, plant and equipment are generally depreciated on a straight-line basis over the estimated useful lives of the assets.

Disposal of Property, Plant and Equipment

Upon normal retirement or replacement of oil and gas properties, the gross book value of such facilities (less salvage) is charged to the depreciation and depletion reserve and eliminated from the property accounts. Gains or losses arising from abnormal retirements or sales of oil and gas properties are credited or charged to income. Gains or losses on disposition of facilities other than oil and gas properties are credited or charged to income, except dispositions of partial units, which are treated as adjustments to the applicable reserve accounts. These gains or losses are included in the dividends, interest and other income caption in the consolidated statement of income.

Maintenance and Repairs

Replacement costs of major portions of plant and equipment, which increase capacities or extend useful lives, are capitalized. Expenditures for maintenance, repairs and minor replacements are charged to operating expenses.

Income Taxes

Deferred income taxes are recognized for income and expense items which are reported for tax purposes in different years than for financial reporting purposes. Foreign tax credits and investment tax credits are recorded as a reduction of income tax expense in the year utilized. Getty follows the practice of filing a consolidated United States tax return which includes domestic subsidiaries in which it owns 80 percent or more.

REPUBLIC STEEL CORPORATION (DEC)

ACCOUNTING POLICIES

Consolidation:

The consolidated financial statements include the accounts of the Corporation and its significant United States and Canadian subsidiaries. Investments in associated companies (unconsolidated subsidiaries, companies in which an interest of 20 percent to 50 percent is held, partnerships, and corporate joint ventures) are carried at equity in net assets.

Short-Term Money Market Investments:

Investments are valued at cost and accrued interest which approximates market.

Properties, Plants and Equipment:

Properties, plants and equipment are carried at cost. Significant renewals and betterments are capitalized while repair and maintenance expenditures are charged to costs. Depreciation for all plants and equipment, including capitalized leases, is computed by facility group using the straight-line method at composite rates designed to amortize cost over the estimated economic lives. Furnace lining expenditures are capitalized and amortized to cost over estimated production. Upon retirement or disposal of a complete facility group, the related asset and allowance accounts are eliminated and any profit or loss is included in operations. Upon retirement or disposal of components of a facility group, proceeds are credited to the allowance account.

Mine Development:

Development expenditures for new mining properties are capitalized and amortized over their estimated useful lives; however, mine development expenditures related to operating mines are charged to income as incurred. Mineral royalties are charged to cost at tonnage rates calculated to amortize the total royalties over the estimated recoverable tonnage.

Natural Gas Development:

Expenditures for acquisition and development of natural gas and oil mineral interests in properties and related support equipment and facilities are capitalized. Amortization of producing properties is computed at rates applied to the units of production on the basis of estimated recoverable reserves. Transmission lines and related equipment are depreciated principally by the straight-line method. All other operating costs are charged to income as incurred.

Research and Development:

Research and development expenditures, which are charged to expense as incurred, were $18,930,000 in 1979 and $15,050,000 in 1978.

Pension Costs:

The Corporation and consolidated subsidiaries have non-contributory pension plans which cover substantially all employees. It is the Corporation's policy to fund actuarially determined pension costs, which include amortizatoin of prior service cost (principally over 30-year periods) as accrued.

Net Income Per Share:

Net income per share of common stock is based on the average number of shares outstanding during the year.

Income Taxes:

Federal income taxes are reduced by the investment tax credit using the flow-through method. Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax accounting, principally for depreciation and investment tax credit carryforwards.

ACCOUNTING CHANGES

Table 1-8 summarizes the nature of accounting changes disclosed by the survey companies in 1979 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 1979 was changing the cost basis of inventories to LIFO. The reason disclosed by many companies for changing to LIFO was LIFO provided a better method of accounting for inventories during the present period of inflation.

Other frequently disclosed accounting changes listed in Table 1-8—capitalization of leases entered into before January 1, 1977 and capitalization of interest—constitute early compliance with requirements enunciated in FASB statements which will become effective during the period 1980-1982. *Statement of Financial Accounting Standards No. 14* will become mandatory for pre January 1, 1977 leases effective for fiscal years beginning after December 31, 1980. *Statement of Financial Accounting Standards No. 34* will require capitalization of interest on construction for fiscal years beginning after December 15, 1979.

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 year 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			
	1979	1978	1977	1976
LIFO method adopted or extended	48	14	10	13
Actuarial cost methods or assumptions	42	32	37	75
Lease capitalization	33	98	97	N/C
Interest capitalization	33	N/C	N/C	N/C
Oil and gas operations	25	9	N/C	N/C
Change in reporting entity	8	3	7	14
Other	34	17	40	139

N/C—Not Compiled.

Change in Accounting Estimates

AKZONA INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of significant policies

Depreciation and depletion—For financial reporting purposes, depreciation of property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the respective assets. The estimated lives used are: buildings and structures—14 to 50 years; machinery and equipment—5 to 25 years. During 1979, the Company reduced its estimate of useful lives to reflect technological changes with respect to certain machinery and equipment, which reduced net income for the year by $1,400,000 ($.12 per share). Depletion of salt deposits is calculated on the basis of estimated recoverable tons of salt. Upon the sale or the other retirement of properties, the cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss is included in income. Repair and maintenance costs are expensed as incurred.

FIRST NATIONAL SUPERMARKETS, INC. (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 2 (in part): Summary of Significant Accounting and Reporting Policies:

Property and Equipment—Depreciation and amortization are computed principally by the straight-line method, based on the shorter of the estimated useful asset lives or lease term. Estimated useful lives are:

Buildings	33-⅓ years
Store fixtures and equipment	3-15 years
Leasehold improvements and other machinery and equipment	3-25 years

Effective April 2, 1978, the Company reduced the depreciation rate of certain store fixtures and equipment from 12½% to 10% to more closely approximate the economic lives of these assets. The effect of this change in estimate was to increase income before provision for Federal income taxes and net income by approximately $600,000 or $.15 per share for the fiscal year ended March 31, 1979.

Maintenance and repairs are charged to expense as incurred and betterments and replacements are capitalized. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and the resultant gain or loss is recorded.

CELANESE CORPORATION (DEC)

NOTES

(millions, except per share)

Note R: Retirement income plans

	1975	1976	1977	1978	1979
Charged to operations:					
U.S.	$21	$19	$19	$28	$37
Non-U.S.	2	2	2	2	3
Total	$23	$21	$21	$30	$40

The Corporation has various retirement income plans covering substantially all employees. *The expenses of these plans are funded as accrued and are based on the entry-age normal actuarial cost method.* All plans, except the Executive Pension Plan, are fully funded with respect to accrued (which includes vested) benefits. Actuarial assumptions for the largest plan include an average retirement age of 63 and turnover based on experience.

In 1979, for all U.S. plans, the Corporation changed its investment return assumption from 6.0% to 6.75%; changed its pay increase assumptions of 8.5% for salaried and 7% for hourly employees to 6.25%; and reduced the period for amortization of prior service costs from 20 to 15 years. The net effect of these changes was to reduce pension expense by $12 million and increase net income by $.42 per share, or $6 million.

Retirement benefit improvements in the largest plan, which the Board of Directors adopted subject to stockholder approval, increased 1979 pension expense by $14 million and reduced net income by $.45 per share, or $7 million. In 1978, certain plan changes and Social Security law amendments increased pension expense by $6 million and reduced net income by $.20 per share, or $3 million.

Unfunded prior service costs at December 31, 1979, amounted to approximately $160 million.

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Pension Plans—Total pension costs amounted to $17.2 million in 1979 and $22.7 million in 1978. The actuarially computed value of vested benefits under plans covering certain employees as of the latest valuation date exceeded the market value of those plans' assets at December 31, 1979 by approximately $49.6 million.

The Corporation adopted, in the fourth quarter of 1979, revised actuarial assumptions, effective January 1, 1979, the net effect of which was to reduce pension costs by $5.1 million for the year and increase net income by $3.3 million ($.16 per share).

Change in Accounting Principles

ALLIS-CHALMERS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories—In the fourth quarter of 1979, the Company changed its method of determining cost for certain U.S. inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method effective January 1, 1979. Additional U.S. inventories will be changed to the LIFO method effective from January 1, 1980. The change is being made over two years to provide adequate time for implementation. The Company believes the LIFO method more closely relates current costs with current revenues in periods of continuing high inflation. At December 31, 1979, the cost of 50% of total inventories (12% in 1978) is determined by the LIFO method. The effect of the change was to reduce inventories at December 31, 1979 by $13.5 million and reduce 1979 net income by $7 million, or $.55 per share. The change had no effect on prior years' financial statements because the inventory value at December 31, 1978 is consistent with the valuation under the LIFO method. The current cost of inventories valued on LIFO exceeded the carrying amount by $50.5 million at December 31, 1979.

COMMERCIAL METALS COMPANY (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (In Part): Summary of Significant Accounting Policies

Inventories—Inventories are stated at the lower of cost or market. Effective with the year ended August 31, 1979, the Company changed its method of determining inventory cost from the first-in, first-out method (FIFO) to the last-in, first-out method (LIFO) for virtually all inventories not on LIFO. At August 31, 1978, 12.8% of inventory is stated at LIFO cost. Management believes LIFO more clearly reflects income by providing a better matching of current cost and current revenue. In addition, the adoption of LIFO conforms the Company's inventory cost method to the predominant method used in the industry. This change and its effect on net earnings ($000s omitted, except per share data) and earnings per share for 1979 are as follows:

		Earnings per share	
	Net earnings	Before stock dividend	After stock dividend
Net earnings before the change	$20,732	$8.04	$7.31
Reduction of earnings for the change	5,615	2.18	1.98
Net earnings	$15,117	$5.86	$5.33

There is no cumulative effect of the change on the prior year because beginning inventory on September 1, 1978 at LIFO is that which was reported on a FIFO basis at August

31, 1978. Because of the change, the current year's financial statements are not comparable with those of any prior year.

The adjustment to reduce inventories from replacement cost to cost on the LIFO method was approximately $13,013,000 and $752,000 at August 31, 1979 and 1978, respectively.

LIGGETT GROUP INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: Change to the LIFO Method of Inventory Valuation—The Company adopted the last-in, first-out (LIFO) method of inventory valuation for its tobacco, beverage alcohol, and home cleaning products inventories during 1979. The change was made to more nearly match current costs with current sales and thereby reduce the impact of inflation on earnings. Previously, the cost of these inventories was determined principally using the average cost method. The effect of this change to LIFO was to reduce 1979 earnings from continuing operations and net earnings by $4.8 million, equal to $.57 per share of common stock, and fourth quarter earnings from continuing operations and net earnings by $1.2 million, equal to $.14 per share of common stock. Previously reported earnings from continuing operations and net earnings for the first, second, and third quarters of 1979 have each been reduced by $1.2 million, equal to $.14 per share of common stock. The effect of this change to LIFO on 1979 operating income by product group was to reduce Cigarettes' operating income by $1.7 million, Chewing and Smoking Tobaccos' operating income by $2.2 million, Spirits and Wines' operating income by $5.3 million, and Sporting Goods and Other products' operating income by $.1 million.

Pro forma amounts for retroactive application of LIFO are not determinable, and there is no cumulative effect on retained earnings at the beginning of the year, since the December 31, 1978 inventories as previously reported are also the amount of the beginning inventories under the LIFO method.

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Accounting Change—Interest—Effective January 1, 1979 the Company adopted the policy of capitalizing interest as a component of the cost of significant construction projects in accordance with a recent Statement of the Financial Accounting Standards Board. In conformity with the provisions of the Statement, $18,904,000 of the $222,934,000 total interest for the year was capitalized which had the effect of increasing net income $10,918,000 ($.15 per share).

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Accounting Change—Effective January 1, 1979, in accordance with a recent Statement of Financial Accounting Standards, the Corporation adopted, prospectively, the policy of capitalizing interest cost as a part of the cost of constructing and developing significant assets. Prior to 1979, all interest costs were charged to expense as incurred. Total 1979 interest cost amounted to $51.9 million of which $11.8 million was capitalized, which, together with interest cost capitalized by companies accounted for on the equity method, increased 1979 net income by $13.5 million($.65 per share).

REPUBLIC STEEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C (In Part): Properties, Plants and Equipment—Effective January 1, 1979, the Corporation has capitalized interest expense of $11,051,000 as part of the cost of construction of facilities and equipment. In 1978, interest was expensed as incurred. This accounting change, to comply with Financial Accounting Standards Board Statement No. 34, increased 1979 net income by $5,957,000 or $.37 per share.

MACMILLAN, INC. (DEC)

Statements of Consolidated Income and Retained Earnings

	1979	1978
	(dollars in thousands except per share data)	
Income from continuing operations	$ 16,840	$ 25,746
Discontinued operations:		
(Loss) from operations, net of income tax credits	(5,335)	(3,802)
Provision for (loss) on disposal, net of income tax credits	(53,768)	
(Loss) from discontinued operations	(59,103)	(3,802)
Income (loss) before cumulative effect of accounting changes	(42,263)	21,944
Cumulative effect on prior years (to December 31, 1978) of changes in accounting principles, net of income tax credits (Note 2)	(13,754)	
Net income (loss)	(56,017)	21,944
Retained earnings at beginning of year	129,071	115,820
Cash dividends:		
Preferred stock	(464)	(473)
Common stock, 1979—$.745 per share; 1978—$.66 per share	(9,320)	(8,220)
Retained earnings at end of year (Note 10)	$63,270	$129,071
Earnings (loss) per common and common equivalent share:		
Continuing operations	$ 1.31	$ 2.01
Discontinued operations	(4.73)	(.30)
Income (loss) before cumulative effect of accounting changes	(3.42)	1.71
Cumulative effect of accounting changes (Note 2)	(1.10)	
Net income (loss)	$ (4.52)	$ 1.71
Earnings (loss) per common share, assuming full dilution:		
Continuing operations	$ 1.31	$ 1.93
Discontinued operations	(4.73)	(.28)
Income (loss) before cumulative effect of accounting changes	(3.42)	1.65
Cumulative effect of accounting changes (Note 2)	(1.10)	
Net income (loss)	$ (4.52)	$ 1.65
Pro forma amounts assuming the accounting changes are applied retroactively*		
Profit from continuing operations	$ 36,908	$ 52,654
Net income (loss)	$(42,263)	$ 20,319

*See Note 2 of Notes to Financial Statements for per share effect.

Note 2: Changes in Accounting Principles

Effective January 1, 1979, the Company adopted new accounting principles which it believes will provide a better matching of costs and revenues in these highly inflationary times. The accounting principles that were changed involve adopting accelerated depreciation for financial statement purposes, establishing an accrual for future vacation pay, expensing as incurred advertising and promotion costs and valuing substantially all inventory on the last-in, first-out (LIFO) method.

The $8.0 million ($.64 per share) cumulative effect of the change to accelerated depreciation on prior years (after reduction for deferred income taxes of $7.3 million) is a one-time charge to income for 1979. Such charge represents the excess accelerated depreciation recorded for tax return purposes in prior years over straight-line depreciation recorded for financial statement purposes on substantially all the Company's property, plant and equipment. The effect of the depreciation change was to reduce income from continuing operations by $.8 million ($.06 per share) and to reduce net income by $8.8 million ($.70 per share).

The Financial Accounting Standards Board is currently studying the matter of requiring all companies to accrue for vacation pay. In anticipation of such a requirement, the Company has decided to change from its acceptable alternative accounting practice of recognizing such costs when paid to accruing for these costs when earned by employees. The $1.2 million ($.10 per share) cumulative effect of the change on prior years (after the related deferred income tax benefit of $1.1 million) is a one-time charge to income for 1979. This charge provides for accrued vacation pay applicable to prior years on substantially all of the Company's eligible employees. The effect of the vacation pay change was to reduce income from continuing operations by $.1 million ($.01 per share) and to reduce net income by $1.3 million ($.11 per share).

The $4.5 million ($.36 per share) cumulative effect on prior years of the change to expensing advertising and promotion costs (after reduction for deferred income taxes of $4.1 million) is a one-time charge to income. Such charge represents advertising and promotion costs previously recorded in prepaid expenses and other assets in prior years. The effect of this change was to reduce income from continuing operations by $1.2 million ($.10 per share) and to reduce net income by $5.7 million ($.46 per share).

Effective January 1, 1979, the Company adopted the last-in, first-out (LIFO) method of inventory accounting for most of its domestic subsidiaries. Prior to 1979, such inventories had been accounted for at the lower of cost (generally actual or average) or market. This change was made because management believes that the LIFO method (which charges current earnings with current costs) minimizes inflation-induced inventory profits and more appropriately reflects operating results. The change had no effect on prior periods since the December 31, 1978 inventories were the opening inventories under the LIFO method. The effect of this change was to reduce income from continuing operations and net income by $2.0 million ($.16 per share).

Pro forma earnings (loss) per share, assuming that the changes in accounting principles are applied retroactively (other than the change to LIFO which is not retroactively applied), are as follows:

	1979		1978	
	Actual	Pro Forma	Actual	Pro Forma
Earnings (the loss) per common and common equivalent share:				
Continuing Operations	$1.31	$1.31	$2.01	$1.88
Discontinued operations	(4.73)	(4.73)	(.30)	(.30)
Cumulative effect of accounting changes	(1.10)			
Net income (loss)	$(4.52)	$(3.42)	$1.71	$1.58
Earnings (loss) per common share, assuming full dilution:				
Continuing operations	$1.31	$1.31	$1.93	$1.81
Discontinued operations	(4.73)	(4.73)	(.28)	(.28)
Cumulative effect of accounting changes	(1.10)			
Net income (loss)	$(4.52)	$(3.42)	$1.65	$1.53

THE QUAKER OATS COMPANY (JUN)

Consolidated Statement of Income

	Millions of Dollars Except Share Data	
	1979	1978
Income Before Cumulative Effect of Change in Accounting Principle	$84.5	$73.6
Cumulative effect as of July 1, 1978 of change in method of accounting for investment tax credit	14.7	—
Net Income	99.2	73.6
Preference dividends	4.8	4.8
Net Income Available for Common	$94.4	$68.8
Per Common Share:		
Income before cumulative effect of change in accounting principle	$4.01	$3.34
Cumulative effect as of July 1, 1978 of change in method of accounting for investment tax credit	.74	—
Net income	$4.75	$3.34
Dividends declared	$1.20	$1.04
Average Common Shares Outstanding (in thousands)	19,884	20,623
Pro Forma Data:		
Pro forma amounts, assuming retroactive application of the 1979 change to the flow-through method of accounting for investment tax credit, are as follows:		
Net income	$84.5	$75.3
Income per common share	$4.01	$3.42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes. Deferred income taxes are provided on timing differences and result primarily from the use of accelerated depreciation methods for tax purposes.

In 1979, the Company changed its method of accounting for U.S. investment tax credits from the deferral to the flow-through method in order to achieve greater comparability with the general accounting practices of most other companies. The deferred method amortized the investment tax credits over the estimated useful lives of the related assets. The flow-through method recognizes credits in income when the assets are placed in service. The cumulative effect of this change, which was made retroactive to July 1, 1978, was to increase 1979 net income by $14.7 million, or $.74 per share. See pages 25 and 26 (Net Income and Earnings per Share) and the quarterly financial data (unaudited) on page 48 for the effect of this change on 1979 quarterly and annual earnings. The historical financial summary on page 22 discloses the pro forma effect of this change on prior years.

Except for minor amounts, no U.S. federal income taxes have been provided on the undistributed earnings of non-U.S. subsidiaries, since they are expected to be permanently invested in those countries. Reinvested earnings of these non-U.S. subsidiaries amounted to $122.5 million and $97.4 million at June 30, 1979 and 1978, respectively.

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Net Income. Net income before cumulative effect of change in the method of accounting for the U.S. investment tax credit was $84.5 million, a 12.2 percent increase over fiscal 1978 pro forma net income. The cumulative effect of the change in the method of accounting for the investment credit amounted to $14.7 million. Including this one-time credit, net income in fiscal 1979 was $99.2 million. Of this credit, $1.7 million relates to fiscal 1978 and is included in the pro forma 1978 net income. If this change in accounting principle had not been made in fiscal 1979, net income would have been $81.9 million, or 11.3 percent higher than last year.

* * *

Earnings per Share. Net income per common share for fiscal 1979 was $4.01, excluding the cumulative effect of a change in the method of accounting for the U.S. investment tax credit. This represents an increase of 17 percent over comparable earnings per share of $3.42 last year. The cumulative effect of change in accounting for the investment tax credit resulted in recording a one-time earnings per share credit of $.74 in fiscal 1979. Including this one-time credit, fiscal 1979 earnings were $4.75. Of this credit, $.08 relates to fiscal 1978, and, for comparative purposes, is included in the fiscal 1978 earnings per share figure of $3.42. If this change in accounting had not been made in fiscal 1979, earnings per share would have been $.13 lower than the reported $4.01 but would still have been $.54, or 16 percent higher than last year.

O'S GOLD SEED COMPANY (SEP)

Statement of Income

	1979	1978
Income before cumulative effect of a change in accounting principle	$707,778	$995,174
Cumulative effect on prior years of changing to a different inventory method, net of income tax	(448,924)	—
Net Income	$258,854	$995,174
Earnings per common share and common equivalent share before cumulative effect of a change in accounting principle-Note 1	$ .15	$ .21
Cumulative effect on prior years of changing to a different inventory method, net of income tax	(.09)	—
Net Income	$ .06	$ .21
Pro forma amounts assuming the new inventory method is applied retroactively:		
Net Income	$707,778	$548,725
Earnings Per Common Share and Common Equivalent Share	$ .15	$ .12

Note 1 (In Part): Summary of significant accounting policies:

Accounting Change – Inventory Pricing

The company has changed its method of pricing its seed inventories from FIFO method to the average method. This change was made because management believes it permits a closer matching of costs and revenues during periods of fluctuating unit costs, thereby presenting a more realistic picture of the company's financial progress. The cumulative effect on prior years has been included in current year net income. As a result of adopting the average cost method, net income for the current period is $456,253 or $.10 per share higher than it would have been on the FIFO method. Pro forma amounts have also been presented on the income statement showing the effect of applying the new method retroactively. For income tax purposes, the FIFO method has been continued. Inventories are classified as follows:

	1979	1978
Raw materials and work in process	$ 3,005,479	$ 3,552,221
Finished products	10,961,689	8,884,204
	$13,967,168	$12,436,525

Inventory amounts for 1979 are presented at average cost. Inventory amounts for 1978 are presented at FIFO cost.

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 significant subsidiaries and shows the type of subsidiary commonly excluded from consolidation. For the purpose of the aforementioned tabulations a subsidiary is a company described in an annual report as a subsidiary or as more than 50 percent owned by its parent company. Notes to financial statements discussing consolidation policies follow.

TABLE 1-9: CONSOLIDATION POLICIES

	1979	1978	1977	1976
Nature of Subsidiaries Not Consolidated				
Finance related				
Credit	93	94	97	93
Insurance	42	31	35	36
Leasing	22	18	17	20
Banks	7	6	10	10
Real estate	27	25	30	33
Foreign	27	33	37	38
Number of Companies				
Consolidating all significant subsidiaries	434	428	423	411
Consolidating certain significant subsidiaries	156	163	167	178
Not presenting consolidated financial statements	10	9	10	11
Total Companies	**600**	**600**	**600**	**600**

All Subsidiaries Consolidated

ACF INDUSTRIES, INCORPORATED (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 ACF Industries, Incorporated and its subsidiaries. The Company's investments in companies owned 50% or less are recorded at cost plus the Company's share of their undistributed income. Intercompany transactions are eliminated.

ADAMS-MILLIS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (in part)

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Adams-Millis Industries, Inc. Significant intercompany accounts and transactions have been eliminated. Effective January 1, 1980, the Company's wholly owned subsidiary was merged into the Company.

THE BARDEN CORPORATION (OCT)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): The Company's significant accounting policies are summarized as follows:

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiary companies, each of which is wholly owned. Material intercompany items and transactions are eliminated in consolidation.

INTERCO INCORPORATED (FEB)

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 company's fiscal year ends on the last day of February. The major accounting policies of the company are set forth below.

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

SQUARE D COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The statements are based on years ended December 31, except foreign subsidiaries whose fiscal years end November 30.

SUN CHEMICAL 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 Sun Chemical Corporation and subsidiaries. Financial statements of certain subsidiaries cover fiscal years ending September 30 and November 30 to facilitate timely consolidation. Intercompany balances and transactions have been eliminated. Sun's investments in 20%- to 50%-owned companies are reflected on the equity method of accounting.

Excess of cost over net assets of companies acquired is being amortized on a straight-line basis over 40 years.

All Significant Subsidiaries Consolidated

COLLINS & AIKMAN CORPORATION (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Basis of consolidation—The consolidated financial statements include the accounts of all domestic and Canadian subsidiaries. The Company's European subsidiaries, which are not material, are accounted for on an equity basis. All intercompany transactions and profits have been eliminated.

DANA CORPORATION (AUG)

COMMENTS ON FINANCIAL STATEMENTS

Principles of Consolidation—Dana's consolidated financial statements include the accounts of all domestic and significant foreign subsidiaries of the Company. Other foreign subsidiaries, and affiliated companies (20% to 50% Dana ownership) in which Dana exercises operating control or participates in management, are recorded in the consolidated statements at the cost of the investment plus equity in undistributed earnings since acquisition. Subsidiaries and affiliates outside of North America are generally included in the consolidated financial statements for the twelve months ended May 31, June 30 or July 31 to insure preparation of the consolidated financial statements within reasonable proximity of August 31. Less than 50% owned companies which are not accounted for on the equity basis are included in the consolidated accounts at the cost of Dana's investment. Dividends, royalties and fees from these affiliates are recorded in Dana's consolidated statements when received.

The accounts of foreign subsidiaries and affiliated companies are translated to U.S. dollars based on the official or free rate of exchange applicable in the circumstances. Foreign assets and liabilities are translated to U.S. dollars at year-end exchange rates, except that inventories and property, plant and equipment are translated at approximate rates of exchange when acquired. Income and expense items are translated at average rates of exchange prevailing during the year, except for inventories charged to cost of sales and depreciation which are translated at historical rates. Exchange adjustments are included in earnings currently.

Consolidated Foreign Operations (in part)—The consolidated financial statements include the accounts of Hayes-Dana and Weatherhead of Canada for the years ended August 31, 1979 and 1978, Brown Brothers for the years ended June 30, 1979 and 1978, Pellegrino and Dana Engineering for the year ended June 30, 1979 and Maumee Holdings for the year ended May 31, 1979. The following is a summary of the more significant financial information of the consolidated foreign subsidiaries:

	1979	1978
	(in thousands)	
Assets	$300,305	$159,944
Liabilities	167,368	84,929
Net sales	455,424	266,948
Net income (including translation gain of $2,199,000 in 1979 and $168,000 in 1978)	19,399	10,908
Dana's equity in—		
Net assets	108,511	53,837
Net income	15,378	7,775

The investment in these foreign subsidiaries, which represents Dana's cost, including unamortized good-will of $7,876,000 in 1979 and $8,051,000 in 1978, was $53,348,000 and $29,719,000 at August 31, 1979 and 1978, respectively.

KENNECOTT COPPER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Consolidation: The consolidated financial statements include Kennecott Copper Corporation and all significant subsidiaries more than 50% owned. Investments 20% to 50% owned are carried on the equity method of accounting and less than 20% owned are carried at cost.

MARTIN MARIETTA CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Consolidation Basis: Consolidated financial statements include the accounts of all subsidiaries except certain minor subsidiaries engaged in real estate development and service businesses and several minor foreign subsidiaries. All significant intercompany accounts are eliminated in consolidation.

Finance-Related Subsidiaries Not Consolidated

CONOCO INC. (DEC)

ACCOUNTING POLICIES

A summary of major accounting policies of Conoco Inc. is presented below to assist the reader in evaluating the financial statements and other data contained in this report.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries, except for wholly owned finance and insurance subsidiaries which were organized to finance certain receivables and provide certain insurance coverage for the Company and subsidiaries and are accounted for under the equity method.

Conoco follows the practice of including in net income its equity in earnings or losses of affiliates in which it owns 20% or more of the outstanding voting stock and of corporate joint ventures, and recording investments in these companies at cost adjusted for Conoco's equity in their earnings or losses.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Significant accounting policies

Basis of consolidation—The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries, except Firestone Credit Corporation, a wholly-owned subsidiary which is included on the equity basis, and several subsidiaries which are insignificant in the aggregate. All significant intercompany transactions have been eliminated.

FMC CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Principal accounting policies

Principles of consolidation—The financial statements reflect the consolidation of all subsidiaries except those excluded because of the different nature of their operations, of which only FMC Finance Corporation (see Note 6) is significant.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of Consolidation. The consolidated financial statements include the accounts of all significant domestic and foreign subsidiaries except for domestic wholly owned finance and leasing subsidiaries, the investments in which are accounted for on the equity basis.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Principles of Consolidation—The financial statements include the accounts of all majority-owned companies except those subsidiaries engaged in insurance operations. Unconsolidated insurance subsidiaries and associated companies are accounted for under the equity method, i.e., at cost, increased or decreased by the Company's share of earnings or losses, less dividends. Associated companies include significant companies in which National has at least a 20%, but not more than a 50%, interest.

PULLMAN INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant accounting policies

Basis of presentation: The consolidated financial statements include the accounts of Pullman Incorporated and all majority-owned subsidiaries except its leasing, financing and insurance subsidiaries, all of which are wholly-owned. Investments in the latter companies are accounted for under the equity method (see Note 7). The consolidated financial statements reflect significant transactions with the leasing and financing subsidiaries as discussed in the combined financial statements of those subsidiaries, presented on pages F14 to F18, which should be read in conjunction with the consolidated statements.

The 1978 financial statements and notes thereto have been reclassified principally to reflect the discontinuance in 1979 of rail passenger car operations.

Real Estate Subsidiaries Not Consolidated

McCORMICK & COMPANY, INCORPORATED (NOV)

McCORMICK SUMMARY OF ACCOUNTING POLICIES

Consolidation—The consolidated financial statements include all wholly owned subsidiaries except McCormick Properties, Inc., which is engaged in the business of owning, leasing and constructing real estate properties for investment and development.

SMITHKLINE 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 SmithKline Corporation and all of its subsidiaries, except for investments in three real estate subsidiaries and in a finance subsidiary. The accounts of foreign subsidiaries are included for their fiscal years ended November 30. All material intercompany accounts and transactions are eliminated in consolidation.

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. Williams Realty Corp., a wholly owned subsidiary engaged in real estate activities, and companies in which Williams and its subsidiaries own 20 percent to 50 percent of the voting common stock are accounted for under the equity method, except for a 25 percent 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

COOPER INDUSTRIES, INC. (DEC)

SUMMARY OF MAJOR ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all majority owned subsidiaries, except for certain African and South American subsidiaries which were recorded as a cost investment at the date of the merger between Gardner-Denver and the Company because of restrictions upon the transfer of earnings and other economic uncertainties. Investments of 50% or less in affiliated companies are accounted for on the equity method, unless significant economic or political considerations indicate that the cost method is appropriate.

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 due to economic uncertainty. Intercompany transactions have been eliminated in the consolidated financial statements.

Financial statements of certain consolidated subsidiaries, principally foreign, are included on the basis of their fiscal years ending July 31 through September 30. Such fiscal periods have been adopted by the subsidiaries in order to provide for a timely consolidation with the Corporation.

ST. JOE MINERALS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Principles of Consolidation—The consolidated financial statements include the accounts of the Corporation and all subsidiaries except for its subsidiary operating in Peru (Compania Minerales Santander, Inc.) which is carried in investments at cost and is excluded from the consolidated financial statements primarily because of unsettled economic conditions and currency exchange restrictions. All significant intercompany transactions and balances are eliminated. During 1979 the Corporation changed its accounting policy with respect to its investment in certain South American subsidiaries (see Accounting Change).

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. That cost should then be allocated to the identifiable individual assets acquired and liabilities assumed based on their fair values; the unallocated cost 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 1979 the survey companies reported 39 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.

TABLE 1-10: BUSINESS COMBINATIONS

	1979	1978	1977	1976
Poolings of Interests				
Prior year's financial statements restated	22	31	31	24
Prior year's financial statements not restated	17	25	17	19
Total	**39**	**56**	**48**	**43**
Purchase Method	**185**	**149**	**118**	**103**

POOLINGS OF INTERESTS

AVON PRODUCTS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger—A merger with Tiffany & Co. was consummated as of April 25, 1979, whereby Tiffany became a wholly owned subsidiary of the Company through the exchange of 1,949,377 shares of the Company's capital stock for all of the outstanding common shares of Tiffany. The merger was accounted for as a pooling of interests, and accordingly the accompanying financial statements have been restated to include the results of Tiffany.

Net sales and net earnings of both companies for the periods preceding the acquisition were (in thousands):

	Net Sales	Net Earnings
Three months ended March 31, 1979 (unaudited)		
Avon Products, Inc.	$ 439,531	$ 38,310
Tiffany & Co.	14,026	628
	$ 453,557	$ 38,938
Year ended December 31, 1978		
Avon Products, Inc.	$2,014,706	$227,941
Tiffany & Co.	71,640	5,689
	$2,086,346	$233,630

Prior to the merger Tiffany & Co. paid cash dividends of $462,000 and $1,315,000 in 1979 and 1978 respectively.

THE MAY DEPARTMENT STORES COMPANY (JAN)

FINANCIAL REVIEW

Merger with Volume Shoe—In November 1979, the Company merged with Volume Shoe Corporation (Volume), a self-service retail shoe store chain based in Topeka, Kansas, in exchange for 6,477,000 shares of the Company's common stock. This merger has been accounted for as a pooling of interests and, accordingly, all financial data for periods prior to the merger have been restated to combine the operations of the Company and Volume.

Net revenues and net earnings of the separate companies for the 39 weeks ended November 3, 1979 (interim period nearest the combination date) and fiscal 1978 are as follows:

(millions)	Net Revenues	Net Earnings
39 weeks ended Nov. 3, 1979 (unaudited):		
May, as previously reported	$1,848.7	$ 43.2
Volume	137.2	10.4
Combined	$1,985.9	$ 53.6
Fiscal year ended Feb. 3, 1979:		
May, as previously reported	$2,582.6	$ 90.0
Volume	150.1	11.4
Combined	$2,732.7	$101.4

DRAVO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Merger with Southern Industries Corporation—On June 1, 1979, Southern Industries was merged with Dravo upon the exchange of 2,003,137 shares of Dravo common stock for all outstanding common shares of Southern Industries. This exchange was on the basis of .6652 Dravo share for each Southern Industries share. The merger was accounted for as a pooling of interests and, accordingly, all previously reported Dravo financial information, excluding dividends per share, have been restated to include Southern Industries.

The restatement of recently published information is as follows:

(In thousands, except per share)	First Quarter 1979	Year Ended December 31, 1978
Revenue:		
As previously reported	$159,487	$845,242
Southern Industries	27,870	113,620
Restated	187,357	959,044
Income before taxes:		
As previously reported	6,410	32,207
Southern Industries	1,137	9,800
Restated	7,547	42,007
Net income:		
As previously reported	3,718	18,770
Southern Industries	784	6,447
Restated	4,502	25,217
Earnings per share:		
As previously reported	.61	3.45
Restated	.55	3.43

As of December 31, 1978	Previously Reported	Southern Industries	Pooling Adjustment	Restated
Shareholders' equity:				
Capital stock	$ 6,127	$ 333	$ 1,629	$ 8,089
Other capital	39,304	9,753	(1,970)	47,087
Retained earnings	133,740	26,130	(827)	159,043
Treasury accounts	(3,968)	(1,168)	1,168	(3,968)
	$175,203	$35,048	$ —	$210,251

The pooling adjustment to shareholders' equity reflects the exchange of Dravo common shares for Southern Industries' outstanding common, which were stated at 10 cents per share par value, and the retirement of Southern Industries' treasury shares.

PURCHASES

COOPER INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1—Acquisition of Gardner-Denver Company

Effective April 30, 1979, Gardner-Denver Company, a manufacturer of equipment and machinery for mining and construction, petroleum, and general industrial production uses, was merged into the Company. The Company acquired approximately 45% of the outstanding common shares of Gardner-Denver on March 30, 1979, in a cash tender offer and received the remaining Gardner-Denver common shares in the merger in exchange for 3,615,445 shares of Cooper common stock and 5,423,168 shares of newly created Cumulative Convertible Preferred Stock, $2.90 Series. The total cost of the acquisition was $634,792,000, of which $347,082,000 represents the fair value of the Cooper securities issued in the merger and $287,710,000 was paid in cash.

The transaction has been accounted for as a purchase, and, accordingly, revenues and results of operations of Gardner-Denver are included in the Company's consolidated results of operations from April 30, 1979. The total cost of Gardner-Denver exceeded the fair market value to the Company of the assets acquired and liabilities assumed by $199,741,000, which is included in the Company's consolidated financial position as an intangible asset and is being charged against net income over a period of 40 years.

The pro forma results of operations which follow assume that the merger of the Company and Gardner-Denver had occurred at the beginning of each year presented. In addition to combining the historical results of operations of the two companies, the pro forma calculations include adjustments for the estimated effect on Gardner-Denver's historical results of operations of certain changes in accounting policies and historical asset and liability values which occur in a purchase; additional interest expense as if debt incurred in connection with the acquisition had been outstanding from the beginning of each year; and adjustments to the calculations of primary and fully diluted net income per common share as if the Cooper common and $2.90 Preferred stock issued in the merger had been outstanding from the beginning of each year.

Pro Forma Results of Operations (000 Omitted except for per share amounts)

	1979	1978
Revenues	$1,612,000	$1,415,000
Net income	$ 118,000	$ 101,000
Net income per common share:*		
Primary	$ 3.41	$ 2.83
Fully diluted	$ 3.32	$ 2.80

*Reflects the two-for-one common stock split of March 21, 1980.

Incident to the merger with Gardner-Denver, the Company entered into a Consent Agreement with the Federal Trade Commission to divest certain product lines which are not material, either individually or in total, to the financial position or results of operations of the Company. The Company does not expect the proceeds from these divestitures to be less than the book value of the related net assets included in the Company's financial position.

DANA CORPORATION (AUG)

COMMENTS ON FINANCIAL STATEMENTS

Business Combinations—Wix Corporation, a producer of oil, air and fuel filters for use in automobiles, trucks and industrial equipment, was acquired by Dana in June 1979. The cost to acquire Wix was $114,272,000 which included $33,012,000 paid in cash and $81,260,000 representing the fair market value of 3,052,000 shares of Dana common stock exchanged for Wix. This acquisition has been accounted for as a purchase and accordingly, the results of operations have been included in the consolidated accounts since the date of acquisition. Goodwill resulting from this acquisition amounting to $63,229,000 is being amortized over 40 years. The pro forma combined results of operations of Dana and Wix for the years ended August 31, 1979 and 1978 after giving effect to adjustments recording the combination, none of which was material, were:

	1979	1978
Net Sales and Other Income	$2,902,747,000	$2,384,600,000
Net Income	170,157,000	139,922,000
Net Income Per Common Share	$4.84	$4.02

Dana acquired The Weatherhead Company, a producer of fluid power components and assemblies used in the manufacture and maintenance of industrial equipment, passenger cars and trucks in September 1977. The cost to acquire Weatherhead was $46,965,000, which included $14,024,000 paid in cash and $32,941,000 representing the fair market value of 1,409,575 shares of Dana common stock exchanged for Weatherhead common stock and approximated the net assets of Weatherhead. This acquisition has been accounted for as a purchase and accordingly, the results of operations have been included in the consolidated accounts since the date of acquisition.

In August 1978, a wholly-owned subsidiary of Dana purchased the remaining 65% of Turner Manufacturing Co., its 35% owned English affiliate, for $17,052,000. Genuine Parts Company S.A., a Swiss company, was acquired in June 1978 for $6,303,000 by a Dana wholly-owned Dutch subsidiary, Maumee Holdings B.V. In addition, in April 1978, Dana acquired an additional 54% of the outstanding stock of Floquet-Monopole, a French affiliate, for $5,158,000. This additional purchase of stock brought Dana's ownership of equity securities to 99%. The purchase cost of these companies was carried at cost at August 31, 1978. In 1979, these subsidiaries are included in the consolidated accounts with the exception of Floquet-Monopole, which is carried in investments on an equity basis. The results of operations of these companies prior to the dates of acquisition were not material to the consolidated financial statements. Goodwill resulting from these acquisitions amounting to $10,730,000 is being amortized over periods not in excess of 40 years.

GENESCO INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Acquisition of Tennessee Ravenwood Properties, Inc.—On September 11, 1978 the Company acquired from the Genesco Retirement Trust all of the capital stock of Tennessee Ravenwood Properties, Inc. ("Ravenwood"), a lessor of real property to the Company, for a cash purchase price of $3,920,000. The acquisition was accounted for as a purchase and the total purchase price was allocated to the real property acquired. Results of operations from the date of acquisition are included in the Consolidated Earnings Statement. If the results of operations of Ravenwood had been included for all of the years ended July 31, 1979 and 1978, results of operations would have been as follows:

	1979	1978
Earnings (loss) before discontinued operations and extraordinary credit	$(7,947,000)	$10,583,000
Earnings before extraordinary credit	6,314,000	10,583,000
Net earnings	6,314,000	14,660,000
Earnings (loss) per share:		
Primary:		
Before discontinued operations and extraordinary credit	$(.91)	$.56
Before extraordinary credit	$ .22	$.56
Net earnings	$ .22	$.88
Fully diluted:		
Before discontinued operations and extraordinary credit	$(.85)	$.52
Before extraordinary credit	$ .21	$.52
Net earnings	$ .21	$.82

LEVI STRAUSS & CO. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Thousands Except Per Share Data)

Acquisition—Effective September 10, 1979, Koracorp Industries Inc. (Koracorp) was merged into Diversified Apparel Enterprises, Inc. (DAE), a wholly owned subsidiary of the Company. The total consideration of approximately $70,000, excluding expenses, consisted of $32,747 in cash, $34,000 in shares of the Company's common stock (555,413 shares) and $3,261 which represented the value, net of option price, which may be payable in the future in additional shares of the Company's common stock issuable upon exercise of Koracorp employee stock options which were assumed by the Company. Koracorp, now DAE, is principally engaged in the manufacture and sale of apparel. The transaction has been accounted for as a purchase and, accordingly, the operations of DAE are included in the consolidated statement of income from the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired (goodwill) of $39,341 is being amortized, using the straight-line basis, over fifteen years.

The following table summarizes, on an unaudited pro forma basis, the results of the Company's operations as though Koracorp had been acquired at the beginning of fiscal year 1978:

	1979	1978
Net sales	$2,234,385	$1,864,614
Net income	195,115	148,679
Net income per share (adjusted for two-for-one stock split)	4.56	3.27

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4 (in part): Acquisitions—In September 1979, the company acquired all of the outstanding shares of Portland Cement Company of Utah for cash. The acquisition has been accounted for as a purchase and the net assets and results of operations of Portland of Utah since the date of acquisition are included in the consolidated financial statements. The total acquisition cost of $38,135,000 exceeded the fair value of net tangible assets acquired by $15,947,000. This excess is being amortized over 40 years. Unaudited pro forma consolidated condensed results of operations for the years ended December 31, 1979 and 1978, as though Portland of Utah had been acquired as of January 1, 1978, are as follows (in thousands, except per share amounts):

	1979	1978
Net sales	$802,684	$652,170
Income from continuing operations	58,420	33,452
Net income	67,122	48,390
Per Common Share:		
Income from continuing operations	$5.37	$2.96
Net income	$6.17	$4.29

The above amounts reflect adjustments for amortization of the excess of acquisition cost over the fair value of net tangible assets acquired and depreciation are revalued purchased assets.

MATTEL, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Acquisitions and Divestitures of Assets

Acquisition of Western—In June 1979, the Company purchased all of the outstanding stock of Western Publishing Company, Inc. ("Western") for approximately $122,000,000, comprising cash of $61,000,000 and 2,417,000 shares of Series A convertible preferred stock. Western is a major publisher of books, a manufacturer of puzzles and other products, and engages in commercial printing. The purchase price was allocated to acquired assets and liabilities based on the fair value of the net assets acquired including working capital of approximately $110,000,000. Approximately $7,500,000 of working capital relates to net assets of Kable Printing Company ("Kable"), a wholly-owned subsidiary of Western, to be sold in fiscal 1981. Cost in excess of net assets acquired of $10,643,000 is being amortized on a straight-line basis over 40 years.

The results of Western's operations are included in the consolidated statement of income from June 1, 1979. The following unaudited pro forma results of operations for fiscal 1980 and fiscal 1979 have been prepared assuming that Western had been included since the beginning of each fiscal year. In preparing this pro forma data, adjustments, net of income tax effects, have been made for imputed interest expense on the acquisition debt and preferred stock dividends, for depreciation and amortization on the estimated fair value of the assets and for accounting conforming purposes. The more significant conforming adjustments include additional taxes on undistributed foreign earnings and a change from the last-in, first-out to the first-in, first-out method of inventory valuation for consolidated financial reporting purposes.

(In thousands except per share amounts)	1980 (Unaudited)	1979
Net Sales	$882,993	$767,855
Income Before Extraordinary Item	$ 28,568	$ 29,528
Extraordinary income tax credits	—	6,100
Net Income	28,568	35,628
Preferred stock dividends	6,042	6,042
Net Income Applicable to Common Shares	$ 22,526	$ 29,586
Income Per Share		
Primary		
Income before extraordinary item	$1.17	$1.21
Extraordinary income tax credits	—	.31
Net Income	$1.17	$1.52
Fully diluted		
Income before extraordinary item	$1.16	$1.21
Extraordinary income tax credits	—	.24
Net Income	$1.16	$1.45

PABST BREWING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Acquisition—On April 2, 1979, the Company acquired substantially all of the assets, including inventory, of Blitz-Weinhard Company, a Portland, Oregon brewer, for $8,400,000 cash and an agreement to make future payments through July, 1982 contingent upon sales of one of the acquired brands.

The acquisition has been accounted for as a purchase and the excess ($399,000) of the consideration paid upon acquisition over the fair value of the tangible net assets acquired is being amortized over 15 years. Contingent payments are also being recorded as intangible assets and amortized over the then remaining life. The results of operations of Blitz are included in the consolidated statement of income since the date of acquisition. Had the acquisition been consummated on January 1, 1978, unaudited pro forma sales for the years ended December 31, 1979 and 1978 would be $793,627,000 and $777,715,000, respectively, with unaudited pro forma net income of $9,879,000 and $12,015,000, respectively, and unaudited pro forma earnings per share of $1.17 and $1.40, respectively. Such pro forma data reflect adjustments for amortization of intangible assets and imputed interest.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible Assets: Intangible assets resulting from acquisitions are stated at cost less amortization over 15 years from date of acquisition on the straight-line basis.

THE PILLSBURY COMPANY (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Acquisitions and dispositions:

Effective February 28, 1979, the company acquired the net assets of Green Giant Company, an international food business specializing in canned vegetables and frozen prepared vegetables, frozen prepared entrees, and restaurant operations. The acquisition was accounted for as a purchase through the issuance of 2,345,591 shares of common stock valued at $78.9 million and $77.0 million of cash ($67.1 million for 42.4% of the outstanding Green Giant common shares purchased November 20 1978, pursuant to a tender offer, $7.4 million for dissenting shareholders and $2.5 million acquisition costs).

The aggregate purchase price of $155.9 million, including expenses, exceeded the net assets acquired by $30.4 million. Such excess amount was allocated principally to property, plant and equipment based on appraised values and will be amortized on a straight-line basis over the estimated average remaining useful lives of approximately 20 years.

The consolidated statement of earnings includes Green Giant's results of operations from March 1, 1979. Net sales for the period were $154.4 million and net earnings were approximately $5.5 million. Also included is $1.3 million of equity in Green Giant's net earnings from the date of the tender offer to February 28, 1979.

The pro forma combined results of operations, adjusted for the amortization of excess purchase price, interest on short-term debt incurred in connection with the acquisition and the conforming of accounting policies on deferred expenses, as though the acquisition had occurred June 1, 1977 are:

	Year ended May 31	
	1979	1978
	(In thousands except per share amounts)	
Net sales	$2,556,329	$2,190,586
Earnings from continuing business	87,670	75,274
Net earnings	87,670	76,164
Earnings per share:		
Earnings from continuing business	4.42	3.80
Net earnings	4.42	3.84

The pro forma financial information is not necessarily indicative either of results of operations that would have occurred had the merger been effected on June 1, 1977 or of future results of operations of the combined companies. Pro forma financial information has been prepared in accordance with Accounting Principles Board Opinion No. 16 and is based upon the hypothetical assumption that the purchase price would have been the same at the beginning of the periods presented and the actual interest rates on money borrowed for the tender offer would have been the same throughout the periods presented.

A summary of the net assets of Green Giant at the time of acquisition is as follows:

Noncurrent net assets:	(in thousands)
Property, plant and equipment	$127,895
Intangibles and other assets	7,915
Long-term debt	(80,976)
Deferrals	(920)
	$ 53,914
Working capital:	
Cash	$ 6,569
Receivables	40,626
Inventories	184,650
Other current assets	13,189
Notes payable and current portion of long-term debt	(68,256)
Accounts payable and accrued liabilities	(74,674)
Taxes on income	195
	$102,299

TABLE 1-11: CONTINGENCIES AND COMMITMENTS

	Number of Companies			
	1979	1978	1977	1976
Loss Contingencies				
Litigation	353	310	330	311
Guarantee of indebtedness	122	138	128	140
Possible tax assessment	88	97	88	87
Sale of receivables with recourse	70	60	65	69
Renegotiation of government contracts	30	45	46	21
Government regulations	20	N/C	N/C	N/C
Other—identified	48	52	33	35
Gain Contingencies				
Investment credit carryforward	79	54	41	51
Operating loss carryforward	77	75	73	64
Plaintiff litigation	22	14	30	26
Commitments				
Dividend restrictions	427	423	418	437
Plant expansion	106	93	109	102
Purchase agreements	29	23	39	60
Employment contracts	14	16	25	15
Additional payments in connection with an acquisition	9	7	16	25
Other—identified	24	19	25	20

N/C—Not Compiled.

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 1979 annual reports of the survey companies. The balance sheets of 210 survey companies showed a caption, without an amount, for contingencies and/or commitments. Examples of contingency and commitment disclosures follow. Additional examples of disclosures concerning obligations to maintain working capital or restrict dividends are presented in connection with Table 2-25.

LOSS CONTINGENCIES

Litigation

AMPEX CORPORATION (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies—The Company is the defendant in a lawsuit filed in 1973 by the County of Los Angeles. The complaint alleges breach of a contract for the installation by the Company of the video tape portion of the County's ORACLE System and damages in the amount of $4,250,000. The Company has filed a cross complaint, alleging the County's breach of the same contract and damages in the amount of $25,500,000. With respect to the County's liability on the contact, special counsel for the Company is of the opinion that the court should sustain the position of the Company in connection with its claim against the County under its contract with respect to the liability of the County thereon; accordingly, a provision for loss has not been made. Although the amount of damages which can be anticipated to be awarded the Company should its position be sustained by the court cannot be predicted, special counsel is of the opinion that such damages should exceed the present book value of the equipment and receivables associated with the contract (approximately $6,000,000, all classified as long-term receivables).

The Company and its subsidiaries are involved in litigation on a number of other matters and are subject to certain claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a materially adverse effect on the Company's consolidated financial position.

ANCHOR HOCKING CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4: Pending Litigation—On December 18, 1979, a former competitor of the company filed suit in the Federal District Court in Columbus, Ohio against the company, another competitor, an international trade union and certain corporate officers and union officials. The complaint seeks damages resulting from plaintiff's inability to consummate a sale of its glass tableware division, alleging, among other things, a conspiracy among the defendants in violation of the Sherman Act to frustrate the sale and an independent violation of the Clayton Act by the company in connection with its 1979 purchase of a plant from another glassware manufacturer. Plaintiff seeks divestiture of the plant and damages on the various counts of the complaint in the maximum amount, after eliminating duplicate claims, of $150 million.

Management believes the litigation is without merit and intends to vigorously defend the case. In late February, 1980, outside counsel for the company advised that, at this stage of the litigation, they cannot give an opinion as to its ultimate outcome, but that nothing has come to their attention as the result of their preliminary investigation that would cause them to conclude that it is likely that the company will not prevail.

CERTAINTEED CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (in part): Contingencies, Commitments and Other Matters

In 1977, suits were filed against the Company on behalf of Valley Forge Corporation ("VFC"), an unconsolidated subsidiary. In the complaints, VFC seeks an accounting from the Company for debts and losses of at least $88,000,000 incurred by VFC allegedly by reason of the Company's operations of VFC's business and financial affairs for its own purposes; rescission of VFC's 1972 acquisition of Housing Securities, Inc. from the Company and certain of its former officers of, alternatively, damages of $24,000,000; an accounting of $2,500,000 from the Company for funds allegedly diverted for the benefit of the Company; diversiture of the VFC stock owned by the Company and certain other relief. In addition, the Company is a defendant in a suit by a bank creditor of VFC claiming $2,800,000 plus accrued interest and punitive damages. It is management's opinion, based in part upon the opinion of the Company's counsel, that these actions will not materially affect the Company's operations or financial position.

In a suit brought by a former sales agent, a jury late in 1979 returned a damage verdict against the Company in the amount of $9,800,000 on contract and fraud claims. It is the opinion of the Company's outside counsel in this matter that the verdict is not supportable and will be reversed or, alternatively, that a new trial will be required. It is management's opinion, based in part upon the opinion of the Company's counsel, that the ultimate outcome of this suit will not materially affect the Company's operations or financial position.

The Company is a party to a number of other legal actions arising in the ordinary course of its business. In the opinion of the Company's management, the Company has adequate legal defense and/or insurance coverage respecting each of these actions and does not believe that they will materially affect the Company's operations or financial position.

THE DUN & BRADSTREET CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Litigation—Late in 1979, a subsidiary of the Company was served with two identical class action complaints alleging violations of various state and federal statutes, fraud and negligence in connection with such subsidiary's sale of certain marketing information to a customer which utilized the information to solicit purchases of commodity futures options. The plaintiffs seek damages of $26,000,000, which amount they allege may be trebled under state law, plus interest and reasonable attorney's fees. Neither complaint has been answered and there have been no discovery or other pre-trial proceedings in the cases. Based upon the facts now known to the Company, management believes that any liability from these actions would not materially affect the consolidated financial position of the Company.

THE GREYHOUND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Litigation—An action against Greyhound Leasing & Financial Corporation ("Greyhound Leasing"), a Financial Group subsidiary, in the U.S. District Court in Puerto Rico by certain lessees, and affiliates thereof, of Boothe Leasing Corporation of Puerto Rico, a small subsidiary of Greyhound Leasing, claims damages in the aggregate amount of $34,150,000 for alleged wrongful attachment of equipment, property and assets of the plaintiffs arising from the lessees' alleged failure to pay rentals due under the leases. Management believes, upon advice of counsel, that the damages claimed are not well founded or are greatly exaggerated and that the ultimate liability, if any, resulting from this action will not have a material effect upon the consolidated financial condition of Greyhound Leasing.

Greyhound and certain subsidiaries are parties to various other legal actions, the outcome of which is not expected to have a material effect upon the consolidated financial condition of Greyhound, but in which the ultimate liability, if any, cannot be reasonably estimated. Several of the suits, which are being contested by pretrial proceedings, are brought on behalf of classes or alleged classes of plaintiffs for alleged discriminatory employment practices.

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 19: Litigation—Beginning in late 1976, a series of substantially similar class actions, now pending in the United States District Court for the District of Arizona was brought against the Portland Cement Association and almost all United States cement producers, including the company. Since 1976, additional, substantially similar class actions have been filed by a number of states and business entities in various Federal District Courts, and all of these have been, or are expected to be, consolidated for pretrial purposes in the Arizona Court. The company and certain of its subsidiaries are defendants in most of these actions. All of the actions allege that a nationwide combination and conspiracy existed in violation of the antitrust laws to fix, maintain and stabilize cement prices from on or before 1958 to the dates of commencement of the various actions. None of the actions alleges a specific amount of damages, but they seek, in addition to other relief, money damages equal to treble the damages allegedly sustained by the plaintiffs. The actions have not progressed beyond the preliminary pretrial stage. The Arizona Court has certified the classes sought by plaintiffs to include purchasers of cement and cement containing products. Management denies that it has entered into any such alleged combination or conspiracy, believes that the alleged violations are without foundation and intends to vigorously contest all of the actions in which the company is involved. While the outcome of this litigation cannot be predicted with certainty, management believes it should not have a material adverse effect on the company's financial position.

LYNCH CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Litigation—During August, 1976, a civil action was filed against the Company by a competitor of the Cox Instrument Division, alleging, among other things, infringement of certain patents and unfair competition by Cox in connection with the design and manufacture of a hot engine test system which was sold to a large automobile manufacturer in 1975. The suit asks for damages of $3,000,000 and punitive damages of an additional $10,000,000.

The Company has engaged special patent counsel to vigorously contest this action and has denied the allegations set forth therein. Management, after taking into consideration information furnished by counsel, is of the opinion that the outcome of this matter will not materially affect the consolidated financial position of the Company.

MATTEL, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (in part): Litigation and Contingencies.

Royalties Litigation—In November 1979, a former consultant initiated an action against the Company based on alleged breach of certain contracts relating primarily to royalties on inventions in connection with certain products sold by the Company since 1967 and to be sold in the future. In early 1975, the Company filed an answer denying liability, asserting certain defenses and alleging various counterclaims. In fiscal 1977, an amended complaint was filed by the former consultant seeking to recover alleged damages of an unspecified amount and $10,000,000 punitive damages. Discovery is substantially complete and the matter is proceeding to trial.

Although the ultimate liability that might result from the final resolution of this matter is not presently determinable, management and the Company's counsel in this matter are of the opinion that the final outcome of the litigation will not have a materially adverse effect on the Company's consolidated financial position.

MOSINEE PAPER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (in part): Commitments, Contingencies, and Litigation—On October 5, 1977, the State of Wisconsin, as Plaintiff, commenced an action in Circuit Court, Dane County, Wisconsin, alleging that the Company failed to comply with the effluent levels specified in its water pollution discharge permit. The case was subsequently transferred to Circuit Court, Marathon County, Wisconsin, by agreement of the parties. Although the original pleadings did not specify the number of alleged violations, the State of Wisconsin amended its pleadings on two subsequent occasions and now specifically alleges a total of 269 violations of the Company's discharge permit since July 1, 1977. The Wisconsin Statutes provided for a minimum forfeiture of $10 and a maximum forfeiture of $10,000 for each separate violation of any such permit. The Company has continued to contest this action and recently, following initial discovery proceedings, the State of Wisconsin made a settlement offer which was unacceptable to the Company and it is expected that the Company will continue to actively contest this action. The Company anticipates that a forfeiture will result from this litigation, either as a result of a settlement agreement or contested litigation. The Company cannot accurately estimate the amount or range of potential loss; however, it believes that such potential loss will not have a material adverse effect on its financial position.

PULLMAN INCORPORATED (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Rail passenger car operations—On June 14, 1979 The City of New York and the New York City Transit Authority (NYC and NYCTA) filed suit against the company and another corporation regarding the New York City subway car contract completed in 1978. This action seeks judgment of $112,300,000 in damages from the defendants, both jointly and severally, for alleged breach of warranty and product liability. The company filed counter claims against the plaintiff for $146,800,000 and filed a cross claim against its co-defendant seeking indemnification for any liabilities which may be assessed against the company in this suit. On December 21, 1979 NYC and NYCTA filed a summons against the company and several other corporations regarding alleged deficiencies in certain material and equipment incorporated in the New York City subway cars. The complaint received in January, 1980 indicates that the plaintiffs will seek monetary damages in the amount of $80,000,000.

While counsel is not yet in a position to make an evaluation of the probable outcome of these lawsuits since both actions are in their early stages and discovery proceedings have just recently been initiated in the earlier action, management is still of the opinion that the ultimate resolution of this litigation should not have a material adverse effect on the company's consolidated financial position at December 31, 1979.

Guarantee of Indebtedness of Others

THE ARUNDEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L (in part): Commitments and Contingencies—The Company has guaranteed certain mortgages on residential housing units sold. These mortgages total $1,638,960 at December 31, 1979. In addition, the Company has guaranteed its proportionate share of certain lease obligations of three construction joint ventures approximating $3,472,000 as of December 31, 1979.

CHRYSLER CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11 (in part): Long-Term Debt and Debt Guarantees—Chrysler Corporation has guaranteed approximately $77.7 million of 6% notes due January 1, 1995 of an unrelated entity, ABKO Properties, Inc. (formerly Chrysler Realty Corporation). Chrysler Corporation and consolidated subsidiaries have also guaranteed securities approximating $113.7 million of associated companies outside the United States. Chrysler Corporation has other contingent liabilities, substantially applicable to short-term credit facilities, amounting to approximately $45.9 million.

FORD MOTOR COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12 (in part): Guarantees and Commitments—At December 31, 1979, the Company and its consolidated subsidiaries had guaranteed $308 million of debt, of which $295 million was debt of unconsolidated subsidiaries. Total guarantees included $154 million of long-term debt. The guaranteed amount included $278 million of unsecured debt of Ford Leasing Development Company, a wholly owned unconsolidated subsidiary that owns and leases real properties, primarily for lease or sublease to Company-franchised vehicle dealers.

THE GREYHOUND CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K: Other Matters—Under the terms of credit agreements with certain financial institutions, Greyhound has guaranteed borrowings of a Financial Group subsidiary aggregating $15,000,000 at December 31, 1979. In addition, Greyhound has guaranteed borrowings and bank credit of various other companies aggregating $11,500,000 at December 31, 1979, with outstanding borrowings of $11,147,000 at that date.

THE LTV CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note N—Contingencies and Commitments

Contingencies (in part)

A substantial portion of sales of aerospace products is subject to price adjustments under various statutes and regulations as well as under the renegotiation terms contained in contracts and subcontracts. It is not believed that any of these will have a significant effect on the financial statements.

Certain government agencies have proposed adjustments affecting allowable costs charged to Vought contracts for which it is believed that adequate provision has been made.

J&L Steel is a participant with other companies in certain raw materials enterprises, and at December 31, 1979 was contingently liable for $100,285,000 of long-term borrowings of these enterprises, and was committed to share the cost to be incurred by the enterprises, including future interest and sinking fund payments on debt, to the extent funds so required are not available to the enterprises. Of this amount, $87,785,000 represents J&L Steel's proportionate share of certain indebtedness incurred in connection with the development and expansion of an iron ore mine. J&L Steel has guaranteed the payment of its proportionate share of the amount borrowed in connection with an expansion of the mine which will continue until such time as the expanded mine satisfies certain production and cash flow tests. In the event the mine has not produced at certain production levels for a specific period of time by December 31, 1981, J&L Steel will be immediately obligated to pay its proportionate share of the amount borrowed over a period of twenty-four months.

MOBIL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 14: Commitments and Contingent Liabilities—Substantial commitments are made in the normal course of business for the acquisition or construction of properties, plants, and equipment (including tankers for time charter to Mobil).

Mobil has guaranteed approximately $130 million of the obligations of others, excluding certain cross-guarantees (about $166 million) of foreign customs duties made with other responsible companies in the ordinary course of business. In addition, Mobil has guaranteed specified revenues from crude and product shipments under agreements with pipeline companies in which it holds stock interests. If these companies are unable to meet certain obligations, Mobil may be required to advance funds against future transportation charges. No material loss is anticipated under these guarantees.

Mobil and its subsidiaries are engaged in various litigation and have a number of unresolved claims pending. While the amounts claimed are substantial and the ultimate liability in respect of such litigation and claims cannot be determined at this time, Mobil is of the opinion that such liability, to the extent not provided for through insurance or otherwise is not likely to be of material importance in relation to Mobil's accounts.

OUTBOARD MARINE CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22 (in part): Commitments and Contingent Liabilities—The Company has made arrangements by which qualified customers may obtain inventory financing. Under these arrangements, the Company guarantees the unpaid balances, which were approximately $13,380,000 at September 30, 1979. The Company's losses under this program have been negligible.

Guarantees of Lease Payments

IPCO HOSPITAL SUPPLY CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (in part)—The Company is contingently liable for the mortgage and future lease commissions, attributed to the Company's former corporate headquarters sold during fiscal 1976, of approximately $4,437,000 and $115,000, respectively. In connection with the sale, the property was conveyed to the buyer subject to the mortgage on the property and the Company is obligated to pay the lease commission if the renewal option is exercised by the lessee.

The Company is contingently liable for an aggregate of approximately $235,000 payable under a lease expiring in 1989 for its former McGehee, Arkansas plant and equipment. The buyer assumed this lease obligation in connection with the sale of the Company's McGehee apparel business in fiscal 1973.

THE UNITED STATES SHOE CORPORATION (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (in part): Commitments and Contingencies

Contingencies—The company has guaranteed and is, therefore, contingently liable under leases of facilities expiring between 1980 and 1994 that are operated by certain customers. Minimum rentals guaranteed under such leases range from $4,011,000 in fiscal 1980 to $3,255,000 through 1984 and aggregate $33,623,000 for sixteen years.

Proposed Tax Assessments

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Taxes on Earnings.

The provisions for taxes on earnings consist of the following:

	1979	1978
Current:		
Federal	$62,136,000	$58,791,000
State	7,200,000	6,500,000
Foreign	17,564,000	12,964,000
	86,900,000	78,255,000
Deferred:		
Federal	9,853,000	6,255,000
Foreign	955,000	553,000
	$97,708,000	$85,063,000

The taxes on earnings in 1979 and 1978 are less than the respective amounts that would result from applying the statutory Federal income tax rate of 46 percent in 1979 and 48 percent in 1978 to consolidated earnings before taxes. The tax savings results principally from tax incentive grants related to the subsidiaries in operation in Puerto Rico. The estimated tax savings on the operating income of these subsidiaries amounted to $20,700,000 or $.34 per share in 1979 and $24,100,000 or $.40 per share in 1978. Additional tax savings of $12,400,000 or $.21 per share in 1979 and $9,600,000 or $.16 per share in 1978, resulted from the investment income of these subsidiaries. (See Note 3.)

The Internal Revenue Service is in the process of completing its examination of the Company's Federal income tax returns for the years 1970 through 1975. The Internal Revenue Service has indicated that it intends to propose income tax deficiencies of approximately $55,000,000 for these years with respect to adjustments with which the Company is in strong disagreement. These proposed adjustments relate to a reallocation of the U.S. parent company of a portion of the income of two domestic subsidiaries operating in Puerto Rico under tax incentive grants. The Company will vigorously contest these proposed adjustments, which, in the opinion of management and outside tax counsel, are unsupportable in reflecting the proper amount of income to be included in the U.S. consolidated tax return. In the opinion of management and outside tax counsel, the ultimate resolution of such examinations and their effect on subsequent years should not have a material adverse effect on the consolidated financial position of the Company.

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Income taxes—On July 30, 1974, The Company's Caesars Palace subsidiary received a notice of deficiency from the Internal Revenue Service seeking approximately $6,600,000 in additional federal income taxes, consisting primarily of timing differences which have no effect on income, for the years prior to the acquisition of Caesars Palace. The Company does not believe the asserted deficiencies will be upheld except for a tax liability aggregating approximately $357,000 which has been conceded. The Internal Revenue Service has also examined the Company's income tax returns for the years ended July 31, 1967 through 1974. The Company has received Revenue Agents' Reports with regards to fiscal 1967 through 1974 which proposed additional taxes totaling $15,397,000 (before agreed upon refunds for other years of $1,083,000). Of this amount, the Company will concede items totaling $2,740,000 (before refunds the precise amount of which cannot be determined at this time). Of the total proposed deficiency, $12,460,000 relates to timing differences which have no effect on income. The Company is contesting these and other items which have not been conceded. In addition, the Internal Revenue Service is currently examining the Company's income tax returns for fiscal years 1975 and 1976.

FEDDERS CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Income taxes

In 1975, the Company was served with a deficiency notice of approximately $15,000,000 relating to the years 1968 through 1970. This deficiency relates primarily to the valuation of assets acquired in the 1968 purchase of the Norge product line (which segment was sold in 1979—see Note 12). On September 4, 1979, the United States Tax Court filed an opinion, the effect of which will be to increase the Company's taxable income for 1968 and subsequent years. The Company has provided $6.4 million of federal and state income taxes and interest thereon as part of discontinued operations in 1979 to reflect the effect of such adjustments. The Company intends to pursue all remedies available to reduce these taxes.

Also, during 1975, the Company received a deficiency notice relating to the disallowance, as deductible interest expense, of the payments on the Series A preferred securities issued in connection with the 1970 purchase of the Climatrol product line.

In the opinion of the Company's legal counsel, the issue, which affects all subsequent taxable years, is without substantial merit. Therefore, no provision has been made by the Company. During 1979 the Company paid the tax deficiency plus interest of $765,000 related to this issue for 1971 in order to appeal the case in court, and such amount is included in other assets. If the Internal Revenue Service prevails on this issue, this amount will not be recovered and the Company's tax loss carryforward would be reduced by approximately $6 million.

The Internal Revenue Service recently completed its examination of the Company's 1975 and 1976 consolidated Federal income tax returns. Two significant adjustments proposed by the examining agents relate to the disallowance of the deductibility of Series A interest expense as discussed above, and the purchase cost and valuation of assets acquired in the 1976 purchase of Airtemp (see Note 11). If the Internal Revenue Service prevails on the latter issue, the Company's tax loss carryforward would be reduced by approximately $19 million.

In 1976, the Company was served by the State of New Jersey with deficiency notices relating to corporation business taxes for the years 1972 through 1974 of approximately $375,000 plus interest. Assertion of similar issues for 1975 through 1979 may result in assessment of additional deficiencies of approximately $1,000,000, plus interest. Management believes the state's contention is an erroneous interpretation of the statute and intends to pursue the issue in the New Jersey Tax Court. Accordingly, no provisions have been made for these deficiencies.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Taxes on income—The United States Internal Revenue Service (the "Service") has examined the Company's federal income tax returns through October 31, 1975 and has proposed additional taxes of $52 million relating to fiscal years 1972 through 1975. The Company is protesting this assessment at the appellate level of the Service, but, at this time, the final outcome is uncertain. If the issues discussed below cannot be resolved to the Company's satisfaction, it intends to contest the proposed assessment in the courts.

Of the proposed additional taxes, $22 million (plus interest) relates to earnings of the Company's Domestic International Sales Corporation on which deferred taxes have been consistently provided. Consequently, any adverse determination of this issue would only affect interest expense.

The remaining $30 million (plus interest) relates to earnings of the Company's Singapore and Malaysian subsidiaries; such earnings are substantially tax-free in those countries. The Service claims these earnings should be considered U.S. taxable income while the Company believes they should be considered income in the countries in which they are earned. Further, earnings of these subsidiaries in the fiscal years 1976 through 1979 totaling $67 million may be subject to similar tax assessments in the future.

In the event that ultimate settlement of all of the contested adjustments results in a liability in excess of related book accruals, such excess will be charged to future earnings. However, the Company believes that final resolution of these matters will not have a material effect on its consolidated financial position or results of operations.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (in part): Contingencies

Internal Revenue Service—Federal income tax returns of the Company for 1971 and prior years have been examined and settled. Although the Company has not yet received from the Internal Revenue Service ("IRS") a report of examination of the Company's federal income tax returns for the years 1972 and 1973, the IRS examiners have indicated that they expect to propose adjustments asserting additional taxes and penalties of $27 million (before interest) for the two years. The potential assessments consist of taxes of $18 million and penalties of $9 million for alleged underpayment of taxes because of civil fraud. Of the proposed taxes and penalties, $21 million related to sales promotion credits and allowances given to customers of the Company's Liquor Division. The IRS examiners allege that these sales promotion credits and allowances violated state liquor laws and therefore should have not been taken into account in computing taxable income. If similar adjustments are proposed with respect to 1974 and subsequent years, additional tax and penalty of $10 million would be involved.

Although in January, 1979, the IRS notified the Company that it had terminated a criminal investigation with respect to the Company's 1972 and 1973 tax returns, the IRS examiners now propose imposition of civil fraud penalties for those years based upon the pricing practices noted above that allegedly violated state liquor laws and the deduction of certain payments which the IRS examiners allege were disguised political payments. These matters had been voluntarily disclosed in the Company's 8-K report to the Securities and Exchange Commission for the month of January, 1977.

The Company does not agree with the proposed adjustments and will contest any such tax deficiencies and penalties. The Company, based upon consultation with outside counsel, believes that it will prevail in such proceedings. Accordingly, the Company has made no provision for tax deficiencies or penalties with respect to these matters.

Receivables Sold With Recourse

BEECH AIRCRAFT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (in part): Commitments and Contingent Liabilities—The Company was contingently liable for $5,100,000 on certain customer notes which have been assigned to banks with recourse. The Company was also contingently liable on guarantees of notes payable to banks and others aggregating $5,343,000.

FLEETWOOD ENTERPRISES, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Contingent Liabilities—As is customary in the mobile home and recreational vehicle industries, the company is contingently liable at April 29, 1979, under terms of repurchase agreements with financing institutions providing inventory financing for dealers of the company's products. Although the total contingent liability under these agreements ie estimated by the company at approximately $86,000,000, the risk of loss is spread over numerous dealers and financing institutions and is further reduced by the resale value of any products which may be repurchased. Losses under these agreements have not been significant in the past.

GOULD INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unconsolidated Financial Subsidiary (in part)—The Company's wholly-owned financial subsidiary, Gould Financial Inc., is engaged primarily in financing customers and distributors of the Company's manufacturing divisions, purchasing trade receivables of the Company's manufacturing divisions, and financing general industrial and commercial equipment, principally as the lessor under full payout leveraged and direct financing type leases. Gould Financial is located and conducts its business principally within the United States.

Leases to the Company and affiliates accounted for approximately $9,891,000 and $7,370,000 of finance receivables at both December 31, 1979 and 1978, respectively. The Company provides full recourse for leases of Gould manufactured products which are in the lease portfolio of Gould Financial. Such leases accounted for approximately $1,682,000 and $4,664,000 of finance receivables at December 31, 1979 and 1978, respectively. Accounts and notes receivable totalling $50,983,000 and $46,329,000 at December 31, 1979 and 1978 respectively, were sold by the Comapny to Gould Financial with full recourse. Carrying amounts paid to Gould Financial by the Company, which is included in other income on the Company's books was $7,639,000 and $5,229,000 for the years ended December 31, 1979 and 1978, respectively.

Under an Operating Agreement between Gould Financial and the Company dated July 25, 1978, the Company has agreed to maintain available unused bank lines sufficient to cover 100% of Gould Financial's outstanding notes payable, to prohibit Gould Financing from incurring indebtedness unless certain ratios are maintained, and make such payments or contributions as may be necessary to insure that Gould Financial maintains a specified ratio of earnings to fixed charges.

SUN CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 (in part): Contingent liabilities—The Company is contingently liable with respect to graphic equipment leases and installment sales contracts assigned and sold to financial institutions. The Company's estimated contingent liability on these contracts is approximately $4,400,000.

Government Regulations

ASHLAND OIL, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K: Federal energy regulations—The operations of Ashland are subject to various federal regulations, including regulations governing certain petroleum prices, crude oil and petroleum product allocations, imports and a crude oil cost equilization (entitlement) program. During 1979 and 1978, Ashland received a total of $117,710,000 and $103,546,000, respectively, under the cost equalization (entitlement) program. The amounts received are reflected in the statement of consolidated income as a reduction of the cost of crude oil, included in cost of sales and operating expenses, in the month of determination which generally conforms with the month cash is received. These regulations require that entitlement receipts be reflected as a reduction of allowable petroleum product prices.

Ashland cannot predict the effects on its operations of any changes in the controlling laws and regulations but believes expiration of these controls would not have an adverse effect.

Ashland's compliance with the aforementioned federal regulations is under continuous audit by the Department of Energy. While substantial amounts are involved in the various issues raised by the Department of Energy including a Proposed Remedial Order related to Ashland's product pricing procedures, management believes that these matters will be satisfactorily resolved and that any adjustments will not be material in relation to Ashland's consolidated financial position.

ESMARK, INC. (OCT)

FINANCIAL COMMENTS

Litigation and regulatory matters (in part)—The operations of several Esmark subsidiaries are subject to the pricing and allocation regulations of the Department of Energy. Esmark believes that these subsidiaries have complied in all material respects in accordance with industry practices and that its interpretations of applicable regulations are correct. However, the complexity of the regulations, lack of guiding precedent, periodic retroactivity and attendant uncertainty concerning application of the regulations may expose these subsidiaries to interpretations relating to costs and prices by regulatory authorities which differ from those of management.

Although the ultimate liabilities, if any, which may result from these and other legal actions against the Company or regulatory matters cannot be determined at this time, in the opinion of counsel for the Company, any such liabilities or any other relief that may be granted under any judgment or administrative order will not have a materially adverse effect on the Company's consolidated financial statements.

FANSTEEL INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Commitments and Contingent Liabilities—Processing of certain ores results in residues which are subject to storage and disposal regulations of the Nuclear Regulatory Commission. The Company intends to continue to store these residues at one of its processing plants. Maximum disposal costs, if any, cannot be reasonably estimated, but management believes they would not have a material adverse effect on the financial position of the Company.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 (in part): Contingencies

The Company has claims against others, aand 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 a resolution of such claims (including the matters discussed below) would not, in the opinion of management, have a material adverse effect on the Company's financial position.

Department of Energy

In May, 1979, the Company received a Notice of Probable Violation ("NOPV") from the Department of Energy ("DOE") claiming overcharges during the five-year period ended August 31, 1978 of approximately $66 million plus interest in connection with the sale to a major oil company of natural gas liquid products, primarily propane and butane for resale.

The Company has filed a demand upon the DOE that it rescind the NOPV as having been unlawfully made. In addition, the Company and its wholly-owned subsidiary which owns the natural gas liquid products facilities at the Company's petrochemical complex in Tuscola, Illinois, have filed a complaint against the DOE in the United States District Court for the District of Delaware seeking declaratory and injunctive relief, including a judicial declaration that such sales of natural gas liquid products were and are in accordance with applicable DOE regulations and requesting a tolling of any penalties of non-compliance with the NOPV pending judicial review. The DOE has moved to dismiss the complaint.

The Company and its subsidiary continue to sell the natural gas liquid products in accordance with past practice, which could add to the alleged overcharges and subject them to a claim for additional substantial penalties. Since January 1, 1980, butane has not been subject to price controls; accordingly, there will be no overcharge or penalty claims applicable to butane after such date.

The Company, based upon consultations with outside counsel, believes that the pricing of natural gas liquid products to such oil company was and is in accordance with the applicable regulations and that its position will prevail. Accordingly, the Company has made no provision for liability with respect to this matter.

THE LTV CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE N—Contingencies and Commitments

Contingencies (in part)—The Company's steel operations are subject to various environmental and related laws, including the Clean Air Act, the Federal Water Pollution Control Act, the Resource Conservation and Recovery Act, the Surface Mining Reclamation and Enforcement Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, and the Coal Mine Health and Safety Act. Uncertainties associated with the application of these laws and the regulations promulgated and/or proposed thereunder create uncertainties as to their financial impact on the Company's steel operations, with respect to both operating costs and capital expenditures as well as the timing for the incurrence of such expenditures.

Because the Company's steel operations are continually seeking more cost-effective means of compliance, the Company cannot fully evaluate with certainty the magnitude of the expenditures which may be required to bring its steel operations into compliance with the requirements of the laws and regulations mentioned above. However, it has been estimated that the cost of complying with the Clean Air Act and the Federal Water Pollution Control Act at the Aliquippa, Pittsburgh, Cleveland and Indiana Harbor Works through 1982 (in 1979 dollars) is $200 to $300 million dollars. This expenditure coupled with expenditures required at other plants, by other mentioned legislation and additional requirements to come under the Federal Water Pollution Control Act could cause the Company to close certain of its older facilities in the future and will limit the Company's ability to modernize or enlarge its steelmaking facilities at least during the immediate future.

In some instances, the statutes mentioned above and certain regulations provide for the imposition of civil penalties in cases of noncompliance with environmental requirements. During the course of current negotiations concerning settlement of outstanding air and water problems at the Works referred to above, U.S. EPA has indicated that it considers a $10 million penalty to be appropriate for those operations. However, it is expected that the penalty can be satisfied through the installation of environmental control equipment beyond that required by current environmental laws or by a more rapid installation of equipment than is required by law. The suggested $10 million penalty does not include the amount of any penalty assessable pursuant to Section 120 of the Clean Air Act which requires penalty payments in certain instances equivalent to the economic benefit derived from having sources not in compliance with Clean Air Act requirements after mid-1979. Final regulations which would serve to define the magnitude of this penalty have not been promulgated as yet.

The statutes and regulations mentioned above have been characterized in the past by continual change and changes in the future are to be expected. These changes as well as the outcome of pending and potential administrative and judicial proceedings, particularly as to timing of the expenditures, could significantly alter the environmental obligations of the Company's steel operations in the future.

The Company and certain of its subsidiaries are parties to other litigation or proceedings, certain of which allege violations of Section 10 (b) under the Securities Exchange Act of 1934.

It is not possible to predict with certainty the outcome of the foregoing matters, but it is believed that they will not materially affect the consolidated financial position of the Company or its subsidiaries.

THE VENDO COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21 (in part): Contingencies and Litigations:

(c) Affirmative Action Plan

The U.S. Office of Federal Contract Compliance Program (OFCC) has alleged that the Company has not fully complied with an Affirmative Action Plan (AAP) conciliation agreement between the Company and the OFCC regarding corrective actions for allegedly discriminatory practices by the Company at one of its factories. The Company believes it has fully complied with the AAP agreement and that no further liability exists. In the opinion of Company management, the allegedly discriminatory practices resulted from insufficient training of female applicants and employees. Therefore, the Company has offered to provide training programs to the affected group so that these individuals would be capable of assuming the responsibilities of these positions. At the present time, the Company and counsel cannot assess the probability of the OFCC accepting the Company's offer to provide training programs, but believes the maximum costs of actions which may be necessary to achieve certification of compliance with the AAP conciliation agreement will not materially affect the Company's financial statements.

Investigations by Governmental Agencies

CASTLE & COOKE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingent Liabilities (in part)—At December 29, 1979, the Company was contingently liable for $10 million for notes discounted and mortgage loans endorsed, and $37 million for guarantees of indebtedness, generally for domestic affiliated companies.

The Civil Investigative Demand served by the U.S. Department of Justice on the Company in 1978 concerning alleged predatory practices remained relatively inactive. The Company responded to the demand by supplying the requested documents. Recently, the Justice Department has indicated that it wishes to interview some Company personnel. However, it still is not possible to predict what, if any, further developments may occur.

In October 1979, a competitor filed suit against the Company and one of its subsidiaries, alleging predatory conduct and attempted monopoly by the Company in connection with that competitor's entry into the banana market in the Gulf Coast. The Company is gathering information on which to base its response.

In November 1979, the U.S. Department of Justice (in apparent reaction to the complaint described in the preceding paragraph) served a Civil Investigative Demand on the Company, seeking information concerning alleged predatory practices in connection with the marketing and sale of bananas imported through the Gulf Coast. The requested information is being gathered. It is not possible at this point to predict what further, if any, developments may occur.

The Federal Trade Commission ("FTC") investigation of the tuna industry announced in 1975 remained relatively inactive through 1976. In May 1977, the Company and other tuna canning companies received subpoenas for the production of documents. The Company responded by submitting the requested documents, and is unable to predict what, if any, further developments may occur.

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note J (in part): Commitments and Contingencies—The staff of the Securities and Exchange Commission is conducting a private investigation into whether the Company has fully complied with applicable securities laws. The investigation appears to the Company to be primarily directed to the Company's method of accounting for commissions and to whether all material facts related to sales commissions have been properly disclosed. It is management's opinion that there will be no significant effect on the financial statements resulting from the investigation.

Expropriation of Subsidiary

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Possible Expropriation of Asbestos Corporation Limited—Since October 1977, when the Premier of the Province of Quebec, Canada, announced that the Government of the province would attempt to negotiate the purchase of the Corporation's 54.6% stock ownership in Asbestos Corporation Limited (ACL), separate studies were commissioned by both the Quebec Government and the Corporation to determine the value of ACL's properties in Quebec and Germany. These studies differed substantially in the values attributable to the properties. On 21 September 1979, the Corporation received an offer of $42 (Canadian) per share, which was the value derived from the Quebec Government's study. The Corporation's Board of Directors unanimously rejected this offer.

On 22 June 1979, the provincial Government enacted an expropriation statute which would allow it to take over ACL's Quebec assets immediately by the service of a notice of expropriation. ACL filed suit in the Superior Court of Quebec challenging the constitutionality of the expropriation statute and requested a temporary injunction enjoining Quebec from issuing the notice of expropriation until the constitutional issues were resolved. In July 1979, the Superior Court refused to issue the injunction, but on 13 December 1979, the Quebec Court of Appeals entered the injunction enjoining Quebec from serving the notice of expropriation until the final judgment is rendered in the constitutionality action. The action on the constitutionality of the expropriation statute has been set for trial in April 1980.

The Corporation's share of net earnings of ACL (in U.S. dollars) was $7 million in 1979 and $5 million in 1978. The Corporation's equity in the net assets of ACL (in U.S. dollars) was $79 million at 31 December 1979.

Severance Pay

THE RATH PACKING COMPANY (SEP)

NOTES TO FINANCIAL STATEMENTS

Note 5 (in part): Commitments and Contingent Liabilities—Labor agreements covering production employees provide for separation benefits for individuals who are placed in a layoff status exceeding two years, or who are terminated as the result of the closing of a part of the business or technological changes. Assuming discontinuance of all operations, estimated contingent severance pay at September 29, 1979 aggregated approximately $25,000,000.

Substantially all retired employees of the company are covered at specified levels under life insurance policies and health insurance plans. The cost of such insurance coverage is borne by the company and is expensed when paid; amounts charged to operations during fiscal years 1979 and 1978 amounted to $1,443,000 and $1,075,000, respectively. At September 29, 1979, the actuarially computed present value of benefits earned by active and retired employees totaled $16,900,000.

Termination Fee

THE DOW CHEMICAL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note P (in part): Contingent Liabilities—The Company has contracted to purchase electricity and process steam from a nuclear power plant being constructed by Consumers Power Company at Midland, Michigan. If due to regulatory problems, (1) Consumers is unable to complete this plant prior to December 31, 1984, or (2) the Company terminates its purchase contract, the Company would be obligated to pay a termination fee, which as of December 31, 1979 is estimated at $175 million and $350 million, respectively.

A Canadian subsidiary has entered into an agreement to purchase substantially all of the output of an ethylene plant in the Province of Alberta. The owner of the plant, The Alberta Gas Ethylene Company, Ltd., has borrowed $325 million which has been guaranteed as to principal and interest by the Company.

GAIN CONTINGENCIES

Operating Loss or Investment Credit Carryforwards

AFG INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (in part): Income Taxes—At December 31, 1979, the Company had net operating loss carryforwards of approximately $8,265,000 and investment tax credit carryovers of approximately $3,835,000 available to offset future federal taxable income and tax liabilities as follows:

Expiration year ending	Net operating loss carryforwards	Investment tax credit carryovers
1980	$ —	$1,072,000
1981	—	122,000
1982	1,617,000	1,293,000
1983	43,000	147,000
1984	1,368,000	686,000
1985	5,237,000	174,000
1986	—	341,000

Because of timing differences related principally to interest and pension costs, cumulative losses for financial reporting purposes exceed those reported for tax purposes by approximately $30,000,000. Because of the uncertainty as to realization, no future tax benefits are recognized at December 31, 1979. As future tax benefits related to net operating loss and investment tax credit carryforwards become realized, property, plant, and equipment will be reduced in accordance with Accounting Principles Board Opinion No. 16.

ARVIN INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Income Taxes:

Income taxes comprised:	1979	1978
Federal:		
Current	$ 9,492,000	$20,074,000
Deferred (credit)	600,000	(480,000)
State and foreign	1,450,000	2,457,000
	$11,542,000	$22,052,000
Effective tax rate	36.1%	48.9%

Certain contract disallowance and depreciation provisions related to adjustments in connection with acquisition of a subsidiary are permanent rather than temporary timing differences. The tax deductions are higher than the related financial statement expenses and, because the differences are not subject to deferred tax provisions, the effective tax rate has been reduced.

Investment tax credits amounted to $2,816,000 and $655,000, respectively, for the two years.

At December 30, 1979, a subsidiary's net operating loss-carryforwards amounted to $2,915,000 expiring as follows: 1982—$360,000, 1983—$1,793,000, 1984—$617,000, and 1985—$145,000.

When utilized, the tax effect will be accounted for as an adjustment of the purchase price of the subsidiary.

F&B/CECO INDUSTRIES, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Income taxes—The Company files consolidated federal income tax returns.

At May 31, 1979, the Company and its subsidiaries have net operating loss carryforwards and unused investment tax credits, which may be applied against future taxable income and which expire as follows:

Years ending May 31,	Net operating loss carryforwards	Investment tax credits
1980	$399,000	$ 18,000
1981		15,000
1982		25,000
1983	266,000	34,000
1984	267,000	19,000
1985	7,000	19,000
1986		56,000
	$939,000	$186,000

Plaintiff Litigation

BOISE CASCADE CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part): Litigation and Legal Matters—The Company and its majority owned subsidiary, Cuban Electric Company, have claims of $279,300,000 plus interest at 6% from 1960 against the Government of Cuba certified by the U.S. Foreign Claims Settlement Commission. These claims cannot be reflected in the Company's assets until agreement, if any, is reached with Cuba on their payment and the rights of Cuban Electric's creditors have been determined.

During 1979, the United States and the People's Republic of China reached an agreement on settlement of all American claims ($197,000,000 in the aggregate plus interest of 6% from 1950) through payment by the People's Republic of $80,500,000 over five years, $30,000,000 of which was paid in 1979 and the balance to be received in equal installments through 1984. The claims of Shanghai Power Company and another majority owned subsidiary of the Company against the People's Republic aggregating $55,600,000 plus interest of 6% from 1950 was part of this settlement. If remaining payments are distributed to American claimants on a pro rata basis pursuant to current law, as was the 1979 payment, the Company's subsidiaries should ultimately receive a total of $21,000,000 for its claim. In addition, Shanghai Power has other assets of approximately $5,000,000 as a result of compensation paid to it for damage suffered by its properties during World War II. Shanghai Power has settled litigation brought by it in 1972 seeking to determine the respective rights of various Shanghai Power security holders. Under the settlement approved by the court in February 1980, Shanghai Power's 6 tael preferred stockholders, certain debenture holders, and their representatives may receive up to $8,000,000. The Company's approximately 80% interest in these subsidiaries is not now reflected in the Company's assets. These subsidiaries will be dissolved as soon as reasonably practicable.

KRAFT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contingencies—There are no pending legal proceedings against the company other than ordinary routine litigation (including several private actions, some seeking treble damages, based on alleged violation of the antitrust laws) which is incidental to the company's business and, based on the opinion of the company's General Counsel, it is believed that the outcome of such litigation will not materially affect the company's consolidated financial position or operations. Also, see the comments in Legal Matters, page 28.

The company has filed suits under the federal antitrust laws in one case against certain suppliers of folding cartons and in another against certain suppliers of corrugated material, claiming treble damages in unspecified amounts. Based upon the opinion of the company's General Counsel, it is believed that both suits are meritorious and could result in significant settlements or awards of compensation to the company but no estimate can presently be made as to the time or the amount of ultimate recovery, if any, therefrom.

COMMITMENTS

Obligations to Maintain Working Capital or Restrict Dividends

BLISS & LAUGHLIN INDUSTRIES INCORPORATED (DEC)

FINANCIAL REVIEW

Long-Term Debt, Convertible Subordinated Debentures, and Mortgage Loans (in part)—Long-term debt was as follows (in thousands):

	1979	1978
Long-term loan	$20,000	$20,000
Obligations related to industrial revenue bonds	7,668	8,053
Other, with various interest rates (5¼% to 15%)	2,043	2,709
	29,711	30,762
Less current maturities	1,177	1,212
	$28,534	$29,550

The above long-term debt has varying maturities including, in the aggregate, maturities of $1,177,000 in 1980, $725,000 in 1981, $2,237,000 in 1982, $2,359,000 in 1983, and $2,320,000 in 1984. The provisions of the loan agreements and the indenture for the 5¾% convertible subordinated debentures contain, among other things, restrictions on lease commitments, creation of mortgage indebtedness, payment of cash dividends and stock redemptions. In addition, the Company must maintain consolidated working capital of at least $45,000,000 and consolidated current assets of not less than 225% of consolidated current liabilities. At December 31, 1979, the Company had consolidated working capital of $80,148,000 and consolidated current assets were 299% of consolidated current liabilities.Under the terms of the most restrictive agreement, retained earnings of approximately $53,220,000 was not available for the payment of cash dividends. At December 31, 1979, the Company may, under certain restrictions, increase funded (long-term) borrowing by $31,635,000.

The long-term loan, with an interest rate of 9⅜%, has annual installments due from 1982 to 1994. No compensating balances are required under this agreement.

EMPIRE GAS CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Long-Term Debt—Long-term debt at June 30, 1979 and 1978 consisted of:

	1979	1978
Purchase contract obligations 5% to 10%, due 1979-1990(a)	$ 3,071,156	$ 3,895,572
Convertible subordinated debentures 5%, due 1988 (b)		3,945,000
Term notes payable (c)	25,000,000	20,000,000
	28,071,156	27,840,572
Less current maturities	726,381	861,671
	$27,344,775	$26,978,901

Aggregate annual maturities of the long-term debt outstanding at June 30, 1979:

Maturity Date Year Ended June 30	Aggregate Annual Maturities
1980	$ 726,381
1981	2,157,697
1982	6,723,911
1983	6,576,276
1984	6,481,432
1985	4,902,501
1986-1990	502,958
	$28,071,156

(a) The purchase contract obligations arose from the purchase of operating businesses and are collateralized by the equipment and real estate acquired in the respective acquisitions.

(b) The debentures are convertible until maturity in November, 1988. The conversion rate was 51.282 shares of common stock for each $1,000 principal amount of debentures. The debentures were called March 22, 1979 at face value. In this transaction, there were 3,174 shares of the Company's stock issued and $3,748,000 paid in cash for the debentures called.

(c) In 1978, the Company amended the existing revolving credit and term loan agreement with two banks to increase the amount of the total commitment to $25,000,000 of unsecured term notes to be repaid in sixteen equal quarterly installments beginning on April 15, 1981. Under this agreement, the Company may borrow and repay until January 15, 1981, up to the total commitment of $25,000,000. The total borrowings under this agreement bear interest at 104% of prime plus ⅜ of 1% until April 15, 1981, has 104% of prime plus ½ of 1% after April 15, 1981. In connection with this agreement, the Company has agreed to:

(1) Maintain monthly average compensating cash balances of not less than: (a) ten percent of the commitment to January 15, 1981; and (b) ten percent of the unpaid principal amount of the loans after January 15, 1981.

(2) Pay a commitment fee of one-half of one percent per annum to January 15, 1981, on the average daily unused portion of the total commitment.

(3) Maintain a minimum consolidated working capital ratio of 1.35 to 1 with minimum working capital of $5,000,000.

(4) Maintain a ratio of consolidated total liabilities (excluding debt subordinated to this agreement) to the sum of the consolidated net worth of the Company plus subordinated debt of not more than 1.6 to 1 until June 30, 1979, and thereafter not more than 1.4 to 1. The banks involved have formally waived compliance with this provision for the year ended June 30, 1979.

(5) Limit additional indebtedness, except as specifically approved by the banks, to purchase contract obligations and short-term working capital borrowings of a maximum of $10,000,000 at any one time.

(6) Limit additional loans and investments in other entities to investments in oil and gas exploration ventures, purchase of other propane distributing companies and investments in other subsidiaries. The amount of these loans and investments is limited to a total of $120,000,000. The banks involved have formally waived compliance with this provision for the year ended June 30, 1979.

(7) Not merge or consolidate with or into any other entity, or sell or lease over five percent of the Company's total assets or the assets from which more than ten percent of its net income is derived.

Because the compensating balances arrangements under the loan agreement are based on twelve-month average balances, the Company does not consider any of its cash balances to be restricted as of any specific date.

ETHYL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9: Retained Earnings Restriction—The Company's articles of incorporation and note agreements contain restrictions, among others, against the payment of cash dividends and purchases of the Company's stock. At December 31, 1979, $107,998,000 of retained earnings was free of such restrictions under the agreement presently most restrictive.

HOLLY SUGAR CORPORATION (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 2 (in part): Long-Term Debt—The Loan Agreements relating to the long-term notes place certain restrictions on the Company, including maintenance of $20,000,000 working capital and $70,000,000 net worth ($75,000,000 at March 31, 1978). The Agreements, as amended in 1979, do not permit payment of cash dividends if the Company's Consolidated Tangible Net Worth is less than $75,000,000 at the end of the most recent fiscal quarter. There were no retained earnings available for payment of dividends under the Loan Agreements at March 31, 1979.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Long-Term Indebtedness—The Company was indebted at June 30, 1979, for $25,000,000 under two note agreements with insurance companies dated December 22, 1975, and September 30, 1978. These agreements carry interest rates of 10½ and 9½ percent per annum, respectively, and provide for principal repayments of $1,500,000 per year during fiscal years 1982 through 1986, $2,500,000 per year during fiscal years 1987 through 1991, and $1,000,000 per year during fiscal years 1992 through 1996.

The provisions of the agreements include a minimum working capital requirement, limitations on additional indebtedness and certain investments, and restrictions against cash dividend payments and the acquisition of treasury stock. Retained earnings available for cash dividend payments per the above limitation were approximately $14,000,000 at June 30, 1979.

Capital Expenditures

BETHLEHEM STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (in part): Commitments and Contingent Liabilities—Based on its proportionate interest in certain associated raw material enterprises, Bethlehem is entitled to receive its share of the raw materials produced by such enterprises and is committed to pay its share of their costs, including amortization of their long-term debt. Bethlehem's share of such amortization averages approximately $6.1 million annually through 1983. In addition, Bethlehem has guaranteed debt of various enterprises, including that of certain associated enterprises, aggregating $31 million at December 31, 1979, and $37 million at December 31, 1978.

Bethlehem has placed purchase orders for a substantial portion of the estimated cost to complete authorized additions and improvements to its properties. At December 31, 1979, the total estimated cost to complete such additions and improvements was $610 million.

BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 Purchase Commitments—The Company has begun construction on a new 744,000 square foot service parts distribution center and components manufacturing facility in Menomonee Falls, Wisconsin. The estimated cost of this facility is $35 million of which $10.2 million was committed as of June 30, 1979.

COMPUGRAPHIC CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 (in part): Commitments and Contingent Liabilities

Construction Commitments—On March 23, 1979, the Board of Directors approved the construction of a 210,000 square-foot engineering and administrative facility in Wilmington, Massachusetts. As of September 29, 1979, approximately $3,200,000 has been expended for plant construction and an additional $5,100,000 has been committed for this facility.

DAN RIVER INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Commitments—Commitments for additions to property, plant and equipment amounted to approximately $16,965,000 at December 29, 1979 and $8,990,000 at December 30, 1978.

GIANT FOOD INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Commitments

Property, plant and equipment—The Company plans to expend, net of proceeds from sale-leaseback agreements, approximately $37,000,000 during the next year for equipment, store improvements and expansion of present distribution and processing facilities.

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 5 (in part): Commitments and Contingent Liabilities:

Capital Expenditures—Gulf estimates that capital expenditures aggregating approximately $19,000,000 will be required after December 31, 1979, to complete facilities and equipment purchases authorized. Substantial commitments have been made in connection therewith.

MASONITE CORPORATION (AUG)

NOTES TO FINANCIAL STATEMENTS

Note 18: Commitments—As of August 31, 1979, commitments for major capital projects and timber were approximately $14,493,000.

REPUBLIC STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H: Commitments—In the event certain companies are unable to make payments on their indebtedness (principally related to construction of facilities by companies supplying raw materials to the Corporation) the Corporation has agreed to pay specified amounts thereof aggregating $242,049,000 at December 31, 1979. Principal commitments include $195,333,000 for Reserve Mining Company and $33,258,000 for Hibbing Development Company, both associated companies. The commitment with respect to Hibbing Development Company terminates at project completion (estimated in 1980), once certain volume and operating standards are met.

Estimated costs to complete approved construction projects in process were approximately $692,000,000 at December 31, 1979, and $799,000,000 at December 31, 1978, of which $213,000,000 at December 31, 1979, and $106,000,000 at December 31, 1978, were firm commitments.

Inventory Purchase Agreements

ACTION INDUSTRIES, INC. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (in part): Commitments and Contingent Liabilities—The Company has agreed to purchase increasing quantities of lead crystal stemware from a foreign manufacturer in the calendar years 1980 through 1984. The agreement specifies overall quantities and price ranges for such purchases in calendar 1980 and 1981 (with an aggregate cost of between approximately $17 million and $23 million, depending on item mix, for the two-year period), and calls for negotiation of mutually satisfactory prices for specified overall quantities in the calendar years 1982 through 1984.

ARMCO (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 8 (in part): Commitments and Contingencies—A subsidiary of Armco has entered into a completion and "take or pay" agreement under which it will take its share (40%) of the production of taconite iron ore pellets by Eveleth Expansion Company. Eveleth has outstanding $175,000,000 worth of 9½% and $43,200,000 worth of 10% First Mortgage Bonds due in 1995. Armco is committed to advance up to 40% of the funds needed for the continued operation of Eveleth, including amounts for depreciation and amortization at least equal to the amounts required to pay principal and interest on such bonds.

Commitments for the purchase of property, plant and equipment (including unexpended amounts relating to projects substantially underway) amounted to approximately $184,209,000 at December 31, 1979.

CENTRONICS DATA COMPUTER CORP. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Commitment—The Company's requirements of mechanical assemblies for certain line printers are supplied to them by a foreign vendor under an agreement which has been extended to April 1985. Subject to quality, delivery and certain other conditions, the Company has agreed to purchase, a minimum number of mechanical assemblies. At June 30, 1979, based on the then current exchange value of the yen, the commitment amounted to approximately $33,000,000.

JOSLYN MFG. AND SUPPLY CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Commitments—The Company's Stainless Steels Division has commitments to purchase certain raw materials over the next three years principally at the then market prices. At December 31, 1979, these commitments are approximately $9,900,000 based on current prices and are not in excess of estimated production requirements.

The Company's obligation under leases is not significant and the annual rent expense for 1979 was less than 1% of sales.

Supply Contracts

IOWA BEEF PROCESSORS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G (in part): Commitments and Contingencies—The Company has a long term cattle supply agreement with a cooperative which supplies a major portion of the cattle slaughtered in the Company's two Pacific Northwest plants. Through this agreement the Company had at November 3, 1979 price risk relating to approximately 80,000 head of cattle on feed. The Company hedges this risk to the extent it considers practicable.

The Company has commenced construction of a new beef plant in Kansas which is expected to cost in excess of $100 million when completed. This plant is expected to open in 1981 and be fully operational in 1984.

PHELPS DODGE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (in part): Commitments—As of December 31, 1979, Western Nuclear, Inc. had commitments to deliver 12.2 million pounds of uranium oxide through 1995 at prices subject to escalation or at prices not less than cost plus a specified amount subject to escalation. As of such date, the Corporation had contracted to sell throughout 1980 1.8 million ounces of silver and 38,400 ounces of gold to be recovered in 1980 as by-products of its domestic copper operations, representing about 75% of anticipated production, at prices prevailing when the contracts were entered into in the third quarter of 1979.

Employment Contracts

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, six vice presidents and three corporate consultants. Such agreements have been revised from time to time. 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 28, 1979, excluding bonuses, was approximately $4,000,000.

Non-Competition Agreements

SERVICE CORPORATION INTERNATIONAL (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 (in part): Commitments and Contingencies

Non-Competition Agreements—In connection with various acquisitions, the Company has entered into management, consultative and/or non-competition agreements (generally for five to ten years) with former owners and key employees of firms acquired. Aggregate annual payments under such agreements approximate $2,887,000 at April 30, 1979. The total outstanding balance of such commitments was approximately $14,300,000 at April 30, 1979.

Additional Payments Based on Future Earnings of Acquired Companies

HMW INDUSTRIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 (in part): Contingencies and Commitments—In connection with the acquisition of IBN, the purchase price could be increased by a maximum of $2,000,000 depending upon IBN's earnings calculated under the guidelines established in the agreement for the period from March 1, 1976 through January 31, 1980. The final purchase price is expected to be determined by April 30, 1980. Such additional amount, if any, will be recorded as excess of acquisition cost over net assets acquired.

The Board of Directors has approved a capital expenditure program of approximately $6,000,000 for a new plant and additional manufacturing equipment in order to expand the Company's precision metals capability.

Royalty Payments

VULCAN MATERIALS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7 (in part): Other Commitments and Contingent Liabilities—Royalty expense, related principally to leases of mineral-bearing properties, amounted to $6,496,000 in 1979 and $6,648,000 in 1978. Commitments under agreements which require minimum annual royalties are: $1,644,000 for 1980; $1,566,000 for 1981; $1,391,000 for 1982; $1,294,000 for 1983; $1,066,000 for 1984; and $4,466,000 for all remaining years for a total of $11,427,000.

Commitments for the purchase of property, plant and equipment approximated $11,351,000 at December 31, 1979.

The company has extended through 1980 its participation in a joint venture for the exploration and development of oil and gas reserves. Under this agreement, the company will provide capital, up to a maximum of $15,000,000, for the 1980 exploratory program. If discoveries are made, the company will need to fund additional commitments for completion of the discovery wells and drilling of any development wells.

Purchase of Unregistered Stock

LEVI STRAUSS & CO. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments—In late 1979 the Company entered into an agreement for the lease of a new headquarters, now under construction in San Francisco. The Company intends to move into the new facility in 1981 and will occupy approximately 500,000 square feet of office space.

The Company has agreed to purchase, if so requested, its unregistered common stock held in trust under the Employee Retirement Plan. Such shares would be acquired at the market price. At November 25, 1979 a total of 89,793 such shares were held in trust.

Broadcasting and Recorded Music Contracts

CBS INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Leases and Commitments—The Company routinely enters into commitments to purchase the rights to broadcast programs, including feature films and sports events, on television. These contracts permit the broadcast of such properties for various periods ending no later than December 31, 1998. The Company also enters into long-term contracts with recording artists and companies for the production of records and tapes. These contracts cover various periods through December 31, 1991. As of December 31, 1979 and 1978, the Company was committed to make payments under such broadcasting and recorded music contracts aggregating $682,846,000 and $722,267,000, respectively.

Standby Commitment to Purchase Mortgage Notes

WEYERHAEUSER COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Dollar amounts in thousands except per share figures

Note 9: Commitments—The Company's capital expenditures have averaged about $500,000 per year since 1974 but are expected to exceed that amount for the next several years; however, as a consequence of future economic conditions, the expenditure level could be increased or decreased.

Weyerhaeuser Real Estate Company sells commercial paper guaranteed by the Company and pays it a fee equal to ½ of 1% of commercial paper outstanding. Under its agreement with the Company, Weyerhaeuser Real Estate Company must maintain unused non-guaranteed credit agreements in an amount at least equal to its commercial paper outstanding which at December 30, 1979 was $45,800 and at December 31, 1978 was $71,600.

Weyerhaeuser Real Estate Company sold to institutional investors 900,000 $8.50 cumulative preferred shares for $90,000. Weyerhaeuser Real Estate Company is required to redeem 180,000 of these shares in each of the years 1985 through 1989 at a price equal to $100 per share plus accrued and unpaid dividends. In the event that Weyerhaeuser Real Estate Company fails to make a quarterly dividend payment or a mandatory redemption payment, the holders of the preferred shares have the right to exchange their shares for an equal number of the Company's preference shares having equivalent terms.

The Company has a commitment to Weyerhaeuser Mortgage Company, an unconsolidated wholly owned subsidiary of Weyerhaeuser Real Estate Company, to purchase up to $100,000 of U.S. government insured or guaranteed mortgage notes and other mortgage notes which meet all eligibility requirements for delivery to the Federal National Mortgage Association under firm forward purchase commitments. Within that limitation an amount not exceeding $6,000 of Federal National Mortgage Association common stock may be purchased. The commitment expires in July 1981 but can be extended annually thereafter at Weyerhaeuser Mortgage Company's option. At December 30, 1979 the Company had not purchased mortgage notes or securities under this standby commitment.

Forward Exchange Contracts

FRANKLIN MINT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments (in part)

The company, in the normal course of business, purchases precious metal futures contracts in significant quantities and amounts. Such contracts, with approximate cost of $25,000,000 at December 31, 1979, were committed to fulfill customer sales orders and subscriptions, some of which extend into 1987, and additionally cover certain orders and subscriptions the company anticipates receiving in 1980.

* * *

In November, 1979, the company entered into forward exchange contracts to sell approximately $121,000,000 in foreign currencies of the countries in which it has operations in order to hedge against currency fluctuations affecting shipments scheduled in 1980.

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 1979 annual reports on the survey companies.

Examples of subsequent event disclosures follow.

Business Combinations

CYCLOPS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Subsequent Event—During the first quarter of 1980, the Company acquired the outstanding stock of Silo, Inc., a major retailer of nationally branded home appliances, televisions and audio products. The purchase price of $24 per outstanding common share amounted to $34.6 million. The acquisition will be accounted for as a purchase and the excess of the consideration paid over the fair value of the net assets acquired will be amortized over 40 years. The results of operations of Silo will be included in the consolidated statement of income from February 1, 1980.

On an unaudited pro forma basis, assuming the acquisition of Silo had occurred on January 1, 1979, Cyclops net sales, net income and earnings per common share and common share equivalents would have been $1,046,000,000, $7,552,000 and $2.06, respectively. These pro forma amounts reflect estimated adjustments for good-will amortization, depreciation and interest expense.

ERB LUMBER CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Subsequent Event—Effective January 1, 1980, the Company acquired an additional 44 percent interest in Erb Building Systems, a Florida based partnership joint venture, which increased the Company's interest in this partner-

TABLE 1-12: SUBSEQUENT EVENTS

	Number of Companies			
	1979	1978	1977	1976
Business combinations pending or effected	51	62	51	40
Debt incurred, reduced or refinanced	29	17	33	26
Sale of assets	19	19	14	20
Stock splits or dividends	12	16	7	18
Litigation	11	7	19	10
Other	33	39	19	41

ship to 95 percent. The net purchase price was $830,000.

The unaudited pro forma consolidated results of operations of the Company for the years ended December 31, 1979 and 1978, respectively, assuming that the aforementioned purchase had taken place on January 1, 1978, would be approximately as follows: total revenue—$139,259,000 and $123,147,000; net income—$4,276,000 and $4,478,000; net income per share of common stock—$3.38 and $3.26.

GETTY OIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 25: Supplemental Pro Forma Merger Information (Unaudited)—On January 23, 1980, pursuant to the Agreement of Merger dated as of November 2, 1979, Getty acquired all of the assets of Reserve Oil and Gas Company. The Reserve stockholders and warrant holders received $35.00 per share of common stock, $51.10 per share of preferred stock, $25.00 per Class A warrant and $20.00 per Class D Warrant. The total payment approximated $628,000,000.

The following pro forma net income and income per share data for the year 1979 have been prepared on the basis of the purchase method of accounting and on the assumption that the merger of Reserve into Getty was effective on January 1, 1979:

	Net Income	Income Per Share
	(In thousands except per share amounts)	
Quarter Ended		
March 31	$102,059	$1.24
June 30	136,187	1.65
September 30	168,267	2.05
December 31	173,598	2.11
	$580,111	$7.05

Pro forma income per average common share is computed by dividing pro forma net income less preferred dividends by 82,154,052, the average common shares outstanding.

STERNDENT CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 12: Subsequent developments (unaudited)—On March 4, 1980 the Company reported in a press release that the management of the Company and Cooper Laboratories, Inc. of Palo Alto, California, had agreed in principle to the acquisition of all of the Company's assets and assumption of all the Company's liabilities by Cooper. Upon consummation of the proposed transaction, shareholders of the Company will receive for each share of the Company's Common Stock $3 in cash and a debenture with a $25 face amount convertible into Cooper Common Stock. The terms and conditions of the debentures will be fixed near the closing such that they will be expected to sell at par. It is anticipated that the transaction will be taxable to the Company's shareholders. The proposed transaction is subject to a number of conditions, including approval by the Boards of Directors and shareholders of both companies, and negotiation of a satisfactory asset purchase agreement. Cooper Laboratories develops, manufactures and sells drugs and devices used primarily in ophthalmology, dermatology and dentistry.

OSCAR MAYER & CO. INC. (OCT)

FINANCIAL REVIEW

Subsequent Event—On December 20, 1979, the Company acquired all of the outstanding shares of Louis Rich, Inc. in exchange for approximately 1,390,000 shares of the Company's common stock. Louis Rich, Inc. is a processor of turkey products. The merger is a pooling of interests. Accordingly, historical financial data presented in future reports will be restated to include the financial statements of Louis Rich, Inc. Pro forma total assets and stockholders' equity of the Company on a combined basis amounted to $553,485,000 and $295,299,000 on October 27, 1979. Pro forma combined operating data for the Company, giving effect to this transaction, are indicated below:

	1979	1978
Net sales	$1,589,517,000	$1,491,110,000
Income before taxes	79,741,000	54,713,000
Net income	45,927,000	28,228,000
Net income per common share	2.87	1.77

RAYTHEON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note P: Subsequent Event—The merger of the Company and Beech Aircraft Corporation was completed on February 8, 1980. Under the Agreement of Merger, each Beech shareholder received .775 shares of the Company's common stock (approximately 10,332,000 shares) in exchange for each Beech share.

The merger will be accounted for as a pooling of interests.

Pro forma unaudited combined results for the years ended December 31, 1979 and 1978 on a pooling of interests basis are as follows:

	1979	1978
	(In thousands except per share data)	
Net sales	$4,354,238	$3,786,682
Net income	242,586	188,943
Earnings per common share	5.91	4.64

The Company plans to record the tax benefits of The Beech Domestic International Sales Corporation on a flow-through basis. As a result, the 1979 and 1978 pro forma net income have been increased by $2,246,000 ($.05 per share) and $2,379,000 ($.06 per share), respectively.

Earnings per common share assume the full conversion of Beech's outstanding 4¾% convertible debentures which were converted on February 6, 1980.

Debt Incurred, Reduced or Refinanced

THE ARUNDEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note Q: Subsequent Event—On January 7, 1980, the Company entered into a Revolving Credit Agreement with its three credit line banks that will allow the Company to borrow up to an additional $5,000,000 under terms basically equivalent to the terms of its existing Line of Credit Agreement. Under certain circumstances, the Company may reborrow the amounts borrowed and repaid under the Revolving Credit Agreement. However, if the proceeds used in repayment of amounts borrowed under the Revolving Credit Agreement come from the sale of properties that are held as security for the Line of Credit Agreement, then the amount repaid may not be reborrowed. The Revolving Credit Agreement expires on June 30, 1981—the same date that the Line of Credit Agreement expires. The Revolving Credit Agreement loans are unsecured, but the Company has agreed not to pledge its unpledged assets in future financing transactions.

BAXTER TRAVENOL LABORATORIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note E: Long-term notes payable—Long-term notes payable were $60,904,000 at December 31, 1979, and $31,172,000 at December 31, 1978, net of current maturities of $7,642,000 for 1979 and $1,612,000 for 1978.

Included in long-term notes payable are sundry obligations of various international and domestic companies. At year-end 1979 long-term notes payable included approximately $31,700,000 of loans denominated in various currencies and backed up by revolving credit agreements expiring in December 1981 and January 1982. At year-end 1978, long-term notes payable included approximately $20,400,000 of loans denominated in various currencies. The average rate of interest on the sundry obligations at year-end 1979 was 12.8%.

In February, 1980, the Company negotiated a three-year $50,000,000 bank loan at interest rates which will float with the prime rate except that during the first six months, the rate will not exceed 15¼%, and for the remaining 30 months, it will be not more than 12% nor less than 9%. The Company is permitted to prepay the loan at any time but at a penalty not exceeding 3% during the first two years.

Debt maturities, exclusive of amounts intended to be refinanced under long-term agreements, due annually for the five years beginning in 1980 are $7,642,000; $13,764,000; $7,555,000; $3,580,000; and $475,000.

GEARHART-OWEN INDUSTRIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Subsequent Events—On March 6, 1980, Gearhart Finance N.V., a wholly-owned subsidiary of the company incorporated under the laws of the Netherlands Antilles, completed the sale of $30,000,000 principal amount of its 7½% Convertible Subordinated Guaranteed Debentures due in 1995. The debentures are convertible into common stock of Gearhart-Owen Industries, Inc. at the rate of $60 per share.

The net proceeds arising from the issue of the debentures, which amounted to approximately $29,200,000 were loaned to the parent company and used to repay short-term bank borrowings of $15,500,000 outstanding at January 31, 1980. Accordingly, that amount has been included in long-term debt in the fiscal year 1980 consolidated financial statements in accordance with Financial Accounting Standards Board Statement No. 6. The remaining proceeds are being used by the company and its subsidiaries for use in financing their investments and operations.

Had the issuance of the debentures and the retirement of the debt taken place at the time of the issuance of the debt retired, the effect on earnings per share would not be significant.

GILFORD INSTRUMENT LABORATORIES INC. (JUL)

NOTES TO FINANCIAL STATEMENTS

Note 10: Subsequent Event—The Company entered into an agreement with the County of Lorain, Ohio, for the issuance of Industrial Development Revenue Bonds for the acquisition of machinery and equipment and construction of a building during the next three years. The facilities will be financed by the issuance of bonds in an aggregate principal amount estimated at $4,000,000. Negotiations for issuance of $2,500,000 of these bonds during the year ending July 31, 1980, at an annual interest rate of 6.85%, have been completed. The Company will consider utilizing the remaining $1,500,000 for construction of a building during 1980.

GRUMMAN CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 3 (in part): Convertible Subordinated Debentures—On January 29, 1980, the Company exercised its right to redeem on February 28, 1980 all of its outstanding 8% convertible subordinated debentures due September 1, 1999 at the redemption price of $1,060 plus accrued interest of $39.78 from September 1, 1979 to February 28, 1980, the date fixed for redemption, for each $1,000 principal amount of debentures. The right to convert the debentures into common stock expires at the close of business on February 28, 1980, and after that date no further conversion of the debentures can be made.

SUPREME EQUIPMENT & SYSTEMS CORP. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (in part): Long-Term Debt:

	1979	1978
A) Notes payable, bank:		
Term loan	$1,075,000	$1,425,000
Refinancing of short-term loan (Note 4)	1,361,046	—
B) Notes payable, other	278,961	271,000
C) Capitalized lease obligations	218,662	—
Total	2,933,669	1,696,000
Less: Current portion	521,659	386,000
Long-term debt	$2,412,010	$1,310,000

A) The above liability at July 31, 1979 has been retroactively classified in accordance with a refinancing commitment that was arranged as of October 24, 1979. The significant provisions of the new agreement include:

1) Term loan—$2,300,000, payable in quarterly principal installments of $115,000 from December 31, 1979 to September 30, 1984.
2) Revolving credit—$1,700,000 maximum for two years to September 30, 1981, converting to a three year term loan thereafter.
3) Compensating balance required—$400,000.
4) Interest—1.75% above prime on principal and any deficiency in compensating balance.
5) The bank has no security interest in the company's assets if the company maintains specified levels of working capital, stockholders' equity, current ratio, and ratio of liabilities to equity. These requirements increase annually during the term of the loan. If the company does not meet the requirements, but maintains specified minimum levels, the bank receives a security interest in all unencumbered assets. If the minimum requirements are not maintained, the loan may be considered in default. The company has complied with all requirements as of July 31, 1979. At July 31, 1980, it is required to have working capital of $5,500,000 and stockholders' equity of $7,000,000 to maintain the loan on an unsecured basis.
6) There are restrictions on cash dividends, additional debt, equipment purchases and business acquisitions. In the event that the present chief executive officer shall cease to hold that position, the bank may, at its option, declare the notes to be due and payable.

J. WALTER THOMPSON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Events Subsequent to the Balance Sheet Date—The Company obtained a $20 million revolving-credit facility from two banks in March 1980. The facility replaces an existing $5 million facility previously granted by one of the banks. After three years the revolving credit will be converted to a five-year term loan to be reduced in equal quarterly installments over the next five years. The loan will bear interest at approximately the prime rate and will contain certain working capital covenants.

DOE SPUN INC. (APR)

NOTES TO FINANCIAL STATEMENT

Note 13: Subsequent Event—Subsequent to April 30, 1979, the following events occurred:

a. On June 26, 1979, the shareholders of the Company voted to approve the agreement dated February 28, 1979 with the estate of the former company president, Albert Eichner. The agreement provides for the purchase of 341,000 common shares of the Company held by the estate at $5.50 per share or $1,876,050 in the aggregate, which was paid on June 27, 1979.

b. On June 27, 1979 the Company borrowed $2,000,000 from a bank, payable in quarterly installments of $125,000 commencing September 30, 1979, with interest at the prime rate for the first year, with interest at one quarter percent above the prime rate for the next two years and one-half percent above the prime rate thereafter. The loan agreement requires maintenance of certain levels of working capital and tangible net worth. It also provides for certain financial ratios, restricts capital expenditures and repurchase of the Company's capital stock, restricts cash dividend payments to 25% of net income and restricts lease commitments.

The pro forma balance sheet (Exhibit A) gives effect to the above events as if they had occurred on April 30, 1979, the date of the balance sheet.

Exhibit A

Pro Forma Consolidated Balance Sheet as of April 30, 1979

Assets	Historical (Exhibit B)	Pro Forma Adjustments Dr. (Cr)	Pro Forma
Current Assets:			
Cash	$ 574,095	($1,876,050)(a) 2,000,000(b)	$ 698,045
Accounts receivable, net of allowance for uncollectible accounts of $44,500	1,434,436		1,434,436
Inventories	3,882,378		3,882,378
Prepaid expenses and other current assets	333,970		333,970
Total Current Assets	6,224,879	123,950	6,348,829
Property, Plant and Equipment, at cost less accumulated depreciation and amortization	1,837,497		1,837,497
Other Assets	405,634		405,634
Total	$8,468,010	$ 123,950	$8,591,960
Liabilities and Shareholders' Equity			
Current Liabilities:			
Notes payable—bank—current portion		($ 375,000)(b)	$ 375,000
Capitalized lease obligations—current portion	$ 44,086		44,086
Accounts payable	737,081		737,081
Accrued expenses and other current liabilities	590,518		590,518
Income taxes payable	263,138		263,138
Total Current Liabilities	1,634,823	(375,000)	2,009,823
Capitalized Lease Obligations	922,108		922,108
Note Payable—bank		(1,625,000)(b)	1,625,000
Shareholders' Equity:			
Common stock—$.10 par value:			
Authorized—1,500,000 shares			
Issued—1,130,000 shares	113,000		113,000
Capital in excess of par value	818,020		818,020
Retained earnings (Exhibit D)	5,295,947		5,295,947
Total	6,226,967		6,226,967
Less: Treasury stock, at cost (183,500 shares—Historical, 524,600 shares—Pro Forma)	315,888	1,876,050(a)	2,191,938
Total Shareholders' Equity	5,911,079	1,876,050	4,035,029
Total	$8,468,010	($ 123,950)	$8,591,960

Litigation

ALLEGHENY LUDLUM INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Contingent asset—In January, 1980 a Federal District Court in Houston, Texas, following a jury trial completed earlier, entered judgment in favor of Chemetron Corporation, a wholly-owned subsidiary of Allegheny, against Marathon Manufacturing Corporation and two individual defendants in a suit brought for securities law violations. Marathon Manufacturing Corporation has stated publicly that it will appeal the judgment and, since the outcome cannot be predicted at this time, no portion of the judgment has been reflected in the accompanying financial statements.

ARMCO (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9 (in part): Litigation—Armco filed suit in 1976 against Allied Chemical Corporation, a supplier of blast furnace coke and coke oven gas, claiming damages for breach of contract. Allied filed a separate action against Armco in 1978 claiming damages for an alleged failure by Armco to timely advise Allied of Armco's need for blast furnace coke. On January 18, 1980, Armco and Allied announced they had reached a final agreement to settle their respective claims. Under the settlement, Allied paid Armco damages of $20 million in cash and transferred to Armco an operating coal mine. The value of the settlement, which will be reflected in our first quarter 1980 income statement, will be determined upon receipt of consultants' evaluation of the mine.

DAYTON MALLEABLE INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note J: Litigation—Subsequent to August 31, 1979, as a result of a suit brought by the State of Ohio Environmental Protection Agency for a minor water pollution violation, a judgment was rendered against the Company in the amount of $493,500.

In management's opinion, the judgment is exorbitant and not consistent with the evidence. The Company will appeal the case.

HOLLY SUGAR CORPORATION (MAR)

NOTES TO FINANCIAL STATEMENTS

Note 8: Litigation—In 1974, the Federal Government commenced antitrust litigation against the Company in the Northern District of California, the last phase of which was settled by the entry of final judgments on September 8, 1978. Numerous private treble damage actions also resulted. A settlement agreement relating to these private actions was approved by the court in 1977, but this settlement and the resulting judgments did not purport to resolve claims of the state entity classes, a molasses class, the claims of certain plaintiffs which elected not to participate in the settlement (some of which later agreed to settlement) and claims originally brought in the California state court. These matters have been reported previously.

In April 1979, a joint agreement was reached by Holly and certain other defendants with one of the two remaining non-class private plaintiffs, and in May 1979, agreement was reached with all of the state entity plaintiffs, except for those represented by California and Minnesota, for settlement of their claims. Subject to certain conditions set forth in the settlement agreement, Holly, on May 1, 1979, paid to a trustee an aggregate of $266,795 as its allocable portion of these settlements. It is anticipated that these settlements, which require court action, will become final shortly. Claims for injunctive relief by certain states remain open. In addition, the claims of the molasses class, one non-class private plaintiff, the government entity classes in California and Minnesota concerning claims originally brought by these two States in their respective state courts, and claims by a private consumer class brought originally in the California state court remain pending against the Company at this time.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (in part)—In February, 1980, American Telephone and Telegraph Company (AT&T) and the Corporation signed an agreement to settle prior antitrust litigation. The agreement calls for a joint feasibility study of ITT's 1240 digital switching system and, if found viable technically and from a cost standpoint, AT&T's system engineering support of a two-year program to adapt the 1240 switch for use in the Bell System network. In addition, the agreement provides that AT&T will purchase over a ten-year period up to $2 billion in telecommunications products and services from ITT that the Bell System determines to be competitive. AT&T also made a deposit with ITT of $100 million on March 5, 1980, and will make a further deposit of $100 million on January 1, 1984, which will be returned to AT&T at a rate of 10% of Bell System purchases of such products and services from ITT. The income effect of this settlement will be recorded as products and services are delivered under the contract.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Possible Loss from Litigation—On August 15, 1978, a court in Los Angeles County, California, entered a judgment of approximately $1.4 million in compensatory and $6 million in punitive damages, plus interest, against the defendants in the case of Ralph H. Andrews and his company against Meredith Corporation and others. The suit was brought in 1973 by the owner of a television program packaging company who sold the business to the Company in 1970. The Company discontinued the operation of that business in 1972. The Company considers the judgment unwarranted and has taken an appeal from it to a California appellate court. Also, the dismissal of a previously filed cross-complaint by the Company against Ralph H. Andrews is now on appeal. The ultimate outcome of these cases is impossible to predict or measure at this time. If the ultimate resolution of these cases results in a payment by the Company, such payment would not have a material effect on the Company's financial position and would be a charge in determining net income and deducted for income tax purposes in the year of resolution.

On August 9, 1979, Ralph H. Andrews and his company filed a new action against Meredith Corporation in Los Angeles County, California, asking for approximately $6.4 million in compensatory and $12 million in punitive damages, claiming abuse of the court's process in filing its cross-complaint and alleging unfair competition. The Company believes this new action to be without merit and is vigorously opposing the action. However, the results of any litigation contains elements of uncertainty, and liability, if any, which might result from this proceeding would not, in the opinion of management, have a material adverse effect on the Company's financial position.

Contingencies Other Than Litigation

EVANS PRODUCTS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Subsequent Event—On January 25, 1980, a Federal court rejected the reorganization plan of the bankruptcy trustee and ordered the liquidation of the Chicago, Rock Island and Pacific Railroad Co. beginning March 2, 1980. A leasing subsidiary of the Company currently leases approximately 4,000 railcars to the Rock Island. These railcars have a net book value of approximately $36,000,000 ($21,000,000 classified as contracts receivable, $15,000,000 as equipment leased to others) and are currently generating approximately $433,000 of rentals and interest income per month. The future status of these cars is uncertain. They may continue to be leased for an interim period beyond March 2 under directed service orders issued by the Interstate Commerce Commission, the railroads buying some or all of the track of the Rock Island may assume some or all of the leases, or the Rock Island may return the cars to the Company's leasing subsidiary. In the event the cars are returned, it is management's opinion that the cars will be leased to others, sold or otherwise disposed of without significant loss of revenues or impairment of value, although there may be some interruption in the flow of revenues during this transition. In addition, changes in balance sheet classifications between contracts receivable and equipment leased to others, as well as minimum payments to be received on contracts receivable and minimum future rentals to be received on equipment leased to others for the succeeding 5 years (see Finance and Leasing Subsidiaries, Notes to Financial Statements, pages 47 and 48) may be required depending upon whichever alternatives occur.

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other contingencies and commitments (in part)—Occidental, commencing in January 1980, entered into sales contracts in the futures markets for silver and gold totaling approximately $300,000,000 as of February 12, 1980. To the extent that market prices in the future vary from the average sales prices under these contracts, Occidental will realize gains or losses.

Sale of Assets

MICROFORM DATA SYSTEMS, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note L: Subsequent Event (Sale of Subsidiary)—During September 1979 the Company sold all of the common stock of its wholly-owned subsidiary, Mark Telephone Products, Inc. The Company received cash of $275,000 and a $220,000 non-interest bearing note, which is payable annually in varying installments through 1984. The total proceeds ($432,000) consisting of cash ($275,000) and the present value of the note receivable discounted at a 10% interest rate ($157,000) less the Company's carrying value of the investment in the subsidiary at the date of sale resulted in a gain of approximately $35,000. The operations of the subsidiary resulted in sales and losses of $513,000 and $109,000 in 1979 and $83,000 and $170,000 in 1978, respectively. Collections on the note receivable are required to be used to reduce the bank debt.

SCOTT PAPER COMPANY (DEC)

FINANCIAL REVIEW

Subsequent Event—In February 1980, an agreement was entered into for the sale of the assets of Elk River Timber Company Limited, in which the Company holds a two-thirds interest, to British Columbia Forest Products Limited (BCFP). The sale is expected to take place in 1980 after satisfaction of closing conditions. Based upon common shares currently outstanding, the Canadian exchange rate at February 15, 1980 and a preliminary estimate of the combined U.S. and Canadian tax liability, the total gain on the sale is estimated to be approximately $1.43 per share subject to a tax ruling. However, in the event the requested ruling is not obtained, the $1.43 per share could be reduced by $.13 per share. Due to the Company's 13% indirect ownership in BCFP, accounting practice requires recognition of only 87% of the total gain in 1980 with the balance to be recognized in conjunction with Scott's share of future BCFP operations.

Stock Splits

COOPER INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: Common Stock Split—On February 19, 1980, the Board of Directors authorized a two-for-one split of common shares effective on March 21, 1980. All net income per common share amounts included in this report have been adjusted for the stock split. Additionally, an amount equal to the $5 par value of the additional common shares has been transferred from Capital in excess of par value to Common stock; the conversion ratios for the Series B and $2.90 Preferred stock have been doubled; and outstanding common stock options and subscriptions at December 31, 1979, have been increased two-for-one and the exercise price reduced by one-half.

ALBERTSON'S, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock—The authorized capital stock was increased from 12,000,000 to 25,000,000 shares of common stock by a vote of the stockholders on May 25, 1979.

On March 3, 1980, the Board of Directors authorized a two for one stock split, effected in the form of a stock dividend, payable March 26, 1980 to stockholders of record on March 14, 1980. Accordingly, the January 31, 1980 balance sheet has been adjusted to reflect the split by increasing common stock and reducing capital in excess of par value by $7,395,000.

Stock option and all per share data have also been retroactively adjusted to reflect the split.

Capital Stock Transactions Other Than Business Combinations

GRANGER ASSOCIATES (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Private Equity Placement—On November 26, 1979, the Board of Directors approved, subject to shareholder authorization, an arrangement for a $6,700,000 private equity placement of a new class of stock. The arrangement provides for issuance of 957,142 shares of a convertible voting preferred stock at a price of $7 per share. The preferred stock will pay no dividend, but will have preference in liquidation, acquisition or merger, and may, at the option of the holders, be converted at any time into common stock on a share-for-share basis. The arrangement also provides for issuance of five-year warrants to purchase an additional 83,571 shares ($585,000) on the same terms, and requires a restructuring of the Board of Directors to include three directors designated by the private investment group. Prior to shareholder action at the Annual Meeting in January 1980, $1,000,000 has been advanced by the investors on a short-term basis.

MARRIOTT CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Event—On January 30, 1980, the Company announced an offer to purchase up to 10,600,000 shares of its outstanding common stock for $23.50 per share. At the close of the offer on February 28, 1980, approximately 7,500,000 shares had been tendered. The total cost of shares purchased pursuant to the offer, including estimated fees and expenses, will approximate $178,750,000. The stock repurchase will be financed through the sale of six hotels and the incurrence of additional debt.

The Equitable Life Assurance Society of the United States has approved, subject to the execution of definitive agreements, the purchase of six hotels (three existing and three under development) from the Company. Net proceeds to the Company from the sale will approximate $159,000,000 after payment of related mortgage indebtedness and before giving effect to the development costs of the three hotels under development. Approximately $60,000,000 will be received in 1980 and the remainder through 1982. The Company will continue to operate these hotels under long-term lease agreements with rentals based solely on future profits. In addition, on February 29, 1980, the Company signed a term loan agreement with The Equitable for $146,000,000 maturing between 1986 and 1988 and bearing interest at 13⅞%. The Company is required to make prepayments of the loan out of the entire proceeds of the hotel sale discussed above.

The Company will borrow the balance of approximately $32,750,000 required to consummate the Offer pursuant to lines of credit from a group of major commercial banks. The Company has obtained letters of commitment from these banks under which existing Revolving Credit Agreements may be amended or superseded to permit the stock repurchase and to increase the aggregate available lines of credit up to $554,000,000 from the $129,000,000 which existed at December 28, 1979. These amended lines of credit substantially mature from 1984 to 1989. The Company anticipates that certain covenants of its 8¾% Senior Notes due 1983-1997 of which $40,000,000 principal amount remains outstanding will be amended to permit the stock repurchase. If an amendment cannot be obtained, the Senior Notes will be refinanced through borrowings under the Revolving Credit facilities.

The pro forma effects of the stock repurchase, assuming the entire transaction occurred on December 30, 1978, and excluding the effects of the anticipated sale of six hotels to The Equitable, are summarized below (dollars in thousands except per share amounts).

	At and for the Fiscal Year Ended December 28, 1979	
	As Reported	Pro Forma Purchase of 7,500,000 Shares (unaudited)
Balance Sheet Items		
Working capital	$ (10,777)	$ (10,777)
Senior debt and capital lease obligations	$ 365,279	$ 555,324
Convertible subordinated debt	26,918	26,918
Deferred income taxes and other liabilities	86,166	86,166
Shareholders' equity	413,503	223,458
Total capital	$ 891,866	$ 891,866
Income Statement Items		
Sales	$ 1,509,957	$ 1,509,957
Cost of sales and other expenses	1,358,972	1,356,802
Net interest expense	27,840	54,965
Income before income taxes	123,145	98,190
Provision for income taxes	52,145	39,760
Net income	$ 71,000	$ 58,430
Earnings per share		
—primary	$1.96	$2.04
—fully diluted	$1.95	$2.02
Shares outstanding		
—weighted average	34,628,818	27,128,818
—at fiscal year-end	32,098,333	24,598,333

Lease

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20: Subsequent Event—Subsequent to July 31, 1979, the Company entered into an agreement in principle to lease property presently known as the Park Tahoe Hotel and Casino located in Stateline, Nevada. The final agreement, which is contingent upon the occurrence of future events, will provide for a fixed annual rental of $1,500,000, a contingent rental based on a percentage of net income of the leased property, and the Company's assumption of existing and certain future obligations of the Park Tahoe Hotel and Casino.

Translation Rate Change

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 20: Subsequent event—From October 31, 1979 to December 12, 1979 the dollar value of the Brazilian cruzeiro declined 28.5%. Foreign currency exchange losses and inventory related losses in excess of $10 million resulting from this cruzeiro devaluation will be included in 1980's first quarter results.

U.S. Embargo on Trade with Russia

OCCIDENTAL PETROLEUM CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22: Subsequent events

(a) On February 18, 1980, the British House of Commons approved for ratification a new tax treaty between the United States and the United Kingdom. The treaty will enter into force 30 days after the instruments of ratification are exchanged between the United States and the United Kingdom.

The treaty will result in a refund to Occidental of a portion of the United Kingdom Corporation Tax paid since 1975 by its subsidiaries operating in the United Kingdom. In addition, Occidental's future tax provisions will reflect a lower effective United Kingdom tax rate.

(b) In January 1980, following the intervention in Afghanistan by the U.S.S.R., the President imposed a quota on 1980 imports of Soviet ammonia. On February 25, 1980, the Department of Commerce ordered an embargo on the export of phosphate products to the U.S.S.R. for an indefinite period. Occidental believes that its inability to import the full contracted quantity of ammonia and export its commitment of SPA for 1980 constitute *force majeure* under its agreements with the U.S.S.R.

The ability of Occidental to meet its lease and other commitments for, and realize its investment in, the facilities and chemical carriers related to these agreements is dependent upon the ultimate resolution of the governmental actions, as well as the future negotiation of satisfactory prices for the commodities, or, in the event these agreements cannot be fulfilled, the development of alternative uses and markets. In the opinion of the management of Occidental, the commitments and investment described above will be met and realized from future operations, whether through a resumption of SPA shipments or through sales to alternate markets.

Plant Closings

FLEETWOOD ENTERPRISES, INC. (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Idle Facilities and Subsequent Events—Idle Facilities includes closed plants and certain other properties which are not in current use by the company. Five plant facilities were idle at the end of 1979, the same number as in 1978. Two plants which were idle at April 29, 1979 were sold at a nominal gain subsequent to year end. Also following the end of fiscal 1979, five additional plants were closed due to a decline in the market for recreational vehicle products and the expected inability of the company to operate these plants at profitable levels. The company has no current plans to reopen any of these facilities. The carrying value of idle facilities was $2,954,000 at April 29, 1979 and $3,098,000 at April 30, 1978, net of accumulated depreciation of $436,000 and $372,000 respectively. The carrying value of plant facilities closed subsequent to year end is $2,795,000, net of accumulated depreciation of $742,000. In the opinion of management, the carrying values of idle facilities, including plants closed after April 29, 1979, are not in excess of net realizable value.

Purchase of Asset

LONE STAR INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 21: Subsequent Events—On February 26, 1980, the company reached an agreement with OKC Corp. for the acquisition of OKC's Pryor, Oklahoma cement facility and certain land near Ocala, Florida for $87,300,000. Lone Star also is negotiating with OKC's lenders to borrow $38,500,000 at an interest rate of 12¾% at the time of the closing. In addition, Lone Star agreed to purchase certain other assets including inventories substantially on a cost basis. The Pryor plant currently has a rated capacity of 450,000 tons of cement per year, and a nearly-completed expansion program will increase rated capacity to 725,000 tons. This acquisition, which is subject to certain regulatory and governmental approvals, is scheduled for the first half of 1980 and will be accounted for as a purchase.

In 1980, the company expects to sell a portion of future production for $50,000,000 from a limestone quarry located adjacent to one of its cement plants and from the two limestone quarries involved in the 1976 production payment as described in Note 10.

Strike

MONFORT OF COLORADO, INC. (AUG)

NOTES TO FINANCIAL STATEMENTS

Note K: Subsequent Event—The Company's labor contract with the United Food and Commercial Workers' Union expired on October 31, 1979. Effective with the contract expiration, the Union employees went on strike resulting in substantial closure of the Greeley Packing Plant (the Company's principal slaughter and fabrication facility).

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 1979, 88 survey companies disclosed related party transactions. Examples of such disclosures follow.

Transactions Between Affiliated Companies

AG-MET, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18: Related party transactions:

Revenues are derived and costs are incurred as a result of transactions with 50% owned subsidiaries and companies controlled by certain officers and directors.

Revenues, costs and expenses applicable to such companies were as follows:

	1979	1978
Sales	$ 905,000	$ 958,000
Costs and expenses:		
Purchases	$ 914,000	$1,704,000
Rent	402,000	443,000
Commissions	105,000	92,000
Bad debts	9,000	310,000
Freight		449,000
Interest	35,000	77,000
Other	34,000	
	$1,499,000	$3,075,000

Amounts due to and from related companies are as follows:

Accounts receivable and advances	$ 353,000	$ 664,000
Mortgage receivable	$ 344,000	
Accounts payable	$ 87,000	$ 262,000
Long-term debt	$ 539,000	$ 968,000

During the year ended March 31, 1979, 33,000 shares of treasury stock were purchased from a director of the Company for $190,000.

The Company also derives revenues and incurs costs with the Empain-Schneider Group, the parent of Ag-MET, Inc. as follows:

	1979	1978
Sales	$18,785,000	$2,304,000
Cost and expenses:		
Interest	$ 1,222,000	$ 762,000
Reimbursement of expenses	173,000	
	$ 1,395,000	$ 762,000

Amounts due to and from the Empain-Schneider Group are as follows:

Accounts receivable and advances	$ 1,105,000	$ 307,000
Notes payable	$ 3,750,000	$3,548,000
Long-term debt	$10,185,000	$7,647,000

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 2: Interest in The Amalgamaize Company—The Amalgamaize Company, a partnership between a subsidiary of the Company and The Amalgamated Sugar Company, operates a corn wet milling plant near Decatur, Alabama. The plant is owned by the Industrial Development Board of the City of Decatur, Alabama and leased by the partnership. With the exception of $1,950,000 of tax exempt bonds sold by the Board and guaranteed by the partners, the funds required to construct the plant have been supplied to the Board by the partners in exchange for bonds issued by the Board. The partnership has an option to purchase the plant at the end of the lease term for a nominal price.

The Company provides management services for the partnership under the terms of an operating agreement which expires June 30, 1980. Gross charges for these services amounted to $1,492,000 and $1,340,000 in 1979 and 1978, respectively. Arrangements for management services upon expiration of the operating agreement are currently being negotiated.

MARATHON OIL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note K: Transactions with Affiliated Companies—The Company sells crude oil and refined products to affiliated companies, the investments in which are accounted for by the equity method. Such sales amounted to $340,050,000 in 1979 (1978—$196,040,000). The December 31, 1979 balance in accounts receivable resulting therefrom was $10,704,000 (1978—$10,355,000). Company purchases of refined products from one such affiliate amounted to $20,995,000 in 1978.

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

NOTES TO FINANCIAL STATEMENTS

Note K—Transactions with the British Petroleum Company Limited and Subsidiaries (BP) (owner of special and common stock)—Notes F and N

The Company (or subsidiaries): (1) makes payment to BP for pipeline transportation of Alaskan crude oil ($454 million in 1979 and $373 million in 1978) at rates governed by the Federal Energy Regulatory Commission; (2) purchases ($150 million in 1979 and $63 million in 1978) and sells ($228 million in 1979 and $107 million in 1978) petroleum and chemicals in the ordinary course of business at prevailing competitive prices; (3) made payments to BP for tanker transportation of crude oil based on the competitive rate at the date of a five-year agreement negotiated in 1974 and leases other tankers on a short-term basis; (4) contracts with BP for services related to tanker construction, marine operation, and exploration and production; (5) in 1978 purchased geological and geophysical data, an office building and interests in exploratory joint-ventures from BP Alaska Exploration Inc. for $27 million; (6) participated with BP in acquisitions of offshore Alaska leases awarded through competitive bidding in 1979. Joint bids amounted to $79 million of which the Company's portion was $8 million.

Transactions Between Company and Management or Stockholders

ARMADA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Transaction with Related Party—Jerry D. Luptak, a director and president of the Company, is the senior partner in the law firm of Evans & Luptak. During 1979 and 1978 the Company and its subsidiaries paid the law firm $228,000 and $178,000 respectively, for legal fees. Mr. Luptak's salary of $96,000 in 1979 and $90,000 in 1978 was applied against these legal fees.

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16: Related party transaction—During the year ended July 31, 1979, the Company paid approximately $1,050,000 for advertising displays and promotional materials designed by and purchased through a company, a principal of which is related to an officer and director of the Company.

FAIRMONT FOODS COMPANY (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Transactions with Related Parties—The Company has contracts in effect with Ranger Energy Company, Inc. covering 128 UtoteM store locations in the Houston, Texas area for the supply of gasoline on a consignment basis. Fairmont's former Chairman of the Board, who retired July 27, 1978, is the beneficial owner of 75% of the capital stock of Ranger. For the five months ended July 31, 1978, the Company earned commissions of $460,600 ($1,078,800 for the year ended February 28, 1978) on sales of consignment gasoline obtained from Ranger. At July 31, 1978, the Company owed Ranger $427,600 for trade accounts payable. As a result of an accounting review of Ranger's records consistent with the Company policy of periodic review and evaluation of its gasoline supply agreements, it was determined that Ranger owed the Company $1,032,200 representing certain contractual adjustments to gasoline commissions earned from May 16, 1973 to February 28, 1978, and the Company owed Ranger $116,200 for costs incurred by Ranger during the period, principally related to certain closed store locations. Such amounts were included in earnings in 1978. Management believes the terms of its agreement with Ranger are generally at least as favorable as those of other divisions of UtoteM which have similar contracts with nonaffiliated parties.

INFLATION ACCOUNTING

Effective for fiscal years ending on or after December 25, 1979, *Statement of Financial Accounting Standards No. 33* requires the disclosure of historical cost/constant dollar information. This requirement applies to financial statements for companies with inventories and gross property aggregating more than $125 million or with total assets amounting to more than $1 billion. Three hundred and twenty-six of the survey companies disclosed historical cost/constant dollar information. Of these companies, 119 disclosed current cost information which is not required until fiscal years ending on or after December 25, 1980.

Accounting Series Release No. 271 states that companies disclosing current cost information specified by Statement No. 33 need not disclose replacement cost information. Two hundred and eighty survey companies either referred to replacement cost information presented in Form 10-K or disclosed replacement cost information.

Examples of disclosures of historical cost/constant dollar information and current cost information follow.

ABBOTT LABORATORIES (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14: Inflation Accounting (Unaudited).

Background

The Consolidated Financial Statements of the Company included in this report are presented in accordance with generally accepted accounting principles and thus reflect transactions in the dollar values (i.e., historical) in which they were actually incurred. The escalation of inflation has caused serious concern among the users of financial data that the financial statements of business enterprises which reflect dollars of varying purchasing power do not adequately measure the effect of inflation on the results of operations and the financial position of these enterprises.

Many complex alternatives have been proposed for modifying the basis of financial reporting to reflect the effect of inflation, but none have received general acceptance. In an effort to guide the experimentation and provide a basis for further evaluation, the rulemaking body of the accounting profession (Financial Accounting Standards Board—FASB) issued Statement No. 33, *Financial Reporting and Changing Prices*, to be effective for 1979 reporting.

This Statement requires two supplementary computations of operating results—one based on the effect of general inflation, as measured by the Consumer Price Index—Urban (CPI-U), i.e., *constant dollar*, and the other based on the effect of the change in prices for the specific resources used in the operations of the Company, i.e., *current costs*. Also required is a computation of net asset values based on *constant dollars* and on *current costs*, as well as a five year summary of selected financial data on a *constant dollar* basis.

This supplemental information, prepared in accordance with Statement No. 33, is viewed as experimental by the FASB and involves the use of assumptions and estimates and, therefore, should be viewed in that context and not necessarily as a reliable indicator of the effect of inflation on the Company's operating results or its financial position.

Statement of Operating Results Adjusted for Changing Prices–Year Ended December 31, 1979

(In Millions)	Historical Dollars (See page 21)	Adjusted for General Inflation (Constant Dollar)(1)	Adjusted for Specific Prices (Current Costs)(2)
Net Sales	$1,683.2	$1,683.2	$1,683.2
Cost of Products Sold (Excluding Depreciation)	917.8	953.0	941.8
Selling, Research and Administrative (Excluding Depreciation)	450.8	450.8	450.8
Depreciation	39.9*	55.7	60.5
Interest, Net	3.4	3.4	3.4
Other (Income)	(5.4)	(5.4)	(5.4)
Earnings Before Taxes	276.7	225.7	232.1
Taxes on Earnings	97.7	97.7	97.7
Net Earnings	$ 179.0	$ 128.0	$ 134.4

*Includes $25.7 million depreciation from Cost of Products Sold and $14.2 million from Selling, Research and Administrative.

Explanation and Comments

(1) *Constant Dollar*

This computation restates cost of products sold and depreciation, as presented in the historical dollar statements, to dollars of the same general purchasing power, i.e., average 1979 dollars as measured by the CPI-U.

Cost of products sold was computed by restating the historical cost of inventory sold during the year to average 1979 dollars. Depreciation was computed by restating the historical cost of depreciable assets to average 1979 dollars using the CPI-U and using these restated costs to calculate depreciation, assuming the same useful lives that were used in the historical statements. Net sales and all other expenses, including taxes, are assumed to have occurred ratably in relation to the change in the CPI-U over the course of the year and thus are already expressed in average 1979 dollars. Net earnings were then recomputed by subtracting the restated items (cost of products sold and depreciation) and other expenses and taxes from net sales.

(2) *Current Costs*

This computation restates the cost of products sold and depreciation as presented in the historical dollar statements to costs which reflect the current costs at the time of sale. Cost of products sold was computed by using the estimated cost at the time of sale rather than the cost at the time of purchase and/or manufacture. Depreciation was computed by first estimating the *current cost* (in 1979 prices) of depreciable assets, using appropriate external cost indices and appraisals and using these restated costs to calculate depreciation, assuming the same useful lives that were used in the historical statements. Net sales and all other expenses, including taxes, were incurred in 1979 and thus are already expressed in average 1979 dollars. Net earnings were then recomputed by subtracting the restated item (cost of products sold and depreciation) and other expenses and taxes from net sales.

Net earnings as computed under the *current cost* method are not necessarily indicative of what earnings would be if the existing assets were replaced, because the new assets would be expected to generate operating efficiencies which would at least partially offset the increased depreciation expense.

The following is a summary of Net Assets (Shareholders' Investment) based on *constant dollars* and *current costs* in average 1979 dollars.

Consolidated Balance Sheets at December 31, 1979

(In Millions)

	Historical Dollars (See Pages 22 & 23)	Average 1979 Dollars Constant Dollar	Current Costs
Assets:			
Cash, Securities & Investments	$ 500.1	$ 472.9	$ 472.9
Trade Receivables	296.1	280.0	280.0
Inventories	321.7	315.1	317.8*
Prepaid Expenses & Other Receivables	108.2	104.5	104.5
Net Property & Equipment	467.0	628.9	697.3*
Deferred Charges & Other Assets	36.2	35.6	35.6
Total Assets	1,729.3	1,837.0	1,908.1
Liabilities:			
Current Liabilities & Long-Term Debt	735.9	695.8	695.8
Other Liabilities & Deferrals	97.4	93.5	93.5
Total Liabilities	833.3	789.3	789.3
Net Assets (Shareholders' Investment)	$ 896.0	$1,047.7	$1,118.8

*In year-end 1979 dollars, *current costs* (direct pricing for inventories) of these assets are valued at $336.1 and $737.4 million, respectively.

Comments

The value of net assets stated on a *constant dollar* and *current cost* (specific prices) basis is higher than the historical dollar amount due primarily to the inflationary impact on property and equipment values.

Net property and equipment *current cost* values are higher than the corresponding *constant dollar* values because from the time they were purchased the specific prices for these assets have increased faster than the general rate of inflation as measured by the CPI-U. However, during 1979, the increase in general inflation outpaced specific prices and, as a result, the increase in value of these assets of approximately $59 million due to changes in specific prices was about $26 million less than the increase due to general inflation.

Inventories valued in historical dollars are slightly higher than the values on a *constant dollar* and *current cost* basis because the inventories were purchased and/or manufactured during the last half of 1979 at slightly higher costs than the average 1979 dollar values. However, in 1979, the increase in general inflation outpaced specific prices and, as a result, the increase in the value of inventories due to changes in specific prices of approximately $29 million was about $10 million less than the increase due to general inflation.

The value of monetary assets (those eventually convertible to cash) and monetary liabilities (those eventually payable in cash) declined during the year due to the rate of inflation. Since the monetary assets exceeded the monetary liabilities, the Company incurred an imputed loss in purchasing power, as measured by the CPI-U, of approximately $7 million.

Five Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices

(Dollars in Millions Except Per Share Amounts)	Year Ended December 31				
	1979	1978	1977	1976	1975
Net Sales					
As reported	$1,683.2	1,445.0	1,245.0	1,084.9	940.7
In *constant* 1979 dollars	$1,683.2	1,607.7	1,491.3	1,383.3	1,268.7
Net Earnings*					
As reported	$ 179.0	148.6	117.8	92.5	70.7
In *constant* 1979 dollars	$ 128.0	—	—	—	—
In *current* cost	$ 134.4	—	—	—	—
Earnings Per Common Share*					
As reported	$ 2.97	2.48	1.98	1.63	1.28
In *constant* 1979 dollars	$ 2.13	—	—	—	—
In *current cost*	$ 2.23	—	—	—	—
Dividends Declared Per Common Share					
As reported	$ 1.000	.780	.575	.455	.380
In *constant* 1979 dollars	$ 1.000	.868	.689	.580	.512
Market Price Per Share at Year-End					
In historical dollars	$ 41.12	33.75	28.25	24.56	20.62
In *constant* 1979 dollars	$ 38.88	36.16	33.00	30.63	26.96
Average Consumer Price Index —Urban	217.4	195.4	181.5	170.5	161.2

*Constant *dollar* and *current cost* information for years prior to 1979 is not readily determinable and is not required by Statement No. 33.

Explanations–Five Year Comparison

Net sales, dividends declared per common share and the market price per share are shown in both historical dollars and in dollars of approximately equal purchasing power as measured by the CPI-U. Average 1979 dollars were used as the base year, and therefore the *constant dollar* amounts shown for these items prior to 1979 are larger than the amounts reported in historical dollar financial statements because the purchasing power of the dollar in 1979 is less than it was in prior years.

Earnings per common share for each year were computed by dividing the respective net earnings by the average number of shares outstanding during each year.

Comments

For the 1975 to 1979 period the Company's sales, as reported in historical dollars, increased at a compound growth rate of 15.7 percent per year. Excluding the Company's price increases during this period, which averaged only 3.1 percent per year (vs. 7.8 percent for the CPI-U), the sales growth rate was 12.2 percent per year.

Also, during this period dividends declared per common share have almost doubled after being adjusted for inflation. Simply stated, this means that the per share dividends in 1979 would purchase almost twice as much in goods and services as the per share dividends in 1975 ($1.00 vs $.512).

Capital expenditures during this period have exceeded depreciation computed under the *current cost* method for 1979 and the replacement cost method for 1975 thru 1978 by approximately 50 percent.

The Company has been able to maintain and increase its productive capacity and steadily increase its dividend rate, in spite of inflation, by increasing its productivity as outlined in the Chairman's and President's Comments on pages 2 through 5.

AMERICAN BRANDS, INC. (DEC)

NOTES ACCOMPANYING FINANCIAL STATEMENTS

Financial reporting and changing prices (unaudited)

The following information, required by Statement of Financial Accounting Standards No. 33, presents two supplementary income computations, one portraying the effects of general inflation (constant dollar), the other measuring the effects of changes in the specific prices of inventories and property, plant and equipment used by the Company (current cost). The results shown under these supplementary computations are at best imprecise measurements of the effects of inflation and therefore are not necessarily indicative of the present or future economic condition of the Company.

Consolidated statement of income adjusted for changing prices is as follows:

	For the year ended December 31, 1979 (In thousands)		
	Historical cost	Constant dollar	Current cost
Net sales	$5,845,985	$5,845,985	$5,845,985
Cost of sales	4,478,347	4,627,652	4,554,695
Operating expenses	712,721	712,721	712,721
Depreciation and amortization	68,293	97,547	116,790
	5,259,361	5,437,920	5,384,206
	586,624	408,065	461,779
Equity in pretax earnings of Franklin	97,787	97,787	97,787
Operating income	684,411	505,852	559,566
Interest and related charges	99,944	99,944	99,944
Other deductions (net)	9,397	24,599	12,009
	109,341	124,543	111,953
Income before provision for taxes on income	575,070	381,309	447,613
Provision for taxes on income	227,739	227,739	227,739
Net income	$ 347,331	$ 153,570	$ 219,874
Gain from decline in purchasing power of net monetary items		$145,392	$145,392

The increase in general price level of inventories and net property, plant and equipment over increase in specific prices on a current cost basis amounted to $30,104,000 and is comprised as follows:

	Total	Inventories	Net property, plant and equipment
		(In thousands)	
Increase in general price level	$297,608	$175,972	$121,636
Increase in specific prices	267,504	87,191	180,313
Increase in general price level over (under) increase in specific prices	$ 30,104	$ 88,781	$(58,677)

Inventories and net property, plant and equipment at December 31, 1979 are as follows:

	Inventories	Net property, plant and equipment
	(In thousands)	
Historical cost	$1,328,497	$ 519,026
Current cost	$1,469,013	$1,028,434

Five-year comparison of selected data adjusted for effects of changing prices follows:

	1979	1978	1977	1976	1975
	Years ended December 31 (Average 1979 constant dollars—in millions except per share amounts)				
Net sales	$5,846.0	$5,761.7	$5,530.4	$5,260.4	$5,470.6
Historical cost adjusted for general inflation					
Income	153.6				
Income per Common share	4.74				
Net assets at year-end	2,063.2				
Current cost					
Income	219.9				
Income per Common share	7.23				
Net assets at year-end	2,364.5				
Increase in general price level of inventories and net property, plant and equipment over increase in specific prices	30.1				
Other information					
Gain from decline in purchasing power of net monetary items	145.4				
Dividends paid per Common share	4.625	4.03	3.57	3.57	3.62
Common stock price at year-end	64.21	53.95	50.22	57.05	50.48
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

In concept, constant dollar accounting removes the effects of general inflation by restating historical dollar costs of inventories and property, plant and equipment into dollars having the same purchasing power. The Consumer Price Index for all Urban Consumers ("CPI-U") is used for this purpose. Application of the CPI-U to the historical values of monetary assets and liabilities attempts to show the purchasing power gain or loss from holding net monetary items during an inflationary period.

The concept of current cost is based upon the assumption that the Company, at current costs, produced or purchased the same inventories and acquired fixed assets of exactly the same service potential as were owned at the end of the year. Current cost for leaf tobacco, bulk whiskey and related components included in raw materials and finished products is based upon latest available prices at December 31, 1979, for comparable quality and quantities at terms at which the Company normally purchases these items. Overhead related to the duration of aging processes of inventories is adjusted to current cost. The historical cost of the remaining inventories is generally equivalent to current cost. Inventory values reflect adjustment for depreciation based on estimated current cost of fixed assets. Current cost indexes are applied to substantially all fixed assets. These externally published indexes are based on actual costs incurred for typical machinery and equipment used in specific industries and industrial plants located in particular geographic areas. The Company believes that the result achieved is a reasonable approximation of the curent cost of its productive assets. Construction in process is included at historical cost.

Cost of sales and depreciation and amortization under these supplementary computations reflect inventory costing methods and depreciation rates and methods consistent with those used for historical financial reporting.

Management's analysis of changing prices information follows:

In estimating net income under the constant dollar and current cost methods, adjustments have been made to historical amounts reported for cost of sales, depreciation and amortization and gains and losses on disposition of property, plant and equipment. The cost of sales adjustments are significantly different under the two methods. Inventories sold, when measured in constant dollars, would have increased cost of sales by $149,305,000 or 3.3% over historical costs. Under current cost, the specific prices the Company would have paid to produce the inventories sold would have increased cost of sales only $76,348,000 or 1.7% over historical costs. The significant upward revaluation of property, plant and equipment arising from replacing historical costs with those measured by the general rate of inflation and by specific prices increased depreciation and amortization by $29,254,000 under constant dollars and $48,497,000 under current costs. The $19,243,000 difference between the latter figures shows that specific prices increased at a rate greater than indicated by general inflation.

Changes in other deductions arose from revaluing gains and losses on disposition of fixed assets under each of the concepts. Computing the net book value of these assets in constant dollars decreased income by $15,202,000. Restating the net book value of these assets in terms of their net realizable value under the current cost approach reduced income by $2,612,000.

In accordance with Standard No. 33, the provision for taxes on income was not adjusted. Since taxes are based on historical income rather than economic gain, the tax burden is often greater than that indicated by statutory rates. Consequently, the effective income tax rate for 1979 of 39.6% under historical cost would have increased to 59.7% and 50.9%, under the constant dollar and current cost methods, respectively.

Under the constant dollar approach, net income was $153,570,000 or $4.74 per Common share. Under current cost, it was $219,874,000 or $7.23 per Common share. Management believes that the current cost method results in a more meaningful matching of revenues and inflation adjusted expenses than the constant dollar method. The current cost method more closely measures the effect of inflation by using specific price increases that the Company would have incurred in replacing its inventories and by the use of indexes that are more appropriate in valuing fixed assets of a manufacturing concern. In contrast, the CPI-U measures the trend of general inflation and, as such, is more suitable for use by consumers.

Standard No. 33 requires two additional measures of inflation. The first is the determination of gain or loss from holding monetary items during an inflationary period. In this calculation inventories are treated as nonmonetary assets. Therefore, the Company would have had a $145,392,000 unrealized gain from holding an excess of monetary liabilities over monetary assets. When prices are rising, monetary assets lose purchasing power since a given amount of dollars buys less at the end of a period than at the beginning of a period. Conversely, monetary liabilities gain purchasing power since dollars of lesser value are used to satisfy obligations. The second measurement is applicable only to the current cost method. It indicates the amount of increase or decrease in current costs of inventories and property, plant and equipment after eliminating the effects of general inflation. The Company's inventories measured by prices adjusted for the general inflation rate exceeded the specific prices at which the Company estimates it could replace its inventories by $88,781,000. In contrast, the Company's property, plant and equipment measured by specific prices exceeded prices adjusted for the general inflation rate by $58,677,000. The net effect of these two adjustments is a $30,104,000 increase in general price level over increases in specific prices.

The comparative information shown in the five-year summary is stated in average 1979 constant dollars. Since inflation has continued to increase over this time span, the historical dollar amounts of prior years have been increased to reflect the loss of general purchasing power. The historical average annual compound sales growth rate from 1975 to 1979 was 9.6%, whereas, under the constant dollar concept, this increase would only be 1.7%. The market price per Common share increased over the five-year period, in terms of average 1979 constant dollars, at a rate of 27% compared to 76% in actual dollars. Dividends paid on a historical basis increased at a compound and annual rate of 14.6% since 1975; after removing the effects of general inflation, dividends still increased at an average compound annual rate of 6.3%.

CLARK EQUIPMENT COMPANY (DEC)

FINANCIAL REPORTING AND CHANGING PRICES

(Unaudited)

The high rate of inflation in recent years has caused continued deterioration in the dollar's purchasing power. Financial statements have been expressed in dollars but they do not, nor were they intended to, measure relative economic value. Consequently, the effect of historical transactions which affect the earnings cycle in later periods, e.g., property, plant and equipment costs, have not been adjusted to make an estimate of the economic results. Though such adjustments are subjective and contain a high degree of imprecision, the Financial Accounting Standards Board (FASB Statement No. 33) has ruled that the impact should be estimated. Accordingly, supplementary information is now required using two methods on an experimental basis. In both methods the Board requires the adjustment of selected accounts, although not all of the data is required for the five years presented on page 9.

The *constant dollar* method adjusts data for general inflation using the Consumer Price Index for all Urban Consumers. For example, a ten percent inflation rate from one year to the next requires ten percent more dollars for expenditures in the next year to maintain the same general purchasing power. Constant dollar data is derived by indexing certain accounts from their historical amount to represent average 1979 dollars.

The *current cost* method adjusts data for estimated specific price changes for inventory, property, plant and equipment and related accounts. These have generally increased over time at a rate different from that of the Consumer Price Index. The current cost data is derived as follows: (1) inventories are based on the Fifo method, (2) cost of goods sold is based on the Lifo method; (3) the property, plant and equipment accounts are derived by indexing the historical cost basis of individual categories of assets using machinery and equipment and structures price indexes, (4) land is based on appraisals, market quotations and other estimates and (5) the depreciation and amortization accounts are based upon the calculated current cost of the property, plant and equipment using the same lives and depreciation methods used in the primary statements.

Both methods used for reporting inflationary effects inherently require the use of assumptions, approximations and estimates. Adjustments will vary among companies because of different effects of inflation as well as different methods of accounting used in the primary statements. This resulting data is, therefore, not a precise indicator of inflationary effects. These methods also do not necessarily represent amounts for which assets could be sold, costs which will be incurred in future periods, or the manner in which actual replacement of assets will occur.

The accompanying data adjusted on both methods, however, indicates the significant impact of inflation and its effect on important trends. Adjusted net sales and other operating revenues indicate positive growth since 1977. The adjusted 1975 revenues include approximately $116 million in sales of discontinued products (principally truck trailers, refrigeration and food service equipment). The cash dividends adjusted to constant dollars have remained relatively stable. The adjusted cost of property, plant and equipment and related depreciation expense has risen at a rate in excess of general inflation which is the principal reason that income under current costs is less than income under constant dollars.

An enterprise's monetary position is essentially the net amount of all assets and liabilities excluding inventory and property, plant and equipment. With inflation, when the monetary assets exceed liabilities during the year, there is an indicated loss from the decline in purchasing power of the net assets. The reverse is true, as in our case, when liabilities exceed monetary assets. This gain, however, should not be construed as contributing additional funds not already included in the primary statements.

The provision for income taxes, in accordance with FASB No. 33, has remained unchanged in the data below. The result clearly indicates the "hidden" tax borne by companies since adjustments to income determined under the constant dollar and current cost computations are not permitted for tax purposes. Consequently, the Company's effective tax rate of 44.0% in 1979 on the historical cost basis increases to 52.4% on the constant dollar basis and 53.3% on the current cost basis. The effective tax rates for the price level adjusted data below would have been even higher had management not already adopted the Lifo method of accounting for domestic inventories.

Statement of Income from Continuing Operations Adjusted for Changing Prices (Unaudited)

For the year ended December 31, 1979 (Amounts in thousands)

	As Reported in the Primary Statements	Adjusted to Constant Dollars	Adjusted to Current Costs
Net sales and other operating revenues	$1,806,663	$1,806,663	$1,806,663
Cost of goods sold, excluding depreciation	1,342,848	1,360,132	1,360,132
Depreciation and amortization expense	42,635	55,686	58,455
Other operating expense	208,988	208,988	208,988
Interest paid on indebtedness	22,642	22,642	22,642
Provision for income taxes	83,414	83,414	83,414
	1,700,527	1,730,862	1,733,631
Income fron continuing operations	$ 106,136	$ 75,801	$ 73,032
Unrealized gain on net monetary liabilities due to decline in purchasing power of dollar		$ 19,279	$ 19,279
Increase in value of inventories and property, plant and equipment held during the year:			
At general price level			$ 122,919
At our current costs*			86,839
Amount by which increase in current costs was less than increase in general price level			$ 36,080

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(Amounts in thousands of average 1979 dollars)

	Years ended December 31, 1979	1978	1977	1976	1975
Historical cost information adjusted to constant dollars					
Net sales and other operating revenues	$1,806,663	$1,721,020	$1,614,365	$1,650,063	$1,970,782
Net income	75,801	70,677			
Net income per common share	5.73	5.16			
Net assets at year-end	828,069	790,544			
Current cost information					
Net income	73,032	70,524			
Net income per common share	5.52	5.14			
Decrease in current cost, net of inflation	36,080				
Net assets at year-end	877,810	873,812			
Other data in constant dollars					
Unrealized gain on net monetary liabilities due to decline in purchasing power of dollar	19,279	17,356			
Cash dividends declared per common share	$2.10	$2.11	$2.04	$2.17	$2.16
Market price per common share at year-end	$38⅜	$40½	$40⅛	$ 54	$33⅞
Average consumer price index	217.4	195.4	181.5	170.5	161.2

*At December 31, 1979, current cost of inventory was $587,204 and current cost of property, plant, and equipment, net of accumulated depreciation was $455,961.

CUMMINS ENGINE COMPANY, INC. (DEC)

SUPPLEMENTARY INFORMATION ON THE EFFECTS OF INFLATION (UNAUDITED)

Introduction

This supplementary information has been prepared in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, the objective of which is to help readers understand the effects of inflation on the financial statements of businesses. Two methods of adjusting earnings for the effects of inflation are presented. One—constant dollars—adjusts for general inflation while the other—current costs—adjusts for inflation more specific to Cummins.

The FASB has characterized this supplementary information as experimental. The two methods used to develop the inflation-adjusted earnings inherently involve the use of assumptions, approximations and estimates. The disclosure of two different methods points out the differences of opinion as to the theoretical value and relative usefulness of the approaches. Neither of these inflation-accounting methods includes all the adjustments that are likely to occur over the long term as productive capacity is actually replaced. For example, no savings have been estimated for the reductions in operating costs and improvements in manufacturing productivity which would result from using newer and technologically-advanced assets. In addition, no income tax reduction has been included for the higher costs that have been assumed by these inflation-accounting methods. Furthermore, as productive capacity is replaced with higher cost resources, the company will be advancing its product selling prices. In summary, the inflation-adjusted information, which shows reduced earnings and increased shareholders' investment for Cummins, is based solely on selected cost factors and excludes other future effects.

Constant Dollars

The constant dollars method adjusts the historical dollars recorded in actual transactions at different times to represent the same general purchasing power. The objective is to express all expenses and revenues in dollars of equivalent purchasing power (constant dollars). For instance, since the average 1970 dollar had 87 percent more purchasing power than the average 1979 dollar, any depreciation charged against 1979 revenues for fixed assets acquired in 1970 would be increased 87 percent in order to reflect the same purchasing power as the current revenue dollars. The adjustment to reflect equivalent purchasing power is made by application of an index which measures general inflation. Although there are various indexes which might be used, the FASB has specified that all companies use the Consumer Price Index (CPI) for All Urban Consumers. This broad-based measure of the general inflation rate is not necessarily representative of the specific impact of inflation on Cummins.

Current Costs

The current costs method reflects the changes in specific costs of the company's assets from the dates they were originally acquired to the present. The objective is to match the estimated current costs of the assets actually used in the company's operations against the current revenues. The adjusted earnings then include the current costs of replacing these assets rather than the historical costs actually expended to acquire them. The current costs differ from the constant dollar amounts to the extent that the specific costs of the company's assets have increased more or less rapidly than general inflation. The large volume of Cummins' property, plant and equipment precludes estimating the current cost of each individual asset. The current costs of machinery and equipment were therefore estimated by applying various external price indexes closely related to the assets. The current costs of plant facilities were estimated by the company's facilities engineers using unit pricing methods. Current costs of inventories and cost of goods sold were based upon most recent manufacturing costs.

1979 Statement of Earnings Adjusted for the Effects of Inflation

The amounts reported in the primary statement of earnings (historical costs) have been adjusted only for depreciation expense and cost of goods sold in arriving at the inflation-adjusted net earnings. These are the cost categories that are most affected by inflation. Revenues and all other operating expenses are considered to reflect the average price levels for the year and, accordingly, have not been adjusted.

Net earnings for 1979 are substantially reduced under both inflation-accounting methods. A significant adjustment to depreciation expense is made to reflect the effect of inflation on the company's property, plant and equipment which have been purchased over an extended period of time. Additional depreciation of $16.1 million under the constant dollars method and $29.9 million under the current costs method is needed to reflect the inflated cost of the assets being used. The higher depreciation for current costs indicates that the specific inflation in the company's property has exceeded the general inflation since its acquisition.

The company's property, plant and equipment are of relatively recent vintage. Very substantial expenditures have been made in recent years to expand and modernize facilities. Approximately 80 percent of the company's total investment in property, plant and equipment has been made in the last eight years. Both inflation-accounting methods hypothetically assume the entire replacement of our existing productive capacity at each year-end. In reality, property, plant and equipment, unlike inventory, do not "turn over" each year. Productive capacity, rather, is replaced and expanded over many years. When actual replacement occurs the company will avail itself of the latest advanced technologies and improvements in manufacturing productivity to keep all operating costs, including depreciation, at the lowest levels possible. It is also important to note that product prices are not set as if all productive assets were purchased currently. If corporations instituted price increases on such an assumption, the problem of inflation would be compounded.

A much less significant adjustment is necessary for cost of goods sold (excluding depreciation). Two factors primarily account for this. First, inventories are held only months prior to their sale. Second, the company's use of the LIFO method of costing most of its U.S. inventories already records the current costs of labor and materials in cost of goods sold.

In accordance with the FASB statement, income tax expense has not been restated in the inflation-adjusted earnings statements despite the significant reduction in pre-tax earnings. This results in effective tax rates for 1979 of 46.4 percent (constant dollars) and 66.7 percent (current costs) as compared to only 30 percent in the primary earnings statement. However, if these higher depreciation and other costs had actually been incurred, the company would have reported added tax deductions and tax credits, such as the investment tax credit. If the statutory income tax rates were applied to the additional costs imputed under both inflation-accounting methods, Cummins' inflation-adjusted earnings would be as follows (in average 1979 dollars):

$ millions	1979	1978	1977	1976
Constant dollars:				
Earnings before income taxes ...	$ 53.4	$113.5	$137.2	$137.5
Provision for income taxes	11.3	52.8	65.5	69.7
Net earnings	$ 42.1	$ 60.7	$ 71.7	$ 67.8
Current costs:				
Earnings before income taxes ...	$ 37.2	$ 94.4	$116.0	$126.9
Provision for income taxes	3.9	43.6	55.3	64.5
Net earnings	$ 33.3	$ 50.8	$ 60.7	$ 62.4

The reduction in inflation-adjusted earnings is offset, in part, by the $26.7 million gain resulting from the decline in purchasing power of the excess of monetary liabilities over monetary assets. Monetary items are basically cash, receivables and liabilities. These items are fixed in terms of numbers of dollars regardless of changes in the purchasing power of the dollar. Because the company has an excess of monetary liabilities over monetary assets, it benefits during periods of inflation to the extent that less purchasing power will be required to satisfy the net monetary liabilities which are due in the future. The $26.7 million gain reflects the extent to which the purchasing power of the shareholders' investment increased as a result of the net monetary liabilities remaining fixed rather than increasing at the rate of general inflation i.e., the rate of increase of the CPI.

The impact of inflation on Cummins' balance sheet has been equally as dramatic as the impact on earnings. Balance sheet values of inventories and property, plant and equipment are materially understated in terms of today's purchasing power or current costs. For instance, a significant portion of the balance sheet value of our LIFO inventories is stated at 1973 historical costs. Shareholders' investment is 43 percent greater when adjusted for general inflation and 67 percent greater when adjusted for specific inflation. Also, the company's *debt-to-capital ratio* at December 31, 1979, when adjusted for inflation becomes 24.7 percent (constant dollars) and 21.9 percent (current costs) as compared with 33.1 percent based on historical amounts in the primary financial statements.

Consolidated Statement of Earnings and Changes in Shareholders' Investment Adjusted for the Effects of Inflation

Year Ended December 31, 1979 $ millions, except per share amounts	As reported in the primary statements (historical costs)	Adjusted for general inflation (constant dollars)	Adjusted for changes in specific prices (current costs)
Net sales	$1,770.8	$1,770.8	$1,770.8
Cost of goods sold (excluding depreciation)	1,220.1	1,233.3	1,235.7
Depreciation expense	42.7	58.8	72.6
Selling, service, administrative, research and engineering expenses	401.1	401.1	401.1
Interest expense	17.6	17.6	17.6
Other income less expense	6.6	6.6	6.6
	1,688.1	1,717.4	1,733.6
Earnings before income taxes	82.7	53.4	37.2
Provision for income taxes	24.8	24.8	24.8
Net earnings	$ 57.9	$ 28.6	$ 12.4
Primary earnings per common share	$ 6.84	$ 3.38	$ 1.47
Shareholders' investment, January 1, 1979	$ 432.5	$ 639.9	$ 776.9
Net earnings as reported above	57.9	28.6	12.4
Gain from decline in purchasing power of net amounts owed	—	26.7	26.7
Excess of increase in specific prices (current costs) of inventories and property, plant and equipment over (under) increase in general level (1)..............	—	—	(6.8)
Dividends and other changes in shareholders' investment	(14.4)	(14.4)	(14.4)
Total increase in shareholders' investment	43.5	40.9	17.9
Shareholders' investment, December 31, 1979......................................	$ 476.0	$ 680.8	$ 794.8
Shareholders' investment per common share......................................	$ 56.98	$ 81.50	$ 95.15

(1) At December 31, 1979, the current costs of inventories were $375.6 million; and current costs of property, plant and equipment, net of accumulated depreciation, were $644.4 million.

The data in the following five-year summary are shown for all years in terms of a common measure of purchasing power—average 1979 dollars. Although the information is more comparable between years, the data for prior years must be converted back to the appropriate prior year's dollars to be comparable with the unadjusted historical data appearing elsewhere in the Annual Report. That conversion can be made by dividing the prior year amount by the 1979 CPI of 217.4 and multiplying by the CPI at the bottom of the prior year column.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

(In average 1979 dollars) $ millions, except per share amounts	1979	1978	1977	1976	1975
Net sales	$1,770.8	$1,692.0	$1,513.8	$1,314.0	$1,027.0
Constant dollars information:					
Earnings before income taxes	$ 53.4	$ 113.5	$ 137.2	$ 137.5	
Provision for income taxes	24.8	62.8	73.2	76.0	
Net earnings	$ 28.6	$ 50.7	$ 64.0	$ 61.5	*
Primary earnings per common share	$ 3.38	$ 6.01	$ 7.85	$ 8.04	*
Shareholders' investment at year-end	$ 680.8	$ 639.9	$ 587.3	$ 477.1	*
Current costs information:					
Earnings before income taxes	$ 37.2	$ 94.4	$ 116.0	$ 126.9	
Provision for income taxes	24.8	62.8	73.2	76.0	
Net earnings	$ 12.4	$ 31.6	$ 42.8	$ 50.9	*
Primary earnings per common share	$ 1.47	$ 3.75	$ 5.25	$ 6.66	*
Shareholders' investment at year-end	$ 794.8	$ 776.9	$ 736.0	$ 635.0	*
Increase in specific prices over (under) increase in the general price level	$ (6.8)	$ 7.3	$ 12.1	$ (1.1)	*
Other information:					
Gain from decline in purchasing power of net amounts owed	$ 26.7	$ 16.2	$ 13.2	$ 11.0	*
Cash dividends per common share	$ 1.80	$ 1.90	$ 1.76	$ 1.34	$ 1.35
Market price per common share at year-end	$ 29.31	$ 35.63	$ 44.54	$ 60.49	$ 25.49
Average consumer price index (1967 equals 100)	217.4	195.4	181.5	170.5	161.2

*Inflation-adjusted earnings data for 1975 are not available.

ENGELHARD MINERALS & CHEMICALS CORPORATION (DEC)

EFFECTS OF CHANGING PRICES

In September, 1979, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard No. 33 ("FAS 33") requiring historical cost financial statements to be supplemented by selected information dealing with the effects of general inflation ("Constant Dollars") and the effects of changes in specific prices of resources used by a company ("Current Costs").

Although Current Cost reporting is not required until 1980, the Company has elected to provide such information in 1979 in lieu of the Replacement Cost information heretofore required by the regulations of the Securities and Exchange Commission.

In issuing FAS 33, the FASB highlights the need for experimentation in the methods used to measure the effects of changing prices and in the use and interpretation of it, all of which is stated to be a substantial learning process on the part of all concerned. The FASB also states that those issuing financial reports have not yet reached a consensus on the general practical usefulness of the disclosures required.

Constant Dollars

In the table below, the Company's 1979 historic earnings have been adjusted to reflect the approximate effects of inflation as measured by the Consumer Price Index—All Urban Consumers ("CPI"):

	(Thousands of Dollars)
Net earnings per consolidated statement of earnings	$349,722
Adjustments for Constant Dollars:	
Cost of sales, excluding depreciation and depletion	(22,296)
Depreciation and depletion	(10,535)
Net earnings adjusted for Constant Dollars	$316,891

The Constant Dollar adjustment of cost of sales represents an increase over historic amounts of one-tenth of one per cent. The change from historic to Constant Dollar figures will typically be small for the Company since its inventory turnover is rapid and the LIFO accounting principle is applied to a substantial portion of the precious metals inventories of the Engelhard Industries Division.

The increase in depreciation and depletion was determined by increasing the historic investment in property, plant and equipment by changes in the CPI and recomputing depreciation on the enlarged investment base, using historic methods and rates. The result gives rise to a relatively small decrease in historic earnings because net property, plant and equipment accounted for only 5 percent of historic assets at December 31, 1979.

Current Costs

Current Costs are those costs that are directly related to the assets of the Company as opposed to Constant Dollars which measure general inflation. Current Cost of inventories ($2.5 billion at year end) was estimated generally on the basis of market prices at that date. The Current Cost of property, plant and equipment ($449 million net of accumulated depreciation and depletion at year end) was estimated generally on the basis of appropriate published indices. Capitalized mineral deposits and mine development costs are included at their Constant Dollar values.

Current cost of sales includes historic costs of the Philipp Brothers Division, since no significant differences between historic and current costs were ascertainable, and average purchase prices of precious metals applied to monthly sales of the Engelhard Industries Division.

Depreciation and depletion was determined by applying historic methods and rates to Current Costs.

The Current Cost adjustments are presented in the table below:

	(Thousands of Dollars)
Net earnings adjusted for Constant Dollars (see above)	$316,891
Adjustments for Current Cost:	
Cost of sales, excluding depreciation and depletion	6,103
Depreciation and depletion	(14,730)
Net earnings adjusted for Constant Dollars and Current Costs	$308,264

The adjustments for the effect of Current Costs are inconsequential for the same reasons expressed above for the Constant Dollar adjustment.

Comparison of Selected Financial Data Adjusted for Effects of Changing Prices

	1979	1978	1977	1976	1975
	(Thousands of Dollars Except Per Share Data)				
Net sales and operating revenues:					
Historic	$18,079,793	$10,154,855	$7,333,098	$6,463,872	$5,672,520
Constant Dollars	18,079,793	11,298,186	8,783,557	8,241,911	7,650,160
Net earnings:					
Historic	349,722				
Constant Dollars	316,891				
Constant Dollars adjusted for Current Costs	308,264				
Primary earnings per share of common stock:					
Historic	5.32				
Constant Dollars	4.82				
Constant Dollars adjusted for Current Costs	4.69				
Stockholders' equity:					
Historic	1,127,769				
Constant Dollars	1,231,241				
Constant Dollars adjusted for Current Costs	1,708,282				
Gain from decline in purchasing power of monetary items	108,594				
Excess of increase in Current Costs of inventories, property, plant and equipment over a $281 million increase in Constant Dollars	139,794				
Cash dividends per share of common stock:					
Historic	.77	.61	.58	.51	.39
Constant Dollars	.77	.68	.69	.65	.53
Market price per share of common stock at December 31:					
Historic	32.00	13.90	13.11	16.26	11.17
Constant Dollars	30.26	14.89	15.31	20.28	14.60
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Notes: Per share data has been restated where applicable to reflect a 2.06 for 1 stock split in 1979.

As required by FAS 33, adjustments for changing prices have been made without recognizing a reduction in the historic provision for U.S. and foreign taxes on income.

Comments on Effects of Changing Prices

Net Sales and Operating Revenues:

For the 1975-1979 period, net sales and operating revenues on an historic basis increased from $5.7 billion to $18.1 billion. After adjusting such numbers for general inflation as measured by Constant Dollars, revenues increased from $7.7 billion to $18.1 billion. Growth in revenue derives principally from the raw materials trading activities of the Philipp Brothers Division. Its materials are traded on a worldwide scale, at prevailing world prices, determined largely by supply and demand factors. The Constant Dollar increase reflects volume growth in the business and increased materials prices greater than that indicated by the general inflation index.

Stockholders' Equity:

Stockholders' equity in Constant Dollars has been adjusted to take account of increases in the investment in property, plant and equipment, increases in inventory, principally arising from the application of the CPI index to LIFO inventories and gain in purchasing power applicable to net monetary items.

Current Cost adjusted stockholders' equity reflects adjustments for each of the above financial elements but on a Current Cost basis rather than in Constant Dollars. The major adjustments occur from recognition of differences between current market values of certain precious metals inventories over their historic values and increased values in respect of the historic investment in property, plant and equipment.

The Company's 1979 return on average Constant Dollars equity was 30.9 percent and on average Current Cost equity was 21.5 percent compared with 36.5 percent on an historic basis.

Gain from Decline in Purchasing Power:

The Company's extensive use of current liabilities to finance its operations will have a beneficial effect in periods of declining purchasing power. During 1979, the Company's net monetary liability position increased by $437 million. Such increase, together with the net monetary liability balance at the beginning of the year, gave rise to a purchasing power gain of $109 million. Monetary liabilities are comprised of current liabilities, long-term debt and deferred taxes; monetary assets include all current assets except inventory and inventory related advances.

Excess of Increase in Current Cost (Specific Prices) Over Increase in Constant Dollars (General Inflation):

This amount represents the effect of changes throughout the year in specific prices of the Company's inventories and property, plant and equipment beyond the effect of general inflation as measured by the CPI. The $140 million excess for 1979 represents primarily increased values of the Company's precious metals inventories.

EVANS PRODUCTS COMPANY (DEC)

SUPPLEMENTARY INFORMATION REGARDING INFLATION AND CHANGING PRICES

Background

Financial statements of business enterprises, prepared according to generally accepted accounting principles, present amounts reflecting costs in historical dollars. During times of significant and continued inflation, as is the case during the past ten years, these historical dollars do not reflect the cumulative effects of increasing prices and changes in the purchasing power of the dollar. To assist readers of financial statements in assessing that impact, the Financial Accounting Standards Board issued Statement No. 33 "Financial Reporting and Changing Prices."

The information which follows complies with the requirements of Statement No. 33. It is intended as an experiment to provide certain measurements of the effects of inflation on the Company's operations.

Methods of Measuring Effects of Changing Prices

The Financial Accounting Standards Board has prescribed two different methods for measuring the effect of changing prices, each of which has been used to adjust financial data on pages 52 and 53.

Constant Dollars: The constant dollar approach adjusts historical costs to dollars of the same current purchasing power. This method is an attempt to measure the effects of "general inflation" on a business enterprise. The adjustment to dollars of common purchasing power—constant dollars—is accomplished by using an index which measures inflation. For this purpose Statement No. 33 prescribes the use of the Consumer Price Index for all Urban Consumers.

Current Cost: The current cost approach adjusts historical costs of specific assets to the cost of purchasing or replacing them during 1979. This method is an attempt to measure the effect of "specific price changes" on a business enterprise. However, this rate of increase would not, except by coincidence, be the same rate of increase reflected by the change in the Consumer Price Index. The Consumer Price Index encompasses a wide range of commodities which is not necessarily representative of cost trends for specific product lines or assets of a business enterprise. The methods used to adjust financial data in accordance with the current cost approach are discussed below.

Comments on Statements of Earnings Adjusted For the Effects of Changing Prices

In the financial statement on page 52 revenues and other operating expenses have not been adjusted since they generally reflect the average price levels for the year. However, the inventory component of cost of sales and depreciation expense have been adjusted in arriving at the adjusted net earnings amounts. The adjustments to cost of sales are intended to reflect separately the increases in general purchasing power (Constant Dollar) and specific prices (Current Cost) that would have resulted if merchandise were valued at the average 1979 costs when sold. Depreciation expense has been recomputed, utilizing the same lives and depreciation methods as in the primary financial statements, to reflect the value of the Company's plant and equipment adjusted separately for changes in general purchasing power (Constant Dollar) and changes in specific prices (Current Cost).

Costs of sales and depreciation expense are greater when adjusted for general inflation than when adjusted for changes in specific prices. The difference reflects the Consumer Price Index (general inflation) rising faster than the specific prices of the Company's various inventories during the year, and faster than the increase of costs over the last several years of the type of plant and equipment used in the Company's various businesses.

In the accompanying inflation adjusted statements, current cost of inventories and machinery and equipment was determined by use of the applicable price indexes for the class of goods being measured. Buildings were valued based upon current cost per square foot to construct. Land was valued using estimates of current cost to replace.

For the most part the current cost represents replacement in-place and in-kind. No consideration has been given to making improvements or installing different types of replacement assets. The replacement costs used, while believed reasonable, are subjective. They do not necessarily represent amounts for which the assets could be sold or costs which would be incurred in replacing such assets.

Adjustments for the inventory component of cost of sales and depreciation expense might suggest an adjustment for the indicated overprovision for income taxes. However, Statement No. 33 requires that income taxes not be modified for the effects of changing prices. This results in the effective tax rate increasing from 34% in the historical statements, to 49% and 45% in the inflation adjusted statements.

The impact of inflation on the purchasing power of monetary assets and monetary liabilities is also measured in the other supplementary information on page 52. Monetary liabilities exceeded monetary assets (net amounts owed) resulting in an unrealized gain; however, Statement No. 33 does not permit such gain to be reflected in the adjusted net earnings. It is interesting to note that this unrealized gain of $35.7 million is approximately equal to 1979 interest expense of $36.2 million, or it would more than offset the reduction in earnings shown in either of the inflation adjusted statements.

The fact that general price levels are increasing faster than indexes for specific prices is again represented in the other supplementary information. The increase in inventory and plant, property and equipment costs resulting from the adjustment for general price changes is greater than the increase associated with specific price change adjustments.

In the opinion of management the Statement of Earnings Adjusted for Changes in Specific Prices (Current Cost) is more indicative of the effects of inflation on the Company than is the Statement of Earnings Adjusted for General Inflation (Constant Dollar). It is also important to note that revenues have not been adjusted to reflect increased selling prices which would have been instituted under normal market conditions to maintain appropriate margins.

Comments on Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

Revenues, dividends per common share and market price comparisons show the effect of adjusting historical amounts to amounts expressed in terms of 1979 dollars as measured by the average Consumer Price Index for the year. Revenues, even after adjustment for inflation, have grown 39% from 1975 through 1979, while market price per share has risen 195%. Dividends paid in 1979 are 63% and 50% of earnings per share in constant dollars and current cost, respectively. Comparisons of other amounts for years prior to 1979 were neither readily available nor required by Statement No. 33.

Supplementary Statement of Earnings Adjusted for the Effects of Changing Prices For the Year Ended December 31, 1979 (Unaudited)

(In thousands)	As reported in the Primary Financial Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Revenues			
Sales	$1,481,644	$1,481,644	$1,481,644
Other income	7,827	7,827	7,827
Earnings before taxes of unconsolidated subsidiaries	25,633	25,633	25,633
	1,515,104	1,515,104	1,515,104
Cost and Expenses			
Costs of operations	1,262,521	1,286,542	1,279,951
Selling and administrative	98,759	98,759	98,759
Depreciation and amortization	19,344	25,446	25,243
Losses from discontinued facilities	4,250	4,250	4,250
Interest	36,196	36,196	36,196
	1,421,070	1,451,193	1,444,399
Earnings Before Taxes	94,034	63,911	70,705
Taxes on Earnings	31,600	31,600	31,600
Net Earnings	$ 62,434	$ 32,311	$ 39,105
Other Supplementary Information			
Gain from decline in purchasing power of net amounts owed		$ 35,690	$ 35,690
Increase in general price level (Constant Dollar) of inventories and property, plant and equipment held during the year			$ 56,770
Effect of increase in specific prices (Current Cost)			44,387
Excess of increase in general price level over increase in specific prices			$ 12,383

At December 31, 1979, the current cost of inventory was $244,577,000 and the current cost of net property, plant and equipment was $314,303,000.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices Years Ended December 31 (Unaudited)

(In thousands, except per share data)	All Inflation Adjusted Amounts Stated in Average 1979 Dollars 1979	1978	1977	1976	1975
Revenues					
As reported	$1,515,104	$1,193,820	$ 941,192	$ 804,701	$ 809,870
In constant dollars	1,515,104	1,328,232	1,127,356	1,026,052	1,092,219
Earnings before Extraordinary Items					
As reported	62,434	52,945	40,856	27,028	12,851
In constant dollars (1)	32,311				
In current cost (1)	39,105				
Earnings per Share Before Extraordinary Items					
As reported	4.65	3.76	2.77	1.62	.76
In constant dollars (1)	2.22				
In current cost (1)	2.77				
Dividends per Common Share					
As reported	1.40	1.00	.80	.20	—
In constant dollars	1.40	1.11	.96	.26	—
Market Price per Common Share at Year End					
As reported	22.00	17.75	17.13	13.25	5.38
In constant dollars	20.81(2)	19.02	20.01	16.53	7.03
Net Assets at Year End					
As reported	331,469	291,577	261,453	241,790	217,512
In constant dollars (1)	376,909				
In current cost (1)	389,547				
Excess of Increase in General Price Level Over Increase in Specific Prices (1)	12,383				
Gain From Decline in Purchasing Power of Net Amounts Owned (1)	35,690				
Average Consumer Price Index (Year End 1967 equals 100)	217.4	195.4	181.5	170.5	161.2

(1)Neither available nor required for years prior to 1979.

(2)The constant dollar amount for market price per common share at year end is less than the historical amount because all inflation adjusted amounts are stated in terms of purchasing power of the 1979 dollar averaged for the year.

EXXON CORPORATION (DEC)

SUPPLEMENTAL INFORMATION ON INFLATION ACCOUNTING

Inflation during 1979 continued at a high rate in the United States, further eroding the purchasing power of the dollar. This trend continues to distort the conventional measures of financial performance. Historical dollar accounting (as reflected in the financial statements) during times of significant and continued inflation does not reflect the cumulative effects of increasing costs and changes in the purchasing power of the dollar.

Investments in plant and equipment, for example, made over an extended period of time are treated as though the dollars from these periods were stated in common units of measurement. Since the purchasing power of the dollar has declined significantly from the time these investments were made (the 1979 dollar, for example, is worth $.53 compared with the 1970 dollar), this decline should be considered for a proper assessment of economic results.

Inflation also affects monetary assets, such as cash and receivables, which lose a part of their purchasing power during periods of inflation since they will purchase fewer goods or services in the future. Conversely, holders of liabilities benefit during periods of inflation because less purchasing power will be required to satisfy these obligations in the future. This benefit is illustrated when a 1970 debt of one dollar can be satisfied with a payment of a 1979 dollar which has the equivalent purchasing power of $.53.

The following information is presented in an experimental fashion to help overcome these shortcomings of historical accounting. The adjustments made to the historical dollar results are made in accordance with the principles of inflation accounting as enumerated in Financial Accounting Standards Board Statement No. 33—Financial Reporting and Changing Prices, which forms the basis for these supplemental statements.

The first approach is to adjust the historical dollars to dollars of the same general purchasing power. For example, if the inflation rate is 5 percent from one year to the next year, then 5 percent more dollars are needed in the second year just to maintain the same general purchasing power. This adjustment to common units of measurement—constant dollars—is accomplished by using an index which measures inflation. Statement No. 33 prescribes the use of the Consumer Price Index for All Urban Consumers (CPI). Therefore, the constant dollar method starts with historical dollars as recorded using generally accepted accounting principles and adjusts these dollars to reflect changes in purchasing power (inflation) using the CPI.

A second approach is also used in the accompanying statements to adjust for the current costs of inventory and plant and equipment, which for Exxon have generally increased over time at a rate higher than that of the CPI. Current replacement costs have been used for these items. That is, specific prices that would have to be paid currently have been used as replacement costs for inventory of crude oil and products and property, plant and equipment. Prices for these items have increased at a different but generally much higher rate than general inflation as a result of, for example, the increased cost of crude oil and the escalation in the costs to build and equip petroleum refineries.

For the most part, the replacement data represent replacement in-place and in-kind. No consideration has been given to the replacement of assets with a different type, to improved operating cost efficiencies of replacement assets, and similar situations. The replacement costs used, while believed reasonable, are necessarily subjective. They do not necessarily represent amounts for which the assets could be sold or costs which will be incurred, or the manner in which actual replacement of assets will occur. Land has been valued based on appraisal or on estimated current market prices. Development costs of oil and gas producing facilities have been updated by use of appropriate indices.

In the first table, the first column shows the results of operations as shown in the Consolidated Statement of Income on page 25. The middle column reflects restatements for the effects of general inflation. Since in 1979, the cost of goods sold was already stated in 1979 dollars only one adjustment is necessary. The adjustment of $1,243 million to depreciation is to restate this cost in terms of 1979 dollars based upon the restatement of property, plant and equipment as shown in the second table. In the third column, the further adjustment of depreciation to reflect the increases of the specific costs of the facilities over the effect of general inflation adds $662 million to the current charge for this item. The two depreciation adjustments maintain the same methods, useful lives and salvage values as used in computing historical depreciation.

After these adjustments, the income from continuing operations of $4,295 million has been lowered to $3,052 million in terms of constant purchasing power (general inflation) and to $2,390 million on the basis of specific prices. Dividends paid in 1979 represent 40 percent, 56 percent and 72 percent, respectively, of these income amounts.

Statement No. 33 requires that income taxes paid not be modified for the effects of either constant dollar or specific price adjustments. Therefore, the 68 percent effective tax rate for historical earnings becomes an effective 75 percent for constant dollar results and 79 percent for specific price earnings.

This table also shows other changes in shareholders' equity, which occurred during the year as a result of inflation. The first is the gain, applicable to both methods, resulting from the decline in purchasing power of the dollar in the net monetary amounts owed by the company. Most of the company's current assets, except inventories, and the current liabilities and long-term debt are considered to be monetary items. Since the monetary liabilities at year-end 1979 were larger than the monetary assets, a gain is shown. This gain represents the change in the amount of purchasing power required at the end of 1979 to pay these net liabilities versus the higher amount of purchasing power that would have been required to pay them at the end of 1978. With inflation at 10 percent, for example, a gain of $100 thousand would occur for each million dollars of net liabilities held throughout the year.

The second adjustment is applicable only to the specific price method and represents the added increase in costs during the year due to increases in the specific costs for inventory and property, plant and equipment over that which is attributed to the increase due to the effects of general inflation as measured by the CPI. This increase is written off by means of the increased depreciation charge previously mentioned.

These changes in shareholders' equity when added to income from continuing operations resulted in adjusted net income of $4,050 million using the general inflation or constant dollar method and in net changes in shareholders' equity of $6,087 million using the specific cost method. This compares with the $4,295 million of historical net income.

The second table presents the balance sheet at year-end 1979. The first column is a summary of the historical dollar balance sheet shown on page 24. The middle column restates the inventory and property, plant and equipment for the effects of general inflation. The categories "All other assets" and "Total liabilities" are merely restated in average 1979 dollars using the CPI. Both the LIFO inventory and property, plant and equipment have been built up over the years as inventory quantities have increased and as plant capacities have been added or replaced. The adjustments shown on the table restate these prior year additions in terms of average 1979 dollars. That is, an inventory or plant addition made in 1970 is increased in amount to reflect the increased number of 1979 dollars required to equal the general purchasing power originally invested. For example, it takes almost twice as many 1979 dollars to equal the same purchasing power as that used for an investment in 1970.

The last column shows the adjustments for specific prices paid by Exxon which have increased faster than the CPI. The inventory has been restated based upon the cost of replacing the entire inventory at current costs. Since the purchase prices of crude oil and petroleum products have increased faster than general inflation, particularly in 1979, and since the inventory has been carried on the LIFO basis, the inventory using specific prices is about $3,973 million greater than the results after adjustment for general inflation. The adjustment to property, plant and equipment made in a similar fashion results in a $10 billion adjustment indicating the magnitude of the higher costs being incurred by Exxon over and above the level of general inflation. The specific replacement cost data were mainly based on internally developed plant construction and equipment purchase indices.

The sum of all of these adjustments results in the restatement of shareholders' equity—the investment base. The adjustment for general inflation increases the historical shareholders' equity, as shown on the second table, of about $23 billion to a constant dollar basis of $35 billion. In other words, it would take $35 billion of 1979 dollars to provide the same purchasing power as the $23 billion represented in the financial statements. Additional adjustments for specific prices raise the shareholders' equity to $48 billion. This means that an additional $13 billion investment of 1979 dollars would be required to provide for the replacement costs of specific inventories and plant, over the adjustment for the effects of general inflation.

The third table is a five-year summary of results. The historical cost information for the years 1975 through 1978 have been adjusted for the effects of general inflation and for specific prices (from 1976) in the same manner as has been discussed for the year 1979. Income from continuing operations is composed of the same factors as shown on the first table. As shown on this table and in the discussion in the Financial Highlights section (page 4), the return on average shareholders' equity is considerably lower when both the results and the investment base are adjusted for the effects of general inflation. The return is also lower when adjusted to a specific price basis. These decreases reflect the erosion taking place in the capital base of the company from the continuing high levels of inflation now being faced by the general public, the oil and gas industry, and Exxon.

Income from continuing operations and other changes in shareholders' equity adjusted for changing prices

For the year ended December 31, 1979	(millions of dollars) As reported on page 25	(millions of average 1979 dollars) Adjusted for General inflation	Specific costs
Income from continuing operations			
Total revenue	$84,809	$84,809	$84,809
Costs and other deductions			
Crude oil and product purchases	40,831	40,831	40,831
Depreciation and depletion	2,027	3,270	3,932
Other	14,070	14,070	14,070
Interest expense	494	494	494
Income, excise and other taxes	23,092	23,092	23,092
Total costs and other deductions	$80,514	$81,757	$82,419
Income from continuing operations	$ 4,295	$ 3,052	$ 2,390
Gain from decline in the purchasing power of net amounts owed		998	998
Increase in current cost of inventories and property, plant and equipment during 1979			9,333
Less effect of increase in general price level during 1979			6,634
Excess of increase in specific prices over increase in the general price level			2,699
Net income	$ 4,295		
Adjusted net income		$ 4,050	
Net change in shareholders' equity from above	$ 4,295	$ 4,050	$ 6,087

Summarized balance sheet adjusted for changing prices

at December 31, 1979	(millions of dollars) As reported on page 24	(millions of average 1979 dollars) Adjusted for General inflation	Specific costs
Assets			
Inventories	$ 5,481	$ 7,585	$11,558
Property, plant and equipment	26,293	35,796	45,418
All other assets	17,718	16,892	16,892
Total assets	49,490	60,273	73,868
Total liabilities	26,938	25,599	25,599
Shareholders' equity	$22,552	$34,674	$48,269

Supplementary financial data

(millions of dollars except per share amounts)	Years ended December 31 1975	1976	1977	1978	1979
Unadjusted for inflation					
Income from continuing operations	$ 2,456	$ 2,615	$ 2,443	$ 2,763	$ 4,295
Per share	5.49	5.84	5.45	6.20	9.74
Return of income from continuing operations on average shareholders' equity, percent	15.4	15.1	13.1	14.0	20.1
Historical cost information adjusted for general inflation (average 1979 dollars)					
Income fron continuing operations	1,961	2,355	1,983	2,052	3,052
Per share	4.38	5.26	4.43	4.60	6.92
Gain from decline in purchasing power of net amounts owed	337	277	441	617	998
Adjusted net income	2,298	2,632	2,424	2,669	4,050
Per share	5.14	5.88	5.41	5.99	9.19
Total revenue	65,765	67,059	70,023	72,191	84,809
Dividends, per share	3.37	3.47	3.59	3.67	3.90
Market price at year-end, per share	58	69⅜	56¼	52⅝	52⅛
Net assets at year-end	30,114	31,146	31,847	32,599	34,674
Return of adjusted net income on average shareholders' equity, percent	7.7	8.6	7.7	8.3	12.0
Historical cost information adjusted for specific costs (average 1979 dollars)					
Income fron continuing operations		1,944	1,336	1,245	2,390
Per share		4.34	2.98	2.79	5.42
Gain from decline in purchasing power of net amounts owed		277	441	617	998
Excess of increase in specific prices over increase due to general inflation		2,999	1,807	(377)	2,699
Net change in shareholders' equity		5,220	3,584	1,485	6,087
Net share		11.66	8.00	3.33	13.81
Net assets at year-end		42,781	44,642	44,211	48,269
Return of net change in shareholders' equity on average shareholders' equity, percent		12.8	8.2	3.3	13.2
Average consumer price index	161.2	170.5	181.5	195.4	217.4

FEDERAL-MOGUL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note M: Supplemental Information on the Effects of Changing Prices (unaudited)—The financial information relating to supplemental disclosures on the effects of changing prices required by Financial Accounting Standards Board Statement 33 for the years ended December 31, 1979 and 1978 appearing on pages 23, 24 and 25 of the annual report is incorporated herein by reference.

SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (UNAUDITED)

As required by the Financial Accounting Standards Board, the Company must provide supplemental information concerning the effects of changing prices on its financial statements (pages 24 and 25). The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level on the purchasing power of the dollar (called "general inflation") and (2) the specific price changes in the individual resources used by the Company.

It is important that financial statement users understand that supplemental information on changing prices does not reflect a comprehensive application of either type of inflation accounting, but is limited to estimated adjustments of certain financial data.

Schedule of Income from Continuing Operations Adjusted for Changing Prices

Year Ended December 31, 1979 (Millions of Dollars)	As Reported in the Primary Statements (Historical Cost)	Adjusted for General Inflation (Note A)	Adjusted for Changes in Specific Prices (Current Costs) (Note B)
Net sales and other income	$668.4	668.4	668.4
Deductions from income			
Cost of products sold (Note C)	504.5	504.5	504.5
Depreciation (Note C)	15.9	22.8	26.7
Other operating expenses	64.7	64.7	64.7
Interest expense	6.8	6.8	6.8
Provision for income taxes (Note D)	34.5	34.5	34.5
Income from continuing operations	$ 42.0	35.1	31.2
Other information			
Gain from decline in purchasing power of net amounts owed (Note E)		$ 4.7	4.7
Increase in current costs of inventories and property, plant and equipment held during the year (Note F)			$ 50.9
Less effect of increase in general inflation (Note A)			44.5
Excess of increase in current costs over increase in general inflation			$ 6.4

At December 31, 1979, current cost of inventory was $215,456 and current cost of property, plant and equipment, net of accumulated depreciation, was $207,195.

Five-Year Comparison of Selected Supplementary Financial Data from Continuing Operations Adjusted for Changing Prices in Average 1979 Dollars (Note G)

Years Ended December 31, (Millions of Dollars except per share numbers	1979	1978	1977	1976	1975
Net sales	$ 663.3	632.6	585.3	557.7	487.7
Historical cost information adjusted for general inflation (Note A)					
Income from continuing operations	$ 35.1	31.4	24.2	23.2	*
Income from continuing operations per common share	2.75	2.49	1.95	1.86	*
Net assets at year-end	336.4	308.0	284.4	271.7	*
Current cost information (Note B)					
Income from continuing operations	$ 31.2	31.6	24.0	23.1	*
Income from continuing operations per common share	2.44	2.50	1.93	1.85	*
Excess of increase in current costs over (under) increase in general inflation	6.4	(2.0)	(19.0)	*	
Net assets at year-end	344.8	314.9	294.7	298.4	*
Other information					
Gain from decline in purchasing power of net amounts owed (Note E)	$ 4.7	2.4	2.9	3.1	5.7
Market price per common share at year-end	15.250	14.250	12.750	15.125	8.125
Dividends per common share	1.080	.965	.893	.760	.806

*Information not available

NOTES TO THE SUPPLEMENTAL INFORMATION (UNAUDITED)

Note A: General Inflation Adjustment

The adjustment represents the historical amounts of revenues and expenses restated in dollars of the same (constant) general purchasing power (average 1979 dollars). Under this measurement method, historical amounts of depreciation expense are adjusted to reflect the change in the level of the index that has occurred since the date the related properties were acquired.

The average inflation index is derived from the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

Average Inflation Index (1967 equals 100)

1979	1978	1977	1976	1975
217.4	195.4	181.5	170.5	161.2

Note B: Changes in Specific Prices (Current Costs)

The specific prices of the Company's goods and services have generally risen at a different rate than the general inflation rate as measured by the CPI. Current cost accounting measures inventories and properties repriced at their current theoretical cost (rather than their historical cost or their CPI adjusted cost) at the balance sheet date. Cost of products sold is based on current cost at the date of sale and depreciation is computed on average current cost for the year.

Note C: Cost of Products Sold and Depreciation Expense

The differences between the historical purchase prices and the current prices of cost of products sold and depreciation expense are called "holding gains and losses." Holding gains and losses on inventory and property, plant, and equipment are shown separately in the schedules, net of adjustments for the general inflation component (based on the change in the inflation index). A holding gain adjusted for the inflation component represents the difference between the increase in the current cost of the asset and the corresponding increase in the general inflation index. Depreciation expense included in cost of products sold and other operating expenses as reported in the primary statements amounted to $13,082 and $2,769, respectively.

Note D: Income Taxes

Restatements of income from continuing operations adjusted for general inflation and current cost include the same provision for income taxes as reported in the primary statements, distorting effective tax rates on inflation adjusted earnings.

Note E: Monetary Items

Gain from decline in purchasing power of net amounts owed results from the holding of liabilities net of cash and claims to cash. Liabilities are associated with gain of general purchasing power because the amount of money required to settle the liabilities represents dollars of diminishing purchasing power.

Note F: Current Costs Data

The current costs of inventories were determined by the FIFO method. The current costs of property, plant and equipment were determined primarily from recent vendor quotations or invoice prices. Current cost calculations involve a substantial number of judgmental choices of evidence of current costs, as well as use of various estimating techniques that have been employed to limit the cost of accumulating the data. Consequently, the data reported should not be thought of as precise measurements of the assets and expenses involved.

Note G: Adjustment of Prior Years

Data for prior years is adjusted as described for 1979 in the "Schedule of Income from Continuing Operations Adjusted for Changing Prices."

JOHNSON & JOHNSON (DEC)

SUPPLEMENTARY INFORMATION ON THE EFFECTS OF CHANGING PRICES

Introduction—In recent years the increasing rate of worldwide inflation has had a pervasive effect on the economy. It is not generally understood how the traditional measurement of income is affected by the impact of rapidly changing prices. In September, 1979, the Financial Accounting Standards Board issued Statement No. 33, "Financial Reporting and Changing Prices, which establishes standards for reporting the effects of changing prices. The new standards are experimental and are very different from those used in traditional accounting principles.

Statement No. 33 requires supplementary income calculations based on two methods: constant dollar accounting, which reflects the change in purchasing power of the dollar; and current cost accounting, which reflects the change in specific prices of existing assets.

Methods of Accounting—Traditional financial statements are expressed in "historical cost dollars" and are based on transactions recorded at the actual dollars received or expended. Prior periods costs, such as depreciation, are charged against current periods' net income even though the dollars are in units of different purchasing power and the amounts do not reflect the current cost of the assets consumed.

The "constant dollar" method of accounting provides information adjusted for general inflation, using the U.S. Consumer Price Index for all Urban Consumers. The objective of this method is to restate the historical cost dollars into constant dollars of equivalent purchasing power so that current revenues for each year are matched with expenses, both expressed in a common unit of measure.

The "current cost" method of accounting adjusts for specific changes in prices of inventories and property, plant and equipment. These assets are stated at their most recent cost rather than their historical cost.

Summary Results—Summarized on page 49 are the results of applying the constant dollar and current cost method of accounting. Due to their controversial nature, two types of information have not been made a part of income; they are, the amounts by which current cost of inventories and property, plant and equipment have changed compared to the effect of general inflation; and losses from the decline in purchasing power arise from holding net monetary assets; i.e., cash and accounts receivable less amounts payable. Also, SFAS No. 33 specifically prohibits the restatement of income tax expense; this illustrates that effective tax rates increase as inflation erodes earnings.

Conclusions—The supplementary data on changing prices is informative but requires prudent analysis before conclusions can be reached. For example, income adjusted for changing prices should not be compared to prior years' historical data since these are based on different methods of accounting. The constant dollar information indicates that the Company is affected by the loss in purchasing power of the dollar; however, it does not show the actual impact of inflation on the Company which is subject to a variety of inflation rates throughout the world. The current cost information gives an approximation of the amount of distribution income available for dividends and reinvestment after the maintenance of existing capacity.

Management also believes that neither of the two methods, constant dollars nor current cost, is a good predictor of future cash flows. Johnson & Johnson is a growth-oriented company and future cash flows are substantially affected by management's strategy in pursuing new markets, further developing its technology and increasing productivity. Future cash flows, therefore, cannot be properly assessed solely by evaluating its existing assets.

Statement of Earnings Adjusted for Changing Prices

For the Year Ended December 30, 1979 In Average 1979 Dollars (Dollars in Millions)	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Specific Prices (Current Costs)
Sales to customers and other revenues....	$4,278	4,278	4,278
Cost of products sold (excluding depreciation)................................	2,047	2,101	2,069
Depreciation and amortization...........	121	121	162
Other operating expenses (excluding depreciation)	1,496	1,496	1,496
Interest expense..........................	22	22	22
Provision for taxes on income...........	240	240	240
Net Earnings................................	$ 352	298	289
(Loss) from decline in purchasing power of net monetary assets......................		$ (43)	(43)
Increase in general price level of inventories and property, plant, and equipment held during the year..............			$271
Effect of increase in current costs..........			197
Increase in the general price level (CPI) in excess of the increase in current costs.			$ 74

Five Year Selected Financial Data Adjusted for Changing Prices

In Average 1979 Dollars (Dollars in Millions Except Per Share Figures)	1979	1978	1977	1976	1975
Sales and other revenues—in constant dollars	$4,278	3,944	3,534	3,262	3,038
Net Earnings—in constant dollars..................	298				
—in current costs......................	289				
Earnings per share—in constant dollars...........	4.88				
—in current costs..............	4.73				
Dividends per share—in constant dollars	2.00	1.89	1.68	1.34	1.15
Net assets at year end—in constant dollars	2,128				
—in current costs	2,594				
(Loss) from decline in general purchasing power of net monetary assets held................................	(43)				
Increase in the general price level (CPI) in excess of the increase in current costs	74				
Market price per common share at year end.........	75.60	78.99	89.64	97.27	117.30
Average consumer price index (1967 equals 100)...	217.4	195.4	181.5	170.5	161.2

(1) The current cost of property, plant and equipment at the end of 1979 was $1,600 million and was established based on several methods, including indexing and unit pricing. Potential technological improvements and efficiencies which might be associated with actual replacement of assets have not been reflected.

(2) At the end of 1979, the current cost of inventories was $843 million estimated on the FIFO or full-absorption cost method.

(3) Cost of goods sold for current costs approximates a LIFO basis.

(4) Depreciation and amortization was computed using the straight-line method for both current cost and constant dollars; in the primary financial statements, accelerated methods are generally used for domestic assets and the straight-line method for international assets.

(5) Data not reported for years prior to 1979 is not required by SFAS No. 33 as it would be impractical to provide on a retrospective basis.

LOWE'S COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11—Supplemental Information on the Effects of Changing Prices (Unaudited):

Statement of earnings adjusted for changing prices:

	Historical dollars	Constant dollars	Current cost dollars
	(Dollars in thousands)		
Net sales	$904,651	$904,651	$904,651
Cost of sales	741,891	742,259	742,259
Gross profit	162,760	162,392	162,392
Expenses:			
Selling, general, and administrative	85,860	85,860	85,860
Depreciation	10,064	12,596	12,662
Employee retirement benefits	10,226	10,226	10,226
Provision for bad debts	2,262	2,262	2,262
Interest and loan expense	7,017	7,017	7,017
Total expenses	115,429	117,961	118,027
Pre-tax earnings	47,331	44,431	44,365
Provision for income taxes	22,376	22,376	22,376
Net earnings	$ 24,955	$22,055	$21,989
Effective income tax rate	47.3%	50.4%	50.4%
Other Information:			
Purchasing power gain from holding net monetary liabilities during the year		$ 6,664	$ 6,664
*Increase in specific prices (current costs) of inventories and property, improvements, and equipment held during the year			19,527
Effect of increase in general price level of inventories and property, improvements, and equipment			30,527
Excess of increase in the general price level over increase in specific prices			$ 11,000

*At January 31, 1980, current cost of inventory was $136,062 (historical amount, $118,511) and current cost of property, improvements, and equipment, net of accumulated depreciation, was $123,627 (historical amount, $88,695).

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices. In average 1979 constant dollars.

	Year ended January 31,				
	1980	1979	1978	1977	1976
	(Dollars in thousands, except per share data)				
Net sales:					
Historical dollars	$904,651	$793,125	$661,625	$519,395	$388,254
Constant dollars	$904,651	$885,132	$796,698	$666,845	$525,853
Cash dividends declared per common share:					
Historical dollars	$ .50	$ .40	$ .30	$ .13	$ .09
Constant dollars	$ .50	$ .44	$ .36	$ .17	$ .12
Market price per common share at year-end:					
Historical dollars	$ 17.00	$ 19.38	$ 19.88	$ 24.88	$ 33.00
Constant dollars	$ 16.09	$ 20.80	$ 23.33	$ 31.18	$ 43.49
Average Consumer Price Index-Urban(1)	219.7	196.9	182.5	171.2	162.1

Other information for the year ended January 31, 1980:	Historical dollars	Constant dollars	Current cost dollars
Net earnings	$ 24,955	$ 22,055	$ 21,989
Earnings per share	$ 1.92	$ 1.69	$ 1.69
Net assets (shareholders' equity) at year-end	$159,097	$211,158	$200,562
Purchasing power gain from holding net monetary liabilities during the year	$ —	$ 6,664	$ 6,664
Excess of increase in the general price level over increase in specific prices	$ —	$ —	$ 11,000

(1) Base period, 1967 equals 100

Explanatory Notes to Supplement Information:

Basis of Preparation—The above supplemental information which sets forth the effects of changing prices on the financial statements is presented as required by Financial Accounting Standards Board (FASB) Statement Number 33, "Financial Reporting and Changing Prices." These disclosures are intended to present two methods of financial reporting giving effect to inflation: (1) the effect of an increase in the general price level (constant dollar) on the purchasing power of the dollar, and (2) specific price changes (current cost) in certain assets used by the Company. Because of the uncertainty as to which method of inflation accounting is most appropriate, the FASB requires certain publicly held companies to disclose supplemental information setting forth both methods of inflation accounting.

The Company believes that the following information is necessary and should be considered and understood by users of the financial statements for a proper evaluation of the data presented.

Partial Application—The supplemental data includes the effect of both general inflation and specific price changes of inventories, properties, cost of sales, and depreciation expense, and the effect of general inflation on net monetary assets.

Net Earnings—The above supplemental statement of earnings presents earnings using three methods of measurement. Such methods are as follows:

1. Historical cost basis—Earnings reported on the historical cost basis accounting are the same amounts as reported in the primary financial statements.
2. Constant dollar accounting—Earnings reported on the constant dollar method represent income and expenses stated in constant dollars adjusted for general inflation. General inflation has been measured by the average level of the Consumer Price Index-Urban (CPI-U) for the period February 1, 1979, through January 31, 1980. Under this measurement method, historical amounts of depreciation expense have been increased to give effect to the increase in the CPI-U level which has occurred since the date properties were acquired. In addition, cost of sales, under the LIFO method, has been increased to reflect prior year liquidated inventory layers into current year constant dollars. Such increase approximated $368,000. Sales and expenses already reflect approximate average current year constant dollars and, accordingly, are the same as amounts reported in historical financial statements.
3. Current cost accounting—Earnings reported under current cost accounting are intended to give effect to current cost measures of inventories and properties at their current cost as of the balance sheet date; cost of sales is measured at the current cost of the date of sale; and depreciation expense is computed on various indexes as described below. Cost of sales has been determined under the LIFO method to be the same as that for constant dollar accounting.

Income Taxes—Income tax expense is the same for constant dollar accounting and current cost accounting as that reported in the historical financial statements. Deduction for additional depreciation expense resulting from the effects of inflation are not allowable for income tax purposes, consequently, taxes are provided at rates in the supplemental statements greater than amounts provided in historical statements. During periods of inflation and increasing prices, taxes provided in excess of the statutory rates in effect result in a tax on shareholders' equity.

Purchasing Power Gain from Holding Net Monetary Liabilities During the Year—Purchasing power gain results where monetary liabilities exceed monetary assets, because the amount of money necessary to pay such net liabilities are represented by dollars of diminishing purchasing power. Purchasing power gain has been computed on average net monetary liabilities for the year multiplied by the change in the CPI-U for the year. Such gain does not represent earnings nor funds available for dividends.

Increase (Decrease) in Current Costs of Inventories and Properties—Increase of specific prices of inventories and properties held during the year are not included in net earnings. Current cost increases in inventories and properties are reduced by the effect of general inflation measured by multiplying the beginning and end of the year current cost balances of inventories and properties by the ratio of the average CPI-U for the year ended January 31, 1980, over the year-end CPI-U for the respective periods. The increase (decrease) in specific prices over increase in the general price level consists of the following:

	Inventories	Properties	Total
Current cost increases:			
Realized	$ 368	$ 2,598	$ 2,966
Unrealized	7,886	8,675	16,561
Total	8,254	11,273	19,527
Less general inflation....	16,129	14,398	30,527
Current cost increase (decrease) net of general inflation ...	(7,875)	$(3,125)	$(11,000)

FASB Number 33 does not require a reduction in unrealized current cost increases for income taxes that would become payable if such increases were realized. Based on present state and federal tax rates, approximately $25.8 million of income taxes would be applicable to unrealized current cost increases ($52.5 million at January 31, 1980) of which $7.8 million is applicable to the year ended January 31, 1980.

Current Cost Measurements—Current cost amounts of inventories were estimated by using FIFO values adjusted for price changes which were reflected in the Company's perpetual inventory records. Current cost of sales was determined using the LIFO method (same method used in historical statements) adjusted for prior year layer liquidation, resulting in an increase in current cost of sales of $368,000.

Current cost of properties were determined by the use of various indexes as follows:

Land—Consumer Price Index—U.S. Department of Labor.

Building and Leasehold Improvements—Composite Construction Cost Index—U.S. Department of Commerce.

Store and Office Equipment—Producer Price Index for Durable Consumer Goods—U.S. Department of Labor.

Transportation Equipment—Commodity Price for Motor Vehicles—Bureau of the Census.

The above indexes were applied to the historical cost of properties and accumulated depreciation to determine current cost amounts and depreciation expense. The depreciation methods, primarily double declining balance, and useful lives are the same as those used in preparing the historical financial statements.

Data reported under current cost measurements is not intended to be precise measurements of the assets and costs and expenses involved, rather such data is intended to present reasonable approximations of the effects of changing prices. In addition, the amount of current costs of inventories and properties do not necessarily represent amounts at which the assets could be sold.

MATTEL, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Supplemental Financial Data Adjusted for Changing Prices (Unaudited)

The Company's consolidated financial statements are prepared based upon the historical prices in effect when the transactions occurred. The following supplementary information reflects certain specific effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices, issued by the Financial Accounting Standards Board.

The effects of inflation on income have been measured in two ways. The first measurement is of the effects of general inflation which was determined by using the Consumer Price Index for all Urban Consumers to recompute cost of sales and depreciation. The second approach is more specific in that it measures inflation by recomputing cost of sales and depreciation using the current cost of inventory and property, plant and equipment rather than the historical cost of such assets.

The following information also presents the Company's position resulting from holding an excess of monetary liabilities (payables and debt) over monetary assets (cash and receivables). The change in this position and change in the general price level during the year are reflected in the amount of purchasing power gain or loss.

As required by Statement of Financial Accounting Standards No. 33 no adjustment has been made to income tax expense to reflect the reductions in income before income tax resulting from the restatements of depreciation and costs of sales.

Consolidated Statement of Income Adjusted for Changing Prices (Unaudited)

For the Year Ended February 2, 1980	
Net income as reported in the consolidated statement of income	$ 30,553,000
Adjustments to restate selected costs for the effects of general inflation	
Depreciation	(2,700,000)
Cost of sales other than depreciation	(12,000,000)
Net income adjusted for the effects of general inflation (in average fiscal 1980 dollars)	15,853,000
Adjustments to restate selected costs for the effects of differences between general inflation and changes in specific prices (current costs)	
Depreciation	(800,000)
Cost of sales other than depreciation	(400,000)
Net income adjusted for the effects of changes in specific prices (current costs)	$ 14,653,000
Purchasing power gain from net monetary liabilities held during the year	$ 10,600,000
Increases in current costs of inventory and net property, plant and equipment held during the year	
Resulting from general inflation	$ 28,200,000
In excess of general inflation	$ 5,500,000
Current cost valuations at February 2, 1980	
Inventory (historical cost $158,527,000)	$161,600,000
Net property, plant and equipment (historical cost $117,783,000)	$162,000,000

Supplementary Five-Year Comparison of Selected Financial Data Adjusted for the Effects of Changing Prices in Average Fiscal 1980 Dollars (Unaudited)

(Dollars in thousands except per share amounts)	1980	1979	1978	1977	1976
Historical cost information as originally reported					
Net sales	$805,064	$493,563	$436,645	$386,273	$340,881
Net income	30,553	30,061	28,837	23,261	25,308
Net income per share (primary)	1.38	1.54	1.56	1.38	1.50
Net assets at fiscal year-end	207,674	*	*	*	*
Cash dividends per common share	.30	.225	—	—	—
Market price per common share at fiscal year-end	9.25	7.63	7.50	5.38	(1)
Historical cost information adjusted for general inflation[2]					
Net sales	$805,064	$551,130	$525,873	$495,995	$462,225
Net income	15,853	*	*	*	*
Net income per share (primary)	.64	*	*	*	*
Net assets at fiscal year-end	232,900	*	*	*	*
Cash dividends per common share	.30	.246	—	—	—
Market price per common share at fiscal year-end[3]	9.25	8.69	9.34	7.16	(1)
Purchasing power gain on net monetary liabilities held during the year	10,600	*	*	*	*
Current cost information					
Net income	$ 14,653	*	*	*	*
Net income per share (primary)	.58	*	*	*	*
Net assets at fiscal year-end	243,000	*	*	*	*
Increase in current costs of inventory and property, plant and equipment held during the fiscal year, net of general inflation	5,500	*	*	*	*
Average level of the Consumer Price Index for all Urban Consumers	219.8	196.9	182.5	171.2	162.1

[1]Trading in the Company's common stock was suspended from September 6, 1974 to June 17, 1976.
[2]Based upon changes in the Consumer Price Index for all Urban Consumers.
[3]In fiscal 1980 year-end dollars.
*Amounts for periods prior to adoption of Statement of Financial Accounting Standards No. 33 are not required to be disclosed.

THE MEAD CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note O: The Effects of Inflation (Unaudited)

In an attempt to deal with reporting the effects of inflation on financial statements, the Financial Accounting Standards Board (FASB) has mandated the disclosure of selected financial information in annual reports. In response to this requirement, the following information is presented.

Year Ended December 31	1979	1978	1977	1976	1975
Net sales (in millions):					
Historical	$2,569.5	$2,322.1	$1,821.8	$1,599.3	$1,244.6
In average 1979 dollars	2,569.5	2,583.5	2,182.1	2,039.2	1,678.5
Cash dividends per common share:					
Historical	$ 1.65	$ 1.21	$ .98	$ .89	$ .80
In average 1979 dollars	1.65	1.35	1.27	1.30	1.31
Market price per common share at year end:					
Historical	$ 24.75	$ 23.38	$ 21.50	$ 20.75	$ 12.17
In average 1979 dollars	23.41	25.05	25.12	25.88	15.91
Average consumer price index	217.4	195.4	181.5	170.5	161.2

The following information is presented for 1979 and 1978 only, as information for prior years is impractical to obtain.

	1979	1978
(All dollar amounts in millions except per share amounts)		
Net earnings:		
Historical	$ 141.0	$ 120.9
Constant dollar	89.3	90.7
Current cost	88.1	87.1
Net earnings per common share:		
Primary:		
Historical	$ 5.42	$ 5.12
Constant dollar	3.42	3.76
Current cost	3.37	3.61
Fully diluted:		
Historical	$ 5.19	$ 4.41
Constant dollar	3.29	3.31
Current cost	3.24	3.17
Share owners' equity at year end:		
Historical	$ 776.7	$ 682.3
Constant dollar	1,201.7	1,148.2
Current cost	1,286.1	1,259.8
Excess of increase in general inflation amounts of inventory and property, plant, and equipment over increase in specific prices	$ 22.9	$ 3.5
Purchasing power gain on net monetary items	$ 63.5	$ 46.8

Statements of Earnings from Continuing Operations

Adjusted for Changing Prices

	As Reported in Primary Statements		Adjusted to Constant Dollar		Adjusted to Current Cost	
Year Ended December 31	1979	1978	1979	1978(1)	1979	1978(1)
(All dollar amounts in millions)						
Net sales	$2,569.5	$2,322.1	$2,569.5	$2,583.5	$2,569.5	$2,583.5
Cost of products sold	2,092.0	1,892.4	2,141.7(2)	2,147.7(2)	2,142.8(2)	2,151.1(2)
Gross profit	477.5	429.7	427.8	435.8	426.7	432.4
Selling, administrative, and research expenses	280.5	245.4	282.5(2)	274.6(2)	282.6(2)	274.8(2)
Earnings from wholly-owned operations	197.0	184.3	145.3	161.2	144.1	157.6
Equity in earnings before taxes of jointly-owned companies	55.5	42.3	55.5	47.1	55.5	47.1
Earnings from operations	252.5	226.6	200.8	208.3	199.6	204.7
Other revenues	21.7	27.1	21.7	30.2	21.7	30.2
Interest and debt expense	(39.5)	(39.0)	(39.5)	(43.4)	(39.5)	(43.4)
Earnings before income taxes	234.7	214.7	183.0	195.1	181.8	191.5
Income taxes	93.7	93.8	93.7(3)	104.4(3)	93.7(3)	104.4(3)
Net earnings from continuing operations	$ 141.0	$ 120.9	$ 89.3	$ 90.7	$ 88.1	$ 87.1
Gain from decline in purchasing power of net amounts owed			$ 63.5	$ 46.8	$ 63.5	$ 46.8
Increase in specific prices (current cost) of inventories and property, plant, and equipment held during the year					$ 158.6	$ 124.3
Effect of the general price level (constant dollar)					(181.5)	(127.8)
Excess of increase in the general price level over specific prices					$ (22.9)	$ (3.5)

(1)1978 amounts are stated in terms of average 1979 dollars.

(2)Depreciation and cost of timber harvested are included as elements of cost of products sold and selling, administrative, and research expenses as follows:

	1979	1978
Constant dollar	$100.7	$ 98.8
Current cost	103.9	102.5

(3)In accordance with FASB Statement No. 33, no adjustment has been made to income taxes.

At December 31, 1979, current cost of inventory was $345.5 and current cost of property, plant and equipment, net of accumulated depreciation was $1,179.5.

The preceding financial data was generated in the manner prescribed by the FASB and includes information based on historical cost, constant dollars, and current costs. These terms are defined as follows:

(1) *Historical cost.* The method of accounting used in the primary financial statements.

(2) *Constant dollar accounting.* A method of reporting financial statement elements in dollars, each of which has the same (i.e., constant) general purchasing power.

(3) *Current cost accounting.* A method of measuring and reporting assets and expenses associated with the use or sale of assets at their current cost at the balance sheet date or at the date of use or sale.

As permitted, the historical cost amounts have been adjusted to constant dollar and current cost bases for inventory and cost of products sold, and property, plant, and equipment and depreciation expense for 1979 and 1978.

In the constant dollar data, which is stated in average 1979 dollars, the principal adjustments are to increase inventory and property, plant, and equipment with appropriate increases to cost of products sold and selling, administrative, and research expenses. Similar amounts, as adjusted for changes in specific prices, were determined as follows:

Inventory represents the December 31 cost of purchasing the goods, or of obtaining the resources.

Cost of products sold represents the prices in effect when the products were sold.

Property, plant, and equipment. Plant and equipment amounts were determined by applying specific indices, as developed by a valuation research firm, to historical cost balances. Since the Financial Accounting Standards Board has not yet developed definitive provisions for measuring unharvested timber on a current cost basis, Mead is permitted to and has measured such and the related cost of timber harvested using the constant dollar basis. Amounts for land were determined by appraisals.

Current cost depreciation expense amounts were derived by using estimated current costs of plant and equipment in each year as the base and depreciating the amounts over the same lives and methods used to prepare Mead's primary financial statements. Cost of timber harvested on a current cost basis is the same as that derived under the constant dollar method, as currently permitted.

Except as otherwise noted, the resultant current cost data has been stated in terms of average 1979 dollars.

Amounts applicable to Mead's jointly-owned companies have not been adjusted and are included in the preceding schedules on the basis of historical cost as permitted.

NATIONAL DISTILLERS AND CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 19—Supplementary Information on Effects of Changing Prices (Unaudited)

The following information is submitted in accordance with the requirements of Statement No. 33, "Financial Reporting and Changing Prices," issued by the Financial Accounting Standards Board ("FASB"). The information is intended to provide measurements of the effects of changing prices ("inflation") on the Company's operations and financial position. The FASB has mandated the use of two methods, current cost and constant dollar, to measure the effects of inflation. Both methods involve assumptions, approximations and estimates and therefore the results obtained by applying these methods should not be taken as any precise measure of the effect of inflation.

The Company cautions that the current cost data set forth herein:

a) are not the current market values of existing property, plant and equipment or inventories and only estimate the costs that would be incurred if such assets were all replaced at December 31, 1979;

b) represent estimates of existing assets without considering technological improvements and efficiencies associated with the normal replacement of productive capacity;

c) include current cost information with respect to certain distilled spirits inventories, which because of the number of years required to produce salable products could not be physically replaced at any one time;

d) do not reflect adjustments for income tax effects;

e) because of the varying bases used and the subjective judgments required in estimating current cost, will not necessarily be comparable among companies with which the Company competes in its different product lines.

Current cost method

The current cost method adjusts historical financial data to reflect the changes in specific prices of the resources used in operations so that measures of these resources and their consumption reflect current cost of replacement, rather than the historical cost amounts expended to acquire them. Current cost data for property, plant and equipment were developed on the basis of indexes, published by governmental or other external organizations, appropriate to the various industries in which the Company is engaged. Depreciation expense was calculated on the indexed cost of such properties using the same methods and rates as used in the historical financial statements. Inventories and cost of goods sold were measured on the basis of recent production costs.

Constant dollar method

The constant dollar method adjusts historical financial data to reflect the effects of general inflation using the Consumer Price Index for all Urban Consumers (CPI-U) as published by the Bureau of Labor Statistics as a measure of the general inflation rate. Constant dollar data for property, plant and equipment and inventories were developed using the average level of the CPI-U during the year. As with the current cost method, the constant dollar income statement data revise amounts only for depreciation expense and cost of goods sold; depreciation expense was computed using the same methods and rates as used in the historical financial statements.

Measures of Inflation—1979

Included herein is a statement of income which reflects the application of current cost and constant dollar adjustments to the current year's operations. Under both the current cost and constant dollar methods, net income is lower than as reported in the historical statement of income. Depreciation expense is higher in both cases since the historical cost of property, plant and equipment has been indexed upward to reflect the estimated cost of replacement. Excluding depreciation, cost of goods sold increased under both methods principally because of higher costs in 1979 for inventories not accounted for under the last-in, first-out inventory valuation method. The provision for taxes on income has not been reduced because the theoretical increases in cost resulting from inflation are not deductible. The effective tax burden, after considering the effects of inflation, is substantially higher than the statutory rate and reduces funds available for increasing or replacing productive capacity.

In addition to the computations which adjust the current year's operations to reflect inflation, two additional inflation related measurements are presented herein:

(a) A comparison of the increase in specific prices (current costs) of inventories and property, plant and equipment with the effect of general inflation. This measurement indicates that, in total, the general rate of inflation was greater than the increase in the specific prices at which these assets could be replaced.

(b) The estimated effect of inflation on monetary assets (cash, receivables, etc.) and liabilities (accounts payable, debts, etc.) because of the change in the purchasing power of the dollar. This measurement indicates a gain from the decline in the purchasing power of the net amount owed (monetary liabilities exceeded monetary assets). The monetary assets and liabilities of unconsolidated insurance subsidiaries and associated companies, which are accounted for under the equity method, have not been included in this calculation.

Five-year Table of Certain Historical Data.

In addition to the measurements of the effect of inflation on current year's operations, a five-year table is included that shows the average level of the Consumer Price Index for each of the last five years and the amounts of net sales, dividends paid per common share, and year-end market price per common share for each of those years, both in historical dollars and in terms of average (constant) 1979 dollars as measured by the Consumer Price Index.

Statement of Income for the Year 1979 adjusted for inflation

	Historical Cost, as Reported	Constant Dollars (unaudited)	Current Cost (unaudited)
Net sales	$2,114,888	$2,114,888	$2,114,888
Cost of goods sold	1,750,355	1,791,687	1,792,547
Gross profit	364,533	323,201	322,341
Selling, advertising and other operating expenses	161,537	163,901	164,484
Operating profit	202,996	159,300	157,857
Corporate and general expenses	(24,870)	(25,275)	(25,376)
Interest on long-term debt	(29,149)	(29,149)	(29,149)
Gain on sale of European operations	22,039	22,039	22,039
Other income (expense)—net	3,010	3,010	3,010
	174,026	129,925	128,381
Provision for taxes on income	(81,805)	(81,805)	(81,805)
Earnings of insurance subsidiaries	17,788	17,788	17,788
Share of earnings of associated companies	25,744	25,744	25,744
Net income	$ 135,753	$ 91,652	$ 90,108
Earnings per common share	$4.04	$2.63	$2.58
Other 1979 Data			
Effective tax rate	47.0%	63.0%	63.7%
Depreciation expense	$ 42,952	$ 63,960	$ 70,781
Cost of goods sold (excluding depreciation)	$1,714,525	$1,737,618	$1,732,341
Net property, plant and equipment, at year-end	$ 520,748	$ 695,257	$ 796,238
Inventories, at year-end	$ 436,670	$ 587,836	$ 642,101
Net assets, at year-end	$1,020,098	$1,360,642	$1,515,888

Inflation Related Measurements	
Increases in inventories and property, plant and equipment held during 1979 reflect:	
Increase in the general price level (constant dollar)	$ 164,965
Increase in specific prices (current cost)	$ 154,078
Increase in general price level over specific price increases	$ 10,887
Gain from decline in purchasing power of net amount owed	$ 38,223

Certain Five-Year Historical Data adjusted for Inflation

	1979	1978	1977	1976	1975
Net sales					
Historical	$2,114,888	$1,857,566	$1,587,167	$1,504,123	$1,255,714
Constant dollars(1)	$2,114,888	$2,062,906	$1,897,605	$1,914,338	$1,705,192
Dividends paid per common share					
Historical	$1.80	$1.70	$1.60	$1.40	$1.20
Constant dollars(1)	$1.80	$1.89	$1.91	$1.78	$1.62
Market price per common share year-end					
Historical	28¾	18⅜	20⅝	25⅛	16¼
Constant dollars(1)	28¾	20⅜	24⅝	32	21⅞
Average consumer price index (1967 equals 100)	217(2)	195.4	181.5	170.5	161.2

(1) Average 1979 dollars

(2) Estimate for the year based on trend of published monthly indexes for the period January through September 1979.

G. D. SEARLE & CO. (DEC)

SPECIAL SECTION: INFLATION ACCOUNTING

Summary of Significant Assumptions and Policies (unaudited):

Presentation:

The presentation of supplementary inflation accounting data reflects the requirements and options of Statement of Financial Accounting Standards No. 33. Management has elected to present comprehensive financial statements to reflect both constant dollar and current cost restatements.

General Inflation:

All financial statement amounts have been restated to a common or constant dollar. This common or constant dollar is based on the CPI which has been used to restate account balances to price levels in effect as of the end of 1979.

Specific Prices:

All financial statement amounts under the heading "Specific Prices" reflect an estimate of the current cost of nonmonetary assets. These amounts are subsequently restated to reflect the impact of general inflation (constant dollars) as described above.

Inventories:

Inventories and related cost of goods sold have been restated to reflect constant dollars and current costs. These restatements were effected by the application of a CPI-based ratio (in the case of constant dollar restatements) and a PPI-based ratio (in the case of current cost restatements) to the aged historical cost of inventories for each of twelve major product groups.

Property and Equipment:

Property and equipment and related depreciation expense have been restated to reflect constant dollars and current costs. The restatement to constant dollars was effected by the application of a CPI-based ratio to the historical cost of property and equipment by year of acquisition.

The procedure for the determination of current costs was as follows:

Land valuations are based upon appraisals and other estimates of current market prices.

Buildings, improvements, machinery and equipment in the U.S. were valued by applying a specialized construction cost index to listings by construction or equipment type and geographic location.

Buildings, improvements, machinery and equipment located outside the U.S. were valued in foreign currencies utilizing engineering estimates, appraisals, current invoice prices or vendor price lists and subsequently translated to U.S. dollars at the appropriate year-end exchange rates.

Discontinued Diagnostic Businesses:

The assets of the discontinued diagnostic businesses have been valued at the lower of historical cost or recoverable amount in accordance with Statement of Financial Accounting Standards No. 33. The results of their operations have been restated in constant dollars in accordance with the aforementioned Statement.

Taxes:

Income tax expense remains unchanged from the amount reported in the primary financial statements, except for the restatement to constant dollars.

Dictionary of Inflation Accounting Terms

Primary financial statements—The financial statements included on pages 31 through 34 of this report.

Historical cost accounting—Reports the actual dollars received, expended or accrued for goods, services, or facilities purchased, sold or used.

Constant dollar accounting—Reports assets and expenses associated with the use or sale of assets in "real" dollars having the same (i.e., constant) purchasing power.

Current cost accounting—Reports assets and expenses associated with the use or sale of assets at their current cost or lower recoverable amount (i.e., net realizable value).

Net monetary assets—The amount by which assets exceed liabilities excluding inventories, property and equipment, and certain prepaid expenses and reserves.

Inventory profits—The difference between the historical cost of goods manufactured or sold and the current cost to replace those same inventories during periods of consistently rising prices (i.e., inflation).

Consumer Price Index (CPI)—This index measures changes in the prices paid by U.S. consumers for a wide range of commodities such as food, housing and fuel.

Producer Price Indexes (PPI)—These indexes measure the movement of wholesale prices.

Consolidated Summary Statement of Earnings from Continuing Operations for the Year Ended December 31, 1979 (unaudited): (Dollars in thousands except per share amounts)	As Reported on Pages 31 to 34	All Amounts Stated in December 31, 1979 Dollars Adjusted for General Inflation	Specific Prices
Net sales	$898,369	$950,429	$950,429
Costs and operating expenses*	744,904	820,798	819,263
Operating earnings	$153,465	$129,631	$131,166
Nonoperating income (expense)	(17,850)	(18,885)	(18,885)
Earnings before taxes	$135,615	$110,746	$112,281
Taxes	46,611	49,312	49,312
Earnings from continuing operations	$ 89,004	$ 61,434	$ 62,969
Earnings per common share from continuing operations	$ 1.68	$ 1.16	$ 1.19
*Includes depreciation expense of	$ 20,321	$ 32,434	$ 36,274
Operating earnings as a % of sales	17.1%	13.6%	13.8%
Earnings before taxes as a % of sales	15.1	11.6	11.8
Earnings from continuing operations as a % of sales	9.9	6.5	6.6
Return on shareholders' investment	19.2	9.8	9.5
Effective tax rate	34.4	44.5	43.9
Dividends as a % of net earnings	31.1	48.0	46.8

Consolidated Summary Statement of Changes in Shareholders' Investment for the Year Ended December 31, 1979 (unaudited):
(Dollars in thousands)

Shareholders' investment, January 1, 1979	$426,932	$575,574	$549,905
Impact of general inflation on specific prices of inventories, property and equipment	—	—	64,480
Shareholders' investment, January 1, 1979	$426,932	$575,574	$614,385
Net earnings (loss):			
From continuing operations	$ 89,004	$ 61,434	$ 62,969
Discontinued operations	(1,055)	(1,116)	(1,116)
Cash dividends on common stock	(27,368)	(28,954)	(28,954)
Loss from decline in purchasing power of net monetary assets held	—	(2,606)	(2,606)
Excess of increases in specific prices over the increase in general inflation	—	—	365
Other	1,084	1,147	1,147
Net increase in shareholders' investment	$ 61,665	$ 29,905	$ 31,805
Shareholders' investment, December 31, 1979	$488,597	$605,479	$646,190

Consolidated Summary Balance Sheet as of December 31, 1979 (unaudited):
(Dollars in thousands)

Inventories	$ 208,879	$ 213,457	$ 212,267
Property and equipment, net	212,972	325,276	367,177
All other assets	709,771	709,771	709,771
Total assets	$1,131,622	$1,248,504	$1,289,215
Total liabilities	$ 643,025	$ 643,025	$ 643,025
Shareholders' investment	488,597	605,479	646,190
Total liabilities and shareholders' investment	$1,131,622	$1,248,504	$1,289,215

Five-Year Summary Restated to December 31, 1979 Dollars (unaudited):

	1979	1978	1977	1976	1975
Net sales from continuing operations (in thousands)	$950,429	$907,807	$854,125	$800,276	$789,457
Dividends per common share	.55	.61	.66	.70	.72
Market price per common share at end of fiscal year	$ 18⅞	$ 15⅛	$ 15⅝	$ 17⅜	$ 20⅞
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2
Year-end Consumer Price Index	230.0	202.9	186.1	174.3	166.3

See the accompanying "Summary of Significant Assumptions and Policies" on page 43.

Searle's primary financial statements are presented on pages 31 through 34. These statements are based on historical costs and do not reflect the impact of inflation. The Financial Accounting Standards Board (FASB) now requires companies to restate financial statements to eliminate the effects of inflation. Two restatements are required:

to reflect the best estimate of the impact of general inflation as measured by the CPI; and

to reflect the specific prices (current costs) for the company's inventories, property and equipment.

These presentations regarding the effects of inflation are still experimental. Nonetheless, management believes that these initial efforts constitute a useful step in understanding the consequences of inflation. Readers are cautioned, however, not to arrive at firm conclusions based on this data. Although the concept of inflation is generally understood, it is important for the reader to review carefully the significant assumptions and policies listed on page 43.

Because inflation accounting is still in an experimental stage of development, certain assumptions are open to question.

Use of the CPI to restate for the effects of general inflation is probably not indicative of the actual impact of inflation upon Searle's businesses.

The specific prices restatement estimates the cost to replace assets currently in place but does not reflect management's actual plans for asset replacement.

Management's Comment

Sales—The reported compound growth rate in sales from continuing operations for the most recent five-year period is 13.3 percent. Measured in constant dollars, the "real" rate of growth is 4.8 percent. This rate compares favorably to the real rate of growth in U.S. Gross National Product which was approximately 3.3 percent for the same period.

Earnings—Earnings under both the general inflation and specific prices restatements are lower than earnings reported in the primary financial statements. The reductions primarily reflect:

the elimination of inventory profits, and

higher depreciation expense.

Taxes—Although earnings before taxes are reduced by the aforementioned restatements to constant dollars and current costs, taxes remain constant except for their restatement to 1979 year-end dollars. Therefore, the effective tax rate increases sharply from a reported 34.4 percent to a high of 44.5 percent.

Present tax laws in many countries do not allow deductions for the normally higher future cost to replace productive capacity. Further, most governments tax the illusory inventory profits. Because income taxation is not limited to true economic gains, the "real" tax borne by Searle and most other companies is often much greater than the effective tax rate shown in the primary financial statements.

Dividends—The reported 1979 dividend payment rate of 31 percent increases to 48 percent under the general inflation method and to 47 percent under the specific price method.

Shareholders' Investment—Return on shareholders' investment reported in the primary financial statements for 1979 was 19.2 percent. The return adjusted for the effects of general inflation and changes in specific prices was 9.8 and 9.5 percent, respectively. These rates provide a favorable comparison to an annual "real" interest rate which most economists believe to be approximately three percent.

In addition to the inflation-adjusted earnings and dividends, the changes in shareholders' investment include two more effects of inflation. A discussion of these amounts follows.

Purchasing Power Gain or Loss—The declining purchasing power of the dollar affects a business in the same way it affects an individual. The value of a business' net monetary assets declines during inflationary periods. The amount of this loss to Searle in 1979 is $2.6 million under both inflation accounting methods. The estimated loss arising from the declining purchasing power of the U.S. dollar provides a strong incentive for Searle management's emphasis on the reduction of working capital requirements.

Specific Prices—Unique to the restatement based on specific prices is the attempt to measure the difference between changes in specific prices and the general rate of inflation.

Specific prices for Searle's property and equipment during 1979 grew at rates faster than the CPI. The amount of the excess cost in 1979 was $5.5 million. These costs do not reflect management's actual plans for asset replacement. Additionally, earnings have not been adjusted for the cost savings associated with technological advancements and resulting productivity improvements. Therefore, these higher costs will not be incurred. Searle's actual capital expenditures have provided for asset replacement at costs below those cited in these inflation-adjusted statements.

Specific prices for inventories grew at rates less than the CPI. The amount of this benefit in 1979 was $5.1 million. The gain reflects the results of management's cost reduction and productivity improvement programs.

Summary

This is Searle's first attempt to report in summary financial statement format the effects of inflation. We expect that improvements in the presentation and quality of the data will be made in the ensuing years. In the interim, the current data provides some indication of how serious are the consequences of inflation. Searle may have been less damaged by inflation than other segments of industry. However, the issue posed by the deleterious effect of inflation upon the competitive position of U.S. industry must concern all Americans and requires the urgent attention of every element of American society.

QUARTERLY FINANCIAL DATA

Effective for fiscal periods beginning on or after December 25, 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. Five hundred and seventeen survey companies disclosed in a note to their 1979 financial statements quarterly financial data for each quarter of the current and prior year.

ALLIS-CHALMERS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarterly Financial Data (unaudited)

	First Quarter 1979	1978	Second Quarter 1979	1978	Third Quarter 1979	1978	Fourth Quarter 1979	1978
	(millions, except per share data)							
Sales	$446.4	$401.9	$508.4	$464.3	$488.7	$403.3	$529.2	$492.8
Gross profit	104.2	88.5	118.7	114.9	110.7	89.9	132.0	116.3
Net income	20.9	18.8	21.3	27.7	17.5	12.5	21.7	17.0
Income per share	1.60	1.55	1.64	2.27	1.33	1.02	1.66	1.34

Fourth quarter results include pretax gains of approximately $11.8 million ($.47 per share) in 1979 and $11 million ($.45 per share) in 1978 resulting from physical inventory and standard cost adjustments, net of provisions for obsolete and surplus inventories, offset by provisions of $2.6 million ($.10 per share) and $3.6 million ($.15 per share) in 1979 and 1978, respectively, relating to estimated losses on fixed sales contracts contracted for in German marks. The 1979 fourth quarter also includes reduced income taxes of $2.2 million ($.17 per share) as a result of redetermination of the tax liability. Included in the fourth quarter results of 1978 is a $1.4 million ($.06 per share) reduction in plant rearrangement and product relocation expense.

Adoption of the LIFO method of inventory valuation for certain additional U.S. inventories effective January 1, 1979 reduced previously reported net income in the first three quarters by $1.9 million ($.15 per share), $1.3 million ($.10 per share) and $1.4 million ($.11 per share), respectively.

ALLIED CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Quarterly Financial Information

(Dollars in millions except per share amounts)

	1979					1978(f)				
	Mar. 31(f)	June 30(f)	Sept. 30(a)	Dec. 31(a)	Year(a)	Mar. 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$844.7	$938.8	$1,250.6	$1,298.3	$4,332.4	$740.2	$762.3	$735.4	$778.2	$3,016.1
Gross profit(b)	226.2	280.6	340.8	370.1	1,217.7	199.6	199.1	189.1	205.1	792.9
Income from continuing operations	36.9	52.1(d)	19.2(d)	67.4	175.6	39.4	40.5	33.6(d)	39.2(d)	152.7
Discontinued operations (c)	(9.0)	(12.9)	(142.9)	—	(164.8)	(9.5)	(4.6)	(8.7)	(9.7)	(32.5)
Net income (loss)	27.9	39.2(d)	(123.7)(d)	67.4	10.8	29.9	35.9	24.9(d)	29.5(d)	120.2
Per share of common stock:										
Continuing operations	1.29	1.82(d)	.64(d)	2.20	5.95	1.40	1.42	1.19(d)	1.39(d)	5.40
Discontinued operations	(.31)	(.45)	(4.99)	—	(5.75)	(.34)	(.15)	(.31)	(.35)	(1.15)
Net earnings (loss)	.98	1.37(d)	(4.35)(d)	2.20	.20	1.06	1.27	.88(d)	1.04(d)	4.25
Dividends paid	.50	.50	.50	.50	2.00	.50	.50	.50	.50	2.00
Market price (e):										
High	35.75	36.00	43.25	49.50	49.50	44.13	44.75	41.75	37.25	44.75
Low	28.50	30.25	33.25	39.88	28.50	34.13	35.25	34.25	27.63	27.63

(a) Includes the results of Eltra Corporation subsequent to June 30, 1979. See Note 3 of Notes to Financial Statements for a discussion of the Eltra acquisition.

(b) Exclusive of depreciation, depletion and amortization.

(c) See Note 2 of Notes to Financial Statements for a discussion of discontinued operations.

(d) See Note 4 of Notes to Financial Statements for a discussion of nonrecurring items.

(e) New York Stock Exchange—Composite Transactions.

(f) The quarters ended March 31 and June 30, 1979, and the quarters and year 1978 have been restated to exclude the sales, costs and expenses of the discontinued operations from the captions applicable to the continuing operations with the net losses from discontinued operations reported separately.

AMERICAN BRANDS, INC. (DEC)

NOTES ACCOMPANYING FINANCIAL STATEMENTS

Quarterly financial data (unaudited)

Summarized quarterly unaudited financial data (in millions except per share amounts) are as follows:

	1979			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Net sales	$1,417.1	$1,358.0	$1,522.6	$1,548.3
Gross profit	306.4	318.4	341.9	351.3
Net income	69.5	72.2	114.5	91.1
Net income per Common share				
Without dilution	2.45	2.41	4.00	3.14
Fully diluted	2.34	2.27	3.72	2.95

	1978			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Net sales	$1,258.7	$1,228.3	$1,297.2	$1,392.5
Gross profit	262.6	272.0	288.0	310.0
Net income	55.8	42.5	53.0	60.2
Net income per Common share				
Without dilution	2.10	1.58	1.99	2.26
Fully diluted	2.02	1.53	1.92	2.19

Net income in the preceding summary reflects the following:

Translation of and transactions in foreign currencies resulted in an unfavorable change of $9.4 million in the 1st quarter, and a favorable change of $6.9 million, $15.5 million and $1.2 million in the 2nd, 3rd and 4th quarters of 1979 as compared with the corresponding quarters of 1978.

The 1st, 2nd, 3rd and 4th quarters of 1979 as compared with the 1978 quarters reflect increased equity in the net earnings of Franklin of $11.9 million, $11.2 million, $16.8 million and $21.1 million, respectively. Finalization of purchase accounting adjustments impacted favorably on 4th quarter results for 1979.

The 3rd quarter of 1979 includes $27.9 million forgiveness of United Kingdom deferred income taxes related to "stock (inventory) relief."

SCOTT PAPER COMPANY (DEC)

FINANCIAL REVIEW

Quarterly Highlights

(Unaudited)

	(Millions, except on a per common share basis)			
1979	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$470	$484	$475	$479
Gross Margin(1)	159	166	161	154
Net Income	38	35	34	30
Per Common Share				
Net income	$ .97	$ .90	$. 87	$ .78
Dividends	.21	.23	.23	.23
Market Price				
High	18⅞	19⅝	20⅞	19¾
Low	13⅝	16¼	16¼	16
1978				
Sales	$396	$422	$442	$465
Gross Margin(1)	123	132	142	154
Net Income	21	24	16	33
Per Common Share				
Net Income	$ .53	$ .62	$ .42	$ .84
Dividends	.19	.19	.21	.21
Market Price				
High	14⅛	19	18⅛	17⅜
Low	12½	12½	15⅜	13½

(1) Sales less product costs.

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1979 and 1978 (in thousands, except per share data) appears below:

1979	First	Second	Third	Fourth	Total
Net sales	$623,194	$712,915	$744,748	$695,079	$2,775,936
Gross profit	131,420	160,236	169,738	142,400	603,794
Income before cumulative effect of accounting change(1)	27,976	41,292	46,498	28,494	144,260
Cumulative effect of accounting change(2)	52,168	—	—	—	52,168
Net income	$ 80,144	$ 41,292	$ 46,498	$ 28,494	$ 196,428
Per share:(1)					
Income before cumulative effect of accounting change	$ .62	$ .91	$ 1.03	$ .63	$ 3.19
Cumulative effect of accounting change	1.15	—	—	—	1.15
Net income per share	$ 1.77	$ .91	$ 1.03	$ .63	$ 4.34
1978					
Net sales	$474,246	$581,778	$649,487	$554,122	$2,259,633
Gross profit	95,462	131,492	153,818	116,451	497,223
Net income(3)	20,426	33,199	38,525	18,890	111,040
Net income per share(3)	.45	.74	.85	.42	2.46
Pro forma amounts(4)					
Net income	22,066	36,138	42,108	21,610	121,922
Net income per share	.49	.80	.93	.48	2.70

(1) The first three quarters of 1979 have been restated for the change in accounting for the investment tax credit.

(2) See Note 2. Change in Accounting for the Investment Tax Credit.

(3) Fourth quarter 1978 earnings were reduced $.07 per share ($6,000,000 pretax) as a result of expenditures made in connection with the research and development of machinery capable of producing aluminum can stock from recycled aluminum.

(4) Assuming the flow-through method of accounting for the investment tax credit had been used in prior years.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 17: Quarterly information (unaudited)

Quarter ended	Net sales	Gross profit	Income taxes	Income (loss) before extra-ordinary credit	Extra-ordinary credit	Net income (loss)
1979						
Jan. 31	$1,204.1	$242.6	$19.8	$32.4	$2.4*	$34.8
Apr. 30	1,353.5	252.2	25.4	29.6	3.0*	32.6
Jul. 31	1,307.8	221.8	6.5	9.0	1.4*	10.4
Oct. 31	1,418.8	242.5	34.5	6.7	28.4	35.1
1978						
Jan. 31	$1,062.9	$202.6	$14.6	$ 7.4	—	$ 7.4
Apr. 30	1,234.2	242.3	(9.7)	(44.4)	—	(44.4)
Jul. 31	1,215.9	226.5	23.7	15.9	—	15.9
Oct. 31	1,365.1	248.0	(55.8)	(127.2)	—	(127.2)

	Per share of common stock					
Quarter ended 1979	Income (loss) before extra-ordinary credit	Extra-ordinary credit	Net income (loss)	Dividend	Price range** High	Low
Jan. 31	$.56	$.04*	$.60	$.275	$13¾	$11⅞
Apr. 30	.51	.06*	.57	.275	13⅞	12¾
Jul. 31	.16	.02*	.18	.275	13½	11⅞
Oct. 31	.12	.49	.61	.15	12⅜	8⅝
1978						
Jan. 31	$.13	—	$.13	$.275	$17¼	$14⅜
Apr. 30	(.77)	—	(.77)	.275	15⅝	12⅞
Jul. 31	.27	—	.27	.275	15⅛	12¾
Oct. 31	(2.21)	—	(2.21)	.275	14¼	11⅞

*The tax benefits resulting from the use of operating loss carryforwards by certain foreign subsidiaries have been reclassified as an extraordinary credit for the first three quarters of 1979 to conform to the presentation for the year.

**Composite market price, principally New York Stock Exchange.

Income before extraordinary credit in the quarter ended October 31, 1979, included a charge, net of income taxes, of $36.9 million for phase-out of facilities and a credit, net of a tax provision of $20.8 million, of $26.1 million resulting from the reduction of the provision for tire recall and related costs. The reduction of the provision for the tire recall and related costs permitted the use of 1978 foreign tax credits of $20.8 million which offset the tax provision and are reported as an extraordinary credit.

Net loss in the quarter ended April 30, 1978, included provision for loss on phase-out of facilities, net of income taxes, of $73.0 million. Net loss in the quarter ended October 31, 1978, included provision for loss on tire recall and related costs, net of income taxes, of $147.4 million and a decrease in net loss of approximately $4.5 million due to the partial liquidation of inventories valued using the LIFO method.

Fourth quarter results included foreign currency exchange gains in 1979 and losses in 1978 and inventory related losses in both years netting to losses of $.05 and $.25 per share in 1979 and 1978, respectively.

KELLER INDUSTRIES, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note I—Summary of Quarterly Results of Operations (unaudited)

The following is a summary of unaudited quarterly results of operations:

	1979 Quarter Ended			
	October 31	January 31	April 30	July 31
	(Thousands of dollars, except per share data)			
Net sales	$37,041	$34,828	$57,717	$49,810
Gross profit	9,836	8,623	15,053	13,926
Income from continuing operations	622	182	2,104	2,098
(Loss) income from discontinued operations	-0-	-0-	-0-	50
Net income	622	182	2,104	2,148
Income per share from continuing operations	.18	.05	.61	.61
Net income per common share	.18	.05	.61	.62

	1978 Quarter Ended			
	October 31	January 31	April 30	July 31
	(Thousands of dollars, except per share data)			
Net sales	$35,183	$31,799	$49,088	$41,288
Gross profit	10,421	9,340	14,921	11,483
Income from continuing operations	1,460	859	2,672	1,328
(Loss) income from discontinued operations	42	(26)	(498)	(361)
Net income	1,502	833	2,175	967
Income per share from continuing operations	.42	.25	.77	.38
Net income per common share	.43	.24	.63	.28

Adoption of the LIFO method of accounting for inventories reduced quarterly net income as previously reported as follows:

	Previously Reported	LIFO Adjustment	As Adjusted
	(Thousands of dollars)		
Quarter ended:			
October 31, 1978	$1,164	$(542)	$ 622
January 31, 1979	705	(523)	182
April 30, 1979	2,979	(875)	2,104

The effect on earnings per share was as follows:

Quarter ended:			
October 31, 1978	$.34	$(.16)	$.18
January 31, 1979	.20	(.15)	.05
April 30, 1979	.86	(.25)	.61

GEO. A. HORMEL & COMPANY (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J—Quarterly Results of Operations (Unaudited)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 27, 1979 and October 28, 1978 (amounts in thousands except per share data).

1979	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
First Quarter	$ 339,398	$ 45,641	$ 7,525	$1.57
Second Quarter	357,529	45,214	5,985	1.24
Third Quarter	351,683	46,566	6,730	1.40
Fourth Quarter	365,406	57,067	10,372	2.16
	$1,414,016	$194,488	$30,612	$6.37
1978				
First Quarter	$ 285,518	$ 40,481	$ 5,209	$1.08
Second Quarter	301,125	39,273	3,965	.83
Third Quarter	309,186	36,932	3,277	.68
Fourth Quarter	349,036	39,842	7,588	1.58
	$1,244,865	$156,528	$20,039	$4.17

Quarterly gross profit for the first three quarters of 1978 has been restated to reflect an internal reclassification between cost of goods sold and selling, general and administrative expenses. There is no effect upon annual gross profit nor upon quarterly net earnings.

LIBBEY-OWENS-FORD COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note M: Quarterly Results of Operations (Unaudited)—The following is a tabulation of the unaudited quarterly results of operations for 1979 and 1978. Earnings per share assuming full dilution have been computed after giving effect, except where such effect is antidilutive, to the full conversion of preferred stock and to stock options.

				Per Share Amounts	
	Net Sales	Gross Profit	Net Earnings	Primary	Fully Diluted
		(In Thousands)			
1979(1)					
March 31	$ 318,520	$ 72,151	$21,747	$1.85	$1.72
June 30	318,477	67,949	20,201	1.71	1.60
September 30	274,979	44,765	7,097	.54	.54
December 31	296,085	56,628	9,033	.70	.70
Totals	$1,208,061	$241,493	$58,078	$4.80	$4.60
1978					
March 31	$ 262,544	$ 53,479	$13,674	$1.13	$1.08
June 30(2)	292,609	63,612	11,763	.95	.94
September 30(3)	265,521	54,181	24,539	2.10	1.94
December 31	286,454	53,494	15,824	1.32	1.26
Totals	$1,107,128	$224,766	$65,800	$5.50	$5.22

(1) See Note C (2) See Note E (3) See Note F

NL INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11: Quarterly Data (Unaudited)

Quarterly data for the years ended December 31, 1979 and December 31, 1978 follows:

	Three Months Ended			
	Dec. 31,	Sept. 30,	June 30,	March 31,
	(In thousands, except per share amounts)			
	1979 (Note A)			
Net Sales	$476,379	$454,866	$459,606	$419,384
Gross profit	166,098	150,973	143,347	128,044
Income from continuing operations	36,506	30,330	26,912	20,828
Income (loss) from discontinued operations	(33,620)	2,346	2,250	134
Cumulative effect of accounting change	—	—	—	26,257
Net income	2,886	32,676	29,162	47,219
Income per share of common stock:				
Income from continuing operations	$1.08	$.89	$.78	$.61
Net income	.05	.96	.85	1.42
	1978			
Net sales	$410,961	$388,341	$404,222	$334.888
Gross profit	137,258	130,268	129,019	107,572
Income from continuing operations	26,569	23,467	22,058	15,079
Income (loss) from discontinued operations	(745)	(1,234)	1,171	(89)
Net income	25,824	22,233	23,229	14,990
Income per share of common stock:				
Income from continuing operations	.78	.69	.65	.43
Net income	.76	.65	.68	.43
	Pro-forma Information (Note B)			
1979:				
Income from continuing operations	$ 36,506	$ 30,330	$ 26,912	$ 20,828
Per share of common stock	1.08	.89	.78	.61
Net income	2,886	32,676	29,162	20,962
Per share of common stock	.05	.96	.85	.62
1978:				
Income from continuing operations	28,081	24,767	23,510	16,564
Per share of common stock	.83	.72	.69	.48
Net income	27,588	23,782	24,931	16,725
Per share of common stock	.82	.69	.74	.48

Note A: Previously reported net income has been increased to reflect the change in accounting for the investment tax credit from the deferral method to the flow-through method as follows: March 31, 1979, $1,899 ($.07 per common share) and $26,257 (the cumulative effect of accounting change—$.80 per common share); June 30, 1979, $1,478 ($.04 per common share); September 30, 1979, $2,005 ($.06 per common share).

Note B: Includes the change in accounting for the investment tax credit from the deferral method to the flow-through method. The effect of this change was to increase income from continuing operations for the three months ended March 31, 1978, $1,485 ($.05 per common share), June 30, 1978, $1,452 ($.04 per common share), September 30, 1978, $1,300 ($.03 per common share) and December 31, 1978, $1,512 ($.05 per common share).

PRATT-READ CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Note L—Summary of Quarterly Financial Information (Unaudited)

Interim financial information for the years ended June 30 follows:

Year ended June 30, 1979	Quarters			
	First	Second	Third	Fourth
Sales	$7,842,105	$9,570,255	$10,276,855	$10,472,058
Gross income from sales	1,130,171	1,628,898	2,027,178	1,755,629
Provision for income taxes	250,900	420,400	549,200	439,362
Income from continuing operations	292,410	491,370	623,335	554,218
Loss from discontinued operations net of income tax benefit*	119,895	122,925	216,351	226,901
Net income	172,515	368,445	406,984	327,317
Per share of common stock				
Primary				
Income from continuing operations	$.16	$.29	$.38	$.32
Loss from discontinued operations*	.08	.08	.14	.14
Net income	$.08	$.21	$.24	$.18
Fully diluted (Note I)				
Income from continuing operations	$.16	$.29	$.36	$.30

*Includes estimated loss from disposal of $159,669 (per share of $.10) and $194,765 (per share $.13) in the third and fourth quarters, respectively.

Year ended June 30, 1978	Quarters			
	First	Second	Third	Fourth
Sales	$7,142,870	$7,743,719	$8,809,317	$10,039,648
Gross income from sales	841,424	1,148,299	1,744,149	2,052,573
Provision for income taxes	144,200	278,100	553,500	659,707
Income from continuing operations	157,088	321,984	550,809	710,528
Loss from discontinued operations net of income tax benefit	87,297	105,956	115,741	79,369
Net income	69,791	216,028	435,068	631,159
Per share of common stock				
Primary				
Income from continuing operations	$.07	$.18	$.33	$.43
Loss from discontinued operations	.05	.07	.08	.05
Net income	$.02	$.11	$.25	$.38
Fully diluted (Note I)				
Income from continuing operations	$.07	$.18	$.33	$.41

Section 2: Balance Sheet

BALANCE SHEET TITLE

Table 2-1 summarizes the titles ued to describe the statement of assets, liabilities and stockholders' equity.

TABLE 2-1: BALANCE SHEET TITLE

	1979	1978	1977	1976
Balance Sheet	544	538	534	534
Statement of Financial Position	43	48	53	54
Statement of Financial Condition	13	14	13	12
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

	1979	1978	1977	1976
Account form	363	376	386	409
Report form	228	216	202	181
Financial position form	9	8	12	10
Total Companies	**600**	**600**	**600**	**600**

TABLE 2-3: CASH—BALANCE SHEET CAPTIONS

	1979	1978	1977	1976
Cash	403	460	459	468
Cash and Equivalents	35			
Cash includes certificates of deposit or time deposits	66	55	76	68
Cash combined with marketable securities	96	85	65	64
Total Companies	**600**	**600**	**600**	**600**

CASH

Table 2-3 shows that 68% of the survey companies present cash as a single item and use the caption *cash*. Of the 96 companies showing a balance sheet caption combining cash and marketable securities, 64 disclosed separate amounts either parenthetically on the balance sheet or in a note to the financial statements. Sixty-eight companies, in addition to showing a caption for cash, presented a separate caption for certificates of deposit and/or time deposits. Examples of captions for cash and cash items follow.

AMERICAN MAIZE-PRODUCTS COMPANY (DEC)

	1979	1978
Current assets:		
Cash and cash equivalents	$ 9,956,000	$21,266,000
Accounts receivable, less allowance for doubtful accounts of $1,091,000 in 1979 and $982,000 in 1978	38,275,000	30,969,000

BRISTOL-MYERS COMPANY (DEC)

	1979	1978
	($000)	
Current Assets:		
Cash	$ 27,262	$ 46,333
Time deposits	154,738	80,484
Marketable securities (at cost which approximates market)	169,229	187,059

BUCKBEE-MEARS COMPANY (DEC)

	1979	1978
CURRENT ASSETS		
Cash	$ 230,000	$ 449,000
Cash equivalents	562,000	3,994,000
Trade accounts and notes receivable, less allowances of $775,000, (1978—$590,000)	13,437,000	9,527,000

ETHYL CORPORATION (DEC)

	1979	1978
Current assets:		
Cash and short-term securities	$119,049,000	$174,063,000

NOTES TO FINANCIAL STATEMENTS

Note 3: Cash and Short-Term Securities:

Cash and short-term securities consist of the following:

	(In Thousands of Dollars) 1979	1978
Cash	$ 23,720	$ 18,844
Time deposits	5,488	6,453
Marketable securities	89,841	148,766
	$119,049	$174,063

Time deposits and marketable securities are stated at cost plus accrued income, which approximates market value.

FLEETWOOD ENTERPRISES, INC. (APR)

	1979 ($000)	1978
Current assets:		
Cash (Note 2)	$6,064	$ 7,449
Temporary investments (Note 2)	1,000	25,633

Note 2: Cash and Temporary Investments—The company has a cash management program which provides for the investment of excess cash balances in short term money market instruments. Temporary investments consist of high grade commercial paper and certificates of deposit and are stated at cost which approximates market. Substantially all of the investments mature within 60 days.

The company has a line of credit under which the bank has agreed to make loans at the bank's prime interest rate. The line of credit of $10,000,000 at April 29, 1979 was increased to $25,000,000 on June 18, 1979 and is scheduled to be reduced to $15,000,000 effective August 31, 1979. The company has agreed to maintain as unrestricted compensating cash balances an average of 20 percent of any amounts borrowed and 10 percent of the unused line of credit. The line of credit was used in fiscal 1979 during the months of March and April, but was not used during 1978. The maximum amount of borrowings during 1979 was $9,000,000 at an average interest rate of 11.75 percent. All borrowings were repaid prior to the end of the fiscal year.

GENERAL MILLS, INC.

	1979 (In Millions)	1978
Current Assets:		
Cash	$ 18.9	$ 4.8
Interest-bearing deposits	63.7	6.5
Marketable securities (at cost, which approximates market value)	14.4	8.6
Receivables:		
Customers	297.5	282.1
Miscellaneous	24.9	23.7
	322.4	305.8
Less allowance for possible losses	(9.0)	(8.2)
	313.4	297.6
Inventories (Notes 1-C and 3)	501.8	440.2
Prepaid expenses	24.2	30.7
Total Current Assets	$936.4	$788.4

IOWA BEEF PROCESSORS, INC. (OCT)

	1979	1978
CURRENT ASSETS:		
Cash, including certificates of deposit of $11,850,000 and $5,600,000	$ 27,138,000	$ 18,189,000
Accounts receivable, less allowance for doubtful accounts of $2,260,000 and $1,538,000	155,107,000	141,467,000

JOHNS-MANVILLE CORPORATION (DEC)

	1979 ($000)	1978
Current Assets		
Cash *(including time deposits of $11,112 in 1979, $25,187 in 1978)*	$ 18,692	$ 28,161
Marketable securities, at cost *(approximates market)*	10,023	37,868
Accounts receivable *(net of allowances of $8,939 in 1979, $6,507 in 1978)*	361,635	327,621

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

	1979 (millions of dollars)	1978
CURRENT ASSETS:		
Cash (Note 2)	$128.6	$ 60.5
Receivables:		
Trade (less allowance for doubtful receivables: 1979; $5.5; 1978, $5.0)	427.2	410.2
Other	136.2	111.5

NOTES TO FINANCIAL STATEMENTS

(millions of dollars, except share amounts)

Note 2: Cash—The corporation maintains cash balances with banks in relation to their participation in certain loan agreements. Such balances so maintained were not significant. At December 31, 1979 and 1978, cash included temporary cash investments of $90.9 and $36.5

OWENS-ILLINOIS, INC. (DEC)

	1979	1978
	($000)	
Current assets:		
Cash and short-term investments	$ 89,878	$107,637
Receivables, less allowances for losses and discounts (1979—$17,390; 1978—$15,447)	446,601	353,878

FINANCIAL REVIEW

Cash and Short-Term Investments—Cash and short-term investments at December 31, 1979 and 1978, were as follows:

	Thousands of Dollars 1979	1978
Cash	$27,781	$ 26,903
Time deposits	33,561	31,594
Short-term investments, at cost (approximately market)	28,536	49,140
	$89,878	$107,637

POLAROID CORPORATION (DEC)

	1979	1978
	($000)	
Current assets		
Cash, including time deposits of $71,742 ($134,387 in 1978)	$ 87,173	$148,836
Marketable securities, at cost which approximates market	9,002	30,467
Receivables, less allowances of $10,832 ($12,106 in 1978)	289,021	337,280

TABLE 2-4: MARKETABLE SECURITIES—VALUATION

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Cost				
Approximates market	250	263	261	248
No reference to market	15	11	7	15
Market value disclosed	8	5	4	5
Lower of cost or market	35	38	30	28
Market value	2	—	3	4

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 (as defined in the Statement) 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 408 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.

Lower of Cost or Market

DIAMOND INTERNATIONAL CORPORATION (DEC)

	1979	1978
	($000)	
Current Assets		
Cash	$15,723	$ 9,949
Money Market investments (at lower of cost or market)	15,848	12,795

GENERAL ELECTRIC COMPANY (DEC)

Current Assets	1979	1978
	(In millions)	
Cash (note 8)	$1,904.3	$1,992.8
Marketable securities (note 8)	672.3	470.3

Note 8: Cash and marketable securities—Time deposits and certificates of deposit aggregated $1,675.1 million at December 31, 1979, and $1,746.8 million at December 31, 1978. Deposits restricted as to usage and withdrawal or used as partial compensation for short-term borrowing arrangements were not material.

Marketable securities (none of which are equity securities) are carried at the lower of amortized cost or market value. Carrying value was substantially the same as market value at year-end 1979 and 1978. Included at year-end 1979 were U.S. treasury obligations of $470.3 million ($393.7 million in 1978).

GOLDEN ENTERPRISES, INC. (MAY)

	1979	1978
Current assets:		
Cash	$1,595,029	$ 867,156
Marketable securities, carried at market (note 1)	4,296,469	3,711,554

Note 1 (in part): Marketable Securities—At May 31, 1979 and 1978, marketable securities consist of the following:

	1979	1978
Preferred stocks	$3,146,469	$2,030,888
Commercial paper	800,000	1,300,000
Obligation of U. S. Government and its agencies under an agreement to repurchase	350,000	350,000
Obligations of states and political subdivisions	—	30,666
Totals	$4,296,469	$3,711,554

Marketable equity securities (Preferred stocks) are carried at the lower of aggregate portfolio costs or market value. Marketable equity securities had costs of $3,429,599 and $2,156,184 at May 31, 1979 and 1978, respectively.

To reduce the carrying amount of the marketable equity securities portfolio to market, which was lower than cost, provisions for decline in value of marketable equity securities of $157,834 and $125,296 were charged to income for the years ended May 31, 1979 and 1978, respectively. At May 31, 1979, the valuation allowance of $283,130 consists entirely of unrealized losses.

Marketable securities, other than equity securities, are carried at cost which approximates market value.

Dividends are recorded as income on the date the preferred stocks trade "ex-dividend."

At Cost—Approximates Market

ALUMINUM COMPANY OF AMERICA (DEC)

	1979	1978
	(in millions)	
Current assets:		
Cash	$ 50.6	$ 34.6
Short-term investments, at cost approximating market	212.1	58.3
Receivables from customers, less allowances: 1979, $3.9; 1978, $4.3	681.7	582.5

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

	1979	1978
Current Assets		
Cash	$ 16,798,000	$ 29,989,000
Marketable securities, at cost which approximates market	196,195,000	220,802,000
Receivables, less allowances of $22,409,000 in 1979 and $29,134,000 in 1978	271,853,000	231,346,000

E. I. DU PONT DE NEMOURS & COMPANY (DEC)

	1979	1978
	(Dollars in millions)	
CURRENT ASSETS		
Cash and Marketable Securities - Note 4	$ 369.8	$ 328.0
Accounts and Notes Receivable - Note 5	1,958.5	1,621.5
Inventories - Note 6	2,000.5	1,704.1
Prepaid Expenses	118.5	254.6
Total Current Assets	4,447.3	3,908.2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities

Marketable securities consist of short-term debt obligations and are carried at amortized cost plus accrued interest, which is approximately equal to market value.

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 4: Cash and Marketable Securities

	December 31	
	1979	1978
Cash on hand and demand deposits	$ 38.9	$ 71.3
Interest-bearing time deposits	147.4	41.9
Interest-bearing negotiable certificates of deposit	103.5	84.3
Negotiable commercial paper	77.1	126.0
Other marketable securities	2.9	4.5
	$369.8	$328.0

A portion of the Company's cash balance serves to compensate banks for credit lines and services. Such balances are essentially unrestricted.

Note 5: Accounts and Notes Receivable

	December 31	
	1979	1978
Trade	$1,823.5	$1,528.6
Less—Allowance for doubtful accounts	11.9	11.8
	1,811.6	1,516.8
Miscellaneous	146.9	104.7
	$1,958.5	$1,621.5

Note 6: Inventories

	December 31		
	1979	1978	1977
Finished products	$1,498.6	$1,203.8	$1,141.4
Semifinished products	563.7	430.4	380.9
Raw materials and supplies	920.6	702.3	544.1
Total	2,982.9	2,336.5	2,066.4
Less-Adjustment of certain inventories to a last-in, first-out (LIFO) basis	(982.4)	(632.4)	(595.0)
	$2,000.5	$1,704.1	$1,471.4

Inventory values, before adjustment to LIFO, are generally determined by the average cost method, which approximates current cost. Inventories valued at LIFO cost comprised 68%and 67% of consolidated inventories before LIFO adjustment at December 31, 1979, and December 31, 1978, respectively.

GENERAL FOODS CORPORATION (MAR)

	1979	1978
	($000)	
Current Assets		
Cash	$ 14,178	$ 29,240
Temporary Investments, including time deposits of $175,960 in 1979 and $57,782 in 1978 (at cost, which approximates market)	277,119	103,246
Receivables, less allowances of $13,109 in 1979 and $10,803 in 1978	535,437	572,613

GERBER PRODUCTS COMPANY (MAR)

	1979	1978
	(Thousands of Dollars)	
CURRENT ASSETS		
Cash	$ 3,254	$ 2,366
Short-term investments—Note A	3,475	9,873
Trade accounts receivable, less allowances (1979—$1,281; 1978—$972)	53,662	42,914

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

Short-term Investments: Short-term investments are carried at cost which approximates market.

THE HOOVER COMPANY (DEC)

	1979	1978
Current Assets		
Cash, including time deposits of $34,265,847 in 1979 and $35,267,400 in 1978	$ 48,057,692	$ 48,134,281
Marketable securities	3,660,428	3,233,729
Notes and accounts receivable, less allowances of $2,351,471 in 1979 and $2,045,660 in 1978	143,639,278	143,655,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Marketable Securities: Marketable securities are stated at cost plus accrued interest, which approximates market value.

NEW ENGLAND NUCLEAR CORPORATION (FEB)

	1979	1978
Current Assets		
Cash	$ 2,756,000	$ 804,000
Short-term marketable securities—Note A	10,600,000	2,600,000
Accounts receivable, less allowances (1979-$317,000, 1978-$263,000)	13,174,000	10,928,000

Note A (in part): Significant Accounting Policies

Short-term Marketable Securities

Short-term marketable securities are stated at cost, which approximates market value.

PARKER-HANNIFIN CORPORATION (JUN)

	1979	1978
	($000)	
Current Assets:		
Cash	$ 1,072	$ 2,737
Short-term investments (Note 1)	7,600	5,230
Accounts receivable, less allowance for doubtful accounts (1979—$3,331, 1978—$3,258)	135,838	109,286

Note 1 (in part): Significant Accounting Policies

Short-Term Investments—Short-term investments, principally commercial paper and certificates of deposit, are carried at cost which approximates market value.

Cost—Market Value Disclosed

NATIONAL DATA CORPORATION (MAY)

	1979	1978
	(in thousands)	
Current assets:		
Cash	$ 1,003	$ 1,845
Marketable securities (Note 3)	12,629	9,609
Accounts receivable (less allowances of $582,000 and $291,000)	9,225	8,793
Prepaid expenses	537	491
Total current assets	$23,394	$20,738

Note 3: Marketable Securities—Marketable securities are comprised of non-equity type investments which are valued

at cost plus accrued interest. Approximate market values at May 31, 1979 and 1978 were $12,361,000 and $9,449,000, respectively. In management's opinion there is no indication of a permanent loss of value in any portion of the portfolio. Marketable securities were as follows at May 31, 1979 and 1978 (in thousands):

	1979	1978
Certificates of deposit	$ 3,437	$2,211
Short-term securities under repurchase agreements	700	—
State and local government obligations	3,412	3,383
Sinking fund preferred stocks	5,080	4,015
	$12,629	$9,609

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 most frequently showed as current assets. Examples of receivables shown as current assets follow.

TABLE 2-5: CURRENT RECEIVABLES

	1979	1978	1977	1976
Trade Receivable Captions				
Accounts receivable	209	207	202	206
Receivables	162	164	156	169
Accounts and notes receivable	129	139	155	145
Trade accounts receivable	100	90	87	80
Total Companies	**600**	**600**	**600**	**600**
Receivables Other Than Trade Receivables				
Tax refund claims	51	36	59	49
Investees	35	23	25	29
Installment notes or accounts	23	24	24	22
Contracts	22	20	18	19

Income Tax Refund Claims

ALBERTSON'S, INC. (JAN)

	1980	1979
Current Assets:		
Refundable income taxes	$1,336,000	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taxes on Income (in part)—Refundable income taxes consist of the excess of estimated tax payments made in 1979 over income taxes payable. The Company's effective tax rate was 46.5% in 1979 and 48.8% in 1978. Due to a change in the statutory rate from 48% to 46%, effective January 1, 1979, one month's earnings is taxed at 46% rather than 48% for 1978. The weighted average statutory rate was 47.8% for that year.

AMERICAN SEATING COMPANY (DEC)

	1979	1978
Current Assets:		
Cash	$ 887,870	$ 1,441,807
Accounts and notes receivable, less allowance of $271,000 and $159,000 for possible losses	16,164,498	14,372,099
Refundable income taxes (Note 12)	1,946,000	—

Note 12 (in part): Income Taxes—The financial statements reflect refundable taxes of $1,946,000 resulting from the operating loss in 1979. Because of the operating loss, no investment tax credits were recognized for books purposes in 1979, though approximately $337,000 are available for carryover to future years, expiring in 1984.

CERTAINTEED CORPORATION (DEC)

	1979	1978
Current Assets:		
Cash	$ 6,748,000	$ 7,678,000
Short-term investments, at cost (approximate market)	325,000	5,056,000
Refundable Federal income taxes—Note 4	11,201,000	
Accounts and notes receivable	134,889,000	128,568,000
Less: Allowances for doubtful receivables ($2,174,000 and $2,151,000) and discounts and allowances	6,603,000	5,236,000
	128,286,000	123,332,000

Note 4: Income Taxes—The provision for income taxes applicable to continuing operations consists of:

	1979	1978
Current Federal income taxes	$ 2,521,000	$40,596,000
Deferred Federal income taxes	7,521,000	(1,016,000)
Investment tax credit	(11,280,000)	(9,857,000)
State income taxes	1,381,000	4,827,000
	$ 143,000	$34,550,000

The deferred Federal income taxes applicable to continuing operations primarily result from the excess of tax over book depreciation, the tax effect of which was $8,174,000 and $3,368,000 in 1979 and 1978, respectively. However, in 1978 this provision was reduced as a result of prior years' tax deductions disallowed by the IRS which will be deducted in future years and charges for estimated costs not currently deductible for tax purposes. A reconciliation of Federal corporate income taxes at the statutory rate to the Company's income tax provision follows:

	1979	1978
Income tax provision at statutory rate	$10,893,000	$42,708,000
Effect of including state income taxes	745,000	2,510,000
Investment tax credit	(11,280,000)	(9,857,000)
Other, net	(215,000)	(811,000)
Income tax provision	$ 143,000	$34,550,000

The Company maintains a Tax Reduction Act Stock Ownership Plan ("TRASOP") for eligible employees. The investment tax credit above includes $1,094,000 in 1979 and $917,000 in 1978 which represents the extra one percent tax credit allowed under the Tax Reduction Act of 1975 when the related contribution is made to the TRASOP.

The Company was eligible for an income tax refund under the investment tax credit carryback provisions of the Federal income tax code in the amount of $11,201,000 at December 31, 1979.

WESTINGHOUSE ELECTRIC CORPORATION (DEC)

	1979	1978
	(in millions)	
Current Assets		
Cash	$ 65.9	$ 145.8
Marketable securities at cost, which approximates market	851.7	791.0
Customer receivables, less $26.9 and $25.1 doubtful account allowances	1,462.1	1,376.5
Income taxes refundable (note 3)	145.2	—

Note 3 (in part): Income Taxes—Income tax expense for financial reporting was reduced by investment tax credits of $27.1 million in 1979 and $18 million in 1978. In addition, investment tax credit of $21 million has been deferred at the end of 1979 by the finance subsidiary and remains to be amortized.

Deferred federal income taxes have not been provided on cumulative undistributed earnings of $378 million from certain subsidiaries because the earnings have been reinvested for an indefinite period.

Certain amounts shown for 1978 in the accompanying tables have been reclassified for comparative purposes as a result of final determination of differences between income tax for financial statement purposes and the filed 1978 tax returns.

The federal income tax returns of the Corporation and its wholly owned subsidiaries are settled through December 31, 1973 and it is believed that adequate provisions for taxes have been made through December 31, 1979.

Income taxes refundable reflected in the balance sheet result from the carryback of losses caused by the costs of uranium litigation settlements.

Receivables from Investees

ARCHER DANIELS MIDLAND COMPANY (JUN)

	1979	1978
	(In thousands)	
Current Assets		
Cash	$ 23,762	$ 19,247
Receivables, less allowance for doubtful accounts (1979—$5,765,000; 1978—$6,151,000)	178,439	129,992
Due from ADM Leasco, Inc.	14,302	-0-

DEERE & COMPANY (OCT)

	1979	1978
Current Assets:		
Cash	$ 50,600,000	$ 49,810,000
Short-term investments—at cost which approximates market	2,759,000	236,000
Receivables from unconsolidated subsidiaries and affiliates	398,375,000	544,405,000
Trade receivables:		
Dealers accounts and notes	1,336,357,000	1,207,535,000
Retail notes (less deferred finance income of $15,541,000 in 1979 and $35,558,000 in 1978)	93,034,000	221,851,000
Total	1,429,391,000	1,429,386,000
Less allowances	27,776,000	27,796,000
Trade receivables—net	1,401,615,000	1,401,590,000

FINANCIAL REVIEW

Receivables from Unconsolidated Subsidiaries and Affiliates—Receivables from unconsolidated subsidiaries and affiliates totaled $398 million at October 31, 1979 compared with $554 million at October 31, 1978. These receivables primarily represent short-term loans to the credit companies bearing interest at rates approximating short-term corporate borrowing rates. The loans result from the credit companies' requirements for funds to finance their portfolios of retail receivables. The amounts of these receivables fluctuate based upon company and external availability of funds.

GULF OIL CORPORATION (DEC)

	1979	1978
	(Millions of Dollars)	
Current assets		
Cash and marketable securities (Note 3)	$1,628	$1,084
Receivables (less allowances of $60 and $44 million) (Note 4)	3,199	2,674

Note 3—Cash and Marketable Securities

	December 31 1979	1978
	Millions of Dollars	
Cash	$ 150	$ 121
Time deposits and certificates of deposit	785	618
Marketable securities	693	345
	$1,628	$1,084
United States	$ 646	$ 347
Canada	543	286
Europe	217	201
Other Foreign	222	250
	$1,628	$1,084

Marketable securities are stated at cost, which approximates market.

Note 4—Receivables

	December 31 1979	1978
	Millions of Dollars	
Customers	$2,468	$1,959
Affiliated and associated companies	196	318
Other receivables	595	441
	3,259	2,718
Allowance for doubtful accounts	(60)	(44)
	$3,199	$2,674
United States	$1,271	$ 747
Canada	619	473
Europe	525	401
Other Foriegn	784	1,053
	$3,199	$2,674

In 1979 and 1978, provisions of $18 and $5 million, respectively, were credited to the allowance for doubtful accounts. Other charges and credits, principally write-offs and recoveries, were $9 and $7 million, respectively, in 1979 and $7 and $2 million, respectively, in 1978.

SPERRY RAND CORPORATION (MAR)

	1979	1978
	($000)	
Current Assets		
Cash, including interest-bearing time and call deposits: 1979, $174,758; 1978, $101,774	$179,229	$122,936
Accounts and notes receivable:		
United States Government contracts, direct and indirect	38,588	70,919
Sales-type leases, less allowance for unearned income: 1979, $89,887; 1978, $70,407	246,234	191,667
Commercial, less allowance for doubtful accounts: 1979, $23,063; 1978, $22,154	520,013	451,427
Due from wholly-owned finance company	2,745	59,984

Installment Receivables

ALLIS-CHALMERS CORPORATION (DEC)

	1979	1978
	(thousands)	
Current Assets		
Receivables—less allowance for doubtful accounts of $16,234 and $20,836	$281,242	$280,480

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Receivables—Receivables at December 31, 1979 include installment notes of $19.4 million from dealers and customers of which approximately $4.6 million mature after 1980.

HARRIS CORPORATION (JUN)

	1979	1978
Current Assets		
Trade accounts and notes receivable:		
Accounts receivable	$182,715,852	$133,083,967
Installment notes (including $11,034,000 in 1979 and $11,250,000 in 1978 due after one year)	22,948,570	23,279,618
	205,664,422	156,363,585
Less deferred interest income ($2,475,000 in 1979 and $2,792,000 in 1978) and allowances for collection losses	8,420,456	7,404,689
Total Trade Accounts and Notes Receivable	$197,243,966	$148,958,896

JOY MANUFACTURING COMPANY (SEP)

	1979	1978
	($000)	
Current Assets		
Cash	$ 11,845	$ 11,974
Time deposits and certificates of deposit	1,927	6,430
Receivables (Note 1)	201,885	174,330

Note 1: Receivables—Receivables include the following:

	1979	1978
	(In thousands of Dollars)	
Trade receivables	$151,058	$134,775
Trade installment notes	31,818	24,751
Retentions of long-term construction contracts	10,606	7,681
Unbilled sales on long-term construction contracts	5,930	6,027
Due from unconsolidated subsidiaries	3,423	1,860
	202,835	175,094
Less allowance for doubtful accounts	(950)	(764)
Receivables	$201,885	$174,330

In accordance with generally recognized trace practice, all trade installment notes including those which mature subsequent to one year, amounting to $20,822,000 at September 28, 1979 and $16,045,000 at September 29, 1978, have been included in current assets. The range of interest rates applicable to trade installment notes receivable was 8.0% to 24.0% at September 28, 1979 and 4.5% to 14.0% at September 29, 1978.

Retentions on long-term construction contracts include $3,246,000 at September 28, 1979 and $3,776,000 at September 29, 1978, which are collectible after one year.

Substantially all amounts classified as unbilled sales on long-term construction contracts are collectible within one year.

Joy provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account. A summary of the changes in the allowance for doubtful accounts is as follows:

	1979	1978
	(In Thousands of Dollars)	
Balance at beginning of year	$764	$921
Provision charged to income net of recoveries of $17,000 in 1979 and $2,000 in 1978	355	225
Accounts written-off	(169)	(382)
Balance at end of year	$950	$764

Contracts

CONTROL DATA CORPORATION (DEC)

	1979	1978
	(Dollars in millions)	
Current Assets:		
Receivables		
Trade accounts less allowance of $19.9 and $14.0	$321.7	$241.8
Unbilled receivables and accrued costs and estimated earnings on contracts in process	62.7	62.3
Current portion of long-term contracts receivable, less unearned interest income of $3.8 and $4.5	29.0	37.1
Other	31.8	32.7
Total receivables	$445.2	$373.9

NORTHROP CORPORATION (DEC)

	1979	1978
Current assets		
Cash	$ 15,020,000	$ 14,646,000
Cash equivalents, principally certificates of deposit	134,404,000	245,940,000
Accounts receivable—Note C	175,942,000	189,767,000

Note C: Accounts Receivable—Accounts receivable are composed of the following elements:

	1979	1978
Amounts receivable from the U.S. Government under long-term contracts		
Current accounts		
Billed	$ 40,834,000	$ 64,737,000
Unbilled	70,099,000	31,268,000
Due upon completion of contracts	4,640,000	3,501,000
	115,573,000	99,506,000
Amounts receivable from other customers under long-term contracts		
Current accounts		
Billed	26,882,000	39,101,000
Unbilled	6,061,000	5,553,000
Due upon completion of contracts	3,157,000	3,957,000
	36,100,000	48,611,000
Total long-term contracts	151,673,000	148,117,000
Trade and other accounts receivable		
Due from the U.S. Government	18,437,000	19,521,000
Due from customers	24,154,000	36,829,000
Total trade and other	42,591,000	56,350,000
	194,264,000	204,467,000
Less allowances for doubtful amounts	18,322,000	14,700,000
	$175,942,000	$189,767,000

Unbilled amounts represent revenues recognized on contracts for which billings have not been presented to customers at the balance sheet date. These revenues are billed and generally collected within one year. Amounts due upon completion of contracts are retained by customers until work is completed and customer acceptance is obtained.

Accounts receivable at December 31, 1979 are expected to be collected in 1980, except for approximately $1,371,000 due in 1981 and $1,743,000 due in 1982 and later.

Other

DAN RIVER INC. (DEC)

	1979	1978
	amounts in thousands	
Current assets:		
Notes and accounts receivable:		
Trade	$73,883	$67,121
Due from factor	18,478	24,418
Other	2,506	4,321
	94,867	95,860
Less allowance for discounts, interest and doubtful receivables	3,002	2,804
Net notes and accounts receivable	$91,865	$93,056

RIVAL MANUFACTURING COMPANY (DEC)

	1979	1978
CURRENT ASSETS:		
Accounts receivable, net of allowance for collection losses and discounts of $503,714 in 1979 and $412,654 in 1978	$20,909,065	$9,178,070

NOTES TO FINANCIAL STATEMENTS

Note 2: Accounts Receivable—Accounts receivable consist of:

	December 31 1979	1978
Trade receivables	$21,247,924	$9,563,590
Current portion of net investment in sales-type lease, net of unearned interest	44,715	—
Other receivables	120,140	27,134
	21,412,779	9,590,724
Less allowance for collection losses and discounts	503,714	412,654
	$20,909,065	$9,178,070

RECEIVABLES USED FOR FINANCING

Table 2-6 shows that 101 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 "dealers' 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)

	1979	1978
	($000)	
Current Assets		
Notes and accounts receivable (Note 4)	$323,827	$306,961

Note 4: Notes and Accounts Receivable—Notes and accounts receivable from customers at December 31 include the following, net of unearned interest of $37,632,000 and $42,522,000 at December 31, 1979 and December 31, 1978, respectively (in thousands of dollars):

	1979	1978
Amounts due within one year	$268,029	$245,051
Amounts due beyond one year	82,976	90,928
	351,005	335,979
Allowance for possible losses	(27,178)	(29,018)
	$323,827	$306,961

TABLE 2-6: RECEIVABLES USED FOR FINANCING

	1979	1978	1977	1976
Receivables sold with recourse	70	61	65	69
Receivables sold without recourse	14	15	9	9
Receivables used as collateral	22	30	28	25
Total References	**106**	**106**	**102**	**103**
Reference to receivable financing	101	99	98	96
No reference to receivable financing	499	501	502	504
Total Companies	**600**	**600**	**600**	**600**

Amounts due beyond one year relate largely to the financing of the Company's bowling products business and are included in current assets in accordance with industry practice.

Interest rates on notes receivable of $71,091,000 at December 31, 1979 and $74,086,000 at December 31, 1978, net of unearned interest, range generally from 12% to 16% in the United States, and from 4% to 19% overseas.

Notes and accounts receivable due beyond one year at December 31, 1979 and December 31, 1978 include approximately $39,900,000 and $50,400,000, respectively, of investment in sales-type leases, net of unearned interest of $13,714,000 and $18,448,000, respectively.

Minimum future lease payments receivable under sales-type leases included in accounts receivable and installment notes receivable are due as follows (in thousands of dollars):

	Sales-Type Leases	Installment Notes Receivable
1980	$11,784	$34,115
1981	10,822	15,452
1982	9,708	11,454
1983	8,049	9,862
1984	6,526	8,300
After 1984	18,532	11,657
	$65,421	$90,940

The Company is contingently liable on approximately $5,500,000 of overseas accounts and notes receivable sold with recourse and has guaranteed approximately $5,300,000 related to dealer floor plan arrangements.

CMI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Commitments and Contingent Liabilities—At December 31, 1979, the Company and certain subsidiaries are contingently liable for notes receivable sold with recourse approximating $526,000 and have guaranteed a portion of borrowings of certain foreign and domestic customers approximating $1,006,000.

INGERSOLL-RAND COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 3—Finance Subsidiary: The financial position of Ingersoll-Rand Financial Corporation, a wholly owned finance subsidiary, at December 31, was as follows:

	(In thousands) 1979	1978
Financial Position:		
Cash	$ 665	$ 735
Finance receivables	188,081	161,712
Other assets	5,622	2,031
	194,368	164,478
Deduct:		
Notes and loans payable	144,043	123,030
Other liabilities	11,507	5,756
	155,550	128,786
Parent company investment	$ 38,818	$ 35,692
Net earnings for the year	$ 3,811	$ 2,424

The parent company was contingently liable for $76,436,000 of the finance subsidiary's receivables at December 31, 1979, arising principally from sales of the Company's products.

SAXON INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (in part): Contingent Liabilities, Commitments and General Comments

(2) At December 31, 1979 a subsidiary of the Company was contingently liable in the maximum approximate amount of $615,000 to an unaffiliated lessor in the event certain photocopier equipment which was sold to and placed under lease by such lessor is returned to the lessor within a stated period. The Company was contingently liable to repurchase accounts receivable sold with recourse in the approximate amount of $12,000,000.

Receivables Sold Without Recourse

CONSOLIDATED FOODS CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Consolidated Foods Credit Corporation—Consolidated Foods Credit Corporation, a wholly-owned subsidiary, purchases certain customer installment accounts from Consolidated Foods Corporation without recourse at a price which is designed to produce earnings, as defined, of 1½ times the fixed charges on the Credit Corporation's debt.

Net income of the Credit Corporation was $980,000 for the year ended June 30, 1979, and $911,000 for the year ended

July 1, 1978, after interest expense of $4,052,000 and $2,392,000 respectively. The accompanying consolidated statements of income include the net income of the Credit Corporation in "Selling, general and administrative expenses." Condensed Statements of Stockholder's Investment in the Credit Corporation at June 30, 1979, and July 1, 1978 are as follows:

(in thousands)	1979	1978
Customer installment accounts, less allowances	$60,573	$55,715
Commercial paper	(43,125)	(36,915)
Other, net	(3,123)	(5,455)
Stockholder's investment, including retained earnings of $4,325 in 1979 and $3,345 in 1978	$14,325	$13,345

LOWE'S COMPANIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts Receivable—Allowance for doubtful accounts is based on historical losses experienced by the stores coupled with a review of existing receivables. Installment receivables arising from consumer sales are sold without recourse to outside finance companies.

NORTHWEST INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Accounts Receivable—The company routinely sells, without recourse, certain trade receivables to financial institutions. These sales averaged $46,000,000 in 1979 and were $60,000,000 at year-end. In addition, the company, as agent for the financial institutions, collected $34,000,000 of previously sold receivables and remitted these proceeds subsequent to year-end.

Receivables Used as Collateral

CAESARS WORLD, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Receivables, net:

	1979	1978
	(Thousands Omitted)	
Accounts receivable:		
Casino	$45,611	$40,412
Hotel	2,847	2,741
Other(a)	8,895	8,011
	57,353	51,164
Less: Allowances for doubtful accounts(b)	22,280	20,618
	35,073	30,546
Notes and mortgages receivable, current portion	417	237
	$35,490	$30,783

(a) Accounts receivable—other, in the amount of $5,733,000 and $3,548,000 were pledged as collateral at July 31, 1979 and July 31, 1978, respectively (see Note 10).

(b) The allowance for doubtful accounts include allowances for doubtful casino accounts receivable of $22,047,000 at July 31, 1979 and $20,242,000 at July 31, 1978 which are provided to reduce casino receivables to amounts anticipated to be collected.

FEDDERS CORPORATION (OCT)

	1979	1978
	(in thousands)	
Current assets:		
Accounts receivable (less allowances of $5,622 in 1979 and $4,265 in 1978) (Note 3)	$78,066	$92,089

Note 3 (in part): Short-term notes payable—Short-term notes consist of borrowings from banks and another financing institution and were generally collateralized to the extent of a majority of the Company's domestic receivables. Following is a summary of information on such borrowings:

	1979	1978
Balance at October 31	$ —	$10,311,000
Interest rate at October 31	18.4%	13.6%
Average borrowings during the year	$ 7,041,000	$30,039,000
Weighted average interest rate during the year (aggregate interest expense divided by average loans outstanding)	15.3%	12.0%
Highest level of borrowings at any month end during the year	$20,248,000	$40,804,000

TABLE 2-7: DOUBTFUL ACCOUNT CAPTIONS

	1979	1978	1977	1976
Allowance for doubtful accounts	269	270	262	254
Allowance	130	125	129	117
Allowance for losses	36	42	38	38
Reserve	28	33	30	30
Reserve for doubtful accounts	8	6	7	11
Allowance for uncollectible accounts	12	12	9	11
Other caption titles	12	14	19	37
	495	502	494	498
Receivables shown net	17	9	15	14
No reference to doubtful accounts	88	89	91	88
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 or sale returns.

TABLE 2-8: INVENTORY COST DETERMINATION

	Number of Companies			
	1979	1978	1977	1976
Methods				
First-in first-out (fifo)	390	392	392	389
Last-in first-out (lifo)	374	343	332	331
Average cost	241	224	227	232
Other	56	52	47	50
Use of LIFO				
All inventories	20	14	10	9
50% or more of inventories	194	205	194	167
Less than 50% of inventories	94	101	93	84
Not determinable	66	23	35	71
Companies Using LIFO	**374**	**343**	**332**	**331**

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 the inventory 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 methods used by the survey companies to determine inventory cost and indicates the portion of inventory cost determined by LIFO. As indicated in Table 2-8, it is not uncommon for a company to use more than one method in determining the total cost of inventory. Methods of inventory cost determination classified as Other in Table 2-8 include specific identification, accumulated costs for contracts in process, and "current cost".

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.

Fifty-three 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

COLLINS & AIKMAN CORPORATION (FEB)

	1979	1978
Current assets:		
Inventories:		
Yarn, raw materials and supplies	$35,536,042	$33,955,727
Work in process	23,784,633	20,065,629
Finished goods	32,767,420	29,705,012
	$92,088,095	$83,726,368

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Inventories—Approximately 86% and 85% of the 1979 and 1978 inventories, respectively, are valued at cost on the first-in, first-out (FIFO) method or market, whichever is lower. The remaining inventories, all of which relate to the Company's wallcovering business segment, are valued at cost on the last-in, first-out (LIFO) method, which cost is lower than current replacement market.

TABLE 2-9: INDUSTRY CLASSIFICATION OF COMPANIES USING LIFO

	1979 No.	1979 %*	1978 No.	1978 %*
Foods:				
Meat products	5	50	5	50
Dairy products	—	—	—	—
Canning, etc.	4	67	5	71
Packaged and bulk	9	47	8	42
Baking	1	20	1	25
Sugar, confections, etc.	6	100	7	100
Beverages	3	43	2	40
Tobacco products	3	50	3	50
Textiles	20	65	16	50
Paper products	16	94	13	87
Printing, publishing	5	56	4	50
Chemicals	21	84	18	78
Drugs, cosmetics, etc.	10	34	10	62
Petroleum	24	92	24	92
Rubber products	7	87	7	87
Shoes—manufacturing, merchandising, etc.	3	43	3	43
Building:				
Cement	—	—	1	33
Roofing, wallboard	9	90	8	73
Heating, plumbing	3	60	3	50
Other	12	75	11	69
Steel and iron	17	89	16	89
Metal—nonferrous	14	78	14	70
Metal fabricating	19	95	15	83
Machinery, equipment and supplies	27	75	22	65
Electrical equipment, appliances	12	60	13	60
Electrical, electronic equipment	9	36	9	36
Business equipment and supplies	5	31	6	35
Containers	9	82	9	75
Autos and trucks (including parts, accessories)	16	73	13	65
Aircraft and equipment, aerospace	8	62	7	58
Railway equipment, shipbuilding, etc.	2	33	2	29
Controls, instruments, medical equipment, watches and clocks, etc.	7	54	5	42
Merchandising:				
Department stores	7	87	10	83
Mail order stores, variety stores	2	100	2	100
Grocery stores	12	71	8	47
Other	4	67	4	50
Motion pictures, broadcasting	1	15	1	17
Widely diversified, or not otherwise classified	42	45	38	40
Total Companies	**374**	**62**	**343**	**57**

*Percent of total number of companies for each industrial classification included in the survey.

THE GILLETTE COMPANY (DEC)

	1979	1978
	($000)	
Current Assets:		
Cash	$ 26,347	$ 30,005
Time deposits and certificates of deposit	62,254	69,457
Marketable securities, at cost which approximates market value	4,484	3,496
Receivables, less allowances of $19,028 ($16,491 in 1978)	438,613	372,785
Inventories	435,374	372,647
Prepaid expenses	44,126	38,631
Total Current Assets	$1,011,198	$887,021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Inventory Valuation—Inventories are valued at the lower of cost or market. In general, cost is currently adjusted standard cost, which approximates actual cost on a first-in, first-out basis.

	December 31, 1979	December 31, 1978
	(Thousands of dollars)	
Inventories		
Raw materials and supplies	$142,061	$115,795
Work in process	66,085	52,735
Finished goods	227,228	204,117
Total Inventories	$435,374	$372,647

JANTZEN INC. (AUG)

	1979	1978
Current Assets:		
Inventories—Note 2	$32,980,027	$32,291,238

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Operations and 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:

	1979	1978
Finished goods	$13,890,972	$13,606,162
Work in process	4,538,804	4,525,774
Raw materials	14,550,251	14,159,302
	$32,980,027	$32,291,238

Inventories at August 27, 1977 used in the 1978 computation of cost of goods sold were $24,936,186.

SUNBEAM CORPORATION (MAR)

	1979	1978
Current Assets:		
Cash and time deposits	$ 25,327,000	$ 25,828,000
Accounts receivable (less allowance for doubtful accounts and discounts of $8,800,000 in 1979 and $8,411,000 in 1978)	250,122,000	220,743,000
Inventories—		
Finished products	141,276,000	131,198,000
Work in process	51,902,000	51,400,000
Raw materials, parts and supplies	144,099,000	132,074,000
Total inventories	337,277,000	314,672,000
Prepaid expenses	8,007,000	5,877,000
Accumulated income tax prepayments	3,109,000	3,511,000
Total current assets	$623,842,000	$570,631,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories—Inventories are stated at the lower of cost (first-in, first-out or average) or market.

LIFO

ALLEGHENY LUDLUM INDUSTRIES, INC. (DEC)

	1979	1978
	(In thousands)	
Current assets:		
Cash	$ 1,680	$ 9,577
Notes and accounts receivable—trade, less allowance for doubtful accounts of $4,133,000 ($5,140,000 at December 31, 1978)	219,361	163,197
Sundry notes and accounts receivable	27,456	47,020
Inventories	243,349	238,439
Prepaid expenses and other current assets	21,562	16,251

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of accounting policies

Inventories—Inventories are stated at cost, which is not in excess of market. Cost is determined principally by the "last-in, first-out" method or, in the case of certain inventories, by the average cost or "first-in, first-out" methods.

Note 5: Inventories:

The classification of inventories follows:

	December 30, 1979	December 31, 1978
	(In thousands)	
Finished goods	$ 48,748	$ 39,468
Work in process	227,564	183,766
Raw materials	97,515	99,640
Supplies	9,131	7,307
	382,958	330,181
Less allowance to reduce carrying value to LIFO basis	139,609	91,742
Net inventories	$243,349	$238,439

At December 30, 1979 and December 31, 1978, the cost of net inventories aggregating approximately $155,000,000 and $146,000,000, respectively, was determined on the "last-in, first-out" (LIFO) method. During 1978 certain inventory quantities were reduced, which resulted in a liquidation of applicable LIFO quantities carried at costs prevailing in prior years. The effect was to increase 1978 earnings from continuing operations by $550,000. Certain inventory quantities were again reduced in 1979 and, as a result, earnings from continuing operations were increased by $5,740,000.

The application of the principles of Accounting Principles Board Opinion No. 16 to the valuation of LIFO inventories of a company acquired in 1977 caused consolidated taxable income for the years 1979 and 1978 to exceed consolidated net earnings for financial reporting purposes by $4,982,000 and $1,975,000, respectively, and inventories in the December 30, 1979 and December 31, 1978 consolidated balance sheets to exceed inventories used for income tax reporting purposes by $8,101,000 and $13,083,000, respectively.

BRUNSWICK CORPORATION (DEC)

Current assets	1979	1978
	($000)	
Cash, including bank time deposits of $4,879 and $25,357	$ 17,864	$ 28,060
Marketable securities, at cost which approximates market	—	14,476
Accounts and notes receivable, less allowances of $12,654 and $12,672	178,969	171,445
Inventories (Note 5)	341,248	298,239

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of accounting policies

Inventories—Domestic inventories are valued principally at last-in, first-out (LIFO) cost, which is not in excess of market. All other inventories are valued at the lower of first-in, first-out (FIFO) cost, or market (replacement cost or net realizable value). In both instances, costs include material, labor and overhead.

Note 5: Inventories—As of January 1, 1979, the last-in, first-out (LIFO) method of valuing inventories was extended to certain of the domestic inventories of the Medical and Recreation Groups, which previously used the first-in, first-out (FIFO) method of inventory valuation. The change to the LIFO method, which charges the most recent product costs to the results of operations, provides a better matching of current costs with current revenues in the determination of net earnings. The effect of this change was to reduce net earnings for 1979 by $1,128,000, or $.06 per share. There is no cumulative effect of this change on prior years' reported earnings.

At December 31, 1979 and 1978, $215,000,000 and $115,000,000, respectively, of inventories were valued using the LIFO method. If all inventories valued at LIFO cost had been valued at FIFO cost, net earnings would have been increased $10,300,000, or $.51 per share, in 1979 and $3,100,000, or $.16 per share, in 1978. In addition, if the FIFO method of inventory accounting had been used by the Company for inventories valued at LIFO, inventories at December 31 would have been $39,600,000 and $18,800,000 higher than reported for 1979 and 1978, respectively. The FIFO cost of inventories at these dates was approximately the same as current cost.

At December 31, 1979 and 1978, the book basis of LIFO inventories acquired during 1978 exceeded the tax basis by approximately $7,000,000 as a result of applying the provisions of Accounting Principles Board Opinion No. 16 in a purchase business combination.

The following inventories at December 31 were used in the computation of cost of sales:

(dollars in thousands)	1979	1978	1977
Finished goods	$160,389	$134,647	$139,019
Work-in-process	126,876	123,787	93,706
Raw materials and supplies	53,983	39,805	33,500
Total inventories	$341,248	$298,239	$266,225

HARSCO CORPORATION

	1979	1978
	($000)	
Current assets:		
Cash:		
Demand deposits	$ 4,631	$ 10,512
Time deposits	6,607	4,153
Short-term investments, at cost (approximates market)	8,002	28,953
Notes and accounts receivable, less allowance for uncollectable accounts (1979, $4,710; 1978, $3,548)	165,992	121,855
Inventories	155,142	128,879
Other current assets	6,862	5,507
Total current assets	$347,236	$299,859

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventory Valuation—Inventories are stated at the lower of cost or market, cost being determined using the last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods.

Note 3: Inventories—Inventories are classified and valued as indicated in the following summary:

(In thousands)	Dec. 31, 1979	Dec. 31, 1978
Classification:		
Finished goods	$ 27,894	$ 20,723
Work in process	53,810	55,233
Raw materials and purchased parts	69,414	49,065
Stores and supplies	4,024	3,858
	$155,142	$128,879
Valued at lower of cost or market:		
LIFO basis	$102,390	$ 76,590
FIFO basis	42,270	39,786
Average cost basis	10,482	12,503
	$155,142	$128,879

Work in process inventories include U.S. Government contract costs, net of progress payments of $67,185,000 and $14,131,000 as of December 31, 1979 and 1978, respectively. The U.S. Government has a lien on inventories to the extent of any progress payments relating thereto.

Inventories valued on the LIFO basis at December 31, 1979 and 1978 were approximately $53,781,000 and $36,092,000, respectively, less than the amounts of such inventories valued at current costs.

JOSLYN MFG. AND SUPPLY CO. (DEC)

	1979	1978
Current Assets:		
Inventories (Notes 1 and 2):		
Finished Goods	$16,897,000	$15,667,000
Work in Process	17,845,000	17,932,000
Raw Materials	17,167,000	15,064,000
Total Inventories	$51,909,000	$48,663,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories: In 1979 the Company adopted the last-in, first-out (LIFO) method of valuing certain domestic inventories—See Note 2 for the effect of this change. Inventories valued using the LIFO method comprise $35,021,000 or approximately 67% of total inventories. The remaining inventories are valued at the lower of cost (which is average cost or first-in, first-out cost) or market.

Note 2: Accounting Change—In the last quarter of 1979, the Company changed its method of valuing domestic inventories to the last-in, first-out (LIFO) method for the Stainless Steels, Pole Line Hardware, Galvanizing and certain Protective Equipment operations. This change was made to more nearly match current costs with current revenue. If the Company's prior inventory valuation method of using average cost or first-in, first-out cost had been used for all inventories, the December 31, 1979 total inventories would have been $4,908,000 higher than reported on the Balance Sheet. The effect of this change to LIFO was to reduce net income for the year of 1979 by $2,504,000 ($1.06 per share) and net income for the fourth quarter of 1979 by $1,759,000 ($.75 per share). Because this change was effective for the entire year of 1979, the previously reported net income for first, second and third quarters of 1979 have been restated as follows:

	1979		
	1st Qtr.	2nd Qtr.	3rd Qtr.
Net Income as Originally Reported	$1,909,000	$2,561,000	$1,655,000
Effect of Change to LIFO	(48,000)	(265,000)	(432,000)
Net Income, as Restated	$1,861,000	$2,296,000	$1,223,000
Per Share Amounts:			
Net Income as Originally Reported	$.80	$1.08	$.70
Effect of Change to LIFO	(.02)	(.11)	(.18)
Net Income, as Restated	$.78	$.97	$.52

Since an accounting change of this type has no effect on prior years, a restatement of prior years' financial information is not necessary.

R.H. MACY & CO., INC. (JUL)

	1979	1978
	(Dollars in thousands)	
Current Assets		
Merchandise inventories (Note 3)	$306,134	$291,432

NOTES TO FINANCIAL STATEMENTS

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

Merchandise Inventories—The value of merchandise inventories is determined by the retail inventory method, using LIFO (last-in, first-out) cost, which is lower than market, for about 55% of the total inventory, and the lower of FIFO (first-in, first-out) cost or market for the balance of the inventory.

Note 3: Merchandise Inventories—The LIFO inventory amount at July 28, 1979 and July 29, 1978 was less than the FIFO amount of such inventory by $32,571,000 and $26,854,000.

NORTON COMPANY (DEC)

	1979	1978
	(In thousands)	
Current assets:		
Cash	$ 6,739	$ 7,819
Marketable securities, at cost which approximates market ..	12,552	24,684
Accounts and notes receivable, less allowance of $4,999,000 for doubtful accounts ($3,984,000 in 1978)	206,807	179,034
Inventories (Note 2)	263,573	223,665
Prepaid expenses	14,588	11,243
Total current assets	$504,259	$446,445

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Inventories—Inventories are stated at the lower of cost or market. Domestic inventories accounted for under the last-in, first-out (LIFO) method approximated 33% in 1979 and 34% in 1978 of total inventories. The remaining inventories are stated at average or standard cost which approximates actual cost (first-in, first-out). Market is replacement cost or realizable value after allowance for cost of distribution.

Note 2: Inventories—Inventories at December 31 consisted of the following (in thousands):

	1979	1978
Finished goods	$109,437	$ 95,987
Work in process	85,117	69,558
Raw materials and supplies	69,019	58,120
	$263,573	$223,665

If the average or standard cost (first-in, first-out) method of inventory valuation had been used for all inventories by the Company, inventories would have been $43,406,000 higher than reported at December 31, 1979 ($30,582,000 at December 31, 1978).

OXFORD INDUSTRIES, INC. (MAY)

	1979	1978
CURRENT ASSETS:		
Inventories (Notes A and C)	$64,232,000	$62,886,000

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

Inventories—Inventories are stated at the lower of cost (last-in, first-out method in 1979 and first-in, first-out method in 1978) or market (Note C).

Note C: Inventories:

	June 1, 1979	June 2, 1978
Finished goods	$38,694,000	$37,230,000
Work in process	8,493,000	9,124,000
Fabric	12,451,000	12,290,000
Trim and supplies	4,594,000	4,242,000
	$64,232,000	$62,886,000

Effective with the year ended June 1, 1979, the Company changed its method of accounting for inventory costs from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. The Company made this change to achieve a better matching of costs and revenues under current inflationary conditions.

At June 1, 1979 inventories aggregated approximately $4,107,000 less at LIFO cost than they would have at FIFO cost. However, the inventories at LIFO cost were reduced further by $1,038,000 to reflect their estimated market value. Since the estimated market value of the inventories is lower than either LIFO cost or FIFO cost, the change to the LIFO costing method has no effect on net earnings or earnings per share for the year ended June 1, 1979. There is no cumulative effect of the change as of the beginning of the year nor is it possible to determine pro forma results for the prior year, because last year's ending inventory determined under the FIFO method is considered to be the beginning inventory for the current year, in applying the LIFO method.

ROCKWELL INTERNATIONAL CORPORATION (SEP)

	1979	1978
	(In millions)	
Current assets		
Inventories	$1,092.6	$937.5

NOTES TO FINANCIAL STATEMENTS

Note 3: Inventories—Inventories at September 30 are summarized as follows (in millions):

	1979	1978
Finished goods	$ 275.0	$ 281.5
Inventoried costs related to United States Government contracts and other long-term contracts and programs	203.9	203.6
Work in process	534.2	407.4
Raw materials, parts and supplies	328.0	274.4
Total	1,341.1	1,166.9
Less allowance to adjust the carrying value of certain inventories (1979, $710.0 million; 1978, $513.9 million) to a last-in, first-out (LIFO) basis	194.4	147.9
Remainder	1,146.7	1,019.0
Less progress payments on long-term contracts and programs	54.1	81.5
Inventories	$1,092.6	$ 937.5

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 business aircraft and certain electronics divisions of these businesses, general and administrative expenses (including bidding expenses and independent research and development costs) allowable in accordance with United States Government procurement 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 businesses include amounts which are not expected to be realized within one year.

At September 30, 1979 and 1978 inventoried costs do 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 realization.

General and administrative expenses related to United States Government contracts incurred and charged to inventoried costs were $186.8 million and $172.6 million in 1979 and 1978, respectively. General and administrative expenses remaining in inventoried costs are estimated at $10.7 million and $16.8 million at September 30, 1979 and 1978, 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.

STANADYNE, INC. (DEC)

	1979	1978
	(In thousands)	
CURRENT ASSETS		
Cash	$ 5,455	$14,586
Accounts receivable, less allowance for doubtful accounts of $400,000	50,250	44,268
Inventories, at LIFO cost	45,504	32,472
Prepaid expenses	886	887
Total Current Assets	$102,095	$92,213

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Inventories—Inventories are generally stated on the last-in, first-out cost (LIFO) method of valuation adopted in 1956.

Note 2: Inventories

Inventories at December 31 were as follows:

	1979	1978
Raw materials	$ 7,576,000	$ 5,425,000
Partly finished product	24,126,000	17,262,000
Finished product	13,572,000	9,612,000
Supplies	230,000	173,000
	$45,504,000	$32,472,000

Inventories would have been higher by $35,682,000 in 1979 and $29,125,000 in 1978 had the Company used current cost rather than LIFO cost for inventory valuation.

TRIANGLE INDUSTRIES, INC. (DEC)

	1979	1978
Current Assets		
Cash	$ 2,666,000	$ 3,005,000
Notes and accounts receivable, less allowance for doubtful accounts (1979—$2,377,000; 1978—$3,489,000)	44,218,000	42,417,000
Inventories	48,689,000	42,437,000
Prepaid expenses and other assets	1,428,000	1,566,000
Total current assets	$97,001,000	$89,425,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Inventories—Inventories are valued at lower of cost or market, determined by the first-in, first-out method, except for copper and steel inventories which are determined by the last-in, first-out method.

Inventories

Inventories at December 31 are summarized as follows:

	1979	1978
Finished Goods	$22,673,000	$23,231,000
Work in Progress	19,638,000	16,631,000
Raw Materials	6,378,000	2,575,000
	$48,689,000	$42,437,000

Reductions of inventory quantities in 1979 and 1978 resulted in a liquidation of LIFO inventory quantities carried at costs prevailing in prior years which are lower than current costs. The effect of these reductions was to increase net income by approximately two cents and three cents per share in 1979 and 1978, respectively. Current replacement cost exceeds LIFO inventory carrying value by $6,360,000.

Average Cost

BAKER INTERNATIONAL CORPORATION (SEP)

	1979	1978
	(In thousands of dollars)	
Current assets:		
Cash	$ 8,135	$ 8,698
Receivables—less allowance for doubtful accounts: 1979, $5,233,000; 1978, $4,518,000	253,849	209,905
Inventories (Note 1):		
Finished goods	207,801	160,498
Work in process	70,736	59,933
Raw materials	57,370	47,908
Total inventories	335,907	268,339
Prepaid expenses and other	11,465	8,516
Total current assets	$609,356	$495,458

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories. Inventories are stated at the lower of cost or market, principally valued by using currently adjusted standards which approximate actual cost under the average cost method.

At September 30, 1979 and 1978, LIFO inventories of an acquired company have a tax basis approximately $2,044,000 less than that for financial statement purposes resulting from the valuation of such inventories in accordance with the purchase accounting provisions of Accounting Principles Board Opinion No. 16.

GAF CORPORATION (DEC)

	1979	1978
Current Assets		
Inventories		
Finished goods	$126,071,000	$105,290,000
Work in process	37,552,000	29,802,000
Raw materials and supplies	100,587,000	75,353,000
Total inventories	$264,210,000	$210,445,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories—Inventories are valued at the lower of cost (principally average) or market.

SIMPLICITY PATTERN CO. INC. (JAN)

	1980	1979
	($000)	
Current Assets		
Cash	$ 1,621	$ 1,734
Short term investments, at cost (approximate market value)	76,559	74,372
Accounts receivable, less allowance for doubtful accounts—$2,603 and $3,038, respectively	16,021	18,896
Inventories	16,077	14,650
Prepaid expenses	1,552	1,476
	$111,830	$111,128

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 2: Inventories are summarized as follows:

	January 31, 1980	1979
	(000's omitted)	
Raw materials	$ 4,478	$ 3,295
Work in process	3,804	3,513
Finished goods	6,667	6,770
Materials and supplies	1,128	1,072
	$16,077	$14,650

SMITHKLINE CORPORATION (JUN)

	1979	1978
Current assets:		
Cash	$ 13,989,000	$ 17,501,000
Time deposits	207,503,000	168,156,000
Marketable securities, at cost which approximates market	7,273,000	24,556,000
Accounts and notes receivable, less allowances 1979—$12,073,000; 1978—$9,865,000	270,566,000	218,548,000
Inventories:		
Finished products	73,016,000	51,188,000
Work in process	89,241,000	55,752,000
Raw materials and supplies	98,784,000	67,837,000
	261,041,000	174,777,000
Prepaid expenses	20,654,000	15,751,000
Total current assets	$781,026,000	$618,289,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories—Inventories are stated generally at the lower of average cost or market.

XEROX CORPORATION (DEC)

	1979	1978
	(Dollars in millions)	
Current Assets		
Cash	$ 42.2	$ 57.7
Bank time deposits, interest bearing	267.7	412.0
Marketable securities, at the lower of cost or market	447.7	269.8
Trade receivables (less allowance for doubtful receivables: 1979—$60.1; 1978—$53.1)	1,120.4	927.5
Accrued rentals	259.3	211.3
Inventories, at the lower of average cost or market	785.8	601.8
Other current assets	180.5	158.7
Total current assets	$3,103.6	$2,638.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories consist of:

(Dollars in millions)	1979	1978
Finished products	$549.7	$442.4
Work in process	97.1	65.3
Raw materials and supplies	139.0	94.1
Total inventories	$785.8	$601.8

Inventories used in the computation of cost of sales were (in millions): $785.8, $601.8 and $525.3 at December 31, 1979, 1978 and 1977, respectively.

Production Cost

PULLMAN INCORPORATED (DEC)

	1979	1978
	(Thousands)	
Current assets		
Inventories	$307,550	$282,929

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Inventories are stated at the lower of cost or market. Cost is determined by actual production costs for rail cars and certain other fabricated products, by the last-in first-out method for most domestic trailer inventory components and by the first-in first-out method for remaining inventories.

Note 6: Inventories

The classification of inventories at December 31 follows:

	1979	1978
	(Thousands)	
Finished goods	$ 62,534	$ 55,855
Work in process	141,350	122,352
Raw materials, service parts and operating supplies	103,666	104,722
Total inventories	$307,550	$282,929

The method of inventory valuation follows:

	1979	1978
	(Thousands)	
LIFO method	$ 22,634	$ 28,202
FIFO method	116,074	103,037
Actual production cost	168,842	151,690
	$307,550	$282,929

Inventories would have been $16,933,000 greater at December 31, 1979 ($13,374,000 at December 31, 1978) if inventories valued on the LIFO basis had been valued at current costs.

Specific Identification

INTERNATIONAL MINERALS & CHEMICAL CORPORATION (JUN)

	1979	1978
	(In millions)	
Current assets		
Cash	$ 11.2	$ 15.3
Short-term investments, at cost which approximates market	43.4	58.8
Receivables, less allowances of $7.6 in 1979 and $7.3 in 1978	227.3	213.7
Inventories		
Products (principally finished)	199.4	192.5
Operating materials and supplies	42.9	37.3
	242.3	229.8
Prepaid expenses	6.3	7.3
	$530.5	$524.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Accounting Policies

Inventories-Inventories are stated at the lower of cost or market (net realizable value). Cost is determined on the basis of cumulative annual averages and specific identification.

Inventories

Product inventories at June 30, 1979 and 1978, were as follows:

	1979	1978
Animal products	$ 13.4	$ 9.4
Chemicals	36.7	36.5
Fertilizers	86.0	79.3
Industry	65.0	68.4
Energy	.6	
Inter-segment eliminations	(2.3)	(1.1)
	$199.4	$192.5

Total inventories, including operating materials and supplies, used in the computation of cost of goods sold for the two years ended June 30, 1979, were as follows: June 30, 1977, $220.4; June 30, 1978, $229.8; June 30, 1979, $242.3.

Market

ANDERSON, CLAYTON & CO. (JUN)

	1979	1978
Cash assets:		
Inventories (note 2)	$182,457,000	$194,275,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): A summary of significant accounting policies follows:

Inventories. Domestic inventories of consumer and institutional foods, animal feeds and machinery manufacturing operations are valued at the lower of cost or market with cost determined on the last-in-first-out (LIFO) method. Commodity and certain oil mill finished products inventories are valued at market less selling costs and other items; all other inventories are valued at the lower of moving average cost or market.

Note 2 (in part): A summary of inventories follows:

	June 30	
	1979	1978
Commodities	$ 10,563,000	$ 10,687,000
Finished products	70,225,000	61,293,000
Work-in-process	16,947,000	15,268,000
Raw materials	72,525,000	96,485,000
Supplies and repair parts	24,991,000	20,083,000
LIFO allowance	(12,824,000)	(9,541,000)
	$182,457,000	$194,275,000

The inventory amounts used in determining cost of goods sold are $157,466,000 for June 30, 1979, $174,192,000 for June 30, 1978 and $149,542,000 for June 30, 1977.

THE RATH PACKING COMPANY

	1979	1978
CURRENT ASSETS:		
Cash	$ 1,083,000	$ 1,189,000
Receivables:		
Trade accounts	13,749,000	11,881,000
Other	2,037,000	1,723,000
	15,786,000	13,604,000
Less—Allowance for doubtful accounts	235,000	165,000
	15,551,000	13,439,000
Inventories (Note 1):		
Meat and other products	15,816,000	14,982,000
Materials and supplies	4,141,000	2,980,000
	19,957,000	17,962,000

Note 1 (in part): Accounting Policies:

A summary of major accounting policies follows:

Inventories: Meat and other products are priced at approximate current market, less allowance for selling and distribution expenses. Materials and supplies are priced at the lower of first-in, first-out cost or market.

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.

COLECO INDUSTRIES, INC. (DEC)

	1979	1978
Current Assets:		
Prepaid expenses (Note 6)	$4,506,000	$2,834,000

Note 6 (in part): Prepaid Advertising—During 1979 and 1978, the Company entered into agreements which provide for products (principally video products) and cash (generally 50% of the total contract) to be exchanged for media advertising. The 1979 and 1978 sales include $3,519,000 and $3,636,000, respectively, of shipments under these arrangements. At December 31, 1979 and 1978, prepaid expenses include $3,912,000 and $2,215,000, respectively, of prepaid advertising and other noncurrent assets include $580,000 and $3,112,000 (including $2,100,000 of video inventory which was shipped subsequent to December 31, 1978), respectively, under these arrangements. The prepaid advertising resulting from these transactions, as well as the carrying value of the inventory unshipped at December 31, 1978, is based on the fair value of the media advertising.

DIAMOND SHAMROCK CORPORATION (DEC)

	1979	1978
	($000)	
Current Assets		
Prepaid insurance, etc.	$7,150	$5,694

FRANKLIN MINT CORPORATION (DEC)

	1979	1978
Current assets		
Prepaid promotion costs, amortizable within one year	$40,486,000	$37,103,000
Other prepaid expenses	6,371,000	6,269,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sales Recognition and Related Promotion Costs

Revenue is recognized on sales of products at the time of shipment. 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 issues in a series program. Advance payments from customers are received with the sales order on certain programs.

TABLE 2-10: PREPAID ITEMS

	Number of Companies			
	1979	1978	1977	1976
Prepaid expenses	276	279	295	306
Prepaid expenses and other current assets	92	89	79	66
Taxes paid in advance	25	13	18	10
Prepaid expenses and taxes paid in advance	23	19	35	32
Supplies and prepaid expenses	6	8	10	11
Other captions indicating prepaid expenses	48	55	39	42

The company's principal method of selling its products is through direct mail and newspaper or magazine advertisements. Printing and mailing costs of direct mail advertising, the cost of media advertising 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 expense whenever the company makes downward revisions to series fulfillment expectations. Costs incurred by company personnel in the development of sales programs, including salaries, wages and other administrative expenses, are charged to expense in the period incurred.

THE MAYTAG COMPANY (DEC)

	1979	1978
CURRENT ASSETS		
Cash	$ 3,234,813	$ 2,927,397
Marketable securities, including certificates of deposit—at cost (approximately market)	58,036,403	45,493,322
Prepaid pension contribution	3,000,000	—
Trade accounts receivable, less allowance ($100,000)	23,130,857	20,882,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C—Pension Plans

Pension expense, under plans which cover all employees, amounted to approximately $7,500,000 in 1979 and $7,100,000 in 1978. In addition to the funding of pension costs accrued, the Company elected to fund an additional $3,000,000 in 1979. The prepaid pension contribution had no effect on 1979 pension expense and is available to offset future funding requirements of the plans. The actuarially-computed value of vested benefits of one plan as of the last valuation date exceeded the market value of the pension fund assets as of December 31, 1979 by approximately $8,700,000.

MASONITE CORPORATION (AUG)

	1979	1978
Current Assets:		
Cash	$ 1,009,000	$ 5,713,000
Marketable securities, at cost (substantially market)	26,535,000	29,134,000
Receivables, less allowances of $1,944,000 in 1979 and $1,665,000 in 1978	71,425,000	70,272,000
Inventories (Note 2)	56,927,000	50,966,000
Prepaid expenses, principally prepayments on timber contracts	8,354,000	6,094,000
Total current assets	$164,250,000	$162,179,000

MATTEL, INC. (JAN)

	1980	1979
Current Assets		
Cash	$ 29,275,000	$25,822,000
Accounts receivable, less allowance of $12,200,000 in 1980 and $4,000,000 in 1979	160,227,000	71,795,000
Prepaid expenses	23,066,000	9,401,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Prepaid Expenses—Advertising costs related to certain printed products distributed in several installments are amortized as each installment is sold. Purchased art and editorial costs and advance royalty payments related to published works are amortized as publications are sold.

TABLE 2-11: OTHER CURRENT ASSET CAPTIONS

	Number of Companies			
	1979	1978	1977	1976
Nature of Asset				
Deferred income taxes	70	60	62	74
Unbilled costs	34	30	26	22
Property held for resale	19	18	23	20
Advances or deposits	12	15	11	14
Other—identified	24	27	24	21
Other current assets	99	91	78	71

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

CENTRONICS DATA COMPUTER CORP. (JUN)

	1979	1978
Current assets:		
Cash	$ 5,315,105	$ 6,297,171
Accounts receivable, principally trade, less allowance for doubtful accounts(1979, $1,180,564;1978, $575,963)	30,804,083	19,408,204
Inventories (Note 1)	60,819,933	30,638,052
Prepaid expenses and other current assets	1,250,710	710,142
Deferred income taxes (Note 1).	1,837,954	747,653
Total current assets	$100,027,785	$57,801,222

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

Inventories: Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Income taxes:

The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries, 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 9.

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, DISC earnings, and inventory related transactions.

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.

LITTON INDUSTRIES, INC. (JUL)

	1979	1978
	(thousands of dollars)	
Current Assets:		
Cash	$ 410,123	$ 93,323
Accounts receivable less allowance for doubtful accounts of $21,495 and $27,520	628,177	638,258
Inventories less progress billings (Notes A and C)	502,615	562,986
Deferred taxes on income (Note J)	204,914	210,683
Prepaid expenses	20,773	18,957

Note J (in part): Taxes on Income

Deferred taxes on income classified as current assets in the Consolidated Balance Sheets represent current timing differences and include $98,557,000 and $114,095,000 at July 31, 1979 and 1978, respectively, related to the contract settlement with the U.S. Navy.

Future tax benefits classified in long-term investments and other long-term assets in the Consolidated Balance Sheets are as follows:

	July 31,	
(thousands of dollars)	1979	1978
Long-term timing differences	$ —	$20,851
Refunds due and miscellaneous	10,484	14,903
	$10,484	$35,754

Long-term timing differences at July 31, 1979 amounted to a net credit of $22,438,000, and are classified with unamortized investment tax credits as deferred taxes on income in the liability section of the Consolidated Balance Sheet.

THE MAYTAG COMPANY (DEC)

	1979	1978
CURRENT ASSETS		
Deferred federal taxes on income	$1,975,500	$2,105,300

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes: Certain expenses (principally related to employee compensation and accelerated tax depreciation) are recognized in different time periods for financial reporting and income tax purposes.

Investment tax credits are applied as a reduction of the provision for federal taxes on income for the period in which the credits arise.

SQUARE D COMPANY (DEC)

	1979	1978
	(Dollars in thousands)	
Current Assets:		
Cash and time deposits	$ 27,815	$ 14,168
Short-term investments, at cost (approximates market)	24,819	34,199
Receivables, less allowances for losses, adjustments and discounts (1979—$2,877; 1978—$2,764)	122,039	113,426
Inventories	158,950	131,751
Insurance and other prepaid expenses	3,026	4,086
Deferred income taxes	6,603	4,026
Total Current Assets	$343,252	$301,656

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories—Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine cost of inventories in the United States. The first-in, first-out (FIFO) method is used to determine cost of foreign inventories.

Income Taxes

Deferred income taxes are provided on timing differences between financial and taxable earnings. Investment tax credits are recognized using the flow-through method.

Unbilled Costs

FLUOR CORPORATION (OCT)

	1979	1978
Current Assets		
Contract work in progress	$199,240,000	$192,937,000

FINANCIAL REVIEW

Major Accounting Policies (in part)

Engineering and Construction Contracts—The company recognizes revenues on engineering and construction contracts on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs, and on manhours incurred to date compared with total estimated manhours for the construction of certain power plants. Changes to total estimated contract costs or man-hours and losses, if any, are recognized in the period they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. It is anticipated that the incurred cost associated with contract work in progress at October 31, 1979, will be billed and collected in 1980. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

NIAGARA FRONTIER SERVICES INC. (JUN)

	1979	1978
Current assets:		
Cash	$10,311,796	$ 8,875,686
Trade receivables, less allowance for doubtful receivables of $225,000 in 1979 and $85,000 in 1978.............	8,223,799	6,687,332
Inventories:		
Merchandise	24,685,618	18,262,554
Materials and supplies	726,845	604,042
Total inventories	25,412,463	18,866,596
Cost in excess of billings on construction contracts in process.	1,088,873	584,606
Prepaid expenses................	447,393	582,681
Total current assets	$45,484,324	$35,596,901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Construction Contracts. The Company recognizes income from construction contracts on the completed contract method under which progress billings and costs are accumulated during the period of construction, but profits are not recognized until the work is substantially completed. Estimated losses, if any, on uncompleted contracts are recognized in full when identified.

PNEUMO CORPORATION (NOV)

	1979	1978
	($000)	
Current assets		
Cash	$11,882	$ 5,772
Short-term investments—at cost, which approximates market.........................	6,000	10,000
Accounts receivable, less allowances ($344,000 in 1979; $347,000 in 1978)...........	34,938	28,334
Costs to be billed under contracts	1,404	744

SUPREME EQUIPMENT & SYSTEMS CORP. (JUL)

	1979	1978
Current Assets:		
Unbilled costs and earnings on long-term contracts—Note 1 .	$2,598,596	$1,096,042

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

Long-Term Contracts: Sales and earnings on long-term electronic systems contracts are stated on the percentage-of-completion method, based on costs incurred in relation to total estimated costs. Included in current assets are the unbilled costs and earnings in excess of progress billings on such contracts. For income tax purposes, the company reports its earnings on the completed contract method.

Property Held for Sale

BROWN & SHARPE MANUFACTURING COMPANY (DEC)

	1979	1978
Current Assets:		
Cash	$ 4,075,000	$ 3,968,000
Accounts receivable, net of allowances for doubtful accounts of $840,000 and $687,000..	42,910,000	32,950,000
Inventories:		
Parts, raw materials, and supplies......................	21,947,000	17,215,000
Work in progress	21,774,000	14,927,000
Finished goods	13,210,000	11,299,000
	56,931,000	43,441,000
Prepaid expenses and other current assets	1,388,000	708,000
Net assets of acquired business held for sale	5,254,000	—
Total current assets	110,558,000	81,067,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Investments

Chamberlain Group Limited—In March, 1979 the Company acquired substantially all the remaining outstanding shares of Chamberlain Group Ltd., a company engaged in the sale and manufacture of high torque, low speed hydraulic motors (hydraulics) and the erection of structural steel buildings and components (steel business). The acquisition of Chamberlain has been accounted for as a purchase and accordingly the results of the hydraulics business have been included in the consolidated financial statements since April 1, 1979. The Company previously owned 21% of the outstanding shares of Chamberlain. The remaining shares purchased were financed by a three to seven year $11,376,000 (Sterling) term loan bearing market bank interest rates in the U.K. and $4,920,000 (Sterling) in 10% unsecured three year loan stock for a total of $16,296,000 which approximated the estimated fair value of the net assets purchased. As of the acquisition date, the Company decided to dispose of the steel business and accordingly results of operations of the steel business have not been included in the consolidated financial statements. During the year approximately $4,000,000 of the steel business net assets were sold substantially at their estimated fair value, the proceeds of which were used to reduce the Sterling term loan. The Company plans to sell or liquidate the remaining net assets of the steel business in 1980 which are separately classified on the balance sheet at their estimated fair value of $5,254,000.

COLGATE-PALMOLIVE COMPANY (DEC)

	1979	1978
	($000)	
Current Assets		
Estimated proceeds on sale of discontinued operations	$27,500	—

Advances

BELDEN CORPORATION (DEC)

	1979	1978
	($000)	
Current Assets		
Construction funds due from lessor—Note 6	$1,297	—

Note 6: Operating Leases—Operating leases include manufacturing, warehouse and office facilities, and transportation, computer, manufacturing and office equipment. In the normal course of business it is expected these leases will either be renewed or replaced by new leases upon expiration of the original lease term.

The total rental expense was $4,784,000 and $3,805,000 in 1979 and 1978 respectively. Future minimum rental payments for operating leases are:

1980—$4,580,000; 1981—$2,600,000; 1982—$1,829,000; 1983—$1,442,000; 1984—$902,000; After 1984—$$2,632,000.

In 1979 Complete-Reading Electric Co. began construction of a $2,400,000 warehouse and office facility in Hillside, Ill. As of December 31, 1979, $1,279,000 has been advanced on this project. The Corporation is negotiating a contract for a sale-leaseback of this facility with rent payments to begin in 1981.

GIANT FOOD INC. (FEB)

	1979	1978
	Thousands of dollars	
Current assets:		
Advances under leaseback agreements	$58	$1,471

THE PILLSBURY COMPANY (MAY)

	1979	1978
	(In thousands)	
Current assets:		
Cash	$ 8,415	$ 16,589
Marketable securities, at cost (approximates market)	29,294	20,060
Receivables, less allowance for doubtful accounts of $6.4 million and $6.1 million, respectively	274,352	236,848
Inventories (Note 3)	405,596	245,804
Advances on purchases	156,452	145,823
Prepaid expenses	32,453	15,466
Total current assets	$906,562	$680,590

Costs Prior to Production

HOLLY SUGAR CORPORATION (MAR)

	1979	1978
Current Assets:		
Cash	$ 2,613,942	$ 2,880,408
Marketable securities (at cost, not in excess of market)	5,000,000	—
Accounts receivable (less allowances for doubtful accounts—1979, $301,000; 1978, $310,500)	12,990,111	12,496,600
Refundable Federal and state income taxes	8,688,228	9,586,000
Inventories (at cost, not in excess of market)		
Finished goods	13,831,132	36,383,016
Raw materials and stock in process	10,690,749	713,411
Operating supplies	8,317,803	7,341,435
Manufacturing costs prior to production	5,557,392	4,984,782

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Manufacturing Costs Prior to Production—Certain manufacturing costs, principally repairs and maintenance, are incurred between processing periods. Such costs are deferred in accordance with industry practice and are allocated to future sugar production.

Rental Assets

NATIONAL SERVICE INDUSTRIES, INC. (AUG)

	1979	1978
	($000)	
Current Assets:		
Cash	$ 5,512	$ 14,584
Receivables, less allowance for doubtful accounts of $2,578 in 1979 and $2,417 in 1978	92,883	76,445
Inventories, at the lower of cost (on a first-in, first-out basis) or market	98,016	78,524
Linens in service, net of amortization	25,612	22,620
Prepayments, etc.	2,909	2,523
Total Current Assets	$224,932	$194,696

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Inventories and Linens in Service—Inventories are valued at the lower of cost (on a first-in, first-out basis) or market. Linens in service are recorded at cost and are amortized over their estimated useful lives.

TABLE 2-12: LAND CAPTIONS

	1979	1978	1977	1976
Land	399	388	396	400
Land and *improvements*	108	109	99	100
Land and buildings	32	29	32	31
Land combined with other identified assets	14	20	27	21
No caption with term *land*	10	11	13	9
	563	557	567	561
Line of business classification	37	43	33	39
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 assets classified as Property, Plant, and Equipment by the survey companies. Examples of Property, Plant, and Equipment disclosures follow.

Also presented in this section are examples of cost and reserve information disclosed by those survey companies having oil and gas operations.

Table 2-14 summarizes the descriptive captions used to describe the accumulated allowance for depreciation.

BREAKDOWN BY NATURE OF PROPERTY

ACTION INDUSTRIES, INC. (JUN)

	1979	1978
Property, Plant and Equipment—at cost (Notes A-3 and D)	$17,067,886	$16,326,525
Less accumulated depreciation and amortization	5,204,566	4,007,479
	$11,863,320	$12,319,046

Note A-3: Depreciation and Amortization—The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets by the striaght line method for financial statement purposes and by accelerated methods for tax purposes. The present values of all capitalized lease obligations are amortized over the estimated useful life of the related asset or lease term, whichever is shorter. (See Note D)

Maintenance and repairs are charged to operations as incurred. Additions and betterments are capitalized.

The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement. Any resulting profit or loss is reflected currently in the statement of earnings.

Note D: Property, Plant and Equipment—Property, plant, and equipment stated at cost are summarized as follows (see Note G):

TABLE 2-13: DEPRECIABLE ASSET CAPTIONS

	1979	1978	1977	1976
Buildings				
Buildings	284	283	286	281
Buildings and improvements	170	168	176	169
Buildings and land or equipment	78	76	71	78
Buildings combined with other identified assets	9	15	15	17
No caption with term *buildings*	14	15	12	10
	555	557	560	555
Line of business classification	45	43	40	45
Total Companies	**600**	**600**	**600**	**600**
Other Depreciable Asset Captions				
	Number of Companies			
Machinery and or *equipment*	450	444	445	431
Machinery and/or *equipment* combined with other assets	93	103	129	92
Construction in progress	225	213	227	214
Leasehold improvements	123	126	122	115
Leased assets	103	103	71	N/C
Automobiles, marine equipment, etc.	73	83	73	84
Furniture, fixtures, etc.	53	59	52	76
Assets leased to others	30	34	34	29

N/C—Not Compiled.

	1979	1978	Estimated Useful Lives
Land	$ 521,592	$ 521,592	
Building	7,964,655	8,144,013	40 Years
Machinery and Equipment	5,671,135	5,337,997	4-10 Years
Furniture and Fixtures	1,930,770	1,654,278	5-10 Years
Automobiles, Trucks and Trailers	176,862	175,144	3- 6 Years
Leasehold Improvements	802,872	493,501	10 Years
	$17,067,886	$16,326,525	

Depreciation and amortization included in operating expenses for the fiscal years ended June 30, 1979 and 1978 amounted to $1,311,633 and $1,188,035, respectively.

AFG INDUSTRIES, INC. (DEC)

Consolidated Balance Sheet

	1979	1978
Property, Plant, and Equipment: (Notes 1 and 5):		
Land	$ 1,618,000	$ 1,668,000
Buildings	33,445,000	34,455,000
Machinery and equipment	60,380,000	60,242,000
Construction in progress	3,420,000	1,822,000
Idle facilities	852,000	2,510,000
	99,715,000	100,697,000
Less: Accumulated depreciation	13,703,000	6,120,000
	$86,012,000	$ 94,577,000

Consolidated Statement of Income

Costs and Expenses (Note 1)		
Cost of sales	$ 82,999,000	$54,212,000
Selling and administrative	8,148,000	6,770,000
Interest expense	4,789,000	3,382,000
Depreciation (Notes 1 and 5)	8,767,000	5,602,000
Loss on closed facilities	—	4,936,000
	$104,703,000	$74,902,000

Note 1 (in part): Accounting Policies

Property, plant and equipment—Property, plant, and equipment are valued at cost less accumulated depreciation. Depreciation is computed generally on a straight-line basis over the estimated useful lives of the related assets.

Expenditures for maintenance, repairs, and renewals of minor items are charged to earnings as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations for the period.

TABLE 2-14: ACCUMULATED DEPRECIATION

	1979	1978	1977	1976
Accumulated depreciation	299	292	302	318
Accumulated depreciation and amortization	162	162	144	141
Allowance for depreciation	29	33	38	32
Accumulated depreciation, amortization and depletion	35	33	38	31
Accumulated depreciation and depletion	17	18	23	23
Allowance for depreciation and amortization	22	23	23	17
Allowance for depreciation and depletion	9	7	5	6
Other captions	27	32	27	32
Total Companies	**600**	**600**	**600**	**600**

Note 5: Property, Plant, and Equipment

The estimated useful lives used in computing depreciation and amortization expense are as follows:

Asset description	Asset life
Buildings and improvements	20 to 45 years
Furnaces, machinery, and equipment	5 to 20 years
Furniture, office, and other equipment	5 to 10 years

ALCO STANDARD CORPORATION (SEP)

Consolidated Balance Sheet

	1979	1978
Property and Equipment, at cost		
Land	$ 10,068,138	$ 8,272,962
Buildings and improvements	74,592,225	58,501,113
Machinery and equipment	134,359,131	118,489,615
	219,019,494	185,263,690
Less accumulated depreciation	90,978,164	80,301,073
	128,041,330	104,962,617
Coal deposits and mine development less depletion and amortization: 1979—$2,993,261; 1978—$2,752,625	20,343,120	20,942,970
	$148,384,450	$125,905,587

Consolidated Statement of Income

Costs and Expenses		
Cost of goods sold	$1,570,095,231	$1,262,929,703
Selling and administrative	239,823,322	187,854,977
Depreciation, depletion and amortization	12,818,954	10,451,602
Interest	13,530,036	9,673,151
	$1,836,267,633	$1,470,909,433

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Depreciation and Amortization—The Company provides for depreciation on most assets by the straight-line method over their useful lives. Certain mining equipment is depreciated using the unit of production method. The cost of coal reserves and mine development is capitalized and amortized by units of production based on estimated recoverable reserves.

THE AMERICAN SHIP BUILDING COMPANY (SEP)

Consolidated Balance Sheet

	1979	1978
	($000)	
Property, Plant and Equipment (Note 1):		
Property, plant and equipment, at cost, less accumulated depreciation (Note 5)	$25,676	$24,549
Assets under capital lease, at cost, less accumulated depreciation (Note 6)	19,520	20,057
Total property, plant and equipment	$45,196	$44,606

Consolidated Statement of Changes in Financial Position

SOURCE OF FUNDS:		
Income from continuing operations	$2,406	$4,116
Income from discontinued operations	—	109
Add-Expenses not requiring outlay of working capital in the current period—		
Depreciation and amortization	2,402	1,739
Deferred Federal income taxes	1,100	1,400
Funds provided from operations	$5,908	$7,364

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment—For financial reporting purposes, depreciation is provided on the straight-line method at annual rates based upon the estimated service lives of the property or lease terms, if shorter. Lives used for calculating depreciation and amortization for the principal asset classifications are:

Buildings and improvements	5 to 45 years
Other manufacturing facilities	2 to 40 years
Machinery and equipment	2 to 20 years
Vessels	5 to 12 years
Assets under capital lease	5 to 39 years

Maintenance and repairs are charged to expense, whereas significant replacements and improvements are capitalized in the property accounts.

The cost and accumulated depreciation of items sold or retired are removed from the property accounts and any resultant gain or loss is reflected in income.

Note 5: Property, Plant and Equipment:

The following is a summary of cost and accumulated depreciation:

	1979	1978
Cost—		
Land	$ 2,461,129	$ 2,461,129
Building and improvements	9,579,549	8,466,378
Other manufacturing facilities	14,167,215	13,999,465
Machinery and equipment	20,098,565	18,593,309
Vessels	1,442,952	1,504,695
	47,749,410	45,024,976
Less—Accumulated depreciation	22,073,709	20,476,162
	$25,675,701	$24,548,814

BAUSCH & LOMB INCORPORATED (DEC)

Balance Sheet

	1979	1978
	($000)	
Properties:		
Land	$ 2,923	$ 2,932
Buildings	44,769	40,923
Machinery and equipment	80,339	73,740
Leasehold improvements	2,941	2,332
	130,972	119,927
Less—Accumulated depreciation	63,675	58,023
	$ 67,297	$ 61,904

Statement of Earnings

Costs and Expenses:		
Cost of products sold	$234,825	$209,474
Depreciation of properties	9,437	8,958
Research and development	13,246	12,747
Selling, administrative and general	158,328	145,779
Interest	7,963	8,263
Federal, foreign and other taxes on income	38,004	26,615
	$461,803	$411,836

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (in part)

Properties, Depreciation and Amortization—Properties are recorded at cost and include improvements that significantly add to productive capacity or extend useful life. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related depreciation are removed from the accounts, and gain or loss, if any, is reflected in the earnings for the period. Properties are removed from the accounts when they become fully depreciated. Depreciation, for financial reporting purposes, including the depreciation of assets relating to capitalized lease obligations, is provided on the straight-line method over the points of estimated useful lives of the assets. Leasehold improvements are amortized over the periods of the leases.

DAYTON MALLEABLE INC. (AUG)

Statements of Financial Condition

	1979	1978
Property, Plant and Equipment		
Land and land improvements	$ 2,350,162	$ 2,350,833
Buildings, leasehold and improvements	13,749,783	13,293,635
Machinery and equipment	76,951,701	73,097,159
Construction in progress	2,140,687	110,433
	95,237,333	88,852,060
Allowances for depreciation and amortization	60,994,573	56,064,492
	34,242,760	32,787,118
Short-term investments allocated for capital expenditures—Note C	5,300,000	-0-
	$39,542,760	$32,787,118

Statements of Changes in Financial Position

SOURCE OF FUNDS		
From operations:		
Net income	$3,128,333	$2,228,684
Depreciation—not requiring current outlay of funds	5,700,038	5,772,884
Total from Operations	$8,828,371	$8,001,568

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Property, Plant and Equipment—Property, plant and equipment are carried at cost and include expenditures for facilities as well as significant improvements to existing facilities. Maintenance, repairs and minor renewals are charged directly to expense as incurred.

The cost and related accumulated depreciation of assets retired or otherwise disposed of are relieved from the appropriate asset and accumulated depreciation accounts. Any gain or loss resulting from these transactions is reflected in earnings.

Depreciation is computed primarily on accelerated methods over periods designed to amortize the cost of the assets over their estimated useful lives.

Note C: Short-Term Investment Allocation—At August 31, 1979, the Company was involved in major construction projects. Accordingly, management allocated certain short-term investments to cover the estimated costs to complete the projects.

EMPIRE GAS CORPORATION (JUN)

Consolidated Balance Sheets

	1979	1978
PROPERTY AND EQUIPMENT (Note 4)		
Land	$ 2,932,894	$ 2,806,326
Buildings	5,022,938	4,820,020
Storage facilities	8,888,939	8,856,694
Consumer service facilities	40,198,879	40,215,723
Transportation equipment	15,506,853	11,814,605
Office and other equipment	2,706,447	2,614,231
	75,256,950	71,127,599
Less accumulated depreciation	24,872,494	22,639,212
	$50,384,456	$48,488,387

Consolidated Statements of Income

OPERATING EXPENSES		
Selling, general, and administrative	$27,301,388	$24,416,503
Depreciation	4,151,214	3,862,836
Interest	3,555,874	2,564,186
	$35,008,476	$30,843,525

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property and Equipment and Depreciation—Property and equipment are 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 extended useful lives are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property 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 and equipment. When the equipment is removed from customer's premises, the installation costs, reduced by accumulated depreciation, are charged to expense.

GENERAL MILLS, INC. (MAY)

Consolidated Balance Sheets

	1979	1978
	(In Millions)	
Land, buildings and equipment, at cost (Note 1-B):		
Land	$ 56.7	$ 53.7
Buildings	347.6	317.5
Equipment	505.1	462.3
Construction in progress	65.6	53.2
	975.0	886.7
Less accumulated depreciation	(331.3)	(299.7)
	$643.7	$587.0

Consolidated Statements of Income and Retained Earnings

Costs and Expenses:		
Costs of sales, exclusive of items shown below	$2,336.3	$2,015.3
Depreciation expense (Note 1-B)	70.5	56.1
Amortization expense (Note 1-D)	2.8	2.5
Interest expense	38.8	29.3
Contributions to employees' retirement plans (Notes 1-F and 8)	25.1	21.0
Selling, general and administrative expenses	1,007.6	873.6
Total Costs and Expenses	$3,481.1	$2,997.8

Note 1-B: Land, Buildings, Equipment and Depreciation—Part of the cost of buildings and equipment is charged against earnings each year as depreciation expense. This amount is computed primarily by the straight-line method, which means that equal amounts of depreciation expense are charged against operations each year during the estimated useful life of an item. For tax purposes, accelerated methods of depreciation are used which provide more depreciation expense in the early years than in the later years of the estimated life of the item.

The useful lives employed for computing depreciation on principal classes of buildings and equipment are:

Buildings	20-50 years
Machinery and equipment	5-25 years
Office furniture and equipment	5-10 years
Transportation equipment	3-12 years

General Mills' policy is to charge maintenance, repair and minor renewal expenses to earnings in the year incurred. Major improvements to buildings and equipment are capitalized. When items are sold or retired, the accounts are relieved of cost and the related accumulated depreciation. Gains and losses on assets sold or retired are credited or charged to results of operations.

LABARGE, INC. (DEC)

Balance Sheet

	1979	1978
Property and equipment:		
Owned property, at cost	$12,631,079	$11,718,257
Leased property under capital leases	3,330,057	3,126,127
	15,961,136	14,844,384
Less accumulated depreciation and amortization	6,990,531	6,384,503
	$ 8,970,605	$ 8,459,881

Statement of Changes in Financial Position

Financial resources were provided by:		
Net income	$1,099,796	$ 798,142
Depreciation and amortization	1,281,129	1,203,489

NOTES TO FINANCIAL STATEMENTS

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

Property and equipment—Property and equipment is carried at cost and includes additions and improvements which extend the remaining useful life of the asset. Minor replacements and repairs and maintenance costs are charged to operations as incurred.

Depreciation is computed on the straight-line method.

Gains or losses from the disposition or retirement of assets are charged or credited to operations. Amortization of leased property is included in depreciation and amortization expense.

Note 3: Property and Equipment

Property and equipment is summarized as follows:

	Owned	Leased	Total	Estimated useful lives
1979:				
Land	$ 141,549	$ 19,833	$ 161,382	
Automobiles, trucks and yard vehicles	761,931	771,054	1,532,985	3-10 years
Buildings and improvements	1,862,371	1,007,045	2,869,416	10-33 years
Leasehold improvements	1,064,701	—	1,064,701	2-10 years
Machinery and equipment	6,821,566	1,500,636	8,322,202	2-20 years
Furniture and fixtures	852,010	31,489	883,499	3-10 years
Idle plant facility	1,126,951	—	1,126,951	
	12,631,079	3,330,057	15,961,136	
Less accumulated depreciation and amortization	5,968,028	1,022,503	6,990,531	
	$ 6,663,051	$2,307,554	$ 8,970,605	
1978:				
Land	$ 211,475	$ 54,500	$ 265,975	
Automobiles, trucks and yard vehicles	618,088	425,200	1,043,288	3-10 years
Buildings and improvements	3,160,064	895,109	4,055,173	10-33 years
Leasehold improvements	704,196	—	704,196	5-10 years
Machinery and equipment	6,277,661	1,719,829	7,997,490	2-20 years
Furniture and fixtures	746,773	31,489	778,262	3-10 years
	11,718,257	3,126,127	14,844,384	
Less accumulated depreciation and amortization	5,647,235	737,268	6,384,503	
	$ 6,071,022	$2,388,859	$ 8,459,881	

In October, 1979, the Company closed its Tulsa, Oklahoma manufacturing facility. The facility is for sale.

PABST BREWING COMPANY (DEC)

Consolidated Balance Sheet

	1979	1978
Properties:		
Land	$ 5,740,000	$ 5,024,000
Buildings	89,529,000	86,055,000
Machinery and equipment	280,196,000	266,263,000
Construction in progress	12,711,000	9,744,000
Cooperage	39,940,000	38,707,000
	428,116,000	405,793,000
Less—Accumulated depreciation	182,855,000	165,483,000
	245,261,000	240,310,000
Leased properties under capital leases	38,349,000	38,657,000
Less—Accumulated depreciation	14,651,000	9,257,000
	23,698,000	29,400,000
Bottles and boxes	14,521,000	15,708,000
	$283,480,000	$285,418,000

Consolidated Statement of Changes in Financial Position

Working Capital was Provided by:		
Net income	$ 9,478,000	$11,086,000
Charges to operations not involving working capital:		
Provision for depreciation	30,006,000	26,600,000
Provision for deferred federal income taxes	3,250,000	6,100,000
Loss on disposal of Los Angeles assets	1,467,000	—
Other—net	1,559,000	1,141,000
Total from operations	$45,760,000	$44,927,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Properties and Related Depreciation: Property, plant, equipment and cooperage are stated at cost. Provisions for depreciation are made on the straight-line method at rates based on the estimated useful lives of the various classes of depreciable property.

Capital leases are recorded as assets and obligations. Depreciation is recognized on the straight-line method over the life of the leases.

Bottles and boxes on hand are stated at cost; cost being determined on the last-in, first-out method. Bottles and boxes held by customers are stated at acquisition cost, net of an allowance for depreciation of the returnable boxes.

The Company uses the deposit method for recording cooperage and returnable bottles and boxes shipped to customers. Deposit amounts charged to customers for the returnable containers held by them which are expected to be returned to the Company are included in the balance sheet as liability to customers for returnable containers.

The cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the gain or loss on disposal is credited or charged to income. Expenditures for new facilities and those which substantially increase the useful lives of existing plants and equipment are capitalized. Maintenance, repairs and minor renewals are charged to expense as incurred.

MEREDITH CORPORATION (JUN)

	1979 ($000)	1978
Property, Plant and Equipment (at cost) (Note 2)	$119,316	$107,960
Less accumulated depreciation	48,092	48,222
Net Property, Plant and Equipment	$ 71,224	$ 59,738

SUMMARY OF ACCOUNTING POLICIES

Property, Plant and Equipment

Depreciation expense is provided primarily on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and minor replacements are charged to operations, and expenditures for major replacements and betterments are added to the property, plant and equipment accounts. The cost and accumulated depreciation of property, plant and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale and the resulting gain or loss is recorded in income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Property, Plant and Equipment

A comparative summary of property, plant and equipment follows:

	1979 (in thousands)	1978
Land and land improvements	$ 4,907	$ 3,817
Buildings and improvements	26,976	22,744
Machinery and equipment	81,486	78,900
Leasehold improvements	578	596
Construction in progress	5,369	1,903
	119,316	107,960
Less accumulated depreciation	48,092	48,222
	$ 71,224	$ 59,738
Depreciation expense for the year	$ 8,406	$ 7,644

During the fourth quarter of fiscal 1978, the Company determined that certain press equipment would not be utilized throughout the originally estimated life. Accordingly, the estimated life was revised and this resulted in an additional charge to depreciation of $1,412,000, which reduced 1978 net earnings by approximately $706,000 and net earnings per share by approximately 23 cents.

FUNCTIONAL CLASSIFICATION

CABOT CORPORATION (SEP)

Consolidated Balance Sheets

	1979	1978
Property, plant and equipment:		
At cost (Note E)	$716,240,000	$638,047,000
Accumulated depreciation, amortization and depletion	314,602,000	285,027,000
Net property, plant and equipment	$401,638,000	$353,020,000

Statements of Changes in Financial Position

Sources of working capital:		
Net income	$ 70,445,000	$46,580,000
Charges and (credits) to income which do not affect working capital:		
Depreciation, amortization and depletion	37,072,000	30,839,000
Deferred income taxes	9,209,000	11,509,000
Provision for the retirement of property, plant and equipment	7,813,000	
Equity in net income of affiliated companies	(5,180,000)	(3,141,000)
Other, net	9,434,000	4,015,000
Total working capital provided by operations	$128,793,000	$89,802,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Property, Depreciation and Amortization—Property, plant and equipment is recorded at cost. For financial reporting purposes, depreciation of property, plant and equipment is provided primarily by the straight-line method, using lives of ten to twelve years for substantially all machinery and equipment, and twenty-five years for buildings and improvements.

In connection with its oil and gas operations, the Company uses the successful efforts method of accounting, consistent with Financial Accounting Standards Board Statement No. 19. Exploration costs (consisting of dry hole costs, delay rentals, abandoned leases and other exploration costs) are charged to expense. Tangible and intangible productive well drilling costs are capitalized. Amortization of capitalized intangible drilling costs, depletion and a portion of the depreciation of producing oil and gas properties are computed by the unit-of-production method.

Expenditures for maintenance and repairs and minor renewals are charged to expense; betterments and major renewals are capitalized. Upon retirement or sale of assets, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income.

Note E: Property, plant and equipment

The cost of property, plant and equipment, by industry segment, was as follows:

September 30	1979	1978
Energy	$282,730,000	$237,486,000
Engineered Products	141,966,000	125,049,000
Performance Chemicals	271,547,000	255,932,000
General corporate assets	19,997,000	19,580,000
	$716,240,000	$638,047,000

CONOCO INC. (DEC)

Consolidated Balance Sheet

	1979	1978
	($000)	
Property, plant, and equipment, at cost (including oil and gas properties accounted for by the successful efforts method of accounting), less accumulated depreciation, depletion, and amortization (Note 3):		
Owned	$5,120,313	$4,090,236
Leased under capital leases	227,907	233,147
	$5,348,220	$4,323,383

Statement of Consolidated Income and Retained Earnings

Costs, expenses, and taxes:		
Costs and operating expenses	$ 7,835,780	$6,074,214
Selling, general, and administrative expenses	624,849	486,852
Exploration expenses, including dry hole costs and impairment of unproved properties	237,765	233,923
Depreciation, depletion, and amortization	398,308	343,230
Interest and debt expense	167,020	147,112
Income and other taxes (Note 6)	2,952,853	2,093,485
Minority interest in subsidiaries' net income	50,949	41,628
	$12,267,524	$9,420,444

ACCOUNTING POLICIES

A summary of major accounting policies of Conoco Inc. is presented below to assist the reader in evaluating the financial statements and other data contained in this report.

Oil and Gas Properties—Conoco follows the successful efforts method of accounting as prescribed in Statement of Financial Accounting Standards No. 19 issued by the Financial Accounting Standards Board.

Costs of acquiring unproved properties are capitalized. Costs of properties which become productive are amortized by field on a unit-of-production basis. Impairment of nonproductive properties, all of which are individually insignificant, is provided for by amortizing the costs thereof based on past experience or the estimated holding period. Costs of properties surrendered or otherwise disposed of are charged against accumulated amortization.

Exploratory costs, including geological and geophysical costs, annual delay rentals, and exploratory dry hole costs are expensed as incurred. Development costs of productive oil or gas wells, development dry holes, and all other development costs are capitalized and amortized on a unit-of-production basis.

Coal Properties—Costs of undeveloped properties are capitalized and amortized on a unit-of-production basis upon commencement of production. Development costs applicable to the opening of new coal mines are capitalized and amortized on a unit-of-production basis. Costs of additional mine facilities required to maintain production after a mine reaches the production stage, generally referred to as "receding face costs," are expensed as incurred; however, costs of additional air shafts and new portals are capitalized and amortized.

Costs of producing coal (mining costs) applicable to the production payment, which was reserved against properties purchased by Conoco and was liquidated in 1975, have been capitalized and are being amortized over estimated applicable tonage to be produced in a thirty-year period from the date of purchase.

Depreciation—Depreciation of oil and gas production equipment, including support facilities, is provided on a unit-of-production basis.

Depreciation of other plant and equipment, including assets leased under capital leases, is provided substantially on a straight-line method at various rates calculated to extinguish the book values of the respective items over their estimated useful lives or lease terms, as appropriate.

Note 3 (in part): Property, plant, and equipment

	1979		1978	
	Owned	Leased under capital leased	Owned	Leased under capital leases
		($000)		
Petroleum production	$4,585,264	$ —	$3,641,061	$ —
Refineries and natural gas processing facilities	1,036,924	4,000	925,107	4,000
Petroleum marketing	281,611	29,001	·283,542	35,184
Petroleum supply and transportation	343,105	196,492	321,117	204,439
Chemicals	515,435	26,224	358,729	26,224
Coal and related activities	1,583,767	32,189	1,417,708	31,209
Minerals	45,846	—	40,984	—
Other	76,318	45,963	65,616	28,978
	8,468,270	333,869	7,053,864	330,034
Less accumulated depreciation, depletion, and amortization	3,347,957	105,962	2,963,628	96,887
	$5,120,313	$227,907	$4,090,236	$233,147

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

Consolidated Balance Sheets

	1979	1978
Property, Plant and Equipment		
Land	$ 18,230,000	$ 16,141,000
Oil and gas properties (successful efforts method)	79,597,000	52,106,000
Refinery and petrochemical plant	137,838,000	112,938,000
Marketing facilities	52,440,000	46,428,000
Pipelines and other equipment	11,869,000	9,368,000
Reactor materials—long-term projects	11,000,000	11,000,000
	310,974,000	247,981,000
Less allowances for depreciation and depletion	91,426,000	76,117,000
Total Property, Plant and Equipment	$219,548,000	$171,864,000

Consolidated Statements of Income

	1979	1978
Costs and expenses:		
Costs and operating expenses	$856,024,000	$564,072,000
Selling and administrative expenses	47,777,000	35,902,000
Depreciation, depletion and amortization	17,854,000	11,643,000
Interest	8,388,000	7,511,000
Abandonments and sales of property, plant and equipment (net of proceeds)	6,923,000	5,241,000
	$936,966,000	$624,369,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Accounting Policies

Property, Plant and Equipment: Property, plant and equipment is carried at cost. Depreciation and amortization of plant and equipment is provided on the straight-line method over estimated useful lives.

Upon sale or retirement, the costs and related accumulated depreciation or depletion are eliminated from the respective accounts, and the resulting gain or loss is included in income.

Routine current maintenance, repairs and replacement costs are charged against income. Turnaround costs, which consist of complete shutdown and inspection of significant units of the refinery at intervals of two or more years for necessary repairs and replacements, are deferred and amortized over the related period. Expenditures which materially increase values, change capacities or extended useful lives are capitalized.

Oil and Gas Properties: Lease acquisition costs and drilling and development costs of producing oil and gas properties are capitalized and depleted by the unit-of-production method. The Company historically has utilized the successful efforts method of accounting for exploration and development costs. Under this method, exploratory costs, including geophysical and geological expenses, lease rentals, and intangible drilling costs related to nonproducing wells are charged to expense.

COST AND RESERVE INFORMATION FOR OIL AND GAS OPERATIONS

ST. JOE MINERALS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Oil and Gas Operations

Selected financial information relating to the Corporation's oil and gas operations follows:

	United States	Canada	United Kingdom	Netherlands	Other	Total
			(In thousands)			
1979:						
Capitalized Costs at December 31:						
Proved Properties	$141,693	$100,713	$91,668	$7,941	$11,936	$353,951
Unproved Properties	17,390	25,217	922	—	222	43,751
Accumulated Depletion, Depreciation and Amortization at December 31	49,767	54,644	122	43	12,116	116,692
Property Acquisition Costs (a)	7,308	—	—	—	—	7,308
Exploration Costs (a)	15,672	19,183	1,799	3,120	231	40,005
Development Costs (a)	12,674	7,782	39,160	—	—	59,616
Production (lifting) Costs (b)	5,270	4,344	—	—	—	9,614
Depletion, Depreciation and Amortization (b)(c)	13,423	4,781	—	—	92	18,296
Net Revenues (d):						
Crude Oil and Condensate	7,394	7,703	—	—	—	15,097
Natural Gas	13,625	15,482	—	—	—	29,107
1978:						
Capitalized Cost at December 31:						
Proved Properties	$113,200	$ 89,455	$51,426	$4,807	$11,842	$270,730
Unproved Properties	10,832	15,966	—	—	266	27,064
Accumulated Depletion, Depreciation and Amortization at December 31	36,313	49,762	122	43	11,999	98,239
Property Acquisition Costs (a)	5,384	7,450	161	—	—	12,995
Exploration Costs (a)	8,066	9,568	2,143	1,607	478	21,862
Development Costs (a)	10,662	3,710	17,496	—	—	31,868
Production (lifting) Costs (b)	3,957	3,832	—	—	—	7,789
Depletion, Depreciation and Amortization (b)	9,423	4,111	—	—	1,969	15,503
Net Revenues (d):						
Crude Oil and Condensate	5,202	7,233	—	—	—	12,435
Natural Gas	7,360	13,174	—	—	—	20,534

(a) Capitalized.
(b) Charged to expense.
(c) Depletion, depreciation and amortization expense per dollar of sales is \$.51 and \$.17 in the United States and Canada, respectively.
(d) Net revenues are computed by subtracting production (lifting) costs from gross revenues.

Oil and Gas Reserves (Unaudited)

Information relating to the Corporation's oil and gas reserves, estimated future net revenues from estimated production and the present values of such revenues follows:

Oil and Gas Reserves

	United States Crude Oil and Condensate (Barrels)	United States Natural Gas (MCF)	Canada Crude Oil and Condensate (Barrels)	Canada Natural Gas (MCF)	United Kingdom Crude Oil and Condensate (Barrels)	Netherlands Natural Gas (MCF)
			(In thousands)			
Net Proved Oil and Gas Reserves:						
Balance, December 31, 1977	2,646	62,238	11,135	216,499	8,569	5,050
Revisions of Previous Estimates	(202)	(16,934)	472	2,926	3,507	—
Purchases of Minerals-In-Place	17	172	—	—	—	—
Extensions, Discoveries, and Other Additions	402	11,687	708	16,395	—	—
Production	(574)	(6,199)	(835)	(11,526)	—	—
Balance, December 31, 1978	2,289	50,964	11,480	224,294	12,076	5,050
Revisions of Previous Estimates	423	10,122	645	16,270	—	—
Purchases of Minerals-In-Place	273	2,495	—	—	—	—
Extensions, Discoveries, and Other Additions	166	8,188	1,512	17,701	—	—
Production	(519)	(8,941)	(895)	(11,588)	—	—
Balance, December 31, 1979	2,632	62,828	12,742	246,677	12,076	5,050
Net Proved Developed Oil and Gas Reserves:						
Balance, December 31, 1977	2,400	57,791	10,125	193,178	—	—
Balance, December 31, 1978	2,212	48,699	10,356	192,715	12,076	—
Balance, December 31, 1979	2,553	61,692	11,274	210,286	12,076	—

Estimated Future Net Revenues(a)

	1980		1981		1982		Thereafter	
	Proved Reserves	Proved Developed Reserves	Proved Reserves	Proved Developed Reserves	Proved Reserves	Proved Developed Reserves	Proved Reserves	Proved Developed Reserves
				(In thousands)				
United States	$31,495	$31,915	$ 28,357	$ 27,633	$ 22,966	$ 22,412	$ 89,654	$ 87,443
Canada	24,261	27,467	28,156	26,560	29,021	25,580	248,864	186,101
United Kingdom	14,364	14,364	86,244	86,244	85,712	85,712	62,724	62,724
Netherlands	—	—	—	—	668	—	9,384	—
Total	$70,120	$73,746	$142,757	$140,437	$138,367	$133,704	$410,626	$336,268

(a) Calculated as estimated production at current prices, less estimated royalties, current operating costs and future capital expenditures at current costs.

Present Values of Estimated Future Net Revenues(b)

	As of December 31, 1979		As of December 31, 1978	
	Proved Reserves	Proved Developed Reserves	Proved Reserves	Proved Developed Reserves
		(In thousands)		
United States	$118,111	$116,291	$ 63,444	$ 61,240
Canada	195,848	171,070	182,984	162,438
United Kingdom	195,042	195,042	56,787	56,787
Netherlands	4,090	—	3,380	—
Total	$513,091	$482,403	$306,595	$280,465

(b) Using a ten percent discount factor.

In compliance with the rules and regulations of the SEC, the Corporation has prepared supplemental disclosures on the basis of reserve recognition accounting (a method of accounting for oil and gas operations which was developed by the SEC). The details of this information are available in the Corporation's 1979 Annual Report on Form 10-K to the SEC.

THE SUPERIOR OIL COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 11: Oil and Gas Related Costs

The following tables set forth costs related to the company's oil and gas operations incurred during the years ended December 31, 1979 and 1978 (in thousands of dollars):

Year Ended December 31, 1979

	United States	Canada	Indonesia	United Kingdom	Gulf of Suez	Other Foreign	Total
Acquisition costs of oil and gas properties							
Unproved	177,585	66,237	—	—	—	904	244,726
Proved	644	239,420	6	694	—	6,908	247,672
Exploration costs	94,025	38,621	2,206	597	1,060	17,471	153,980
Development costs	235,146	28,351	5,028	3,973	17,583	10,717	300,798
Production costs	98,662	22,130	720	1,560	20,739	1,765	145,576
Depletion, depreciation, and amortization of oil and gas related capitalized costs	139,689	16,514	2,881	(3,439)	46,464	1,770	203,789

Year Ended December 31, 1978

	United States	Canada	Indonesia	United Kingdom	Gulf of Suez	Other Foreign	Total
Acquisition costs of oil and gas properties							
Unproved	68,606	20,972	—	—	—	96	89,674
Proved	111,481	10,523	34,268	—	—	—	156,272
Exploration costs	99,975	32,248	2,612	1,175	5,645	19,420	161,075
Development costs	208,546	21,754	4,339	1,024	26,960	11,786	274,409
Production costs	73,522	19,479	689	1,519	11,783	—	106,992
Depletion, depreciation, and amortization of oil and gas related capitalized costs	89,913	13,153	395	2,457	13,841	17	119,776

The following tables set forth the capitalized costs related to the company's oil and gas operations at December 31, 1979 and 1978 (in thousands of dollars):

December 31, 1979

	United States	Canada	Indonesia	United Kingdom	Gulf of Suez	Other Foreign	Total
Unproved oil and gas properties	314,124	137,578		30	—	1,747	453,479
Proved oil and gas properties	271,490	323,449	35,917	741	—	7,102	638,699
Wells and related production equipment (including intangible drilling and development costs)	1,289,388	197,743	12,357	22,936	—	38,562	1,560,986
Gas plants and related facilities	35,905	55,124	—	2,655	—	—	93,684
Other properties and equipment	24,219	—	5,248	142	—	56	29,665
	1,935,126	713,894	53,522	26,504	—	47,467	2,776,513
Accumulated depletion, depreciation and amortization	870,412	134,338	3,512	12,103	—	3,624	1,023,989
	1,064,714	579,556	50,010	14,401	—	43,843	1,752,524

December 31, 1978

	United States	Canada	Indonesia	United Kingdom	Gulf of Suez	Other Foreign	Total
Unproved oil and gas properties	154,285	76,242	—	31	—	1,954	232,512
Proved oil and gas properties	262,840	89,637	34,268	65	—	47	386,857
Wells and related production equipment (including intangible drilling and development costs)	1,066,647	164,509	6,092	17,904	35,601	24,820	1,315,573
Gas plants and related facilities	30,399	58,286	—	2,542	—	—	91,227
Other properties and equipment	29,499	1,337	5,913	1,256	5,108	637	43,750
	1,543,670	390,011	46,273	21,798	40,709	27,458	2,069,919
Accumulated depletion, depreciation and amortization	727,518	110,408	628	15,499	13,841	1,204	869,098
	816,152	279,603	45,645	6,299	26,868	26,254	1,200,821

Note 12: Oil and Gas Reserves and Related Financial Data (Unaudited)

Oil and Gas Reserves

The following tables set forth the company's net proved and proved developed oil and gas reserves at December 31, 1978 and 1979 and the changes in the net proved oil and gas reserves for the years ended December 31, 1978 and 1979, as estimated by the company's engineering staff:

Natural Gas

(billions of cubic feet)	United States	Canada	United Kingdom	Indonesia	Other Foreign	Total
Proved Reserves at December 31, 1977	2,047	1,495	146	—	45	3,733
Increases (decreases) due to:						
Revisions of previous estimates	(173)	8	7	—	(4)	(162)
Purchases of minerals in place	99	—	—	226	—	325
Extensions, discoveries or other additions	398	59	34	—	32	523
Current year production	(274)	(52)	(23)	(12)	—	(361)
Proved Reserves at December 31, 1978	2,097	1,510	164	214	73	4,058
Increases (decreases) due to:						
Revisions of previous estimates	(142)	(28)	(4)	34	(16)	(156)
Extensions, discoveries or other additions	249	89	—	124	6	468
Current year production	(313)	(56)	(22)	(14)	—	(405)
Proved Reserves at December 31, 1979	1,891	1,515	138	358	63	3,965
Proved Developed Reserves at December 31,						
1977	1,664	1,161	146	—	—	2,971
1978	1,760	1,201	162	214	11	3,348
1979	1,555	1,141	136	358	11	3,201

Crude Oil and Natural Gas Liquids

(thousands of barrels)	United States	Canada	United Kingdom	Indonesia	Gulf of Suez	Other Foreign	Total
Proved Reserves at December 31, 1977	137,529	141,103	510	—	—	5,124	284,266
Increases (decreases) due to:							
Revisions of previous estimates	12,146	2,693	(255)	—	—	1,503	16,087
Purchases of minerals in place	13,734	—	—	2,847	—	—	16,581
Extensions, discoveries or other additions	12,237	1,248	30	—	12,834	162	26,511
Current year production	(20,332)	(9,862)	(44)	(340)	(1,343)	(2)	(31,923)
Proved Reserves at December 31, 1978	155,314	135,182	241	2,507	11,491	6,787	311,522
Increases (decreases) due to:							
Revisions of previous estimates	(11,934)	4,172	(4)	89	—	(245)	(7,922)
Extensions, discoveries or other additions	7,881	6,601	—	1,524	—	208	16,214
Expropriation by foreign government	—	—	—	—	(5,314)	—	(5,314)
Current year production	(19,737)	(10,468)	(36)	(446)	(6,177)	(325)	(37,189)
Proved Reserves at December 31, 1979	131,524	135,487	201	3,674	—	6,425	277,311
Proved Developed Reserves at December 31,							
1977	123,912	118,041	510	—	—	—	242,463
1978	139,078	132,513	238	2,507	10,726	6,722	291,784
1979	120,043	132,435	198	3,674	—	6,425	262,775

Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Canadian provincial government royalties are determined based on a graduated percentage scale and are affected by changes in prices and production volumes. Canadian reserves, as presented on a net basis, assume current prices and royalty rates and the company's estimates of future production volumes. Future fluctuations in price and production rates could cause the company's share of future production to be materially different from that presented herein.

Neptune Oil Company, Inc., a wholly owned subsidiary, was engaged in drilling and production operations in an Israeli-held portion of the Gulf of Suez under the terms of a production sharing contract with the Israel National Oil Company, Ltd. As a result of the Israeli-Egyptian peace treaty signed in March 1979, the area in which Neptune was operating came under the administrative control of the Egyptian government on November 25, 1979 and Neptune's operations terminated.

Estimated Future Net Revenues and the Present Value Thereof

Estimated future net revenues from estimated production of the company's proved and proved developed oil and gas reserves and the present value of such estimated future net revenues as of December 31, 1979 and 1978, as determined by the company's engineering staff is set forth below:

(Millions of Dollars)	United States	Canada	Indonesia	United Kingdom	Gulf of Suez	Other Foreign	Total
December 31, 1978							
Estimated Future Net Revenues							
Proved reserves							
1979	319	138	14	6	38	(5)	510
1980	420	169	13	9	—	9	620
1981	394	181	14	9	—	12	610
Remainder	1,824	2,550	468	44	—	144	5,030
	2,957	3,038	509	68	38	160	6,770
Proved developed reserves							
1979	365	144	14	6	38	(1)	566
1980	358	169	13	9	—	13	562
1981	275	181	14	8	—	14	492
Remainder	1,449	2,246	468	43	—	57	4,263
	2,447	2,740	509	66	38	83	5,883
Present Value of Estimated Future Net Revenues							
Proved reserves	1,907	1,375	209	45	36	70	3,642
Proved developed reserves	1,607	1,309	209	44	36	53	3,258
December 31, 1979							
Estimated Future Net Revenues							
Proved reserves							
1980	525	148	27	11	—	4	715
1981	563	219	30	11	—	20	843
1982	461	233	31	10	—	21	756
Remainder	1,558	3,441	1,330	70	—	86	6,485
	3,107	4,041	1,418	102	—	131	8,799
Proved developed reserves							
1980	569	163	27	11	—	16	786
1981	501	221	30	11	—	21	784
1982	379	225	31	10	—	21	666
Remainder	1,245	2,833	1,330	68	—	25	5,501
	2,694	3,442	1,418	100	—	83	7,737
Present Value of Estimated Future Net Revenues							
Proved reserves	2,198	1,801	486	63	—	58	4,606
Proved developed reserves	1,938	1,715	486	62	—	45	4,246

Estimated future net revenues represent an estimate of future net revenues from the production of Superior's reserves using current sales prices and estimates of the operating costs, ad valorem and production taxes and future development costs necessary to produce such reserves. No deduction has been made for depletion, depreciation or income taxes or any indirect costs such as general corporate overhead or interest expense. The present value of estimated future net revenues has been computed using a midyear discount factor at a 10% rate.

The sales prices used in the calculation of estimated future net revenues is based on the collectable price for December production. Future escalations in domestic gas sales prices allowable under the Natural Gas Policy Act of 1978, future escalations of domestic crude oil prices under the government's plan of phased decontrol of such prices and the possible effects of the enactment of the proposed "windfall profits" tax have not been considered.

Operating costs and ad valorem and production taxes are estimated based on Superior's current costs with respect to producing oil and gas properties. Future development costs are based on Superior's best estimate of such costs assuming current economic and operating conditions.

The present value of estimated future net revenues associated with proved reserves as shown in the table are consolidated. The net interest of Superior's shareholders in the present value of reserves, after adjusting for the ownership interest of minority shareholders, is summarized below:

(thousands of dollars)	Shareholders' Interest
December 31, 1978	2,884,828
Additions in 1979	1,542,477
December 31, 1979	4,427,305

Consolidated Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting (RRA)

(thousands of dollars)	Funds Flow	Deferred Costs	Net Present Value of Proved Reserves	Results of Oil and Gas Producing Activities on RRA Basis
Balance at December 31, 1978		182,373	3,642,269	
Sales of oil and gas, net of production costs of $170,816	828,089		(828,089)	
Changes in proved reserves				
Current year extensions, discoveries and other additions, gross			829,573	829,573
Estimated future development and production costs related to current year extensions, discoveries and other additions			(146,499)	(146,499)
Additions to estimated proved reserves			683,074	683,074
Revisions to reserves proved in prior years				
Changes in prices			1,116,997	1,116,997
Interest factor—accretion of discount			364,227	364,227
Other			(578,148)	(578,148)
Revisions to estimated proved reserves			903,076	903,076
Exploration and development costs incurred				
Acquisition of unproved oil and gas properties	(201,030)	193,316		(7,714)
Impairment of unproved oil and gas properties		(41,955)		(41,955)
Exploration, including dry hole costs	(153,980)	7,356		(146,624)
Development expenditures	(300,798)		205,955	(94,843)
	(655,808)	158,717	205,955	(291,136)
Balance at December 31, 1979		341,090	4,606,285	
Provision for income taxes	(171,905)		(1,962,448)	(583,872)
RRA Earnings				711,142
MEMO: Total funds inflow/(outflow)	376			

RRA Revenue Recognition

Current year extensions, discoveries and other additions—represents the present value (discounted at 10 percent) of future revenues estimated to be derived from the production of reserves discovered during the current year based on sales prices in effect at year-end. No effect has been given to possible sales price increases under the Natural Gas Policy Act of 1978 or the government's present plan of phased decontrol of crude oil prices or to the effect of the proposed "windfall profits" tax.

Revisions to reserves proved in prior years—represents changes in the present value (discounted at 10 percent) of estimated future revenues, less estimated future development and production costs, to be derived from the production of reserves discovered in prior years. "Changes in prices" represents the approximate effect of changes, from one period to the next, in the sales prices used in the valuation. "Interest factor—accretion of discount" represents the approximate increase resulting from the impact of the passage of time on the discounted cash flow used in the valuation of proved reserves. "Other" represents the present value of all other changes in the valuation of reserves proved in prior years, such as changes in estimated reserve quantities, estimated future costs, estimated production schedules, etc.

RRA Cost Recognition

Estimated future development and production costs—represents the present value (discounted at 10 percent) of the estimated future costs related to the development and production of reserves discovered in the current year, based on current economic and operating conditions.

Exploration and development costs incurred—acquisition costs of undeveloped oil and gas properties and drilling costs related to exploratory wells are deferred until they are determined to be either productive or nonproductive and charged to expense at that time. All other exploration costs are charged to expense when incurred. In addition, under certain circumstances, a portion of significant development expenditures may be deferred. If the purpose of such an expenditure is to develop the existing proved reserves plus additional reserves expected to be proved in the same area, the portion of such expenditures attributable to such additional reserves may be deferred. No 1979 development expenditures were deferred in the calculation of net present value of proved reserves. Deferred costs are reviewed periodically and any impairment in the recoverability of such costs is recognized as an expense in the period in which such impairment occurs.

RRA Income Tax Recognition

Provision for income taxes—is computed based on applying the appropriate statutory tax rate to the excess of the RRA valuation of oil and gas reserves over the current tax basis of the properties involved plus the current tax provision based on oil and gas producing activities during the period. While applicable investment tax credit and other permanent differences are considered in computing taxes applicable to the RRA valuation, no recognition is given to tax benefits applicable to future exploration costs or the activities of the company that are unrelated to oil and gas producing activities.

Considerations in Interpreting Estimated Future Net Revenues and Other RRA Data

In interpreting the data presented, the company's management feels the following points should be taken in consideration:

Reserve estimates and estimates of future annual production are imprecise and the estimates are expected to change as further information becomes available. This data does not take into account probable reserves.

The company can reasonably expect to collect prices in excess of those used in computing the data presented, since, among other things, the Natural Gas Policy Act of 1978 provides for escalation of domestic gas sales prices based on inflation and other factors, the pricing regulations with respect to domestic crude oil sales are currently being phased out and Congress is currently developing a "windfall profits" tax in conjunction with the decontrol of domestic oil sales prices.

Future operating costs, ad valorem and production taxes and development costs are expected to exceed the costs used in these computations by at least the level of general inflation.

The amounts related to Canadian reserves reflect the company's interest after reduction for royalties, based on current royalty rates. Since some Canadian provincial royalties are computed on a graduated scale based on sales prices, future price escalations can be expected to result in an increase in the effective royalty rate.

Since RRA earnings are recognized when proved reserves are discovered and as the valuation of proved reserves changes, no earnings are reported when oil or gas is actually produced. Consequently, RRA earnings differ substantially in concept and amount from earnings reported under current generally accepted accounting principles. RRA earnings do not represent the funds generated from the company's current operations which would be available for reinvestment in business or for distribution to shareholders.

As acknowledged by the SEC, the valuation procedure used in the RRA calculation does not necessarily yield the best estimate of the fair market value of a company's oil and gas properties. An estimate of fair market value would take into account, among other factors, the likelihood of future recoveries of oil and gas in excess of currently proved reserves, anticipated increases in sales prices of oil and gas and anticipated increases in related development and production costs, and other business risks.

The SEC's accounting series Release No. 269 defines the purpose of RRA as "to provide a better measure of a company's success or lack of success in finding proved reserves." Accordingly, Superior believes the trend of RRA earnings over time will constitute more meaningful information, consistent with the objective of the disclosure, than the absolute level in any given year. As discussed elsewhere in this Annual Report, the net ownership interest of Superior shareholders in oil and gas reserves has increased for four consecutive years through drilling and acquisition.

EXXON CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7: Costs—oil and gas producing activities

The following tables summarize the capitalized costs at December 31, 1978 and 1979 and the costs incurred in oil and gas producing activities during these two years. The definitions of terms used in developing these tables are consistent with those described in Financial Accounting Standards Board Statement No. 19—Financial Accounting and Reporting by Oil and Gas Producing Companies.

The amounts shown in the table for total capitalized costs less the accumulated depreciation are $477 million less in 1978 and $447 million less in 1979 than those reported as investment in property, plant and equipment—producing in Note 12 on page 33 mainly due to excluding from the data below pipeline and research assets and assets related to the oil sands operations of Syncrude and Cold Lake in Canada, as required by the Statement

Accumulated depreciation shown is $114 million greater in 1978 and $193 million greater in 1979 than that reported on page 33 due to including in these data accumulated site restoration costs, as required by the Statement, partially offset by exclusions for the same reasons as previously stated.

The amounts reported as costs incurred in oil and gas producing activities for 1978 and 1979 include both capitalized costs and costs charged to expense. Exxon's 1979 costs incurred were $6,878 million, up 52 percent from 1978. Principal factors in the increase were higher acquisition costs related to offshore lease sales in the United States and substantially higher excise taxes included in production (lifting) costs in Australia.

	Total Worldwide	United States	Canada	Other Western Hemisphere	Europe	Middle East and Africa	Australia and Far East
Capitalized costs As of December 31, 1978							
Property (acreage) costs							
Proved	$ 1,127	$ 936	$ 104	—	$ 30	$ 1	$ 56
Unproved	1,170	1,030	82	$ 5	2	5	46
Total property costs	2,297	1,966	186	5	32	6	102
Producing assets	8,537	5,474	616	53	1,558	268	568
Support facilities	337	215	51	7	36	2	26
Incomplete construction	2,291	590	95	32	1,392	34	148
Total capitalized costs	13,462	8,245	948	97	3,018	310	844
Accumulated depreciation, depletion and valuation provisions	4,834	3,495	365	48	456	221	249
As of December 31, 1979							
Property (acreage) costs							
Proved	1,053	917	89	6	31	1	9
Unproved	2,162	1,926	174	5	1	5	51
Total property costs	3,215	2,843	263	11	32	6	60
Producing assets	10,440	6,286	818	47	2,353	280	656
Support facilities	335	191	58	29	26	2	29
Incomplete construction	2,546	548	193	14	1,437	62	292
Total capitalized costs	16,536	9,868	1,332	101	3,848	350	1,037
Accumulated depreciation, depletion, amortization and valuation provisions	5,622	4,010	404	61	628	232	287
Costs incurred							
During 1978							
Property acquisition costs							
Proved acreage	$ 66	—	$ 61	—	—	—	$ 5
Unproved acreage	287	$ 283	1	$ 3	—	—	—
Total property costs	353	283	62	3	—	—	5
Exploration costs	922	467	91	102	$ 117	$ 45	100
Development costs	1,634	635	73	4	759	21	142
Production (lifting) costs*	1,622	766	83	8	210	90	465
Total costs incurred	4,531	2,151	309	117	1,086	156	712
Depreciation, depletion, amortization and valuation provisions	726	474	26	6	129	15	76
During 1979							
Property acquisition costs							
Proved acreage	9	1	—	6	—	—	2
Unproved acreage	1,124	1,029	92	—	—	—	3
Total property costs	1,133	1,030	92	6	—	—	5
Exploration costs	1,233	541	278	110	123	41	140
Development costs	1,968	754	163	11	824	29	187
Production (lifting) costs*	2,544	895	133	10	310	75	1,121
Total costs incurred	6,878	3,220	666	137	1,257	145	1,453
Depreciation, depletion, amortization and valuation provisions	1,029	707	33	8	179	12	90

*These costs exclude significant amounts of royalty and other payments to governments.

SUPPLEMENTAL INFORMATION ON OIL AND GAS RESERVES

The following information describing changes during the years and balances of oil and gas reserves at year-end 1978 and 1979 is presented in accordance with Financial Accounting Standards Board (FASB) Statement No. 19—Financial Accounting and Reporting by Oil and Gas Producing Companies, as amended by Statement No. 25. The definitions of proved reserves used in these tables are those developed by the Department of Energy for its Financial Reporting System and adopted by the FASB.

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. They include some reserves which may or may not be producible within the life of existing agreements. In some cases, substantial new investments in additional wells and related facilities will be required to recover proved reserves efficiently.

Net proved reserves include 100 percent of the reserves of Exxon's majority-owned affiliates, and Exxon's ownership percentage of the reserves of companies accounted for under the equity method but exclude royalties and quantities due others when produced.

Gas reserves exclude the gaseous equivalent of liquids expected to be removed from the gas on leases, at field facilities and at gas processing plants. These liquids are included in the category Net proved reserves of crude oil and natural gas liquids.

Net proved developed reserves are those volumes which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those volumes which are expected to be recovered as a result of major future investments, pending or in progress, to drill new wells, to recomplete existing wells, and/or to install facilities to collect and deliver the production from existing and future wells.

The United States net proved oil reserves include oil attributable to a secondary recovery program which is not yet in operation in the Prudhoe Bay field in Alaska. Reserves attributable to oil and gas discoveries reported in the Mackenzie Delta region, and certain gas discoveries in Malaysia and Norway are not considered proved as of year-end 1979 and therefore are not included n the tabulation of net proved reserves. Additionally, the reserves potentially recoverable from the Athabasca and Cold Lake oil sands are not included in the tabulation since they are specifically excluded by the Statement.

Supplies available under long-term agreements with foreign governments include (i) for the year 1978, oil volumes which were expected to be purchased in the future in Iran under the terms of a 20-year sale and purchase agreement which was to expire in 1993 but under which the government discontinued sales in 1979, (ii) Exxon's share of concessionary reserves in Abu Dhabi and (iii) gas and NGL volumes expected to be acquired in the future in Libya from the government company.

Crude oil and natural gas liquids and natural gas production quantities shown are the net volumes withdrawn from Exxon's oil and gas reserves. These differ from the quantities of oil and gas delivered for sale due to inventory changes and, especially in the case of natural gas, volumes consumed and/or vented. Such quantities were not significant for crude oil and natural gas liquids. For natural gas, such quantities amounted to approximately 315 billion cubic feet in 1978 and approximately 290 billion cubic feet in 1979.

These tables do not include reserves data relating to Exxon's interest in the Arabian American Oil Company because release of this information has not been approved by the government of Saudi Arabia.

Additional information regarding Exxon's oil and gas reserves and related data is contained in Form 10-K, an annual report for 1979 filed with the Securities and Exchange Commission. As indicated on the inside back cover, copies of this report are available to shareholders on request.

	Total Worldwide	United States	Canada	Other Western Hemisphere	Europe	Middle East and Africa	Australia and Far East
Crude oil and natural gas liquids				(millions of barrels)			
Net proved developed and undeveloped reserves							
Beginning of year 1978	6,601	3,751	685	34	991	389	751
Revisions of previous estimates	35	(27)	15	1	(96)	68	74
Improved recovery	12	4	8	—	—	—	—
Purchases of minerals-in-place	1	—	1	—	—	—	—
Extensions, discoveries, and other additions	380	23	12	—	111	—	234
Production	(516)	(316)	(52)	(5)	(34)	(31)	(78)
Sales of minerals-in-place	—	—	—	—	—	—	—
End of year 1978	6,513	3,435	669	30	972	426	981
Revisions of previous estimates	(135)	(186)	(107)	(1)	124	—	35
Improved recovery	137	4	115	—	18	—	—
Purchases of minerals-in-place	—	—	—	—	—	—	—
Extensions, discoveries, and other additions	299	32	3	2	99	—	163
Production	(519)	(288)	(51)	(5)	(56)	(28)	(91)
Sales of minerals-in-place	—	—	—	—	—	—	—
End of year 1979	6,295	2,997	629	26	1,157	398	1,088
Net proved development reserves (included above)							
Beginning of year 1978	4,742	2,965	632	30	139	387	589
End of year 1978	4,732	2,900	599	26	192	420	595
End of year 1979	4,199**	2,347**	565	23	273	392	599
Supplies available under long-term agreements with foreign governments*							
Proved reserves at end of year 1978	1,255	—	—	—	—	1,255	—
Received during the year 1978	71	—	—	—	—	71	—
Proved reserves at end of year 1979	588	—	—	—	—	588	—
Received during the year 1979	18	—	—	—	—	18	—
Proportional interest in proved reserves of equity companies*—end of year 1978	83	—	—	—	58		25
—end of year 1979	67	—	—	—	41		26
Natural gas				(billions of cubic feet)			
Net proved developed and undeveloped reserves							
Beginning of year 1978	30,117	19,489	1,361	343	4,908	1,160	2,856
Revisions of previous estimates	638	(173)	17	5	30	392	367
Improved recovery	—	—	—	—	—	—	—
Purchases of minerals-in-place	21	—	21	—	—	—	—
Extensions, discoveries, and other additions	756	457	40	5	241	—	13
Production	(2,273)	(1,603)	(101)	(24)	(389)	(93)	(63)
Sales of minerals-in-place	—	—	—	—	—	—	—
End of year 1978	29,259	18,170	1,338	329	4,790	1,459	3,173
Revisions of previous estimates	97	(112)	146	(3)	(100)	8	158
Improved recovery	5	2	—	—	3	—	—
Purchases of minerals-in-place	29	2	—	27	—	—	—
Extensions, discoveries, and other additions	870	578	96	—	140	—	47
Production	(2,137)	(1,449)	(85)	(29)	(408)	(85)	(81)
Sales of minerals-in-place	(14)	—	—	—	(14)	—	—
End of year 1979	28,109	17,200	1,495	324	4,411	1,382	3,297
Net proved developed reserves (included above)							
Beginning of year 1978	24,961	17,814	909	272	2,759	1,099	2,108
End of year 1978	24,639	16,628	872	257	3,241	1,403	2,238
End of year 1979	23,459	15,766	1,191	252	2,944	1,325	1,981
Supplies available under long-term agreements with foreign governments*							
Proved reserves at end of year 1978	1,976	—	—	—	—	1,976	—
Received during the year 1978	97	—	—	—	—	97	—
Proved reserves at end of year 1979	1,274	—	—	—	—	1,276	—
Received during the year 1979	106	—	—	—	—	106	—
Proportional interest in proved reserves of equity companies*							
—end of year 1978	17,231	—	—	—	16,988		243
—end of year 1979	17,000	—	—	—	16,761		239

*Aramco data not included. See page 40.

**291 million barrels of proved reserves, classified as developed in the 1978 data, have been reclassified as undeveloped in the 1979 information.

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 of Financial Accounting Standards 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.

TABLE 2-15: INVESTMENTS—VALUATION BASES

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Equity	332	332	330	335
Cost	116	124	136	136
Cost less allowances for decline in value	13	19	27	27
Lower of cost or market	20	19	19	19

Equity Method

THE CHARTER COMPANY (DEC)

Consolidated Balance Sheets

	1979	1978
	($000)	
Investments:		
Charter Security and other affiliates	$55,060	$13,812

Consolidated Statements of Earnings

Revenues	$4,296,370	2,046,330
Expenses:		
Cost of sales and operating	3,779,227	1,946,536
Interest	44,000	25,073
Depreciation, depletion and amortization	28,851	20,616
Total expenses	3,852,078	1,992,225
	444,292	54,105
Equity in net earnings of affiliates	2,357	2,246
Earnings before income taxes and extraordinary items	$ 446,649	$ 56,351

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Basis of Financial Presentation—The accompanying consolidated financial statements include the accounts of The Charter Company and its majority-owned subsidiaries ("Charter") other than Charter Security Life Insurance Company ("Charter Security") which is accounted for by the equity method. Charter's 50% interest in the Bahamian refinery operations and other affiliated companies, 20% to 50% owned, are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 7: Investments in Charter Security and Other Affiliates

Charter's investment in and advances to Charter Security and other affiliates was as follows (in thousands except percentages):

	Percentage of ownership	Investment in and advances to	Investment over underlying net assets	Equity in net earnings (loss)
1979				
Charter Security (A)	100%	$27,882	2,317	1,032
Alpetco (B)	42	4,520	—	(480)
Carey (note 2)	20	—	—	780
Other Bahamian operations	50	7,612	—	222
Other	33.3-50	15,046	6	803
		$55,060	2,323	2,357
1978				
Charter Security (A)	100%	$12,599	3,325	2,092
Other	33.3-81	1,213	10	154
		$13,812	3,335	2,246

A. The excess of the investment in Charter Security over the underlying net assets is being amortized over forty years. Equity in net earnings of Charter Security for 1978 included $1,700,000 resulting from sale of marketable securities during the third quarter.

Condensed financial information for Charter Security is as follows (in thousands):

Condensed Consolidated Balance Sheets

	December 31, 1979	1978
Assets:		
Investments	$193,510	38,015
Cash	14,579	4,307
Deferred policy acquisition costs	12,037	8,703
Goodwill	17,352	—
Other	10,028	2,329
	$247,506	53,354
Liabilities and Stockholder's Equity:		
Future policy benefits	$199,063	38,059
Policy claims and funds	11,052	1,582
Other liabilities	12,457	4,445
Stockholder's equity	24,934	9,268
	$247,506	53,354

Condensed Consolidated Statements of Earnings

	Year ended December 31, 1979	1978
Premiums and other revenues	$ 24,382	14,728
Benefits and expenses	22,087	13,817
Earnings before realized investment gains and Federal income taxes	2,295	911
Realized gains on investments	94	1,168
Earnings before Federal income tax	2,389	2,079
Federal income tax	899	485
Earnings before extraordinary item	1,490	1,594
Extraordinary item	—	860
Net earnings	$ 1,490	2,454

B. On October 19, 1979, Charter entered an agreement to form a joint venture to build and operate a 150,000 barrel per day refinery and petrochemical facility in Valdez, Alaska. The project is expected to cost approximately $1.7 billion and to be completed by late 1983. The agreement provides for an initial investment by Charter of $7,000,000 and additional investments of approximately $8,000,000 to bring its interest to 70% in the joint venture which is known as The Alpetco Company ("Alpecto"). Alpecto has a crude oil supply contract with the State of Alaska to purchase up to 150,000 barrels per day of Alaska north slope royalty crude oil (the "Royalty Oil Contract") provided various performance requirements relating to the refinery project are satisfied.

Deliveries of crude oil will begin under the Royalty Oil Contract on July 18, 1980 if Alpetco continues to satisfy the performance requirements, which, among other things, requires the expenditure before July 18, 1980, of at least $100 million toward the refinery project. Charter has committed to provide its 70% share of the $100 million and, subject to various conditions, its 70% share of the $350 million in equity which is expected to be needed for the refinery project. Any profit realized from deliveries of the crude oil before the completion of the refinery project would be available to satisfy equity requirements.

LEE ENTERPRISES, INCORPORATED (SEP)

Consolidated Balance Sheets

	1979	1978
Investments		
Associated companies (Note 2)	$ 18,326,000	$ 17,389,000

Consolidated Statements Of Income

Operating revenue:		
Newspaper advertising	$ 52,657,000	$ 47,588,000
Newspaper circulation	16,019,000	14,869,000
Broadcasting	33,570,000	28,574,000
Associated companies (Note 2):		
Editorial service and management fees	4,576,000	4,000,000
Equity in net income	3,705,000	3,760,000
Other	5,278,000	5,899,000
	$115,805,000	$104,690,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: 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, less amortization of goodwill.

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 three newspaper publishing companies operating at Lincoln, Nebraska (Journal-Star Printing Co.), Madison, Wisconsin (Madison Newspapers, Inc.) and, since acquisition on August 1, 1978, Bismarck, North Dakota (Bismarck Tribune Company).

Certain information relating to Company investments in these associated companies is as follows:

	1979	1978
Combined Associates		
Assets	$54,310,000	$48,206,000
Liabilities	25,679,000	21,647,000
Stockholders' equity	$28,631,000	$26,559,000
Revenue:		
Newspaper associates	$48,412,000	$39,519,000
NAPP Systems (USA) Inc.	37,435,000	33,587,000
	$85,847,000	$73,106,000
Net income:		
Newspaper associates	$ 5,671,000	$ 4,734,000
NAPP Systems (USA) Inc.	1,926,000	2,830,000
	$ 7,597,000	$ 7,564,000
Lee Information		
Share of:		
Stockholders' equity	$14,386,000	$13,315,000
Undistributed earnings	$11,515,000	$10,578,000
Net income	$ 3,705,000	$ 3,760,000

THE MEAD CORPORATION (DEC)

Balance Sheets

	(dollar amounts in millions)	
Investments and other assets:		
Investments in and advances to jointly-owned companies (Note C)	$ 285.8	$ 238.3

Statements of Earnings

Net sales	$2,569.5	$2,322.1
Cost of products sold	2,092.0	1,892.4
Gross profit on sales	477.5	429.7
Selling, administrative, and research expenses	280.5	245.4
Earnings from wholly-owned operations	197.0	184.3
Equity in earnings before taxes of jointly-owned companies	55.5	42.3
Earnings from operations	$ 252.5	$ 226.6

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Consolidation. The accompanying statements include the accounts of all significant domestic subsidiaries and certain overseas packaging subsidiaries, all of which are wholly-owned. Jointly-owned companies and less significant foreign operations are stated at cost plus the company's equity in their undistributed net earnings since acquisition. Investments in non-consolidated insurance subsidiaries are stated at equity. All significant intercompany transactions are eliminated.

Note C: Jointly-Owned Companies

Description and Operations. The company's principal domestic jointly-owned investments are Georgia Kraft Company and Brunswick Pulp & Paper Company. Georgia Kraft manufactures coated bottle 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 either its packaging, container, or paper operations.

The company's principal Canadian investments are Northwood Forest Industries Limited (formerly Northwood Pulp and Timber Limited) and British Columbia Forest Products Limited (BCFP). Mead owns 50% of Northwood and 28.3% of BCFP. Both manufacture bleached softwood kraft pulp and produce lumber in their sawmill operations. BCFP also manufactures paper, newsprint, plywood, and waferboard.

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 to pay current installments of funded indebtedness. Under the contract with Northwood, Mead is entitled to purchase the pulp it may need.

Financial Reporting. Mead's investments in non-consolidated jointly-owned companies are stated at cost plus equity in undistributed earnings, which approximates the portion of shareholders' equity applicable to Mead's investment. The composition of Mead's total investments in these companies is:

December 31	1979	1978
(All dollar amounts in millions)		
Investments at cost	$ 55.8	$ 54.4
Equity in undistributed earnings	228.2	181.8
Mead's investments in jointly-owned companies	284.0	236.2
Advances	1.8	2.1
Total investments in and advances to jointly-owned companies	$285.8	$238.3

Pulp and paperboard produced by 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, as provided by these companies, are included in the provision for income taxes. Summary data on financial condition of the combined jointly-owned companies, presented in relation to Mead's reporting for these companies, is:

December 31	1979	1978
(All dollar amounts in millions)		
Working capital	$ 253.3	$ 235.8
Investments and other assets	78.8	59.9
Property, plant and equipment, at cost less accumulated depreciation of $625.2 in 1979 and $570.7 in 1978	797.7	676.6
Timber resources, at cost less cost of timber harvested	109.1	99.1
	1,238.9	1,071.4
Less:		
Long-term debt due through 2009	405.7	367.7
Deferred income taxes	152.9	139.7
Shareholders' equity	$ 680.3	$ 564.0
Mead's share of equity	$ 284.0	$ 236.2

Summary operating data of the combined jointly-owned companies, presented in relation to Mead's reporting for these companies, is:

Year Ended December 31	1979	1978
(All dollar amounts in millions)		
Revenues	$1,445.8	$1,265.6
Costs and expenses	1,170.7	1,059.2
Interest expense	37.2	34.4
Income taxes	94.2	72.5
Net earnings	$ 143.7	$ 99.5
Sales to Mead included above	$ 276.8	$ 240.8
Mead's share of net earnings	$ 54.6	$ 38.2
Reported in Mead's statement of earnings as:		
Reduction of cost of products sold	$ 33.4	$ 23.0
Equity in earnings before taxes of jointly-owned companies	55.5	42.3
Earnings before income taxes	88.9	65.3
Income taxes	34.3	27.1
As above	$ 54.6	$ 38.2

MILTON ROY COMPANY (DEC)

Consolidated Balance Sheet

	1979	1978
Investments in joint ventures, at equity	$2,411,000	$2,030,000

Consolidated Statement of Income

Income from continuing operations before provision for income taxes and other items	$4,705,000	$4,754,000
Gain from sale of real estate	—	658,000
Equity in net income of joint ventures	416,000	372,000
Income from continuing operations before provision for income taxes	$5,121,000	$5,784,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Investments in joint ventures, at equity:

At December 31, 1978, the Company owned 50% of Dosapro-Milton Roy S.A. and Ichibishi Company, Ltd. During 1979 in connection with the acquisition of Applied Science Laboratories, Inc., the Company also acquired a 50% interest in Applied Science Europe, B.V. These investments are stated at cost of acquisition plus the Company's equity in the undistributed net income since acquisition. A summary of the combined financial position and results of operations of joint venture companies follows:

	1979	1978
Summary Financial Position	(Thousands)	
Current assets	$13,289	$10,493
Property, plant and equipment, net	1,509	1,195
Goodwill	466	466
Other assets	148	247
Total assets	15,412	12,401
Current liabilities	8,634	6,865
Other liabilities	62	9
Long term debt	1,894	1,468
Total liabilities	10,590	8,342
Net assets	$ 4,822	$ 4,059
Company's equity in net assets	$ 2,411	$ 2,030
Summary Statement of Income		
Net revenues	$21,449	$17,357
Costs and expenses	20,125	16,188
Provision for income taxes	639	436
Income before extraordinary credit	685	733
Extraordinary credit-income tax benefit arising from utilization of net operating loss carryforwards	147	11
Net income	$ 832	$ 744
Company's equity in net income	$ 416	$ 372
Company's portion of dividends declared and paid	$ 33	$ —

The Company engages in various transactions with its 50% owned companies. Agreements with these companies generally provide for a price structure projected to result in a reasonable return to the respective parties. Significant transactions with the companies that are accounted for on the equity method at December 31, 1979 and 1978 were as follows:

	(Thousands)				
	Sales to	Royalties charged to	Purchases from	Receivable from	Payable to
1979	$647	$235	$54	$215	$29
1978	$182	$233	$52	$110	$19

PENNWALT CORPORATION (DEC)

Consolidated Balance Sheet

	1979	1978
	(Thousands of Dollars)	
Investments and other receivables (Note 1)		
Investments, at cost plus equity in undistributed net earnings since acquisition—		
Nonconsolidated subsidiaries	$ 17,064	$ 18,918
Affiliates	15,020	9,312
Long-term receivables, etc.	2,946	2,849
	$ 35,030	$ 31,079

Statement of Consolidated Earnings

Income (Note 1)		
Net sales	$1,079,303	$921,369
Other net, including equity ($3,394,000 and $6,767,000) in net earnings of nonconsolidated companies and $5,436,000 gain on Mexican stock sale in 1979	12,923	8,427
	$1,092,226	$929,796

Note 1: Principles of Consolidation, Etc.

The consolidated financial statements include all significant wholly-owned subsidiaries. The equity of the Company and its consolidated subsidiaries in the net assets of nonconsolidated subsidiaries and affiliates approximated the carrying value of these investments at December 31, 1979 and 1978.

During 1979, the Company sold a part of its interest in Mexican chemical affiliates. The net after-tax gain on the sale, less the share of 1979 earnings given up as a consequence, amounted to approximately $2.2 million ($.22 per share). Also, in 1979, a former nonconsolidated subsidiary was consolidated. The net effect of these changes on consolidated sales was immaterial.

During 1978, the Company acquired several small businesses for an aggregate of $3,490,000 consisting of 1,942,000 in cash and 47,460 shares of common stock. These acquisitions were accounted for by the purchase method. An additional 23,730 shares of common stock are reserved for one business, contingent on future operations. The combined results of operations of these companies from dates of acquisition were immaterial to the results of operations of the Company and would have been immaterial even if they had been acquired at the beginning of the year.

The excess of the Company's cost over the net assets of businesses acquired since November 1, 1970, is being amortized over periods up to forty years. Such amortization amounted to $169,000 in 1979 and $132,000 in 1978.

Foreign currency exchange losses of $484,000 in 1979 and $2,825,000 in 1978 have been reflected in income.

The following is a summary of financial information at December 31, 1979 and 1978 of nonconsolidated companies accounted for by the equity method:

	1979	1978
	(Thousands of Dollars)	
Total assets	$98,120	$87,122
Less total liabilities	48,435	47,397
Net assets	49,685	39,725
Pennwalt equity	$30,718	$26,266
Net sales to customers	$96,602	$80,618
Net income	$ 4,779	$ 9,844
Pennwalt equity	$ 3,394	$ 6,767

Cost

BROCKWAY GLASS COMPANY, INC. (DEC)

	1979	1978
Total current assets	$135,548,905	$144,917,198
Investments, at cost (Note 6)	6,318,093	6,318,593

NOTES TO FINANCIAL STATEMENTS

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

Investments—Investments consist principally of an 18.9% common stock interest in Consumers Glass Company Limited and a 20% common stock interest in Productos de Vidrio, S.A. These investments are carried at cost because, in the opinion of management, the Company does not have significant influence over the operations of either Company.

Note 6: Non-Current Marketable Equity Securities

The following information is presented with respect to non-current marketable equity securities included in investments at December 31, 1979 and 1978:

	1979	1978
Aggregate market value	$13,177,000	$9,824,000
Aggregate cost (carrying value)	4,056,283	4,056,283
Gross unrealized gains	9,120,717	5,767,717

There were no sales of marketable equity securities during the periods.

DART INDUSTRIES INC. (DEC)

	1979	1978
Investments and other assets:		
3M Company stock held in escrow for exchange by holders of 4¼% and 4¾% debentures, at cost (market value: 1979—$42,562,000; 1978—$53,467,000)	$ 35,162,000	$ 35,162,000
Other assets, receivables and investments	78,349,000	59,433,000
Goodwill and other intangibles, less amortization	120,589,000	114,568,000
Total investments and other assets	$234,100,000	$209,163,000

FAIRCHILD INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Total Current Assets	$251,793	$196,723
Investment in Bunker Ramo Corporation—at Cost	27,417	—
Property, Plant and Equipment—at Cost:		
Land and buildings	32,210	33,994
Machinery and equipment	32,645	29,592
Domestic communications system	40,604	32,337
Other	3,003	1,639
	108,462	97,562
Less accumulated depreciation and amortization	34,006	29,472
	74,456	68,090
Other Assets	1,987	10,101
	$355,653	$274,914

NOTES TO FINANCIAL STATEMENTS

Note 3: Investment in Bunker Ramo Corporation

On February 20, 1979, the Corporation purchased 1,166,667 shares of the common capital stock (18.4 percent of the outstanding voting stock) of Bunker Ramo Corporation at $23.50 per share. Dividends received on the stock of $980,000 are included in other income in 1979. The closing market price for Bunker Ramo common stock on December 31, 1979, was $28.875 per share. Through January 5, 1982, the Corporation has agreed that it will not, without approval of the Board of Directors of Bunker Ramo, increase its holdings beyond 21 percent of the outstanding voting stock or, except in certain limited circumstances, dispose of its investment in Bunker Ramo.

Lower of Aggregate Cost or Market Value

INTERCO INCORPORATED (FEB)

	1979	1978
	($000)	
Total current assets	$734,547	$697,295
Marketable investment securities	37,509	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

Note 1 (in part): Significant Accounting Policies

Marketable Investment Securities—Marketable investment securities consist of bonds and stocks held for long-term investment. Dividend and interest income are accrued as earned.

Marketable equity securities are carried at the lower of aggregate cost or market of the portfolio. Other marketable investment securities are carried at cost as there has been no permanent impairment in the market value of the portfolio.

Note 4: Marketable Investment Securities—Marketable investment securities consist of the following:

	1979
Equity securities, at cost	$ 3,506
Bonds, at cost	34,003
	$37,509

Marketable investment securities earned $125 in dividend income and $2,212 in interest income in fiscal 1979.

The portfolio of equity securities included gross unrealized gains and losses of $142 and $141, respectively, at February 28, 1979. There were no realized gains or losses during the year.

THE KROGER CO. (DEC)

	1979	1978
Investments		
Marketable investment securities	$19,515,040	$19,866,739
Investments in and advances to unconsolidated companies	47,383,982	45,285,917
Other investments	4,939,155	4,914,328
Total investments	$71,838,177	$70,066,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies (in part)

The following is a summary of the significant accounting policies followed in preparing the financial statements. These policies conform to generally accepted accounting principles and have been consistently applied except for the adoption of the LIFO method of inventory valuation in 1979.

Marketable Investment Securities—Marketable investment securities consist of bonds, notes, and common and preferred stocks held for 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 the non-current portion of the portfolio and there is no present intention to liquidate the non-current securities at less than cost.

Marketable Investment Securities

Marketable investment securities include:

	1979	1978
Equity securities, at cost	$30,360,280	$30,360,863
Less valuation allowance charged against shareowners' equity	(11,697,952)	(11,346,836)
Equity securities, at market	$18,662,328	$19,014,027
Bonds and notes, at cost	852,712	852,712
	$19,515,040	$19,866,739

The portfolio of equity securities included gross unrealized gains and losses of $634,533 and $12,332,485, respectively at December 29, 1979. Net realized losses included in earnings amounted to $4,006,860 in 1978. There were no realized gains or losses on marketable investment securities in 1979. The valuation allowance charged against shareowners' equity decreased $2,919,584 during 1978 compared to the previous year with $2,116,618 charged against earnings. The valuation allowance increased $351,116 during 1979.

THE SUPERIOR OIL COMPANY (DEC)

	1979	1978
	($000)	
Investments		
Marketable securities, at cost (Note 5)	$16,300	$23,277

Note 5: Marketable Securities

At December 31, 1979 and 1978, the company's portfolio of marketable securities consisted of securities with a cost of $16,300,000 (market $21,404,000) and $23,277,000 (market $26,589,000), respectively. Gross unrealized gains of all marketable securities were $5,107,000 and $6,142,000, and gross unrealized losses were $3,000 and $2,830,000 at December 31, 1979 and 1978, respectively. Net realized gains (losses) included in the consolidated statements of income were $4,473,000 in 1979 and ($453,000) in 1978. The costs of securities sold were determined on a specific share basis.

WARNER COMMUNICATIONS INC. (DEC)

	1979	1978
	($000)	
Marketable equity securities, carried at lower of cost or market	$ 44,143	$ 96,571
Accounts and notes receivable due after one year	126,510	51,356
Non-current inventories	159,154	98,603

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Equity Securities

At December 31, 1979 and 1978, the portfolio of marketable equity securities is carried at its aggregate quoted market value of $44,143,000 (cost $48,030,000) and $96,571,000 (cost $115,307,000), respectively. To reduce the portfolio to its aggregate market value at December 31, 1979, a valuation allowance of $3,887,000 was deducted from shareholders' equity.

Gross unrealized gains and gross unrealized losses pertaining to the marketable equity securities were $6,895,000 and $10,782,000, respectively, at December 31, 1979, and $3,846,000 and $22,582,000, respectively, at December 31, 1978. Realized gains and losses during 1979 and 1978 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.

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.

THE BOEING COMPANY (DEC)

	1979	1978
	(in millions)	
Total current assets	$3,625.1	$2,776.7
Long-term customer financing	208.0	182.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in millions except per share data.

Note 4: Long-Term Customer Financing:

Long-term customer financing at December 31 consisted of—

	1979	1978
Notes receivable, less current portion	$ 74.5	$ 58.3
Investment in sales-type leases, less current portion	76.3	79.9
Aircraft on operating leases, at cost, less accumulated depreciation; 1979—$114.8; 1978—$108.7	57.2	44.5
	$208.0	$182.7

Principal payments receivable under long-term notes for the next five years are—

1980	$26.5
1981	25.3
1982	18.2
1983	13.0
1984	8.8

The notes bear interest at rates of 6% to 18⅝%.

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

	1979	1978
Total current assets	$293,598,000	$240,290,000
Long Term Receivables	2,721,000	1,961,000
Marketable Equity Securities	5,382,000	5,394,000

NOTES TO FINANCIAL STATEMENTS

Long Term Receivables

Long term receivables consist of notes maturing after one

TABLE 2-16: NONCURRENT RECEIVABLES

	1979	1978	1977	1976
Balance Sheet Description				
Long-Term Receivables ...	43	39	55	60
Notes Receivable	33	16	32	19
Notes and accounts receivables combined.............	14	12	9	20
Accounts Receivable	7	2	2	4
Other—described	33	37	23	21
Receivables combined with other investments, deposits, etc.	71	93	84	92
Total Presentations..........	**201**	**199**	**205**	**216**
Number of Companies				
Presenting noncurrent receivables	189	190	191	210
Not presenting noncurrent receivables................	411	410	409	390
Total Companies..............	**600**	**600**	**600**	**600**

year, and are generally collectible in installments over periods ranging up to four years. Interest rates on major receivable items range from 6% to 18.8% simple interest.

NATIONAL GYPSUM COMPANY (DEC)

	1979	1978
	($000)	
Investments and Other Assets		
Marketable investments..........	$31,394	$36,122
Notes and mortgages receivable due after one year, less allowances (1979—$11,153,000; 1978—	9,277	12,509
Other	34,211	17,429
	$74,882	$66,060

PORTEC, INC. (DEC)

	1979	1978
	($000)	
Investment in Portec Lease Corp.	$3,266	—
Note receivable on sale of division	2,838	—
Other assets and deferred charges.	887	1,750

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Discontinued Operations

In November 1979, the Company sold its Electric Products Division for $2,045,000 in cash and a note receivable of $3,738,000, net of interest at 7% per annum, due in installments over five years commencing in 1980.

STANDARD MOTOR PRODUCTS, INC. (DEC)

	1979	1978
Other assets		
Receivables—due after one year, less allowance of $100,000 (Note 3)............	$4,965,000	$5,691,000

Note 3 (in part): Acquisition and Disposition

In connection with the disposition of certain warehouses in 1979 and 1978, the Company sold receivables, inventories and property, plant and equipment relating to those operations. Receivables due after one year include $3,258,000 and $3,575,000, respectively, relating to these transactions.

U.S. INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Investments and other assets		
Excess of cost over net assets of purchased businesses	$ 87,710	$ 91,120
Investments in and accounts with unconsolidated subsidiaries ...	61,922	69,074
Investments, deposits and other assets...........................	25,313	22,560
Non-current receivables, less allowances (1979—$11,153,000; 1978—$12,443,000)..................	38,885	36,581
	$213,830	$219,335

INTANGIBLE ASSETS

APB Opinion No. 17, as amended by *APB Opinion No. 30*, sets forth requirements as to accounting for intangible assets. *Opinion No. 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 prevalence of goodwill recognized in a business combination. Table 2-17 excludes certain assets often considered to be intangible which were classified as components of Property, Plant, and Equipment.

TABLE 2-17: INTANGIBLE ASSET VALUATION

	1979	1978	1977	1976
Assets Being Amortized				
Goodwill recognized in a business combination	285	296	288	253
Patents, patent rights	55	54	45	60
Trademarks, brand names, copyrights	26	23	20	28
Licenses, franchises, memberships	22	18	20	20
Other—described	10	19	25	38
Intangible assets (not otherwise described)	18	9	12	19
Total Disclosures	**416**	**419**	**410**	**418**
Assets Not Being Amortized				
Goodwill recognized in a business combination	156	165	175	174
Trademarks, brand names, copyrights	8	8	7	10
Other—described	5	3	4	10
Intangible assets (not otherwise described)	3	2	1	2
Total Disclosures	**172**	**178**	**187**	**196**
Other Bases				
Nominal value	7	6	5	12
Basis not determinable	12	11	13	33
Total Disclosures	**19**	**17**	**18**	**45**

Goodwill

ALLEGHENY LUDLUM INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Property, plant and equipment, at cost:		
Land	$ 15,077	$ 18,792
Buildings	106,556	106,380
Machinery and equipment	521,395	515,613
	643,028	640,785
Less accumulated depreciation and amortization	296,741	267,332
	346,287	373,453
Property, plant and equipment, less accumulated depreciation and amortization, of discontinued operations	—	13,454
	346,287	386,907
Goodwill, less accumulated amortization	26,617	2,749
Other assets	8,771	11,496

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Goodwill—The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and amortized on a straight-line basis generally over periods of 40 years. Such excess costs relating to the acquisitions of unconsolidated affiliated companies are included in the investment in such companies and are amortized on a straight-line basis generally over periods of 30 years.

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

	1979	1978
Other Assets		
Intangibles, at cost, less amortization (notes A and B)	$80,512,000	$57,726,000

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

Intangibles, Less Amortization: Intangibles represent the unamortized excess of cost over underlying net tangible assets of companies acquired. Intangibles amounting to $15,034,000 at December 29, 1979 ($16,140,000 at December 30, 1978) acquired prior to 1970, which are currently considered to have continuing value, are not being amortized. The remaining intangibles amounting to $65,478,000 at December 29, 1979 ($41,586,000 at December 30, 1978) are being amortized on the straight-line basis based on their estimated useful lives not exceeding forty years. Amortization of intangibles amounted to $4,782,000 and $4,714,000 for 1979 and 1978, respectively. During 1979, intangibles amounting to $3,940,000 were sold in connection with the disposal of businesses. Intangibles amounting to $1,105,000 in 1979 and $827,000 in 1978, considered to have no continuing value were written off. In 1978, intangibles amounting to $3,480,000 associated with businesses sold were charged to earnings.

Note B (in part): Acquisitions and Disposals of Businesses

Acquisitions: In 1979, the Company acquired all the outstanding shares of common stock of Chilton Company, a diversified publisher, and the assets and business of two other specialty publishers for cash and assumed liabilities. The total purchase price for the three operations aggregated

$63,366,000. The excess, $29,247,000, of cost over the fair value of net tangible assets acquired was assigned to trademarks, subscription lists, goodwill and other intangibles and is being amortized on a straight-line basis over periods not exceeding forty years. In accordance with the acquisition agreement of one of the specialty publishers an additional maximum amount of $8,000,000 may be paid based on its earnings over the five calendar years ending December 31, 1983.

On May 16, 1979, an 80% owned subsidiary of the Company acquired the assets and business of Travel Network Corporation, a franchisor of retail travel agencies, for $677,000 in cash and the assumption of certain liabilities. An additional maximum amount of $4,323,000 may be paid based on results of operations over a period of fifteen years. In addition the Company entered into an agreement with the minority shareholders of the subsidiary which provides the Company with the right to purchase their common stock. The subsidiary also reacquired certain area franchise rights during 1979. The excess, $2,612,000, of cost over the fair value of assets acquired was assigned to goodwill and other intangibles and is being amortized on a straight-line basis over ten years.

During 1978, the Company acquired two specialty publishing companies for $16,784,000 in cash. The excess, $10,629,000, of cost over the fair value of net tangible assets acquired was assigned to contracts, goodwill and other intangibles and is being amortized on a straight-line basis over periods not exceeding forty years. Under one of the acquisition agreements the Company has paid an additional $516,000 and may be obligated for an additional maximum amount of $2,229,000 based on the acquired company's earnings for the periods ending December 31, 1980.

The operating results of businesses purchased in 1979 and 1978 are included in the statements of consolidated earnings from the respective dates of purchase. The total assets, net assets, revenues and net earnings of the acquired companies and businesses were not significant in relation to consolidated amounts.

CHROMALLOY AMERICAN CORPORATION (DEC)

	1979	1978
	($000)	
Investments and other assets:		
Investment in and advances to Financial Services Group	$43,550	$33,062
Long-term receivables	9,062	10,670
Other non-current assets	12,718	10,268
Excess of cost over fair value of net assets acquired	18,161	25,721
	$83,491	$79,721

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Excess of cost over fair value of net assets acquired—Substantially all of the net excess of cost over fair value of net assets acquired relates to the purchase of companies subsequent to 1970 and is being amortized over 40 years on a straight-line basis.

GENERAL FOODS CORPORATION (MAR)

	1979	1978
	($000)	
Current Assets	$1,735,637	$1,617,759
Land, Buildings, Equipment, at cost, less accumulated depreciation	774,656	762,227
Investments in Affiliated Companies and Sundry Assets	31,308	26,739
Goodwill, less accumulated amortization of $20,320 in 1979 and $17,732 in 1978	23,711	26,299
Total	$2,565,312	$2,433,024

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 businesses, and all goodwill is being amortized by the straight-line method over periods not to exceed 40 years.

HERSHEY FOODS CORPORATION (DEC)

	1979	1978
	($000)	
Property, Plant and Equipment, at cost:		
Land	$ 40,610	$ 4,226
Buildings	130,268	76,190
Machinery and equipment	275,630	184,845
Capitalized leases	16,237	—
	462,745	265,261
Less—accumulated depreciation and amortization	113,480	94,481
	349,265	170,780
Excess of Cost Over Net Assets of Businesses Acquired (Notes 1 and 2)	56,516	18,056

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Excess of Cost over Net Assets of Businesses Acquired—The excess of the acquisition cost over the fair value of the net assets of businesses acquired after October 31, 1970, is being amortized on a straight-line basis over a period of forty years. The excess relating to acquisitions made prior to November 1, 1970, is carried at cost until such time as there may be evidence of diminution.

Note 2 (in part): Acquisitions

During January, 1979, the Company acquired for cash substantially all of the outstanding common stock of Friendly Ice Cream Corporation and Friendly became a wholly-owned subsidiary through a merger effective April 9, 1979. The total acquisition cost amounted to approximately $164,000,000. The acquisition has been accounted for as a purchase and the excess of the acquisition cost over the fair value of the assets acquired and liabilities assumed approximated

$39,800,000. Accordingly, the results of Friendly are included in the Consolidated Statements of Income and Retained Earnings for eleven months of 1979. Had the January, 1979 results of Friendly been included in the consolidated results of operations, the effect would not have been material.

J. RAY McDERMOTT & CO., INC. (MAR)

	1979	1978
	($000)	
Investments in Affiliated Companies, at Equity	$ 12,398	$ 19,906
Property, Plant and Equipment, at Cost:		
Land	36,579	36,077
Buildings	194,535	174,390
Machinery and equipment	1,021,738	931,226
Property under construction	108,238	97,114
	1,361,090	1,238,807
Less accumulated depreciation and amortization	440,346	347,226
Net Property, Plant and Equipment	920,744	891,581
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Amortization	379,404	403,320
Other Assets	51,646	36,986

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Amortization of Excess of Cost Over Fair Value of Net Assets of Purchased Businesses—The excess of the Company's investment in B&W over the fair value of net assets acquired is being amortized on a straight-line basis over forty years. Excess cost arising from business combinations prior to 1971 is not being amortized because, in the opinion of management, there has been no diminution in value.

MILTON ROY COMPANY (DEC)

	1979	1978
Notes receivable	$1,051,000	$ 61,000
Other assets	244,000	410,000
Goodwill, less accumulated amortization of $33,000 and $253,000	912,000	518,000

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 40 years on a straight-line basis.

Patents

BRUNSWICK CORPORATION (DEC)

	1979	1978
	($000)	
Other assets		
Excess of cost over net assets of businesses acquired	59,032	60,450
Patents, trademarks and other	26,800	22,152

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Summary of accounting policies

Intangibles. The costs of patents and trademarks are amortized over their expected useful lives using the straight-line method. The excess of cost over net assets of businesses acquired is being amortized over 40 years using the straight-line method.

DRESSER INDUSTRIES, INC. (OCT)

	1979	1978
	(In Millions of Dollars)	
Investments and Other Assets		
Investments in unconsolidated subsidiaries and affiliates—Note A	$ 45.3	$ 48.0
Intangible assets—Note D	46.2	51.6
Long-term receivables and investments	61.8	48.6
Other assets	21.4	21.0
Total Investments and Other Assets	$174.7	$169.2

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 FINANCIAL STATEMENTS

Note D—Intangible Assets

Intangible assets relate to businesses acquired and consist principally of the acquisition costs allocated to patents of $25.3 million and $28.3 million and the excess of cost over net assets at date of acquisition of $17.3 million and $18.6 million at October 31, 1979 and 1978 respectively. Approximately $16.3 million of the excess of cost over net assets arose from acquisitions prior to October 31, 1970 and is not being amortized.

Patents are being amortized over an average life of approximately 13 years. Patent amortization was $2.9 million in both 1979 and 1978. Amortization of excess of cost over net assets at date of acquisition was $2.5 million in 1979 and $2.3 million in 1978.

ESMARK, INC. (OCT)

	1979	1978
	($000)	
Property and operating facilities, net of accumulated depreciation and depletion of $512,255 (1978—$464,617)	$854,246	$810,627
Patents and trademarks	68,968	70,334
Excess of cost over net assets of purchased businesses	72,787	76,128

FINANCIAL COMMENTS

Principal Accounting Policies (in part)

Intangible assets—Patents and trademarks, primarily acquired in the purchases of Playtex and STP, 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 ($55.6 million at October 27, 1979) is being amortized using the straight line method over forty years. The remainder of such excess cost is not required to be amortized.

HUGHES TOOL COMPANY (DEC)

	1979	1978
	($000)	
Other Assets and Deferred Charges:		
Excess of cost over values assigned to net assets acquired (less accumulated amortization: 1979, $2,700; 1978, $1,960)	$71,580	$11,856
Patents (less accumulated amortization: 1979, $2,536; 1978, $1,103)	8,117	8,250
Investments in (at equity) and advances (1979, $1,183; 1978, $459) to affiliates	7,940	5,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Excess of cost over values assigned to net assets acquired—This amount is being amortized over 40 years on the straight-line method.

Research and development, and patents—Research and development expenditures are charged to operations as incurred. Research and development expense as defined by Statement of Financial Accounting Standards No. 2 was $5,185,000 in 1979 and $4,238,000 in 1978. The cost of purchased patents is being amortized over the statutory lives of the patents on the straight-line method.

OPELIKA MANUFACTURING CORPORATION (SEP)

	1979	1978
Property, plant and equipment	$14,602,000	$14,500,000
Patents—net of amortization of $184,000	2,593,000	—
Other assets and deferred charges	559,000	432,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Patents: Patents are carried on the basis of cost less accumulated amortization. Amortization is provided on the straight-line method over the average estimated useful life of 15 years.

Franchise Costs

ADAMS-RUSSELL CO., INC. (SEP)

Other Assets:		
Franchises, licenses and operating rights (Note 1f)	$867,500	$931,300

Note 1(f): Franchise, Licenses, and Operating Rights—Franchise rights of $710,300 purchased in connection with the acquisition of CATV subsidiaries are being amortized on a straight-line basis over approximately sixteen years. The assigned value of other franchises, licenses, and operating rights ($221,000) (all acquired prior to November 1, 1970) are not being amortized.

TABLE 2-18: OTHER NONCURRENT ASSETS

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Segregated cash or securities	49	46	58	63
Deferred income taxes	29	31	31	30
Property held for sale	26	22	30	33
Debt expense	21	18	22	30
Cash surrender value of life insurance	12	15	20	23
Prepaid expenses	10	15	16	38
Assets leased to others	29	8	13	14
Start up costs	9	6	9	5
Employee benefits	8	2	8	8
Other identified noncurrent assets	60	42	35	39
Deferred charges or Other Noncurrent assets—not described	525	531	487	511

OTHER NONCURRENT ASSET CAPTIONS

Table 2-18 summarizes the nature of assets (other than property, investments, noncurrent receivables, and intangible assets) classified as noncurrent assets on the balance sheets of the survey companies. Effective for fiscal periods beginning on or after January 1, 1975, FASB *Statement of Financial Accounting Standards No.* 2 stipulates that research and development costs be charged to expense when incurred. SFAS No. 2 does not apply to costs of research and development activities conducted for others under a contractual arrangement.

Examples of other noncurrent asset presentations and disclosures, except assets leased to others, follow. Examples of assets leased to others are presented in connection with Table 2-27.

Segregated Funds

AFG INDUSTRIES INC. (DEC)

	1979	1978
Deferred Charges and other assets:		
Restricted securities (Note 6)....	$5,000,000	$5,000,000
Other assets.......................	3,802,000	3,106,000
	$8,802,000	$8,106,000

Note 6: Restricted Securities (funds held for plant expansion)

Funds held for plant expansion represent certificates of deposit which the Company restricted for the partial funding of the construction of a new float line at its Greenland facility. These certificates of deposit are valued at cost, which approximates market.

INLAND STEEL COMPANY (DEC)

	1979	1978
	($000)	
Property, plant and equipment, at cost, less accumulated depreciation................................	1,761,591	1,605,903
Deferred charges and other assets.	26,442	27,425
Unexpended pollution control project bond funds held by trustee .	29,905	54,309
Excess of cost over net assets of business acquired................	18,808	19,446

GREAT NORTHERN NEKOOSA CORPORATION (DEC)

	1979	1978
	($ millions)	
Total current assets	$256.9	$217.6
Funds set aside for capital projects	30.6	68.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Debt: In 1979, the company issued $35 million of 6.70% pollution control revenue bonds to finance a bark burning boiler in Maine. Repayment will be made in 2004. Reference is made to the company's 10-Q Report for the quarter ended June 30, 1979.

In 1978, the company issued $75 million of 8.70% debentures to finance a portion of its capital expansion program. The debentures require annual sinking fund payments of $3.0 million commencing in 1989. Revenue bonds of $12 million were also issued in 1978 at interest rates of 5.90% and 5.20% to finance pollution control and capital expansion.

The company has a $75 million revolving credit agreement with banks which permits issuance of short-term notes, convertible on December 31, 1981, into seven-year term notes. There is an informal agreement with the lending banks to maintain compensating cash balances aggregating five percent of the total line of credit. These compensating balances are not restricted as to withdrawals.

The revenue bonds have been issued by local governmental bodies to finance the construction of certain plant and pollution control facilities, some of which are presently under construction. Facilities financed by the bonds are covered by leases or installment purchase contracts and are treated as purchases for financial reporting and tax purposes.

Proceeds from the issuance of revenue bonds and debentures are invested primarily in short-term securities prior to their use in capital programs. Such investments are stated at cost, which approximates market.

SMITHKLINE CORPORATION (DEC)

	1979	1978
Total current assets	$781,026,000	$619,289,000
Time deposits—long-term (note 4).	52,250,000	28,725,000

Note 4 (in part): Income Taxes

During 1979, in an agreement with the Puerto Rican government, SmithKline elected to convert its operations in Puerto Rico to a status whereby 90% of earnings are exempt from taxes. The combined effective Puerto Rican income tax and withholding tax rates are expected to range between 5% and 11%. To qualify for a reduced rate on withholding taxes from dividends, $52,250,000 in time deposits have been designated as long-term investments. During 1979 and 1978 dividends of $82,915,000 and $80,594,000, respectively, were paid to the parent company.

Deferred Income Taxes

SAFEWAY STORES, INCORPORATED (DEC)

	1979	1978
Other assets:		
Licenses, notes receivable and investments	$27,391,000	$26,398,000
Deferred income tax charges....	1,586,000	—
Excess cost of investment in subsidiaries over net assets at date of acquisition, net of amortization...................	2,180,000	2,396,000
	$31,157,000	$28,794,000

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 statement purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the use of accelerated depreciation for tax purposes and from the accrual of claims and capitalization of leases for financial statement purposes. Current U.S. taxes are reduced for investment tax credits in the year in which the credits arise.

A. C. NIELSEN COMPANY (AUG)

	1979	1978
	($000)	
Other Assets:		
Marketable securities maturing after one year, at cost which approximates market	$1,480	$1,836
Income taxes allocable to future years (Note 1)	7,684	7,073

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

Income Taxes—Certain items of revenue and expense (principally contract revenue, depreciation and provisions for profit sharing and severance obligations) are recognized in different periods for financial reporting and income tax purposes. The provisions for income taxes recognize the tax effects of all transactions entering into the determination of income for financial reporting purposes regardless of the period in which they are reported for income tax purposes.

Property Held For Sale

ARDEN GROUP, INC. (DEC)

	1979	1978
Property for resale or sublease, at market	$5,085,056	$5,201,656
Investments, at cost (approximate 1979 market value $2,000,000)	402,200	402,200
Property, plant and equipment, at cost (less accumulated depreciation and amortization of $39,981,769 and $41,258,038, respectively)	46,928,147	40,525,902
Other assets..........................	4,531,012	4,743,520

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies:

Property for Resale or Sublease: It is the Company's policy to make available for sale or sublease property considered by management as excess and no longer necessary for the operations of the Company. The aggregate carrying values of such owned property and property under capital leases are periodically reviewed and adjusted downward to market, when appropriate.

METRO-GOLDWYN-MAYER INC. (AUG)

	1979	1978
Noncurrent Assets (notes 1 and 2)		
Noncurrent inventories	$ 85,093,000	$ 75,404,000
Long-term receivables and other assets..........................	56,995,000	44,496,000
Land held for sale, at the lower of cost or estimated realizable value..........................	4,772,000	4,769,000
	$146,860,000	$124,669,000

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Land Held for Sale—The Company has entered into contracts to sell the remainder of its land being held for sale at prices in excess of its carrying value. The escrows are scheduled to close by June, 1980, subject to obtaining various regulatory approvals.

MCGRAW-EDISON COMPANY (DEC)

	1979	1978
	($000)	
Total current assets	$1,148,136	$345,391
Net assets of discontinued operations (Note 3)	180,964	173,429

Note 3 (in part): Discontinued Operations

During 1979, major elements of a long-term plan to restructure the company's operations were implemented. As part of this program, the Consumer segment's Laundry Products and Kitchen Appliance businesses were sold for cash late in 1979. Additionally, the company is negotiating to sell the Consumer segment's portable appliance business. All operations within the Consumer segment were considered discontinued as of year-end. Proceeds related to completed sales transactions have been used to reduce borrowings incurred to acquire Studebaker-Worthington, Inc.

The company has announced that certain units within its Commercial segment also will be sold. Negotiations are in progress to sell the Food Equipment division, a manufacturer of food-service equipment. Additionally, the company is negotiating to sell its Air Comfort division, a manufacturer of air conditioners, humidifiers and dehumidifiers and its Prestige Lighting division, a manufacturer of consumer lighting. Within the company's Industrial segment, negotiations are being held to dispose substantially of all assets and liabilities of the Commercial Development Group, a manufacturer of monitoring and testing devices and sub-fractional horsepower motors.

Negotiations are under way to sell the air power business of Worthington Compressors, Inc., a manufacturer of air compressors. Additionally, the company is currently conducting negotiations to sell its Electric Machinery business, a manufacturer of electric motors, generators and variable speed drives.

All businesses noted above have been treated as discontinued operations by the company at December 31, 1979. Accordingly, the consolidated financial statements have been reclassified to reflect continuing operations for all years presented. The net operating results of discontinued operations and the estimated net gain on disposal of these businesses are included in the consolidated statements of income under the caption "Discontinued Operations." Net assets of discontinued operations are separately presented in the consolidated balance sheets at estimated net realizable value. It is anticipated that disposition of businesses to be sold will be completed within one year. Proceeds from such dispositions are expected to be used to further reduce borrowings incurred in the acquisition of Studebaker-Worthington, Inc.

SQUIBB CORPORATION (DEC)

	1979	1978
	($000)	
Total current assets	$854,749	$792,942
Net Assets of Businesses to be Disposed Of	111,940	—

NOTES TO FINANCIAL STATEMENTS

Businesses to be Disposed Of (in part)

The Company has adopted plans to dispose of its food-services business and certain related operations. It is not anticipated that these transactions, when completed, will result in any material gain or loss.

The operating results of the businesses to be disposed of have been segregated as a separate component of income in the statement of consolidated income. In the consolidated balance sheet at December 31, 1979, the net assets of these businesses have been separately classified and stated at book value. The 1978 consolidated balance sheet and statement of changes in consolidated financial position have not been restated.

* * *

The net assets of the businesses to be disposed of consisted of the following:

	1979	1978
	(Amounts in thousands)	
Current assets	$ 45,238	$38,047
Current liabilities	23,398	25,861
Net assets	21,840	12,186
Property, plant and equipment (net)	78,172	70,537
Other noncurrent assets (net)	11,928	11,126
Net assets	$111,940	$93,849

ZENITH RADIO CORPORATION (DEC)

	1979	1978
	($000)	
Property, plant and equipment pending disposal at net realizable value, principally a color TV picture tube facility	$6,897	$7,823
Other assets	4,860	5,864

Cash Surrender Value of Life Insurance

BOWNE & CO., INC. (OCT)

	1979	1978
Other assets:		
Cash surrender value of insurance on lives of key employees	$261,631	$233,704
Deferred income taxes	—	69,920
Deposits and sundry	61,279	243,420
	$322,910	$547,044

HON INDUSTRIES INC. (DEC)

	1979	1978
Investments		
Cash value of life insurance—Note D	$358,000	$336,000

Note D (in part): Common Stock and Earnings Per Share

The Company has entered into agreements with the Chairman of the Board and the President to purchase (at market value) from their estates Common Stock of the Company in an aggregate amount of approximately $1,950,000. This stock repurchase commitment would be funded from the proceeds of life insurance policies (with a face value in the same aggregate amount) owned by the Company with respect to the two officers. Under certain conditions, either the Company or the estate may terminate the agreement or reduce the number of shares to be redeemed.

Debt Issue Cost

F&B/CECO INDUSTRIES, INC. (MAY)

	1979	1978
Other assets:		
Unamortized bond issue costs	$89,498	$111,636

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Bond issue costs: Expenses relating to the issuance of debentures are being amortized on a straight-line basis over the 20-year term of the bonds.

Deferred Pension Charges

BIRD & SON, INC. (DEC)

	1979	1978
Deferred Pension Charges—Note 6	$776,000	$2,041,000
Other Assets	959,000	537,000

Note 6 (in part): Retirement Plans

The actuarially computed value of vested benefits for all plans exceeded the total of pension fund assets and balance sheet accruals, less deferred pension charges, at December 31, 1979 and 1978, by $7,777,000 and $8,810,000, respectively.

Total pension expense under these plans amounted to $3,450,000 in 1979, compared with $3,109,000 in 1978. In 1979, the Company elected to make a contribution lower than the actuarially computed pension expense. Accordingly, deferred pension charges, representing excess contributions made by the Company in prior years, have been reduced by $1,265,000.

Advertising Materials

PRATT & LAMBERT, INC. (DEC)

	1979	1978
Other Assets:		
Advertising materials and supplies (Note A)	$ 850,095	$575,569
Other	336,989	399,031
Total other assets	$1,187,084	$974,600

Note A (in part): Accounting Policies:

Advertising Materials and Supplies—Inventories of materials and supplies are charged to income when consumed. Costs applicable to certain sales aids are amortized over a period not to exceed five years.

Assets of Real Estate Operations

PHILIP MORRIS INCORPORATED (DEC)

	1979	1978
Total current assets	$3,028,315,000	$2,756,757,000
Investments in and advances to unconsolidated foreign subsidiaries and affiliates	260,172,000	243,271,000
Land and offtract improvements	114,445,000	72,836,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Real estate operations—The cost of land, including offtract improvements, interest and property taxes, is reported as a noncurrent asset until a designated site is placed into development. The amount of interest capitalized is determined by the Company's average borrowing rate.

Offtract improvements are access roads, utilities and other improvements, which are essential to the development of a community, but which are not directly attributable to the development of a particular site. The cost of these improvements is allocated to the salable acreage remaining in each project and is charged to cost of sales when such acreage is sold.

Molds and Pallets

MIDLAND GLASS COMPANY, INC. (SEP)

	1979	1978
Deferred charges, net of amortization	$4,146,049	$3,306,492

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Deferred charges

Included in deferred charges are molds and pallets amounting to $2,825,788 and $1,793,871 at September 30, 1979 and September 24, 1978, respectively. Molds are capitalized at cost and charged to expense based on the estimated units of production.

Bond issue costs, net of amortization, amounted to $752,511 and $793,471 at September 30, 1979 and September 24, 1978, respectively. These costs arose in connection with the issuance of the 10¾% Subordinated Sinking Fund Debentures and are being amortized on a straight-line basis over the 20 year term of the bonds.

Pre-operating costs, net of amortization, amounted to $567,750 and $719,150 at September 30, 1979 and September 24, 1978, respectively. These costs were incurred in fiscal 1978 in connection with the expansion of a manufacturing facility to serve a major customer under a contractual supply agreement and are being amortized on a straight-line basis over the five year term of the contract.

TABLE 2-19: SHORT-TERM DEBT

	1979	1978	1977	1976
Description				
Notes or Loans				
Payee indicated	197	143	152	175
Payee not indicated	200	220	223	216
Short-term debt or borrowings	61	67	67	56
Commercial paper	22	20	19	22
Other	17	17	12	11
Total Presentations	**497**	**467**	**473**	**480**
Number of Companies				
Showing short-term debt	461	447	444	435
Not showing short-term debt	139	153	156	165
Total Companies	**600**	**600**	**600**	**600**

CURRENT LIABILITIES

Paragraphs 7 and 8 of Chapter 3A of *ARB No. 43*, as amended by *FASB 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.

ABBOTT LABORATORIES (DEC)

	1979	1978
Current Liabilities:		
Short-term borrowings (Note 4).	$183,398,000	$128,604,000
Trade accounts payable	100,033,000	81,481,000
Other accrued liabilities	97,433,000	86,694,000
Salaries, wages and commissions	39,425,000	36,134,000
Dividends payable	15,074,000	12,616,000
Income taxes payable	82,145,000	62,578,000
Current portion of long-term debt	7,963,000	13,344,000
Total Current Liabilities	$525,471,000	$421,451,000

Note 4: Short-Term Borrowings.

Short-term borrowings consisted of bank loans (principally international) and domestic commercial paper at December 31, 1979 and 1978. Following is a summary of such borrowings during the years:

Domestic	1979	1978
Average borrowings during the year	$69,209,000	$12,631,000
Weighted average interest rate during the year	11.3%	8.9%
Highest level of borrowings at any month end during the year	$93,853,000	$45,600,000
Weighted average interest rate at December 31	12.8%	10.3%
Borrowings at December 31	$88,871,000	$45,600,000

International	1979	1978
Average borrowings during the year	$91,534,000	$84,167,000
Weighted average interest rate during the year	14.1%	14.4%
Highest level of borrowings at any month end during the year	$95,195,000	$90,349,000
Weighted average interest rate at December 31	13.3%	12.2%
Borrowings at December 31	$94,527,000	$83,004,000

At December 31, 1979, there were $100,000,000 of domestic lines of credit (of which $1,000,000 was used) that were available to support commercial paper issued or for general corporation purposes. These lines involve many differing compensating balances and/or commitment fee arrangements. No fee line is more costly than .375 percent per annum and no compensating balance line is more costly than one requiring compensating balances equal to 10 percent of the line plus 10 percent of any borrowing thereunder. The compensating balances are subject to withdrawal by the Company at its option.

CENTRONICS DATA COMPUTER CORP. (JUN)

	1979	1978
Current liabilities:		
Notes payable, banks (Note 6)..	$13,192,204	$ 7,392,602
Current portion of long-term debt	3,333,332	625,000
Accounts payable, trade	10,651,522	4,730,365
Accounts payable, mechanisms in transit	623,062	1,648,050
Accrued expenses	6,101,201	3,023,499
Dividends payable	1,462,502	1,450,695
Income taxes	9,718,638	2,615,597
Other current liabilities	60,849	78,506
Total current liabilities	$45,143,310	$21,564,314

Note 6: Notes payable, banks

Certain information with respect to notes payable to banks follows:

	1979	1978
Amount of borrowings at end of year	$13,192,204	$ 7,392,602
Average interest rate of borrowings at the end of year	10.1%	6.99%
Maximum amount of borrowings outstanding at any month end ...	$16,486,104	$32,809,412
Average aggregate borrowings during the year	$13,368,773	$24,124,513
Weighted average interest rate during the year	9.93%	8.93%

There were no compensating balance arrangements with respect to the short-term bank loans outstanding at June 30, 1979.

GEORGIA-PACIFIC CORPORATION (DEC)

	1979	1978
	($000)	
Current liabilities		
Current portion of long-term debt..	$ 70,000	$ 60,000
Accounts payable and accrued liabilities	400,000	321,000
Current income taxes	32,000	28,000
	502,000	409,000
Commercial paper and other short-term notes supported by bank lines of credit (Note 9)	159,000	52,000
Total current liabilities (Note 9)	$661,000	$461,000

NOTES TO FINANCIAL STATEMENTS

All dollar amounts, except per share amounts, are in thousands

Note 9 (in part):

In 1979, the Corporation entered into separate arrangements with a number of banks providing for (i) three-year revolving lines of credit, aggregating $270,000, that require fifteen months written notice of cancellation by a participating bank and (ii) seasonal standby lines of credit, aggregating $80,000. These lines replaced the Corporation's $350,000 confirmed seasonal line of credit. Neither of the lines carry commitment fees or long-term conversion features. The Corporation has agreed to maintain bank deposits on an annual average basis amounting to approximately 7½% of the revolving lines plus 7½% of all loans outstanding thereunder.

The Corporation uses the lines of credit to support short-term borrowings. The maximum amount of short-term borrowings outstanding at any time during 1979 was $331,000. The daily average amount of such borrowings outstanding during 1979 was $217,000 and the average interest rate for such borrowings was 10.7% during the period. As of December 31, 1979, current liabilities exclude and long-term debt includes $25,000 of commercial paper and short-term notes. The Corporation currently intends to maintain borrowings of at least $25,000 supported by the three-year revolving lines of credit.

HMW INDUSTRIES, INC. (JAN)

	1980	1979
Current Liabilities:		
Notes payable (Note 4)	$ 3,937,000	$10,870,000
Current portion of long-term debt (Note 4)	2,967,000	2,189,000
Accounts payable and accrued liabilities........................	8,676,000	7,282,000
Total current liabilities	$15,580,000	$20,341,000

Note 4 (in part): Debt

Notes payable consist of the following:

	January 31 1980	1979
Banks:		
Line of credit......................	$500,000	$ 5,475,000
Bank acceptances payable (collateralized by inventory)......	3,137,000	4,500,000
Other	300,000	895,000
	$3,937,000	$10,870,000

The Company has short-term lines of credit aggregating $4,500,000 at interest rates up to 1½ percent points above the prime rate. The lines of credit not utilized at January 31, 1980 ($4,000,000) require the Company to maintain compensating balances equal to 10 percent of the line of credit commitment plus 10 percent of the borrowings thereunder. The maximum outstanding borrowings were $11,200,000 and $11,900,000 in fiscal years 1979 and 1978. Other notes represent amounts payable to an officer of a subsidiary with interest at approximately 16¾ and 12½ percent at January 31, 1980 and 1979.

The average borrowings (using month-end balances) were $7,144,000 in 1979 and $10,533,000 in 1978 at a weighted average interest rate of 12.7 percent and 10.8 percent, respectively. The average interest rates were computed by dividing the applicable interest expense by the average monthly borrowings.

JOY MANUFACTURING COMPANY (SEP)

	1979	1978
	($000)	
Current Liabilities		
Short-term borrowings (Note 4).	$ 22,376	$ 23,171
Long-term debt payable within one year........................	8,750	3,571
Accounts payable	55,615	48,026
Advances from customers........	31,878	11,471
Accrued payrolls and employee benefits.........................	17,877	15,621
Income taxes......................	4,765	5,428
Deferred income taxes...........	15,239	10,125
Dividend payable	5,599	5,323
Other current liabilities...........	17,444	25,629
Total Current Liabilities	$179,543	$148,365

Note 4: Short-term Borrowings and Compensating Balances

Total short-term lines of credit available and unused at September 28, 1979 and September 29, 1978 were $49,001,000 and $48,048,000, 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 Joy's borrowing agreements and interest rates charged generally reflect the lending institutions' prime interest rates.

U.S. Arrangements

As of September 28, 1979, there was $3,519,000 of demand notes payable outstanding to a trade creditor. At September 28, 1979 and September 29, 1978, Joy had no U.S. short-term bank borrowings outstanding. In addition, at these dates, there was $36,500,000 and $36,000,000, respectively, available for use under U.S. short-term lines of credit with banks. The terms of these lines of credit arrangements require Joy to maintain average annual compensating bank balances generally at 10% of the total lines of credit extended plus an additional 10% of the usage. Withdrawal of compensating balances by Joy is not legally restricted.

Non-U.S. Arrangements

At September 28, 1979 and September 29, 1978 non-U.S. short-term borrowings were $18,857,000 and $23,171,000, respectively. As of September 28, 1979, in the aggregate, non-U.S. short-term borrowing arrangements required no material compensating balances.

THE SINGER COMPANY (DEC)

	1979	1978
	(Amounts in Millions)	
Current Liabilities:		
Notes and loans payable (note 6)	$109.7	$112.2
Accounts payable:		
Trade	92.8	80.8
Drafts	48.9	50.0
Other	50.2	46.3
	191.9	177.1
Accrued expenses:		
Taxes, other than income taxes	14.6	14.8
Salaries, wages, and commissions	31.9	35.2
Interest	11.8	11.6
Current portion of accrual for facility restructuring	76.6	8.5
Other	174.4	142.6
	309.3	212.7
Long-term debt instalments due within one year	30.0	21.2
Income taxes payable	17.3	13.1
Income taxes deferred	1.4	5.5
Total current liabilities	$659.6	$541.8

Note 6: Notes and Loans Payable

Notes and loans payable by type of borrowing are summarized as follows (dollar amounts in millions):

	1979			
	Amount at December 31, 1979	Maximum Month-End Outstanding	Average Borrowings	Average Interest Rate
Indebtedness of operations outside of the United States	$ 87.8	$113.1	$103.8	15.3%
Indebtedness of operations in the United States	16.6	57.5	38.8	10.6
Liability for discounted receivables.	5.3	10.0	6.1	Various
	$109.7			

	1978			
	Amount at December 31, 1978	Maximum Month-End Outstanding	Average Borrowings	Average Interest Rate
Indebtedness of operations outside of the United States	$102.9	$157.7	$128.1	14.8%
Indebtedness of operations in the United States	—	6.0	4.1	8.9
Liability for discounted receivables.	9.3	13.7	10.8	Various
	$112.2			

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. Indebtedness of operations in the United States is evidenced by notes with maturities generally not exceeding 90 days.

Average interest rates and borrowings are computed on a daily basis for short-term borrowings 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.

At December 31, 1979, $25 million of unused lines of short-term credit with United States banks was available for use by the Company, of which $16 million was also available to Singer Credit Corporation. These unsecured lines of credit are available principally on a non-contractual basis, and their continued availability is dependent upon the banks' assessment of the Company's creditworthiness. Informal arrangements exist as to the level of compensating balances required to support borrowings and future credit availability.

TRADE ACCOUNTS PAYABLE

AMERICAN STORES COMPANY (MAR)

	1979	1978
Current liabilities:		
Current instalments of long-term debt	$ 3,735,000	5,454,000
Current obligations under capital leases	6,857,000	5,921,000
Accounts payable:		
Trade	166,856,000	147,068,000
Taxes withheld from employees	5,836,000	7,915,000
Other	11,864,000	9,158,000
	184,556,000	164,141,000
Accrued expenses:		
Payrolls	38,915,000	33,379,000
Taxes, other than income taxes	9,285,000	11,016,000
Interest	2,809,000	2,574,000
Other	30,407,000	22,018,000
	81,416,000	68,987,000
Dividend payable	2,997,000	2,782,000
Federal and state income taxes	13,496,000	6,653,000
Construction and other loans on properties to be sold	927,000	1,866,000
Total current liabilities	$293,984,000	$255,804,000

CRADDOCK-TERRY SHOE CORPORATION (SEP)

	1979	1978
Current Liabilities		
Notes payable to banks	$6,550,000	$ 2,000,000
Trade accounts payable	4,112,000	3,859,000
Employee compensation and related payables	2,699,000	2,379,000
Accrued interest and other expenses	1,660,000	1,541,000
Dividends payable	14,000	15,000
Income taxes	1,175,000	831,000
Current maturities of long-term debt—Note C	902,000	808,000
Total Current Liabilities	$17,112,000	$11,433,000

GRUMMAN CORPORATION (DEC)

	1979	1978
Current Liabilities		
Current portion of long-term debt	$ 16,310,888	$ 10,252,738
Accounts payable	96,380,200	80,345,987
Accrued wages and employee benefits	42,594,842	34,483,492
Federal income and other taxes	93,511,367	34,839,837
Customer deposits and progress payments	22,779,510	16,859,057
Other current liabilities	31,462,862	24,989,206
Total Current Liabilities	$303,039,669	$201,770,317

TABLE 2-20: CURRENT LIABILITIES—TRADE CREDITORS

	1979	1978	1977	1976
Description				
Accounts payable, payables, or trade payables in a separate caption	447	426	422	417
Accounts payable combined with accrued liabilities or accrued expenses	137	157	167	163
Other captions	16	17	11	20
Total Companies	**600**	**600**	**600**	**600**

KIMBERLY-CLARK CORPORATION (DEC)

	1979	1978
	(Millions)	
Current Liabilities		
Accounts payable		
To suppliers	$125.9	$ 92.3
Other	30.3	20.8
	156.2	113.0
Income taxes payable	98.5	61.9
Dividends payable	16.9	15.3
Short-term debt (Note 10)	33.6	47.1
Long-term debt payable within one year	8.2	14.9
Accrued salaries and wages	52.4	45.3
Accrued pension expense	41.7	33.5
Other	90.4	59.8
	$497.9	$390.9

TABLE 2-21: CURRENT LIABILITIES RELATING TO EMPLOYEES

	1979	1978	1977	1976
Description				
Salaries, wages, payrolls, commissions	202	216	211	213
Withholdings, payroll taxes	35	31	18	31
Pension or retirement plan contributions	55	49	52	50
Profit-sharing contributions	17	20	14	15
Other captions	52	51	52	57
Total Presentations	**361**	**367**	**347**	**366**
Number of Companies				
Showing liabilities to or for employees	241	228	229	239
No such liabilities	359	372	371	361
Total Companies	**600**	**600**	**600**	**600**

EMPLOYEE RELATED LIABILITIES

COPPERWELD CORPORATION (DEC)

	1979	1978
	(Dollars in thousands)	
Current Liabilities		
Current maturities of long-term debt	$ 1,346	$ 1,332
Accounts payable	34,275	32,210
Accrued liabilities (Note 3)	42,388	44,545
Total Current Liabilities	$78,009	$78,087

Note 3—Accrued Liabilities

Accrued liabilities at December 31, 1979 and 1978 are summarized below:

	1979	1978
	(In thousands)	
Salaries, wages and vacation pay	$12,701	$12,460
Pension trusts	12,617	11,028
Interest	403	407
Federal and state income taxes	7,666	9,585
Other taxes	4,397	4,448
Current portion of phase-down liability		1,554
Other	4,604	5,063
Total	$42,388	$44,545

GEARHART-OWEN INDUSTRIES, INC. (JAN)

	1980	1979
	(In thousands)	
Current Liabilities		
Accounts payable	$ 9,174	$ 5,736
Accrued liabilities (Note 5)	7,014	5,317
Income taxes payable	1,902	2,807
Notes payable	1,295	253
Current maturities of long-term debt	314	177
Total current liabilities	$19,699	$14,290

Note 5: Accrued Liabilities

Accrued liabilities consist of the following:

	January 31, 1980	1979
	(In thousands)	
Accrued compensation and related taxes	$3,084	$2,224
Profit sharing contributions	1,752	1,170
Dividends payable	616	468
Interest payable	558	306
Taxes other than taxes on income	308	260
Other	696	889
	$7,014	$5,317

HALLIBURTON COMPANY (DEC)

	1979	1978
	($000)	
Current Liabilities		
Accounts payable and accruals	$ 526,683	$468,373
Advance billings on uncompleted contracts	107,557	126,565
Short-term notes payable and current maturities of long-term debt	206,611	15,902
Federal, state and foreign income taxes—current	177,603	135,542
Deferred income taxes	161,898	118,192
Contributions payable to employees' benefit funds	44,153	43,642
Total current liabilities	$1,224,505	$908,216

OSCAR MAYER & CO. INC. (OCT)

	1979	1978
	(figures in thousands of dollars)	
Current Liabilities:		
Accounts payable	$ 31,327	$15,104
Accrued expenses	51,685	39,096
Notes payable including current installment of long-term debt	8,144	—
Pension plan contributions	17,393	15,515
Dividend payable	3,657	3,277
Income taxes	11,582	8,274
Total current liabilities	$123,788	$81,266

PNEUMO CORPORATION (NOV)

	1979	1978
	($000)	
Current liabilities		
Notes payable to banks	$ 4,052	
Accounts payable	49,943	$ 38,412
Salaries and wages	4,497	3,277
Accrued pension expense	3,868	3,264
Taxes, other than income taxes	1,978	1,652
Other accrued liabilities	13,367	5,145
Income taxes currently payable	5,252	81
Deferred income taxes	2,377	1,900
Current portion of long-term debt and other non-current liabilities	4,851	3,761
Total current liabilities	$90,185	$57,492

INCOME TAX LIABILITY

Table 2-22 summarizes the descriptive balance sheet captions used to describe the current liability for income taxes.

TABLE 2-22: CURRENT INCOME TAX LIABILITY

	1979	1978	1977	1976
Income taxes	351	361	341	314
Federal income taxes	37	37	45	45
Taxes—type not specified	32	34	45	50
Federal and state income taxes	31	29	33	33
U.S. and foreign income taxes	23	29	32	31
Federal, state, and foreign income taxes	30	28	26	23
Federal and foreign income taxes	27	21	22	25
Other captions	23	19	16	48
	554	558	560	569
No caption for taxes payable	46	42	40	31
Total Companies	**600**	**600**	**600**	**600**

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Current Liabilities:		
Notes payable to bank	$	$ 3,000
Current portion of long-term debt	2,749	2,779
Accounts payable	30,580	30,757
Income taxes (Note 1):		
Current	82	1,372
Deferred	26,920	21,551
Other accrued liabilities	7,741	7,379
Billings in excess of costs and estimated earnings on uncompleted contracts	8,024	15,128
Total current liabilities	$76,096	$81,966

Note 1 (in part): Income Taxes

Income tax provisions are as follows:

(Dollars in Thousands)	1979	1978
Federal—Before amortization of investment tax credit:		
Current	$ (179)	$ 414
Deferred	3,692	2,684
State and city:		
Current	278	1,418
Deferred	1,020	76
	4,811	4,592
Amortization of investment tax credit	(428)	(385)
Income taxes	$4,383	$4,207

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.

BEECH AIRCRAFT CORPORATION (SEP)

	1979	1978
Current Liabilities		
Notes payable to banks	$ 3,919,985	$ 4,766,560
Trade accounts payable	45,300,007	37,654,035
Payroll and payroll deductions	15,004,518	12,411,763
Accrued expenses	7,940,474	7,076,851
Customer deposits	14,115,502	6,114,273
Federal and state income taxes (including deferred tax of $2,080,000 in 1979 and $2,936,000 in 1978)	13,024,872	17,107,770
Current portion of long-term debt	268,128	212,554
Total Current Liabilities	$99,573,486	$85,343,806

DAYTON MALLEABLE INC. (AUG)

	1979	1978
Current Liabilities		
Accounts payable	$ 8,542,272	$ 8,233,435
Employee compensation and related taxes and withholdings	3,643,849	4,026,961
State and local taxes	1,087,804	982,697
Accrued pension and profit sharing	7,021,035	5,958,188
Other current liabilities	3,728,269	3,148,922
Dividends payable	1,103,726	1,104,533
Federal income taxes	877,162	1,382,240
Current portion of long-term liabilities	485,253	483,837
Total Current Liabilities	$26,489,370	$25,320,813

DRESSER INDUSTRIES, INC. (OCT)

	1979	1978
	(In Millions of Dollars)	
Current Liabilities		
Notes payable	$ 53.3	$ 42.9
Accounts payable	190.7	199.8
Advances from customers on contracts	63.4	83.4
Accrued compensation	75.8	62.9
Accrued taxes, interest and other expenses	152.1	146.3
Accrued warranty costs	55.0	54.0
Federal, state and foreign income taxes	51.0	50.9
Current portion of long-term debt	18.3	31.0
Total Current Liabilities	$659.6	$671.2

THE HOOVER COMPANY (DEC)

	1979	1978
Current Liabilities		
Accounts payable—trade	$ 67,585,397	$ 55,627,904
Salaries, wages and commissions	12,390,722	10,822,330
Accrued expenses	39,212,333	36,369,359
Withheld and accrued taxes	6,586,318	6,378,229
Notes payable	14,024,496	13,654,923
Current portion of long-term obligations	1,575,494	1,323,122
Federal, foreign and state taxes on income	5,913,906	7,065,250
Deferred income taxes	0	15,014,782
Total Current Liabilities	$147,288,666	$146,255,899

LIBBEY-OWENS-FORD COMPANY (DEC)

	1979	1978
	(In Thousands)	
Current Liabilities		
Notes payable to banks	$ 18,428	$ 16,189
Accounts payable	40,248	38,176
Employees' compensation and amounts withheld therefrom	33,289	31,268
Taxes, other than federal and foreign income taxes	18,134	17,471
Other accrued liabilities	39,096	29,001
United States and foreign income taxes	9,590	11,553
Current maturities of long-term debt	964	917
Total Current Liabilities	$159,749	$144,575

McGRAW-HILL, INC. (DEC)

	1979	1978
	(Thousands of dollars)	
Current liabilities		
Notes payable	$ 55,646	$ 4,062
Current portion of long-term debt	7,907	6,847
Accounts payable	49,145	40,671
Accrued royalties	18,499	16,815
Accrued compensation	21,738	19,840
Accrued contributions to retirement plans	13,766	12,978
Accrued income taxes:		
Currently payable	41,129	36,103
Deferred	12,876	10,924
Unearned revenue	50,662	41,437
Other current liabilities	21,495	15,503
Total current liabilities	$292,863	$205,180

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.

ALBERTSON'S INC. (JAN)

	1980	1979
Current Liabilities:		
Accounts payable	$135,337,000	$133,735,000
Salaries and related liabilities	13,935,000	13,948,000
Taxes other than income taxes	9,043,000	10,142,000
Interest payable	3,337,000	3,314,000
Taxes on income		14,505,000
Dividends payable	2,218,000	1,772,000
Current maturities of long-term debt	1,423,000	5,347,000
Current obligations under capital leases	3,362,000	2,343,000
Total Current Liabilities	$168,655,000	$185,106,000

BAUSCH & LOMB INCORPORATED (DEC)

	1979	1978
	($000)	
Current Liabilities:		
Notes payable	$17,046	$28,226
Accounts payable	26,235	17,145
Accrued payrolls and related expenses	12,304	11,139
Accrued liabilities	22,749	20,633
Dividends payable	2,952	2,547
Current portion of long-term debt	4,588	5,153
Federal and foreign income taxes	10,159	5,609
	$96,033	$90,452

TABLE 2-23: CURRENT AMOUNT OF LONG-TERM DEBT

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Current *portion* of long-term debt	201	196	186	176
Current *maturities* of long-term debt	181	175	180	188
Long-term debt *due* or *payable* within one year	77	82	79	67
Current *installment* of long-term debt	44	51	44	50
Current amount of long-term leases	80	76	29	—
Other captions	8	11	16	27

CLARK EQUIPMENT COMPANY

	1979	1978
	($000)	
Current Liabilities:		
Notes payable to banks	$ 15,840	$ 18,975
Accounts payable	160,378	127,365
Accrued payrolls	33,482	23,973
Accrued social security and general taxes	13,378	14,467
Taxes on income	14,585	19,641
Installment obligations owed to finance subsidiaries	9,586	5,938
Current installments on long-term debt	17,934	7,725
Total current liabilities	$265,183	$218,084

HOMASOTE COMPANY (DEC)

	1979	1978
Current Liabilities:		
Current installments of long-term debt	$ 400,000	$ —
Accounts payable	596,166	731,418
Accrued expenses (note 5)	269,817	310,586
Income taxes	230,753	63,305
Total Current Liabilities	$1,496,736	$1,105,309

Note 5–Accrued Expenses:

Accrued expenses are comprised of the following:

	1979	1978
Payrolls	$ 34,113	$ 39,152
Taxes, other than income	39,489	69,666
Interest	35,912	—
Commissions	56,051	52,459
Other	104,252	149,309
	$269,817	$310,586

McDONNELL DOUGLAS CORPORATION (DEC)

	1979	1978
Current Liabilities		
Accounts and drafts payable	$ 516,871,841	$ 417,537,945
Accrued expenses	104,265,555	86,919,149
Employee compensation	151,454,193	121,929,718
Income taxes, principally deferred, Note E	616,059,982	556,789,076
Progress payments received	142,290,072	246,981,740
Estimated modification, completion, and other contract adjustments	377,590,528	388,256,991
Current maturities of long-term debt	7,123,467	4,309,138
Total Current Liabilities	$1,915,655,638	$1,822,723,757

OTHER CURRENT LIABILITIES

Table 2-24 summarizes other identified current liabilities. The most common types of other current liabilities are 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.

Advance Coal Royalties

ALCO STANDARD CORPORATION (SEP)

	1979	1978
Current Liabilities		
Current portion of long-term debt	$ 17,155,884	$ 6,854,281
Notes payable	25,491,145	32,971,199
Trade accounts payable	116,462,887	95,696,082
Accrued expenses	66,093,363	52,595,380
Accrued income taxes	16,958,449	4,456,958
Current portion of advance coal royalties	1,250,000	1,250,000
Total current liabilities	$243,411,728	$193,823,900

Excise Tax

THE AMERICAN DISTILLING COMPANY (SEP)

	1979	1978
Current liabilities:		
Bank loans	$19,360,000	$18,920,000
Accounts payable	3,440,000	2,968,000
Federal excise tax payable	3,140,000	3,820,000
Accrued liabilities	1,901,000	1,609,000
Federal income tax	100,000	—
Current portion of long-term debt	120,000	376,000
Total current liabilities	$28,061,000	$27,693,000

Returnable Containers

ANHEUSER-BUSCH COMPANIES, INC. (DEC)

	1979	1978
	(In thousands)	
Current Liabilities:		
Accounts payable	$158,002	$116,426
Due to customers for returnable containers	24,336	18,897
Accrued salaries, wages and benefits	49,306	38,225
Accrued taxes, other than income taxes	45,645	41,981
Estimated federal and state income taxes	10,382	19,887
Other current liabilities	19,624	19,728
Total current liabilities	$307,295	$255,144

Insurance Costs

BLISS & LAUGHLIN INDUSTRIES INCORPORATED (DEC)

	1979	1978
	($000)	
Current Liabilities:		
Short-term loans	$ 1,552	$ 675
Current maturities of long-term debt	1,177	1,212
Accounts payable—trade	12,280	7,456
Customer deposits	2,450	2,406
Accrued liabilities—		
Salaries, wages and vacations	3,382	3,152
Insurance costs	2,561	1,174
Pension costs	2,435	2,356
Other	4,045	3,033
Income taxes	10,382	2,694
Total current liabilities	$40,264	$24,158

FINANCIAL REVIEW

Accrued Insurance Costs

Accrued insurance costs represent claims incurred under the deductible amounts of liability insurance as well as uninsured employee benefits. Changes in the Company's deductibles and insurance costs retained after the sale of Waco resulted in increases in these accruals in 1979.

Reverse Repurchase Agreements

DOYLE DANE BERNBACH INTERNATIONAL INC. (DEC)

	1978	1979
Current Liabilities:		
Accounts payable	$61,396,470	$75,985,253
Notes payable to banks (Note E(1))	1,376,505	852,418
Funds borrowed under reverse repurchase agreements (Note E(2))	—	16,064,062
Federal and foreign taxes on income	4,442,520	1,291,252
Taxes withheld and accrued	2,073,635	2,314,070
Pension and profit sharing plan contributions	3,034,718	3,310,713
Other current liabilities	10,706,080	13,113,545
Dividends payable	691,120	838,448
Current portion of long-term debt (Note G(1))	7,092	45,906
Total Current Liabilities	83,728,140	113,725,667

Note E—Notes Payable to Banks

(1) The short-term borrowings at month-end during the years ended December 31, 1978 and 1979 ranged from approximately $1,097,000 to $4,365,000 and $69,000 to $2,201,000, respectively. Average bank borrowings were approximately $1,672,000 and $1,358,000, respectively, computed on the basis of month-end balances. The weighted average interest rates of approximately 9.9% and 10%, respectively, were calculated by dividing the interest expense for the year for such borrowings by the average short-term borrowings. At December 31, 1978 and 1979, the Registrant and its subsidiaries had unused lines of credit amounting to approximately $9,000,000 and $10,400,000, respectively.

(2) During March 1979, the Registrant, through a subsidiary, acquired $17,250,000 of 3.5% United States Treasury Bonds, at a discount, due November 15, 1980. The acquisition of these bonds was financed with funds borrowed, collateralized by these bonds, under reverse repurchase agreements. The borrowings at month-end in connection therewith ranged from approximately $15,800,000 to $16,064,000. Average borrowings were approximately $15,990,000, computed on the basis of month end balances during the period. The weighted average interest rate of 11.1% was calculated by dividing the interest expense for the period for such borrowings by the average short-term borrowings.

TABLE 2-24: OTHER CURRENT LIABILITIES

	Number of Companies			
	1979	1978	1977	1976
Taxes not combined with Federal income taxes	119	107	103	116
Dividends payable	108	108	106	99
Customer advances, deposits	60	54	54	51
Interest	59	47	43	62
Deferred taxes	48	47	51	39
Guarantees, warranties, service contract obligations	27	22	15	17
Billings on uncompleted contracts	21	21	22	21
Estimated costs relating to discontinued operations	18	19	20	23
Due to affiliated companies	12	10	15	13
Other — Described	42	41	67	71

Litigation Expense

FOTOMAT CORPORATION (JAN)

	1979	1978
Current liabilities:		
Bank line of credit	$11,011,000	$ 8,000,000
Current portion of long-term debt	8,326,000	3,327,000
Accounts payable	10,481,000	11,699,000
Payrolls and withholdings	2,669,000	3,146,000
Accrued taxes, interest and other expenses	8,742,000	7,576,000
Accrued litigation expense (Note 7)	8,250,000	—
Income taxes payable	50,000	—
Dividends payable	—	1,001,000
Total current liabilities	$49,529,000	$34,749,000

Note 7: Litigation

Certain Company franchisees have filed separate actions against the Company, which are predicated on essentially identical theories, to recover alleged overcharges on the purchase of film and processing services from the Company. The complaints also allege certain violations of Federal and state antitrust laws.

In one of these actions involving an Indianapolis franchisee, the Company, subsequent to January 31, 1980, has borrowed and, in accordance with a judgment award, has paid out $3,700,000 plus accumulated interest. In another franchisee action involving certain Kansas City franchisees, the Company has reached a settlement with those franchisees whereby it agreed to amend certain terms of the agreements with those franchisees, refund certain fees and make payment for damages over a period of years totalling $900,000 plus interest in consideration for a full and complete release from those franchisees.

In a third franchisee action involving certain other Kansas City and St. Louis franchisees, the Company has deposited certificates of deposit with the court in Kansas City totalling $6,511,000 pending appeal of the case. The Company is also defendant in another franchisee action in California, currently in the discovery stage and scheduled to come to trial during 1980.

While it is not possible to predict the ultimate award or settlement amounts related to the unresolved franchisee suits (as to which franchisees claim approximately $16 million), the Company and its outside legal counsel believe, based upon the results in settled franchisee actions, that the ultimate award or settlements will be substantially less than the amounts currently being sought. The Company has provided $8,250,000 (pretax) in 1979 for actual settlements and damages as well as obligations presently estimated to be payable in connection with the unsettled claims described above.

The Company has a number of claims arising from the normal conduct of business which, in the opinion of management, would not have a material effect on the accompanying financial statements.

LA MAUR INC. (DEC)

	1979	1978
Current Liabilities		
Accounts payable	$2,071,721	$2,070,983
Accrued expenses:		
Payroll	625,737	393,236
Taxes	286,092	323,858
Legal judgment	370,000	—
Other	465,811	181,406
Federal and state income taxes	466,887	183,766
Deferred income taxes	174,000	240,000
Capitalized lease obligations	117,354	118,722
Total Current Liabilities	$4,577,602	$3,511,971

Customer Advances

GIDDINGS & LEWIS, INC. (DEC)

	1979	1978
Current liabilities:		
Loans payable	$ 1,037,324	$ 708,196
Accounts payable	9,615,562	7,702,743
Income taxes	11,374,780	10,106,973
Wages, salaries, and other compensation	3,965,553	3,095,634
Advance payments by customers	11,742,559	5,359,867
Other liabilities	7,250,653	5,228,117
Long-term debt due within one year	1,805,457	376,001
Total current liabilities	$46,791,888	$32,577,601

Bank Overdrafts

THE MARLEY COMPANY (OCT)

	1979	1978
	($000)	
Current Liabilities:		
Bank overdrafts (Note 5)	$ 2,514	$ 2,566
Notes payable	845	—
Accounts payable	18,350	14,920
Customer advances	5,154	2,502
Employee compensation and other accrued expenses	20,683	14,579
Accrued taxes on income	16,422	12,375
Current maturities of long-term debt	135	130
Total current liabilities	$64,103	$47,072

Note 5: Bank Overdrafts:

Bank overdrafts represent a technical overdraft created by the amount of checks issued exceeding the balances on deposit recorded in the records of the Company.

Treasury Stock Purchases

MASONITE CORPORATION (AUG)

	1979	1978
Current Liabilities:		
Current maturities of long-term debt	$ 2,593,000	$ 1,871,000
Payable to banks resulting from checks in transit	6,990,000	—
Accounts payable	16,985,000	9,023,000
Payable on treasury stock purchases	4,032,000	1,949,000
Cash dividend payable	4,294,000	3,133,000
Accrued liabilities—		
Payrolls	7,557,000	7,812,000
Taxes, other than Federal and state income taxes	3,571,000	8,333,000
Miscellaneous	6,994,000	8,307,000
Federal and state income taxes	6,375,000	17,678,000
Total current liabilities	$59,391,000	$58,106,000

Deferred Income

NORTON COMPANY (DEC)

	1979	1978
	($000)	
Current liabilities:		
Notes payable, principally to banks	$ 51,409	$ 46,159
Long-term debt due within one year	8,384	6,872
Accounts payable	77,067	66,072
Accrued expenses	47,751	39,191
Unrealized gross earnings on returnable diamonds	15,031	13,207
Income taxes	23,901	25,236
Total current liabilities	$223,543	$196,737

Note 1 (in part): Significant Accounting Policies

Unrealized Gross Earnings on Returnable Diamonds—In accordance with the terms of sale of diamond bits, credits are issued to customers at sales prices for the unconsumed usable diamond content of the salvaged bits returned. The Company has provided for the estimated gross earnings that it does not expect to realize on bits subject to return by recording a liability based on experience, with a corresponding charge to earnings.

TABLE 2-25: LONG TERM DEBT

	Number of Companies			
	1979	1978	1977	1976
Unsecured				
Notes	463	459	471	455
Debentures	302	286	283	280
Loans	139	126	122	112
Collateralized				
Capitalized leases	422	360	333	201
Mortgages	192	200	176	196
Notes or loans	88	86	55	79
Convertible				
Debentures	166	171	158	174
Notes	20	23	20	34

LONG TERM DEBT

Table 2-25 summarizes the types of long-term debt most frequently disclosed by the survey companies. 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.

AMERADA HESS CORPORATION (DEC)

	1979	1978
Total current liabilities	$2,037,675,000	$1,255,189,000
Long-term debt	829,381,000	748,935,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Long-Term Debt

Long-term debt, less current maturities, at December 31, 1979 and 1978 consists of the following:

	1979	1978
6¾% Subordinated Debentures Due 1996 with sinking fund requirements and effective interest rate of approximately 8.4% (less unamortized discount of $9,039,000 at December 31, 1979 and $11,455,000 at December 31, 1978)	$ 74,069,000	$ 87,739,000
6¾% Debentures Due 1987 with sinking fund requirements and effective interest rate of approximately 8.4% (less unamortized discount of $1,279,000 at December 31, 1979 and $1,890,000 at December 31, 1978)	16,977,000	21,898,000
7% Marine Terminal Revenue Bonds—Series 1978 Due 2003—City of Valdez, Alaska	20,000,000	20,000,000
6% Convertible Notes, due May 1, 1986 (converted into common stock in 1979)	—	15,000,000
6% Sinking Fund Notes (due through 1986)	—	24,000,000
Notes at 5½% to 10% (weighted average rate of 9.3% in 1979 and 8.8% in 1978) payable to insurance companies (due through 1999)	541,067,000	357,498,000
Bank loans at prime rate(*) to prime rate plus ½% (due through 1987)	174,000,000	203,664,000
Other loans at rates up to 15¼% (due through 1995)	3,268,000	19,136,000
	$829,381,000	$748,935,000

*Prime rates were 15% at December 31, 1979 and 11¾% at December 31, 1978.

Debt discount and related finance expense are being amortized on a straight-line basis.

The aggregate long-term debt maturing during the next five years is approximately as follows: 1980—$25,093,000 (included in current liabilities); 1981—$119,088,000; 1982—$31,054,000; 1983—$46,765,000; 1984—$56,252,000.

The Corporation's long-term debt agreements provide that minimum net current assets must be maintained and that the cumulative amount of cash dividends, stock purchases and stock redemptions after December 31, 1978 may not exceed consolidated net income, as defined, subsequent to December 31, 1978 plus $100,000,000 and a credit for certain proceeds of sales of stock. At December 31, 1979, net current assets exceeded the minimum by $312,674,000 and $550,125,000 of retained earnings was free of such restrictions.

In connection with certain debt outstanding at December 31, 1979, the Corporation maintains average cash balances with certain banks aggregating approximately $24,800,000 under informal and unrestricted arrangements.

AMERICAN CAN COMPANY (DEC)

	1979	1978
	($ Millions)	
Long-term debt (Note 5)	$493.4	$475.0
Employee benefits related to plant closings	135.2	139.4
Deferred income taxes	127.9	120.0
Other long-term liabilities	44.8	43.8

NOTES TO FINANCIAL STATEMENTS

(In millions of dollars except per share amounts).

Note 5: Long-term Debt

Long-term debt payable after one year and the final maturity dates were as follows:

	1979	1978
3¼% Debentures, maturing 1982	$ 3.0	$ 3.0
9¼% Notes, maturing 1984	125.0	125.0
3¾% Debentures, maturing 1988	17.3	27.3
4¾% Convertible debentures, maturing 1988	30.0	30.0
4¾% Debentures, maturing 1990	14.8	14.8
6% Debentures, maturing 1997	55.0	56.3
5⅞% Pollution Control Revenue Bonds, maturing 1998	26.0	26.0
3.9%-5.5% Industrial Development Revenue Bonds, maturing 1998	28.1	30.5
7¾% Debentures, maturing 2001	68.5	75.0
Other indebtedness 4.38%-11.75% payable 1981-2007	41.3	57.5
Debt of foreign subsidiaries	49.8	29.6
Short-term notes	34.6	—
	$493.4	$475.0

Payments due on long-term debt during each of the next five years are: 1980, $26.0; 1981, $38.8; 1982, $14.6; 1983, $11.7; and 1984, $140.3. The 4¾% convertible debentures are convertible into common stock of the Company at $58.50 a share.

The Company has entered into a $200.0 revolving credit and term loan agreement which can be used to refinance short-term notes. Borrowings under this agreement can be extended to 1986. The Company intends ultimately to refinance $34.6 of short-term notes on a long-term basis through the use of this agreement or other borrowings. Accordingly, at December 31, 1979, such short-term notes payable have been classified as long-term debt.

BRUNSWICK CORPORATION (DEC)

	1979	1978
	($000)	
Long-term debt (Note 7)	$272,201	$246,282

Note 7: Debt

Short-term debt at December 31 consisted of the following:

(dollars in thousands)	1979	1978
Current maturities of long-term debt	$ 9,211	$ 6,539
Notes payable to banks	2,419	6,591
Total short-term debt	$11,630	$13,130

Long-term debt at December 31 consisted of the following:

(dollars in thousands)	1979	1978
Notes		
Insurance company, 8⁹⁄₁₀% to 10½%, due through 1998	$152,375	$153,775
Banks		
Term, currently 103% of prime, due in 1986	30,000	30,000
Revolving credit, at prime	12,000	—
Commercial paper, 12.6% to 14.6%	25,000	—
Foreign banks, 7½%, due in 1980	2,545	8,930
Mortgage notes and capitalized lease obligations, 2% to 23%, payable through 2029	44,656	44,793
Debentures, 4½% convertible subordinated		
Due January 1, 1981	10,447	10,950
Due September 15, 1987	4,389	4,373
	281,412	252,821
Current maturities	(9,211)	(6,539)
Total long-term debt	$272,201	$246,282
Scheduled maturities—		
1981	$56,500	
1982	8,800	
1983	12,300	
1984	12,100	
Thereafter	182,501	
	$272,201	

The Company's indebtedness to the Prudential Insurance Company of America consists primarily of three 20-year $50,000,000 notes, the last borrowing in 1978.

In 1979, the Company renegotiated a $30,000,000 term loan agreement with a group of banks, extending its maturity date from 1982 to 1986.

In 1979, the Company's revolving credit, under an agreement with a group of banks, was renegotiated and was subsequently increased from $50,000,000 to $100,000,000, with interest at the prime rate and a commitment fee of ½% per annum on the unused portion. In 1982, any loan balance may then be converted to a four-year term loan, payable in quarterly installments, with interest at ¼ to ½% over the prime rate. The Company must maintain, in demand deposits, aggregate average collected balances of 7% of the total revolving credit commitment, and at December 31, 1979, $7,000,000 was on deposit to meet this requirement.

In 1979, the Company issued commercial paper in the form of unsecured short-term notes backed by its revolving credit agreement. The commercial paper borrowings are classified as long-term debt at December 31, 1979 because of the availability of long-term financing under the terms of the revolving credit agreement and the Company's intent to refinance this debt on a long-term basis.

The 4½% convertible subordinated debentures due in 1981 and 1987 have annual sinking fund requirements of $1,500,000 and $800,000, respectively and are net of $904,000 of debt discount on the 1987 issue and $1,668,000 and $1,621,000, respectively, of debentures acquired for future sinking fund requirements.

The various loan agreements with the banks and Prudential, and the indentures relating to the debentures contain various restrictions pertaining to working capital, certain financial ratios and dividends. At December 31, 1979, working capital was $368,336,000 ($270,000,000 required), and the ratio of net worth to liabilities, as defined, was 112% (85% required). Payments of cash dividends on, and acquisitions of, the Company's common and preferred shares are limited to 50% of consolidated net earnings each year, plus $40,000,000 on a cumulative basis after December 31, 1978.

COMMERCIAL METALS COMPANY (AUG)

	1979	1978
Deferred Income Taxes	$ 7,203,000	$ 5,984,000
Long-Term Debt (Note D)	23,226,597	26,357,881

Note D: Long-Term Debt—Long-term debt and amounts due within one year as of August 31, 1979, were as follows:

	Amount outstanding	Current portion	Balance included in long-term debt
10½% notes due 1992	$ 9,335,714	$ 664,285	$ 8,671,429
9¾% note due 1989	7,333,332	666,667	6,666,665
9½% notes due 1987	3,200,000	400,000	2,800,000
6⅜% note due 1983	1,600,000	400,000	1,200,000
Plant relocation loan	920,000	65,000	855,000
Equipment obligations	2,167,994	781,021	1,386,973
Capitalized lease obligations	376,749	136,789	239,960
Other	1,435,195	28,625	1,406,570
	$26,368,984	$3,142,387	$23,226,597

The 10½% notes are payable in annual installments, as shown above, plus interest (payable semiannually). The terms of the agreement amend previous agreements and include, in addition to other requirements, maintenance of consolidated net current assets of $30,000,000 and place certain restrictions on dividends (other than stock dividends) and on the purchase of the Company's outstanding stock. At August 31, 1979, $15,227,000 of retained earnings were available for dividends under these covenants.

The 9¾% note, the 9½% notes, and the 6⅜% note are each payable in annual installments as shown above, plus interest (payable semiannually). Covenants under these agreements are less restrictive than those of other borrowing arrangements.

The plant relocation loan, due in 1989, bears a maximum interest rate of 7% and is to be repaid in annual installments increasing from $65,000 to $125,000.

The equipment obligations are due in monthly installments to 1984 including interest ranging from 6% to 8½% with certain notes at prime plus 1¼%. Equipment having a net book value of approximately $3,846,000 is pledged under the obligations.

The aggregate amount of all long-term debt maturities for the first five years following August 31, 1979, are: 1980 - $3,142,000; 1981 - $2,994,000; 1982 - $2,683,000; 1983 - $2,495,000; 1984 - $2,037,000.

DIGITAL EQUIPMENT CORPORATION (JUN)

	1979	1978
	($000)	
Deferred Federal and foreign income taxes	$ 15,110	$ 16,590
Long-term debt (Note G)	340,714	341,623

Note G: Long-Term Debt

Long-term debt, exclusive of current maturities consisted of the following:

	June 30, 1979	July 1, 1978
	(In Thousands)	
Lease obligations payable 1980-1993 (4.5%-11.7%) (a)	$ 7,154	$ 7,618
Collateralized obligations maturing serially to 1993 (5.4%) (b)	8,565	9,010
Sinking Fund Debentures due March 15, 2000 (9⅜%) (c)	75,000	75,000
Convertible Subordinated Debentures due December 15, 2002 (4½%) (d)	249,995	249,995
	$340,714	$341,623

Principal payments required during the next five fiscal years are as follows: 1980 - $972,000; 1981 - $1,034,000; 1982 - $1,090,000; 1983 - $1,144,000; and 1984 - $1,210,000.

(a) Weighted average interest rate at June 30, 1979 of 8.1%.

(b) Interest rate shown is the weighted average rate at June 30, 1979.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of $4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional $4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109⅜% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the

Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9⅜% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On September 8, 1977, the Company sold $250,000,000 of 4½% Convertible Subordinated Debentures. The Debentures are subordinated in right of payment to all senior indebtedness, as defined, and are convertible, subject to prior redemption, into shares of common stock at $57 per share at any time up to and including the maturity date of December 15, 2002.

Annual sinking fund payments to redeem $9,000,000 principal amount of the Debentures are required beginning on December 15, 1988, and beginning December 15, 1983, the Company, at its option, may make additional sinking fund payments to redeem up to an additional $9,000,000 principal amount annually. In each case, the sinking fund redemption price is the principal amount of the Debentures, plus accrued interest to the date of redemption. In addition, the Debentures are redeemable at the option of the Company, at any time, in whole or in part, at 104½% of the principal amount of the Debentures through December 14, 1978, at prices which decrease annually thereafter to December 14, 1997 and thereafter at 100% of the principal amount, together with accrued interest to the date of redemption.

HARRIS CORPORATION (JUN)

	1979	1978
Long-Term Debt		
4⅜% Sinking Fund Debentures, due 1989	$14,714,000	$15,834,000
6% Sinking Fund Debentures, due 1992	14,379,000	15,924,000
7¾% Sinking Fund Debentures, due 2001	50,000,000	50,000,000
5% Convertible Subordinated Debentures, due 1992	3,314,000	9,107,000
Other	8,532,095	5,560,825
Total Long-Term Debt	$90,939,095	$96,425,825

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt—Sinking fund redemptions of $2,300,000 are required in each of the fiscal years 1981 through 1987 and varying amounts thereafter through 2001. As of June 30, 1979 the Corporation had acquired sufficient debentures to satisfy sinking fund requirements through fiscal 1982 and part of 1983.

The indenture for the 5% Convertible Subordinated Debentures provides for yearly redemption beginning in 1983 of not less than 5% or more than 10% of the debentures outstanding on December 31, 1982. The debentures are convertible into 218,657 shares of Common Stock of the Corporation at $15.16 per share.

Under the indentures, retained earnings at June 30, 1979 available for cash dividends and acquisitions of the Corporation's capital stock amounted to $157,000,000.

Maturities on long-term debt for the several fiscal years following 1980 are: 1981 - $300,000, 1982 - $500,000, 1983 - $1,800,000 and 1984 - $2,500,000.

HERCULES INCORPORATED (DEC)

	1979	1978
	($000)	
Long-Term Debt	280,619	295,969
Deferred Taxes on Income	104,457	80,201
Pension Liability	25,607	27,577

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands, except per share)

Note 6: Debt:

A summary of short-term and long-term debt follows:

Short term:	1979	1978
Commercial paper	$58,765	$27,202
Banks*	23,028	19,422
Other*	4,475	3,758
	$86,268	$50,382

*Includes current maturities of long-term debt.

Commercial paper is issued or renewed for varying periods, with interest at prevailing market rates. Bank borrowings represent short-term lines of credit and foreign overdraft facilities, which are generally payable on demand with interest at various rates. The average interest rate for amounts outstanding at December 31, 1979, for commercial paper was approximately 13.5%, and for bank borrowings, approximately 13.9%. The weighted average interest rate for all short-term debt was 11.0% for 1979 and 8.0% for 1978.

At December 31, 1979, Hercules had $92,700 of unused lines of credit that may be drawn as needed, with interest at the prime rate.

Long-term:	1979	1978
6½% convertible subordinated debentures due 1999 (a)	$100,000	$100,000
8¾% notes due 1983	100,000	100,000
Variable interest loan (b)	40,000	—
Commercial paper (b)	20,000	—
Term loans due December 1982 (b)	—	60,000
Revolving credit notes (c)	—	4,200
Leases expiring in 1985, 1986, and 2004 (d)	24,195	31,208
Other	3,098	4,275
	287,293	299,683
Current maturities of long-term debt	(2,738)	(3,714)
Industrial revenue bond funds held by trustees	(3,936)	—
Net long-term debt	$280,619	$295,969

(a) The subordinated debentures are convertible into common stock at $35 per share, and are redeemable at the option of the company at varying rates. Beginning in 1985, the debentures will be entitled to a sinking fund in annual installments of $5,500.

(b) The $60,000 term loan was repaid in December 1979 with financing having lower interest costs. A $40,000 variable interest loan due 24 months after demand by the lender and $20,000 of commercial paper funded the repayment. The commercial paper, which is supported by revolving credit agreements (see (c) below), is classified as long-term.

(c) Hercules has revolving credit agreements with certain banks, maturing in 1985 and 1986, under which Hercules may borrow up to $160,000 at various interest rates (prime rate to 109% of prime rate or an agreed-upon spread over the lender's cost of funds).

The above agreements contain certain restrictions, including the payment of cash dividends. Such dividends may be paid only out of retained earnings since December 31, 1973, which amounted to $331,400 at December 31, 1979.

(d) Hercules is committed under net lease agreements whereby existing plant facilities, costing $42,300, and facilities under construction financed from the sale of Industrial Revenue Bonds, are leased for periods expiring in 1985, 1986, and 2004. The bonds, bearing interest at rates varying from 5.0 to 6.88%, will be retired from rental payments, which are equivalent to interest and debt retirement requirements. At December 31, 1979, the aggregate minimum lease payments amounted to $37,100 (including interest of $13,000), of which $3,600 is payable in 1980 and $4,200 is payable in each of the years 1981-1984. Under certain conditions, Hercules has the option to purchase these facilities for amounts that will be sufficient to redeem and retire all outstanding bonds.

Five-year maturities:

Amounts due on long-term debt in each of the next 5 years:

1980	$ 2,738
1981	3,473
1982	43,507
1983	103,538
1984	3,640

Compensating balances:

In connection with the lines of credit agreements, Hercules maintains compensating cash balances of 5% of unused credit facilities. At December 31, 1979, cash in the consolidated balance sheet included $2,100, maintained as compensating balances.

J. RAY MCDERMOTT & CO., INC. (MAR)

	1979	1978
	($000)	
Deferred and Non-Current Income Taxes	$381,523	$372,798
Long-Term Debt (Note 7)	492,647	479,432
Other Liabilities	95,189	87,842

Note 7—Long and Short-Term Debt

Long-term debt consists of:

	March 31, 1979	1978
	(In thousands of dollars)	
Unsecured Debt:		
Notes payable to banks under a revolving credit and term loan agreement	$ 14,000	$177,000
7.30% Note payable $3,000,000 annually beginning 1979	60,000	60,000
9.70% Sinking fund debentures due 1999 with annual sinking fund installments of $2,500,000 beginning 1981	50,000	50,000
8.90% Note due 1984	35,000	35,000
4¾% Convertible (at $16.75 per share) subordinated debentures due 1987	5,524	6,960
9½% Note due 1981	20,000	—
9⅝% Sinking fund debentures due 2004 with annual sinking fund installments of $9,850,000 beginning 1990	150,000	—
6.80% Pollution control revenue bonds due 2009 with annual sinking fund installments of $4,250,000 beginning 2006	17,000	—
8½% Note payable $3,960,000 annually to 1997 beginning in 1983	60,000	60,000
9% Note payable $3,300,000 annually to 1991	43,400	46,700
9% Note payable $1,650,000 annually to 1996 beginning 1982	25,000	25,000
Other:		
Other notes payable through 1996 and capitalized lease obligations	23,647	27,226
	503,571	487,886
Less due within one year	10,924	8,454
	$492,647	$479,432

The revolving credit and term loan agreement, under which the notes payable to banks were issued, permits the borrowing of an aggregate of $285,000,000 at the prime interest rate until March 31, 1981, and then 104% of prime until March 31, 1983, at which time all outstanding borrowings will convert to a term loan payable in sixteen equal quarterly installments to maturity at March 31, 1987, at an interest rate of 108% of prime. The Company pays a commitment fee at the rate of ½ of 1% and a fee of 7.5% of prime per annum on the unused portion.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1979 are as follows: 1980—$10,924,000; 1981—$10,643,000; 1982—$32,487,000; 1983—$18,741,000; 1984—$20,058,000.

Certain of the Company's debt agreements contain, among other things, requirements as to maintenance of working capital and limitations on the payment of dividends and incurrence of future borrowings. Under the most restrictive covenants of these agreements at March 31, 1979, dividends were restricted to approximately $175,000,000.

At March 31, 1979 and 1978, the Company had borrowings outstanding of $9,501,000 and $3,654,000 under short-term lines of credit which aggregated $65,153,000, and $67,554,000, respectively. Interest rates on the lines of credit ranged from 6% to 14¾% at March 31, 1979, and 8% to 11½% at March 31, 1978. Informal arrangements with the banks require maintenance of compensating balances which are not legally restricted by such banks. For the fiscal years ended March 31, 1979 and March 31, 1978, the maximum amounts of borrowings under these lines of credit were $38,550,000 and $12,707,000, respectively. The weighted average interest rate was 9.96% for the 1979 fiscal year and 8.34% for the 1978 fiscal year on weighted average borrowings of $11,605,000 and $5,253,000, respectively. The weighted average interest rates were computed by dividing the actual interest incurred on the short-term borrowings by the average short-term borrowings.

THE MOHAWK RUBBER COMPANY (DEC)

	1979	1978
Deferred taxes on income	$ —	$ 541,000
Deferred pension liability	6,229,000	6,229,000
Long-term debt (Note E)	28,709,000	41,725,000

Note E: Debt

Long-term debt at December 31, consisted of the following:

	1979	1978
8.65% notes payable to insurance company	$ 6,900,000	$ 8,600,000
Industrial revenue development bonds	13,263,000	13,890,000
Notes under revolving credit agreement	7,500,000	15,000,000
Notes payable to bank	3,750,000	5,000,000
6% convertible debentures due December 31, 1999	180,000	180,000
4½% convertible subordinated debentures due August 15, 1983	567,000	627,000
	32,160,000	43,297,000
Less current portion	3,451,000	1,572,000
Total Long-Term Debt	$28,709,000	$41,725,000

The notes payable to insurance company require increasing principal payments through September 30, 1987. During 1979, the Company elected to prepay a total of $2,000,000 of this debt in December 1979 and January 1980.

The industrial revenue development bonds, which mature on varying dates from 1992 through 1998, were issued by development authorities for the construction of production and office facilities. The Company is to make payments sufficient to pay the interest (5.25% to 7.25%) and debt retirement requirements under all indentures of mortgage covering the bond issues. The Company may purchase the facilities for a nominal amount after payment of an amount sufficient to retire all the outstanding bonds in accordance with the provisions of the indentures. The carrying value of such property at December 31, 1979 totaled $8,500,000.

The Company maintains a credit agreement that provides a borrowing limit of $15,000,000 of which $7,500,000 was outstanding as of December 31, 1979. Interest is at a rate of 1% in excess of the prime interest rate of the principal bank plus a commitment fee of ½ of 1% per annum on the unused portion of the borrowing limit. The credit agreement expires on February 1, 1981. Commencing July 30, 1980, quarterly installments of $500,000 each are due, with the balance due at the expiration date. During the first half of 1980, it is anticipated that a new credit agreement will be negotiated.

In connection with this borrowing arrangement, the Company has informal understandings with certain of the banks to maintain compensating balances during the year which are not legally restricted as to withdrawal, and which may vary during the life of the agreement. Such balances are usually satisfied by balances maintained for normal business operations.

Notes payable to bank in the amount of $3,750,000 bear interest at prime plus approximately 2%. The notes are to be paid in quarterly installments of $250,000 each. During 1979 the Company prepaid the quarterly installments due in 1980.

The 6% Convertible Debentures may be converted into Common Stock of the Company at the rate of $30.83 a share.

The indenture agreement covering the 4½% Debentures requires the Company to make minimum sinking fund payments of $72,450 in each of the years 1973 through 1982. To date, such requirements have been met through the retirement of debt. The debentures may be converted into Common Stock of the Company at a rate of $23.62 a share at any time prior to maturity. The debentures are subordinated to other long-term debt.

The debt agreements contain, among other things, covenants relative to maintenance of working capital and tangible net worth and restrictions on additional borrowings, capital expenditures, leases, and payment of cash dividends. Under the most restrictive of these provisions, consolidated retained earnings at December 31, 1979, available for payment of cash dividends are limited to a maximum of $2,000,000 in 1980.

The approximate principal requirements of long-term debt during the next five years, including sinking fund payments and the revolving credit notes, are as follows: 1980, $3,451,000; 1981, $9,087,000; 1982, $2,829,000; 1983, $3,144,000; 1984, $2,605,000.

The Company has renegotiated its short-term lines of credit with several banks in the aggregate amount of $10,000,000. The following information relates to aggregate short-term debt (notes payable to banks):

	1979	1978
Maximum outstanding at any month-end	$14,600,000	$14,500,000
Average amount outstanding (total of daily outstanding principal divided by 365)	9,347,000	10,631,000
Weighted average interest rate (actual interest expense on short-term debt divided by average short-term debt outstanding)	12.08%	8.96%

Interest expense applicable to long-term debt was $3,908,000 and $3,543,000 in 1979 and 1978, respectively. Amortization of deferred debt expense was $30,000 in 1979 and 1978.

REYNOLDS METALS COMPANY (DEC)

	1979	1978
	(In millions)	
Long-Term Debt (excluding convertible subordinated debentures) —Note D	$764.6	$776.6
Deferred Taxes on Income	158.7	171.7
Deferred Credits and Other Liabilities	52.2	49.9
Convertible Subordinated Debentures (Note E)	106.0	112.0

Note D: Long-Term Debt (excluding convertible subordinated debentures)

Long-term debt outstanding at December 31, 1979 and 1978 is as follows:

	1979	1978
First Mortgage Bonds		
4¼% to 5¾% due through 1993	$310.2	$335.4
8.85% to 9¼% due through 1998	192.0	196.0
Installment purchase obligations		
4.9% to 9.0% due through 1998	214.2	201.2
Capital leases 4.7% to 11.8% due through 2002	57.8	50.2
Other	32.8	34.4
	$807.0	$817.2
Less amounts due within one year	42.4	40.6
Noncurrent debt	$764.6	$776.6

Maturities of long-term debt are as follows:

	First Mortgage Bonds	Installment Purchases and Capital Leases	Other	Total
1980	$ 29.2	$ 6.5	$6.7	$ 42.4
1981	29.3	8.0	9.0	46.3
1982	28.7	8.2	3.8	40.7
1983	28.6	8.6	2.0	39.2
1984	37.3	9.5	1.2	48.0
1985	37.3	8.9	1.3	47.5
1986-2009	311.8	222.3	8.8	542.9

The First Mortgage Bonds were issued in series and have annual sinking fund requirements. Bonds of additional series may be issued subject to certain restrictive covenants of the Mortgage.

Installment purchase obligations at December 31, 1979 include $119.3 for West German mark obligations which are subject to the actual interest expense incurred by the lender which at present is approximately 8%.

Under the terms of the indenture relating to the First Mortgage Bonds, liens exist on approximately 72% of the net book value of property, plant and equipment, while installment purchase obligations, capitalized leases and other long-term debt are collateralized by the remaining carrying value.

Note E—Convertible Subordinated Debentures

The Company has authorized and issued 4½% Debentures due March 1, 1991 and 5% Debentures due June 1, 1988. Information relating to these securities at December 31, 1979 and 1978 is as follows:

	4½% 1979	4½% 1978	5% 1979	5% 1978
Authorized and issued	$75.0	$75.0	$50.0	$50.0
Outstanding	61.0	64.5	45.3	50.0
Conversion price per share	59.14	59.14	44.76	44.76
Annual sinking fund requirements:				
Amount	3.5	3.5	2.5	
Required through	1990		1987	

In 1979 the Company prepaid $5.7 million of these 1980 sinking fund requirements of $6 million.

GULF & WESTERN INDUSTRIES, INC. (JUL)

	1979	1978
Long-Term Debt, less current maturities—Notes A and E	$1,595,030,000	$1,425,710,000
Minority Interest	221,528,000	186,697,000
Convertible Subordinate Debt, less current maturities—Note E	277,892,000	280,495,000

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 Subordinate Debt

July 31	1979	1978
Long-term debt includes:		
Notes payable to institutional investors, interest 5¾% to 11%, averaging approximately 8.18%, due 1980 to 2002	$333,390,000	$ 312,318,000
6% subordinated debentures due 1980 to 1988	36,203,000	41,647,000
7% subordinated debentures due 2003, net of unamortized discount of $75,069,000 at July 31, 1979 and $75,720,000 at July 31, 1978 (effective average interest rate of 11%)	156,419,000	155,769,000
5% Eurodollar debentures due 1980 to 1988, convertible into common stock of the Company at $19.46 a share	41,934,000	43,034,000
Eurodollar notes and debentures, interest 8¼% to 9¾%, averaging approximately 9.11%, due 1980 to 1985	144,269,000	110,000,000
Notes payable to banks due 1980 to 2004:		
Interest at or above (primarily ¼% to 1¼%) the prevailing prime rates	171,087,000	30,898,000
Interest at or above (primarily ¼% to 1⅛%) the prevailing prime rates, with effective interest limited to a maximum of 7½% to 10½% from date of note to date of interest payment	100,000,000	120,000,000
Interest at 115% to 120% of the prevailing prime rates		55,000,000
Interest 5¼% to 13.69%, averaging approximately 8.62%.	399,699,000	356,161,000
Short-term obligations subsequently refinanced with 9.6% notes due 1999	34,750,000	
Other notes and debentures, interest 3% to 12%, averaging approximately 6.60%, due 1980 to 2027, net of unamortized discount of $5,796,000 at July 31, 1979 and $6,063,000 at July 31, 1978	165,766,000	175,428,000
Obligations under capital leases	92,664,000	75,500,000
	$1,676,181,000	$1,475,755,000
Less current maturities	81,151,000	50,045,000
	$1,595,030,000	$1,425,710,000
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 103% of face	$ 249,117,000	$ 249,117,000
5¼% notes, due 1980 to 1987, convertible into common stock of the Company at $17.14 a share, may be redeemed at 102.1% of face	12,878,000	12,878,000
5½% notes, due 1980 to 1987, convertible into $2.50 Series D convertible preferred stock of the Company at $87.50 a share, may be redeemed at 103.22% of face	18,500,000	20,000,000
	$ 280,495,000	$ 281,995,000
Less current maturities	2,603,000	1,500,000
	$ 277,892,000	$ 280,495,000

Maturities of long-term and convertible subordinated debt (including the present value of obligations under capital leases as set forth in Note 1) during the five years ending July 31, 1984 are:

1980	$83,754,000
1981	139,799,000
1982	113,529,000
1983	195,984,000
1984	139,457,000

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 was $133,000,000 at July 31, 1979.

The conversion prices of convertible debt are subject to anti-dilution provisions.

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.

TABLE 2-26: CREDIT AGREEMENTS

	1979	1978	1977	1976
Disclosing credit agreement.	450	422	418	382
Not disclosing credit agreement	150	178	182	218
Total Companies	**600**	**600**	**600**	**600**
Compensating Balances	272	273	272	259

AEL INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Line of credit

During fiscal year 1979, aggregate short-term borrowings averaged $2,829,000 at an average interest rate of 11.2% and did not exceed $7,790,000 at any month-end. During fiscal year 1978, aggregate short-term borrowings averaged $1,274,000 at an average interest rate of 9.2% and did not exceed $3,020,000 at any month-end.

On April 12, 1979 the Company and its principal lending institutions amended a Credit Agreement dated February 24, 1978 and extended its terms through June 30, 1980, under which the Company may borrow funds or obtain letters of credit not to exceed $13 million. Borrowed funds bear interest at 1% above the prime rate and a commitment fee of ½ of 1% is charged on the unused portion of the line of credit. The Agreement also requires the payment of an annual availability fee calculated by applying 10% of the average prime rate to the total amount of the line. One half of this fee is subject to a reduction for average bank balances maintained. The line is collateralized by receivables and inventories. At any time prior to July, 1980, the Company has the option of converting borrowings of $5 million into a five year term loan with interest at 2% over prime.

At February 23, 1979, $10,991,000 of the line was utilized ($6,400,000 in borrowed funds and $4,591,000 in outstanding letters of credit). Based upon the Company's intent to exercise the conversion option in the agreement, $5,000,000 has been classified as noncurrent at February 23, 1979 (see Note 4).

The provisions of the credit agreement prohibit the Company from paying cash dividends.

CENTRONICS DATA COMPUTER CORP. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Long-term debt

Long-term debt consists of the following:

	1979	1978
1978 term notes.....................	$19,166,667	$15,000,000
Revolving credit notes...............	27,000,000	13,450,000
Bank note, payable July 1980 (interest ranging from 11.4% to 108½% of prime rate)...........	10,000,000	—
	56,166,667	28,450,000
Less current portion	3,333,332	625,000
	$52,833,335	$27,825,000

During January 1979, the Company entered into a restated financing agreement with three domestic banks. The agreement provides the Company with up to $27,000,000 of long-term revolving credit and $20,000,000 of term loans. Revolving credit notes bear interest at 108½ percent of prime rate and mature on March 31, 1981. At maturity, in accordance with the terms of the financing agreement, the then outstanding revolving credit notes will be converted into term loans which will be payable in sixteen equal quarterly installments commencing June 30, 1981. The term loans are payable in twenty-four equal quarterly installments beginning June 30, 1979, maturing on March 31, 1985 with interest payable quarterly at rates ranging from 9¼ percent to 112 percent of prime rate.

A commitment fee of ½ of 1 percent per annum is payable quarterly on the average daily unused portion of each bank's commitment on the revolving credit loans. In addition, compensating balance arrangements related to the revolving credit loans require the Company to maintain average daily free collected balances of at least 8½ percent of revovling credit loan commitments. Any deficiencies in maintaining such compensating balances are subject to an interest charge computed at the average prime rate, since withdrawal of the compensating balance is not legally restricted.

The terms of the financing agreement include requirements, among other things, for working capital, tangible net worth and minimum liquidity (as defined) and limitations on debt and liens, investments and leases.

Maturities of long-term debt for the five-year period ending June 30, 1984 are as follows: 1980—$3,333,332; 1981—$15,020,832; 1982—$10,083,332; 1983—$10,083,332 and 1984—$10,883,332.

DANA CORPORATION (AUG)

COMMENTS ON FINANCIAL STATEMENTS

Lines of Credit

Short-term funds for foreign operations are obtained through bank overdrafts and short-term notes payable with banks and amounted to $43,261,000 and $37,768,000 at August 31, 1979 and 1978. Domestically, short-term funds are obtained through the issuance of commercial paper and bankers acceptances. Selected details of domestic short-term borrowings are as follows:

	Amount	Weighted Interest Rate
Commercial Paper at August 31, 1979	$15,000,000	10.7%
Average during the year	8,438,000	9.8
Maximum during the year (month end)	20,000,000	8.8
Balance at August 31, 1978	None	
Average during the year	1,657,000	7.3
Maximum during the year (month end)	10,035,000	7.1
Bankers Acceptances at August 31, 1979	$18,000,000	9.9%
Average during the year	2,769,000	9.9
Maximum during the year (month end)	18,000,000	9.9
There were no Bankers Acceptances in fiscal 1978.		

Dana has open lines of credit with various U.S. banks which aggregate $125,000,000. Under certain of the open lines Dana is to maintain on deposit with the banks compensating balances, computed on an annual average, of 10% of the lines of credit plus up to 10% of the outstanding loan balances. The compensating balance requirements have been fulfilled without any restrictions on the cash balances of Dana. No borrowings were made against these lines of credit in 1979 and 1978.

EX-CELL-O CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Lines of Credit

The Company and subsidiaries had available short-term lines of credit at November 30 as follows:

	Domestic	Foreign
	(Thousands of dollars)	
1979		
Total	$34,000	$23,380
Unused	34,000	21,330
1978		
Total	$40,000	$17,450
Unused	40,000	16,425

Under informal arrangements with U.S. banks, the Company was required to maintain average compensating balances of approximately $3,175,000 and $4,515,000 in 1979 and 1978, respectively. Compensating balances related to arrangements with certain of the U.S. banks are subject to increase as the lines are utilized. Lines of credit with foreign banks do not require compensating balances. The average amount of short-term debt outstanding during fiscal 1979 was $258,000 with domestic banks and $1,605,000 with foreign banks and was $2,858,000 with domestic banks and $563,000 with foreign banks in fiscal 1978. The related weighted average interest rates were 13.7% and 8.5% for 1979 and 1978, respectively. These rates were computed using average daily balances for domestic borrowings and month-end balances for foreign borrowings. The maximum amount of short-term debt outstanding at any month end during fiscal 1979 was $2,000,000 with domestic banks and $2,186,000 with foreign banks ($29,500,000 and $1,990,000 respectively, in 1978). The required compensating balances were $2,100,000 and $3,800,000 at November 30, 1979 and 1978, respectively.

GENERAL HOST CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Long-Term Debt

During 1979 the Company entered into a credit agreement with a group of banks under which the Company may borrow up to $45,000,000, with interest at the prime rate through March 31, 1981 and at ¼ of 1% above the prime rate thereafter through September 30, 1982, at which time the outstanding balance is convertible into a three year term loan bearing interest at ½ of 1% above the prime rate and payable quarterly commencing December 31, 1982. The credit agreement requires a commitment fee of ½ of 1% of the daily average unused portion of the available credit. In addition, the Company is required to maintain compensating balances of 5% of the credit available under the agreement and an additional 7% of borrowings outstanding under the agreement. The agreement requires the Company to maintain certain minimum levels of working capital and shareholders' equity as well as certain minimum financial statement ratios.

At December 29, 1979, the Company also had available unsecured short-term lines of credit under which $10,000,000 may be borrowed at the prime rate from various banks. These arrangements require the Company to maintain average compensating balances equal to 7½% of the credit lines plus 7½% of any borrowings thereunder. During 1979, the Company borrowed $7,500,000 under short-term lines of credit for a 30 day period at an average interest rate of 13.4%.

At December 29, 1979, notes payable to banks include an $8,000,000 revolving loan which bears interest at the prime rate through June 30, 1982, at which time the outstanding balance is convertible into a three year term loan bearing interest at ¼ of 1% above the prime rate and payable monthly. On January 31, 1980, the Company decided to repay the $8,000,000 balance that was outstanding and accordingly that amount is included in the current portion of long-term debt at December 29, 1979. The Company is required to maintain compensating balances of 10% of the commitment under this agreement plus 10% of any indebtedness outstanding under the agreement, as well as certain minimum levels of working capital, shareholders' equity and tangible net worth.

In addition, a $2,740,000 bank loan requires a compensating balance of 10% of the outstanding loan amount.

Under the most restrictive convenant in any of the above agreements, at December 29, 1979, total shareholders' equity exceeded the required minimum levels by approximately $24,000,000.

GRUMMAN CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4—Revolving Credit Agreement

The Company's Revolving Credit and Term Loan Agreement, as amended, with a group of nine banks provides for an unsecured revolving line of credit totaling $150,000,000 until December 31, 1980, at which time the outstanding balance will be converted to a term loan repayable in twenty equal quarterly installments.

Additionally, letter agreements between the Company and each of the banks provide lines of credit for short-term needs, totaling $50,000,000.

Borrowings bear interest at ¼% over prime, with a commitment fee of ½% per annum on the average unused portion of the bank credit.

The agreement includes covenants limiting certain activities of the Company, which covenants can be changed with prior consent of the majority of the banks. Among these covenants are restrictions as to mergers, additional debt, expenditures for capital assets, sale of capital assets, and lease obligations. Under the agreement, as amended, the amount of the Company's retained earnings which may be used to pay cash dividends on capital stock or to purchase its own capital stock may not exceed $10,000,000 (increased from $6,500,000 as of September 1, 1979) plus 40% of net earnings computed on a cumulative basis from December 31, 1977. The restriction does not apply to the payment of dividends on and mandatory sinking fund retirements of the Company's current outstanding preferred stock. The Company is also permitted to expend up to $5,000,000 in addition to the annual mandatory sinking fund amounts to redeem or retire its $2.80 cumulative preferred stock in any twelve-month period, commencing on November 15, 1984. There is no restriction under the agreement on dividends payable in capital stock of the Company. The unrestricted amount of retained earnings available under the agreement for cash dividends at December 31, 1979 was $6,093,438.

In addition, minimum amounts of consolidated working capital and consolidated net worth are to be maintained by the Company. The agreement provides that failure to meet these tests, the occurrence of a material adverse change in the financial condition of the Company, or 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 the letter agreements, 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 balances, net of float, at December 31, 1979, amounted to $13,354,000.

IOWA BEEF PROCESSORS, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C: Credit Arrangements

Pursuant to a revolving credit and term loan agreement dated June 30, 1979 the Company may, on an unsecured basis, borrow and repay from time to time before July 1, 1982, amounts which cannot exceed $50,000,000. Any amounts borrowed under the agreement at June 30, 1982, must be converted to a term loan payable in sixteen equal quarterly installments commencing September 30, 1982.

Interest is payable monthly at the higher of the prime commercial rate or ½ of 1% over the average rate for certificates of deposit through June 30, 1982, and thereafter at 105% of this fluctuating rate. Commitment fee of ½ of 1% on the average unused portion of the commitment is payable quarterly. The Company has informally agreed to maintain unrestricted compensating cash balances at 5% of the commitment plus 5% of the amount borrowed.

The highest month-end balance in 1979 was $20,000,000, which was outstanding at November 3, 1979. This was repaid subsequent to year end. During 1978 the highest month-end balance was $20,000,000. The average balance outstanding under the term loan agreement was nominal during both years.

Interest charged to earnings consisted of the following:

	1979	1978
Interest costs incurred	$ 7,333,000	$ 5,783,000
Interest capitalized on construction	(368,000)	(756,000)
Interest income	(4,927,000)	(1,979,000)
	$ 2,038,000	$ 3,138,000

THE MACKE COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Short-term Borrowings and Lines of Credit:

The Company has an $8,000,000 Revolving Credit Agreement with a group of banks. The Agreement consists of three years of revolving credit convertible at any time through May 31, 1981, to a four year term loan. Borrowings under the Agreement bear interest at the prime rate for the revolving credit portion and prime plus ½% for the term portion. At September 30, 1979, $4,500,000 in borrowings existed under the Revolving Credit Agreement, of which $1,000,000 was repaid during October 1979. All borrowings under the Agreement are classified as long-term obligations since the Agreement does not require repayment during the following year. In addition, as of September 30, 1979, the Company had informal lines of credit, at the prime interest rate, of $3,000,000 of which $2,100,000 was used. The maximum amount outstanding and the average outstanding balance during 1979, under both the revolving credit and lines of credit agreements, were $6,600,000 and $1,033,000 respectively, and the weighted average interest rate on the borrowings during 1979 was 12.3%.

All compensating balance arrangements are informal and do not legally restrict the withdrawal of funds. Under the revolving credit and line of credit agreements, the Company maintains average compensating balances of 10% on the unused portion of the commitments and 15-20% on any borrowings. A commitment fee of ½% is required on all unused balances under the Revolving Credit Agreement. During 1979, the Company's estimated bank float was sufficient to cover the average compensating balances maintained.

METPATH INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Long-term debt:

Long-term debt consists of the following:

	1979	1978
Revolving credit bank notes	$13,500,000	$ —
Term loan	10,000,000	10,000,000
8½% convertible debentures.......	—	2,500,000
Construction loan, converted into permanent mortgage during 1979.............................	—	6,000,000
9¼% mortgage payable, due in monthly installments including interest of $65,000 through February, 2011......................	7,975,000	—
Obligations under capital leases, due in monthly installments (including interest of approximately 6½% to 20½% per annum), of approximately $124,000 in 1980, $93,000 in 1981, $54,000 in 1982 and 1983, and $30,000 thereafter to 1986 with final payments of $150,000 in 1980, $35,000 in 1981 and $110,000 in 1983	3,687,000	4,804,000
Other	290,000	370,000
	35,452,000	23,674,000
Less current portion	1,221,000	1,077,000
	$34,231,000	$22,597,000

Effective May 31, 1979, as amended September 30, 1979, the Company entered into a Revolving Credit and Term Loan Agreement, which provides that the Company may borrow up to $17,000,000 and may convert into a term loan any portion of this $17,000,000 on March 31, 1982. The term loan is repayable in 16 equal quarterly installments commencing on June 30, 1982. Interest is payable until March 31, 1982 at ⅜% above the alternate base rate, which is the higher of (i) the Citibank prime rate or (ii) ½% above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks. From April 1, 1982 to March 31, 1984 and from April 1, 1984 to maturity, the interest rate is ¾% and 1%, respectively, above the alternate base rate. A commitment fee of ½% per annum is payable through March 31, 1982 on the unused portion of the banks' commitment.

In connection with the agreement the Company is required to maintain compensating balances with the participating banks, which balances are unrestricted and may be drawn for daily operations as needed. At September 30, 1979 and 1978 the Company had compensating cash balances of approximately $3,395,000 and $3,963,000 respectively, on the banks' books, including "float" (the difference between the balances shown on the books of the Company and the records of the bank) of $1,774,000 and $1,860,000.

On September 29, 1978, the Company borrowed $10,000,000 from a bank under a Term Loan Agreement which is repayable in 16 equal semi-annual installments commencing on March 31, 1981. Interest is payable until September 30, 1985 at 9½% per annum and from October 1, 1985 to maturity at ¾% over prime, as defined. The Company may prepay the note in integral multiples of $250,000 at any time.

The loan agreements contain, among other provisions, requirements for maintaining certain working capital and financial ratios and restrictions on cash dividends (which are limited to 20% of net income earned after October 1, 1976), making certain investments and incurring certain indebtedness. Net income available for dividends at September 30, 1979 amounted to $128,000.

In connection with the acquisition of D.S.I. in January 1978, the Company issued a $2,500,000 8½% convertible subordinated debenture due January 9, 1983. The debenture was converted into 100,000 shares of common stock at $25.00 per share during 1979.

HERMAN MILLER, INC. (MAY)

NOTES TO CONSOLIDATED STATEMENTS

Note 3: Short-term Borrowings

An analysis of the lines of credit with various banks and related short-term borrowings of the Company and its subsidiaries is shown below.

Description	Line of Credit	Amount Outstanding 1979	1978
Domestic currency lines...............	$ 7,500,000	$ —	$ 6,000,000
Multi-currency line for European subsidiaries	5,000,000	2,830,000	3,818,000
Canadian currency line................	850,000	680,000	406,000
	$13,350,000	$3,510,000	$10,224,000

Under an informal agreement with one bank, the Company agrees to maintain average compensating balances of 10% of a $6,000,000 line of credit plus 5% of the amount borrowed pursuant to that line.

Borrowings under the multi-currency line for European subsidiaries and borrowings under the Canadian currency lines are guaranteed by the Company.

Other pertinent data with respect to short-term borrowings during the past two years is as follows:

	1979	1978
Average borrowings during the year	$ 5,529,000	$ 7,290,000
Maximum amount outstanding during the year......................	$12,414,000	$16,255,000
Weighted average interest rate on borrowings—		
During the year..................	11.2%	8.2%
At year-end	12.0%	8.6%

MOTOROLA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Long-Term Debt: Long-term debt at December 31 consisted of the following:

(Dollars in thousands)	1979	1978
Debt outside the United States:		
Notes supported by revolving credit commitments from banks (generally at prevailing prime rates)...	$ 78,387	$ 14,632
Notes payable (generally at prevailing prime rates) due in installments to 1991	29,957	22,924
4½% convertible guaranteed debentures due July 1, 1983	4,540	5,583
Debt in the United States:		
8% sinking fund debentures due October 1, 2007	$ 99,723	$ 99,713
Commercial paper supported by revolving credit commitments from banks	66,423	41,368
Notes (generally at prevailing prime rates) supported by revolving credit commitments from banks .	6,889	—
4¾% debentures due April 1, 1986 (net of debentures held by the company for sinking fund payments: $5,242 at December 31, 1979; $4,739 at December 31, 1978)............................	13,258	15,261
Capitalized lease obligations retired in 1979............................	—	3,071
	299,177	202,552
Less current maturities, included in current liabilities..................	3,549	4,461
Net long-term debt	$295,628	$198,091

The 4½% convertible guaranteed debentures (issued by Motorola International Development Corporation) are convertible into common stock of Motorola, Inc., at the rate of 25.2 shares for each one thousand dollar principal amount, subject to adjustment in certain events, and are guaranteed as to the payment of principal and interest by Motorola, Inc. The debentures are redeemable at various dates at redemption prices reducing from 100.5% to 100% of the principal amount thereof. For the year ended December 31, 1979, $1,043 thousand in debentures ($1,325 thousand for the year ended December 31, 1978), were converted into 26,279 shares (33,386 in 1978). At December 31, 1979, there were 114,505 shares (140,784 at December 31, 1978) of Motorola, Inc., common stock reserved for issuance upon conversion of these debentures.

The 8% sinking fund debentures due October 1, 2007, are redeemable at various dates at redemption prices reducing from 107.1% to 100% of the principal amount thereof. Annual sinking fund payments are required beginning October 1, 1988, in installments of $5 million sufficient to retire 95% of the issue prior to maturity.

Under the terms of the revolving credit agreement, which were amended in 1979, the full amount of the agreement ($220 million) extends through June 30, 1983, with $31 million in equal semi-annual reductions thereafter. Any borrowings through June 30, 1982, will be at the prevailing prime commercial rate of interest, for the next two years at the prevailing prime commercial rate of interest plus ¼% and for the last two years at the prevailing prime commercial rate of interest plus ½%. It is the intention of the company to maintain the availability of the revolving credit agreement during 1980, and therefore the debt, both domestic and foreign, is classified as long-term. Domestic debt refers to outstanding commercial paper and other short-term borrowings, whereas foreign debt refers to short-term borrowings undertaken for interest arbitrage or foreign currency exposure management considerations, the repayment of which is not subject to domestic or foreign exchange control limitations.

The revolving credit agreement restricts retained earnings available for payment of cash dividends. At December 31, 1979, approximately $445 million ($329 million at December 31, 1978) of retained earnings were not restricted for dividend payments. The revolving credit agreement also requires the company to maintain a ratio of consolidated current assets to consolidated current liabilities of not less than 1.75:1.00 (actual was 2.35:1.00 at December 31, 1979) and consolidated net working capital (as defined) of not less than $325 million (actual was $709 million at December 31, 1979).

The aggregate maturities and sinking fund requirements for long-term debt during the next five years are as follows:

1980	1981	1982	1983	1984
$3,549	$4,971	$5,103	$9,351	$32,444

In 1984 maturities and sinking fund requirements include $24.7 million of commercial paper and foreign notes payable supported by revolving credit commitments.

NORTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Short-term Borrowing Arrangements

At December 31, 1979, the Company had available, from a number of United States and foreign banks, lines of credit at interest rates approximating the prime borrowing rate in effect in each country. Significant financial data related to the

Company's short-term borrowings and lines of credit are as follows (in thousands):

	1979		1978	
	Domestic	International	Domestic	International
Total lines of credit available	$24,000	$97,998	$24,000	$95,213
Borrowings outstanding at end of period	$ 542	$50,867	$ 1,500	$44,659
Weighted average interest rate on loans outstanding at end of period	15.5%	22.4%*	11.7%	12.6%
Average monthly short-term borrowings (determined by averaging the month-end balances)	$ 521	$54,406	$ 1,929	$44,383
Weighted average interest rates (Determined by dividing interest expense by the average short-term borrowings)	13.6%	16.2%	8.2%	11.5%
Maximum amount borrowed during each period	$ 4,800	$66,222	$ 3,420	$49,058

*Includes Brazilian interest rate of approximately 50%.

The effect of compensating balances is immaterial.

TABLE 2-27: LONG TERM LEASES

	Number of Companies			
	1979	1978	1977	1976
Information Disclosed as to Noncapitalized Leases				
Rental expense				
Basic	436	448	440	393
Sublease	108	113	122	78
Contingent	112	117	109	70
Minimum rental payments				
Schedule of	424	423	425	290
Classified by major categories of property	40	41	86	164
Renewal or purchase options	151	152	124	69
Information Disclosed as to Capitalized Leases				
Minimum lease payments	280	265	173	N/C
Imputed interest	254	227	151	N/C
Leased assets by major classifications	159	144	102	N/C
Executory costs	80	80	50	N/C
Number of Companies				
Capitalized and noncapitalized leases	352	314	274	164
Noncapitalized leases only	115	156	194	300
Capitalized leases only	70	46	59	37
No leases disclosed	63	84	73	99
Total Companies	**600**	**600**	**600**	**600**

N/C — Not Compiled.

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 and lessors. Although retroactive application of Statement No. 13 to leasing transactions entered into prior to January 1, 1977 is not required until fiscal years beginning after December 31, 1980, 35 survey companies in 1977, 69 in 1978, and 28 in 1979 restated their financial statements to give retroactive effect to the requirements of Statement No. 13. For financial statements filed with the Securities and Exchange Commission, the SEC requires retroactive application of Statement No. 13 (unless a violation of loan indenture restrictive clause would result) for fiscal years ending after December 24, 1978.

Table 2-27, in addition to showing the number of survey companies reporting capitalized and/or noncapitalized lessee leases, shows the nature of information most frequently disclosed by the survey companies for capitalized and noncapitalized lessee leases. Sixty-two survey companies reported lessor leases.

Examples of long term lease presentations and disclosures follow.

Lessee—Capitalized Leases

ALBERTSON'S, INC. (JAN)

Consolidated Balance Sheets

	1980	1979
Land, Buildings and Equipment:		
Land	$ 13,679,000	$ 13,125,000
Buildings	42,097,000	37,218,000
Fixtures and equipment	180,200,000	156,005,000
Leasehold improvements	40,621,000	36,298,000
Assets under capital leases	142,080,000	136,728,000
	418,677,000	379,374,000
Less accumulated depreciation and amortization	129,415,000	106,116,000
	$289,262,000	$273,258,000
Current Liabilities:		
Accounts payable	$135,337,000	$133,735,000
Salaries and related liabilities	13,935,000	13,948,000
Taxes other than income taxes	9,043,000	10,142,000
Interest payable	3,337,000	3,314,000
Taxes on income		14,505,000
Dividends payable	2,218,000	1,772,000
Current maturities of long-term debt	1,423,000	5,347,000
Current obligations under capital leases	3,362,000	2,343,000
Total Current Liabilities	168,655,000	185,106,000
Long-term Debt	85,748,000	85,078,000
Obligations Under Capital Leases	125,882,000	121,723,000

Consolidated Changes in Financial Position

Source of Funds:		
Operations:		
Net earnings	$ 38,323,000	$ 36,421,000
Add charges (credits) not requiring funds:		
Depreciation and amortization	23,956,000	19,455,000
Amortization of assets under capital leases	5,954,000	5,471,000
Amortization of deferred costs	836,000	1,455,000
Increase in deferred compensation	1,124,000	993,000
Decrease in deferred income taxes	(280,000)	(510,000)
Amortization of deferred investment credit	(1,682,000)	(1,269,000)
Working capital provided from operations	$ 68,231,000	$ 62,016,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capitalization, Depreciation and Amortization

Land, buildings and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the asset.

Average lives are as follows:

Buildings	32 years
Store equipment	8 years
Automotive equipment	6 years
Office equipment	8 years

The costs of major remodeling and improvements are capitalized as leasehold improvements. Leasehold improvements are amortized over the shorter of the life of the applicable lease or the life of the asset. Capital leases are recorded at the lower of fair value or the present value of future lease payments. These leases are amortized over their primary term. Deferred costs relating to opening new stores were previously amortized over three years. In 1977, the Company discontinued deferring these costs without a material effect. Maintenance, repairs and minor replacements are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases and Commitments

The Company leases most of its real estate. The typical lease period is 25 to 30 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.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. Contingent rents associated with capital leases in 1979 and 1978 were $1,795,000 and $1,591,000. Following is an analysis of the Company's assets under capital leases:

	January 31, 1980	February 1, 1979
Real estate	$136,214,000	$132,547,000
Equipment	5,866,000	4,181,000
	$142,080,000	$136,728,000
Accumulated amortization	$ 29,783,000	$ 25,600,000

Future minimum lease payments for the above assets under capital leases at January 31, 1980 are as follows (in thousands):

	Real Estate	Equipment	Total
1980	$ 14,907	$ 1,315	$ 16,222
1981	14,883	1,137	16,020
1982	14,802	1,096	15,898
1983	14,742	811	15,553
1984	14,548	636	15,184
Remainder	233,520	378	233,898
Total minimum obligations	307,402	5,373	312,775
Less executory costs	(1,445)		(1,445)
Net minimum obligations	305,957	5,373	311,330
Less interest	(180,809)	(1,277)	(182,086)
Present value of net minimum obligations	125,148	4,096	129,244
Less current portion	(2,521)	(841)	(3,362)
Long-term obligations at January 31, 1980	$122,627	$ 3,255	$125,882

Minimum obligations have not been reduced by minimum capital sublease rentals of $7,162,000 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:

	1979	1978
Minimum rent	$ 20,283,000	$ 17,462,000
Contingent rent	3,362,000	3,284,000
	23,645,000	20,746,000
Less sublease rent	(3,288,000)	(2,972,000)
	$ 20,357,000	$ 17,774,000

Future minimum lease payments for all noncancellable operating leases and related subleases having a remaining term in excess of one year at January 31, 1980 are as follows (in thousands):

	Real Estate	Equipment	Subleases
1980	$ 15,417	$ 4,275	$ (2,405)
1981	15,134	4,208	(2,015)
1982	15,755	2,683	(1,907)
1983	15,786	1,460	(1,714)
1984	15,632	1,223	(1,540)
Remainder	265,750	435	(7,589)
Total minimum obligations (receivables)	$343,474	$14,284	$ (17,170)

At January 31, 1980, the Company was committed under contracts and purchase orders for approximately $19,250,000 for property held for resale and for land, buildings and equipment.

CLUETT, PEABODY & CO., INC. (DEC)

	1979	1978
Plant and equipment (net of accumulated depreciation, 1979—$59,224,000; 1978—$55,402,000)	$48,456,000	$40,494,000
Assets recorded under capital leases (net of accumulated amortization, 1979—$9,957,000; 1978—$9,094,000) (Note 10)	26,844,000	23,390,000
Current liabilities:		
Notes payable	$ 8,282,000	$ 1,999,000
Current portion of long-term debt	3,332,000	3,373,000
Current portion of obligations under capital leases (Note 10)	1,048,000	934,000
Accounts payable	44,394,000	38,714,000
Accrued expenses	27,640,000	23,414,000
Accrued taxes	6,456,000	4,469,000
Total current liabilities	91,152,000	72,903,000
Long-term debt		
Notes payable	54,401,000	33,445,000
4¼% Convertible subordinated debentures	1,229,000	1,536,000
Obligations under capital leases (Note 10)	27,603,000	23,797,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leases—Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

NOTES TO FINANCIAL STATEMENTS

Note 10: Leases

Assets recorded under capital leases consist of the following:

December 31	1979	1978
	(Thousands of dollars)	
Distribution centers	$14,379	$14,585
Retail stores	9,913	9,913
Manufacturing plants	11,514	6,665
Other	995	1,321
	36,801	32,484
Less accumulated amortization	9,957	9,094
Assets recorded under capital leases	$26,844	$23,390

At December 31, 1979, future minimum payments under noncancellable leases are as follows:

	Capital Leases	Operating Leases
Year ending December 31:	(Thousands of dollars)	
1980	$ 3,266	$ 5,272
1981	3,275	3,692
1982	3,152	3,580
1983	2,973	3,185
1984	2,927	2,725
Later years	48,646	17,671
Total minimum lease payments	64,239	$37,125
Less taxes, insurance and maintenance	3,462	
Net minimum lease payments	60,777	
Less amount representing interest	32,126	
Present value of net minimum lease payments	28,651	
Current portion of obligations under capital leases	1,048	
Long-term obligations under capital leases	$27,603	

Minimum payments required (principally under operating leases) have not been reduced by minimum sublease rentals of $1,972,000. Minimum payments also do not include contingent rentals which may be required to be paid under capital and operating leases based on various percentages of retail store sales in excess of stipulated amounts. Contingent rental payments under capital leases amounted to $279,000 in 1978.

A summary of rental expenses for all operating leases is as follows:

	1979	1978
	(Thousands of dollars)	
Minimum rentals	$7,288	$6,304
Contingent rentals	1,193	793
	8,481	7,097
Less sublease rentals	2,434	2,272
Rental expense	$6,047	$4,825

Operating leases are for distribution centers, retail stores, manufacturing plants, office space and various types of equipment.

Certain capital and operating leases contain (i) options to purchase the leased property at prices generally representing the probable fair value of the property at the times of permitted acquisition and (ii) renewal options for periods of from one to twenty years at fair rental value at the time of renewal. Capital and operating leases expire at various dates through 2014 and 2028, respectively.

JANTZEN INC. (AUG)

	1979	1978
Current Liabilities:		
Notes payable to banks	$ 2,790,916	$ 1,275,082
Current portion of long-term debt	611,692	610,903
Current portion of capitalized lease obligations—Note 4	174,163	302,714
Accounts payable	9,337,664	10,348,940
Accrued payroll and commissions	2,324,581	1,382,575
Other accrued expenses	1,475,153	1,159,237
Income taxes	172,729	3,156,256
Total Current Liabilities	16,886,898	18,235,707
Long-Term Debt	10,226,977	10,838,669
Capitalized Lease Obligations—Note 4	2,197,452	2,371,615

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Operations and Significant Accounting Policies:

Plant, Equipment, and Depreciation—Plant and equipment is stated at cost. Depreciation is generally computed under accelerated depreciation methods over estimated useful lives of 25 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. The amortization of assets recorded under capital leases is included with depreciation. The cost of replacements and significant betterments are added to plant and equipment. Gains or losses on sales or retirements of plant and equipment are credited or charged to income.

Note 4: Capitalized Lease Obligations:

Leases that meet the criteria of capital leases have been capitalized and the related assets are included in plant and equipment in the following amounts at August 25, 1979 and August 26, 1978:

	1979	1978
Land	$ 257,800	$ 257,800
Buildings and improvements	2,068,000	2,068,000
Machinery and equipment	1,276,200	1,276,200
	3,602,000	3,602,000
Less accumulated depreciation	1,205,000	1,035,000
	$2,397,000	$2,567,000

Minimum future obligations on capitalized lease obligations in effect at August 25, 1979, are as follows:

1980	$ 334,353
1981	275,148
1982	269,229
1983	267,191
1984	265,705
Thereafter through 1994	2,316,726
Total minimum lease payments	3,728,352
Less amount representing interest	1,356,737
Present value of net minimum lease payments	2,371,615
Less current portion	174,163
Long-term obligation at August 25, 1979	$2,197,452

The interest rates for capitalized leases vary from 5.65% to 7.46%.

MELVILLE CORPORATION (DEC)

Balance Sheet

	1979	1978
Property, plant, equipment and leasehold improvements, at cost:		
Land	$ 2,641,714	$ 2,214,581
Buildings	20,615,061	17,921,175
Machinery and equipment	11,131,052	11,055,967
Store and office fixtures, improvements to leased properties and miscellaneous equipment	261,943,018	221,657,640
	296,330,845	252,849,363
Less accumulated depreciation and amortization	127,117,623	113,462,891
Net property, plant, equipment and leasehold improvements	169,213,222	139,386,472
Deferred charges and other assets.	2,142,030	2,352,952
Leased property under capital leases, net of amortization (note 8)	33,094,050	29,696,864
Current liabilities:		
Accounts payable and accrued expenses	$175,176,546	$160,111,323
Federal income taxes	24,935,061	18,237,778
Current installments on long-term debt	2,734,437	6,023,150
Current installments of obligations under capital leases (note 8)	1,159,936	902,843
Total current liabilities	204,005,980	185,275,094
Long-term debt	48,705,385	40,653,137
Obligations under capital leases (note 8)	37,268,904	33,177,215

Consolidated Statements of Changes in Financial Position

Source of Funds:		
Net earnings	$101,174,022	$ 87,987,472
Expenses not requiring outlay of working capital:		
Depreciation and amortization:		
Fixed assets owned	21,268,276	20,421,961
Leased property under capital leases	2,027,253	1,667,306
Amortization of goodwill	767,526	757,365
Minority interests in net earnings	24,585,595	21,589,176
Increase in deferred Federal income taxes	205,916	758,829
	$ 48,854,566	$ 45,194,637

Note 8: Leases

The Company and its subsidiaries lease various retail stores, warehouses, plant and office facilities generally over periods ranging from 5 to 25 years with options to renew such terms from 5 to 15 years.

Leased property under capital leases includes:

	1979	1978
Retail facilities	$16,718,437	$12,218,315
Warehouse, plant and office facilities	27,091,047	26,166,730
	43,809,484	38,385,045
Less accumulated amortization	10,715,434	8,688,181
	$33,094,050	$29,696,864

At December 31, 1979, the future minimum lease payments under capital leases, rental payments required under operating leases, and the future minimum sublease rentals are as follows:

	Capital Leases	Operating Leases
1980	$ 4,658,869	$ 61,597,729
1981	4,637,501	60,102,358
1982	4,626,101	56,713,573
1983	4,626,101	53,478,709
1984	4,595,085	40,369,017
Thereafter	56,428,934	337,568,051
Total	79,572,591	$609,829,437
Less amount representing interest	41,143,751	
Present value of minimum lease payments	$38,428,840	
Total future minimum sublease rentals		$ 5,067,833

The following schedule shows the total rental expense for all operating leases:

	1979	1978
Minimum rentals	$ 61,743,512	$ 54,976,413
Contingent rentals	92,143,412	80,268,559
	153,886,924	135,244,972
Less sublease rentals	941,993	789,808
	$152,944,931	$134,455,164

Contingent rentals consist primarily of rentals for leased shoe departments operated under license agreements with K mart Corporation. These license agreements are for a term of 25 years and provide for rent payments based upon sales with additional rentals based upon profits. The agreements also provide for the maintenance of certain performance standards based on sales and profitability which become operative commencing with the eleventh year of the agreements. Remaining contingent rentals relate to other Company operations and are based only on sales. Contingent rentals under capital leases amounted to $327,538 in 1979 and $274,044 in 1978.

BEMIS COMPANY, INC. (DEC)

	1979	1978
	($000)	
Owned property and equipment, at cost:		
Land and land improvements	$ 5,977	$ 6,988
Buildings and leasehold improvements	50,386	57,846
Machinery and equipment	167,870	189,106
	224,233	253,940
Less—accumulated depreciation and amortization	89,393	98,809
	134,840	155,131
Leased property and equipment:		
Land	230	230
Buildings	12,518	12,518
Machinery and equipment	4,573	5,844
	17,321	18,592
Less—accumulated amortization	5,844	5,742
	11,477	12,850
Current liabilities:		
Bank borrowings	$ 1,057	$ 1,097
Current portion of long-term debt	2,800	908
Current portion of obligations under capital leases	1,545	835
Accounts payable	62,666	53,298
Accrued liabilities:		
Salaries and wages	14,252	9,918
Federal income taxes	2,674	3,257
Other taxes	7,760	5,682
Total current liabilities	92,754	74,995
Long-term debt, less current portion	67,830	78,940
Long-term obligations under capital leases, less current portion	10,935	12,745
Deferred income taxes	21,375	19,911
Total liabilities	$192,894	$186,591

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7—Long-Term Leases:

All noncancelable leases have been categorized as capital or operating leases in conformity with the definitions in Statement of Financial Accounting Standard No. 13, Accounting for Leases. The Company has leases for manufacturing plants, warehousing, machinery and equipment and administrative offices with terms (including renewal options) ranging from one to fifty years. Under most leasing arrangements, the Company pays the property taxes, insurance and maintenance and expenses related to the leased property. Amortization expense of property under capital leases was $843,000 in 1979 and $937,000 in 1978. Total rental expense under operating leases was $3,714,000 in 1979 and $3,346,000 in 1978.

Minimum future obligations on leases in effect at December 31, 1979, are as follows:

		Capital Leases		Operating Leases
	Total	Land and Buildings	Machinery & Equip.	
1980	$ 2,342,000	$ 1,443,000	$ 899,000	$2,212,000
1981	2,288,000	1,429,000	859,000	1,495,000
1982	2,178,000	1,349,000	829,000	773,000
1983	1,777,000	1,079,000	698,000	218,000
1984	1,189,000	709,000	480,000	143,000
1985-1989	3,678,000	2,778,000	900,000	263,000
1990-1994	2,419,000	1,768,000	651,000	136,000
1995-1999	1,793,000	1,536,000	257,000	5,000
Later	1,293,000	1,293,000	—	5,000
Total minimum obligations	18,957,000	13,384,000	5,573,000	$5,250,000
Less amount representing interest	6,477,000	4,963,000	1,514,000	
Present value of net minimum obligation	12,480,000	8,421,000	4,059,000	
Less current portion	1,545,000	991,000	554,000	
Long-term obligation at December 31, 1979	$10,935,000	$ 7,430,000	$3,505,000	

The present values of minimum future obligations shown above are calculated based on interest rates (ranging from 4% to 10% with a weighted average of approximately 6%) determined to be applicable at the inception of the leases. Interest expense on the outstanding obligation under capital leases was $873,000 in 1979 and $911,000 in 1978.

G. C. MURPHY COMPANY (JAN)

	1980	1979
Current liabilities:		
Accounts payable	$49,982,000	$75,290,000
Accrued expenses	12,546,000	13,193,000
Income taxes	3,490,000	2,751,000
Capital lease obligations	1,003,000	1,152,000
Dividend payable	1,263,000	1,256,000
Estimated liability related to closed facilities	1,223,000	3,978,000
Total current liabilities	69,507,000	97,620,000
Long-term debt	45,030,000	43,872,000
Capital lease obligations (Note 6)	32,154,000	31,162,000

Note 6 (in part): Leases

Company retail operations are conducted primarily in leased properties. Initial lease terms normally range from 15 to 25 years with renewal options generally being available. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other leases. Leases are primarily gross leases which provide for annual rentals that include executory expenses such as real estate taxes, insurance, common area and other operating costs which are paid by the lessor. The remaining leases are net leases which provide that the Company pay the abovementioned expenses. In addition, the Company subleases portions of certain stores and nearby facilities to subtenants whose operations are intended to complement its marketing strategy.

Certain leases have provisions which could require restoration of leased premises at the termination of the lease. The accounting for capital leases includes estimates for significant restoration obligations while restoration costs related to operating leases are accrued at the time they are reasonably determinable and it is considered probable that the Company will incur such costs. Included in 1979 cost of goods sold, including occupancy costs, is a charge of $1,246,000 resulting from a settlement in excess of the restoration liability previously recorded.

Total rent expense for operating leases, including estimated executory expenses of $3,235,000 and $3,731,000 respectively, was as follows:

	January 31, 1980	January 25, 1979
Minimum rentals	$23,340,000	$25,650,000
Contingent rentals	1,562,000	1,178,000
Subrental income	(3,242,000)	(3,123,000)
Contingent subrental income	(1,837,000)	(1,621,000)
Net rent expense	$19,823,000	$22,084,000

Contingent rent expense, which is based upon sales, includes $101,000 and $77,000 incurred on capital leases for fiscal years 1979 and 1978, respectively.

The following data excludes obligations with respect to leases related to terminated operations. The obligations under such leases have been accrued and are included in the estimated liability related to closed facilities.

Leased properties under capital leases by major category are as follows:

	January 31, 1980	January 25, 1979
Land and buildings	$21,482,000	$19,561,000
Buildings	11,482,000	13,263,000
Fixtures and equipment	1,482,000	1,900,000
In progress	2,000,000	3,461,000
	36,446,000	38,185,000
Less accumulated amortization	15,983,000	17,720,000
	$20,463,000	$20,465,000

Amortization of capital lease properties, determined on the straight-line basis over the lease term, amounted to $1,565,000 in 1979 and $1,575,000 in 1978 and has been included in depreciation and amortization expense.

Future minimum lease payments for properties under long-term leases as of January 31, 1980 are as follows:

Fiscal Year	Capital Leases	Operating Leases
1980	$ 3,306,000	$ 22,558,000
1981	3,397,000	21,863,000
1982	4,398,000	21,014,000
1983	5,831,000	20,323,000
1984	3,336,000	19,698,000
Thereafter	39,487,000	231,626,000
Total minimum lease payments	59,755,000	337,082,000
Less amount representing estimated executory costs	1,014,000	39,273,000
Net minimum lease payments	58,741,000	297,809,000
Less amount representing interest	25,584,000	151,236,000
Present value of net minimum lease payments	$33,157,000	$146,573,000

At January 25, 1979, the present value of net minimum lease payments on capital leases was $32,314,000.

The minimum lease payments shown above have not been reduced by the following rentals to be received from noncancelable subleases:

Fiscal Year	Capital Leases	Operating Leases
1980	$ 301,000	$ 2,735,000
1981	298,000	2,523,000
1982	298,000	2,342,000
1983	204,000	2,022,000
1984	105,000	1,070,000
Thereafter	179,000	7,265,000
Total minimum lease payments to be received	$1,385,000	$17,957,000

Lessee—Noncapitalized Leases

BRUNSWICK CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13: Leases

The Company has various lease agreements for Brunswick Center and other offices, branches, factories, distribution and service facilities, certain Company-operated bowling centers, and certain personal property. These obligations extend principally through 2029.

Most leases contain renewal options and some contain purchase options. Many leases for Company-operated bowling centers contain escalation clauses, and many provide for contingent rentals based on percentages of gross revenue. No leases contain restrictions on the Company's activities concerning dividends, additional debt, or further leasing.

Rent expense consisted of the following:

(dollars in thousands)	1979	1978
Basic expense	$22,400	$18,900
Contingent expense	1,100	1,400
Sublease income	(1,800)	(1,900)
Total rent expense	$21,700	$18,400

Future minimum rental payments at December 31, 1979, under agreements classified as operating leases with noncancelable terms in excess of one year, are as follows:

(dollars in thousands)	
1980	$10,900
1981	9,200
1982	7,500
1983	5,300
1984	3,900
Thereafter	24,000
Total future minimum operating lease rental payments (not reduced by minimum sublease rentals of $2,900)	$60,800

CONAGRA, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Commitments

Certain facilities are leased under agreements expiring at various dates during the next ten years. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Substantially all leases require payment of property taxes, insurance and maintenance costs in addition to rental payments.

Rent expenses charged to operations under cancelable and noncancelable lease arrangements was $8,283,000 for the year ended May 27, 1979 ($6,376,000 for 1978).

A summary of noncancelable operating lease commitments follows:

Fiscal Years Ending In	Type of Property Dollars in thousands Real Property	Transportation Equipment	Other
1980	$1,909	$2,882	$576
1981	1,806	2,191	243
1982	1,223	1,438	219
1983	1,137	772	21
1984	883	371	3
1985/1989	1,874	469	—
Remainder	150	—	—

For the most part, the Company's operations in Puerto Rico are supplied from the United States by ocean transportation under terms of a time charter. The current charter, which expires December 31, 1980, includes a provision for an upward and a downward adjustment of charges corresponding with changes in price levels; as well as a provision for standby charges as defined of approximately $6 thousand per day if, as, and when the equipment is not in use. Since the Company's demand for shipping is substantially in excess of the capacity of the equipment under charter, standby charges have not been incurred.

CONROY, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Lease Commitments

The Company leases certain trucks, machinery and warehouse and office space under operating leases which range from one month to five years. Total rental expense for all leases amounted to:

	1979	1978
Minimum Rentals	$814,925	$552,769
Contingent Rentals	—	91,162
Total Rental Expense	$814,925	$643,931

The contingent rentals are based on mileage of trucks in excess of a specified minimum.

Future minimum rentals under noncancellable operating leases as of August 31, 1979, are as follows:

1980	$283,785
1981	142,137
1982	116,974
1983	105,960
1984	88,584
Thereafter	14,764
Total Minimum Rentals	$752,204

DISCOUNT FABRICS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F: Commitments and Contingencies

All Company operations are conducted in leased facilities. Such leases generally provide for renewal options and percentage rentals if net sales exceed a specific minimum. Since all leases are operating leases, the lease obligations are not capitalized and lease expense is charged to earnings as incurred. Gross lease expense, sublease income and net lease expense for the years ended September 30, 1979 and 1978 were as follows:

	1979	1978
Lease expense	$1,871,000	$1,865,000
Subleases	(445,000)	(256,000)
Net lease expense	$1,426,000	$1,609,000

The following is a schedule by year of minimum future lease payments on noncancellable leases as of September 30, 1979:

	Lease Expense	Subleases	Net Expense
1980	$1,684,055	$ (335,404)	$1,348,651
1981	1,564,173	(297,396)	1,266,777
1982	1,296,540	(247,356)	1,049,184
1983	991,793	(164,359)	827,434
1984	658,648	(76,443)	582,205
1985-1989	1,402,624	(244,811)	1,157,813
1990-1994	25,570	—	25,570
	$7,623,403	$(1,365,769)	$6,257,634

POLAROID CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Rental Expense and Lease Commitments

Minimum annual rental commitments at December 31, 1979, under noncancellable leases, principally for real estate, are payable as follows:

(In thousands)	
1980	$12,500
1981	10,561
1982	8,498
1983	6,942
1984	6,042
1985 and thereafter	21,594
Total minimum lease commitments	$66,137

Minimum payments have not been reduced by minimum sublease rentals of $2,728,000 due in the future under noncancellable subleases.

Many of the leases contain renewal options and some contain escalation clauses which require payments of additional rent to the extent of increases in related operating costs.

Rental and lease expenses for 1979 and 1978 consisted of the following:

(In thousands)	1979	1978
Minimum rentals	$13,826	$11,042
Contingent rentals	11,247	8,715
Total	$25,073	$19,757

Sublease income in 1979 and 1978 was insignificant.

NATIONAL TEA CO. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Lease Commitments

The Company generally operates in leased premises and also leases some of its fixtures and equipment. Original noncancellable lease terms relating to stores typically range from twelve 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. Fixtures and equipment lease terms generally range from five to eight years. The Company recognizes lease commitments when the related asset is placed in service.

Total rent expense on all operating leases, both cancellable and noncancellable, net of $821,000 of sublease income, for the fifty-two weeks ended December 29, 1979, was $9,256,000 including $1,329,000 of contingent rentals. For the fifty-two weeks ending December 30, 1978, total rent expenses relating to operating leases, net of $429,000 of sublease income was $7,307,000 including $1,072,000 of contingent rentals.

The following table presents the minimum rental commitments at December 29, 1979, under capital and operating leases having a remaining noncancellable term of more than one year.

	Operating Leases	Capital Leases	Expected Sublease Income	Total
	(Amounts in thousands)			
1980	$ 13,984	$ 9,700	$ (5,229)	$ 18,455
1981	13,282	9,568	(4,777)	18,073
1982	11,377	9,330	(3,775)	16,932
1983	9,041	8,766	(2,869)	14,938
1984	7,238	7,814	(2,106)	12,946
Thereafter	56,929	55,236	(3,190)	108,975
	$111,851	$100,414	$(21,946)	$190,319
Less: Estimated Executory Costs		2,525		
Less: Amount Representing Interest		41,172		
Present Value of Net Minimum Capital Lease Payments		$56,717		

The commitments noted in the above table include obligations relating to closed facilities of $2,144,000 in excess of $21,946,000 of expected sublease income. In addition to the aforementioned lease commitments, there are approximately 58 leases which have been assigned to the Great Atlantic & Pacific Tea Company and 90 leases assigned to others. The gross contingent liability relating to such assigned leases is approximately $26,100,000 including $14,700,000 applicable to the A & P leases.

THE MOHAWK RUBBER COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H: Leases

The Company and its subsidiaries lease equipment and certain facilities used primarily for retail and warehouse operations. These leases extend for varying periods of time up to 15 years, and in some cases, contain renewal options. Future minimum rental payments for all operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

Year	Minimum Rental Payments
1980	$2,120,000
1981	1,840,000
1982	1,421,000
1983	1,072,000
1984	638,000
Later Years	1,897,000
	$8,988,000

Total rent expense charged to income for all operating leases was $3,462,000 in 1979 and $3,183,000 in 1978 which includes contingent rentals of $103,000 and $131,000, respectively. Contingent rentals are based upon usage of equipment in excess of specified minimums. Sublease rentals are not significant.

Lessor Leases

AMPCO-PITTSBURGH CORPORATION (DEC)

	1979	1978
Current assets		
Cash	$ 5,527,677	$ 2,830,256
Time deposits	305,211	569,253
Commercial notes, at cost which approximates market	10,650,000	—
Receivables, less allowance for doubtful accounts of $523,000 and $335,500	44,195,907	15,136,374
Current portion of net investment in sales-type leases	765,117	—
Inventories	80,907,999	26,053,018
Other	336,011	380,477
Total current assets	142,687,922	44,969,378
Investment in Pittsburgh Forgings Company	—	19,033,147
Net investment in sales-type leases	16,244,989	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (in part): Accounting for leases:

The Corporation, through a recently acquired subsidiary, is the lessor of freight cars under agreements expiring at various dates to 1992. The Corporation's net investment in sales-type leases consists of the following as of December 31, 1979:

Minimum lease payments receivable	$23,295,732
Estimated unguaranteed residual values	7,878,527
Unearned interest	(14,164,153)
	17,010,106
Current portion	(765,117)
Net investment in sales-type leases	$16,244,989

Future minimum amounts receivable under sales-type leases for the next five years are: 1980—$2,931,841; 1981—$2,910,773; 1982—$2,601,829; 1983—$2,385,796; 1984—$2,131,446. Net investment in sales-type leases of $7,013,476 is pledged under various freight car capital lease obligations and certain long-term debt agreements.

ARDEN GROUP, INC. (DEC)

	1979	1978
Current Assets:		
Cash	$ 2,330,593	$ 2,031,941
Notes and accounts receivable (less allowance for doubtful accounts of $590,200 and $597,700, respectively and deferred income from sale of real property of $35,132 and $652,735, respectively)	8,655,245	10,273,973
Net investment in direct financing and sales type leases	340,084	1,482,971
Inventories	32,398,306	29,468,982
Prepaid expenses	1,041,068	1,008,386
Total current assets	44,765,296	44,266,253
Net investment in direct financing and sales type leases	4,903,978	5,244,062

NOTES TO FINANCIAL STATEMENTS

Note 10 (in part): Leases:

Direct Financing and Sales Type Leases: During 1979, the land portion of real property leased to Knudsen Corporation in 1976, when the Company leased or assigned to Knudsen all real and tangible personal property owned by the Company and used in its Dairy Division in Southern California for a term of 15 years, was sold to Knudsen, resulting in elimination of the estimated residual value of leased property and adjustments to the minimum lease payments and unearned income elements of the net investment. The net investment in direct financing and sales type leases, the majority of which relates to the Knudsen lease, is as follows:

	December 29, 1979	December 30, 1978
Total minimum lease payments to be received	$ 7,239,200	$ 9,443,929
Estimated residual value of leased property		677,418
Less, Unearned income	(1,995,138)	(3,394,314)
Net investment in direct financing and sales type leases	$ 5,244,062	$ 6,727,033

At December 29, 1979, minimum payments under these lease agreements are $642,229 for each of the succeeding five years.

FRUEHAUF CORPORATION (DEC)

	1979	1978
Equipment Leased to Customers		
At cost, less accumulated depreciation of $112,791,990 and $96,084,051 at December 31, 1979 and 1978, respectively (Note F)	$234,529,190	$170,899,313

Note F—Equipment Leased to Customers

The Corporation recognizes sales revenues and related costs upon entering into sales-type leases and sells, without recourse, the future rentals receivable net of deferred finance revenue to Fruehauf Finance Company. Unguaranteed residual values of $9,838,000 and $6,013,800 at December 31, 1979, and December 31, 1978, respectively, are included in equipment leased to customers on the balance sheet. The Corporation has borrowed from Fruehauf Finance Company an amount equal to the unguaranteed residual values.

Equipment is also leased to customers under leases that are accounted for as operating leases. Future rentals on such noncancelable operating leases as of December 31, 1979, are as follows:

Year ending December 31:	
1980	$ 34,816,000
1981	31,112,000
1982	28,495,000
1983	26,242,000
1984	24,357,000
Later years	50,635,000
Total minimum future rentals	$195,657,000

DATAPOINT CORPORATION (JUL)

	1979	1978
	($000)	
Installment notes receivable, less current portion	$ 548	$ —
Property, plant and equipment, net, partially pledged	27,164	19,531
Equipment leased to customers, net (notes 2 and 6)	36,374	34,027

Note 2: Property—The Company's property consists of the following:

(In thousands)	July 31, 1979 Cost	1979 Accumulated Depreciation	1979 Net	1978 Cost	1978 Accumulated Depreciation	1978 Net
Property, plant and equipment, partially pledged:						
Buildings and land improvements	$12,601	$ 2,223	$10,378	$ 8,003	$ 1,447	$ 6,556
Machinery, equipment, furniture and fixtures	26,035	10,195	15,840	19,585	7,556	12,029
Land	946	—	946	946	—	946
	$39,582	$12,418	$27,164	$28,534	$ 9,003	$19,531
Equipment leased to customers:						
Leased to customers, including field support spares	$87,690	$51,348	$36,342	$71,725	$37,974	$33,751
Sold under lease participation agreement, pledged	891	859	32	2,239	1,963	276
	$88,581	$52,207	$36,374	$73,964	$39,937	$34,027

Note 6: Leases

As Lessor—The Company leases business data processing systems. All of the leases are classified as operating leases.

The following is a schedule by years of minimum future rentals on non-cancellable operating leases as of July 31, 1979:

(In thousands) Year ending July 31,	
1980	$41,448
1981	15,314
1982	4,566
1983	12
	$61,340

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.

Deferred Taxes

MARSHALL FIELD & COMPANY (JAN)

	1980	1979
Long-Term Debt, less current maturities	$77,583,943	$67,345,381
Capitalized Lease Obligations, less current maturities	37,362,808	34,622,535
Deferred Income Taxes (note 1e)	21,768,623	19,627,274
Deferred Investment Tax Credit	5,644,305	4,562,392

Note 1e: Income Taxes

The Company provides currently for income taxes applicable to all items included in the income statement regardless of when such taxes are payable. Deferred income taxes included in current liabilities arise primarily from deferred income on uncollected installment sales while long-term deferred income taxes arise from accelerated depreciation and the tax effect of certain differences between the book and tax basis of real estate venture assets. The provision for income taxes consists of the following (in thousands):

	Fiscal Year	
	1979	1978
Taxes currently payable—		
Federal	$10,107	$15,359
State	1,749	1,534
Deferred investment tax credit	1,082	286
Deferred taxes (including nominal amounts of state income taxes) arising from—		
Uncollected installment sales	1,709	1,746
Accelerated depreciation	2,223	1,095
Real estate ventures	151	(1,435)
Other	(491)	(851)
	$16,530	$17,734

The difference between the provision for Federal income taxes and the amount derived by applying the statutory Federal income tax rates to pre-tax income in 1979 and 1978, respectively, is not significant.

WALGREEN CO. (AUG)

	1979	1978
	($000)	
Long-Term Debt, less current maturities:		
General company obligations	$40,300	$40,300
Real estate obligations	17,215	17,765
	57,515	58,065
Deferred Income Taxes	14,024	12,808

TABLE 2-28: OTHER NONCURRENT LIABILITIES

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Deferred income taxes	482	478	474	466
Minority interest	154	150	156	173
Production payments	14	17	12	21
Employee Liabilities				
Deferred compensation, bonus, etc.	85	87	101	102
Pension or retirement plan	62	69	61	70
Other — described	15	14	10	14
Estimated losses or expenses				
Discontinued operations	20	21	21	19
Insurance	10	10	10	7
Warranties	8	8	8	8
Other — described	47	38	42	43
Deferred credits				
Payments received prior to rendering service	8	13	11	12
Deferred profit on sales	4	5	9	12
Excess of acquired net assets over cost	5	6	6	4
Other — described	7	9	11	20
"Miscellaneous" or "other"	**194**	**193**	**232**	**222**

STATEMENT OF MAJOR ACCOUNTING POLICIES

Deferred Income Taxes:

The Company provides Federal and state income taxes on items included in the Consolidated Statement of Earnings regardless of the period when such taxes are payable. Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. These timing differences principally result from additional tax deductions available due to the use of accelerated methods of depreciation.

WM. WRIGLEY JR. COMPANY (DEC)

	1979	1978
Total current liabilities	$77,832,000	$75,154,000
Deferred income taxes	8,072,000	8,599,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The effective income tax rate differs from the U. S. Federal tax rate of 46% in 1979 and 48% in 1978 due primarily to state income taxes offset by investment and foreign tax credits and nontaxable gains. Deferred income taxes are provided for timing differences, principally depreciation, between financial and tax reporting. Investment tax credits, which are not significant in amount, are treated as a reduction of income taxes in the year the assets which give rise to the credits are placed in service.

Federal income and foreign withholding taxes have not been provided on accumulated unremitted earnings (aggregating approximately $42,665,000 at December 31, 1979) of international wholly-owned associated companies which have been or are intended to be permanently reinvested in the operations of these companies. Foreign tax credits would be available to substantially reduce federal income taxes resulting from distributions of such accumulated earnings.

R.H. MACY & CO., INC. (JUL)

	1979	1978
	($000)	
Deferred Credits and Other Liabilities		
Deferred income taxes (Note 9).	$37,053	$36,186
Deferred investment credit.......	15,598	13,963
Deferred compensation...........	12,978	9,546
Other deferred credits............	18,302	18,525
	$83,981	$78,220

NOTES TO FINANCIAL STATEMENTS

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

Income Taxes—Deferred income taxes result primarily from the use, for tax purposes, of accelerated depreciation and the instalment method of accounting for deferred payment sales. The portion thereof resulting from the latter is included with current liabilities. Accumulated investment credits are amortized over the estimated lives of the related equipment by reductions of income tax provisions.

Note 9: Income Taxes

The provision for income taxes includes the following amounts:

	Fiscal 1979	Fiscal 1978
Current payable......................	$66,703,000	$56,353,000
Deferred	9,170,000	7,172,000
	$75,873,000	$63,525,000

The major components of deferred income taxes are:

	Fiscal 1979	Fiscal 1978
Instalment method of accounting for deferred payment sales	$ 8,303,000	$7,567,000
Excess of tax over book depreciation................................	3,144,000	3,294,000
Other—net	(2,277,000)	(3,689,000)
	$ 9,170,000	$7,172,000

The effective income tax rates were 49.8% and 50.7%. The principal reasons for the variation between the provision at the Federal statutory tax rate and the actual provision are:

	Fiscal 1979	Fiscal 1978
Provision at Federal statutory rates of 46.85%* and 48%...........	$71,352,000	$60,097,000
State and local income taxes of $13,053,000 and $9,725,000, net of Federal income tax benefit	6,938,000	5,057,000
Amortization of investment credit..	(2,349,000)	(1,600,000)
Other	(68,000)	(29,000)
	$75,873,000	$63,525,000

*Results from the change in the Federal rate from 48% to 46% at January 1, 1979.

Minority Interests

AIR PRODUCTS AND CHEMICALS, INC. (SEP)

	1979	1978
	($000)	
Total current liabilities	$305,303	$284,077
Long-Term Debt......................	273,797	210,212
Limited Recourse Financing	23,650	26,950
Deferred Income and Other Noncurrent Liabilities.....................	31,710	25,376
Deferred Income Taxes	141,375	111,263
Deferred Investment Credit and Grants	58,235	45,319
Preferred Stock of Consolidated Subsidiary (Note 3)..............	17,252	—

Note 3 (in part): Other Financings

Preferred Stock of Consolidated Subsidiary

In October 1978, the company's Canadian subsidiary received Canadian $20,000,000 (U.S. $16,900,000) from the issuance to a financial institution of 200,000 shares of nonvoting, floating rate (average 7.2% in 1979) preferred stock with no par value. Dividends, which are cumulative and payable quarterly, are included with interest expense on the accompanying statements of consolidated income.

The shares are mandatorily redeemable quarterly in installments of Canadian $425,000 from June 1982 to December 1988 with the remaining shares redeemable in March 1989. The redemption price is equal to Canadian $100 per share plus any accrued and unpaid dividends. At the option of the company or upon certain specified events, the stock may be redeemed and replaced by Term Notes. Dividend payments and share redemption by the subsidiary are secured by an agreement under which the company is obligated under certain circumstances to pay all accrued dividends and purchase all unredeemed shares.

BEMIS COMPANY, INC. (DEC)

	1979	1978
	($000)	
Total current liabilities	$ 92,754	$ 74,995
Long-term debt, less current portion	67,830	78,940
Long-term obligations under capital leases, less current portion......	10,935	12,745
Deferred income taxes.............	21,375	19,911
Total liabilities	$192,894	$186,591
Minority interests....................	$ 6,428	$ 6,535

CAMPBELL TAGGART, INC. (DEC)

	1979	1978
Long-term debt......................	$77,270,000	$61,718,000
Deferred income taxes.............	15,856,000	13,347,000
Minority interests in subsidiaries		
Preferred stocks—par value	220,000	230,000
Common stocks	208,000	218,000
Retained earnings................	21,169,000	20,260,000
	21,597,000	20,708,000

CYCLOPS CORPORATION (DEC)

	1979	1978
	($000)	
Total current liabilities	$133,378	$125,958
Long-term debt	62,437	40,078
Deferred income taxes	4,561	16,511
Excess of vested pension benefits over pension fund assets	8,732	8,969
Net noncurrent liability resulting from discontinued operations	30,204	10,809
Minority interest (Note 8)	2,514	2,262
	$241,826	$204,587

Note 8: Minority Interest

The Company has a majority ownership in Busy Beaver Building Centers, Inc., a supplier of building materials and remodeling services. As of December 31, 1979 and 1978 the Company owned approximately 81% of the common shares outstanding. The minority interest liability was $2,514,000 and $2,262,000 at December 31, 1979 and 1978, respectively.

GENERAL MILLS, INC. (MAY)

	1979	1978
	(In Millions)	
Total Current Liabilities	$494.8	$503.3
Other Liabilities:		
Long-term debt, excluding current portion	384.8	259.9
Deferred Federal income taxes	22.4	11.1
Deferred compensation	8.5	14.1
Other liabilities and deferred credits	5.7	3.6
Total Other Liabilities	421.4	288.7
Total Liabilities	$916.2	$792.0
Minority Interests	$ 2.8	$ 5.6

MELVILLE CORPORATION (DEC)

	1979	1978
Long-term debt	$48,705,385	$40,653,137
Obligations under capital leases	37,268,904	33,177,215
Deferred Federal income taxes	4,322,807	4,116,891
Lease obligations for closed stores.	2,298,018	3,677,571
Minority interests in subsidiaries (note 1)	49,860,571	41,640,623

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 1979 and 1978 are insignificant in relation to the consolidated results of operations and financial position. The minority interests principally represent the participation on a 51%-49% basis, respectively, of the Company and K mart Corporation in the ownership of all retail subsidiaries formed from July, 1967 through 1984 for the purpose of operating leased shoe departments in K mart stores. All intercompany balances and transactions have been eliminated.

Employee Related Liabilities

AMERICAN CAN COMPANY (DEC)

	1979	1978
	($Millions)	
Long-term debt	$493.4	$475.0
Employee benefits related to plant closings	135.2	139.4
Deferred income taxes	127.9	120.0
Other long-term liabilities	44.8	43.8

FEDERAL-MOGUL CORPORATION (DEC)

	1979	1978
Total Current Liabilities	$116,893,000	$ 77,153,000
Other Liabilities		
Long-term debt	42,495,000	44,612,000
Foreign severance obligations	4,105,000	3,338,000
Deferred income taxes	14,271,000	12,939,000
Plant closing and product discontinuance costs	4,116,000	4,300,000
Minority interests in foreign subsidiaries	6,927,000	6,111,000
Total Liabilities	$188,807,000	$148,453,000

FREEPORT MINERALS COMPANY (DEC)

	1979	1978
Total current liabilities	$101,730,000	$59,560,000
Advance payments for future uranium oxide sales	10,000,000	10,000,000
Notes payable, less portion included in current liabilities	123,015,000	34,343,000
Estimated liability for stock option and other deferred compensation (Note 6)	14,650,000	3,100,000

Note 6 (in part): Stockholders' Equity

Stock Options. Under the Amended Stock Option Plan approved by the stockholders, the Board of Directors is authorized to grant to certain employees options to purchase up to 900,000 shares of the Company's common stock at not less than the market price at the time options are granted. Each option will terminate not later than 10 years from the date of grant. Optionees, under certain circumstances, are entitled to payment by the Company of an amount in cash and stock (valued at the then current market price) equal to the appreciation in the market value of the shares covered by exercisable options. Options granted during 1979 and 1978 to purchase shares of the Company's common stock also provide that, upon the exercise of such options, the Company shall pay to the optionee an amount in cash equal to the appreciation in the market value of such shares as are purchased.

During 1979, options were granted to 28 employees to purchase 30,300 shares of common stock at $30.83 per share, the market price at the time the options were granted; options representing 47,662 shares were exercised at an average price of $16.01 per share; options representing 39,745 shares were purchased by the Company based on the excess of the market value on the respective dates of purchase over the option price for an aggregate amount of $854,000 paid in cash and a combination of cash and stock; and options representing 1,950 shares expired.

At December 31, 1979, 518,413 shares were issuable under options granted in 1972 and subsequent years at an average price of $17.24 per share, of which 280,587 shares were exercisable at an average price of $17.01 per share; and options for 246,578 shares were available for new grants under the Plan.

Charges to costs to provide for possible future payments to optionees for the increase in the market value of the shares covered by options that are exercisable and a portion of the shares covered by options that are scheduled to become exercisable over the balance of the four-year vesting period of service under the Plan amounted to $13,000,000 in 1979 and $2,000,000 in 1978.

GIDDINGS & LEWIS, INC. (DEC)

	1979	1978
Long-term debt due after one year	$24,833,132	$25,236,246
Accrued pension liability (Note 4)..	805,597	836,593
Deferred income taxes.............	1,869,856	1,905,155

Note 4: Pension plans

Substantially all employees of the Company and its subsidiaries are covered under noncontributory pension plans. Total pension expense was $3,147,000 in 1979 and $2,705,000 in 1978. The actuarially computed value of vested benefits under certain of the plans exceed the total of the related pension funds by approximately $9,300,000 at the latest valuation date (January 1, 1979).

The excess at the date of acquisition of vested benefits over fund assets of the pension plan of a subsidiary acquired in 1977, net of applicable income taxes, is reported in the consolidated balance sheet as an accrued pension liability and is being amortized over thirty years.

U AND I INCORPORATED (FEB)

	1979	1978
Long-Term Debt, less current portion................................	$27,896,323	$28,094,080
Deferred Incentive Compensation ..	1,342,833	1,308,898
Minority Interest in Subsidiaries ...	909,302	1,006,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G: Retirement and Deferred Incentive Plans

The U and I Incorporated Retirement Plans cover substantially all permanent employees of the Company and its subsidiaries. The Company's cost of the plans was approximately $565,000 in 1979, $1,130,000 in 1978, and $870,000 in 1977. It is the Company's policy to fund pension costs accrued. Unfunded prior service costs are being amortized over a period not to exceed 30 years. At December 31, 1978, the date of the latest actuarial valuation, the unfunded prior service costs were approximately $5,820,000 and the total assets of the plans exceeded the actuarially computed value of vested benefits.

The Company has two deferred incentive plans. One plan is a self-administered deferred compensation plan for key employees. The other plan is a qualified incentive investment plan for eligible employees under which employees can contribute amounts ranging from 2% to 6% of their salary and the Company can contribute up to 100% of the employees' contribution. The cost of these plans (Company contribution and administrative costs) was $86,200 in 1979, $49,100 in 1978, and $188,400 in 1977.

Estimated Losses or Expenses

BETHLEHEM STEEL CORPORATION (DEC)

	1979	1978
	(dollars in millions)	
Total Current Liabilities	$1,035.9	$1,003.5
Liabilities Payable after One Year..	186.2	182.0
Deferred Income Taxes	21.6	—
Estimated Long-term Liability for Closedown Costs (Note B)........	344.1	387.7
Long-term Debt	1,007.7	999.8
Total Liabilities....................	$2,595.5	$2,573.0

Note B: Closedown of Certain Steelmaking and Related Facilities

In August 1977, Bethlehem announced a plan to close down certain steelmaking and related facilities, reduce capital expenditures and reduce hourly and salaried work forces. A provision of $750 million was made which was estimated to represent the costs and expenses related to the closedown decision. During 1979 and 1978, approximately $48.1 million and $125.6 million, respectively, were charged to the estimated liability. Substantially all of the total current and long-term balance of $377.3 million remaining at December 31, 1979, represents the estimated liability for employment-related costs accruing to terminated and laid-off employees.

CORNING GLASS WORKS (DEC)

	1979	1978
	($000)	
Accrued Furnace Repairs...........	$ 19,630	$ 26,560
Other Liabilities and Deferred Credits................................	27,971	17,334
Loans Payable Beyond One Year...	147,146	163,398
Deferred Investment Credits and Deferred Taxes on Income.......	23,020	34,596
Minority Interest in Subsidiary Companies........................	5,063	2,848

STATEMENT OF ACCOUNTING POLICIES

Property and Depreciation

Land, buildings and equipment are recorded at cost. Renewals and betterments are charged to the property accounts while replacements of molds, maintenance and repairs (except furnace rebuilding) are charged to income as incurred. The cost of assets retired is offset against accumulated depreciation; undepreciated cost (net of any proceeds) is charged to income.

In accordance with industry practice, the estimated cost of periodic rebuilding of glassmelting furnaces is provided from current operations, in advance, over the interval between renewals.

Depreciation is provided over the estimated useful lives of the properties, using accelerated methods for substantially all assets.

DOYLE DANE BERNBACH INTERNATIONAL INC. (DEC)

	1978	1979
Other Liabilities:		
Estimated taxes payable (Note J(1))	$ 895,800	$ 895,800
Deferred compensation benefits	261,983	511,804
Amounts due on acquisitions	—	797,142
	$1,157,783	$2,204,746

Note J—Income Taxes

(1) Material tax differences will probably be assessed against the Registrant and its subsidiaries in connection with certain positions it has taken in its 1976 tax returns pertaining to an investment in a tax shelter. Management accrued $895,800 of estimated tax liability in 1976 to fully provide for any assessment in the event that the matter was finally determined contrary to its position. The provision is classified as a noncurrent liability since final resolution of the issue may not take place for at least several years. In addition, a subsidiary has taken a position as to its State income tax returns which could entitle it to a substantial refund of State income taxes. If the subsidiary's position is sustained, which management considers unlikely, a credit to income would result of approximately $416,000, net of Federal income taxes.

FEDDERS CORPORATION (OCT)

	1979	1978
	($000)	
Long-term debt	$66,262	$72,738
Deferred taxes	4,091	4,091
Long-term portion of accrued warranty	6,260	6,464
Other long-term liabilities	1,266	2,253

MOBIL CORPORATION (DEC)

	1979	1978
	($000)	
Long-Term Debt	$2,962,393	$3,047,435
Capital Lease Obligations	341,980	361,843
Deferred Income Taxes	1,604,627	1,019,236
Accrued Restoration and Removal Costs	114,052	92,057

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Major Accounting Policies

Depreciation, Depletion, and Amortization (in part)—Annual charges to income for depreciation and the estimated cost for restoration and removal of major producing facilities are computed on a straight-line basis over the useful lives of the various classes of properties or, where appropriate for producing properties, on a unit-of-production basis by individual fields.

THE LTV CORPORATION (DEC)

	1979	1978
	($000)	
Noncurrent Liabilities and Other Items		
Long-term debt	$1,496,202	$1,520,094
Capitalized lease obligation	74,564	81,179
Employee compensation and benefits	372,468	324,253
Estimated liability for plant closing costs	18,705	80,113
Deferred income taxes	8,324	14,374
Other	44,069	41,419
Preferred stock with mandatory redemption	20,768	35,071
Total Noncurrent Liabilities and Other Items	$2,035,100	$2,096,503

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

	1979	1978
	Dollars in millions	
Current liabilities		
Short-term loans	$ 216.6	$ 215.5
Accounts payable, principally trade	301.9	300.8
Accrued compensation	165.2	141.3
Domestic and foreign taxes	128.6	128.0
Accrued liability for phase-out of facilities (Note 14)	70.1	14.2
Accrued liability for the tire recall and related costs	56.4	227.2
Long-term debt due within one year	18.0	14.2
Other accrued liabilities	129.2	114.4
Total current liabilities	1,086.0	1,155.6
Accrued liability for phase-out of facilities—non-current (Note 14)	16.2	53.4

Note 14: Provision for phase-out of facilities

In April, 1978, a charge of $110 million ($73 million after income taxes) was made against incom϶ to cover costs of terminating bias passenger tire production in Akron, Ohio and another domestic location and all tire production at plants in Calgary, Canada, and Switzerland. Costs of terminating bias passenger tire production in Los Angeles, California, announced in August, 1979, were included in the April, 1978 provision. In October, 1979, based on experience to date and anticipated future charges, the 1978 provision was reduced by $32.5 million ($19.1 million after income taxes).

In October, 1979, a charge of $75.1 million ($56.0 million after income taxes) was made against income to cover costs of discontinuing certain other foreign operations, including operating losses during the phase-out period. The charge includes the disposal of Australian facilities for manufacture and sale of tires and industrial products and the discontinuation of certain production and market operations in Europe.

Accordingly, the amount accrued and charged to income in 1979 for phase-out of facilities, net of the reduction in the 1978 provision, was $42.6 million ($36.9 million after income taxes).

The activity in the accrued liability for phase-out of facilities for 1979 and 1978, follows:

	1979	1978
Accrued liability at beginning of year	$ 67.6	$ —
Amount accrued during the year	42.6	110.0
Amounts charged thereto	(23.9)	(42.4)
Accrued liability at end of year	$ 86.3	$ 67.6

Production Payment

LONE STAR INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Total current liabilities	$101,988	$129,833
Long-term debt	174,143	178,195
Deferred income taxes	69,672	52,384
Production payment	33,000	37,000
Other liabilities	3,861	1,225
Minority interest	117	9,467
Total liabilities	$382,781	$408,104

NOTES TO FINANCIAL STATEMENTS

Note 10: Production Payment

The proceeds from the sale of a portion of future production from limestone quarries located adjacent to two of the company's cement plants have been deferred and are being reflected in income through 1988, together with related costs and expenses, as the minerals are produced and sold. The company expects to remit $2,000,000 of proceeds within one year and, accordingly, this amount is classified as a current liability. An amount equivalent to interest is payable by the company primarily at a rate of 10%.

Deferred Credits

AMAX INC. (DEC)

	1979	1978
	($000)	
Long-term debt	$752,710	$637,770
Equipment lease obligations	173,290	154,020
Proceeds from sale of future production	50,000	150,630
Unearned revenue (Note 14)	10,000	—

Note 14: Unearned Revenue

In December 1979 the Company received $10,000 as the first installment of the sale of approximately 6.9 million tons of coal for $100,000. The coal is to be delivered over a ten-year period. The quantity of coal to be delivered will be reduced in the event that AMAX requests and receives payment of less than the full purchase price during 1980. AMAX will report sales when the coal is delivered.

TIME INCORPORATED (DEC)

	1979	1978
	($000)	
Unearned Portion of Paid Subscriptions	$148,517	$134,388
Long-Term Debt	419,945	271,295
Deferred Federal Income Taxes	81,766	65,513
Other Liabilities	32,147	25,686

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Unearned Portion of Paid Subscriptions. Paid magazine subscriptions are deferred at the time of sale. As magazines are delivered to subscribers, proporationate shares of the gross subscription price are credited to revenues. Costs connected with the procurement of subscriptions are expensed within the year incurred.

U.S. INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Other liabilities and credits		
Deferred income taxes	$21,744	$17,133
Amounts due unconsolidated subsidiaries	9,020	8,046
Deferred membership revenues—Note A(8)	4,314	4,972
	$35,078	$30,151

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

(8) Specialized Industries—The Corporation has subsidiaries or divisions engaged in various specialized industries such as construction, finance and insurance. 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 initial direct selling 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 the term *Reserve* appeared occasionally in the 1979 annual reports of the survey companies.

TABLE 2-29: USE OF TERM "RESERVE"

	Number of Companies			
	1979	1978	1977	1976
To describe deductions from assets for				
Uncollectible accounts	36	39	37	41
Reducing inventories to LIFO cost	13	4	7	6
Accumulated depreciation	7	11	12	12
Other	4	9	14	14
To describe accruals for				
Employee benefits or compensation	13	14	18	24
Estimated expenses relating to property abandonments or discontinued operations	7	11	15	8
Insurance	4	5	9	6
Other — identified	14	13	12	29
Other — not identified	17	16	15	16

TITLE OF STOCKHOLDERS' EQUITY SECTION

Table 2-30 summarizes the titles used by the survey companies to identify the stockholders' equity section of the balance sheet. Table 2-30 indicates that while many of the survey companies use either the title *stockholders' equity* or *shareholders' equity* there was a noticeable decrease in 1979 in the number of companies using these titles because of SEC *Accounting Series Release No. 268. ASR No. 268,* effective for financial statements for fiscal periods ending on or after September 15, 1979, requires that preferred stock with mandatory redemption requirements not be shown as part of equity. Fifty-nine survey companies disclosed preferred stock with mandatory redemption requirements.

TABLE 2-30: TITLE OF STOCKHOLDERS' EQUITY SECTION

	1979	1978	1977	1976
Stockholders' Equity	269	285	294	298
Shareholders' Equity	198	239	232	235
Shareholders' Investment	24	23	24	18
Shareowners' Equity	29	26	17	14
Common Shareholders' Equity	17	—	—	—
Common Stockholders' Equity	15	—	—	—
Stockholders' Investment	9	13	12	9
Other or no title	39	14	21	26
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.

TABLE 2-31: CAPITAL STRUCTURES

	1979	1978	1977	1976
Common stock with:				
No preferred stock	382	371	368	363
One class of preferred stock	138	136	146	155
Two classes of preferred stock	56	60	56	61
Three or more classes of preferred stock	24	33	30	21
Total Companies	**600**	**600**	**600**	**600**
Companies included above with two or more classes of common stock	15	16	20	17

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

	1979	1978
Series Preferred Stock—Note H—no par value:		
Authorized—5,000,000 shares; issued and outstanding—none..........		
Common Stockholders' Equity—Note H		
Class A Common Stock—par value $5 per share: Authorized—10,000,000 shares; issued and outstanding 1979—4,289,255 shares.	$ 21,446,000	$ 20,236,000
Class B Common Stock—par value $5 per share: Authorized—5,000,000 shares; issued and outstanding 1979—1,071,348 shares.	5,357,000	
Additional paid-in capital.........	23,826,000	17,361,000
Retained earnings.................	125,200,000	73,201,000
Total Common Stockholders' Equity........................	$175,829,000	$110,798,000

Note H—Capital Stock

On January 3, 1980 the Company's stockholders approved amendments to the Certificate of Incorporation of the Company pursuant to which the Company's authorized capital stock was changed to 5,000,000 shares of Series Preferred Stock without par value (of which 804,022 shares are Series A Cumulative Convertible Preferred Stock and the remaining shares will have been designations and terms as may be determined by the board of directors); 10,000,000 shares of $5 par value Class A Common Stock; and 5,000,000 shares of $5 par value Class B Common Stock. Previously authorized $5 par value Common Stock issued and outstanding was reclassified as $5 par value Class A Common Stock. On December 20, 1979 the board of directors declared a stock split payable on January 9, 1980 to holders of record on January 3, 1980 of one share of Class B Common Stock for each four shares of Class A Common Stock, pursuant to which 1,010,706 shares of Class B Common Stock were issued. In addition 6% stock dividends were declared on the Class A and Class B Common Stocks payable on February 7, 1980 to holders of record on January 25, 1980, pursuant to which 242,094 shares of Class A Common Stock and 60,642 shares of Class B Common Stock were issued. The change in authorized capital stock, the reclassification of issued and outstanding common stock, the stock split and the stock dividends have been retroactively reflected in the Company's 1979 financial statements.

On January 4, 1980 the Company exchanged 774,152 shares of Series A Cumulative Convertible Preferred Stock in connection with the merger with Continental American Life Insurance Company (Calico) and assumed stock options previously granted by Calico to certain employees. The Company will be obligated to issue up to 29,570 additional shares of Series A Cumulative Convertible Preferred Stock upon the exercise of such options. These transactions are not reflected in the Company's 1979 financial statements.

The Series A Cumulative Convertible Preferred Stock carries an annual dividend rate of $1.92 per share and a liquidating value of $40 per share. It is redeemable at the option of the Company after January 31, 1982, at $40 a share plus accrued and unpaid dividends, but only if the market value of the shares into which a share of the Series A Cumulative Convertible Preferred Stock is convertible equals at least $50. The Company is required to establish a sinking fund beginning January 1, 1990, in an amount sufficient to redeem annually 40,220 shares at $40 per share plus accrued and unpaid dividends (less shares previously acquired by purchase, conversion or otherwise, except through the sinking fund). Each share of Series A Cumulative Convertible Preferred Stock was initially convertible into 1.25 shares of Class B Common Stock (1.33 as of January 26, 1980 after giving effect to the 6% stock dividend) subject to adjustments for stock splits and dividends.

As of January 25, 1980, 84,430 shares of Series A Cumulative Convertible Preferred Stock had been converted into 105,529 shares of Class B Common Stock and there were 953,062 shares of authorized and unissued Class B Common Stock reserved for conversion of the Series A Cumulative Convertible Preferred Stock including the additional 29,570 shares of Series A Cumulative Convertible Preferred Stock authorized to be issued.

Class A Common Stockholders are entitled to one vote per share and have the right to elect all directors other than those to be elected by other classes of stock. Class B Common Stockholders are entitled to one-tenth vote per share. Series A Cumulative Convertible Preferred Stockholders are entitled to the equivalent number of votes per share of Class B Common Stock issuable upon conversion. The Class B Common Stockholders and Series A Cumulative Convertible Preferred Stockholders have the right, voting together, to elect two directors. The following summarizes the changes in the number of shares of Class A and Class B Common Stock outstanding during the years ended December 31, 1979 and 1978:

	Class A Common Stock	Class B Common Stock
Balance at December 31, 1977....	1,909,764	
6% Class A Common Stock dividend	113,818	
Balance at December 31, 1978....	2,023,582	
Two-for-one stock split issued July 27, 1979..........................	2,023,579	
Balance at December 31, 1979....	4,047,161	
One-for-four stock split issued January 9, 1980..................		1,010,706
6% Common Stock dividends issued February 7, 1980:		
Class A	242,094	
Class B		60,642
Balance at December 31, 1979—As retroactively adjusted.........	4,289,255	1,071,348

R.J. REYNOLDS INDUSTRIES, INC. (DEC)

	1979	1978
	(Dollars in Millions)	
Series A Cumulative Preferred Stock	$ 342.1	$ —
$2.25 Convertible Preferred Stock.	$ 13.6	$ 28.4
Common stockholders' equity:		
Common Stock—net.............	$ 244.8	$ 237.8
Paid-in capital.....................	190.2	155.1
Earnings retained	2,562.8	2,236.6
Total common stockholders' equity........................	$2,997.8	$2,629.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Per Share Amounts)

Note 9: Series A Cumulative Preferred Stock

In connection with the February 2, 1979 merger with Del Monte Corporation (see Note 13), the Company issued 7,053,478 shares (authorized 8,300,000 shares) of Series A Cumulative Preferred Stock (without par value), stated value of $48.50. The terms of the Preferred Stock provide for redemption by the Company, pursuant to a mandatory sinking fund, at a redemption price of $48.50 per share plus any accrued dividends, in an amount equal to approximately one-seventh of the amount of such shares issued in connection with the merger in each year commencing on March 1, 1985. The Company has the noncumulative option to double the amount redeemed pursuant to such mandatory redemption in any year.

Each share of the Series A Cumulative Preferred Stock entitles the holder to receive cumulative dividends payable quarterly at the rate of $4.10 per share per annum in preference to dividends payable on any stock ranking junior to the Series A Cumulative Preferred Stock as to dividends and upon liquidation, and to receive $48.50 per share plus accrued dividends (whether or not earned or declared) before any distribution upon liquidation is made to holders of such junior stock. The Series A Cumulative Preferred Stock ranks senior to the Common Stock, and on a parity with the outstanding $2.25 Convertible Preferred Stock, as to dividends and upon liquidation.

Each share entitles the holder to three-quarters of one vote on all matters on which holders of the Common Stock have the right to vote, voting together with all other shares entitled to vote and not as a class.

During 1979, dividends paid on the Series A Cumulative Preferred Stock amounted to $26.4 million.

Note 10 (in part): Common Stock and $2.25 Convertible Preferred Stock

On October 18, 1979 the Company's Board of Directors authorized a two-for-one split of the Company's Common Stock effective November 14, 1979. As a result of the stock split, the stated value of the Common Stock was reduced from $5 to $2.50 per share. The split had no effect on total common stockholders' equity. The split resulted in a change in the conversion rate of each share of the $2.25 Convertible Preferred Stock from 1.5 shares to 3 shares of Common Stock (see below). All references in the Consolidated Financial Statements to the number of common shares, earnings and dividend amounts per share, stock option data and other per share amounts have been restated to give effect to the stock split.

Each share of the $2.25 Convertible Preferred Stock is convertible into three shares of the Company's Common Stock on surrender of the preferred share and payment of $22 in cash. Upon conversion, the cash proceeds and the stated value of the converted preferred shares less the stated value of the common shares issued is credited to paid-in capital. The Company may call for redemption of the $2.25 Convertible Preferred Stock any time at $50 per share (aggregating $64.1 million at December 31, 1979) plus accrued dividends to the redemption date. In the event of involuntary liquidation, holders of the $2.25 Convertible Preferred Stock are entitled to $10.57 per share plus accrued dividends. Of the authorized but unissued common shares at December 31, 1979, 3,848,484 were reserved for conversion of 1,282,828 shares of the $2.25 Convertible Preferred Stock issued.

Each share of the $2.25 Convertible Preferred Stock entitles the holder to receive cumulative dividends, payable quarterly, at the rate of $2.25 per annum in preference to dividends payable on any stock ranking junior as to dividends and upon liquidation. Holders of this Preferred Stock generally have one-half vote per share on all matters voted upon by stockholders, except that upon liquidation, dissolution, merger, consolidation or sale of all or substantially all of the assets of the Company, these holders have one vote per share, voting together with all other shares entitled to vote and not as a class.

	1979 Shares	1979 Amount	1978 Shares	1978 Amount
$2.25 Convertible Preferred Stock—without par value ($10.57 stated value—authorized 1,294,778 shares at December 31, 1979):				
Balance at beginning of year....	2,685,726	$ 28.4	2,978,618	$ 31.5
Shares converted into Common Stock...........................	(1,402,898)	(14.8)	(292,892)	(3.1)
Balance at end of year...........	1,282,828	$ 13.6	2,685,726	$ 28.4
Common Stock—no par ($2.50 stated value—authorized 150,000,000 shares at December 31, 1979):				
Balance at beginning of year....	97,369,276	$243.4	96,490,626	$241.2
Shares issued upon conversion of $2.25 Convertible Preferred Stock...........................	4,208,665	10.5	878,650	2.2
	101,577,941	253.9	97,369,276	243.4
Less Treasury Common Stock:				
Balance at beginning of year....	(189,160)	(5.6)	(90,600)	(2.8)
Purchased	(154,510)	(4.5)	(98,666)	(2.8)
Sales upon exercise of stock options and SARs................	32,696	1.0	106	—
	(310,974)	(9.1)	(189,160)	(5.6)
Balance at end of year...........	101,266,967	$244.8	97,180,116	$237.8
Paid-in capital:				
Balance at beginning of year....		$155.1		$147.8
Charges related to stock options exercised......................		(0.1)		—
Net proceeds from conversion of $2.25 Convertible Preferred Stock...........................		35.2		7.3
Balance at end of year...........		$190.2		$155.1

THE SINGER COMPANY (DEC)

	1979	1978
	(Amounts in Millions)	
Shareholders' Equity (note 8):		
Preferred stock (liquidation preferences $177.7 million at December 31, 1979 and 1978).	$ 25.5	$ 25.5
Common stock (authorized 35,000,000 shares; issued 16,577,217 shares at December 31, 1979 and 16,575,868 shares at December 31, 1978).............	165.8	165.7
Additional paid-in capital.........	37.0	37.0
Retained earnings.................	168.0	274.1
Total shareholders' equity .	$396.3	$502.3

Note 8: Shareholders' Equity

The capital stock of the Company at December 31, 1979 and 1978, is summarized below:

	December 31, 1979			December 31, 1978		
	Shares Issued	Stated or Par Value	Liquidation Preference	Shares Issued	Stated or Par Value	Liquidation Preference
		(Amounts in Millions)			(Amounts in Millions)	
Preferred stock, without par value; Authorized 3,500,000 shares:						
Series $3.50, authorized 2,110,000 shares	1,431,154	$ 18.6	$143.1	1,431,154	$ 18.6	$143.1
Series $1.50, authorized 452,571 shares	10,430	.1	.7	10,631	.1	.7
$12.50 Series A through G, authorized 100,000 shares	67,733	6.8	33.9	67,733	6.8	33.9
	1,509,317	$ 25.5	$177.7	1,509,518	$ 25.5	$177.7
Common stock, par value $10 per share; Authorized 35,000,000 shares	16,577,217	$165.8		16,575,868	$165.7	

The preferred stock has voting rights and is entitled to receive cumulative cash dividends prior to payment of dividends on common stock. The other per share characteristics of the preferred stock are:

	Stated Value	Redemption Amount	Conversion Rate to Common Stock
Series $3.50	$ 13	$100	Not Convertible
Series $1.50	9	70	1 to .9(a)
$12.50 Series A through F	100	500	1 to 10
$12.50 Series G	100	500(b)	1 to 10(c)

(a) Convertible at the option of either the holders or the Company.
(b) Redeemable on or after May 1, 1980.
(c) Convertible on or after April 1, 1980.

Currently the holders of the $12.50 Series G Preferred Stock have certain rights to accelerate their conversion privileges in order to consummate a public sale of common stock. Dividends for the $12.50 Series A through G Preferred Stock are currently at a rate equal to the lesser of $125 per share per annum, or at a rate equivalent to the dividends payable on the underlying common stock, but subject to a minimum of $5 per preferred share.

Capital stock activity during 1979 and 1978 is summarized as follows:

	Preferred Stock			Common
	Series $3.50	Series $1.50	Series $12.50	Stock Issued
Shares issued at December 31, 1977	1,441,499	10,526	68,079	16,548,019
Conversion of preferred stock	(10,345)	(95)	(346)	16,910
Exercise of stock options	—	—	—	11,119
Adjustment of preferred stock conversions	—	200	—	(180)
Shares issued at December 31, 1978	1,431,154	10,631	67,733	16,575,868
Conversion of preferred stock	—	(201)	—	180
Exercise of stock options	—	—	—	1,169
Shares issued at December 31, 1979	1,431,154	10,430	67,733	16,577,217

At December 31, 1979, there were 686,717 shares of common stock reserved for the conversion of preferred stock and 909,905 shares reserved for issuances under the 1967 and 1976 Stock Option Plans.

GENERAL REFRACTORIES COMPANY (DEC)

	1979	1978
	($000)	
Preferred Shares—First Series, without par value $5 cumulative convertible, stated at redemption value of $105 per share, shares authorized 63,865, outstanding 18,885 in 1979 and 25,177 in 1978	$ 1,983	$ 2,644
Serial Preference Shares, without par value, issuable in series, authorized 2,000,000 shares, none issued	—	—
Common Shareholders' Equity		
Common shares, $5 par value, authorized 10,000,000 shares, issued 3,804,009 shares	$19,020	$19,020
Paid-in capital	18,485	18,485
Retained earnings	62,375	55,884
	99,880	93,389
Less 6,000 treasury shares, at cost	83	83
Common shareholders' equity	$99,797	$93,306

NOTES TO FINANCIAL STATEMENTS

Note 10: Redeemable Preferred Shares

The Preferred Shares—First Series are convertible into five common shares and are subject to mandatory redemption provisions. Liquidation and redemption value is $105 per share, plus any accumulated and unpaid dividends. An annual contribution of $661,000 to a sinking fund for redemption of the preferred shares is required, except that such contribution shall be reduced by an amount equal to the $105 per share liquidation value of shares redeemed, reacquired or converted into common shares of the Company. The outstanding preferred shares at December 31, 1979, will be redeemed in annual amounts of $661,000 through 1982.

In accordance with a 1979 Securities & Exchange Commission pronouncement, the preferred shares have been reclassified from shareholders' equity and are now set forth separately, at redemption value. Also, the Board of Directors of the Company has authorized the retirement of all preferred shares held in treasury. These actions, reflected in the accompanying consolidated balance sheet by reclassification from preferred and treasury stock to retained earnings, had the effect of reducing retained earnings $3,609,000 at December 31, 1979, consisting of $1,303,000 relating to the difference between redemption value and stated value of the preferred shares and $2,306,000 to retire the cost of the preferred treasury shares. The related amounts at December 31, 1978, have been restated for comparative purposes.

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 2-32: COMMON STOCK

	1979	1978	1977	1976
Par value stock shown at par value	495	498	496	502
Par value stock shown at amount in excess of per share par value	29	29	30	34
Par value stock shown at assigned value per share	15	7	20	14
No par value stock shown at assigned value per share	22	19	21	14
No par value stock shown at assigned value — per share value not disclosed	54	63	55	55
Issues Outstanding	**615**	**616**	**622**	**619**

TABLE 2-33: PREFERRED STOCK

	1979	1978	1977	1976
Valuation Bases				
Par value stock shown at par value	204	207	211	195
Par value stock shown at assigned value per share	5	4	12	9
Par value stock shown at liquidation or redemption value	16	12	4	9
No par value stock shown at assigned value per share	43	50	54	59
No par value stock shown at assigned value — per share value not disclosed	37	49	54	63
No par value stock shown at liquidating value	11	11	7	11
Other	7	2	7	12
Issues Outstanding	**323**	**335**	**349**	**358**
Number of Companies				
Showing preferred stock outstanding	218	229	232	237
Not showing preferred stock outstanding	382	371	368	363
Total Companies	**600**	**600**	**600**	**600**

PREFERRED STOCK

Table 2-33 summarizes the valuation bases of preferred stock. As with common stock, many 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.

Effective for financial statements issued on or after September 15, 1979, *SEC Accounting Series Release No. 268* requires that preferred stock with mandatory redemption requirements not be shown as part of equity. *ASR No. 268* does not discuss the valuation basis for such securities. A *Staff Accounting Bulletin* issued by the *SEC* staff states that preferred stock with mandatory redemption requirements should be stated on the balance sheet at an amount not less than the mandatory redemption price.

Examples of preferred stock presentation are shown below and in connection with Table 2-31.

Preferred Stock Extended at Par Value

DART INDUSTRIES INC. (DEC)

	1979	1978
Stockholders' equity:		
Preferred Stock, $5.00 par value Authorized, 15,000,000 shares Series A $2 Cumulative Convertible (aggregate liquidating preference in 1979—$125,665,000) Issued, 2,513,300 shares in 1979 and 2,958,000 shares in 1978	$ 12,566,000	$ 14,790,000
Common Stock, $1.25 par value Authorized, 100,000,000 shares Issued, 23,863,200 shares in 1979 and 23,373,900 shares in 1978	29,829,000	29,217,000
Capital in excess of par value	305,028,000	301,457,000
Retained earnings	712,669,000	588,913,000
	1,060,092,000	934,377,000
Less cost of reacquired shares of capital stock—Preferred—32,500; Common—700	1,547,000	1,547,000
Total stockholders' equity	$1,058,545,000	$932,830,000

NOTES TO FINANCIAL STATEMNETS

Capital stock

During 1979, the stockholders approved an increase in the number of authorized shares of Common Stock and 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.

PRATT & LAMBERT, INC. (DEC)

	1979	1978
Shareholders' Equity:		
Capital stock (Note G):		
Preferred stock—authorized 600,000 shares at $10 par value:		
Series A $2.25 cumulative convertible preferred shares (authorized 200,000 shares; issued 1979—130,722 shares; 1978—131,090 shares; entitled to $40 per share or $5,228,880 in liquidation as of December 31, 1979)	$ 1,307,220	$ 1,310,900
Common stock—authorized 5,000,000 shares at $5 par value; issued, 1979—1,251,807 shares; 1978—1,246,905 shares	6,259,025	6,234,525
Additional paid-in capital	109,745	83,667
Retained earnings	21,467,461	20,235,611
Total	29,143,461	27,864,703
Less treasury common stock at cost—64,312 shares	1,273,824	1,273,824
Total shareholders' equity	$27,869,637	$26,590,879

Note G: Capital Stock:

The holders of the Series A preferred shares are entitled to two votes for each share. The company may redeem the Series A preferred stock at $45 per share together with accrued dividends, if any, to the redemption date. Any such shares called for redemption may be converted into common shares, at the option of the holders thereof, through the second business day prior to the redemption date.

In the opinion of counsel, the excess of the liquidation value of the Series A preferred shares over its par value does not constitute a restriction against retained earnings.

The Series A preferred shares, referred to above, are convertible at the option of the holders thereof, at any time into common shares at a rate of two shares of common stock for each Series A share held. In accordance with the terms of the issue, the conversion rate is subject to adjustment based upon changes in the outstanding common shares of the company.

At December 31, 1979, 261,444 common shares were reserved for conversion privileges of the Series A preferred shares.

Preferred Stock Extended at Stated Value

BORG-WARNER CORPORATION (DEC)

	1979	1978
	(millions of dollars)	
Shareholders' equity:		
Capital stock:		
Preferred stock, liquidation preference $15.7 million in 1979, $21.2 million in 1978	$ 1.0	$ 1.3
Common stock	53.7	53.7
Capital in excess of par value	105.8	105.3
Retained earnings	935.5	827.3
	1,096.0	987.6
Less treasury common stock, at cost	19.1	21.5
Total shareholders' equity	$1,076.9	$966.1

NOTES TO FINANCIAL STATEMENTS

Capital stock

Detail of capital stock is as follows at December 31:

(number of shares)	Authorized	Issued	In treasury
Preferred stock, no par value, $4.50 cumulative convertible, Series A	5,000,000		
1979		157,439	0
1978		212,176	0
Common stock $2.50 par value:	70,000,000		
1979		21,476,654	662,513
1978		21,476,654	773,351

The preferred stock has a stated value of $6.25 a share and involuntary liquidation value of $100 per share. Shares are convertible, at the holder's option, into 2½ shares of common stock. In 1979, 41,438 preferred shares were converted to 103,591 common shares and in 1978, 51,493 preferred shares were converted to 128,715 common shares.

In 1979, 13,299 shares of the preferred stock were repurchased for $1.1 million and in 1978, 12,633 shares were repurchased for $900 thousand.

The company purchased 341,902 shares of common stock for the treasury in 1979 and 407,911 shares in 1978.

JOHNS-MANVILLE CORPORATION (DEC)

	1979	1978
	($000)	
Preferred Stock		
Cumulative Preferred Stock, $1.00 par, authorized 10,000,000 shares		
Redeemable $5.40 series, at stated value of $65 per share; issued and outstanding: 1979—4,609,946 shares, 1978—4,598,327 shares (Note 7)	$299,451	$298,891
Common Shareholders' Equity		
Common Stock, $2.50 par, authorized 50,000,000 shares; issued: 1979—22,456,693 shares, 1978—22,008,466 shares (Note 8)	$208,370	$197,413
Earnings Reinvested	692,420	643,317
	900,790	840,730
Less, Cost of treasury stock, 1979—142,879 shares, 1978—195,329 shares (Note 8)	4,369	5,973
	$896,421	$834,757

Note 7: Cumulative Preferred Stock

On January 19, 1979, the Company issued 4,598,327 shares of cumulative preferred stock, redeemable $5.40 series ($5.40 series), to consummate the acquisition of Olinkraft (see Note 2, "Acquisition of Olinkraft, Inc."). The preferred shares issued in this transaction have been presented as though they were outstanding at December 31, 1978, the effective date of the merger for financial reporting purposes.

At the time of the Olinkraft merger, stock options were granted to purchase 39,162 $5.40 series shares in substitution for previously granted Olinkraft stock options. At December 31, 1979, options were outstanding to purchase 29,230 $5.40 series shares (10,133 currently exercisable) at prices ranging from $30.82 to $50.13 per share. During 1979 options were exercised for 8,619 shares of preferred stock with total proceeds of $244,000. No additional grants of stock options on $5.40 series shares are anticipated.

Under a mandatory sinking fund provision, the Company is required to redeem the $5.40 series shares between 1987 and 2009 at $65 per share plus accrued dividends. The annual redemption requirements will consist of varying percentages applied to the number of outstanding shares on October 20, 1986, as follows: 5% annually from 1987 through 1996, 4% annually from 1997 through 2007, and 3% in 2008. All remaining outstanding shares are required to be redeemed in 2009.

On any sinking fund redemption date, the Company has the option to redeem at $65 per share plus accrued dividends, an additional number of shares not in excess of the number of shares required to be redeemed on the sinking fund redemption date. In addition, the Company has the option to redeem any or all of the $5.40 series shares at $67.70 per share plus accrued dividends beginning on January 19, 1984, and at annual declining redemption prices thereafter until January 19, 1989 when all subsequent redemptions will be at $65 per share plus accrued dividends.

No dividends may be paid on common stock if the Company is in default on the payment of preferred dividends or the required sinking fund redemptions on the $5.40 series shares. Upon involuntary liquidation, all $5.40 series shares are entitled to $65 per share plus accrued dividends before any distributions can be made to common shareholders.

PORTEC, INC. (DEC)

	1979	1978
	($000)	
Stockholders' equity		
Preferred stock, without par value; authorized 1,000,000 shares; issued 613 and 111,365 shares of $1.60 cumulative convertible, stated at $19 per share	$ 12	$ 2,116
Common stock, $1 par value; authorized 10,000,000 shares; issued 3,620,564 and 3,222,002 shares	3,621	3,222
Additional capital	47,963	43,368
Retained earnings	7,963	7,170
	59,559	55,876
Less—cost of treasury common stock, 15,761 shares	(247)	(247)
Total stockholders' equity	$59,312	$55,629

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11: Capital Stock

On December 15, 1978 and September 15, 1979, the Company issued 152,582 and 161,041 shares, respectively, of common stock pursuant to 5% stock dividends. All share and per share data for prior years have been restated to give retroactive effect to these stock dividends.

Changes in capital stock and additional capital were as follows:

	Preferred Stock	Common Stock	Additional Capital	Treasury Stock
		(Thousands of dollars)		
Balance at December 31, 1977	$2,116	$3,052	$40,969	$(247)
Stock dividend		153	2,263	
Exercise of stock options		17	136	
Balance at December 31, 1978	2,116	3,222	43,368	(247)
Conversion of 110,752 shares of preferred stock for 221,619 shares of common stock	(2,104)	222	1,883	
Stock dividend		161	2,581	
Exercise of stock options		16	131	
Balance at December 31, 1979	$ 12	$3,621	$47,963	$(247)

Each share of preferred stock is convertible into 2.00104 shares of common stock. At December 31, 1979, the Company had reserved 1,226 shares of common stock for issuance in the event of conversion. The Company may redeem the 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.

THE QUAKER OATS COMPANY (JUN)

	1979	1978
	Millions of Dollars	
Preference Stock, without par value, $100 stated value, $9.56 cumulative, authorized 1,500,000 shares; issued 500,000 shares	$ 50.0	$ 50.0
Common Shareholders' Equity:		
Common stock, $5 par value, authorized 35,000,000 shares; issued 20,997,349	$105.0	$105.0
Additional paid-in capital	22.6	22.8
Reinvested earnings	413.0	342.3
	540.6	470.1
Less treasury common stock, at cost	27.0	23.3
Common shareholders' equity	$513.6	$446.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preference Stock

There were 500,000 shares of $9.56 cumulative preference stock issued and outstanding at June 30, 1979 and 1978. The preference stock is redeemable, at the option of the Company, in whole or in part at prices decreasing from $109.56 per share currently to $100 after July 19, 2000, except that until July 20, 1980, such redemption cannot be made from the proceeds of indebtedness or the issuance of stock, other than common stock, having a cost of less than 9.56%. Each year, commencing on July 20, 1981, the Company must make payments to a sinking fund in an amount adequate to retire a minimum of 20,000 shares (maximum 40,000 shares) of preference stock at $100 per share, plus accrued dividends.

Preferred Stock Extended at Redemption Value

THE BFGOODRICH COMPANY (DEC)

	1979	1978
	($000)	
Redeemable Preferred Stocks		
Series Preferred Stock—$1 par value:		
$7.85 Cumulative Preferred Stock, Series A (stated at redemption and involuntary liquidation value of $100 per share)	$ 21,702	$ 23,750
$.975 Cumulative Preferred Stock, Series B (stated at redemption and involuntary liquidation value of $10 per share)	3,729	3,729
Total Preferred Stock	$ 25,431	$ 27,479
Common Shareholders' Equity		
Common Stock—$5 par value	$ 82,172	$ 82,144
Additional capital	116,137	115,802
Income retained in the business	702,474	645,694
Total Common Shareholders' Equity	$900,783	$843,640

NOTES TO FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Redeemable Preferred Stock

There are 10,000,000 authorized shares of Series Preferred Stock—$1 par value. The Board of Directors establishes and designates the series and fixes the number of shares and the relative rights, preferences and limitations of the respective series of the Series Preferred Stock. Whenever dividends on Cumulative Preferred Stock are in arrears six quarters or more, holders of such stock (voting as a class) have the right to elect two Directors of the Company until all cumulative dividends have been paid.

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.

Series A: In 1972 the Company issued 250,000 shares of $7.85 Cumulative Preferred Stock, Series A. In order to comply with sinking fund requirements, each year on August 15 the Company must redeem 12,500 shares of the Series A stock. The redemption price is $100 a share, plus dividends accrued at the redemption date. The Company may redeem, at such price, up to an additional 12,500 shares in each year. The sinking fund requirements may also be satisfied with shares acquired on the open market. During 1979, the Company, through purchases made on the open market, redeemed 12,500 shares and acquired an additional 20,480 shares for future sinking fund requirements.

Series B: During 1978, the Company, in connection with the acquisition of Continental Conveyor & Equipment Company, issued 372,838 shares of $.975 Cumulative Preferred Stock, Series B. Commencing August 20, 1983, and each July 15 thereafter, the Company must, in order to comply with sinking fund requirements, redeem 30,000 shares of Series B Stock at a price of $10 a share, plus dividends accrued at the redemption date. The Company may redeem, at such price, up to an additional 30,000 shares in each year.

After giving effect to the shares of Series A Preferred Stock being held for future sinking fund requirements, the aggregate amount of redemption requirements for the Series A and Series B Preferred Stocks is $452 in 1981, $1,250 in 1982, and $1,550 in both 1983 and 1984.

REICHHOLD CHEMICALS, INC. (DEC)

	1979	1978
	($000)	
Redeemable preferred stock, no par value:		
Authorized: 1,500,000 shares		
Issued: $8.50 cumulative, Series A—300,000 shares	$ 30,000	$ 30,000
$7.875 cumulative, Series B—50,000 shares	5,000	5,000
	$35,000	$35,000
Common stockholders' equity:		
Common stock, $1 par value:		
Authorized: 15,000,000 shares		
Issued: 6,915,170 shares	$ 6,915	$ 6,915
Capital in excess of par value	55,496	55,908
Retained earnings	101,051	96,882
Total common stockholders' equity	$163,462	$159,705

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Redeemable Preferred Stock. As of and for the years ending on December 31, 1979 and 1978, the Company had issued and outstanding 300,000 shares of $8.50 Cumulative Preferred Stock, Series A, and 50,000 shares of $7.875 Cumulative Preferred Stock, Series B. Each share of stock is entitled to one vote in the election of directors or any other matter submitted to the stockholders. The preferred stock agreement contains requirements and restrictions similar to the long-term debt agreements (note 6). Among other things it requires, dividends may not be paid to common stockholders unless all dividends and mandatory redemption payments accumulated on the preferred stock are paid.

The Company is required to redeem, at a price of $100 per share plus any accrued and unpaid dividends, (1) 21,000 shares of Series A on each April 1 from 1985 through 1996, inclusive, and 48,000 shares of Series A on April 1, 1997, and (2) 10,000 shares of Series B on each April 1 from 1983 through 1987, inclusive. The Company has the option to redeem at the same price, without premium, on any mandatory redemption date an amount of shares equal to the number of shares being redeemed.

In addition to the above, the Company may redeem all or part of the shares of Series A and B at $100 per share, plus accrued and unpaid dividends and a premium for Series A of $7.225 per share in 1980, declining uniformly to none in 1997, and for Series B of $3.9375 per share in 1980, declining uniformly to none in 1985.

The aggregate amounts of mandatory redemption requirements for the five years subsequent to December 31, 1979 are as follows:

	Mandatory redemption (in thousands)
1980	$ —
1981	—
1982	—
1983	1,000
1984	1,000

SCHERING-PLOUGH CORPORATION (DEC)

	1979	1978
	($000)	
Redeemable Preferred Shares—Authorized, 7,000,000 shares of $1 par value each; issued—1979, 656,944 shares (none in 1978) of Series B, $5.07 cumulative; stated at redemption value of $60 per share	$ 39,417	$ —
Common Shareholders' Equity		
Common shares—Authorized, 70,000,000 shares of $1 par value each; issued—1979, 55,030,495 shares; 1978, 54,084,567 shares	$ 55,030	$ 54,085
Paid-in capital	37,869	11,701
Retained earnings	1,023,562	878,115
Total	1,116,461	943,901
Less treasury shares, at cost—1979, 1,991,326 shares; 1978, 792,500 shares	60,070	23,382
Total common shareholders' equity	$1,056,391	$920,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Redeemable Preferred Stock

The Company's Series B Preferred Stock has certain mandatory redemption features. Commencing in April 1984, the Company is required to redeem 65,700 shares annually at a redemption price of $60 per share plus any accrued and unpaid dividends. Series B Preferred Stock held in the treasury, if any, may be applied toward any mandatory redemption requirements. The Company may, at its option, after April 1984 redeem, at $60 per share, additional shares of the Series B Preferred Stock which may be applied to future years' redemption requirements.

Holders of Series B Preferred Stock are entitled to $60 per share in the event of liquidation.

Preferred Stock Extended at Fair Value at Issuance

WALTER KIDDE & COMPANY, INC. (DEC)

	1979	1978
	($000)	
Series D Preference Shares—subject to mandatory redemption in 1992; $1 par value; outstanding: 1979—1,414,643; 1978—1,577,780 (preference on liquidation or redemption value 1979—$35,366)	$ 32,510	$ 36,140
Other Shareholders' Investment		
Preference shares—not subject to mandatory redemption; $1 par value; outstanding: 1979—788,312; 1978—892,481 (preference on liquidation 1979—$70,948)	788	892
Common shares—$2.50 par value- authorized 32,000,000 shares; outstanding: 1979—9,775,470; 1978—10,075,306	24,439	25,188
Paid-in capital	172,550	178,696
Earnings retained in the business	379,431	327,035
	$577,208	$531,811

NOTES TO FINANCIAL STATEMENTS

Series D Preference Shares

Series D Preference Shares are stated at fair value at dates issued plus an accretion for the difference between those amounts and the redemption price of $25 per share at their mandatory redemption date in 1992; at December 31, 1979, this accretion amounted to $497,000, of which $236,000 was recorded in 1979. Each share is convertible at any time into .787 Common Share, subject to adjustment in certain events, and may be redeemed at the option of the Company at any time after July 1982 at $25 per share plus accrued dividends. Each share is entitled to one vote along with other Preference and Common Shares, cumulative dividends at an annual rate of $1.64, and, in the event of liquidation, holders will be entitled to receive $25 for each share before any distribution on Common Shares. During the year, 4,700 Series D Shares were issued, 125,700 were repurchased and 42,100 were converted into Common Shares.

Other Preference Shares

There are 10,000,000 Preference Shares authorized for issuance (including the Series D Preference Shares discussed above). Preference Shares not subject to mandatory redemption issued in convertible cumulative series and outstanding at the end of each year were:

	1979	1978
Series		
A	—	86,840
B	246,060	257,238
C	542,252	548,403
	788,312	892,481

During 1979, 37,700 of such Preference Shares, principally Series A Shares, were converted into 80,000 Common Shares and 66,900 shares were repurchased or redeemed. Series B and C Shares are convertible, at the option of the holder, into Common Shares at any time at the rate of 1.163 Common Shares for each share, subject to adjustment in certain events, and are redeemable, at the option of the Company, at $100 which, for B Shares only, declines to $90 in 1982.

Each B and C Preference Share is entitled to one vote together with each Common and Series D Preference Share and to cumulative dividends at the annual rate of $4.00. In the event of liquidation, holders will be entitled to receive $90 for each share before any distribution on Common Shares.

Additionally, there are 200,000 warrants outstanding to purchase Series C Shares at $90.00 per share. These warrants expire in April 1981.

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 Terminology 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 italicized 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

	1979	1978	1977	1976
Additional paid-in capital..	178	180	174	170
Capital in excess of par or stated value	171	164	162	154
Capital surplus..............	69	74	77	85
Additional capital, or *other capital*	49	51	51	48
Paid-in capital, or *other paid-in capital*	29	31	36	38
Paid-in surplus.............	15	15	18	14
Other captions	16	13	11	19
	527	528	529	528
No additional paid-in capital account	73	72	71	72
Total Companies.............	**600**	**600**	**600**	**600**

EASTMAN KODAK COMPANY (DEC)

	1979	1978
	(in thousands)	
Shareowners' Equity		
Common stock		
Par value—paid in or transferred from retained earnings........	$ 403,966	$ 403,966
Additional capital paid in or transferred from retained earnings ...	269,487	269,312
Retained earnings....................	4,717,150	4,184,403
Total shareowners' equity	$5,390,603	$4,875,681

FREEPORT MINERALS COMPANY (DEC)

	1979	1978
Stockholders' Equity		
Common stock, par value $5, authorized 40,000,000 shares, issued 22,575,659 shares at December 31, 1979, and 15,533,635 shares at December 31, 1978.........................	$112,878,000	$ 77,768,000
Excess of amount paid in over par value of common stock...........	529,000	11,464,000
Retained earnings....................	316,313,000	262,548,000
	429,720,000	351,780,000
Less, Common stock held in treasury, at cost, 1,598,649 shares at December 31, 1979, and 1,600,188 shares at December 31, 1978.........................	49,777,000	50,104,000
	$379,943,000	$301,676,000

MONSANTO COMPANY (DEC)

	1979	1978
	(Dollars in millions)	
Shareowners' Equity:		
Preferred stock—authorized, 10,000,000 shares without par value, issuable in series; outstanding, 158,181 shares in 1979 and 185,112 shares in 1978; involuntary liquidation preference, $35 per share, or an aggregate of $5.5 in 1979 and $6.5 in 1978...........................	$ 0.3	$ 0.4
Common stock—authorized, 100,000,000 shares, par value $2 each; issued, 36,978,084 shares in 1979 and 36,976,516 shares in 1978...........................	73.9	73.9
Additional contributed capital....	652.9	651.5
Reinvested earnings	2,102.3	1,892.5
	2,829.4	2,618.3
Less common stock in treasury, at cost (946,916 shares in 1979 and 786,653 shares in 1978).........................	47.6	38.9
	$2,781.8	$2,579.4

STONE CONTAINER CORPORATION (DEC)

	1979	1978
	($000)	
Stockholders' equity		
Common stock	$ 5,109	$ 5,082
Capital contributed in excess of par value	631	253
Retained earnings	90,546	78,300
	96,286	83,635
Less: Common stock in treasury, at cost	150	197
Total stockholders' equity	$96,136	$83,438

TEXACO INC. (DEC)

	1979	1978
Stockholders' Equity		
Capital stock—par value $6.25: Shares authorized—350,000,000 Shares issued—274,290,327 in 1979 and 274,290,323 in 1978, including treasury stock	$ 1,714,315,000	$1,714,315,000
Paid-in capital in excess of par value	657,361,000	657,491,000
Retained earnings	8,363,536,000	7,179,925,000
	$10,735,212,000	$9,551,731,000
Less—capital stock held in treasury—2,847,665 shares in 1979 and 2,836,754 shares in 1978, at cost	89,376,000	89,195,000
Total stockholders' equity	$10,645,836,000	$9,462,536,000

TABLE 2-35: RETAINED EARNINGS—CAPTION TITLE

	1979	1978	1977	1976
Retained Earnings	473	462	451	450
Retained earnings with additional words	26	27	14	18
Earnings with additional words	61	69	81	77
Income with additional words	20	20	24	27
Earned Surplus	4	5	6	8
Companies with deficits	16	17	24	20
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 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.

AKZONA INCORPORATED (DEC)

	1979	1978
	($000)	
Stockholders' equity:		
Preferred stock—without par value; authorized 1,000,000 shares; issued—none		
Common stock $1.25 par value; authorized 20,000,000 shares; issued 12,613,575 shares	$ 15,767	$ 15,767
Additional capital	62,186	62,326
Accumulated income invested in the business	252,886	237,005
	330,839	315,098
Treasury stock, at average cost: 388,927 shares (405,219 in 1978)	6,964	7,308
Total stockholders' equity	$323,875	$307,790

EX-CELL-O CORPORATION (NOV)

	1979	1978
Shareholders' Equity:		
Preferred stock, no par value: Authorized and unissued—5,000,000 shares	$ —	$ —
Common stock, par value $3 a share, notes 10 and 11: Authorized—25,000,000 shares Issued—10,240,326 shares in 1979; 10,070,331 shares in 1978	30,721	30,211
Additional paid-in capital	71,788	71,183
Earnings reinvested in the business, notes 6 and 15	250,457	212,430
	352,966	313,824
Less cost of treasury stock—41,806 shares in 1979; 29,625 shares in 1978	1,186	512
Total shareholders' equity	$351,780	$313,312

FRUEHAUF CORPORATION (DEC)

	1979	1978
Shareholders' Investment:		
Common Stock par value $1.00 a share:		
Authorized 40,000,000 shares		
Issued 12,839,166 and 12,749,128 shares at December 31, 1979 and 1978, respectively	$ 12,839,166	$ 12,749,128
Additional paid-in capital	226,807,615	225,144,160
Earnings retained for use in the business	301,611,199	241,679,609
Cost of 630,883 shares of Common Stock held in treasury (deduction)	(15,678,303)	(15,678,303)
Total Shareholders' Investment	$525,579,677	$463,894,594

THE HOOVER COMPANY (DEC)

	1979	1978
Stockholders' Equity		
Common Stock, par value $2.50 a share—authorized 15,000,000 shares, issued 13,599,330 and 13,595,930 shares in 1979 and 1978, respectively (including shares held in treasury)	$ 33,998,325	$ 33,989,825
Other Capital	12,479,460	12,574,018
Income Employed in the Business	214,837,872	186,828,231
	261,315,657	233,392,074
Less cost of Common Stock in treasury (1979—1,484,335 shares; 1978—403,613 shares)	33,601,297	9,825,413
Total Stockholders' Equity	$227,714,360	$223,566,661

NATIONAL STEEL CORPORATION (DEC)

	1979	1978
	($000)	
Common Stock, par value $5 per share—authorized 30,000,000 shares, issued—1979—19,780,659 shares; 1978—19,620,096 shares	$ 98,903	$ 98,100
Capital in excess of par value of common stock	135,064	131,150
Income retained for use in the business	1,202,858	1,126,710
	1,436,825	1,355,960
Less cost of common stock held in treasury—1979—765,483 shares; 1978—408,742 shares	22,972	13,151
	$1,413,853	$1,342,809

NATIONAL TEA CO. (DEC)

	1979	1978
Shareholders' Investment		
Common Shares, $4 par value, authorized 20,000,000 shares; issued 10,000,000 shares at December 29, 1979, and December 30, 1978	$40,000,000	$40,000,000
Paid-in capital	33,842,150	33,842,150
Retained earnings (deficit)	1,822,627	(11,310,337)
Total shareholders' investment	$75,664,777	$62,531,813

THE RATH PACKING COMPANY (SEP)

	1979	1978
Stockholders' Equity (deficit):		
Common stock—par value $10 per share (Note 2):		
Authorized—3,000,000 shares		
Outstanding—1,192,750 shares	$ 11,927,000	$ 11,927,000
Capital in excess of par value	6,175,000	6,175,000
Accumulated deficit	(19,168,000)	(17,683,000)
	$ (1,066,000)	$ 419,000

THE TIMKEN COMPANY (DEC)

	1979	1978
Capital and Earnings Invested in the Business		
Common Stock without par value:		
Authorized—12,000,000 shares		
Issued including shares in treasury—11,265,200 shares		
Stated capital	$ 53,062,894	$ 53,062,894
Other capital	1,372,984	0
Earnings invested in the business	653,323,077	587,607,286
	$707,758,955	$640,670,180
Less cost of Common Stock in treasury (1979—60,724 shares; 1978—272,722 shares)	1,900,038	11,700,878
Total Capital and Earnings Invested in the Business	$705,858,917	$628,969,302

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 and twenty-three companies disclosed the existence of stock option plans. Examples of stock option and stock purchase plans follow.

STOCK OPTION PLANS

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Capital Stock and Stock Option Plans

Changes in the number of common and Class B shares outstanding were:

	1979	1978
Balance at beginning of year	11,617,972	11,561,212
Shares issued under stock option plans	127,405	56,760
Balance at end of year	11,745,377	11,617,972

Under stock option plans approved by the shareholders, 1,375,000 shares of Class B stock have been authorized and reserved for issuance to employees. Class B stock, which is used only in connection with the plans, has the same voting, dividend and liquidation rights as common stock.

Options granted under the plans expire either five years (qualified) or ten years (nonqualified) from the date of grant. Options to purchase 920,940 shares (net of cancellations) of Class B stock have been granted at a price equal to the market value of the common stock on the date of grant. These prices ranged from $8.27 to $44.97 per share. The total value on the dates of grant was $14,681,000.

Summary data relating to option plans:

	1979	1978
Shares under option at year end	348,335	425,320
Price range per share	$10.94-$44.97	$10.94-$44.97
Total purchase value	$6,953,000	$8,261,000
Shares under options which became exercisable during year	93,960	201,040
Price range per share	$13.13-$34.94	$10.94-$24.38
Total purchase value	$1,737,000	$3,968,000
Market price per share	$18.91-$34.94	$16.63-$25.31
Total market value	$1,849,000	$4,184,000
Shares under option purchased during year	127,405	56,760
Price range per share	$10.94-$29.49	$ 9.36-$24.19
Total purchase value	$1,947,000	$769,000
Market price per share	$18.38-$38.50	$14.96-$26.44
Total market value	$2,883,000	$1,350,000
Shares under options granted during year	87,100	180,700
Price range per share	$18.44-$34.94	$17.31-$24.38
Total purchase value	$1,639,000	$3,715,000
Shares available for future grants	215,740	266,160
Participants' borrowings under the plans	$2,976,000	$2,445,000

COOPER INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 6 (in part):

Stock Options—A summary of activity in the Company's stock option plans is presented below:

	Number of Common Shares 1979	1978
Common stock options outstanding at beginning of year	377,979	414,939
Equivalent options assumed in acquisition of Gardner-Denver; $14.625 to $30.375 per share	91,242	—
Granted:		
$47.39 to $48.64 per share	74,100	—
$42.00 to $54.50 per share	—	78,830
Exercised:		
$15.00 to $44.64 per share	(130,736)	—
$11.31 to $28.75 per share	—	(100,438)
Cancelled	(32,160)	(15,352)
Two-for-one stock split	380,425	—
Outstanding at end of year	760,850	377,979

Stock options are granted under the Company's stock option plans at not less than 100% of the market value of the Company stock at the date of grant and are exercisable over periods of three to eight years commencing one or two years from date of grant. As of December 31, 1979, and after the two-for-one split, options for 188,362 common shares were exercisable at $9.50 to $27.25 per share and 660,578 common shares were reserved for future grants.

As a result of the acquisition, the Company assumed outstanding Gardner-Denver common stock options. Each such option is exercisable over a two-year period into ½ share of $2.90 Preferred stock and ⅔ share of Cooper common. Certain of these options include stock appreciation rights. The common share activity associated with these options is included in the stock option table. At December 31, 1979, and after the two-for-one split, such options were exercisable at $8.25 to $12.25 per share into 53,114 common shares. Activity in the $2.90 Preferred portion of these options included exercises of options for 22,645 shares at $16.50 to $24.70 per share and the cancellation of options for 26,856 shares. At December 31, 1979, there are outstanding options for 87,361 shares of $2.90 Preferred at $16.50 to $30.375 per share.

ENGELHARD MINERALS & CHEMICALS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 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 1,545,000 shares (adjusted for the 2.06 for 1 common stock split in 1979) prior to termination of the plan on April 30, 1986, at the fair market value 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. Outstanding options may be cancelled and reissued under terms complying with the requirements of the plan for the granting of options. 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 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, amended on May 2, 1979, providing for the award of up to 3,090,000 common shares (adjusted for the split) to key employees as additional compensation for their services, not exceeding 618,000 shares (plus any shares which might have been awarded but were not or which were cancelled) in any year. The plan terminates December 31, 1983. 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 1979 and the status at December 31, 1979 are summarized as follows (all data adjusted for the 2.06 for 1 common stock split as of December 17, 1979):

Options:	
Outstanding at December 31, 1978	1,002,657
Granted (at $17.57 per share)	610,790
Exercised (at $7.97 to $12.31 per share)	(190,659)
Cancelled	(52,530)
Outstanding at December 31, 1979 (at $11.59 to $17.57 per share)	1,370,258
Exercisable—	
1979 and prior	183,439
1980	345,693
1981-1983	841,126
	1,370,258
Available for future grant	145,745
Awards:	
Available at December 31, 1978	696,896
Increase from plan amendment	2,391,365
Granted	(627,004)
Cancelled	20,146
Available at December 31, 1979	2,481,403

Earnings in 1979 were charged with $12,181,000, the fair market value of stock awards at the time of the grant, net of cancellations (1978—$4,153,000).

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 6 (in part): Employee Benefit Plans

Stock Incentive Plans—In 1978, the Corporation's stockholders approved the 1978 Stock Incentive Plan which provides for the granting to key employees, including officers of the Corporation, non-qualified options and stock appreciation rights. The options and stock appreciation rights are generally exercisable one year after the date of grant. Stock appreciation rights provide for the issuance of stock and cash equal to the appreciation on the allocated shares from the market value on the date of grant to the date of exercise.

Options granted under the 1978 Plan and under its predecessor, the 1972 Plan, can be exercised at a price equal to the market price on the date of the grant. Transactions involving the Plans are summarized as follows:

	Option Shares	
	1979	1978
Outstanding January 1	158,468	177,937
Granted	60,000	72,500
Canceled	(5,000)	(1,250)
Exercised ($4.05 to $25.10 per share)	(76,841)	(90,719)
Outstanding December 31	136,627	158,468
Exercisable December 31	76,627	87,219

	Appreciation Rights	
	1979	1978
Outstanding January 1	101,250	—
Granted	32,750	101,250
Exercised ($12.90 to $24.00 per share)	(53,750)	—
Outstanding December 31	80,250	101,250
Exercisable December 31	47,500	—
Maximum shares issuable for outstanding rights	40,125	50,625

On December 31, 1979, the outstanding options and stock appreciation rights were held by 80 employees at prices on the date of grant ranging from $6.05 to $35.50 per share. Such options and stock appreciation rights, if not exercised, will expire from 1982 to 1987. The Corporation had reserved 371,935 shares at December 31, 1979, for issuance pursuant to the Plans.

The Corporation expenses the increase in the value of the stock appreciation rights resulting from changes in the market price of its common stock. The amount of expense recognized was $1,352,000 in 1979 and $490,000 in 1978.

HEWLETT-PACKARD COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Note 4 (in part): Common stock

Stock option plans—The Company currently has two non-qualified stock option plans one of which was adopted in 1979. Under the terms of both plans, options are granted at 100 percent of market value at the date of grant and may be exercised at the rate of 25 percent annually beginning one year from grant date. They expire ten years from date of grant. The terms of the 1979 plan permit the Board of Directors to lower the exercise price of an outstanding option to the then current market price. Although options to purchase an aggregate maximum of 2 million shares of common stock may be granted under this plan, as of October 31, 1979 no options had been granted.

Tandem options for 144,878 shares and qualified options for 82,408 shares outstanding at the beginning of the year expired or were exercised during 1979. These shares are included in the table below which summarizes option activity for the two years ended October 31, 1979:

	Option price per share	Outstanding	Options Exercisable	Available for grant
At November 1, 1977	$17-53	869,744	386,644	379,600
Granted	40	118,900	—	(118,900)
Became exercisable	29-53	—	180,848	—
Exercised	19-44	(25,360)	(25,360)	—
At October 31, 1978	17-53	963,284	542,132	260,700
Authorized				2,000,000
Granted	46	290,500	—	(290,500)
Became exercisable	29-53	—	179,076	—
Exercised	19-53	(228,650)	(228,650)	—
Cancelled	17-53	(65,954)	(51,703)	47,956
At October 31, 1979	29-53	959,180	440,855	2,018,156

The plans provide a stock appreciation rights (SAR) program for officers and certain key executives of the Company. Under this program, a participant may exercise a stock option or SAR with respect to the same shares. If the SAR is exercised, the participant must elect to receive the gain in cash, in shares or in a combination of both. Cash payments are subject to approval by a committee of non-participating directors. The amounts charged to income under the program were $2 million in 1979 and $1 million in 1978.

Included in the above table are SAR's as of October 31 as follows:

	1979	1978
Number of shares subject to SAR's	126,300	180,650
Exercise price of the SAR's	$36-$46	$22-$44
Number of SAR's exercisable	60,300	142,776
Number of SAR's exercised	102,750	—

The Company may make loans to officers to fund the exercise of options granted prior to 1979.

HUGHES TOOL COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Capital Stock

In August 1979, a three-for-two stock split was effected in the form of a stock dividend by the issuance of one additional share of $1.00 par value common stock for each two shares then outstanding. The par value of the shares issued was transferred from additional paid-in capital to common stock. The number of shares and per share amounts mentioned in this note have been restated to reflect such distribution.

Under the Company's stock option plans, 2,100,000 shares were reserved for issuance to key employees of the Company upon the exercise of options at prices not less than 100% of the fair market value of the shares purchasable thereunder at the time the option is granted.

The following is a summary of the options that became exercisable and were exercised during 1979 and 1978:

	1979	
	Exercisable	Exercised
Number of shares	235,900	160,718
Option price:		
Per share	$50.56	$16.04-28.58
Total	$11,927,000	$3,003,000
Fair market value on dates options became exercisable or were exercised:		
Per share	$50.56	$27.92-52.94
Total	$11,927,000	$5,646,000
	1978	
	Exercisable	Exercised
Number of shares	298,350	71,428
Option price:		
Per share	$20.79-22.50	$15.83-22.50
Total	$6,295,000	$1,192,000
Fair market value on dates options became exercisable or were exercised:		
Per share	$20.79-22.50	$19.21-30.92
Total	$6,295,000	$1,608,000

The following is a summary of common stock under option (all exercisable) at December 31, 1979:

Year Granted	Number of Shares	Option Price Per Share	Total (in thousands)
1975	19,500	$27.88	$ 544
1976	179,575	28.58	5,132
1977	28,500	24.00	684
1978	197,088	20.79-22.50	4,166
1979	235,900	50.56	11,928
	660,563		$22,454

At December 31, 1979 and 1978 there were 750,791 and 8,625 shares available for grant.

Proceeds from exercise of stock options are credited to common stock and additional paid-in capital.

Each share of the Company's $6.25 Cumulative Convertible Preferred Stock was converted into 7.5 shares of common stock in January 1980. The common shares into which such preferred shares were converted are subject to certain restrictions as to resale for as long as such shares are held by Borg-Warner Corporation (Note 15).

In April 1979, the stockholders of the Company approved the increase in the authorized number of shares of common and preferred stock to 60,000,000 shares and 2,000,000 shares, respectively. In November 1979, the Company sold 1,500,000 shares of common stock through a public offering at $47.50 per share. The net proceeds of $68,574,000 were credited to common stock and additional paid-in capital.

INTERLAKE, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Stock Options

The Company had two stock option plans through which options had been granted to officers and other key employees at prices equal to the fair market value at date of grant. Remaining outstanding options under the 1965 plan expired in 1979, and the plan was terminated. Under the 1975 plan, options (up to a maximum of 375,000 shares) may be granted until December 31, 1984 to purchase common stock for periods not longer than ten years from date of grant. Options become exercisable 33⅓% annually, on a cumulative basis, starting one year from date of grant.

In April, 1977 the shareholders approved the Interlake, Inc. 1977 Stock Incentive Program, consisting of a Stock Appreciation Rights Plan (activated in 1977) under which a maximum of 300,000 shares of common stock may be issued, a Stock Awards Plan and a Restricted Stock Purchase Plan. Total shares issued for the latter two plans may not exceed 100,000. Stock appreciation rights are issued in relation to specific stock options and entitle the holder to receive the value of the stock appreciation rights (the difference between market price and option price at time of exercise of the rights) in cash, shares of common stock, or a combination of the two at the Company's discretion. Exercise of a stock appreciation right results in cancellation of an equivalent number of option shares. The Stock Awards Plan was activated in 1978 and 1,650 shares were awarded in 1979 and 16,600 shares in 1978 with a total market value as of the dates awarded of $44,000 and $428,000, respectively. Shares are issued at date of award and delivered to recipients 20% immediately and 20% on each of the four succeeding anniversary dates, subject to certain restrictions. The Board of Directors has not adopted a Restricted Stock Purchase Plan. Changes in common shares under option and related stock appreciation rights for the two years are summarized as follows:

	1979		1978	
	Option Shares	Average Option Price	Option Shares	Average Option Price
Outstanding—beginning of year....	200,249	$30.77	211,900	$28.45
Granted	70,000	26.29	57,900	25.63
Exercised	(5,400)	18.43	(7,375)	17.61
Surrendered for exercised rights...	(5,150)	22.35	(55,275)	18.15
Cancelled or expired	(12,501)	29.86	(6,901)	31.67
Outstanding—end of year	247,198	29.99	200,249	30.77
Options exercisable at end of year	128,730	33.03	91,524	31.64
Options available for grant	102,552		161,176	

Stock appreciation rights were granted in relation to 35,650 stock option shares with an average option price of $26.21 in 1979 and in relation to 140,050 stock option shares with an average option price of $26.94 in 1978. Stock appreciation rights were outstanding in relation to 136,932 and 109,250 stock option shares at December 30, 1979 and December 31, 1978, respectively.

LIGGETT GROUP INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 9: Stock Option Plans

The Incentive Stock Option and Performance Award Plan provides for the granting of options to purchase shares of the Company's common stock to officers and executives mainly responsible for the direction and management of the Company. An aggregate of 500,000 shares of common stock is reserved for incentive stock options and performance awards granted under the Plan.

The initial exercise price of the incentive stock options is the fair market value of the common stock at date of grant. Thereafter, the exercise price is the lesser of the initial exercise price or the initial exercise price decreased by $.50 for each $1.00 increase in the fair market value of the common stock. However, the exercise price may not be less than one half of the initial exercise price. Pursuant to the Plan, options may not be exercised until specified time restrictions have lapsed and option periods may not exceed ten years. Information relating to the incentive stock options under the plan as of December 31, 1979 was as follows:

	Number of Shares	Option Price Amount Per Share	Option Price Total Price (Dollars in thousands)
Granted October 1979 and under option at December 31, 1979..	41,668	$32.06	$1,336

At December 31, 1979, there were no shares exercisable.

The Company also has a Stock Option Plan which was approved by the stockholders in April 1974 and expired December 31, 1978. It provided for the granting of options to purchase shares of the Company's common stock to officers and executives mainly responsible for the direction and management of the Company. Under the Plan, option prices could not be less than the fair market value of the common stock at dates of grant, options may not be exercised until specified time restrictions have lapsed, and option periods could not exceed ten years. A maximum of 170,225 shares is reserved for options granted under the Plan.

Information relating to the Stock Option Plan as of December 31, 1979 was as follows:

	Number of Shares	Option Price Per Share Average	Option Price Total Price (Dollars in thousands)
Shares under option at January 1, 1978......	172,200	$31.23	$5,378
Granted February 1978.	15,000	27.63	414
Granted October 1978 ..	19,050	30.00	572
Exercised	(400)	28.63	(11)
Cancelled	(7,500)	29.11	(218)
Shares under option at December 31, 1978..	198,350	30.93	6,135
Exercised	(18,500)	29.71	(550)
Cancelled	(9,625)	32.18	(310)
Shares under option at December 31, 1979..	170,225	30.99	$5,275

At December 31, 1979, 107,437 shares were exercisable at an average option price of $30.53. These shares had an average fair market value of $33.41 on the dates the options became exercisable.

LUCKY STORES, INC. (JAN)

FINANCIAL REVIEW 1979

Stock Option Plan

In May 1978 shareholders approved a stock option plan for employees, essentially replacing the 1969 qualified stock option plan under which no additional options could be granted after December 31, 1978. Under the 1978 plan, options for 2,500,000 common shares may be granted. Options have been granted to employees under both plans to purchase common shares at a price not less than 100% of the fair market value at date of grant. Options generally may not be exercised within two years from the date of grant; expire five years (1969 plan) and seven years (1978 plan) from the date of grant; and terminate, except to a limited extent in the event of retirement or death of the optionee, upon termination of employment. The 1978 plan provides that the Management Compensation Committee of the Board of Directors, at its discretion, may settle the whole or any part of an exercisable instalment of an option granted under the 1978 plan by offering payment in common shares, or in common shares and cash, in exchange for the surrender of such instalment or partial instalment. No more than one half of any settlement offer may be in cash. The amount of any settlement offered shall be the lesser of the option price or the excess of the fair market value of the shares over the option price. Charges to compensation expense for the estimated amount which will be paid in future years to employees who elect to settle options amounted to $0.7 million in 1979 and $0.5 million in 1978.

Stock Option Activity	1979	1978
Options outstanding at beginning of year	1,430,080	1,076,922
Adjustment for 3% stock dividend		30,030
Granted at $15.75 to $16.13 per share in 1979 and $14.75 to $15.38 per share in 1978	397,850	612,350
Exercised at $7.11 to $15.29 in 1979 and $7.11 to $14.02 in 1978	(265,314)	(204,293)
Terminated	(111,401)	(84,929)
Options outstanding at end of year	1,451,215	1,430,080

Of the options outstanding at the end of 1979, 229,449 were exercisable at $12.59 to $15.29 per share. Options for 1,537,350 shares are available for future grants.

At February 3, 1980, 3,916,135 authorized but unissued common shares were reserved for issuance upon conversion of convertible securities and exercise of stock options outstanding.

MELVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Stock Option Plans

Stock Option Plan—1964: Under the qualified stock option plan adopted in 1964, options have been granted to key managerial employees, at fair market value on date of grant. The right to exercise such options commences one year from the date of the grant and expires five years after such date. The final options granted under this plan were in 1976 and accordingly, no options became exercisable in 1978 or 1979. At December 31, 1979, 166,190 shares of common stock were reserved under the plan.

Information with respect to options granted under this plan is as follows:

	Number of Shares	Option Price Range per Share
Shares under option at December 31:		
1978	202,955	$ 7.13-$21.88
1979	166,190	7.13- 21.88
Options exercised during:		
1978	67,685	$ 7.13-$21.88
1979	35,765	7.13- 21.88
Options which were exercisable at December 31:		
1978	202,955	$ 7.13-$21.88
1979	166,190	7.13- 21.88

Stock Option Plan—1973: The 1973 stock option plan provides for the granting of options for a maximum of 600,000 shares of the Company's common stock to corporate officers and other key managerial employess. The stock options granted under such plan may be designated as either qualified or non-qualified. The right to exercise such options commences one year from the date of grant and expires 10 years after such date. At December 31, 1979, 380,214 shares of common stock were reserved under the plan, and 55,264 shares were available for grant. All options were granted at fair market value on date of grant.

Information with respect to options granted under this plan is as follows:

	Number of Shares	Option Price Range per Share
Shares under option at December 31:		
1978	360,100	$ 7.13-$29.75
1979	324,950	7.13- 29.75
Options which became exercisable during:		
1978	60,500	$23.63-$25.00
1979	93,500	29.75
Options exercised during:		
1978	63,800	$11.00-$28.00
1979	31,750	11.00- 28.00
Options which were exercisable at December 31:		
1978	275,850	$ 7.13-$28.00
1979	319,950	7.13- 29.75

THE MURRAY OHIO MANUFACTURING COMPANY (DEC)

NOTES TO FINANCIAL STATEMNETS

Note F (in part): Company Stock Plans

Unissued Common Shares of the Company are reserved for issuance under stock option plans authorized by the shareholders during 1969, 1973 and 1979. The terms of the plans provide that qualified or nonqualified options may be issued to key employees, including officers, of the Company at a price not less than the market value of the shares at the date of grant. The options become exercisable one year from the date of grant ratably over the succeeding four years and expire five years for qualified options and ten years for nonqualified options from the date of grant. The qualified options must be exercised in order of grant dates, as long as earlier unexercised option price exceeds later option prices.

A summary of option activity follows:

Options	Shares	Option Prices	Aggregate Value	Corresponding Market Price Per Share	Total
Outstanding January 1, 1978	144,829	$9.33-20.87	$1,869,025		
Granted during 1978	26,000	$18.75	487,500		
Expired during 1978	(937)	$17.50	(16,398)		
Outstanding December 31, 1978	169,892	$9.33-20.87	$2,340,127		
Granted during 1979	31,000	$18.125	561,875		
Expired during 1979	(5,813)	$9.33-20.875	(93,119)		
Exercised during 1979 From unissued stock	(4,964)	$9.33-12.25	(54,470)	$15.00-19.50	$87,866
Exercised during 1979 From repurchased stock	(2,500)	$9.33-11.50	(25,637)	$17.00-17.75	$44,000
Outstanding December 31, 1979	187,615	$9.33-20.87	$2,728,776		
Become exercisable during 1978	36,355	$9.33-20.87	$ 467,300	$17.75-19.50	$692,718
Become exercisable during 1979	20,398	$9.33-20.87	$ 321,609	$18.00-19.00	$328,312

At December 31, 1979 options for 122,792 shares were exercisable. There were 311,947 and 36,197 unoptioned shares at December 31, 1979 and 1978, respectively. There were 29,500 Company Common Shares held for this plan at December 31, 1979.

The shareholders approved in 1979 a stock appreciation rights plan which provides an alternative method of realizing stock option benefits. The Plan authorizes the granting of stock appreciation rights in respect of any outstanding stock option granted by the Company pursuant to any now existing or future stock option plan. Stock appreciation rights may be granted in respect of stock options now outstanding or any which may be granted in the future. Stock appreciation rights granted pursuant to the Plan would permit an optionee, in lieu of exercising all or any part of his option, to surrender the same in exchange for an amount equal to 100%,, or such lesser percentage as the committee administering the Plan may determine, of the excess of (i) the market price of the Common Shares on the date such right is exercised over (ii) the option price. Such amount may be paid by the Company in Common Shares (valued at their market price at that time), in cash, or a combination thereof, as the committee may determine. The Company recorded an expense attributable to this plan of $25,000 after provision for deferred income tax in 1979.

NORTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Stock Option, Stock Appreciation Rights, and Bonus Plans

The Company has qualified and nonqualified stock option plans for key employees under which options may be granted at prices not less than the fair market value on the date of grant. Options under the plans become exercisable at various dates and expire at the end of five and ten years from the date of grant for the qualified and nonqualified plans, respectively. In addition to providing for the granting of stock options, stock appreciation rights may be granted under all option plans whereby the grantee may surrender exercisable options and receive common stock and/or cash measured by the difference between the option price and the market value of the common stock on the date of surrender.

The grant or exercise of options under the qualified or nonqualified stock option plans does not result in a charge against the Company's earnings. However, for options containing stock appreciation rights, a charge is made against earnings based on the excess of the market value of the common stock over the stipulated grant price. The charges to income with respect to options containing stock appreciation rights during 1979 and 1978 were $2,726,000 and

$2,806,000, respectively. The amount provided under incentive compensation plans for officers, directors, and key employees was approximately $3,600,000 in 1979 ($2,600,000 in 1978).

Information for the years 1978 and 1979 with respect to the plans is as follows:

	Shares		
	Stock Options	Stock Appreciation Rights	Price Per Share
Outstanding at December 31, 1977	463,080	368,600	$9.83-18.50
Granted	12,000	12,000	22.13
Stock appreciation rights granted for previously issued options		14,800	9.83-17.50
Exercised	(96,096)	(80,940)	9.83-18.50
Expired or cancelled	(1,360)		9.83-13.50
Outstanding at December 31, 1978	377,624	314,460	9.83-22.13
Granted	107,000	107,000	25.20-29.13
Stock appreciation rights granted for previous issued options		8,320	9.83-17.50
Exercised	(116,214)	(96,880)	9.83-25.20
Expired or cancelled	(5,440)	(2,800)	9.83-18.50
Outstanding at December 31, 1979	362,970	330,100	9.83-29.13
Exercisable at December 31, 1979	213,960	190,820	
Reserved for future grant:			
December 31, 1979	74,000	128,844	
December 31, 1978	179,000	242,164	

STOCK PURCHASE PLANS

THE BLACK AND DECKER MANUFACTURING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Stock Option and Employee Purchase Plans

Under qualified and nonqualified stock option plans, options may be granted until January 25, 1986 at not less than market value on the date of the grant. 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 30, 1979 there were 2,721,903 shares of Common Stock reserved for future grants (1,127,032 shares at September 24, 1978). Transactions are summarized as follows:

	Shares Under Option	Price Range
Outstanding at September 25, 1977 (390,001 shares exercisable)	1,338,352	$16.88-41.33
Granted	528,860	16.00-19.50
Exercised	(3,312)	16.88
Canceled or expired	(235,722)	16.00-41.33
Outstanding at September 24, 1978 (518,527 shares exercisable)	1,628,178	16.88-36.00
Granted	589,700	21.00-23.50
Exercised	(8,844)	16.88-19.50
Canceled or expired	(184,572)	16.88-36.00
Outstanding at September 30, 1979 (760,249 shares exercisable)	2,024,462	

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 30, 1979 there were 333,702 shares reserved for future subscriptions (378,725 shares at September 24, 1978).Transactions are summarized as follows:

	Shares Under Option	Price Range
Balance September 25, 1977	83,285	$15.25
Subscriptions	56,222	13.63
Purchases	(62,560)	15.25
Cancellations	(22,091)	13.63-15.25
Balance September 24, 1978	54,856	13.63
Subscriptions	49,992	17.50
Purchases	(51,853)	13.63-17.50
Cancellations	(4,969)	13.63-17.50
Balance September 30, 1979	48,026	17.50

DANA CORPORATION (AUG)

COMMENTS ON 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 provided 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. Effective July 1, 1979, the plan was amended and now provides that employees may authorize Dana to withhold up to 15% of earnings. The trustee purchases, as nominee for the participants, common stock of Dana at prevailing market prices and distributes shares purchased to the participants.

Under the amended plan, when consolidated return on sales is 5.5% or more, Dana contributes, on behalf of each participating employee, specified percentages (20% to 50%) of participants' contributions. Dana's contributions are included in the participants' gross wages and appropriate taxes withheld. Dana contributions under the amended plan which were charged to income amounted to $3,500,000 in 1979 and $2,446,000 in 1978.

DIGITAL EQUIPMENT CORPORATION (JUN)

NOTES TO FINANCIAL STATEMENTS

Note J (in part)

1968 Employee Stock Purchase Plan—Under the Company's 1968 Employee Stock Purchase Plan, all United States and Canadian employees may be granted options to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 791,168 shares at June 30, 1979 and 1,146,540 shares at July 1, 1978. There were 360,842 shares issued at an average price of $40.84 in fiscal 1979 and 324,237 shares at $37.25 in fiscal 1978. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

GEARHART-OWEN INDUSTRIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Stockholders' Equity

The stockholders approved in June, 1979 an Employee Stock Purchase Plan, under which a total of 150,000 shares of the company's common stock may be purchased by employees only through payroll deductions at prices equal to 85% of either the market price of the company's stock on the offering date, or if lower, the market price on the date of exercise which is 12 months after the date of the grant. The options may not be exercised until that date, but may be withdrawn at any time with the balance of payroll deductions being refunded to the participant. The plan limits the payroll deductions to 10% of the employee's base salary and the granting of options to once a year. There are no charges or credits to income in connection with the Plan.

The most recent offering made under the Employee Stock Purchase Plan was September 1, 1979, at which date 85% of the market price of the company's common stock was $36.44 per share. As of January 31, 1980, there were 132,282 shares reserved for future offerings.

JOY MANUFACTURING COMPANY (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 (in part): Stock Purchase Plan

Upon the merger of Wheeling Machine Products Company (Wheeling) with Joy in 1977, rights to purchase shares of Joy common stock were substituted for all outstanding rights to purchase shares of Wheeling common stock under Wheeling's stock purchase plans. No additional purchase rights have been granted since the merger and no future grants are anticipated under these plans.

The purchase rights outstanding at September 28, 1979 and September 29, 1978 were 27,134 and 36,041 shares, respectively. At September 28, 1979, 27,134 shares were reserved for issuance; during fiscal 1979, 8,902 shares were issued and 5 shares were canceled. Through fiscal 1979 full payments amounting to $333,970 for 20,261 shares under these stock purchase plans were received at prices ranging from $8.72 to $20.93 per share. The total market value of these shares based on the average high and low price as reported in the *Wall Street Journal*, which includes trades on the New York and Midwest Stock Exchanges and other markets, at dates payments in full were received amounted to $664,922 at market values ranging from $27.94 to $36.50 per share.

PEOPLES DRUG STORES, INCORPORATED (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Peoples Employee Stock Purchase Plan: On January 23, 1978, the stockholders approved the Peoples Employee Stock Purchase Plan which became effective July 1, 1978. The Plan is intended to provide eligible employees with an opportunity to purchase the Company's common stock through payroll deduction, at seventy percent of the average market price on the date of purchase. The deductions are limited to a maximum of five percent of any basic compensation and individual purchases may not exceed 200 shares of common stock in any Plan year. The maximum cost to the Company in each year is determined by the Board of Directors. Under the Plan, 42,917 shares (including 40,371 treasury stock) in 1979 and 4,439 shares (all treasury stock) in 1978 were issued and $142,000 and $17,000 were charged to expense.

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.

Cost of Treasury Stock Deducted From Stockholders Equity

ANCHOR HOCKING CORPORATION (DEC)

	1979	1978
Preferred stock—$4 cumulative—without par value (stated value and redeemable at $107 per share). Authorized 36,305 shares; issued and outstanding 3,521 shares (1978—4,826)...	$ 377,000	$ 516,000
Serial preference stock—$1 par value Authorized 5,000,000 shares; issued—none		
Common stockholders' equity:		
Common stock—$1.00 par value per share (1978—$3.25) Authorized 25,000,000 shares (1978—15,000,000); issued 10,623,832 shares (1978—7,082,803; resulted in 10,623,832 after 3-for-2 split)	$ 10,624,000	$ 23,019,000
Capital in excess of par value...	18,318,000	5,854,000
Retained earnings	252,232,000	232,887,000
Less common stock in treasury, at cost 390,148 shares (1978—276,788; resulted in 415,182 after 3-for-2 split)..	(4,430,000)	(4,714,000)
Total common stockholders' equity	$276,744,000	$257,046,000

CHAMPION INTERNATIONAL CORPORATION (DEC)

	1979	1978
	($000)	
Shareholders' Equity:		
Capital Shares:		
$1.20 Preference, $1.00 par value, in 1979, authorized 2,654,010 shares, issued 2,383,725 shares (liquidation preference aggregates $53,405); in 1978, authorized 5,618,038 shares, issued 5,167,208 shares	$ 13,410	$ 28,911
Undesignated Preference, $1.00 par value, authorized 11,531,431 shares, unissued	—	—
Common, $.50 par value, authorized 100,000,000 shares; issued 54,443,440 shares in 1979 and 51,624,000 shares in 1978	373,602	357,180
Retained Earnings	1,171,286	997,249
	1,558,298	1,383,340
Less—Treasury shares, at cost:		
$1.20 Preference, 10,170 shares in 1979 and 1978	199	199
Common, 1,143,464 shares in 1979 and 1,205,268 shares in 1978	23,071	24,177
Total shareholders' equity .	$1,535,028	$1,358,964

INGERSOLL-RAND COMPANY (DEC)

	1979	1978
	($000)	
Shareowners' Equity:		
Preference Stock		
Authorized—10,000,000 shares without par value, issued—$2.35 Convertible Series, 3,167,089 shares in 1979 and 3,167,469 shares in 1978 (liquidating preference $63,342)	$ 6,290	$ 6,291
Common Stock		
Authorized—30,000,000 shares, $2 par value, issued—18,966,962 shares in 1979 and 18,965,719 shares in 1978	37,934	37,931
Capital in excess of par value	130,037	129,964
Earnings retained for use in the business	920,778	838,252
	1,095,039	1,012,438
Less—treasury shares (common: 784 in 1979 and 1,138 in 1978; preference: 238,000 in 1979 and in 1978), at cost ..	10,381	10,381
Total shareowners' equity	$1,084,658	$1,002,057

TABLE 2-36: TREASURY STOCK — BALANCE SHEET PRESENTATION

	1979	1978	1977	1976
Common Stock				
Cost of treasury stock deducted from total of capital stock, additional paid-in capital (if any), and retained earnings....	345	345	349	341
Par or stated value of treasury stock deducted from issued stock of the same class	39	42	45	51
Cost of treasury stock deducted from stock of the same class	13	13	15	11
Shown as a noncurrent asset	6	7	8	9
Other	11	5	6	12
Total Presentations..........	**414**	**412**	**423**	**424**
Preferred Stock				
Cost of treasury stock deducted from total of capital stock, additional paid-in capital (if any) and retained earnings	21	28	29	30
Par or stated value of treasury stock deducted from issued stock of the same class	5	8	8	12
Other	3	4	1	9
Total Presentations..........	**29**	**40**	**38**	**51**
Number of Companies				
Disclosing treasury stock....	417	418	424	433
Not disclosing treasury stock	183	182	176	167
Total Companies..............	**600**	**600**	**600**	**600**

TRIANGLE INDUSTRIES, INC. (DEC)

	1979	1978
Shareholders' Equity		
Capital stock, no par value Authorized 5,500,000 shares Issued 2,251,050 in 1979; 2,147,957 in 1978	$ 2,251,000	$ 2,148,000
Additional paid-in capital.........	7,246,000	6,525,000
Retained earnings.................	40,971,000	39,199,000
	50,468,000	47,872,000
Less: Treasury stock, at cost (57,216 shares)	983,000	983,000
Total shareholders' equity .	$49,485,000	$46,889,000

TWENTIETH CENTURY-FOX FILM CORPORATION (DEC)

	1979	1978
	($000)	
Common Stockholders' Equity		
Common stock, $1 par value; authorized 15,000,000 shares, issued 8,718,708 shares in 1979 and 8,644,510 shares in 1978........................	$ 8,719	$ 8,645
Capital in excess of par value...	84,978	83,517
Retained earnings................	164,179	127,495
	257,876	219,657
Less cost of 886,007 common shares in treasury	8,086	8,086
Total common stockholders' equity........................	$249,790	$211,571

UMC INDUSTRIES, INC. (DEC)

	1979	1978
Shareholders' Equity		
Preferred stock, $100 par value; 200,000 shares authorized, none issued	$ —	$ —
Common stock, $2.50 par value; authorized 1979—10,000,000 shares; 1978—8,500,000 shares; issued 1979—6,833,102 shares; 1978—6,777,575 shares	17,083,000	16,944,000
Capital in excess of par value......	21,272,000	20,864,000
Retained earnings...................	78,730,000	71,327,000
	117,085,000	109,135,000
Less cost of treasury shares: 1979—960,289 shares; 1978—960,284 shares.......	16,403,000	16,404,000
Total shareholders' equity	$100,682,000	$ 92,731,000

Treasury Shown as Noncurrent Asset

GENERAL MOTORS CORPORATION (DEC)

	1979	1978
	(Dollars in Millions)	
Total Current Assets.................	$16,556.5	$17,999.5
Investments and Miscellaneous Assets	3,828.2	2,812.1
Common Stock Held for the Incentive Program (Note 3)............	192.9	181.1

Note 3 (in part): Incentive Program

Common stock held for the Incentive Program is exclusively for payment of liabilities under the Incentive Program and is stated substantially at cost.

	1979		1978	
(Dollars in Millions)	Shares	Amount	Shares	Amount
Balance at Jan. 1....	2,787,740	$181.1	2,136,633	$146.5
Acquired during the year................	1,192,566	68.8	1,338,698	81.6
Delivered to participants...............	(871,990)	(57.0)	(687,591)	(47.0)
Balance at Dec. 31..	3,108,316	$192.9	2,787,740	$181.1

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

INTERNATIONAL HARVESTER COMPANY

Statement of Income

NORTH AMERICAN PHILIPS CORPORATION

Consolidated Statements of Income

PITNEY BOWES INC.

Statement of Consolidated Income

SCHERING-PLOUGH CORPORATION

Statement of Consolidated Income and Retained Earnings

Earnings

NATIONAL PRESTO INDUSTRIES, INC.

Consolidated Statements of Earnings and Retained Earnings

SCOVILL INC.

Consolidated Statement of Earnings

SNAP-ON TOOLS CORPORATION

Consolidated Statements of Earnings

A. E. STALEY MANUFACTURING COMPANY

Statements of Consolidated Earnings and Earnings Reinvested

TABLE 3-1: INCOME STATEMENT TITLE

	1979	1978	1977	1976
Income	373	367	357	369
Earnings	179	177	179	175
Operations	47	54	60	51
Other	1	2	4	5
Total Companies	**600**	**600**	**600**	**600**

Operations

ARDEN GROUP, INC.

Statements of Operations

CHOCK FULL O'NUTS CORPORATION

Consolidated Statements of Operations

PHOENIX STEEL CORPORATION

Statement of Operations and Accumulated Deficit

UMC INDUSTRIES, INC.

Consolidated Statement 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

	1979	1978	1977	1976
Single-step form				
Federal income tax shown as separate last item	306	323	312	301
Federal income tax listed among operating items...	45	47	59	59
Multiple-step form				
Costs and expenses deducted from sales to show operating income	131	118	101	114
Costs deducted from sales to show gross margin	118	112	128	126
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.

Net Sales

BAIRD CORPORATION (SEP)

	1979	1978
Net sales (note 1)	$33,205,625	$30,839,324

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

D. Revenue Recognition—In general, the Company and its subsidiaries recognize revenues on equipment sales when units are shipped. Shipment of a completed 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, 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 reimbursement type contracts with the United States Government, the Company recognizes revenue on the basis of allowable monthly incurred costs plus fee.

DART INDUSTRIES INC. (DEC)

	1979	1978
Income:		
Net sales	$2,403,266,000	$1,833,161,000
Other income.............	30,345,000	30,150,000
	$2,433,611,000	$1,863,311,000

GENESCO INC. (JUL)

	1979	1978
Net sales	$992,925,000	$1,048,351,000
Cost of sales	672,812,000	705,740,000
Gross margin	$320,113,000	$ 342,611,000

JOHNS-MANVILLE CORPORATION (DEC)

	1979	1978
	($000)	
Revenues		
Net sales	$2,276,429	$1,648,599
Other income, net	20,933	27,990
Total	$2,297,362	$1,676,589

THE MARLEY COMPANY (OCT)

	1979	1978
	($000)	
Net Sales	$300,973	$240,698
Cost of Products Sold	230,183	177,704
	$ 70,790	$ 62,994

HOMASOTE COMPANY (DEC)

	1979	1978
Net sales	$20,258,806	$17,085,578
Cost of sales	14,083,933	11,811,456
Gross profit on sales	$ 6,174,873	$ 5,274,122

TABLE 3-3: SALES—CAPTION TITLE

	1979	1978	1977	1976
Net Sales				
Net sales	379	376	380	364
Net sales and operating revenue	16	18	25	25
Net sales combined with other terms	13	12	12	21
Sales				
Sales	87	89	94	102
Sales and operating revenue	24	27	29	28
Sales combined with other terms	17	19	12	14
Other Captions				
Revenue or gross operating income	53	50	36	32
Gross sales, income, billings, shipments, etc.	11	9	12	14
Total Companies	**600**	**600**	**600**	**600**

Sales

EASTMAN KODAK COMPANY (DEC)

	1979	1978
	(In thousands)	
Sales		
Sales to: Customers in the United States	$4,468,356	$4,081,765
Customers outside the United States	3,559,875	2,931,158
Total Sales	$8,028,231	$7,012,923

GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

	1979	1978
	(Dollars in thousands)	
Sales	$7,469,659	$7,288,577
Cost of merchandise sold	5,865,637	5,738,002
Gross margin	$1,604,022	$1,550,575

SMITHKLINE CORPORATION (DEC)

	1979	1978
Revenue:		
Sales	$1,351,145,000	$1,112,039,000
Interest income	23,593,000	15,702,000
Royalties and other income	5,538,000	8,877,000
	$1,380,276,000	$1,136,618,000

Revenue

CAESARS WORLD, INC. (JUL)

	1979	1978
	(Thousands Omitted)	
Revenue:		
Casino	$122,887	$ 96,094
Rooms	32,552	27,895
Food and beverage	51,659	43,268
	207,098	167,257
Less: Promotional allowances (Note 1b)	20,798	16,008
	186,300	151,249
Computer sales	24,161	14,094
Real estate operations	12,754	12,047
Other income	10,402	5,194
	$233,617	$182,584

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

b. Accounting for casino revenue and promotional allowances: In accordance with common industry practice, the Company recognizes as casino revenue the net win from gaming activities, which is the difference between gaming wins and losses. The retail value of accommodations, food and beverages furnished without charge to customers are

TABLE 3-4: OTHER REVENUE

	Number of Companies			
	1979	1978	1977	1976
Interest	175	167	182	192
Equity in earnings of investees	112	110	106	103
Gains on dispositions of assets	87	69	63	47
Translation gains	65	46	36	37
Royalties	32	28	43	49
Dividends	30	26	40	56
Rentals	19	14	19	N/C

N/C—Not Compiled.

included in gross revenues and then deducted as promotional allowances. Other promotional items are treated as casino expenses.

DIGITAL EQUIPMENT CORPORATION (JUN)

	1979	1978
	($000)	
Revenues (Note A)		
Equipment sales	$1,381,756	$1,128,099
Service and other revenues	422,336	308,463
Total operating revenues	$1,804,092	$1,436,562

Note A (in part): Significant Accounting Policies

Revenue Recognition—Revenues from equipment sales are recognized at the time the equipment is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

ALPHA PORTLAND INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Revenues:		
Construction contracts	$137,075	$133,744
Cement and aggregates	101,596	88,071
Interest and other	3,708	3,449
Total revenues	$242,379	$225,264

Interest Income

THE AMALGAMATED SUGAR COMPANY (DEC)

	1979	1978
Sales	$204,929,000	$136,697,000
Income from miscellaneous sources:		
Interest	4,856,000	2,539,000
Other	224,000	69,000
	$210,009,000	$139,305,000

BORG-WARNER CORPORATION (DEC)

	1979	1978
	(millions of dollars)	
Sales and other income:		
Net sales	$2,717.4	$2,326.0
Other income	18.4	19.5
	$2,735.8	$2,345.5

NOTES TO FINANCIAL STATEMENTS

Other income

Items included in other income consist of:

(millions of dollars)	1979	1978
Interest income	$ 7.1	$ 4.2
Dividend income	1.4	6.3
Gain on capital asset disposals	1.2	2.1
Equity in earnings of affiliated manufacturing companies, principally in Japan	8.7	6.9
Total	$18.4	$19.5

RAYTHEON COMPANY (DEC)

	1979	1978
	(In thousands)	
Cost of sales	$3,050,791	$2,668,399
Administrative and selling expenses	332,388	294,209
Research and development expenses	73,917	66,343
Interest expense	9,787	11,177
Interest income	(77,498)	(61,159)
Other (income) expense—net	1,765	(814)
Total costs and expenses	3,391,150	2,978,155

Gain From Sale of Assets

THE DOW CHEMICAL COMPANY (DEC)

	1979	1978
	(In thousands)	
Net Sales	$9,255,387	$6,887,623
Operating Costs and Expenses		
Cost of sales	7,231,630	5,284,001
Selling and administrative	690,166	552,219
	7,921,796	5,836,220
Operating income	1,333,591	1,051,403
Other Income (Expense)		
Equity in earnings:		
Non-consolidated subsidiaries	20,174	37,296
20%-50% owned companies	103,253	76,597
Interest income	86,340	49,813
Interest and debt discount expense	(358,534)	(287,059)
Gain on sale of oil and gas properties	84,846	
Sundry income—net	42,889	40,011
Income Before Provision for Taxes on Income	$1,312,559	$ 968,061

NOTES TO FINANCIAL STATEMENTS

Note A: Gain on Sale of Oil and Gas Properties—Maligne Resources Limited, a wholly-owned subsidiary of Dow Chemical of Canada Limited, has owned a 25 percent undivided interest in a portion of the onshore oil and gas properties of Dome Petroleum Limited under the terms of a 1974 agreement. In December 1979, Maligne exercised its right to acquire a like interest in significant additional onshore properties from Dome. Maligne then sold a half interest in essentially all of its oil and gas interests to TCPL Resources Ltd., a wholly-owned subsidiary of TransCanada PipeLines Limited. One of the conditions of sale is that certain areas under active exploration have provision for reevaluation of purchase prices in 1981 and 1982. Using the tentative contract prices, the transaction resulted in a pre-tax gain of $84.8 million and $50.1 million after tax, or $.28 per share.

The two parties then entered into a joint venture which provides that each contribute their oil and gas properties as the initial investment. The joint venture will pursue acquisition, exploration and development programs intended to increase the existing hydrocarbon reserves.

INTERNATIONAL PAPER COMPANY (DEC)

	1979	1978
	(In millions of dollars)	
Revenue		
Net sales	$4,533.3	$4,018.0
Other income, net (Note 1)	224.6	19.5
Total Revenue	$4,757.9	$4,307.5

Note 1: Other Income, Net—The components of other income follow:

In Millions	1979	1978
Interest income[1]	$ 70.4	$36.1
Equity in earnings of affiliates	23.1	17.9
Sale of capital assets[2]	28.7	26.3
Sale of subsidiary[3]		13.2
Foreign currency exchange	(1.3)	(3.3)
Mill closing[4]		(21.7)
Legal settlements[5]		(38.1)
Sale of mill and associated woodlands[6]	136.9	
Write-down of goodwill[7]	(20.0)	
Miscellaneous[8]	(13.2)	(10.9)
Total	$224.6	$19.5

1 Includes in 1979 and 1978 $7.1 million and $10.9 million of interest income on advances (which are not to be repaid) to support IP's discontinued oil and natural gas operations.

2 Includes $21.6 million ($15.0 million after tax) in 1979 for land sales and $14.8 million ($10.0 million after tax) in 1978.

3 In 1978, IP sold all of its stock in a wholly owned Canadian subsidiary, resulting in a gain of $13.2 million ($8.5 million after tax). Net sales, net earnings, and assets of this subsidiary were not material to IP's consolidated financial statements.

4 In 1978, IP decided to terminate pulp and paper production at its Springhill, La., mill, resulting in a charge to other income of $21.7 million and a reduction to net earnings of $12.8 million to cover employee termination and other expenses. Since additional depreciation had previously been provided to recognize the reduction in the estimated economic lives of the fixed assets, there have been no charges to earnings for the retirement of the assets at Springhill affected by the closing.

5 These settlements reduced 1978 net earnings by $23.1 million.

6 In 1979, the Company sold its Panama City, Fla., mill and its associated woodlands for $137 million in cash and $70 million face value 9% preferred stock resulting in a pre-tax gain of $136.9 million and after-tax earnings of $94.7 million.

7 In 1979, earnings were reduced by $20 million ($14.4 million after tax) as a result of reducing cost in excess of assigned value carried on the balance sheet to realizable values.

8 In 1979, includes a loss of $14 million ($8 million after tax) for damages to the Company's timberlands and facilities in the Gulf Coast region caused by Hurricane Frederic.

LITTON INDUSTRIES, INC. (JUL)

	1979	1978
	($000)	
Earnings before Currency Adjustments, Gain on Sale of Subsidiary, Contract Settlement with U.S. Navy and Taxes on Income	$322,077	$182,703
Currency adjustments	(35,367)	(54,600)
Gain on sale of subsidiary (Note B)	42,197	
Contract settlement with U.S. Navy		(332,573)
Earnings (loss) before taxes on income	$328,907	$(204,470)

Note B: Sale of Subsidiary

In May 1979, the Company sold share capital representing a controlling 52.17% interest in Triumph Werke Nurnberg A.G. (Triumph). The sale resulted in a gain of $42,197,000 ($26,009,000 after tax, or $.69 per share).

After the effects of an increase in the capital of Triumph, the Company's ownership of the voting securities of Triumph was reduced to 19.08%. The Company has received a two-year option to sell and granted a two-year option to buy its remaining equity interest in Triumph.

Triumph and its subsidiaries are engaged principally in the manufacture and sale of typewriters and business machines. In fiscal 1979 and 1978, these companies recorded consolidated sales of approximately $549,000,000 and $470,600,000, respectively.

In the 1979 consolidated financial statements, the Company's remaining investment in the capital stock of Triumph is accounted for by the cost method. This investment, including a note receivable from a United States subsidiary of Triumph, is classified as a long-term investment. Revenues and expenses related to Triumph and its subsidiaries are included in the Consolidated Statements of Operations through May 1979.

The sale of the controlling interest in Triumph significantly reduced the "Cost of businesses purchased over corresponding net assets" included in the Consolidated Balance Sheets for 1979 and resulted in the elimination of minority interests.

In the Statements of Changes in Financial Position, the effect of the sale of Triumph on long-term items in the balance sheets is reflected in the lines captioned "Remaining interest in subsidiary sold" and "Long-term liabilities less long-term assets of subsidiary sold." Under changes in working capital, the working capital of Triumph as of August 1, 1978 is set forth on one line so as to accurately reflect the changes from remaining operations in each category of working capital.

REEVES BROTHERS, INC. (JUN)

	1979	1978
Net sales	$336,934,500	$309,019,389
Cost of sales	275,379,360	256,280,219
Gross profit on sales	61,195,140	52,739,170
Selling, general and administrative expenses	26,659,338	27,452,895
	34,535,802	25,286,275
Other income/(expense):		
Gain on sale of property, plant and equipment—Note G	3,154,269	
Interest income	2,856,385	972,927
Interest expense	(2,695,323)	(2,607,300)
	3,315,331	(1,634,373)
Income before Federal and other income taxes	$ 37,851,133	$ 23,651,902

Note G: Gain on property, plant and equipment—

The gain on property, plant and equipment results from the sale of the Columbus, Georgia; Reading, Pennsylvania; and Greenville, South Carolina plants. Management is of the opinion that the sale of these plants will have a positive effect on the future operating results of the Company.

Royalty Income

E. I. DU PONT DE NEMOURS & COMPANY (DEC)

	1979	1978
	(Dollars in millions)	
Sales	$12,571.8	$10,584.2
Other Income	130.1	96.7
Total	$12,701.9	$10,680.9

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions)

Note 1: Other Income

	1979	1978
Royalty income	$ 44.7	$39.6
Interest income, net of miscellaneous interest expense	47.9	37.5
Equity in earnings of principal nonconsolidated affiliates	8.9	(9.8)
Miscellaneous income and expenses—net	28.6	29.4
	$130.1	$96.7

Dividends received from principal nonconsolidated affiliates were $6.9 in 1979 and $7.0 in 1978.

EX-CELL-O CORPORATION (NOV)

	1979	1978
	($000)	
Sales and operating revenues	$961,867	$729,792
Other income, net	21,337	15,142
	$983,204	$744,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Details to Consolidated Statements of Earnings

(Thousands of dollars)

	Years Ended November 30 1979	1978
Sales and Operating Revenues:		
Sales, net	$931,813	$699,058
Operating revenues from rental machines	30,054	30,734
	$961,867	$729,792
Other Income, Net:		
Royalties	$ 9,084	$ 8,870
Interest income	2,944	1,431
Gain on disposal of property, plant and equipment and rental machines	3,695	1,805
Equity in earnings of affiliated companies	2,111	1,281
Other, net	3,503	1,755
	$ 21,337	$ 15,142
Expenses Included in Cost of Sales:		
Research and development	$ 13,552	$ 12,052

Rental Income

AMF INCORPORATED (DEC)

	1979	1978
	($000)	
Sales	$1,403,631	$1,284,909
Rentals	34,721	33,900
Total Revenue	$1,438,352	$1,318,809

Casualty Insurance Settlement

ANCHOR HOCKING CORPORATION (DEC)

	1979	1978
Net sales	$785,189,000	$716,816,000
Costs and expenses:		
Cost of products sold	656,275,000	576,609,000
Selling and administrative expenses	78,391,000	71,944,000
	734,666,000	648,553,000
Income from operations	50,523,000	68,263,000
Other income	1,761,000	3,115,000
Interest expense	(8,956,000)	(7,517,000)
Gain from settlement of insurance claims	10,405,000	—
Income before income taxes	$ 53,733,000	$ 63,861,000

NOTES TO FINANCIAL STATEMENTS

Note 2—Gain from Settlement of Insurance Claims

On July 15, 1978, a fire destroyed the warehouse facilities, a significant portion of the production facilities and substantially all of the inventories of The Phoenix Glass Company, a wholly-owned subsidiary of the company. The company's insurance claim regarding the inventories destroyed by the fire was settled during 1978. The proceeds received approximated the standard cost of the inventories destroyed.

During 1979, the company and its insurance carrier settled the claims on the warehouse and production facilities destroyed during the fire. Since the insured values of the facilities were based on replacement cost, the proceeds of $12,500,000 substantially exceeded the net book value of the assets destroyed and, accordingly, the company recorded a pretax gain of $10,405,000 ($5,215,000 after taxes, or $.51 per share).

Phoenix's products are presently being manufactured in temporary facilities pending completion of its new plant at the Monaca, Pennsylvania location. The company is insured for certain business interruption expenses which are being incurred during the period of reconstruction.

Life Insurance Proceeds

DOE SPUN INC. (APR)

	1979	1978
Net Sales	$18,993,384	$14,982,601
Costs and Expenses:		
Cost of goods sold	12,680,807	9,901,946
Selling, shipping, general and administrative	4,113,424	3,464,306
Interest	115,078	62,634
Proceeds of officers' life insurance in excess of cash surrender value (Note 11)	(300,979)	
Total Costs and Expenses	16,608,330	13,428,886
Income Before Provision for Taxes	$ 2,385,054	$ 1,553,715

Note 11: Officers' Life Insurance Proceeds

In May 1978, Mr. Albert Eichner, the Company's President, passed away. As a result, the Company received life insurance proceeds of $370,000. The excess of these proceeds over the cash surrender value of the policy resulted in income of $300,979, which is reflected in the statement of consolidated operations for the year ended April 30, 1979.

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.

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.

TABLE 3-5: COST OF GOODS SOLD

	1979	1978	1977	1976
Single Amount				
Cost of sales	229	220	217	220
Cost of goods sold	136	147	181	180
Cost of products sold	131	124	127	122
Elements of cost	27	18	19	13
Other captions	58	68	37	43
	581	**577**	**581**	**578**
More Than One Amount	**19**	**23**	**19**	**22**
Total Companies	**600**	**600**	**600**	**600**

Cost of Goods Sold

ASARCO INCORPORATED (DEC)

	1979	1978
	($000)	
Sales of products	$1,668,425	$1,134,467
Sales of services	55,794	40,444
Total sales of products and services	1,724,219	1,174,911
Cost of products and services	1,458,043	1,023,683
Income from products and services	$ 266,176	$ 151,228

BAKER INTERNATIONAL CORPORATION (SEP)

	1979	1978
Revenues:		
Sales	$ 832,895	$659,472
Services and rentals	335,916	259,550
Total	1,168,811	919,022
Costs and expenses:		
Cost of sales, services and rentals	612,804	486,643
Marketing and field service expense	266,241	208,387
General and administrative expense	88,869	69,770
Interest expense—net	33,607	19,174
Total	1,001,521	783,974
Income before income taxes	$ 167,290	$135,048

LUCKY STORES, INC. (JAN)

	1980	1979
	($000)	
Sales	$5,815,927	$4,658,409
Cost of goods sold	4,467,113	3,543,460
Gross margin	$1,358,814	$1,114,949

CENTRONICS DATA COMPUTER CORP. (JUN)

	1979	1978
Revenues:		
Net sales	$119,027,857	$73,307,059
Interest	2,504,867	1,711,249
	121,532,724	75,018,308
Costs and expenses:		
Cost of sales	72,563,690	40,814,771
Selling	6,630,930	5,404,729
General and administrative	9,997,026	6,375,990
Research and product development	3,281,274	3,511,790
Interest	6,077,394	2,153,794
	98,550,314	58,260,794
Income before income taxes	$ 22,982,410	$ 16,757,514

COLUMBIA PICTURES INDUSTRIES, INC. (JUN)

	1979	1978
	(Dollars in thousands)	
Revenues	$613,296	$574,639
Costs and expenses		
Costs relating to revenues	462,326	412,875
Selling, general and administrative expenses	84,452	76,760
Interest expense	11,409	10,286
	558,187	499,921
Income before non-recurring gain and income taxes	$ 55,109	$ 74,718

HOBART CORPORATION (DEC)

	1979	1978
Revenues		
Net sales	$632,232,536	$540,690,484
Other income	4,311,535	3,472,069
	636,544,071	544,162,553
Costs and Expenses		
Cost of products sold	386,213,117	328,339,727
Marketing and administrative	183,313,834	156,900,828
Interest	9,369,171	8,769,615
Other deductions	2,327,486	1,906,800
	581,223,609	495,916,980
Income Before Income Taxes	$ 55,320,463	$ 48,245,573

JOSLYN MFG. AND SUPPLY CO. (DEC)

	1979	1978
Net Sales	$202,235,000	$175,382,000
Costs and Expenses:		
Cost of Goods Sold	$161,317,000	$137,506,000
Warehouse, Selling and Administrative Expenses	18,391,000	17,917,000
General Corporate Expenses	3,698,000	4,720,000
Contribution to Profit Sharing Plans	1,775,000	962,000
Interest Expense, Net of Interest Income of $916,000 in 1979 and $484,000 in 1978	1,482,000	1,910,000
Total	$186,663,000	$163,015,000
Income from Operations	$ 15,572,000	$ 12,367,000

MOSINEE PAPER CORPORATION (DEC)

	1979	1978
Net sales	$78,628,071	$67,737,369
Cost of sales	62,178,005	52,458,999
Gross profit on sales	$16,450,066	$15,278,370

NCR CORPORATION (DEC)

	1979	1978
	($000)	
Revenues		
Net sales	$1,840,237	$1,574,776
Rentals and services	1,162,403	1,035,744
	3,002,640	2,610,520
Costs and expenses		
Cost of products sold	845,824	747,328
Cost of rentals and services	639,287	569,211
Selling, general and administrative	930,340	780,999
Research and development	171,122	138,074
Interest expense	39,656	47,780
Other (income) expenses, net	(72,643)	(37,488)
	2,553,586	2,245,904
Income from continuing operations before income taxes	$ 449,054	$ 364,616

Expenses Incurred to Produce Revenue

AMERADA HESS CORPORATION (DEC)

	1979	1978
Costs and expenses		
Cost of products sold and operating expenses	$4,784,967,000	$3,707,686,000
Exploration expenses, including dry holes	94,932,000	70,362,000
Selling, general and administrative expenses	226,901,000	191,218,000
Interest expense	81,825,000	73,865,000
Depreciation, depletion and amortization	178,992,000	146,476,000
Lease impairment	46,548,000	73,725,000
Provision for income taxes	891,920,000	337,272,000
Total costs and expenses	$6,306,085,000	$4,600,604,000

DEERE & COMPANY (OCT)

	1979	1978
Cost of goods sold	$3,794,551,000	$3,142,331,000
Research and development expenses	188,139,000	155,000,000
Selling, administrative and general expenses	444,357,000	377,481,000
Provision for income taxes	214,871,000	184,473,000
Interest expense	95,525,000	86,358,000
Foreign exchange loss		53,942,000
Miscellaneous charges	3,900,000	4,313,000
Total	$4,741,343,000	$4,003,898,000

TABLE 3-6: EXPENSES INCURRED TO PRODUCE REVENUE

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Selling, general and administrative	323	327	323	316
Selling and administrative or general	182	178	181	172
General and/or administrative	75	67	71	82
Selling	16	24	29	30
Interest	564	555	557	543
Research, development, engineering, etc.	244	143	135	133
Maintenance and repairs	52	37	34	24
Advertising	38	41	34	35
Exploration, dry holes, abandonments:	23	23	22	20
Bad debts	14	11	8	12

FINANCIAL REVIEW

Research and Development Expenses

Research and development expenses in 1979 were $188 million compared with $155 million in 1978, representing 3.8 cents per dollar of sales in 1979 compared with 3.7 cents in 1978. The 21 percent increase in 1979 expenses reflects increased employment and higher costs and expenses in conjunction with the company's continuing emphasis on product research and development. All research and development costs are charged to expense as incurred.

EATON CORPORATION (DEC)

	1979	1978
	($000)	
Costs and expenses:		
Cost of products sold	$2,487,543	$2,067,075
Selling and administrative expenses	452,621	357,502
Research and development expenses	67,356	47,049
Interest expense	86,925	67,202
Exchange loss—net	3,935	15,957
	$3,098,380	$2,554,785

ESMARK, INC. (OCT)

	1979	1978
	($000)	
Costs and expenses		
Cost of goods sold	$5,888,203	$5,128,329
Selling and administrative	490,655	416,143
Advertising and sales promotion	170,547	141,431
Interest charges	73,411	54,974
Minority interest in subsidiaries' net earnings	1,662	1,568
Total costs and expenses	$6,624,478	$5,742,445

GEO. A. HORMEL & COMPANY (OCT)

	1979	1978
Costs and expenses:		
Cost of products sold	$1,219,527,203	$1,088,336,744
Selling and delivery	116,932,700	102,571,865
Administrative and general	19,980,173	15,957,743
Interest	4,012,656	3,408,883
	$1,360,452,732	$1,210,275,235

JOY MANUFACTURING COMPANY (SEP)

	1979 ($000)	1978
Costs and Expenses		
Cost of sales	$558,944	$513,502
Product engineering (Note 10)	19,180	18,168
Selling, general and administrative	108,598	94,959
Interest	9,575	8,700
Translation and exchange losses (gains)—net	1,470	1,724
Discontinuance of French operations	(1,197)	6,115
Other costs and expenses,	1,006	1,678
Total Costs and Expenses	$697,576	$644,846

Note 10: Product Engineering

The product engineering activity of Joy requires substantial expenditures to maintain product quality and meet existing and future customer needs. Included in product engineering expenditures are research and development costs of $7,520,000 in fiscal 1979 and $7,061,000 in fiscal 1978. Product engineering expenditures do not include specific customer required modification engineering costs.

THE MAY DEPARTMENT STORES COMPANY (JAN)

	1980 (thousands)	1979
Cost and Expenses:		
Cost of sales and other related expenses	$2,426,024	$2,227,923
Advertising and sales promotion	86,611	78,576
Taxes other than income taxes	69,523	64,172
Depreciation and amortization	70,563	61,840
Maintenance and repairs	25,970	22,009
Operating lease rentals of real property	26,831	19,404
Retirement and profit sharing expense	13,230	12,696
Interest expense, net of interest income of $6,983 and $5,439	39,941	39,935
	$2,758,693	$2,526,555

PEPSICO, INC. (DEC)

	1979 ($000)	1978
Costs and Expenses		
Cost of sales	$2,113,592	$1,825,162
Cost of other operating revenues	474,129	399,337
Marketing, administrative and other expenses	2,022,115	1,645,142
Interest expense	73,121	51,996
Interest income	(25,520)	(21,748)
	$4,657,437	$3,899,889

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.

Minority Interest

BORG-WARNER CORPORATION (DEC)

	1979 (millions of dollars)	1978
Costs and expenses:		
Cost of sales	$2,133.8	$1,780.7
Depreciation	59.6	55.2
Selling, general and administrative expenses	310.2	276.1
Interest and other financial charges	33.1	26.7
Minority interests	2.6	3.0
Provision for income taxes	68.2	88.0
	$2,607.5	$2,229.7

ESMARK, INC. (OCT)

	1979 (In thousands)	1978
Costs and expenses		
Cost of goods sold	$5,888,203	$5,128,329
Selling and administrative	490,655	416,143
Advertising and sales promotion	170,547	141,431
Interest charges	73,411	54,974
Minority interest in subsidiaries' net earnings	1,662	1,5,568
Total costs and expenses	$6,624,478	$5,742,445

FINANCIAL COMMENTS

Minority interests

Substantially all of the amounts shown for minority interests in subsidiaries relate to the publicly owned 12% interest in TransOcean, which was acquired on November 5, 1979.

TABLE 3-7: OTHER EXPENSES

	Number of Companies			
	1979	1978	1977	1976
Translation losses	132	110	56	59
Taxes other than income taxes	84	73	70	60
Minority interest	39	37	37	44
Losses on dispositions of assets	25	32	30	23
Write-down of assets	18	12	19	17
Equity in losses of investees	8	10	15	15

THE GOODYEAR TIRE & RUBBER COMPANY (DEC)

	1979	1978
	($000)	
Cost and Expenses:		
Cost of goods sold	$6,569,675	$5,786,317
Selling, administrative and general expense	1,193,327	1,103,103
Interest expense	204,030	181,635
Plant closures and sale of facilities	60,594	8,366
Foreign currency translation loss	40,075	53,346
Minority equity in earnings of foreign subsidiary companies	6,457	8,682
	$8,074,158	$7,141,449

Estimated Loss On Disposal Of Assets

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION (DEC)

	1979	1978
	($000)	
Operating Income	$1,202,715	$1,112,272
Equity in Earnings (after tax) of Insurance and Finance Subsidiaries (Page 40)	349,378	300,265
	1,552,093	1,412,537
Provision for close-down of Canadian pulp mill	(320,000)	—
Interest expense	(520,610)	(413,111)
Interest and dividend income	66,432	59,764
Miscellaneous expense—net	(202,058)	(52,867)
	$575,857	$1,006,323

NOTES TO FINANCIAL STATEMENTS

Close-down of Canadian Pulp Mill

In September, 1979, the Corporation made a provision of $320,000,000 (with no current tax benefit), or $2.32 per share, to cover its investment in the chemical cellulose pulp mill at Port Cartier, Quebec, Canada. The mill which had been idled by a labor strike for more than three months remains closed.

This provision includes $233,000,000 for net plant, property and equipment, $35,000,000 for deferred business development costs, and the remainder for other costs associated with the close-down. Operating losses (before tax benefit) for these operations amounted to $38,000,000 and $45,000,000 in 1979 and 1978, respectively.

PABST BREWING COMPANY (DEC)

	1979	1978
Sales	$785,043,000	$735,770,000
Costs and expenses:		
Cost of goods sold	549,447,000	508,544,000
Federal excise taxes	133,643,000	136,819,000
Marketing, general and administrative expenses	82,213,000	74,895,000
	765,303,000	720,258,000
Operating income	19,740,000	15,512,000
Other income and (expense):		
Interest income	2,679,000	1,722,000
Interest expense	(2,431,000)	(1,908,000)
Provision for Los Angeles plant closing	(3,400,000)	—
Miscellaneous—net	(610,000)	(1,090,000)
	(3,762,000)	(1,276,000)
Income before income taxes	$ 15,978,000	$ 14,236,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Los Angeles Plant Closing

During 1979, the Company closed its Los Angeles brewery. Closing costs, estimated continuing expenses until disposition and the write-down of the related assets to estimated realizable value resulted in a provision for loss of $3,400,000 which was reflected in the second quarter (2,500,000) and the fourth quarter ($900,000). Remaining assets owned at December 31, 1979 are included in Properties in the accompanying consolidated balance sheet.

Adjustment of Asset Values

FEDDERS CORPORATION (OCT)

	1979	1978
	(in thousands)	
Net sales and other income	$176,801	$242,615
Costs and expenses:		
Cost of sales	159,711	196,614
Selling, development and administrative expenses	33,790	37,107
Interest	6,172	8,730
Series A preferred payments and related amortization	—	372
	199,673	242,823
	(22,872)	(208)
Provision related to Federal Trade Commission consent agreement (Note 1)	5,100	—
Provision for loss on Iranian assets (Note 10)	3,330	—
Loss from continuing operations before income taxes and extraordinary gains	$ (31,302)	$ (208)

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

Net sales—Sales are recorded net of related accruals for various allowances for sales benefits, warranty provisions and similar items.

In 1979, heat pump warranty, administrative and legal provisions, which are related to the Federal Trade Commission heat pump consent agreement, have been reported as a separate item in the statement of operations. See further discussion of this matter on page 2 of the annual report.

Page 2: Provisions Against Earnings

Concurrent with the realignment of operations, we have resolved, insofar as we were able, matters associated primarily with discontinued operations or affected by events in the fourth quarter that we could not reasonably have anticipated. These substantial items include:

Provision of $6.4 million related primarily to valuation of assets acquired in the 1968 purchase of the Norge product line following an opinion of the United States Tax Court reducing a claimed tax deficiency of $15 million. We are continuing to pursue avenues available to us in denying this claimed deficiency and recovery in part or whole of this provision is not precluded.

Provision of $3.3 million against assets related to an Iranian development stage company, which are not presently regarded as recoverable. This does not imply any relaxation of our efforts to recover these assets due us; however, it gives recognition to the deterioration of conditions in Iran during 1979 and the uncertainty of the outcome.

Provision of $5.1 million during the year for expenses and increased warranty accruals related to a consent agreement with the Federal Trade Commission.

Additional charges against earnings approximating $5.0 million primarily attributable to cash discounts and floor planning financing of dealer inventories, which were affected by higher interest rates.

The decline in sales volume and commensurately lower production also resulted in an unabsorbed overhead expense during the period.

Note 10: Provision for loss on Iranian assets

At October 31, 1979, the Company charged continuing operations with $3.3 million ($.30 per share) to provide for a loss on a receivable, an investment and certain inventory related to a development stage company in Iran. These items are not expected to be recovered due to further deterioration of conditions in Iran, including nationalization of assets of United States businesses and continuing political instability, civil disturbances and economic setbacks. To the extent that remedies are available, management will continue to pursue all possible courses of action in an effort to recover such assets.

Other assets at October 31, 1978 include the receivable and investment in Iran since the extent of recoverability was uncertain at that time.

INSILCO CORPORATION (DEC)

	1979	1978
	($000)	
Costs and expenses		
Cost of products sold	$383,725	$314,175
Selling, general and administrative expenses	142,671	119,042
Provision for writedown of receivable from former subsidiary (Note 5)	4,680	—
Interest	15,823	11,629
	$546,899	$444,846

Note 5 (in part): Long-Term Receivables and other Investments

Since the divestiture in 1975 of International Graphics, Inc., a former subsidiary, the Company approved deferal of payments on the original note of sale and also provided additional working capital under separate credit arrangements. Management believes an impairment in the realizability of such receivables became probable in 1979 and wrote down the receivables to estimated net realizable value of $4,000.

LIGGETT GROUP INC. (DEC)

	1979	1978
	(Dollars in thousands)	
Net Sales	$1,055,487	$925,701
Costs and Expenses		
Cost of goods sold	682,089	592,206
Selling, administrative, and general expenses	245,147	229,280
Consolidation of domestic cigarette operations (Note 3)	11,000	—
Write-down of goodwill	—	11,987
	938,236	833,473
Operating Income	$ 117,251	$ 92,228

Note 3: Consolidation of Domestic Cigarette Operations

In January 1979, the Company entered into an agreement in principle for the sale of its domestic cigarette business to an international development company. In June 1979, negotiations for the sale of this business were terminated when the parties to the agreement in principle were unable to reach a mutually satisfactory final agreement.

The Company has subsequently reviewed the future operations of its domestic cigarette business and, based on the results of this review, intends to continue to operate the business. Earnings for 1979 have been charged with $11.0 million ($5.5 million aftertax, equal to $.65 per common share) representing the estimated costs of reductions in assets and personnel consistent with future operating plans.

Shutdown Costs

KENNECOTT COPPER CORPORATION (DEC)

	1979	1978
	(In thousands of dollars)	
Cost of goods sold (excludes items shown separately below)	$1,818,614	$1,489,676
Depreciation, depletion and amortization	98,644	88,659
Selling and general administrative expenses	267,376	219,639
Shutdown expenses during strikes	23,818	—
Interest expense	70,082	63,835
Research, exploration and other expenses	27,047	33,983
	$2,305,581	$1,895,792

Litigation Settlements

AMSTAR CORPORATION (JUN)

	1979	1978
Net sales and operating revenues	$1,056,376,000	$956,209,000
Costs of products sold and operating expenses	917,751,000	810,046,000
Gross profit on sales	138,625,000	146,163,000
Selling, general and administrative expenses	109,587,000	116,353,000
Income from operations	29,038,000	29,810,000
Interest expense	(7,510,000)	(7,744,000)
Nonoperating income	1,380,000	991,000
Capital gains on dispositions	21,666,000	—
Litigation settlement (Note 9)	(9,000,000)	—
Total nonoperating income (expense)	6,536,000	(6,753,000)
Income before provision for income taxes	$ 35,574,000	$ 23,057,000

Note 9 (in part): Litigation

Commencing in January 1975, the Corporation has been a defendant, together with other sugar companies, in two sets of civil antitrust suits brought by various types of sugar users in federal district courts in various parts of the United States, alleging violations of the antitrust laws and seeking treble damages and injunctive relief. One set of the suits was consolidated in the U.S. district court in Philadelphia and the other set was consolidated in the U.S. district court in San Francisco for discovery pretrial proceedings.

* * *

In April 1979, the Corporation agreed to settle all the Philadelphia class actions and a number of nonclass suits for $9,000,000 to be paid in three equal installments in May, September and December 1979. The settlement agreement has been approved tentatively by the court and results in a $.50 per share reduction in net income in 1979. Four nonclass Philadelphia suits were not included in the settlement and remain pending against the Corporation.

KROEHLER MFG. CO. (DEC)

	1979	1978
	(in thousands of dollars)	
Net Sales and Other Operating Revenues	$116,264	$141,951
Cost of Sales	109,446	128,593
Gross profit on sales	6,818	13,358
Selling, General and Administrative Expenses	20,353	20,017
Operating loss	13,535	6,659
Income Expenses (Income):		
Interest	3,128	2,801
Expenses related to plant closings	2,369	1,068
Litigation settlement—Note 10 a	500	—
Expenses relating to sale of Canadian subsidiary	114	—
Gain on sale of property and equipment	(1,425)	(1,313)
Equity in affiliate's earnings	(357)	(143)
Foreign currency translation	(61)	488
Other income—net, including interest income of $350,000 and $320,000	(417)	(286)
Total	3,797	2,615
Loss Before Taxes	$ 17,332	$ 9,274

Note 10 (in part): Commitments and Contingencies

(a) The company was a defendant in a suit in which the plaintiffs (former employees of a plant closed in 1968) were seeking recovery of approximately $3,500,000 which the plaintiffs claim was wrongfully paid to the company upon termination of the pension plan covering such former employees. This suit was settled by the company in 1979 for $500,000, and is included in the accompanying consolidated statements of operations as "litigation settlement."

Flood Loss

LUKENS STEEL COMPANY (DEC)

	1979	1978
	Dollars in thousands	
Net Sales	$342,305	297,569
Costs and Expenses		
Cost of products sold	310,608	258,014
Selling and administrative expenses	15,934	15,346
Interest expense	1,407	626
	327,949	273,986
Earnings before taxes and flood loss	14,356	23,583
Flood loss (See Note 3)	4,171	—
Earnings before income taxes	$ 10,185	$ 23,583

Note 3: Flood Loss

The flood loss of $4,171,000 ($2,052,000 or $.39 per share, net of the related income tax benefit) includes the cost of repairs, clean-up and production difficulties resulting from a severe flash flood on July 21, 1979, which disrupted production and delayed shipments from the Coatesville plant.

"Unusual" Charges

UNITED STATES STEEL CORPORATION (DEC)

	1979	1978
	(In millions)	
Income Before Unusual Items, Taxes on Income and Cumulative Effect on Prior Years of Changes in Accounting Principles	$ 273.5	$250.0
Unusual Items		
Estimated provision for costs attributable to shutdown of facilities (Note 19)	(808.6)	—
Estimated provision for occupational disease claims (Note 20)	(88.1)	—
Revaluation of other investments (Note 3)	(53.2)	—
	(949.9)	—
Income (Loss) before Taxes on Income and Cumulative Effect on Prior Years of Changes in Accounting Principles	$(676.4)	$250.0

Note 3 (in part): Long-Term Receivables and Other Investments—Investments in partially owned companies (cost method) include marketable equity securities of $2.9 million for 1979 and $7.1 million for 1978. Cost exceeded market value by $33.8 million at December 31, 1979 and $27.4 million at December 31, 1978. In 1979 management concluded that the value of the marketable equity security was permanently impaired and charged pre-tax income with the writedown to market value. In 1978 the decline in market value had been considered temporary and the excess of cost over market value was credited to the investment and an unrealized loss, net of deferred tax, was reflected to stockholders' equity.

Note 19: Estimated Provision for Costs Attributable to Shutdown of Facilities—During the fourth quarter 1979, U.S. Steel announced the permanent shutdown of several steel and nonsteel plants and manufacturing facilities which will be disposed of in accordance with a formal approved plan. These shutdowns resulted in a charge against pre-tax income in 1979 of $808.6 million, a minor portion of which was paid out in 1979. A significant portion represents long-term liabilities for employee related costs to be paid out in later years. Most of the related tax benefits should be realized in the future.

These shutdown costs were estimated as follows:

	(In millions)
Employee related costs (includes pensions, insurance, severance, unemployment benefits, etc.)	$413.3
Writedown of facilities to estimated recoverable value	218.7
Estimated operating results during shutdown period	176.6
Total	$808.6

Note 20: Estimated Provision for Occupational Disease Claims—Amendments, effective in 1978, to the Federal Coal Mine Health and Safety Act of 1969, together with administrative actions, have resulted in a dramatic increase during 1979 in claims for alleged pneumoconiosis (Black Lung) from former employees. An estimated accrual of $88.1 million was provided in 1979 for potential awards. Commencing in 1979, a provision for future claims is being accrued over the remaining service life of present employees and is reflected in Pensions, insurance and other employee benefits.

"Non-Recurring" Charge

CHICAGO PNEUMATIC TOOL COMPANY (DEC)

	1979	1978
Cost and Expenses:		
Costs of products sold	$318,780,000	$257,105,000
Selling, administrative and general expenses	76,095,000	66,294,000
Depreciation	10,128,000	8,100,000
Interest expense	15,816,000	7,121,000
Provision for certain non-recurring costs	14,800,000	—
Other expense	397,000	443,000
Total	$436,016,000	$339,063,000

NOTES TO FINANCIAL STATEMENTS

Non-Recurring Costs

During the third quarter of 1979, the company announced its decision to consolidate the manufacture of air compressors into the United Kingdom and provided $5,400,000 for this purpose. In the fourth quarter charges against income of $9,400,000 were made for the decision to withdraw from foundry and gas booster operations at Franklin, Pa., as well as a one-time provision for replacement of certain equipment products components which are not planned to be maintained in domestic production. These decisions resulted in a pre-tax charge against income of $14,800,000 as summarized below:

Non-Recurring costs (in thousands)	1979
Asset disposals	$ 6,400
Employment related costs	5,100
Product replacement costs	2,300
Other	1,000
Total	$14,800

Asset disposals include the write down of current and fixed assets to net realizable value. Employment related costs include additional pension and other benefits payable to terminated personnel.

On February 15, 1980, the company entered into an agreement to sell the gas booster operation. A potential purchaser is being sought for the foundry operation; however, there is no assurance that a purchaser will be found. As these decisions do not constitute the discontinuance of a segment, no provision has been made for the income or expense associated with 1980 operations prior to final disposition.

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 year by approximately $ . . .

Effective for financial statements for years beginning after December 15, 1979, FASB *Statement of Financial Accounting Standards No. 36* supersedes Paragraph 46 of *Opinion No. 8.* Paragraph 12 of *Statement No. 36* replaces the example in Paragraph 46 as the illustration for pension plan disclosure.

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, 360 survey companies reported that vested benefits were in excess of amounts funded or accrued; while 141 survey companies reported that amounts funded or accrued were in excess of vested benefits. Although the disclosure requirements of *Statement No. 36* were not mandatory for 1979, several of the examples of pension plan disclosures which follow conform to the disclosure requirements of *Statement No. 36.*

TABLE 3-8: PENSION AND RETIREMENT PLANS

	1979	1978	1977	1976
Current Year Expense				
Normal cost and amortization of prior service cost.	469	476	467	467
Normal cost and interest on unfunded prior service cost	4	2	5	12
Normal cost—no reference to prior service cost......	42	32	33	27
Normal cost—no unfunded prior service cost.........	21	25	29	30
Companies Disclosing Amount of Pension Plan Expense.........................	**536**	**535**	**534**	**536**

Normal Cost Plus Amortization of Prior Service Cost

BORG-WARNER CORPORATION (DEC)

SUMMARY OF ACCOUNTING POLICIES

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.

NOTES TO FINANCIAL STATEMENTS

Retirement Benefit Plans

Retirement benefit expense amounted to $56.5 million in 1979 and $48.8 million in 1978.

The expense includes $6.4 million for post-retirement life insurance and medical benefits in 1979 and $5.1 million in 1978.

At December 31, certain defined benefit plans had accumulated vested benefits in excess of net assets and balance sheet accruals and others had net assets and balance sheet accruals in excess of accumulated vested benefits. A summary of benefit and asset values at December 31, 1979 and 1978 in millions of dollars follows:

	1979	1978
Plans with assets in excess of vested benefits		
Actuarial present value of accumulated benefits	$152.5	$ 7.6
Net assets available for benefits	157.5	10.1
Plans with vested benefits in excess of assets		
Actuarial present value of accumulated benefits	269.1	369.5
Net assets available for benefits	$128.3	$240.5

A significant portion of the increase in the actuarial present value of accumulated vested benefits at December 31, 1979 compared to December 31, 1978 results from the inclusion of supplemental allowances for certain plans in the current year. Previously, these supplemental allowances were treated on a pay-as-you-go basis and not actuarially computed.

In addition, an accrual calculated on an actuarial basis has been provided in warranties and other liabilities for post-retirement medical and life insurance benefits since 1974. A summary of benefit values and liabilities established at December 31, 1979 and 1978 in millions of dollars follows:

	1979	1978
Actuarial present value of post-retirement medical and life insurance benefits	$ 55.7	$ 51.7
Amount included in warranties and other liabilities	14.7	13.2

MONSANTO COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Pension Plans and Other Post-Retirement Benefits

Most Monsanto employees are covered by noncontributory pension plans. The expense related to these plans was $92.3 in 1979 and $84.2 in 1978. These amounts include charges applicable to current service and amortization of unfunded prior service costs over periods ranging from 15 to 30 years. It is Monsanto's policy to fund pension costs accrued. Annual valuations of the major pension plans are made by an outside firm of actuaries. The "entry age normal" actuarial method is used. The key actuarial assumptions used include an annual average investment return on pension assets of seven percent, an average salary increase (when applicable) of six percent and an average retirement age of 61 years. The actuarial method and assumptions were consistent for 1979 and 1978.

Plan benefit and asset information for plans representing 97 percent of total 1979 pension expense is presented below on an aggregate basis as of December 31, 1979. Net assets were measured at market value at that date and year-end accumulated benefits were estimated from earlier actuarial valuations.

	Assets in Excess of Benefits	Benefits in Excess of Assets
Actuarial Present Value of Accumulated Plan Benefits:		
Vested	$524.3	$339.0
Nonvested	16.6	12.3
	$540.9	$351.3
Net Assets Available for Benefits	$653.7	$304.1

Monsanto also provides life insurance and medical benefits for many retirees. The cost of such benefits is not significant and is charged to expense as incurred.

Vested Benefits Exceed Plan Assets

NATIONAL CAN CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A: Statement of Accounting Policies

Pension Costs: The Corporation has pension and retirement plans covering substantially all of its employees. Annual current service costs and interest on past service costs are provided for under all plans. Past service costs are amortized over a forty-year period for costs accrued prior to 1976 and over a thirty-year period for costs accrued after that date.

Note J: Pensions Plans:

The actuarially computed value of vested benefits for all plans, based on the most recent actuarial study, exceeds the total of pension fund assets and balance sheet accruals by approximately $30,729,000.

Benefit and asset information for the various plans as of January 1, 1979, the most recent actuarial data available, is as follows:

	Assets in Excess of Benefits	Benefits in Excess of Assets
Actuarial present value of accumulated benefits:		
Vested	$1,800,000	$ 104,588,000
Nonvested	244,000	20,055,000
	2,044,000	124,643,000
Net assets and balance sheet accruals	2,446,000	73,213,000
	$ 402,000	($ 51,430,000)

Pension expense of continuing operations was $14,319,000 in 1979 and $13,080,000 in 1978. Actuarial studies to determine current costs are based on interest assumptions ranging from 4% to 6%. Present value of accumulated benefits was determined using an interest rate of 6%, which reflects a rate of return that is realistically achievable based on the plans' investment policies and types of assets held by the plans.

RAYBESTOS-MANHATTAN, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Accounting Policies

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

5. *Employees' Retirement Plans*—The Company and its subsidiaries have several pension plans covering substantially all of their employees. The Company's policy is to fund pension costs accrued, which includes amortization of prior service costs principally over a period of 40 years, except for The Milford Rivet & Machine Company plan which is being amortized over a period of 25 years.

Note D: Employees' Retirement Plans

The cost of pension plans charged to operations was $7,230,000 in 1979 and $7,030,000 in 1978 which includes amortization of past service costs. At January 1, 1979, the accumulated benefits for each of the plans were in excess of net assets. The actuarial present value of accumulated benefits at January 1, 1979 was $72,174,000 for vested benefits and $2,683,000 for non-vested benefits for a total of $74,857,000 for all accumulated benefits. The net assets available for benefits as of that date were $38,870,000 and were estimated at the fair market value as of January 1, 1979. On an actuarial basis the unfunded past service costs amounted to approximately $38,100,000 at January 1, 1979.

The actuarial present value of accumulated benefits results from applying actuarial assumptions to reflect the time value of money and the probability of payments that are attributable under the plans' provisions to the service employees have rendered. The five largest plans which account for 98% of the actuarial present value of accumulated benefits as of January 1, 1979 provide for normal retirement at age 65, actuarially reduced early retirement at age 55 with 15 years service, disability retirement at age 45 with 15 years service and 100% vesting after 10 years of service at age 32. The significant actuarial assumptions for these plans are (a) life expectancy is calculated upon the 1951 Group Annuity Mortality Table, (b) annual pension is calculated based upon 1% of the average of the five highest of last ten years compensation times years of service, (c) an interest return of 5½% compounded annually and (d) a salary increase of 4% compounded annually.

The costs to the Company for other post-retirement benefits which consist of group life and health insurance are charged against operations in the period for which the coverages are provided. These costs amounted to approximately $654,000 in 1979.

Plan Assets Exceed Vested Benefits

THE MAY DEPARTMENT STORES COMPANY (JAN)

FINANCIAL REVIEW

Retirement and Profit Sharing

The Company and its subsidiaries, except Volume Shoe, have noncontributory retirement plans covering all employees who work 1,000 hours or more per year. Actuarially determined pension costs are accrued and are substantially funded on an annual basis. Total pension expense under the plans was $6.3 million in 1979 and $5.8 million in 1978. Essentially all assets of the plans are invested with a major insurance company in guaranteed investment contracts with yields ranging from 8.2% to 10.6%. There are no significant unfunded prior service liabilities under these plans.

The combined assets of the retirement plans exceed the actuarial present value of accumulated benefits, which is the amount that results from applying actuarial assumptions to adjust accumulated benefits to reflect the time value of money and the probability of payment. A summary of the combined data for all plans as of January 1, 1979, the date of the most recent actuarial valuation, is as follows:

(millions)	
Actuarial present value of accumulated benefits:	
Vested	$ 80.5
Nonvested	4.1
	$84.6
Net assets available for plan benefits	$103.3

The Company also has a contributory profit sharing and savings plan which covers all employees eligible to participate in the retirement plans. The Company's contribution to the profit sharing and savings plan was $5.4 million in 1979 and $5.7 million in 1978. The Company's contribution in 1979 approximated 85% of the employees' eligible contributions.

Volume Shoe has a separate profit sharing plan which covers all employees who work 1,000 hours or more per year and who have attained age 21. Expenses of $0.7 million in 1979 and $0.6 million in 1978 were recorded for this plan.

In 1978, the Company adopted an unfunded supplementary pension plan for certain employees for which $0.8 million and $0.6 million were charged to expense in 1979 and 1978, respectively. The unfunded liability for prior service costs, which was $6.9 million as of January 1, 1979, is being amortized over 30 years. The actuarial present value of accumulated benefits under this plan is $3.1 million at January 1, 1979, of which $2.1 million is vested and $1.0 million is nonvested.

Another important element in the retirement program for employees is the federal social security system into which the Company paid $30.3 million in 1979 as its matching portion of the $30.3 million contributed by the employees.

Summary or Statement of Changes in Pension Fund Assets

BETHLEHEM STEEL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Pensions—Bethlehem's Pension Plan is a noncontributory plan that provides pension and certain survivor benefits for substantially all employees. Pension costs include current service costs, which are accrued and funded on a current basis, and prior service costs, which are amortized and funded over periods of not more than 30 years. Pension costs are determined by an entry age normal actuarial cost method, using a frozen unfunded prior service liability. Current service costs include adjustments for differences between actuarial assumptions and actual experience. Actuarial assumptions are reviewed and revised periodically.

Note L: Pension

Pension expense for the pension plan of Bethlehem and certain of its subsidiaries was $289.0 million in 1979 and $273.9 million in 1978. In addition, payments of $23.7 million in 1979 and $17.1 million in 1978 were made to multi-employer pension plans under the provisions of various labor contracts.

The actuarially computed value of vested benefits of the Plan of Bethlehem and subsidiaries as of December 31, 1979, exceeded the sum of the market value of the Pension Trust Fund and the pension portion of the estimated liability for costs attributable to the 1977 closedown of certain steelmaking and related facilities by approximately $1,191 million.

PENSION PLAN

Pension Trust Fund

Statements of Assets

	December 31 1979	1978
	(dollars in millions)	
Cash, interest and other receivables	$ 14.4	$ 8.7
Contributions receivable from employing companies	23.1	—
Investments at cost:		
Short-term obligations	87.5	84.0
Long-term bonds, notes and other obligations	485.0	413.9
Preferred stocks	—	1.5
Common stocks	828.4	741.5
Total, at cost	$1,438.4	$1,249.6
Approximate market value	$1,635.4	$1,312.3

Statements of Changes in Fund

	Year ended December 31 1979	1978
	(dollars in millions)	
Balance in Fund, January 1, at cost	$1,249.6	$1,116.7
Add:		
Contributions from employing companies	324.6	284.4
Income from investments	87.2	66.7
Net gain (loss) on disposition of investments	7.0	(8.4)
	$1,668.4	$1,459.4
Deduct:		
Pension payments	230.0	209.8
Balance in Fund, December 31, at cost	$1,438.4	$1,249.6

Supplemental Pension Plan Information

The number of pensioners, co-pensioners, and surviving spouses receiving payments under Bethlehem's Pension Plan at December 31, 1979, and 1978, was 48,907 and 46,936, respectively. Pension contributions made under Bethlehem's Pension Plan for substantially all its employees include amounts for current service costs, which are accrued and funded on a current basis, and prior service costs, which are amortized and funded over periods of not more than 30 years. Pension contributions are determined by an entry age normal actuarial cost method, using a frozen unfunded prior service liability. Contributions for current service costs include adjustments for differences between actuarial assumptions and actual experience. Actuarial assumptions are reviewed periodically and revised as appropriate.

J.C. PENNEY COMPANY, INC. (JAN)

1979 FINANCIAL REVIEW

Savings and retirement plans' expenses were as follows:

(In millions)	1979	1978
Pension	$55	$49
Savings and profit-sharing	23	23
Total	$78	$72

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1979, based upon market valuation of investments, all vested benefits were fully funded.

Effective in 1978, the Company adopted an unfunded, noncontributory, supplemental retirement plan for certain management employees. The actuarially determined liability is being amortized over a 30 year period.

During 1979, the Company increased benefits payable to certain retired employees through a pension supplement. This increase added $2 million to pension costs in 1979.

The unfunded actuarial liability for all pension and retirement plans at year end was $172 million.

The savings and profit-sharing plan encourages savings by employees through the allocation of 4½ per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

Condensed financial statements of the principal retirement plans follow:

Balance sheet

(In millions)	Savings and profit-sharing December 31 1979	1978	Pension December 31 1979	1978
Assets				
JCPenney common stock at market value: 9.0 million shares in 1979; 7.5 million shares in 1978 (cost: $381 in 1979 and $349 in 1978)	$234	$228	$ —	$ —
Funds with insurance companies	111	104	—	—
Other investments at market value (cost: 1979, $14 and $227, respectively; 1978, $17 and $184, respectively)	15	17	245	185
Other assets, net	21	22	35	24
	$381	$371	$280	$209
Liabilities and equity				
Estimated liability for pensions	$ —	$ —	$280	$209
Participants' equity in savings and profit-sharing plan	381	371	—	—
	$381	$371	$280	$209

Statement of Changes in Retirement Plans' Assets

(In millions)	Savings and profit-sharing December 31 1979	1978	Pension December 31 1979	1978
Total assets at January 1	$371	$364	$209	$166
Company contributions	23	23	41	36
Participants' contributions	47	49	—	—
Dividends, interest, and other income	23	18	18	9
Market appreciation (depreciation) of investments	(35)	(37)	16	2
Benefits paid	(48)	(46)	(4)	(4)
Total assets at December 31	$381	$371	$280	$209

Actuarial Assumptions Changed

CELANESE CORPORATION (DEC)

NOTES

(millions, except per share)

Note R (in part): Retirement income plans

	1979	1978
Charged to operations: U.S.	$28	$37(a)
Non-U.S.	2	3
Total	$30	$40

(a) Includes Executive Pension Plan.

The Corporation has various retirement income plans covering substantially all employees. The expenses of these plans are funded as accrued and are based on the entry-age normal actuarial cost method. All plans, except the Executive Pension Plan, are fully funded with respect to accrued (which includes vested) benefits. Actuarial assumptions for the largest plan include an average retirement age of 63 and turnover based on experience.

In 1979, for all U.S. plans, the Corporation changed its investment return assumption from 6.0% to 6.75%; changed its pay increase assumptions of 8.5% for salaried and 7% for hourly employees to 6.25%; and reduced the period for amortization of prior service costs from 20 to 15 years. The net effect of these changes was to reduce pension expense by $12 million and increase net income by $.42 per share, or $6 million.

Retirement benefit improvements in the largest plan, which the Board of Directors adopted subject to stockholder approval, increased 1979 pension expense by $14 million and reduced net income by $.45 per share, or $7 million. In 1978, certain plan changes and Social Security law amendments increased pension expense by $6 million and reduced net income by $.20 per share, or $3 million.

Unfunded prior service costs at December 31, 1979, amounted to approximately $160 million.

Pension Plan Revised

GULF OIL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Pensions—Pension costs are determined by outside actuaries. Payments are generally made in the year following accrual. Prior service costs are amortized and funded over varying periods for the different plans but generally for no more than 15 years.

Note 15: Pension Plans

The Company has various pension plans covering substantially all of its employees. The provisions for the cost of these pension plans charged to income for the years 1979 and 1978 were $161 and $144 million, respectively. At December 31, 1979, unamortized prior service costs of all the various pension plans aggregated approximately $519 million.

The Company's principal plan, the Gulf Pension Plan, covers the majority of its U.S. employees. During 1979 this Plan was revised to provide certain supplemental benefits to pensioners who retired before 1978. This revision increased prior service costs by $30 million. A summary of changes in the fund investments, including receivables from the Company, for this plan during 1979 and 1978 follows:

	Millions of Dollars Year Ended December 31	
	1979	1978
Investments at January 1, at cost..	$ 942	$863
Company contributions	110	100
Fund income	72	42
Benefits paid	(72)	(63)
Investments at December 31, at cost	$1,052	$942
Market value at December 31	$1,082	$955

Based on the most recent actuarial valuation of the Gulf Pension Plan, the market value of plan assets and balance sheet accruals at December 31, 1979 exceeded the actuarially computed value of vested benefits. The actuarially computed value of vested benefits under the pension plan of Gulf Canada exceeded that plan's assets by approximately $63 million at December 31, 1979.

COMPENSATORY PLANS

In addition to pension plans (Table 3-8) and "traditional" stock option and purchase plans (pages 241-249), many companies disclose 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 of *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.

TABLE 3-9: COMPENSATORY PLANS

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Incentive compensation plan	161	149	145	138
Stock award plan	104	107	73	41
Profit-sharing plan	86	75	68	90
Savings fund plan	40	24	26	37
Deferred compensation agreement	31	25	24	50

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 follow.

Incentive Compensation Plans

CHESEBROUGH-POND'S INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8: Executive Incentive Profit-Sharing Plan

Under the provisions of the Executive Incentive Profit-Sharing Plan, the total allotment to any participating officer or key employee for any calendar year may not exceed 50 per cent of the participant's annual base salary. For those allotments not currently distributed in cash, units measured by the then current market value of a share of the Company's common stock are credited to the accounts of the individual participants as of December 31 of the calendar year for which the allotment is made. In addition, units in lieu of dividends are credited to the participants. Participants will receive, upon retirement, death or termination of employment, shares of the Company's common stock equal to the number of units credited to their accounts unless the Company elects to distribute cash equal to the then current market value of such shares. In 1979 and 1978, respectively, $3,200,000 and $2,668,000 were expensed for the Plan. Of these amounts, $298,000 and $297,000 have been deferred in 1979 and 1978 and converted into 13,713 and 13,137 units respectively. At December 31, 1979, there were 109,358 units credited to participants under the Plan.

DAYCO CORPORATION (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Summary of Accounting Policies

Stock Options and Executive Incentive Plan: Reference is made to Note C. Proceeds from the sale of stock issued under options are credited to common stock at par value, and the excess of the option price over par value is credited to additional paid-in capital. The Corporation makes no charges or credits against earnings with respect to options.

Awards under the Executive Incentive Plan are made in consideration for services performed during the incentive period. The market value of restricted shares at the date of grant is charged against earnings ratably over the restricted period. In connection with appreciation rights, annual charges are made to earnings equal to the year's increase in the Corporation's book value per share plus cash dividends per share times the number of rights outstanding.

Note C (in part): Capital Stock

Effective February 26, 1979, the shareholders of the Corporation approved the Executive Incentive Plan which provides for awarding shares of restricted stock and units of appreciation rights tied to the book value per share of the Corporation. (See Note A.) Under the Plan, 223,608 shares of common stock are reserved for issuance.

Stock restrictions prohibit transfer for a period of five years from the date of grant. Appreciation rights provide for payment at the end of five years equal to the increase in book value per share plus cash dividends per share of the Corporation, over the five year period. Total compensation charged against earnings during 1979 under the Plan amounted to $358,196. The following summarizes certain information relative to the Plan:

	Shares of Restricted Stock	Units of Appreciation Rights
Authorized under the Plan	288,750	288,750
Granted	65,142	65,142

EASCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (in part): Incentive Plans

An executive compensation plan, approved in 1975, consists 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. There were no charges to income relating to the cash bonus fund in 1979. The charge to income in 1978 was $275,000.

The nonqualified incentive stock option program provides for the granting of options to officers and other key employees for the purchase of 180,663 shares of common stock plus 15,047 shares authorized but not issued under the fourth qualified stock option plan. 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. Effective January 1, 1978 a plan participant may elect to receive cash in lieu of up to 50% of the benefit value of options exercised. There were no elections of cash in lieu of options in 1978. During 1979, an aggregate of $35,000 of cash was paid in lieu of the exercise of 2,000 options.

The following tabulation summarizes the changes in nonqualified stock options during 1978 and 1979:

	Number of shares under option
Outstanding at December 31, 1977	66,030
Granted	38,500
Exercised (average $.15 per share)	(13,100)
Cancelled	(4,390)
Outstanding at December 31, 1978	87,040
Granted	—
Exercised (average $3.31 per share)	(4,377)
Cancelled	(8,043)
Outstanding at December 31, 1979	74,620

During 1980, no shares become exercisable under the present terms of the program. The program resulted in a charge to income of $37,000 in 1979 and a net credit to income of $19,000 in 1978.

EX-CELL-O CORPORATION (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Incentive Plan

The Company has a Management Incentive Plan, established in 1977, under which shares of the Company's stock are awarded to key management employees each year after a minimum earnings per share is achieved. Shares awarded are subject to restrictions which lapse on 25% of the shares on each anniversary of the effective date of the award. Amounts are being charged against earnings as the restrictions lapse based on the fair value of the stock awards at the date granted.

The Plan, as amended, provides for the awarding of up to 300,000 shares of common stock during the five-year life of the Plan. At November 30, 1977, 160,000 shares were available under the Plan. In fiscal 1978, 15,375 shares relating to fiscal 1977 were awarded resulting in 144,625 shares available at November 30, 1978. In fiscal 1979, 140,000 shares were added by amendment to the Plan, and 30,319 shares relating to fiscal 1978 were awarded leaving 254,306 shares available at November 30, 1979.

The stock awards relating to fiscal 1979, estimated at 81,760 shares, will be awarded in early fiscal 1980. The total fair value of the fiscal 1979 and 1978 awards was $2,984,240 and $822,403, respectively, based on the market value of the shares at November 30 of each year.

PAXALL, INC. (OCT)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Pension and Bonus Plans

The Company has non-contributory 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 $190,000 in 1978 and $410,000 in 1979.

Unfunded past-service costs as of November 1, 1978, were approximately $1,860,000. 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 $605,000 at October 31, 1979.

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, except for the Chairman and the President where the limitation is 65% of base salary. The provisions for incentive compensation for the years ended October 31 were $300,000 in 1978 and $600,000 in 1979.

THE PENN TRAFFIC COMPANY (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Pension, Profit Sharing and Incentive Compensation Plans:

The Company has a corporate incentive compensation program for executives and key employees whereby 6% of pretax income (reduced by an amount equal to 16% of beginning consolidated shareholders' equity) is set aside for the payment of bonuses. The incentive bonus charged to earnings for 1979 and 1978 was $340,000 and $344,000, respectively.

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 (including amounts related to the businesses to be disposed of) was $5,287,000 in 1979 ($5,225,000 in 1978).

CPC INTERNATIONAL INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Executive Incentive Compensation Program

The Executive Incentive Compensation Program provides for annual cash awards, stock options and deferred amounts (performance units) which are contingent upon the Company's performance during a four year cycle. Cash awards charged to income for 1979 and 1978 totaled $3.7 million and $3.8 million respectively. The maximum value of the performance units awarded for 1979 and 1978 ($2.5 million and $2.3 million) is being charged to income over the four year period following the award. Options are granted at 100% of market value at date of grant and are non-qualified. Options granted in conjunction with the performance units expire two years after the end of the performance cycle. Other options are exercisable in installments and expire 10 years from the date of grant.

The following table summarizes transactions during 1979 and 1978 under the current and previous stock option plans:

	1979		1978	
	Option Price Per Share	Number of Shares Under Option	Option Price Per Share	Number of Shares Under Option
Balance beginning of year	$23.34-48.25	248,516	$23.34-48.25	237,920
Granted	52.94	47,675	44.69	46,600
Exercised	24.00-40.125	(19,559)	23.34-40.125	(28,429)
Lapsed or cancelled	24.00-40.125	(3,501)	25.00-48.25	(7,575)
Balance end of year	23.34-52.94	273,131	23.34-48.25	248,516
Shares becoming exercisable		13,606		22,068
Total shares exercisable at year end		107,256		115,641
Shares reserved and available for future grants of stock options or performance units		653,850		748,450

Stock Award Plans

ARDEN GROUP, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7: Stock Bonus Plan:

Arden has a noncontributory, trusteed stock bonus plan which is qualified under Section 401 of the Internal Revenue Code of 1954, as amended. All full-time, nonunion employees over 18 years of age employed for at least one year after the year in which first employed by Arden and Telautograph Corporation (a subsidiary of Arden), are eligible for participation in the plan. Contributions to the plan for any fiscal year, as determined by the Board of Directors, are discretionary, but in no event will they exceed 15% of the annual aggregate salaries of those employees eligible for participation in the plan. Contributions may be invested in either Common or Preferred stock of the Company. Contributions to the plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants. Contributions of $410,000 in 1979 and $400,000 in 1978 were made to the plan.

BEMIS COMPANY, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6: Performance Share Plan:

Effective January 1, 1974, the Company adopted a Performance Share Plan for certain key executive employees. The Plan authorized 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. In 1978 the balance of the 1974 award was paid (16,428 common shares and $813,000 in cash). A total of 73,500 performance shares was awarded in 1974, 79,550 in 1976, and 75,000 in 1978. The cost of the awards made under the Plan is being charged to income over the applicable four-year periods: $1,340,000 was expensed in 1979 and $733,000 in 1978.

CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note J: Performance Share Plan

The Performance Share Plan was approved at the Company's 1972 Annual Meeting, and 500,000 shares of Company stock (after giving effect to the two-for-one stock split in 1978) was reserved for issuance under it. Awards, expressed as shares of common stock of the Company, have been made to officers and other key employees selected by the Officers' Compensation Committee of the Board of Directors. Awards are earned for performance over a six-year period, but only if the Company has achieved a growth in earnings per share on a cumulative basis over the period that meets goals established by the Committee. The number of shares actually earned may vary from zero to 150% of the shares awarded, depending upon the relationship of actual earnings growth to the established goals.

Awards have been made under this Plan in four groupings ("flights") with earnings measurement periods for the respective flights specified as being the six-year periods beginning October 1, 1972, 1974, 1976 and 1978. The first group of awards made as of September 30, 1972, was earned on September 30, 1978, and distributed in November 1978.

The Company recognizes compensation costs attributable to the Plan on a basis that spreads estimates of such costs over the six-year earnings measurement period of each flight. The final total cost of each flight is determined at the conclusion of its specified measurement period, when final earnings permit the calculation of awards earned, and the market value of the stock on the date of distribution is known. Estimated after-tax cost of performance share awards charged against income in fiscal 1979 and 1978 were $2,390,000 and $1,778,000 respectively.

At September 30, 1979, 303,474 performance share awards were outstanding, of which 72,125 were awarded in fiscal 1979.

ESMARK, INC. (OCT)

FINANCIAL COMMENTS

Capital stock and other stockholders' equity (in part)

On February 22, 1979 the stockholders also approved the Long Term Growth Plan, consisting of a Restricted Stock component and a Performance Unit component. Under the Restricted Stock component not more than 300,000 shares of common stock may be assigned to officers and key employees for future distribution. As of October 27, 1979, 33,295 shares and the same number of Performance Units were so assigned for distribution in 1981; distribution of one-half of such shares and all of the Performance Units is dependent upon Esmark achieving a target amount of net earnings per common share for fiscal 1979 and 1980. The cost of this plan is being accrued over the performance period. In 1979 this resulted in a charge to earnings of $.8 million.

LIGGETT GROUP INC.

NOTES TO FINANCIAL STATEMENTS

Note 5 (in part): Employee Incentive Compensation, Retirement, and Profit Sharing Plans

The Incentive Stock Option and Performance Award Plan was approved by the stockholders in May 1979 and expires December 31, 1983. It provides for the granting of options to purchase shares of the Company's common stock to officers and executives mainly responsible for the direction and management of the Company. In addition to incentive stock options, the Plan provides for the award of performance allotments to participants if the Company achieves predetermined goals within a fixed period of calendar years. These performance awards may be paid in cash, common stock, or a combination thereof. An aggregate of 500,000 shares of common stock is reserved for incentive stock options and performance awards granted under the Plan. (See Note 9 for further information on the Incentive Stock Options.)

For the year ended December 31, 1979, the cost of incentive stock option and performance awards expensed under the Plan amounted to $923,000, of which $874,000 relates to future payment of performance allotment awards.

POLAROID CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Stock Incentive Plan

In 1979 the Company's performance share plan was amended and extended. Under the plan, distributions to performance share award recipients and amounts of such distributions depend upon the earnings performance of the Company in an award period prescribed by the plan. Distributions may be in the form of 50% in the Company's common stock and 50% in cash, but the Board of Directors, in its absolute discretion, may reduce the stock portion of the distribution to less than 50% with the balance payable in cash.

The total number of performance shares which may be awarded under the plan may not exceed 600,000 for all participants or 60,000 to any participant. The total number of shares of the Company's common stock which may be distributed under the plan may not exceed 300,000.

Performance shares made subject to an award but which thereafter neither have been distributed nor remain subject to an award become available again for the grant of awards for a subsequent award period.

On December 16, 1975, the Company awarded 95,450 performance shares for the award period ending December 31, 1979. In anticipation of a distribution for this award period, $3,600,000 was charged to operating expense in prior years, including $2,400,000 in 1978. Since the performance objective for this award period ultimately was not achieved, no distribution will be made for this period. Consequently, the $3,600,000 previously charged to operating expense was credited against expense in 1979.

Deferred Compensation Plans

GEARHART-OWEN INDUSTRIES, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10: Employee Benefit Plans

The company has deferred compensation agreements with certain officers and key employees payable only if the recipient remains continuously in the employ of the company until agreed retirement age or death, if earlier. The commitment for future compensation, excluding adjustments for cost-of-living changes, is approximately $96,000 per year. The deferred compensation expense charged to income in fiscal years 1980 and 1979 was $132,000 and $128,000, respectively.

The employees of the parent company and its domestic subsidiary can participate (generally after a specified period of employment) in the profits generated by their respective companies. The companies' contributions to these qualified profit sharing plans, as determined by their Board of Directors, are discretionary. Contributions under the plans amounted to $1,690,000 in fiscal year 1980 and $1,198,000 in fiscal year 1979.

KOPPERS COMPANY, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 7: Incentive and Deferred Compensation Plans

The Company has an incentive plan for key employees that provides for an incentive fund based upon the attainment of a specific return on invested capital and income before interest expense and income taxes. Operating expense has been charged with $2,430,000 and $2,300,000 during the years 1979 and 1978, respectively, to provide for the benefits accrued.

The Company has a Deferred Compensation Unit Plan for key employees under which an aggregate of 800,000 units may be outstanding at any one time. Operating expense has been charged with $1,504,000 and $1,474,000 for 1979 and 1978, respectively to provide for the benefits accrued.

The Company adopted a Performance Share Plan, approved by the Board of Directors and ratified by the shareholders at the annual meeting held April 30, 1979. This plan is for key employees and provides for an award of performance shares, each equivalent to one share of the Company's common stock and cash. Distribution of the common stock plus cash equal to the fair market value of the common stock will be made at the end of designated periods on the basis of attainment of a specified compounded growth rate in earnings per share. Awards for 142,600 performance shares were outstanding as of December 31, 1979, and an additional 357,400 performance shares remain available for grant through December 31, 1988. Operating expense has been charged with $2,418,000 in 1979 to provide for the benefits under the plan.

Savings Or Investment Plans

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F (in part): Employee Benefits

Effective October 1, 1979, the stock investment plan was amended to allow employees to allocate payroll deductions among ABC common stock, a diversified equity fund, or a guaranteed income fund. The Company contributes an amount equal to 40% of employees' contributions up to a maximum of $1,000 for each employee per annum. Company contributions are invested solely in ABC common stock. The cost of the plan was $946,000 in 1979 and $708,000 in 1978.

Under the Key Employees Incentive Compensation Plan, the maximum amount which may be set aside for incentive awards in any year is 7% of the excess over $50,000,000 of earnings from operations before federal income taxes. At the option of an eligible employee, an award may be deferred until termination of service. Such awards may be contingently credited to participants in shares of the Company's common stock. The amount charged to expense was $11,000,000 in 1979 and $9,500,000 in 1978.

BOBBIE BROOKS, INCORPORATED (APR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 (in part): Common Shares

Employees Savings Plan—The Company maintains a savings plan for employees which provides for basic (up to 6% of compensation) and supplemental employee contributions and for the Company to match 33⅓% of the employee's basic contribution. The Plan, first offered to employees September 1, 1978, covers all employees not covered by a collective bargaining agreement. The Plan permits eligible employees to invest in a combination of common stock of the Company, at market value, or a fixed income fund.

The Company's 1979 contribution under the Plan amounted to $94,500. The Plan acquired 2,200 shares of the Company's common stock on the open market during 1979 and held 2,200 shares at April 28, 1979.

The Plan and underlying Trust are intended to "qualify" under sections 401 (a) and 501(a) of the Internal Revenue Code, and a determination to this effect has been requested.

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 which is invested in the corporate stock fund. The Company contributions are fully vested to the participant after three years of continued employment. The Company's contributions to the Plan amounted to $2,656,000 in 1979 and $2,469,000 in 1978.

The Plan Trustee may purchase shares of the Company's Common Stock for the corporate stock fund from the Company at a price equal to the closing market price on the New York Stock Exchange on the date of purchase. At December 31, 1979, 148,005 Common shares were reserved for issuance under the Plan.

MCDONNELL DOUGLAS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H: Savings Plans

Participation in an MDC savings plan is available to substantially all MDC employes. The salaried savings plan provides for fixed amounts to be contributed by MDC based upon employee contributions, while the two hourly savings plans provide for fixed benefits which are based upon employee contributions and are funded by MDC on an actuarial basis. The vested benefits of the hourly plans at 30 November 1979 exceeded the market value of the MDC funded assets by approximately $4,400,000.

MDC contributions may be made in cash or, in the case of the salaried savings plan, contributions may be made in shares of MDC Common Stock. Cash contributions to the savings plans aggregated $30,892,864 for 1979 and $25,639,333 for 1978. No contributions in stock were made in 1979 or 1978 and at 31 December 1979 there were 757,070 shares of authorized and unissued Common Stock reserved for issuance under the plan.

MEREDITH CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 (in part): Common Stock

Under the Company's Savings and Investment Plan, 6,713 reacquired common shares were issued during the year at market prices totaling $213,000 (10,084 shares at market prices totaling $227,000 in 1978). The Plan enables eligible employees to invest in a Fixed Income Fund or Government Security Fund by contributing up to five percent of their salary with the Company matching the employee contribution. The Company contribution may be invested (at the employee's election) in Meredith Corporation common stock or the Fixed Income Fund. The cost to the Company for the year was approximately $697,000 ($608,000 in 1978). A total of 710,000 shares have been reserved for the Plan, of which 547,075 were issued at June 30, 1979.

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.

TABLE 3-10: DEPRECIATION METHODS

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Straight-line	556	560	559	567
Declining balance	63	67	67	66
Sum-of-the-years digits	34	35	34	37
Accelerated method-not specified	71	67	60	71
Unit of production	46	44	40	41

Straight Line Method

GENERAL MILLS, INC. (MAY)

	1979	1978
	(Amounts in Millions)	
Costs and Expenses:		
Costs of sales, exclusive of items shown below	$2,336.3	$2,015.3
Depreciation expense (Note 1-B)	70.5	56.1
Amortization expense	2.8	2.5
Interest expense	38.8	29.3
Contributions to employees' retirement plans	25.1	21.0
Selling, general and administrative expenses	1,007.6	873.6
Total Costs and Expenses	$3,481.1	$2,997.8

Note 1-B: Land, Buildings, Equipment and Depreciation

.Part of the cost of buildings and equipment is charged against earnings each year as depreciation expense. This amount is computed primarily by the straight-line method, which means that equal amounts of depreciation expense are charged against operations each year during the estimated useful life of an item. For tax purposes, accelerated methods of depreciation are used which provide more depreciation expense in the early years than in the later years of the estimated life of the item.

The useful lives employed for computing depreciation on principal classes of buildings and equipment are:

Buildings	20-50 years
Machinery and equipment	5-25 years
Office furniture and equipment	5-10 years
Transportation equipment	3-12 years

General Mills' policy is to charge maintenance, repair and minor renewal expenses to earnings in the year incurred. Major improvements to buildings and equipment are capitalized. When items are sold or retired, the accounts are relieved of cost and the related accumulated depreciation. Gains and losses on assets sold or retired are credited or charged to results of operations.

INTERNATIONAL HARVESTER COMPANY (OCT)

Statement of Changes in Financial Position

	1979	1978
	(Thousands of dollars)	
Financial Resources Were Provided By		
Net income	$369,562	$186,680
Items not affecting working capital:		
Depreciation and amortization	126,798	111,033
Undistributed earnings of nonconsolidated companies	(102,728)	(75,928)
Deferred income taxes	159,021	(10,225)
Other	2,033	1,368
Total financial resources provided by operations	$554,686	$212,928

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Summary of Accounting Policies

Property—The replacement of significant items of equipment and the expenditures for tooling and pattern equipment required because of increased capacity, new products and changes in existing products or equipment are capitalized. Expenditures for major rebuilding of machine tools are also capitalized. Expenditures for maintenance and repairs and for renewals of relatively minor items are charged to costs and expenses as incurred.

Depreciation and amortization are generally computed on the straight-line basis. The useful lives of the various classes of properties are as follows:

Building and building equipment—3 to 50 years
Land improvements—3 to 50 years
Automotive equipment—3 to 7 years
Machinery—4 to 20 years
Auxiliary equipment—1 to 13 years
Furniture and fixtures, etc.—1 to 20 years
Tooling and pattern equipment—1 to 8 years
Leasehold improvements—lease term or life of asset, whichever is shorter.

Gains and losses on property disposals are included in income.

The Company capitalizes leases that transfer substantially all of the benefits and risks of ownership to the lessee. These capital leases are, in general, amortized over the terms of the respective leases. Lease amortization is included in depreciation expense.

KENNECOTT COPPER CORPORATION (DEC)

	1979	1978
	($000)	
Cost of goods sold (excludes items shown separately below)	$1,818,614	$1,489,676
Depreciation, depletion and amortization	98,644	88,659
Selling and general administrative expenses	267,376	219,639
Shutdown expenses during strikes	23,818	—
Interest expense	70,082	63,835
Research, exploration and other expenses	27,047	33,983
	$2,305,581	$1,895,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Depreciation and Depletion—Depreciation is computed at rates appropriate for the respective properties, under the conditions existing at each, in order to write off plant and equipment over estimated useful lives principally on the straight-line method. Generally, such rates are computed on a basis of average useful life of items or grouped items.

Depletion is provided over the estimated useful lives of mining properties based on a unit of production sold method.

KUHLMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Depreciation—The Company provides for depreciation of plant and equipment based upon the acquisition costs and estimated service lives of depreciable assets. The straight-line method of computing depreciation is used for financial reporting purposes. The following estimated service lives are used:

Buildings and building equipment	20 to 40 years
Machinery and equipment	Principally 12½ years

Provisions for depreciation of plant and equipment charged to costs and expenses were $2,096,888 in 1979 and $1,363,043 in 1978.

Declining-Balance Method

CLARK EQUIPMENT COMPANY (DEC)

Statement of Changes in Financial Position

	1979	1978
	($000)	
Financial resources were provided by:		
Net income for the year	$106,136	$ 83,323
Add charges (deduct credits) to income not affecting working capital in the year:		
Equity in unremitted earnings of unconsolidated subsidiaries and minority-owned associated companies	(13,338)	(12,751)
Provision for depreciation of properties	42,635	38,519
Provision for deferred income taxes	4,676	17,127
Working capital provided by operations	$140,109	$126,218

FINANCIAL REVIEW

Summary of Significant Accounting Policies

Properties and Depreciation—Property, plant and equipment are carried at cost. Expenditures for maintenance and repairs are charged to income as incurred and expenditures for major renewals and betterments are capitalized. Depreciation is provided over the estimated useful lives of the assets, generally by the declining balance method of depreciation, which provides higher charges in early years of asset life. Depreciation rates used are 2.5% to 10% for land improvements, 2% to 12.5% for buildings and 4% to 33.3% for machinery and equipment. Properties retired or sold are removed from the property accounts, with gains or losses on disposal included in 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 operations as incurred. Gain or loss at disposition is reflected in current operations and, concurrently, cost and accumulated depreciation are eliminated. Newspaper and broadcasting equipment with a cost of $18,000,000 is being depreciated by declining-balance methods, whereas the straight-line method is used for all other assets. Depreciation charged to operations was

$4,890,000 in 1979 and $4,490,000 in 1978. Primary useful life in years is as follows:

Buildings and improvements	25
Newspaper:	
Electronic copy processing equipment	6
Presses	20
Other major equipment	11
Broadcasting:	
Towers	20
Other major equipment	7

TYSON FOODS, INC. (SEP)

Consolidated Statement of Changes in Financial Position

	1979	1978
Working Capital Provided		
Net income	$ 8,865,140	$10,078,508
Items not affecting working capital:		
Depreciation and amortization	10,061,107	6,005,077
Loss (Gain) on sale of property, plant and equipment	114,040	(61,164)
Working Capital Provided from Operations	$19,040,287	$16,022,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant and Equipment and Depreciation—Depreciation is provided for primarily by the double-declining-balance method for all new machinery, equipment and vehicles and by the straight-line method for all other items. The methods used are the same for both financial statement and income tax purposes. Estimated useful lives for depreciation are as follows:

	Years
Buildings	6-35
Leasehold improvements	5-25
Machinery and equipment	3-15
Other	2-10

Approximately $4,451,000 will be required to complete construction projects in progress at September 29, 1979.

Maintenance and repairs, including replacement of minor items, are charged to expense as incurred and major additions to property are capitalized.

The cost of units of property sold or retired is credited to the asset account, and the related depreciation is charged to the accumulated depreciation account with any resulting gain or loss included in income.

Sum-Of-The-Years-Digits Method

THE VENDO COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
Working Capital was Provided by (Used in):		
Continuing Operations—		
Income (Loss) before extraordinary item	$ 79,000	$(3,341,000)
Charges (Credits) not affecting working capital in the current period—		
Depreciation and amortization	905,000	916,000
Minority interest in earnings of subsidiaries	(72,000)	136,000
Deferred liabilities	93,000	61,000
Earnings of VFC Acceptance Corp.	(8,000)	(116,000)
Gain on sale of Vendo de Mexico	(123,000)	—
Provided by (Used in) Continuing operations	$ 874,000	$(2,344,000)

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

Unit of Production Method

INTERNATIONAL PAPER COMPANY (DEC)

	1979	1978
	(In millions of dollars)	
Costs and Expenses		
Cost of products sold	$3,366.8	$2,918.4
Distribution expenses	266.5	242.0
Selling and administrative expenses	278.8	237.1
Depreciation	196.8	177.4
Cost of timber harvested	53.5	40.1
Interest	79.9	71.2
Total Costs and Expenses	$4,242.3	$3,686.2

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Plants, Properties, and Equipment are stated at cost, less accumulated depreciation.

For financial reporting purposes, IP uses the unit of production method of depreciating its pulp and paper mills and the straight-line method on other plants and equipment. When appropriate, additional depreciation is provided on particular assets to recognize reduction in the estimated economic lives of such assets.

Straight-line depreciation rates for financial reporting purposes are as follows: buildings 2½ percent; machinery and equipment 5 percent to 25 percent; woods equipment 10 percent to 16 percent.

For tax purposes, depreciation is computed utilizing accelerated methods.

Start-up costs on major projects are capitalized and charged to earnings over a five-year period. These costs are an integral part of the process of bringing a facility into commercial production and therefore benefit future periods. At December 31, 1979, unamortized start-up costs were approximately $12.7 million.

STANDARD OIL COMPANY OF CALIFORNIA (DEC)

	1979	1978
Costs and Other Deductions		
Purchased crude oil and products	$22,255,750,000	$17,004,383,000
Operating expenses	2,709,230,000	2,202,437,000
Selling, general and administrative expenses	804,034,000	739,985,000
Depreciation, depletion and amortization	707,162,000	591,017,000
Taxes other than on income	2,187,793,000	1,994,102,000
Interest and debt expense	156,039,000	164,455,000
	$28,820,008,000	$22,696,379,000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Properties, Plant and Equipment—All expenditures for development wells, related plant and equipment, and mineral interests in properties are capitalized. Costs of all exploratory wells are tentatively capitalized pending determination of whether the well found proved reserves. Those wells which are assigned proved reserves remain capitalized. All other exploratory wells and exploration expenditures are expensed.

Depreciation, depletion and amortization of all capitalized oil and gas expenditures are provided on a unit-of-production method by individual fields based on proved developed reserves; with the exception of proved mineral interests for which amortization is based on proved reserves. Periodic provisions for impairment of mineral interests in unproved properties are expensed.

Depreciation and amortization of other plant and equipment are provided over their estimated useful lives. In general, the declining-balance method is used for domestic plant and equipment and the straight-line method is used for foreign plant and equipment. The straight-line method also is used for the amortization of all capitalized leases.

Normally, when property, plant or equipment subject to composite depreciation rates is retired, the cost less the amount realized is charged to accumulated depreciation, depletion and amortization. For abnormal retirements of major units and for retirements of units not subject to composite rates, any gains or losses are included in income.

Expenditures for maintenance and repairs necessary to maintain facilities in operating condition, as well as minor renewals, are charged to operating expenses. Betterments and major renewals are capitalized.

Depletion

INTERNATIONAL PAPER COMPANY (DEC)

	1979	1978
	($ Millions)	
Costs and Expenses		
Cost of products sold	$3,366.8	$2,918.4
Distribution expenses	266.5	242.0
Selling and administrative expenses	278.8	237.1
Depreciation	196.8	177.4
Cost of timber harvested	53.5	40.1
Interest	79.9	71.2
Total Costs and Expenses	$4,242.3	$3,686.2

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Timberlands, including capitalized timber harvesting rights, are stated at cost, less accumulated cost of timber harvested. The Company capitalizes those timber cutting contracts where the gross price to be paid is fixed. The portion of the cost of timberlands attributed to standing timber is charged against income as timber is cut, at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. The costs of roads, park developments, and other land improvements are capitalized and amortized over their economic lives.

STANDARD OIL COMPANY (INDIANA) (DEC)

	1979	1978
Costs and expenses		
Purchased crude oil, petroleum products, merchandise, and operating expenses	$12,590,296,000	$ 9,542,264,000
Exploration expenses, including exploratory dry holes	588,641,000	495,581,000
Selling and administrative expenses	923,541,000	841,314,000
Taxes other than income taxes	1,676,246,000	1,681,483,000
Depreciation, depletion, amortization, and retirements and abandonments	1,054,822,000	912,155,000
Interest expense	243,142,000	226,044,000
Income applicable to minority interest	5,959,000	1,556,000
Total costs and expenses	$17,082,647,000	$13,700,393,000

NOTES TO FINANCIAL STATEMENTS

Note 1 (in part): Accounting Policies

Depreciation, depletion, and amortization—Generally, depreciation of plant and equipment, other than oil and gas facilities and mineral properties, is computed on a straight-line basis over the estimated economic lives of the facilities. Assets held under capital leases are generally amortized over the terms of the leases. Depletion of the cost of producing oil and gas properties, amortization of related intangible drilling and development costs, depreciation of tangible lease and well equipment, and amortization of the cost of mineral properties are computed on the unit-of-production method. The portion of unproved oil and gas properties estimated to be nonproductive is amortized over projected holding periods. This approximates assessment of actual impairment on a property-by-property basis.

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 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

	1979	1978	1977	1976
Description Terms				
Income taxes	451	462	447	440
Federal income taxes	109	94	114	102
United States (U.S.) income taxes	16	17	19	31
	576	**573**	**580**	**573**
Other or no caption for expense	24	27	20	27
Total Companies	**600**	**600**	**600**	**600**

TABLE 3-12: TIMING DIFFERENCES—REASONS

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Depreciation	470	472	456	469
Unremitted earnings	100	124	107	146
Inventory valuation	81	70	61	69
Other employee benefits	78	72	59	67
Pensions	70	56	49	53
Installment sales	59	62	71	77
Long-term contracts	53	48	44	47
Discontinued operations	44	57	35	44
Intangible drilling costs	31	35	28	34
Leases	26	31	16	N/C
Warranties and guaranties	24	26	26	21
Interest and taxes during construction	20	21	22	18
Translation of foreign currency accounts	19	22	11	N/C

N/C—Not Compiled.

ANDERSON, CLAYTON & CO. (JUN)

	1979	1978
Cost of sales and operating expenses	$1,305,809,000	$1,152,054,000
Depreciation and amortization	14,565,000	12,020,000
Selling and administrative expenses	105,187,000	87,871,000
Interest expense	19,305,000	14,640,000
U.S. and foreign taxes on income (note 8)	30,209,000	33,825,000
Loss from decline in foreign exchange rates	2,556,000	2,118,000
Income applicable to minority interest	4,226,000	4,433,000
	$1,481,857,000	$1,306,691,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): A summary of significant accounting policies follows:

U.S. and foreign taxes on income. Deferred income taxes are provided for the timing differences in reporting certain items (principally depreciation, inventory valuation, undistributed earnings of foreign subsidiaries and Swiss taxes) for income tax purposes and financial statements. The Company uses the flow-through method of accounting for investment tax credit.

Note 8: The Company's U.S. income tax returns have been examined through June 30, 1975. Proposed adjustments of $2,242,000 for 1974 and 1975 have been made. For the most part the proposed adjustments result from timing differences, the tax for which has been provided in the financial statements. Returns for the years ended June 30, 1976 through 1978 are currently under examination.

Income tax expense follows:

	1979	1978
U.S. Taxes on income:		
Current	$22,125,000	$23,822,000
Deferred:		
Inventory	(98,000)	(23,000)
Depreciation	868,000	(166,000)
Other	(845,000)	1,483,000
Total deferred	(75,000)	1,294,000
Total	22,050,000	25,116,000
Foreign taxes on income:		
Current	9,113,000	8,093,000
Deferred	(954,000)	616,000
Total	8,159,000	8,709,000
Total U.S. and foreign taxes on income	$30,209,000	$33,825,000

A reconciliation of income taxes items using the statutory rate to the actual income tax expense follows:

	1979	1978
Income before minority interest and taxes on income	$83,250,000	$85,460,000
Income tax expense using statutory rate	$39,134,000	$41,021,000
Investment tax credit, net of recapture	(1,670,000)	(1,505,000)
Nontaxable interest	(2,571,000)	(1,758,000)
Rate difference—foreign subsidiaries	(2,672,000)	(3,621,000)
Other items—net, none of which exceeds 5% of income tax expense using statutory rate	(2,012,000)	(312,000)
Actual taxes on income	$30,209,000	$33,825,000

The Company does not expect cash outlays for income taxes to substantially exceed income tax expense during the next three-year period.

BAUSCH & LOMB INCORPORATED (DEC)

	1979	1978
	($000)	
Costs and Expenses:		
Cost of products sold	$234,825	$209,474
Depreciation of properties	9,437	8,958
Research and development	13,246	12,747
Selling, administrative and general	158,328	145,779
Interest	7,963	8,263
Federal, foreign and other taxes on income	38,004	26,615
	$461,803	$411,836

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (in part)

Undistributed Earnings of Subsidiaries—It has been the company's policy, which is expected to continue, to reinvest the net earnings of most subsidiaries for an indefinite period of time. U.S. and foreign income taxes are provided on earnings of subsidiary companies which are intended to be remitted to the parent company in the near future.

Income Taxes—The company accounts for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these timing differences. Investment tax credits realized at the time of property acquisitions are used to reduce applicable income taxes.

Taxes on Income

The provision for taxes appearing in the statement of earnings consists of:

($ amounts in thousands)	1979	1978
Federal income taxes		
Current provision	$27,586	$19,633
Deferred provision	(231)	(292)
State income taxes		
Current provision	4,254	2,955
Deferred provision	(27)	20
Foreign income taxes		
Current provision	6,422	4,239
Deferred provision	—	60
	$38,004	$26,615

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes.

The provisions for taxes compare to the amounts of $36,428,000 and $27,088,000, respectively, computed by applying the U.S. Federal income tax rate of 46% and 48%, less applicable surtax exemptions, to earnings before taxes.

The explanation for this difference is shown in the following table.

($ amounts in thousands)	1979		1978	
	Amount	Percent of Pretax Earnings	Amount	Percent of Pretax Earnings
Computed "expected" tax expense	$36,428	46.0%	$27,088	48.0%
Difference between foreign and U.S. tax rates	451	.6	49	—
State income taxes, net of federal tax benefit	2,283	2.9	1,547	2.7
DISC income, not subject to taxes	(794)	(1.0)	(717)	(1.2)
Investment tax credit	(400)	(.5)	(600)	(1.1)
Other	36	—	(752)	(1.3)
Total tax expense	$38,004	48.0%	$26,615	47.1%

As of December 30, 1979, the parent company had not recognized possible U.S. income taxes, net of available foreign tax credits, on undistributed earnings of $36,648,000 of subsidiaries because there is no current intention to remit these earnings.

BAKER INTERNATIONAL CORPORATION (SEP)

	1979	1978
	($000)	
Income before income taxes	$167,290	$135,048
Income taxes (Note 5)	67,861	57,878
Net income	$ 99,429	$ 77,170

Note 5: Income Taxes:

The provision for income taxes for the years ended September 30, 1979 and 1978 is summarized as follows:

	1979	1978
Currently payable:		
United States	$29,901,000	$37,108,000
Foreign	19,510,000	13,283,000
Total currently payable	48,411,000	50,391,000
Deferred:		
United States	17,793,000	6,173,000
Foreign	657,000	1,314,000
Total deferred	18,450,000	7,487,000
Total income taxes	$67,861,000	$57,878,000

The consolidated effective income tax rates for the years ended September 30, 1979 and 1978 varied from the United States statutory income tax rates for the reasons set forth below:

	% of Income Before Taxes	
	1979	1978
Statutory income tax rate	46.5	48.0
State taxes based on income—net of United States income tax benefit	1.4	1.0
United States taxes not provided on foreign earnings	(3.0)	(1.2)
United States investment tax credits (flow-through method)	(5.3)	(3.7)
Other—net	1.0	(1.2)
Effective income tax rate	40.6	42.9

The sources of deferred income taxes for the years ended September 30, 1979 and 1978 and the tax effect of each are as follows:

	1979	1978
Depreciation expense	$ 6,231,000	$ 4,498,000
United States income tax on:		
Foreign earnings	3,198,000	502,000
DISC earnings	4,183,000	2,248,000
Provisions for inventory obsolescence	1,153,000	(1,402,000)
Other—net	3,685,000	1,641,000
Total deferred tax provision	$18,450,000	$ 7,487,000

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. Repatriation of all accumulated foreign earnings at September 30, 1979 and 1978 (excluding DISC earnings on which full United States income taxes have been provided) would have resulted in tax liabilities of approximately $25,225,000 and $20,656,000, respectively, for which the Company had provided deferred tax liabilities of $12,616,000 and $9,604,000, respectively.

In 1979 the Company discontinued providing deferred income taxes for United Kingdom stock relief, as a result of changes in the United Kingdom tax law and, accordingly, reversed deferred income taxes provided in prior years. The effect of such reversal, net of related additional provisions for United States income taxes on foreign earnings, was to reduce the provision for deferred income taxes by approximately $1,600,000 for the year ended September 30, 1979.

BAIRD CORPORATION (SEP)

	1979	1978
Income before income taxes	$1,910,319	$1,800,520
Federal, state and foreign income taxes (notes 1 and 9)	795,300	886,000
Net income	$1,115,019	$ 914,520

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

F. Income Taxes—The Company provides deferred income taxes on timing differences between book and tax treatment of revenues and expenses. The Company accounts for investment tax credits as a reduction of tax expense in the year in which the related asset is placed in service (flow-through method).

Note 9: Federal, State and Foreign Income Taxes

Federal, state and foreign income tax expense is summarized as follows:

	1979	1978
Federal:		
Current	$ —	$ 2,800
Deferred:		
Due to current timing differences	609,400	662,200
Due to non-current timing differences	38,000	36,000
Total Federal	647,400	701,000
State		
Current	47,600	5,600
Deferred:		
Due to current timing differences	91,300	160,400
Due to non-current timing differences	9,000	8,000
Total state	147,900	174,000
Foreign:		
Deferred:		
Due to non-current timing differences	—	11,000
Total foreign	—	11,000
Total Federal, state and foreign income taxes	$795,300	$886,000
Effective tax rate	41.6%	49.2%
State income taxes (net of Federal tax benefit)	(4.1)	(5.0)
Investment credit utilization	3.9	1.1
Jobs tax credit utilization	2.6	—
Surtax exemption	—	0.7
Other	2.5	2.0
Statutory Federal rate	46.5%	48.0%

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:

	1979	1978
Revenue recognized on completed contract basis for tax return and on percentage of completion basis for books	$490,500	$1,309,000
Excess of tax over book depreciation	47,000	44,000
Other	26,800	(28,400)
Subtotal	564,300	1,324,600
Utilization of net operating loss carryforward for Federal tax purposes	183,400	—
Unused net operating loss for Federal tax purposes	—	(447.000)
Total deferred tax expense	$747,700	$ 877,600

As of September 30, 1979, the Company had available Federal income tax loss carryforwards of $710,000 expiring in 1985; investment tax credit carryforwards of $26,000, $22,000 and $75,300 expiring in 1984, 1985, and 1986, respectively; jobs tax credit carryforward of $50,500 expiring in 1986; and foreign tax loss carryforward of $83,000 expiring in 1984. In the Commonwealth of Massachusetts tax losses cannot be offset against future years' income to reduce state income taxes.

CASTLE & COOKE, INC. (DEC)

	1979	1978
	($000)	
Income before income taxes	$44,149	$71,160
Income taxes	13,100	23,600
Net income	$31,049	$47,560

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Accounting Policies (in part)

Income Taxes: The provision for domestic and foreign income taxes is based on revenues and expenses reported for financial statement purposes rather than those amounts currently payable under tax laws. Deferred income taxes are provided for timing differences between financial statements and tax returns. Income taxes which would be due upon the distribution of foreign subsidiary earnings have not been provided where the undistributed earnings are considered permanently invested. Investment tax credits are recorded as a reduction of current income tax expense in the years assets are placed in serivce.

Income Taxes

Current and deferred income tax expenses were as follows:

(in thousands)	1979	1978
Current		
Federal	$(10,653)	$ 7,011
Foreign	8,863	8,149
State and local	2,441	2,528
	651	17,688
Deferred		
Federal	12,304	5,070
Foreign	(264)	(182)
State and local	409	1,024
	12,449	5,912
	$ 13,100	$23,600

The Company's effective income tax rate varied from the U.S. federal income tax rate for the following reasons:

	1979	1978
U.S. federal income tax rate	46.0%	48.0%
Foreign income which is taxed at lower rates	(6.4)	(8.7)
Capital construction fund	(1.2)	(4.0)
Investment tax credit	(8.9)	(3.8)
State and local income tax (net of federal income tax benefit)	3.5	2.6
DISC income	(4.4)	(3.0)
Capital gains	(2.2)	(1.3)
Other	3.3	3.4
Effective income tax rate	29.7%	33.2%

Sources of deferred taxes and the tax effect on each were as follows:

(in thousands)	1979	1978
Real estate income	$ (1,499)	$ (654)
Accelerated depreciation	3,530	1,540
Results of joint venture and partnership operations	1,777	(5,769)
Seafood operations	3,768	3,316
Fruit operations	4,671	4,936
Other	202	2,543
	$ 12,449	$ 5,912

Undistributed earnings of subsidiaries, primarily foreign, which have been or are intended to be permanently invested, aggregated $165 million at December 29, 1979. If taxes were to be provided on such earnings, the estimated total of such taxes would be $51 million.

CHRYSLER CORPORATION (DEC)

	1979	1978
	(In millions of dollars)	
Loss Before Taxes on Income	$(1,102.3)	$(285.8)
Taxes on income (credit) (Note 7)	(5.0)	(81.2)
Net Loss	$(1,097.3)	$(204.6)

Note 7: Taxes on Income

Income tax expense (credit) as shown in the consolidated statement of operations includes the following:

	1979	1978
	(In millions of dollars)	
United States Federal Income Taxes:		
Current	$(14.4)	$(102.9)
Deferred	(2.8)	—
	(17.2)	(102.9)
Other Income Taxes:		
Current	8.8	21.8
Deferred	3.4	(.1)
Total Taxes on Income (credit)	$(5.0)	$(81.2)

Chrysler Corporation and certain of the company's subsidiaries outside the United States have unused operating loss carryforwards, expiring in 1983 through 1986 providing approximately $565 million of potential tax benefits. In addition, as of December 31, 1979, the company has U.S. investment tax credits of approximately $119 million, expiring in 1982 through 1986, available as carryforwards. U.S. tax has not been provided on permanently reinvested net earnings of approximately $312 million of subsidiaries outside the U.S.

A reconciliation of 1979 and 1978 income tax credits to the U.S. statutory rate follows:

	Percent	
	1979	1978
Tax at U.S. statutory rate	(46.0)%	(48.0)%
Effect of net earning of unconsolidated subsidiaries which are net of tax	(1.3)	(8.6)
Effect of net earnings of European and certain South American operations which are net of tax	—	(6.8)
Effect of U.S. and Canadian losses for which no tax carrybacks are available	47.7	—
Investment tax credit	—	20.3
State income taxes	(0.3)	(0.4)
Foreign earnings subject to aggregate tax expense greater (less) than statutory rate	(0.6)	2.8
Effect of overseas losses for which no tax credits are available	—	12.3
Taxes on Income	(0.5)%	(28.4)%

KELLOGG COMPANY (DEC)

	1979	1978
	(in millions)	
Earnings before income taxes	$283.6	$273.0
Income taxes	121.0	127.9
Net earnings	$162.6	$145.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes—Deferred income taxes are provided on revenues and expenses included in financial statements for periods other than the periods for which those revenues and expenses are reported for income tax purposes. Investment tax credits are used to reduce current income tax provisions.

It is the practice and the intention of the Company to reinvest indefinitely such earnings of foreign subsidiaries as may be required for the growth of businesses outside the United States. Accordingly, United States income taxes have not been provided on such unremitted current and prior years' earnings of these subsidiaries. The cumulative amount of undistributed foreign earnings at December 31, 1979 is approximately $197.7 million. Such earnings, if remitted, would be expected to be taxed at substantially reduced rates because of the anticipated credit for income taxes paid in other countries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Income Taxes

The provision for income taxes consists of:

	1979	1978
United States:		
Federal		
Current	$ 95.2	$ 91.5
Deferred	3.4	4.3
	98.6	95.8
State and local		
Current	8.9	9.3
Deferred	.2	.4
	9.1	9.7
Foreign:		
Current	11.7	11.6
Deferred	1.6	10.8
	13.3	22.4
	$121.0	$127.9

The 1979 provision for foreign taxes reflects a reduction of $11.7 million ($.15 a share, $.11 in third quarter and $.04 in fourth quarter) resulting from reversal of deferred taxes previously provided in the United Kingdom. The amounts were provided in prior years for tax deductions granted on increases in the carrying value of inventories. The British Parliament has modified provisions of the law eliminating the potential recapture of certain amounts and limiting the timing of potential recapture for other amounts. United States accounting principles were developed in recognition of this new legislation and the Company has determined it appropriate to recognize the tax benefit described above.

The effective tax rates differ from the United States federal statutory rate due to the credit for 1979 described above, investment tax credits, rate differences of foreign countries offset by state income taxes and other less significant factors. Deferred income taxes result primarily from the use of accelerated depreciation and similar allowances for tax reporting purposes.

Investment tax credits amounting to $4.1 million in 1979 and $2.6 million in 1978 were used to reduce current income tax provisions.

NORTON SIMON INC (JUN)

	1979	1978
	($000)	
Income Before Taxes	207,083	$197,160
Income Taxes	82,833	81,346
Net Income	$124,250	$115,814

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Federal income taxes are not provided currently on undistributed earnings of foreign subsidiaries where the present intention is to reinvest substantially all such earnings. The investment tax credit is recognized as a reduction of Federal income taxes in the year in which the credit arises. Tax effects of transactions are recognized in the year in which they enter into the determination of net income. Accumulated timing differences are shown as deferred income taxes in the balance sheet.

Income Taxes

The provision for income taxes was as follows:

(In thousands)	1979	1978
Federal		
Current	$ 4,634	$16,223
Deferred	32,454	19,601
Federal taxes	37,088	35,824
Foreign		
Current	26,948	25,524
Deferred	7,290	8,047
Foreign taxes	34,238	33,571
State taxes	11,507	11,951
Total	$82,833	$81,346

The investment tax credit recognized as a reduction of income taxes amounted to $4,013,000 and $5,330,000 in 1979 and 1978, respectively. The provision for income taxes varied from the Federal statutory income tax rate due to the following:

	1979	1978
Taxes at statutory rate	47.0%	48.0%
Investment tax credit	(1.9)	(2.7)
Dividends received deduction	(.7)	(.8)
Different tax rates on foreign earnings	(3.3)	(3.3)
Capital gains benefit	(1.8)	
Contributions of appreciated assets	(.9)	(1.0)
State income taxes (less Federal benefit)	2.9	3.2
Equity in earnings of leasing subsidiaries	(1.5)	(1.1)
Other—net	.2	(1.0)
Income taxes	40.0%	41.3%

Deferred income taxes result from certain items entering into the determination of financial income in a period different than for taxable income. The principal timing differences were:

(In thousands)	1979	1978
Vehicle amortization	$34,488	$35,231
Property depreciation	1,289	3,819
Lease payments	(1,295)	(2,741)
Discount on short-term investments, etc.	2,390	(3,810)
Accruals and allowances	(8,164)	(14,190)
Inclusion of leasing operations in consolidated tax returns	10,511	3,974
Foreign inventory valuations	(2,211)	28
Other	2,736	5,337
Provision for deferred income taxes	$39,744	$27,648

At June 30, 1979, deferred Federal income taxes had not been provided on approximately $147,000,000 of undistributed earnings of foreign subsidiaries.

G. C. MURPHY COMPANY (JAN)

	1979	1978
Income before income taxes	$18,804,000	$ 2,000
Provision (credit) for income taxes (Note 10)	8,950,000	(200,000)
Net income	$ 9,854,000	$202,000

Note 10: Income Taxes

The provision (credit) for income taxes comprised:

	Federal	State	Total
1979:			
Current	$5,610,000	$1,015,000	$6,625,000
Deferred:			
Depreciation	832,000	111,000	943,000
Expenses related to closed facilities	1,696,000	226,000	1,922,000
Pension accrual	(431,000)	(29,000)	(460,000)
Other	(57,000)	(23,000)	(80,000)
	$7,650,000	$1,300,000	$8,950,000
1978:			
Current	$3,655,000	$ 560,000	$4,215,000
Deferred:			
Depreciation	995,000	107,000	1,102,000
Expenses related to closed facilities	(4,680,000)	(445,000)	(5,125,000)
Other	(360,000)	(32,000)	(392,000)
	$ (390,000)	$ 190,000	$ (200,000)

Deferred taxes result from timing differences between the recognition of expense and revenue for tax and financial reporting purposes.

The provision (credit) for income taxes differs from the amount computed by applying the U.S. Federal income tax rate to income before income taxes for the following reasons:

	1979	1978
Computed "expected" tax provision	$8,631,000	$ 1,000
Increase (reductions) in taxes resulting from:		
Investment tax credit, net of recapture	(500,000)	(298,000)
State taxes, net of Federal tax benefit	697,000	99,000
Other	122,000	(2,000)
	$8,950,000	$(200,000)

WHIRLPOOL CORPORATION (DEC)

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Deductions from Income					
Cost of products sold	$1,830,594	$1,685,002	$1,545,092	$1,283,465	$1,135,607
Selling and administrative expenses	260,684	226,962	189,951	154,647	133,051
Interest on long-term debt	6,253	6,707	7,078	8,160	4,993
Other interest expense	2,008	2,308	1,466	1,095	3,150
Minority interest in net earnings (losses) of subsidiaries	(471)	(328)	368	355	(108)
Income taxes—Note M	84,200	88,600	102,200	76,500	54,000
	$2,183,268	$2,009,251	$1,846,155	$1,524,222	$1,330,693

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investment Tax Credits: Investment tax credits are accounted for by the flow-through method as a direct reduction of the current federal income tax provision.

Note M—Income Taxes

The provisions for income taxes applicable to continuing operations follow:

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Current:					
Federal	$77,012	$73,152	$ 89,339	$66,167	$44,024
State and local	13,512	10,242	12,265	7,999	5,486
	90,524	83,394	101,604	74,166	49,510
Deferred (credit):					
Federal	(5,272)	4,798	527	2,110	3,934
State and local	(1,052)	408	69	224	556
	(6,324)	5,206	596	2,334	4,490
Total Income Tax Expense	$84,200	$88,600	$102,200	$76,500	$54,000

A reconciliation of the total income tax expense to the amount computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes, minority interest in net earnings (losses) of subsidiaries and equity in net earnings of affiliated companies follows:

	1979	1978	1977	1976	1975
			(thousands of dollars)		
46% (48% prior to 1979) of earnings, as defined above	$81,380	$83,807	$ 97,706	$74,574	$55,918
State and local taxes, net of federal tax benefit	6,728	5,538	6,652	4,275	3,142
Investment tax credit	(2,652)	(2,290)	(2,702)	(1,750)	(1,666)
Other items	(1,256)	1,545	544	(599)	(3,394)
Total Income Tax Expense	$84,200	$88,600	$102,200	$76,500	$54,000

The provisions (credit) for deferred income taxes are summarized as follows:

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Timing difference:					
Depreciation	$ 770	$ 923	$ 1,016	$ 1,536	$ 2,486
Warranty costs	(2,187)	(770)	(472)	923	1,299
Prepaid pension costs	(4,700)	5,254	—	—	—
Other—net	(207)	(201)	52	(125)	705
Total	$(6,324)	$ 5,206	$ 596	$ 2,334	$ 4,490

The cash outlay for income taxes is not expected to substantially exceed income tax expense during any of the three years ending December 31, 1982.

SMITHKLINE CORPORATION (DEC)

	1979	1978
Earnings before income taxes	$343,837,000	$261,275,000
Provision for income taxes (note 4)	110,000,000	97,200,000
Net earnings	$233,837,000	$164,075,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income Taxes—Deferred income taxes are provided on timing differences between book and tax income. The timing differences relate principally to depreciation, pensions, compensation and allowances. Investment tax credits, which are not material, are recorded under the flow-through method of accounting and are applied as a reduction of income taxes.

Note 4: Income Taxes

The provision for income taxes (in thousands) consists of the following:

1979	Federal	Foreign	State	Total
Current	$32,426	$81,070	$2,601	$116,097
Deferred	(3,575)	(2,522)	—	(6,097)
	$28,851	$78,548	$2,601	$110,000
1978				
Current	$43,632	$48,448	$2,750	$ 94,830
Deferred	(2,382)	4,952	(200)	2,370
	$41,250	$53,400	$2,550	$ 97,200

The total provision for income taxes for 1979 and 1978 amounted to 32.0% and 37.2%, respectively, of earnings before income taxes. The primary reason for the difference between the effective rates and the expected U.S. Federal income tax statutory rate is that certain income of companies operating in Puerto Rico and Ireland is substantially exempt from local income taxes. These exemptions reduced expected income taxes and increased net earnings by approximately $48,000,000 ($.79 per share) in 1979 and $27,300,000 ($.45 per share) in 1978.

During 1979, in an agreement with the Puerto Rican government, SmithKline elected to convert its operations in Puerto Rico to a status whereby 90% of earnings are exempt from taxes. The combined effective Puerto Rican income tax and withholding tax rates are expected to range between 5% and 11%. To qualify for a reduced rate on withholding taxes from dividends, $52,250,000 in time deposits have been designated as long-term investments. During 1979 and 1978 dividends of $82,915,000 and $80,594,000, respectively, were paid to the parent company.

U.S. income taxes have not been provided on $230,000,000 of unremitted foreign earnings because they will be reinvested in foreign operations or will be offset by appropriate credits for foreign income taxes paid.

Federal income tax returns of the Company have been examined by and closed with the Treasury Department through December 31, 1972. The years 1973 through 1975 are being examined and no material adjustments have been proposed.

TABLE 3-13: INVESTMENT TAX CREDIT

	1979	1978	1977	1976
Flow-through method	529	521	504	502
Deferral method	67	71	75	76
No reference to investment credit	4	8	21	22
Total Companies	**600**	**600**	**600**	**600**

INVESTMENT CREDIT

The Internal Revenue Code permits a credit of up to 10% against Federal income taxes on the cost of certain depreciable assets purchased and placed in service during the tax year. Similar credits up to an additional 2% are allowed for corporate contributions to an ESOP (Employee Stock Ownership Plan). As required by the Revenue Act of 1971, once an accounting method has been adopted for the investment credit, no change can 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 or deferral method be used to account for the investment credit. *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 accounting for the 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

ACME-CLEVELAND CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting Policies and Practices

Income Taxes—Income taxes were reduced by $840,000 ($608,000 in 1978) for the investment tax credit, which is accounted for by the flow-through method.

Income taxes are provided on worldwide income at the appropriate statutory rates applicable to such income. Generally the Corporation plans to finance foreign expansion and operations by reinvestment of the earnings of such subsidiaries. No deferred federal income taxes have been provided on approximately $5,239,000 of the unremitted earnings of such subsidiaries.

The Corporation's Domestic International Sales Corporation (DISC), which receives certain tax benefits under provisions of the Revenue Act of 1971, had unremitted earnings of approximately $3,010,000 for which federal income taxes have not been provided.

The Corporation has available operating loss carryforwards in West Germany of $1,939,000 expiring from 1980 through 1983.

Note C: Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between financial and tax reporting, principally relating to depreciation, pension costs and long-term contracts.

Income tax expense is summarized as follows:

	(In Thousands) 1979	1978
Federal		
Current	$12,170	$ 8,592
Deferred	735	483
	12,905	9,075
Foreign		
Current	2,992	1,672
Deferred	(350)	387
	2,642	2,059
State and local	949	679
	$16,496	$11,813

The difference between the effective income tax rate and that computed by applying the U.S. federal income tax rate of 46.5% in 1979 and 48% in 1978 is summarized as follows:

	1979	1978
Effective rate	45.6%	47.3%
Investment credit	2.3	2.4
State income taxes	(1.2)	(1.4)
Other items	(.2)	(.3)
	46.5%	48.0%

CONE MILLS CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 5: Income Taxes

The provision for income taxes includes deferred taxes because of timing differences in reporting income and expenses for financial and tax purposes.

Investment tax credits are accounted for as a reduction of the current tax provision under the "flow-through" method.

A summary of the provision for income taxes is as follows (amounts in thousands):

	Federal	State	Total
1979:			
Current	$24,693	$3,527	$28,220
Investment credit	(3,660)	—	(3,660)
Deferred	1,887	203	2,090
	$22,920	$3,730	$26,650
1978:			
Current	$22,928	$3,004	$25,932
Investment tax credit	(2,175)	—	(2,175)
Deferred	2,052	231	2,283
	$22,805	$3,235	$26,040

The consolidated effective income tax rates were 37.8% and 42.0% for the years 1979 and 1978 respectively. A reconciliation of these effective tax rates with the statutory

United States rate of 46% (48%-1978) is shown below:

	1979	1978
Statutory rate	46.0%	48.0%
Investment tax credit	(5.2)	(3.5)
State income taxes, net of Federal income tax benefit	2.9	2.7
Indefinite deferral of a portion of the DISC earnings	(5.9)	(4.8)
Miscellaneous	—	(.4)
	37.8%	42.0%

The Investment Tax Credit in 1979 includes $340,000 ($200,000-1978) related to the establishment of a Tax Reduction Act Employee Stock Ownership Plan under the provision of the Tax Reduction Act of 1975. The above amount will be contributed by the Company to a fund for investment in common stock of the Company for the benefit of eligible employees.

No provision has been made for Federal income taxes applicable to that portion of the undistributed earnings ($29,525,000 as of December 30, 1979) of the Company's Domestic International Sales Corporation (DISC) which earnings are considered to be permanently invested in the subsidiary.

GREAT NORTHERN NEKOOSA CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

f. Income taxes: Income taxes are provided on income as reported in the Consolidated Statements of Income regardless of when such taxes are payable. That portion of the tax provision not currently payable is deferred.

The investment tax credit is reflected in income on the flow through method.

The additional one percent investment tax credit resulting from contributions to an Employee Stock Ownership Plan is recorded as a reduction of income taxes. The offsetting contribution is recorded as an expense.

The company has two domestic international sales companies (DISC) to take advantage of legislation permitting federal income taxes on a portion of DISC income from qualified export sales to be deferred indefinitely under certain conditions. No provision has been made for taxes otherwise payable of $6.6 million for 1979 and prior years.

Note 3. Income taxes: Provision for federal and state taxes on income includes:

	Years ended December 31,	
$ millions	1979	1978
Currently payable:		
Federal	$39.8	$38.3
State	5.5	5.5
	45.3	43.8
Deferred—primarily excess tax over book depreciation:		
Federal	15.4	5.8
State	1.1	.2
	16.5	6.0
Investment tax credit (including energy tax credit)	(20.5)	(14.5)
	$41.3	$35.3

The major factors causing a difference between the statutory federal income tax rate and the effective income tax rate in the accompanying financial statements are:

percent of pretax income	1979	1978
Federal statutory tax rate	46.0%	48.0%
Investment tax credit	(15.6)	(14.2)
State taxes	2.7	3.0
Benefit from income taxed at capital gains rates	(2.2)	(1.9)
Other	.5	(.2)
Effective tax rate	31.4%	34.7%

INLAND STEEL COMPANY (DEC)

	1979	1978
	($000)	
Provision for taxes on income:		
Current	$ 54,623	$ 88,369
Deferred	17,721	24,514
Investment and energy tax credits	(37,133)	(36,103)
Supplemental investment tax credit	(6,751)	—
	$ 28,460	$ 76,780

STATEMENT OF ACCOUNTING AND FINANCIAL POLICIES

Investment Tax Credits

Investment tax credits are taken into income under the "flow-through" method of accounting in the periods when qualifying capital expenditures are incurred or capital projects are completed. Investment tax credits earned prior to 1968 are taken into income over the depreciable lives of the related assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Taxes on Income

Total taxes on income, which include state and local taxes on income, equaled 18 percent of income before taxes in 1979 and 33 percent in 1978. Investment and energy tax credits were the major factor in the variance from the Federal statutory rate of 46 percent in 1979 and 48 percent in 1978. Other factors contributing to the variance include percentage depletion allowances and state and local taxes on income.

Deferred taxes of $19,668,000 in 1979 and $22,576,000 in 1978 were provided for the excess of depreciation for tax purposes over depreciation for financial reporting purposes. Investment tax credits included in determining net income, but carried forward for tax purposes, reduced deferred income taxes by $17,587,000 in 1979.

A summary of income tax expense for the years 1979 and 1978 follows:

dollars in thousands	1979	1978
Current taxes on income:		
Federal	$40,463	$70,871
State	7,832	11,746
Foreign	6,328	5,752
	$54,623	$88,369
Deferred taxes on income:		
Federal	$19,698	$25,386
Foreign	(1,977)	(872)
	$17,721	$24,514
Investment and energy tax credits:		
Current for tax purposes	$25,137	$35,117
Carried forward for tax purposes	17,587	—
Amortization of deferred credit	1,160	986
	$43,884	$36,103

Supplemental investment tax credits totaling $6,751,000 were recognized in 1979, relating to the Tax Reduction Act of Employee Stock Ownership Plan adopted during the year. Of these credits, $3,471,000 was related to 1978 capital projects. The supplemental credits did not increase net income because a fully offsetting supplemental compensation cost was required. Earnings per share effect of investment and energy tax credits without the supplemental credits was $1.79 in 1979 and $1.76 in 1978.

WHITE MOTOR CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (in part)

Income Taxes—White Motor files consolidated U.S. federal income tax returns which include all wholly-owned domestic subsidiaries. United States income taxes are not provided for undistributed earnings of the Corporation's Domestic International Sales Corporation (DISC) and foreign subsidiaries because of the Corporation's intention to reinvest such earnings indefinitely. Undistributed earnings of the Corporation's foreign (principally Canadian) and DISC subsidiaries aggregated approximately $109,600,000 (including $12,000,000 of a Canadian) and DISC subsidiaries aggregated approximately $109,600,000 (including $12,000,000 of a Canadian finance subsidiary) at December 31, 1979. Current U.S. income taxes are reduced by investment tax credits using the flow-through method. In addition, investment tax credit carryforwards are recognized to the extent of, and as an offset to, existing net deferred federal income taxes that otherwise would be amortized during the carryforward period.

Note F (in part): Income Taxes and Extraordinary Credit

The total income tax provision related to income before income taxes (inclusive of the debenture exchange extraordinary credit) varied from the statutory U. S. income tax rate as follows:

	1979	1978
Statutory U. S. income rate	46.0%	48.0%
Non-recognition of tax benefits from operating losses	—	3.6
Foreign currency translation (gain) loss—no tax (provision) benefit	(1.3)	52.9
State and local income taxes	0.3	5.9
Effect of lower foreign tax rate	(8.2)	(33.7)
Foreign withholding tax	3.6	31.2
Refund on revenue agent report	—	(19.5)
Investment tax credits	(12.7)	—
Other	0.9	2.8
Effective income tax rate	28.6%	91.2%

Total investment tax credits taken into account in this reconciliation include both $990,000 taken as offsets to existing net deferred federal income tax credits under Financial Accounting Standards Board Interpretation No. 25 in the fourth quarter of 1979 and $1,179,000 of investment tax credit carryforwards utilized in 1979 as a reduction of the tax benefit of the net operating loss carryforward.

Deferral Method

E. I. DU PONT DE NEMOURS & COMPANY (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Provision for income taxes is based on pretax financial accounting income which differs in some respects from taxable income. Differences generally arise because certain items, such as depreciation, are reflected in different time periods for financial accounting purposes and tax purposes. On a cumulative basis, taxes accrued on pretax financial accounting income exceed taxes due and payable.

The investment tax credit, including energy investment tax credit, is treated as deferred income and amortized over the expected lives of the related assets through reduction of provision for income taxes.

Provision has been made for income taxes on unremitted earnings of subsidiaries and affiliates, except in cases where these earnings are permanently invested or the resulting income taxes, after giving effect to statutory tax adjustments, would not be material. Pursuant to generally accepted accounting principles, no provision has been made for income taxes on the tax-deferred earnings of domestic subsidiaries which qualify as Domestic International Sales Corporations under the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 2: Provision for Income Taxes

	1979	1978
Federal		
Current	$378.3	$468.9
Deferred	74.6	21.4
Investment tax credit amortization	(47.8)	(47.3)
Foreign		
Current	79.7	46.2
Deferred	28.6	3.8
State and local		
Current	43.9	52.7
Deferred	7.6	2.3
	$564.9	$548.0

The current portions of tax provisions are based on taxable income. Current Federal taxes are before deduction of investment tax credit. Investment tax credit generated in 1979 was $73.5 and in 1978, $58.3. For financial accounting purposes, investment tax credit is deferred and the cumulative amount amortized over the expected lives of the related assets. Deferred taxes represent the adjustment to provision for income taxes to recognize timing differences between financial accounting income and taxable income. The sources of these differences in 1979 and 1978 and the tax effect of each are as follows:

Tax deduction over (under) book provision for:

Depreciation	$ 62.9	$ 6.5
Pension	29.2	37.6
Other—net	18.7	(16.6)
	$110.8	$27.5

The current portion of cumulative deferred taxes, $282.9 at December 31, 1979, and $209.2 at December 31, 1978, is included in the Consolidated Balance Sheet caption "Income Taxes", and the noncurrent portion is classified as "Deferred Income Taxes."

The Company's provision for income taxes is 37.1% of earnings before income taxes and minority interests in 1979 and 40.8% in 1978. A reconciliation of these rates to the statutory Federal income tax rate follows:

	1979	1978
Statutory Federal income tax rate	46.0%	48.0%
State and local income taxes, net of Federal income tax benefit	1.8	2.0
Amortization of investment tax credit	(3.1)	(3.5)
Lower effective tax rate on foreign consolidated subsidiaries' income	(3.0)	(3.2)
Lower effective tax rate on export sales	(2.6)	(1.5)
Other—net	(2.0)	(1.0)
Effective income tax rate	37.1%	40.8%

HARSCO CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investment Tax Credits—United States investment tax credits are used to reduce Federal income taxes otherwise payable for the year in which the investment tax credits arise. However, for financial reporting purposes, investment tax credits are deferred and amortized into income as a reduction of income tax expense over the average useful lives of the properties which gave rise to the credits.

Note 6: Income Taxes—Provision for income taxes in the consolidated statements of income consist of:

(In thousands)	1979	1978
Currently payable:		
Federal	$27,980	$27,584
Foreign	11,209	8,486
State	4,550	3,600
	43,739	39,670
Deferred federal and state	(2,140)	1,130
Deferred foreign	1,231	1,034
Net deferred investment credits	4,420	1,836
	$47,250	$43,670

Investment tax credits generated (used to reduce income taxes otherwise payable) were $5,387,000 and $2,579,000 in 1979 and 1978, respectively; the amounts amortized into income were $967,000 and $743,000 in 1979 and 1978, respectively; and the deferred investment tax credits amounted to $11,781,000 and $7,361,000 at December 31, 1979 and 1978, respectively.

KUHLMAN CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Income Taxes

The provision for income taxes consists of the following:

	1979	1978
Currently payable—		
Federal	$1,796,000	$4,336,000
State	285,000	664,000
Deferred income taxes and investment tax credit	874,000	428,000
	$2,955,000	$5,428,000

Income taxes are deferred as a result of differences in the recognition of income and expenses for income tax and financial reporting purposes. The major component of the provision for deferred income taxes of $495,000 in 1979 relates to the use of the straight-line method of computing depreciation expense for financial reporting purposes while accelerated methods are used for income tax purposes.

Investment tax credit realized on the purchase of depreciable assets is recorded on the deferral method as an addition to accumulated depreciation and is amortized to earnings as a reduction of depreciation expense over the estimated lives of the related property. Investment tax credit realized for income tax purposes but deferred for financial reporting purposes amounted to $$379,000 and $114,000 in 1979 and 1978, respectively. The amount of deferred investment tax credit amortized to earnings in 1979 and 1978 was $96,000 and $74,000, 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: TAXES ON UNDISTRIBUTED EARNINGS

	1979	1978	1977	1976
Taxes accrued on all undistributed earnings	25	31	28	44
Taxes accrued on a portion of undistributed earnings	150	119	108	119
Taxes not accrued on undistributed earnings	215	238	248	236
No mention of undistributed earnings	210	212	216	201
Total Companies	**600**	**600**	**600**	**600**

Table 3-14 shows the extent to which the survey companies accrued taxes on undistributed earnings.

Taxes Accrued On All Undistributed Earnings

THE PILLSBURY COMPANY (MAY)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Taxes on income

Investment tax credits are reflected as reductions in federal income taxes in the year eligible equipment purchases are placed in service. Estimated U.S. taxes on income are accrued on unremitted earnings of foreign subsidiaries. Deferred taxes result from timing differences between financial and income tax reporting and relate principally to depreciation and unremitted earnings of consolidated subsidiaries. The future tax benefits of accruals not currently deductible for taxes are classified as prepaid expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Taxes on income

The 1979 and 1978 effective income tax rates (47.9% and 49.8%, respectively) approximate the statutory U.S. federal income tax rate of 47.2% and 48%, respectively.

	Year ended May 31 1979	1978
	(In thousands)	
Income tax expense consists of:		
Currently payable:		
Federal	$61,059	$56,349
Investment tax credit	(8,074)	(6,248)
	52,985	50,101
State	7,733	7,382
Foreign	5,394	4,037
	66,112	61,520
Deferred:		
Federal	10,114	9,523
State	1,189	1,206
Foreign	(545)	(244)
	10,758	10,485
	$76,870	$72,005
Income tax expense allocated to discontinued business in 1978 was $1.2 million.		
Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The tax effects of these differences are as follows:		
Earnings of domestic international sales corporations	$ 5,488	$ 5,594
Unremitted earnings of consolidated foreign subsidiaries	1,487	96
Excess of tax over book depreciation	6,566	3,920
Change in accruals not currently deductible for taxes	(1,654)	1,401
Other	(1,129)	(526)
	$10,758	$10,485

PRATT & LAMBERT, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Income Taxes—The company provides for deferred taxes on all timing differences (principally doubtful accounts, depreciation and undistributed earnings of a foreign subsidiary) which represent the tax effects of transactions reported for tax purposes in periods different than for book purposes. Investment tax credits are recorded on the "flow-through" method as a reduction of the provision for income taxes in the year in which the related property is put into use.

Taxes Accrued On Portion Of Undistributed Earnings

HALLIBURTON COMPANY (DEC)

NOTES TO FINANCIAL STATEMENTS

Note 4: Income Taxes. The provisions for income taxes were 42.1% and 44.7% of income before income taxes and equity items for 1979 and 1978, respectively. These rates were less than the U.S. income tax rates of 46% for 1979 and 48% for 1978 principally due to investment tax credits which reduced the provisions for current income taxes $22,230,000 in 1979 and $17,612,000 in 1978.

The provisions for deferred taxes (including deferred state and foreign income tax provisions of $2,639,000 in 1979 and $2,660,000 in 1978) result from the following timing differences between financial and tax reporting:

	1979	1978
	(In thousands)	
Undistributed earnings of foreign subsidiaries and a domestic international sales corporation	$(72,071)	$33,975
Uncompleted engineering/construction contracts	31,959	19,916
Accelerated depreciation	17,241	10,048
Other items, net	(5,494)	9,052
Total	$(28,365)	$72,991

During 1979, negotiations with foreign tax authorities resulted in additional foreign tax liabilities of approximately $27,400,000 on income earned in previous years. Because the payment of such liabilities will ultimately result in foreign tax credits against U.S. income tax liabilities, the recording of these foreign tax liabilities was offset by a reduction of the provision for deferred federal income taxes on undistributed foreign earnings. Also this provision was reduced significantly due to the payment of unusually large foreign subsidiary dividends of $109 million in 1979.

Note 13 (in part): Business Segment Information

Net income of consolidated foreign subsidiaries, before provision for deferred income taxes on undistributed earnings, amounted to $43,596,000 in 1979 and $181,657,000 in 1978. Undistributed earnings of such subsidiaries amounted to approximately $755,000,000 at December 31, 1979. Deferred income taxes using the U.S. statutory rate (net of available foreign tax credits) have been provided on all such undistributed earnings except for approximately $107,000,000 and $123,000,000 at December 31, 1979 and 1978, respectively. No taxes have been provided on such earnings because the Company considers these amounts to be permanently invested in foreign countries.

JOHNS-MANVILLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): 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 credits granted by various countries are accounted for as reductions of income tax expense in the year in which the related capital expenditures become 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 those undistributed earnings, which are intended to be permanently reinvested, of subsidiaries outside the United States and of a domestic international sales corporation.

Note 11 (in part): Income Taxes

Income tax expense consisted of the following:

	(Thousands of Dollars) 1979	1978
Current:		
U.S. federal	$ 14,915	$ 45,574
U.S. state and local	5,844	8,933
Foreign		
Canadian federal and provincial	19,164	25,549
Canadian provincial mines	9,903	8,891
Other	17,435	9,476
	67,261	98,423
Deferred:		
U.S.	27,363	15,795
Foreign		
Canadian federal and provincial	2,967	(3,840)
Canadian provincial mines	2,531	2,637
Other	3,098	3,447
	35,959	18,039
	$103,220	$116,462

The U.S. investment tax credit amounted to $11,468,000 in 1979 and $7,958,000 in 1978.

The cumulative 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, 1979 were approximately $280,000,000.

JOY MANUFACTURING COMPANY (SEP)

STATEMENT OF ACCOUNTING POLICIES

Income Taxes

Deferred income taxes are recorded for timing differences between financial and tax reporting. Principal timing differences relate to income recognition on long-term construction contracts, funding of pension costs and depreciation expense. U.S. investment tax credits are recorded under the flow-through method as a reduction of the current provision for income taxes.

Provision is made for additional U.S. taxes which 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 current dividend policy for each entity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 (in part): Income Taxes

Undistributed earnings of non-U.S. subsidiaries amounting to $31,236,000 at September 28, 1979 were considered by management to be permanent business requirements of the subsidiaries under present circumstances; consequently no provision was made for the additional U.S. income taxes which might result if these undistributed earnings were remitted to the parent company. However, any decision to remit such earnings 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 the accumulated earnings of Joy's DISC, which are considered to be permanently reinvested. The amounts of the DISC's income on which income taxes have not been provided were $2,106,000 in fiscal 1979 and $1,576,000 in fiscal 1978. The cumulative amount of such earnings at September 28, 1979 was $13,821,000.

MOTOROLA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 (in part): Income Taxes: The company provides for income taxes based on earnings reported for financial statement purposes. Income tax expense differs from amounts currently payable because of timing differences in the recognition of certain income and expense items for tax and financial statement purposes. The components of the provision for income taxes are as follows:

(Dollars in thousands)	1979	1978
Taxes currently payable:		
United States	$ 60,815	$70,720
Other countries	19,798	18,526
State income taxes (U.S.)	9,640	7,539
Total currently payable	90,253	96,785
Deferred taxes arising from:		
Difference between depreciation recorded for income tax purposes and financial statement purposes	4,096	2,767
Income tax on profits of Domestic International Sales Corporation	5,848	2,387
Withholding tax on Puerto Rican earnings anticipated to be repatriated in the future (included in currently payable for 1978)	8,938	—
Current earnings of foreign subsidiaries anticipated to be repatriated in the future	4,179	5,035
(Increase) decrease in:		
Future warranty obligations	(799)	(1,215)
Inventory valuations	(2,634)	(8,088)
Future employee benefits	(1,639)	(1,022)
Allowance for doubtful accounts	(1,859)	(3,827)
Other countries	(1,269)	2,739
Other—net	(90)	(353)
Total deferred	14,771	(1,577)
Total income tax expense	$105,024	$95,208

Income taxes have been provided on aggregate earnings of the company's Domestic International Sales Corporations. Income taxes have been provided on that portion of the company's share of the undistributed earnings of subsidiaries that are anticipated to be repatriated in the future. Income taxes have not been provided on the company's share of other undistributed earnings of subsidiaries ($105,078,000 and $82,179,000 at December 31, 1979 and 1978, respectively), where it is intended these earnings will be permanently invested in operations outside the United States. Should these earnings be distributed, foreign tax credits would reduce the additional U.S. income tax which would be payable.

BEECH AIRCRAFT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A (in part): Accounting Policies

Income Taxes—Deferred income taxes arise from timing differences between financial income and tax reporting, principally related to earnings of the Company's Domestic International Sales Corporation (DISC) which receives special tax treatment. Investment tax credits are reflected as a reduction of the income tax provision in the year the related assets are placed in service.

Note E: Income Taxes

The components of federal and state income taxes consist of the following:

	1979		1978	
	Current	Deferred	Current	Deferred
Federal	$34,811,000	$1,249,000	$29,629,000	$2,856,000
State	5,405,000	195,000	4,492,000	431,000
Total	$40,216,000	$1,444,000	$34,121,000	$3,287,000

Deferred income taxes result primarily from the earnings of a Domestic International Sales Corporation taxable in later years.

The reasons for the difference in 1979 and in 1978 between total tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes are as follows:

	1979	1978
Statutory Federal Income Tax Rate	46.5%	48.0%
Effect of State Income Taxes	3.5	3.0
Consolidated Effective Income Tax Rate	50.0%	51.0%

Because of the uncertainties regarding the permanency of the deferral of taxes on DISC operations, the Company began providing for taxes on all DISC income beginning October 1, 1977. Taxes have not been provided on undistributed earnings of the DISC prior to 1978. Because it is the Company's intention to indefinitely reinvest these earnings, federal income taxes have not been provided for approximately $14,500,000 of DISC income for the period from incorporation to September 30, 1977.

The Internal Revenue Service is currently examining the Company's 1974 through 1976 federal income tax returns.

KIMBERLY-CLARK CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 6 (in part): Income Taxes

Provisions for income taxes were as follows:

(Millions)	Year Ended December 31 1979	1978
Current income taxes		
United States	$121.4	$ 67.6
State	20.9	11.9
Other countries	31.6	37.0
Investment tax credit	(8.6)	(4.9)
	165.3	111.6
Deferred income taxes due to		
Depreciation		
United States	13.6	12.3
State	2.4	1.6
Other countries	(1.7)	.7
Investment tax credit	—	.4
Interest capitalized for tax purposes	(8.4)	(8.3)
United Kingdom inventory stock relief	(5.0)	—
Other timing differences		
United States	(10.2)	(8.6)
Other	(1.1)	(.9)
	(10.4)	(2.8)
Total	$154.9	$108.8

Income taxes for the U.S. and other countries have been provided on $46 million of unremitted earnings of operations outside the U.S., which may be received by the Parent Company as dividends, but not on $232 million which at December 31, 1979 had been permanently invested in property, plant and equipment and working capital.

No Accrual for Taxes

GAF CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 (in part): Income Taxes

Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of $42,655,000, 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 will be indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating $12,932,000 through December 31, 1979, since the company intends to postpone indefinitely the remittance of such earnings.

PHILIP A. HUNT CHEMICAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Income Taxes—Income taxes are provided in the year transactions enter into the determination of net income, regardless of when such transactions are recognized for tax purposes. U.S. investment tax credits are applied to reduce income tax expense for the years in which the related properties are placed in service.

Cumulative undistributed earnings of the domestic international sales corporations may be subject to additional income taxes if transferred to the parent company in the form of dividends. Since these earnings are intended to continue to be invested and utilized by these corporations for advancement of international trade, no provision is made for federal income taxes on the undistributed earnings. Likewise, cumulative undistributed earnings of foreign subsidiaries may be taxable upon distribution. No provision has been made as the Company has no present intention to distribute the earnings.

Note 8: Income Taxes

The Company has provided for income taxes as follows:

	1979	1978
Current—		
Federal	$4,203,000	$4,641,000
Foreign	669,000	317,000
State and local	794,000	916,000
Deferred—		
Federal	268,000	212,000
Foreign	15,000	(134,000)
Total	$5,949,000	$5,952,000

The effective income tax rates are computed as follows:

	1979	1978
United States federal income tax rate	46.0%	48.0%
Increase (decrease) in taxes resulting from:		
Investment tax credits	(2.9)	(1.6)
Nontaxable gain on foreign exchange	(.7)	(3.6)
Deferred income from DISC corporations	(1.3)	(.8)
Tax benefits on foreign earnings	(.6)	(.9)
State taxes, net of federal income tax	3.1	3.6
Other	(1.0)	(.3)
Effective income tax rate	42.6%	44.4%

The deferred income tax liability of $980,000 and $633,000 included in the consolidated balance sheets at December 29, 1979 and December 30, 1978, respectively, results from timing differences in the recognition of depreciation expense for financial statement and tax purposes.

Also, included in prepaid expenses and other current assets at December 29, 1979 and December 30, 1978 are deferred income taxes in the aggregate amount of $616,000 and $552,000, respectively, relating to timing differences for the elimination of intercompany profits and bad debt expenses.

No income taxes have been provided for the cumulative undistributed earnings of domestic international sales corporations and the foreign subsidiaries. Such amounts aggregated $4,531,000 and $14,237,000, respectively, at December 29, 1979.

U.S. investment tax credits recognized in the provisions for 1979 and 1978 were $406,000 and $218,000, respectively.

MCGRAW-EDISON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Taxes on Income—Allowable investment tax credits are taken into income on the "flow-through" method by reducing the provision for Federal income taxes in the year related assets are placed in service. No provision is made for income taxes on the undistributed earnings of domestic international sales corporation subsidiaries. Such earnings, which aggregated approximately $40,000,000 through 1979 and $13,000,000 through 1978, are expected to be reinvested indefinitely. Additionally, no provisions for U.S. income taxes have been provided on approximately $37,000,000 of undistributed earnings of foreign subsidiaries at December 31, 1979, since it is the company's intention to reinvest such earnings indefinitely.

NORTON COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Significant Accounting Policies

Income Taxes—Deferred tax accounting is utilized in the financial statements to compensate for timing differences. U.S. income taxes have not been provided on undistributed earnings of foreign subsidiaries, or on the undistributed earnings of the Company's Domestic International Sales Corporation (DISC), because such undistributed income is expected to be reinvested indefinitely in such operations. The investment tax credit is applied as a reduction of the provision for U.S. income tax when utilized.

Note 4 (in part): Income Taxes

Undistributed earnings of foreign subsidiaries, and that portion of the Domestic International Sales Corporation (DISC) income on which no U.S. income tax has been provided amounted to approximately $136,000,000 at December 31, 1979 ($109,000,000 at December 31, 1978).

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 authoritative pronouncement on accounting for translation of foreign currency accounts. Examples of translation accounting and disclosures follow.

BAUSCH & LOMB INCORPORATED (DEC)

NOTES TO FINANCIAL STATEMENTS

Accounting Policies (in part)

Translation of Foreign Currencies—The financial statements of consolidated subsidiaries operating outside the United States are translated into U.S. dollar equivalents at rates of exchange applied as follows: inventory, properties and accumulated depreciation at rates effective at the time such assets were acquired; the remaining net assets at the rate of exchange in effect at year end. Other than cost of products sold and depreciation, which are translated at historical rates, income and expense items are translated at the applicable rates of exchange during the year. Translation gains and losses are reflected in the consolidated statement of earnings as they occur.

Foreign Operations

The effects of foreign currency fluctuations were net charges after tax of $2,027,000 in 1979 and $503,000 in 1978. Included in these net amounts are charges of $874,000 in 1979 and credits of $3,968,000 in 1978 relating to the historical translation of inventories sold during those years, and charges of $1,153,000 and $4,471,000 in 1979 and 1978, respectively, to selling, administrative and general expense arising from gains and losses from foreign currency transactions and from translation of foreign balance sheets exclusive of the inventory effect. Other information relating to foreign subsidiaries is presented in the following table:

($ amounts in thousands)	Total Liabilities	Bausch & Lomb Equity and Advances	Net Earnings for the Year
1979	$49,634	$85,622	$6,559
1978	56,939	70,074	4,554

BURLINGTON INDUSTRIES, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign currency translation: Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates except for inventories, fixed assets and other nonmonetary assets and liabilities, all of which are translated at rates in effect when acquired or incurred. Income and expense accounts are translated at the average rates 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 earnings and resulted in losses before income taxes of $10,510,000 in 1979 and $13,665,000 in 1978.

The impact of foreign currency translation is a decrease in 1979 and 1978 net earnings of $4,310,000 (15 cents per share) and $10,014,000 (36 cents per share), respectively.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

NOTES TO FINANCIAL STATEMENTS

Dollars in millions, except per share amounts

Note 1 (in part): Significant accounting policies

Foreign currencies—Foreign currency amounts are translated into United States dollars, in accordance with Financial Accounting Standards Board Statement No. 8, generally at remittance exchange rates, as follows: inventories, prepaid and deferred items, properties, plants and equipment and related cost of goods sold, amortization and depreciation—rates in effect at acquisition dates; all other assets and liabilities—rates in effect at the end of the year; income and all other expenses—rates in effect at the end of each month. Foreign currency exchange gains and losses are included in the determination of net income.

Note 2: Foreign operations

Net sales by foreign operations were $1,747.3 million in 1979 and $1,585.7 million in 1978 and net loss was $5.5 million in 1979 compared with net loss of $38.3 million in 1978. Included in the net losses were provisions for phase-out of facilities and tire recall and related costs in the amounts of $67.3 million and $42.8 million for 1979 and 1978, respectively. The consolidated balance sheets include net assets in foreign countries of $572.1 million and $593.1 million at October 31, 1979 and 1978, of which net current assets were $203.6 million and $240.6 million, respectively. Accumulated undistributed earnings of foreign subsidiaries amounted to $187.0 million and $207.8 million at October 31, 1979 and 1978, respectively, for which, with minor exceptions, no provision for foreign withholding or United States federal income taxes is necessary because these earnings have been reinvested in properties, plants, equipment and working capital.

Foreign currency exchange gains (losses) amounted to $.9 million in 1979 and $(34.9) million in 1978. These amounts resulted from translation of foreign subsidiary balance sheet items, conversion of foreign currencies and translation of domestic debt denominated in foreign currencies.

Foreign currency exchange losses in 1978 arose principally from translation of net liability positions in foreign currencies which rose in value relative to the U.S. dollar, primarily the Swiss franc, French franc, British pound and German mark.

Additional losses due to currency fluctuations approximated $23 million in 1979 and $7 million in 1978 resulting from charging inventories to cost of goods sold at historical exchange rates rather than at the rates in effect at the time of sale. The increase in 1979 was due principally to the decline in the value of the Brazilian cruzeiro relative to the U.S. dollar.

Foreign currency exchange losses and inventory related losses were $.31 per share in 1979 compared with $.62 per share in 1978.

Note 20: Subsequent event

From October 31, 1979 to December 12, 1979 the dollar value of the Brazilian cruzeiro declined 28.5%. Foreign currency exchange losses and inventory related losses in excess of $10 million resulting from this cruzeiro devaluation will be included in 1980's first quarter results.

FRANKLIN MINT CORPORATION (DEC)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Foreign Currency Translation

The consolidated financial statements include the accounts of the company and all of its domestic and foreign subsidiaries. Significant intercompany balances and transactions are eliminated. Non-U.S. assets and liabilities are translated into U.S. dollars at year-end exchange rates, except for inventories, prepaid promotion costs and property, plant and equipment, which are translated at approximate rates prevailing when acquired. Income and expense items are translated at average exchange rates prevailing during the year, except for the costs of inventories sold, amortization of promotion and advertising costs and depreciation which are translated at historical rates. Foreign currency translation adjustments are reflected in income currently.

From time to time, forward exchange contracts are purchased to hedge against currency fluctuations affecting operations of certain foreign subsidiaries. Realized and unrealized gains and losses on these contracts are recorded in income currently.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Operations

The consolidated financial statements include the following amounts relating to foreign operations:

	1979	1978
Net sales	$123,717,000	$111,974,000
Net income	12,397,000	7,632,000
Total assets	77,009,000	68,872,000
Net assets	19,326,000	23,688,000

Accumulated earnings of foreign subsidiaries included in consolidated retained earnings at December 31, 1979 and 1978 aggregated $25,355,000 and $18,015,00, respectively.

Aggregate exchange gains and losses included in selling, general and administrative expenses as required by Statement of Financial Accounting Standards No. 8 are as follows:

	1979	1978
Net gains (losses) from translation of foreign subsidiary balance sheet accounts	($1,187,000)	$ 14,000
Realized gains (losses) on forward exchange contracts intended to hedge against currency fluctuations	1,575,000	(322,000)
Unrealized (losses) on forward exchange contracts intended to hedge against currency fluctuations affecting 1980 shipments	(1,428,000)	—
	($1,040,000)	($308,000)

Changes in foreign exchange rates from January 1, 1979, which had the effect of reducing the value of foreign sales when translated into dollars without offsetting reduction in certain costs which are translated at historical rates, reduced income from foreign operations in 1979 approximately $1.5 million.

In December, 1978, the company decided to discontinue the operations of its subsidiary in Italy. The estimated future costs of fulfilling this subscription and order backlog, net of the revenues expected to be generated, amounting to $1,700,000 was accrued in 1978. In addition, certain unrecoverable assets of this subsidiary, principally prepaid promotion costs, were written off in 1978. This nonrecurring charge for the discontinuance of operations in Italy aggregated $2,700,000. The provision for income taxes currently payable in 1978 was reduced by $2,300,000 representing the tax effect of prior years' losses of the subsidiary in Italy that were deductible for the first time in 1978. The net effect of these two nonrecurring items of $400,000 was included in net income from foreign operations.

THE GILLETTE COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (in part)

Foreign Currency Translation—Assets and liabilities of foreign subsidiaries are translated into United States dollars at their year-end rates of exchange, except for inventories, property, plant and equipment, goodwill and certain deferred income taxes, which are translated at historical rates. Revenues and expenses are generally translated at weighted average rates except for depreciation and amortization, which are translated at historical rates.

Net exchange losses, calculated according to the above policy, were $11,159,000 ($7,907,000 in 1978) and are included in other charges. These amounts include gains of $4,300,000 and $12,500,000, respectively, representing the difference between translating cost of sales of foreign operations at weighted average rates and at historical rates.

JOY MANUFACTURING COMPANY (SEP)

	1979	1978
	(In Thousands of Dollars)	
Costs and Expenses		
Cost of sales	$558,944	$513,502
Product engineering	19,180	18,168
Selling, general and administrative	108,598	94,959
Interest	9,575	8,700
Translation and exchange losses (gains)—net (Note 11)	1,470	1,724
Discontinuance of French operations	(1,197)	6,115
Other costs and expenses	1,006	1,678
Total Costs and Expenses	$697,576	$644,846

STATEMENT OF ACCOUNTING POLICIES

Foreign Currency Translation

The net assets of non-U.S. subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates, except for inventories which are primarily on LIFO, net property plant and equipment, and prepaid expenses, which are translated at historical rates. Revenues and expenses are translated at average exchange rates for the year, except for inventory cost of products sold, prepaid expenses and depreciation, which are translated on the same basis as the related asset accounts. Unrealized translation gains and losses are reflected currently in net income.

Note 11: International Operations

Summarized financial information of non-U.S. subsidiaries included in the consolidated financial statements is presented below:

	1979	1978
	(In Thousands of Dollars)	
Net income (loss)	$ (373)	$(11,076)
Total assets	$130,017	$111,981
Total liabilities	77,956	71,268
Total shareholders' equity	52,061	40,713
Loans and advances from parent	13,122	11,705
Joy's investment in non-U.S. subsidiaries	$ 65,183	$ 52,418

Net unrealized foreign currency translation losses of $1,578,000 and $1,533,000 were charged to net income in fiscal years 1979 and 1978, respectively. These translation losses were primarily attributable to a weakening of the U.S. dollar which had an appreciable effect on the exposed net liability position, for financial statement translation purposes, of non-U.S. subsidiaries.

A.C. NIELSEN COMPANY (AUG)

	1979	1978
	(Thousands of dollars)	
Earnings from operations	$46,888	$42,706
Other income (expense):		
Interest income	3,075	2,092
Interest expense	(1,033)	(804)
Gain on foreign currency translation and exchange (Notes 1 and 8)	917	1,950
Earnings before income taxes	$49,847	$45,944

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

Translation of Foreign Currency—The accounts of foreign branches and subsidiaries are translated into U.S. dollars as follows: (a) prepaid expenses, properties, intangible assets, deferred revenue, income taxes allocable to future years which relate to assets or liabilities translated at historical rates and stockholders' equity, at historical rates; (b) all other balance sheet accounts, at rates in effect at the balance sheet date; (c) revenues and expenses, at average rates for the year, except depreciation, amortization and revenue previously deferred which are translated at historical rates of related balance sheet accounts. Gains or losses from the translation and foreign exchange transactions are reflected in income.

Note 8 (in part): Geographical Summary of Operations and Assets

Subsequent to August 31, 1979, the U.S. dollar was extremely volatile against most foreign currencies in countries in which the Company does business. However, had foreign exchange rates in effect at October 31, 1979 been used as the current rate in translating applicable August 31, 1979 foreign currency accounts, the effect on net income for 1979 would not have been material.

Foreign subsidiaries paid dividends and service fees to the United States aggregating $9,705,000 in 1979 and $11,136,000 in 1978.

MOTOROLA, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Foreign Exchange: It is the company's policy to attempt to neutralize its exposure to exchange rate fluctuations including the value of non-U.S. inventory destined for sale in foreign currencies where it is both practical and economically justified to do so. Under Statement of Financial Accounting Standards No. 8 (SFAS-8) sales and other revenues are translated from other currencies into U.S. dollars at prevailing exchange rates while inventory must be translated at the rates in effect at the time of purchase. The inventory gains separately indicated below reflect management's best estimates of the impact of currency rate changes on manufacturing and other cost of sales. The effects of foreign currency exchange rate changes, after applicable income taxes, occurring in 1979 and 1978 were as follows:

(Dollars in thousands)	1979	1978
Exchange (loss) included in earnings from operations before income taxes	$(3,573)	$(1,126)
Related income taxes	236	(964)
Loss included in net earnings as determined in accordance with SFAS-8	(3,337)	(2,090)
Management's estimate of the gain on non-U.S. inventories due to exchange rate changes arising only in the respective years (unaudited):		
Estimated amount realized during the year included in manufacturing and other costs of sales	2,091	5,003
Estimated amount to be realized on year-end inventory in the subsequent year in manufacturing and other costs of sales	1,308	414
Total estimated gain (unaudited)	3,399	5,417
Result of the company's foreign currency exposure management (unaudited)	$ 62	$ 3,327

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 *ARS 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.

TABLE 3-15: METHOD OF ACCOUNTING FOR LONG-TERM CONTRACTS

	1979	1978	1977	1976
Percentage-of-completion ...	88	86	75	75
Completed contract	11	10	14	12
Not determinable	1	4	8	9
Referring to long-term contracts	**100**	**100**	**97**	**96**
Not referring to such contracts..................	500	500	503	504
Total Companies	**600**	**600**	**600**	**600**

Percentage Of Completion Method

AEL INDUSTRIES, INC. (FEB)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue recognition—In general, contract revenue is recognized on the percentage-of-completion method in the ratio that cost incurred bears to estimated cost at completion. Adjustments to contract cost estimates are made in the periods in which the facts which require such revisions become known. When the revised estimate indicates a loss, such loss is provided for currently in its entirety. All other revenue is recorded on the basis of shipments of products or performance of services.

CORNING GLASS WORKS (DEC)

STATEMENT OF ACCOUNTING POLICIES

Long-Term Contracts

Corning has contracts, extending over several years, to provide know-how, technical assistance, equipment and construction management services. Income under these contracts is recognized on the percentage of completion method. Funds received in excess of costs incurred and income recognized are recorded as current liabilities. When costs incurred and income recognized on any contract exceed funds received, the net amount is included in current assets.

FAIRCHILD INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Sales—Sales under fixed-price and fixed-price incentive contracts are recorded as deliveries are made and include a portion of the profit expected to be realized on the contract. Certain contracts contain cost or performance incentive fees. Such incentive fees are included in sales at the time that the amounts of the fees to be awarded can be reasonably determined. Sales under cost reimbursement contracts are recorded as costs are incurred and include a proportional amount of the fee expected to be realized on the contract. Profits expected to be realized are based upon periodic estimates of total sales value and costs at completion. Such estimates are reviewed by management, and adjustments are recorded on contracts as they are identified. Such adjustments are made to permit recovery of anticipated future costs plus a factor for general and administrative expenses.

FLUOR CORPORATION (OCT)

FINANCIAL REVIEW

Major Accounting Policies (in part):

Engineering and Construction Contracts—The company recognizes revenues on engineering and construction contracts on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs, and on manhours incurred to date compared with total estimated manhours for the construction of certain power plants. Changes to total estimated contract costs or manhours and losses, if any, are recognized in the period they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. It is anticipated that the incurred cost associated with contract work in progress at October 31, 1979, will be billed and collected in 1980. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

GENERAL DYNAMICS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Sales and Earnings Under Long-Term Contracts and Programs. Cost type and major fixed-price type contracts and programs are accounted for under the percentage-of-completion method wherein sales and estimated earnings are recognized as work is performed. On certain other fixed-price contracts, sales and earnings are recorded when deliveries are made.

Rates used for recording sales and earnings are adjusted prospectively, based upon revisions in contract value and estimated cost at completion. Estimated losses are recorded in full when identified. Incentive fees are recognized when earned.

Contracts in Process. Contracts and programs in process accounted for under the percentage-of-completion method are stated at costs incurred plus estimated earnings, less amounts billed to customers. All other contracts and programs in process are stated at costs incurred less progress payments and amounts allocated to delivered units. The allocation of costs to delivered units is based upon the estimated average cost per unit at contract completion.

At 31 December 1979 and 1978, advances and progress payments of $3,398 million and $2,905 million have been deducted from contracts in process.

General and administrative expenses, including state and local income taxes, allocable to contracts and programs in process are inventoried and included in cost of sales at time of sales recognition. No significant amounts are included in inventories at 31 December 1979 and 1978.

Consistent with industry practice, amounts relating to long-term contracts and programs are classified as current assets although an indeterminable portion of these amounts is not expected to be realized within one year. Title to inventories under certain contracts and programs is vested in the customer in accordance with contract provisions.

GULF RESOURCES & CHEMICAL CORPORATION (DEC)

NOTES TO FINANCIAL STATEMENTS

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

Construction Accounting—Revenues from contracts undertaken by BS&B are recognized on the percentage of completion method based generally on the ratio of costs incurred or value of services performed to date on the contract to total estimated contract costs or value of services to be performed. Under this method, the costs incurred and the related revenues are included in the statements of income as work progresses. Any revisions in contract profits or losses are reflected in the accounting periods in which such revisions become known and include any cumulative adjustments to the income reported to date. BS&B ceases to recognize gross profit on contracts at such time as gross profit is not assured and provides for anticipated losses in the periods in which they are first determinable.

Long-term contracts generally provide for customer payments on a predetermined basis which may precede or lag behind revenues earned to date under contractual provisions. The amount by which revenues are earned in advance of contractual payment dates is an unbilled receivable included in Accounts Receivable and the amount by which contractual billings precede earned revenues is unrealized revenue carried as Accounts Payable. No amounts are included in unbilled receivables unless management is of the opinion that such amounts will be realized.

JOY MANUFACTURING COMPANY (SEP)

STATEMENT OF ACCOUNTING POLICIES

Long-term Construction Contracts

Sales on long-term construction contracts are recorded using the percentage-of-completion method. Under this method, sales are recognized according to the ratio of costs incurred to total currently estimated contract costs, which include an allowance for any costs which are expected to be incurred in excess of the original contract cost estimate. Contract costs are charged to income as incurred. Continual reviews of estimated final sales and costs are made during the life of such contracts, based on the best information available, and may result in revisions of estimates and adjustments to sales and cost of sales previously recorded.

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. Estimates of total contract revenues and costs are reviewed periodically during each year and cumulative effects of changes are recognized in the period determined; losses, if any, are recognized in the period identified. Revenues recognized in excess of amounts billed are classified under current assets as unbilled costs and earnings on contracts. Amounts billed in excess of revenue recognized to date are classified under current liabilities as advanced billings on uncompleted contracts.

Note 5: Long-term contracts

Accounts receivable at December 31, 1979 included $103,025,000 ($86,725,000 at December 31, 1978) relating to long-term engineering and construction contracts. Except for retention of $8,678,000 ($10,608,000 in 1978), these amounts were billed.

The amounts by which billings exceeded total costs and earnings recognized to date under uncompleted engineering and construction contracts at December 31 were:

	1979	1978
	(Thousands)	
Billings to date	$5,844,609	$4,885,424
Project costs and earnings	(5,717,183)	(4,745,576)
	$ 127,426	$ 139,848
Included in current liabilities as advance billings on uncompleted contracts	$ 150,043	$ 156,483
Included in current assets as unbilled costs and earnings on contracts	(22,617)	(16,635)
	$ 127,426	$ 139,848

Progress payments on other contracts amounting to $23,982,000 at December 31, 1979 ($23,294,000 at December 31, 1978) also were included in advance billings on uncompleted contracts.

Completed Contract Method

CBI INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 (in part): Summary of Accounting Policies

Long-term contracts—CBI's subsidiaries and joint ventures involved in contracts for design, fabrication and construction of large metal plate structures and related systems, follow the completed contract method of accounting for income from long-term contracts. These contracts usually extend for periods in excess of one year. 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 as current assets or liabilities in the balance sheet in accordance with industry practice.

Most 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 practice to invoice these amounts and include them in accounts receivable after work has been completed and when 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.

JOHNSON CONTROLS, INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories and Costs of Uncompleted Contracts—Inventories are valued at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for inventories at the principal domestic manufacturing and branch locations of the controls segment and all inventories of the battery segment. Cost of all other inventories is determined on the first-in, first-out (FIFO) method.

The Company uses the completed contract method of accounting for long-term construction contracts under which billings and costs are accumulated but income is not recognized until completion of work. Billings are generally made monthly in amounts which are commensurate with performance. Accounts receivable are recorded based on billings, and exclude amounts customers are allowed by contract to withhold as retainage. Retainage is customarily billed on completion and claims against customers are billed on settlement. Because of these practices, the amount of accounts receivable due after one year is not significant.

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 1979, 40 survey companies discontinued the operations of a business segment, and 12 survey companies disposed of assets of a business segment whose operations management had decided to discontinue in a prior year. Examples of discontinued operations accounted for as a disposal of a business segment follow.

ALLIED CHEMICAL CORPORATION (DEC)

	1979	1978
	($000)	
Income from continuing operations before taxes on income and minority interests	$562,098	$341,442
Taxes on income	384,707	188,716
Income from continuing operations before minority interests	177,391	152,726
Minority interests	(1,748)	—
Income from continuing operations	175,643	152,726
Discontinued operations:		
Operating losses, net of income tax	(18,779)	(32,487)
Estimated loss on disposal, net of income tax	(146,037)	—
Net income	$ 10,827	$120,239

NOTES TO FINANCIAL STATEMENTS

Note 2: Discontinued Operations

The Company has decided to discontinue its operations in coal and coke, paving materials and certain other businesses. These businesses have been accounted for as discontinued since September 30, 1979.

Operating losses of $18,779,000 and $32,487,000 after related tax benefits of $23,011,000 and $41,034,000 for 1979 and 1978, respectively, reflect losses incurred prior to September 30, 1979.

The estimated loss on the disposal of the discontinued operations of $146,037,000 (after a related tax benefit of $112,256,000), or $5.09 a share, includes all anticipated losses subsequent to September 30, 1979, until the anticipated dates of disposal generally in early 1980. Included in the provision was approximately $21,000,000 for operating losses during the disposal period, a significant portion of which has been incurred through December 31, 1979. The provision also reflects the impact of the settlement of the lawsuits relating to the Company's contract to supply Armco Inc. with coke from its Ashland coke plant. Under the terms of the settlement the Company (i) paid Armco $20,000,000 in cash and (ii) transferred to Armco the Harewood, West Virginia, coal mine with a book value of about $14,000,000 and the parties terminated the coke supply contract between them which would have otherwise expired on October 31, 1980.

For 1979, the assets of the discontinued operations have been reclassified on the Consolidated Balance Sheet from the historic classifications to separately identify them at net realizable value.

The Consolidated Statement of Income for the year ended December 31, 1978, and the Five-Year Summary have been restated to exclude the sales, costs and expenses of the discontinued operations from the captions applicable to the continuing operations with the net losses from discontinued operations reported separately.

Sales applicable to discontinued operations, prior to September 30, 1979, were $206,444,000 and $251,860,000 for 1979 and 1978, respectively.

BEMIS COMPANY, INC. (DEC)

	1979	1978
	($000)	
Income from continuing operations	$15,795	$15,378
Discontinued operations:		
Income from Brown Printing, net of applicable income tax benefit of $1,742 in 1979 and income tax expense of $1,122 in 1978	310	3,445
Gain on disposal of Brown Printing, less applicable income taxes of $3,550	10,466	—
Net income	$26,571	$18,823

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Sale of Brown Printing, Inc.:

On August 31, 1979, the Company completed the sale of its subsidiary, Brown Printing Company, Inc. The sale was for $43,000,000 in cash, of which $4,000,000 was placed in escrow for a period of up to approximately three years pending certain contingencies. In addition, at the time of the sale intercompany loans of $44,300,000 from the Company to Brown Printing were paid.

Amounts previously reported in the 1978 consolidated statement of income and changes in financial position have been restated to report separately the discontinued operations of Brown Printing Company. Net sales in the accompanying statements of income exclude net sales of Brown Printing of $44,111,000 for the eight months of 1979 and $75,245,000 for the twelve months of 1978.

LONE STAR INDUSTRIES, INC. (DEC)

	1979	1978
	($000)	
Income from continuing operations	$56,039	$30,440
Discontinued operations:		
Earnings from Building Centers operations (net of applicable income taxes of $4,100 in 1979 and $14,081 in 1978)	4,293	14,938
Gain on disposal of Building Centers (net of applicable income taxes of $3,900)	4,409	—
Income from discontinued operations	8,702	14,938
Net income	$64,741	$45,378

NOTES TO FINANCIAL STATEMENTS

Note 20: Discontinued Operations

During 1979, the company disposed of its Building Centers operations. These operations included wholesale lumber distribution facilities, combination retail-contractor building materials outlets, and retail home care centers. Effective June 30, 1979, such operations have been reported as discontinued operations. Accordingly, the Consolidated Statement of Income, Consolidated Statement of Changes in Financial Position and the related notes thereto for 1978 have been reclassified to present Building Centers as discontinued operations.

The net proceeds realized from the sale of the Building Centers operations through eight separate sale transactions to various purchasers were approximately $152,000,000. Building Centers operations accounted for net sales of $199,356,000 and $453,539,000 for the years ended December 31, 1979 and 1978, respectively.

NL INDUSTRIES, INC. (DEC)

	1979	1978
Income from continuing operations	$114,576,000	$87,173,000
Discontinued operations (Note 1):		
Income (loss) from discontinued operations, net of income taxes—$3,517,000 in 1979 and (3,662,000) in 1978	6,469,000	(897,000)
(Loss) from disposal of discontinued operations, net of $28,227,000 income tax benefit	(35,359,000)	—
Income before cumulative effect of accounting change	$ 85,686,000	$86,276,000

Note 1: Discontinued Operations

During 1979, management developed and adopted plans to sell the following business segments—recycled and all other lead operations, ceramics operations and Australian rutile and zircon mining operations. In December 1979, the Board of Directors authorized management to pursue a plan to sell the Magnesium operation. Alternatives are currently being developed and discussions with several prospective purchasers are being held. Except for certain lead operations and the Magnesium operation, all have been sold in 1979.

Operating results of the 1979 discontinued operations, including the operations intended to be sold, have been reclassified in the consolidated statement of income as "Income (Loss) from Discontinued Operations, Net of Income Taxes" (income of $.20 and a loss of $.03 per share of common stock in 1979 and 1978, respectively), See page 22 for the factors affecting the income tax provisions. Net sales of the discontinued operations aggregated $313,856,000 in 1979 and $354,196,000 in 1978.

"Loss from Disposal of Discontinued Operations" ($1.08 per share of common stock) includes the net effect of gains and losses (including the favorable effects of Lifo and base stock inventory reserves of $25,145,000) of operations sold, and intended to be sold, and the estimated loss from the anticipated sale of the Magnesium operation, including the estimated results of operations to anticipated sales dates, net of applicable income taxes, which results are not significant.

At December 31, 1979, the estimated net realizable value of the net assets of the Magnesium operation and the lead operations are shown in the consolidated balance sheet caption "Net Assets of Discontinued Operations." The reported carrying values of the net assets of the discontinued operations (including those already sold) have been similarly segregated at December 31, 1978. These assets include, in each year, net working capital, net property, plant and equipment and other assets.

INTERNATIONAL PAPER COMPANY (DEC)

	1979	1978
	($ Millions)	
Earnings From Continuing Operations	$347.8	$223.7
Discontinued Operations (Note 3)		
Earnings from discontinued operations prior to sale (less applicable income taxes)	7.5	10.5
Gain on sale of General Crude Oil (less applicable income taxes)	170.0	
Earnings From Discontinued Operations	177.5	10.5
Net Earnings	$525.3	$234.2

Note 3: Discontinued Operations—On July 6, 1979, the Company sold to Mobil Oil Corporation substantially all of the oil and natural gas assets of General Crude Oil Company, a wholly owned subsidiary, for $802 million. The Company received $763 million in cash and Mobil assumed $39 million in existing obligations resulting in a pre-tax gain of $248.4 million, and after-tax earnings of $170 million, or $3.55 per common share.

The results of operations for this segment (exclusive of the gain on the sale) are included in the Consolidated Statement of Earnings and Retained Earnings under the caption "Earnings from Discontinued Operations" and include:

In millions	1979	1978
Net sales and other income	$71.7	$133.9
Costs and expenses	(47.1)	(91.0)
Interest expense	(5.0)	(13.8)
Interest on advances(1)	(7.1)	(10.9)
Provision for income taxes	(5.0)	(7.7)
Earnings from discontinued operations	$ 7.5	$ 10.5

(1) Represents interest expense on advances from the Company, which supported the discontinued oil and natural gas operations.

The interim financial results of discontinued operations follow (unaudited):

In millions except per share amounts	1979 Sales	1979 Earnings	1979 Earnings Per Common Share	1978 Sales	1978 Earnings	1978 Earnings Per Common Share
Quarters:						
First	$33.7	$2.9	$.06	$ 34.5	$ 3.1	$.07
Second	38.0	4.6	.10	32.7	2.4	.05
Third				32.8	2.1	.04
Fourth				32.2	2.9	.06
Year	$71.7	$7.5	$.16	$132.2	$10.5	$.22

At December 31, 1978, the assets of the discontinued operations aggregated approximately $523.7 million. In addition, at December 31, 1978, approximately $53.0 million of liabilities have been included in the "Net Assets of Discontinued Operations" as these liabilities have been assumed by Mobil Oil Corporation. The Company has assumed certain General Crude Oil indebtedness which aggregated approximately $110 million at December 31, 1978, on which interest of approximately $9.3 million has been charged against 1978 earnings from discontinued operations. Such interest from January 1, 1979, to July 6, 1979, the date of sale, was $6.0 million.

TABLE 3-16: CHARGES OR CREDITS SHOWN AFTER INCOME TAX CAPTION

	Number of Companies			
	1979	1978	1977	1976
Minority interest	57	63	64	60
Equity in earnings or losses of investees	52	43	50	53
Cumulative effect of accounting change	10	6	4	4
Other	5	—	—	7

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

NATIONAL STEEL CORPORATION (DEC)

	1979	1978
	(Thousands Of Dollars)	
Income Before Income Taxes and Minority Interests	$200,902	$203,898
Income Taxes	68,200	87,346
Income Before Minority Interests	132,702	116,552
Minority Interests	6,236	4,178
Net Income	$126,466	$112,374

PAXALL, INC. (OCT)

	1978	1979
Income from Continuing Operations Before Income Taxes and Minority Interest	$1,013,080	$1,173,954
Provision for Income Taxes	587,014	774,876
Minority Interest in Income of Subsidiaries	28,345	14,676
Income from Continuing Operations	$ 397,721	$ 384,402
Discontinued Operations:		
Income from Operations less income taxes of $242,986 in 1978 and $121,234 in 1979	$ 207,067	$ 90,119
Gain on sale of operations less income taxes of $585,890	—	571,888
	$ 207,067	$ 662,007
Net Income	$ 604,788	$1,046,409

PPG INDUSTRIES, INC. (DEC)

	1979	1978
	(Millions)	
Earnings before income taxes and minority interest	$391.2	$244.0
Income taxes	163.5	104.7
Earnings before minority interest	227.7	139.3
Minority interest in earnings of consolidated subsidiaries	8.8	7.2
Net earnings	$218.9	$132.1

Equity in Investee Operating Results

RANCO INCORPORATED (SEP)

	1979	1978
Income before taxes on income and equity in earnings of affiliate	$11,138,000	$10,005,000
Taxes on income	2,515,000	4,501,000
Income before equity in earnings of affiliate	8,623,000	5,504,000
Equity in earnings of affiliate	432,000	2,917,000
Net Income	$ 9,055,000	$ 8,421,000

TABLE 3-17: EXTRAORDINARY ITEMS

	1979	1978	1977	1976
Nature				
Operating loss carryforwards and other tax adjustments	40	35	38	52
Debt extinguishments	5	4	5	5
Litigation settlements	4	9	6	7
Other	4	8	8	17
Total Extraordinary Items	**53**	**56**	**57**	**81**
Number of Companies				
Presenting extraordinary items	49	53	51	69
Not presenting extraordinary items	551	547	549	531
Total Companies	**600**	**600**	**600**	**600**

EXTRAORDINARY ITEMS

APB Opinion No. 30, effective for events and transactions occuring 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.

Tax Loss Carryovers

COLECO INDUSTRIES, INC. (DEC)

	1979	1978
Earnings (Loss) Before Income Taxes and Extraordinary Credit	$10,164,000	$(26,936,000)
Income Tax Provision (Benefit) (Note 7)	4,799,000	(4,659,000)
Earnings (Loss) Before Extraordinary Credit	5,365,000	(22,277,000)
Extraordinary Credit Resulting from Utilization of Tax Loss Carryforwards (Note 7)	3,728,000	
Net Earnings (Loss)	$ 9,093,000	$(22,277,000)

Note 7 (in part): Income Taxes:

The income tax provision (benefit) for 1979 and 1978 consists of the following:

	Current	Deferred	Total
	(Amounts in thousands)		
1979			
Federal	$ 3,138	$	$ 3,138
Canadian		992	992
State	669		669
	$ 3,807	$ 992	$ 4,799
1978			
Federal	$(3,406)	$(116)	$(3,522)
Canadian		(734)	(734)
State	(403)		(403)
	$(3,809)	$(850)	$(4,659)

In 1978, the Company recognized tax benefits resulting from the carryback of the 1978 loss from U.S. operations amounting to $3,925,000, and future Canadian income tax benefits of $734,000. The income tax provision for 1979 of

$4,799,000 contains a charge in lieu of federal and state income taxes, representing taxes which would have been required to be paid in the absence of operating loss carryforwards from 1978, and Canadian and state income taxes of $1,071,000. The income tax benefit resulting from the partial utilization of the operating loss carryforwards in 1979 is presented in an extraordinary credit totaling $3,728,000.

THE FIRESTONE TIRE & RUBBER COMPANY (OCT)

	1979	1978
	(Dollars in millions)	
Income (loss) before extraordinary credit	$ 77.7	$(148.3)
Extraordinary credit—tax carryforwards (Note 3)	35.2	—
Net income (loss)	$112.9	$(148.3)

Note 3 (in part): Taxes

	1979	1978
Income taxes		
Current		
Federal, including investment tax credit of $13.9 in 1979 and $10.2 in 1978	$(23.6)	$(61.5)
Foreign	43.0	43.7
State	2.8	2.5
Charge equivalent to tax effects from use of		
Foreign operating loss carryforwards	14.4	—
Foreign tax credit carryforwards	20.8	—
Deferred, including foreign of $3.2 in 1979	28.8	(11.9)
Domestic and foreign income taxes	86.2	(27.2)
Extraordinary credit—tax carryforwards	(35.2)	—
Total income taxes	51.0	(27.2)
Social security	114.2	104.5
Property and miscellaneous	134.5	108.1
Total taxes deducted from income	$299.7	$185.4

The extraordinary credit for 1979 represents the use by certain foreign subsidiaries of operating loss carryforwards resulting in tax benefits of $14.4 million, and the use of 1978 foreign tax credit carryforwards to reduce U.S. federal income taxes in 1979 by $20.8 million.

LYNCH CORPORATION (DEC)

	1979	1978
Income before taxes on income and extraordinary credit	$2,820,754	$2,318,117
Taxes on Income (Note C)	1,250,000	1,100,000
Income before extraordinary credit	1,570,754	1,218,117
Extraordinary Credit—Elimination of taxes on income resulting from the utilization of loss carry-overs (Note C)	1,250,000	1,100,000
Net income	$2,820,754	$2,318,117

Note C: Taxes on Income

The Federal income tax provisions are summarized as follows:

	1979	1978
Current, less investment tax credit of $90,000	$ 120,000	$ 0
Deferred (credit)	(120,000)	0
Charge in lieu of income taxes	1,250,000	1,100,000
	$1,250,000	$1,100,000

Deferred income taxes are related principally to differences between financial and tax accounting for earnings of the Company's Domestic International Sales Corporation (DISC), pension costs and inventories.

Because of timing differences related principally to pension accruals and the capitalized lease, the Company has, at December 31, 1979, accounting losses accumulated in prior years of approximately $1,800,000 which are available to offset future taxable income.

Debt Extinguishment

WHITE MOTOR CORPORATION (DEC)

	1979	1978
	(In Thousands)	
Income Before Extraordinary Credits	$ 6,372	$326
Extraordinary credits:		
Gain on exchange of debentures, less applicable income taxes—Note B	5,779	—
Tax benefit from utilization of net operating loss carryforward	770	—
	6,549	—
Net Income	$12,921	$326

Note B—Debenture Exchange and Extraordinary Credit

In an Exchange Offer dated December 11, 1979, the Corporation exchanged (i) $750 principal amount of 12% Sinking Fund Debentures due December 1, 1999, plus 30 ten year Warrants to purchase Common Stock for each $1,000 principal amount of White's 7¼% Sinking Fund Debentures due March 1, 1993, and (ii) $650 principal amount of 11% Subordinated Debentures due December 1, 1999, plus 52 Warrants for each $1,000 principal amount of White's 5¼% Convertible Subordinated Debentures due March 1, 1993.

During the initial period of the exchange offer, a total of $7,561,000 of 7¼% Debentures and $8,737,000 of 5¼% Debentures were tendered in exchange for $5,671,000 of new 12% Sinking Fund Debentures plus 227,000 Warrants and $5,679,000 of new 11% Subordinated Debentures plus 454,000 Warrants, respectively. The exchange Offer resulted in a reduction in the principal amount of long-term obligations of $4,948,000.

The New Debentures traded initially at an aggregate discount of $3,179,000 from their face amount. This discount will be amortized over the term of the New Debentures as additional interest.

Debentures exchanged during the initial period resulted in an extraordinary gain, which has been recognized in the fourth quarter, 1979, of $5,779,000 or $.67 per share for the year after related income taxes of $725,000. This gain represents the excess of (i) the principal amount of Old Debentures tendered over (ii) the fair market value of the New Debentures and Warrants issued and has been reduced by unamortized debt expense relating to the Old Debentures and costs of the Exchange Offer. For income tax purposes, the Corporation intends to elect to defer recognition of this gain by reducing the basis of certain of its depreciable assets.

The Exchange Offer was extended through January 28, 1980. See Note N for information as to additional debentures exchanged through that date.

THE PITTSTON COMPANY (DEC)

	1979	1978
Income before Extraordinary Gain..	$54,451,000	$25,208,000
Extraordinary Gain, net of taxes (Note 9)	8,189,000	—
Net Income	$62,640,000	$25,208,000

Note 9: Extraordinary Gain

During the first quarter of 1979, the Company commenced and completed an offer to exchange $600 principal amount of a new issue of 9.20% Convertible Subordinated Debentures due July 1, 2004 for each $1,000 principal amount of its old 4% Subordinated Debentures. As a result of the offer, $27,811,000 principal amount of 9.20% Debentures were issued in exchange for $46,352,000 principal amount of 4% Debentures. The debenture exchange resulted in an extraordinary gain of $8,189,000, net of taxes of $9,753,000.

Litigation Settlements

A.O. SMITH CORPORATION (DEC)

	1979	1978
	(000 omitted)	
Earnings before extraordinary charge	$29,612	$27,012
Extraordinary charge, net of applicable income taxes of $1,275,000 (note 8)..........	6,000	—
Net earnings	$23,612	$27,012

Note 8: Extraordinary charge

In 1979 the Company pleaded "no contest" to Federal price fixing charges in the water heater industry and was fined. The Company agreed to settle a private class action claim made against it resulting from the Federal charge, subject to various conditions, including, among others, class certification and the finalization of an agreement subject to court approval.

These actions resulted in an extraordinary charge against 1979 earnings of $1.22 per share.

The Company has had well established policies requiring strict compliance by all employees with all laws in the conduct of the Company's business. The Company will continue to emphasize and enforce such policies of lawful and proper conduct. The Company believes this antitrust litigation settlement to be unusual and nonrecurring.

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.

Primary Earnings Per Share

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

	1979	1978
Earnings per common and common equivalent share (note G)		
Continuing operations	$5.67	$4.60
Discontinued operations	—	.29
Net earnings per share..........	$5.67	$4.89

Note G: Per Share Earnings

Earnings per common and common equivalent share has been computed based upon the weighted average number of shares outstanding during each year. Adjustment has been made to assume the exercise of dilutive outstanding employee stock options and outstanding common stock purchase warrants, net of shares which could have been purchased from the proceeds based on the average market price. The approximate number of shares used in the computations were 28,080,000 in 1979 and 27,700,000 in 1978.

The computation of earnings per common share assuming full dilution results in less than 3% dilution in both years.

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

	1979	1978
Earnings available for common stock	$27,206	$22,276
Number of common and common equivalent shares used in computing earnings per share (Note 12)	17,876	17,099
Earnings per common and common equivalent share (Note 12)	$ 1.56	$ 1.31

Note 12: Earnings per share

Earnings per share was computed by dividing net income, after deducting $599,000 and $159,000 in 1979 and 1978, respectively, representing amortization of discount and dividends on serial preferred stock that is not considered a common stock equivalent, by the weighted average number of common and common equivalent shares outstanding each year. The difference between primary and fully diluted earnings per share was one cent or less in each period.

The following table reconciles the number of shares outstanding with the number of shares used in computing earnings per share:

	1979	1978
	In Thousands	
Common shares outstanding	16,934	16,837
Serial preferred stock considered as common equivalent shares	730	70
Effect of using weighted average common shares outstanding	(56)	(12)
Effect of shares issuable under stock option plans as determined by the treasury stock method	268	204
Shares used in computing earnings per share	17,876	17,099

ERB LUMBER CO. (DEC)

	1979	1978
Net Income	$4,084,091	$4,409,071
Net Income per Share of Common Stock (Note 1)	$3.23	$3.21
Average Number of Shares of Common Stock Outstanding	1,263,834	1,373,533

Note 1 (in part): Accounting Policies

J: Net Income Per Share of Common Stock—The computation of net income per share of common stock is based on the weighted average number of shares outstanding during the year. Shares issuable upon the exercise of qualified stock option grants (Note 11) and other stock options (Note 12) have not been included in the per share computation because they would not have a material effect on earnings per share.

TABLE 3-18: EARNINGS PER SHARE—1979

	Additional shares issuable for			
	Debt	Preferred Stock	Options	Warrants
Included in primary per share calculation	17	45	190	29
Included in fully diluted per share calculation	106	84	48	4
No dilution	47	24	218	14
Not disclosed	19	7	66	4
No additional shares issuable	411	440	78	549
Total Companies	**600**	**600**	**600**	**600**

GENERAL MILLS, INC. (MAY)

	1979	1978
	(Amounts In Millions, Except Per Share Data)	
Net Earnings	$147.0	$135.8
Earnings per Common Share and Common Share Equivalent (Note 1-I:		
From continuing operations	$ 2.92	$ 2.58
Net earnings	$ 2.92	$ 2.72
Average Number of Common Shares and Common Share Equivalents (Note 1-I)	50.4	49.9

Note 1-I: Earnings Per Share

Earnings per common share and common share equivalent is determined by dividing net earnings by the weighted average number of common shares and common share equivalents outstanding during the year. The common share equivalents consist of: (1) common stock which may be issuable upon exercise of outstanding stock options, (37,253 in 1979 and 34,678 in 1978); (2) treasury shares reserved for issuance under an incentive compensation plan (63,867 in 1979 and 60,641 in 1978); and (3) shares reserved for issuance to former owners of certain acquired companies, presently expected to be earned through profit performance contracts (252,024 in 1979 and 105,874 in 1978).

LABARGE, INC. (DEC)

	1979	1978
Net income	$1,099,796	$798,142
Earnings per common share	$.16	$.12

NOTES TO FINANCIAL STATEMENTS

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

Earnings per common share—Earnings per common share are based on the weighted average number of common shares outstanding during the year (6,820,364 shares in 1979 and 6,901,595 shares in 1978). The assumed conversion of all debentures (192,533 shares in 1979 and 233,600 shares in 1978) did not result in dilution of primary earnings per share.

LESLIE FAY INC. (APR)

	1979	1978
Net income	$6,013,000	$4,396,000
Per common and dilutive common equivalent share (Note 8):		
Income before cumulative effect of an accounting change	$1.66	$1.22
Cumulative effect of an accounting change		.01
Net income	$1.66	$1.21

Note 8—Per Share Data.

Net income per common and dilutive common equivalent share is based upon the average number of shares outstanding. Equivalent shares are those issuable upon the assumed exercise of stock options, reflected under the treasury stock method using the average market price of the Company's shares during each year.

The computation of fully diluted earnings per share does not materially differ from that presented in the consolidated statement of income.

The number of shares used in the per share computations are tabulated as follows:

	1979	1978
Weighted average outstanding	3,579,719	3,572,860
Assumed exercise of options at average market price	46,148	67,366
Total common and dilutive common equivalent shares	3,625,867	3,640,226

Cash dividends per share are based upon the number of shares outstanding at the respective declaration dates.

OXFORD INDUSTRIES, INC. (MAY)

	1979	1978
Net Earnings	$6,943,000	$7,369,000
Net Earnings per Common Share (Note J)	$2.24	$2.34

Note J: Earnings Per Share:

Earnings per share in 1979 and 1978 is computed based on the weighted average number of shares of common stock of 2,883,214 in 1979 and 2,829,240 in 1978, plus the common stock equivalents of 219,818 in 1979 and 316,255 in 1978 which would arise from the exercise of stock options. Primary earnings per share and fully diluted earnings per share are equal in 1979 and 1978.

Fully Diluted Earnings Per Share

CADENCE INDUSTRIES CORPORATION (DEC)

	1979	1978
Earnings per common share (note 1):		
Primary—		
Earnings before extraordinary credit	$2.81	$2.01
Extraordinary credit	.56	.49
Net earnings	$3.37	$2.50
Fully diluted—		
Earnings before extraordinary credit	$2.47	$1.84
Extraordinary credit	.42	.38
Net earnings	$2.89	$2.22
Average number of shares used in primary computation	1,334,998	1,440,816
Average number of shares used in fully diluted computation	1,746,471	1,870,148

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

Earnings per share—Primary earnings per share are computed by dividing earnings, after providing for dividends paid on preferred stock, by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents include dilutive stock options and warrants which were outstanding at year-end or which were outstanding during each period. Fully diluted earnings per share are computed as above and also assume that the Company's dilutive convertible notes and convertible preferred stock had been converted at the beginning of each period.

THE CHARTER COMPANY (DEC)

	1979	1978
Earnings per share of common stock:		
Primary:		
Before extraordinary items	$14.93	1.17
Extraordinary items	(.10)	—
Net earnings	$14.83	1.17
Fully diluted:		
Before extraordinary items	$13.02	1.09
Extraordinary items	(.08)	—
Net earnings	$12.94	1.09

NOTES TO FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

E: Earnings per Share—In computing primary and fully diluted earnings per share, net earnings are adjusted for dividends on preferred stock and interest expense (net of income taxes) relating to common stock equivalents, where applicable.

Primary earnings per share are computed based on the weighted average number of common shares outstanding adjusted for the conversion of common stock equivalents, where applicable (24,503,000 shares in 1979 and

18,260,000 shares in 1978). Fully diluted earnings per share are computed based on the above adjusted for conversion of preferred stock, where applicable (28,436,000 shares in 1979 and 21,732,000 shares in 1978).

INSILCO CORPORATION (DEC)

	1979	1978
Net earnings for the year	$27,050,000	$23,576,000
Earnings per common share (Note 1)		
Primary	$2.26	$1.98
Fully diluted	$1.95	$1.72
Weighted average number of common shares used in computing earnings per share		
Primary	11,919,000	11,875,000
Fully diluted	15,068,000	15,033,000

Note 1 (in part): Accounting Policies

Earnings Per Common Share—Primary earnings per common share were computed by dividing net earnings, less dividends on the 8% convertible preferred stock, by the average number of common and equivalent shares with a dilutive effect outstanding during each year. Common equivalent shares include shares issuable upon conversion of Series A preferred stock and shares reserved for issuance to employees under the Company's Performance Share Unit Plan, reduced by the number of shares assumed to have been purchased with the tax benefit arising from issuance of shares under the Plan.

Fully diluted earnings per common share were determined on the assumption that the average number of common shares outstanding was further increased by conversion of dilutive 8% convertible preferred stock, convertible debentures and notes and that dividends and interest thereon, net of taxes, were eliminated.

MACMILLAN, INC. (DEC)

	1979	1978
Earnings (loss) per common and common equivalent share (Note 17):		
Continuing operations	$ 1.31	$2.01
Discontinued operations	(4.73)	(.30)
Income (loss) before cumulative effect of accounting changes	(3.42)	1.71
Cumulative effect of accounting changes	(1.10)	
Net income (loss)	$(4.52)	$1.71
Earnings (loss) per common share, assuming full dilution (Note 17):		
Continuing operations	$ 1.31	$1.93
Discontinued operations	(4.73)	(.28)
Income (loss) before cumulative effect of accounting changes	(3.42)	1.65
Cumulative effect of accounting changes	(1.10)	
Net income (loss)	$(4.52)	$1.65

Note 17 (in part):

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, in 1978, to reflect the common shares issuable for shares of the $1.20 series convertible preferred stock which are common equivalent shares. In 1979, the common shares isuable for the $1.20 series convertible preferred stock have not been included in the computation as the effect of such inclusion would be to increase per share earnings. The average number of common and common equivalent shares was 12,501,000 in 1979 and 12,690,000 in 1978.

Earnings per common share, assuming full dilution, have been computed, in 1978, 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. In 1979, the assumed conversion into common shares of the 4% convertible subordinated debentures and the preferred stock of subsidiary has not been included in these computations as the effect of such inclusion would be to increase per share earnings; for the same reason 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 12,501,000 in 1979 and 13,395,000 in 1978.

REVERE COPPER AND BRASS INCORPORATED (DEC)

	1979	1978
	(Thousands, Except per Share Amounts)	
Net Income (Loss)	$25,713	$(19,043)
Per common share (Note L)		
Primary:		
Income before extraordinary item	$ 4.50	$ 3.71
Net income (loss)	4.50	(3.36)
Fully diluted:		
Income before extraordinary item	3.76	3.11
Net income	3.76	

Note L: Per Share Data

Primary earnings per share are computed after the deduction of preferred stock dividends on the basis of the weighted average number of common shares outstanding plus the common stock equivalents which would arise from the exercise of stock options, if dilutive.

Fully diluted earnings per share in 1979 and 1978 assume conversion of the 5½% Convertible Subordinated Debentures, the Series A convertible preferred stock and the common stock equivalents which would arise from the exercise of stock options. Assumed conversions for the 1978 net loss per share would have been anti-dilutive.

The average number of common shares and equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1979	1978
Primary:		
Weighted average common shares	5,674,308	5,660,164
Stock options	23,350	27,003
	5,697,658	5,687,167
Fully Diluted:		
Weighted average common shares	5,674,308	5,660,164
Stock options	26,550	27,003
Convertible debentures	1,491,749	1,538,301
Convertible preferred stock	55,678	55,678
	7,248,285	7,281,146

ST. REGIS PAPER COMPANY (DEC)

	1979	1978
Net earnings	$158,493,000	$126,514,000
Earnings per common and common equivalent share	$4.87	$3,94
Earnings per common share, assuming full dilution	$4.84	$3.89

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 and common equivalent shares outstanding. 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 and common equivalent shares outstanding of 32,504,000 shares in 1979 and 31,979,000 shares in 1978.

Earnings per common share, assuming full dilution, have been computed based upon the weighted average number of common and common equivalent shares outstanding, 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 debentures, net of taxes. The average number of shares used to compute earnings per share, assuming full dilution, was 32,758,000 in 1979 and 32,570,000 in 1978.

SAXON INDUSTRIES, INC. (DEC)

	1979	1978
Net income per share of Common Stock:		
Primary:		
Income from continuing operations	$.92	$ .95
Loss from discontinued operations		(.01)
Loss on disposal of discontinued operations		(.02)
Net income	$.92	$ .92
Fully diluted:		
Income from continuing operations	$.88	$ .90
Loss from discontinued operations		(.01)
Loss on disposal of discontinued operations		(.01)
Net income	$.88	$ .88

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note H (in part): Contingent Liabilities, Commitments and General Comments

(3) Primary earnings per share of common stock are based on the weighted average number of shares of common stock and common stock equivalents outstanding during each year (7,752,396 shares—1979 and 7,762,529 shares—1978). Fully diluted earnings per share of common stock is based upon an increased number of outstanding shares (8,588,699 shares—1979 and 8,598,633 shares—1978) which assumes the conversion into common stock of the 5¾% Convertible Subordinated Debentures due 1987 at the beginning of the period, and a corresponding increase in net income as a result of a reduction of interest expense, less related taxes. Shares issuable upon the conversion of the 5.25% Convertible Subordinated Debentures have not been included in the computation of fully diluted earnings per share for both 1979 and 1978 because the effect of such would be anti-dilutive.

Supplementary Earnings Per Share Data

WHITE CONSOLIDATED INDUSTRIES, INC. (DEC)

NOTES TO FINANCIAL STATEMENTS

Note G—Convertible Subordinated Debentures and Supplemental Net Income Per Common Share

The 5½% debentures, due in 1992, are convertible into shares of Common Stock at the rate of one share for each $25.73 of debentures. Pursuant to a Special Offer dated September 15, 1979 which ended October 12, 1979, the Corporation issued approximately 1,776,000 shares of Common Stock upon conversion of approximately $40,369,000 of debentures. Had these conversions, as well as other conversions which occurred during 1978 and 1979, occurred January 1, 1978, primary net income per common share would have been as follows:

	1979	1978
Income before extraordinary item..	$4.44	$3.82
Extraordinary item..................	.96	—
Net income..........................	$5.40	$3.82

The remaining outstanding debentures are redeemable by the Corporation at $102.20 (such redemption price declining by $.275 each year to 1987). Approximately 201,945 shares of Common Stock were reserved at December 31, 1979 for conversion of the debentures.

SOCIAL AWARENESS EXPENDITURES

Some of the survey companies disclosed contributions to charitable organizations, grants to community related activities, expenditures to aid minority groups or enterprises, and other forms of social awareness or responsibility. Such disclosures of social awareness or responsibility are almost always made in the annual report narrative which is not part of the financial statements; accordingly, no attempt was made to tabulate these disclosures. Examples of such disclosures follow.

CAMPBELL SOUP COMPANY (JUL)

SOCIAL INVOLVEMENT

During the year, Campbell continued its tradition of responding to a broad range of individual and community needs.

Through the Company and the Campbell Soup Fund, a non-profit corporation receiving funds from the Company, $1,824,000 was donated to more than 400 health, educational, cultural, civic and charitable organizations.

Charitable and other non-profit organizations received $1,273,000 from the Company and the Fund, while educational institutions received an additional $551,000.

During the past five fiscal years, the Company and the Fund have made charitable contributions totaling $5,299,000 and aid-to-education contributions amounting to $2,289,000.

Broad-based community efforts, such as the United Way and similar campaigns, and projects specifically addressed to improvement of health, housing and recreational opportunities, continued to receive priority.

For the fifth consecutive year, these contributions included funds for special recreational, cultural and other youth programs in Campbell's corporate home of Camden, New Jersey. More than 5,000 youths participated in twelve separate programs wholly or partially funded by the Company during the past summer.

Beyond carrying out their normal Company functions and responsibilities, Campbell men and women have traditionally taken part in activities that benefit their communities at large.

During the year, twelve outstanding high school students among children of Campbell employees were awarded Company scholarships for their higher education. Each scholarship is worth up to $1,500 per school year, with a maximum of $6,000 for a full four-year program. With the addition of the twelve new winners, 164 such awards have been made since the Campbell Scholarship Program began in 1964.

In the past year, the Company continued its aggressive Affirmative Action programs to increase the representation of minorities at all levels of its workforce. Minority-group members represent approximately one-fourth of the Company's domestic work force.

Campbell continued to make purchases from minority firms a regular corporate practice. Minority enterprises are supported through a special program set up to identify potential minority suppliers of goods and services, and to expedite the utilization of these suppliers. Currently more than 500 minority vendors serve as sources for goods and services for the Company.

To aid the blind or visually impaired, the Company has prepared the *Easy Way to Delicious Meals* cookbook in Braille and large type editions. Both editions contain more than 50 recipes requiring minimal preparation, plus helpful hints on kitchen organization, equipment and food techniques.

In an effort to encourage employees to take better care of their health, the Company sponsored its first Campbell Family Health Carnival for General Office employees and their families. Featured were various aspects of important health subjects including safety, trauma, heart-risk factors and fitness, and quality of life. Those who attended had their blood pressure measured, took lung-function tests and received other important health data.

Campbell products are made available to organizations, groups and agencies in the areas where the Company operates, as well as for emergency use in disaster areas.

Through cooperation with the Salvation Army, American Red Cross, Volunteers of America, and many other agencies, donated Campbell products are regularly distributed to victims of earthquakes, floods, and other disasters throughout the world.

Last spring, when Wichita Falls, Texas, was the victim of a tornado and severe flooding, many cases of Campbell canned foods were donated and distributed to residents through the American Red Cross Disaster Service.

In the past decade, the Campbell Museum's unique collection of 18th and 19th century soup tureens has been seen in 31 major museums by 1.5 million visitors. During fiscal 1980, the Campbell Collection will be seen at the Vancouver Centennial Museum, Vancouver, B.C. (Canada); the Portland Art Museum, Portland, Oregon; and the Columbus Gallery of Fine Arts in Columbus, Ohio. The Campbell Museum is supported through Company contributions.

CONAGRA, INC. (MAY)

SOCIAL RESPONSIBILITY

During fiscal 1979 an audit was carried out to determine our standing with respect to certain key areas commonly associated with corporate social responsibility.

Equal Employment Opportunity

At the end of the year the company employed 5,800 people in its domestic operations in the United States. Thirty percent of this work force were minorities which is about the same ratio as the prior year. Females other than minority make up an additional 26 percent of the work force.

Thus, a 56 percent majority of the ConAgra work force consisted of minority and female employees. This reflects the commitment to provide job opportunitites without regard to race, color or sex.

Environmental Protection

During the year the company continued its investment in equipment and process changes to provide greater control over and a reduction in air or water pollution. Over $1 million was authorized and spent for this purpose.

Energy Conservation

The reduction of energy used per unit of production continues to be a primary responsibility of all operating management. Progress has been made and during fiscal 1979 one major division reported further energy use reduction of 10 to 28 percent in its various production units. Other divisions were able to hold the line on substantial energy reductions reported in prior years.

Safety in the Work Place

In fiscal 1979 total man hours worked increased by 13 percent over the prior year, while time lost due to injuries was maintained at the prior low level of three tenths of one percent of all hours worked.

Farm Economy

ConAgra is a major buyer of the products of the nation's farms.

On an annual basis we currently use over 115 million bushels of wheat in flour milling and grain merchandising operations.

Fifty million bushels of corn are used in the production of formula feeds for sale to livestock and poultry producers and for our internal use in the production of broiler chickens and table eggs.

We contract with over 680 independent farmers who raise our Country Skillet broiler chickens.

In summary, ConAgra spent over $500 million in fiscal 1979 to purchase agricultural commodities and other materials and services used in producing our products.

Community Support

During the year the company gave financial support to a number of charitable and educational institutions.

Of equal importance, ConAgra employees provided a broad range of personal volunteer work for civic, governmental and charitable groups in the communities in which they live. For example, an internal survey covering just the officers of the company revealed that they each provided volunteer service to an average of three charitable agencies or civic organizations.

Consumers

Operating in the free enterprise economy and in a highly competitive basic food industry, ConAgra makes a substantial contribution to the control of food costs to the ultimate consumer through its efficiency in processing large volumes of agricultural products into basic foods. The ultimate consumer pays very little above the cost of the raw materials and the costs of running the plants and systems.

At ConAgra only 2.3 cents out of each sales dollar in fiscal 1979 was retained to buy new equipment and to expand and modernize our facilities. Approximately one cent from each dollar of sales went to our stockholders to compensate them for the use of their capital.

As one specific example, ConAgra produced about 2.5 billion pounds of flour in fiscal 1979, or enough flour for bakers to produce 3.9 billion one-pound loaves of white bread. Our net income from flour milling for the same period was slightly more than one-tenth of a cent for each one-pound loaf of white bread baked by our many customers.

Employees

In fiscal 1979 payments to employees amounted to $84.5 million. This included their base income plus the company cost of Social Security and various benefit and retirement programs.

Employment

Payments to employees plus the capital expenditures to expand and modernize plant facilities came to about $102 million in fiscal 1979. These dollars helped to provide employment for thousands in the economy in addition to those employed directly by ConAgra.

EXXON CORPORATION (DEC)

PUBLIC SERVICE PROGRAMS

Exxon's contributions to public interest activities came to $38 million last year, a 16 percent increase over 1978 and some five times the level of a decade ago. Of the total, $31 million was contributed in the United States, with affiliates abroad contributing $7 million in countries where they operate.

U.S. contributions included $12 million in grant payments by the Exxon Education Foundation. One grant to Rensselaer Polytechnic Institute is helping to train future managers in the engineering and science fields. Students who display management talent will be recruited for one year of special undergraduate work with the possibility of further work leading to an M.A. or Ph.D. The faculty will be assisted by government officials and technical managers from business.

At the University of Delaware, a Foundation grant is helping the Center for the Study of Values to expand its activities. The Center will be developing undergraduate and graduate programs in ethics and will establish an Institute for Values in Decision-Making which will hold conferences at which businessmen, government officials and scholars will examine issues of common concern. Another grant supports an experimental program at the University of Kansas, in which mid-career professors take courses and participate in team teaching in other departments for intellectual renewal and development.

Corporate contributions under Exxon's special Women's Project included support of a program at Stevens Institute of Technology to bring high school women to the campus for a one-week introduction to the engineering field. Another grant, to Jobs for Youth, Inc., in New York City, provides counseling, vocational training and job opportunities for out-of-school, out-of-work, minority adolescent girls.

Exxon USA's contributions included a grant to the American Coalition of Citizens with Disabilities to support a national awareness campaign on the problems, capabilities and rights of the physically disabled. The company helped maintain a program in the Houston area providing academic and financial counseling to Hispanic youths planning to attend college.

Exxon continued its support of public television programming, begun in 1961 with *An Age of Kings,* a series of Shakespearean historical dramas. The latter series was recalled in 1979 in Exxon's new series, *The Shakespeare Plays.* Now in its second season, the series will bring all 37 plays to U.S. audiences over a period of six years.

Notable 1979 broadcasts in Exxon's *Great Performances* series included an historic joint recital by Dame Joan Sutherland and Marilyn Horne and the Emmy award-winning *Balanchine IV,* a selection of the choreographer's works featuring members of the New York City Ballet.

HONEYWELL INC. (DEC)

REVIEW OF OPERATIONS (Page 27)

Corporate Responsibility—Honeywell contributed $3.6 million to U.S. non-profit organizations in 1979. Approximately half went to health and welfare programs, with the rest granted to education and the arts. Contributions to education will increase in support of a program that includes recruiting, contract research, residencies and internships to help schools provide the training needed for future jobs.

Honeywell employees with management and technical expertise serve as volunteer consultants to community agencies. The Management Assistance Project, founded by Honeywell and four Twin Cities companies with the United Way, matches agencies with the consulting help they need.

LEVI STRAUSS & CO. (NOV)

SOCIAL RESPONSIBILITY

Levi Strauss & Co. has long been identified as a U.S. industry leader in this vital area of human affairs. Touchstone of the company's definition of social responsibility is integrity in dealing with stockholders, employees, vendors and customers—as well as integrity in the quality of its products and its advertising. The integrity that pervades all dealings is based on fairness, honesty and mutual trust, as well as empathy with divergent points of view. This attitude, in management's opinion, does not conflict with the profit motive, but rather is a significant advantage in furthering the company's success.

One example of the company's social responsibility activities last year is found in the acclaim accorded its Community Involvement Teams. They consist of employee volunteers organized to assist the communities where company facilities are located in a wide variety of social endeavors. Some 80 such Levi Strauss & Co. teams were in place in 1979.

Last year the company received the Employment Management Association's National Service Award for leadership in corporate social responsibility, an accolade in the U.S. which singled out the Community Involvement Teams program and the more than 37,000 volunteer hours donated by employees.

On the other side of the globe, the Community Involvement Team in the Philippines received the "A. Mabini Rehabilitation Award for Employer of the Year" from the president of the Philippines. This recognized the team's assistance in establishing a profit-making business for the handicapped. Named "Handi-Phil," this small business fabricates work gloves from scrap denim.

In keeping with the company's 1980 Olympics promotion, many Community Involvement Teams assisted local chapters of the Special Olympics, which sponsors this competition for the handicapped. This help included outfitting more than 4,500 athletes and chaperones for the 1979 International Special Olympics in Brockport, New York.

J.C.PENNEY COMPANY, INC. (JAN)

CORPORATE RESPONSIBILITY

The health and vitality of communities in which JCPenney has facilities and people are essential to the Company's achieving its corporate objectives. Each facility is encouraged to address relevant social and environmental issues and to support organizations which work toward sustaining the community.

Community Involvement

JCPenney encourages its employees to participate in community activities. A Community Service Awards Program recognizes outstanding volunteer work performed on employees' own time. JCPenney also provides opportunities for employees to participate in on-loan and release time activities that will benefit the employees and their communities as well as the Company.

Last year, of some 200 employees nominated for a Community Service Award, 85 were singled out for special commendation. Nine employees served in full-time, on-loan assignments with organizations including the United Way and the National Alliance of Businessmen. Additionally, 205 employees were granted release time averaging two hours per week to work with school programs, chambers of commerce, U.S. Savings Bond campaigns, and community betterment groups.

During 1979, JCPenney completed its "Exercise Trail" community fitness program, having participated in the construction of 718 trails in 49 states and several foreign countries. An estimated 143,000 people use the trails weekly to increase physical fitness. These facilities were built in cooperation with various governmental, educational, and civic organizations.

Contributions

The primary objectives of our charitable contributions program are to promote social conditions favorable to the Company's continued growth and to enhance the quality of life, especially in communities in which there are concentrations of our employees. All Company contributions serve to achieve one or both of these objectives and fall within four broad categories: health and social services, higher education, civic betterment, and cultural activities.

In 1979, charitable contributions were $4.8 million, or 1.2 per cent of pre-tax income, compared with $3.6 million, or .8 per cent, in 1978. Stores and other field facilities contributed approximately 80 per cent of the Company total.

Energy Conservation

Energy conservation continues to be a major concern. Because the JCPenney Energy Management Process, developed internally, has been successful in reducing energy costs in our facilities, we have made a commitment to share our expertise with other businesses and institutions to expand its impact.

On a national level, the Energy Management Process Manual was offered to federal and state governments and to some 10,600 companies which supply JCPenney with merchandise and services. Nearly 2,600 manuals have been distributed. Locally, JCPenney facilities loaned the manual to more than 1,300 companies and institutions.

Minority Economic Development

Our Company is committed to improving the economic position of minority business concerns. In 1979, a Minority Purchasing Advisory Group was established to promote a better understanding of the Company's position and to enhance minority supplier relationships throughout the Company's buying structure in a meaningful and efficient manner.

Purchases of goods and services from minority owned businesses increased to $66 million in 1979 from $43 million in 1978. This represented business relationships with more than 600 suppliers. Additionally, we spent $.7 million for advertising in 92 minority print and broadcast media.

Working bank accounts were maintained with 13 minority owned banks compared with 10 in 1978. Average balances with these banks were approximately $.4 million in both years. At year end, lines of credit with 11 of these banks amounted to $2.2 million, as compared with credit lines with 9 banks totaling $1.8 million in 1978.

Resource Recovery

In 1979, some 170 stores, catalog distribution centers, and other facilities participated in the Company's Resource Recovery Program, up from 145 in 1978. In excess of 16 thousand tons of waste paper were recycled through this program during 1979.

Employment

Year end employment totaled approximately 206,000, of whom 196,389 were employed in the United States, excluding unconsolidated subsidiaries. Summaries based upon the Company's consolidated Employer Information Reports EEO-1 to the United States Equal Employment Opportunity Commission for the years 1979, 1978, and 1977 appear below:

		1979	
Category	Total	Female	Minority
Officials, managers, and professionals	26,140	10,123	2,130
Management trainees	1,593	757	332
Sales workers	92,570	76,531	10,513
Office and clerical workers	42,081	37,706	6,178
Technicians, craftsmen, and operatives	14,872	8,324	2,211
Laborers and service workers	19,133	8,048	3,707
Total	196,389	141,489	25,071

		1978	
Category	Total	Female	Minority
Officials, managers, and professionals	25,932	9,830	1,943
Management trainees	2,556	1,166	440
Sales workers	93,929	76,921	9,482
Office and clerical workers	45,375	40,180	6,098
Technicians, craftsmen, and operatives	14,671	7,883	2,074
Laborers and service workers	19,550	8,237	3,614
Total	202,013	144,217	23,651

		1977	
Category	Total	Female	Minority
Officials, managers, and professionals	23,788	9,014	1,618
Management trainees	1,814	771	342
Sales workers	84,513	68,448	8,196
Office and clerical workers	42,757	38,124	5,590
Technicians, craftsmen, and operatives	13,205	7,061	1,856
Laborers and service workers	18,983	8,035	3,457
Total	185,060	131,453	21,059

SCHERING-PLOUGH CORPORATION (DEC)

CORPORATE RESPONSIBILITY

As Schering-Plough moved to diversify and expand its business base during 1979, programs devoted to public concerns were reaffirmed and strengthened.

In light of changing times and conditions that affect the conduct of business, corporate activities are periodically reviewed to evaluate the implications of ever-broadening social expectations and regulatory requirements. Strategic planning, which takes these factors into account when establishing corporate goals, must continually take cognizance of the latest standards with respect to environmental quality, energy conservation, equal employment opportunity, community welfare and other such issues in the United States and abroad.

A corporation's concern for profitability—a social responsibility in itself—is inseparable from its response to external factors that, directly or indirectly, impact the climate in which business exists. The true test of a socially responsible mangement, however, is how well it responds to demands from various, and often competing or contradictory, publics while remaining prudent and realistic in its use of resources.

In 1979, the Company met this challenge through:

A 26,000-member worldwide work force that contributed to the economies of more than 100 countries. Regardless of location, programs were directed to the personal and career development of all Schering-Plough employees, with the principle of equal employment opportunity and fair employment practices continuing as strong corporate commitments. In the United States, for instance, 43 percent of employees are women and 20 percent are minorities. Women and minorities hold 48 percent of the professional positions and 23 percent of the managerial positions.

Health and safety programs, including periodic safety training sessions and other safeguards, designed to provide secure and pleasant working environments. During the past year, a corporate-wide communication effort was initiated to improve on-the-job safety programs through exchange of safety-related information among divisions.

The enhancement of environmental quality at worldwide plant sites, particularly in the areas of liquid and solid waste disposal, protection of the atmosphere and noise abatement. During the year, some $2,550,000 in capital expenditures were devoted to these environmental protection efforts. This brings the amount spent for such facilities to more than $6,250,000 in the last five years.

Accelerated energy conservation programs that resulted in the reduction of overall corporate consumption by more than five percent. Large-scale capital investments for technologically advanced equipment played an important role in these Company-wide programs that are being guided by a corporate coordinator.

Sponsorship and support of many and varied local civic, charitable and cultural programs.

In addition, the Company, through its affiliated Schering-Plough Foundation, continued its long-standing commitment to assist medical, educational and allied institutions devoted to health care. Funds were directed to a wide range of medical and scientific functions, hospitals, the pharmacy profession and universities and colleges. In 1977, the Foundation expanded its area of support to include selected cultural organizations. Gifts under this program have been directed to such institutions as performing arts centers and groups, museums and educational television.

Strongly complementing direct financial support is the depth of Company personnel involvement in the social and civic affairs of the communities in which it operates. The work of these volunteers manifests the Company's identification with its communities and its concern for the well-being of its neighbors.

Section 4: Stockholders' Equity

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 1979 fiscal year transactions are presented throughout this section.

TABLE 4-1: PRESENTATION OF CHANGES IN RETAINED EARNINGS

	1979	1978	1977	1976
Statement of Stockholders' Equity	277	263	251	241
Combined statement of income and retained earnings	145	161	169	172
Separate statement of retained earnings	161	163	167	178
Changes shown in balance sheet or notes	17	13	13	9
Total Companies	**600**	**600**	**600**	**600**

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 78% 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 57% of the survey companies make a similar disclosure for cash dividends paid to preferred stock shareholders.

Examples of distributions to shareholders follow.

Cash Dividends

KRAFT, INC. (DEC)

Consolidated Statement of Retained Earnings

	1979	1978
	(In millions, except per share)	
Balance at beginning of year	$1,162.3	$1,052.2
Net income	188.1	184.0
Dividends on common stock ($3.00 per share in 1979 and $2.65 in 1978)	(83.8)	(73.9)
Balance at end of year	$1,266.6	$1,162.3

TABLE 4-2: DIVIDENDS

	Number of Companies			
	1979	1978	1977	1976
Cash Dividends Paid to Common Stock Shareholders				
Per share amount disclosed in retained earnings statement	420	421	439	417
Per share amount not disclosed in retained earnings statement	119	111	90	107
Total	**539**	**532**	**529**	**524**
Cash Dividends Paid to Preferred Stock Shareholders				
Per share amount disclosed in retained earnings statement	128	131	134	166
Per share amount not disclosed in retained earnings statement	90	90	94	103
Total	**218**	**221**	**228**	**269**
Dividends Paid By Pooled Companies	**7**	**5**	**10**	**13**
Stock Dividends	**31**	**39**	**39**	**41**
Dividends In Kind	**3**	**—**	**—**	**1**

ATLANTIC RICHFIELD COMPANY (DEC)

Consolidated Statement of Income and Retained Earnings

	1979	1978
Net Income Retained For Use in The Business:		
Balance, January 1	$3,747,236,000	$3,231,426,000
Net income	1,165,894,000	804,325,000
Cash dividends:		
3.75% Cumulative preferred stock	(1,320,000)	(1,320,000)
$3.00 Cumulative convertible preference stock	(1,816,000)	(2,176,000)
$2.80 Cumulative convertible preference stock	(14,715,000)	(22,832,000)
Common stock (per share, 1979—$2.80, 1978—$2.40)	(319,641,000)	(262,187,000)
Balance, December 31	$4,575,638,000	$3,747,236,000

INGERSOLL-RAND COMPANY (DEC)

Consolidated Statement of Changes in Retained Earnings

(In thousands except per share amounts)

	1979	1978
Earnings retained for use in the business at beginning of year	$838,252	$768,988
Net earnings for the year	149,342	133,123
	987,594	902,111
Cash dividends:		
Preference stock, $2.35 per share	6,883	6,970
Common stock, $3.16 per share in 1979 and $3.00 in 1978	59,933	56,889
	66,816	63,859
Earnings retained for use in the business at end of year	$920,778	$838,252

STOKELY-VAN CAMP, INC. (MAY)

Consolidated Statement of Changes in Shareholders' Equity

	1979	1978
Common Stock:		
Balance forward	$ 3,287,146	$ 3,275,871
Issuance of 10,585 shares under employee stock plans (11,275 shares in 1978)	10,585	11,275
Issuance of 788 shares upon the conversion of 4¼% debentures	788	—
	$ 3,298,519	$ 3,287,146
Additional Paid-in Capital:		
Balance forward	$51,785,179	$51,608,394
Proceeds in excess of the par value of shares issued under employee stock plans	163,431	176,785
Proceeds in excess of the par value of shares issued upon the conversion of 4¼% debentures	24,131	—
	$51,972,741	$51,785,179
Reinvested Earnings:		
Balance forward	$65,550,009	$59,737,360
Net earnings	13,055,229	10,515,045
Cash dividends:		
Preferred, $1.00 per share	(764,144)	(764,144)
Common, $1.29 per share	(4,348,929)	
($1.20 per share in 1978)		(3,938,252)
	$73,492,165	$65,550,009

MONSANTO COMPANY (DEC)

Statement of Consolidated Shareowners' Equity

(Dollars in millions, except per share)

	Preferred Stock	Common Stock	Additional Contributed Capital	Reinvested Earnings	Treasury Stock
Balance, January 1, 1978	$0.6	$73.7	$650.6	$1,705.3	$(29.3)
Net income				302.6	
Dividends:					
Preferred—$2.75 per share				(0.6)	
Common—$3.175 per share				(114.8)	
Conversion of $2.75 Preferred Stock to common stock	(0.2)	0.2			
Shares issued under employee stock ownership and option plans			0.8		3.2
Shares purchased					(12.8)
Other			0.1		
Balance, December 31, 1978	0.4	73.9	651.5	1,892.5	(38.9)
Net income				331.0	
Dividends:					
Preferred—$2.75 per share				(0.5)	
Common—$3.35 per share				(120.7)	
Conversion of $2.75 Preferred Stock to common stock	(0.1)		(1.3)		1.4
Shares issued under employee stock ownership and option plans			0.3		4.5
Shares issued upon conversion of Monsanto Limited convertible loan stock			0.2		2.0
Shares reclassified from Miscellaneous Investments					(4.4)
Shares purchased					(12.4)
Other			2.2		0.2
Balance, December 31, 1979	$0.3	$73.9	$652.9	$2,102.3	$(47.6)

Dividend Paid By Pooled Company

EMERSON ELECTRIC CO. (SEP)

Consolidated Statements of Stockholders' Equity

	Thousands of Dollars				
Year ended September 30, 1979	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at beginning of year	$59,197	33,139	810,875	(7,174)	896,037
Net earnings	—	—	201,026	—	201,026
Common stock issued for purchased business	998	30,842	—	—	31,840
Stock option plans	38	863	—	369	1,270
Treasury stock acquired	—	—	—	(48)	(48)
Cash dividends:					
Common stock—$1.44 per share	—	—	(84,946)	—	(84,946)
By pooled companies prior to combination	—	—	(224)	—	(224)
Balance at end of year	$60,233	64,844	926,731	(6,853)	1,044,955
Year ended September 30, 1978					
Balance at beginning of year:					
As previously reported	$57,990	32,625	695,671	(7,546)	778,740
Adjustment for poolings of interests	1,177	—	11,732	—	12,909
As restated	59,167	32,625	707,403	(7,546)	791,649
Net earnings	—	—	173,153	—	173,153
Stock option and purchase plans	30	514	—	372	916
Cash dividends:					
Common stock—$1.20 per share	—	—	(69,301)	—	(69,301)
By pooled companies prior to combination	—	—	(380)	—	(380)
Balance at end of year	$59,197	33,139	810,875	(7,174)	896,037

Stock Dividends

THE PARKER PEN COMPANY (FEB)

Earnings Retained for Use in the Business

	1979	1978
Beginning of year	$78,896,384	$67,908,604
Net earnings for the year	28,793,050	16,288,243
Cash dividends declared ($.58 in 1979, $.41 in 1978)	(4,867,238)	(3,422,645)
5% stock dividend	(10,190,930)	—
Five-for-four stock split	—	(1,877,818)
End of year	$92,631,266	$78,896,384

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock and Capital in Excess of Par Value

An analysis of the capital accounts for 1978 and 1979 is as follows:

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value
Balance on February 28, 1977	6,336,965	$ 9,505,448	$ 376,868
Sales of stock under stock option plan	42,624	63,936	281,754
Five-for-four stock split	1,587,201	2,380,801	(484,512)
Balance February 28, 1978	7,966,790	11,950,185	174,110
Sales of stock under stock option plan	63,237	94,856	408,391
5% stock dividend	399,458	599,187	9,596,360
Balance at February 28, 1979	8,429,485	$12,644,228	$10,178,861

On June 15, 1977, the Board of Directors declared a five-for-four stock split which was distributed August 15, 1977, to stockholders of record July 15, 1977. The stock split was effected by the issuance of one additional share of $1.50 par value common stock for every four shares then outstanding. On October 18, 1978, the Board of Directors declared a 5% stock dividend which was paid on December 1, 1978. All shares and per share data in the accompanying financial statements and footnotes have been adjusted to reflect the 5% stock dividend in December, 1978.

INSILCO CORPORATION (DEC)

Consolidated Statement of Changes in Shareholders' Equity

Dollars in Thousands (except per share amounts)

	1979 Shares	1979 Amount	1978 Shares	1978 Amount
8% Convertible Preferred Stock, $25 par value—				
Authorized 31,925 shares (32,013 in 1978)				
Outstanding January 1	31,925	$ 798	32,013	$ 800
Conversions to common stock	—	—	(88)	(2)
Outstanding December 31	31,925	798	31,925	798
Preferred, Issuable In Series (no par)—				
Authorized 2,000,000 shares				
Convertible second preferred Series A, at $2 stated value				
Outstanding January 1	755,792	1,512	756,280	1,513
Conversions to common stock	(10,334)	(21)	(488)	(1)
Outstanding December 31	745,458	1,491	755,792	1,512
Total Preferred Stock at December 31		$ 2,289		$ 2,310
Common Stock, $1 par value—				
Authorized 20,000,000 shares				
Issued January 1	10,438,619	$ 62,761	9,954,806	$56,090
5% stock dividends, at market value	1,001,421	12,139	464,813	6,558
Conversions of preferred stock and debentures and exercise of stock options	14,320	37	19,000	113
Issued December 31	11,454,360	$ 74,937	10,438,619	$62,761
Retained Earnings				
Balance January 1		$ 97,077		$89,782
Net earnings		27,050		23,576
Deduct dividends declared on:				
8% preferred stock ($2.00)		64		64
Series A preferred stock ($1.25)		944		945
Common stock:				
Cash (1979—$.90*; 1978—$.81*)		9,649		8,714
Stock, at market value (5% paid June 29, 1979; December 3, 1979; and December 1, 1978)		12,139		6,558
Balance December 31		$101,331		$97,077
Treasury Stock				
Balance January 1	677,417	$ 7,604	651,990	$ 7,198
Purchased during the year	136	2	34,712	509
Issued under Performance Share Unit Plan	(8,454)	(95)	(9,285)	(103)
Balance December 31	669,099	$ 7,511	677,417	$ 7,604

*Adjusted to give effect to 5% stock dividends.

DIAMOND INTERNATIONAL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Capital Stock

Changes in Preferred and Common stock outstanding during 1978 and 1979 were as follows:

	Number of shares		Par Value (In thousands of dollars)		Capital in Excess Of Par Value (In thousands of dollars)
	Preferred*	Common**	Preferred*	Common**	
Balance January 1, 1978	—	11,672,591	$ —	$5,836	$ 44,077
Common shares issued upon exercise of stock options	—	1,300	—	1	39
Preferred shares issued in acquisition of LMF Corporation (see Note 6)	2,371,488	—	2,371	—	35,452
Balance Dec. 31, 1978	2,371,488	11,673,891	2,371	5,837	79,568
Common and preferred shares issued upon exercise of stock options and stock appreciation rights	9,650	5,789	10	3	259
Common shares issued in stock dividend distribution.	—	1,163,633	—	582	38,982
Conversion of preferred shares to common shares	(48,675)	22,649	(49)	11	37
Balance Dec. 31, 1979	2,332,463	12,865,962	$2,332	$6,433	$118,846

*Preferred—$1.20 Diamond Series A Cumulative Convertible Preferred, Par Value $1.00 per share.
**Common—Par value $.50 per share.

Common stock held in Treasury at December 31, 1979 and 1978 amounted to 294,750 shares at each date.

On June 15, 1979, the Company distributed a 10% stock dividend in the form of 1,163,633 shares of common stock and $147,000 in cash (paid in lieu of fractional shares of common stock) to shareowners of record as of May 10, 1979. As a result of the stock dividend, the common stock and capital in excess of par value accounts were increased by $582,000 and $38,982,000, respectively, and earnings retained was charged for $39,711,000.

At a special meeting held on November 15, 1978, the shareowners approved the creation of a new class of preferred stock consisting of 15,000,000 shares (of which 3,135,153 shares were designated by resolution of the Board of Directors as $1.20 Diamond Series A Cumulative Convertible Preferred Stock, par value $1.00 per share) in lieu of the then authorized class of preferred stock consisting of 1,000,000 shares with a par value of $25 per share (none of which was issued). Each share of Diamond Series A Preferred Stock is convertible at the option of the holder into fully paid and non-assessable shares of the Company's common stock at the rate of 0.466 (adjusted for 10% stock dividend) shares of common stock for each share of Diamond Series A Preferred Stock. The Company has the option to redeem the Diamond Series A Preferred Stock, in whole or in part, at any time after November 15, 1983 at prices from $16.75 to $16.00 per share.

BEECH AIRCRAFT CORPORATION (SEP)

Consolidated Statements of Income and Retained Earnings

	1979	1978
Net Income	$ 41,594,671	$ 35,520,876
Retained earnings at beginning of year	107,892,250	85,027,416
	149,486,921	120,548,292
Less:		
Cash dividends paid:		
1979—$.91 a share	10,685,229	
1978—$.76 a share		8,383,192
Market value of Common Stock issued as stock dividend	3,376,392	4,101,308
Cash payment in lieu of fractional shares	130,917	171,542
	14,192,538	12,656,042
Retained Earnings At End Of Year	$135,294,383	$107,892,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note G—Common Stock and Additional Paid-in Capital

Following is a summary of the changes in Common Stock and additional paid-in capital for the two years ended September 30, 1979:

	Common Stock	Additional Paid-In Capital	Treasury Stock
Balance October 1, 1977	$ 7,528,081	$20,683,932	$(3,920,121)
Shares issued in payment of 2% stock dividend at market value (including 8,922 shares applied to treasury shares)	147,423	3,953,885	
Adjustment to reflect transfer in connection with three for two stock split (including 228,618 shares applied to treasury shares)	3,886,953	(3,886,953)	
Proceeds from sale of shares under employee stock option plans	85,956	726,784	
Shares issued for debenture conversions	448,979	8,644,784	
Purchase of 4,700 treasury shares			(124,046)
Balance September 30, 1978	12,097,392	30,122,432	(4,044,167)
Shares issued in payment of 1% stock dividend at market value (including 6,887 shares applied to treasury shares	116,107	3,260,285	
Proceeds from sale of shares under employee stock option plans	130,952	1,340,243	
Shares issued for debenture conversions	493,414	8,764,500	
Purchase of 23,500 treasury shares			(580,078)
Balance September 30, 1979	$12,837,865	$43,487,460	$(4,624,245)

Dividend in Kind

THE CHARTER COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

	1979	1978
	(in thousands)	
Redeemable preferred stock:		
Balance at beginning of year	$ 20,268	20,192
Shares reacquired	(423)	(183)
Shares converted into common stock	(18,513)	—
Imputed preferred dividends	107	259
Balance at end of year	$ 1,439	20,268
Nonredeemable preferred stock:		
Balance at beginning of year	$ 8,750	8,750
Shares issued	120,383	—
Shares converted into common stock	(5,200)	—
Balance at end of year	$123,933	8,750
Common stock:		
Balance at beginning of year	$ 17,463	17,566
Shares issued for conversion of preferred stock	2,703	—
Shares reacquired	—	(111)
Other	—	8
Balance at end of year	$ 20,166	17,463
Additional paid-in capital on common stock:		
Balance at beginning of year	$ 36,250	30,556
Excess of cost over par value of:		
Shares reacquired	—	(389)
Preferred shares converted into common stock	21,010	—
Warrants issued	—	6,036
Other	8	47
Balance at end of year	$ 57,268	36,250
Retained earnings:		
Balance at beginning of year	$106,616	89,813
Net earnings	365,338	23,288
Cash dividends:		
Preferred	(4,528)	(2,031)
Common ($.52 per share in 1979 and $.24 per share in 1978)	(10,097)	(4,195)
Total cash dividends	(14,625)	(6,226)
Imputed preferred dividends	(107)	(259)
Noncash dividend	(7,593)	—
Balance at end of year	$449,629	106,616

NOTES TO FINANCIAL STATEMENTS

Note 8 (in part): Other Investments

C. On March 31, 1979, Charter distributed to common shareholders a noncash dividend in the form of all the outstanding shares of Riverside Group, Inc. ("Riverside"), a wholly-owned real estate subsidiary. Riverside's adjusted net worth plus expenses incurred in connection with the distribution was charged to stockholders' equity as a noncash dividend of approximately $7,593,000. Riverside's contribution to the consolidated results of operations for the years ended December 31, 1979 and 1978 was not significant.

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.

Change in Accounting for Leases

AMERICAN STORES COMPANY (MAR)

Earnings Retained for Use in the Business

	1979	1978
Balance at beginning of year, as previously reported	$132,952,000	117,464,000
Adjustment required for capitalized leases (note 5)	(8,018,000)	(7,413,000)
Balance at beginning of year, as restated	124,934,000	110,051,000
Net earnings	38,091,000	25,991,000
	163,025,000	136,042,000
Deduct cash dividends—$2.24 a share in 1977 and $2.10 a share in 1978	11,947,000	11,108,000
Balance at end of year	$151,078,000	124,934,000

Note 5 (in part): Leases

At March 31, 1979, the company and subsidiaries were lessees under leases covering retail locations and certain distribution center properties. The major part of retail store operations are conducted from leased premises and the initial terms of such leases generally range from 15 to 20 years. Certain store leases provide for additional rentals based on sales volume in excess of a specified level. In addition, most of the leases contain renewal options which give the company the right to extend the leases for varying additional periods, often at reduced rentals.

In fiscal year 1979, the company changed its accounting for leases as required by the provisions of Statement of Financial Accounting Standards No. 13 ("SFAS 13"), and restated its financial statements for prior years. Under the new method, leases defined as "capital leases" by SFAS 13 are recorded as an asset, subject to amortization over the lease term, and the related lease obligation shown as a liability. The accounting change decreased 1979 net earnings by $976,000 ($.18 a share) and previously reported 1978 net earnings by $605,000 ($.11 a share). Earnings retained for use in the business for years prior to 1978 were reduced $7,413,000 by the retroactive application of SFAS 13.

GIANT FOOD INC. (FEB)

Consolidated Statements of Retained Earnings

	1979	1978
	Thousands of dollars	
Balance, beginning, as previously reported		$65,089
Effect of retroactive change in accounting for leases (Note 2)		(2,743)
Balance, beginning, as restated	$68,458	62,346
Net income	16,957	9,983
Cash dividends (1979, $.87; 1978, $.80)	(4,247)	(3,871)
Balance, ending	$81,168	$68,458

Note 2: Change in accounting principle:

As of February 24, 1979, all leases entered into prior to January 1, 1977 were accounted for in accordance with the requirements of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases."

The cumulative effect of the retroactive application of this change resulted in a reduction in retained earnings of $2,743,000 at February 26, 1977. Net income from continuing operations was decreased by $186,000 ($.04 per share) for 1979 and $224,000 ($.05 per share) for 1978. The 1978 loss on disposal of assets from discontinued operations was decreased, net of tax effect, by $432,000 ($.09 per share).

GREAT ATLANTIC & PACIFIC TEA COMPANY, INC. (FEB)

Statement of Consolidated Retained Earnings (Deficit)

(Dollars in thousands)	Fiscal 1978	Fiscal 1977
Retained earnings—beginning of year	$ 49,135	$ 69,330
Cumulative effect of the capitalization of capital leases	—	(17,030)
Adjusted balance—beginning of year	49,135	52,300
Net income (loss)	(52,186)	569
Dividends	(1,245)	(3,734)
Retained earnings (deficit)—end of year	$ (4,296)	$ 49,135

Summary of Significant Accounting Policies

Properties (in part): The Company leases a substantial portion of its facilities. Leases, the majority of which are considered to be operating leases, are accounted for in accordance with Statement No. 13 of the Financial Accounting Standards Board (FASB No. 13). The accompanying financial statements for fiscal 1977 have been restated to reflect the retroactive application of FASB No. 13 which resulted in a decrease in earnings of $4,222,000, or $.17 per share. In addition, retained earnings as of February 27, 1977 was reduced by $17,030,000 representing the cumulative effect of this change on results of operations for fiscal years prior to 1977.

PEOPLES DRUG STORES, INCORPORATED (SEP)

Consolidated Statements of Changes in Stockholders' Investment

	Common Stock ($1 par value)	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, September 24, 1977:					
As previously reported	$3,670,000	$17,602,000	$15,063,000	$(276,000)	$36,059,000
Cumulative effect of retroactive capitalization of leases (Note 5)	—	—	(47,000)	—	(47,000)
As restated	3,670,000	17,602,000	15,016,000	(276,000)	36,012,000
Net income	—	—	5,521,000	—	5,521,000
Cash dividends—$.20 per share	—	—	(725,000)	—	(725,000)
Employee stock purchase plan	—	28,000	—	27,000	55,000
Balance, September 30, 1978	3,670,000	17,630,000	19,812,000	(249,000)	40,863,000
Net income	—	—	6,457,000	—	6,457,000
Cash dividends—$.24 per share	—	—	(877,000)	—	(877,000)
Employee stock purchase and option plans	3,000	222,000	—	249,000	474,000
Balance, September 29, 1979	$3,673,000	$17,852,000	$25,392,000	$ —	$46,917,000

Note 5 (in part): Leases:

In the current fiscal year, the Company retroactively restated its financial statements in order to classify as capital leases (as defined by FASB Statement No. 13) certain equipment leases entered into prior to January 1, 1977 that had previously been accounted for as operating leases. Such restatement increased property and equipment (net of accumulated depreciation) by $1,426,000 at September 30, 1978. Obligations under capital leases were increased by $1,519,000, including current portion of $418,000, at September 30, 1978. The effect on net income for 1978 was immaterial.

TABLE 4-3: ADJUSTMENTS TO OPENING BALANCE OF RETAINED EARNINGS

	Number of Companies			
	1979	1978	1977	1976
Change in accounting for leases	28	69	35	—
Poolings of interests	22	31	31	24
Change in accounting for oil and gas operations	18	4	—	—
Other	10	7	24	58

Change in Accounting for Oil and Gas Operations

AMERADA HESS CORPORATION (DEC)

Statement of Consolidated Retained Earnings

	1979	1978*
Balance at beginning of year		
As previously reported		$1,084,980,000
Adjustment to reflect change in accounting for oil and gas exploration and producing activities (Note 2)		39,398,000
As restated	$1,193,527,000	1,124,378,000
Net income	507,116,000	138,898,000
Dividends		
Cash		
$3.50 cumulative convertible preferred stock	(11,701,000)	(19,459,000)
Common stock ($1.30 per share in 1979; $.95 per share in 1978)	(45,290,000)	(26,710,000)
Common stock—2½%	(27,214,000)	(23,580,000)
Balance at end of year	$1,616,438,000	$1,193,527,000

*Restated. See Note 2.

Note 2: Change in Accounting for Oil and Gas Exploration and Producing Activities

In December 1979, the Corporation modified its "successful efforts" method of accounting for oil and gas exploration and producing activities to comply with the provisions of FAS No. 19. The principal changes related to the treatment of intangible drilling costs and leasehold costs. In the last quarter of 1979, FAS No. 19 was applied retroactively and, accordingly, the financial statements for prior years have been restated resulting in an increase in retained earnings at January 1, 1978 of $39,398,000. The effect on 1979 and 1978 net income was as follows:

	Increase (decrease)			
	1979		1978	
	Amount	Per share	Amount	Per share
First quarter..........	$14,069,000	$.34	$10,931,000	$ .27
Second quarter.......	14,761,000	.35	5,816,000	.14
Third quarter.........	9,135,000	.22	(13,378,000)	(33)
Fourth quarter........	(3,158,000)	(.08)	(6,889,000)	(.17)
Total	$34,807,000	$.83	$(3,520,000)	$(.09)

W.R. GRACE & CO. (DEC)

Consolidated Statement of Shareholders' Equity

	(In Thousands)				
	Preferred Stocks	Common Stock	Paid in Capital	Retained Earnings	Total
Balance at January 1, 1978, as reported....................	$8,919	$39,925	$355,469	$ 855,110	$1,259,423
Adjusted for businesses combined in poolings of interests transactions in 1979	—	2,659	(1,727)	22,694	23,626
Adjustment for adoption of a new reporting standard for oil and gas operations	—	—	—	(19,940)	(19,940)
Balance at January 1, 1978, as restated	8,919	42,584	353,742	857,864	1,263,109
Net income—1978	—	—	—	171,197	171,197
Dividends paid	—	—	—	(72,606)	(72,606)
Conversion of subordinate debentures	—	1,333	38,226	—	39,559
Other	(9)	100	2,826	1,090	4,007
Balance at December 31, 1978...............................	8,910	44,017	394,794	957,545	1,405,266
Net income—1979	—	—	—	222,580	222,580
Dividends paid	—	—	—	(87,015)	(87,015)
Conversion of subordinate debentures	—	929	25,289	—	26,218
Other	(30)	55	2,813	2,395	5,233
Balance at December 31, 1979...............................	$8,880	$45,001	$422,896	$1,095,505	$1,572,282

Note 5—Accounting for Oil and Gas Producing Operations

Grace has historically used a form of successful efforts accounting for its oil and gas operations and, in 1979, conformed this method to the standards set forth in Statement of Financial Accounting Standards No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." This change in accounting, which did not have a significant effect on net income in 1979, was adopted retroactively, as required. The financial statements of prior years have been restated and resulted in reductions in net income, retained earnings and earnings per share as follows:

	Effect on Net Income and Retained Earnings	Effect on Earnings per Share
1974 and prior years	$5,287	
1975	131	—
1976	8,021	.19
1977	6,501	.15
1978	7,890	.18

The aggregate amount of capitalized costs and related accumulated depreciation, depletion and amortization pertaining to Grace's oil and gas activities are as follows:

	1979		1978	
	U.S.	Foreign	U.S.	Foreign
Proved properties	$423,292	$ 9,843	$364,838	$ 9,802
Unproved properties	24,476	1,289	17,779	1,523
Accumulated depreciation, depletion and amortization	(134,676)	(5,437)	(120,675)	(4,954)
Total	$313,193	$ 5,695	$261,942	$ 6,371

The following are aggregate costs incurred for each year:

	1979		1978	
	U.S.	Foreign	U.S.	Foreign
Proved property acquisition	$ 29,646	$ —	$ 17,110	$ —
Unproved property acquisition	9,461	—	1,925	—
Exploration	11,714	280	11,157	188
Development	55,244	518	42,459	425
Production (lifting)	39,082	3,218	30,017	2,488
Total	$145,147	$ 4,016	$102,668	$3,101

Disclosure of unaudited reserve quantity information is on page 37.

Reserve Recognition Accounting information is included in Grace's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Change in Consolidation Policy

ANDERSON, CLAYTON & CO. (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part)

Principles of consolidation. The consolidated financial statements include the accounts of the Company and all subsidiaries engaged in activities other than insurance. For the years ended July 31, 1964 through June 30, 1978, the Company's international subsidiaries, other than European, were not consolidated. The Company's investment in those operations was carried at cost and earnings from the nonconsolidated international subsidiaries were reported as consolidated income when received in dollars as dividends. Since 1964 the Company has disposed of foreign investments in a number of countries where restrictions, controls and other uncertainties had prompted deconsolidation. Management has concluded that its remaining international operations in Mexico and Brazil are no longer operating under conditions of exchange restrictions, controls or other uncertainties which would preclude consolidation. Consequently these subsidiaries are included in the consolidated financial statements in order to more clearly and fairly present the financial condition of the Company and the results of its operations. Prior year information has been restated to reflect the change to the current basis of consolidation. Following are certain comparative financial data on the present and former basis of reporting:

	1979		1978	
	Present Basis	Former Basis	Present Basis	Former Basis
Sales	$1,489,925,000	$998,863,000	$1,310,813,000	$873,521,000
Net Income	48,815,000	47,018,000	47,202,000	42,358,000
Net income per share	$3.54	$3.41	$3.36	$3.02

Retained earnings as of July 1, 1977 increased from

$258,822,000 under the former basis of reporting to $312,535,000 under the present basis of reporting. Investments in domestic insurance subsidiaries are carried at equity determined under generally accepted accounting principles.

All material transactions between companies included in the consolidated financial statements have been eliminated.

Pooling of Interests

SUN COMPANY, INC. (DEC)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Millions)	Preferred Stock Number of Shares	Preferred Stock Par Value	Common Stock Number of Shares	Common Stock Par Value	Capital in Excess of Par Value	Earnings Employed in the Business	Common Stock Held in Treasury Shares	Common Stock Held in Treasury Cost
At December 31, 1977, As Previously Reported	6,443,255	$6.4	53,579,843	$53.6	$1,560.6	$1,239.9	2,294,273	$ 99.9
Adjustments:								
Pooling of Interests (Note 1)	—	—	5,059,013	5.0	.4	107.4	—	—
Accounting Change (Note 2)	—	—	—	—	—	126.5	—	—
At December 31, 1977, As Restated	6,443,255	$6.4	58,638,856	$58.6	$1,561.0	$1,473.8	2,294,273	$ 99.9
Net Income	—	—	—	—	—	414.7	—	—
Conversion of Preferred Stock	(1,332,844)	(1.3)	1,387,706	1.4	(.1)	—	—	—
Purchased and Retired	(27,000)	—	—	—	(1.1)	—	—	—
Cash Dividends:								
Sun Preferred Stock ($2.25 per share)	—	—	—	—	—	(13.0)	—	—
Sun Common Stock ($2.73 per share)	—	—	—	—	—	(140.9)	—	—
Pooled Company Prior to Combination (Note 1)	—	—	—	—	—	(1.2)	—	—
Purchases and Sales	—	—	—	—	—	—	745,957	31.6
Issued in Business Combination (Purchase Method)	—	—	—	—	(1.2)	—	(230,033)	(10.2)
Issued Under Management Performance Share Plan	—	—	—	—	—	—	(18,276)	(.7)
Other	203	—	860	—	.3	—	6,025	.3
At December 31, 1978	5,083,614	$5.1	60,027,422	$60.0	$1,558.9	$1,733.4	2,797,946	$120.9
Net Income	—	—	—	—	—	699.9	—	—
Conversion of Preferred Stock	(2,032,957)	(2.0)	—	—	(93.4)	—	(2,116,840)	(95.2)
Purchases and Retired	(33,800)	(.1)	—	—	(1.8)	—	—	—
Cash Dividends:								
Sun Preferred Stock ($2.25 per share)	—	—	—	—	—	(8.4)	—	—
Sun Common Stock ($2.95 per share)	—	—	—	—	—	(162.2)	—	—
Pooled Company Prior to Combination (Note 1)	—	—	—	—	—	(2.0)	—	—
Purchases and Sales	—	—	—	—	—	—	243,905	14.2
Issued in Business Combinations (Purchase Method)	—	—	—	—	2.8	—	(425,146)	(18.3)
Other	203	—	1,407	—	1.4	—	1,784	.1
At December 31, 1979	3,017,060	$3.0	60,028,829	$60.0	$1,467,9	$2,260.7	501,649	$ 21.7

Note 1: Business Combinations

On October 31, 1979, Sun exchanged 5,059,013 shares of common stock for all of the outstanding shares of Elk River Resources, Inc. (Elk River), a privately-owned holding company for operating subsidiaries engaged in the mining and sale of metallurgical and steam coal and the production and sale of coke.

The combination has been accounted for as a pooling of interests and, accordingly, the financial statements have been restated to include the accounts of Elk River for all periods presented. A reconciliation of net income with amounts previously reported is set forth in Note 2. Unaudited net income of Sun and Elk River for the nine months ended September 30, 1979 (the end of the interim period nearest the date of combination) was $453.1 million and $23.9 million, respectively. Elk River's revenues are not material to consolidated revenues.

During 1979, the Company also acquired certain businesses for $58.9 million of cash and notes and 425,146 shares of common stock valued at $21.1 million. These acquisitions were accounted for by the purchase method and, accordingly, results of operations of the acquired companies have been included in the consolidated statement of income from dates of acquisition. The results of operations of these businesses are not material to consolidated results of operations.

Note 2: Accounting Change

Effective January 1, 1979, the Company adopted the successful efforts method of accounting for oil and gas operations as promulgated by SFAS No. 19. Except for the treatment of charging intangible development costs to expense as incurred, Sun's accounting policies prior to 1979 generally complied with the provisions of SFAS No. 19. The change was made retroactively and, accordingly, the financial statements for prior years have been restated.

This change increased 1979 net income, net income per share of common stock after provision for cash dividends on preferred stock, and net income per share of common stock assuming full conversion of preferred stock by $60.5 million, $1.13 and $1.05, respectively.

A reconciliation of net income with amounts previously reported is as follows:

	1978	1977	1976	1975
		(Millions of Dollars)		
Net income as previously reported.	$365.4	$361.9	$356.2	$220.1
Effect of accounting change.........	27.9	31.0	5.1	(2.4)
Effect of Elk River pooling (Note 1)	21.4	18.8	19.7	24.8
Net income as restated	$414.7	$411.7	$381.0	$242.5

The accounting change increased (decreased) per share amounts of net income as follows:

	1978	1977	1976	1975
After provision for cash dividends on preferred stock................	$.54	$.67	$.12	$(.06)
Assuming full conversion of preferred stock.......................	$.49	$.53	$.09	$(.04)

UMC INDUSTRIES, INC. (DEC)

Consolidated Statement of Retained Earnings

	1979	1978
Balance at beginning of year (as previously reported)		$61,330,000
Effect of pooling of interests with Kemlite (Note 2)		3,039,000
Balance at beginning of year (restated)	$71,327,000	64,369,000
Adjustment to conform fiscal year and change accounting policy of Kemlite	594,000	—
Net earnings	13,608,000	13,074,000
	85,529,000	77,443,000
Dividends paid:		
UMC Industries ($1.20 per share)	(6,799,000)	(5,868,000)
Pooled companies (Kemlite and Cor Tec)	—	(248,000)
Balance at end of year	$78,730,000	$71,327,000

Note 2: Acquisitions

On June 12, 1979, the Company acquired all of the outstanding shares of common stock of Kemlite Corporation, in exchange for 749,943 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests and, accordingly, the 1978 and prior years' financial statements have been restated to include the accounts of Kemlite. Kemlite's fiscal year, ended September 30, 1978, has been consolidated with the Company's calendar year ended December 31, 1978. Consolidated retained earnings in 1979 has been credited with $356,000, representing Kemlite's net earnings (generated by net sales of $5,519,000) for the three months ended December 31, 1978, in order to reflect the change in Kemlite's fiscal year to conform to that of UMC Industries, and with $238,000, resulting from a change in an accounting policy followed by Kemlite.

Net sales and net earnings of the separate companies for the six months ended June 30, 1979 (the end of the interim period nearest the date of merger) and for the year ended December 31, 1978 are:

	June 30, 1979	December 31, 1978
Net sales		
UMC Industries	$169,482	$288,049
Kemlite	13,838	19,538
Combined	$183,320	$307,587
Net earnings		
UMC Industries	$5,584	$12,068
Kemlite	624	1,006
Combined	$ 6,208	$ 13,074
		(000's omitted)

On May 25, 1978, the Company acquired all of the outstanding shares of common stock of Cor Tec, Inc., in exchange for 643,029 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests and, accordingly, the 1978 and prior years' financial statements include the accounts of Cor Tec.

On May 31, 1978, the Company completed its cash acquisition of the outstanding shares of common stock of Resistoflex Corporation (total cost of approximately $38,500,000). The acquisition was accounted for as a purchase and, accordingly, the 1978 financial statements include the accounts of Resistoflex from June 1, 1978. The purchase price in excess of the fair market value of net assets acquired ($11,795,000) is included in cost in excess of net assets of purchased businesses and is being amortized on a straight-line basis over 40 years from the date of acquisition. The consolidated results of operations, restated for pooling of interests with Kemlite on a pro forma basis as though Resistoflex had been acquired on January 1, 1978, are as follows: Net sales, $323,752,000; net earnings, $12,710,000 (including $346,000 of business interruption insurance recovery); and earnings per share, $2.15.

LIFO Discontinued

CLUETT, PEABODY & CO., INC. (DEC)

Statements of Consolidated Income and Retained Earnings

	1979	1978
Net income	$ 17,377,000	$ 18,087,000
Retained earnings, January 1, as originally reported	145,773,000	132,737,000
Adjustment, net of tax effect ($1,678,000), for cumulative prior years' effect of the change in accounting for inventories (Note 2)		1,660,000
Retained earnings, January 1, as adjusted	145,773,000	134,397,000
Cash dividends declared:		
$1 Cumulative convertible preferred stock—$1.00 per share	1,397,000	1,397,000
Common stock—1979—$.62 per share; 1978—$.60 per share	5,501,000	5,314,000
	6,898,000	6,711,000
Retained earnings, December 31	$156,252,000	$145,773,000

Note 2 (in part): Inventories

In December 1979, the Company adopted the average method for determining the cost of inventories of a manufacturing division that had previously used the LIFO method. The change to the average method was made principally to provide consistency within the apparel manufacturing segment and greater uniformity with other companies in the apparel industry. The Company's financial statements for 1978 have been restated to apply the new method retroactively. The effect of the accounting change was to decrease 1979 net income and previously reported 1978 net income by $443,000 and $808,000, respectively. Primary and fully diluted earnings per share were reduced by $.04 for 1979 and $.09 for 1978. Retained earnings at January 1, 1978 were increased by $1,660,000 (net of income taxes of $1,678,000) applicable to 1977 through 1967, the year the LIFO method was originally adopted. The Company has received permission from the Internal Revenue Service to allocate the tax payable as a result of such change over a period of ten years.

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.

TABLE 4-4: OTHER CHANGES IN RETAINED EARNINGS

	Number of Companies			
	1979	1978	1977	1976
Charges				
Treasury stock transactions.	51	67	63	49
Poolings of interests adjustments	4	5	4	6
Other	22	23	18	19
Credits				
Poolings of interests.........	11	9	6	10
Other	13	9	5	4

Treasury Stock Transactions

CBI INDUSTRIES, INC. (DEC)

Consolidated Statements of Income and Retained Earnings

	1979	1978
	($000)	
Retained earnings:		
Balance, beginning of year	$278,628	$254,718
Add or (deduct):		
Net income for the year	58,714	46,469
Cash dividends (per share $1.20 in 1979 and $1.10 in 1978).	(21,988)	(20,955)
Cost of shares reacquired and retired (Note 1)	(29,961)	—
Cost of shares reacquired in excess of proceeds from sale of such shares under employee stock purchase plans	(601)	(1,248)
Cost of shares reacquired less than (in excess of) fair market value of such shares awarded under restricted stock award plan	38	(356)
Balance, end of year...............	$284,830	$278,628

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(thousands of dollars, except per share amounts)

Note 1: Reorganization

A plan of reorganization was approved by the Shareholders at their annual meeting on April 10, 1979 and became effective on August 22, 1979. CBI Industries, Inc., a Delaware corporation and a holding company, is now the publicly owned parent corporation of the CBI consolidated group. Chicago Bridge & Iron Company has become a wholly owned subsidiary of CBI Industries, Inc.

In connection with the reorganization 1,508,574 shares of reacquired stock valued at $38,315 were retired. The charges were distributed as follows: $3,772 to common stock, $4,582 to additional paid-in capital and $29,961 to retained earnings.

A two-for-one stock split also took place as part of the reorganization. Holders of record of Chicago Bridge & Iron Company shares on August 22, 1979 became holders of twice as many CBI Industries, Inc. shares on August 23, 1979. All share and per share information included in this report reflects retroactively, where applicable, the stock split.

The authorized capital stock of CBI Industries, Inc. consists of 30,000,000 shares of common stock, $2.50 par value, and 10,000,000 shares of preferred stock, $1.00 par value. CBI Industries' charter authorizes the Board of Directors to issue, without shareholder approval, one or more series of preferred stock. There is no present intention to issue any preferred stock.

CBI Industries, Inc. has assumed and will continue the CBI Restricted Stock Award Plan, the CBI Employee Stock Purchase and Savings Plan (1977) and the Employee Stock Purchase Plan for Participating CBI Subsidiaries. Any options or awards outstanding immediately prior to the reorganization thereafter apply to two shares of common stock of CBI Industries, Inc. in the same manner as they applied to one share of Chicago Bridge & Iron Company common stock.

ABBOTT LABORATORIES (DEC)

Consolidated Statement of Earnings Employed in the Business

	1979	1978
Balance at beginning of year	$608,668,000	$506,812,000
Net earnings for the year	178,981,000	148,626,000
Cash dividends declared—on common shares at $1.00 per share in 1979 and principally on common shares at $.78 per share in 1978 (Note 6)	(60,265,000)	(46,770,000)
Cost of Treasury shares issued over proceeds of stock options exercised (Note 6)	(1,016,000)	—
Balance at end of year	$726,368,000	$608,668,000

Note 6: Capital Shares

On March 10, 1978, the Company approved a common stock split by means of a share-for-share stock dividend which was distributed on May 22, 1978 to shareholders of record on April 21, 1978. The consolidated financial statements (number of shares and per share amounts) have been adjusted for this event.

Changes in outstanding capital shares for 1978 and 1979 were as follows:

	Common Shares	
	Shares	Amount
Issued, January 1, 1978	29,645,397	$156,778,000
Common Stock Split Reflected by Means of a Share-for-Share Stock Dividend	29,645,397	$ —
Stock Options Exercised	371,164	6,337,000
Tax Effect from Sale of Option Shares	—	1,618,000
Preferred Shares Converted	416,028	104,000
Issued, December 31, 1978	60,077,986	$164,837,000
Stock Options Exercised	249,194	4,743,000
Tax Effect from Sale of Option Shares	—	1,348,000
Issued, December 31, 1979	60,327,180	$170,928,000

	Treasury Shares	
	Shares	Amount
January 1, 1978 and 1979	—	—
Purchases	87,200	$3,434,000
Issued under Stock Option Plans	55,465	2,166,000
Treasury Shares, December 31, 1979	31,735	$1,268,000

At January 1, 1978, the Company had 104,007 preferred shares outstanding at a stated amount of $104,000. All of these preferred shares were converted into common shares during 1978.

At December 31, 1979, 1,464,073 common shares were reserved for stock options (See Note 7).

INLAND STEEL COMPANY (DEC)

Consolidated Statement of Reinvested Earnings

	1979	1978
	($000)	
Balance at beginning of the year	$1,009,519	$ 910,744
Net income for the year	131,108	158,310
Dividends paid and payable:		
Common ($2.80 per share in each year)	(58,170)	(57,714)
Preferred ($2.40 per share in each year)	(1,104)	(1,821)
Disposition of common and preferred treasury stock	(9,784)	—
Balance at end of the year	$1,071,569	$1,009,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Capital Stock

Authorized capital stock consists of 35,000,000 shares of common stock without par value and 7,500,000 shares of preferred stock without par value. On December 31, 1979, 20,738,725 shares of common stock were issued and outstanding. A total of 1,541,313 shares of common stock is reserved for issuance under the Company's employee stock purchase and executive stock option plans and for conversion of shares of Series A preferred stock. In 1979, the Company purchased 595,500 shares of common stock for the treasury, of which 263,759 shares were held at year end. During 1979, 331,741 shares of treasury common stock were reissued, and 148,081 new common shares were issued to meet Company obligations. The excess of acquisition cost over proceeds from treasury common stock reissued was $7,010,000.

The 340,486 shares of Series A preferred stock outstanding on December 31, 1979 are convertible into common stock at a one-for-one rate. The shares were redeemable by the Company at $46.25 per share on or before February 17, 1980, and are currently redeemable at $44.00 per share. Cash dividends are cumulative and payable at an annual rate of $2.40 per share. Transactions in preferred stock included the conversion of 175,107 shares into common shares and the reissuance of 500 shares of treasury preferred stock under a stock bonus plan. In 1979, the Company purchased 63,500 shares of preferred stock.

Those shares and 13,150 shares of preferred stock held in treasury at December 31, 1978 were retired during the year. The excess of acquisition cost over book value of the retired shares totaled $2,774,000.

Pooling of Interests Adjustment

LENOX, INCORPORATED (DEC)

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Capital	Retained Earnings
	Number of Shares	Amount		
Balance—January 1, 1978, as previously reported	3,917,593	$4,897,000	$7,689,000	$58,386,000
Adjustment for pooling of interests	428,070	535,000	(519,000)	6,623,000
Balance—January 1, 1978, restated	4,345,663	5,432,000	7,170,000	65,009,000
Net income	—	—	—	14,627,000
Options exercised	45,408	57,000	999,000	—
Cash dividends paid	—	—	—	(4,450,000)
Cash dividends paid by pooled company prior to acquisition	—	—	—	(140,000)
Balance—December 31, 1978	4,391,071	5,489,000	8,169,000	75,046,000
Net income	—	—	—	16,701,000
Options exercised	7,710	9,000	158,000—	
Cash dividends paid	—	—	—	(5,534,000)
Elimination of loss of pooled company for the month ended January 31, 1979, which is included in net income of both years	—	—	—	85,000
Balance—December 31, 1979	4,398,781	$5,498,000	$8,327,000	$86,298,000

ADDITIONAL PAID-IN CAPITAL

PRESENTATION OF CHANGES IN ADDITIONAL PAID-IN CAPITAL

APB Opinion No. 12 states in part:

10. When both financial position and results of operations are presented, 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 ADDITIONAL PAID-IN CAPITAL

	1979	1978	1977	1976
Statement of stockholders' equity	248	255	241	223
Statement of additional paid-in capital	45	47	54	59
Schedule in notes	98	94	101	90
No statement or schedule but changes disclosed	76	78	67	87
Balance unchanged during year	60	54	67	72
Subtotal	**527**	**528**	**530**	**531**
Additional paid-in capital account not presented	73	72	70	69
Total Companies	**600**	**600**	**600**	**600**

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.

AMETEK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Capital Stock

Effective November 28, 1979 the Company's authorized common stock was increased from 7,000,000 shares to 35,000,000 shares. On December 10, 1979, a two-for-one split of the Company's common stock was effected with the par value remaining at $1.00 per share. The stock split resulted in the transfer of $5,432,513 from capital in excess of par value to common stock. All per share amounts and other share information have been adjusted to reflect this transaction.

TABLE 4-6: STOCK SPLITS

	1979	1978	1977	1976
Ratio				
Less than three-for-two	8	9	6	5
Three-for-two (50%) to two-for-one	16	14	17	21
Two-for-one (100%)	24	19	28	31
Greater than two-for-one	4	4	2	3
Total Companies	**52**	**46**	**53**	**60**
Account Charged				
Additional paid-in capital	26	25	30	32
Retained earnings	10	4	12	12
No charge	16	17	11	16
Total Companies	**52**	**46**	**53**	**60**

CROWN CENTRAL PETROLEUM CORPORATION (DEC)

Consolidated Statements of Changes in Common Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at December 31, 1977	$ 9,549,000		$24,961,000	$ 59,404,000
Net income for the year				18,621,000
Cash dividends—Class A Common Stock—$.90 per share				(1,719,000)
6% Class A Common Stock dividend (113,818 shares)	569,000		2,518,000	(3,105,000)
Balance at December 31, 1978	10,118,000		27,479,000	73,201,000
Net income for the year				71,678,000
Cash dividends:				
Class A—$1.35 per share				(5,636,000)
Class B—$1.00 per share				(1,011,000)
Two-for-one stock split issued July 27, 1979 (2,023,579 shares)	10,118,000		(10,118,000)	
Balance at December 31, 1979	20,236,000		17,361,000	138,232,000
One-for-four stock split issued January 9, 1980 (1,010,706 shares)—Note H		$5,054,000	(5,054,000)	
6% Common Stock dividends issued February 7, 1980 (Class A—242,094 shares and Class B—60,642 shares)—Note H	1,210,000	303,000	11,519,000	(13,032,000)
Balance at December 31, 1979—As Retroactively Adjusted	$21,446,000	$5,357,000	$23,826,000	$125,200,000

Note H (in part): Capital Stock

On January 3, 1980 the Company's stockholders approved amendments to the Certificate of Incorporation of the Company pursuant to which the Company's authorized capital stock was changed to 5,000,000 shares of Series Preferred Stock without par value (of which 804,022 shares are Series A Cumulative Convertible Preferred Stock and the remaining shares will have such designations and terms as may be determined by the board of directors); 10,000,000 shares of $5 par value Class A Common Stock; and 5,000,000 shares of $5 par value Class B Common Stock. Previously authorized $5 par value Common Stock issued and outstanding was reclassified as $5 par value Class A Common Stock. On December 20, 1979 the board of directors declared a stock split payable on January 9, 1980 to holders of record on January 3, 1980 of one share of Class B Common Stock for each four shares of Class A Common Stock, pursuant to which 1,010,706 shares of Class B Common Stock were issued. In addition 6% stock dividends were declared on the Class A and Class B Common Stocks payable on February 7, 1980 to holders of record on January 25, 1980, pursuant to which 242,094 shares of Class A Common Stock and 60,642 shares of Class B Common Stock were issued. The change in authorized capital stock, the reclassification of issued and outstanding common stock, the stock split and the stock dividends have been retroactively reflected in the Company's 1979 financial statements.

* * *

The following summarizes the changes in the number of shares of Class A and Class B Common Stock outstanding during the years ended December 31, 1979 and 1978:

	Class A Common Stock	Class B Common Stock
Balance at December 31, 1977....	1,909,764	
6% Class A Common Stock dividend	113,818	
Balance at December 31, 1978....	2,023,582	
Two-for-one-stock split issued July 27, 1979	2,023,579	
Balance at December 31, 1979....	4,047,161	
One-for-four stock split issued January 9, 1980		1,010,706
6% Common Stock dividends issued February 7, 1980:		
Class A	242,094	
Class B		60,642
Balance at December 31, 1979—As retroactively adjusted	4,289,255	1,071,348

HEWLETT-PACKARD COMPANY (OCT)

Consolidated Statement of Shareholders' Equity

(Millions except number of shares)

	Common Stock Number of Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Total
Balance, October 31, 1977	28,479,000	$29	$208	$587	$ 824
Shares issued through:					
Employee stock plans	518,000		38		38
Stock option plans	13,000		1		1
Dividends declared				(14)	(14)
Net earnings				153	153
Balance,October 31, 1978	29,010,000	29	247	726	1,002
Shares issued through:					
Employee stock plans	746,000	1	46		47
Stock option plans	80,000		3		3
Dividends declared				(20)	(20)
Stock split	29,312,000	29	(29)		
Net earnings				203	203
Balance, October 31, 1979	59,148,000	$59	$267	$909	$1,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4 (in part): Common stock

Stock split—On May 18, 1979, the Company's Board of Directors voted a two-for-one split of the Company's $1 par value common stock in the form of a 100 percent distribution for shareholders of record on June 27, 1979. As a result of the split, authorized, outstanding and reserved shares were doubled and capital in excess of par value was reduced by the par value of the additional shares issued. Net earnings per share, dividends per share, common stock prices and all 1978 amounts in this note have been restated to reflect the stock split.

SMITHKLINE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock

On April 25, 1979, the shareholders approved an increase in the authorized number of common shares from 50,000,000 shares of $0.50 par value to 100,000,000 shares of $0.25 par value and a two-for-one stock split. All references in the consolidated financial statements to the number of common shares and per share amounts for 1978 have been restated to reflect the stock split.

Changes in shares of outstanding common stock were as follows:

	1979	1978
Balance at beginning of year	60,413,184	29,975,860
Two-for-one stock split	—	29,975,860
Shares issued on exercise of stock options	431,229	430,724
Shares issued for acquisition of subsidiaries	27,384	30,740
Balance at end of year	60,871,797	60,413,184

INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Stock

At the Annual Meeting on April 30, 1979, stockholders approved a four-for-one stock split, effective May 10, 1979. As a result, the number of authorized shares was increased from 162,500,000 (par value $5.00) to 650,000,000 (par value $1.25) and the company issued 437,835,574 additional shares of capital stock. All references in the Consolidated Financial Statements and related notes to number of shares, per share amounts, and price per share for periods prior to May 11, 1979, have been adjusted for this stock split.

IOWA BEEF PROCESSORS, INC. (OCT)

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, October 29, 1977	4,420,987	$ 6,631,000	$19,445,000	$137,289,000	$(734,000)
Common stock options exercised					
Qualified	92,201	139,000	1,168,000	—	—
Non-qualified (15,000 treasury shares)	—	—	(121,000)	—	296,000
Income tax benefits attributable to stock options	—	—	524,000	—	—
Treasury shares issued (7,200)	—	—	50,000	—	142,000
Cash dividends paid, $.26 per share (adjusted for stock split-up—Note A)	—	—	—	(2,321,000)	—
Net earnings	—	—	—	33,587,000	—
Balance, October 28, 1978	4,513,179	6,770,000	21,066,000	168,555,000	(296,000)
Common stock options exercised					
Qualified	459,371	689,000	2,676,000	—	—
Non-qualified	30,000	45,000	178,000	—	—
Income tax benefits attributable to stock options	—	—	1,334,000	—	—
Two-for-one stock split-up	4,689,112	7,033,000	(7,033,000)	—	—
Cash dividends paid, $.52 per share	—	—	—	(4,933,000)	—
Net earnings	—	—	—	42,747,000	—
Balance, November 3, 1979	9,691,662	$14,537,000	$18,221,000	$206,369,000	$(296,000)

CHANGES IN ADDITIONAL PAID-IN CAPITAL

Table 4-7 summarizes credits and charges to additional paid-in capital. Examples of such credits and charges follow.

TABLE 4-7: CHANGES IN ADDITIONAL PAID-IN CAPITAL

	Number of Companies			
	1979	1978	1977	1976
Credits				
Common stock issuances:				
Employee benefits	320	359	353	319
Conversion of debt	64	55	53	62
Conversion of preferred stock	59	61	58	53
Business combinations	56	47	43	40
Purchase or retirement of capital stock	22	29	34	47
Stock option tax benefits	50	41	42	34
Other	49	48	52	54
Charges				
Purchase or retirement of capital stock	53	48	50	51
Treasury stock issued for less than cost	48	41	35	34
Conversion of preferred stock	33	21	19	14
Business combinations	12	19	13	9
Other	22	20	36	36

Stock Issued in Connection with Employee Benefit Plans

BAIRD CORPORATION (SEP)

Consolidated Statements of Stockholders' Equity

	1979	1978
Common stock, $1 par value per share:		
Balance at beginning of year	$1,276,254	$1,238,884
Sale of shares under Option Plan	2,436	1,560
3% stock dividend	37,613	35,810
Issue of 25,000 shares to profit-sharing fund in 1979	25,000	—
Balance at end of year	1,341,303	1,276,254
Other paid-in capital:		
Balance at beginning of year	4,725,662	4,533,035
Sale of shares under Option Plan	4,178	4,625
3% stock dividend	272,694	188,022
Issue of 25,000 shares at $7.625 per share to profit-sharing fund in 1979	137,031	—
Balance at end of year	5,139,565	4,725,662
Retained earnings:		
Balance at beginning of year	2,094,354	1,412,325
Net income	1,115,019	914,520
3% stock dividend	(322,464)	(232,491)
Balance at end of year	2,886,909	2,094,354
Stockholders' equity	$9,367,777	$8,096,270

PFIZER INC. (DEC)

Consolidated Statement of Shareholders' Equity

(thousands of dollars except per share data)

	Common Stock (Par Value)	Capital Paid-in, in Excess of Par Value	Retained Earnings	Treasury Stock (Cost)	Total
Balance January 1, 1978, as previously reported	$7,854	$203,274	$ 911,945	$(871)	$1,122,202
Restatement for company acquired through pooling of interests in 1979	255	872	7,191		8,318
Balance January 1, 1978, as restated	8,109	204,146	919,136	(871)	1,130,520
Net income—1978			209,870		209,870
Cash dividends—$1.17 per common share			(82,296)		(82,296)
Employee Stock Ownership Plan contribution	1	365			366
Stock Option and Incentive Plan transactions	16	3,074			3,090
Balance December 31, 1978	8,126	207,585	1,046,710	(871)	1,261,550
Net income—1979			237,869		237,869
Cash dividends—$1.32 per common share			(96,248)		(96,248)
Employee Stock Ownership Plan contribution	1	443			444
Stock Option and Incentive Plan transactions	41	10,200			10,241
Balance December 31, 1979	$8,168	$218,228	$1,188,331	$(871)	$1,413,856

SHELL OIL COMPANY (DEC)

Consolidated Statement of Shareholders' Equity

In thousands, except per share amounts

	Years ended December 31			
	1979		1978	
	Shares	Amount	Shares	Amount
Common Stock—Authorized 250 million shares of $1 per share par value at stated value:				
Issued at beginning of year	151,690	$ 247,037	146,347	$ 241,694
Shares issued to:				
Shareholders under the Dividend Reinvestment and Stock Purchase Plan	2,095	2,095	3,803	3,803
Shell Stock Fund	564	564	1,506	1,506
Incentive Stock Option Plans	52	52	34	34
Issued at end of year	154,401	249,748	151,690	247,037
Amount in Excess of Common Stock Stated Value				
At beginning of year		1,092,226		925,073
For shares issued to:				
Shareholders under the Dividend Reinvestment and Stock Purchase Plan		71,001		118,753
Shell Stock Fund		19,355		47,490
Incentive Stock Option Plans		1,396		860
For shares of treasury stock issued for acquisition		—		50
At end of year		1,183,978		1,092,226
Earnings Reinvested				
At beginning of year		4,767,312		4,221,322
Net income for year		1,125,561		813,623
Cash dividends declared—$2.10 per share in 1979 and $1.80 per share in 1978		(322,201)		(267,633)
At end of year		5,570,672		4,767,312
Less: Common Stock Held in Treasury at Cost				
At beginning of year	32	781	42	1,020
Acquired	—	1	—	—
Issued for acquisition	—	—	10	239
At end of year	32	782	32	781
Total	154,369	$7,003,616	151,658	$6,105,794
Equity per share		$ 45.37		$ 40.26

WHITTAKER CORPORATION (OCT)

Consolidated Statements of Additional Paid-in Capital and Retained Earnings

	1979	1978
	(In thousands)	
Additional Paid-in Capital		
Balance, beginning of year	$91,036	$89,297
Excess of proceeds over stated value of common stock issued under stock plans (Note 5)	537	377
Excess of fair value over stated value of common stock issued as consideration for purchase of minority interest in subsidiaries	154	1,347
Excess of principal amount of debentures and notes converted over stated value of common stock issued	493	62
Excess of fair value over stated value of common stock issued in connection with employment agreement	203	—
Excess of stated value of common stock issued over stated value of preferred stock converted	(51)	(47)
Balance, end of year	$92,372	$91,036

Note 5 (in part): Capital Stock

The decrease in the outstanding amount of preferred stock resulted from the conversion of 48,324 shares in 1979 and 43,876 shares in 1978 of $1.25 preferred stock into common stock and Whittaker's reacquisition of shares. The changes in common stock for the periods stated are summarized below:

	Year ended October 31			
	1979		1978	
	Shares Outstanding	Amount	Shares Outstanding	Amount
	(In thousands)			
Balance, beginning of period	13,299	$20,259	13,264	$20,260
Shares issued in connection with employment agreement	15	15	—	—
Exercise of stock options	105	105	63	63
Conversion of $1.25 preferred stock	100	100	90	90
Conversion of convertible subordinated debentures and notes	29	29	4	4
Shares issued for purchase of minority interest in subsidiaries	11	11	110	110
Shares reacquired	—	—	(232)	(232)
Balance, end of period (excluding 6,375,608 shares held in treasury at October 31, 1979 and 6,506,571 shares at October 31, 1978)	13,559	$20,555	13,299	$20,295

BURROUGHS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Common Stock and Paid-In Capital

Changes in issued common stock and paid-in capital for the two years ended December 31, 1979 were as follows:

	Common Stock		Paid-in
	Shares	Amount	Capital
Balance at December 31, 1977	40,774,636	$203,873,180	$395,586,608
Sale of stock under the stock option and purchase plans	224,601	1,123,005	12,686,999
Balance at December 31, 1978	40,999,237	204,996,185	408,273,607
Sale of stock under the stock option and purchase plans	229,370	1,146,850	13,580,619
Conversion of convertible debt	5,494	27,470	376,246
Use of treasury stock in acquiring assets.			351,845
Balance at December 31, 1979	41,234,101	$206,170,505	$422,582,317

At December 31, 1979, 3,633,460 shares of unissued common stock of the Company were reserved for conversion of convertible debt and the stock option and purchase plans. During 1979, 6,002 shares of treasury stock having a cost value of $61,168 were used to purchase the assets of another company.

Stock Issued in Conversions

ENGELHARD MINERALS & CHEMICALS CORPORATION (DEC)

Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Total Stock-holders' Equity
			(Thousands of Dollars)		
Balance at December 31, 1977 (common stock—31,820,866 shares issued less 223,313 shares held in treasury)	$31,821	$73,841	$584,747	$(6,560)	$ 683,849
1978 changes:					
Net earnings	—	—	142,240	—	142,240
Cash dividends—$1.25 per share	—	—	(39,560)	—	(39,560)
Exercise of stock options (42,920 shares issued and 17,425 shares from treasury)	43	483	—	511	1,037
Purchase of 60,000 shares of common stock for treasury	—	—	—	(1,533)	(1,533)
Award of common stock from treasury under the key employees stock bonus plan, net of cancellations (150,812 shares)	—	(174)	—	4,327	4,153
Other	—	552	—	—	552
Balance at December 31, 1978 (common stock—31,863,786 shares issued less 115,076 shares held in treasury)	31,864	74,702	687,427	(3,255)	790,738
1979 changes:					
Net earnings	—	—	349,722	—	349,722
Cash dividends—$1.5944 per share	—	—	(51,251)	—	(51,251)
Exercise of stock options (75,289 shares issued and 17,264 shares from treasury)	75	1,037	—	564	1,676
Purchase of 400,000 shares of common stock for treasury	—	—	—	(14,090)	(14,090)
Award of common stock from treasury under the key employees stock bonus plan, net of cancellations (290,334 shares)	—	2,218	—	9,963	12,181
Conversion of $37,684,000 face value of 5¼% convertible subordinated debentures into 1,282,336 shares of common stock	1,282	36,402	—	—	37,684
2.06 for 1 common stock split as of December 17, 1979 (35,206,957 shares issued, including 211,148 shares to treasury)	35,207	(35,458)	—	—	(251)
Other	—	1,360	—	—	1,360
Balance at December 31, 1979 (common stock—68,428,368 shares issued less 418,626 shares held in treasury)	$68,428	$80,261	$985,898	$(6,818)	$1,127,769

FOREMOST-MCKESSON, INC. (MAR)

Statements of Changes in Consolidated Stockholder Equity

(in thousands)	Preferred Stocks	Common Stock	Other Capital	Retained Earnings	Treasury Shares
Balances, March 31, 1977	$71,028	$26,418	$ 535	$223,214	$(15,521)
Purchase of 13,596 prior preferred shares	(680)		34		
Purchase of 153,368 common shares					(2,646)
Issuance of 200,143 treasury common shares and 782 Series B preferred shares under employee plans	27		(455)	(324)	3,369
Conversion of $48,500 principal amount of 5½% debentures and 148,240 Series A preferred shares into 243,556 common shares	(5,188)		1,058	77	4,101
Issuance of 310,364 Series B preferred shares to purchase Moreland Chemical Company	10,863		(906)	(1,266)	
Net income for the year				44,820	
Cash dividends					
Prior preferred, $2.25 per share				(32)	
Series A preferred, $1.80 per share				(3,485)	
Series B preferred, $.20½ per share				(64)	
Common, $1.07½ per share				(13,402)	
Balances, March 31, 1978	$76,050	$26,418	$ 266	$249,538	$(10,697)
Purchase of 500,000 common shares by issuance of 233,090 common shares and assumption of debt		466	4,497		(10,650)
Purchase of 284 prior preferred shares	(14)				
Issuance of 1,505 Series B preferred shares and 256,889 common shares under employee plans	53	170	623		2,914
Issuance of 8,690 common shares to purchase United Liquors, Ltd., of Connecticut, Inc.		17	131		
Conversion of $326,800 principal amount of 5½% debentures, 577,146 Series A preferred shares and 1,764 Series B preferred shares into 958,937 common shares	(20,263)	997	11,807		7,783
Net income for the year				57,740	
Cash dividends					
Prior preferred, $2.25 per share				(24)	
Series A preferred, $1.80 per share				(2,572)	
Series B preferred, $2.05 per share				(637)	
Common, $1.24 per share				(16,542)	
Balances, March 31, 1979	$55,826	$28,068	$17,324	$287,503	$(10,650)

GENERAL HOST CORPORATION (DEC)

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings (Deficit)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Notes Receivable Arising from Exercise of Stock Options
Balance at December 31, 1977	2,176,946	$2,177	$64,543	$(16,815)	(432,256)	$(5,668)	$ (908)
Net loss				(2,604)			
Dividends on common stock ($.60 per share)			(1,047)				
Purchase of treasury stock					(83,200)	(876)	
Shares issued under employment contracts			(8)		3,000	40	
Stock options exercised	36,450	36	198				(198)
Note repayments							184
Balance at December 30, 1978	2,213,396	2,213	63,686	(19,419)	(512,456)	(6,504)	(922)
Net income				29,470			
Dividends on common stock ($.65 per share)			(1,346)				
Conversion of 11% Convertible Subordinated Debentures	1,261,908	1,262	15,549				
Purchase of treasury stock					(21,000)	(317)	
Shares issued under employment contract			(3)		1,000	13	
Stock options exercised	70,150	70	563				(612)
Income tax benefit from stock options exercised			64				
Note repayments							105
Balance at December 29, 1979	3,545,454	$3,545	$78,513	$10,051	(532,456)	$(6,808)	$(1,429)

Note 4 (in part): Conversion of 11% Debentures

On September 13, 1979, the Company called its 11% Convertible Subordinated Debentures for redemption on October 15, 1979. A total of $20,192,000 principal amount of the 11% Debentures, with a carrying value of $16,859,000 after deducting original issue discount, were converted into 1,261,908 shares of common stock. The difference between the carrying value and $1.00 par value per share of common stock, less related expenses, increased capital in excess of par value by $15,549,000.

THE MOHAWK RUBBER COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Preferred Stock Series SAS	Retained Earnings	Total
Balance, January 1, 1978	1,117,404	$1,117,000	$14,407,000	$11,000	$23,003,000	$38,538,000
Debentures converted	1,603	2,000	36,000			38,000
Shares issued in exchange for fractional shares	1					
Dividends paid:						
Common stock— $1.20 per share					(1,342,000)	(1,342,000)
Preferred stock— $405 per share					(47,000)	(47,000)
Net loss					(1,320,000)	(1,320,000)
Balance, December 31, 1978	1,119,008	1,119,000	14,443,000	11,000	20,294,000	35,867,000
Conversion of preferred stock (Note F)	77,437	77,000	(66,000)	(11,000)		
Dividends paid:						
Common stock— $1.20 per share					(1,342,000)	(1,342,000)
Preferred stock—$405 per share					(46,000)	(46,000)
Net earnings					1,939,000	1,939,000
Balance, December 31, 1979	1,196,445	$1,196,000	$14,377,000	$ —	$20,845,000	$36,418,000

Note F: Stockholders' Equity

At December 31, 1979, 52,000 shares of the Company's Common Stock were reserved for issuance to officers and certain key employees, under options at $20.75 a share, all of which are currently exercisable.

The $405 Cumulative Preferred Stock, Series SAS, was converted as of December 31, 1979 into 77,437 shares of the Company's Common Stock.

The Company has reserved 31,326 shares of unissued Common Stock for possible conversion of outstanding convertible debentures.

Warrants Exercised

AMERICAN BROADCASTING COMPANIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D (in part): Stockholders' Equity

Common Stock and Capital in Excess of Par Value

	Common Stock Shares	Amount	Capital in Excess of Par Value
Balance at December 31, 1977	26,861,199	$26,861,000	$119,261,000
Stock bonus awards	149,724	150,000	5,602,000
Exercise of warrants	365,148	365,000	5,477,000
Exercise of employees' stock options	174,837	175,000	2,620,000
Federal income tax benefit from restricted stock bonus awards and employees' stock options	—	—	1,990,000
Balance at December 30, 1978	27,550,908	27,551,000	134,950,000
Exercise of warrants	349,305	349,000	5,240,000
Exercise of employees' stock options	16,712	16,000	188,000
Excess of fair market value over cost of treasury shares at dates of restricted stock bonus awards	—	—	2,386,000
Federal income tax benefit from restricted stock bonus awards and employees' stock options	—	—	1,017,000
Cancellation of shares forfeited under the restricted stock bonus plan	(10,450)	(10,000)	—
Balance at December 29, 1979	27,906,475	$27,906,000	$143,781,000

Common Stock Held in Treasury	Shares	Cost
Balance at December 31, 1977	66,649	$ 1,002,000
Shares distributed under the Key Employees Incentive Compensation Plan	(1,268)	(19,000)
Shares forfeited under the restricted stock bonus plan	19,747	285,000
Balance at December 30, 1978	85,128	1,268,000
Shares purchased	136,300	5,588,000
Shares used for restricted stock bonus awards	(167,040)	(4,932,000)
Shares forfeited under the restricted stock bonus plan	10,101	169,000
Shares distributed under the Key Employees Incentive Compensation Plan	(1,411)	(21,000)
Balance at December 29, 1979	63,078	$ 2,072,000

Reserved Common Shares	Dec. 29, 1979	Dec. 30, 1978
Warrants	534,945	884,250
Employees' restricted stock bonus shares available for awards	767,200	63,689
Employees' stock options outstanding	—	16,712
Shares contingently credited to employees under the Key Employees Incentive Compensation Plan	150,125	141,976
Total common shares reserved	1,452,270	1,106,627

Warrants: At December 29, 1979, warrants to purchase 534,945 shares of the Company's common stock were outstanding. The warrants are exercisable at $16.00 per share and expire January 2, 1982.

SELIGMAN & LATZ, INC.

Consolidated Statements of Stockholders' Equity

(in thousands except per share data)

	Preferred stock issued		Common stock issued		Paid-in		Treasury common stock	
	Number of shares	Aggregate par value	Number of shares	Aggregate par value	additional capital	Retained earnings	Shares	Cost
Balance at October 31, 1977	5,000	$500	2,030,540	$2,031	$10,243	$21,790	67,161	$473
Cash dividends:								
4% Cumulative Preferred Stock ($4.00 per share)						(20)		
Common Stock ($1.14 per share)						(2,409)		
5% stock dividend on Common Stock			100,653	100	1,146	(1,246)	2,371	
Amounts paid in lieu of fractional shares in connection with stock dividend						(13)		
Exercise of stock options—Note C.			3,947	4	3		(19,726)	(139)
Net income						4,335		
Balance at October 31, 1978	5,000	500	2,135,140	2,135	11,392	22,437	49,806	334
Cash dividends:								
4% Cumulative Preferred Stock ($2.00 per share)						(10)		
Common Stock ($1.20 per share)						(2,565)		
Exercise of stock options—Note C.			5,163	5	21		(3,017)	(20)
Exercise of warrants—Note C......			60,691	61	280			
Redemption of Preferred Stock—Note C	(5,000)	(500)						
Net income						1,348		
Balance at October 31, 1979	0	$0	2,200,994	$2,201	$11,693	$21,210	46,789	$314

Note C (in part): Stockholders' Equity:

On February 28, 1979, 60,691 shares of Common Stock of the Company were issued in connection with the exercise of all outstanding Common Stock Warrants at a purchase price of approximately $341,000.

Treasury Stock Transactions

THE MAY DEPARTMENT STORES COMPANY (JAN)

Consolidated Statement of Common Stockholders' Investment

(thousands, except number of shares)	Common Stock Number of Shares	Common Stock Dollars	Additional Paid-In Capital	Retained Earnings	Common Stockholders Investment
Balance at January 28, 1978, as previously reported	22,242,287	$37,071	$25,925	$562,245	$625,241
Adjustment for pooling of interests with Volume Shoe	4,190,773	6,985	4,333	24,318	35,636
Balance at January 28, 1978, as restated	26,433,060	44,056	30,258	586,563	660,877
Net earnings	—	—	—	101,413	101,413
Dividends paid:					
Common stock ($1.25 per share)	—	—	—	(30,442)	(30,442)
Preferred stock	—	—	—	(354)	(354)
Stock split of Volume Shoe prior to merger	2,116,769	3,528	(2,664)	(864)	—
Common stock issued from treasury for:					
Contribution to Profit Sharing and Savings Plan	224,761	374	4,607	—	4,981
Exercise of stock options	163,300	272	1,958	—	2,230
Purchase of common stock for treasury	(204,700)	(341)	(4,697)	—	(5,038)
Retirement of preferred stock	—	—	24	—	24
Balance at February 3, 1979	28,733,190	47,889	29,486	656,316	733,691
Net earnings	—	—	—	114,047	114,047
Dividends paid:					
Common stock ($1.37 per share)	—	—	—	(35,733)	(35,733)
Preferred stock	—	—	—	(350)	(350)
Common stock issued from treasury for:					
Contribution to Profit Sharing and Savings Plan	232,624	388	5,175	—	5,563
Exercise of stock options	74,800	124	828	—	952
Restricted stock plan	17,300	29	436	—	465
Conversion of notes payable of Volume Shoe prior to merger	95,681	159	191	—	350
Purchase of common stock for treasury	(182,438)	(304)	(4,230)	—	(4,534)
Retirement of preferred stock	—	—	109	—	109
Balance at February 2, 1980	28,971,157	$48,285	$31,995	$734,280	$814,560

FINANCIAL REVIEW

Common Stock (in part)

The Company periodically purchases treasury shares of its common stock. As of February 2, 1980, there were 695,879 shares of treasury stock at a cost of $1.2 million, and at February 3, 1979, there were 820,567 shares of treasury stock at a cost of $1.4 million. These shares have been deducted from outstanding common stock at the end of each year.

Income Tax Benefit from Issuance of Stock to Employees

STANDARD OIL COMPANY OF CALIFORNIA (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9: Common Stock and Capital in Excess of Par Value (Thousands of Dollars) in 1979 and 1978, the Company issued 234,875 shares and 179,372 shares, respectively, of its previously unissued common stock in connection with conversions of debentures of Chevron Overseas Finance Company, a wholly-owned subsidiary. Par value of $3.125 per share was credited to common stock and the difference between the conversion price and such par value was credited to capital in excess of par value.

At December 31, 1979, the Company had 322,304 of its authorized but unissued shares reserved for conversion of such debentures.

Also affecting capital in excess of par value in both years was the income tax saving attributable to the difference between stock award costs under the Management Incentive

Plan recorded by the Company and those deductible for income tax purposes.

These transactions were the only changes affecting these accounts in 1979 and 1978 and are summarized as follows:

	Common Stock	Capital in Excess of Par Value
Balance as of 1/1/78	$532,942	$1,353,802
Conversions of debentures	560	5,012
Income tax effect for stock distributed under Management Incentive Plan		56
Balance as of 12/31/78	$533,502	$1,358,870
Conversions of debentures	734	6,563
Income tax effect for stock distributed under Management Incentive Plan		108
Balance as of 12/31/79	$534,236	$1,365,541

Purchase Method Business Combination

CHROMALLOY AMERICAN CORPORATION (DEC)

Consolidated Statement of Shareholders' Equity

In thousands of dollars, except per share data	Preferred Stock	Common Stock	Other Capital Ascribed to Shares	Reinvested Earnings	Net Unrealized Investment Gains, Net of Income Taxes	Total
Balance at December 31, 1977	$1,214	$10,967	$ 81,787	$183,180	$—	$277,148
Net earnings				47,420		47,420
Cash dividends:						
Common stock ($1.05 per share)				(11,839)		(11,839)
Preferred stock ($5.00 per share)				(7,012)		(7,012)
Shares issued in connection with business combinations	312	210	19,736			20,258
Other	(75)	297	(311)	1,167	61	1,139
Balance at December 31, 1978	1,451	11,474	101,212	212,916	61	327,114
Net earnings				50,554		50,554
Cash dividends:						
Common stock ($1.10 per share)				(13,561)		(13,561)
Preferred stock ($5.00 per share)				(6,523)		(6,523)
Shares issued in connection with business combinations		187	3,262			3,449
Shares issued to stock plans		390	7,193			7,583
Conversions of preferred stock	(235)	913	(678)			—
Other	(1)	(15)	(444)		16	(444)
Balance at December 31, 1979	$1,215	$12,949	$110,545	$243,386	$77	$368,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 (in part): Business Combinations

In 1979, the Company acquired a company and substantially all of the assets of another company for an aggregate consideration of $4,217,000, consisting of $768,000 of cash and 186,510 common shares. These acquisitions, in the Metal Fabrication segment, were accounted for as purchases, resulting in an excess of cost over fair value of net assets acquired of $886,000. Results of operations of these acquisitions are included from the respective dates of the transactions. Through an investment of $2,603,000, the Company increased its interest from 50% to 67.4% in a real estate partnership. In addition, Centor acquired an initial 20.1% interest in the same partnership. Subsequently, other real estate having a cost of $2,672,000 and the Company's investment in the real estate partnership were transferred to Centor. Results of operations of the above acquisitions are not material in relation to the consolidated financial statements.

Dividend Reinvestment

AMAX INC. (DEC)

Consolidated Statement of Capital Stock and Paid-In Capital

	Preferred Stocks		Common Stock		Paid-In Capital
	Number of Shares	Dollars in Thousands	Number of Shares	Dollars in Thousands	Dollars in Thousands
December 31, 1977	4,727,566	$153,230	32,456,012	$32,460	$712,480
Sale of Series D preferred stock	2,000,000	100,000	—	—	(280)
Conversion of preferred stock	(261,217)	(260)	635,604	640	(380)
Exercise of stock options	—	—	15,330	10	540
December 31, 1978	6,466,349	252,970	33,106,946	33,110	712,360
Conversion of preferred stocks	(971,747)	(970)	2,557,017	2,560	(1,590)
Redemption of preferred stock	(8,717)	(10)	—	—	(900)
Exercise of stock options	—	—	114,146	100	3,860
Reinvestment of dividends	—	—	164,758	170	5,970
Split of common stock on 3-for-2 basis	—	—	17,518,468	17,520	(17,410)
December 31, 1979	5,485,885	$251,990	53,461,335	$53,460	$702,290

NOTES TO FINANCIAL STATEMENTS

Note 16: Common Stock

There are 75,000,000 shares of common stock, $1 par value, authorized. On April 5, 1979, the Board of Directors approved a three-for-two stock split of the Company's common shares. At December 31, 1979, 53,461,335 shares were issued and 2,601,589 shares were reserved for issuance upon conversion of Series B Convertible Preferred Stock, 1,335,242 shares were reserved for the Dividend Reinvestment and Stock Purchase Plan, and 1,100,256 shares were reserved for exercise of employee stock options which have been or may be granted.

On February 1, 1979 the Company adopted a new Dividend Reinvestment and Stock Purchase Plan which permits holders of common stock to reinvest their dividends in common stock at a 5% discount from current market price according to a formula based on the average of the daily high and low sales prices of the shares for the five days ending with the dividend payment date. Through optional cash payments, shareholders may also purchase shares at 100% of these average daily prices.

Private Sale of Stock

FOTOMAT CORPORATION (JAN)

Consolidated Statements of Shareholders' Equity

	Common Stock				
	Number of Shares	Amount	Additional Paid-In Capital	Guarantee of Officer Loan	Retained Earnings
Balance, January 31, 1978	7,986,000	$799,000	$17,727,000	$(380,000)	$16,755,000
Purchase of treasury stock	(200,000)	(20,000)	(1,530,000)	—	—
Exercise of stock options	74,000	7,000	422,000	—	—
Exercise of employee purchase plan stock options	83,000	8,000	624,000	—	—
Exercise of $3 warrants	25,000	3,000	72,000	—	—
Common stock dividends	—	—	—	—	(3,966,000)
Net income	—	—	—	—	6,299,000
Balance, January 31, 1979	7,968,000	797,000	17,315,000	(380,000)	19,088,000
Sale of common stock to Konishiroku Photo Ind. Co. Ltd.	700,000	70,000	12,180,000	—	—
Exercise of stock options	10,000	1,000	148,000	—	—
Exercise of employee purchase plan stock options	61,000	6,000	376,000	—	—
Payment of outstanding note	18,000	2,000	173,000	—	—
Cancellation of guarantee of officer loan	—	—	—	380,000	—
Common stock dividends	—	—	—	—	(1,001,000)
Net income (loss)	—	—	—	—	(4,690,000)
Balance, January 31, 1980	8,757,000	$876,000	$30,192,000	$ —	$13,397,000

Note 6 (in part): Common Stock

During 1979, the Company reached an agreement with Konishiroku Photo Ind. Co. Ltd. in which Konishiroku purchased 700,000 shares of the Company's common stock for $17.50 per share. During the 1975 year, the Company guaranteed a $380,000 loan of an officer to facilitate the purchase of 40,000 shares of common stock from a shareholder. During 1979, the Company's guarantee of the loan was terminated, and therefore, the loan and related reduction in shareholders' equity were eliminated.

Capital Transaction of Subsidiary

THE SIGNAL COMPANIES, INC. (DEC)

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in millions)

	Number of Common Shares Outstanding	Common Stock ($2 par value per share)	Capital in Excess of Par Value	Retained Earnings
Balance, December 31, 1977	19,358,809	$38.7	$297.2	$538.3
Net income				160.7
Cash dividends				(27.2)
Purchase of Signal common stock	(287,100)	(0.6)	(2.9)	(4.9)
Issuance of stock:				
Stock option and award plans	77,237	0.2	1.3	
Two-for-one common stock split effected as a 100% stock distribution	19,148,946	38.3	(38.3)	
Balance, December 31, 1978	38,297,892	76.6	257.3	666.9
Net income				203.7
Cash dividends				(34.5)
Adjustment resulting from a capital transaction of a consolidated company			13.2	
Issuance of stock:				
Stock option and award plans	56,726	0.1	0.4	
Balance, December 31, 1979	38,354,618	$76.7	$270.9	$836.1

Note 3: Minority Interest

Minority interest in 1979 represents the 10% common stock interest issued by Mack Trucks, Inc. to Regie Nationale des Usines Renault (Renault) for $50 million in May, 1979. Effective June 1, 1979, only 90% of Mack's net income is included in Signal's net income. The change in ownership increased Signal's underlying equity in Mack by $13.2 million which has been credited to capital in excess of par value. Mack also issued to Renault $65 million in subordinated debentures convertible into an additional 10% common stock interest in Mack; the effect on earnings per share, if these debentures were converted, is immaterial.

Minority interest in income in 1978 represents the 49.5% interest of shareholders other than Signal in UOP Inc. In May 1978, Signal purchased this outstanding minority interest for approximately $120 million.

Substitute Stock Options

MCGRAW-EDISON COMPANY (DEC)

Consolidated Statements of Stockholders' Equity

In thousands

	Common Stock	Additional Paid-in Capital	Earnings Retained For Use In The Business	Treasury Stock	Total
Balances at December 31, 1977	$16,387	$70,083	$349,902	$ —	$436,372
Net income for the year	—	—	66,420	—	66,420
Dividend paid	—	—	(27,975)	—	(27,975)
Stock options exercised and stock awards granted, net of forfeitures (Note 14)	98	2,303	—	—	2,401
Balances at December 31, 1978	16,485	72,386	388,347	—	477,218
Net income for the year	—	—	72,732	—	72,732
Dividends paid	—	—	(29,671)	—	(29,671)
Stock options exercised and stock awards granted, net of forfeitures (Note 14)	114	2,297	—	—	2,411
Treasury stock purchased	—	—	—	(6,549)	(6,549)
Fair market value in excess of exercise price of stock options substituted for Studebaker-Worthington, Inc. stock options (Note 14)	—	6,396	—	—	6,396
Balances at December 31, 1979	$16,599	$81,079	$431,408	$(6,549)	$522,537

Note 14 (in part):

Other Stock Options

In 1979, pursuant to the provisions of the stock option substitution plan contained in the merger agreement between the company and Studebaker-Worthington, Inc., nonqualified options to purchase 454,040 shares of the company's stock at an aggregate exercise price of $4,728,240 were granted to a director of the company who was a former officer of Studebaker-Worthington, Inc. The options were granted in substitution for Studebaker-Worthington, Inc. stock options and were fully exercisable upon issuance. None were exercised during 1979.

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 or millions. 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

	1979	1978	1977	1976
Final statement	418	442	437	428
Follows income statement and balance sheet	116	101	103	101
Between income statement and balance sheet	59	50	52	54
First statement	4	4	5	5
Other	3	3	3	12
Total Companies	**600**	**600**	**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 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.

Examples of statement formats follow.

TABLE 5-2: FORMAT

	1979	1978	1977	1976
Changes in Working Capital:				
Sources equal uses	65	72	73	79
Increase (decrease) in working capital	402	400	404	398
Ending working capital	82	86	80	87
Changes in Cash				
Sources equal uses	8	7	6	5
Increase (decrease) in cash or cash and cash equivalent	25	19	20	19
Ending cash or cash and cash equivalent	18	16	17	12
Total Companies	**600**	**600**	**600**	**600**

Sources Equal Uses

CMI CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Source of working capital:		
Operations:		
Net earnings	$ 4,252	3,505
Items included in net earnings which do not affect working capital:		
Depreciation	1,935	1,354
Amortization	31	31
Deferred income taxes, non-current portion	(158)	906
Equity in earnings of unconsolidated subsidiary	(205)	(57)
Working capital provided from operations	5,855	5,739
Additional long-term debt	8,895	2,550
Proceeds from sale of property, plant and equipment	412	329
Reduction of long-term trade notes and installment contracts receivable	334	1,798
Employee stock options exercised	61	55
	$15,560	10,473
Disposition of working capital:		
Cash dividends	303	302
Additions to property, plant and equipment	4,884	6,045
Additional long-term trade notes and installment contracts receivable	—	232
Increase in other assets	386	131
Reduction of long-term debt	1,583	847
Increase in advances to an unconsolidated subsidiary	658	2,099
Treasury shares acquired	1	55
Increase in working capital	7,741	759
	$15,560	10,473

COMMERCIAL METALS COMPANY (AUG)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Sources of Funds:		
Net earnings	$15,117	$ 5,604
Expenses not requiring outlay of funds in the current period:		
Depreciation	5,506	5,063
Deferred income taxes	1,219	968
Amortization of intangible assets	226	90
Amortization of capitalized leases	134	153
Equity in (earnings) loss of affiliates	(382)	17
Funds provided by operations	21,820	11,895
Increase in accounts payable and accrued expenses	34,891	9,941
Increase in income taxes payable	4,855	5,181
Common stock issued under stock option and purchase plans	637	89
Sales or retirements of property, plant, and equipment	512	1,154
Decrease in prepaid expenses	406	—
Increase in notes due banks	374	1,811
Additional long-term debt and capitalized lease obligations	—	5,490
Decrease in cash	—	4,017
Write-down of Arkansas plant assets	—	722
	$63,495	$40,300
Uses of Funds:		
Increase in notes and accounts receivable	$40,845	13,916
Additions to property, plant, and equipment	7,053	5,832
Increase in inventories and salvage jobs in process	5,311	15,359
Increase in cash	4,548	—
Payments on long-term debt	3,166	2,616
Cash dividends	1,502	746
Purchase of affiliates	715	—
Other	355	710
Increase in capitalized leases	—	618
Increase in prepaid expenses	—	443
	$63,495	$40,300

FOOTE MINERAL COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Funds Provided:		
Net earnings	$ 9,359	$ 3,716
Items not requiring funds:		
Depreciation and amortization	8,600	8,866
Provision for deferred income taxes	1,399	4,113
Disposal of foreign joint venture	0	1,150
Funds provided from operation	19,358	17,845
Increase in long-term debt	9	1,094
Property, plant and equipment retired and sold	147	340
Decrease in construction funds held in escrow	0	224
Decrease (increase) in other assets	2,186	(5,503)
Other	106	0
	$21,797	$14,000
Funds used:		
Additions to property, plant and mine development	$ 8,154	$ 3,853
Dividends	5,279	2,779
Increase in working capital	8,364	7,368
	$21,797	$14,000

KAISER ALUMINUM & CHEMICAL CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1979	1978
	(millions of dollars)	
Resources Were Provided By:		
Operations:		
Net income	$232.2	$145.5
Expenses (income) not involving funds):		
Depreciation	72.9	72.9
Deferred income taxes	20.0	15.6
Equity in undistributed earnings of companies not consolidated	(67.3)	(22.1)
Other	(6.6)	(16.1)
Funds provided by operations	251.2	195.8
Long-term borrowings	6.6	210.4
Proceeds from disposition of property and investments	4.0	6.6
Return of advances	2.4	10.8
Capital stock issued	20.9	3.7
Other	11.8	(5.7)
Total	$296.9	$421.6
Resources Were Used For:		
Property, plant, and equipment	$157.1	$161.7
Investments and advances	40.6	24.1
Reduction of long-term obligations	38.5	152.0
Dividends	47.1	36.5
Increase in working capital	13.6	47.3
Total	$296.9	$421.6

PNEUMO CORPORATION (NOV)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Source of Funds		
Net earnings	$10,035	$ 6,599
Charges not requiring outlay of working capital in current period:		
Depreciation and amortization of property, plant and equipment	8,046	6,753
Amortization of intangibles	518	190
Deferred income taxes	1,275	2,465
Deferred compensation and minimum lease and real estate tax obligations on closed stores	1,611	618
Working capital from operations	21,485	16,625
Issuance of long-term debt	34,187	37,560
Capitalization of lease obligations	3,710	690
Issuance of Common Stock		2,800
Proceeds ($7,572,000) from sale of fastener operations, less related working capital	990	
Non-current liabilities of acquired company	577	
Disposal of fixed assets	509	307
Other—net	1,069	(902)
	$62,527	$57,080
Application of Funds		
Increase in working capital	$10,546	$39,517
Expenditures for property, plant and equipment (including $11,092,000 for property of company acquired in 1979)	30,461	9,424
Reduction in long-term debt and other non-current liabilities	18,503	5,199
Payment of cash dividends	3,017	2,940
	$62,527	$57,080

Increase (Decrease) in Working Capital or Cash

GIANT FOOD INC. (FEB)

Consolidated statements of changes in financial position

	1979	1978
	Thousands of dollars	
Source of funds:		
Income from continuing operations	$16,957	$13,354
Items not involving working capital:		
Depreciation	13,437	10,938
Amortization of capital leases	2,951	2,771
Noncurrent deferred income taxes	1,898	201
Increase (decrease) in provision for insurance claims	(623)	230
Other	34	(8)
Working capital provided from continuing operations	34,654	27,486
Discontinued operations:		
Loss from operations of discontinued department stores and carpet stores, before depreciation of $1,387,000		(1,984)
Loss on disposition of assets		574
Gain from termination of capital lease		(891)
Working capital provided from operations	34,654	25,185
Proceeds from sale of fixtures, equipment and improvements		2,029
Additions to:		
Notes and mortages	199	
Obligations under capital leases	6,452	15,078
Sale of common stock under option plans	763	168
	42,068	42,460
Application of funds:		
Purchase of:		
Real estate for future development	2,425	
Property, plant and equipment	24,668	25,215
Treasury stock		180
Capitalization of leased property under capital leases	6,452	15,078
Reduction of:		
Notes and mortgages	2,186	2,162
Obligations under capital leases	2,473	1,478
Cash dividends	4,247	3,871
	42,451	47,984
Decrease in working capital	$(383)	$(5,524)

FMC CORPORATION (DEC)

Consolidated Changes in Financial Position

	1979	1978
	($000)	
Source of working capital		
Net income	$151,566	$140,909
Items not affecting working capital:		
Provision for depreciation	109,506	97,228
Provision for deferred Federal income tax regarding noncurrent assets	27,681	14,589
Equity in earnings of affiliated companies in excess of dividends received	(10,186)	(6,340)
Working capital provided from operations	278,567	246,386
Disposal of property, plant and equipment	3,793	5,821
Proceeds from long-term financing	43,022	27,725
Other, net	5,039	(3,142)
Total	330,421	276,790
Application of working capital		
Additions to property, plant and equipment	282,132	191,817
Dividends paid to stockholders	49,167	44,260
Reduction of long-term debt	42,472	46,732
Increase in other investments	5,125	11,021
Non-current assets of companies acquired:		
Property, plant and equipment	—	3,451
Other, net	—	1,507
Total	378,896	298,788
Decrease in working capital	$ (48,475)	$ (21,998)

REEVES BROTHERS, INC. (JUN)

Consolidated Statement of Changes in Financial Position

	1979	1978
Financial Resources Provided By:		
Operations:		
Net income	$19,521,133	$11,966,902
Add—Items not requiring current outlay of working capital:		
Depreciation	5,854,249	5,901,666
Deferred income taxes deducted from income	56,000	352,000
Working capital provided from operations	25,431,382	18,220,568
Disposition of property, plant and equipment	3,215,767	1,075,466
Common Stock issued on conversion of debentures	676,000	1,721,000
Miscellaneous—net	191,237	283,289
	29,514,386	21,300,323

Financial Resources Used For:		
Additions to property, plant and equipment	8,055,490	8,777,766
Cash dividends	4,487,285	4,021,329
Reduction in long-term debt:		
Conversion of debentures into Common Stock	676,000	1,721,000
Other	648,723	687,593
Acquisition of Common Stock for the treasury	4,770,182	
	18,637,680	15,207,688
Increase in Working Capital	$10,876,706	$ 6,092,635

ST. JOE MINERALS CORPORATION (DEC)

Statements of Changes in Consolidated Financial Position

	1979	1978
	(In thousands)	
Funds Provided:		
Operations:		
Net income	$ 77,586	$ 49,754
Add items not requiring working capital:		
Depletion, depreciation and amortization	63,820	54,475
Deferred income taxes	13,817	21,485
Provision for employee benefits	16,365	3,269
Provision for shutdown expenses	6,000	—
Writedown of property	9,453	—
Amortization of goodwill	1,345	1,491
Other	6,206	4,149
Total From Operations	194,592	134,623
Disposals of property	9,298	4,077
Proceeds from long-term debt	105,683	104,863
Proceeds from stock options exercised	1,270	539
Total Funds Provided	310,843	244,102
Funds Applied:		
Cash dividends	30,864	29,100
Additions to property	210,811	171,843
Reduction of long-term debt	82,536	6,150
Other—net	(1,124)	948
Total Funds Applied	323,087	208,041
Increase (Decrease) in Working Capital	$ (12,244)	$ 36,061

End of Year Working Capital or Cash

EASTMAN KODAK COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Funds Provided By:		
Net earnings	$1,000,764	$ 902,284
Charges to earnings not requiring cash outlay:		
Depreciation	361,320	342,148
Plant and equipment retired, less accumulated depreciation	18,638	20,271
Provision for deferred income taxes, net	14,300	41,400
Amortization of excess cost of investments in subsidiaries over net assets acquired	1,760	1,805
Total from earnings	1,396,782	1,307,908
Increase in current liabilities	178,213	324,309
Total Funds Provided	1,574,995	1,632,217
Funds Used For:		
Dividends to shareowners	468,017	376,008
Additions to properties	602,868	442,467
Increase in:		
Receivables	119,160	251,190
Inventories	206,128	134,196
Long-term receivables and other noncurrent assets	9,367	10,420
Other items, net	8,295	(3,634)
Total Funds Used	1,413,835	1,210,647
Increase in cash and marketable securities	161,160	421,570
Cash and marketable securities, beginning of year	1,379,463	957,893
Cash and marketable securities, end of year	$1,540,623	$1,379,463

JOY MANUFACTURING COMPANY (SEP)

Consolidated Statement of Changes in Financial Position

	1979	1978
	(In Thousands of Dollars)	
Financial Resources Were Provided by		
Net income	$ 49,683	$ 39,051
Expenses not requiring outlay of working capital:		
Depreciation and amortization	15,449	14,295
Deferred income taxes	5,006	2,355
Other	(2,101)	1,368
Financial resources provided by operations	68,037	57,069
Increase in long-term debt	17,848	18,028
Disposals of property	3,391	4,596
Proceeds from sale of stock to option holders	679	737
Other—net	2,735	(642)
Total Financial Resources Provided.	92,690	79,788
Financial Resources Were Used for		
Additions to property	32,242	41,939
Cash dividends declared	21,854	20,357
Reduction of long-term debt	11,760	8,941
Increase in other assets	7,698	1,840
Total Financial Resources Used	73,554	73,077
Working Capital		
Net increase during the year	19,136	6,711
Working capital at beginning of year	287,017	280,306
Working Capital at End of Year	$306,153	$287,017

PANTASOTE INC. (DEC)

Statements of Changes in Consolidated Financial Position

	1979	1978
	(Dollars in thousands)	
Resources Provided:		
Income before extraordinary income	$ 1,092	$ 1,853
Add (deduct) items not affecting working capital:		
Depreciation	4,403	4,057
Amortization	67	57
Deferred income taxes	368	296
Deferred investment credits	45	268
Deferred compensation and termination indemnity pay	610	533
Gain on sale of property and plant		(570)
Resources provided from operations exclusive of extraordinary income	6,585	6,494
Extraordinary income		37
Proceeds from disposal of property and plant		825
Additions to long-term debt	508	9,251
Issuance of common stock		606
Other	416	492
Total Resources Provided	7,509	17,705
Resources Applied:		
Additions to property, plant and equipment	6,132	5,535
Reduction of long-term debt	1,459	2,229
Dividends on common stock	1,119	1,118
Payments of termination indemnity pay	187	77
Assets of acquired companies, net of working capital		2,568
Total Resources Applied	8,897	11,527
Increase (Decrease) in Working Capital	(1,388)	6,178
Working Capital at beginning	22,510	16,332
Working Capital at end	$21,122	$22,510

WORKING CAPITAL OR CASH PROVIDED FROM OR USED IN OPERATIONS

Paragraph 10 of *Opinion 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 OPERATIONS—COMPONENTS

	Number of Companies			
	1979	**1978**	**1977**	**1976**
Net income or loss	509	512	495	497
Income or loss from continuing operations	39	40	46	49
Income or loss before extraordinary items	41	40	48	54
Depreciation and/or amortization and/or depletion	600	600	600	600
Deferred taxes and/or deferred investment credit	496	500	481	482
Equity in earnings or losses of investees	179	174	174	178
Minority interest	52	56	66	63

Net Income or Loss

MASONITE CORPORATION (AUG)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Source of Funds:		
Net income	$51,500	$44,489
Expenses (income) not affecting working capital:		
Depreciation	22,764	21,954
Investment tax credits amortized	(1,654)	(1,504)
Depletion	1,201	1,138
Foreign equity (income)	(1,250)	(879)
Provision for deferred Federal income taxes	2,119	2,448
Provision for deferred compensation	475	422
Working capital provided from operations	$75,155	$68,068
Long-term financing, including capital leases	7,092	665
Disposition of property, plant, and equipment	3,202	12,085
Investment tax credits deferred	2,254	1,737
Common stock issued under stock incentive program	198	—
Dividends from foreign affiliates	204	—
	$88,105	$82,555
Disposition of Funds:		
Property, plant, and equipment additions	$37,075	$31,289
Cash dividends	15,983	11,489
Long-term debt and capital lease maturities	2,780	3,869
Purchase of treasury stock	29,439	19,137
Other	2,042	(865)
	$87,319	$64,919
Increase In Working Capital	$ 786	$17,636

A.C. NIELSEN COMPANY (AUG)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Sources of working capital:		
Net income	$26,131	$24,297
Add (deduct), items not affecting working capital:		
Depreciation of property and equipment	10,055	7,792
Amortization of intangible assets	2,106	1,276
Increase in accrued profit sharing payable after one year	1,719	1,223
Increase in accrued severance and pension obligations payable after one year	3,418	3,306
Income taxes allocable to future years	(611)	(1,670)
Other, net	349	1,560
Working capital provided by operations	43,167	37,784
Capital lease obligations incurred	3,405	779
Sale of property and equipment	1,974	2,012
Issuance of common stock	359	163
Increase (decrease) in client deposits	(39)	1,145
Other, net	(38)	176
	48,828	42,059
Uses of working capital:		
Additions to property and equipment	25,469	19,555
Additions to data files	2,139	951
Cash dividends paid	8,355	7,150
Acquisitions of businesses:		
Property and equipment, net	1,034	153
Data files and other assets	9,106	978
Excess of cost over net assets acquired	1,946	12
Purchase of marketable securities	—	1,836
	48,049	30,635
Increase in working capital	$ 779	$11,424

OCCIDENTAL PETROLEUM CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	(in thousands)	
Source of Funds:		
Net income	$ 561,646	$ 6,700
Add items not using working capital—		
Depreciation, depletion and amortization	403,000	259,283
Reduction in book value of European refining investments	—	95,562
Deferred tax provision	53,737	55,230
Coal workers' compensation provision, net	18,408	14,901
Write-off of prior years' capitalized exploration and property acquisition costs	7,646	1,127
Other, net	44,334	8,312
Working capital provided from operations	1,088,771	441,115
Proceeds from long-term borrowings	140,860	390,396
Sale of future production	170,695	91,680
Issuance of redeemable preferred stock, net	—	71,540
Disposal of assets	33,094	35,635
Additions to other deferred credits	34,900	18,718
Other, net	49,078	14,308
	1,517,398	1,063,392
Use of Funds:		
Additions to property, plant and equipment	858,439	765,969
Reclassification of Libyan long-term liabilities	—	272,000
Reduction of senior funded debt	99,952	149,623
Cash dividends	126,780	119,465
Liquidation of sale of future production	140,034	57,451
Capital project expenditures, net	20,401	28,457
Additions to long-term receivables and other assets and other	65,705	13,237
	1,311,311	1,406,202
Increase (Decrease) in Working Capital	$ 206,087	$ (342,810)

OHIO FERRO-ALLOYS CORPORATION (DEC)

Changes in Financial Position

	1979	1978
	(In Thousands)	
Resources Provided		
Net income (loss)	$ 1,035	$ (5,138)
Add items not requiring expenditures of current period working capital:		
Depreciation and amortization	5,589	5,695
Deferred Federal income taxes	98	570
	6,722	1,127
Basis of asset disposals	2,736	603
Increase in long-term debt	969	273
	10,427	2,003
Resources Applied		
Additions to property, plant and equipment	3,862	2,316
Reduction in long-term debt	1,442	1,104
Cost of treasury stock	1,327	0
Increase (decrease) in other assets	1,030	(167)
Cash dividends paid	297	0
Decrease in unfunded retirement benefits	198	193
	8,156	3,446
Increase (decrease) in working capital	2,271	(1,443)
Working capital at beginning of year	12,255	13,698
Working capital at end of year	$14,526	$ 12,255

Income or Loss From Continuing Operations

INTERNATIONAL PAPER COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($ Millions)	
Source of Funds		
Earnings from continuing operations	$ 347.8	$ 223.7
Items not requiring outlays of working capital:		
Depreciation	196.8	177.4
Cost of timber harvested	53.5	40.1
Deferred income taxes—noncurrent	10.6	36.1
Write-down of goodwill	20.0	
Gain on sale of mill and associated woodlands, net of income taxes	(94.7)	
Funds Provided from Continuing Operations	534.0	477.3
Earnings from discontinued operations	177.5	10.5
Items not requiring outlays of working capital:		
Depletion	28.5	54.9
Deferred income taxes—noncurrent	7.8	17.4
Gain on sale of discontinued operations, net of income taxes	(170.0)	—
Funds Provided from Discontinued Operations	43.8	82.8
Total Funds Provided from Operations	577.8	560.1
Proceeds from sale of mill and associated woodlands, net of income taxes	164.8	
Proceeds from sale of discontinued operations, net of income taxes	612.7	
Issuance of common stock	23.3	18.5
Issuance of preferred stock	92.3	
Issuance of long-term debt	170.0	25.3
Total Funds Provided	1,640.9	603.9
Application of Funds		
Cash dividends paid	105.4	94.8
Invested in:		
Plants, properties, and equipment	657.3	226.6
Timberlands	459.5	49.9
Increase in net assets of discontinued operations	39.7	89.3
Reduction of long-term debt	81.3	121.4
Increase in long-term investments	79.3	
Other applications, net	17.3	64.4
Total Funds Applied	1,439.8	646.6
Increase (Decrease) In Working Capital	$ 201.1	$ (42.5)

MILTON ROY COMPANY (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Resources provided:		
Continuing operations:		
Income from continuing operations	$3,113	$3,424
Add (deduct) expense or income items not causing an outlay or inflow of current period working capital:		
Depreciation and amortization	882	713
Deferred income taxes	62	(187)
Equity in earnings of joint ventures	(416)	(372)
Gain on disposition of assets, net of tax	—	(464)
Working capital provided by continuing operations	3,641	3,114
Discontinued operations:		
Loss from discontinued operations	(1,194)	(1,380)
Add (deduct) expense or income items not causing an outlay or inflow of current period working capital:		
Write off of goodwill and other non-current assets	837	155
Depreciation and amortization	213	714
Deferred income taxes	—	305
Gain on disposition of Medical operations, net of tax	(673)	—
Gain on disposition of assets	(1,793)	(216)
Provision for prepaid royalties	—	1,768
Working capital provided by (applied to) discontinued operations	(2,610)	1,346
Total working capital provided by operations	1,031	4,460
Proceeds from disposition of discontinued operations, net of tax	6,396	—
Proceeds from settlement of insurance claim	—	357
Proceeds from disposition of assets, net of tax	—	1,643
Disposal of property, plant and equipment	147	630
Collection of notes receivable	79	334
Increase in long-term debt	193	38
Proceeds received from common stock sold under employee stock option and stock purchase plans	231	179
Total resources provided	$8,077	$7,641
Resources applied:		
Reclassification of net current assets of discontinued Medical operations	$ —	$2,127
Additions to property, plant and equipment	2,662	1,361
Reductions in long-term debt	3,362	1,047
Increase in long-term notes receivable	1,069	—
Dividends paid	454	385
Purchase of treasury shares	9,017	—
Goodwill arising from acquisition	880	—
Other, net	208	411
Increase (decrease) in working capital	(9,575)	2,310
Total resources applied	$8,077	$7,641

BEMIS COMPANY, INC. (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Financial resources were provided by:		
Continuing operations:		
Income	$ 15,795	$ 15,378
Add (deduct) items not requiring the use of working capital:		
Depreciation and amortization	14,803	14,004
Amortization of capital leases	771	830
Minority interest in net income	1,157	1,056
Deferred income taxes	3,302	5,335
Equity in undistributed earnings of affiliates	(430)	(215)
Working capital provided by continuing operations	35,398	36,388
Discontinued operations:		
Income	310	3,445
Gain on sale of Brown Printing	10,466	
Add items not requiring the use of working capital:		
Depreciation and amortization	3,054	3,168
Deferred income taxes	634	755
Working capital provided by discontinued operations	14,464	7,368
Total resources provided by operations	49,862	43,756
Proceeds from property retirements	5,305	8,161
Book value of Brown Printing fixed assets sold	47,060	
Reduction in goodwill on sale of Brown Printing	2,471	
Additional long-term borrowings	2,141	27,420
Common stock issued under stock option plan	949	223
Decrease (increase) in long-term receivables	379	(732)
Total resources provided	108,167	78,828
Financial resources were used for:		
Additions to property and equipment—continuing operations	33,619	22,139
Additions to property and equipment—Brown Printing	14,858	13,629
Purchase of common stock for the treasury	37,789	159
Reduction in long-term borrowings	11,379	3,440
Cash dividends paid	6,752	7,034
Reduction in deferred taxes on sale of Brown Printing	2,973	
Reduction in long-term lease obligations	1,930	920
Purchase of debentures	1,872	545
Acquisition of minority interest in subsidiary company	710	74
Increase in deferred charges and special deposits	499	1,188
Redemption of series 1974 8½% preferred stock		9,637
Sundry, net	146	(81)
Total resources used	112,527	58,684
(Decrease) increase in working capital	$ (4,360)	$ 20,144

Income or Loss Before Extraordinary Item

WHITE MOTOR CORPORATION (DEC)

Statements of Changes in Financial Position

	1979	1978
	(In Thousands)	
Source of Working Capital		
From Operations:		
Income before extraordinary credits	$ 6,372	$ 326
Items not affecting working capital:		
Depreciation and amortization	13,939	12,348
Noncurrent deferred income taxes	(143)	(1,055)
Net income of unconsolidated finance subsidiaries	(9,553)	(6,955)
Interest on and additions to noncurrent portion of pension and employee benefit accruals	4,415	1,350
Provision for losses on disposition of facilities	—	1,161
Provided from Operations Before Extraordinary Credits	15,030	7,175
Extraordinary credits	6,549	—
Provided from Operations	21,579	7,175
Additional long-term obligations:		
12% Sinking Fund Debentures due 1999	4,423	—
11% Subordinated Debentures due 1999	3,748	—
Other obligations	524	—
Common Stock issued in exchange for Preferred Stock	12,272	—
Common Stock purchase warrants issued	1,021	—
Reclassification of other assets to current assets	5,467	—
Attributable to acquisition of remaining 50% interest in corporate joint venture:		
Additional long-term obligations	5,163	—
Reduction in other assets—net	2,743	—
Disposals of property, plant and equipment	1,431	721
	58,371	7,896
Use of Working Capital		
Reduction of long-term obligations:		
7¼% Sinking Fund Debentures due 1993	7,561	—
5¼% Convertible Subordinated Debentures due 1993	8,737	—
Revolving credit notes due August 31, 1979	—	88,001
Other obligations	13,773	7,071
Redemption of Preferred Stock	12,614	—
Additions to property, plant and equipment:		
Corporate joint venture	5,594	—
Other	16,389	9,927
Reduction of noncurrent pension and employee benefit accruals	3,004	2,724
Other increase (decrease)—net	(198)	57
	67,474	107,780
Decrease in Working Capital	$ (9,103)	$ (99,884)

Income Before Cumulative Effect of Accounting Change

MACMILLAN, INC. (DEC)

Statements of Consolidated Changes in Financial Position

	1979	1978
	($000)	
Source of funds		
Operations:		
Income from continuing operations	$16,840	$25,746
Charges (credits) to income not requiring working capital:		
Depreciation of property, plant and equipment and amortization of published works..	19,187	14,298
Deferred noncurrent income taxes	(1,035)	274
Unrealized foreign exchange (gains) losses on noncurrent notes payable	(869)	1,192
Other, net	119	95
Working capital provided from continuing operations	34,242	41,605
(Loss) from discontinued operations (less depreciation and other, net of $1,742 in 1979 and $1,493 in 1978)	(57,361)	(2,309)
Working capital provided from (used for) operations before cumulative effect of accounting changes	(23,119)	39,296
Cumulative effect on prior years (to December 31, 1978) of changes in accounting principles (less depreciation and other of $8,887), net of deferred income taxes	(4,867)	
Working capital provided from (used for) operations	(27,986)	39,296
Noncurrent assets reclassified to net assets of discontinued operations	24,476	
Proceeds from disposition of securities		2,091
Issuance of common stock in exchange for preferred stock	951	
Issuance of common stock in exchange for preferred stock of subsidiary	322	416
Proceeds from disposition of property, plant and equipment	4,958	670
Other, net	319	
Total source of funds	3,040	42,473
Application of funds		
Cash dividends on common and preferred stock	9,784	8,693
Additions to published and unpublished works	18,907	13,664
Acquisitions of property, plant and equipment	11,762	8,198
Reduction of noncurrent notes payable	139	1,778
Reduction of preferred stock	951	
Reduction of preferred stock of subsidiary	322	474
Acquisition of Company's common stock	7	
Other, net		1,598
Total application of funds	41,872	34,405
Increase (decrease) in working capital	$(38,832)	$ 8,068

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.

TABLE 5-4: SOURCES AND USES

	Number of Companies			
	1979	1978	1977	1976
Sources				
Issuance of long-term debt .	457	451	461	478
Sale, disposal, or retirement of property	419	438	417	427
Issuance of capital stock	371	362	354	331
Investments	100	110	125	115
Capitalized leases	80	89	56	N/C
Noncurrent receivables	59	62	76	63
Uses				
Property	597	595	594	594
Dividends	540	538	533	536
Long-term Debt	536	527	541	578
Investments	212	221	211	212
Purchase, redemption, or retirement of capital stock .	228	208	193	168
Decrease in capitalized leases	104	91	54	N/C
Noncurrent receivables	62	76	74	61
Intangibles	51	55	51	44

N/C — Not Compiled

Property

BETHLEHEM STEEL CORPORATION

Consolidated Statements of Changes in Financial Position

	1979	1978
	(dollars in millions)	
Financial Resources Were Provided By:—		
Net income	$275.7	$225.1
Items not requiring working capital—		
Depreciation	351.3	321.9
Deferred income taxes	54.0	46.0
Working capital provided by operations	$681.0	$593.0
Contribution for participation in Hibbing project	—	48.3
Sale of property	22.8	26.1
Increase in liabilities payable after one year	4.2	31.2
Increase in long-term debt	25.5	64.0
Other	22.1	41.4
Total	$755.6	$804.0
Financial Resources Were Used For:—		
Capital expenditures—		
Replacement and modernization .	$340.6	$316.3
Environmental quality control	59.0	82.8
Investments in associated enterprises	18.9	13.3
	$418.5	$412.4
Reduction in estimated long-term liability for closedown costs	43.6	48.2
Reduction in long-term debt	17.6	219.0
Payment of dividends	65.5	43.7
Total	$545.2	$723.3
Net Increase in Working Capital	$210.4	$ 80.7

Debt

CLUETT, PEABODY & CO., INC. (DEC)

Statements of Changes in Consolidated Financial Position

	1979	1978
	($000)	
Source of Working Capital		
Net income	$17,377	$18,087
Items not affecting working capital:		
Depreciation and amortization	8,421	7,146
Deferred income taxes	1,979	142
Undistributed earnings of companies carried at equity	(373)	(330)
Other (net)	(281)	939
Funds from operations	27,123	25,984
Long-term debt—notes payable to banks	24,000	
Sale of plant and equipment	525	406
Obligations under capital leases	5,309	505
Collection of non-current note receivable	189	590
Dividend from company carried at equity	1,000	
Other (net)	233	84
Total	58,379	27,569
Application of Working Capital		
Dividends	6,898	6,711
Plant and equipment additions	10,562	7,805
Assets recorded under capital leases	2,849	2,378
Businesses purchased less net current assets of $10,954,000 in 1979 and $4,187,000 in 1978:		
Plant and equipment and other assets	9,001	1,732
Obligations under capital leases and other debt	(917)	(489)
Long-term debt:		
Notes payable	3,044	3,246
4¼% Convertible subordinated debentures	307	308
Obligations under capital leases	2,420	
Plant and retail store relocations and dispositions	1,066	1,752
Deferred charges and other assets	1,511	
Treasury stock purchased	393	
Total	37,134	23,443
Increase in working capital	$21,245	$ 4,126

ST. REGIS PAPER COMPANY (DEC)

Statements of Changes in Consolidated Financial Position

	1979	1978
	($000)	
Source of funds:		
Operations:		
Net earnings	$158,493	$126,514
Charges (credits) not currently affecting working capital:		
Depreciation, depletion, and amortization	96,013	91,221
Equity in undistributed earnings of non-consolidated affiliates	(13,940)	(4,233)
Deferred income taxes	10,000	28,028
Other non-cash charges (credits), net	8,060	8,932
Funds provided from operations	258,626	250,462
Additions to long-term debt:		
Foreign	16,903	9,608
7% promissory notes	19,888	
Other	916	7,768
Capitalized lease obligations	11,279	47,656
Total	48,986	65,032
Issuance of common stock	12,752	14,283
Property, plant, and equipment retirements	7,982	4,084
Sales of plants and timberlands, net of working capital	13,867	23,307
Other, net	2,371	(5,181)
Total source of funds	$344,584	$351,987
Application of funds:		
Property, plant, and equipment additions:		
Land, buildings, and equipment	$147,307	$106,005
Timberlands and cutting rights	40,581	6,290
Leased property	16,826	45,526
Total	204,714	157,821
Reduction of long-term debt	41,646	72,607
Conversion of long-term debt	448	12,021
Conversion of preferred stock	11,250	
Cash dividends	59,608	55,555
Changes to investments	(2,170)	(6,532)
Non-current receivables from sale of assets	14,773	23,570
Increase in advance payments under timber-purchase contracts	5,312	12,086
Increase in working capital (see below)	9,003	24,859
Total application of funds	$344,584	$351,987

Capital Stock

ACME-CLEVELAND CORPORATION (SEP)

Statement of Changes in Consolidated Financial Position

	1979	1978
	($000)	
Source of Funds		
From operations:		
Net earnings	$19,636	$13,158
Items not requiring outlay of working capital:		
Depreciation	5,340	5,032
Deferred income taxes	1,300	733
Total From Operations	26,277	18,923
Disposals of property, plant, and equipment	913	609
Increase in long-term obligations	5,909	19,123
Shares issued under stock option plan	250	150
Shares issued upon conversion of Preferred Shares	808	0
	34,159	38,808
Application of Funds		
Dividends paid	5,185	3,600
Additions to property, plant, and equipment	14,732	9,005
Reduction of long-term obligations	3,188	14,301
Reduction of unfunded pension accrual	1,018	100
Construction funds held in escrow	3,073	283
Common Shares purchased in the open market	326	0
Conversion of Preferred Shares	808	0
Other	(287)	593
	28,047	27,885
Increase in Working Capital	$ 6,112	$10,922

CAMPBELL SOUP COMPANY (JUL)

Consolidated Statements of Changes in Financial Position

	1979	1978
	(000 omitted)	
Additions		
Net earnings	$132,744	$121,410
Items not requiring the use of working capital		
Depreciation	60,360	50,428
Amortization of intangibles	3,067	2,931
Deferred income taxes	5,747	5,448
Other	64	461
Working capital from operations	201,982	180,678
Plant and other assets sold	4,170	3,828
Treasury stock issued (90,078 shares—1979; 32,617 shares—1978), at cost	2,766	963
Long-term debt incurred	5,337	35,131
Conversion of Vlasic Foods debentures		1,335
Other		300
Additions to working capital	214,255	222,235
Deductions		
Plant assets purchased	108,132	103,999
Acquired plant assets	51,471	
Capitalized leases, less accumulated depreciation		13,673
Dividends	57,304	51,874
Investment in foreign supplier	20,000	
Other assets acquired	3,520	5,089
Treasury stock purchased (953,748 shares)	32,849	
Reduction in long-term debt	12,969	20,500
Other	194	425
Deductions from working capital	286,439	195,560
Increase (decrease) in working capital	$ (72,184)	$ 26,675

GRUMMAN CORPORATION (DEC)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Source of Funds:		
Continuing operations:		
Income from continuing operations	$ 19,571	$ 21,858
Charges (credits) not requiring funds:		
Depreciation and amortization	22,579	19,878
Other	(533)	(1,066)
Funds from continuing operations	41,617	40,669
Funds from discontinued operations	—	(1,194)
Total Funds from Operations	41,617	39,474
Increase in long-term debt	50,566	72,594
Sale or retirement of property, plant and equipment	3,621	4,817
Sale of preferred stock	50,000	—
Common stock issued:		
On exercise of options and awards	123	5,142
In connection with an acquisition	—	1,146
Contribution and sale of shares to the Employee Investment Plan	4,456	1,847
	150,384	125,022
Use of Funds:		
Reduction in long-term debt	28,479	9,857
Expenditures for property, plant and equipment	25,866	29,353
Acquisition of treasury stock	144	1,847
Cash dividends paid	11,448	9,513
Investments:		
Grumman Flxible (54,150,000) less working capital acquired ($34,436,153)	—	19,713
American Jet ($20,500,000) less net non-current assets of discontinued operations (8,311,334)	—	12,188
Other	765	12,587
	66,705	95,062
Increase in Working Capital	$ 83,679	$ 29,960

LEVI STRAUSS & CO. (NOV)

Consolidated Statement of Changes in Financial Position

	1979	1978
	(Dollar Amounts in Thousands)	
Working Capital Provided By:		
Operations:		
Net income	$191,454	$144,969
Add items not currently involving working capital:		
Depreciation and amortization	20,430	17,606
Other, net	5,380	(2,140)
Working capital provided by operations	$217,264	$160,435
Common stock issued in acquisition of Koracorp Industries Inc.	37,261	—
Proceeds from long-term debt	8,400	14,411
Common stock issued to employees	4,999	5,077
Working capital provided	$267,924	$179,923
Working Capital Used For:		
Additions to property, plant and equipment	$ 51,254	$ 42,863
Cash dividends declared	40,391	34,972
Acquisition of Koracorp Industries Inc. (less working capital of $34,961):		
Property, plant and equipment	17,702	—
Other assets	4,885	—
Goodwill	39,341	—
Long-term liabilities assumed	(26,054)	—
Purchases of treasury stock	87,451	3,611
Reductions in long-term debt	15,505	11,766
Other, net	1,862	(4,379)
Working capital used	$232,337	$ 88,833
Increase in working capital	$ 35,587	$ 91,090

METPATH INC. (SEP)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Source of funds:		
Net income	$ 1,151	$ 3,796
Items not affecting working capital:		
Depreciation	2,901	1,445
Amortization of intangible assets	1,707	1,269
Deferred income taxes	437	468
Working capital provided from operations	6,196	6,978
Disposals of land, buildings and equipment	2,584	—
Common stock issued:		
Exercise of stock options and warrants	113	2,226
Conversion of debentures	2,500	143
To officers and employees	16	290
Public offering	—	7,901
Private placements	—	2,968
Increase in long-term debt	17,500	26,225
	$28,909	$46,731
Application of funds:		
Purchase of property, plant and equipment	$15,323	$ 9,501
Payments for customer lists	1,160	598
Reduction of long-term debt	5,937	13,343
Payment of cash dividends	838	418
Acquisition of Medical Diagnostic Services Division (MDS) of Chemed Corporation in 1979 and Diagnostic Sciences, Inc. and Lancet Medical Industries, Inc. in 1978, net of working capital acquired of $1,493,000 and $189,000 in 1979 and 1978, respectively:		
Property and equipment	4,147	1,158
Customer lists and other assets	5,045	8,135
Liabilities assumed	(71)	(314)
Increase (decrease) in other assets	(312)	748
Increase (decrease) in working capital	(3,158)	13,144
	$28,909	$46,731

Dividends

ALUMINUM COMPANY OF AMERICA (DEC)

Statement of Changes in Consolidated Financial Position

	1979	1978
	(in millions)	
Source of working capital		
From operations:		
Net income	$504.6	$312.7
Add, charges (credits) to income which did not require working capital:		
Depreciation and depletion.	247.0	227.5
Increase in deferred income, investment credit and noncurrent liabilities	13.5	18.0
Addition to future taxes on income	34.3	25.4
Other, principally equity in undistributed (earnings) losses of entities not consolidated	(67.2)	(32.6)
Total from operations	732.2	551.0
Book value of properties, plants and equipment disposed of	18.8	3.8
	751.0	554.8
Decreases in investments	27.0	15.0
Proceeds from:		
Common stock issued	5.4	15.9
Tax-exempt revenue bonds	3.9	5.5
Other long-term debt	1.1	3.4
	788.4	594.6
Use of working capital		
Additions to properties, plants and equipment	420.0	349.8
Additions to investments	51.6	24.9
Payments on long-term debt	116.8	42.5
Dividends declared:		
Preferred stock	2.5	2.5
Common stock	91.3	66.3
Increase (decrease) in other assets and deferred charges	(19.5)	19.9
Other	2.3	20.2
	665.0	526.1
Increase in working capital	$123.4	$ 68.5

CONOCO INC. (DEC)

Statement of Changes in Consolidated Financial Position

	1979	1978
	($000)	
Funds available:		
Net income	$ 815,360	$ 451,340
Charges (credits) to income not involving funds:		
Depreciation, depletion, and amortization	398,308	343,230
Dry hole costs and impairment of unproved properties	106,178	126,012
Deferred income taxes—noncurrent	177,588	131,322
Other (including minority interest in income)	23,462	(38,433)
Funds derived from operations	1,520,896	1,013,471
Sales of fixed assets and investments	98,127	152,763
Addition to long-term debt	233,344	310,018
Addition to capital lease obligations	981	—
Other sources (net)	67,235	—
Total funds available	1,920,583	1,476,252
Funds applied:		
Capital expenditures	1,561,592	1,107,215
Addition to assets leased under capital leases	2,083	169
Investments and advances	21,923	5,384
Reduction of long-term debt	92,432	171,429
Reduction of capital lease obligations	15,672	14,028
Dividends paid:		
Common stockholders	182,870	153,037
Preferred stockholders and minority interests	16,643	13,999
Other applications (net)	—	25,830
Total funds applied	1,893,215	1,491,091
Increase (decrease) in working capital	$ 27,368	$ (14,839)

JOHNS-MANVILLE CORPORATION (DEC)

Changes in Consolidated Financial Position

	1979	1978
	($000)	
Funds Provided By Operations		
Net Earnings	$114,606	$121,602
Items Not Requiring (Providing) Working Capital		
Depreciation and depletion	74,843	42,401
Deferred income taxes (non-current portion)	44,368	20,515
Other, net	852	(2,775)
	234,669	181,743
Issuance of Long-Term Debt	115,286	205,862
Issuance of Common Stock, Including Treasury Stock	12,303	9,716
Increase in Other Non-Current Liabilities	12,147	12,037
Dispositions of Property, Plant and Equipment	6,861	5,073
Decrease (Increase) in Investments, Deferred Charges and Other Assets	4,694	(2,021)
Issuance of Cumulative Preferred Stock	560	298,891
	$386,520	$711,301
Funds Used For		
Acquisition of Olinkraft, Inc. (net of $53,645 of working capital obtained)		
Property, plant and equipment		$700,633
Long-term debt assumed		(141,258)
Other, net		(17,474)
Additions to Property, Plant and Equipment	$189,321	174,007
Reduction of Long-Term Debt	126,153	7,125
Dividends on Common Stock	41,692	38,972
Dividends on Preferred Stock	23,553	
Net Change in Working Capital	5,801	(50,704)
	$386,520	$711,301

Purchase Method Business Combination

HUMANA INC. (AUG)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Funds provided:		
Net income	$ 40,887	$ 22,097
Add charges which did not require working capital during the year:		
Depreciation and amortization	50,899	35,834
Deferred income taxes (non-current)	10,907	6,318
Minority interest	—	5,700
Other	7,754	2,806
Funds provided by operations	110,447	72,755
Debt and preference stock issued in connection with the acquisition of American Medicorp, Inc.	145,284	146,328
Long-term obligations of American Medicorp, Inc. at acquisition	—	237,564
Minority interest in American Medicorp, Inc. at acquisition	—	47,596
Issuances of common stock	42,537	2,594
Additional long-term debt	76,565	20,763
Increase in allowance for professional liability risks	8,823	6,244
Disposition of properties	11,370	3,772
Decrease in long-term receivables	8,789	—
Other	7,666	7,456
Total funds provided	$411,481	$545,072
Funds applied:		
Additions to property and equipment	$147,959	$ 64,192
Reduction of long-term debt	65,722	32,458
Increase in long-term receivables	—	1,799
Insurance subsidiary's investments	11,013	6,636
Payment of dividends	14,777	7,304
Other investments	11,870	—
Assets of American Medicorp, Inc. at acquisition, principally property and equipment, less working capital of $50,816 (1978)	66,769	356,673
Goodwill in connection with acquisition of American Medicorp, Inc.	23,934	34,710
Acquisition of minority interest of American Medicorp, Inc.	56,828	—
Increase in working capital	12,609	41,300
Total funds applied	$411,481	$545,072

MATTEL, INC. (JAN)

Consolidated Statements of Changes in Financial Position

	1980	1979
	($000)	
Source of Working Capital		
Income before extraordinary item	$ 30,553	$23,961
Items not affecting working capital		
Depreciation and amortization	12,305	6,695
Deferred income taxes and other	3,587	(3,097)
Working capital provided from operations exclusive of extraordinary item	46,445	27,559
Extraordinary income tax credits	—	6,100
Proceeds from term loans for acquisitions	73,434	—
Issuance of preferred stock for acquisition	60,416	—
Proceeds from long-term liabilities	—	23,784
Disposals of property, plant and equipment	2,272	198
Proceeds from exercise of stock options	562	3,454
Total source of working capital	183,129	61,095
Application of Working Capital		
Purchase of Western Publishing Company		
Property, plant and equipment	47,914	—
Cost in excess of purchased net assets	10,643	—
Other non-current assets, net	6,113	—
Long-term debt	(50,200)	—
Taxes on undistributed foreign earnings	(2,347)	—
Purchase of Ice Show operations	11,252	—
Other additions to property, plant and equipment	15,984	13,218
Non-current receivables arising from sale of assets	5,342	—
Reduction of long-term liabilities	5,164	17,730
Dividends:		
Common stock	4,761	3,511
Preferred stock	2,779	—
Other, net	771	213
Total application of working capital	58,176	34,672
Increase in Working Capital	$124,953	$26,423

OSCAR MAYER & CO. INC. (OCT)

Consolidated Statement of Changes in Financial Position

	1979	1978
	(figures in thousands of dollars)	
Resources Were Provided By:		
Net income	$42,293	$26,033
Add (deduct) items not affecting working capital:		
Depreciation	20,518	18,783
"Unrealized" foreign currency translation (gains) or losses	(4,576)	8,853
Deferred income taxes	3,131	4,319
Equity in earnings of affiliated companies	(412)	(6,024)
Deferred employee benefits	1,040	221
Other	(857)	226
Working capital provided by operations	61,137	52,411
Reduction in advance to affiliate	—	1,333
Sales of properties	364	1,981
Dividends from affiliated companies	1,059	1,650
Reclassification of deferred employee benefits	—	1,668
Stock options exercised	937	1,212
	63,497	60,255
Resources Were Used For:		
Additions to properties	37,872	31,792
Dividends to stockholders	14,608	13,091
Reduction in long-term debt	1,196	709
Investment in and advances to affiliates	3,812	5,000
Consolidation of Oscar Mayer, S.A., excluding working capital of $2,977,000:		
Properties	13,735	—
Other non-current assets	462	—
Long-term debt	(4,982)	—
Minority interest	(2,144)	—
Equity interest in Oscar Mayer, S.A., previously included in investments in and advances to affiliated companies	(5,801)	—
	58,758	50,592
Increase In Working Capital	$ 4,739	$ 9,663

MIDLAND-ROSS CORPORATION (DEC)

Statement of Consolidated Changes in Financial Position

	1979	1978
	(In Thousands of Dollars)	
Source of Funds		
Net income	$41,028	$30,970
Items not affecting working capital:		
Depreciation and amortization	18,108	15,482
Deferred income taxes, non-current portion	526	1,069
Minority interests	565	—
Total From Operations	60,227	47,521
Additions to long-term liabilities	6,064	2,912
Issuance of common shares	522	5,389
Property disposals	2,457	4,370
Decrease in working capital	8,733	—
	$78,003	$60,192
Application of Funds		
Capital expenditures	$46,274	$18,402
Cash dividends	14,311	11,980
Purchase of common shares for treasury	—	309
Reduction of long-term liabilities	7,232	3,693
Purchase of companies, excluding working capital of $15,688,000 in 1979 and $3,546,000 in 1978:		
Property, plant and equipment	9,817	7,532
Intangibles and other assets	14,486	890
Minority interests	(11,946)	—
Other	(3,023)	(1,484)
	9,334	6,938
Increase (decrease) in investments and other assets	852	(2,286)
Increase in working capital	—	21,156
	$78,003	$60,192

Investments

THE CONTINENTAL GROUP, INC. (DEC)

Statement of Changes in Consolidated Financial Position

	1979	1978
	(in millions)	
Sources of Working Capital		
Net Earnings	$189.2	$126.2
Items not affecting working capital		
Depreciation and cost of timber harvested	164.2	131.7
Undistributed equity earnings	(44.9)	(39.3)
Deferred income taxes	5.5	36.1
Retirement benefits, etc.	23.2	24.0
Translation of non-current foreign currency balances	7.3	18.2
Working Capital From Operations	344.5	296.9
Long-term debt borrowings	293.1	84.4
Disposals of investments	14.5	28.6
Issuances of stock		
Continental Resources Company	117.0	—
California-World Financial Corporation	21.4	—
Stock plans, etc.	4.1	8.5
Disposals of property, plant and equipment	36.6	12.5
Total Sources	831.2	430.9
Uses of Working Capital		
Expenditures for property, plant and equipment	260.7	255.2
Dividends	91.0	84.9
Long-term debt reductions	26.6	57.6
Investments and advances		
Continental Resources Company	363.5	—
Continental Financial Services	18.6	(3.4)
Other	16.7	31.7
Purchases of stock	10.2	7.4
Net assets (excluding working capital) of acquired subsidiaries	3.0	3.6
Other	9.2	(5.1)
Total Uses	799.5	431.9
Increase (Decrease) in Working Capital	$ 31.7	$ (1.0)

Intangibles

BROWNING-FERRIS INDUSTRIES, INC. (SEP)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Source of funds:		
Operations—		
Net income	$ 28,489	$ 22,497
Items not requiring funds—		
Depreciation and amortization	46,281	36,698
Amortization of deferred investment tax credit	(2,531)	(2,022)
Provision for deferred income taxes	2,934	371
Total from operations	75,173	57,544
Increase in long-term debt	102,270	20,705
Issuance of preferred stock to purchase a subsidiary	—	19,958
Decrease in solid waste revenue bond funds held for future acquisition of property and equipment	7,714	6,419
Sales and retirements of property and equipment	6,379	5,950
Investment tax credit	3,500	2,474
Decrease in long-term receivables	435	696
	195,471	113,746
Application of funds:		
Additions to property and equipment	87,508	87,408
Increase in amount of cost over fair value of tangible assets of acquired companies	1,002	8,916
Decrease in long-term debt	82,480	6,567
Cash dividends	11,401	8,696
Increase in covenants not to compete and customer lists	1,097	1,090
Other, net	(1,204)	2,804
	182,284	115,481
Increase (decrease) in working capital	13,187	(1,735)
Working capital, beginning of year	25,036	26,771
Working capital, end of year	$ 38,223	$ 25,036

Leases

ALBERTSON'S, INC. (JAN)

Consolidated Changes in Financial Position

	1980	1979
	($000)	
Source of Funds:		
Operations:		
Net earnings	$38,323	$ 36,421
Add charges (credits) not requiring funds:		
Depreciation and amortization	23,956	19,455
Amortization of assets under capital leases	5,954	5,471
Amortization of deferred costs	836	1,455
Increase in deferred compensation	1,124	993
Decrease in deferred income taxes	(280)	(510)
Amortization of deferred investment credit	(1,682)	(1,269)
Working capital provided from operations	68,231	62,016
Additions to obligations under capital leases	11,092	23,003
Disposals of land, buildings and equipment	9,120	24,781
Additions to deferred investment credit	3,418	2,630
Proceeds from long-term borrowings	2,319	43,394
Proceeds from stock options	167	662
	94,347	156,486
Disposition of Funds:		
Capital expenditures	55,034	97,600
Reduction of obligations under capital leases	6,933	15,218
Increase in other assets	1,786	1,721
Reduction of long-term debt	1,649	1,606
Cash dividends	8,874	7,075
	74,276	123,220
Increase In Working Capital	$20,071	$ 33,266

MELVILLE CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Source of Funds:		
Net earnings	$101,174	$ 87,987
Expenses not requiring outlay of working capital:		
Depreciation and amortization:		
Fixed assets owned	21,268	20,422
Leased property under capital leases	2,027	1,667
Amortization of goodwill	768	758
Minority interests in net earnings	24,586	21,589
Increase in deferred Federal income taxes	206	759
	48,855	45,195
Working capital provided from operations	150,029	133,182
Increase in long-term debt	14,110	—
Increase in obligations under capital leases	4,092	8,026
Proceeds from sale of subsidiaries' capital stock	1,857	3,557
Proceeds from sale of common stock under stock option plans and conversion of Subordinated Debentures	1,343	2,439
Dispositions of property, plant, equipment and leasehold improvements	2,011	1,320
Decrease (increase) in deferred charges and other assets	211	(352)
	173,653	148,172
Application of Funds:		
Additions to property, plant, equipment and leasehold improvements	53,106	50,183
Additions to leased property under capital leases	5,424	9,122
Reduction of long-term debt	6,058	6,021
Dividends paid	35,212	29,123
Dividends paid to minority interest	18,223	17,805
Decrease (increase) in lease obligations for closed stores	1,380	(1,028)
Purchase of preferred stock for treasury	388	339
	119,791	111,565
Net increase in working capital	$ 53,862	$ 36,607

THE SOUTHLAND CORPORATION (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Sources of Working Capital:		
From operations:		
Net earnings	$ 83,140	$ 57,097
Expenses charged to earnings which did not require outlay of working capital:		
Depreciation and amortization	56,501	46,839
Amortization of capital leases	22,609	20,884
Deferred income taxes and other credits	(12,948)	6,552
Working capital provided from operations	149,302	131,373
Long-term debt	78,858	70,658
Capital lease obligations	38,269	41,907
Retirements and sales of property	16,031	13,555
Retirements and sales of capital leases	11,318	1,397
Other	1,737	(366)
Issuance of common stock:		
Sale of stock	55,927	—
Key employees incentive plan	788	470
Conversion of notes	270	—
Acquisition	476	—
Employee stock options	30	704
	353,011	259,701
Uses of Working Capital:		
Property, plant, and equipment	217,087	141,438
Capital leases	38,269	41,907
Reduction of capital lease obligations	30,053	23,112
Payment of long-term debt	13,268	4,718
Cash dividends	17,381	13,627
Net noncurrent assets of businesses purchased for stock and cash	6,131	29,180
Retirement of long-term debt upon conversion of notes	270	—
Investments in affiliates	1,483	647
Cash paid in lieu of fractional shares on stock dividend	114	130
	324,058	254,761
Increase in working capital	$ 28,952	$ 4,940

THE STANDARD OIL COMPANY (AN OHIO CORPORATION)

Statement of Changes in Financial Position

	1979	1978
	(Thousands of Dollars)	
Sources of Working Capital		
Net income	$1,186,116	$ 450,205
Expenses not requiring outlay of working capital:		
Depreciation, depletion, amortization and loss on property disposals	546,512	412,499
Income taxes	424,349	129,564
Other	21,634	48,046
Total from operations	2,178,611	1,040,314
Treasury stock utilized for acquisitions	105,391	0
Addition to long-term debt	0	68,508
Capitalization of long-term lease obligations	50,123	221,197
Reduction of prepaid Alaskan severance tax	99,553	74,086
Sales of property, plant and equipment	15,845	10,313
Other transactions—net	11,596	44,264
	2,461,119	1,458,682
Uses of Working Capital		
Capital expenditures, including $87,097 for acquisitions in 1979	601,959	762,251
Reduction of long-term debt	696,790	605,059
Dividends paid	146,968	90,594
Treasury stock purchased in tender offer	140,782	0
Reduction of deferred revenue	20,881	1,958
Reduction of long-term lease obligations	18,072	22,928
	1,589,452	1,482,790
Working Capital Increase (Decrease)	$ 871,667	$ (24,108)

Exchange of Common Stock for Preferred Stock

CONAGRA, INC. (MAY)

Consolidated Statements of Changes in Financial Position

	1979	1978
	Dollars in thousands	
Funds provided:		
Net earnings	$ 21,034	$15,144
Items which do not use working capital:		
Depreciation and amortization	5,928	5,017
Increase in noncurrent deferred income taxes	522	1,046
Working capital provided from operations	27,484	21,207
Proceeds from issuance and assumption of long-term debt	7,530	6,938
Fair market value of common stock issued in connection with the acquisition of Bow Wow Company, Incorporated	196	1,388
Par value of Class C Preferred Stock issued in connection with the acquisition of Burdick Grain Company	—	2,250
Issuance of common stock for conversion of preferred stock—contra below	307	1,066
Proceeds from sale of property, plant and equipment	895	1,670
Proceeds from exercise of employee stock options	112	223
Total working capital provided	36,524	34,742
Funds used:		
Additions to property, plant and equipment	17,589	11,807
Repayment and current maturities of long-term debt	3,660	5,546
Cash dividends	6,234	4,370
Redemption of preferred stock	776	22
Conversion of preferred stock—contra above	307	1,066
Purchase of common stock held in treasury	858	642
Increase in investment in unconsolidated 50% or less owned domestic and foreign companies	7,975	2,242
Acquisition of businesses, less net current assets acquired; 1979, $4,086; 1978, $2,837		
Property, plant and equipment	715	3,822
Goodwill	1,955	—
Other, net	2,372	—
Other items, net	1,288	129
Total working capital used	43,729	29,646
Net increase (decrease) in working capital	$ (7,205)	$ 5,096

Cash Surrender Value Proceeds

DOE SPUN INC. (APR)

Statement of Changes in Financial Position

	1979	1978
Resources Provided:		
Net income	$1,329,463	$ 755,628
Add items not involving working capital:		
Depreciation and amortization	271,726	249,427
Amortization of import quota	345,251	87,765
Total provided by operations	1,946,440	1,092,820
Proceeds of cash surrender value of officers' life insurance	69,021	
Long-term debt incurred	55,338	200,000
Current portion of import quota	25,383	235,353
Total Resources Provided	2,096,182	1,528,173
Resources Applied:		
Current maturities of capitalized lease obligations	45,677	37,703
Purchase of treasury stock		5,388
Acquisition of property, plant and equipment	346,046	481,508
Cash dividends	141,975	142,215
Purchase of import quota	97,830	872,234
Other	18,694	8,960
Total Resources Applied	650,222	1,548,008
Increase (Decrease) In Working Capital	1,445,960	(19,835)
Working Capital at beginning	3,144,096	3,163,931
Working Capital at end	$4,590,056	$3,144,096

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 adjusted. 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.

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 follow. 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 5-5: ANALYSIS OF CHANGES IN WORKING CAPITAL ELEMENTS—PRESENTATION

	1979	1978	1977	1976
Analysis included as part of statement of changes in financial position	50	48	50	40
Analysis presented in a tabulation at bottom of statement of changes in financial position	528	530	523	536
Analysis presented in a tabulation apart from statement of changes in financial position	22	22	27	24
Total Companies	**600**	**600**	**600**	**600**

Analysis Included as Part of Statement

DOYLE DANE BERNBACH INTERNATIONAL INC. (DEC)

Statement of Consolidated Changes in Financial Position

	1978	1979
	(In Thousands of Dollars)	
Sources of Funds:		
Income from operations	$ 7,618	$ 9,009
Items not requiring outlay of funds:		
Depreciation and amortization	1,463	1,672
Minority interest	4	24
Deferred taxes	(494)	15
Deferred compensation benefits	172	250
Discount re prepayment of long-term debt	(125)	—
Compensation:		
Employee anniversary award plan	8	10
Exercise of non-qualified stock options	147	253
Shares returned re discontinued plastic boat business	—	(11)
Total from operations	8,793	11,222
Disposal of property and equipment	98	261
Increase in long-term debt	78	424
Increase in amounts due on acquisitions	—	798
Dividends returned re discontinued plastic boat business	—	3
Exercise of non-qualified stock options	8	23
Increase in:		
Accounts payable	3,314	13,755
Funds borrowed under reverse repurchase agreements	—	16,064
Taxes withheld and accrued	589	208
Pension and profit sharing plan contributions	207	249
Other current liabilities	2,930	2,319
Dividends payable	125	147
Current portion of long-term debt	2	39
Minority interest	—	80
	16,144	45,592

TABLE 5-6: TITLES IDENTIFYING ANALYSIS OF WORKING CAPITAL ELEMENTS

	1979	1978	1977	1976
Change in working capital ..	261	249	262	216
Increase (decrease) in working capital	205	227	224	267
Analysis of changes in working capital	49	37	33	38
Summary of changes in working capital	18	18	18	22
Other titles	17	21	13	17
Subtotal	**550**	**552**	**550**	**560**
Analysis included within statement of changes in financial position..........	50	48	50	40
Total Companies	**600**	**600**	**600**	**600**

Uses of Funds:		
Cash dividends including cash in lieu of fractional shares.......	2,517	3,062
Net assets of companies acquired (exclusive of cash of $252):		
Net working capital deficiency	—	(44)
Net fixed assets	—	173
Excess of purchase price over net assets acquired.........	—	768
Receivables, deferred charges etc.	—	80
Acquisition of property and equipment	1,766	3,286
Increase in excess of purchase price over net assets acquired	529	921
Increase in marketable securities—net.................	140	16,572
Increase in investment in capital stock of a Japanese advertising agency.....................	—	45
Decrease in notes payable to banks	1,207	537
Decrease (increase) in federal and foreign taxes on income .	(3,000)	3,229
Purchase of treasury stock	—	1,053
Repayments of and reduction in long-term debt	11	5
Dividends paid to minority interest	3	85
Purchase of minority interest....	42	—
Increase in:		
Accounts receivable—net.....	6,809	20,134
Expenditures billable to clients	215	1,370
Receivables, deferred charges etc.	124	743
Increase (decrease) in other current assets	(800)	1,748
	9,563	53,767
(Decrease) Increase in Cash and Temporary Cash Investments	$ 6,581	$ (8,175)

MOTOROLA, INC. (DEC)

Statements of Consolidated Changes in Financial Position

	1979	1978
	(Dollars in thousands)	
Sources of Funds		
Net earnings from operations.......	$154,296	$125,182
Add non-cash charges:		
Depreciation.......................	110,827	83,340
Amortization of deferred debentures discount, expense and premium, net..................	167	204
Funds provided from operations	265,290	208,726
Increase in accounts payable	46,894	48,079
Increase in accrued expenses	43,528	56,405
Increase in notes payable and current maturities of long-term debt	—	5,245
Disposals and other changes of plant and equipment (and tooling), net	19,330	12,113
Issuance of common stock	2,945	4,487
Increase in income taxes payable..	—	20,340
Decrease in future income tax benefit	3,593	—
Increase in long-term debt..........	97,537	—
Decrease in sundry assets, net.....	1,554	7,599
Other sources, net..................	16,290	6,783
Total Sources of Funds	496,961	369,777
Uses of Funds		
Increase in receivables.............	37,612	73,080
Increase in inventories	108,871	52,340
Fixed asset expenditures............	265,072	146,377
Increase in equipment rented to others, at cost	15,029	10,418
Decrease in long-term debt.........	—	2,188
Decrease in notes payable and current maturities of long-term debt	79,414	—
Dividends............................	38,903	32,175
Decrease in income taxes payable.	9,835	—
Increase in future income tax benefits	—	11,607
Total Uses of Funds	554,736	328,185
Net Increase/(Decrease) of Funds ..	(57,775)	41,592
Cash and short-term investments Beginning of period..............	157,405	115,813
End of Period.....................	$ 99,630	$157,405

Analysis Presented in a Tabulation at Bottom of Statement

AEL INDUSTRIES, INC. (FEB)

Consolidated Statement of Changes in Financial Position

	1979	1978
	($000)	
Source:		
Net income	$ 1,997	$ 1,776
Items not affecting working capital in the current period:		
Depreciation and amortization of plant and equipment	1,352	789
Amortization of debt discount	58	69
Amortization of deferred CATV expense	85	46
Provision for deferred income taxes	1,351	590
Gain on repurchase of debentures	(112)	(68)
Share in net (income) loss of unconsolidated affiliate, net of applicable income taxes	140	(65)
Working capital provided from operations	4,874	3,138
Sale of stock under stock option plan	2	92
Long-term borrowings	4,107	6,483
Warrants of a subsidiary issued in connection with long-term borrowings		99
Decrease in investments and advances	24	
Decrease in other assets		17
Undepreciated value of asset disposals	8	21
	9,018	9,853
Application:		
Increase in investments and advances		68
Additions to property, plant and equipment	5,181	3,586
Reduction of long-term debt	1,188	1,611
Increase in deferred CATV systems development expense	782	363
Increase in other assets	95	
Dividends	7	
	7,256	5,630
Increase in working capital	1,762	4,223
Working capital at beginning of year	10,617	6,393
Working capital at end of year	$12,379	$10,617
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	$(305)	$(420)
Marketable securities	(9,849)	6,696
Receivables	1,336	7,555
Income tax refund	129	
Inventories	16	1,515
Prepaid expenses	(37)	75
	(8,709)	15,423
Increase (decrease) in current liabilities:		
Notes payable	1,200	71
Accounts payable	(275)	1,229
Advance deposits	(11,589)	7,626
Accrued liabilities	244	1,827
Income taxes	(359)	280
Current portion of long-term debt	308	165
	(10,471)	11,200
Increase in working capital	$ 1,762	$ 4,223

BUCKBEE-MEARS COMPANY (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	($000)	
Source of Funds		
Net earnings	$ 4,339	$ 2,605
Items not affecting working capital:		
Depreciation	3,825	3,691
Deferred income taxes	169	(247)
Increase in unfunded pension liability	33	220
Loss on disposal of property and equipment	66	1,234
Other	264	(7)
Total from operations	8,696	7,496
Proceeds from long-term borrowing	2,500	—
Proceeds from sale of property and equipment	—	4,743
Other	40	—
	11,236	12,239
Application of Funds		
Additions to property, plant and equipment	7,511	2,752
Current maturities and prepayments of long-term debt	2,820	5,331
Dividends declared	676	460
Other	—	140
	11,007	8,683
Increase in Working Capital	$ 229	$ 3,556
Changes in Working Capital		
Increase (decrease) in current assets:		
Cash and cash equivalents	$ (3,651)	$ 2,581
Receivables	3,910	1,649
Inventories	5,351	(119)
Refundable foreign income taxes	900	—
Prepaid expenses	(20)	24
	6,490	4,135
Increase (decrease) in current liabilities:		
Notes payable, banks	4,915	—
Accounts payable	2,105	(472)
Accrued expenses	697	895
Income taxes payable	(2,326)	992
Current portion of long-term debt	870	(836)
	6,261	579
Increase in Working Capital	$ 229	$ 3,556

FOTOMAT CORPORATION (JAN)

Consolidated Statements of Changes in Financial Position

	1980	1979
	($000)	
Sources of working capital:		
Operations—		
Net income (loss)	$(4,690)	$6,299
Costs and expenses not requiring the use of working capital:		
Depreciation and amortization	9,823	9,150
Deferred income taxes	3,900	2,200
Store closures	1,491	1,864
Working capital provided by operations	10,524	19,513
Sale of common stock to Konishiroku Photo Ind. Co. Ltd.	12,250	—
Disposal of property and equipment	1,107	1,088
Issuance of common stock for employee stock purchase and option plans, exercise of warrants and note payment	706	1,136
Increase in long-term debt	659	977
Sale of subsidiary	390	—
Other	341	19
	25,977	22,733
Applications of working capital:		
Additions to property and equipment	13,507	14,307
Reductions of long-term debt (Note 4)	8,220	5,248
Cash dividends	1,001	3,966
Reacquisition of franchise units	119	60
Purchase of treasury stock	—	1,550
	22,847	25,131
Increase (decrease) in working capital	$3,130	$(2,398)
Summary of increases (decreases) in working capital:		
Cash	$ 317	$ (874)
Receivables	(2)	1,283
Income tax refund receivable	3,180	820
Inventories	3,752	4,972
Other current assets	152	(20)
Deferred income tax benefits	4,000	—
Marketable securities pledged	6,511	—
Bank line of credit	(3,011)	(6,278)
Current portion of long-term debt	(4,999)	(716)
Accounts payable	1,218	(903)
Payrolls and withholdings	477	(106)
Accrued taxes, interest and other expenses	(1,166)	(2,641)
Accrued litigation expense	(8,250)	—
Income taxes payable	(50)	2,057
Dividends payable	1,001	8
Increase (decrease) in working capital	$3,130	$(2,398)

Analysis Presented in a Tabulation Apart from Statement

CBI INDUSTRIES, INC. (DEC)

Consolidated Statements of Changes in Financial Position

	1979	1978
	(Thousands of dollars)	
Sources of working capital:		
Net income for the year	$ 58,714	$ 46,469
Add (deduct) items included in net income and not requiring use of working capital in current period:		
Cost of real estate properties sold	7,358	14,945
Equity in income of unconsolidated affiliates	(1,422)	(9,891)
Provision for depreciation	21,519	14,300
Income taxes not payable currently	7,701	1,295
Amortization of restricted stock award compensation	1,223	641
Other	(1,550)	(1,304)
Working capital provided from operations	$ 93,543	$ 66,455
Sale of investments	41,244	22,224
Disposition of property and equipment	330	1,755
Reclassification of taxes not payable currently to (from) deferred income taxes	(1,392)	6,087
Reclassification of investments from noncurrent to current assets	5,413	24,869
Dividends from and repayment of loans by unconsolidated affiliates	4,182	7,140
Proceeds from sale of common stock	3,484	2,786
Total working capital provided	$146,804	$131,316
Uses of working capital:		
Additions to other assets:		
Purchase of investments	$ 42,781	$ 31,127
Real estate properties	—	6,673
Investments in and loans to unconsolidated affiliates	217	5,622
Other assets	9,112	(1,209)
Additions to property and equipment	74,322	27,015
Acquisition of property and equipment of Circle Bar Drilling Company	45,387	—
Cash dividends	21,988	20,955
Cost of common stock reacquired	23,075	16,508
Total working capital used	$216,882	$106,691
Increase (decrease) in working capital (Note 12)	$ (70,078)	$ 24,625
Working capital at beginning of year	90,605	65,980
Working capital at end of year	$ 20,527	$ 90,605

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share amounts)

Note 12: Working Capital

Working capital (current assets less current liabilities) decreased by $70,078 from $90,605 at December 31, 1978 to $20,527 at December 31, 1979. The increase (decrease) by working capital component is:

	1979	1978
Cash	$12,534	$(13,739)
Temporary cash investments	(71,910)	(4,578)
Accounts receivable	18,589	14,886
Contracts in progress with costs exceeding billings	(1,092)	775
Inventories	(1,446)	(2,682)
Other current assets	1,031	(621)
Notes payable	(17,856)	13,479
Accounts payable	(17,605)	3,816
Accrued profit sharing	1,350	1,300
Other accrued liabilities	(9,025)	(2,948)
Contracts in progress with billings exceeding costs	21,317	(9,760)
Income taxes	(5,965)	24,697
Increase (decrease)	$(70,078)	$24,625

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, thirty Statements on Auditing Standards have been issued; some of which superseded sections of Statement No. 1. In 1980, the Auditing Standards Executive Committee issued *Codification of Statements on Auditing Standards* which is a codification of Statements on Auditing Standards Nos. 1-27.

TITLE OF AUDITORS' REPORT

Table 6-1 shows the descriptive titles used by the survey companies to identify the Auditors' Report.

TABLE 6-1: TITLE OF AUDITORS' REPORT

	1979	1978	1977	1976
Independent accountants' report	119	126	127	113
Auditors' report	123	120	121	129
Accountants' report	104	106	115	127
Independent auditors' report	70	66	56	41
Certified public accountants' report	53	48	51	39
Independent certified public accountants' report	42	43	33	34
Auditors' opinion	29	28	31	28
Accountants' opinion	5	7	11	12
Independent accountants' opinion	5	7	5	5
Independent certified public accountants' opinion	6	5	5	6
Other titles	6	5	3	20
No title	38	39	42	46
Total Companies	**600**	**600**	**600**	**600**

TABLE 6-2: ADDRESSEE OF AUDITORS' REPORT

	1979	1978	1977	1976
The Directors (Board of Directors) and Shareholders	454	454	438	429
The Stockholders	82	80	79	80
The Directors	56	55	71	75
The Company	8	11	11	12
Other, or no addressee	—	—	1	4
Total Companies	**600**	**600**	**600**	**600**

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 are illustrated in the Auditors' Reports presented as examples throughout this section.

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 1979 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 auditors' 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 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 *Statement on Auditing Standards 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

	1979	1978	1977	1976
Standard report	395	378	366	321
Variations to standard report	121	133	155	195
Modified report	84	89	79	84
Total Companies	**600**	**600**	**600**	**600**
Variations to Standard Report				
Sentence in scope paragraph referring to:				
Examination by other accountants	46	47	62	61
Prior year examination	4	11	8	28
Other	3	3	6	16
Middle paragraph between scope and opinion paragraphs referring to:				
Matter for which opinion qualified	42	52	66	97
Prior year qualification removed	20	19	20	9
Other	5	8	5	4
Sentence or paragraph following opinion paragraph	21	14	16	20
Total Variations	***141**	***154**	***183**	***235**

*Some Auditors' reports had more than one variation.

Examples of auditor's reports relating to items b, e, f, and g are presented in connection with Tables 6-4 and 6-5.

TABLE 6-4: REFERENCES TO OTHER AUDITORS

	1979	1978	1977	1976
Examination by Other Auditors Covers:				
Statements for branch or consolidated subsidiary	28	38	39	42
Statements of investee only	14	12	16	19
Statements for prior years only	8	2	12	6
Total Companies	**50**	**52**	**67**	**67**

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 30, 1979 and September 24, 1978, and the related consolidated statements of earnings, changes in 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. We did not examine the financial statements of certain consolidated subsidiaries located outside the United States which statements reflect total assets and revenues constituting 17% and 18% in 1979 and 32% and 37% in 1978, 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 30, 1979 and September 24, 1978, 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 consistently applied during the period, except for the change, with which we concur, in the method of determining the cost of United States inventories as described in the notes to the consolidated financial statements.

The Board of Directors and Stockholders,
Conoco Inc.

We have examined the accompanying consolidated balance sheet of Conoco Inc. (name changed from Continental Oil Company) and subsidiaries at December 31, 1979 and 1978 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 10% and 3%, respectively, in 1979 and 11% and 3%, respectively, in 1978 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 examinations and the report of other auditors, the statements mentioned above present fairly the consolidated financial position of Conoco Inc. and subsidiaries at December 31, 1979 and 1978 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 applied on a consistent basis during the period.—*Report of Certified Public Accountants.*

To the Shareholders and Board of Directors
of Dresser Industries, Inc.:

We have examined the consolidated balance sheets of Dresser Industries, Inc. (a Delaware corporation) and subsidiaries as of October 31, 1979 and October 31, 1978, and the related consolidated 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. We did not examine the financial statements of certain foreign subsidiaries whose assets represent approximately 19% of consolidated assets in both 1979 and 1978, and whose net sales and service revenues represent approximately 17% and 19% of consolidated net sales and service revenues in 1979 and 1978. 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 those foreign subsidiaries, is based solely upon the reports of other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the consolidated financial statements referred to above present fairly the financial position of Dresser Industries, Inc. and subsidiaries as of October 31, 1979 and October 31, 1978, 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' Report.*

To the Share Owners of International Paper Company:

We have examined the consolidated balance sheets of International Paper Company (a New York corporation) and consolidated subsidiaries as of December 31, 1979 and 1978, 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. The financial statements of Canadian International Paper Company included in the consolidated financial statements (constituting approximately 15 percent of total consolidated assets and 20 percent of total consolidated sales for both 1979 and 1978) 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 from Canadian International Paper Company, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other auditors, referred to above, the accompanying consolidated financial statements present fairly the consolidated financial position of International Paper Company and consolidated subsidiaries as of December 31, 1979 and 1978, 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 Public Accountants.*

Schering-Plough Corporation, its Directors and Shareholders:

We have examined the consolidated balance sheet of Schering-Plough Corporation and subsidiaries as of December 31, 1979 and 1978 and the related statements of consolidated income and retained earnings, consolidated paid-in capital 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. We did not examine the financial statements of Scholl, Inc. and its subsidiaries ("Scholl") for the nine months ended December 31, 1979, which statements reflect assets and revenues constituting 13.7 percent and 14.5 percent, respectively, of the related consolidated totals. The financial statements of Scholl for the year ended December 31, 1979, were examined by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Scholl for the nine months ended December 31, 1979, is based upon the financial statements of Scholl for the year ended December 31, 1979 as reported on by other auditors.

In our opinion, based upon our examinations and to the extent stated above on the report of other auditors, such consolidated financial statements present fairly the financial position of Schering-Plough Corporation and subsidiaries at December 31, 1979 and 1978 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.—*Accountants' Report.*

Investees

The Shareholders and the
Board of Directors
Allegheny Ludlum Industries, Inc.:

We have examined the consolidated balance sheets of Allegheny Ludlum Industries, Inc. and consolidated subsidiaries as of December 30, 1979 and December 31, 1978 and the related consolidated statements of earnings, additional paid-in capital 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 Liquid Air Corporation of North America, an investment which is recorded under the equity method of accounting since its acquisition on March 28, 1979. The Company's investment in Liquid Air Corporation of North America represents 6.5 percent of consolidated assets at December 30, 1979 and its equity in earnings of Liquid Air Corporation of North America represents 8.2 percent of consolidated net earnings for the year ended December 30, 1979. The financial statements of Liquid Air Corporation of North America 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 Liquid Air Corporation of North America, is based solely upon the report of the other auditors.

In our opinion, based on our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Allegheny Ludlum Industries, Inc. and consolidated subsidiaries at December 30, 1979 and December 31, 1978 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.—*Accountants' Report.*

The Shareholders and Board of Directors
Chromalloy American Corporation:

We have examined the consolidated balance sheets of Chromalloy American Corporation and subsidiaries as of December 31, 1979 and 1978 and the related consolidated 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 The Saval Group, Inc., a nonconsolidated subsidiary. The Company's investment in and advances to The Saval Group, Inc. at December 31, 1979 and 1978 was $22,016,000 and $16,765,000, respectively, and its equity in net earnings of The Saval Group, Inc. was $5,636,000 and 5,652,000 for 1979 and 1978, respectively. These financial 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 The Saval Group, Inc., is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Chromalloy American Corporation and subsidiaries at December 31, 1979 and 1978 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.—*Accountants' Report.*

The Stockholders and the Board of Directors
of Kaiser Aluminum & Chemical Corporation:

We have examined the consolidated balance sheets of Kaiser Aluminum & Chemical Corporation and its consolidated subsidiary companies as of December 31, 1979 and 1978, and the related statements of consolidated income, consolidated stockholders' equity, 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 companies representing 42% and 45% of the investments accounted for by the equity method at December 31, 1979 and 1978. The financial statements of these companies were examined by other auditors whose reports thereon have been 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 auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such consolidated financial statements present fairly the financial position of Kaiser Aluminum & Chemical Corporation and its consolidated subsidiary companies at December 31, 1979 and 1978, 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 during the periods except for the change, with which we concur, in 1979 in the method of accounting for interest costs as described in Note 6 to the financial statements.—*Report of Independent Public Accountants.*

Prior Year Statements

The Board of Directors and Shareholders
CMI Corporation:

We have examined the consolidated balance sheets of CMI Corporation and subsidiaries as of December 31, 1979 and 1978, and the related consolidated 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 1978 financial statements of Load King Trailer and Bid-Well divisions of CMI Corporation, which statements reflect total assets constituting 11% and total revenues constituting 17% of the related consolidated totals. Those 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 1978 amounts included for Load King Trailer and Bid-Well divisions, is based solely upon the report of other auditors.

In our opinion, based upon our examination and the report of other auditors for 1978, the aforementioned consolidated financial statements present fairly the financial position of CMI Corporation and subsidiaries at December 31, 1979 and 1978 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.*

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 uncertainties for which the auditors' opinions included in the survey company annual reports are qualified. One of the 30 auditors' opinions qualified as to uncertainties was also qualified as to a scope limitation.

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 and an example of a disclaimer of an opinion follow.

TABLE 6-5: QUALIFIED OPINIONS

	1979	1978	1977	1976
Uncertainties				
Litigation	18	27	29	38
Valuation or realization of assets	4	14	8	10
Discontinued operations	3	4	5	6
Going concern	5	3	6	8
Tax or renegotiation liability	2	2	5	7
Other	3	6	7	6
Total Uncertainties	**35**	**56**	**60**	**75**
Total Companies	**30**	**41**	**47**	**59**
Accounting Principle Changes				
LIFO adopted	38	13	6	15
Lease capitalization	21	54	40	—
Oil and gas operations	12	8	—	—
Interest capitalization	12	—	—	—
Investment tax credit	7	3	1	2
Consolidation policy	6	3	4	5
Other	19	11	21	63
Total Changes	**115**	**92**	**72**	**85**
Total Companies	**97**	**80**	**65**	**73**

Disclaimer

To the Shareholders of Vesely Company

We have examined the balance sheets of Vesely Company (a Michigan Corporation) as of September 30, 1979 and 1978, and the related statements of operations, 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.

As discussed in Note 2 to the financial statements, the Company's line of credit and term note payable to a bank are subject to compliance with provisions of a loan agreement. During 1979 and subsequent to September 30, 1979, the bank claims that the Company is in violation of certain provisions of the loan agreement and has not made scheduled debt service payments. On October 25, 1979, the bank demanded immediate payment of the outstanding principal of $4,400,000 and associated accrued interest. Management has met with representatives of the bank in an attempt to restructure the loan agreement, however, at the present time future financing of the Company is not determinable. Since the bank claims that all the Company's assets are pledged as collateral for these loans, foreclosure by the bank would seriously impair the Company's ability to continue in business and to realize its investment in assets through future successful operations.

As reflected in the accompanying financial statements, the Company incurred net losses of $3,541,158 and $1,007,895 for the years ended September 30, 1979 and 1978, respectively, and had a working capital deficit of $2,009,706 and a retained deficit of $2,254,929 at September 30, 1979. As discussed in Note 7 to the financial statements, the Company and most of its customers are engaged in the recreational vehicle industry. This industry's sales have been adversely affected by reduced consumer demand caused by fuel shortages, high fuel prices, high interest rates and inflation. The accompanying financial statements have been prepared on the assumption that the Company will continue to operate, and no provision has been made for any losses which might occur in the event of forced liquidation. Accordingly, realization of the carrying value of the assets included in the balance sheets referred to above is dependent upon successful future operations of the Company.

In our report dated October 30, 1978, our opinion on the 1978 financial statements was unqualified: however, in view of the matters discussed above, our present opinion, as presented herein, is different from that expressed in our previous report.

Because of the significance of the matters discussed in the previous paragraphs, we are unable to express, and we do not express, an opinion on the financial statements referred to above—*Auditors' Report*.

Litigation

To the Stockholders and Board of Directors,
The Firestone Tire & Rubber Company:

We have examined the balance sheets of The Firestone Tire & Rubber Company and consolidated subsidiaries at October 31, 1979 and 1978, and the related statements of income, 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.

As set forth in Note 16 to the financial statements, the Company is a party to various legal and other actions. These actions claim substantial amounts as a result of alleged tire defects and other matters. The ultimate liability resulting from these matters cannot be reasonably estimated. In our report dated December 18, 1978, our opinion on the financial statements for the year ended October 31, 1978, was unqualified. However, due to the increased uncertainties that developed during the year ended October 31, 1979, with respect to these matters, our present opinion on the financial statements for the year ended October 31, 1978, as presented herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the financial statements of adjustments that might have been required had the outcome of the matters referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of The Firestone Tire & Rubber Company and consolidated subsidiaries at October 31, 1979 and 1978, 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.*

NOTES TO FINANCIAL STATEMENTS

Note 16: Contingent liabilities

Twelve purported consumer commercial class actions (one of which consolidates five previous actions) are presently pending against the Company in various state and federal courts. An additional case is pending which is not denominated as a class action but requests relief on behalf of all those similarly situated. In the purported class actions, the named plaintiffs are requesting, on behalf of claimed classes of consumers, six national in scope, five state-wide, and one city-wide, various forms of injunctive and monetary relief, including punitive damages, as a result of the Company's having manufactured and sold allegedly defective Steel Belted Radial 500 and other steel belted radial passenger tires.

The complaints in these cases define the classes of persons sought to be represented to include very broad and heterogeneous memberships with various kinds of potential claims under the National Traffic and Motor Vehicle Safety Act of 1966, the Magnuson-Moss Act, and under state warranty, consumer protection and other laws.

In all of the twelve actions the complaints pray for actual or compensatory damages such as recovery of the purchase price of the tires, or damages for injury to person or property, in amounts ranging from amounts to be determined at trial to over $2 billion. Ten of the complaints request punitive damages ranging to as much as $300 million on behalf of the class sought to be represented. Many of the complaints also include requests for equitable relief in the form of rescission of tire purchase transactions, recall and free replacement of the tires (see Note 15 for information with respect to tire recall), and other types of relief.

In addition to the class actions, there are several thousand individual claims pending against the Company for damages allegedly connected with steel belted radial passenger tires. Several hundred of these claims are the subject of pending litigation and in approximately two hundred cases the compensatory damages sought for wrongful death, personal injuries, or property damage are substantial. Punitive damages are sought in many of the cases.

The Company is also defendant in approximately one hundred lawsuits that seek damages for personal injuries, wrongful death, or property damage arising from alleged malfunctions of multi-piece truck wheel components manufactured by the Company. Many of these cases seek substantial compensatory as well as punitive damages. Additionally, various other product liability lawsuits and other suits and claims are pending against the Company.

The Company is a defendant in a purported class action which seeks, among other things, recovery for losses by stockholders who purchased the Company common stock between December 1975 and July 1978 by reason of the decline in the market price for such stock alleged to result from the Company's alleged failure to make proper disclosure of, among other things, the steel belted radial passenger tire situation.

In March, 1979, the United States brought an action seeking recovery against the Company in the amount of approximately $62 million by reason of alleged illegal gold trading activity in Switzerland.

Following a federal grand jury investigation into the Company's income taxes, the Company entered into a plea agreement in July 1979 under which the Company pleaded guilty to two counts charging the inclusion in its taxable income for 1972 and 1973 amounts that had been generated in prior years; the court imposed a total fine of ten thousand dollars on the Company by reason of its plea. A civil tax audit by the Internal Revenue Service is currently in progress covering some of the same matters investigated by the grand jury as well as other matters. The government may assess substantial tax, interest and penalties in connection with the matters under investigation.

The Securities and Exchange Commission is conducting an investigation of the adequacy of the Company's disclosures in earlier years concerning the Steel Belted Radial 500 tire, and the Company is included in an industry-wide investigation by the National Highway Traffic Safety Administration regarding truck multi-piece wheels and rims.

The Company has various other contingent liabilities, some of which are for substantial amounts, arising out of suits, investigations and claims related to other aspects of the conduct of its business and based upon various legal theories.

Increased uncertainties have developed during the past year with regard to some of the contingencies identified in this note. Because of the existing uncertainties, the eventual outcome of these contingencies cannot be predicted, and the ultimate liability with respect to them cannot be reasonably estimated. Since the minimum potential liability for a substantial portion of the claims and suits described in this note cannot be reasonably estimated, no liability for them has been recorded in the financial statements. Management believes, however, that the disposition of these contingencies could well be very costly. Although the Company's management, including its General Counsel, believes it is unlikely that the ultimate outcome of contingencies will have a material adverse effect on the Company's consolidated financial position, such a consequence is possible if substantial punitive or other damages are awarded in one or more of the cases involved.

To the Board of Directors and Shareholders of Fotomat Corporation:

We have examined the Consolidated balance sheets of Fotomat Corporation (a Delaware corporation) and subsidiaries as of January 31, 1980 and 1979, and the related consolidated statements of 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.

As discussed further in Note 7 to the consolidated financial statements, the Company is the defendant in various lawsuits involving franchisee claims. It is not possible to predict whether the ultimate award or settlement amounts related to unresolved franchisee suits will exceed amounts currently provided by the Company.

In our opinion, subject to the effect of any adjustments that might have been required had the ultimate outcome of the matters mentioned in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Fotomat Corporation and subsidiaries as of January 31, 1980 and 1979, 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' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Litigation

Certain Company franchisees have filed separate actions against the Company, which are predicated on essentially identical theories, to recover alleged overcharges on the purchase of film and processing services from the Company. The complaints also allege certain violations of Federal and state antitrust laws.

In one of these actions involving an Indianapolis franchisee, the Company, subsequent to January 31, 1980, has borrowed and, in accordance with a judgment award, has paid out $3,700,000 plus accumulated interest. In another franchisee action involving certain Kansas City franchisees, the Company has reached a settlement with those franchisees whereby it agreed to amend certain terms of the agreements with those franchisees, refund certain fees and make payment for damages over a period of years totalling $900,000 plus interest in consideration for a full and complete release from those franchisees.

In a third franchisee action involving certain other Kansas City and St. Louis franchisees, the Company has deposited certificates of deposit with the court in Kansas City totalling $6,511,000 pending appeal of the case. The Company is also defendant in another franchisee action in California, currently in the discovery stage and scheduled to come to trial during 1980.

While it is not possible to predict the ultimate award or settlement amounts related to the unresolved franchisee suits (as to which franchisees claim approximately $16 million), the Company and its outside legal counsel believe, based upon the results in settled franchisee actions, that the ultimate award or settlements will be substantially less than the amounts currently being sought. The Company has provided $8,250,000 (pretax) in 1979 for actual settlements and damages as well as obligations presently estimated to be payable in connection with the unsettled claims described above.

The Company has a number of claims arising from the normal conduct of business which, in the opinion of management, would not have a material effect on the accompanying financial statements.

To the Shareholders and Board of Directors
of Gulf Oil Corporation

We have examined the consolidated statement of financial position of Gulf Oil Corporation and its consolidated subsidiaries at December 31, 1979 and 1978, 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.

As discussed in Notes 5 and 6 of Notes to Financial Statements, the Company is involved in a number of legal proceedings concerning uranium matters. Management believes that the resolution of these matters taken as a whole will not have a material adverse effect on the Company's consolidated financial position. However, the ultimate outcome of these uncertainties cannot presently be determined, and no provision for any liability that may result has been made in the consolidated financial statements.

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 preceding paragraph been known, the aforementioned consolidated financial statements present fairly the financial position of Gulf Oil Corporation and its consolidated subsidiaries at December 31, 1979 and 1978, 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 oil and gas exploration and production operations as described in Note 2 of Notes to Financial Statements.—*Report of Independent Accountants.*

To the Shareholders of
Weyerhaeuser Company:

We have examined the consolidated balance sheet of Weyerhaeuser Company (a Washington corporation) and subsidiaries as of December 30, 1979, and December 31, 1978, and the related statements of consolidated 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.

As discussed in Note 10 of notes to financial statements, the Company has been named as a defendant in antitrust lawsuits involving the sale and distribution of softwood plywood. In connection therewith, a jury verdict was returned in November, 1978 against the Company and two other defendants. The Company intends to appeal the verdict. Damages have not been established and the extent of the Company's liability, if any, is uncertain at this time.

In our opinion, subject to the effect of any adjustments that might have been required had the outcome of the matter mentioned in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Weyerhaeuser Company and subsidiaries as of December 30, 1979, and December 31, 1978, 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 Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

Note 10: Legal proceedings

The Company intends to appeal an unfavorable jury verdict in a civil class action antitrust suit involving the sale and distribution of softwood plywood. The Company and its General Counsel believe that the verdict should be overturned on appeal. However, if the decision is allowed to stand, the plaintiff class might be able to establish damages on the theory adopted by the jury in reaching its adverse verdict, and that could result in damages in a very material amount being assessed against the Company. However, at this time, the Company and its General Counsel are not in a position to predict the extent of the Company's liability, if any, in this matter.

The Company is also party to various civil antitrust lawsuits, some of which are class actions, and other legal proceedings generally incidental to its business, including certain actions relating to environmental matters. In addition, the Company is subject to grand jury investigations concerning compliance with the antitrust laws in connection with the sale of a number of products manufactured by the Company. Although the final outcome of any legal proceeding or investigation is subject to a great many variables and cannot be predicted with any degree of certainty, the Company and its General Counsel presently believe the ultimate disposition of any of the legal proceedings or investigations referred to in this paragraph, or all of them combined, will not have a material adverse effect on the Company's business or financial condition.

Valuation or Realization of Assets

Board of Directors and Shareholders
F&B/CECO Industries, Inc.

We have examined the consolidated balance sheets of F&B/CECO Industries, Inc. and Subsidiaries as of May 31, 1979 and 1978, and the related consolidated statements of income (loss), 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 October 6, 1978, our opinion on the May 31, 1978 consolidated financial statements was qualified subject to the outcome of certain legal actions involving alleged breach of contract, warranty and negligence. As explained in Note 8 of the notes to consolidated financial statements, these actions are awaiting trial, the results of which are not expected to have a material effect on the Company's consolidated financial position. As a result, the major uncertainties relating to those legal actions involving the May 31, 1978 consolidated financial statements have been eliminated and a qualification for those legal actions is no longer considered necessary. Accordingly, our present opinion on the May 31, 1978 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

Included among other assets in the consolidated balance sheet as of May 31, 1979 are investments in theatrical productions amounting to $121,715 (Note 3). The ultimate recovery of such amount is dependent primarily on the successful marketing of these productions in the future.

In our opinion, subject to the effects, if any, of such adjustments 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 F&B/CECO Industries, Inc. and Subsidiaries as of May 31, 1979 and 1978, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Investments in theatrical productions:

The Company has investments in four theatrical productions as at May 31, 1979 for a total amount of $121,715. Such investments were made in connection with services provided by the Company in the production of theatrical films. The ultimate recovery of these investments is dependent primarily on the successful marketing of these productions in the future.

Renegotiation Proceedings

To the Stockholders of National Presto Industries, Inc.

We have examined the consolidated balance sheets of National Presto Industries, Inc. and Subsidiaries as of December 31, 1979 and 1978, 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.

As discussed in Note D to the Financial Statements, the profits of the Company include those from transactions which are subject to the provisions of the Renegotiation Act of 1951. It is not presently possible to determine the results of renegotiation proceedings for years 1967 through 1972.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the renegotiation proceedings as discussed in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of National Presto Industries, Inc. and Subsidiaries as of December 31, 1979 and 1978, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note D: Renegotiation:

Profits of the Company include those from transactions which are subject to the provisions of the Renegotiation Act of 1951. The Company has settled or received clearance for all years to and including December 31, 1966. On May 21, 1976, the Company received from the Renegotiation Board its Orders Determining Excessive Profits for the six years ended December 31, 1972 in the net amount of $11,076,995 after tax credits. This amount was deposited on July 2, 1976, with the United States Government under protest, and de novo proceedings were commenced by the Company in the Court of Claims in July of 1976. This deposit was included in other assets on the Company's December 31, 1978 balance sheet. On June 25, 1979, this amount was returned to the Company and a bond was substituted therefore. The bond requires that marketable securities amounting to approximately $12,000,000, at cost, be held in escrow and these securities are included in other assets in the December 31, 1979 balance sheet. Litigation on the protest is presently in the discovery stage. The Renegotiation Board ceased its operations on March 31, 1979. It is not presently possible to determine the amounts of refunds, if any, that may ultimately be determined for the years 1967 through 1972.

Going Concern

Shareholders and Board of Directors
Chrysler Corporation
Detroit, Michigan

We have examined the accompanying consolidated balance sheet of Chrysler Corporation and consolidated subsidiaries at December 31, 1979 and 1978, and the related consolidated statements of operations 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 more fully described in Note 2, during 1979 the Corporation encountered substantial problems resulting in a loss of $1,097.3 million which has significantly weakened its financial condition. Consequently, the Corporation is currently in violation of loan covenants with certain lenders which permits the acceleration of substantially all debt including the long-term debt (see Note 3). In addition, the Corporation recognized the need to expend an initially estimated $13.5 billion (subject to continual review) for product programs for the period 1979-1985, including $7.8 billion for capital expenditures. Because Chrysler determined that it would be unable to sustain its losses and raise such total capital requirements through conventional funding sources, it requested federal government assistance in the form of loan guarantees which resulted in the Chrysler Corporation Loan Guarantee Act of 1979. The Operating Plan submitted to the government on December 17, 1979 anticipates resolving these financial needs through the continued availability of existing financing, an additional $2.1 billion from the sale of assets, concessions from interested parties, and other financing arrangements, and the remainder from cash flow from operations. This Plan, under continual review and refinement to deal with changing conditions, also projects a reduced operating loss in 1980, a profit in 1981 and substantially improved profits thereafter. The availability of a commitment for federal loan guarantees for new borrowings of up to $1.5 billion depends upon meeting the requirements of the Chrysler Corporation Loan Guarantee Act of 1979, as discussed in Note 2. It is the Corporation's objective to have all conditions met by April 1, 1980, and to be in a position to obtain the Board's guarantee of the first loan under the Act shortly thereafter. Prior to the finalization of arrangements with the Loan Guarantee Board and with current lenders to modify the terms of various existing loan agreements, significant interim financing is necessary to meet the Corporation's financial obligations until federally guaranteed loans are available.

The Corporation anticipates completing commercial and industrial arrangements with PSA Peugeot-Citroen ("Peugeot") by May 31, 1980 (see Note 5). Such arrangements are contemplated as part of the Corporation's ongoing operations, and its 14% ownership of Peugeot continues to be valued as a long-term investment. However, the basis for the valuation of the Peugeot stock may be different if the nature of this investment changes because of failure to reach the commercial and industrial arrangements.

The ability of the Corporation to operate in accordance with its operating and financing plans is dependent on many factors, some of which are beyond the Corporation's control, including the effect of government energy, safety, and emissions policies, the availability and price of gasoline, overall automobile industry market conditions, acceptance of the Corporation's products, and the impact of world economic and political developments. Because the achievement of these plans is dependent upon future events, there can be no assurance that the necessary interim or long-term financing can be arranged, that future operations will occur as planned, that there will be no need to significantly restructure Chrysler's product programs, or that the anticipated commercial and industrial arrangements with Peugeot will be achieved. The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern and accordingly they do not purport to give effect to adjustments, if any, that may be appropriate should the Corporation 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 in the accompanying financial statements.

In our report dated February 26, 1979, our opinion on the 1978 financial statements was unqualified; however, in view of the uncertainties arising in 1979 as referred to in the preceding paragraphs, our opinion on the accompanying 1978 financial statements, expressed in the next paragraph, replaces our previous opinion.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties described above been known, the financial statements examined by us present fairly the financial position of Chrysler Corporation and consolidated subsidiaries at December 31, 1979 and 1978, 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.—*Accountants' Report*.

To the Stockholders and
Board of Directors of
The Rath Packing Company

We have examined the balance sheet of The Rath Packing Company as of September 29, 1979 and September 30, 1978 and the related statements of operations and accumulated deficit and of 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.

During the fiscal years ended September 29, 1979 and September 30, 1978, the company incurred net losses of $1,485,000 and $6,441,000, respectively. Future working capital requirements are dependent on the company's ability to restore and maintain profitable operations, to restructure its financing arrangements and to continue the present short-term financing or obtain alternative financing as required. It is not possible to predict the outcome of future operations or whether the necessary alternative financing can be arranged, if needed. The accompanying fiscal year 1979 and 1978 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 the company 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 in the accompanying fiscal year 1979 and 1978 financial statements.

As described in Note 5, the company was a defendant in two lawsuits alleging breach of brokerage contracts and claiming compensatory and punitive damages; however, one of the lawsuits was dismissed in August 1979. The ultimate outcome of the other lawsuit is not presently determinable. Accordingly, no provision for liability, if any, has been made in the fiscal year 1979 or 1978 financial statements.

In our opinion, subject to the effects on the fiscal year 1979 and 1978 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 financial statements examined by us present fairly the financial position of The Rath Packing Company at September 29, 1979 and September 30, 1978 and the results of its operations and the changes in its financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Accountants*.

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 . . .

LIFO Adopted

American Seating Company
Grand Rapids, Michigan

We have examined the consolidated balance sheets of American Seating Company and subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of operations, 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.

In our opinion, the statements mentioned present fairly the consolidated financial position of American Seating Company and subsidiaries at December 31, 1979 and 1978 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, except for the change, with which we concur, in the method of valuing inventories as described in Note 2 to the financial statements.—*Accountants' Report*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Inventories

In 1979, the Company changed its method of accounting for substantially all inventories from the previously used lower of cost (first-in, first-out) or market (FIFO) to the last-in, first out cost, not in excess of market (LIFO) method. Because of rising costs, the LIFO method was adopted to more closely match current costs with current revenues. The effect on the net loss for the year was an increase of $343,000 or $.39 per share. The cumulative effect on prior years' income of this change in accounting is not determinable.

The inventory at December 31, 1979 would have been higher than reported by $636,000 if the FIFO method had been used.

	1979	1978
Work in process and finished products	$14,647,154	$11,687,262
Row materials	7,778,908	5,157,801
Total inventories	$22,426,062	$16,845,063

To the Shareholders and Board of Directors,
Whittaker Corporation

We have examined the consolidated balance sheets of Whittaker Corporation and consolidated subsidiaries as of October 31, 1979 and 1978, and the related consolidated statements of income, additional paid-in capital, 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 aforementioned consolidated financial statements present fairly the consolidated financial position of Whittaker Corporation and consolidated subsidiaries as of October 31, 1979 and 1978, 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, except for the change, with which we concur, to the last-in, first-out (LIFO) method of valuing certain inventories as described in Note 3 of Notes to Consolidated Financial Statements.—*Auditor's Report*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Accounting Change

In the fourth quarter of 1979, Whittaker changed its method of accounting for certain of its metals distribution inventories and silver inventories to the last-in, first-out (LIFO) method. This change in 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 effect of this change was to reduce net income for 1979 by $2,041,000, or $.17 per share, from what it would have been if the former inventory valuation method had been continued. Previously reported net income for the first, second and third quarters of 1979 has been reduced by $569,000 ($.04 per share), $657,000 ($.04 per share) and $626,000 ($.05 per share), respectively. Had the first-in, first-out (FIFO) method been used in the current year, inventories would have been $4,471,000 higher than reported at October 31, 1979.

Lease Capitalization

To the Shareholders and Board of Directors
of Amstar Corporation:

We have examined the consolidated balance sheets of Amstar Corporation (a Delaware corporation) and subsidiaries as of June 30, 1979 and 1978, and the related consolidated statements of income, retained earnings, changes in capital accounts 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 Amstar Corporation and subsidiaries as of June 30, 1979 and 1978, 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 giving retroactive effect to the change (with which we concur) in the method of accounting for leases, as explained in Note 1 to the consolidated financial statements.—*Report of Independent Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A. Accounting for Leases: In fiscal 1979, the Corporation changed its method of accounting for leases in accordance with Statement of Financial Accounting Standards No. 13. Under this accounting concept, capital leases, defined as those which transfer substantially all of the characteristics of ownership to the lessee, have been recorded as if the Corporation had acquired the related assets through debt financing. The assets associated with the capital leases are depreciated over the shorter of their economic life or the lease term. The financial statements for 1978 have been appropriately restated to be consistent with this change. The application of this method of accounting for leases had no significant effect on income in any year, including fiscal years 1978 and 1979.

The Board of Directors and Stockholders Chock Full O'Nuts Corporation:

We have examined the consolidated balance sheets of Chock Full O'Nuts Corporation and subsidiaries as of July 31, 1979 and 1978, and the related consolidated statements of operations, retained earnings (deficit), 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 aforementioned financial statements present fairly the consolidated financial position of Chock Full O'Nuts Corporation and subsidiaries at July 31, 1979 and 1978, 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, in the method of accounting for leases as described in note 3 to the financial statements.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3: Change in Accounting

As of August 1, 1978, the Company capitalized certain leases to comply with the accounting prescribed by Statement of Financial Accounting Standards No. 13. Statement No. 13 requires that financial statements for prior periods be restated to reflect the adoption of its provisions retroactively. The cumulative effect of applying the new method of accounting to leases entered into prior to January 1, 1977 was to increase the accumulated deficit at July 31, 1978 and 1977 by $756,907 and $749,727, respectively. Leases entered into subsequent to December 31, 1976 were accounted for in accordance with Statement No. 13 at the time of their inception. The effect of the restatement for the year ended July 31, 1978 was to decrease net income by $7,180. At July 31, 1978, property, plant and equipment includes $2,040,078 representing the depreciated value of leasehold interest recorded as the result of this accounting change, while the long-term debt and current installments of long-term debts amounts include the related obligations aggregating $2,796,986.

Oil and Gas Operations

The Board of Directors and Stockholders
Amerada Hess Corporation

We have examined the accompanying consolidated balance sheet of Amerada Hess Corporation and consolidated subsidiaries at December 31, 1979 and 1978, and the related statements of consolidated income, consolidated retained earnings, consolidated changes in capital stock and capital in excess of par value, 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 statements mentioned above present fairly the consolidated financial position of Amerada Hess Corporation and consolidated subsidiaries at December 31, 1979 and 1978 and the consolidated results of operations and the changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement of the consolidated financial statements for 1978 to give retroactive effect to the change, with which we concur, in the method of accounting for oil and gas exploration and producing activities as described in Note 2 to the consolidated financial statements.—*Report of Certified Public Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Change in Accounting for Oil and Gas Exploration and Producing Activities

In December 1979, the Corporation modified its "successful efforts" method of accounting for oil and gas exploration and producing activities to comply with the provisions of FAS No. 19. The principal changes related to the treatment of intangible drilling costs and leasehold costs. In the last quarter of 1979, FAS No. 19 was applied retroactively and, accordingly, the financial statements for prior years have been restated resulting in an increase in retained earnings at January 1, 1978 of $39,398,000. The effect on 1979 and 1978 net income was as follows:

	Increase (decrease)			
	1979		1978	
	Amount	Per share	Amount	Per share
First quarter	$14,069,000	$.34	$10,931,000	$ .27
Second quarter	14,761,000	.35	5,816,000	.14
Third quarter	9,135,000	.22	(13,378,000)	(.33)
Fourth quarter	(3,158,000)	(.08)	(6,889,000)	(.17)
Total	$34,807,000	$.83	$(3,520,000)	$(.09)

Interest Capitalization

To the Shareholders of
American Can Company:

We have examined the statement of financial position of American Can Company and Consolidated Subsidiaries as of December 31, 1979 and 1978, and the related statements of income and earnings reinvested 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 American Can Company and Consolidated Subsidiaries at December 31, 1979 and 1978, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which have been consistently applied during the periods except as to the adoption, with which we concur, of the policy of capitalizing interest cost as described in Note 14 to the financial statements.—*Report of Independent Certified Public Accountants.*

NOTES TO FINANCIAL STATEMENTS

(In millions of dollars except per share amounts)

Note 14: Capitalization of Interest

In 1979 the Financial Accounting Standards Board issued an accounting standard on the capitalization of interest. As a result, the Company changed its policy regarding interest on funds borrowed to finance the acquisition of major plant, property and equipment. Since January 1, 1979, this interest has been added to the cost of the property up to the time the facility begins operations. The effect of this change was to decrease interest expense by $9.9 and increase net income by $5.0, or $.26 per share, for the year ended December 31, 1979.

To the Stockholders and Board
of Directors of Republic
Steel Corporation

We have examined the consolidated balance sheets of Republic Steel Corporation and consolidated subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income, income retained and 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.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Republic Steel Corporation and consolidated subsidiaries at December 31, 1979 and 1978, 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 accounting for interest expense as described in Note C to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note C (in part): Properties, Plants and Equipment

Effective January 1, 1979, the Corporation has capitalized interest expense of $11,051,000 as part of the cost of construction of facilities and equipment. In 1978, interest was expensed as incurred. This accounting change, to comply with Financial Accounting Standards Board Statement No. 34, increased 1979 net income by $5,957,000 or $.37 per share.

Investment Tax Credit

To the Board of Directors
Standard Motor Products, Inc.

We have examined the consolidated balance sheets of Standard Motor Products, Inc. and Subsidiaries as at December 31, 1979 and 1978, and the related 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, 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 Standard Motor Products, Inc. and Subsidiaries as at December 31, 1979 and 1978, 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, with which we concur, in accounting for investment tax credits (Note 2).—*Accountants' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2—Accounting Change

To make the Company's accounting policy consistent with that of most industrial companies, the Company changed its method of accounting (effective April 1, 1979) for investment tax credits. Investment tax credits arising subsequent to that date are included in income when they are utilized to reduce taxes payable (flow-through method), rather than being amortized over the estimated lives of the assets which generated the tax credits (deferred method). Tax credits arising prior to April 1, 1979 are included in income in accordance with the prior deferred method. The effect of this change on operating results is not material.

Consolidation Policy

Board of Directors
GATX Corporation
Chicago, Illinois

We have examined the consolidated balance sheets of GATX Corporation and subsidiaries as of December 31, 1979 and 1978, and the related consolidated income statements and statements of consolidated 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 and of General American Transportation International Finance Corporation and subsidiaries (known as the MTL Group of Companies) as of December 31, 1978 and for the year then ended. These consolidated subsidiaries had total assets and revenues accounting for 19% and 24%, respectively, of the consolidated totals in 1978. 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 those subsidiaries, is based solely upon the reports of other independent auditors.

In our opinion, based upon our examinations and, for 1978, 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, 1979 and 1978, 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 after restatement for the changes, with which we concur, in consolidation policy and the basis of presentation of financial statements as explained in Note A to the financial statements.—*Report of Independent Auditors.*

NOTES TO FINANCIAL STATEMENTS

Note A—Change in Principles of Consolidation and Basis of Presentation of Financial Statements

In an effort to provide more comprehensive and meaningful financial statements, GATX has fully consolidated the accounts (effective January 1, 1979) of its majority-owned ongoing subsidiaries. GATX's investments in and the operating results of its 20% to 50%-owned affiliates (representing a net investment of $24,480,000 at December 31, 1979) and discontinued operations continue to be accounted for by the equity method.

As a result of the full consolidation discussed above, all the assets, liabilities, revenues and expenses of GATX's majority-owned ongoing subsidiaries are now included in the financial statements. This represents a significant change from previous years' presentation wherein GATX's capital equipment financing, ship financing and ocean shipping subsidiaries were not consolidated, but were accounted for by the equity method. Concurrent with the adoption of the full consolidation policy, GATX has adopted a non-classified balance sheet (current assets and current liabilities are not separately measured) and has commenced measuring changes in financial position in terms of cash and cash equivalents instead of working capital. The accompanying consolidated financial statements for 1978 have been restated to reflect these changes, which had no effect on income from ongoing operations or net income.

To the Board of Directors and Shareholders of
Insilco Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of changes in financial position and of changes in shareholders' equity present fairly the financial position of Insilco Corporation and subsidiary companies at December 31, 1979 and 1978, 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, in the method of accounting for the Company's investment in Times Fiber Communications, Inc., as described in Note 2 to the consolidated financial statements. Our examinations of these statements 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.—*Report of Independent Accountants.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ($000)

Note 2—ACQUISITIONS

Effective in April and August 1979, the Company acquired substantially all of the outstanding capital stock of Nationwide Homes, Inc., and the assets and business of Ren Electronics Corporation, for $22,180 and $3,000 in cash, respectively. Nationwide is a leading manufacturer of modular housing and Ren specializes in the production of cable assemblies and wire harnesses used by the computer industry. These transactions were accounted for as purchases and the results of operations of both companies are included in the consolidated statement of earnings since their respective dates of acquisition. The combined purchase price for both companies exceeded the fair value of net assets acquired by $4,287, which is included in intangible assets and is being amortized over periods of up to 40 years.

In September 1979, the Company acquired the 49% minority interest in Times Fiber Communications, Inc., for $5,635 in cash. Because its majority ownership was expected to be temporary, the Company had accounted for its investment in Times Fiber under the equity method since its formation in 1977. As a result of the acquisition of the minority interest in 1979, the accompanying financial statements have been restated to consolidate Times Fiber. This restatement had no effect on net earnings of previously reported periods.

Unaudited proforma data, giving effect to the purchases of Nationwide, Ren and the minority interest in Times Fiber as if they had been acquired at the beginning of 1978 (with appropriate adjustments, primarily for imputed interest charges attributable to the financing of these purchases) follows:

	1979	1978
Sales	$595,410	$512,467
Net earnings	27,706	24,638
Earnings per common share:		
Primary	2.32	2.07
Fully diluted	2.00	1.79

To the Shareholders of
St. Joe Minerals Corporation:

We have examined the statements of consolidated financial position of St. Joe Minerals Corporation and consolidated subsidiaries as of December 31, 1979 and 1978 and the related statements of consolidated income, shareholders' equity 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, such consolidated financial statements present fairly the financial position of St. Joe Minerals Corporation and consolidated subsidiaries at December 31, 1979 and 1978 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, in consolidation policy described under "Accounting Change" on page 38.—*Auditors' Opinion.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Change

During 1979, the Corporation changed its method of accounting for its investment in certain subsidiaries operating in South America from the cost method to full consolidation. This change reflects improved economic and financial conditions of these countries.

The effect of this change is an increase in net income and net income per common share for the year ended December 31, 1979 of $5,348,000 and $.24, respectively.

The accompanying consolidated financial statements for the year ended December 31, 1978 have been restated to reflect this change. A reconciliation of net income and net income per common share as previously reported by the Corporation, to those appearing in the statement of consolidated income for the year ended December 31, 1978 follows:

	Net Income (In thousands)	Net Income Per Common Share
As previously reported	$43,645	$1.95
As restated	$49,754	$2.22

Equity Method Adopted

To the Stockholders,
Curtiss-Wright Corporation

We have examined the consolidated balance sheets of Curtiss-Wright Corporation and Subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of earnings and retained earnings, and changes in financial position for the years then ended on pages 18 to 27 inclusive. 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 Dorr-Oliver Incorporated and Subsidiaries for 1978, which statements reflect total assets and revenues constituting 31% and 46%, respectively, of the related consolidated totals. Those 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 such subsidiaries, is based solely on such reports.

In our opinion, based upon our examinations and, for 1978, the reports of other public accountants, the financial statements referred to above present fairly the consolidated financial position of Curtiss-Wright Corporation and Subsidiaries at December 31, 1979 and 1978, and the consolidated 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, with which we concur, in the method of valuing certain inventories as described in Note 4 of Notes to Consolidated Financial Statements and after restatement for the change, with which we concur, in the method of reflecting the investment in Kennecott Copper Corporation as described in Note 2 of Notes to Consolidated Financial Statements.—*Auditors' Report.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2: Investment in Kennecott Copper Corporation.

Effective in 1979, the Corporation changed the method of accounting for its holdings of the stock of Kennecott from the cost method to the equity method because of the Corporation's ability to exercise significant influence over operating and financial policies of Kennecott (see Note 1A). Accordingly, the financial statements for 1978 have been restated to account for the holdings of Kennecott stock on the equity method from January 1, 1978 (holdings prior to that date were not material). This change increased net earnings by $13,666,000, or $1.66 per share, in 1979 and by $874,000, or $.10 per share, in 1978. In addition, the excess of the cost of Kennecott stock over the market value thereof at December 31, 1978 ($13,663,000) has been reclassified from stockholders' equity to investment in affiliates.

At December 31, 1979, the Corporation's equity in the underlying net assets of Kennecott exceeds the cost of the investments ($112,337,000) by $88,233,000, which amount is being amortized over a 25-year period. The market value of the Kennecott holdings at December 31, 1979 is $149,672,000. Summary financial information (in millions) with respect to Kennecott is as follows:

	1979	1978
Assets	$2,785	$2,617
Liabilities	1,317	1,245
Net assets (shareholders' equity)...	1,468	1,372
Sales	2,434	1,886
Net earnings	130	5

Note 4: Change in Accounting Method for Certain Inventories.

Effective in 1979, Dorr-Oliver Incorporated, a wholly owned subsidiary, adopted the last-in, first-out (LIFO) method for determining the cost of its domestic inventories. The cost of these inventories previously had been determined utilizing principally the average cost method. The change was made to reflect more clearly the results of operations by providing a closer matching of current costs with current sales. The effect of this change was to reduce 1979 net earnings by $845,000 or $.10 per share. For this type of accounting change, pro forma effects of retroactive application are not determinable, and there is no cumulative effect on retained earnings at December 31, 1978.

At December 31, 1979 LIFO inventories amount to $18,686,000, and the current cost to replace these inventories is approximately $20,400,000.

Change in Presentation

To The Stockholders and Directors,
Digital Equipment Corporation

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 30, 1979 and July 1, 1978, and the related consolidated statements of income, 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.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Digital Equipment Corporation as at June 30, 1979 and July 1, 1978, and the consolidated results of its operations and the consolidated changes in its 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 presentation of the consolidated statements of changes in financial position as described in Note K to the financial statements.—*Report of Independent Certified Public Accountants.*

Note K: Change in Presentation

As of June 30, 1979, the Company changed its presentation of the consolidated statement of changes in financial position from one which reflects changes in working capital to one which reflects changes in cash and temporary cash investments. The Company believes that the new format is preferable because it is a more meaningful presentation of the Company's sources and uses of funds. The consolidated statement of changes in financial position for fiscal 1978 has been restated to conform with fiscal 1979 presentation.

EMPHASIS OF A MATTER

Paragraph 27 of *Statement on Auditing Standards No. 2* states:

> In some circumstances, the auditor may wish to emphasize a matter regarding the financial statements, but nevertheless intends to express an unqualified opinion. For example, he may wish to point out that the entity is a component of a larger business enterprise or that it has had significant transactions with related parties, or he may wish to call attention to an unusually important subsequent event or to an accounting matter affecting the comparability of the financial statements with those of the preceding period. Such explanatory information may be presented in a separate paragraph of the auditor's report. Phrases such as "with the foregoing explanation" should not be used in the opinion paragraph in situations of this type.

Examples of auditors' reports including explanatory information about the financial statements follow.

Subsequent Event

The Board of Directors
The American Distilling Company

We have examined the accompanying consolidated balance sheet of The American Distilling Company at September 30, 1979 and 1978, 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.

As discussed in Note 12, the Company is negotiating two separate transactions to sell a major portion of its assets. If contracts for these transactions are signed, the transactions will be submitted to stockholders for their approval.

As described in Note 4, the Company is presently negotiating an insurance claim arising from a fire at its Pekin, Illinois bottling plant. As a result of this casualty, the Company might be required to accrue certain vested pension liabilities relating to the hourly pension plan. The ultimate effect which may result from these matters is not presently determinable.

In our opinion, subject to the effects, if any, of such adjustments as might have been required had the ultimate resolution of the matters referred to in the preceding paragraph been known, the financial statements mentioned above present fairly the consolidated financial position of The American Distilling Company at September 30, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12: Subsequent Events

As of November 14, 1979, the Company was actively negotiating two separate transactions. The first of these transactions involves the sale of substantially all of the Company's alcoholic beverage brands and inventories and certain related assets, for a total selling price based primarily upon the quantities of inventories on hand at the transaction's closing date. The second transaction involves the sale of the Company's distillery and certain other facilities at Pekin, Illinois for a cash selling price, and a lease of the balance of the Pekin facilities subject to an option to purchase. Based on the selling prices under negotiation, if consummated, each transaction should result in a profit over the book value of the assets to be sold together with other liabilities arising as a result of these transactions.

Discontinued Operations

Stockholders and Board of Directors
U and I Incorporated
Salt Lake City, Utah

We have examined the consolidated statements of financial position of U and I Incorporated and subsidiaries as of February 28, 1979 and 1978, and the related consolidated statements of operations and retained earnings and changes in financial position for each of the three years in the period ended February 28, 1979. 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 B to the consolidated financial statements, the Company has discontinued its sugar processing operations and plans to sell or otherwise dispose of the assets related thereto. These assets and operations have historically represented a substantial portion of the consolidated total assets and consolidated operations of the Company.

In our reports dated April 19, 1978, and April 15, 1977, on the consolidated financial statements for each of the two years in the period ended February 28, 1978, our opinion was qualified as being subject to adjustments, if any, which may result from the final outcome of several antitrust lawsuits in which the Company is one of the defendants. The Company has settled its major antitrust lawsuits and the settlements have been included in the net loss for the year ended February 28, 1979. Since the probable range of loss, as discussed in Note K to the consolidated financial statements, on the remaining unsettled antitrust lawsuits does not represent a material contingent liability, we have removed our qualification on the financial statements for each of the two years in the period ended February 28, 1978.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of U and I Incorporated and subsidiaries at February 28, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended February 28, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note B: Discontinuance of Sugar Processing Operations

The Company announced in November, 1978 that its sugar factories and terminals were for sale and, in January, 1979, that it would close those sugar facilities for which it was unable to find buyers. In February, 1979, the Company adopted a plan, in the form of a Board of Director's resolution, for the sale or other disposal of the Company's sugar facilities which will require stockholder approval. At present, the Company does not know of any likely acceptable offers for the sale of its facilities and, therefore, anticipates that they will be dismantled and sold for salvage. The Company expects to dispose of its sugar inventories in the ordinary course of business during the next fiscal year.

Management believes that the discontinuance of the Company's sugar processing operations will have a significant impact on the Company's future operations. Although the actual effect of the discontinuance has not yet been determined, management believes that the net proceeds (after deducting costs and expenses from operations during the phase-out period) from the disposal of the sugar inventories and the sugar processing related property, plant, and equipment will at least equal their aggregate net book value of $98,295,351 at February 28, 1979, plus any recapture of investment tax credit. In accordance with Opinion No. 30 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company will recognize the gain on the disposal in the period in which it is actually realized. Management intends to use the net proceeds from the disposal to repay the $92,704,795 of liabilities at February 28, 1979, that the Company has identified as being directly related to the discontinued sugar processing operations.

Also, in accordance with APB Opinion No. 30, the historical results of operations through February, 1979, related to the discontinued sugar processing operations, have been separated from the results of continuing operations. Likewise, the assets and liabilities applicable to discontinued operations have been segregated in the consolidated statement of financial position so that the assets and liabilities of continuing operations can be clearly identified. For comparability purposes, the financial statements of prior years have been reclassified to conform to this presentation. These reclassifications have no effect on net earnings (loss) or stockholders' equity.

Following are the revenues and costs and expenses of the discontinued sugar processing operations.

	Year Ended February 28		
	1979	1978	1977
Revenues:			
Sales of refined sugar and other products	$133,778,637	$116,104,161	$142,375,478
Interest and other revenues	369,116	572,274	138,214
	134,147,753	116,676,435	142,513,692
Costs and expenses:			
Cost of sales	125,609,332	100,965,611	113,139,273
Selling expenses	18,979,794	16,626,049	17,683,628
Interest	3,072,217	2,509,866	1,086,513
Provision for settlement of certain antitrust lawsuits (see Note K)	4,238,176		
	151,899,519	120,101,526	131,909,414
Earnings (loss) from discontinued operations before income taxes (credits)	(17,751,766)	(3,425,091)	10,604,278
Income taxes (credits) (see Note I)	(8,900,000)	(2,147,000)	4,747,443
Earnings (loss) from discontinued operations	$ (8,851,766)	$ (1,278,091)	$ 5,856,835

Other financial information related to discontinued operations is presented in the applicable notes to consolidated financial statements contained herein.

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 Financial Statements Removed

To the Stockholders and Board of Directors
of The Amalgamated Sugar Company:

We have examined the consolidated balance sheet of The Amalgamated Sugar Company and Subsidiaries as of December 31, 1979 and December 25, 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years (53 and 52 weeks, respectively) then ended, and supporting schedules. 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 8, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effects on the 1978 financial statements of such adjustments, if any, as might have been required had the outcome of certain litigation been known. As explained in Note 7, substantially all litigation has been settled and no additional material liability is expected. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Amalgamated Sugar Company and Subsidiaries at December 31, 1979 and December 25, 1978, and the consolidated results of operations and changes in financial position for the years (53 and 52 weeks, respectively) then ended, and the supporting schedules present fairly the information required to be included therein, all in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accruing vacation pay as described in Note 2 to the financial statements.—*Report of Certified Public Accountants*.

To the Stockholders and
the Board of Directors of
Anchor Hocking Corporation

We have examined the consolidated balance sheet of Anchor Hocking Corporation and its subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income 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.

In our report dated February 2, 1979, our opinion on the 1978 consolidated financial statements was qualified as being subject to the effects of such adjustments as might have been required had the amount of final settlement of certain insurance claims been known. As described in Note 2, the settlement of these claims resulted in a gain which was reflected in the 1979 consolidated financial statements. Accordingly, our present opinion on the 1978 consolidated financial statements, as presented herein, is no longer qualified with respect to this matter.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Anchor Hocking Corporation and its subsidiaries at December 31, 1979 and 1978, 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 FINANCIAL STATEMENTS

Note 2: Gain from Settlement of Insurance Claims

On July 15, 1978, a fire destroyed the warehouse facilities, a significant portion of the production facilities and substantially all of the inventories of The Phoenix Glass Company, a wholly-owned subsidiary of the company. The company's insurance claim regarding the inventories destroyed by the fire was settled during 1978. The proceeds received approximated the standard cost of the inventories destroyed.

During 1979, the company and its insurance carrier settled the claims on the warehouse and production facilities destroyed during the fire. Since the insured values of the facilities were based on replacement cost, the proceeds of $12,500,000 substantially exceeded the net book value of the assets destroyed and, accordingly, the company recorded a pretax gain of $10,405,000 ($5,215,000 after taxes, or $.51 per share).

Phoenix's products are presently being manufactured in temporary facilities pending completion of its new plant at the Monaca, Pennsylvania location. The company is insured for certain business interruption expenses which are being incurred during the period of reconstruction.

To the Stockholders
Crown Central Petroleum Corporation
Baltimore, Maryland

We have examined the consolidated balance sheets of Crown Central Petroleum Corporation and subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income, changes in common 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.

In our report dated February 16, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effects, if any, on the 1978 financial statements of such adjustments which might have been required upon the ultimate realization of the amount capitalized for reactor materials and related fabrication work. As discussed in Note F to the financial statements, design and feasibility studies are currently being conducted which should indicate whether these reactor materials can be used or exchanged in connection with the planned refinery project in North Carolina. As a result of the relative immateriality to the Company's financial position of potential adjustments, if any, which may result from this uncertainty, we have removed our qualification on the 1978 financial statements.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Crown Central Petroleum Corporation and subsidiaries at December 31, 1979 and 1978, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note F—Expenditures Related to Certain Long-Term Projects

The Company engages in various long-term projects which involve certain risks and contingencies and which may ultimately be abandoned. Expenditures believed to have value independent of the project are capitalized ($11,644,000 at December 31, 1979). Other expenditures relating to these projects have been charged to expense as incurred ($477,000 in 1979 and $946,000 in 1978).

The major portion of these expenditures relates to a planned refinery to be built on the East Coast, and include contracts for design and engineering work, reactor material and related fabrication work totalling $11,000,000.

Management believes that the materials and related fabrication work completed to date have a value in excess of $11,000,000 if used in the planned refinery. In the event this refinery project is abandoned, the recovery of this amount would be dependent upon the sale to a purchaser engaged in a project where the material can be used in its present form. If the material cannot be used in its present form, it is estimated that its resale value would probably be substantially less than the amount capitalized, although this value cannot readily be determined at this time. However, in the opinion of management, potential adjustments, if any, would not be material to the Company's financial position.

Design and feasibility studies are currently being conducted at the direction of the joint venture partners in the proposed refinery project in North Carolina, the results of which should indicate whether these reactor materials can be used directly or through an exchange in the planned refinery. Management expects to use this material in the planned refinery project or a similar project and thereby recover the investment.

To the Directors and Stockholders
of Liggett Group Inc.:

We have examined the consolidated balance sheets of Liggett Group Inc. and consolidated subsidiaries as of December 31, 1979 and 1978 and the related statements of consolidated earnings and 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.

In our report dated January 29, 1979, our opinion on the 1978 consolidated financial statements was qualified as being subject to the effects of such adjustments, if any, as might have been required had the proposed sale of the Company's domestic cigarette business been consummated. As discussed in Note 3 to the Financial Statements, negotiations for the sale of the domestic cigarette business were terminated in June 1979 and the Company has decided to continue to operate this business. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, such consolidated financial statements present fairly the financial position of Liggett Group Inc. and consolidated subsidiaries at December 31, 1979 and 1978 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 during the period except for the change in 1979, with which we concur, in the method of accounting for certain inventories as described in Note 2 to Financial Statements.—*Auditors' Opinion.*

To the Shareholders and Board of Directors of
Pennzoil Company:

We have examined the balance sheet of Pennzoil Company (a Delaware corporation) and consolidated subsidiaries as of December 31, 1979 and 1978, 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.

In our report dated March 6, 1979, our opinion on the 1978 financial statements of Pennzoil Company and consolidated subsidiaries was qualified as being subject to the effect on the financial statements of the final resolution of litigation in connection with curtailments of natural gas deliveries by a former affiliate, the rights of parties to water within the area where Duval Corporation has mining properties and certain pending regulatory matters regarding natural gas sales of Pennzoil Producing Company. As a result of developments in the status of the curtailment litigation as discussed in Note 9, Pennzoil believes it can successfully defend itself in the actions to which it is a party and that the outcome of the cases will not have a material impact on its financial statements. As explained in Note 9, as a result of the settlement of certain water rights litigation to which Duval was a party and other developments in related litigation, Pennzoil believes that the final resolution of the conflicting claims to water will have no significant effect on the 1979 and prior years' financial statements. In addition, as explained in Note 8, the jurisdictional controversy regarding Producing's gas sales was terminated as a result of action taken by the Federal Energy Regulatory Commission. Accordingly, in view of these circumstances, our opinion qualification related to these matters with respect to the 1978 consolidated financial statements is removed.

In our opinion, the accompanying financial statements present fairly the financial position of Pennzoil Company and consolidated subsidiaries as of December 31, 1979 and 1978, 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.—*Auditor's Report.*

To the Shareholders and Board of Directors of Pfizer Inc.

We have examined the consolidated statement of financial position of Pfizer Inc. and subsidiary companies as of December 31, 1979 and 1978 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 22, 1979, our opinion on the 1978 financial statements was qualified subject to the effects, if any, on the 1978 financial statements of such adjustments as might be required with respect to the suits alleging violation of antitrust laws, as well as a civil action brought by the United States. Although the litigation has not been resolved in 1979, in the opinion of management, the suits have progressed to the point where their ultimate resolution would not materially affect the Company's financial position. Accordingly, the opinion on the 1978 financial statements presented herein is different in that it is no longer qualified.

In our opinion, such financial statements present fairly the financial position of Pfizer Inc. and subsidiary companies at December 31, 1979 and 1978, 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.*

To the Board of Directors and
Shareholders of PPG Industries, Inc.:

We have examined the balance sheet of PPG Industries, Inc. and consolidated subsidiaries as of December 31, 1979 and 1978 and the related statements of earnings and source and use of funds 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 January 31, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome of several actual and potential claims against the Company been known. Based upon developments referred to in Note 12, management has concluded that the resolution of such claims will not have a material adverse effect on the financial position or results of operations of the Company. We concur with management's assessment and, accordingly, believe that it is no longer necessary to qualify our opinion on the 1978 financial statements.

In our opinion, the financial statements referred to above present fairly the financial position of PPG Industries, Inc. and consolidated subsidiaries at December 31, 1979 and 1978, and the results of their operations and the source and use of their funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.—*Accountants' Opinion.*

NOTES TO THE FINANCIAL STATEMENTS

Note 12: Litigation

PPG is involved in a number of lawsuits and claims, both actual and potential, including some which it has asserted against others, in which substantial money damages are sought. Several of these claims result from the forced shutdown and termination of operations in Puerto Rico in November 1978. See page 24 for a discussion of this shutdown and termination and related events that occurred in 1979. While some uncertainty exists concerning the ultimate resolution of the Puerto Rico-related claims, management believes that the outcome of these and all other lawsuits and claims will not have a material adverse effect on PPG's consolidated financial position or results of operations.

Change in Auditors

Board of Directors and Stockholders
La Maur Inc., Minneapolis, Minnesota

We have examined the consolidated balance sheet of La Maur Inc. and subsidiary as of December 31, 1979, and the related statements of earnings and 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. The consolidated financial statements of La Maur Inc. and subsidiary for the year ended December 31, 1978, were examined by other auditors whose report dated February 28, 1979, expressed an unqualified opinion on these statements.

In our opinion, the 1979 consolidated financial statements referred to above present fairly the financial position of La Maur Inc. and subsidiary as of December 31, 1979, and the results of their operations and the 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.—*Accountants' Report.*

Opinion Expressed On More Than One Prior Period

To the Shareholders and Board of Directors
American Hospital Supply Corporation
Evanston, Illinois

We have examined the consolidated balance sheets of American Hospital Supply Corporation and subsidiaries as of December 31, 1979 and 1978, and the related statements of earnings, shareholders' investment and changes in financial position for each of the five years in the period ended December 31, 1979. 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 American Hospital Supply Corporation and subsidiaries at December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.—*Report of Independent Accountants.*

The Board of Directors and Stockholders
Celanese Corporation:

We have examined the consolidated balance sheets of Celanese Corporation as of December 31 for each of the years 1975 through 1979, and the related consolidated statements of income, changes in financial position and changes in retained income 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 aforementioned consolidated financial statements present fairly the financial position of Celanese Corporation as of December 31 for each of the years 1975 through 1979, and the results of operations and the changes in financial position for each of the years then ended, in conformity with generally accepted accounting principles. Such accounting principles have been applied on consistent basis, except for the changes in 1978, with which we concur, in accounting for investment tax credits and depreciation method, as described in notes C and I.—*Independent Accountants' 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 auditors' 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.

Financial Statements of Subsidiaries

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, 1979 and 1978, and the related 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.

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 as of December 31, 1979 and 1978, 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.—*Accountants' Report.*

TABLE 6-6: OPINION EXPRESSED ON SUPPLEMENTARY STATEMENTS OR SCHEDULES

	Number of Companies			
	1979	1978	1977	1976
Financial statements of subsidiaries	20	20	19	30
Financial statements other than those of subsidiaries (pension trust fund, price level)	3	3	4	4
Historical summaries or five year summaries of operations	9	7	11	11
Other—financial highlights, pro forma data, etc.	4	5	6	10

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, 1979, and December 31, 1978, 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, 1979, and December 31, 1978, 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 Fruehauf Corporation and consolidated subsidiaries and the financial position of Fruehauf Finance Company and consolidated subsidiaries at December 31, 1979, and December 31, 1978, 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.*

Board of Directors and Shareholders
R. H. Macy & Co., Inc.
New York, NY

We have examined the consolidated statements of financial condition of R. H. Macy & Co., Inc. and consolidated subsidiaries as of July 28, 1979 and July 29, 1978, and the related statements of earnings, changes in financial position, and changes in shareholders' investment for the years then ended, and the consolidated statements of financial condition of Macy Credit Corp. and subsidiary as of July 28, 1979 and

July 29, 1978, 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 28, 1979 and July 29, 1978, 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 the method of accounting for leases as described in note 11 to the consolidated financial statements.—*Independent Auditors' Report*.

McCormick Properties, Inc. and Subsidiary

We have examined the consolidated balance sheets of McCormick Properties, Inc. and subsidiary as of November 30, 1979 and 1978, and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the years then ended (all stated in historical dollars). 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 companies at November 30, 1979 and 1978 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.

Our examinations also comprehended the supplementary balance sheets and statements of income and retained earnings stated in constant dollars, as described in Note 1, for the years ended November 30, 1979 and 1978. Such supplementary financial statements are not intended to present financial position and results of operations of the companies in conformity with generally accepted accounting principles. In our opinion the supplementary financial statements stated in constant dollars, when considered in relation to the basic financial statements stated in historical dollars, present fairly in all material respects the information shown therein on the basis of accounting described in Note 1, which basis has been consistently applied, after restatement for the change, with which we concur, in the index used to measure the effects of general inflation.—*Auditors' Opinion*.

The Board of Directors and Shareholders
of Pullman Incorporated

We have examined the accompanying combined balance sheet of the leasing and financing subsidiaries of Pullman Incorporated at December 31, 1979 and 1978, and the related combined 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.

The leasing and financing subsidiaries engage in significant transactions with Pullman Incorporated as described in Note 2 to the combined financial statements.

In our opinion, the statements mentioned above present fairly the combined financial position of the leasing and financing subsidiaries of Pullman Incorporated at December 31, 1979 and 1978, and the combined results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.—*Report of Certified Public Accountants*.

Board of Directors
The White Motor Credit Corporation
Beachwood, Ohio

We have examined the consolidated balance sheets of The White Motor Credit Corporation (a wholly-owned subsidiary of White Motor Corporation) and subsidiary as of December 31, 1979 and 1978, and the related statements of consolidated income and retained income 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 The White Motor Credit Corporation and subsidiary at December 31, 1979 and 1978, and the consolidated 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.

Financial Statements of Pension Fund

Board of Directors
Republic Steel Corporation

We have examined the combined statements of assets of the several Trust Funds under the Pension Plans of Republic Steel Corporation and consolidated subsidiaries as of December 31, 1979 and 1978, and the related combined statements 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 combined financial position of the several Trust Funds at December 31, 1979 and 1978, and the changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

REPORT OF MANAGEMENT

In 1979, 191 of the survey companies, as compared to 110 in 1978 and 19 in 1977, include a Report of Management in their annual report. Usually (79% of the companies) the Report of Management and Auditors' Report are on the same or adjoining pages. Examples of management reports follow.

CHROMALLOY AMERICAN CORPORATION

Responsibilities for Integrity of Financial Data

The management of Chromalloy American Corporation (the Company) is responsible for the integrity of all information contained in the accompanying consolidated financial statements and other sections of the annual report. Management believes the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included and that the other information in the annual report is consistent with those statements. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions being accounted for currently.

In meeting its responsibility for the reliability of the financial statements, management relies on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Management believes it has enhanced internal control by selecting and training qualified personnel, establishing and communicating accounting and business policies and conducting internal audits. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes the Company's internal accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or detected within a timely period by employees in the normal course of performing their assigned functions.

In addition, the Company has distributed to all key employees its policies for conducting business affairs in a lawful and ethical manner. Management believes these policies and procedures provide reasonable assurance that its operations are conducted in compliance with applicable laws and regulations.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee, which is composed solely of directors who are not officers or employees of the Company. This Committee is responsible for selecting the Company's independent accountants, subject to Board of Directors' approval, for reviewing their independence and for ensuring that the overall audit coverage of the Company and its affiliates is satisfactory and appropriate. Another important function of the Audit Committee is to ensure, through inquiry of management and independent accountants, that the system of internal accounting control is adequate and effectively implemented. The Audit Committee meets periodically with management and its independent accountants to determine that each is properly discharging its responsibilities. The independent accountants have free access to the Audit Committee and the Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

The independent accountants are engaged to examine our financial statements and to express an opinion thereon. Their examination is conducted in accordance with generally accepted auditing standards which include procedures designed to enable them to report that the financial statements present fairly the financial position, results of operations and changes in financial position of the Company.

CITIES SERVICE COMPANY

Report of Management

Management is responsible for the financial and operating information contained in this Annual Report, including the financial statements covered by the independent public accountants' report. These statements were prepared in conformity with generally accepted accounting principles and include amounts based on estimates and judgments of Management.

The Company seeks to assure the integrity and objectivity of the data in financial statements through an extensive system of internal controls. These controls are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements. It is recognized that any system of internal controls requires judgments to assess and balance the relative cost and expected benefit. Control policies, standards and authorities are monitored and revised to meet changing requirements.

Effective internal control is enhanced by the selection and training of qualified personnel, by establishment and communication of sound business policies, by organizational arrangements that provide an appropriate division of responsibility, and by emphasis on detailed planning of operations and performance evaluations.

The system of controls and compliance therewith is reviewed by an extensive program of internal audits. Independent certified public accountants are engaged to render an independent opinion on our financial statements. This opinion, which appears below, is based on an examination of our financial statements in accordance with generally accepted auditing standards which includes a limited review of internal controls.

The Company's Board of Directors through its Audit Committee, which is composed of three nonemployee directors, reviews and monitors the Company's financial reports, accounting and auditing practices and controls. It meets periodically with the independent public accountants, Management and internal auditors in this connection.

EX-CELL-O CORPORATION

Management's Report

The management of Ex-Cell-O Corporation is responsible for the accompanying financial statements. The statements have been prepared by the Company in accordance with generally accepted accounting principles and present fairly and consistently the Company's financial position and results of operations. The statements necessarily include amounts that are based on management's best estimates and judgments. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Company maintains a system of internal accounting control designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Based on the recognition that the cost of installation and maintenance of a system should not exceed the benefits expected to be derived, inherent limitations should be recognized when considering the effectiveness of any system of internal accounting control. The evaluation of these cost/benefit factors requires estimates and judgments by management.

The Ex-Cell-O system of internal accounting control contains general controls such as: an organizational structure with an appropriate division of responsibility, formal policies and procedures, careful selection and training of personnel, a comprehensive internal audit program, and specific internal accounting controls over the processing of transactions, safeguarding of assets, and preparation of financial reports.

Ex-Cell-O Corporation conducts its business in accordance with established ethical standards. These standards are documented in a Corporate statement of ethical business principles which is distributed to appropriate employees.

The Board of Directors, through the Audit Committee composed solely of outside Directors, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and the financial control of operations. The Audit Committee recommends the independent auditors to the Board of Directors for nomination to the shareholders. The Committee meets regularly with management, the independent and the internal auditors, approves the scope of the audits and the fee arrangements, and reviews the audit reports and findings.

Chairman and Chief Executive Officer

Vice President and Controller

GIANT FOOD INC.

Responsibility for financial statements

Management is responsible for the financial and operating information contained in this Annual Report including the financial statements covered by the independent public accountants' report. These statements were prepared in conformity with generally accepted accounting principles and include amounts based on judgments of management.

The Company maintains a system of internal accounting controls to provide reasonable assurance that the books and records reflect the authorized transactions of the Company. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed the benefits derived. The Company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The public accountants provide an independent objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting control and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

The Board of Directors pursues its responsibility for the Company's financial statements through its Audit Committee which is comprised solely of directors who are not officers or employees of the Company. The Audit Committee meets periodically with the independent public accountants, management and the internal auditors. The independent public accountants have direct access to the Audit Committee, with or without the presence of management representatives, to discuss the scope and results of their audit work and their comments on the adequacy of internal accounting controls and the quality of financial reporting.

We believe that the policies and procedures provide reasonable assurance that our operations are conducted in conformity with the law and with a high standard of business conduct.

W.R. GRACE & CO.

Management's Responsibility for Financial Reporting

Management is responsible for the preparation as well as the integrity and objectivity of Grace's financial statements. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts which represent the best estimates and judgments of management.

For many years, management has maintained internal systems which include careful selection of personnel, segregation of duties, formal business, accounting and reporting policies and procedures and an extensive internal audit function to assist them in fulfilling their responsibilities for financial reporting. While no system can ensure elimination of errors and irregularities, the systems have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed and transactions are properly executed and reported. These systems are constantly reviewed and modified in response to changing conditions.

The Audit Committee of the Board of Directors, which is comprised of directors who are not officers or employees of W.R. Grace & Co. or its subsidiaries, meets with senior financial officers, the internal auditors and independent accountants and reviews audit plans and results as well as management's actions taken in discharging their responsibilities for accounting, financial reporting and internal control systems. The Committee reports its findings to the Board of Directors and also recommends the selection and engagement of independent accountants. Management, the internal auditors and independent accountants have direct and confidential access to the Committee.

Independent accountants are engaged to conduct an examination of and render an opinion on the financial statements in accordance with generally accepted auditing standards. These standards include a review of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

OLIN CORPORATION

Management Report on Financial Statements

The company has prepared the accompanying consolidated financial statements and related information for the years ended December 31, 1979 and 1978. Management has primary responsibility for the integrity of the financial statements, which statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances, based on our best estimates and judgments and giving due consideration to materiality. The financial information contained elsewhere in this annual report is consistent with the financial statements.

Olin maintains internal accounting control systems designed to provide reliable information for the preparation of financial statements, reasonable assurance that assets are safeguarded from loss or unauthorized use, and proper authorization for all transactions. There are limits inherent in all systems of internal control because their cost should not exceed the benefits to be derived. The company believes its systems provide this appropriate balance. The internal control systems are supported by the recruitment and training of qualified personnel, appropriate delegations of authority and divisions of responsibility, and the development and communication of accounting and other policies and procedures. A well-qualified internal audit department evaluates internal accounting control systems and monitors compliance with the company's internal control policies and procedures by visits to our various locations throughout the world.

Our independent public accountants are engaged to examine and to render an opinion on the fairness of our consolidated financial statements presented in conformity with generally accepted accounting principles. In performing their examination in accordance with generally accepted auditing standards, they evaluate the effectiveness of our internal accounting control systems, review selected transactions and carry out other auditing procedures to the extent they consider necessary in expressing their opinion on our financial statements. Their opinion appears on this page.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management and the company's internal auditors to review the work of each and to evaluate matters pertinent to internal accounting controls and financial reporting, and the nature, extent and results of auditing activities. The Audit Committee annually recommends to the Board of Directors the appointment of independent public accountants. The independent public accountants and the company's internal audit department have access to the Audit Committee without management's presence.

President and Chief Executive Officer

Senior Vice President and Chief Financial and Administrative Officer

J.C.PENNEY COMPANY, INC.

Management's Statement on Financial Information

The Company's management is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered in the judgment of management to present fairly in all material respects the Company's results of operations, financial position, and changes in financial position. Certain estimated amounts are included in the financial statements, and these amounts are based on currently available information and management's judgment of current conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls and procedures is supported by written policies and guidelines and supplemented by a staff of internal auditors. The system is designed to provide management with reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established procedures, policies, and guidelines are disseminated and understood throughout the Company.

The financial statements have been audited by independent public accountants whose report appears on page 16.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent public accounting firm for the purpose of conducting the annual examination of the Company's accounts. Company management, internal auditors, and the independent public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

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-third (1979) edition. Thirty-seven companies in the 1979 edition have been eliminated and their numbers left unused. The companies selected as replacements have been assigned numbers 854 to 888, 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*	
	AFG Industries, Inc.—see *40*	
	AM International, Inc.—see *6*	
	AMAX, Inc.—see *35*	
	AMETEK, Inc.—see *47*	
	AMF Incorporated—see *33*	
	AMP Incorporated and Pamcor, Inc.—see *49*	
	ASARCO Incorporated—see *43*	
	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	*AM International, Inc.*	7
8	Air Products and Chemicals, Inc.	9
	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
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	*AFG 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 Companies, Inc.	12
58	Archer Daniels Midland Company	6
59	Arden Group, Inc.	12
	Armada Corporation—see *67*	
60	Armco	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
	Avnet, Inc.—see *854*	
72	Avon Products, Inc.	12
	Baird Corporation—see *793*	
74	Baker International Corporation	9
	Bangor Punta Corporation—see *855*	
75	The Barden Corporation	10
79	Bausch & Lomb Incorporated	12
	Baxter Travenol Laboratories, Inc.—see *856*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
80	Bayuk Cigars Incorporated	12
81	Beatrice Foods Co.	2
	Becton, Dickinson and Company—*see 857*	
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
	Bluebird Incorporated—*see 858*	
	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
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
	CBI Industries, Inc.—*see 654*	
	CBS Inc.—*see 152*	
	CMI Corporation—*see 797*	
	CPC International Inc.—*see 172*	
	Cabot Corporation—*see 859*	
	Cadence Industries Corporation—*see 572*	
	Caesars World, Inc.—*see 779*	
118	Campbell Soup Company	7
	Campbell Taggart, Inc.—*see 860*	
123	Carnation Company	12
	Castle & Cooke, Inc.—*see 780*	
126	Caterpillar Tractor Co.	12
127	Celanese Corporation	12
128	Central Soya Company, Inc.	8
	Centronics Data Computer Corp.—*see 796*	
130	CertainTeed Corporation	12
131	The Cessna Aircraft Company	9
	Champion International Corporation—*see 566*	
133	Champion Spark Plug Company	12
	The Charter Company—*see 834*	

Co. No.		*Month in which fiscal year ends
	Chemineer, Inc.—*see 835*	
	Chesebrough-Pond's Inc.—*see 861*	
135	*Paxall, Inc.*	10
136	Chicago Pneumatic Tool Company	12
137	Chock Full O'Nuts Corporation	7
	Chromalloy American Corporation—*see 836*	
138	Chrysler Corporation	12
139	Cities Service Company	12
141	Clark Equipment Company	12
	Clarostat Mfg. Co., Inc.—*see 615*	
	Cleveland Calendering & Coating Corp.—*see 786*	
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
151	Colt Industries Inc.	12
	Columbia Pictures Industries, Inc.—*see 862*	
152	*CBS Inc.*	12
153	Combustion Engineering, Inc.	12
	Commercial Metals Company—*see 814*	
	Compugraphic Corporation—*see 798*	
	ConAgra, inc.—*see 406*	
	Cone Mills Corporation—*see 863*	
	Conoco Inc.—*see 165*	
	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	*Conoco Inc.*	12
167	Control Data Corporation	12
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
185	Cyclops Corporation	12
	DPF Incorporated—*see 314*	
186	Dan River Inc.	12
	Dana Corporation—*see 656*	
	Dart Industries Inc.—*see 467*	
	Day Mines, Inc.—*see 782*	
187	Dayco Corporation	10
	Dayton Malleable Inc.—*see 837*	
188	Deere & Company	10
189	Dennison Manufacturing Company	12
	Dentsply International Inc.—*see 799*	
191	Diamond International Corporation	12
	Diamond Shamrock Corporation—*see 658*	
	Digital Equipment Corporation—*see 838*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
195	Walt Disney Productions	9
	Doe Spun Inc.—*see 839*	
	R. R. Donnelley & Sons Company—*see 864*	
197	The Dow Chemical Company	12
	Doyle Dane Bernbach International Inc.—*see 616*	
198	Dravo Corporation	12
199	Dresser Industries, Inc.	10
	Dun & Bradstreet Corporation—*see 784*	
202	E.I. du Pont de Nemours & Company	12
	Duplex Products Inc.—*see 800*	
	Dynamics Corporation of America—*see 785*	
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
214	Emerson Electric Co.	9
215	Emhart Corporation	12
	Empire Gas Corporation—*see 721*	
	Engelhard Minerals & Chemicals Corporation—*see 659*	
	Erb Lumber Co.—*see 745*	
	Esmark, Inc.—*see 535*	
	Ethyl Corporation—*see 660*	
218	Evans Products Company	12
220	Ex-Cell-O Corporation	11
	Exxon Corporation—*see 518*	
	F & B/CECO industries, Inc.—*see 747*	
	FMC Corporation—*see 231*	
222	Fairchild Industries, Inc.	12
224	Fansteel, Inc.	12
225	Fedders Corporation	10
	Federal-Mogul Corporation—*see 865*	
226	Federated Department Stores, Inc.	1
227	The Firestone Tire & Rubber Company	10
228	First National Supermarkets, Inc.	3
	Fleetwood Enterprises, Inc.—*see 866*	
	Fluor Corporation—*see 802*	
	John Fluke Mfg. Co., Inc.—*see 723*	
231	*FMC Corporation*	12
232	Foote Mineral Company	12
233	Ford Motor Company	12
	Foremost-McKesson, Inc.—*see 662*	
	Foster Wheeler Corporation—*see 840*	
	Fotomat Corporation—*see 841*	
	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

Co. No.		*Month in which fiscal year ends
248	General Foods Corporation	3
	General Host Corporation—*see 241*	
249	General Mills, Inc.	5
250	General Motors Corporation	12
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
263	The BFGoodrich Company	12
264	The Goodyear Tire & Rubber Company	12
	Gould Inc.—*see 816*	
	W.R. Grace & Co.—*see 622*	
	Granger Associates—*see 623*	
267	Graniteville Company	12
269	The Great Atlantic & Pacific Tea Company, Inc.	2
	Great Northern Nekoosa Corporation—*see 867*	
	The Greyhound Corporation—*see 735*	
272	Grumman Corporation	12
273	Gulf Oil Corporation	12
	Gulf & Western Industries, Inc.—*see 624*	
	Gulf Resources & Chemical Corporation—*see 842*	
	Gulton Industries, Inc.—*see 788*	
	HMW Industries, Inc.—*see 276*	
	HON Industries Inc.—*see 726*	
274	Halliburton Company	12
276	*HMW Industries, Inc.*	1
	Hammermill Paper Company—*see 868*	
	Hampton Industries, Inc.—*see 703*	
278	Harnischfeger Corporation	10
279	Harris Corporation	6
280	Harsco Corporation	12
282	Hart Schaffner & Marx	11
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
	Hughes Tool Company—*see 869*	
	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*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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*	
	Interphoto Corporation—*see 669*	
314	*DPF Incorporated*	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 Controls, Inc.—*see 870*	
	Johnson Products Co., Inc.—*see 817*	
320	Joslyn Mfg. and Supply Co.	12
321	Joy Manufacturing Company	9
322	Kaiser Aluminum & Chemical Corporation	12
323	Kellogg Company	12
326	Kennecott Copper Corporation	12
	Kerr-McGee Corporation—*see 843*	
327	Keystone Consolidated Industries, Inc.	6
328	Walter Kidde & Company, Inc.	12
329	Kimberly-Clark Corporation	12
	Knape & Vogt Manufacturing Company—*see 762*	
330	Koppers Company, Inc.	12
	Kraft, Inc.—*see 397*	
	Kroehler Mfg. Co.—*see 818*	
332	The Kroger Co.	12
333	Kuhlman Corporation	12
	The LTV Corporation—*see 628*	
	La Maur Inc.—*see 673*	
	LaBarge, Inc.—*see 704*	
334	Lear Siegler, Inc.	6
	Lee Enterprises, Incorporated—*see 763*	
	Lenox, Incorporated—*see 804*	
	Leslie Fay Inc.—*see 674*	
	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*	
	The Lubrizol Corporation—*see 871*	
	Lucky Stores, Inc.—*see 844*	
349	Lukens Steel Company	12

Co. No.		*Month in which fiscal year ends
	Lynch Corporation—*see 751*	
	Lynnwear Corporation—*see 764*	
	MCA Inc.—*see 364*	
350	The Macke Company	9
	Macmillan, Inc.—*see 872*	
352	R. H. Macy & Co., Inc.	7
	Malone & Hyde, Inc.—*see 675*	
355	Marathon Oil Company	12
	The Marley Company—*see 819*	
	Marriott Corporation—*see 805*	
357	Marshall Field & Company	1
358	Martin Marietta Corporation	12
359	Masonite Corporation	8
	Mattel, Inc.—*see 873*	
361	The May Department Stores Company	1
362	Oscar Mayer & Co. Inc.	10
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
	McLouth Steel Corporation—*see 874*	
372	The Mead Corporation	12
374	Melville Corporation	12
375	Merck & Co., Inc.	12
376	Meredith Corporation	6
	MetPath Inc—*see 845*	
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*	
380	Minnesota Mining and Manufacturing Company	12
381	Mirro Corporation	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
	Mott's Super Markets, Inc.—*see 678*	
390	Mount Vernon Mills, Inc.	12
392	Munsingwear, Inc.	12
393	G. C. Murphy Company	1
	The Murray Ohio Manufacturing Company—*see 806*	
	NATCO Industries, Inc.—*see 846*	
	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

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
399	National Gypsum Company	12
400	*NL Industries, Inc.*	12
401	National Presto Industries, Inc.	12
	National Service Industries, Inc.—see *875*	
403	National Steel Corporation	12
405	National Tea Co.	12
406	*ConAgra, Inc.*	5
	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 Company—see *876*	
	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
	Owens-Corning Fiberglas Corporation—see *847*	
420	Owens-Illinois, Inc.	12
	Oxford Industries, Inc.—see *640*	
	PPG Industries, Inc.—see *443*	
	Pabst Brewing Company—see *877*	
	Paccar Inc.—see *822*	
	Pall Corporation—see *709*	
	Pantasote Inc.—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
	Pentron Industries, Inc.—see *848*	
429	Pennwalt Corporation	12
	Pennzoil Company—see *775*	
430	Peoples Drug Stores, Incorporated	9
431	PepsiCo, Inc.	12
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*	
450	Pratt & Lambert, Inc.	12
	Pratt-Read Corporation—see *713*	
	Premier Industrial Corporation—see *825*	
451	The Procter & Gamble Company	6

Co. No.		*Month in which fiscal year ends
452	Pullman Incorporated	12
	Purex Industries, Inc.—see *878*	
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*	
	Reichhold Chemicals, Inc.—see *879*	
	Reliance Universal Inc.—see *826*	
465	Republic Steel Corporation	12
	Revere Copper and Brass Incorporated—see *880*	
	Revlon, Inc.—see *849*	
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*	
	SPS Technologies, Inc.—see *521*	
479	Safeway Stores, Incorporated	12
480	St. Joe Minerals Corporation	12
481	St. Regis Paper Company	12
	Sav-A-Stop Incorporated—see *711*	
	Saxon Industries, Inc.—see *881*	
483	*SCM Corporation*	6
	Schering-Plough Corporation—see *882*	
	Jos. Schlitz Brewing Company—see *883*	
	Schlumberger Limited—see *776*	
	Scope Industries—see *730*	
484	Scott Paper Company	12
485	Scovill Inc.	12
486	*Ampco-Pittsburgh Corporation*	12
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*	

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
500	Simplicity Pattern Co. Inc.	1
502	The Singer Company	12
504	A. O. Smith Corporation	12
	SmithKline Corporation—*see 884*	
505	Snap-on Tools Corporation	12
	The Southland Corporation—*see 850*	
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 Mortor 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	*SPS Technologies, Inc.*	12
	The Standard Register Company—*see 712*	
522	*Stanadyne, Inc.*	12
	Stange Co.—*see 829*	
	Stanley Home Products, Inc.—*see 692*	
	The Stanley Works—*see 885*	
524	The L. S. Starrett Company	6
	Stauffer Chemical Company—*see 851*	
	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*	
530	Sun Chemical Corporation	12
	Sun Company, Inc.—*see 532*	
	Sunbeam Corporation—*see 886*	
531	Sunstrand Corporation	12
532	*Sun Company, Inc.*	12
534	The Superior Oil Company	12
	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
	The Times Mirror Company—*see 852*	
544	The Timken Company	12
	J. Walter Thompson Company—*see 791*	
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
	UNC Resources, Inc.—*see 792*	
551	Union Camp Corporation	12
552	Union Carbide Corporation	12
553	Union Oil Company of California	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
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
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
	The Upjohn Company—*see 853*	
576	Varian Associates, Inc.	9
	Velvet-O'Donnell Corporation—*see 754*	
578	The Vendo Company	12
	Vulcan Materials Company—*see 887*	
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*	
588	Westvaco Corporation	10
589	Weyerhaeuser Company	12
	Wheelabrator-Frye Inc.—*see 888*	
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

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
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*	6
602	*ATI, Inc.*	9
603	*Albertson's, Inc.*	1
605	*American Building Maintenance Industries*	10
610	*Belden Corporation*	12
611	*Bobbie Brooks, Incorporated*	4
612	*Boise Cascade Corporation*	12
615	*Clarostat Mfg. Co., Inc.*	12
616	*Doyle Dane Bernbach International Inc.*	12
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
632	*J. Ray McDermott & Co., Inc.*	3
637	*National Can Corporation*	12
639	*Ogden Corporation*	12
640	*Oxford Industries, Inc.*	5
641	*Pantasote Inc.*	12
644	*The Sperry and Hutchinson Company*	12
645	*Standard Motor Products, Inc.*	12
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	*CBI Industries, Inc.*	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
669	*Interphoto Corporation*	2
670	*Iowa Beef Processors, Inc.*	10
671	*Jewel Companies, Inc.*	1
673	*La Maur Inc.*	12
674	*Leslie Fay Inc.*	4
675	*Malone & Hyde, Inc.*	6
677	*Morse Electro Products Corp.*	3
678	*Mott's Super Markets, Inc.*	12
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.*	1
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

ADDED FOR 1972 EDITION

735	*The Greyhound Corporation*	12
736	*Philip A. Hunt Chemical Corporation*	12
737	*Milton Roy Corporation*	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
745	*Erb Lumber Co.*	12
747	*F&B/CECO Industries, Inc.*	5
749	*Levi Strauss & Co.*	11
751	*Lynch Corporation*	12
752	*Mosinee Paper Corporation*	12
754	*Velvet-O'Donnell Corporation*	10

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
ADDED FOR 1974 EDITION		
756	*Action Industries, Inc.*	6
758	*Gearhart-Owen Industries, Inc.*	1
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
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
782	*Day Mines, Inc.*	12
784	*Dun & Bradstreet Corporation*	12
785	*Dynamics Corporation of America*	12
786	*Cleveland Calendering & Coating Corp.*	4
788	*Gulton Industries, Inc.*	2
789	*Heublein, Inc.*	6
791	*J. Walter Thompson Company*	12
792	*UNC Resources, Inc.*	3
ADDED FOR 1977 EDITION		
793	*Baird Corporation*	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
802	*Fluor Corporation*	10
803	*Franklin Mint Corporation*	12
804	*Lenox, Incorporated*	12
805	*Marriott Corporation*	12
806	*The Murray Ohio Manufacturing Company*	12
807	*Opelika Manufacturing Corporation*	9
808	*Seligman & Latz, Inc.*	10

Co. No.		*Month in which fiscal year ends
ADDED FOR 1978 EDITION		
809	*Acme-Cleveland Corporation*	9
810	*American Broadcasting Companies, Inc.*	12
811	*Beehive International*	9
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
ADDED FOR 1979 EDITION		
834	*The Charter Company*	12
835	*Chemineer, Inc.*	9
836	*Chromalloy American Corporation*	12
837	*Dayton Malleable Inc.*	8
838	*Digital Equipment Corporation*	6
839	*Doe Spun Inc.*	4
840	*Foster Wheeler Corporation*	12
841	*Fotomat Corporation*	1
842	*Gulf Resources & Chemical Corporation*	12
843	*Kerr-McGee Corporation*	12
844	*Lucky Stores, Inc.*	1
845	*MetPath Inc.*	9
846	*NATCO Industries, Inc.*	12
847	*Owens-Corning Fiberglas Corporation*	12
848	*Pentron Industries, Inc.*	6
849	*Revlon, Inc.*	12
850	*The Southland Corporation*	12
851	*Stauffer Chemical Company*	12
852	*The Times Mirror Company*	12
853	*The Upjohn Company*	12

*Months numbered in sequence, January through December

Co. No.		*Month in which fiscal year ends
ADDED FOR 1980 EDITION		
854	*Avnet, Inc.*	6
855	*Bangor Punta Corporation*	9
856	*Baxter Travenol Laboratories, Inc.*	12
857	*Becton Dickinson and Company*	9
858	*Bluebird Incorporated*	7
859	*Cabot Corporation*	9
860	*Campbell Taggart, Inc.*	12
861	*Chesebrough-Pond's Inc.*	12
862	*Columbia Pictures Industries, Inc.*	6
863	*Cone Mills Corporation*	12
864	*R. R. Donnelley & Sons Company*	12
865	*Federal-Mogul Corporation*	12
866	*Fleetwood Enterprises, Inc.*	4
867	*Great Northern Nekoosa Corporation*	12
868	*Hammermill Paper Company*	12
869	*Hughes Tool Company*	12
870	*Johnson Controls, Inc.*	9
871	*The Lubrizol Corporation*	12
872	*Macmillan, Inc.*	12
873	*Mattel, Inc.*	1
874	*McLouth Steel Corporation*	12
875	*National Service Industries, Inc.*	8
876	*Norton Company*	12
877	*Pabst Brewing Company*	12
878	*Purex Industries, Inc.*	6
879	*Reichhold Chemicals, Inc.*	12
880	*Revere Copper and Brass Incorporated*	12
881	*Saxon Industries, Inc.*	12
882	*Schering-Plough Corporation*	12
883	*Jos. Schlitz Brewing Company*	12
884	*SmithKline Corporation*	12
885	*The Stanley Works*	12
886	*Sunbeam Corporation*	3
887	*Vulcan Materials Company*	12
888	*Wheelabrator-Frye Inc.*	12

Companies Included in Thirty-third Edition Not included in this Edition of the Survey

71	Avco Corporation
77	Bates Manufacturing Company, Incorporated
78	Congoleum Corporation
104	The Bristol Brass Corporation
116	Del Monte Corporation
120	Cannon Mills Company
124	Carrier Corporation
140	City Stores Company
150	Hunt International Resources Corporation
160	Consolidated Packaging Corporation
168	Cook Paint and Varnish Company
184	Cutler-Hammer, Inc.
193	Dictaphone Corporation
213	ELTRA Corporation
221	Fairchild Camera and Instrument Corporation
229	M. H. Fishman Co. Inc.
230	The Flintkote Company
262	Goldblatt Bros., Inc.
275	W. F. Hall Printing Company, Inc.
331	K mart Corporation
356	Maremont Corporation
373	Medusa Corporation
432	Pet Incorporated
463	Reliance Electric Company
529	Studebaker-Worthington, Inc.
545	The Tobin Packing Co., Inc.
554	Trans Union Corporation
569	UV Industries, Inc.
635	MWA Company
646	Supermarkets General Corporation
672	Lafayette Radio Electronics Corporation
716	Aberdeen Manufacturing Company
744	Dart Drug Corporation
746	Ethan Allen, Inc.
753	Standard Container Company
781	Combined Communications Corporation
812	Certified Corp.

*Months numbered in sequence, January through December

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and, therefore, should be viewed in that context and not necessarily as a reliable indicator of the effect of inflation on the Company's operating results or its financial position.

Statement of Operating Results Adjusted for Changing Prices–Year Ended December 31, 1979

(In Millions)	Historical Dollars (See page 21)	Adjusted for General Inflation (Constant Dollar)(1)	Adjusted for Specific Prices (Current Costs)(2)
Net Sales	$1,683.2	$1,683.2	$1,683.2
Cost of Products Sold (Excluding Depreciation)	917.8	953.0	941.8
Selling, Research and Administrative (Excluding Depreciation)	450.8	450.8	450.8
Depreciation	39.9*	55.7	60.5
Interest, Net	3.4	3.4	3.4
Other (Income)	(5.4)	(5.4)	(5.4)
Earnings Before Taxes	276.7	225.7	232.1
Taxes on Earnings	97.7	97.7	97.7
Net Earnings	$ 179.0	$ 128.0	$ 134.4

*Includes $25.7 million depreciation from Cost of Products Sold and $14.2 million from Selling, Research and Administrative.

Explanation and Comments

(1) *Constant Dollar*

This computation restates cost of products sold and depreciation, as presented in the historical dollar statements, to dollars of the same general purchasing power, i.e., average 1979 dollars as measured by the CPI-U.

Cost of products sold was computed by restating the historical cost of inventory sold during the year to average 1979 dollars. Depreciation was computed by restating the historical cost of depreciable assets to average 1979 dollars using the CPI-U and using these restated costs to calculate depreciation, assuming the same useful lives that were used in the historical statements. Net sales and all other expenses, including taxes, are assumed to have occurred ratably in relation to the change in the CPI-U over the course of the year and thus are already expressed in average 1979 dollars. Net earnings were then recomputed by subtracting the restated items (cost of products sold and depreciation) and other expenses and taxes from net sales.

(2) *Current Costs*

This computation restates the cost of products sold and depreciation as presented in the historical dollar statements to costs which reflect the current costs at the time of sale. Cost of products sold was computed by using the estimated cost at the time of sale rather than the cost at the time of purchase and/or manufacture. Depreciation was computed by first estimating the *current cost* (in 1979 prices) of depreciable assets, using appropriate external cost indices and appraisals and using these restated costs to calculate depreciation, assuming the same useful lives that were used in the historical statements. Net sales and all other expenses, including taxes, were incurred in 1979 and thus are already expressed in average 1979 dollars. Net earnings were then recomputed by subtracting the restated item (cost of products sold and depreciation) and other expenses and taxes from net sales.

Net earnings as computed under the *current cost* method are not necessarily indicative of what earnings would be if the existing assets were replaced, because the new assets would be expected to generate operating efficiencies which would at least partially offset the increased depreciation expense.

The following is a summary of Net Assets (Shareholders' Investment) based on *constant dollars* and *current costs* in average 1979 dollars.