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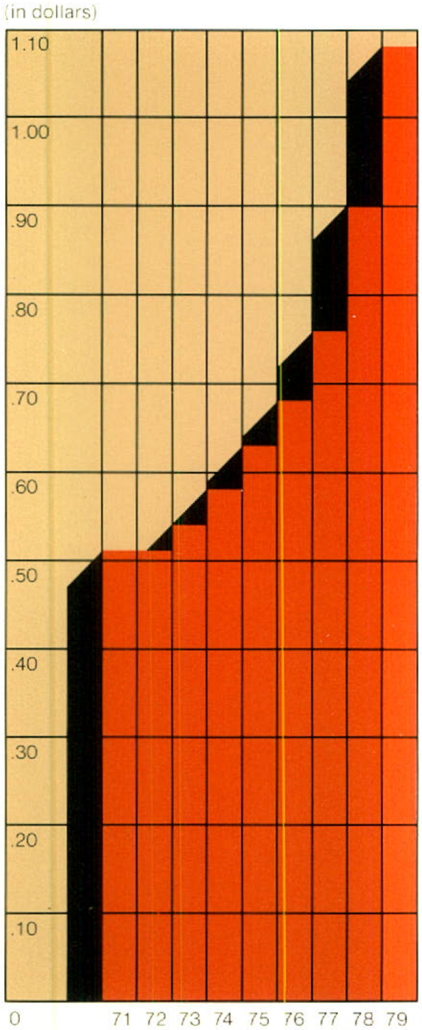
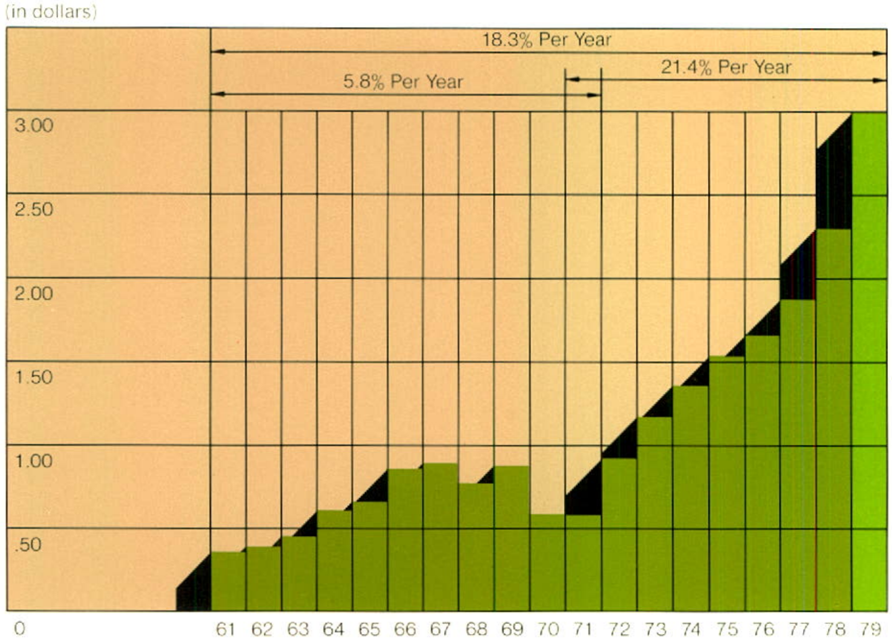
Bliss & Laughlin Industries

1979 Annual Report

Dividends Paid Per Share

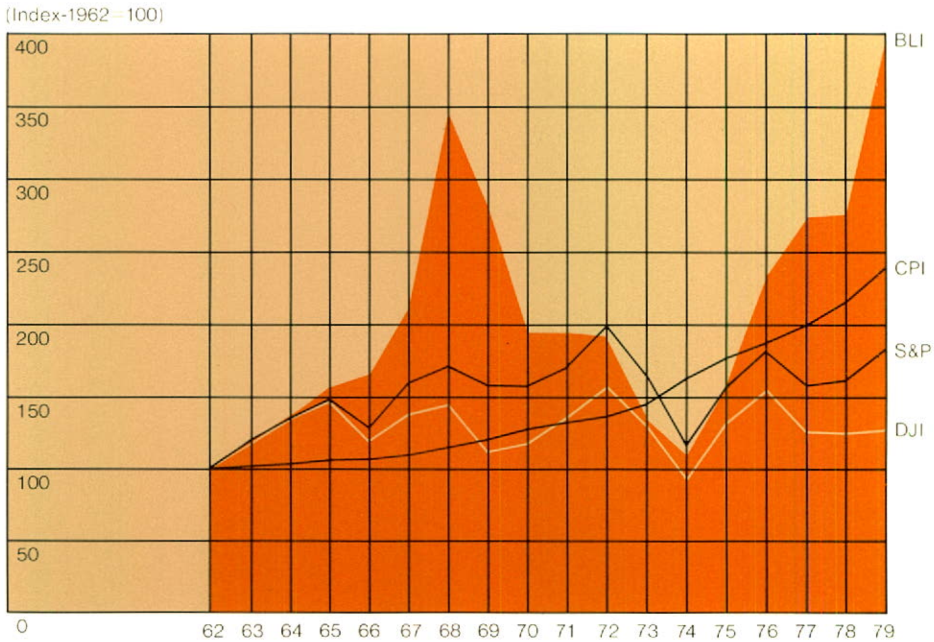


Earnings Trends in Fully Diluted Earnings Per Share (1961-1979)



The growth trend of fully diluted earnings per share has been 21.4% since 1972 and 18.3% since Bliss & Laughlin's decision to diversify in 1961. The actual compound growth rates of fully diluted earnings per share have been 22.9% from 1972 and 12.7% from 1961.

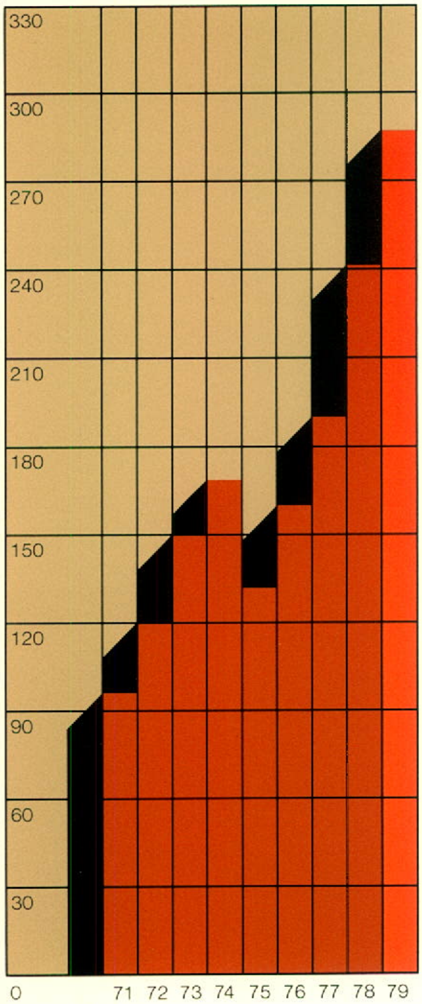
Bliss & Laughlin Stock Price Comparison (1962-1979)



Using 1962 as a base year, the Bliss & Laughlin stock price has outperformed the Dow Jones Industrial Average by 210% and the Consumer Price Index by 66%.

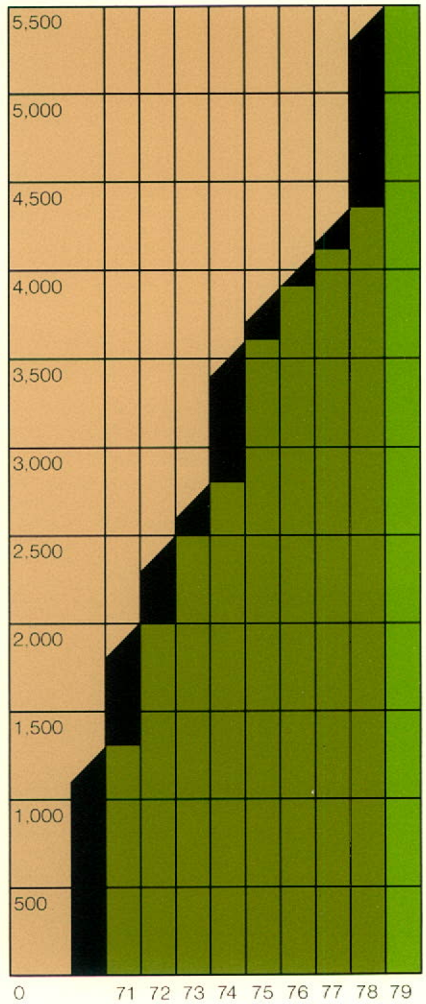
Revenues

(in millions of dollars)



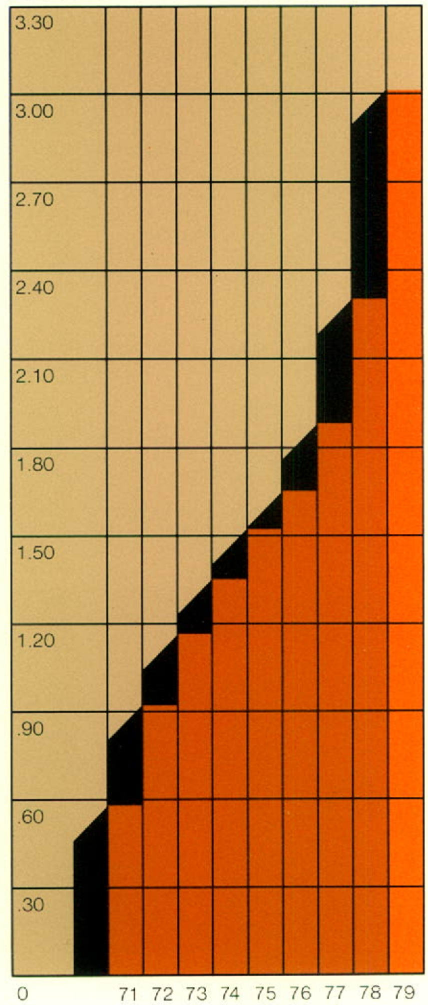
Net Income Per Employee (Productivity)

(in dollars)



Fully Diluted Earnings Per Share

(in dollars)



The Objectives

In 1972 Bliss & Laughlin, under present management, instituted a new operational program by formalizing key long-range financial objectives.

—a minimum growth trend of 10% in fully diluted earnings per share;

—a return of 8-10% on net assets employed;

—a yield of 13-17% on net worth; and

—a consistent improvement in the dividend rate.

The Results

The above charts illustrate the Company's achievement against these objectives:

—*Revenues* have increased 140% since 1972 to $287 million, with businesses acquired since 1972 contributing 24.3% of this growth.

—*Productivity*, as measured by net corporate income per employee, has sharply improved by 169%, from $2,046 in 1972 to $5,503 last year.

—*Fully Diluted Earnings Per Share*, under current management, has established new records *every* year since 1972, when fully diluted earnings per share were $0.92, to the $3.01 achieved in 1979.

Since 1972 the dividend rate has increased 120%, with our stockholders now enjoying an annual average yield of 6.5% per year.

In this same period:

—stockholders have had the number of their shares doubled through stock dividends and distributions.

—the market value of these holdings has increased 140%.

—the compound annual rate of total return (price appreciation plus dividend yield) has been 16.2%.

1979 Financial Highlights—Continuing Operations:

	1979	1978	% Change
Net revenues	**$287,492,000**	$240,472,000	19.6
Net income	**$17,680,000**	$13,543,000	30.5
Fully diluted net income per share	**$3.01**	$2.30	30.9
Primary net income per share	**$3.07**	$2.37	29.5
Return on average stockholders' equity	**18.0%**	15.6%	
Cash dividends paid	**$6,206,000**	$5,157,000	20.3
Cash dividends paid per share	**$1.08**	$0.90	20.0
Stockholders' equity	**$104,884,000**	$90,871,000	15.4
Stockholders' equity per average share	**$18.20**	$15.90	14.5
Average primary shares outstanding	**5,762,000**	5,715,000	.8
Number of stockholders	**6,486**	6,789	(4.5)
Number of employees	**3,213**	3,112	3.2

Table of Contents

Niche Businesses: The Key to Our Continued Financial and Operational Strength

The matrix of building blocks on the cover symbolically depicts Bliss & Laughlin's "niche" business approach to its operations.

Since 1961, when the Company produced only cold-finished steel bars (the "niche" in the lower left corner), Bliss & Laughlin has diversified into a broad range of businesses by successfully expanding into product lines that command significant positions within well-defined market segments of large industries.

Each discrete block of the matrix illustrates one of these product lines and creates an image for the management concept that has achieved profitable growth, continued financial and operational strength, and higher dividends for our stockholders.

Description of the Company

Bliss & Laughlin, a diversified manufacturer and marketer of industrial and commercial products, manages its various businesses as a portfolio of assets, the results of which are measured against clearly defined corporate goals. Balanced growth is achieved through internal sources and selected acquisitions.

Major areas of business activity include construction-related products and tools, industrial mail media operations, metal products, and cold-finished steel bars.

"In our 1978 Annual Report, your management defined BLI's 1979 objective as another year of record earnings.

"We are pleased to report to you that this was accomplished."

To Our Stockholders:

Eighth Consecutive Record Year For Income Per Share

The financial and operating achievements attained in 1979 are unprecedented in the history of Bliss & Laughlin. Revenues, net income, and earnings per share from continuing operations once again reached all-time peaks, surpassing by a major degree the record performance of 1978. Net income from continuing operations was $17,680,000 or $3.01 per share fully diluted ($3.07 per share primary), up 30.5% from $13,543,000 or $2.30 per share fully diluted ($2.37 per share primary) from continuing operations in 1978.

This was the eighth consecutive year under the present management that earnings per share have improved over the prior year's results. Revenues from continuing operations for 1979 totalled $287,492,000, up 19.6% from $240,472,000 a year ago.

Of equal importance, this excellent progress resulted from increased earnings contributions from all of the Company's operating groups. Specifically, these increases were: Construction Tools Group—13%; Metal Products Group—29%; and the Steel Group—59%. In complex marketplaces and in a difficult economic environment, these company-wide results attest to the skill and dedication of the management and employees of BLI.

The above results do not include a nonrecurring gain from the sale of our Waco Division of $0.40 per share fully diluted ($0.40 per share primary). This divestiture was made as a part of our continuing program to optimize the return on our assets employed.

Seven Straight Years of Increased Dividends

On May 5, 1979 the dividend was increased by your Board of Directors to a new annual rate of $1.10 per share, an increase of 10% per share and the seventh consecutive year in which higher dividends have been paid. Dividends paid to the stockholders in 1979 amounted to $6,206,000 compared to $5,157,000 in the prior year.

This tangibly demonstrates your Company's policy to share gains in income with our stockholders. Since 1972, with the advent of BLI's current management team, the dividend rate has increased 120%. Dividends have been paid for forty-one consecutive years—an enviable record of which we are proud.

Measures of Management

The financial control ratios utilized by this management, and, also, by investment analysts and our stockholders, to gauge corporate performance all remain within satisfactory operating standards. Further information supporting and supplementing these conclusions can be found in the financial highlights, the ten-year financial review included herein, and the following table:

	Continuing Operations	
Income Statement Items	**1979**	1978
Gross Profit—% of Revenue	**23.4%**	23.9%
Selling & Administrative Expense—% of Revenue	**12.0%**	11.9%
Net Income—% of Revenue	**6.1%**	5.6%
Net Income—% of Average Assets Employed	**10.7%**	9.3%
Balance Sheet Items		
Asset Turnover	**1.74**	1.65
Average Inventory—% of Revenue	**15.1%**	16.9%
Average Accounts Receivable—% of Revenue	**11.4%**	11.3%

Even with the detrimental effects of these inflationary times, gross profit and selling and administrative expenses as a percent of sales remained practically consistent with 1978. Most encouragingly, net income as a percent of revenue and as a percent of assets employed showed notable improvement. This latter percentage, the most important indication of management performance, set an all-time record. We are especially proud of this achievement.

Based upon our expectation of an increase in the cost of money and an anticipated slowness in some areas of the economy, early in 1979 the control of inventories and the timely collection of receivables were designated to receive priority attention. This attention to the balance sheet, which was a part of our overall planning process, resulted in both an improvement in the turnover of assets and inventory as a percent of revenue in spite of the escalating interest rates experienced in 1979. Receivables, on the other hand, as a percentage of revenue were slightly below last year's performance due to the effect on certain of our customers of higher cost of funds and slowness in some of their respective sections of the economy.

The above results continued to place your Company in the top quartile of comparison in financial surveys conducted by major business publications. Your Company also preserved and improved its strong financial position. Debt (including mortgage loans and debentures) at year-end stood at $33,729,000, 24.3% of total capitalization and down from 28.0% in 1978. Assets at year-end amounted to $181,851,000, up $27,995,000 from a year ago, with net current assets standing at $80,148,000, an increase of $15,346,000 from a year ago.

Consolidation

This past year represented a year of consolidation and enhancement of certain recent acquisitions and capital improvements. Over the past two years, your management completed the modernization program at our Steel Division and the construction of the most modern cold-finished steel bar facility in the United States at Batavia, Illinois. The full rewards from the capital expended in this regard should redound to the benefit of our stockholders in the future.

BLI also completed the integration into the organization of the Dave Fischbein Co., now a division of the Company. Key management was changed to accommodate the expressed retirement plans of the three principals at the time of acquisition of Fischbein and an operational plan adopted in keeping with that implemented in other BLI divisions. Similar activity was undertaken with the Metalart Buckle Co. of Providence, Rhode Island, another more recent acquisition. Its managerial personnel were integrated into Bliss & Laughlin, and the Metalart operations, because of the compatibility of technology, are now coordinated with our Faultless Division.

The new Faultless plant in Blytheville, Arkansas, is now on stream and an integral and profitable part of our Faultless Division.

Case Studies

As earnings improve, growth can be facilitated through acquisitions and new plants and equipment. In 1972 the present management set out to improve productivity and the financial and economic strength of BLI. By concentrating on these basics—attention to detail, concise planning, timely execution, and the acquisition of "niche" businesses—we feel that we have offered better products to our customers, enhanced operating procedures, and improved the overall position of your Company.

As an enlargement of the narrative on the "niche" business approach of the management, there are included in this report two case studies demonstrating how Bliss & Laughlin operates after the acquisition of what we consider to be a select opportunity. The Fischbein acquisition concluded in 1978 and the catalog businesses were chosen to demonstrate our business philosophy, techniques, and practices. Because the management of our business is so complex and requires professional and consistent management discipline and attention, we believe you will find these cases enlightening.

Outlook for 1980

Our 1980 operating plans were developed in conjunction with economic assumptions made in August of 1979 as follows:

	1980 Estimate
GNP Real Growth	1.0%
FRB Index—Total	152.0
Construction Component	163.0
Domestic Auto Shipments—Mil.	8.6
Housing Starts—Mil.	1.7
U.S. Steel Tons Shipped—Mil.	98.0

The continued spectre of high inflation, combined with uncontrolled domestic and foreign governmental events, makes forecasting extremely difficult. Currently, the above economic projections appear optimistic. On the other hand, BLI's corporate and operational management, because of their professional policies, procedures, and controls, has demonstrated the capability of performing profitably even when major obstacles had to be overcome.

There are several positive prospects which include:

- Development of detailed economic downturn plans for each of our divisions in the event that the above economic forecast is, in fact, too optimistic.
- Continued low-cost operations from the modernization program in the Steel Division.
- Substantial profit contribution by Fischbein and Metalart as they are integrated into the Company's operations and as BLI's management controls become more effective.
- Increased potential land sales where appropriate.

And, of course, we are mindful of possible negative prospects such as:

- Ten labor contracts to be negotiated in 1980.
- External factors beyond management's control. These might include possibilities such as: a prolonged and very deep recession; international instability leading to a possible shut-off of oil supplies, continued increased government regulations, including wage and price controls; and uncontrolled inflation.

Management's current 1980 operating plans are designed to meet the challenge of producing another record year of earnings. Barring any severe disruption that could be caused by uncontrollable external events, we are confident that our plans will succeed.

Because of the skill, professional discipline, and market knowledge of our employees and managers, Bliss & Laughlin Industries has never been in a better position to operate efficiently, profitably, and effectively. Your Company's financial position is the strongest it has ever been, and it is designed to support the programs of capital improvements, increasing dividends, and the acquisitions which are part of the long-range growth strategy of BLI.

We look forward to the economic, political, and business environment of the 1980's with caution, but we are confident that the market positions and quality of our products, and the skills and dedication of our employees uniquely position your Company to face the challenges and opportunities of the years ahead.

I am certain that I speak for all the employees and management at Bliss & Laughlin in our commitment to exert our best and fullest efforts for the continuing success of your Company in the coming decade.

E. T. Collinsworth Jr.

E. T. Collinsworth, Jr.
President and Chief Executive Officer

Niche Businesses: Two Case Studies

Bliss & Laughlin's planned expansion into "niche" businesses—segments of carefully selected markets in which the Company attains a leading position—constituted a distinctive feature of operations in the last decade and is a principal explanation of the Company's excellent results. The 1978 annual report developed the *meaning* of this concept. In this year's report the *operation* of that concept will be illustrated by examining two case studies: the industrial mail media marketing business comprised of the Jensen Tools, Markson Science, Direct Safety, and Goldblatt Tool subsidiaries; and the Dave Fischbein Division, one of Bliss & Laughlin's most recent acquisitions.

Industrial Mail Media Marketing

Acquired in 1965, Goldblatt stands as the oldest of BLI's mail order businesses. As a leading manufacturer and distributor in the industrial mail business, it supplies and distributes drywall, plastering, and masonry tools to the trowel trades. In addition to offering the most complete line of hand tools in the construction trowel trades, Goldblatt markets power tools, such as power trowels and mortar mixers. In 1979, through the acquisition of U. S. Spray Equipment Company, a major supplier of texture spraying equipment, Goldblatt expanded its industry niche and created a base for becoming a leader in that market segment.

Adding to Goldblatt's expertise, Jensen Tools, acquired in 1974, has gained prominence as the major marketer of tools and tool kits used by electronic technicians and precision mechanics. Jensen products find use in such fields as computers, office equipment, vending machines, and refrigeration. Electronic field service engineers and laboratories represent the principal Jensen customers.

Markson Science, a direct mail marketer of scientific and laboratory testing equipment and supplies, has been part of Bliss & Laughlin since 1975. Markson's catalog currently features over 4,800 specialty products, the majority of which are used in industrial and bio-medical research.

Direct Safety Company, a mail marketer of over 600 quality brand name safety products and accessories to industrial users throughout the country, was established in 1976. Its products serve the new and growing market for safety products created by both governmental initiatives and industrial demands.

All Bliss & Laughlin's industrial mail media marketers hold prominent positions in small segments of larger industries and, therefore, avoid overdependence on any one sector of the economy. By skillful planning, coordinated execution, and attention to trends, they achieve greater yields than those realized by most participants in the particular industries they serve. This minimizes the effect of the cyclical economic fluctuations of these industries and comprises one of the primary benefits of the "niche" business concept.

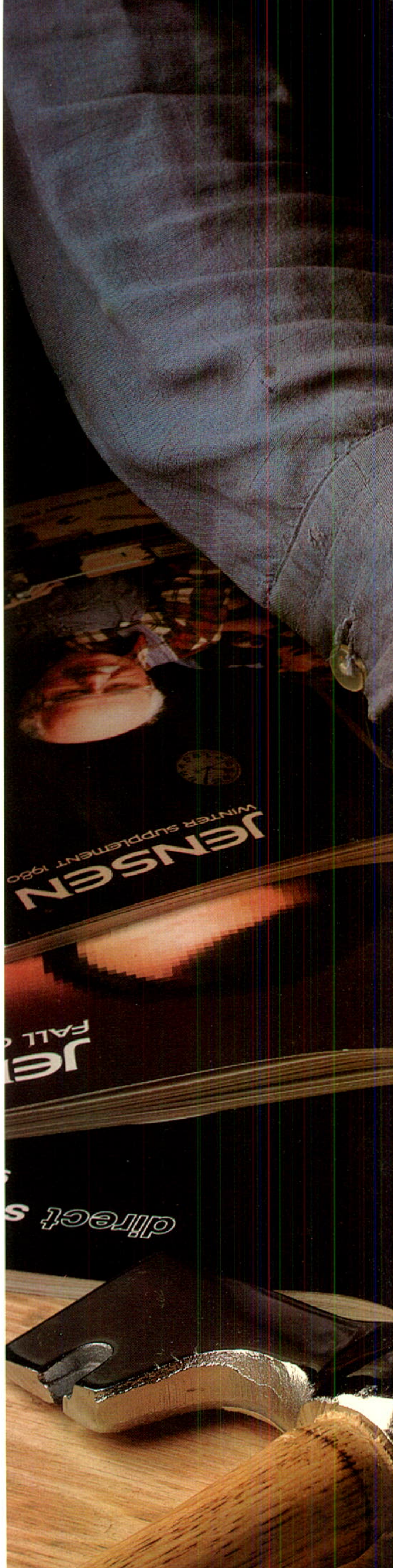
In identifying, analyzing, and assembling these catalog businesses, management considered additional factors:

- The dynamic nature of sales for certain types of items.
- The continuously escalating costs of direct personal sales calls.
- The reduced incentive for large field sales forces to pursue sales of relatively lower priced but, nonetheless, vital items.

A clear opportunity was recognized for operations which could sell quality products to a readily identifiable end-use group. Mail marketing achieved excellent penetration of these markets without the overhead of extensive sales organizations.

Each of Bliss & Laughlin's mail order businesses demonstrates how the attributes of the "niche" concept meshed with marketing opportunities identified by management.

Goldblatt, Jensen, Markson, and Direct Safety all possess excellent market positions in different industries.



Opposite: Direct mail catalogs from BLI's mail media companies present top-quality products at low cost.


AUTO LOCK® SCAFFOLDING
AUTO LOCK
LOCKS ITSELF
FAST·EASY·SAFE
HORIZONTALS, HAND RAILS, DIAGONALS
Goldblatt
TROWEL TRADE TOOLS
AUTO
HEAVY DUTY WELDED
MAKE COMBINATIONS
THREE FOOT WIDE FRAME
FIVE
GUARD RAIL POST
HAND RAIL
TOE BOARD ASSEMBLY
SCAFFOLD FRAME
BASE PLATE
42
SCIENCE INC.
Printed in U.S.A.
$3.00
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All sell relatively low unit price items that individually fail to support a viable sales return for a personal sales call; yet, all supply the highest quality products in their respective fields. All effectively reach a market of clearly recognizable, highly skilled, demanding customers. For example, a mason can order a Goldblatt trowel with assurance that he will quickly receive the finest trowel made. Similarly, an electronics technician will request a Jensen tool kit with the same expectation of prime product warranty, prompt delivery, and superior quality.

Revenue from these catalog businesses has recently grown at an annual rate of 9.7%. Two factors help explain this development and demonstrate why mail media will continue to contribute to the Company's growth. First, these mail order businesses possess compatibility with the Company's experience as an industrial marketer and manufacturer of tools and metal products. Bliss & Laughlin knows how to serve specialized unique markets where direct sales are not made to ultimate consumers and "the general public." Finally, these businesses are adaptable to the select influx of capital and the institution of management controls proven effective by Bliss & Laughlin. In particular, marketing and sales strategies become sharper and oriented to the long-term. Vital management information is developed and monitored. Procedures and policies are standardized and systematized. Computerization and improved order processing assist decision making and reduce turnaround time from order to delivery.

Selling and administrative expenses as a percentage of net sales have been specifically identified and refined for each of these businesses. The number of catalogs in circulation has been substantially augmented since acquisition. During the past ten years these businesses have increased their contribution to Bliss & Laughlin's pretax income from 10.3% in 1969 to 21.1% in 1979.

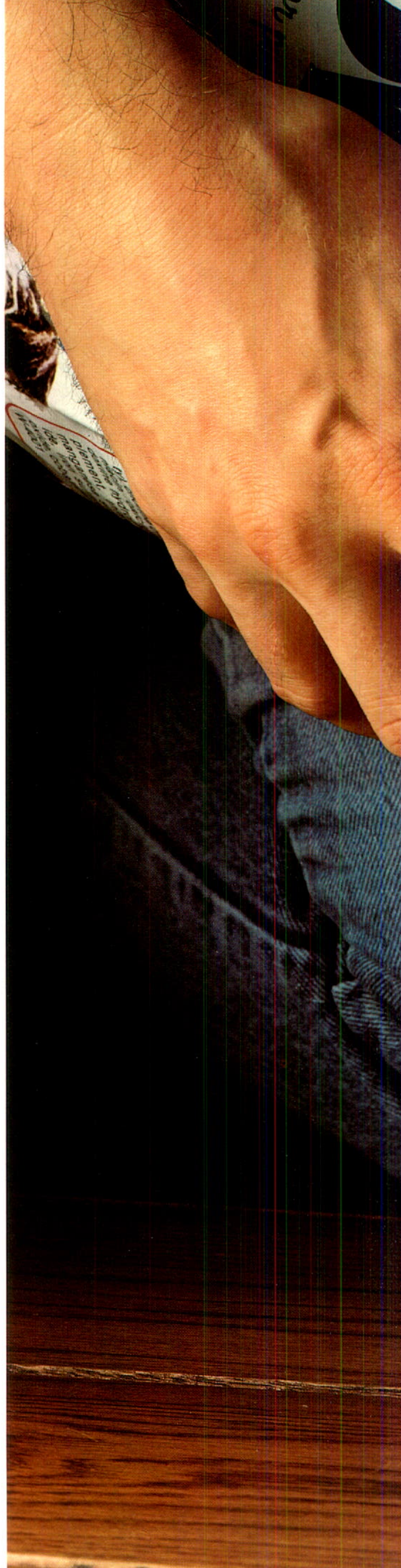
The Dave Fischbein Division

Like other Bliss & Laughlin "niche" businesses, the Dave Fischbein Co., acquired in 1978, commands an outstanding position in a market servicing a larger industry. Fischbein manufactures and markets industrial sewing machines for bag closures. This highly specialized part of the packaging industry comprises an important segment of a growing worldwide market. Sewn closures packaging dry pet foods, charcoal, grain and animal feed, potatoes, fertilizer, and home insulation are among the best-known applications.

Management discerned a number of attractive aspects and features of this business:

- High reliability, less expense, and improved labor efficiency commend machine-sewn bags over alternative bag-closing methods.
- Traditional usages remain attractive for increased growth.
- Newer types of consumer packaging applications constitute growing markets, especially for recently introduced Fischbein automated sewing systems.
- International expansion, as more nations mature, is assured.

In this last connection, Fischbein products fulfill major requirements in the developing countries of the world, whose economies remain primarily agricultural and mineral, by providing a quick, non-capital-intensive, and economical method of efficiently packaging agricultural and mined products. Since acqusition, Bliss & Laughlin has installed a new managerial team, revamped the marketing approach, reorganized manufacturing, and tightened reporting procedures. Fischbein has strengthened and broadened its distribution network which now has presence and trained service in every major market in the world. In the approximate two years that Fischbein has been part of Bliss & Laughlin, its sales have increased 16.6% and its annual income contribution has increased 21.5%. In 1980 the division introduced a new model portable sewing machine and will continue to increase its market penetration of the domestic and foreign markets.



Opposite: The Fischbein Division makes reliable sewn closures for a variety of packages.


PURINA

Product Highlights

Construction Tools Group

Construction-related tools and equipment, the basis of the Construction Tools Group, provides the Company an element of insulation from normal economic fluctuations of the construction business cycle, because of specialized positions in particular market segments.

Bliss & Laughlin's success in maintaining the leading positions of its mail order businesses in their respective fields has resulted from a continuous process of assuring that the products offered by Goldblatt, Jensen, Markson, and Direct Safety anticipate the developing needs of the market and meet the highest quality specifications.

Goldblatt, for example, acquired U. S. Spray Equipment in 1979, a manufacturer of large texture spray machines, complementing its existing line of smaller machines. By this approach Goldblatt attained industry leadership in yet another line. The Division expects to introduce approximately eighty other new products in its 1980 catalogs. These offerings range from a new hammer to a seven cubic foot motorized mortar mixer.

Jensen Tools Inc. maintained its outstanding industrial position in 1979 by continuing to provide a greater variety of tool kits than any of its competitors. This unique ability, to assemble the finest tools available from sources around the world into attractively packaged utilitarian kits, distinguishes Jensen from its imitators. During 1979, Jensen, for the first time, published a catalog addressed to the needs of refrigeration technicians. In the coming year it will examine the possibility of expanding such products to other technical markets.

Markson Science, Inc. increased the number of products in its catalogs to over 4,800 since 1978. Markson continually adds products and updates catalogs to market the best and the latest scientific and laboratory equipment available. These catalogs reflect the increasing pace of technological improvement. In addition Markson strives to refine its customer base utilizing this equipment.

Direct Safety Company's catalogs serve the growing needs of industry to obtain an increasingly diverse range of high quality safety equipment. These catalogs provide a centralized source of information and supply for customers confronted with approximately 1,000 manufacturers of products.

Bliss & Laughlin's Ames Taping Tools, the acknowledged market leader in the manufacture, rental, and service of drywall taping tools, furnishes a range of proprietary, labor-saving taping and finishing tools used in drywall construction. Use of these technically and qualitatively superior tools has increasingly been welcomed by contractors and tradesmen in commercial, institutional, and the various types of residential markets.

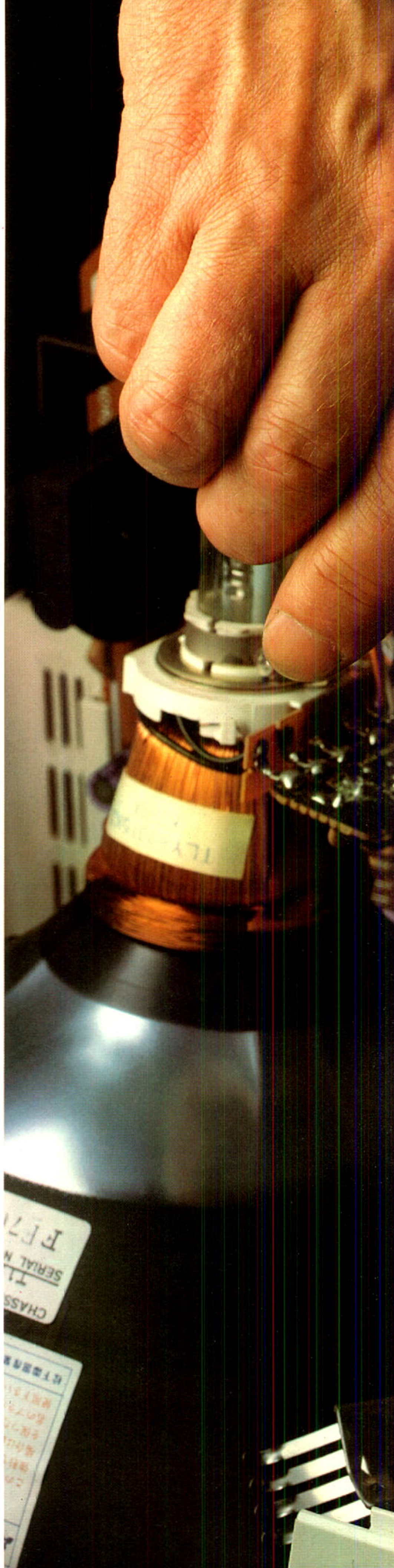
Bliss & Laughlin's Marco Division produces drywall tape for gypsum wallboard applications. Recent production innovations have buttressed the position of Marco as a premium quality and highly dependable supplier to this important market segment.

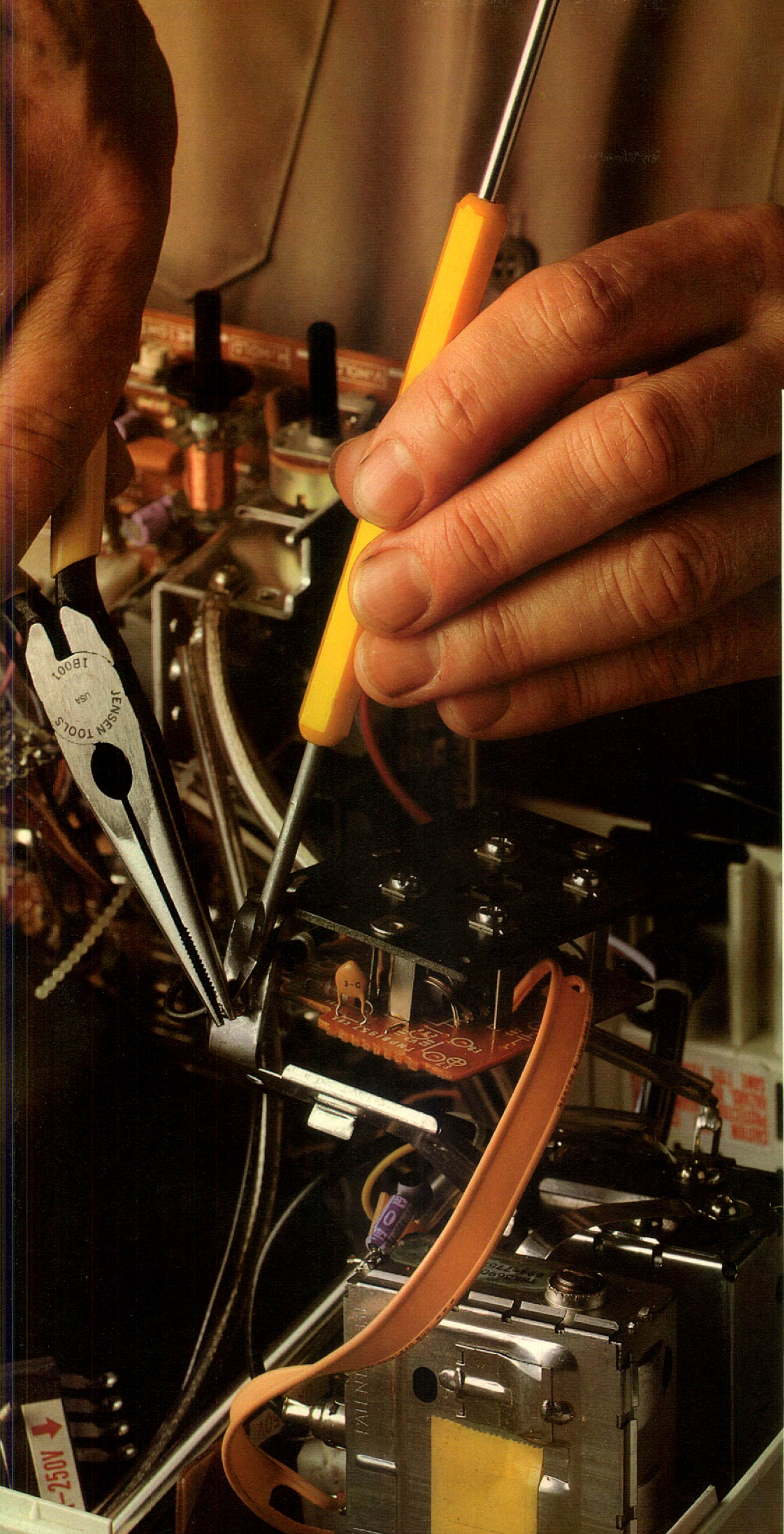
Opposite:
Electronic field service and assembly technicians require top-quality tools that are equal to intricate and complex tasks. Jensen tools meet these requirements.

Top Right:
Direct Safety offers its customers a low-cost, central source of supply for a wide range of quality brand name safety products increasingly required by industrial users.

Middle Right:
Goldblatt is the leading manufacturer and marketer of tools for the trowel trades. For over ninety years Goldblatt tools have been recognized by skilled tradesmen as the finest available.

Bottom Right:
Markson Science, a direct mail marketer of scientific and laboratory equipment used in industrial and bio-medical research, handles a range of equipment illustrated by the wash bottle, test tubes, digital thermometer, and combination stirrer/hotplate.




JENSEN TOOLS
USA
1B001
250V


AMEREX


GOLDBLATT K.C.


SpinMark
MARKSON
K CHROMEL-ALUMEL THERMOCOUPLE

Metal Products Group

The Company's metal products businesses further exemplify the "niche" concept in operation.

Tekform designs and produces metal packages for the electronics industry. It constitutes the largest supplier and designer of packages for hybrid microelectronics which satisfy a wide and growing range of uses. Tekform products provide essential elements for medical electronics instrumentation, airborne computers, aircraft anti-skid devices, laser guidance systems, missiles, and commercial aircraft sound systems. Tekform custom designs packages and parts to fit specific purposes and produces standard items for more general applications. Increasing industrial use of sophisticated electronic technology should benefit the division.

Nestaway manufactures and supplies plated and vinyl-coated, wire-fabricated baskets and racks for appliances and material handling industries. Products include dishdrainers, brackets for refrigerators and freezers, portable stacking racks, flexible conveyors, and automatic dishwasher racks. Its customers include Hobart, Maytag, General Electric, and Whirlpool.

The Faultless Division designs, manufactures, and sells casters for beds, sofas, chairs, dressers, and other types of furniture in the home and office. Other products find usages in industrial and institutional equipment. In addition to being one of the largest manufacturers of casters in the world, Faultless also makes specialty decorative hardware. The Faultless-Doerner Division, located in Canada, manufactures chair bases and controls. These divisions serve a market whose growth will be supplemented by predicted demographic changes of the 1980's.

Dave Fischbein Co., acquired in 1978, produces and sells premium hand-operated and automatic machines for closing paper and cloth bags and other packages. Applications for this product are found in food, fertilizer, animal feed, and similar products. Through a facility in Brussels this division services the European Continent, Africa, and the Middle East, where transportation and efficiency make packaging by bagging a necessary ingredient for the distribution system.

The Company's most recent acquisition, Metalart Buckle Company, produces buckles and other metal accessories for the apparel trade. Based upon the quality of its product, its service, and its ability to successfully introduce unique new designs to the market, it is regarded as the industry leader in this area.

Opposite:
Vinyl-coated dishwasher racks produced by Bliss & Laughlin's Nestaway Division for major appliance manufacturers has received industry-wide recognition for design, quality, and performance.

Top Left:
The labor-saving automatic taper, manufactured and leased by Ames Taping Tools, applies drywall tape to gypsum wallboard.

Top Right:
The buckles displayed represent examples of the unique designs that the Metalart Buckle Company creates for the fashion industry.

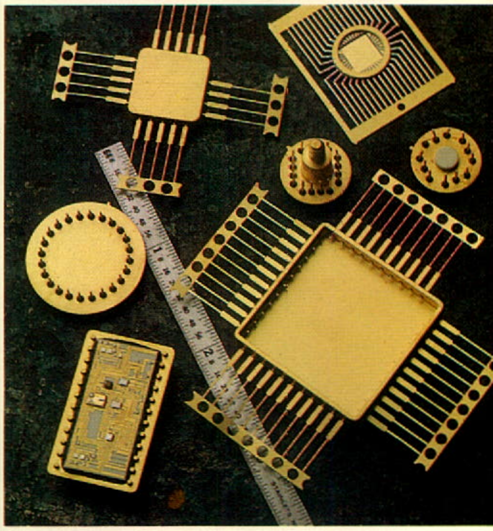
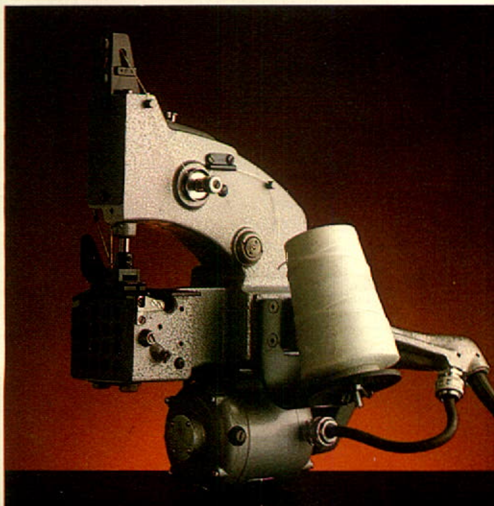
Second Right:
Bliss & Laughlin's Faultless Division, one of the world's largest manufacturers of casters, and the Faultless-Doerner subsidiary, a producer of chair bases and controls, combine to produce an efficient, decorative, and functional component of office and institutional furniture.

Third Right:
Tekform produces kovar (a cobalt-nickel-iron alloy) packages for microelectronic components. The packages shown shield and protect electronic circuitry from external environmental damage and provide hermetically sealed connections of circuitry to other components.

Bottom Right:
The industrial sewing machines produced by the Dave Fischbein Co. are used worldwide for closing packages by sewing efficiently and economically.





Steel Group

Bliss & Laughlin began as a steel company serving the basic needs of American industry. It has concentrated on one segment of that industry, cold-finished steel bars, and remains the largest independent producer of this product in the United States.

Cold-finished steel bars are produced from hot-rolled bars and steel coils by a process of conversion which cleans, draws and straightens, cuts to specific lengths, and polishes the raw material. The Company has installed the most modern automatic machinery in the world for converting coil stock into cold-finished bars at its facility in Batavia, Illinois, where it is engaged in a joint venture with a leading Japanese manufacturer.

Industrial societies are built on steel, and the customers and end uses for Bliss & Laughlin's steel bars cut across the spectrum of our economy. These products are found in electrical and non-electrical machinery of all types and serve agricultural, automotive, and appliance markets.

In the automotive industry, for example, familiar basic items such as sparkplugs, steering gears, shock absorbers, starter motors, and generators are produced from cold-finished steel bars.

The material is used for power-transmission shafts, fluid-power mechanisms, and in agricultural equipment.

Basically, Bliss & Laughlin occupies a select "niche" within some of America's largest industries.

Opposite:
The John Deere motor grader uses cold-finished steel bars produced by Bliss & Laughlin's Steel Group for the hydraulic cylinder rods which control the use of its blade.

Management's Discussion and Analysis of Continuing Operations

(Refer to page 25. Line of Business Information)

1979: The Company's income surpassed the record performance of 1978 by $4,137,000 or 30.5%... this was a result of increased contributions from all of the Company's operating groups. Revenues increased $47,020,000 or 19.6% over 1978. All operating groups contributed to this increase. Gross profit as a percent of revenues decreased from 23.9% in 1978 to 23.4% largely due to cost increases which exceeded price increases. Although selling, general and administrative expenses increased 19.7% over 1978, the relationship to revenues stayed relatively constant, increasing from 11.9% in 1978 to 12.0% in 1979. Interest income increased $2,003,000 over 1978, primarily due to higher interest income from reinvested proceeds from the sale of the Waco Division and higher interest rates. The provision for income taxes increased $3,148,000, largely due to higher income earned for 1979 over 1978.

1978: The Company's performance in 1978 was very strong, reflecting the high rate of activity of the construction industry and other more specialized market segments in which it operates. Total revenues and income increased 26.7% and 19.6%, respectively, from 1977. Gross profit increased $11,889,000, or 26.1%, from 1977. Gross profit as a percent of revenues declined slightly from 24.0% in 1977 to 23.9% in 1978 due to lower than expected profitability of the Steel Group. The gross profit margins of the Metal Products and Construction Tools Groups improved slightly from 1977. Selling, general and administrative expenses increased 31.3% over 1977. The provision for income taxes increased 26.1% from 1977, due to a 22.7% increase in pre-tax income and an increase in the effective tax rate from 48.2% in 1977 to 49.6% in 1978.

Construction Tools Group:
26.5% of revenues
53.9% of operating profit

This Group consists of: Ames Taping Tools—manufactures, rents and services drywall taping tools; Marco Paper Products—manufactures and sells drywall tape; Goldblatt Tool—supplies tools to masons, plasterers and drywallers; Jensen Tools—a catalog marketer of tools and tool kits; Markson Science—a catalog marketer of laboratory supplies and equipment; and Direct Safety—a catalog marketer of safety products.

Revenues and operating profit for this Group increased 13.5% and 12.9%, respectively, from 1978. This was due primarily to sustained construction activity and further growth in the catalog markets.

Metal Products Group:
33.5% of revenues
28.9% of operating profit

This Group consists of: Faultless—manufactures casters, wheels and hardware for the industrial, furniture and institutional markets; Doerner—manufactures chair bases and controls; Nestaway—manufactures portable material handling racks and conveyors, wire fabricated baskets and racks for dishwashers; Tekform—produces specialty metal packages for the electronics industry; Fischbein—manufactures and markets industrial sewing machines for bag closures; and Metalart—producer of die-cast metal buckles and a line of women's metal belts.

Revenues and operating profits for the year 1979 increased 29.3% and 28.6%, respectively, over 1978. The growth of revenues occurred in all of the Group's markets. Operating profits increased in all but one of the Group's companies.

Steel Group:
39.2% of revenues
14.6% of operating profit

This Group is the largest independent producer of cold-finished steel bars in the U.S., consisting of six strategically located U.S. plants.

1979 revenues and operating profits increased 20.8% and 58.6%, respectively. This increase in revenues and operating profits is primarily due to higher volume and economies of scale over 1978. The effect of the higher volume was mitigated by price pressures.

Quarterly Data

Bliss & Laughlin's common stock is listed on the New York Stock Exchange (ticker symbol BLI). The table below sets forth quarterly data relating to the Company's common stock prices and cash dividends per share for the past two years:

	Prices Per Share				**Cash Dividends Per Share**	
Quarter	**1979**		1978		**1979**	1978
	High	**Low**	High	Low		
First	**$16.25**	**$14.13**	$15.10	$13.10	**$.25**	$.20
Second	**19.25**	**15.75**	17.80	14.60	**.275**	.20
Third	**25.50**	**16.50**	17.13	14.50	**.275**	.25
Fourth	**23.25**	**17.88**	16.13	13.25	**.275**	.25

Ten-Year Financial Review(a)

	1979(b)	1978(b)	1977
Operating Results (in thousands)			
Net revenues	**$287,492**	$240,472	$189,816
Gross profit	**67,400**	57,363	45,474
Depreciation and amortization	**4,527**	3,511	2,617
Interest expense	**2,701**	2,894	2,759
Income from continuing operations before income taxes	**34,137**	26,852	21,881
Provision for income taxes	**16,457**	13,309	10,554
Income from continuing operations	**17,680**	13,543	11,327
Income (loss) from discontinued operations (c)	**2,314**	(87)	(114)
Net income	**19,994**	13,456	11,213
Cash dividends	**6,206**	5,157	4,339
Per Share Data			
Per fully diluted share:			
Income from continuing operations	**$ 3.01**	$ 2.30	$ 1.88
Income (loss) from discontinued operations	**.40**	(.02)	(.02)
Net income	**3.41**	2.28	1.86
Per primary share:			
Income from continuing operations	**3.07**	2.37	1.99
Income (loss) from discontinued operations	**.40**	(.02)	(.02)
Net income	**3.47**	2.35	1.97
Dividends paid	**1.08**	.90	.76
Financial Position (in thousands)			
Working capital	**$ 80,148**	$ 64,802	$ 64,271
Plant and equipment—net	**40,934**	40,587	32,706
Long-term notes payable	**28,534**	29,550	28,288
Mortgage loans	**1,577**	2,278	2,778
Convertible subordinated debentures	**889**	1,617	2,731
Stockholders' equity	**104,884**	90,871	83,589
Statistics			
Average primary shares outstanding (in thousands)	**5,762**	5,715	5,704
Number of stockholders	**6,486**	6,789	6,571
Number of employees	**3,213**	3,112	2,753

(a) Restated to report separately discontinued operations resulting from the sale of the Waco Division in 1979.
(b) See page 13 for management's discussion and analysis of continuing operations.
(c) Includes loss on refinancing of debt in 1972 and income from a bank subsidiary acquired and sold in 1970.

1976	1975	1974	1973	1972	1971	1970
$159,117	$131,718	$168,989	$149,640	$120,023	$95,976	$95,717
37,560	33,110	38,856	32,457	27,102	20,474	19,491
2,174	2,170	2,346	2,411	2,397	2,265	2,170
2,427	2,040	2,738	2,185	2,156	2,378	1,333
18,142	17,049	16,183	13,993	10,824	6,182	6,346
8,243	7,986	8,015	6,838	5,215	2,719	2,883
9,899	9,063	8,168	7,155	5,609	3,463	3,463
213	458	1,198	1,050	469	1,277	2,885
10,112	9,521	9,366	8,205	6,078	4,740	6,348
3,766	3,400	3,216	3,055	2,853	2,838	2,794
$ 1.65	$ 1.52	$ 1.35	$ 1.17	$ .92	$ .58	$ .58
.03	.07	.19	.17	.07	.20	.45
1.68	1.59	1.54	1.34	.99	.78	1.03
$ 1.79	$ 1.66	$ 1.48	$ 1.27	$ .99	$ .62	$ .63
.03	.09	.22	.19	.09	.23	.52
1.82	1.75	1.70	1.46	1.08	.85	1.15
.68	.62	.58	.54	.50	.50	.50
$ 59,380	$ 50,142	$ 36,502	$ 40,085	$ 33,611	$26,579	$22,529
28,001	26,327	26,869	26,697	27,839	28,520	28,742
24,566	21,906	12,966	18,914	18,089	13,763	13,765
3,334	4,120	5,191	8,939	11,017	11,244	7,224
5,075	7,016	7,141	7,141	7,141	7,735	8,821
75,691	67,701	61,786	56,614	52,144	48,610	45,821
5,534	5,445	5,518	5,633	5,640	5,610	5,523
6,535	6,715	6,491	6,339	6,141	6,246	6,209
2,526	2,539	2,934	2,854	2,741	2,652	2,914

Consolidated Balance Sheet
(in thousands)

December 31	1979	1978
ASSETS		
Current Assets:		
Cash	$ 4,183	$ 3,154
Marketable securities, at cost which approximates market	35,862	9,102
Marketable securities committed for acquisition	—	5,000
Trade accounts receivable, less allowance for doubtful accounts of $1,506 and $1,363, respectively	32,180	28,329
Inventories	43,594	40,730
Prepaid expenses and deferred income tax benefits	4,593	2,645
Total current assets	120,412	88,960
Realty:		
Land and related costs	9,354	10,929
Receivables, deferred income tax benefits and other	2,687	3,263
Total realty	12,041	14,192
Plant and Equipment, at cost:		
Land	1,924	2,007
Buildings	16,513	16,479
Machinery and equipment	50,292	45,111
Equipment leased to others	3,046	15,158
	71,775	78,755
Less: accumulated depreciation	30,841	38,168
Net plant and equipment	40,934	40,587
Other assets:		
Notes receivable and deferred charges	1,175	1,451
Investments in and advances to affiliated companies	1,202	1,096
Intangible assets, at cost, less accumulated amortization	6,087	7,570
Total other assets	8,464	10,117
Total Assets	$181,851	$153,856

The accompanying financial review is an integral part of this balance sheet.

	1979	1978
LIABILITIES & STOCKHOLDERS' EQUITY		
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
Realty:		
Mortgage loans	**1,577**	2,278
Other	**496**	385
Total realty	**2,073**	2,663
Non-Current Liabilities:		
Long-term debt, less current maturities	**28,534**	29,550
Deferred income taxes	**1,509**	2,622
Accrued pension and insurance costs, less current portion	**3,698**	2,375
Total non-current liabilities	**33,741**	34,547
Convertible Subordinated Debentures, 5-3/4%, due in 1987	**889**	1,617
Stockholders' Equity:		
Capital stock—		
Preferred stock, no par value; authorized 1,000,000 shares; no shares issued	**—**	—
Common stock, $2.50 par value; authorized 10,000,000 shares; issued 6,357,000 and 6,288,000 shares, respectively	**15,894**	15,721
Additional capital	**30,208**	29,615
Retained earnings	**65,788**	52,099
Treasury stock, at cost; 582,000 and 561,000 shares, respectively	**(7,006)**	(6,564)
Total stockholders' equity	**104,884**	90,871
Total Liabilities & Stockholders' Equity	**$181,851**	$153,856

Consolidated Statement of Income
(in thousands except per share amounts)

For the years ended December 31	1979	1978
Net Revenues	**$287,492**	$240,472
Costs and Expenses:		
Cost of revenues	**220,092**	183,109
Selling, general and administrative expenses	**34,384**	28,719
Interest expense	**2,701**	2,894
Interest (income)	**(3,235)**	(1,232)
Other (income) expense, net	**(587)**	130
Total costs and expenses	**253,355**	213,620
Income From Continuing Operations Before Income Taxes	**34,137**	26,852
Provision for Income Taxes	**16,457**	13,309
Income from Continuing Operations	**17,680**	13,543
Discontinued Operations:		
Loss from operations, less tax benefit of $349 and $51 in 1979 and 1978, respectively	**(342)**	(87)
Gain from sale of discontinued operations, less taxes of $2,127	**2,656**	—
Net Income	**$ 19,994**	$ 13,456
Fully Diluted Income Per Share		
Continuing operations	**$ 3.01**	$ 2.30
Net income	**$ 3.41**	$ 2.28
Primary Income Per Share		
Continuing operations	**$ 3.07**	$ 2.37
Net income	**$ 3.47**	$ 2.35
Average Primary Shares Outstanding	**5,762**	5,715

The accompanying financial review is an integral part of this statement.

Consolidated Statement of Changes in Financial Position
(in thousands)

For the years ended December 31		1979		1978
Sources of Working Capital:				
Income from continuing operations		$17,680		$13,543
Add (Deduct) items not affecting working capital:				
Depreciation and amortization		4,527		3,510
Equity in (earnings) of non-consolidated affiliates		(238)		(9)
Deferred income taxes, net		1,357		1,179
Working capital provided from continuing operations		23,326		18,223
Discontinued operations:				
Loss from operations	$ (342)		$ (87)	
Gain on disposal	2,656		—	
Results of discontinued operations	2,314		(87)	
Add (deduct) items not affecting working capital:				
Depreciation and amortization	507		1,761	
Deferred income taxes, net	(2,155)		(391)	
	666		1,283	
Net long-term assets sold	4,870		306	
Other sources of working capital	2,182		76	
Working capital provided from discontinued operations		7,718		1,665
Working capital provided from operations		31,044		19,888
Decrease in net realty assets		1,948		2,372
Increase in long-term debt		—		4,652
Subordinated debenture conversions		728		1,114
Investment in affiliated companies		132		832
Other, net		476		(760)
Total provided		34,328		28,098
Uses of Working Capital:				
Cash dividends		6,206		5,157
Additions to plant and equipment, net of retirements		5,456		10,785
Working capital used for acquisition		3,657		2,939
Reduction of long-term debt		960		3,376
Subordinated debenture conversions		728		1,114
Decrease in non-current pension liability		645		700
Decrease in mortgage loans payable		701		500
Treasury stock purchases		629		2,997
Total used		18,982		27,568
Increase in working capital		$15,346		$ 530
Changes Consist of Increase (Decrease) in:				
Cash and marketable securities		$22,789		$(5,291)
Receivables, net		3,851		8,211
Inventories		2,864		3,216
Prepaid expenses and deferred income tax benefits		1,948		(48)
Increase in current assets		31,452		6,088
Short-term loans, current maturities of long-term debt, and customer deposits		842		1,281
Accounts payable and accrued liabilities		7,576		4,056
Income taxes		7,688		221
Increase in current liabilities		16,106		5,558
Increase in working capital		$15,346		$ 530

The accompanying financial review is an integral part of this statement.

Consolidated Statements of Additional Capital and Retained Earnings
(in thousands)

For the years ended December 31	1979	1978
Additional Capital:		
Balance at beginning of year	**$ 29,615**	$ 31,608
Add (Deduct):		
Par value transferred to common stock in payment of 25% common stock distribution	**—**	(3,119)
Principal amount of convertible debentures in excess of par value of common stock issued upon conversion	**548**	866
Other, net	**45**	260
Balance at end of year	**$ 30,208**	$ 29,615
Retained Earnings:		
Balance at beginning of year	**$ 52,099**	$ 44,359
Add (Deduct):		
Net income	**19,994**	13,456
Cash dividends ($1.08 per share in 1979 and $.90 per share in 1978)	**(6,206)**	(5,157)
Excess of cost of treasury stock over proceeds of stock options exercised	**(99)**	(559)
Balance at end of year	**$ 65,788**	$ 52,099

Consolidated Statements of Common Stock and Treasury Stock
(in thousands)

For the years ended December 31	1979		1978	
	Shares	**Amount**	Shares	Amount
Common Stock:				
Balance at beginning of year	**6,288**	**$15,721**	4,946	$12,365
Add: Stock issued for debenture conversion	**69**	**173**	95	237
Stock issued for 25% stock distribution	**—**	**—**	1,247	3,119
Balance at end of year	**6,357**	**$15,894**	6,288	$15,721
Treasury Stock:				
Balance at beginning of year	**561**	**$ 6,564**	360	$ 4,743
Add (Deduct):				
Treasury stock purchased	**33**	**629**	164	2,997
Stock issued for 25% stock distribution	**—**	**—**	112	—
Stock issued for stock options	**(12)**	**(187)**	(75)	(1,176)
Balance at end of year	**582**	**$ 7,006**	561	$ 6,564

The accompanying financial review is an integral part of these statements.

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Bliss & Laughlin Industries Incorporated:

We have examined the consolidated balance sheet of BLISS & LAUGHLIN INDUSTRIES INCORPORATED (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1979 and 1978, and the related consolidated statements of income, common stock, treasury stock, additional 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 consolidated financial statements referred to above present fairly the financial position of Bliss & Laughlin Industries Incorporated and 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.

Arthur Andersen & Co.

Chicago, Illinois,
January 31, 1980.

Financial Review

For the years ended December 31, 1979 and 1978.

Accounting policies have been presented in *italics* as part of the financial review dealing with each subject.

Principles of Consolidation

The consolidated financial statements include all subsidiaries except BLI Mortgage Company. Investments in affiliates, which consist of BLK Steel Inc. (a 50% joint venture) and Adamios Atlas, S.A. (a 49% joint venture), and BLI Mortgage Company (included in other realty assets) are stated at cost plus equity in undistributed earnings since acquisition. Separate financial statements for these affiliates and BLI Mortgage Company are not included in this report because they are not significant.

The Company translates the accounts of foreign subsidiaries and affiliates to U.S. dollars by following, in all material respects, the policy of translating monetary items at the approximate current rate of exchange at the end of the year and nonmonetary items (inventory and fixed assets) at the rate of exchange in effect at the time the items were acquired. Income statement items, with the exception of cost of sales and depreciation expense, are translated at the average rate for the year. The resulting translation and exchange gains included in income in 1979 were $16,000. In 1978 the net amount was a loss of $521,000.

All intercompany transactions have been eliminated in consolidation.

Discontinued Operations

On May 31, 1979 the Company sold the assets and certain liabilities of its Waco Division in a cash transaction. The 1979 operating results of the Waco Division, as well as the gain on the sale are reported separately from results of continuing operations in the Consolidated Statement of Income. Similarly, 1978 and prior years statements have been restated. Revenues from Waco were $6,796,000 and $17,179,000 in 1979 and 1978, respectively.

Pension Plans

Pension costs have been funded at a rate necessary to maintain the plans on an actuarially sound basis. Pension costs not expected to be funded within the next year are included as long-term obligations in the balance sheet. The provision is based on normal cost plus interest and amortization of unfunded past service cost over 30 years.

These plans provide benefits for substantially all employees. The provision for pension costs for continuing operations was $2,412,000 in 1979 and $2,091,000 in 1978. The provision increased primarily because of 1978 negotiated changes in benefit levels at a number of locations. The most recent actuarial report indicates the total of pension fund assets and balance sheet accruals were in excess of the aggregate actuarially computed value of vested benefits for the plans in total.

Financial Review (continued)

Income Taxes

The provision for income taxes is the estimated amount of income taxes payable currently and in the future on earnings for the year. Investment tax credit is reflected as a reduction of the current provision under the flow-through method of accounting.

Continuing Operations:

The components of the provision are as follows (in thousands):

	1979	1978
U.S. and Foreign taxes currently payable	**$14,528**	$10,522
Deferred taxes and (benefits), net	**(144)**	1,352
	14,384	11,874
State income taxes	**2,073**	1,435
Total provision	**$16,457**	$13,309

The effective income tax rate for 1979 was 48.2% and for 1978 was 49.6%. Significant items affecting the income tax rate were the utilization of investment tax credits of $300,000 in 1979 and $677,000 in 1978, and state income taxes.

Taxes deferred, due mainly to the use of accelerated depreciation for tax purposes, and pension accruals different from current trust fund contributions, are classified as a non-current liability. Deferred tax benefits related to working capital items are classified as a current asset and those relating to realty operations are included in the realty assets. The source of these differences in 1979 and 1978 and the tax effect of each were as follows (in thousands):

	1979	1978
Depreciation	**$ 734**	$ 628
Pensions	**308**	317
Realty assets	**315**	225
All other, net	**(1,501)**	182
	$ (144)	**$ 1,352**

Discontinued Operations:

The effective tax rate was less than the statutory rate primarily because portions of the Waco sale gain are taxed at lower capital gains tax rates. The primary source of deferred tax benefit related to the sale of Waco was the reversal of the accumulated excess of tax over book depreciation with a tax effect of $1,398,000 in 1979.

Earnings Per Share

Net income per share is computed using the weighted average number of shares of common stock outstanding during the respective years. Fully diluted net income per share is computed using the shares included in the net income per share calculation and assuming conversion of the Company's convertible subordinated debentures as of the beginning of the year. The dilutive effect of stock options is not significant.

Common Stock Distribution

The Company made a 25% common stock distribution in the form of a split-up on July 3, 1978. The accounting treatment was to increase common stock by $3,119,000 with a corresponding charge to additional capital. Throughout this report, shares and per share amounts have been restated to reflect this distribution.

Inventories

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market except for certain inventories ($10,498,000 and $11,364,000 at December 31, 1979 and 1978, respectively), which are stated at last-in, first-out (LIFO) cost which is not in excess of market.

The replacement cost of LIFO inventories exceeds stated LIFO cost by $11,455,000 and $9,728,000 at December 31, 1979 and 1978, respectively.

Realty Operations

The Company's realty operations differ from the other operations in that they have a business cycle extending over several years and the assets are held primarily for investment purposes. Accordingly, all the assets and liabilities of these operations are presented under separate realty captions.

Land and related costs are stated at the lower of cost or market. Realty sales are recorded when the buyer has a significant and continuing cash equity in the property. Real estate taxes and interest costs are expensed as they are incurred. Development costs are capitalized. Costs are allocated to the various parcels of individual projects based upon either the relative value method or specific identification of costs to parcels.

Intangible Assets

The excess of the purchase price over the fair market value of net assets of certain businesses acquired prior to November 1, 1970, in the amount of $2,690,000 is not being amortized because, in the opinion of management, it represents assets with continuing value. For certain other acquisitions any such excess is being amortized over the lesser of the period benefited or 40 years. The amortization charge for continuing operations was not material in 1979 or 1978.

Patents and other intangible assets are stated at their purchased cost and are amortized over their useful lives.

Plant and Equipment

Depreciation is provided over the following estimated useful lives:

Buildings	*10-45 years*
Machinery and equipment	*3-20 years*
Equipment leased to others	*5 years*

Depreciation on substantially all property except equipment leased to others is provided on the straight-line method for accounting purposes. For tax purposes, the double declining balance method of depreciation and the Internal Revenue Service asset depreciation range of lives are generally used.

Expenditures for minor renewals, current repairs and maintenance applicable to any class of property are charged to expense as incurred. Betterments of the property are capitalized. Replacements of major units are also capitalized and the replaced assets are retired.

In the case of minor property retirements, the original cost of the property items is removed from the plant and equipment accounts and the reserve for depreciation is charged with the original cost, less salvage of the assets retired. Any gain or loss is amortized over the remaining life of the balance of the property items in the individual asset classification. In the case of major property retirements or abandonments, the original cost of the property items is removed from the plant and equipment accounts, the accumulated depreciation is removed from the related reserves and the net gain or loss is reflected in income.

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.

Long-Term Debt, Convertible Subordinated Debentures, and Mortgage Loans

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 (5-1/4% 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 5-3/4% 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 9-3/8%, has annual installments due from 1982 to 1994. No compensating balances are required under this agreement.

Financial Review (continued)

The obligations related to industrial revenue bonds are due in installments through 1993, have various interest rates from 4% to 8-1/2%, and are secured by buildings and machinery and equipment with a net book value of $6,152,000 at December 31, 1979.

The convertible subordinated debentures, 5-3/4%, due in 1987, are subordinated to all borrowings of the Company, and are now convertible into common stock at any time prior to maturity at the rate of 95.38 shares for each bond. Annual sinking fund payments of $1,200,000 for redemption of the debentures are required commencing in 1978, but may be satisfied by delivering converted or treasury debentures which amounted to $14,111,000 at December 31, 1979. The debentures may be called at any time at prices decreasing from 102.12% of face value currently to 100% in 1986.

Mortgage loans classified under the realty caption are secured by real estate held for investment purposes with a net book value of $8,203,000 at December 31, 1979. The loans bear various interest rates from 5% to 8-1/2% and have varying maturities through 1989, including $259,000 in 1980, $266,000 in 1981, $226,000 in 1982, $189,000 in 1983, and $130,000 in 1984.

The Company has an informal agreement requiring the maintenance of a compensating bank balance of approximately $485,000 for a discounted note receivable of $2,423,000. This balance is on an annual average balance basis and is unrestricted as to use at any given time. In addition, the Company has available a $2,559,000 U.S. ($3,000,000 Canadian) line of credit against which $1,552,000 U.S. ($1,820,000 Canadian) was borrowed as of Decenber 31, 1979. This borrowing bears interest at 15%. No compensating balances are required.

Commitments and Contingent Liabilities

At December 31, 1979, the Company was contingently liable on a note receivable of the Company which was sold with recourse in 1971. The note, which is not in default, is due in varying installments to December 1, 1980 with the December 31, 1979 balance being $2,423,000.

Minimum rental commitments under all noncancellable leases are as follows:

(in thousands)	Operating Leases Primarily Real Estate	Capital Leases Primarily Machinery & Equipment	Total
1980	$ 475	$ 656	$1,131
1981	405	608	1,013
1982	311	458	769
1983	233	380	613
1984	204	257	461
1985-1989	298	401	699
1990-1994	84	—	84
1995-1998	33	—	33
After 1998	—	—	—
	$2,043	2,760	$4,803
Less: Amount Representing Interest		1,310	
Net Present Value		$1,450	

In 1979 and 1978 the company capitalized certain long-term leases. This $1,450,000 obligation is included in long-term debt. The income effect of the capitalization is insignificant.

Line of Business Information

The Company operates principally in three industries: metal products, construction tools, and steel. Operations in the Metal Products Group involve the manufacture and sale of a wide range of products such as industrial and furniture casters, material handling systems, coated wire baskets for automatic dishwashers, industrial sewing machines for bag closures, precision miniature packages for the microelectronics industry, and metal accessories for the apparel trade. The Construction Tool Group manufactures and sells or leases construction tools and paper tape for finishing gypsum drywall board joints, and tools and equipment for other construction trades. This Group also markets, via catalogs, tool kits, laboratory supplies and equipment, and safety products. Operations in the Steel Group involve the manufacture and sale of cold-finished steel bars.

Assets employed are those assets used within each group to produce income. Corporate assets consist primarily of cash, marketable securities, corporate office property and realty assets which are held for investment purposes.

Income Information (in thousands):	**1979**	1978	1977	1976	1975
Net Revenues from Unaffiliated Customers:					
Steel Group	**$112,825**	$ 93,375	$ 79,790	$ 68,551	$ 58,912
Metal Products Group	**96,405**	74,547	57,412	50,608	41,633
Construction Tools Group	**76,115**	67,060	51,431	37,670	29,767
Corporate, other and eliminations	**2,147**	5,490	1,183	2,288	1,406
Total	**$287,492**	$240,472	$189,816	$159,117	$131,718
Income from Continuing Operations Before Income Taxes:					
Steel Group	**$ 5,875**	$ 3,704	$ 4,875	$ 4,310	$ 4,102
Metal Products Group	**11,592**	9,017	6,738	6,450	4,928
Construction Tools Group	**21,619**	19,151	15,337	11,588	10,183
Corporate, other and eliminations	**1,035**	319	241	(217)	(24)
Subtotal	**40,121**	32,191	27,191	22,131	19,189
General corporate expense	**(3,283)**	(2,445)	(2,551)	(1,562)	(100)
Interest expense	**(2,701)**	(2,894)	(2,759)	(2,427)	(2,040)
Total	**$ 34,137**	$ 26,852	$ 21,881	$ 18,142	$ 17,049

Asset Information (in thousands):	**1979**	1978	1977
Assets Employed:			
Steel Group	**$ 30,739**	$ 31,901	$ 29,065
Metal Products Group	**63,057**	48,382	34,609
Construction Tools Group	**29,041**	36,951	35,234
Corporate, other and eliminations	**59,014**	36,622	42,438
Total	**$181,851**	$153,856	$141,346
Depreciation and Amortization:			
Steel Group	**$ 1,121**	$ 806	$ 613
Metal Products Group	**2,552**	1,956	1,419
Construction Tools Group	**734**	632	520
Corporate, other and eliminations	**120**	117	65
Total	**$ 4,527**	$ 3,511	$ 2,617
Capital Expenditures:			
Steel Group	**$ 283**	$ 2,793	$ 3,830
Metal Products Group	**3,904**	4,034	3,080
Construction Tools Group	**814**	757	1,217
Corporate, other and eliminations	**455**	3,201	304
Total	**$ 5,456**	$ 10,785	$ 8,431

All 1979 data presented above pertains only to continuing operations. Information previously reported for 1978 and prior has been restated to a comparable basis. Sales between industry segments are not material.

Financial Review (continued)

Stock Options

In 1975 the stockholders approved a stock option plan whereby 405,000 shares of common stock were reserved for granting options to key employees at 100% of fair market value at date of grant. Options are exercisable at the rate of 33-1/3% a year beginning one year from date of grant and expire 10 years from date of grant. Certain options may include a stock appreciation right, which entitles an optionee to receive from the Company common stock (and/or cash, at the election of the Company) equivalent in value to any appreciation in value of an exercisable option.

In 1979 options for 69,800 and 15,500 shares were granted at $16.00 and $20.00 per share, respectively or a total price of $1,427,000. Also, 8,816 options became exercisable. During the year options for 12,220 shares were exercised and no options were terminated.

At December 31, 1979 options for 191,380 shares were outstanding with an aggregate option price of $2,350,000 and an aggregate market value of $3,899,000.

During 1978, options for 10,200 shares were granted at $15.13 per share or a total price of $154,000. Also, 69,076 options became exercisable. During 1978 options for 85,400 shares were exercised and 4,160 were terminated.

	1979	1978
Options Available for Future Grant:		
Beginning of year	**182,730**	188,770
Granted	**(85,300)**	(10,200)
Terminations	**—**	4,160
End of year	**97,430**	182,730
Options Granted and Outstanding:		
Beginning of year	**118,300**	197,660
Granted	**85,300**	10,200
Exercised	**(12,220)**	(85,400)
Terminations	**—**	(4,160)
End of year	**191,380**	118,300

The accounting procedure for the stock appreciation rights is to charge income for the increase in the market price of the Company's common stock over the option price.

Included in options outstanding were 68,600 shares with stock appreciation rights.

Management Incentive Compensation Plan

The plan is administered by a committee established by the Board of Directors and provides additional compensation to officers and key employees based upon income and return on stockholders' equity.

The amount charged to income from continuing operations pursuant to the plan was $623,000 for 1979 and $602,000 for 1978.

Acquisitions

On January 5, 1979, the Company acquired for cash the Metalart Buckle Company, Providence, Rhode Island. Metalart is a leading producer of die cast metal buckles and manufactures a line of women's belts. The purchase method of accounting was used and Metalart's results are included in the Company's 1979 consolidated financial statements. The current assets section of the December 31, 1978, balance sheet contains an amount of $5,000,000 for marketable securities committed for this acquisition.

Inflation Accounting Information (Unaudited)

As required by the Securities and Exchange Commission, the Company will include certain estimated inflation accounting data in the form 10-K filed with the Commission. Such data will consist of the current cost of inventories, fixed assets, and the impact of these costs upon depreciation and cost of goods sold.

This current cost data indicates that, due to inflation, the current cost of the Company's inventories and fixed assets is higher than original cost. Cost of goods sold and depreciation expense would similarly be greater on a current cost basis. The Company has historically been able to maintain its profit margins in face of inflation by price increases, cost savings and technological improvements. There is no reason to believe that this will not continue in the future. In addition, all new capital commitments are made with assumptions reflecting current cost considerations and future price expectations.

Quarterly Financial Summary (Unaudited)
(in thousands except per share amounts)

	1979 For the Three Months Ended					1978 For the Three Months Ended				
	3/31	6/30	9/30	12/31	Total	3/31	6/30	9/30	12/31	Total
Net revenues	$73,864	$73,940	$70,522	$69,166	$287,492	$55,436	$62,469	$61,388	$61,179	$240,472
Gross profit	15,568	18,165	17,134	16,533	67,400	12,640	14,922	14,464	15,337	57,363
Income from continuing operations before taxes	6,554	9,822	8,758	9,003	34,137	5,136	7,241	6,304	8,171	26,852
Provision for income taxes	3,155	4,429	4,193	4,680	16,457	2,540	3,568	3,082	4,119	13,309
Income from continuing operations	3,399	5,393	4,565	4,323	17,680	2,596	3,673	3,222	4,052	13,543
Income from discontinued operations	18	1,897	399	—	2,314	(22)	40	28	(133)	(87)
Net income	$ 3,417	$ 7,290	$ 4,964	$ 4,323	$ 19,994	$ 2,574	$ 3,713	$ 3,250	$ 3,919	$ 13,456
Per Share Data										
Income Per Fully Diluted Share:										
Continuing operations	$ .58	$ .92	$ .78	$ .73	$ 3.01	$ .44	$ .62	$ .55	$ .69	$ 2.30
Discontinued operations	—	.32	.07	—	.40	(.01)	.01	—	(.02)	(.02)
Net income	$ .58	$ 1.24	$ .85	$ .73	$ 3.41	$ .43	$ .63	$ .55	$ .67	$ 2.28
Income Per Primary Share:										
Continuing operations	$ .59	$ .94	$ .79	$ .75	$ 3.07	$ .45	$ .64	$ .57	$ .71	$ 2.37
Discontinued operations	—	.33	.07	—	.40	—	.01	—	(.03)	(.02)
Net income	$ .59	$ 1.27	$ .86	$ .75	$ 3.47	$ .45	$ .65	$ .57	$ .68	$ 2.35
Average primary shares outstanding	5,743	5,766	5,770	5,773	5,762	5,746	5,732	5,674	5,706	5,715

All information is restated to reflect the sale of the Waco Division as a discontinued operation.

Board of Directors

Henry P. Albrecht (A, C, N)
President, Gale Realty, Inc.
Real Estate

Harold G. Bernthal (A)
President & Chief Operating Officer,
American Hospital Supply Corporation
Manufacturer of health care products

E. T. Collinsworth, Jr. (E)
President & Chief Executive Officer,
Bliss & Laughlin Industries Incorporated

Stanley E. G. Hillman (C, N)
Retired Vice Chairman of the Board
of IC Industries, Inc.,
A diversified company engaged in transportation, consumer products, and other businesses

C. Arnold Kalman (E, P)
Senior Vice President,
Booz, Allen & Hamilton, Inc.
Management Consultants

Marvin G. Mitchell (C, N)
Chairman & President,
CBI Industries, Inc.
A contracting firm engaged in construction of metal plate structures and related systems

Robert T. Powers (P)
Chairman of the Board,
Nalco Chemical Company
A specialty chemical company

Keith Shay (E)
Partner, Schiff Hardin & Waite
Law firm

Gordon R. Worley (A, P)
Executive Vice President—Finance,
Montgomery Ward & Co. Incorporated
National retailer of general merchandise

Committees of the Board of Directors

(A) Audit
(C) Compensation
(E) Executive
(N) Nominating
(P) Pension

Corporate Officers

Frank W. Aughnay
Senior Vice President, Operations

Norma J. Bark
Assistant Secretary

E. T. Collinsworth, Jr.
President & Chief Executive Officer

T. P. Crigler
Vice President, Administration & Treasurer

Emile J. Garneau
Corporate Controller &
Assistant Secretary

Donald B. Moritz
Vice President, Construction Tools Group

Gregory H. Parker
Vice President, Steel Group

Joseph W. Rose
Vice President, Metal Products Group

Dennis W. Sheehan
Vice President, General Counsel & Secretary

Transfer Agents
Continental Illinois National Bank and
Trust Company, Chicago, Illinois
Morgan Guaranty Trust Company,
New York, New York

Registrars
Harris Trust and Savings Bank,
Chicago, Illinois
Bradford Trust Company,
New York, New York

Common Stock Listing
New York Stock Exchange
(Stock Exchange Symbol—BLI)

Divisions and Managers

Ames Taping Tool Systems Co.
Eugene R. Johnson,
Vice President & General Manager

Andamios Atlas, S.A.
(49% owned)
Jorge de Arechavala,
General Manager

Bliss & Laughlin Steel Co.
Gregory H. Parker,
Group Vice President

Faultless Division
Willard P. Stetzelberger,
Vice President & General Manager

Faultless-Doerner Manufacturing Inc.
William P. Pernfuss,
Vice President & General Manager

Dave Fischbein Co.
Robert J. Robinson,
Vice President & General Manager

Goldblatt Tool Co.
Donald C. Place,
Vice President & General Manager

Jensen Tools Inc.
Uma Nandan,
Vice President & General Manager

Markson Science, Inc.
Kenneth E. Stine,
General Manager

Metalart Buckle Co.
Philip W. Brown,
General Manager

Nestaway Division
Harold O. Hayes, Jr.,
Vice President & General Manager

Tekform Products Co.
Ronald C. Chalman,
Vice President & General Manager

Corporate Policy

With much attention being devoted by the press and the U.S. Congress to the business practices of American corporations, it is considered appropriate to disclose Bliss & Laughlin's policy in this regard. For your information, the Company has had in existence for many years specific policies proscribing improper actions by directors, officers, and all employees. In this regard, the Company maintains directives on "Conflicts of Interest," "Political Contributions," and "Ethical Business Conduct."

The Company expects its employees to accord complete and undivided loyalty to the Corporation and its stockholders. These policies prohibit activities or interests which are inconsistent with, or opposed to, the best interests of Bliss & Laughlin.

In the implementation of these policies, all directors, officers, and group and division key employees are annually apprised of these policies, in writing, and are required to execute a questionnaire regarding their compliance with such policies.

Annual Meeting

The annual meeting of stockholders of Bliss & Laughlin Industries will be held at 10:30 A.M., local time, Wednesday, April 30, 1980, at the executive offices, 122 West 22nd Street, Oak Brook, Illinois. You are cordially invited to attend.

Executive Offices:

Bliss & Laughlin Industries Incorporated
122 West 22nd Street
Oak Brook, Illinois 60521
Telephone 312/654-3350
TWX 910/651-0211

Form 10-K

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year 1979 will be furnished without charge to stockholders upon written request to:

Miss Norma J. Bark
Assistant Secretary
Bliss & Laughlin Industries
122 West 22nd Street
Oak Brook, Illinois 60521

Bliss & Laughlin is an equal opportunity employer.