Bliss & Laughlin Industries

1978 Annual Report

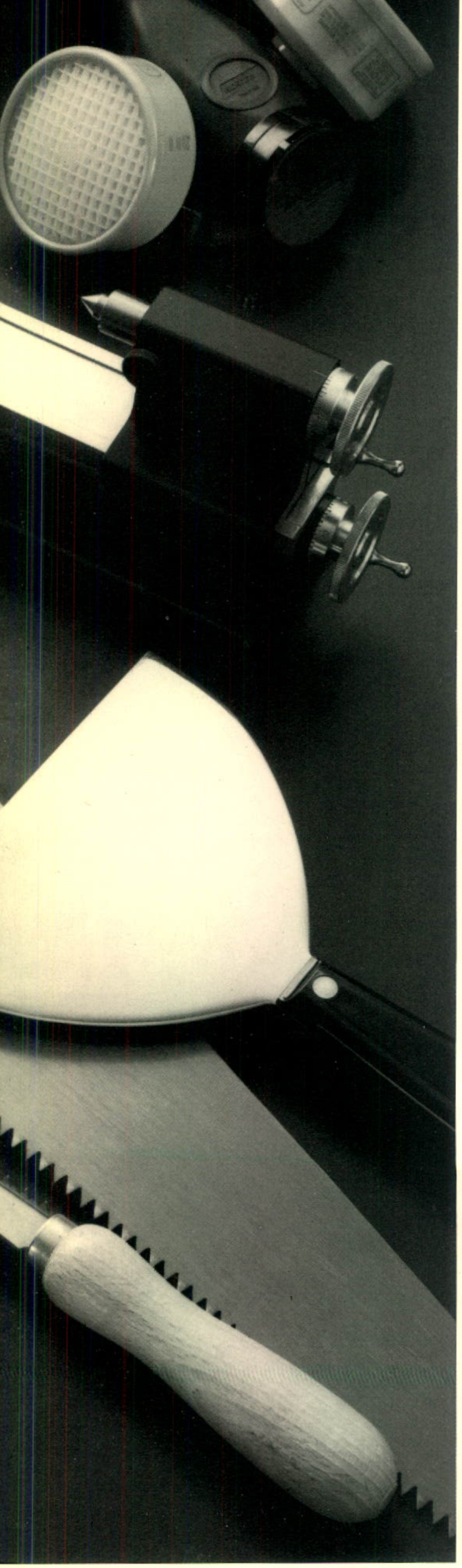
Description of the Company

Bliss & Laughlin is a diversified manufacturer and marketer of industrial and commercial products. The management of the Company is committed to operating its business as a portfolio of assets, providing well balanced growth through internal sources as well as select acquisitions.

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

About the Cover:

The cover symbolically illustrates many of Bliss & Laughlin's major niche businesses. Since the Corporation's decision in 1961 to diversify into a broader range of businesses, Bliss & Laughlin has successfully expanded into product lines that command a significant position within well defined market segments of large industries. The matrix of building blocks on the cover devotes a segment for each major Bliss & Laughlin product, creating an image for the "niche" business concept developed by management to achieve profitable growth, higher dividends for shareholders, and continued financial and operational strength.



1978 Financial Highlights

	1978	1977	% Change
Net sales and rental revenue	**$257,651,000**	$203,986,000	26.3%
Net income	**$13,456,000**	$11,213,000	20.0
Fully-diluted net income per share	**$2.28**	$1.86	22.6
Primary net income per share	**$2.35**	$1.97	19.3
Return on average shareholders' equity	**15.5%**	14.0%	
Cash dividends paid	**$5,157,000**	$4,339,000	18.9
Cash dividends paid per share	**$0.90**	$0.76	18.4
Shareholders' equity	**$90,871,000**	$83,589,000	8.7
Shareholders' equity per average share	**$15.90**	$14.65	8.5
Average primary shares outstanding	**5,715,000**	5,704,000	0.2
Number of shareholders	**6,789**	6,571	3.3
Number of employees	**3,364**	3,030	11.0

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Inside Cover Photograph:
Bliss & Laughlin products, portrayed symbolically on the cover, are here presented photographically, giving dimension to the concept of "diversification", and at the same time, demonstrating strength in a visual unity of parts. Though the functions of individual products vary greatly, all contribute to the stability of corporate earnings. All of Bliss & Laughlin's Operating Groups are represented in this picture.

To Our Stockholders

Record Year for Income and Revenues

In our 1977 Annual Report we stated, with certain reservations, "...we can look forward to another record earnings year for your Company".

We are proud to report to you that this was accomplished. For the first time, revenues exceed a quarter of a billion dollars, producing record earnings for the sixth consecutive year. Fully diluted earnings per share of $2.28 exceeded last year's record of $1.86 by 22.6%. Revenues reached $257,651,000, compared to $203,986,000 in 1977. These represent satisfactory achievements, considering the five week strike experienced at our Faultless Division in Evansville during the third quarter.

The performance of our Construction Tools and Metal Products Groups was especially noteworthy, reflecting the strong housing market during most of the year, and the continued growth of our catalog sales operations. Our Metal Products Group was also assisted by the strong construction cycle, and by the development of new business. On the other hand, the earnings of our Steel Group did not meet its objectives, and was less than the preceding year due, primarily, to competitive price pressures and costs related to the Harvey Modernization Program, which is now completed.

Dividends Increase 25%

Your Board of Directors, following a policy of increasing shareholder dividends commensurate with gains in your Company's performance and anticipated cash requirements, declared a 25% stock distribution concluded July 3, 1978, and in the third quarter, voted to increase the cash dividend 25%. Thus we continued the $1.00 per share annual payment rate on our common stock. These actions establish 1978 as the sixth consecutive year that the effective dividend payout was increased, and produce a total increase of 96% since 1972. This concludes the fortieth straight year that dividends have been paid by your Company.

Measure of Management

Our financial control ratios continue within acceptable ranges. Data supporting this conclusion are contained in the Financial Highlights, the Ten Year Financial Review, and the following table:

Income Statement Items	**1978**	1977
Gross Profit—% Revenue	**24.3%**	24.4%
Selling & Admin. Expense—% Revenue	**13.2%**	13.0%
Net Income—% Revenue	**5.2%**	5.5%
Net Income—% Average Assets Employed	**9.3%**	8.3%
Balance Sheet Items		
Asset Turnover	**1.77**	1.51
Avg. Inventory—% Revenue	**15.7%**	16.5%
Avg. Accounts Receivable—% Revenue	**10.6%**	9.7%

Our gross profit as a percent of revenue exceeded Plan, but was slightly lower than last year. Our selling and administrative expense as a percent of sales was slightly more than Plan and 1977.

Our asset ratios were excellent, showing the results of our efforts to improve asset utilization. The significant increase in asset turnover offsets the slight decline in net income as a percent of revenue, to produce an improvement in the important management measurement ratio of net income as a percent of average assets employed.

The above results continue to place your Company in the top quartile of comparisons in financial surveys conducted by major business publications.

As detailed in the financial data on the following pages and in the narrative of this Report, 1978's performance maintains a tradition under this management of recording unbroken earnings improvements year to year since 1972. A major reason for this success evolves from the institution in 1972 of organized, systematic planning devices providing for the continued monitoring of key financial and operating ratios, and an adherence to regular periodic review and reaction to changes in operating conditions. The utilization of these planning methods distinguishes Bliss & Laughlin from many other multi-industry companies.

The significance of this latter point is highlighted in the narrative of this Report, which attempts to describe the process by which the management implements its business philosophy. The individuals selected to oversee the implementation constitute a key ingredient to any planning and operational control. In this context, our accomplishments to date are to the credit of all of Bliss & Laughlin's employees.

Acquisitions Completed

In January, 1978, Bliss & Laughlin concluded the purchase of the Dave Fischbein Company of Minneapolis, Minnesota, the leading manufacturer of bag closing machines, and this past January, announced the acquisition of the Metalart Buckle Company of Providence, Rhode Island, a major producer of metal accessories for the apparel trade. These purchases continue our program of seeking and acquiring businesses which maintain a special niche within highly specialized markets. The products are compatible with our metal working technology in other Divisions, and Metalart, in particular, utilizes production techniques quite similar to those used in the decorative hardware section of the Faultless Division.

Since 1972, acquisitions have been made for a total cost of $15,714,000. Acquired businesses contributed 14.9% to Bliss & Laughlin's earnings in 1978.

Facilities Improved

In addition, during this year your Company continued to upgrade its facilities with the opening of a new plant for the Faultless Division in Blytheville, Arkansas. This plant, constructed and outfitted through the proceeds of an industrial revenue bond issue, produces wheels, casters, and other products consistent with the lines being produced at Evansville, Indiana, thus providing additional capacity, as well as permitting the introduction, on a very efficient basis, of the most modern production equipment. Despite severe weather in the Chicago area, the Harvey Modernization Program and the new BLK Steel facility in Batavia have now been finished.

With the major increase in revenues in the past year, your Company continues to identify growth opportunities and to enlarge, where required, our production and distribution facilities. Since 1972, capital expenditures have amounted to approximately $37,000,000. In fiscal 1978, capital spending reached the level of $8,898,000. These capital expenditures, combined with our acquisitions, are the cause, as well as the result, of the growth plans which have produced a 14% annual rate of earnings growth, as well as a total production increase of 102% in earnings per employee since 1972. This is graphically exemplified elsewhere in this Report.

Outlook for 1979

Our 1979 Operating Plans were developed in conjunction with economic assumptions made in August 1978, as follows:

	1979
GNP Real Growth	3.0%
FRB Index—Total	146.0
—Constr. Component	139.0
Domestic Auto Shipments—Mil.	9.0
Housing Starts—Mil.	1.8
U. S. Steel Tons Shipped—Mil.	100.0

Currently these appear optimistic, especially in view of the anti-inflation program adopted by the federal government. Regarding the latter, as any patriotic group of citizens, we will do our utmost to cooperate with the federal guidelines, consistent with our legal obligations to stockholders, customers and suppliers.

This commitment is based upon the premise that the public sector will also show by its acts, rather than its rhetoric, that it, too, will conform to the disciplines of fiscal restraint. In this connection, it is hoped that our historical productivity gains, substantiated elsewhere in this Report, will continue to assist in this effort, since this factor is the primary concrete and long term solution to inflation. We may add that increasing government regulations, with the subsequently required paperwork, do not contribute to this goal.

The economy during the first six months appears strong. However, I must advise that for the second half of the year, prediction is hazardous. In any event, contingency plans have already been developed for all of our Divisions to insure our maximum effort toward the objective of another year of record earnings.

E. T. Collinsworth

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

Niche Businesses: The Key To Our Growth

Planned and consistent expansion into niche businesses constitutes a key to accomplishing Bliss & Laughlin's financial objectives.

The primary goals of Bliss & Laughlin management are to maximize the Company's return on assets and to secure advantageous business opportunities.

To achieve these aims, a continuous process of tracking and measuring factors that affect the Company's finances and operations has been installed to execute a precise and effective corporate strategy. Management also strives to identify business prospects by anticipating basic trends affecting assets, businesses, industries and the general economic environment, in order to allocate time and resources which will ultimately serve the best interests of shareholders and customers.

As a result of this program, launched in 1972 under present management, Bliss & Laughlin today is a financially solid and operationally sound organization, well positioned for continued long term growth and profitability. The Company continues to meet the long range goals it established in 1972:

- to attain a growth trend of 10% in fully diluted earnings per share;
- to achieve a return of 8-10% on net assets employed;
- to earn between 13-17% on net worth; and
- to increase dividends commensurate with earnings growth.

These financial objectives evolved from a 1961 decision to diversify Bliss & Laughlin's operations from its original steel business. Currently, steel operations, at one time the sole business of the Company, account for 12% of a greatly enlarged base of profits.

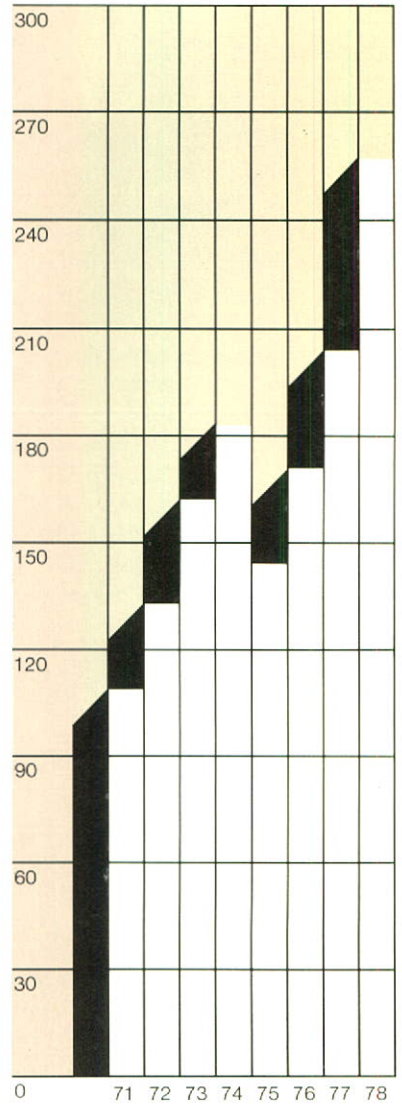
One key to Bliss & Laughlin's achieving a consistent earnings growth trend lies in the planned expansion into "niche businesses"; that is, segments of carefully selected markets in which the Company attains a leading position. The "niche business" concept concentrates on securing a preeminent position in a small segment of an industry. Thus, many Bliss & Laughlin businesses yield returns greater than those realized by most of the participants in the particular industry. Bliss & Laughlin's total corporate operations also benefit from the niche business concept by avoiding overdependence on any one economic sector or phase of operations. This approach has enabled Bliss & Laughlin to minimize the effect of economic fluctuations which may adversely affect the Company's markets.

The Company's diversified structure promotes flexibility in utilizing corporate assets. For example, within the vast construction industry, Ames Taping Tool, a leader in the manufacture, rental and servicing of drywall construction taping tools, serves a specialized segment, the installers of drywall interior wallboard for use in both residential and non-residential applications.

The Dave Fischbein Company, a 1978 acquisition, also illustrates this point. Fischbein, a manufacturer and worldwide marketer of industrial sewing machines for closing filled bags, has achieved leadership in a small niche which is part of the very large packaging industry. Thus, Fischbein serves a large industry whose economic well being is not dependent on factors that affect other Bliss & Laughlin operations.

Revenues

(in millions of dollars)

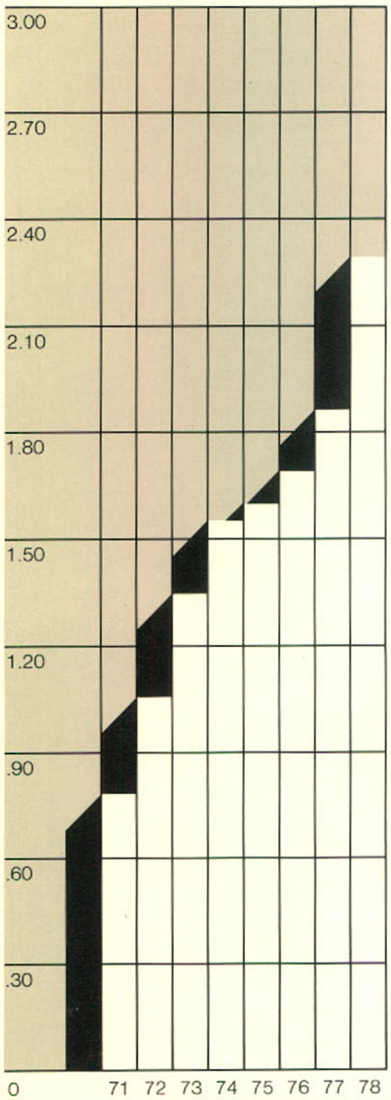


Revenues have grown more than 94% since 1972.

Over the last six years, Bliss & Laughlin's revenues have grown from $133 million to $258 million. While most of this increase has been generated from internal sources, acquisitions continue to play an important role in the corporation's long range planning.

Fully Diluted Earnings Per Share

(in dollars)

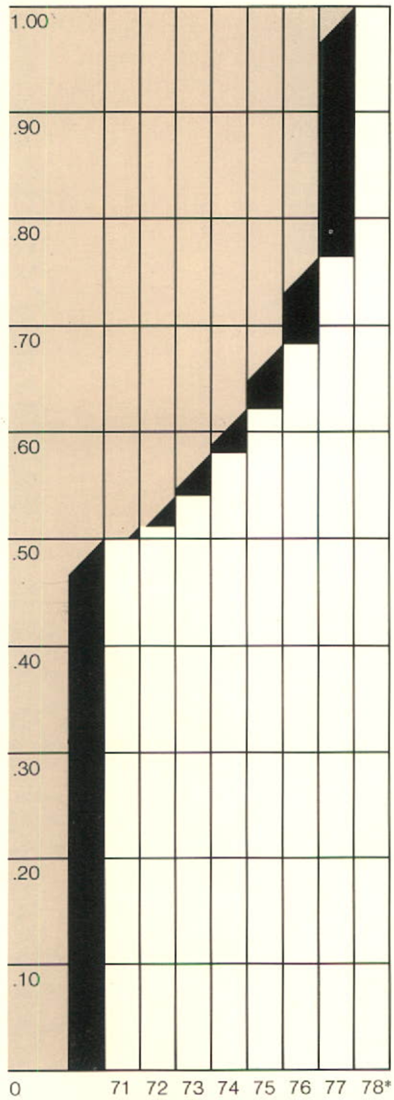


Fully diluted earnings per share have increased 500% since Bliss & Laughlin's decision to diversify in 1961 and 115% under current management.

The Company's earnings have risen at a more dramatic rate than revenues. By developing detailed expansion and business downturn contingency plans, earnings have established new records for seven consecutive years.

Dividend

(in dollars)



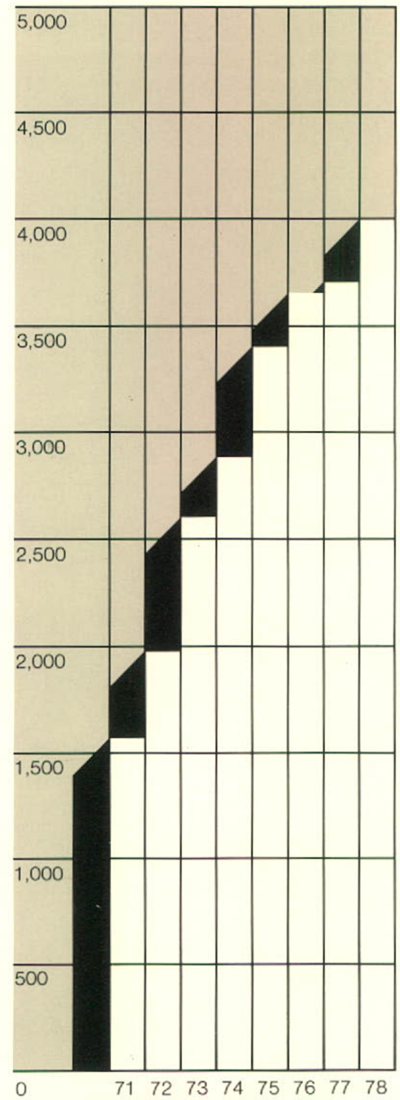
Dividends have been increased 96% since 1972.

In line with the Board of Director's objective to increase dividends commensurate with the Company's profitability and future cash needs, cash dividends per share have grown from $0.51 to $1.00 over the past six years.

*current rate at year end

Net Income Per Employee (Productivity)

(in dollars)



Productivity gains are primary to increasing earnings and maximizing the return on corporate assets.

Net corporate income produced per employee has jumped from $1,984 to $4,000, an increase of 102%, while revenues produced per employee have improved from $43,487 to $76,591 under present management.

When Bliss & Laughlin acquires or develops a "niche business" company, total corporate resources are available to assist in the new division's operations. Diverse operations sometimes require a variety of management approaches. Bliss & Laughlin has refined the experience and controls to provide effective attention and direction to the demands of these various approaches. As a result, Bliss & Laughlin has been able to increase the size and scope of the niche businesses and improve their productivity.

Bliss & Laughlin invests carefully to achieve this goal. One such recent investment, the construction during 1978 of a new industrial caster plant in Blytheville, Arkansas, for the Faultless Division, supplements the production capacity for the Evansville, Indiana plant. The Harvey, Illinois, steel mill, the original division of the Company, constitutes another good example of our investment philosophy. The modernization of the Harvey mill, now complete, makes the mill the most efficient cold finished steel bar mill in the country and expands our ability to make and deliver high quality, lower cost products.

Consistent and profitable growth of the Company's portfolio of assets demands that each Bliss & Laughlin business receives attention as an asset to be employed. This recognition of potential leads to well balanced growth through internal

Left:
Two recent additions to Bliss & Laughlin are the Dave Fischbein Co. and Metalart Buckle Co. Although serving very different markets, both of these companies are prime examples of Bliss & Laughlin's philosophy of acquiring major firms in specialty niche businesses.

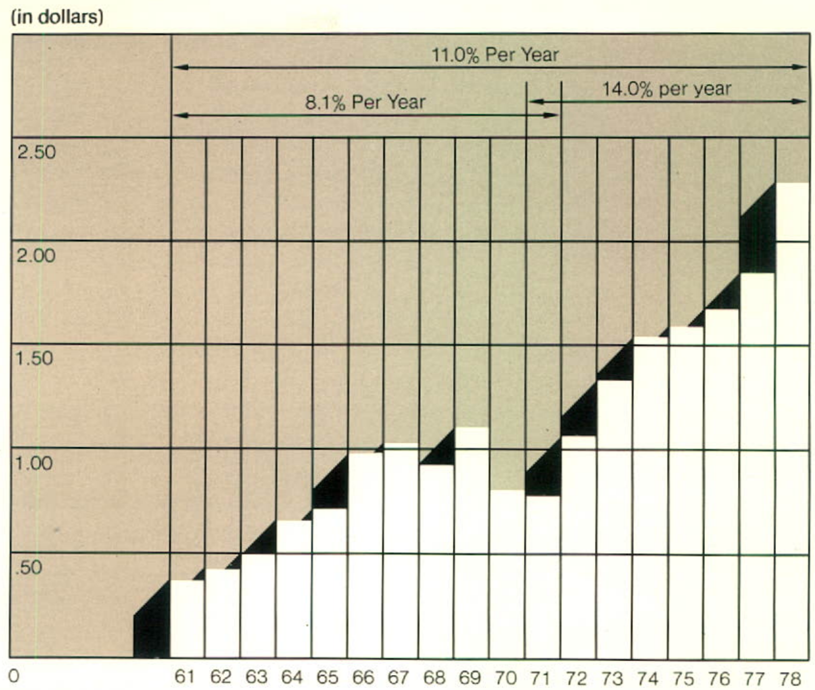
improvement as well as select acquisitions. Assets are concentrated in areas demonstrating higher earnings potential, while cash produced from mature businesses is invested in enterprises with greater growth potential.

Bliss & Laughlin's direct mail industry catalog business, for example, represents a very rapid growth area, with the circulation of 8.7 million catalogs in 1978 producing 40% more revenue than last year. Along with increased sales, Bliss & Laughlin's record for improving efficiency and productivity is exemplified by the substantially reduced turnaround time from order to delivery.

The Bliss & Laughlin operating plan attempts to provide a focus for analyzing industry trends and yet remain flexible enough to accommodate tactical revisions to programs. A dramatic example occurred in 1975 when, as a result of careful planning, management instituted contingency plans that enabled Bliss & Laughlin to achieve a modest earnings increase despite a $38 million dollar decline in revenues.

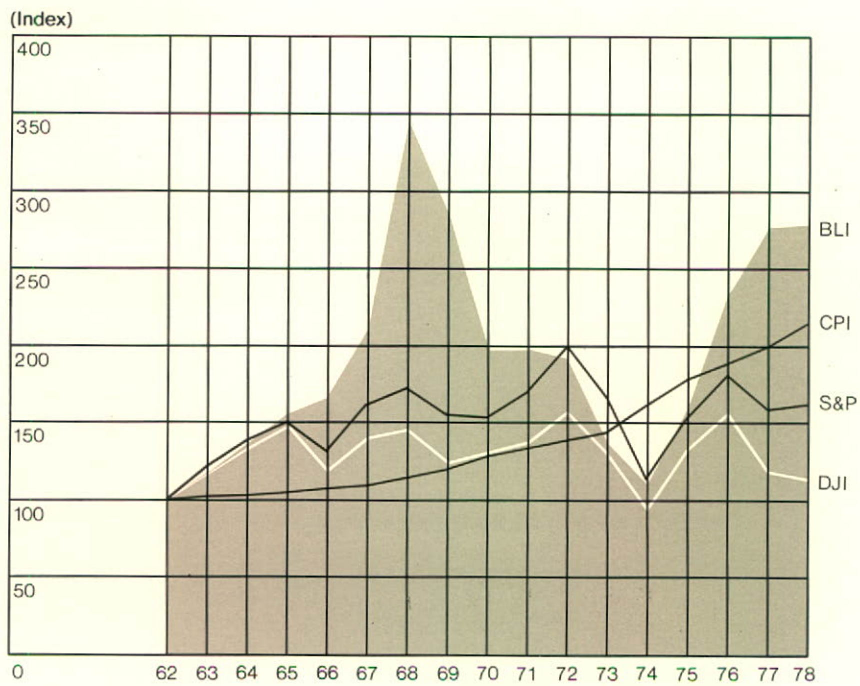
In managing the Company's affairs, Bliss & Laughlin's management and its Board of Directors remain mindful of their ultimate responsibility to shareholders, employees, and the communities in which they reside. Responsibility to shareholders can be best demonstrated by the record earnings and 160 consecutive quarters in which dividends have been paid. Under present management, dividends have increased 96%.

Earnings Trends in Fully Diluted Earnings Per Share (1961-1978)



The growth trend of fully diluted earnings per share of 11% per year since Bliss & Laughlin's decision to diversify in 1961 and 14% under present management corroborates the wisdom of that decision.

Bliss & Laughlin Stock Price Comparison (1962-1978)



Bliss & Laughlin stock price has outperformed leading indices.

Comparing Bliss & Laughlin's year end stock price (BLI) to the Dow Jones and Standard & Poor's year end stock price averages and the Consumer Price Index for each year since 1962 confirms Bliss & Laughlin's long term outperformance of all these indices.

Product Highlights

Industrial Mail-Media Marketing — High Growth Area

The industrial mail order market has proven to be a successful avenue for sale of a number of Bliss & Laughlin's products. With total yearly revenues now in excess of $45 million, Bliss & Laughlin mail media operations made significant contribution to corporate earnings. Over the past five years, the Company's catalog businesses have grown at a rate of 25% per year and are viewed as an area for future earnings growth.

Last year, Bliss & Laughlin mailed over 8.7 million catalogs from the Goldblatt, Jensen, Markson, and Direct Safety Products Divisions. Goldblatt's Tool catalog, with its long history of profitable growth, was Bliss & Laughlin's first mail media acquisition.

Goldblatt, in addition to serving industrial mail order business, constitutes one of the leading manufacturers and distributors of tools to the trowel trades, selling directly to customers and to dealers. Over 90 years old, this well established business distributes over 1,250,000 copies of its catalogs to professionals, individuals and others serving the cement, drywall, plastering and masonry trades. Goldblatt also has a strong market in the power tool area with products such as power trowels and mortar mixers.

Jensen Tools and Alloys, a major marketer of tools and tool kits used by technicians for electronic assembly and precision mechanics, procures products from worldwide sources.

Serving the technological field is Markson Science, Inc., a mail media marketer of scientific and laboratory testing equipment and supplies. Markson offers its customers over 5,000 specialty products.

Direct Safety Company, founded in recognition of the demand created for safety products by the advent of the Occupational Safety and Health Act (OSHA), supplies over 600 quality brand name safety products.

Below:
The "Super Tough" Jensen tool kit, engineered for purpose and appearance, is featured here with its complement of quality tools.

Below:
The pictured laboratory instrument is one of many Markson Division products serving the scientific field.

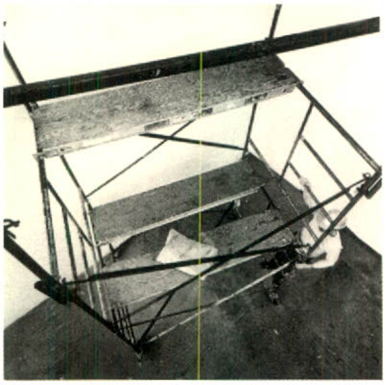
Opposite:
Representing Bliss & Laughlin's mail media activities, Goldblatt's various hand tools and power trowel (only partially visible in this photograph) accompany a safety headset from the Direct Safety Division.


GOLDBLATT K.C.
GOLDBLATT, K.C.

Construction Related Tools and Equipment and Metal Products —Continued Growth

Building owners and architects have increased the use of drywall construction through a preference for gypsum wallboard over lath and plaster. Ames Taping Tool, the number one company in the manufacture, rental and service of drywall taping tools, has benefitted from this development. Ames leases labor saving automatic taping and finishing tools. This proprietary product provides Bliss & Laughlin with a special niche serving the residential and commercial markets.

Another Bliss & Laughlin service to the construction market is Waco Scaffold and Shoring Co., one of the nation's important scaffolding and shoring companies. Waco furnishes equipment for rent and sale in high-rise, residential, commercial and industrial construction projects and also provides custom frames, weather enclosures and other equipment to meet specific customer requirements.

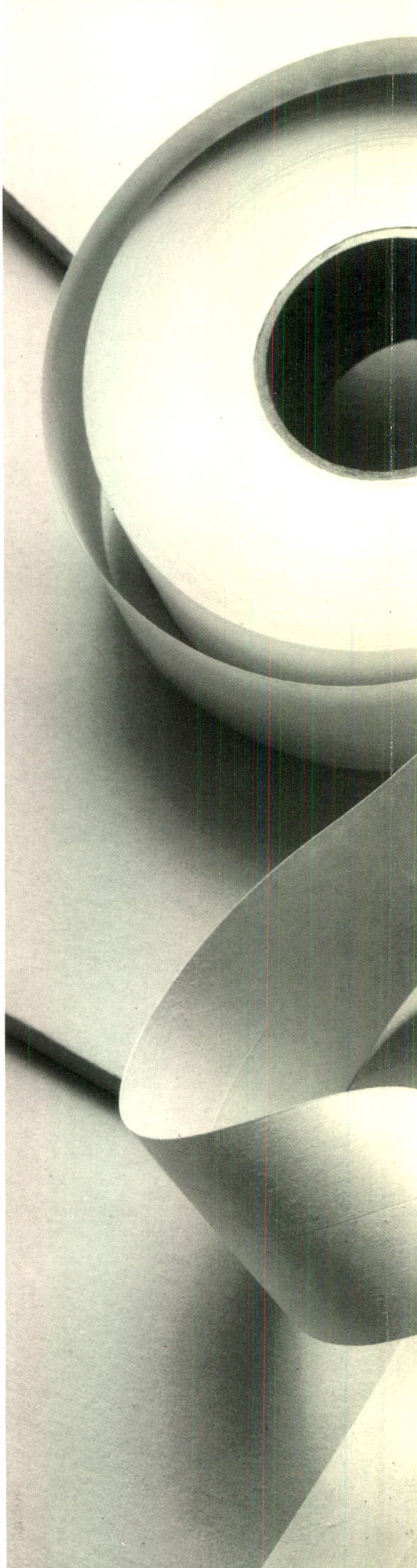


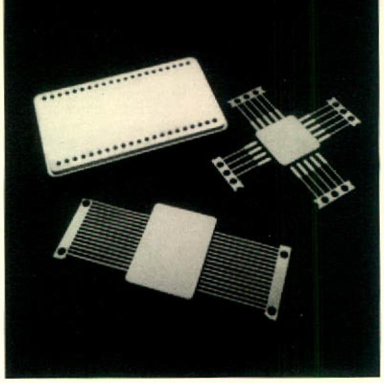
Above:
This section of Waco scaffolding is used for an interior purpose. On a larger scale, Waco scaffolding found use in constructing the interior of the Kennedy Center in Washington, D.C.

Tekform, the largest designer and supplier of metal packages for hybrid microelectronics, manufactures products for aerospace and missile programs, medical electronics instrumentation, airborne computers and commercial aircraft sound systems. Tekform packages have been custom designed for systems that activate aircraft anti-skid devices, check fighter plane readiness, guide laser missiles and operate the space shuttle vehicles. One of Tekform's platform packages was used in the Mariner Mission to Jupiter and Saturn.

Nestaway supplies plated and vinyl-coated racks and baskets for kitchen use. Among the products manufactured are dishdrainers, automatic dishwasher racks, as well as brackets for refrigerators and freezers. Customers include such quality home applicance manufacturers as Maytag, Hobart, Whirlpool and General Electric.

Faultless, one of the largest manufacturers of casters in the world, is responsible in great part for furniture mobility in the office and home. Products are found on beds, sofas, chairs, dressers, televisions and most other movable furniture. Faultless, using a die cast technique, also manufactures specialty decorative hardware.



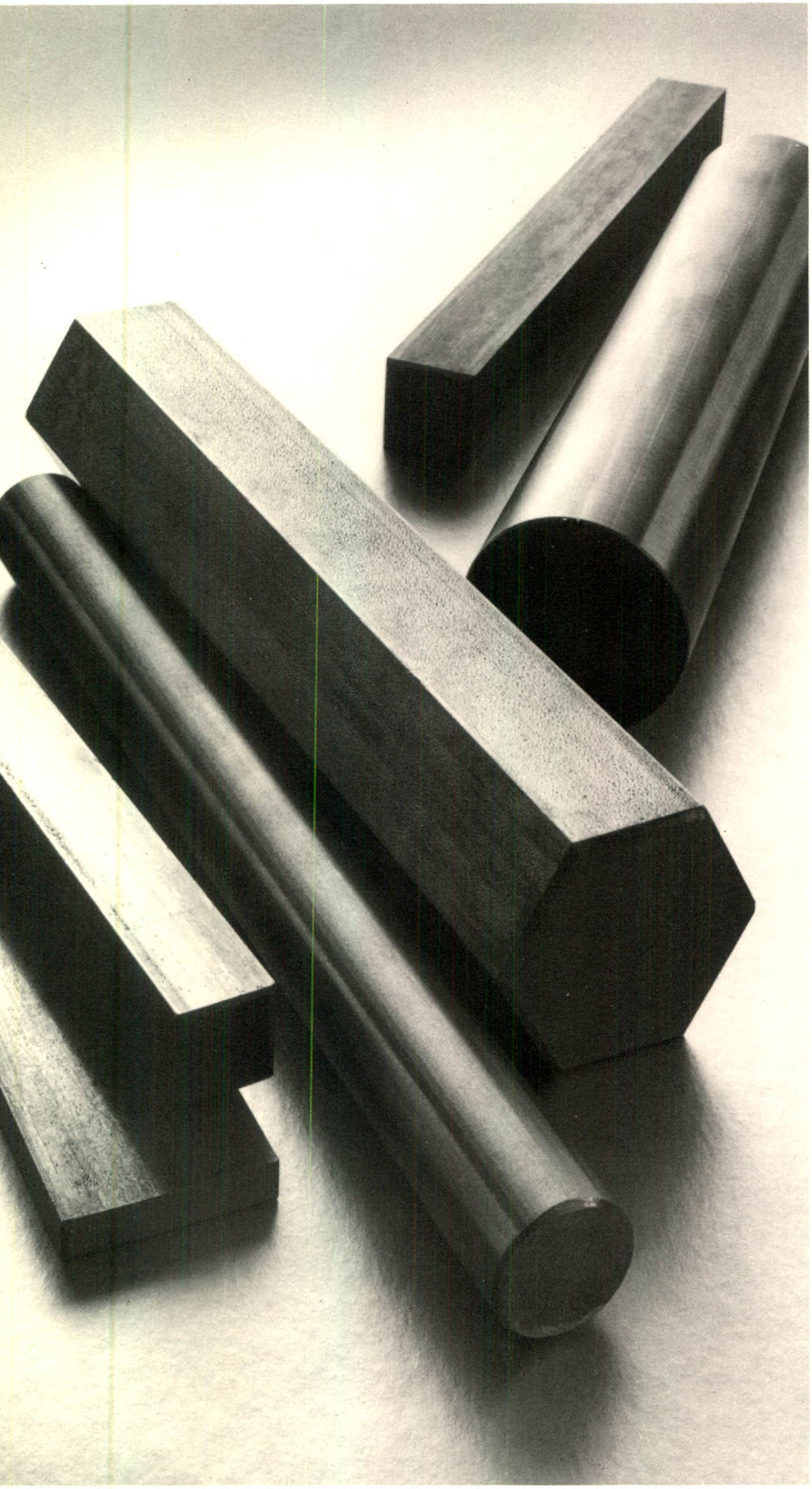


Top Right:
Tekform produces these miniature parts for microelectronic circuit packages. Highly flexible in its product offerings, Tekform will design parts to fit a specific purpose or application.

Middle Right:
Bliss & Laughlin's Nestaway Division produces for major appliance manufacturers, the vinyl coated dishwasher rack shown here.

Bottom Right:
Bliss & Laughlin's Faultless Division manufacturers casters and wheels; the Faultless-Doerner Division supplies chair bases and controls . . . and together they support a chair which is both functional and visually aesthetic.

Left:
The labor efficient Ames taping tool is shown with its construction accessories; drywall tape, produced by Bliss & Laughlin's Marco Division, and gypsum wallboard.



Cold Finished Steel Bars—Products Utilized in a Variety of Industries

Bliss & Laughlin remains the largest independent producer of cold finished steel bars in the United States. Its steel products are used in the agricultural, automotive, electrical and non-electrical machinery markets as well as in select parts of the aviation field.

Hot rolled bars and steel coils are converted (cleaned, drawn, straightened, cut to specific lengths and polished) to produce cold finished steel bars. As a result of a joint venture with a leading Japanese manufacturer, Bliss & Laughlin possesses the world's most modern automatic machinery for converting coil stock into cold finished bars at its facility in Batavia, Illinois.

In the agricultural market, cold finished steel bar end uses take the form of power transmission shafts and fluid power mechanisms that control and drive equipment such as plows and discs.

End use in the automobile industry is varied. Steel bars find utility in such common items as spark plugs, steering gears, shock absorbers, starter motors and alternators, in addition to other moving parts of autos, trucks, tractors and off the road vehicles.

Left:
Cold finished steel bars are drawn in a variety of shapes and textures as illustrated here. The ultimate function of these bars, broad in scope, range from blenders, vacuum cleaners and mixers to heavy duty construction equipment, airplanes and automobiles.

Management's Discussion and Analysis of Operating Results

(Refer to page 25, Line of Business Information)

1977: Revenues increased in all of the Company's principal operating lines of business due to continued good economic conditions.

Gross profit as a percent of revenues increased slightly. Income before taxes increased 16.7%, slightly less than the 18.9% increase in revenues. The provision for income taxes increased 23.7% due to higher income and an increase in the effective tax rate from 45.3% in 1976 to 48.0% in 1977.

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 net income increased 26.3% and 20%, respectively, from 1977. Gross Profit increased $12,786,000, or 25.7%, from 1977. Gross profit as a percent of revenues declined slightly from 24.4% in 1977 to 24.3% 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 28.2% over 1977. The provision for income taxes increased 28.1% from 1977, due to a 23.9% increase in pre-tax income and an increase in the effective tax rate from 48.0% in 1977 to 49.6% in 1978. The return on average shareholders' equity increased from 14% to 15.5%. During the year the Company increased the dividend rate by 25%, which caused the annualized dividend yield at year end to increase from 5.7% to 7.1%.

Construction Tools Group:
32.7% of Revenues
59.3% 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; Waco Scaffolding and Shoring Company—rents and sells scaffolding and shoring; Goldblatt Tools—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; Direct Safety—a catalog marketer of safety products.

Strong residential construction activity plus the Company's successful efforts to increase the penetration of the catalog businesses caused revenues and operating profit for this Group to increase 28.4% and 26.6%, respectively, from 1977.

Metal Products Group:
29.0% of Revenues
28.1% 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. Fischbein was acquired in 1978 and its results are included in this Group for 1978.

Every company within this Group achieved significant revenue and operating profit growth in 1978, much greater than the overall growth of the economy. This was the result of the major position each company enjoys in its area of market specialization, leveraged by additional and improved facilities.

Steel Group:
36.3% of Revenues
11.6% 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.

In 1978, revenues increased 16.8%. Operating profit declined 24.0%. This decline in operating profit was not anticipated by our operating plan and is attributable to competive price pressure required to maintain market share during the first half of the year and costs associated with the completion of the program to modernize the Harvey plant. These two factors prevented this Group from maintaining its historic profit margins.

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.

Quarter	Prices per Share 1978		1977		Cash Dividends Per Share	
	High	**Low**	High	Low	**1978**	1977
First	**$15.10**	**$13.10**	$13.50	$11.34	**$ .20**	$ .18
Second	**17.80**	**14.60**	14.50	13.10	**.20**	.18
Third	**16.88**	**14.50**	13.70	12.00	**.25**	.20
Fourth	**16.13**	**13.25**	14.20	11.80	**.25**	.20

All prices per share and dividends per share are restated for a 25% stock distribution paid July 3, 1978.

Ten Year Financial Review

	1978(a)	1977(a)	1976
Operating Results (in thousands)			
Net sales and rental revenues	**$257,651**	$203,986	$171,623
Gross profit	**62,547**	49,761	41,589
Depreciation and amortization	**5,271**	4,465	4,169
Interest expense	**2,899**	2,764	2,432
Income before taxes	**26,714**	21,566	18,484
Provision for income taxes	**13,258**	10,353	8,372
Income from continuing operations	**13,456**	11,213	10,112
Income from bank subsidiary (acquired and sold in 1970) less related interest and income taxes	—	—	—
Income before extraordinary items	**13,456**	11,213	10,112
Extraordinary items:			
Gain on sale of bank subsidiary, net of applicable income taxes of $280	—	—	—
Cost of refinancing long-term debt, net of applicable income taxes of $445	—	—	—
Net income	**13,456**	11,213	10,112
Cash dividends	**5,157**	4,339	3,766
Per Share Data(b)			
Per fully-diluted share:			
Income before extraordinary items	**$ 2.28**	$ 1.86	$ 1.68
Extraordinary items	—	—	—
Net income	**2.28**	1.86	1.68
Per primary share:			
Income before extraordinary items	**2.35**	1.97	1.82
Extraordinary items	—	—	—
Net income	**2.35**	1.97	1.82
Dividends	**.90**	.76	.68
Financial Position (in thousands)			
Working Capital	**$ 64,802**	$ 64,271	$ 59,380
Plant and Equipment, net	**40,587**	32,706	28,001
Long-term notes payable	**29,550**	28,288	24,566
Mortgage loans	**2,278**	2,778	3,334
Convertible subordinated debentures	**1,617**	2,731	5,075
Shareholders' equity	**90,871**	83,589	75,691
Statistics			
Average primary shares outstanding (in thousands)(b)	**5,715**	5,704	5,534
Number of shareholders	**6,789**	6,571	6,535
Number of employees	**3,364**	3,030	2,777

(a) See page 13 for management's discussion and analysis of operating results.

(b) All earnings per share numbers and the average shares outstanding are restated for a 25% stock distribution paid July 3, 1978.

1975	1974	1973	1972	1971	1970	1969
$144,571	$183,054	$162,888	$133,202	$109,499	$109,167	$128,566
37,802	44,751	38,040	32,402	26,266	25,995	30,234
4,228	4,146	4,119	4,089	3,894	3,728	3,444
2,048	2,751	2,206	2,178	2,404	1,373	1,238
17,819	18,459	15,970	12,540	8,690	9,141	14,238
8,298	9,093	7,765	5,980	3,950	4,280	7,345
9,521	9,366	8,205	6,560	4,740	4,861	6,893
—	—	—	—	—	788	—
9,521	9,366	8,205	6,560	4,740	5,649	6,893
—	—	—	—	—	699	—
—	—	—	(482)	—	—	—
9,521	9,366	8,205	6,078	4,740	6,348	6,893
3,400	3,216	3,055	2,853	2,838	2,794	2,712
$ 1.59	$ 1.54	$ 1.34	$ 1.07	$ .78	$ .92	$ 1.11
—	—	—	(.08)	—	.11	—
1.59	1.54	1.34	.99	.78	1.03	1.11
1.75	1.70	1.46	1.16	.85	1.02	1.27
—	—	—	(.08)	—	.13	—
1.75	1.70	1.46	1.08	.85	1.15	1.27
.62	.58	.54	.50	.50	.50	.50
$ 50,142	$ 36,502	$ 40,085	$ 33,611	$ 26,579	$ 22,529	$ 21,086
26,327	26,869	26,697	27,839	28,520	28,742	25,077
21,906	12,966	18,914	18,089	13,763	13,765	5,046
4,120	5,191	8,939	11,017	11,244	7,224	6,749
7,016	7,141	7,141	7,141	7,735	8,821	10,211
67,701	61,786	56,614	52,144	48,610	45,821	41,845
5,445	5,518	5,633	5,640	5,610	5,523	5,418
6,715	6,491	6,339	6,141	6,246	6,209	6,090
2,806	3,250	3,155	3,063	3,048	3,319	3,286

Consolidated Balance Sheet

December 31	1978	1977
ASSETS (dollars in thousands)		
Current Assets:		
Cash	$ 3,154	$ 2,913
Marketable securities, at cost which approximates market	9,102	11,634
Marketable securities committed for acquisition	5,000	8,000
Trade accounts receivable, less allowance for doubtful accounts of $1,363 and $899, respectively	28,329	20,118
Inventories	40,730	37,514
Deferred income tax benefits	1,268	1,286
Prepaid expenses	1,377	1,407
Total current assets	88,960	82,872
Realty:		
Land and related costs	10,929	14,076
Receivables	1,681	683
Deferred income tax benefits	887	1,112
Other	695	759
	14,192	16,630
Other Assets:		
Notes receivable and deferred charges	1,451	772
Investments in and advances to affiliated companies	1,096	1,919
Intangible assets arising from acquisitions	6,014	5,347
Patents and other intangible assets, at cost, less amortization of $3,355 and $3,381, respectively	1,556	1,100
	10,117	9,138
Equipment Leased to Others, at cost, less accumulated depreciation of $11,260 and $12,099, respectively	3,898	5,309
Plant and Equipment, at cost:		
Land	2,007	1,834
Buildings	16,479	12,986
Machinery and equipment	45,111	36,109
	63,597	50,929
Less: accumulated depreciation	26,908	23,532
Net plant and equipment	36,689	27,397
Total Assets	$153,856	$141,346

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

	1978	1977
LIABILITIES & SHAREHOLDERS' EQUITY (dollars in thousands)		
Current Liabilities:		
Short-term loans	$ 675	$ 225
Current maturities of long-term debt	1,212	381
Accounts payable—trade	7,456	5,364
Customer deposits	2,406	1,914
Accrued liabilities—		
Taxes, other than income taxes	754	691
Salaries, wages and vacations	3,152	3,081
Interest	697	768
Pension costs	2,356	728
Other	3,303	2,976
Income taxes	2,147	2,473
Total current liabilities	24,158	18,601
Realty:		
Mortgage loans	2,278	2,778
Other	385	225
	2,663	3,003
Deferred Income Taxes	2,622	2,059
Accrued Pension Costs, non-current	2,375	3,075
Long-Term Debt, less current maturities	29,550	28,288
Convertible Subordinated Debentures, 5-3/4%, due in 1987	1,617	2,731
Shareholders' 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 6,288,000 and 4,946,000 shares, respectively	15,721	12,365
Additional capital	29,615	31,608
Retained earnings	52,099	44,359
Treasury stock, at cost; 561,000 and 360,000 shares, respectively	(6,564)	(4,743)
Total shareholders' equity	90,871	83,589
Total Liabilities & Shareholders' Equity	$153,856	$141,346

Consolidated Statement of Income

(in thousands except per share amounts)

For the years ended December 31	1978	1977
Revenue:		
Net sales	$237,092	$187,228
Rental revenue	20,559	16,758
Total revenue	257,651	203,986
Costs and Expenses:		
Cost of sales	187,863	148,064
Cost of rentals	7,241	6,161
Selling, general and administrative expenses	33,960	26,487
Interest expense	2,899	2,764
Interest (income) and other expense, net	(1,026)	(1,056)
Total costs and expenses	230,937	182,420
Income Before Income Taxes	26,714	21,566
Provision for Income Taxes	13,258	10,353
Net Income	$ 13,456	$ 11,213
Fully-Diluted Net Income Per Share, assuming conversion of the Company's convertible subordinated debentures as of the beginning of the year	$ 2.28	$ 1.86
Primary Net Income Per Share	$ 2.35	$ 1.97
Average Primary Shares Outstanding	5,715	5,704

All earnings per share numbers and the average shares outstanding are restated for a 25% stock distribution paid July 3, 1978. 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	1978	1977
Sources of Working Capital:		
Net income	$ 13,456	$ 11,213
Add (Deduct) items not affecting working capital:		
Depreciation and amortization	5,271	4,465
Equity in (earnings) loss of non-consolidated affiliates	(9)	621
Deferred income taxes, net	788	(77)
Working capital provided from operations	19,506	16,222
Increase in long-term debt	4,652	4,104
Subordinated debenture conversions	1,114	2,344
Increase (Decrease) in noncurrent pension liability	(700)	802
Decrease in net realty assets	2,372	432
Other, net	—	230
Total provided	26,944	24,134
Uses of Working Capital:		
Decrease in mortgage loans payable	500	556
Additions to plant and equipment, net of retirements	10,479	9,159
Reduction of long-term debt	3,390	381
Subordinated debenture conversions	1,114	2,344
Investment in affiliated companies—joint venture	(832)	1,050
Cash dividends	5,157	4,375
Treasury stock purchases	2,997	1,378
Cost of acquired subsidiary, net of working capital	2,939	—
Other	670	—
Total used	26,414	19,243
Increase in working capital	$ 530	$ 4,891
Changes Consist of Increase (Decrease) in:		
Cash and marketable securities	$ (5,291)	$ (6,131)
Receivables, net	8,211	4,147
Inventories	3,216	8,710
Deferred income tax benefits	(18)	174
Prepaid expenses	(30)	621
Increase in current assets	6,088	7,521
Current portion of long-term debt	831	154
Accounts payable and accrued liabilities	5,053	2,761
Income taxes	(326)	(285)
Increase in current liabilities	5,558	2,630
Increase in working capital	$ 530	$ 4,891

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	1978	1977
Additional Capital:		
Balance at beginning of year	**$ 31,608**	$ 18,796
Add (Deduct):		
Market value in excess of par value of common stock issued in payment of 20% common stock dividend	**—**	10,888
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	**866**	1,911
Other, net	**260**	13
Balance at end of year	**$ 29,615**	$ 31,608
Retained Earnings:		
Balance at beginning of year	**$ 44,359**	$ 50,435
Add (Deduct):		
Net income	**13,456**	11,213
Cash dividends* ($.90 per share in 1978 and $.76 in 1977)	**(5,157)**	(4,339)
20% common stock dividend	**—**	(12,914)
Excess of cost of treasury stock over proceeds of stock options exercised	**(559)**	(36)
Balance at end of year	**$ 52,099**	$ 44,359

*Dividends per share are restated for a 25% stock distribution paid July 3, 1978.

Consolidated Statements of Common Stock and Treasury Stock

(in thousands)

For the years ended December 31	1978		1977	
	Shares	**Amount**	Shares	Amount
Common Stock:				
Balance at beginning of year	**4,946**	**$12,365**	3,973	$ 9,932
Add: Stock issued for debenture conversion	**95**	**237**	163	407
Stock issued for 20% stock dividend	**—**	**—**	810	2,026
Stock issued for 25% stock distribution	**1,247**	**3,119**	—	—
Balance at end of year	**6,288**	**$15,721**	4,946	$12,365
Treasury Stock:				
Balance at beginning of year	**360**	**$ 4,743**	234	$ 3,472
Add: Treasury stock purchased	**164**	**2,997**	86	1,378
Stock issued for 20% stock dividend	**—**	**—**	46	—
Stock issued for 25% stock distribution	**112**	**—**	—	—
Less: Stock issued for stock options	**(75)**	**(1,176)**	(6)	(107)
Balance at end of year	**561**	**$ 6,564**	360	$ 4,743

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

Report of Independent Public Accountants

To the Shareholders 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, 1978 and 1977, 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, 1978 and 1977, 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.

Chicago, Illinois,
January 31, 1979.

Arthur Andersen & Co.

Arthur Andersen & Co.

Financial Review

For the years ended December 31, 1978 and 1977.

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 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 loss charged to income in 1978 was $521,000. In 1977 the amount was not material.

All intercompany transactions, including profits and losses, have been eliminated in consolidation.

Pension Plans

Pension costs have been funded at a rate necessary to maintain the plans on an actuarially sound basis. Pension costs not currently funded 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 was $2,199,000 in 1978 and $1,774,000 in 1977. The provision increased primarily because of 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 was in excess of the aggregate actuarially computed value of vested benefits for the plans in total.

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.

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

	1978	1977
U.S. and Foreign currently payable	**$11,012**	$ 9,426
Deferred taxes and (benefits), net	**806**	(251)
	11,818	9,175
State	**1,440**	1,178
Total provision	**$13,258**	$10,353

The effective income tax rate for 1978 was 49.6% and for 1977 was 48.0%. Significant items affecting the income tax rate were the utilization of investment tax credits of $664,000 in 1978 and $650,000 in 1977, 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 1978 and 1977 and the tax effect of each were as follows: (in thousands)

	1978	1977
Depreciation	**$ 235**	$ 227
Pensions	**319**	(390)
Realty assets	**225**	95
All other, net	**27**	(183)
	$ 806	$ (251)

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.

In 1977, the Company paid a 20% common stock dividend. The stock dividend resulted in increases to Common Stock and Additional Capital of $2,026,000 and $10,888,000, respectively, with a corresponding charge of $12,914,000 to Retained Earnings.

Inventories

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market except for certain inventories ($11,364,000 and $13,302,000 at December 31, 1978 and 1977 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 $9,728,000 and $7,601,000 at December 31, 1978 and 1977, respectively.

Realty Operations

The Company's realty operations differ from the other operations in that they have a business cycle extending over several years. 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. Amortization totaled $231,000 and $22,000 for 1978 and 1977, respectively.

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

Plant and Equipment and Equipment Leased to Others

Depreciation is provided over the following estimated useful lives:

Buildings	*10-45 years*
Machinery and equipment	*3-20 years*
Equipment leased to others	*4-10 years*

Depreciation on most equipment leased to others and on substantially all other property 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. Rental equipment retirements are on a first-in, first-out basis; specific identity of each item of equipment is not determinable.

Mortgage Loans and Long-Term Debt

Mortgage loans classified under the realty caption are secured by real estate held for investment purposes with a net book value of $9,484,000 at December 31, 1978. The loans bear various interest rates from 5% to 8-1/2% and have varying maturities through 1989, including $593,000 in 1979, $233,000 in 1980, $229,000 in 1981, $189,000 in 1982, and $161,000 in 1983.

Long-term debt was as follows: (in thousands)

	1978	1977
Long-term loans	**$22,500**	$22,324
Obligations related to industrial revenue bonds	**8,053**	6,078
Other, with various interest rates (5-1/4% to 6-1/2%)	**209**	267
	30,762	28,669
Less current maturities	**1,212**	381
	$29,550	$28,288

On December 15, 1976, the Company repaid its term loan with the proceeds of a long-term loan of $20,000,000. This 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 the Company's $20,000,000 long-term loan agreement.

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 $6,154,000 at December 31, 1978.

The Company has informal agreements requiring the maintenance of compensating bank balances of approximately $735,000 in support of an unused line of credit of $2,500,000 and a discounted note receivable of $2,423,000. These balances are on an annual average balance basis and are unrestricted as to use at any given time. In addition the Company has available a $1,260,000 U.S. ($1,500,000 Canadian) line of credit against which $675,000 U.S. ($800,000 Canadian) was borrowed as of December 31, 1978. This borrowing bears interest at 11-3/4%. No compensating balances are required.

The above long-term debt has varying maturities including, in the aggregate, maturities of $1,212,000 in 1979, $1,229,000 in 1980, $734,000 in 1981, $2,251,000 in 1982, and $2,373,000 in 1983. 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, 1978, the Company had consolidated working capital of $64,802,000 and current assets were 368% of consolidated current liabilities. Under the terms of the most restrictive agreement, retained earnings of approximately $43,046,000 was not available for the payment of cash dividends. At December 31, 1978, the Company may, under certain restrictions, increase funded (long-term) borrowing by $22,354,000.

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 $13,383,000 at December 31, 1978. The debentures may be called at any time at prices decreasing from 102.4% of face value currently to 100% in 1986.

Commitments and Contingent Liabilities

At December 31, 1978, 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, 1978 balance being $2,423,000.

Minimum rental commitments under all noncancelable leases are as follows:

(in thousands)	Operating Leases			Capital Leases	
	Machinery & Equipment	Real Estate	Total	Primarily Machinery & Equipment	Total
1979	$ 96	$ 641	$ 737	$ 513	$1,250
1980	87	613	700	446	1,146
1981	39	507	546	368	914
1982	12	399	411	230	641
1983	10	360	370	204	574
1984-1988	34	905	939	613	1,552
1989-1993	—	84	84	—	84
1994-1998	—	50	50	—	50
After 1998	—	—	—	—	—
	$278	$3,559	$3,837	2,374	$6,211
		Less: Amount Representing Interest		874	
		Net Present Value		$1,500	

In 1978 the company capitalized certain long-term leases. The $1,500,000 obligation is included in long-term debt. The income effect of the capitalization is insignificant.

Rent expense was $2,627,000 and $2,252,000 for 1978 and 1977, respectively.

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, and precision miniature packages for the microelectronics industry. The Construction Tools Group manufactures and sells or leases construction scaffolding and shoring, tools and paper tape for finishing gypsum drywall board joints, and tools and equipment for other construction trades, and 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. Total revenues by industry include both sales to unaffiliated customers, as reported in the Company's consolidated statement of income, and intergroup sales, which are eliminated in consolidation.

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 of $14,192,000 which are held for investment purposes.

For the year ended December 31, 1978
(in thousands)

	Steel Group	Metal Products Group	Construction Tools Group	Corporate, Other and Eliminations	Consolidated
Sales and Rental Revenues	**$93,375**	**$74,547**	**$84,239**	**$ 5,490**	**$257,651**
Intergroup Sales	**221**	**251**	**18**	**(490)**	**—**
Total Sales and Rental Revenues	**$93,596**	**$74,798**	**$84,257**	**$ 5,000**	**$257,651**
Operating Profit	**$ 3,704**	**$ 9,017**	**$19,017**	**$ 319**	**$ 32,057**
General Corporate Expenses					**(2,445)**
Interest Expense					**(2,898)**
Income Before Income Taxes					**$ 26,714**
Assets Employed	**$31,901**	**$48,382**	**$36,951**	**$36,622**	**$153,856**
Depreciation and Amortization	**$ 806**	**$ 1,956**	**$ 2,392**	**$ 117**	**$ 5,271**
Capital Expenditures	**$ 2,793**	**$ 4,034**	**$ 451**	**$ 3,201**	**$ 10,479**

For the year ended December 31, 1977
(in thousands)

	Steel Group	Metal Products Group	Construction Tools Group	Corporate, Other and Eliminations	Consolidated
Sales and Rental Revenues	$79,790	$57,412	$65,601	$ 1,183	$203,986
Intergroup Sales	315	39	15	(369)	—
Total Sales and Rental Revenues	$80,105	$57,451	$65,616	$ 814	$203,986
Operating Profit	$ 4,875	$ 6,738	$15,027	$ 241	$ 26,881
General Corporate Expenses					(2,551)
Interest Expense					(2,764)
Income Before Income Taxes					$ 21,566
Assets Employed	$29,065	$34,609	$35,234	$42,438	$141,346
Depreciation and Amortization	$ 613	$ 1,419	$ 2,368	$ 65	$ 4,465
Capital Expenditures	$ 3,830	$ 3,080	$ 1,945	$ 304	$ 9,159

Stock Options

In 1975, the shareholders 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 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 the year 85,400 shares were exercised and 4,160 shares were terminated.

At December 31, 1978 options for 118,300 shares were outstanding with an aggregate option price of $1,011,000 and an aggregate market value of $1,671,000.

During 1977, options for 12,500 shares were granted at $12.40 per share or a total price of $155,000. Also, 70,010 options became exercisable of which 9,360 were exercised and 9,300 were terminated.

	1978	1977
Options Available for Future Grant:		
Available	**188,770**	191,970
Granted	**(10,200)**	(12,500)
Terminations	**4,160**	9,300
	182,730	188,770
Options Granted and Outstanding:		
Beginning of year	**197,660**	203,820
Granted	**10,200**	12,500
Exercised	**(85,400)**	(9,360)
Terminations	**(4,160)**	(9,300)
End of Year	**118,300**	197,660

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. All shares are restated for a 25% stock distribution paid July 3, 1978.

Included in options outstanding were 48,600 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 shareholders' equity.

The amount charged to income pursuant to the plan was $602,000 for 1978 and $808,000 for 1977.

Acquisitions

The current assets section of the December 31, 1977, balance sheet contains an amount of $8,000,000 for marketable securities committed for acquisition. This was used for the acquisition of the Dave Fischbein Company on January 31, 1978, and the Dave Fischbein Company of Canada, Limited on March 10, 1978. Fischbein is a manufacturer and world-wide marketer of industrial sewing machines for bag closures and related material handling equipment. The purchase method of accounting was used. Fischbein's results since the respective dates of acquisition are included in the Company's 1978 consolidated financial statements. The effect of including Fischbein in 1977 results on a pro forma basis would not be material.

On January 5, 1979, the Company acquired the Metalart Buckle Company, Providence, Rhode Island. Metalart is a leading producer of die cast metal buckles and manufactures a line of women's metal belts. The purchase method of accounting is being used and Metalart's results will be 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.

Replacement Cost Information (Unaudited)

As required by the Securities and Exchange Commission, the Company will include certain estimated replacement cost data in the Form 10-K filed with the Commission. Such data will consist of the replacement cost of inventories, fixed assets, and the impact of these costs upon depreciation and cost of sales. A copy of the Company's Form 10-K is available to shareholders upon request.

This replacement cost data indicates that, due to inflation, the replacement cost of the Company's inventories and fixed assets is higher than original cost. Cost of goods sold and depreciation expense would similarily be greater on a replacement 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 day replacement cost and future price expectations.

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

	For the Three Months Ended				Total	For the Three Months Ended				Total
	3/31	6/30	9/30	12/31	1978	3/31	6/30	9/30	12/31	1977
Net sales and rental revenues	$59,097	$66,912	$65,728	$65,914	$257,651	$47,259	$53,260	$53,438	$50,029	$203,986
Gross profit	14,026	16,285	15,705	16,531	62,547	10,853	12,892	12,967	13,049	49,761
Income before taxes	5,093	7,318	6,382	7,921	26,714	4,095	6,167	5,698	5,606	21,566
Provision for income taxes	2,519	3,605	3,132	4,002	13,258	1,991	2,948	2,734	2,680	10,353
Net income	$ 2,574	$ 3,713	$ 3,250	$ 3,919	$ 13,456	$ 2,104	$ 3,219	$ 2,964	$ 2,926	$ 11,213
Net income per share:										
Fully-diluted	$ 0.43	$ 0.63	$ 0.55	$ 0.67	$ 2.28	$ 0.35	$ 0.53	$ 0.50	$ 0.48	$ 1.86
Primary	$ 0.45	$ 0.65	$ 0.57	$ 0.68	$ 2.35	$ 0.38	$ 0.56	$ 0.52	$ 0.51	$ 1.97
Average primary shares outstanding	5,746	5,732	5,674	5,706	5,715	5,646	5,701	5,748	5,725	5,704

All earnings per share numbers and the average shares outstanding are restated for a 25% stock distribution paid July 3, 1978.

Financial Results of the Company's Principal Lines of Business

(in thousands)

	1978	1977	1976	1975	1974
Net Revenues					
Steel Group	$ 93,375	$ 79,790	$ 68,551	$ 58,912	$ 85,789
Construction Tools Group	84,239	65,601	50,176	42,620	43,145
Metal Products Group	74,547	57,412	50,608	41,633	51,799
Other	5,490	1,183	2,288	1,406	2,321
	$257,651	$203,986	$171,623	$144,571	$183,054
Income Before Income Taxes					
Steel Group	$ 3,704	$ 4,875	$ 4,310	$ 4,102	$ 7,814
Construction Tools Group	19,017	15,027	11,935	10,961	12,813
Metal Products Group	9,017	6,738	6,450	4,928	5,867
Corporate, Other and Eliminations	(5,024)	(5,074)	(4,211)	(2,172)	(8,035)
	$ 26,714	$ 21,566	$ 18,484	$ 17,819	$ 18,459

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

Stanley E. G. Hillman (C, N)
The Trustee of the Chicago,
Milwaukee, St. Paul &
Pacific Railroad Company
A transportation company

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

Marvin G. Mitchell (C)
Chairman & President,
Chicago Bridge & Iron Company
A contracting firm engaged in
construction of metal plate structures
and related systems

Robert T. Powers (P)
President & 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

Robert W. Keenan
Vice President, Steel Group

Donald B. Moritz
Vice President, Construction Tools Group

Joseph W. Rose
Vice President, Metal Products Group

Dennis W. Sheehan
Vice President, General Counsel & Secretary

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.
Robert W. Keenan,
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 and Alloys, Inc.
Uma Nandan,
Vice President & General Manager

Markson Science, Inc.
Joseph A. Hauber,
General Manager

Metalart Buckle Co.
Phillip Brown,
General Manager

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

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

Waco Scaffold & Shoring Co.
Edwin J. Burk,
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, May 2, 1979, 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 Form 10-K Annual Report to the Securities and Exchange Commission, 1978, will be furnished without charge to shareholders 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.