

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 17 1977
MCGILL UNIVERSITY

Bliss & Laughlin Industries

Description of Business

Bliss & Laughlin Industries is a diversified manufacturer and marketer of industrial and commercial products, the majority of which are related to construction activities.

The Company is divided into four major operating groups: Steel, Metal Products, Construction Tools and Land Development. However, for analytical purposes and on the basis of contribution to earnings, the Construction Tools and Metal Products Groups may be combined into a construction-related category. Although we do no construction per se, about 75 percent of our profitability depends on construction activities. Bliss & Laughlin Steel is the nation's largest independent manufacturer of cold-finished steel bars (about 20 percent of earnings). The balance (about 5 percent of earnings) of BLI's business includes the Land Development Group and new industrial catalog businesses.

Financial Highlights

	1976	1975
Net sales and rental revenue	\$171,623,000	\$144,571,000
Net income	\$10,112,000	\$9,521,000
Net income per share	\$2.74	\$2.62
Full-diluted net income per share	\$2.52	\$2.38
Return on equity	14.1%	14.7%
Cash dividends	\$3,766,000	\$3,400,000
Cash dividends per share	\$1.02	\$.94
Shareholders' equity	\$75,691,000	\$67,701,000
Shareholders' equity per share	\$20.25	\$18.65
Average shares outstanding	3,689,000	3,630,000
Number of shareholders	6,535	6,715
Number of employees	2,777	2,806

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About the Cover

This special design was created to symbolize Bliss & Laughlin's involvement with the major areas of construction. This involvement is examined in relation to a typical construction cycle on pages 4 through 8.

To Our Stockholders



At the annual meeting of shareholders in 1976, we projected the following scenario: BLI's 1976 first quarter earnings would be at the low point of the year; the second quarter earnings would be back to the equivalent 1976 period, with cumulative earnings to date passing the previous year either during the latter part of the third quarter or the first part of the fourth quarter. We can now report to you that the prognostications were valid.

We are pleased to report record earnings for 1976 of \$2.52 per share, fully diluted, (\$2.74 per share primary). This compares to the previous record earnings in 1975 of \$2.38 per share, fully diluted, (\$2.62 per share primary). Total sales and rental revenues were \$171,623,000, an increase of 18.7% over 1975.

Measure of Management

We can again inform you that our financial control ratios continue within an acceptable range. Data supporting this conclusion are contained in the Financial Highlights, the Ten Year Financial Review, and the following table:

	1976	1975
Income Statement Items		
Gross Profit—% Revenue	24.2%	26.1%
Selling & Admin. Expense— % Revenue	13.0%	13.7%
Net Income—% Revenue	5.9%	6.6%
Net Income—% Average Assets Employed	8.1%	8.4%
Balance Sheet Items		
Asset Turnover	1.37	1.27
Inventory—% Revenue	16.2%	20.1%
Accounts Receivable—% Revenue	9.6%	10.4%

Even though our gross margin as a percent of revenue showed a decline, it was within the range anticipated by our 1976 Operating Plan. This lower expectation reflected increasing competitive pressures in the marketplace, as well as a change in the total corporate product mix. Our selling and administrative expenses as a percent of revenue was lower. However, the decline was not sufficient to offset the decrease in gross margin percent; consequently, net income as a percent of revenue declined, relative to 1975.

On the other hand, control of our assets was excellent, as reflected by pertinent balance sheet ratios. The asset turnover of 1.37 appreciably bettered the equivalent results in 1975 and reflects improvement in inventory turnover and collection of our receivables. Accounts receivable are at an all time low with five consecutive years of improvement. However, the improvement of our capital turnover was not sufficient to offset the decline in income as a percent of net revenue so as to prevent a slight decrease in net income as a percent of average assets employed.

I am sure that you will be pleased to note that we continue to enjoy a very strong balance sheet. Net current assets have increased 19%, from \$50.1 million in 1975 to \$59.4 million on December 31, 1976. The current ratio improved from 4.5 to 1.0 at the beginning of the year to 4.7 to 1.0 at year end. The debt equity of 0.44 to 1.00 decreased from the previous year's 0.53 to 1.00.

Dividend Action

Your Board of Directors, following a policy of increasing shareholder dividends commensurate with gains in the Company's performance and future cash requirements, on December 1, 1976 increased the quarterly cash dividend to \$0.27 per share payable December 31, 1976 to shareholders of record December 12, 1976. This was the fourth consecutive year that the Board has effectively increased the dividend payout, producing a total increase of 42% since 1972. Also, this was the 36th consecutive year of dividends paid by Bliss & Laughlin Industries.

Operations

With the exception of our Land Group, the earnings contribution of all of our U.S. Operating Groups was greater than the previous year. Due to the devaluation of the Mexican peso and the sale of our 49% interest in Bliss & Laughlin Latinoamericana, S.A., our earnings contribution from this

source was less than 1975. If we had not made this timely divestiture, our 1976 earnings would have been reduced \$0.19 per share, fully diluted, (\$0.21 per share primary).

With the formation of the Direct Safety Company in the first quarter of 1976, BLI became a mail media marketer of safety products. From its headquarters in Kansas City, Kansas, where it operates as a division of Goldblatt Tool Company, the safety products catalog is mailed to potential industrial customers nationwide offering more than 600 products used by industry to comply with standards set by the Occupational Safety and Health Act.

As previously reported, the following important projects were either initiated or finalized during this year: Our Nestaway Division began construction on its new plant in Chariton, Iowa. Our Faultless Division increased its product line by acquiring the assets of the Pacific File and Tool Company. Faultless also introduced its Thin Line[®] chair control, which we believe will be important to its continuing leadership in the marketplace.

There were seven labor negotiations successfully concluded during 1976. With the exception of a short and insignificant work stoppage at the Cleveland, Ohio plant of our Waco Division, agreements were reached without an interruption of production.

Organization

It is a pleasure to inform you that Mr. Stanley E. G. Hillman, President and Chief Operating Officer of IC Industries, Inc., joined our Board of Directors in February 1977. We regret that Roland A. Erickson, after six years of valuable service, has decided not to stand for reelection to the Board, due to the requirements of other interests. We are, however, very pleased that Mr. Gordon R. Worley, Vice-President—Finance and a Director of MARCOR, Inc., has agreed to stand for election to the seat vacated by Mr. Erickson.

Corporate Audit

In January, 1976 the New York Stock Exchange adopted a listing requirement regarding the establishment and membership of audit committees for companies listed on the Exchange. I am pleased to report that your Company's independent Audit Committee, which was formed in 1970, has always satisfied the stringent new requirements of the Exchange. Continuing its policy, our Audit Committee (refer to Page 20 for its membership) met with the independent public accountants, Arthur Andersen & Co., in August to review the scope of the audit, and in February 1977 to review the audit findings. A portion of each audit committee meeting is set aside for the committee to meet with the auditors, without management being present. The Committee continues, as in the past, to have direct access to our auditors.

The firm of Arthur Andersen & Co. in 1976 rotated a partner in charge of the audit engagement so as to insure a fresh, independent approach in carrying out their annual audit. Also, in connection with their examination they obtained written representation from directors, officers and key personnel regarding sensitive or improper payments. These representations disclosed no such improprieties.

Growth

We again include, on the following page, a graphic presentation of the total corporate earnings and dividend growth, together with the income contribution of each of our operating groups. You will note that 1976 earnings are above the 9.8% average growth trend of fully diluted earnings per share BLI has experienced since the 1961 diversification program was initiated. In our opinion, this continues to demonstrate that the decision to become a diversified company in 1961 was a good one.

Outlook For 1977

It is no coincidence that the outlook for the year to come is the last section of our Annual Shareholders' Letter. The problem of anticipating actions by regulatory bodies of government, combined with other external events outside the control of management, makes the outlook for the coming year a very difficult subject.

As you know, each year we develop Operating Plans for our respective Divisions which reflect an assumed scenario for our national economy. For 1977, our plans were developed with the following assumptions:

GNP Real Growth	5.5%
FRB Index	135
FRB Index (Construction Component)	125
Domestic Auto Shipments—mil.	9.0
Housing Starts—mil.	1.65
U.S. Tons Steel Shipped—mil.	107

At the time of this writing, the variables which we feel could have an important bearing on the validity of the above assumptions are:

1. Inclement weather across much of the country has interfered with construction and product movement. The economy may have difficulty in recovering the momentum which has been lost.
2. Possible governmental action which could rekindle inflation.
3. The effect of pending labor negotiations in our country's largest and most basic industries. Your own Company is faced with thirteen labor contract negotiations in 1977.
4. The continuing detrimental effect of the energy shortage. The energy shortage has caused your Company to reduce production at some of its operating units.

However, we currently believe that if the economy continues robust, without interference by energy shortage, political events, and labor difficulties, we can produce another good year for your Company.



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

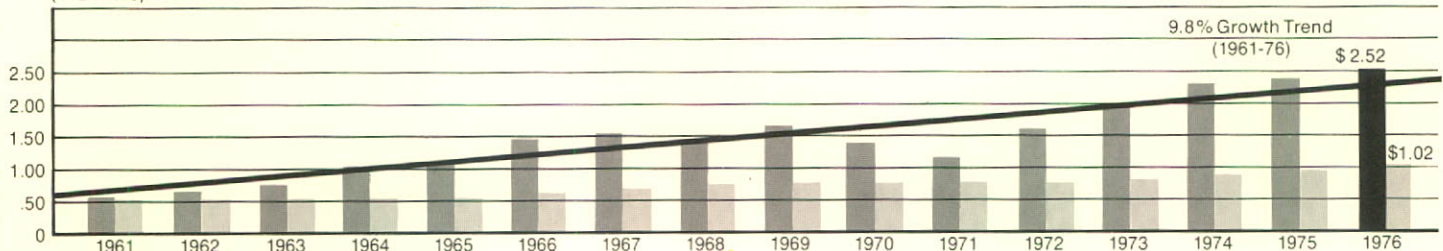
February 4, 1977

BLI Performance Review

BLI Fully-Diluted Earnings and Dividends per Share

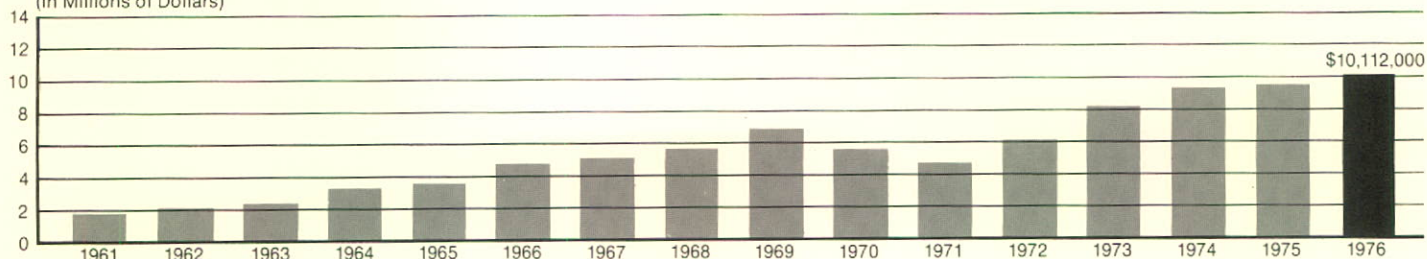
(in Dollars)

■ Earnings ■ Dividends



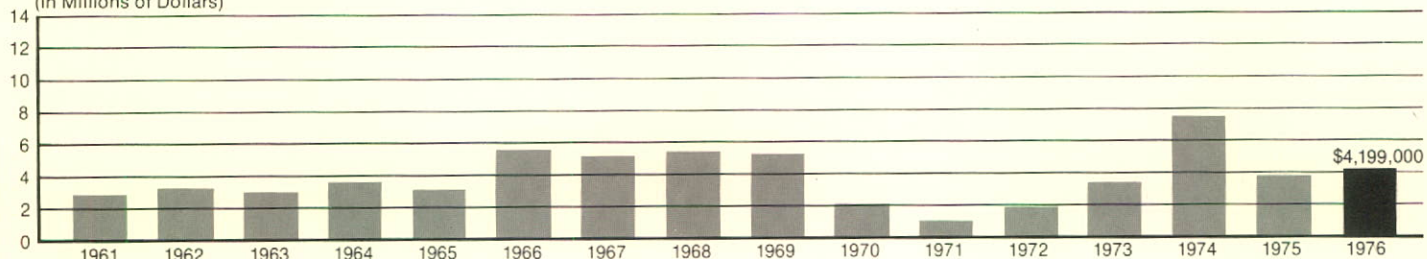
BLI Total Net Income

(in Millions of Dollars)



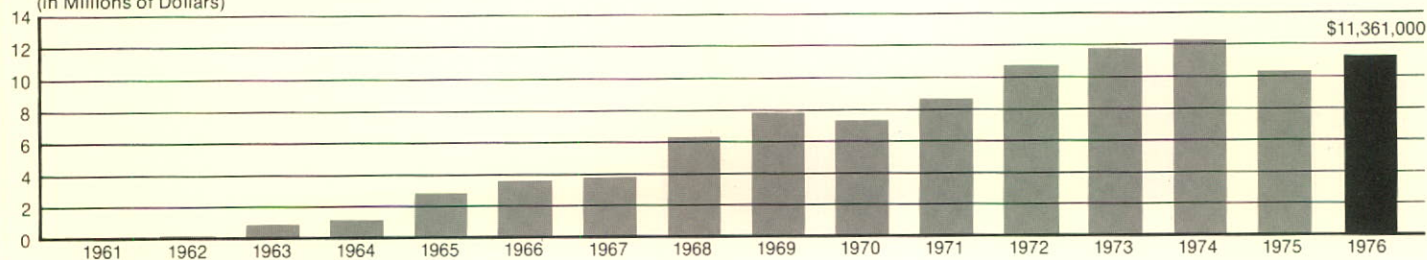
Steel Income Contribution*

(in Millions of Dollars)



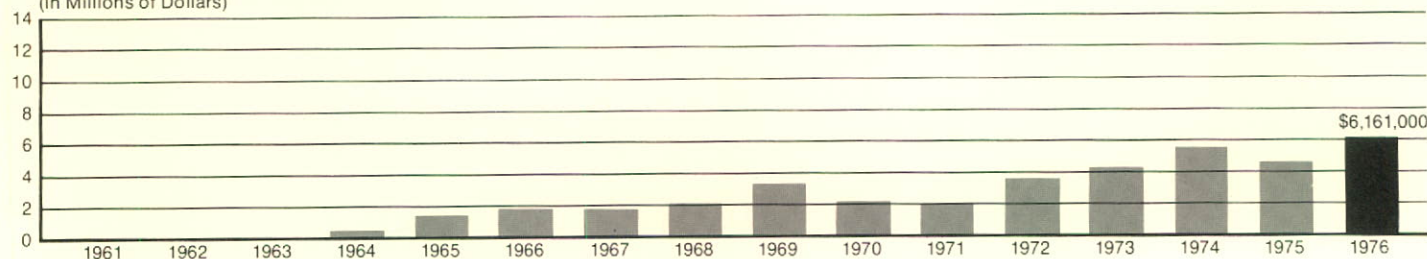
Construction Tool Income Contribution*

(in Millions of Dollars)



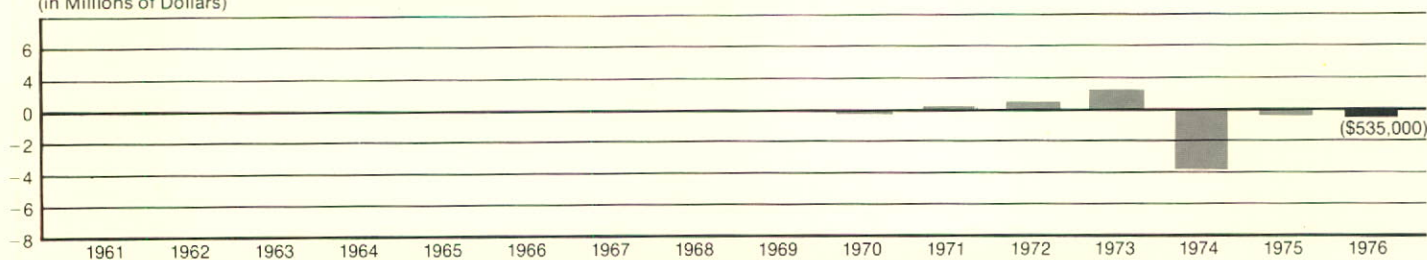
Metal Products Income Contribution*

(in Millions of Dollars)



Land Development Income Contribution*

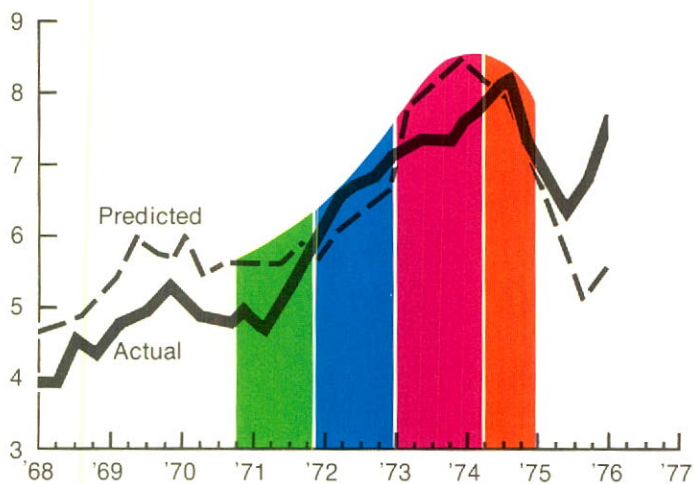
(in Millions of Dollars)



*Income contribution is defined as income before corporate expense allocation and taxes.

BLI and the Construction Cycle

Construction Related Revenues
(Average Monthly Revenues by Quarter, Millions of Dollars)



This year, we are devoting the operational section of the annual report to our construction-related activities. The businesses comprising our Construction Tools and Metal Products Groups contribute about 75 percent of our corporate profits and, in aggregate, are closely related to the construction industry. (The remaining 25 percent may be broken down into two categories: 20 percent cold-finished steel business and five percent new catalog and the land business.)

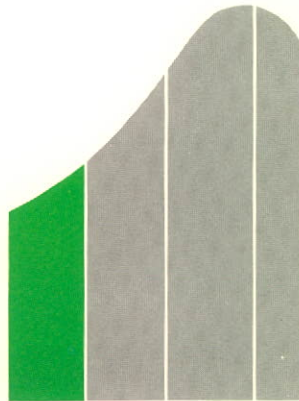
Since BLI does no construction per se, our construction-related businesses have not been easily understood. As a result of analytical work done in 1976, the construction cycle and BLI's participation therein can be readily demonstrated. Understanding this relationship requires only a basic knowledge of the construction cycle and how our businesses are influenced by changes during the cycle.

Using the construction component of the Federal Reserve Board Index, we built a model spanning the years 1968 through 1976 which included a construction cycle that started up in 1970 and bottomed in late 1974 (the duration of a typical construction cycle is four to six years). Using the construction component of the FRB Index to predict sales of our construction-related operations produced an impressive result as shown in this graph. By dividing the cycle into four arbitrary phases, we can further define the participation by each of our product lines as changes in the construction cycle occur.

In the following four pages, we describe the changes which have typically occurred in each phase of a construction cycle and how such changes have affected BLI.

Phase I: Industry Changes

A new construction cycle usually starts with an increase in Residential building which is stimulated by comparatively low interest rates and the abundance of mortgage money. In this phase, which may run about ten to 12 months, new housing construction begins to pick up, applications for building permits accelerate and planning is started and blueprints drawn for large projects. As construction increases, appliance and fixture manufacturers increase orders for supplies and components. There is often a lead time of six to nine months between manufacturers' increased orders and delivery of these items to new houses and apartments ready for occupancy. The increased residential construction activity creates jobs for skilled craftsmen and a corresponding demand for tools of their trade.



Effect on BLI

Increased activity in residential construction stimulates two of our businesses, Goldblatt and Nestaway.

Nestaway, which is part of our Metal Products Group, is a manufacturer of specialty components for appliances, including wire fabricated baskets for dishwashers and plated racks for refrigerators and freezers. These products are supplied to manufacturers of high quality home appliances such as Hobart, Maytag, Tappan, Whirlpool and General Electric.



In the early stages of residential construction, a variety of power and hand tools are also needed. Goldblatt, one of the leading manufacturers and distributors of tools to the trowel trades, experiences an increase in demand for hand tools and power tools as masons, tilesetters, plasterers, drywall workers and dealers order in response to the 1.25 million copies of Goldblatt's industrial catalog mailed each year.



Top: Nestaway Dish Rack for automatic dishwasher

Center, Left: Goldblatt Cement Mason Hand Tools designed for the correct "feel" that a craftsman expects.

Center, Right: Goldblatt Professional Drywall Hand Tools used in the installation and finish of dry wall construction.

Bottom: Goldblatt Power Troweler for professional finishing of concrete.

Phase II: Industry Changes

Residential construction started and/or planned during Phase I is now in full swing. Interior walls are installed and floors are laid. Sales and occupancy of new housing units create increased demand for furniture.

This phase is also characterized by planning for non-residential construction as businesses begin to make commitments for major capital spending programs which will get under way in Phase III. Capital spending surveys usually provide an indication of activity increases in non-residential construction for the next 12 to 16 months.

As a point of reference, we believe that the current construction cycle is now (first quarter, 1977) in the latter part of the second phase.

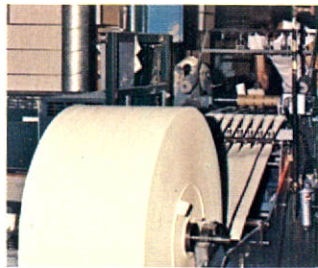
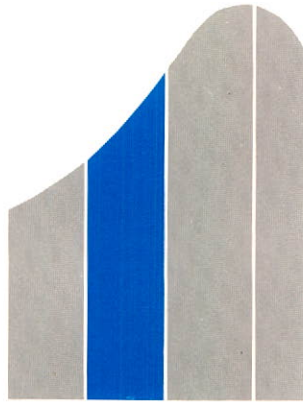
Effect on BLI

Our Ames Division experiences an increase in tool rentals as residences near completion. In addition to the cyclical changes, our Ames Division has also benefitted from the industry change to drywall construction and away from lath and plaster.

Ames is the leading tool supplier for drywall taping and finishing. It designs, manufactures, leases and services equipment needed to finish interior drywall for residential and commercial construction.

As drywall construction increases, demand also increases for Marco Paper Products, the leading producer of paper tape used in drywall construction. The tape is sold through other companies under private label.

Demand for Goldblatt products remains heavy, as hand tools are needed in greater numbers as employment of tradesmen such as masons and tilers increases.



Top: Marco Tape for drywall joints being processed from jumbo rolls of special paper.

Bottom, Left: Ames Joint Cement and Tape applied in one pass using Ames® Automatic Taper.

Bottom, Right: Ames® Flat Finisher used to apply final coats of cement to taped butt joints.

Phase III: Industry Changes

This is perhaps the longest and certainly the most active phase of the construction cycle. Residential construction peaks in this phase which usually lasts one to two years. This phase is also marked by a resurgence in commercial and heavy construction. The starting of high-rise structures, schools, offices, hospitals, bridges and factories creates a demand for a different mix of products than residential construction does. Furniture for offices and other types of institutional buildings is ordered during this phase.

Typically, late in this phase the general economy "overheats", the money supply is curtailed, mortgage volume and interest rates hit a high point, and a tapering off of new applications for building permits occurs.

Effect on BLI

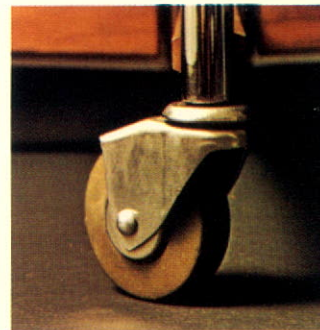
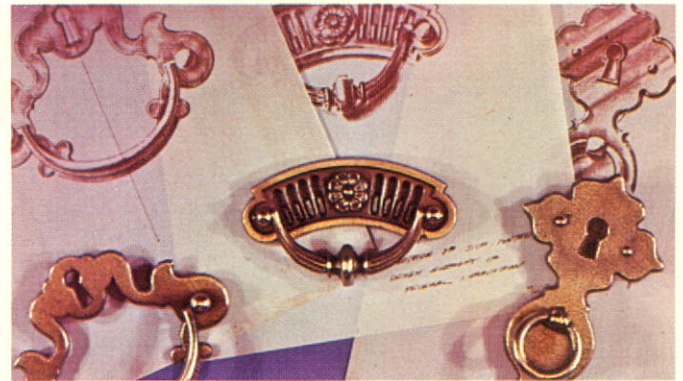
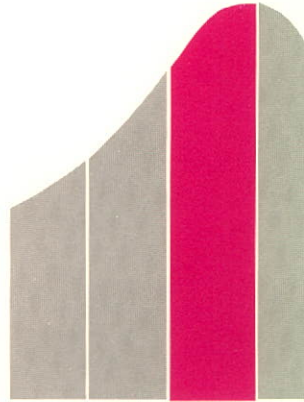
BLI's participation in this phase is broad, as most divisions of Construction Tools and Metal Products Groups participate.

Faultless, which sells its casters, glides and decorative hardware to both home and office furniture manufacturers, experiences strong anticipatory demand.

Doerner sees increased orders for its chair bases and controls, as office furniture manufacturers increase their output to supply their products to equip offices as new industrial, commercial and office construction is completed.

As factories are being built, orders increase for Nestaway's line of material handling equipment which includes Nestainer® portable storage racks, Nestaflex® flexible conveyors, shelving racks and wire baskets. Nestaway's material handling equipment features product protection, visual control and easy accessibility.

High-rise residential, industrial and commercial construction require special scaffolding, shoring and other equipment which Waco supplies either on rental or outright sales. Waco® scaffolding and shoring are used to support workmen and concrete during the construction of buildings and other structures and are often custom-designed to meet the requirements of the specific job.



Top: Faultless Decorative Hardware for furniture and appliances

Bottom, Left: Faultless Caster for carpeted homes and offices

Bottom, Right: Faultless Thinline Chair Control for modern office chairs

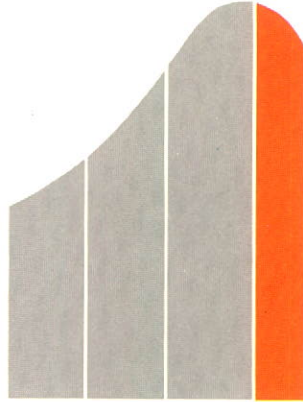
Phase IV: Industry Changes

The fourth phase is typified by a slowdown in new residential construction activity. Activities remain at a high point as many commercial and industrial projects started in Phase III are still under construction. Many skilled craftsmen are involved with finishing up jobs in process and several are switching their skills to remodeling and refurbishing existing buildings.

In the general economy, money is accumulating in the financial institutions. Interest rates are beginning to come back down to a level that makes mortgages attractive and money more available, and the characteristics for the beginning of a new cycle are present. Usually, each new cycle starts at a higher point than the previous one.

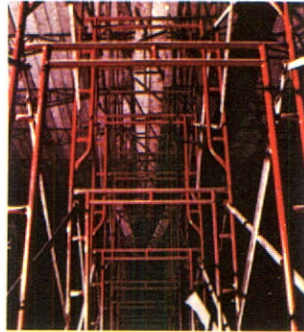
Effect on BLI

BLI participates in this phase through Waco's continuing involvement with major construction projects. Goldblatt Tools and Ames Taping Tools are also active with the finishing up of jobs and with remodeling and refurbishing. Other divisions usually experience a decline from peak levels approximately in line with the relative decline in the construction index. However, during this phase, we are able to shift the emphasis among the various businesses and position our resources to better take advantage of the beginning of a new cycle.



Top: Waco Speed-Up[®], an innovative masons' scaffold.

Bottom: Waco[®] Scaffolding, providing an elevated work surface for tradesmen.



Management's Discussion and Analysis of Operating Results

1975: Revenues decreased from 1974 due to economic decline in the businesses in which the company is engaged. Gross profit as a percent of revenues improved, mainly due to favorable product mix. Income before taxes was down less than the gross profit decline mainly because 1974 had included the \$3,658,000 valuation reduction in real estate and other assets, and 1975 included revision of prior years' insurance expense accruals of \$483,000, which were no longer required, and a non-recurring contribution from Mexican operations of \$472,000. The provision for income taxes as a percent of income before taxes, declined mainly because of the deductibility of pre-acquisition losses of acquired companies, higher Mexican income not subject to U.S. taxes, and greater non-tax deductible charges to income in 1974.

1976: Revenues increased in all of the Company's principal lines of business, due to generally improved economic conditions. Gross profit as a percent of revenues decreased in all lines of business, due to higher costs which were not offset, relatively, by higher prices. Income before taxes increased 3.7%, less than the 18.7% increase in sales and the 10% increase in gross profit, due to higher selling, administrative and interest expenses. The provision for income taxes as a percent of income before taxes declined, mainly because of a favorable decision by the IRS which resulted in a \$226,000 reduction in the provision for income taxes, and \$210,000 of prior years' tax reserves which were no longer needed and were credited to the tax provision.

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				Cash Dividends Per Share	
	1976		1975		1976	1975
	High	Low	High	Low		
First	17 $\frac{1}{4}$	12 $\frac{1}{8}$	11 $\frac{3}{8}$	8 $\frac{1}{2}$	\$.25	\$.23
Second	16 $\frac{7}{8}$	15 $\frac{3}{4}$	12 $\frac{5}{8}$	10 $\frac{7}{8}$.25	.23
Third	16 $\frac{3}{8}$	14 $\frac{5}{8}$	12 $\frac{3}{4}$	10 $\frac{1}{2}$.25	.23
Fourth	17 $\frac{7}{8}$	14 $\frac{7}{8}$	13 $\frac{3}{4}$	10 $\frac{5}{8}$.27	.25

Financial Results of the Company's Principal Lines of Business

Net Revenues	1976	1975	1974	1973	1972
Steel Group	\$ 68,551,000	\$ 58,912,000	\$ 85,789,000	\$ 70,894,000	\$ 53,539,000
Construction Tool Group	50,176,000	42,620,000	43,145,000	41,852,000	38,627,000
Metal Products Group	50,608,000	41,633,000	51,799,000	44,448,000	38,052,000
Land Development Group	2,288,000	1,406,000	2,321,000	5,694,000	2,984,000
	<u>\$171,623,000</u>	<u>\$144,571,000</u>	<u>\$183,054,000</u>	<u>\$162,888,000</u>	<u>\$133,202,000</u>

Income Before Income Taxes and Extraordinary Items

Steel Group	\$ 4,199,000	\$ 3,885,000	\$ 7,603,000	\$ 3,471,000	\$ 1,981,000
Construction Tool Group	11,361,000	10,432,000	12,279,000	11,850,000	10,803,000
Metal Products Group	6,161,000	4,674,000	5,563,000	4,276,000	3,691,000
Land Development Group	(535,000)	(379,000)	(3,842,000)	1,240,000	564,000
General Expenses Not Allocated	(2,702,000)	(793,000)	(3,144,000)	(4,867,000)	(4,499,000)
	<u>\$ 18,484,000</u>	<u>\$ 17,819,000</u>	<u>\$ 18,459,000</u>	<u>\$ 15,970,000</u>	<u>\$ 12,540,000</u>

Consolidated Balance Sheet

December 31

	1976	1975
Assets		
Current Assets:		
Cash	\$ 3,222,000	\$ 4,328,000
Marketable securities, at cost which approximates market	25,456,000	17,272,000
Trade accounts receivable, less allowance for doubtful accounts of \$911,000 and \$1,303,000, respectively	15,971,000	13,259,000
Inventories	28,804,000	27,340,000
Deferred income tax benefits	1,112,000	1,099,000
Prepaid expenses	786,000	988,000
Total current assets	<u>75,351,000</u>	<u>64,286,000</u>
Realty:		
Land and related costs	13,168,000	14,813,000
Receivables	1,932,000	2,547,000
Deferred income tax benefits	1,207,000	1,305,000
Other	848,000	986,000
	<u>17,155,000</u>	<u>19,651,000</u>
Other Assets:		
Notes receivable and deferred charges	799,000	499,000
Investments in affiliated companies	1,491,000	2,411,000
Intangible assets arising from acquisitions	5,341,000	5,362,000
Patents and other intangible assets, at cost, less amortization of \$3,425,000 and \$3,254,000, respectively	1,226,000	1,398,000
	<u>8,857,000</u>	<u>9,670,000</u>
Equipment Leased to Others, at cost, less accumulated depreciation of \$11,332,000 and \$10,465,000, respectively	6,346,000	7,682,000
Plant and Equipment, at cost:		
Land	1,590,000	1,590,000
Buildings	11,257,000	10,916,000
Machinery and equipment	30,649,000	26,540,000
	43,496,000	39,046,000
Less: accumulated depreciation	21,841,000	20,401,000
Net plant and equipment	21,655,000	18,645,000
	<u>\$129,364,000</u>	<u>\$119,934,000</u>

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

	<u>1976</u>	<u>1975</u>
Liabilities		
Current Liabilities:		
Current maturities of long-term debt	\$ 227,000	\$ 3,089,000
Accounts payable—trade	3,125,000	2,568,000
Customer deposits and advance rentals	1,497,000	1,370,000
Accrued liabilities—		
Taxes, other than income taxes	1,195,000	678,000
Salaries, wages and vacations	2,757,000	2,444,000
Interest	216,000	208,000
Pension costs	1,865,000	2,025,000
Other	2,331,000	1,652,000
Income taxes	2,758,000	110,000
Total current liabilities	<u>15,971,000</u>	<u>14,144,000</u>
Realty:		
Mortgage loans	3,334,000	4,120,000
Other	223,000	262,000
	<u>3,557,000</u>	<u>4,382,000</u>
Deferred Income Taxes	<u>2,231,000</u>	<u>1,929,000</u>
Accrued Pension Costs, non-current	<u>2,273,000</u>	<u>2,856,000</u>
Long-Term Debt, less current maturities	<u>24,566,000</u>	<u>21,906,000</u>
Convertible Subordinated Debentures,		
5¾%, due in 1987	<u>5,075,000</u>	<u>7,016,000</u>
Shareholders' Equity:		
Capital stock—		
Preferred stock, no par value; authorized 1,000,000		
shares; no shares issued	—	—
Common stock, \$2.50 par value; authorized 5,000,000		
shares; issued 3,973,000 and 3,858,000 shares,		
respectively	9,932,000	9,645,000
Additional capital	18,796,000	17,288,000
Retained earnings	50,435,000	44,089,000
Treasury stock, at cost, 234,000 and 227,000 shares,		
respectively	(3,472,000)	(3,321,000)
Total Shareholders' Equity	<u>75,691,000</u>	<u>67,701,000</u>
	<u>\$129,364,000</u>	<u>\$119,934,000</u>

Consolidated Statement of Income

For the years ended December 31

	1976	1975
Revenue:		
Net sales	\$157,274,000	\$130,350,000
Rental revenue	14,349,000	14,221,000
Total revenue	<u>171,623,000</u>	<u>144,571,000</u>
Costs and Expenses:		
Cost of sales	124,393,000	101,430,000
Cost of rentals	5,641,000	5,339,000
Selling, general and administrative expenses	22,346,000	19,765,000
Interest expense	2,432,000	2,048,000
Other, net	(1,673,000)	(1,830,000)
Total costs and expenses	<u>153,139,000</u>	<u>126,752,000</u>
Income Before Income Taxes	18,484,000	17,819,000
Provision for Income Taxes	<u>8,372,000</u>	<u>8,298,000</u>
Net Income	<u>\$ 10,112,000</u>	<u>\$ 9,521,000</u>
Net Income Per Share	<u>\$ 2.74</u>	<u>\$ 2.62</u>
Fully-Diluted Net Income Per Share,		
assuming conversion of the Company's convertible subordinated debentures as of the beginning of the year	<u>\$ 2.52</u>	<u>\$ 2.38</u>
Average Shares Outstanding	<u>3,689,000</u>	<u>3,630,000</u>

Consolidated Statements of Common Stock and Treasury Stock

	1976		1975	
	Number Shares	Amount	Number Shares	Amount
Common Stock:				
Balance at beginning of year	3,858,000	\$9,645,000	3,208,000	\$8,021,000
Add: Stock issued for debenture conversion	115,000	287,000	8,000	19,000
Stock issued for 20% stock dividend	—	—	642,000	1,605,000
Balance at end of year	<u>3,973,000</u>	<u>\$9,932,000</u>	<u>3,858,000</u>	<u>\$9,645,000</u>
Treasury Stock:				
Balance at beginning of year	227,000	\$3,321,000	163,000	\$2,993,000
Add: Treasury stock purchased	13,000	217,000	26,000	328,000
Stock issued for 20% stock dividend	—	—	38,000	—
Less: Stock issued for stock options	6,000	66,000	—	—
Balance at end of year	<u>234,000</u>	<u>\$3,472,000</u>	<u>227,000</u>	<u>\$3,321,000</u>

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

Consolidated Statement of Changes in Financial Position

For the years ended December 31	1976	1975
Sources of Working Capital:		
Net income	\$10,112,000	\$ 9,521,000
Add (Deduct) items not affecting working capital:		
Depreciation and amortization (straight-line)	4,169,000	4,228,000
Investment in affiliated companies	35,000	(854,000)
Deferred income taxes, net	400,000	955,000
Working capital provided from operations	14,716,000	13,850,000
Increase in long-term debt	22,892,000	9,208,000
Subordinated debenture conversions	1,804,000	125,000
Investment in affiliated companies—sale of		
Mexican affiliate	1,376,000	—
Decrease in net realty assets	2,360,000	34,000
Total provided	43,148,000	23,217,000
Uses of Working Capital:		
Decrease in mortgage loans payable	786,000	1,071,000
Additions to plant and equipment	6,062,000	3,901,000
Payments of long-term debt	20,370,000	268,000
Subordinated debenture conversions	1,804,000	125,000
Investment in affiliated companies—joint venture	750,000	—
Cash dividends	3,766,000	3,400,000
Treasury stock purchases	217,000	328,000
Other, net	155,000	484,000
Total used	33,910,000	9,577,000
Increase in working capital	\$ 9,238,000	\$13,640,000
Changes Consist of Increase (Decrease) in:		
Cash and marketable securities	\$ 7,079,000	\$14,149,000
Receivables, less allowance	2,712,000	(933,000)
Inventories	1,463,000	(4,731,000)
Deferred income tax benefits	13,000	(270,000)
Prepaid expenses	(202,000)	456,000
Increase in current assets	11,065,000	8,671,000
Current portion of long-term debt	(2,862,000)	2,825,000
Accounts payable and accrued liabilities	2,041,000	(3,705,000)
Income taxes	2,648,000	(4,089,000)
Increase (Decrease) in current liabilities	1,827,000	(4,969,000)
Increase in working capital	\$ 9,238,000	\$13,640,000

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

Consolidated Statements of Additional Capital and Retained Earnings

For the years ended December 31	1976	1975
Additional Capital:		
Balance at beginning of year	\$17,288,000	\$11,971,000
Add (Deduct):		
Market value in excess of par value of common stock issued in payment of 20% common stock dividend	—	5,215,000
Principal amount of convertible debentures in excess of par value of common stock issued upon conversion	1,518,000	105,000
Other, net	(10,000)	(3,000)
Balance at end of year	<u>\$18,796,000</u>	<u>\$17,288,000</u>
Retained Earnings:		
Balance at beginning of year	\$44,089,000	\$44,787,000
Add (Deduct):		
Net income	10,112,000	9,521,000
Cash dividends paid (\$1.02 per share in 1976 and \$.94 per share in 1975)	(3,766,000)	(3,400,000)
20% common stock dividend	—	(6,819,000)
Balance at end of year	<u>\$50,435,000</u>	<u>\$44,089,000</u>

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

Report of Independent Public Accountants

To the Shareholders and Board of Directors
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, 1976 and 1975, 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 examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Bliss & Laughlin Industries Incorporated and Subsidiaries as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
January 28, 1977.

Financial Review

For the years ended December 31, 1976 and 1975.

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 and BLI Mortgage Company are stated at cost plus equity in undistributed earnings since acquisition. Separate financial statements for BLI Mortgage Company are not included in this report because they are not significant. The Company's equity in the net assets of nonconsolidated affiliates and BLI Mortgage Company exceeded its investment in such companies by \$456,000 and \$1,405,000 at December 31, 1976 and 1975 respectively, and these amounts are included in retained earnings for these years. In 1976 the Company sold a foreign affiliate. The gain on the transaction was nominal.

To convert the accounts of foreign subsidiaries and affiliates to U. S. dollars the Company follows 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 gains and losses which were credited or charged to income were not significant to 1976 and 1975 results.

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 \$1,580,000 in 1976 and \$1,745,000 in 1975. At December 31, 1976, 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. The reduction in U. S. income taxes resulting from the 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:

	1976	1975
U. S. and Canadian currently payable	\$7,075,000	\$5,988,000
Deferred taxes and benefits, net	387,000	1,225,000
	7,462,000	7,213,000
State	910,000	1,085,000
Total provision	<u>\$8,372,000</u>	<u>\$8,298,000</u>

The effective income tax rate for 1976 was 45.3% and for 1975 was 46.6%. The major items causing the variances from the statutory federal income tax rate of 48% were the utilization of investment tax credits of \$307,000 in 1976 and \$282,000 in 1975 and state income taxes.

See **Miscellaneous** for additional income tax information.

Taxes deferred, due mainly to the use of accelerated depreciation for tax purposes, 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 1976 and 1975 and the tax effect of each were as follows:

	1976	1975
Depreciation	\$ 75,000	\$ (452,000)
Realty assets	98,000	892,000
Pensions	227,000	288,000
All other, net	(13,000)	497,000
	<u>\$387,000</u>	<u>\$1,225,000</u>

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.

Inventories

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market except for certain inventories (\$10,156,000 and \$10,081,000 at December 31, 1976 and 1975 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 \$6,568,000 and \$4,600,000 at December 31, 1976 and 1975, respectively.

Realty Operations

The Company's realty operations differ from 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.

Realty sales are recorded when the buyer has a significant and continuing cash equity in the property. In 1975 an immaterial amount of real estate taxes, interest expense and development costs applicable to land were capitalized as part of the cost of the land prior to the marketing stage provided that such capitalization did not state land and related costs in excess of net realizable value. In 1976 real estate taxes, interest expenses and development costs applicable to land are expensed as they are incurred. Costs are allocated to the various parcels of individual projects based upon the relative value method.

Intangible Assets

The excess of the purchase price over the fair market value of net assets of businesses acquired in the amount of \$4,562,000 prior to November 1, 1970 is not being amortized because, in the opinion of management, they represent assets with continuing value. For subsequent acquisitions any such excess is being amortized over the lesser of the period benefited or 40 years. Amortization totaled \$22,000 and \$95,000 in 1976 and 1975, respectively.

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

Mortgage Loans and Long-Term Debt

Mortgage loans classified under the realty caption are secured by real estate held for resale with a net book value of \$9,995,000 at December 31, 1976. The loans bear various interest rates from 5% to 8½% and have varying maturities through 1989, including \$551,000 in 1977, \$413,000 in 1978, \$622,000 in 1979, \$261,000 in 1980, and \$268,000 in 1981.

Long-term debt was as follows:

	1976	1975
Long-term loan	\$20,000,000	—
Term loan	—	\$20,000,000
Obligations related to industrial revenue bonds	4,518,000	4,674,000
Other, with various interest rates (5% to 6½%)	275,000	321,000
	<u>24,793,000</u>	<u>24,995,000</u>
Less current maturities	<u>227,000</u>	<u>3,089,000</u>
	<u>\$24,566,000</u>	<u>\$21,906,000</u>

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 9¾%, has annual installments due from 1982 to 1994.

The obligations related to industrial revenue bonds are due in installments through 1993, have various interest rates from

4% to 8½% and are secured by buildings and machinery and equipment with a net book value of \$3,612,000 at December 31, 1976.

The Company has informal agreements requiring the maintenance of compensating bank balances of approximately \$1,123,000 in support of an unused line of credit of \$4,000,000 and a discounted note receivable of \$3,613,000. These balances are on an annual average balance basis and are unrestricted as to use at any given time. No compensating balances are due under the new long-term loan agreement.

The above long-term debt has varying maturities including, in the aggregate, maturities of \$227,000 in 1977, \$232,000 in 1978, \$247,000 in 1979, \$260,000 in 1980, and \$268,000 in 1981. The provisions of the loan agreements and the indenture for the 5¾% convertible subordinated debentures contain, among other things, restrictions on lease commitments, creation of mortgage indebtedness, payment of cash dividends and stock redemptions. In addition, the Company must maintain consolidated working capital of at least \$45,000,000 and consolidated current assets of not less than 225% of consolidated current liabilities. On December 31, 1976, the Company had consolidated working capital of \$59,380,000 and current assets were 472% of consolidated current liabilities. Under the terms of the most restrictive agreement retained earnings of approximately \$7,460,000 was available for the payment of cash dividends. At December 31, 1976, the Company may, under certain restrictions, increase funded (long-term) borrowing by \$17,171,000.

The convertible subordinated debentures, 5¾% 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 63.58 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 \$9,925,000 at December 31, 1976. The debentures may be called at any time at prices decreasing from 103.03 of face value currently to 100% in 1987.

Commitments and Contingent Liabilities

On January 29, 1976 the Company announced plans to invest over \$15 million in a three year program to modernize the Company's cold finished steel bar operations. As of December 31, 1976, approximately \$2,794,000 has been expended, and an additional \$2,808,000 has been committed.

At December 31, 1976 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, 1976 balance being \$3,613,000.

Stock Options

In 1975, the shareholders approved a stock option plan whereby 270,000 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 1975 options for 143,520 shares were granted at prices per share of \$10.62 to \$10.83 or an aggregate option price of \$1,554,000. The options granted were all outstanding at December 31, 1975. Included in the options granted were 32,400 shares with stock appreciation rights.

During 1976, an option for 2,500 shares was granted at \$15.38 per share or a total price of \$38,450. Also, 47,840 options became exercisable of which 6,140 were exercised and 4,000 were terminated.

At December 31, 1976, options for 135,880 shares were outstanding with an aggregate option price of \$1,482,595 and an aggregate market value of \$2,428,855.

	1976	1975
Options Available for Future Grant:		
Available	126,480	270,000
Granted	(2,500)	(143,520)
Terminations	4,000	—
	<u>127,980</u>	<u>126,480</u>
Options Granted and Outstanding:		
Outstanding	143,520	—
Granted	2,500	143,520
Exercised	(6,140)	—
Terminations	(4,000)	—
	<u>135,880</u>	<u>143,520</u>

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.

In 1975 the Board of Directors terminated the 1969 Stock Option Plan and all options thereunder were terminated or surrendered. No options were exercised during 1975.

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.

Payments made pursuant to the plan were \$722,000 for 1976 and \$579,000 for 1975.

Lease Obligations

Rent expense was \$2,099,000 and \$2,071,000 for 1976 and 1975 respectively. The Company has no material contingency-type leases.

Minimum rental commitments under all noncancelable leases are as follows:

	Total	Real Estate	Machinery & Equipment
1977	\$ 823,000	\$ 414,000	\$409,000
1978	734,000	384,000	350,000
1979	550,000	360,000	190,000
1980	464,000	340,000	124,000
1981	458,000	341,000	117,000
1982-1986	1,610,000	1,081,000	529,000
1987-1991	170,000	170,000	—
1992-1996	58,000	58,000	—
After 1996	—	—	—

The present value of non-capitalized financing leases is not material and the impact on net income if such leases had been capitalized is not material.

Miscellaneous

Net income for 1976 included \$226,000 or \$0.06 per share fully diluted (\$0.06 per share primary), which resulted from a favorable decision by the Internal Revenue Service (IRS), and \$210,000, or \$0.05 per share fully diluted (\$0.06 per share primary), which represents a reduction of prior years' tax reserves which were no longer needed.

Net income for 1975 included the effect of reducing reserves and accruals by \$477,000, or \$0.12 per share fully diluted (\$0.13 per share primary), which were provided in prior years and are no longer required.

Quarterly Financial Summary (Unaudited)

(In thousands)

	For the Three Months Ended:				Total 1976
	3/31	6/30	9/30	12/31	
Net sales and rental revenues	\$39,164	\$44,819	\$44,469	\$43,171	\$171,623
Gross margin	9,558	10,859	10,465	10,707	41,589
Income before taxes	3,466	4,772	5,067	5,179	18,484
Provision for income taxes	1,615	1,944	2,350	2,463	8,372
Net income	1,851	2,828	2,717	2,716	10,112
Net income per share:					
Fully diluted	\$0.47	\$0.70	\$0.68	\$0.67	\$2.52
Primary	\$0.51	\$0.77	\$0.73	\$0.73	\$2.74
Average shares outstanding	3,639	3,668	3,720	3,728	3,689

Prior to 1976 the company established a reserve for an item contested by the IRS. As a result of a favorable decision by the IRS \$226,000, \$0.06 per share fully diluted (\$0.06 per share primary) was credited to income in the second quarter of 1976.

Ten-Year Financial Review

	1976(a)	1975(a)
Operating Results (in thousands)		
Net sales and rental revenue	\$171,623	\$144,571
Gross profit	41,589	37,802
Depreciation and amortization	4,169	4,228
Interest expense	2,432	2,048
Income before taxes	18,484	17,819
Provision for income taxes	8,372	8,298
Income from continuing operations	10,112	9,521
Income from bank subsidiary (acquired and sold in 1970) less related interest and income taxes	—	—
Income before extraordinary items	10,112	9,521
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	10,112	9,521
Cash dividends	3,766	3,400
Per Share Data		
Net income:		
Income before extraordinary items	\$2.74	\$2.62
Extraordinary items	—	—
Net income	2.74	2.62
Fully-diluted net income:		
Income before extraordinary items	2.52	2.38
Extraordinary items	—	—
Net income	2.52	2.38
Dividends	1.02	.94
Financial Position (in thousands)		
Working capital	\$ 59,380	\$ 50,142
Plant and equipment, net	28,001	26,327
Long-term notes payable	24,566	21,906
Mortgage loans	3,334	4,120
Convertible subordinated debentures	5,075	7,016
Shareholders' investment	75,691	67,701
Statistics		
Average shares outstanding (in thousands)	3,689	3,630
Number of shareholders	6,535	6,715
Number of employees	2,777	2,806

(a) See page 9 for management's discussion and analysis of operating results.

1974	1973	1972	1971	1970	1969	1968	1967
\$183,054	\$162,888	\$133,202	\$109,499	\$109,167	\$128,566	\$114,061	\$ 95,112
44,751	38,040	32,402	26,266	25,995	30,234	25,751	20,508
4,146	4,119	4,089	3,894	3,728	3,444	3,289	2,290
2,751	2,206	2,178	2,404	1,373	1,238	1,228	785
18,459	15,970	12,540	8,690	9,141	14,238	12,163	10,086
9,093	7,765	5,980	3,950	4,280	7,345	6,430	4,980
9,366	8,205	6,560	4,740	4,861	6,893	5,733	5,106
—	—	—	—	788	—	—	—
9,366	8,205	6,560	4,740	5,649	6,893	5,733	5,106
—	—	—	—	699	—	—	—
—	—	(482)	—	—	—	—	—
9,366	8,205	6,078	4,740	6,348	6,893	5,733	5,106
3,216	3,055	2,853	2,838	2,794	2,712	2,496	2,264
\$2.55	\$2.18	\$1.74	\$1.27	\$1.53	\$1.91	\$1.67	\$1.53
—	—	(.12)	—	.19	—	—	—
2.55	2.18	1.62	1.27	1.72	1.91	1.67	1.53
2.32	2.00	1.60	1.17	1.39	1.66	1.42	—
—	—	(.12)	—	.16	—	—	—
2.32	2.00	1.48	1.17	1.55	1.66	1.42	—
.88	.82	.76	.76	.76	.76	.74	.68
\$ 36,502	\$ 40,085	\$ 33,611	\$ 26,579	\$ 22,529	\$ 21,086	\$ 24,586	\$ 22,332
26,869	26,697	27,839	28,520	28,742	25,077	22,743	15,234
12,966	18,914	18,089	13,763	13,765	5,046	5,575	6,161
5,191	8,939	11,017	11,244	7,224	6,749	—	—
7,141	7,141	7,141	7,735	8,821	10,211	12,531	13,983
61,786	56,614	52,144	48,610	45,821	41,845	37,672	32,676
3,678	3,755	3,760	3,740	3,682	3,612	3,441	3,328
6,491	6,339	6,141	6,246	6,209	6,090	5,985	5,717
3,250	3,155	3,063	3,048	3,319	3,286	2,743	2,428

Board of Directors and Officers

Directors

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

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

Roland A. Erickson (A, C, P)
Financial Consultant

T. Mitchell Ford (A)
Chairman & President, Emhart Corp.
A diversified company principally
engaged in the manufacture of
machinery and hardware

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

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

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

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

Corporate Officers

Frank W. Aughnay
Senior V.P./Operations

Norma J. Bark
Assistant Secretary

Edwin J. Burk
V.P. & Acting
General Manager/Waco

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

T. P. Crigler
V. P./Administration & Corporate
Development

William R. Emery
Secretary

Emile J. Garneau
Assistant Secretary

James A. Goese
V.P./Finance & Treasurer

Robert W. Keenan
Group V.P./Steel Group

Donald B. Moritz
Group V.P./Construction Tool Group

Joseph W. Rose
Group V. P./Metal Products Group

Committees of the Board of Directors

(A) Audit

(C) Compensation, Stock Option Plan, and
Management Incentive Compensation Plan

(E) Executive

(P) Pension

Divisions and Managers

Ames Taping Tool Systems Co.

Mr. Eugene R. Johnson,
Vice President & General Manager

Andamios Atlas, S.A. (49% owned)

Mr. Jorge de Arechavala,
General Manager

Bliss & Laughlin Steel

Mr. Robert W. Keenan,
Group Vice President

Doerner Products Co. Limited

Mr. William Pernfuss,
Vice President & General Manager

Faultless Casters Limited

Mr. A. H. Johnson,
Vice President & General Manager

Faultless Division

Mr. W. P. Stetzelberger,
Vice President & General Manager

Goldblatt Tool Co.

Mr. Donald C. Place,
Vice President & General Manager

Jensen Tools and Alloys, Inc.

Mr. Joseph S. Bergeon,
General Manager

Land Development

Mr. Donald R. Pacey,
General Manager

Markson Science, Inc.

Mr. Joseph A. Hauber,
General Manager

Nestaway Division

Mr. Fred B. Thacker,
Vice President & General Manager

Tekform Products Co.

Mr. Ronald C. Chalman,
Vice President & General Manager

Waco Scaffold & Shoring Co.

Mr. Edwin J. Burk,
Vice President & Acting
General Manager

Annual Meeting

The annual meeting of stockholders of Bliss & Laughlin Industries will be held at 10:30 A.M., Wednesday, May 4, 1977, at the executive offices, 122 West 22nd Street, Oak Brook, Illinois. You are cordially invited to attend.

Executive Offices: Bliss & Laughlin Industries, 122 W. 22nd St., Oak Brook, Illinois 60521
Telephone 312-654-3350 TWX 910-651-0211
