Colt Industries

Annual Report 1980

Financial Highlights

Colt Industries Inc and Subsidiaries

Year ended December 31	(In thousands of dollars, except per share data) **1980**	1979
Sales	**$ 2,165,602**	$ 2,140,515
Net earnings	**97,751**	111,375
Earnings per common share:		
Including common equivalent share	**7.38**	8.40
Assuming full dilution	**7.04**	7.86
Common share dividends:		
Total paid	**37,562**	32,182
Per share rate	**2.90**	2.50
Average number of shares:		
Common and common equivalent basis	**13,021,000**	12,992,000
Fully diluted basis	**13,859,000**	14,152,000
Working capital	**540,072**	518,648
Long-term debt	**284,114**	264,450
Shareholders' equity	**677,636**	621,592
Return on average shareholders' equity	**15.0%**	18.8%
Book value per common share	**49.48**	44.95

Cover: Gear shaper-cutter is produced from Rex 25, a new cobalt-free, super-high-speed steel developed by the Crucible Research Center and produced by the Crucible Specialty Metals Division.This extra-tough steel was developed as an alternative to tool steel containing cobalt.

To Our Shareholders

Despite the impact of the recession, felt most severely in the third quarter of the year, your company achieved in 1980 the second highest level of earnings of any year in its history.

Net earnings in 1980 were $97,751,000, equal to $7.38 a common share, on sales of $2,165,602,000. This compares with net earnings in 1979 of $111,375,000, or $8.40 a common share, on sales of $2,140,515,000. Sales in 1980 were at a record level. The effective tax rate in 1980 was 42 percent as compared with 45 percent in 1979.

Improved Performances by Three Industry Segments

Three of the company's five industry segments achieved improved performances in 1980. These were the Industrial and Power Equipment, Industrial Seals and Components, and Shock Mitigation Systems segments. Most affected by the downturn in the automotive industry and the recession in 1980 were the Fluid Control Systems and Materials segments.

A number of our divisions achieved record sales and earnings in 1980. These were the Crucible Specialty Metals, Chandler Evans Control Systems, Pratt & Whitney Machine Tool, Elox, Colt Firearms, Garlock Mechanical Packing, France Compressor Products, Menasco Texas, and Menasco Overhaul Divisions. Also contributing significantly to 1980 sales and earnings were the Crucible Steel Division of Colt Canada Inc. and Menasco Canada Ltée. The Holley divisions, Garlock Oil Seal Division, and Crucible Alloy and Crucible Stainless Steel Divisions were seriously affected by the automotive downturn.

Holley Divisions Are Very Well Positioned

The Holley divisions are, however, very well positioned to participate in the accelerating trend toward smaller, more fuel-efficient cars. The Holley Carburetor Division, long a specialist in small car carburetion, is currently the sole source supplier of carburetors for the Ford world cars and the Chrysler K cars; and Holley carburetors are on almost all of the small car models being produced in the U.S. In its program to diversify into non-carburetor fuel delivery systems, the division has developed a central fuel injection system. The system will be tested by Chevrolet during 1981 and has been introduced to Ford, Chrysler, and Volkswagen of America.

The Holley Replacement Parts Division is having significant success in the sale of its Economaster® carburetor to motorists seeking to improve the fuel efficiency of older cars and has in development several new products for the automotive aftermarket. The Holley Special Products Division began production of a smaller emissions control air pump, and the new pump is standard equipment on many of the new small cars.

During the summer, operations at the Crucible Alloy and Crucible Stainless Steel Divisions in Midland, Pennsylvania were sharply curtailed for two two-week periods to bring production in line with incoming orders. At year-end, installation of two ultra-high-power electric arc furnaces was nearing completion at the Crucible steelmaking facility in Midland; and the furnaces are scheduled for start-up in the first half of 1981.
Early in 1981, the Crucible Alloy and Crucible Stainless Steel Divisions were consolidated into a single Crucible Stainless and Alloy Division. The consolidation should help maximize the technological advances made with the new furnaces in terms of production efficiency, product quality, and flexibility in meeting demand.

Capital Expenditures Were at Record Level

Capital expenditures in 1980 reached a record $108.4 million, with emphasis on improving efficiency and productivity, lowering manufacturing cost, and increasing capacity to meet future demand in growth markets. The largest single capital expenditure was for the installation of the two electric arc furnaces at the Midland facility. The Crucible Specialty Metals Division significantly improved its grinding, bar turning, and heat treating capabilities in 1980 and began a multi-year moderniza-

tion of the conditioning facilities at its Syracuse mill. The division also opened a new warehouse and sales office near Huntsville, Alabama to serve growing markets in the South. Major equipment additions were also made by the Holley Special Products Division and the Menasco California and Texas Divisions.

The Holley Carburetor Division completed construction of a carburetor assembly plant in Bowling Green, Kentucky and of a central test and development laboratory in Paris, Tennessee. The Quincy Compressor Division began production in 1980 in its new satellite manufacturing facility in Bay Minette, Alabama; and in 1981, the Fairbanks Morse Engine Accessories Operation will move into a new and larger facility in Roscoe Township, Illinois.

George A. Strichman

David I. Margolis

An Accelerated Pace for New Product Development

Emphasis continued on new product and process development in 1980 with a large number of significant new products introduced to the marketplace. The Crucible Specialty Metals Division introduced its award-winning CPM Rex 25 cobalt-free, super-high-speed steel produced by the Crucible Particle Metallurgy (CPM) process.

In response to market demand for asbestos-free sealing products, the Garlock Mechanical Packing Division introduced a new acrylic fiber material for gasketing applications and a new line of compression packing.

The Fairbanks Morse Pump Division introduced the first of its new line of Vanguard split-case pumps for industrial use. Other significant product introductions included a Pratt & Whitney metal-cutting lathe, horizontal and vertical machining centers, and a profiling machine; an Elox four-axis wire-cut machine, a microprocessor-controlled EDM machine, and a power supply; microprocessor-controlled Fairbanks industrial scales; and Colt hunting, target shooting, and collector firearms.

In advanced stages of development are the Holley central fuel injection system and a replacement carburetor that will enable motorists to adjust the air-fuel mixture while under way; new Crucible magnetic materials; aircraft structural parts to be produced by the CPM process; Chandler Evans electronic fuel controls for advanced helicopter designs; and a new Quincy helical screw compressor booster for oil and gas drilling operations.

Products introduced earlier and gaining in market acceptance include the Holley electronic feedback carburetor; Trent Sea-Cure® stainless alloy tubing for use by electric power plants cooling with corrosive seawater; and the Fairbanks Morse spark-ignited engines, fueled by natural gas, for use in natural gas gathering and transportation.

In 1980, the Board of Directors voted a 16 percent increase in the quarterly dividend on the company's common stock, bringing the annualized rate from $2.50 to $2.90 a share. This marked the eighth increase in as many years.

Your company's performance in 1980 is, we believe, testimony to the breadth of its earnings base and its resultant resilience in the face of economic downturns. And our investment in the modernization of our plants and equipment and in the development of new products and processes, all focused on those areas we believe to have the greatest earnings potential, will enable us to meet demand when the economy recovers.

George A. Strichman
Chairman of the Board

David I. Margolis
President

January 29, 1981

Industrial and Power Equipment

The Industrial and Power Equipment segment of Colt Industries accounted for 29 percent of the company's sales in 1980 and 45 percent of its operating income. Operating income for the segment was up 15 percent on a 4 percent gain in sales.

The segment is made up of the Fairbanks Morse Engine, Crucible Magnetics, Colt Firearms, Fairbanks Weighing, Trent Tube, Elox, Pratt & Whitney Machine Tool, Crucible Spring, Quincy Compressor, and Central Moloney Transformer Divisions and the Fairbanks Morse Engine Accessories Operation.

Record Fairbanks Morse Engine Sales

The Fairbanks Morse Engine Division achieved in 1980 the highest sales in its history. Shipments of the division's opposed-piston engines were up in response to increased demand from the natural gas industry. The spark-ignited Fairbanks Morse engine is fueled by natural gas and is widely used in the exploration, gathering, processing, and pipeline transportation of natural gas.

Sales of the larger Colt-Pielstick diesel engines to the electric power generation and marine propulsion markets continued strong in 1980, buoyed by increasing demand for fuel-efficient diesels for ships that traditionally have been steam-propelled.

Significant New Orders Received

During the year, an order was received for four 16-cylinder Colt-Pielstick engines to power the first of a new class of U.S. Navy landing ship dock (LSD-41) vessels. And three new oceangoing

Diesel Engines

Left: Upper crankshaft is lowered into place in welded steel block of Fairbanks Morse opposed-piston engine at division plant in Beloit, Wisconsin. The space-efficient opposed-piston engine is used for nuclear standby, to propel a wide range of marine vessels, and to generate electricity for municipalities, public utilities, and oil and gas drilling operations.

Rare Earth Magnets

Above: Rare earth cobalt magnetic material is sintered in a tubular-shaped furnace at Crucible Magnetics Division to develop very high magnetic energy levels. These small, powerful magnets are used in high-torque electric motors, high-speed computer printers, and aerospace guidance systems.

Colt Commemoratives

Below: Engraved and gold-inlaid revolver produced by the Colt Firearms Division Custom Gun Shop commemorates great moments in American history. This commemorative is the Statue of Liberty model, a one-of-a-kind, single-action Army revolver with ebony grips.

catamaran tugboats will each be powered by two 14-cylinder Colt-Pielstick diesel engines.

The Fairbanks Weighing Division celebrated its 150th anniversary in 1980 and concluded the year with a modest increase in sales. The Fairbanks Series 7 stainless steel scales further penetrated red meat, poultry, and fish processing markets. Sales of heavy-duty truck scales continued to show strength, but agricultural markets were down.

Completed Upgrading of Electronic Scales

During the year, the division completed an upgrading of its electronic scales. Fairbanks electronic weighing systems are now microprocessor-based and can provide customers with digital display, memory, daily journal, and a dot-matrix label printer.

The Colt Firearms Division had an excellent year in 1980, with increased sales of both military and commercial lines. During the year, the division introduced an eight-inch Trooper for silhouette target shooting, new .22 caliber pistols for target shooting, and several new models of black powder pistols that had not been produced for 100 years.

Crucible Magnetics Division sales volume was down in 1980 as many customers switched from alnico to lower-cost ceramic magnets. In response, the division substantially increased its ceramic magnet production capacity and introduced two new, stronger grades of its Ferrimag® ceramic magnets.

Crucible Spring Division sales were up modestly in 1980, but new orders were off sharply as rail freight tonnage

Fairbanks Digital Scales

Above: Stainless steel Fairbanks Unirail scale and Series 7 Dataprinter weigh, record, and print labels for sides of beef at this meat and poultry distribution center for a large supermarket chain in the New Orleans area. This Fairbanks weighing system, which includes overhead rail and electronic load cells, provides a printed daily journal for inventory control.

Trent Sea-Cure

Right: Forty-foot lengths of welded one-inch-diameter ferritic stainless steel tubing produced by the Trent Tube Division replaced copper condenser tubing at this Florida Power and Light Company plant in Port Everglades, Florida. Known as Sea-Cure® tubing, its chemistry was developed by the Crucible Research Center specifically for use in seawater-cooled condenser and heat exchanger applications.

dropped and the railroad industry canceled new car orders and scaled back maintenance programs.

Orders for Trent Sea-Cure Tubing

Trent Tube Division sales were down from those of the prior year, with sales somewhat stronger in the second half than in the first. Demand was good from the aerospace industry and moderately strong from the chemical and petrochemical industries.

The division's new Sea-Cure® stainless alloy tubing, for use by electric power plants cooling with salt water, moved strongly into the marketplace in 1980. Orders were shipped to Houston Lighting and Power Company and Florida Power and Light Company.

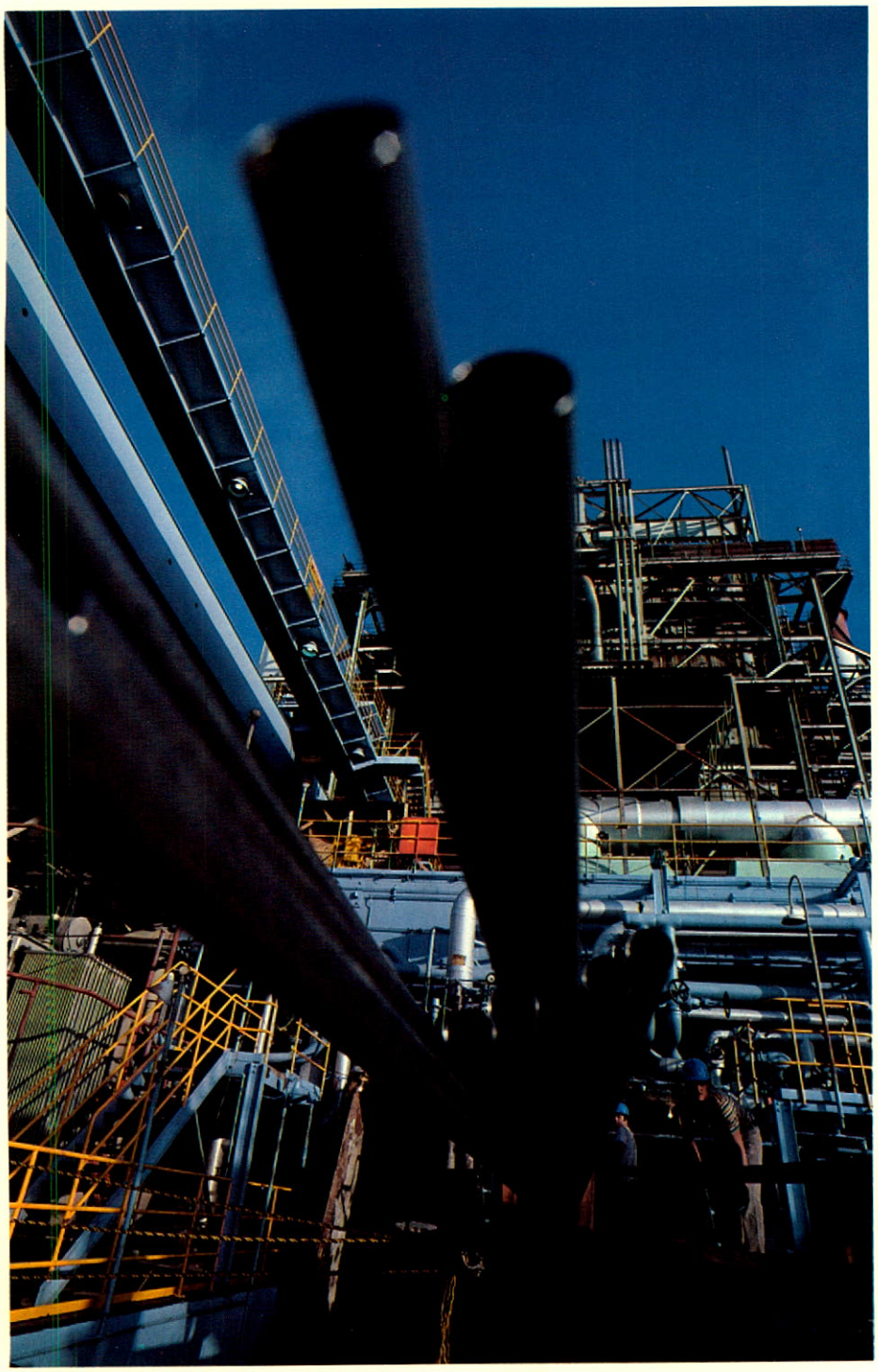
Elox Division sales were at a record level in 1980 as demand increased for its electrical discharge machining (EDM) equipment. The demand came principally from the aerospace industry for the production of aircraft engines and from the automotive industry for use in tooling for small car production.

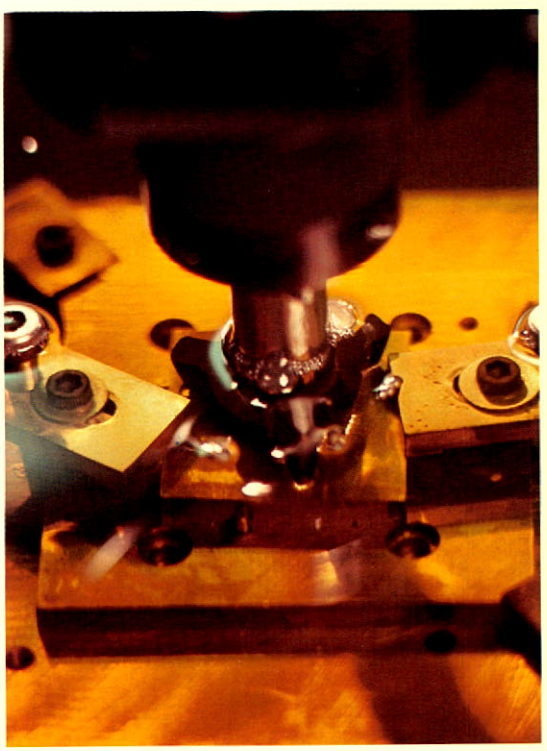
The division introduced a new four-axis wire-cut machine and a new Astra™ Mark II power supply. The new Classic microprocessor-controlled EDM machine went into production.

New Pratt & Whitney Machine Tool Products

The Pratt & Whitney Machine Tool Division also achieved record sales in 1980. The new order rate slowed in the second half, however, as demand from the automotive and aerospace industries began to level out.

During 1980, the divi-





EDM Equipment

Above: Graphite electrode in electrical discharge machining (EDM) equipment produced by the Elox Division precisely erodes metal to make a mold that will be used in the production of faucet handles. Electrode is immersed in bath of dielectric oil that flushes away minute metal particles and acts as a coolant.

sion introduced four new medium-size, numerically controlled machine tools: the Star-Turn 1200 metal-cutting lathe, the Aztec X horizontal machining center, the Tri-Mac X vertical machining center, and a new Wolverine profiling machine. The division's Fastcut cutting tool operation had the best year in its history.

Central Moloney Division sales were down as the downturn in single-family housing affected demand for pole- and pad-mounted distribution transformers. Demand for products serving commercial construction and multi-family dwellings remained strong.

Quincy Compressor Division Expanding

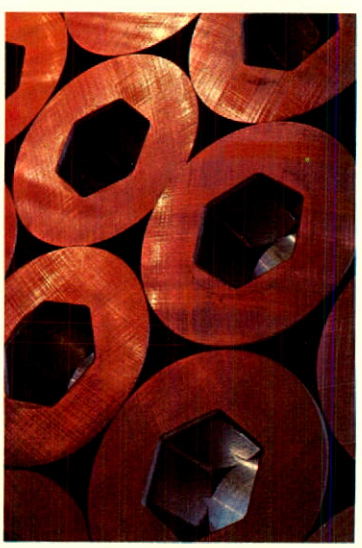
While Quincy Compressor Division sales in 1980 were essentially flat, demand increased from the oil and gas exploration and production industries. The division's HP-850 skid-mounted helical screw and QR-100 mid-range reciprocal compressors showed particularly strong gains.

To enhance its position in this air drilling market, the division has developed a helical screw booster compressor to operate at pressure ranges normally served by large, double-acting reciprocating compressors. The prototype is in field evaluation, and production is expected to begin in mid-1981. During 1980, the division began operation of its new satellite plant in Bay Minette, Alabama.

Fairbanks Morse engine accessories sales were up slightly in 1980 as energy-related products helped offset the lower demand in construction equipment and mobile refrigeration markets.

Quincy Compressor

Above: Jim Jones, Quincy distributor, adjusts controls on a new Quincy compressor at a natural gas drilling site in central Oklahoma. This compressor can supply 850 cubic feet per minute of high-pressure air to power percussive drills and to clear drill holes of cuttings.



Profiling Machines

Right: Tracer element is aligned on new Pratt & Whitney mid-size Wolverine milling, profiling, and die-sinking machine during its final stage of construction. The Wolverine line of computer numerically controlled machines is sold primarily to aerospace, automotive, and plastics industries.

Left: Precision cold-forming tools from the Haber Tool Operation will be used to produce six-sided lug nuts that hold an automobile wheel to brake drum or disc.

Fluid Control Systems

Fluid Control Systems accounted for 18 percent of the company's operating income in 1980 and 18 percent of its total sales. Operating income for the segment was down 30 percent in 1980 on a 7 percent gain in sales.

The segment is composed of the Holley Carburetor, Holley Replacement Parts, Holley Special Products, Chandler Evans Control Systems, and Fairbanks Morse Pump Divisions.

Holley Affected by Automotive Downturn

The Holley divisions were seriously affected by the downturn in the automotive industry. The impact was felt in original equipment carburetors and also in replacement parts and emissions control air pumps.

The Holley Carburetor Division is, however, well positioned to meet the sharply accelerating trend toward smaller, more fuel-efficient cars. Holley is currently the sole source supplier of carburetors for the Ford Escort, Mercury Lynx, Plymouth Reliant, and Dodge Aries. In addition, Holley carburetors are on almost all of the small car models being produced in the U.S. today.

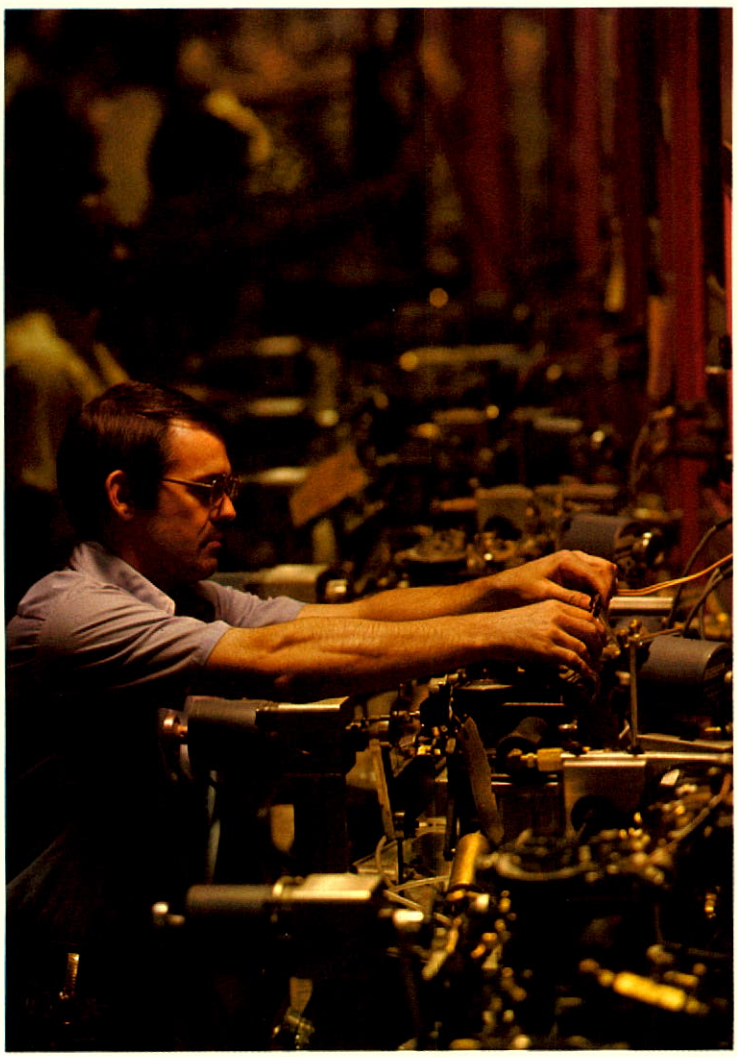
The division has completed development of its central fuel injection system. The system will go into test by Chevrolet later this year and has been introduced to Chrysler, Ford, and Volkswagen of America.

Sales Up Sharply for Economaster

While sales of replacement carburetors and performance products were down in 1980, sales of the Holley Economaster® carburetor line were

Small Car Carburetion

Left: Fuel-efficient front-wheel-drive cars from Ford Motor Company and Chrysler Corporation are equipped with staged, two-barrel carburetors supplied by the Holley Carburetor Division. Holley has long specialized in small car carburetion.

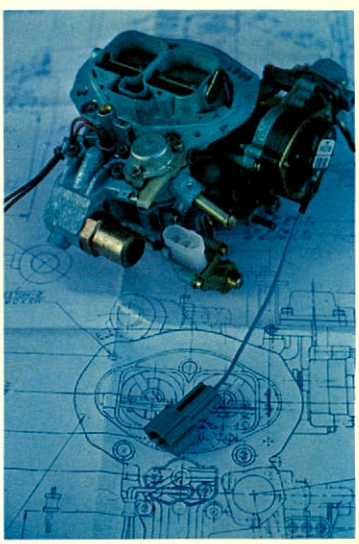


Performance Testing

Above: At Holley plant in Bowling Green, Kentucky, carburetors are tested for fuel/air ratio at different speeds and under varying temperatures and barometric pressures. Every Holley carburetor is checked on a computer-controlled test stand prior to shipment.

Electronic Carburetor

Below: Staged, two-barrel Holley carburetor with electronic feedback is produced for the Chevrolet Chevette. The electronically controlled carburetor, original equipment on a number of the new small cars, automatically adjusts the fuel/air ratio for greater fuel efficiency.



up substantially, with demand high from do-it-yourselfers seeking to improve the fuel-efficiency of older cars. In development for the replacement market on 4-cylinder cars is an electronically controlled open-loop carburetor system with dash-mounted computer that will enable the motorist to adjust the fuel/air ratio to various driving conditions.

The Holley Special Products Division began production of its smaller, 11-inch air pump, standard equipment on the small cars being produced by Ford and Chrysler.

An Excellent Year for Chandler Evans

Chandler Evans Control Systems Division sales were up in 1980 on the strength both of substantial continuing production programs and new development contracts. New contracts included development of the main fuel pump for the Pratt & Whitney 2037 engine that will power many of the new Boeing 757 jetliners.

A gas-actuated missile fin control system for the U.S. Army Copperhead 155mm cannon-fired projectile went into production in 1980, and a similar model for the U.S. Navy is in development.

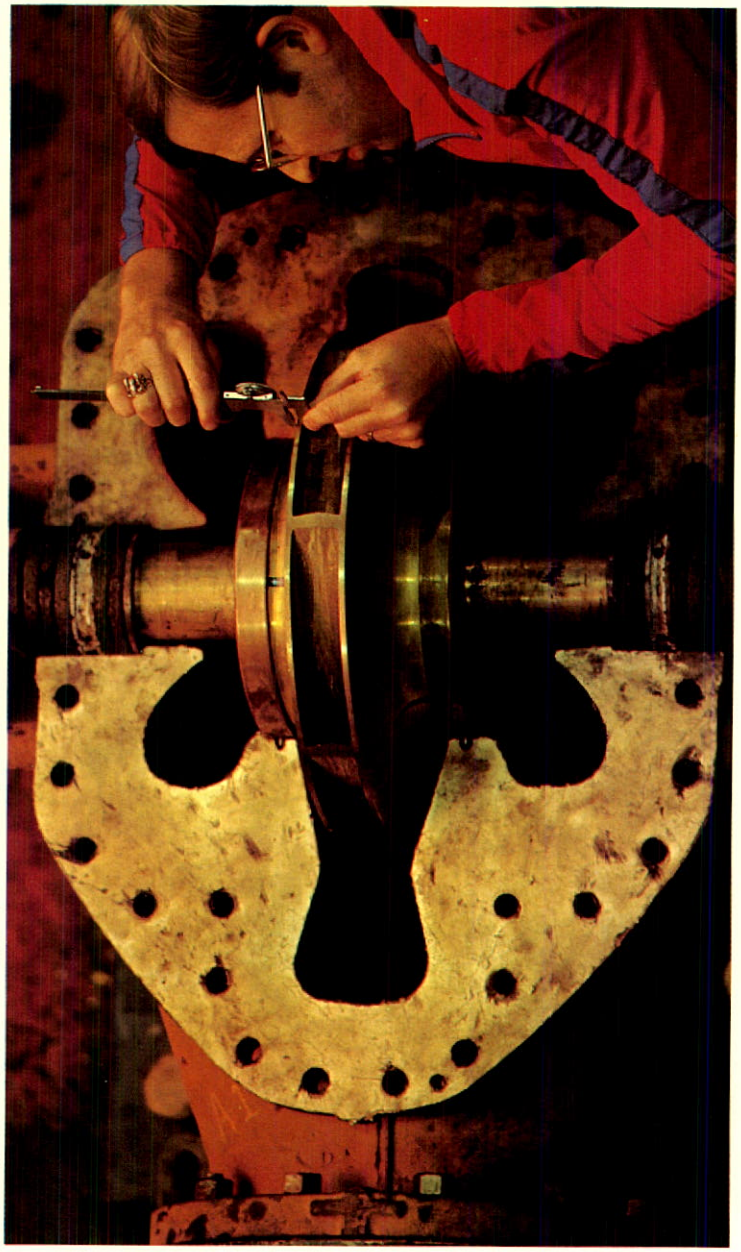
Production continues on the main fuel pump for the engines that power the F-15 and F-16 fighter aircraft and on fuel pumps for many other military and commercial aircraft.

Fairbanks Morse Industrial Pumps

Growth in industrial markets and introduction of the first in its new line of Vanguard industrial pumps helped offset for the Fairbanks Morse Pump Division the decline in public works markets.

Bronze Impellers

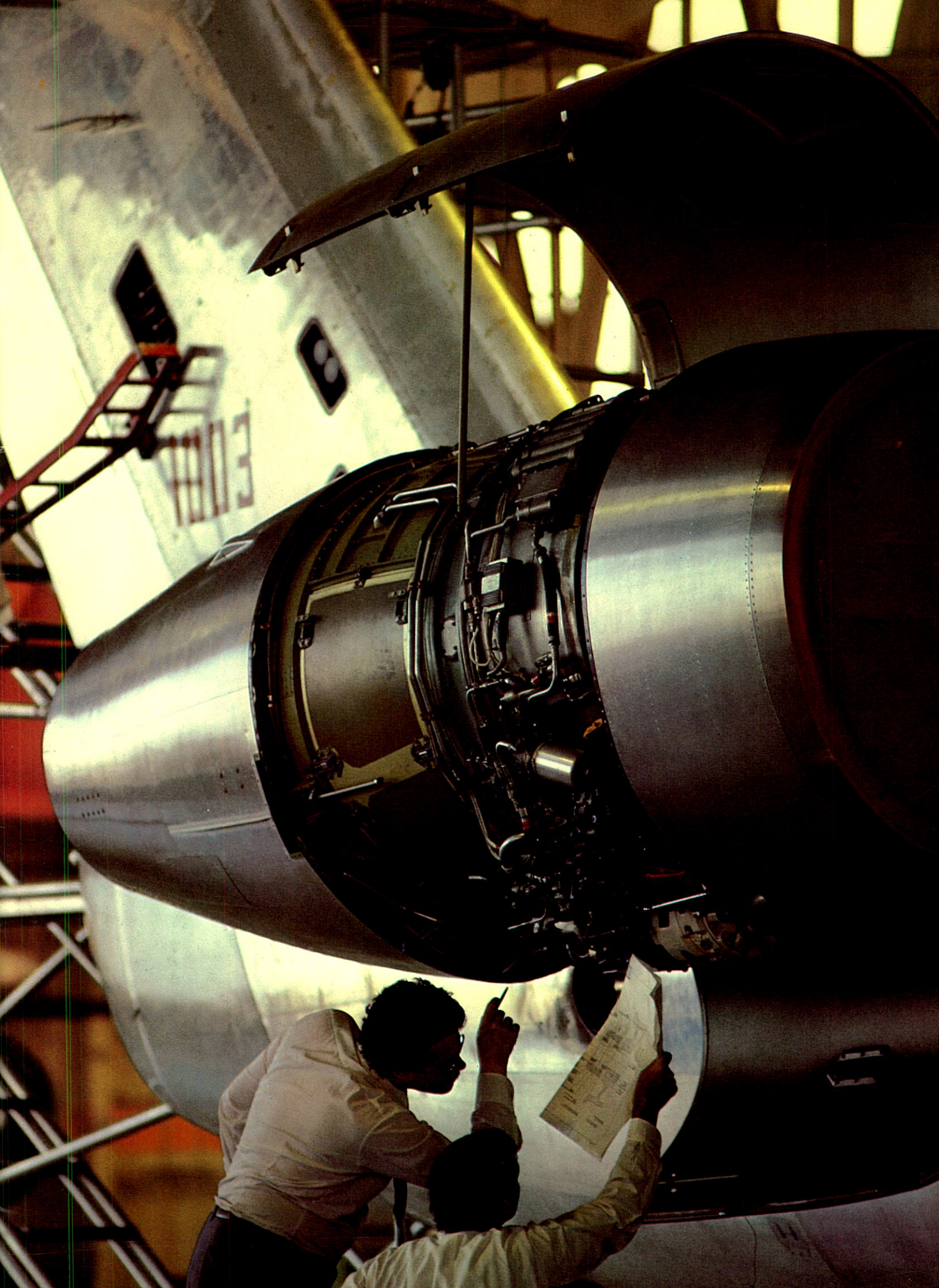
Above: Bronze impellers for Fairbanks Morse Pump Division regenerative turbine pumps, a line of small-capacity, high-pressure units used in steam-boiler systems.



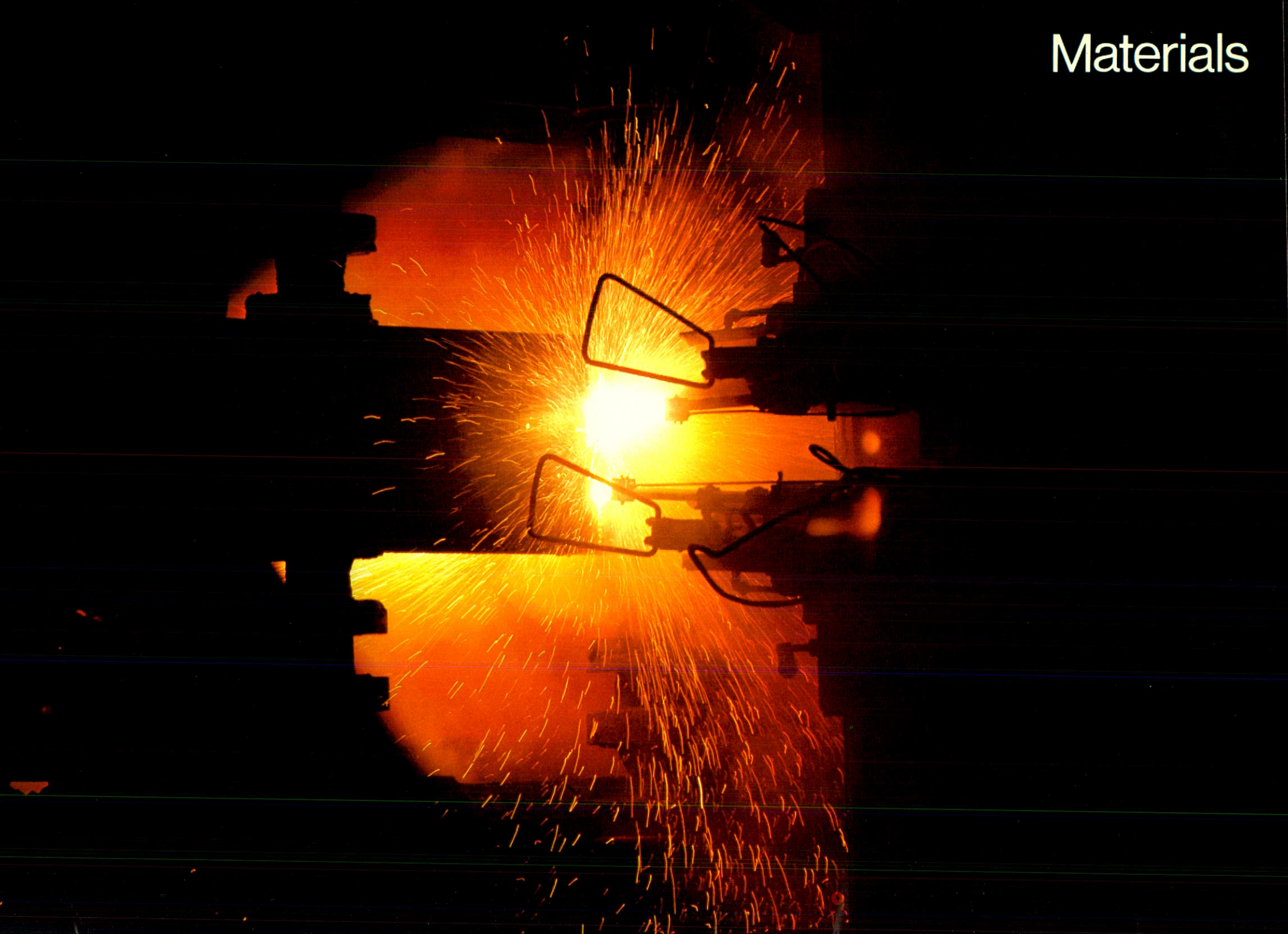
Aircraft Fuel Pumps

Right: Engineers at Canadair Limited check Avco Lycoming ALF 502L engine equipped with motive flow fuel pump supplied by Chandler Evans Control Systems Division. Two 502L engines power the Canadair Challenger, a wide-bodied corporate aircraft now entering service.

Left: Engineer at Fairbanks Morse Pump Division central hydraulics research lab checks dimensions on the impeller for a Vanguard pump, one of a new line of cost-efficient horizontal split-case pumps designed for industrial use.



Materials



Materials accounted for 34 percent of the company's total sales in 1980 and 5 percent of its operating income. Operating income was down 84 percent from 1979 on a 9 percent drop in sales.

The segment consisted of the Crucible Specialty Metals, Crucible Alloy, and Crucible Stainless Steel Divisions, and the Crucible Compaction Metals Operation.

The Crucible Specialty Metals Division achieved record sales in 1980 on strong demand from the aerospace, energy, and capital goods industries.

New Cobalt-Free High-Speed Steel

During the year, the division introduced the first cobalt-free, high performance, super-high-speed tool steel. The new steel was selected by *Industrial Research and Development* magazine as one of the major technological developments of 1980.

New equipment added during the year helped increase productivity and lower costs, and the division started a multi-year modernization of its billet conditioning facility.

To serve its growing specialty metals market in the South, the division opened a new warehouse and sales office near Huntsville, Alabama. The Crucible Compaction Metals Operation increased its production of near net shapes for airframe structural members and aircraft engines.

A Down Year for Alloy and Stainless Steels

The Crucible Alloy and the Crucible Stainless Steel Divisions were both seriously affected by the downturn in the automotive industry, the general

Stainless Steel Slabs

Left: Cutoff torches on continuous casting system at Crucible Stainless and Alloy Division in Midland, Pennsylvania. At a rate of 45 inches per minute, the system produces stainless slab to desired dimensions for further reduction in the division's flat-rolling mills.

Right: Gear shaper-cutter and section of bar stock of CPM Rex 25 steel from which it was made. Crucible Specialty Metals Division produces this new extra-tough steel for the makers of such metal cutting tools as end mills, broaches, and reamers.

Tough Alloy Steel

Above: Caterpillar Track-type Tractor uses tough Crucible alloy steel in drive train and transmission. These tractors move thousands of yards of earth at excavation and construction sites.

recession, and the inability to raise prices to cover increased costs.

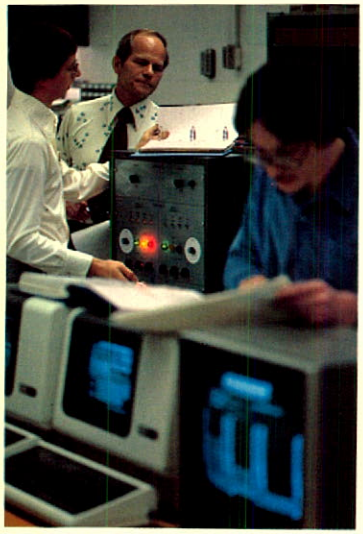
In response to the low level of orders, the two divisions reduced operations at the Midland, Pennsylvania mill and furloughed workers for two two-week periods in late summer to bring production in line with order-input.

The Crucible Stainless Steel Division increased its order-input later in the year and received a substantial order for stainless steel plate for use in constructing electric power plant scrubbers. And the Crucible Alloy Division increased its oil country business and shipped a record volume of vacuum arc remelted steel.

Two Ultra-High-Power Electric Arc Furnaces

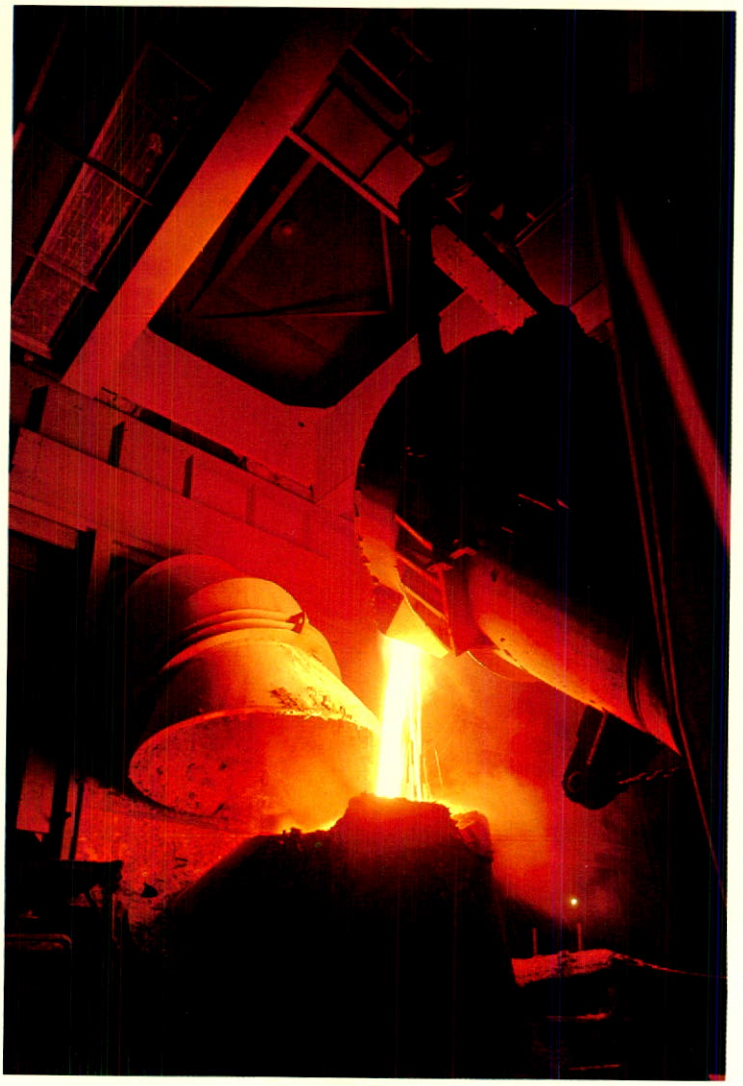
At year-end, construction was nearing completion on two 170-ton, ultra-high-power (UHP) electric arc furnaces at the Midland facility. The new furnaces will utilize the latest UHP melting technology and are designed to produce consistently high quality steel in one-third the time. The pollution control systems are the most modern in the industry. The two furnaces are scheduled for start-up in the first half of 1981.

Early in 1981, the Crucible Alloy Division and Crucible Stainless Steel Division were consolidated into a single Crucible Stainless and Alloy Division. The consolidation should help maximize the technological advances made with the installation of the electric arc furnaces through improved production efficiency, higher product quality, more flexibility in meeting market demand, and greater responsiveness to customer needs.



Process Control

Left: Engineers at Crucible Research Center design, test, and program computerized controls for all phases of steelmaking involving new electric arc furnaces at Midland, Pennsylvania mill.



Refining Molten Steel

Right: Argon-oxygen decarburization (AOD) vessel is charged with molten steel in Crucible Specialty Metals Division melt shop. The AOD, which refines molten steel in an inert atmosphere, provides the division with a high degree of quality and cost control and enables the division to produce a broad range of demanding grades of steel.

Electric Arc Furnace

Right: One of two new 170-ton electric arc furnaces under construction at Crucible Stainless and Alloy Division. These 24-foot-diameter, 85,000 KVA, ultra-high-power electric furnaces are expected to increase mill flexibility, enhance product quality, and meet environmental protection standards.

Industrial Seals and Components

The Industrial Seals and Components industry segment contributed 22 percent of the company's operating income in 1980 and 14 percent of its total sales. Operating income for the segment was up 10 percent over 1979 on a slight increase in sales.

The segment is made up of the Garlock Mechanical Packing, Garlock Oil Seal, Garlock Special Products, Stemco Truck Products, France Compressor Products, and F. D. Farnam Divisions and Woodville Polymer Engineering Ltd. in England.

Garlock Mechanical Packing Sets Record

The Garlock Mechanical Packing Division achieved record sales in 1980. In response to customer requests for asbestos-free products, the division introduced its line of Blue-Gard™ gasketing materials composed of acrylic fibers and a new line of compression packing for industrial pump and valve applications.

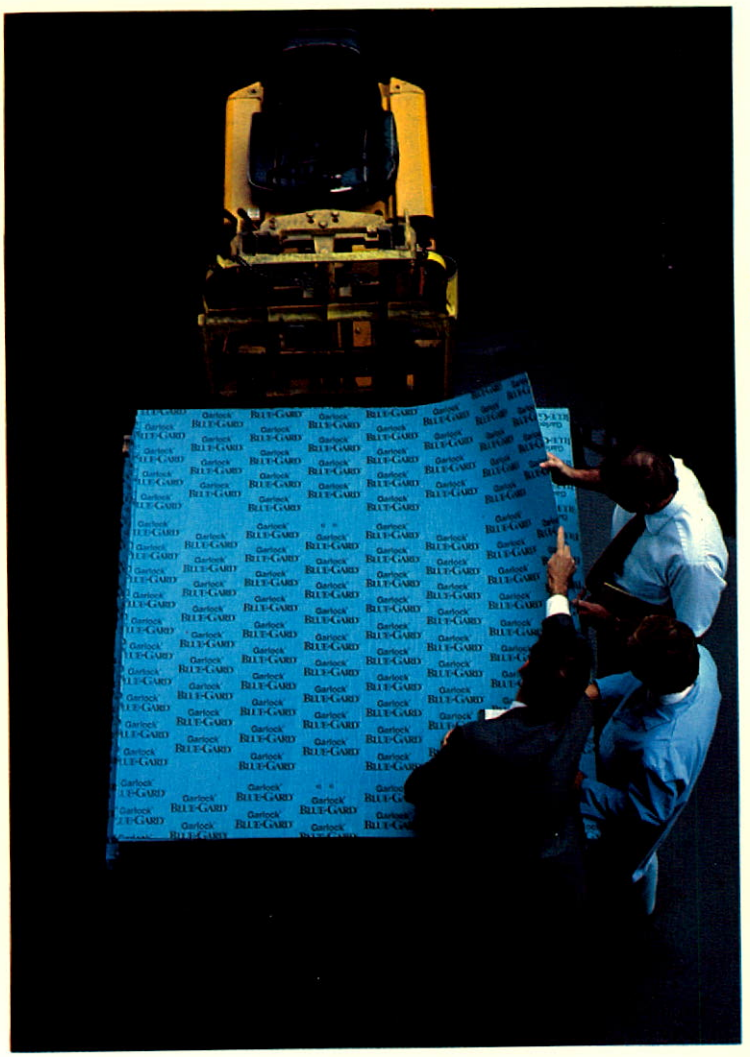
The Stemco Truck Products Division produces hub seals, leaf springs, exhaust system components, wet clutch plates, and transmission parts for the trucking industry. Sales were down somewhat in 1980 as new truck orders declined, but the market for spare parts was relatively strong. The slowdown in Garlock Oil Seal Division sales reflected the downturn in the automotive industry.

France Compressor Products Sales Up

The France Compressor Products Division increased its sales volume in 1980 in response principally to demand from users of its compres-

Self-Lubricating

Left: Aermotor windmills use Garlock self-lubricating bearings for maintenance-free performance. Windmills are regaining popularity because of their energy efficiency and are used increasingly to pump well water for livestock and home use in rural areas.



Asbestos-Free Gasketing

Above: New Blue-Gard™ gasketing was developed by the Garlock Mechanical Packing Division in response to customer requests for asbestos-free gasketing material. The material, made of acrylic fibers held in a nitrile rubber binder, is produced in compressed sheet form.

Compression Packing

Below: Spools of compression packing are wound and weighed at Garlock Mechanical Packing Division plant in Sodus, New York. Made from synthetic Kevlar® fibers, this lattice-braided product offers high tensile strength, heat resistance to 500°F, and resistance to acids and caustics.

sor components in natural gas production and transmission. The division is expanding its compressor valve business and has developed a non-metallic valve plate material. Manufacturing plants in Andover, England and Bavay, France were expanded in 1980.

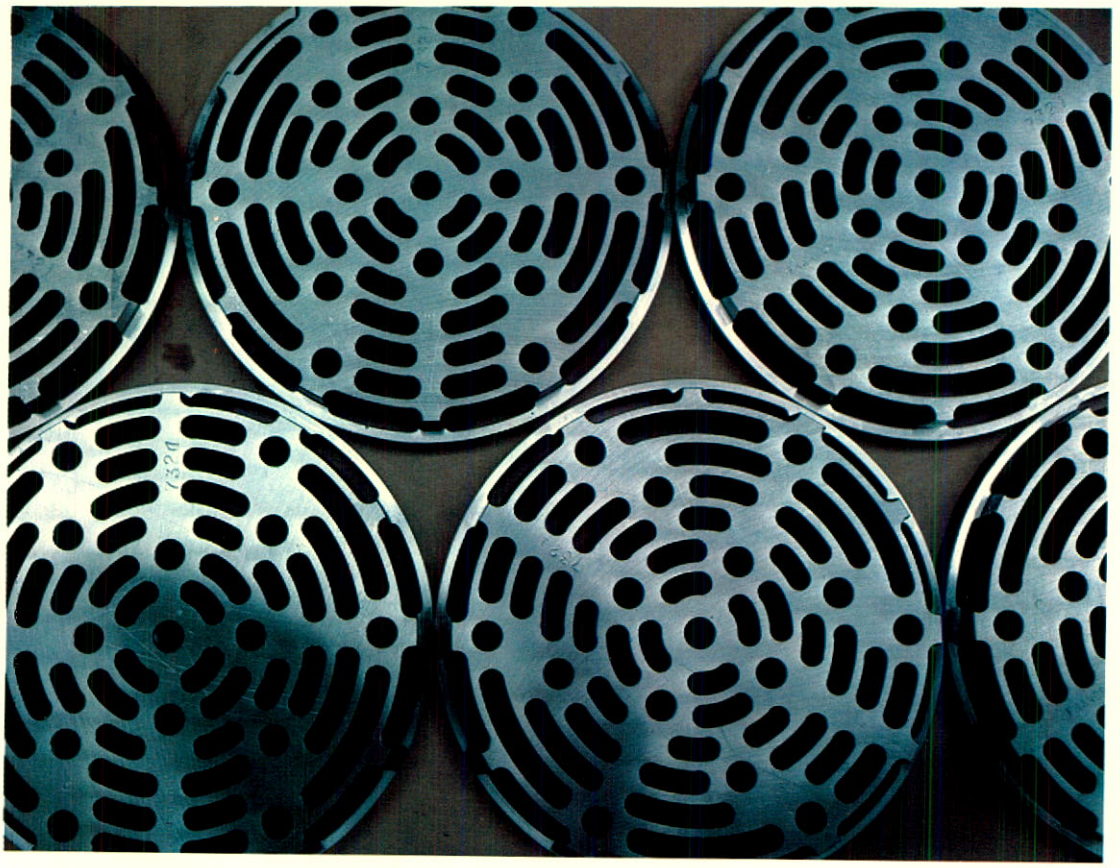
The Garlock Special Products Division includes Garlock bearings, Garlock valves and industrial plastics, Garlock plastomer products, and Ortman precision pneumatic and hydraulic cylinders. Sales by the division as a whole were up modestly in 1980.

Maintenance-Free Garlock Bearings

Because of their maintenance-free characteristics, demand was up for Garlock filament-wound, self-lubricating bearings for use in agricultural and construction equipment. Demand for Garlock valves and industrial plastics was essentially flat, but demand was up for Ortman products.

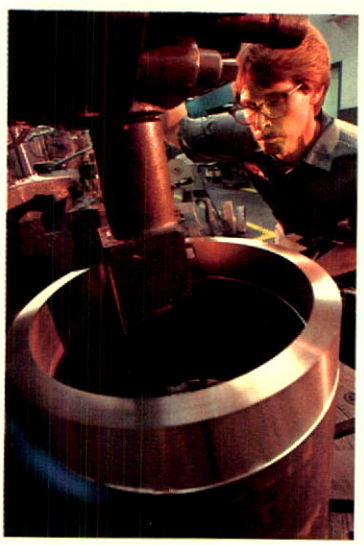
The downturn in the automotive market affected gasket sales by the F. D. Farnam Division. An order for the division's new head gasket was received from Ford Motor Company for use on its new V-6 engines, and the division is developing a new line of hard gaskets for exhaust and manifold applications on both gasoline and diesel engines.

Woodville Polymer Engineering Ltd. sales were up in 1980, but export business was adversely affected by the strength of the British pound against European currencies and the U.S. dollar. Demand was good for aerospace products and gaskets but down for seals and photocopier products.



Compressor Valves

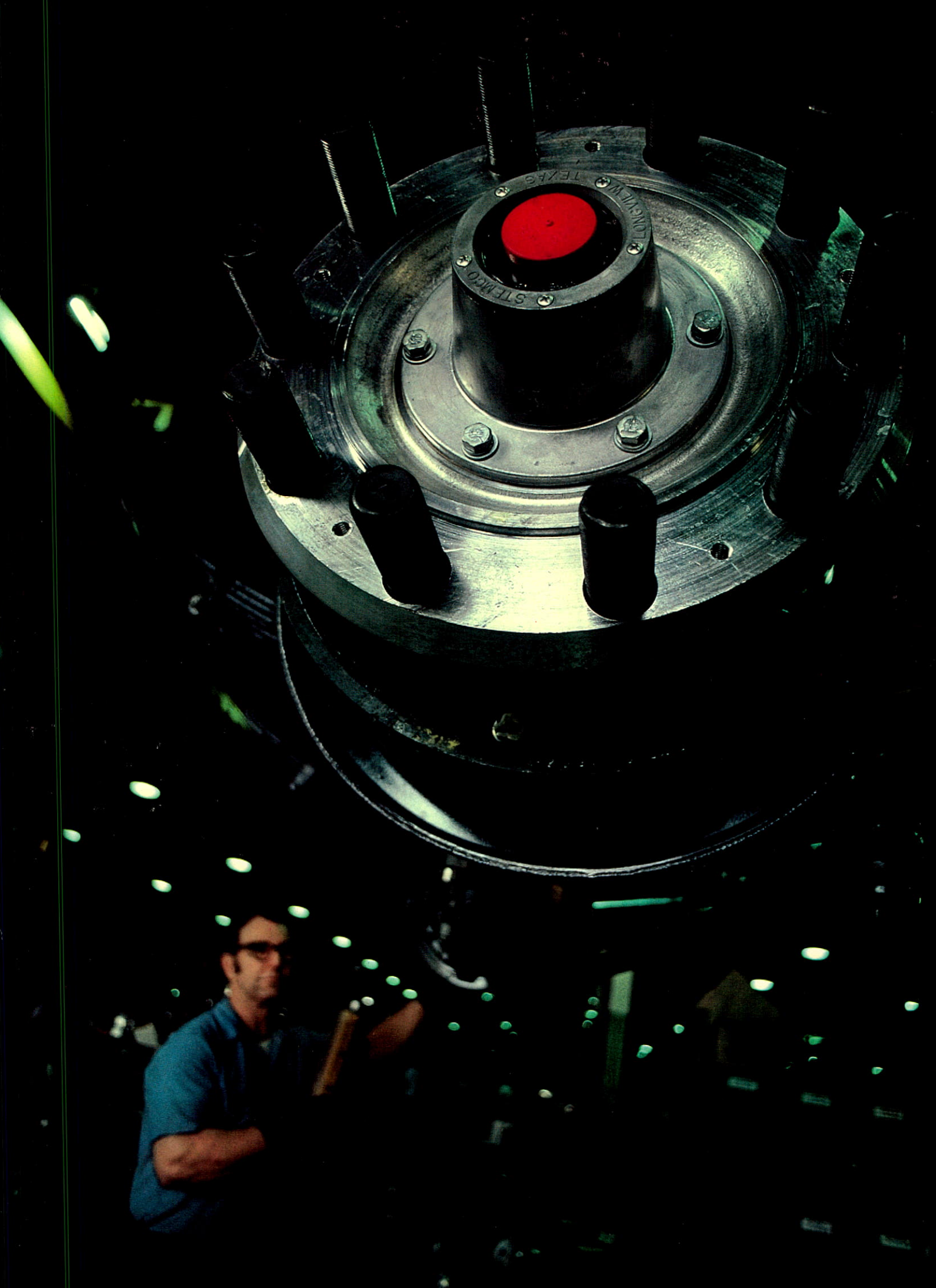
Right: Stainless steel compressor valves produced by France Compressor Products Division are used both as original equipment and as replacement parts. Each valve is thoroughly checked for dimensions and surface finish.



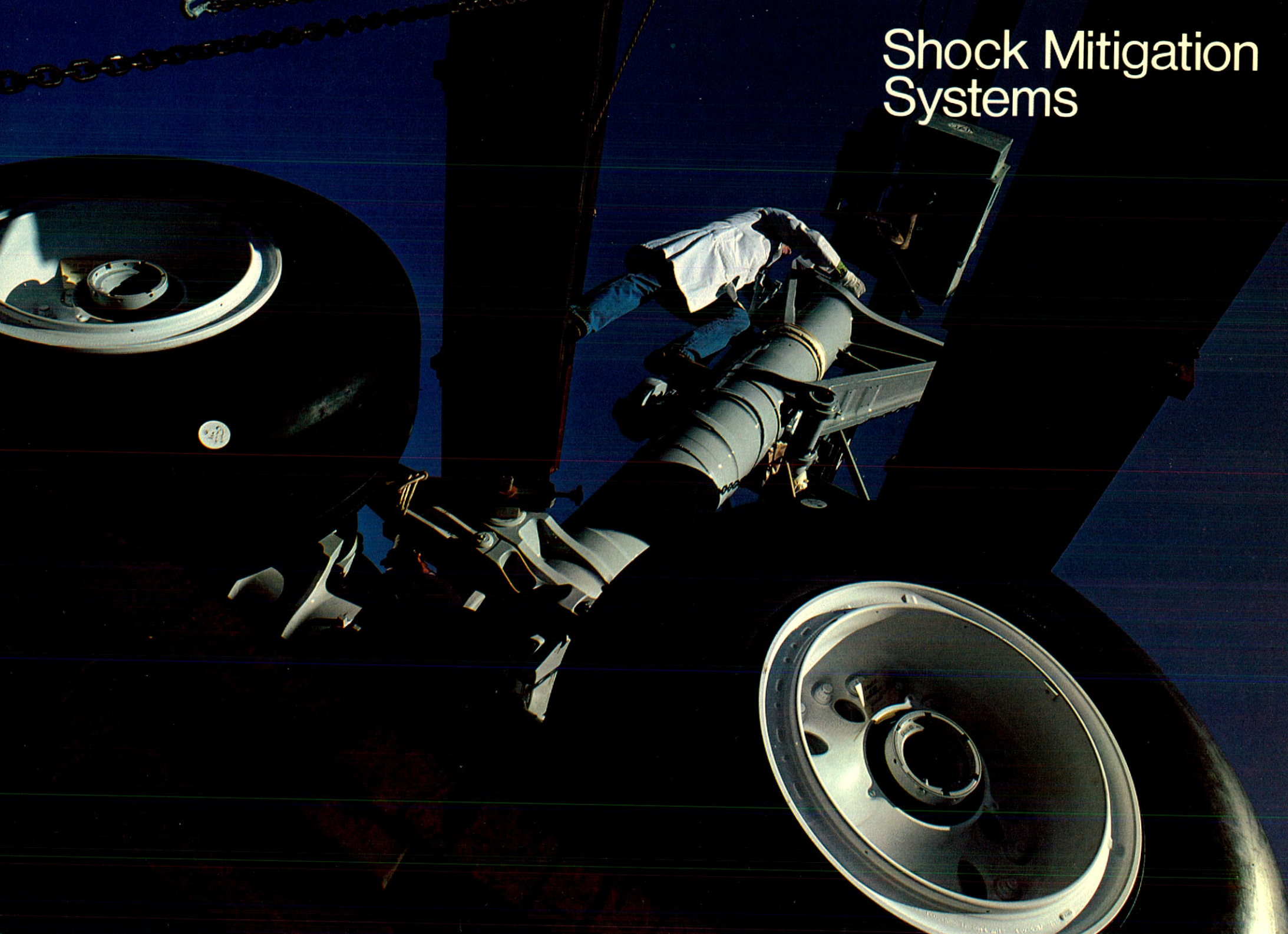
Lower Right: Turning and boring a bronze casting that will be sliced to make large segmental France® piston rings used in industrial air and gas compressors.

Stemco Hub-Seal

Right: Stemco® Hub-Seal, with its familiar red filler-cap, is mounted on front axle assembly at Peterbilt Motors Company plant in Madison, Tennessee. Easy to check and refill, Stemco Hub-Seal wheel lubrication system allows wheel bearings to bathe continuously in oil, thus minimizing downtime for truck maintenance.


STEMCO
LONEVLW TEXAS

Shock Mitigation Systems



Shock Mitigation Systems contributed 10 percent of the company's operating income in 1980 and 7 percent of its total sales. Operating income for the segment was up 185 percent on a 37 percent increase in sales.

Operating income for the segment in 1980 is compared with 1979 income which was seriously affected by the extended strike at Menasco facilities in California.

The segment is made up of the Menasco California, Menasco Texas, and Menasco Overhaul Divisions and Menasco Canada Ltée.

Began Production of New Boeing 757 Gear

The Menasco California Division began production in 1980 of the main and nose landing gear assemblies for the new Boeing 757 passenger jetliner and delivered the first nose gear assembly for the Boeing 767 jetliner ahead of schedule.

The Menasco Texas Division continued production of follow-on orders for main and nose landing gear for the F-16 fighter aircraft and the Lockheed L-1011 commercial jetliner.

The Menasco Overhaul Division achieved in 1980 the highest sales in its history and increased its share of both U. S. and overseas landing gear overhaul markets.

Substantial Growth for Menasco Canada

Menasco Canada achieved substantial growth in 1980 with strong follow-on orders for Boeing 737 landing gear, a new order for components of the Boeing 757 main landing gear, and demand for gear for commuter aircraft.

L-1011 Landing Gear

Left: Main landing gear assembly for the Lockheed L-1011 TriStar commercial jetliner is loaded on a delivery rig at the Menasco Texas Division. The division also manufactures the nose gear assembly for the Lockheed L-1011, a wide-bodied aircraft capable of carrying up to 400 persons.

Boeing 757 Gear

Above: Quality control technician uses micrometer to check surface of outer cylinder for Boeing 757 main landing gear assembly. Menasco California also produces nose landing gear for the 757 and 767 Boeing aircraft.

Commuter Aircraft

Below: Short Brothers SD3-30 commuter aircraft lands at Salisbury Regional Airport in Maryland following a flight from Washington, D.C. Main and nose landing gear assemblies for this European-made aircraft are produced by Menasco Canada Ltée.

Financial Review

Selected Financial Data

(In thousands of dollars, except per share data)

	1980	1979	1978	1977	1976
Sales	$2,165,602	$2,140,515	$1,807,882	$1,525,484	$1,345,764
Net earnings	97,751	111,375	87,020	69,460	66,845
Earnings per common share:					
Including common equivalent share	7.38	8.40	6.66	5.40	5.24
Assuming full dilution	7.04	7.86	6.07	4.87	4.71
Common share dividends:					
Total paid	37,562	32,182	25,492	19,516	15,000
Per share rate	2.90	2.50	2.03⅓	1.70⅝	1.50
Working capital	540,072	518,648	503,441	473,118	392,573
Current ratio	2.40	2.55	2.51	3.01	2.77
Total assets	1,438,153	1,301,619	1,263,813	1,112,237	1,004,804
Long-term debt	284,114	264,450	294,296	301,326	274,685
Long-term debt to total capitalization	29.5%	29.8%	34.3%	37.4%	37.7%
Shareholders' equity	677,636	621,592	563,541	503,597	453,017
Return on average shareholders' equity	15.0%	18.8%	16.3%	14.5%	15.6%
Book value per common share	49.48	44.95	38.96	33.83	30.21
Capital expenditures	108,413	65,713	55,981	46,131	44,547
Depreciation and amortization	57,851	47,876	44,192	37,051	35,309
Order backlog	895,784	917,998	791,708	613,341	507,653
Number of employees	31,300	32,100	33,100	30,800	28,400

Results of Operations

Sales and Earnings

Sales were at a record level in 1980; and pre-tax earnings, net earnings, and earnings per share were the second highest of any year in the history of the company. Sales in 1980 were $2,166 million compared with $2,141 million in 1979. Net earnings for the year were $97.8 million, equal to $7.38 a common share. This compares with net earnings in 1979 of $111.4 million or $8.40 per share. Three of the company's five industry segments showed improvements in both sales and earnings in 1980 over 1979. They were the Industrial and Power Equipment, Industrial Seals and Components, and Shock Mitigation Systems segments. The Fluid Control Systems and Materials segments were affected in 1980 by the downturn in the automotive industry and the general recession.

The company's 1980 performance was achieved despite the continuing effects of the recession on the U.S. economy. The marginal improvement in sales was the result of inflation and increased demand in certain product lines which more than offset the decline in unit volume due to the low level of demand for such product lines as Crucible alloy and stainless steels, Holley carburetors, and Central Moloney transformers. The decline in 1980 net earnings from the record level of 1979 was due to the downturns in the automotive, housing, and capital goods markets that began in the fourth quarter of 1979 and continued in 1980. These downturns have principally affected the operating results of the Crucible Alloy, Crucible Stainless Steel, Holley Carburetor, Holley Replacement Parts, Holley Special Products, Central Moloney Transformer, Quincy Compressor, Fairbanks Weighing, and Garlock Oil Seal Divisions. In 1980, the Crucible Alloy Division incurred an operating loss as a result of the economic downturn and the resulting low level of demand for its products. During the third quarter of 1980, the company temporarily reduced operations at its Crucible alloy and stainless steelmaking facility to balance production with order input. Strong performances were achieved in 1980 by Crucible Specialty Metals, Chandler Evans Control Systems, Pratt & Whitney Machine Tool, Elox, Colt Firearms, Garlock Mechanical Packing, and France Compressor Products Divisions and by the Menasco aircraft landing gear business.

Sales and earnings increases in 1979 over 1978 were the result of improved performances by all segments with the exception of Shock Mitigation Systems, which was adversely affected by a prolonged strike at the Burbank, California facilities of the company's Menasco Inc subsidiary.

The effective income tax rate was 42.0 percent in 1980 compared with 45.0 percent in 1979 and 46.5 percent in 1978. The lower 1980 rate is due principally to increased investment tax credits resulting from an increase in 1980 capital expenditures on lower operating income. The rate in 1979 was lower than in 1978 principally because of the reduction in the U.S. statutory rate. Reference is made to Note 2 of the Notes to Financial Statements on page 36 for additional tax information.

Costs and Expenses

Cost of sales increased 3 percent in 1980 and 19 percent in 1979. The increase in both years is related to the volume of business and to higher costs for wages and benefits, repairs and maintenance, energy, and purchased materials. The temporary reductions in operations at the Crucible alloy and stainless steelmaking facility and lower operating efficiencies and more stringent test requirements at the Holley Carburetor Division contributed to the 1980 increase. Depreciation and amortization expense increased $10.0 million in 1980 due to the company's increased capital expenditure program and to downward revisions of the estimated remaining useful lives of certain assets. Research and development costs increased 21 percent in 1980 due to the higher level of research and development activities and the inflationary effects on employment costs. Contributing factors to the 1979 cost of sales increase were the Menasco strike, start-up problems at the Holley Carburetor Division on 1980 model year automotive equipment, and flood damage at the Holley Nashville, Tennessee warehouse.

Selling and administrative expense increased 6 percent in 1980 and 7 percent in 1979. The 1980 increase was due mainly to inflationary effects on wages and benefits. The 1979 increase resulted primarily from increased volume of business, higher costs, and increased state and local income and franchise taxes due to higher earnings.

Interest expense declined 18 percent in 1980 compared with 1979 due to repayment of long-term debt, a reduction in commitment fees due to discontinuance in 1980 of revolving credit agreements for $150,000,000, and the adoption in 1980 of Financial Accounting Standards Board Statement No. 34. This statement requires that interest cost be capitalized during the construction of facilities and equipment. The 1980 increase in interest income was due to higher average cash balances and higher yields.

Segment Information

Colt Industries manufactures and sells a diversified line of industrial products in the United States and abroad. Company operations are reported in five industry segments. These segments are based on the industries, product lines, markets, and technical disciplines in which Colt Industries operates. Following are the products included in each industry segment:

Industrial and Power Equipment: fabricated metal products, primarily welded stainless steel pipe and tubing marketed under the Trent brand name; weighing systems; industrial diesel engines and accessories; compressors; machine tools and measuring equipment; electric distribution transformers; and firearms;

Fluid Control Systems: automotive carburetors and components, marketed under the Holley brand name; pumps; and aerospace fuel systems and controls;

Materials: Crucible specialty carbon and low-alloy steels; stainless and other special-purpose steels including high-speed, tool, die, valve, and other high-alloy steels; vacuum-melted steels, and titanium alloys;

Industrial Seals and Components: gaskets, packings, valves, and other devices to prevent leakage and seal out contaminants, primarily marketed under the Garlock brand name; Stemco wheel bearing lubrication systems and other truck products; France compressor products; and F. D. Farnam automotive and industrial gaskets;

Shock Mitigation Systems: Menasco aircraft landing gear assemblies and other shock mitigation systems and flight control systems.

The table below shows financial information attributable to the company's industry segments. Operating income by industry segment is determined exclusive of interest income, interest expense, general corporate expenses, and federal income taxes.

Sales and Operating Income by Industry Segment

(In millions of dollars)

	1980		1979		1978		1977		1976	
	Operating Income	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income	Sales
Industrial and Power Equipment	$ 88.6	$ 626	$ 77.3	$ 600	$ 55.2	$ 516	$ 48.2	$ 453	$ 48.8	$ 432
Fluid Control Systems	35.2	391	50.0	367	48.4	320	35.4	238	33.6	212
Materials	9.6	734	59.4	808	44.3	664	42.8	582	27.2	475
Industrial Seals and Components	44.0	307	40.0	303	31.9	250	25.3	206	21.9	181
Shock Mitigation Systems	19.1	145	6.7	106	14.2	92	11.0	77	11.1	79
Intersegment elimination	—	(37)	—	(43)	—	(34)	—	(31)	—	(33)
Total segments	196.5	2,166	233.4	2,141	194.0	1,808	162.7	1,525	142.6	1,346
Interest expense	(24.4)	—	(29.6)	—	(29.8)	—	(25.3)	—	(23.0)	—
Interest income	16.4	—	14.3	—	13.1	—	5.4	—	5.1	—
Corporate unallocated	(20.0)	—	(15.6)	—	(14.7)	—	(13.6)	—	(8.2)	—
Consolidated	$168.5	$2,166	$202.5	$2,141	$162.6	$1,808	$129.2	$1,525	$116.5	$1,346

The Industrial and Power Equipment segment reported operating income of $88.6 million in 1980 compared with $77.3 million in 1979 and $55.2 million in 1978. This segment continues to be the largest contributor to the company's total operating income, accounting for 45 percent, 33 percent, and 29 percent of total operating income for 1980, 1979, and 1978, respectively. In 1980, operating income for the Industrial and Power Equipment segment increased 15 percent.

Demand from metalworking industries for precision electrical discharge machining (EDM) equipment resulted in the Elox Division achieving in 1980 the highest sales and earnings level in its history. The Colt Firearms Division also recorded record sales and operating income in 1980 due primarily to an increase in export military sales of the M16 rifle to friendly governments authorized by the U.S. Departments of State and Defense. The Pratt & Whitney Machine Tool Division's improved performance in 1980 was due mainly to the strong demand for Fastcut cutting tools and the Wolverine line of profiling and contouring machines. Trent Tube Division's performance in 1980 benefited principally from the disposition in 1979 of its operation in The Netherlands. Earnings in 1980 were lower than in 1979 for the Fairbanks Weighing, Quincy Compressor, and Central Moloney Transformer Divisions due mainly to the recession.

In 1979, all divisions in this segment recorded improvements in both sales and earnings over 1978, except the Central Moloney Transformer Division. Particularly strong 1979 contributions were made by the Fairbanks Morse Engine, Pratt & Whitney Machine Tool, Trent Tube, Fairbanks Weighing, and Quincy Compressor Divisions.

Operating income in 1980 for the Fluid Control Systems segment was $35.2 million, or 18 percent of total operating income, compared with $50.0 million, or 22 percent, in 1979 and $48.4 million, or 25 percent, in 1978. This segment's 1980 performance reflects the continued downturn in the automotive industry which adversely affected the Holley divisions. The lower earnings in 1980 for Holley were due to the significant decline in demand for emissions control air injection pumps and for carburetor models used in larger cars, increased operating costs not fully recovered by sales price increases, and lower operating efficiencies resulting from start-up and tooling costs on 1981 model year automotive equipment and more stringent pollution and quality control requirements. The decline in Holley's 1980 earnings was offset in part by increased demand for carburetors for smaller, more fuel-efficient cars. The Chandler Evans Control Systems Division had a record year in 1980 with sales increasing by 27 percent and operating income by 29 percent over 1979. This improvement was due to strong demand for the division's products from the military and from the aerospace industry. The 1979 performance by the Fluid Control Systems segment reflected the adverse effect of the downturn in the automotive industry on the Holley Carburetor Division and flood damage at the Holley Nashville warehouse, offset by a strong performance by the Chandler Evans Control Systems Division.

Operating income for the Materials segment represented 5 percent of total operating income, or $9.6 million, for 1980, compared with 25 percent, or $59.4 million, in 1979 and 23 percent, or $44.3 million, in 1978. The 1980 decline in earnings resulted from the low level of demand for products of the Crucible Alloy and Crucible Stainless Steel Divisions and the inability of sales price increases to cover increased costs, particularly the costs of raw materials, labor, and energy. During the third quarter of 1980, operations were temporarily reduced at these divisions to balance production with order input. As a result of these factors, the Crucible Alloy Division incurred an operating loss in 1980. The earnings decline of the Materials segment was offset in part by inventory gains and a strong performance by the Crucible Specialty Metals Division. In 1980, the Crucible Specialty Metals Division achieved record levels in both sales and operating income.

The increase in operating income in 1979 over 1978 for the Materials segment was due to improved performances by the Crucible Specialty Metals and Crucible Stainless Steel Divisions. Earnings of the Crucible Alloy Division were adversely affected in 1979 by lower operating efficiencies, failure of the blast furnace at the Midland facility, and settlement costs of a pollution consent decree with respect to the Midland facility.

The Industrial Seals and Components segment had operating income of $44.0 million in 1980 compared with $40.0 million in 1979 and $31.9 million in 1978, representing 22 percent, 17 percent, and 16 percent, respectively, of the company's total operating income in those years. The 1980 improvement in earnings was due to strong performances, domestic and foreign, by the Garlock Mechanical Packing and France Compressor Products Divisions. The continued recession, particularly in the automotive and truck industry, had an adverse affect on the 1980 performance of the Stemco Truck Products, Garlock Oil Seal, and F. D. Farnam Divisions and on Woodville Polymer Engineering Ltd. in England. The 1979 improvements over 1978 were primarily the result of increased demand for products of the Garlock Mechanical Packing Division due in large part to a growing replacement-sealing market and for products of the Stemco Truck Products Division due mainly to increased market penetration and the general increase in the use of trucks for freight transportation.

Operating income for the Shock Mitigation Systems segment in 1980 was $19.1 million, or 10 percent of total operating income, compared with $6.7 million, or 3 percent, in 1979 and $14.2 million, or 7 percent, in 1978. Sales and operating income for this segment were at record levels in 1980 due principally to increased deliveries of landing gear assemblies for such commercial aircraft as the Lockheed L-1011, McDonnell Douglas DC-10, and Boeing 727 and 737; and such military aircraft as the Lockheed C-130 and General Dynamics F-16. Overhaul business was up sharply in 1980 due to increased size of airline fleets and increased market penetration. Even with the record levels in 1980, the Shock Mitigation Systems segment continued to feel the effects of the strike in 1979 at the Menasco California Division's facilities. The decline in 1979 earnings compared with 1978 was principally the result of the strike at the California facilities.

Sales by Class of Products

The following table sets forth information on each class of similar products which accounted for at least 10 percent of the company's sales during any of the last three fiscal years:

	Percentage of Sales		
	1980	1979	1978
Stainless Steel	14.1	18.1	16.8
Industrial Seals and Components	14.1	14.2	13.8
Specialty Carbon and Low-Alloy Steels	12.3	13.2	14.0
Carburetors and Components	11.2	10.7	11.2

Sales by Markets Served

For the year ended December 31, 1980

	Percentage of Sales		
	Original Equipment	Aftermarket	Total
Automotive and Truck Products	17	6	23
Industrial Machinery and Equipment Manufacturers	13	4	17
Metal Fabricators	14	2	16
Aerospace and Transportation Equipment	7	3	10
Government	8	2	10
Utilities and Communications	7	1	8
Chemical and Petroleum	4	3	7
All Other	7	2	9
% Totals	77	23	100

Quarterly Sales and Earnings

For the two years ended December 31, 1980

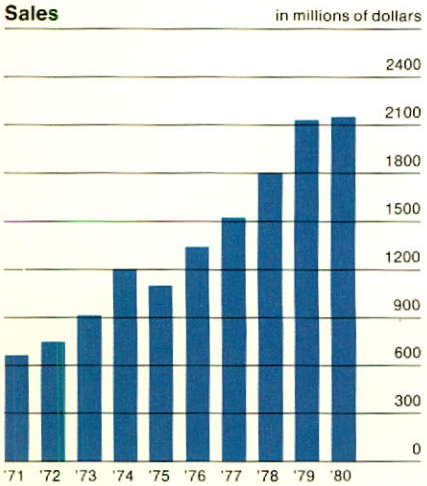
(In thousands of dollars, except per share data)

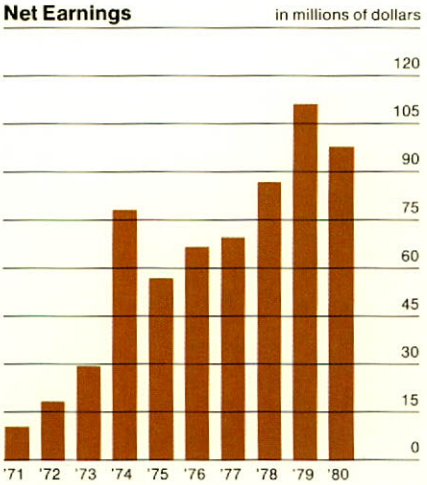
	Quarter			
	1st	2nd	3rd	4th
1980				
Net sales	$572,935	$562,728	$473,275	$556,664
Gross profit	105,380	108,799	73,704	94,743
Net earnings	28,320	29,303	13,123	27,005
Earnings per common share—				
Including common equivalent share	2.15	2.24	.97	2.02
Assuming full dilution	2.03	2.12	.94	1.95
1979				
Net sales	$545,991	$544,235	$512,176	$538,113
Gross profit	102,852	111,864	100,294	97,311
Net earnings	27,466	31,106	25,986	26,817
Earnings per common share—				
Including common equivalent share	2.06	2.33	1.96	2.04
Assuming full dilution	1.91	2.17	1.84	1.92

Financial Position

The company continues to maintain a strong financial position. Working capital was $540.1 million at year-end 1980, an increase of $21.5 million from the $518.6 million at the end of 1979. The cash flow from operations enabled the company to generate, mainly from internal operations, the funding of record capital expenditures of $108.4 million in 1980.

Cash and marketable securities increased $33.9 million in 1980 to $134.3 million, an increase of 34 percent. Receivables increased 5 percent from $282.5 million in 1979 to $297.0 million, primarily as a result of higher sales. Receivable days outstanding at December 31, 1980 improved to 51 days compared with 52 days at the end of 1979. Inventories increased 3 percent to $453.0 million, primarily due to inflation, offset by aggressive management of inventory. The inventory turnover improved to 3.37 times in 1980 compared with 3.35 times in 1979.





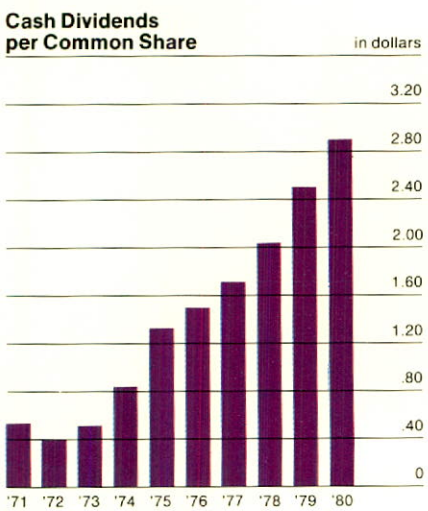
Notes payable to banks, related to foreign bank loans, were $17.2 million at December 31, 1980 compared with $15.8 million at December 31, 1979. The average interest rate on such borrowings was 15.1 percent during 1980 and 14.4 percent at year-end 1980. Current maturities of long-term debt at December 31, 1980 were $13.2 million compared with $16.2 million at year-end 1979, a decline of 19 percent. During the five years ended December 31, 1985, the company will repay $91.4 million of long-term debt, with a maximum annual payment during the period of $21.2 million. Long-term debt increased to $284.1 million in 1980 from $264.5 million in 1979. During 1980, $35 million of 9⅞% tax-exempt industrial development and pollution control bonds were issued. Interest only will be paid on these bonds until the year 2006, with principal to be repaid in the period from 2006 to 2010. At December 31, 1980, the company had unused lines of credit of $60 million as a source of ready financing for general corporate purposes. Also, under the most restrictive conditions contained in the company's loan agreements, additional long-term debt of approximately $242 million could be incurred. In 1980, the two major rating agencies gave the company's long-term debt an A rating in recognition of the company's strong financial position. Reference is made to Note 3 of the Notes to Financial Statements on page 37 for additional information on long-term debt.

At December 31, 1980, the ratio of long-term debt to total capitalization improved to 29.5 percent compared with 29.8 percent at December 31, 1979, despite the issuance of $35 million of tax-exempt bonds. Shareholders' equity reached $677.6 million at December 31, 1980 compared with $621.6 million at year-end 1979. Book value per common share advanced to $49.48, a 10 percent increase over 1979 and a 64 percent increase over the book value per common share at December 31, 1976.

Capital Expenditures

Expenditures for property, plant, and equipment in 1980 were at a record $108.4 million. In 1979, the company committed to a program of installing two 170-ton ultra-high-power electric arc furnaces at the Crucible alloy and stainless steelmaking facility. These furnaces, which will replace the coke ovens and blast furnaces, are scheduled for start-up in the first half of 1981 and are expected to result in environmental, product quality, and production benefits. Facilities were expanded by 11,000-sq.-ft. at the Menasco California Division Burbank plant in order to house two new six-spindle gantry profiling machines which will be used in the production of landing gears for the Boeing 767 and 757 aircraft. Menasco Texas Division has built a 24,000-sq.-ft. addition which will double the plating capacity and provide the quality improvements that are necessary to meet the ever increasing demands of the military and commercial aircraft market. The Quincy Compressor Division, which produces reciprocating and helical screw compressors used throughout American industry to supply air power, acquired in 1980 a 92,000-sq.-ft. manufacturing facility in Bay Minette, Alabama which will be used for the production of components for rotary screw compressors. Holley Carburetor Division completed construction of a carburetor assembly plant in Bowling Green, Kentucky. It has also expanded its Paris, Tennessee facility by 27,000-sq.-ft. to include a central test and development laboratory enabling the division to consolidate special audit testing previously performed at several locations. The Holley Special Products Division is meeting the expected increase in demand for its air pumps by increasing production capabilities at its Sallisaw, Oklahoma plant by almost 20 percent. Crucible Specialty Metals Division is continuing to invest in an ongoing modernization and environmental protection program in Syracuse, N.Y. The modifications are intended to reduce noise and improve workflow and ventilation in the labor-intensive conditioning department. In 1980, the Crucible Specialty Metals Division opened a new warehouse and sales office near Huntsville, Alabama to serve growing markets in the South. Garlock Mechanical Packing Division has ordered two additional sheeting calenders, expected to be in production in 1981, to produce non-asbestos compressed sheet.

The company's commitment to a program of selective modernization, cost reduction, and environmental control will continue in 1981 with capital expenditures expected to be well in excess of the depreciation provision. At December 31, 1980, firm commitments to contractors and suppliers in connection with capital expenditures approximated $33 million. It is expected that the funds required to fulfill these commitments will be generated from internal operations.



Other Financial Information

Order Backlog

At December 31, 1980, the order backlog was $895.8 million compared with $918.0 million at the end of 1979. The 1980 year-end backlogs for each of the company's industry segments were: Industrial and Power Equipment, $192.4 million; Fluid Control Systems, $177.9 million; Materials, $133.1 million; Industrial Seals and Components, $45.7 million; and Shock Mitigation Systems, $346.7 million. Of the December 31, 1980 backlog, approximately $273.2 million is scheduled to be shipped beyond 1981, and a portion of this backlog is subject to funding based upon Congressional budget authorizations. Total new orders received during 1980 were down 5 percent compared with 1979.

Impact of Inflation

The rate of inflation has had a significant impact on the U.S. economy and business in recent years. As a result, companies are now required to disclose the impact of inflation on operations. To combat the effects of inflation, Colt Industries has attempted over the years to adjust selling prices to maintain profit margins, improve productivity of plant and equipment, and reduce and control costs. In future periods, the amount of capital available for reinvestment in the company and for dividend distribution will be dependent in large measure on the impact of inflation on the economy and on the development of a national tax policy that recognizes this impact and provides for capital cost recovery required for reinvestment in new plant and equipment. Reference is made to Note 11 of the Notes to Financial Statements on page 40 for information on the effects of inflation on the company.

Dividends

Record dividends of $39.2 million were paid to the company's shareholders in 1980 and consisted of $37.6 million to common shareholders, up 17 percent compared with 1979, and $1.6 million to preferred shareholders compared with $2.2 million in 1979.

Quarterly cash dividends on the common stock were paid at the rate of 72½¢ per common share in each of the four quarters of 1980. In February, 1980, the Board of Directors increased the quarterly dividend rate from 62½¢ to 72½¢ per common share, resulting in an annualized rate of $2.90 in 1980 compared with $2.50 in 1979. The year 1980 was the eighth consecutive year in which the dividend rate on the common stock was increased. During the last five years, dividends paid to holders of the company's common stock have increased more than the general rate of inflation.

Quarterly dividends on the company's preferred stocks were paid during 1980 and 1979 at the respective annual amounts stated in the titles of such preferred stocks. The lower total amount paid in 1980 reflects the voluntary conversions to common stock by holders of preferred stock. The following tabulation sets forth, for each series of convertible preferred stock, the number of shares outstanding at December 31, 1980, the annual dividend rate per share, and the annual dividend rate per share if converted into common stock based on the current annual dividend rate of $2.90 per share of common stock:

Series	Shares Outstanding December 31,1980	Annual Dividend Rate Per Share	Dividend Rate Per Share If Converted Into Common Stock
A	135,412	$1.60	$ 2.32
B	10,808	4.50	22.05
D	218,449	4.25	6.28

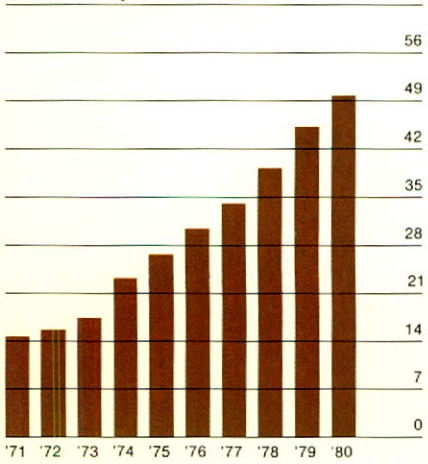
Distribution of Earnings Before Taxes

For the two years ended December 31, 1980

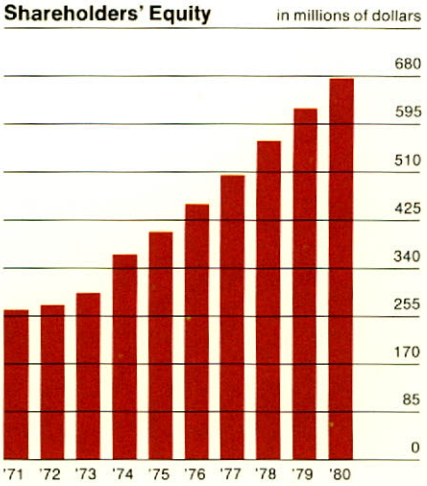
(In millions of dollars)

	1980		1979	
Dividends paid to shareholders	$ 39.2	16.6%	$ 34.4	12.7%
Taxes paid to federal, state, local, and foreign governments:				
U.S. federal income taxes	60.5		82.8	
State and local income and franchise taxes	13.0		16.4	
Payroll taxes	41.1		40.3	
Property taxes	7.7		7.1	
U.S. federal excise taxes	4.9		4.2	
Sales and use taxes	1.3		1.5	
Non-U.S. income taxes	10.3		8.3	
	138.8	58.7	160.6	59.0
Retained for reinvestment in the company	58.6	24.7	76.9	28.3
Total	$236.6	100.0%	$271.9	100.0%

Book Value per Common Share in dollars



Shareholders' Equity in millions of dollars



Market Price of Colt Industries Stock

The company's common stock; the $1.60 cumulative preferred stock, convertible Series A; and the $4.25 cumulative preferred stock, convertible Series D, are listed on the New York, Midwest, and Pacific Stock Exchanges. In addition, the common stock is listed on the London Stock Exchange. The following table sets forth the high and low market prices, as reported by the Composite Tape Association ticker, of the above-mentioned stock for each quarter during 1980 and 1979:

	1980		1979	
Common Stock	High	Low	High	Low
First Quarter	54	35¼	40	34
Second Quarter	44⅜	38⅛	43¼	37¾
Third Quarter	49	43¼	51½	41½
Fourth Quarter	51¾	43	49¾	41
$1.60 Cumulative Preferred Stock, Convertible Series A				
First Quarter	42¼	32¾	31½	27½
Second Quarter	34¼	30¼	34	29½
Third Quarter	37½	34	40	32¾
Fourth Quarter	40½	35	39	33½
$4.25 Cumulative Preferred Stock, Convertible Series D				
First Quarter	115	76½	86	75
Second Quarter	93¾	82¼	92	82¼
Third Quarter	102½	93¼	110¼	90
Fourth Quarter	110	95¼	105¼	91

To the best of the company's knowledge, there is no established trading market for its $4.50 cumulative preferred stock, convertible Series B; and $2.75 cumulative preferred stock, Series E.

Shareholder Information

At the end of 1980, there were 27,325 shareholders of record of the company's common stock and 7,138 shareholders of record of the four classes of preferred stock. At the end of 1979, there were 28,198 shareholders of record of common stock and 7,887 shareholders of record of preferred stock.

Including the 209,525 shares held in treasury in 1980 and 420,021 in 1979, there were 13,269,650 shares of common stock outstanding on December 31, 1980 compared with 13,209,875 at year-end 1979. On March 14, 1979, the Board of Directors authorized the purchase of up to 1,500,000 shares of the company's common stock in accordance with conditions set forth in an exemption that expires September 30, 1982, granted by the Securities and Exchange Commission pursuant to its Rule 10b-6 under the Securities Exchange Act of 1934. As of December 31, 1980, the company had purchased 638,500 shares.

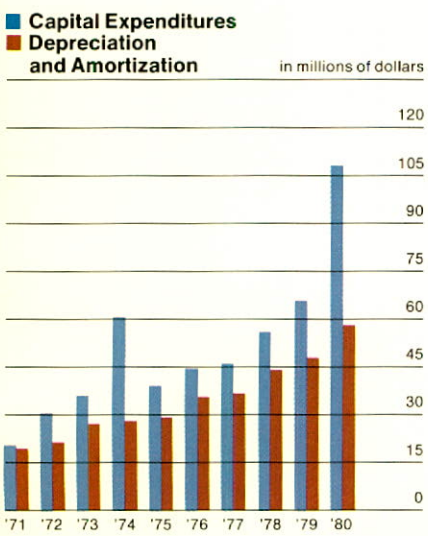
Dividend Reinvestment Program

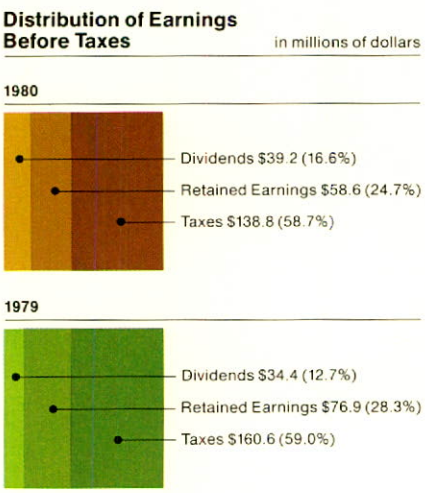
The company's common and preferred shareholders may participate in the Colt Industries Dividend Reinvestment Plan in which the company pays brokers' commissions and bank service fees on purchases of common stock. Participation in the plan is purely voluntary, and participants can withdraw at any time.

For more information about the expense-free voluntary Dividend Reinvestment Plan, or to participate in the plan, please write to Colt Industries Inc, Department SG, 430 Park Avenue, New York, N.Y. 10022.

Annual Report to the Securities and Exchange Commission on Form 10-K Available

The annual report on Form 10-K, without exhibits, will be made available free of charge to interested shareholders upon written request to the Corporate Secretary, Colt Industries Inc, 430 Park Avenue, New York, N.Y. 10022.





Consolidated Statement of Earnings

Colt Industries Inc and Subsidiaries

For the three years ended December 31, 1980

		(In thousands, except per share data)		
		1980	1979	1978
Revenue	Net sales	**$2,165,602**	$2,140,515	$1,807,882
Costs and Expenses	Cost of sales	**1,782,976**	1,728,194	1,446,844
	Selling and administrative	**206,159**	194,501	181,785
	Interest expense	**24,345**	29,620	29,804
	Interest income	**(16,414)**	(14,300)	(13,191)
	Total costs and expenses	**1,997,066**	1,938,015	1,645,242
Earnings	Earnings before income taxes	**168,536**	202,500	162,640
	Provision for income taxes (Note 2)	**70,785**	91,125	75,620
	Net earnings	**97,751**	111,375	87,020
	Dividends on preferred stock	**1,636**	2,255	3,282
	Net earnings applicable to common stock	**$ 96,115**	$ 109,120	$ 83,738
Earnings per Share Data	Earnings per common share including common equivalent share (Note 1)	**$7.38**	$8.40	$6.66
	Earnings per common share assuming full dilution (Note 1)	**$7.04**	$7.86	$6.07
	Average number of shares (Note 1)— Common and common equivalent basis	**13,021**	12,992	12,565
	Fully diluted basis	**13,859**	14,152	14,304
	Cash dividends per common share	**$2.90**	$2.50	$2.03⅓

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Balance Sheet

December 31

Assets		(In thousands) 1980	1979
Current Assets	Cash, including certificates of deposit of $48,763 and $44,693	**$ 52,570**	$ 45,383
	Marketable securities, at cost (approximates market)	**81,681**	55,023
	Accounts and notes receivable—		
	Trade	**295,396**	277,120
	Other	**9,847**	12,193
		305,243	289,313
	Less allowance for doubtful accounts	**8,238**	6,785
		297,005	282,528
	Inventories (Notes 1 and 11)—		
	Finished goods	**86,928**	89,863
	Work in process and finished parts	**255,857**	230,661
	Raw materials and supplies	**110,200**	120,140
		452,985	440,664
	Deferred income taxes (Note 2)	**29,430**	20,620
	Other current assets	**11,246**	9,964
	Total current assets	**924,917**	854,182
Property, Plant, and Equipment, at Cost (Notes 1, 3, 10, and 11)	Land and improvements	**26,004**	24,733
	Buildings and equipment	**159,446**	150,536
	Machinery and equipment	**705,317**	670,702
	Leasehold improvements	**9,183**	7,159
	Construction in progress	**76,042**	32,093
		975,992	885,223
	Less accumulated depreciation and amortization	**538,849**	494,568
		437,143	390,655
Other Assets	Funds held by trustee for capital projects	**19,958**	—
	Notes receivable from officers and employees	**7,174**	6,770
	Other assets (Note 1)	**48,961**	50,012
		$1,438,153	$1,301,619

Liabilities and Shareholders' Equity		(In thousands of dollars, except par values) 1980	1979
Current Liabilities	Notes payable to banks (Note 3)	**$ 17,196**	$ 15,763
	Current maturities of long-term debt (Note 3)	**13,231**	16,179
	Accounts payable	**172,036**	133,521
	Accrued expenses—		
	Salaries, wages, and employee benefits	**74,332**	64,742
	Taxes	**59,624**	60,778
	Interest	**4,985**	4,419
	Other	**43,441**	40,132
		182,382	170,071
	Total current liabilities	**384,845**	335,534
Noncurrent Liabilities	Long-term debt (Note 3)	**284,114**	264,450
	Deferred income taxes (Note 2)	**60,917**	52,034
	Minority interest in subsidiaries	**4,983**	4,269
	Other liabilities	**25,658**	23,740
	Commitments and contingencies (Note 10)		
Shareholders' Equity (Notes 3, 5, and 7)	Preferred stock— $1 par value, 2,077,189 and 2,246,023 shares authorized, 421,694 and 590,528 shares outstanding (involuntary liquidation value at December 31, 1980—$31,479)	**422**	590
	Common stock— $1 par value, 30,000,000 shares authorized, 13,269,650 and 13,209,875 shares issued	**13,270**	13,210
	Capital in excess of par value	**149,472**	160,700
	Retained earnings	**522,532**	463,979
		685,696	638,479
	Less cost of 209,525 and 420,021 shares of common stock in treasury	**8,060**	16,887
		677,636	621,592
		$1,438,153	$1,301,619

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Statement of Retained Earnings

Colt Industries Inc and Subsidiaries

For the three years ended December 31, 1980

		(In thousands)		
		1980	1979	1978
Retained Earnings	Balance, beginning of period	**$463,979**	$387,041	$333,225
	Net earnings for the period	**97,751**	111,375	87,020
	Dividends—			
	Preferred stock	**(1,636)**	(2,255)	(3,282)
	Common stock	**(37,562)**	(32,182)	(25,492)
	Three-for-two stock split in the form of a 50% stock dividend	**—**	—	(4,199)
	Cash paid in lieu of fractional shares on stock split	**—**	—	(231)
	Balance, end of period	**$522,532**	$463,979	$387,041

Consolidated Statement of Capital in Excess of Par Value

For the three years ended December 31, 1980

		(In thousands)		
		1980	1979	1978
Capital in Excess of Par Value	Balance, beginning of period	**$160,700**	$169,220	$167,605
	Conversion and retirements of preferred stock and exercise of options	**335**	1,982	1,615
	Excess of cost of treasury stock issued over proceeds from exercise of stock options and conversion of preferred stock	**(11,563)**	(10,502)	—
	Balance, end of period	**$149,472**	$160,700	$169,220

The accompanying notes to financial statements are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

Colt Industries Inc and Subsidiaries

For the three years ended December 31, 1980

		(In thousands)		
		1980	1979	1978
Source of Funds	Net earnings	**$ 97,751**	$111,375	$ 87,020
	Items not requiring use of working capital—			
	Depreciation and amortization	**57,851**	47,876	44,192
	Deferred income taxes	**73**	784	(4,141)
	Working capital provided from operations	**155,675**	160,035	127,071
	Long-term debt	**36,631**	8,251	24,847
		192,306	168,286	151,918
Application of Funds	Capital expenditures	**108,413**	65,713	55,981
	Decrease in long-term debt	**16,967**	30,797	41,359
	Dividends paid	**39,198**	34,437	28,774
	Purchase of treasury stock, net of stock options exercised	**2,630**	20,951	—
	Other—net	**3,674**	1,181	(4,519)
		170,882	153,079	121,595
Working Capital	Increase in working capital	**21,424**	15,207	30,323
	At beginning of year	**518,648**	503,441	473,118
	At end of year	**$540,072**	$518,648	$503,441

		Increase (decrease) in working capital		
		1980	1979	1978
Changes in Components of Working Capital	Cash, including certificates of deposit	**$ 7,187**	$ 12,945	$ (15,344)
	Marketable securities	**26,658**	(78,607)	76,483
	Accounts and notes receivable	**14,477**	37,654	29,310
	Inventories	**12,321**	42,694	33,022
	Deferred income taxes	**8,810**	2,859	1,246
	Other current assets	**1,282**	684	2,307
	Notes payable to banks	**(1,433)**	9,512	(7,057)
	Current maturities of long-term debt	**2,948**	3,819	(1,090)
	Accounts payable	**(38,515)**	(5,892)	(43,162)
	Accrued expenses	**(12,311)**	(10,461)	(45,392)
		$ 21,424	$ 15,207	$ 30,323

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

December 31, 1980

1. Summary of Accounting Policies

Principles of Consolidation—Investments in which the company's ownership of common voting stock is over 50 percent are consolidated in the financial statements except for a wholly-owned finance subsidiary which is accounted for on the equity basis. This finance subsidiary is not consolidated since its operations are not similar to the operations of the consolidated group. Investments in which the company has stock ownership of at least 20 percent but not over 50 percent are accounted for on the equity basis. Intercompany transactions are eliminated.

Foreign Currency Translation—The accounts of foreign subsidiaries are translated into U.S. dollars as follows: (a) inventories; property, plant, and equipment; investments; intangibles; deferred charges and credits; and shareholders' equity at historical rates; (b) all other assets and liabilities at year-end rates; (c) income and expenses at monthly weighted average rates, except depreciation and amortization which are translated at historical rates in effect at the time the related assets were acquired. Foreign exchange gains and losses are reflected in earnings currently, and for 1980, 1979, and 1978 such gains and losses were not significant in amount.

Inventories—Inventories are valued at the lower of cost or market, less reserves of $31,851,000 and $33,091,000 at December 31, 1980 and 1979, respectively, for potential losses from excess and slow-moving inventories. Cost elements included in inventory are material, labor, and factory overhead primarily using standard cost. Cost on approximately 41 percent of the domestic inventory is determined on the last-in, first-out basis. Cost on the remainder of the inventory is generally determined on the first-in, first-out basis. The excess of current cost over last-in, first-out cost at December 31, 1980 and 1979 was approximately $123,000,000 and $119,000,000, respectively.

Property and Depreciation—Depreciation and amortization of plant and equipment are provided generally by using the straight-line method, based on estimated useful lives of the assets which, in some instances, may be less than the lives allowed for tax purposes. For federal income tax purposes, most assets are depreciated using allowable accelerated methods and the Class Life Asset Depreciation Range System (ADR).

The ranges of estimated useful lives used in computing depreciation and amortization for financial reporting were as follows:

	Years
Land improvements	10-25
Buildings and equipment	10-50
Machinery and equipment	3-25
Leasehold improvements	Generally life of lease

The cost of special equipment and facilities purchased for specific contracts is amortized over a period not exceeding the lesser of the contract life or the estimated useful life of the asset.

Interest cost incurred during the period of construction of plant and equipment is capitalized as part of the cost of such plant and equipment.

Renewals and betterments are capitalized by additions to the related asset accounts, while repair and maintenance costs are charged against earnings. The company and its subsidiaries generally record retirements by removing the cost and accumulated depreciation from the asset and reserve accounts, reflecting any resulting gain or loss in earnings.

At December 31, 1980 and 1979, the company and certain of its subsidiaries had the following assets recorded under capital leases (in thousands):

	1980	1979
Land and improvements	$ 882	$ 683
Buildings and equipment	19,246	16,379
Machinery and equipment	27,683	26,383
Leasehold improvements	930	—
Construction in progress	4,964	—
	53,705	43,445
Less—Accumulated depreciation and amortization	20,050	24,986
	$33,655	$18,459

Start-up Costs—Start-up costs related to new operations and major facilities are expensed as incurred.

Revenue Recognition—Revenue on the majority of the company's products and services is recorded at the time deliveries or acceptances are made and the company has the contractual right to bill.

Excess of Cost over Net Tangible Assets—It is the company's policy to amortize the excess costs arising from acquisitions on a straight-line basis over periods not to exceed 40 years. At December 31, 1980, $25,878,000 remains to be amortized through 1998 and is included in Other Assets in the Consolidated Balance Sheet.

Earnings Per Share—Earnings per common share, including common equivalent share, are computed by dividing net earnings less dividends on preferred stock by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents are shares issuable on the exercise of stock options when dilutive, net of shares assumed to have been purchased with the proceeds.

Earnings per share, assuming full dilution, are computed as above with additional assumptions that all the dilutive convertible securities were converted and related dividends were eliminated.

2. Income Taxes

The domestic and foreign components of earnings before income taxes are as follows:

	(In thousands)		
	1980	1979	1978
Domestic	$146,423	$190,878	$158,339
Foreign	22,113	11,622	4,301
Total	$168,536	$202,500	$162,640

The provision for income taxes is as follows:

	(In thousands)		
	1980	1979	1978
Current—			
Domestic	$62,156	$81,660	$76,238
Foreign	8,556	8,681	3,523
	70,712	90,341	79,761
Deferred—			
Domestic	(1,661)	1,194	(5,424)
Foreign	1,734	(410)	1,283
	73	784	(4,141)
Total	$70,785	$91,125	$75,620

Deferred income taxes result principally from timing differences in the recognition of revenue and expense for tax and financial reporting. Significant items were as follows:

	(In thousands)		
	1980	1979	1978
Depreciation	$ 800	$ 1,541	$ 1,897
Employee benefits	(7,209)	7,199	1,426
Long-term program contracts	9,890	—	—
Other (not individually significant)	(3,408)	(7,956)	(7,464)
Total	$ 73	$ 784	$(4,141)

Following is a reconciliation of tax at the U.S. statutory income rate to the provision for income taxes:

	(In thousands)		
	1980	1979	1978
Tax at U.S. statutory income rate	$77,527	$93,150	$78,067
Investment tax credit	(8,000)	(5,100)	(4,500)
Foreign losses with no tax benefit, DISC, capital gains, etc.	1,258	3,075	2,053
Provision for income taxes	$70,785	$91,125	$75,620
Effective tax rate	42.0%	45.0%	46.5%

3. Long-Term Debt

	(In thousands)	
	1980	1979
Colt Industries Inc (a)—		
9¾% senior promissory notes due 1982-1996	$115,000	$115,000
8½% senior promissory notes due 1981-1992	39,998	43,332
6% notes repaid in 1980	—	2,000
7% pollution control bonds due 1998-2008	11,975	11,975
Capital lease obligations 4.3%-11.5% 1981-2010 (c)	50,084	16,524
	217,057	188,831
Subsidiaries—(*indicates average interest rates for 1980)		
First mortgage sinking fund bonds 5.3%-6⅞% due serially 1981-1992 (b)	38,745	44,403
8⅞% notes payable to insurance company in installments to 1990	19,000	21,000
Notes due 1981-1990—9.5%*	9,782	11,302
Capital lease obligations 4.6%-12% due 1981-2070 (c)	7,091	8,219
Other long-term debt due 1981-1992—8.7%*	5,670	6,874
	297,345	280,629
Less—Amounts due within one year	13,231	16,179
	$284,114	$264,450

a) The company's loan agreements include various covenants that require maintenance of working capital and limit the payment of dividends. Under the most restrictive of these covenants at December 31, 1980, working capital was $263,368,000 in excess of minimum requirements, and retained earnings available for dividends were $252,049,000. The company is in compliance with all covenants under its loan agreements.

b) At December 31, 1980, $38,745,000 of first mortgage bonds outstanding were secured by approximately $212,000,000 of assets, principally property, plant, and equipment.

c) The amounts payable under capital lease obligations are as follows (in thousands):

1981	$ 7,236
1982	6,267
1983	6,148
1984	6,048
1985	6,023
Remainder	159,934
Total minimum lease payments	191,656
Less—Amount representing interest	134,481
Present value of net minimum lease payments, included in long-term debt	$ 57,175

d) Minimum payments on long-term debt, including capital lease obligations, due within five years from December 31, 1980 are as follows (in thousands):

1981	$13,231
1982	19,576
1983	19,294
1984	21,168
1985	18,135

e) At December 31, 1980, the company had unused lines of credit aggregating $60,000,000 for short-term bank borrowings. The company has understandings with the banks regarding compensating balances for these unused lines of credit, but the aggregate amount of such compensating balances was not material at December 31, 1980.

4. Finance Subsidiary

The condensed balance sheets at December 31, 1980 and 1979 are shown below for the company's unconsolidated finance subsidiary, Colt Industries Credit Corporation:

	(In thousands)	
	1980	1979
Finance receivables	$22,900	$20,207
Other assets	380	743
	$23,280	$20,950
Notes payable	$16,050	$14,400
Other liabilities	1,116	708
Shareholder's equity	6,114	5,842
	$23,280	$20,950

Colt Industries Credit Corporation's note agreements with lenders provide that debt may not exceed 400 percent of net worth.

5. Capital Stock

Changes in capital stock are shown below for 1978, 1979, and 1980:

	Preferred Stock $1 Par Value	Common Stock $1 Par Value	Treasury Stock Shares	Treasury Stock Cost
Balance at January 1, 1978	$1,204,981	$ 8,106,164	(116,350)	$(6,544,000)
Conversion of preferred stock and exercise of options	(421,575)	735,783	—	—
Stock issued under three-for-two stock split	—	4,198,955	(58,175)	—
Balance at December 31, 1978	783,406	13,040,902	(174,525)	(6,544,000)
Purchase of treasury stock	—	—	(541,500)	(22,624,000)
Conversion and retirements of preferred stock and exercise of options	(192,878)	168,973	296,004	12,281,000
Balance at December 31, 1979	590,528	13,209,875	(420,021)	(16,887,000)
Purchase of treasury stock	—	—	(97,000)	(3,727,000)
Conversion and retirements of preferred stock and exercise of options	(168,834)	59,775	307,496	12,554,000
Balance at December 31, 1980	$ 421,694	$13,269,650	(209,525)	$(8,060,000)

The authorized preferred stock is issuable in series. Outstanding preferred stock has voting rights and is entitled to cumulative dividends. At December 31, 1980, the following series were outstanding:

	Annual Dividend Rate	Shares Outstanding	Involuntary Liquidation Value	Redemption Value Per Share
Convertible preferred				
Series A	$1.60	135,412	$ 5,417,000	$ 41.00
Series B	4.50	10,808	1,081,000	101.00
Series D	4.25	218,449	21,845,000	101.00
		364,669	28,343,000	
Non-convertible preferred				
Series E	2.75	57,025	3,136,000	55.00
		421,694	$31,479,000	

The payment of dividends on common stock is restricted if shareholders' equity of the company would thereby be reduced below the aggregate involuntary liquidation preference applicable to outstanding preferred stock ($31,479,000), plus the amount of capital attributable to common stock ($13,060,000). At December 31, 1980, shareholders' equity was $633,097,000 in excess of this requirement.

All series of preferred stock, except Series E, are convertible into common stock of the company: Series A at the rate of four shares of common stock for each five shares of preferred; Series B at the rate of 7.604 shares of common stock for each share of preferred; and Series D at the rate of 2.166 shares of common stock for each share of preferred; subject to certain specified adjustments.

At December 31, 1980, shares of common stock were reserved for the following purposes:

Conversion of preferred stock	663,763
Issuance under stock options	588,335

6. Pension and Retirement Plans

The company and certain of its subsidiaries have in effect, for substantially all employees, pension and retirement plans under which funds are deposited with trustees. As of the most recent benefit information date, January 1, 1980, the actuarially computed present value of accumulated vested benefits and nonvested benefits was $289,798,000 and $13,487,000, respectively, using a 10.4 percent interest factor. The plans' net assets available for benefits, valued at market, at January 1, 1980, were $261,868,000 resulting in unfunded vested benefits of $27,930,000.

Pension expense of $52,279,000, $47,680,000, and $41,389,000 was charged to earnings in 1980, 1979, and 1978, respectively, and is the maximum annual provision permitted by Opinion No. 8 of the Accounting Principles Board, including amortization of prior service cost at 10 percent per year.

7. Stock Option Plans

The company's shareholders approved the Colt Industries Stock Option Plan, as amended in 1968, to the extent of 525,000 common shares and the Colt Industries 1974 Stock Option Plan, as amended in 1977, to the extent of 825,000 common shares. They provide for the granting of qualified and non-qualified options to officers and key employees at a price not less than 100 percent of the market price on the date of grant. Under the 1968 plan, options are no longer granted and lapsed options accrue to the 1974 plan. Under the 1974 plan, options may be granted to September 11, 1983. Qualified options granted subsequent to May 20, 1976 and not exercised by May 20, 1981, pursuant to the Tax Reform Act of 1976, will be treated as non-qualified options. Options granted are exercisable in cumulative annual installments of from 20 to 33⅓ percent, commencing one year to three years from date of grant. Shares available for grant at December 31, 1980 and 1979 were 141,940 and 138,890, respectively.

Stock option transactions during 1980 were as follows:

	Number of Shares	Option Price Range Per Share
Outstanding at December 31, 1979	493,468	$ 9.29-$49.19
Granted	11,000	40.06- 53.38
Exercised	(44,023)	9.29- 36.75
Canceled	(14,050)	29.79- 37.92
Outstanding at December 31, 1980	446,395	9.46- 53.38
Exercisable at December 31, 1980	118,325	9.46- 47.19

No charges have been made to earnings for any year with respect to stock options.

8. Segment Information

The company's operations are conducted through divisions within five industry segments consisting of:

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

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

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

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

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

Information on the company's industry segments for the three years ended December 31, 1980 is as follows (in millions):

Industry Segments	Operating Income	Sales	Total Assets	Depreciation and Amortization	Capital Expenditures
1980					
Industrial and Power Equipment	$ 88.6	$ 626	$ 310	$ 7.7	$ 17.1
Fluid Control Systems	35.2	391	163	4.8	11.9
Materials	9.6	734	460	34.2	58.0
Industrial Seals and Components	44.0	307	223	8.7	9.7
Shock Mitigation Systems	19.1	145	128	2.4	11.5
Intersegment elimination	—	(37)	—	—	—
Total segments	196.5	2,166	1,284	57.8	108.2
Interest expense	(24.4)	—	—	—	—
Interest income	16.4	—	—	—	—
Corporate unallocated	(20.0)	—	154	.1	.2
Consolidated	$168.5	$2,166	$1,438	$57.9	$ 108.4
1979					
Industrial and Power Equipment	$ 77.3	$ 600	$ 294	$ 9.3	$ 12.2
Fluid Control Systems	50.0	367	145	3.7	15.8
Materials	59.4	808	434	24.3	22.3
Industrial Seals and Components	40.0	303	219	8.0	11.8
Shock Mitigation Systems	6.7	106	87	2.3	3.6
Intersegment elimination	—	(43)	—	—	—
Total segments	233.4	2,141	1,179	47.6	65.7
Interest expense	(29.6)	—	—	—	—
Interest income	14.3	—	—	—	—
Corporate unallocated	(15.6)	—	123	.3	—
Consolidated	$202.5	$2,141	$1,302	$47.9	$ 65.7
1978					
Industrial and Power Equipment	$ 55.2	$ 516	$ 318	$ 8.5	$ 16.3
Fluid Control Systems	48.4	320	116	6.4	6.1
Materials	44.3	664	395	20.3	20.0
Industrial Seals and Components	31.9	250	190	6.6	8.8
Shock Mitigation Systems	14.2	92	74	2.1	4.7
Intersegment elimination	—	(34)	—	—	—
Total segments	194.0	1,808	1,093	43.9	55.9
Interest expense	(29.8)	—	—	—	—
Interest income	13.1	—	—	—	—
Corporate unallocated	(14.7)	—	171	.3	.1
Consolidated	$162.6	$1,808	$1,264	$44.2	$ 56.0

Information on the company's operations by geographic segments for the three years ended December 31, 1980 is as follows (in millions):

Geographic Segments	Operating Income	Sales	Total Assets
1980			
Domestic Operations	$168.4	$2,001	$1,227
Foreign Operations	28.1	191	132
Intersegment elimination	—	(26)	(75)
Total segments	196.5	2,166	1,284
Interest expense	(24.4)	—	—
Interest income	16.4	—	—
Corporate unallocated	(20.0)	—	154
Consolidated	$168.5	$2,166	$1,438
1979			
Domestic Operations	$220.3	$1,984	$1,110
Foreign Operations	13.1	182	130
Intersegment elimination	—	(25)	(61)
Total segments	233.4	2,141	1,179
Interest expense	(29.6)	—	—
Interest income	14.3	—	—
Corporate unallocated	(15.6)	—	123
Consolidated	$202.5	$2,141	$1,302
1978			
Domestic Operations	$187.0	$1,664	$1,018
Foreign Operations	7.0	164	139
Intersegment elimination	—	(20)	(64)
Total segments	194.0	1,808	1,093
Interest expense	(29.8)	—	—
Interest income	13.1	—	—
Corporate unallocated	(14.7)	—	171
Consolidated	$162.6	$1,808	$1,264

9. Supplementary Earnings Information

	(In thousands)		
	1980	1979	1978
Maintenance	$108,255	$107,132	$89,158
Depreciation and amortization	57,851	47,876	44,192
Taxes, other than federal income taxes—			
Payroll	41,171	40,324	36,005
Property	7,691	7,132	7,449
State and local	14,270	17,906	14,610
Other	4,882	4,144	3,986
	68,014	69,506	62,050
Rent	19,069	17,868	17,869
Rental income	(5,166)	(4,277)	(4,159)
	13,903	13,591	13,710
Research and development costs	25,123	20,766	18,835

10. Commitments and Contingencies

The company and certain of its subsidiaries are contingently liable as guarantors of certain leases and are defendants in various lawsuits, including actions involving asbestos-containing products. In the opinion of management, these contingent liabilities are not significant in relation to the financial position of the company and its subsidiaries.

The company and certain of its subsidiaries are obligated under operating lease commitments, expiring on various dates after December 31, 1981, to pay rentals totaling $56,695,000, as follows: $7,594,000 in 1981, $6,276,000 in 1982, $4,872,000 in 1983, $3,971,000 in 1984, $3,174,000 in

1985, and $30,808,000 in later years. These rent payments are before reduction for related sublease rental income of $16,249,000.

The total amount of firm commitments to contractors and suppliers in connection with capital expenditures approximated $33,000,000 on December 31, 1980.

11. Supplementary Information on Changing Prices (Unaudited)

In compliance with the Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," management has estimated the impact of inflation on the company's operations for the year ended December 31, 1980.

The objective of the FASB rule is to measure the estimated effects of inflation on business enterprises, inasmuch as it is generally recognized that financial statements prepared under the traditional historical cost basis do not adequately reflect the impact of inflation.

The reader is cautioned that the financial information presented below is determined in accordance with the experimental techniques set forth in the FASB rule. The information does not reflect all of the effects of inflation and other economic factors on the company's current costs of operating the business. In addition, the information required by the FASB rule does not recognize the customary business relationships between cost changes and changes in selling prices. The company has attempted over the years to adjust selling prices to maintain profit margins. Competitive conditions permitting, the company modifies its selling prices to recognize cost changes as incurred. Accordingly, it is management's view that the data presented below cannot be used alone to estimate the total effect of inflation on net earnings as reported.

The FASB rule requires that the effects of inflation on the company be measured under two methods, both of which involve the use of assumptions and estimates. Therefore, the resulting measurements should be viewed in that context and not as precise indicators of all of the effects of inflation. The first method provides data adjusted for general inflation using the Consumer Price Index for all Urban Consumers (CPI-U) as the measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars). The second method of measurement adjusts for changes in specific prices (current cost) related to individual assets and expenses. The objective of this method is to reflect the effects of changes in specific prices of the resources actually used in the company's operations.

The effects of inflation under the constant dollar method were determined by adjusting the historical cost of inventories; property, plant, and equipment; cost of sales; and depreciation expense to average 1980 dollars by use of the CPI-U. With respect to the current cost method, inventories were estimated based on quantities on hand at the end of 1980 and costs in effect during the fourth quarter of 1980. Cost of sales, on a current cost basis, was estimated by taking into account the approximate time lag between incurring costs and their subsequent conversion into sales revenue. The current cost of property, plant, and equipment was estimated by adjusting historical cost by externally generated industrial price indices relevant to the plant and equipment of the company. Depreciation expense, on a current cost basis, was computed by adjusting historical cost depreciation by the same indices used to develop the estimated current cost of property, plant, and equipment.

Following is the statement of earnings and shareholders' equity adjusted for changing prices for the year ended December 31, 1980 (in thousands of dollars, except per share data):

	As Reported in the Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales	$2,165,602	$2,165,602	$2,165,602
Costs and expenses—			
Cost of sales	1,727,850	1,736,819	1,735,671
Selling and administrative	203,434	203,434	203,434
Depreciation and amortization	57,851	80,234	80,942
Interest—net	7,931	7,931	7,931
Total costs and expenses	1,997,066	2,028,418	2,027,978
Earnings before income taxes	168,536	137,184	137,624
Provision for income taxes	70,785	70,785	70,785
Effective tax rate	42.0%	51.6%	51.4%
Net earnings	$ 97,751	$ 66,399	$ 66,839
Earnings per common share including common equivalent share	$ 7.38	$ 4.97	$ 5.01
Shareholders' equity at December 31, 1979	$ 621,592	$ 950,305	$ 957,569
Net earnings (as reported above)	97,751	66,399	66,839
Gain from decline in purchasing power of net amounts owed	—	25,773	25,773
Excess of increase in general inflation ($124,825) over increase in current cost ($100,071)	—	—	(24,754)
Dividends and other changes in shareholders' equity	(41,707)	(41,707)	(41,707)
Shareholders' equity at December 31, 1980	$ 677,636	$1,000,770	$ 983,720

At December 31, 1980, current cost of inventories and net property, plant, and equipment was $598,381,000 and $639,131,000, respectively. This compares with historical cost of inventories and net property, plant, and equipment at year-end of $452,985,000 and $437,143,000, respectively.

The decline in earnings before income taxes under the constant dollar and current cost methods is primarily the result of increased depreciation expense, reflecting the higher values for property, plant, and equipment. The FASB rule does not, however, permit the offset of higher costs by any tax benefit since such additional costs are not tax deductible. As a result, the effective tax rate for 1980 in-

creases from 42.0 percent on a historical cost basis to 51.6 percent on a constant dollar basis and to 51.4 percent on a current cost basis. The gain from the decline in purchasing power of net amounts owed was determined by restating, in average 1980 dollars, the monetary assets held and liabilities owed during the year. Monetary assets and liabilities are items that are or will be converted into a fixed number of dollars regardless of changes in prices, such as cash, receivables, payables, and debt. Since the company held net monetary liabilities during 1980, a period in which the purchasing power of the dollar declined, a gain was recognized under the requirements of this FASB rule. Since this gain does not represent a receipt of cash, it should not be considered as providing funds for reinvestment or dividend distribution. During 1980, the specific prices of the company's inventories and property, plant, and equipment increased at a rate approximately 20 percent less than the general inflation rate.

The previously stated increases in the effective tax rate emphasize the need to reconsider national tax policies in order to give recognition to the reality of inflation which has adverse effects on a company's ability to retain earnings to meet the escalating costs of replacing and expanding its productive capacity.

Following are supplementary financial data for the five years ended December 31, 1980 (in millions of dollars, except per share data):

	1980	1979	1978	1977	1976
Net sales	$2,165.6	$2,140.5	$1,807.9	$1,525.5	$1,345.8
Constant dollars information					
Net sales	2,165.6	2,429.9	2,283.5	2,074.4	1,948.0
Net earnings	66.4	100.7			
Earnings per common share	4.97	7.56			
Shareholders' equity at year-end	1,000.8	950.3			
Current cost information					
Net earnings	66.8	99.1			
Earnings per common share	5.01	7.44			
Shareholders' equity at year-end	983.7	957.6			
Excess of increase in general inflation over increase in current cost	(24.8)	(33.6)			
Other information					
Gain from decline in purchasing power of net amounts owed	25.8	30.2			
Cash dividends per common share	2.90	2.84	2.57	2.32	2.17
Market price per common share at year-end	43⅛	47	44¼	42⅜	51¼
Average consumer price index	246.8	217.4	195.4	181.5	170.5

The five-year supplementary financial data show the effect of adjusting selected historical and current cost data for 1980 and 1979 to average 1980 dollars, as measured by the CPI-U. In addition, sales, cash dividends, and market prices per common share for the years 1976 through 1980 have also been restated to average 1980 dollars. During the last five years, dividends paid to holders of the company's common stock have increased more than the general rate of inflation. The constant dollar and current cost amounts for shareholders' equity were determined by adjusting shareholders' equity, as reported in the financial statements, for the difference between historical cost and the restated costs of monetary assets and liabilities; inventories; and property, plant, and equipment.

Auditors' Report

To the Board of Directors and Shareholders of
Colt Industries Inc:

We have examined the consolidated balance sheet of Colt Industries Inc (a Pennsylvania corporation) and subsidiaries as of December 31, 1980 and 1979, and the related consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Colt Industries Inc and subsidiaries as of December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

New York, N.Y.,
January 29, 1981.

Directory of Operations

Industrial and Power Equipment

Fairbanks Morse Engine Division
701 Lawton Avenue
Beloit, Wisconsin 53511
608/364-4411

Diesel engine generator systems for standby, peaking, and continuous service/Diesel engines for industrial drives/Marine diesel propulsion systems and generator systems.

Central Moloney Transformer Division
2400 West Sixth Avenue
Pine Bluff, Arkansas 71601
501/534-5332

Pole-, pad-mounted and underground distribution transformers/Transformer components.

Pratt & Whitney Machine Tool Division
Charter Oak Boulevard
West Hartford,
Connecticut 06101
203/236-6221

Numerically controlled machining centers/NC lathes/NC and tracer milling machines/Electronic measuring systems/Sterling thread-rolling dies/Haber cold-heading tools/Fastcut cutting tools.

Elox Division
P.O. Box 2227
Davidson,
North Carolina 28036
704/892-8011

Electrical discharge machining equipment including conventional vertical, traveling wire, and grinding machines.

Fairbanks Weighing Division
711 East St. Johnsbury Road
St. Johnsbury, Vermont 05819
802/748-5111

Bench and portable floor scales/Warehouse, hopper, and conveyor scales/Portable and stationary truck scales/Static and in-motion railroad scales/Mechanical and electronic indicators.

Quincy Compressor Division
217 Maine Street
Quincy, Illinois 62301
217/222-7700

Unit, tank, and skid-mounted reciprocating compressors/Stationary and portable helical screw compressors.

Trent Tube Division
2188 Church Street
East Troy, Wisconsin 53120
414/642-7321

Welded stainless steel, titanium, and other high-alloy tubing to 150-foot lengths for electric utility condensers and feed-water heaters/Nuclear, liquefied natural gas, and special alloy tubing/Stainless and high-alloy pipe and tubing for processing, aerospace, pulp and paper, cryogenic, and instrumentation applications.

Crucible Magnetics Division
RFD 2
Elizabethtown, Kentucky 42701
502/769-1333

Cast alnico, Ferrimag ceramic, and Crucore rare earth-cobalt permanent magnets.

Crucible Spring Division
1 McCandless Avenue
Pittsburgh, Pennsylvania 15201
412/782-7300

Hot-wound heavy-duty coil springs for railroad car and other industrial applications.

Colt Firearms Division
150 Huyshope Avenue
Hartford, Connecticut 06102
203/278-8550

Hunting rifles/Sporting, target, custom, and commemorative arms and accessories/Police, security, and military handguns/M16 military rifles/Grenade launchers.

Fluid Control Systems

Holley Carburetor Division
11955 East Nine Mile Road
Warren, Michigan 48090
313/497-4000

Design, manufacture, and sale of OEM car and truck carburetors/Development of non-carburetor automotive fuel management systems.

Holley Replacement Parts Division
11955 East Nine Mile Road
Warren, Michigan 48090
313/497-4000

Engineering, distribution, and sale of Holley products for the automotive aftermarket.

Holley Special Products Division
11955 East Nine Mile Road
Warren, Michigan 48090
313/497-4000

Emissions control air injection pumps, controls, and other non-fuel system products.

Chandler Evans Control Systems Division
Charter Oak Boulevard
West Hartford,
Connecticut 06101
203/236-0651

Fuel pumps, fuel controls, and other gas turbine engine accessories and components/Aircraft and airframe valves/Missile flight control systems, valves, and actuators.

Fairbanks Morse Pump Division
3601 Fairbanks Avenue
Kansas City, Kansas 66110
913/371-5000

Centrifugal, turbine, and axial-flow pumps for pollution control, fire protection, water supply, irrigation, drainage, and industrial applications.

Materials

Crucible Stainless and Alloy Division
P.O. Box 226
Midland, Pennsylvania 15059
412/643-1100

Stainless steel sheet, strip, and plate products/Alloy and special quality carbon steel ingots, blooms, billets, and bars/Vacuum arc remelted alloys/Stainless forging blooms, billets, and reforging bars/Discs and colters for agriculture/Other flat-rolled special products.

Crucible Specialty Metals Division
P.O. Box 977
Syracuse, New York 13201
315/487-4111

Crucible particle metallurgy and conventional high-speed steel/Tool and die steels/Stainless free-machining bars and rods/High-temperature aerospace, nuclear, and chemical processing alloys/Valve steels/Commercially pure and alloyed titanium bars, rods, and wire.

Affirmative Action
In striving to develop and maintain an effective work force, the company provides employment, training, and advancement opportunities without regard to race, color, religion, sex, age, or national origin. The company's affirmative action program covers the employment of minorities, women, handicapped persons, and veterans of the Vietnam conflict.

Industrial Seals and Components

Garlock Mechanical Packing Division
1666 Division Street
Palmyra, New York 14522
315/597-4811

Molded and extruded rubber and urethane products/Seals/Gasketing/Expansion joints/Flexible couplings and flue duct connectors/Braided and other compression packings/Mechanical seals for pumps.

France Compressor Products Division
P.O. Box A
Newtown, Pennsylvania 18940
215/968-5959

Compressor and industrial engine components.

Stemco Truck Products Division
P.O. Box 1989
Longview, Texas 75601
214/758-9981

Wheel lubrication systems/Exhaust systems and leaf springs for heavy-duty trucks.

Garlock Oil Seal Division
P.O. Box 1767
Gastonia, North Carolina 28052
704/864-8352

Oil seals for automotive and other mechanical equipment/Spiral-wound gaskets/Automotive transmission kits.

Garlock Special Products Division
Suite 1250, Midtown Tower
Rochester, New York 14604
716/232-1400

Plastic-based bearings and bearing materials/TFE-coated butterfly valves and components/Ortman hydraulic and pneumatic cylinders.

F. D. Farnam Division
P.O. Box 327
Necedah, Wisconsin 64646
608/565-2241

Gaskets, gasket assemblies for automotive and industrial applications.

Shock Mitigation Systems

Menasco California Division
P.O. Box 7071
First and Cedar Streets
Burbank, California 91510
213/842-9111

Landing gear for military and commercial aircraft/Shock mitigation systems for missiles and other applications.

Menasco Texas Division
P.O. Box 7656
Fort Worth, Texas 76111
817/283-4471

Military and commercial aircraft landing gear/Hydraulic systems and weapons loading systems for submarines and destroyers/Helicopter components.

Menasco Overhaul Division
P.O. Box 7071
26 East Providencia Avenue
Burbank, California 91510
213/843-0611

Overhaul and repair of landing gear and related components and reconditioned spare parts for U.S. and foreign airlines and military services.

Colt Industries Credit Corporation
430 Park Avenue
New York, New York 10022
212/940-0503

Financing and leasing of income-producing equipment for customers of Colt Industries and for users of equipment of other manufacturers in the machine tool, construction, plastics, and other industries.

International Operations

Colt Canada Inc.
Case Postale 520
Sorel, Québec, Canada J3P 5P2
514/743-7931

Crucible tool and die steels and custom forgings/Fairbanks Morse diesel engine sales and service.

Facilities: Crucible Steel Division, Sorel, Québec; Fairbanks Morse Engine Division, Halifax, Nova Scotia, Vancouver, B.C., and Dorval, Québec.

Menasco Canada Ltée
3495 Cote Vertu
Montreal, Québec,
Canada H4R 1R3
514/332-3330

Landing gear and flight controls for military and commercial aircraft/Helicopter rotor components/Flight control overhaul service.

Garlock of Canada Ltd.
66 Jutland Road
Toronto, Ontario
Canada M8Z 2H3
416/255-9114

Molded and extruded rubber products/Braided packings/Compressor and industrial engine components/Wheel lubrication and truck exhaust systems for heavy-duty trucks.

Facilities: Garlock Mechanical Packing Division, Toronto, Ontario; France Compressor Products Division, Brantford, Ontario; Stemco Truck Products Division, Mississauga, Ontario.

Woodville Polymer Engineering Ltd.
Alton Lane, Ross-on-Wye
HR9 5NF Herefordshire
England

High-technology specialty molded rubber products.

Facilities: Ross-on-Wye Division, Ross-on-Wye, Herefordshire; Swadlincote Division, Burton-on-Trent, Staffordshire.

Crusteel Limited
Rutland Way
Sheffield S3 8DG
Yorkshire, England

Specialty steel and tubing distributors.

Garlock AG
Thurgauerstrasse 39
CH-8050 Zurich
Switzerland

Manufacture and distribution of Stemco truck products.

Chromex S.A.
2, rue Tirebarbe
91510 Lardy, France

Oil seals, valve seats, TFE piston rings, and other products for the automotive and other industries.

Liard S.A.
49, Route National
59570 Bavay, France

Compressor and industrial engine components.

Garlock GmbH
Postfach 300 450
Scheffelstrasse 73
4000 Düsseldorf 30
West Germany

Manufacture and distribution of Garlock products, Stemco truck products, and France compressor products.

Facilities: Garlock Valves & Industrial Plastics, Neuss; France Compressor Products Division, Gross Gerau; Garlock Mechanical Packing Division, Düsseldorf.

Garlock de Mexico, S.A.
Poniente 116, No. 571
Mexico 15, D.F.

Industrial packing and gasketing/Compressor components/TFE specialty products and molded rubber products.

Directors and Officers

Directors

Robert A. Alberty
Dean, Massachusetts
Institute of Technology
School of Science
Cambridge, Massachusetts

William D. Ford
Senior Vice President
Secretary and
General Counsel
Colt Industries Inc

George C. Lessner
Attorney
Manchester, Connecticut

Gerald J. Lynch
Vice President
Colt Industries Inc

David I. Margolis
President
Colt Industries Inc

A. J. McMullen
Chairman of the
Executive Committee
Garlock Inc
Rochester, New York

William H. Rea
Former Chairman
Tyrone Hydraulics Inc.
Pittsburgh, Pennsylvania

William S. Schwab
Attorney
Chicago, Illinois

Louis T. Seith
General, U.S. Air Force (Ret.)
Arlington, Virginia

George A. Strichman
Chairman of the Board and
Chief Executive Officer
Colt Industries Inc

Max E. Wildman
Partner
Wildman, Harrold, Allen &
Dixon, attorneys
Chicago, Illinois

Directors Emeritus
Alva W. Phelps
Retired
Kenilworth, Illinois

Matthew B. Ridgway
General, U.S. Army (Ret.)
Pittsburgh, Pennsylvania

Officers

George A. Strichman
Chairman of the Board and
Chief Executive Officer

David I. Margolis
President

Salvatore J. Cozzolino
Senior Vice President
Finance and Treasurer

William D. Ford
Senior Vice President
Secretary and
General Counsel

Andrew C. Hilton
Senior Vice President
Administration

Ben H. Cook
Group Vice President

Eugene A. March
Group Vice President

Guy C. Shafer
Group Vice President

Philip Wallach
Group Vice President

Phil Berkowitz
Vice President
Personnel

Robert M. Burns
Vice President

John F. Campbell
Vice President
Public Relations

P. Daniel Gold
Vice President
Government Relations

Julius Levinson
Vice President
Taxes

Joseph P. Lisa
Vice President
and Controller

Gerald J. Lynch
Vice President

James J. McHugh
Vice President
Labor Relations

Martin N. Ornitz
Vice President

Richard B. Steinmetz
Vice President
Deputy General Counsel

Transfer Agents
Manufacturers Hanover
Trust Company (New York)

The First National Bank
of Chicago

Bank of America
National Trust and Savings
Association (San Francisco)

Registrars
Mellon Bank, N.A.
(New York)

Harris Trust & Savings
Bank (Chicago)

United California Bank
(San Francisco)

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Arthur Andersen & Co.

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New York, N.Y. 10022

Washington Office
1901 L Street, N.W.
Washington, D.C. 20036

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