

City Investing  
Company  
Annual Report  
1981

City





# City Investing Company Annual Report 1981

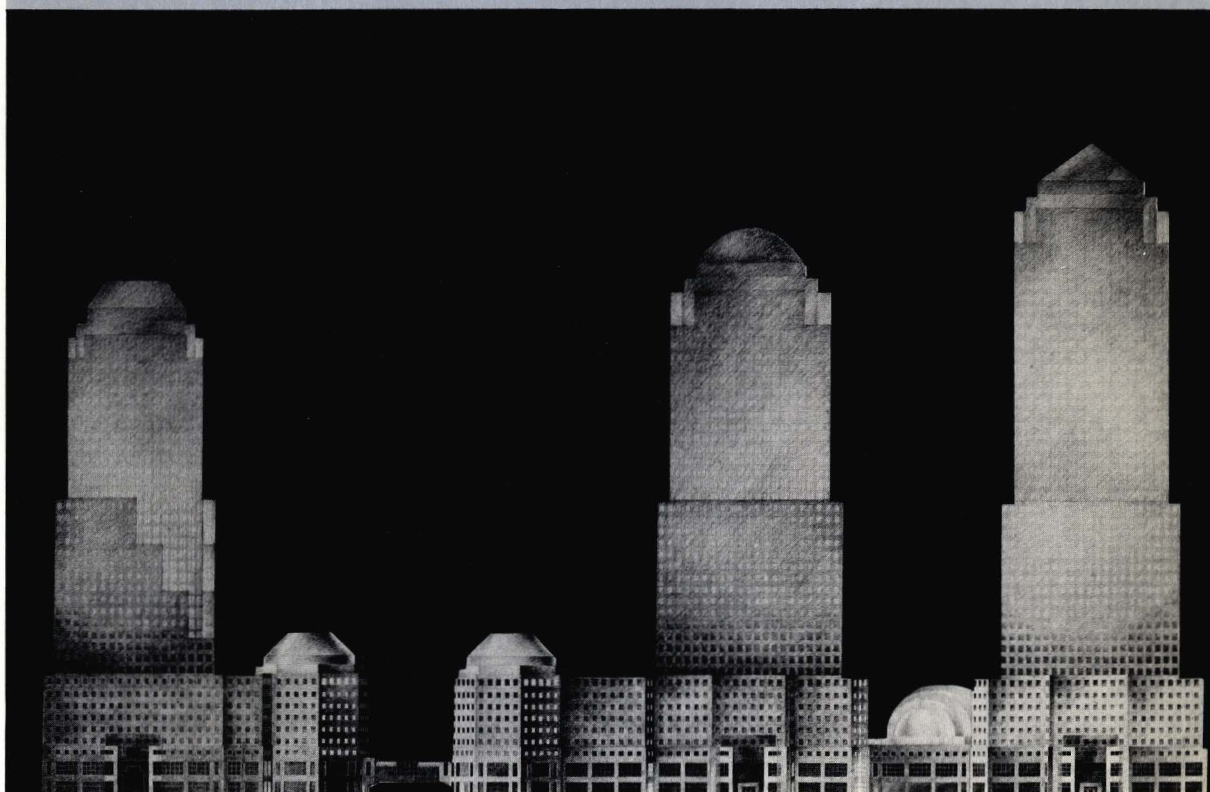
In 1981, City Investing signed a lease for its new headquarters building in Battery Park City Commercial Center, being built in downtown New York City.

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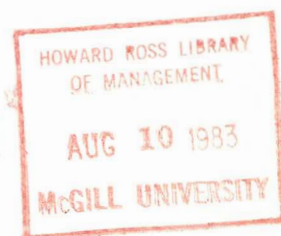
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City Investing Building

City Investing Company has five operating groups:

- Manufacturing includes the production of central air conditioning equipment, water heaters and steel and plastic shipping containers; aircraft services; and the printing of magazines and business forms.
- International operations are conducted principally in Brazil, Mexico and Western Europe. Products and services include containers, water heaters, automotive springs, steel pipe, building components and photographic film processing.
- Housing operations include community development in Florida, site-built and manufactured single-family housing, and a savings and loan association.
- Consumer services include nationwide institutional food services and the country's largest chain of directly-operated budget motels.
- Insurance operations are conducted through The Home Insurance Company, a full-line property and casualty and life, accident and health insurer.



## To Our Shareholders:

### Financial Highlights

(\$ millions, except per share data)	1979	1980	1981
Total revenues	\$5,040.7	\$5,386.2	\$5,796.6
Net income	132.6	111.3	120.2
Total assets	6,865.5	7,688.8	8,522.0
Common dividends	\$ 27.8	\$ 43.5	\$ 52.5
Preferred dividends	15.1	9.2	5.0
Total dividends	42.9	52.7	57.5
Net income per share — assuming full dilution	\$ 3.60	\$ 3.01	\$ 3.25
Book value per share of common stock	26.75	27.68	29.08
Common dividends per share	1.20	1.50	1.60
Employees	69,400	67,300	67,250
Shareholders	65,000	53,700	49,800

Geo. T. Scharffenberger, Chairman and Chief Executive Officer



**C**ity Investing Company achieved an 8% increase in revenues and net income in 1981, reflecting improved productivity, enhanced market position and effective control of costs and resources by our principal operations. In addition, we were able to make significant progress in our asset review program by the successful completion of targeted asset sales, while we also added significantly to the Company's reserves, particularly in insurance.

City's manufacturing group achieved a 29% increase in income from operations in 1981. This was attributable principally to much improved profitability of the air conditioning division, due to increased plant efficiencies and further growth in market share. Our aircraft services operation doubled its earnings and obtained renewals of its principal defense contracts. Our business forms company was able to increase its income from operations by improved productivity, cost reductions and timely price increases. Our magazine printing operation completed two new plants, which will provide expanded printing capacity to meet requirements under newly-awarded, long-term contracts; however, related start-up costs affected earnings of this operation in 1981.

Our international group reported income from operations approximately even with the previous year, reflecting the spread of recessionary conditions around the world, as well as the translation effect of a stronger U.S. dollar. However, our Mexican subsidiary more than doubled its income from operations on a much expanded and diversified business base, including a recently-acquired steel pipe manufacturing operation.

Despite the lowest level of housing starts in 35 years, our homebuilding and community development operations performed comparatively well. We opened a number of new housing projects and introduced lower-priced houses in our southwestern Sun Belt markets, while maintaining margins and liquidity to permit substantial renewed growth when conditions permit. Our community development operation achieved record earnings from homesite and housing sales in Florida, despite higher mortgage rates. Owing to the loss incurred by our savings and loan association, the housing group's overall results showed a decline of 38%.

City's consumer services group reported a 28% increase in income from operations. Although industrial employment levels continued generally weak, our food service business has been able to increase revenues progressively and to obtain important new dining service and recreational accounts, while containing overhead and distribution costs. Our budget motel chain continued its outstanding growth with another record year as a result of increased rates and very favorable occupancy. The chain has been expanded to 325 motels in operation.

Our insurance group reported substantially lower earnings as a result of greater property-casualty underwriting losses,

which include the effect of our further, deliberate strengthening of insurance reserves. The underwriting results were offset by considerably higher investment income from the property-casualty insurance portfolio, which now totals \$2.5 billion. For the industry, this was the third consecutive year of eroding underwriting results, reflecting inadequate premiums in relation to escalating claim costs, and there has been no indication as yet of a let-up in the intense price competition. We have continued to strengthen our insurance organization by expanding our training programs, by selective recruitment and by further extension of our computer network and information systems.

Overall, City's operations have proven quite resilient in confronting difficult economic conditions, which are continuing into 1982. We shall monitor carefully our margins and resources, while developing our facilities and market position in order to maximize our growth in an economic recovery. We would expect our earnings to grow strongly as conditions improve.

At year-end 1981, City's assets totaled \$8.5 billion, shareholders' equity increased to \$1.1 billion and book value per common share increased to \$29.08. As earnings improve over the next five years, we expect shareholders' equity to double and our capitalization to strengthen accordingly.

We have made significant progress in the past year in our asset review program. Our asset dispositions total \$431 million, including the sale of Seaboard Surety which was completed in January 1982. These dispositions included real estate properties, securities investments, several manufacturing businesses and our foreign oil and gas subsidiaries. In addition to such sales, we undertook a comprehensive evaluation of assets throughout the Company. This study led us to establish reserves of \$77 million for shutdown of various production and distribution facilities and for writedown of certain investments. Net of these reserves, the Company realized pretax gains of \$75 million in 1981 from asset dispositions. Also, City took the opportunity to establish a further provision of \$50 million to insurance reserves, additional to the Company's continuing program of reserve strengthening.

Our asset review is an ongoing process. The timing of decisions and dispositions may be affected by economic conditions, interest rate levels and changing circumstances in any specific industry. The program to date has served to strengthen the Company by maximizing asset values and enhancing earnings potential.

An aspect of our internal review process last year was our decision to tender for the publicly held shares of GDV, Inc. At the time City held 80.3% of the outstanding common stock of GDV, a company owning City's housing and consumer services groups except for the savings and loan association.

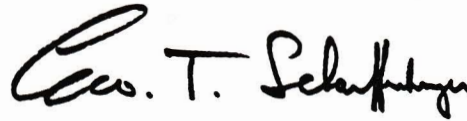
As a result of the tender, City now owns 98.6% of GDV's common stock.

Another consequence of our asset review last year was the sale of our building in downtown New York City and our signing a long term lease for City's new headquarters building in the Battery Park City Commercial Center now under construction and scheduled for occupancy in 1984.

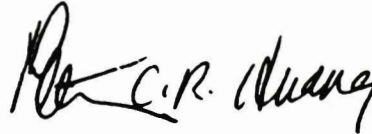
In the past year City's shareholders have received mailings from Tamco Enterprises, Inc. and Sharon Steel Corporation relating to filings made by these companies for regulatory approval to increase their respective holdings of City Investing common stock from the present level of nearly 10% owned by each up to 25%. Tamco has obtained such approvals from the relevant authorities and Sharon Steel, as of this date, is completing this regulatory process.

Our paramount objective remains that of achieving the greatest possible total return for our shareholders. We believe that our performance in the last year demonstrates that we have in place the management capabilities and market position to provide for exceptional growth in the future. We are not committed to any preconceived plan or organizational

structure. We shall continue to seek innovative leadership and outstanding performance in each of our businesses. The following pages offer a review of our operations in the challenging conditions of the past year, as we set the stage for further growth.



Geo. T. Scharffenberger  
Chairman and Chief Executive Officer

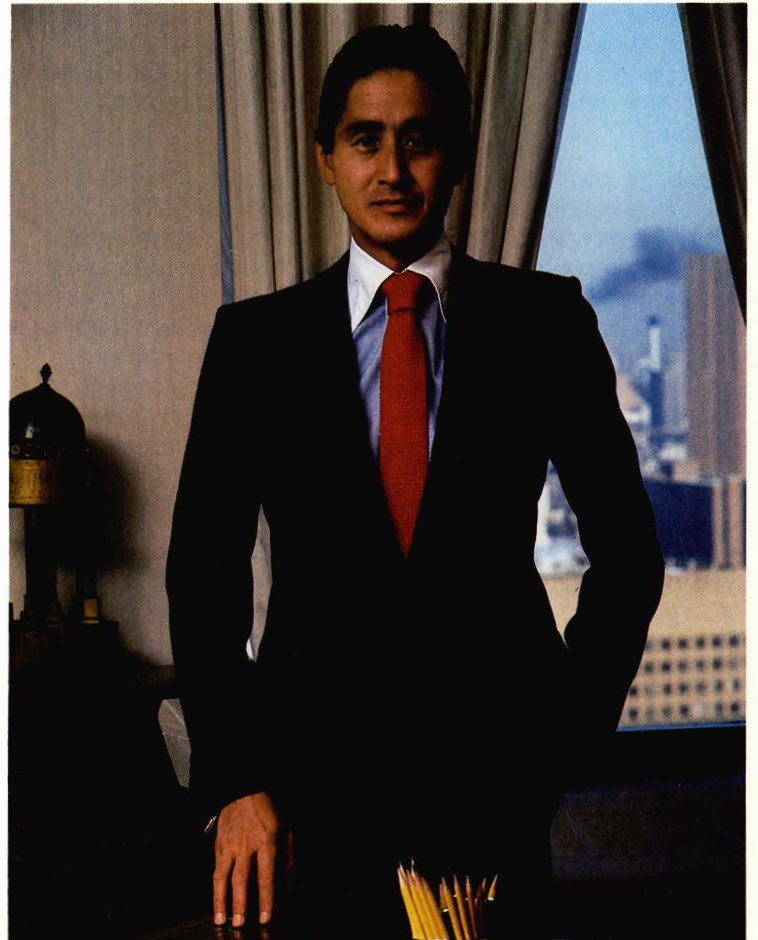


Peter C. R. Huang  
President and Chief Operating Officer

March 12, 1982

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Peter C. R. Huang , President and Chief Operating Officer



## Operating Review

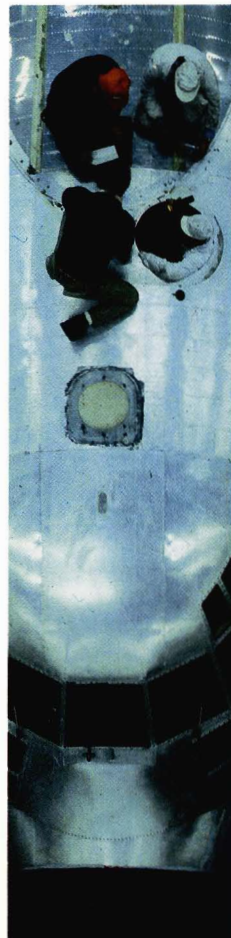
### Principal Industry Segments

Year Ended Dec. 31 (\$ millions)	1979	1980	1981
<b>Revenues</b>			
Manufacturing	\$1,285.9	\$1,341.8	\$1,468.0
International	565.5	715.0	732.6
Housing	747.0	714.5	788.4
Consumer Services	595.7	626.8	675.4
Insurance	1,846.6	1,988.1	2,132.2
<b>Total</b>	<b>\$5,040.7</b>	<b>\$5,386.2</b>	<b>\$5,796.6</b>
<b>Income from Operations (1)</b>			
Manufacturing	\$ 97.4	\$ 80.0	\$ 103.1
International	49.2	49.8	50.2
Housing	78.1	49.4	30.6
Consumer Services	48.3	50.4	64.8
Insurance (2)	95.5	65.1	26.4
<b>Total</b>	<b>\$ 368.5</b>	<b>\$ 294.7</b>	<b>\$ 275.1</b>

(1) Income from operations represents revenues less all operating expenses. See Statement of Consolidated income on page 33 for additional items included in the determination of net income.

(2) Income from operations for 1981 includes an increase of \$50 million in insurance reserves, additional to the Company's continuing program of reserve strengthening.

#### Manufacturing



#### International



#### Housing



#### Consumer Services



#### Insurance



# Manufacturing

Year Ended Dec. 31 (\$ millions)

1979

1980

1981

## Revenues

Air Conditioning	\$ 204.8	\$ 184.9	\$ 260.4
Water Heaters	164.8	174.7	191.3
Containers(1)	156.6	152.6	144.4
Aircraft Services	66.8	85.2	109.4
Business Forms	278.2	311.7	328.0
Magazine Printing	257.6	274.1	313.6
Other Operations(1)	157.1	158.6	120.9

Total	\$1,285.9	\$1,341.8	\$1,468.0
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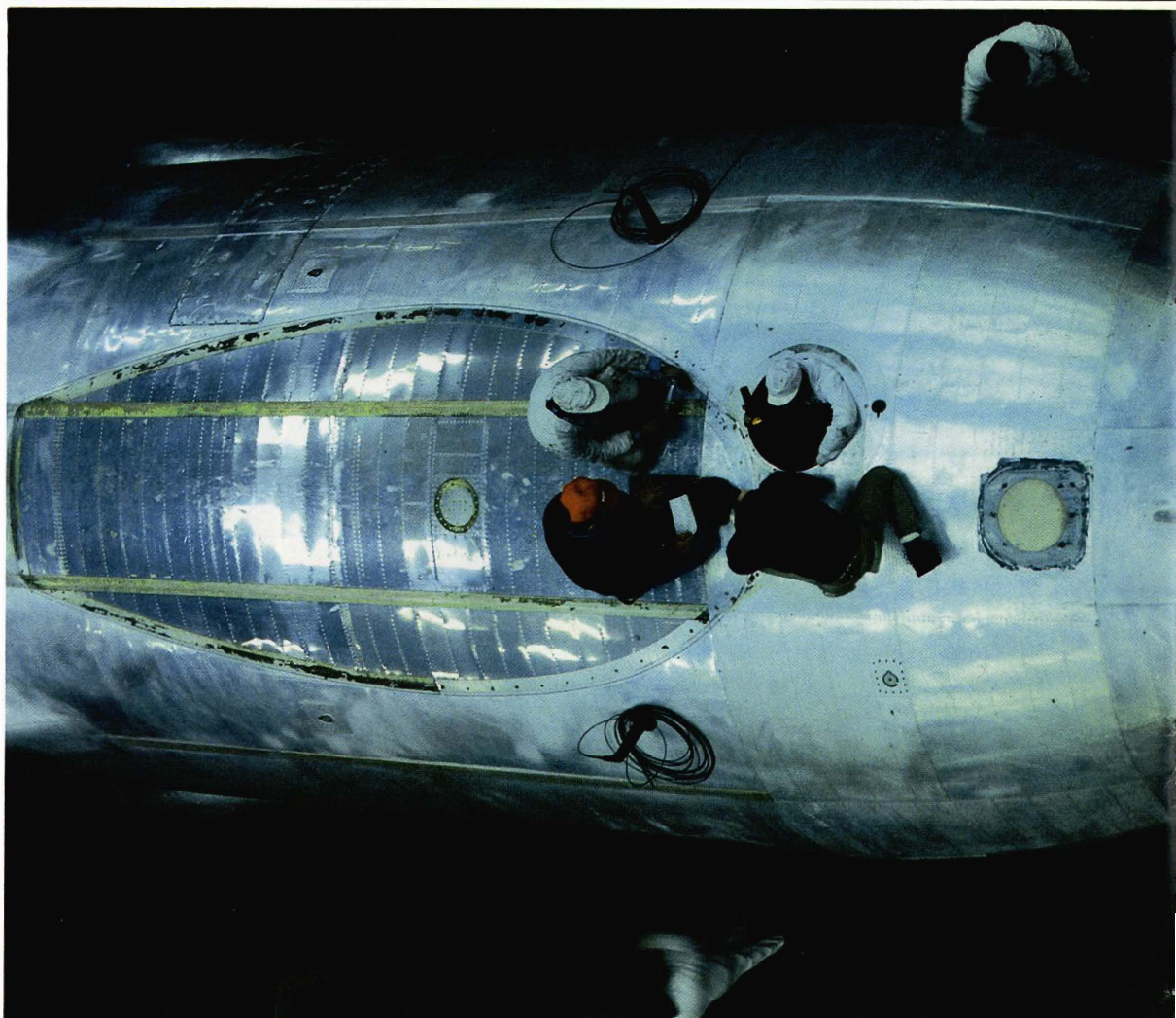
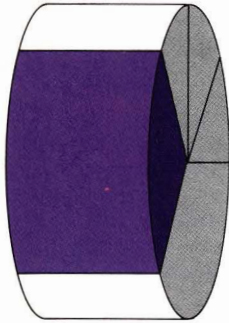
## Income from Operations

Air Conditioning	\$ 6.7	\$ 1.3	\$ 22.0
Water Heaters	13.1	9.4	6.7
Containers(1)	12.1	9.8	10.6
Aircraft Services	6.6	5.3	10.9
Business Forms	28.6	25.1	26.4
Magazine Printing	21.5	25.9	20.3
Other Operations(1)	8.8	3.2	6.2

Total	\$ 97.4	\$ 80.0	\$ 103.1
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(1) Amounts for 1979 and 1980 have been reclassified to conform to the 1981 presentation.

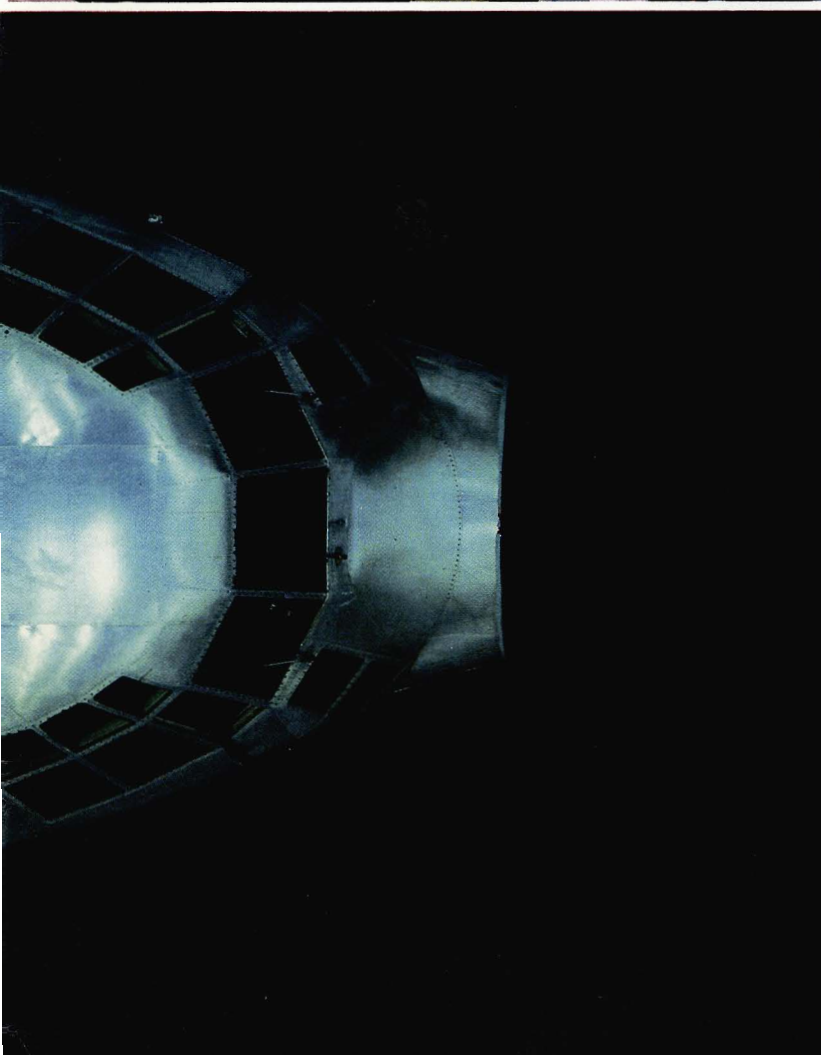
25%  
of total  
revenues





Hayes maintains and modifies military and commercial aircraft.

During 1981, Uarco built new business forms printing plants in Corning, Iowa and Kennett, Missouri.



**C**ity's Rheem Manufacturing Company ranks among the leading manufacturers of central heating and air conditioning equipment, primarily for residential use. This equipment is manufactured at plants in Arkansas, Georgia and Alabama and is sold under the Rheem and Ruud trade names, primarily through independent distributors.

Air conditioning's substantial increase in revenues in 1981 reflects significant growth in unit volume, attributable mainly to expanded distribution, replenishment of distributor inventories and the growing replacement market. The improved results reflect volume and price increases, plant efficiencies and a more favorable product mix. Based on reported industry statistics, Rheem continued to improve its market share in both residential air conditioning and heating lines.

■ City believes that Rheem is the largest manufacturer of water heaters in the United States. Water heaters are manufactured at plants in Illinois, Alabama and Ontario, Canada, and are sold primarily under the Rheem and Ruud trade names through independent plumbing distributors.

The year 1981 was another difficult year for the water heater industry. Rheem's shipments, and those of the industry, declined substantially, reflecting the further decline in housing starts from the prior year's low level and reduced dealer inventories as a result of high interest rates. Rheem was also subject to competitive pricing pressures reflecting overcapacity in the industry. On the basis of reported industry shipments of residential water heaters, Rheem maintained its market share in 1981.

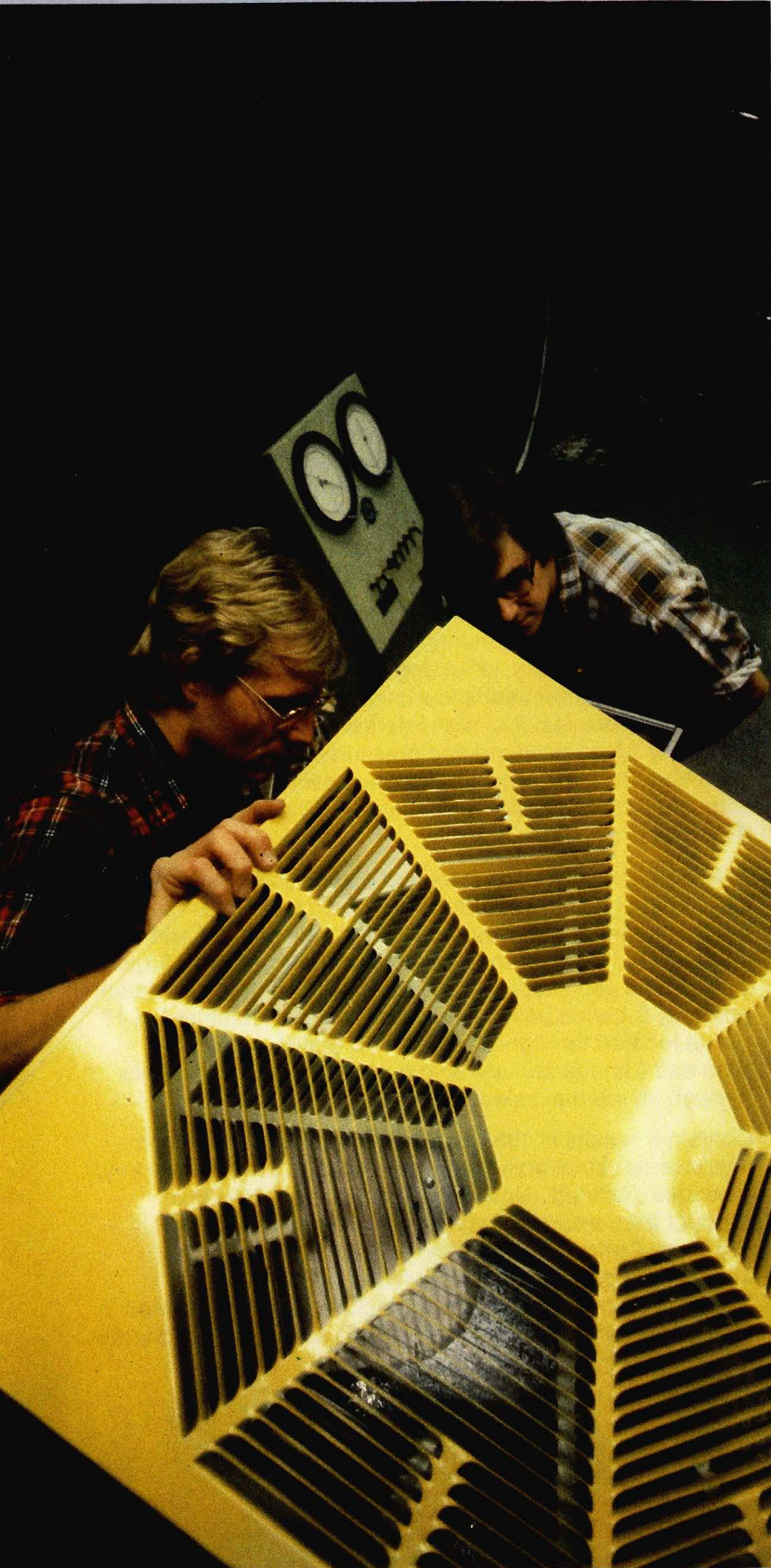
■ Rheem manufactures steel and plastic shipping containers for chemicals, paint, petroleum and food products. It is the leader in the manufacture and sale of lined and lithographed steel drums and is a major supplier of 55-gallon steel drums and smaller steel and plastic shipping containers, primarily 5-gallon pails. Containers are manufactured at 17 plants located throughout the United States, in Puerto Rico and Canada and are sold directly to users principally through an internal sales staff.

Container results in 1981 continued to reflect depressed levels of industrial activity. For the second consecutive year, revenues declined. Unit volume was flat or lower in all product lines except plastic pails, for which the market is growing. During 1981, Rheem closed two plants and streamlined certain other manufacturing facilities.

Rheem's Tipper Tie unit, a manufacturer of closures used in food packaging, was sold during 1981 and is included under Other Operations for all periods.

Rheem's computerized lab facilities duplicate extreme temperature conditions in testing of air conditioning units.

World Color Press prints *TV Guide* at its new plant in Merced, California.



■ Hayes International Corporation is engaged primarily in the maintenance, modification and overhaul of military aircraft. In 1981, a new facility in Florida for the maintenance and refurbishing of commercial aircraft became fully operational. Hayes' income from operations increased substantially in 1981 to a record level, based on increased revenues under continuing major military aircraft programs for the C130 and KC135 transport planes. In 1981, Hayes was awarded renewals of these contracts. Hayes' military programs also include F4 fighter planes.

■ Uarco Incorporated is a major manufacturer of business forms. Uarco produces forms for a variety of business transactions, including purchase orders, invoices, payroll checks, direct-response and regular mailing forms and pressure-sensitive labels. Uarco's principal products are continuous forms designed for use in computer processing and electronic business equipment. Most forms produced by Uarco are custom-designed for the user's specific needs. Uarco also makes forms-handling equipment, such as deleavers, bursters, imprinters and autographic registers. It operates a total of 212 printing presses at 12 manufacturing plants in the United States.

Uarco's Canadian subsidiary, Drummond Business Forms Limited, contributed 13% of Uarco's total revenues and 12% of its income from operations in 1981. In July 1980, the Canadian Foreign Investment Review Agency disallowed City's application for approval of its indirect investment in Drummond as part of its 1979 acquisition of Uarco. City has submitted a revised application for approval. If it is denied, City may be required to sell a controlling interest in Drummond to Canadian investors.

Uarco's growth in revenues and income from operations in 1981 reflects increased plant productivity, control of fixed costs and timely price increases, which offset the effects of a slower business environment.

■ World Color Press prints magazines, such as *Woman's Day*, *Cosmopolitan*, *Forbes*, *Vogue*, *Popular Science*, *Motor Trend* and *Golf Digest*, under long-term contracts for a number of publishers. World Color also prints newspaper comic supplements, comic magazines, catalog sections and other special-purpose publications. Printing operations are conducted at four plants, aggregating 2,100,000 square feet, in southern Illinois, and at a 168,000-square-foot facility in Merced, California, opened in 1981 and currently being expanded.

World Color's results in 1981 reflect reduced printing volume, due to a decrease in advertising pages and a number of publisher insolvencies, in a period during which fixed costs increased due to the opening of new plants. Results were also affected by high interest costs on borrowings to finance new facilities and equipment.

In 1981, World Color obtained a new, ten-year contract to print *McCall's Magazine*. A ten-year contract, commencing in 1984, was also entered into for the printing of all California and Nevada Bell System telephone directories.

■ Other manufacturing operations include: ultra-low-temperature refrigeration equipment for scientific and medical use; extruded and injection molded plastic products for the appliance and automotive industries; the Tipper Tie division of Rheem, which was sold during 1981; and the consumer freezer operation of Rheem, also sold during 1981. In 1981, scientific refrigeration products manufacture was moved to a new, 156,000-square-foot plant in Asheville, N.C. Higher 1981 income from operations reflects a substantial reduction of losses incurred in the plastic products business as a result of improved prices and cost reductions.

■ Not included in 1981 manufacturing results are gains of \$18.6 million from dispositions of assets, net of reserves for shutdown of certain operating facilities. See Note 7 to Consolidated Financial Statements.

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City's manufacturing operations are subject to Federal and state environmental legislation and regulations and from time to time are parties to administrative proceedings relating to such matters. It is not anticipated that compliance with such regulations, or the results of any pending or contemplated proceedings, will have a material adverse impact on City's capital expenditures, earnings or competitive position.

## International

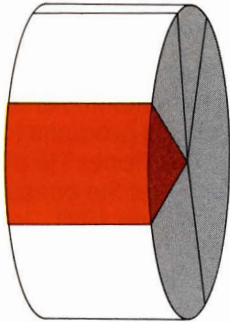
Year Ended Dec. 31 (\$ millions)

1979

1980

1981

12%  
of total  
revenues



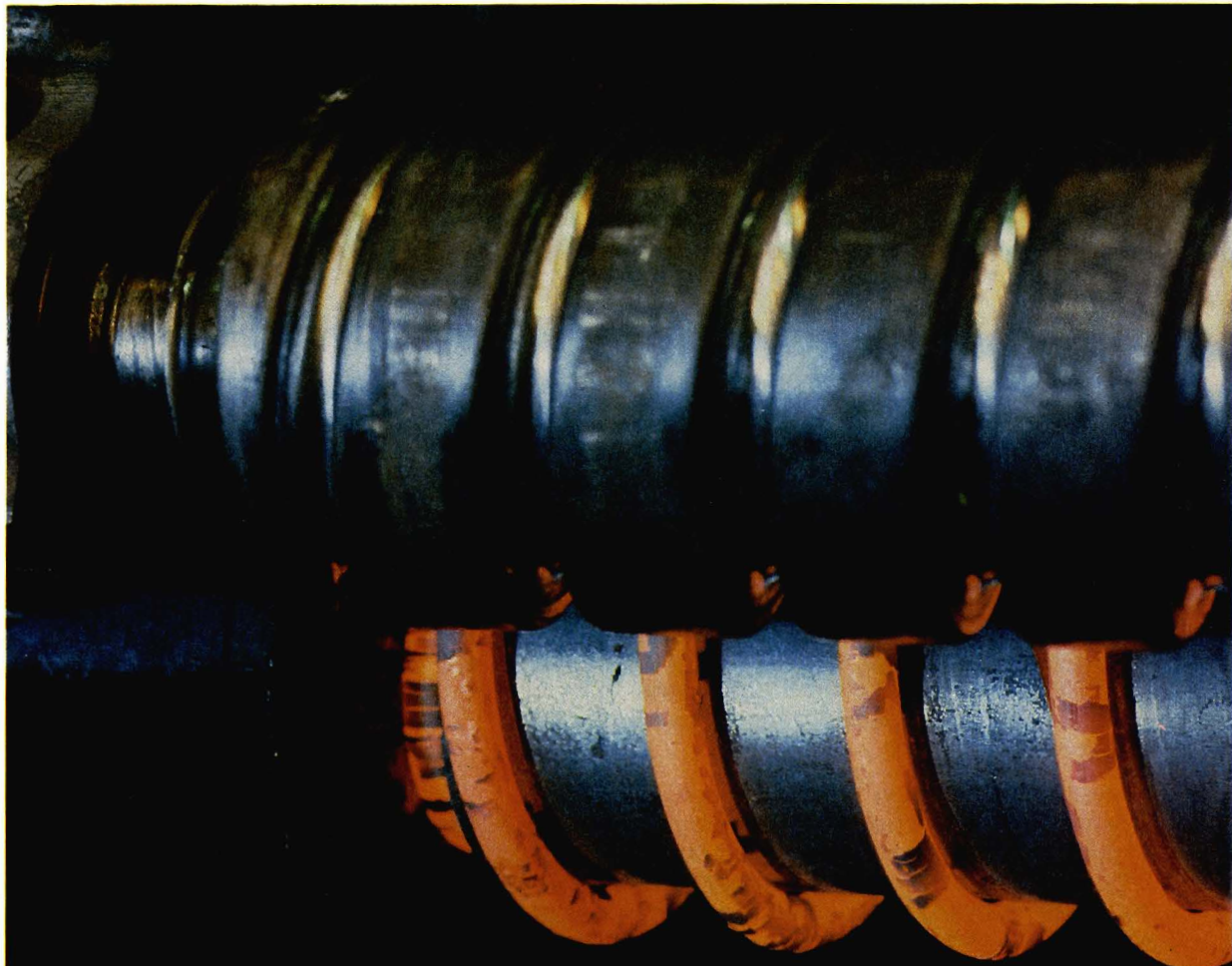
### Revenues

Brazil	\$134.1	\$140.2	\$142.6
Mexico	92.3	123.6	238.8
European Manufacturing(1)	266.4	297.8	242.8
Photofinishing	—	50.3	43.3
Other Operations(1)	72.7	103.1	65.1
<b>Total</b>	<b>\$565.5</b>	<b>\$715.0</b>	<b>\$732.6</b>

### Income from Operations

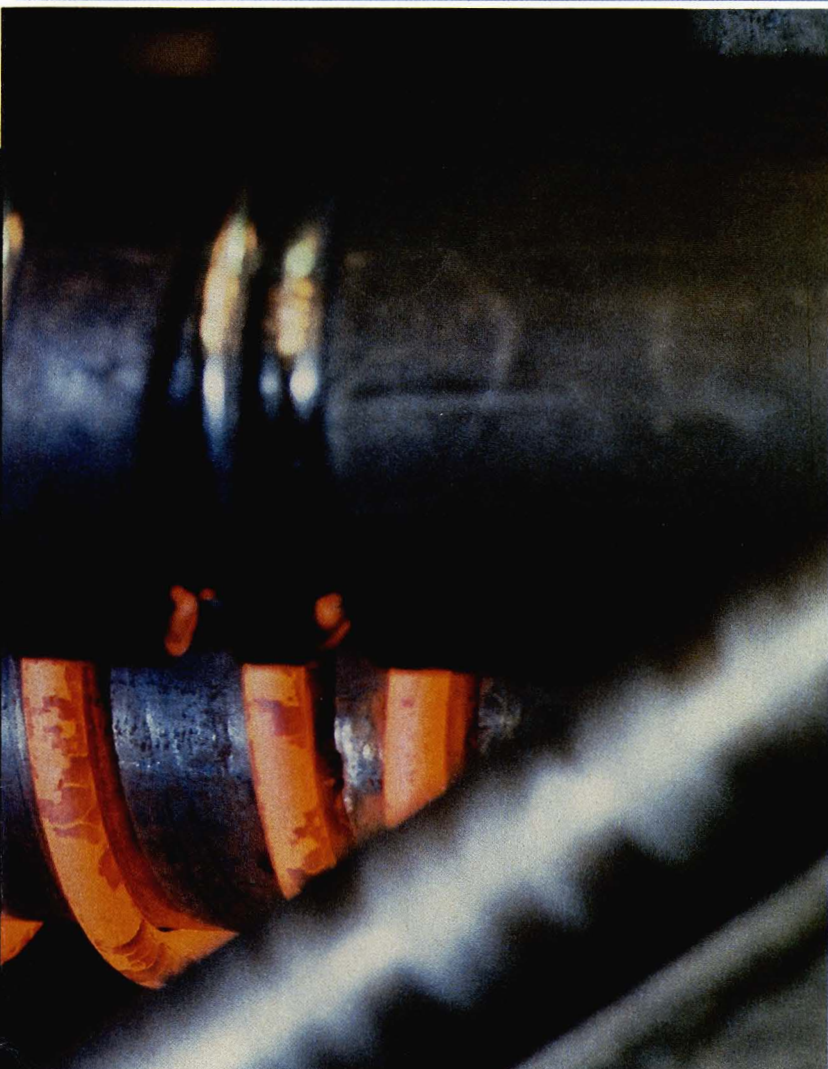
Brazil	\$ 6.9	\$ 13.4	\$ 6.7
Mexico	12.0	12.0	27.2
European Manufacturing(1)	22.0	14.3	11.7
Photofinishing	—	12.7	7.8
Other Operations(1)	11.2	9.6	11.2
Corporate Expenses(1)	(2.9)	(12.2)	(14.4)
<b>Total</b>	<b>\$ 49.2</b>	<b>\$ 49.8</b>	<b>\$ 50.2</b>

(1) Amounts for 1979 and 1980 have been reclassified to conform to the 1981 presentation.



Automotive coil and leaf springs are produced for Mexican customers and for export to the U.S.

The Company has 77 manufacturing plants in 17 countries throughout the world.



International manufacturing operations are conducted in 77 plants in 17 countries. Of the principal consolidated operations, the subsidiaries in Mexico, the United Kingdom and Singapore are jointly owned with foreign corporations.

International's diversified products and services include steel drums and pails and food and beverage cans in Brazil; automotive springs, steel fasteners, steel pipe and steel drums in Mexico; steel drums, plastic containers, water heaters, plastic building and industrial components, and steel shelving systems in Europe; containers in Singapore and South Africa; and photographic film processing in The Netherlands and Belgium.

International operations were affected generally in 1981 by worldwide recessionary conditions, high interest rates and restrictive national economic policies, except in Mexico, where the economy continued to expand.

■ City's Brazilian subsidiary, a major container and can manufacturer in that country, experienced a substantial decline in income from operations in 1981 due to an extraordinary increase in financial costs and significantly reduced unit volume, reflecting the general decline in Brazilian economic activity, restrictive credit conditions and a rate of inflation approximating 100%. During 1981, the company expanded its manufacturing capacity for high-speed production of beverage cans.

■ Mexico's income from operations in 1981 more than doubled, reflecting the expansion of existing operations and new activities. Among existing operations, major contributors to the substantial increase in earnings were the divisions serving the domestic Mexican market for automotive springs and metal fasteners. During 1981, the company expanded its sales of containers to the Mexican oil industry and completed its acquisition of a majority interest in a steel pipe manufacturing business supplying that industry. This acquisition added \$65.6 million to revenues and \$7.8 million to income from operations in 1981.

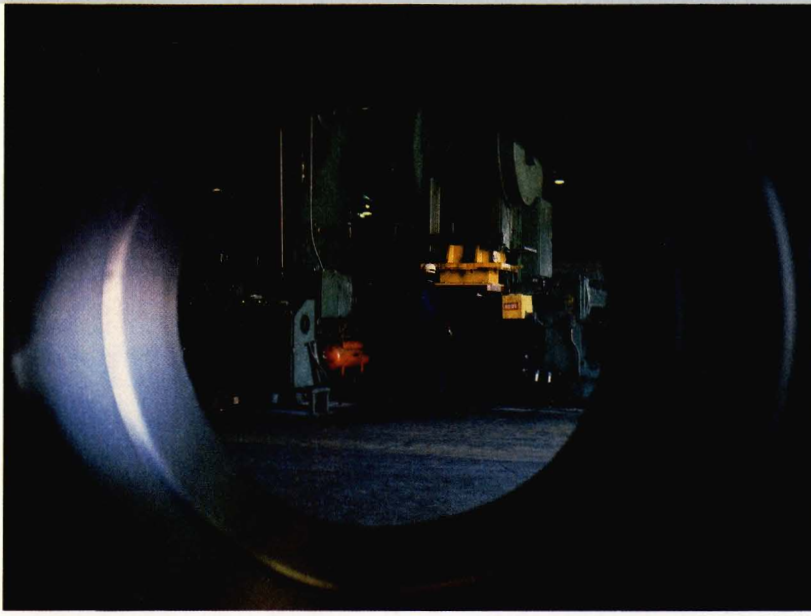
In mid-February 1982, the Mexican government withdrew its support of the peso, which resulted in an immediate 28% effective devaluation of the dollar value of the peso. As a result, the company currently intends to adjust pricing and marketing policies. In the event adjustments cannot be promptly effected, the devaluation would limit growth in income from operations in 1982.

Pemex, Mexico's state-owned oil company, is a primary customer for the company's welded steel pipe.



Rassini Rheem's plant near Mexico City was expanded in 1981. The company is now the country's largest drum manufacturer.

Constant monitoring and quality control techniques have helped make the company the leader in photographic processing in The Netherlands and Belgium.



- European manufacturing revenues declined in 1981, primarily as a result of continuing recessionary conditions and the weakening of European currencies in relation to the dollar, factors which particularly affected operations in England and Italy. The prolonged recession in the United Kingdom is reflected in the reduction in income from operations in that country from \$10.4 million in 1979 to \$5.1 million in 1980 and \$2.2 million in 1981. This trend largely accounts for the decline in income from operations of the European manufacturing group. The manufacture of building components in Belgium has contributed an increasing proportion of income from operations in Europe.
- The photofinishing business, acquired in 1980, reported substantially reduced income from operations in 1981. The severe recession in Holland has materially affected pricing in the amateur photography market.
- Other operations include consolidated container operations in Singapore and South Africa; unconsolidated manufacturing operations in Argentina, Japan and Spain; and, in 1979 and 1980, certain operations discontinued during 1981, including boiler manufacturing in The Netherlands.
- International corporate expenses represent primarily interest costs on Rheem International's domestic bank financing.
- Not included in 1981 international results in the preceding table are certain discontinued operations. In 1981, the company established reserves aggregating \$24.2 million primarily relating to the shutdown of facilities. See Note 7 to Consolidated Financial Statements.

# Housing

General Development's newest resort, Port La Belle Inn and Country Club, in south-central Florida.

Year Ended Dec. 31 (\$ millions)

1979

1980

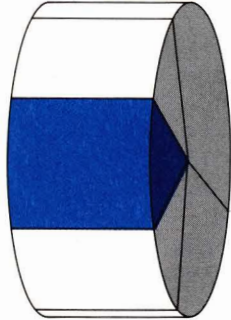
1981

## Revenues

Community Development	\$223.3	\$279.7	\$321.5
Single-family Housing	444.6	341.7	350.9
Savings and Loan	79.1	93.1	116.0
<b>Total</b>	<b>\$747.0</b>	<b>\$714.5</b>	<b>\$788.4</b>

## Income from Operations

Community Development	\$ 29.0	\$ 33.3	\$ 39.0
Single-family Housing	38.6	10.6	9.9
Savings and Loan	10.5	5.5	(18.3)
<b>Total</b>	<b>\$ 78.1</b>	<b>\$ 49.4</b>	<b>\$ 30.6</b>



14%  
of total  
revenues





Model homes at Port Charlotte on Florida's west coast.

General Development's newest condominium project, the 147-unit "Promenades East," at Port Charlotte.



**C**ity's housing operations, located primarily in the Sun Belt states, comprise Florida community development, single-family homebuilding and mobile home manufacture. These operations are conducted through 98.6%-owned GDV, Inc. City also owns Southern California Savings and Loan Association.

After five years of substantial growth culminating in the record results achieved in 1979, City's housing group reported significantly lower income from operations in 1980 and 1981, reflecting the impact of abnormally high interest rates and recessionary conditions. High interest rates continue to delay a recovery in the housing industry and are expected to continue to adversely affect income from operations.

■ General Development Corporation is a major developer of planned communities in Florida. General's principal business is the sale of homesites and the construction of homes in seven Florida communities comprising approximately 236,000 acres. General's principal communities are Port Charlotte, Port St. Lucie, Port Malabar and Port LaBelle. At December 31, 1981, 120,000 acres had been sold and paid for in full, 41,000 acres were subject to outstanding sales contracts, 25,000 acres were allocated for future sales as homesites and 50,000 acres were allocated for future commercial sales. As an integral part of its community development business, General builds and sells in its communities single-family homes, at prices ranging from \$44,000 to \$190,000 (including land), and condominiums and cluster villas from \$67,000 to \$98,000, and markets mobile homes at prices ranging from \$38,000 to \$61,000 (including land). In its communities, General owns and operates water, sewer and gas utilities and the principal recreational facilities.

Counter to the trend of housing results nationally, in 1981 General achieved record revenues and income from operations, based on favorable results in homesite sales and homebuilding, as well as increased interest income from higher contracts receivable balances. Homesite revenues increased 6% in 1981 over the previous year, and average selling prices increased 28%. However, the number of new homesite contracts declined by 16%. General's portfolio of contracts receivable grew to \$344 million at December 31, 1981, from \$289 million at the previous year end.

Construction on the 114-unit condominium project near Dallas will be completed by mid-year 1982. These townhomes are typical of Wood Bros.' new, mid-density housing.



General's housing revenues increased to \$153.0 million in 1981 from \$128.6 million in 1980, due to higher selling prices. However, General's backlog at year-end 1981 was substantially lower than at the previous year end, reflecting a 33% decline in houses contracted for sale.

■ Wood Bros. Homes is engaged in the construction and sale of single-family homes, primarily in the Southwest, with 67 subdivisions in 12 major market areas, including Denver, Dallas, Houston, Phoenix, Tucson, Albuquerque and Las Vegas. Houses, which are sold through an internal sales staff, are built to standard plans and have sales prices ranging from \$34,000 to \$155,000. Guerdon Industries, consolidated with Wood Bros. as of January 1, 1980, is one of the nation's leading manufacturers of mobile homes. Guerdon manufactures and sells a full line of single-wide and multi-section mobile homes primarily for installation by customers on foundations to serve as permanent housing. Guerdon's mobile homes are manufactured in 16 plants throughout the country and are marketed principally through independent dealers and, to a lesser extent, through company-owned sales outlets. Wholesale prices, including appliances, range from \$5,000 to \$50,000.

Wood Bros.' single-family homebuilding operations and the market for mobile homes in 1981 were severely affected by the second year of abnormally high interest rates and depressed housing demand. Unit closings were approximately flat, while sales improved 11% from the depressed level of 1980. Wood Bros. improved its average selling price, and maintained a favorable margin despite an increase in closing costs due to the offering of special financing programs. Wood Bros. has focused subdivision expansion in growing market areas and has given priority to economically-priced, higher-density detached houses and townhouses.

During 1981, Guerdon's mobile home shipments continued to decline, reflecting increased competition in certain market areas, a number of dealer insolvencies and a build-up of unsold inventory on dealer lots. During 1981, Guerdon closed two manufacturing facilities.

■ Selected housing data follows:

Year Ended Dec. 31	1979	1980	1981
Houses delivered:			
General Development	1,983	2,303	2,325
Wood Bros. Homes	3,665	2,363	2,360
<b>Total</b>	<b>5,648</b>	<b>4,666</b>	<b>4,685</b>

Year Ended Dec. 31	1979	1980	1981
Houses contracted for sale:			
General Development	2,301	2,250	1,501
Wood Bros. Homes	3,083	2,070	2,306
<b>Total</b>	<b>5,384</b>	<b>4,320</b>	<b>3,807</b>
Unit backlog at December 31:			
General Development	1,443	1,390	566
Wood Bros. Homes	1,032	739	662
<b>Total</b>	<b>2,475</b>	<b>2,129</b>	<b>1,228</b>
Average sales price (\$000):			
General Development	\$ 46.6	\$ 53.4	\$ 62.9
Wood Bros. Homes	\$ 68.0	\$ 74.7	\$ 81.8
Mobile homes:			
Unit shipments	15,111	12,179	10,611
Average sales price (\$000)	\$ 12.2	\$ 12.9	\$ 14.1

■ Southern California Savings and Loan Association conducts its business through 46 offices in Southern California and the San Francisco Bay Area. The Association employs depositors' funds to make mortgage loans to finance the purchase, construction and improvement of real estate, principally residential, in California. The Association also conducts a homebuilding operation. At December 31, 1981, the Association's savings deposits were \$801 million, compared with \$679 million at the prior year-end, and total assets were \$1.047 billion versus \$881 million. During 1981, the Association acquired five branches from Homestead Savings and Loan Association.

The Association's results from traditional savings and loan activities, like those of the savings and loan industry in general, were severely affected in 1981 by substantially increased interest paid on its savings accounts and borrowings, which exceeded the interest received on its loan portfolio. The difference was reflected in a negative interest spread of 2.3%. As a result, the Association reported a substantial loss in 1981 and losses are expected to continue as long as interest rates remain at their present levels. The Association's building activities, which contributed \$4.0 million to income from operations in 1980, broke even in 1981.

Certain of City's housing companies are subject to land use and other restrictions as a result of the adoption of Federal and state legislation and actions by local governmental agencies. These restrictions have in the past and may in the future cause delays and otherwise increase the cost of land development and other real estate projects.

## Consumer Services

Year Ended Dec. 31 (\$ millions)

1979

1980

1981

### Revenues

Food Services  
Budget Motels

\$488.2  
107.5

\$495.5  
131.3

\$517.9  
157.5

Total

\$595.7

\$626.8

\$675.4

### Income from Operations

Food Services  
Budget Motels

\$ 28.0  
20.3

\$ 22.3  
28.1

\$ 25.5  
39.3

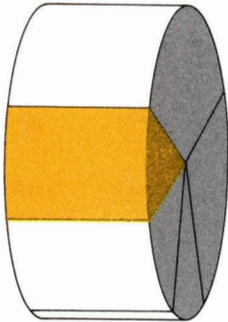
Total

\$ 48.3

\$ 50.4

\$ 64.8

12%  
of total  
revenues



Servomation provides food services to institutional and commercial customers through cafeterias, dining rooms and sports concessions.

The San Diego Jack Murphy Stadium, one of the busiest sports facilities in the country, is served by 550 Servomation employees.



**C**onsumer services are conducted through 98.6%-owned GDV, Inc. and comprise Servomation Corp. and Motel 6, Inc.

■ Servomation conducts institutional food service operations in 40 states and Canada from approximately 130 service centers. Servomation provides 24-hour food and beverage services through vending machines installed at plant, office, institutional and public locations. It also manages and operates cafeterias, executive dining rooms and dining halls; provides food services for special functions at various office, plant, school, health care and other locations; and operates food and beverage concessions at sports facilities, convention centers, theatres and other public areas. During 1981, 71% of Servomation's total revenues was derived from vending machine operations and 29% was derived from dining service and concession operations.

Servomation owns, services and supplies approximately 85,000 vending machines installed at customer locations. It owns approximately 2,900 specially-equipped delivery trucks and 800 other vehicles. Servomation owns approximately 60% of the service facilities it operates.

Servomation's revenues and income from operations improved in 1981 despite the continuation of depressed levels of industrial activity and related plant layoffs and closings. Servomation's results reflect the consolidation of certain commissary operations to obtain efficiencies of scale, product consistency and improved control of fixed costs. Results also reflect an increase in new customer accounts.



The 151-room unit in  
Mammoth Lakes, California  
opened in 1981.



Motel 6 offers clean, economically-priced accommodations with standard room rates nationwide throughout the year.



■ Motel 6 owns and operates the nation's largest chain of directly-operated budget motels. Motel 6 provides budget-priced motel accommodations to commercial and recreational travelers throughout the United States. Standard rates range from \$14.45 to \$21.45 a night, depending on the number of occupants. Motel 6 believes its rates are the lowest of any major U.S. lodging chain and that it is the only major chain to offer standard room rates nationwide throughout the year. Motel 6 opened 23 new motels in 1981 and plans to add approximately 35 motels in each of the next several years.

Motel 6's revenues increased 20% during 1981, from 1980, and income from operations improved 40%, primarily due to a significant increase in room rates, improved occupancy and to the increased number of motels in operation. The number of motels and rooms in operation at December 31 of the years indicated and the average occupancy and room rates for such years follow:

	1979	1980	1981
Number of motels	283	303	325
Number of rooms	29,504	32,132	34,960
Annual occupancy rate	81.6%	80.3%	81.1%
Average room rate	\$12.48	\$13.84	\$15.34

Motel 6 provides a directory listing locations and detail maps for all of its units throughout the country. To obtain a copy, write directly to: Motel 6, Inc., 51 Hitchcock Way, Santa Barbara, CA 93105.

■ Not included in 1981 consumer services' results on page 18 is Red Barn Restaurants, Inc., which was deconsolidated as of January 1, 1981. In 1981, the Company established reserves aggregating \$6.4 million primarily relating to its investment in Red Barn.



# Insurance

Year Ended Dec. 31 (\$ millions)

1979

1980

1981

## Revenues

### Property and Casualty:

Earned Premiums(1)	\$1,556.6	\$1,639.5	\$1,704.8
Investment Income	134.9	188.2	250.1

### Life, Accident and Health:

Earned Premiums	130.2	134.3	147.2
Investment Income	23.6	26.5	29.3
Other	1.3	(0.4)	0.8

<b>Total</b>	<b>\$1,846.6</b>	<b>\$1,988.1</b>	<b>\$2,132.2</b>
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## Income from Operations

### Property and Casualty:

Underwriting Results (1) (2)	\$ (52.2)	\$ (135.1)	\$ (238.3)
Net Investment Income	132.9	185.7	246.7

### Life, Accident and Health(3)

Other	1.3	(0.4)	0.8
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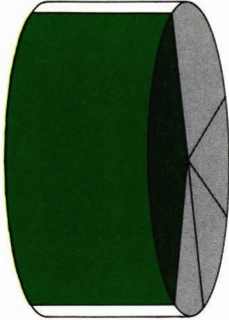
<b>Total</b>	<b>\$ 95.5</b>	<b>\$ 65.1</b>	<b>\$ 26.4</b>
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(1) See "Property and Casualty Insurance" herein for earned premiums and underwriting results by segment.

(2) Income from operations for 1981 includes an increase of \$50 million in insurance reserves, additional to the Company's continuing program of reserve strengthening.

(3) Underwriting results are not shown separately from net investment income for the life, accident and health companies since they have no independent significance in determining income from life insurance operations.

37%  
of total  
revenues





Every day The Home's telecommunications network processes tens of thousands of on-line information requests from field offices to the company's main computer data bank in New York.

IBM 3350 disk drives store The Home's operational and financial data — equivalent to millions of printed pages of information.



**C**ity's insurance operations are conducted through The Home Insurance Company and its property and casualty and life, accident and health insurance subsidiaries. The Home Insurance Company is a wholly-owned subsidiary of The Home Group, Inc., all the common stock of which is owned by City.

In January 1982, The Home completed the sale of Seaboard Surety Company, a wholly-owned subsidiary, for \$84.5 million cash. Seaboard contributed \$28.2 million to total revenues and \$12.7 million to income from operations during 1981.

#### **Property and Casualty Insurance**

The Home writes a full line of property and casualty insurance in every state of the United States, the District of Columbia, Canada and certain other countries. Approximately 80% of The Home's business is in commercial lines and the remainder is in personal lines. In 1981, 9.6% of The Home's direct property and casualty insurance premiums were written in New York with the balance in all other states, of which California, Michigan, Pennsylvania and Texas each accounted for more than 5%. The Home's earned premiums in 1981 included approximately \$139.6 million from its 27.1% participation in AFIA, an association of insurers engaged in insuring foreign risks in 135 countries.

On the basis of net premiums written, The Home ranked 14th among the stock, mutual and reciprocal property and casualty groups in the United States in 1980, the latest year for which figures are available.

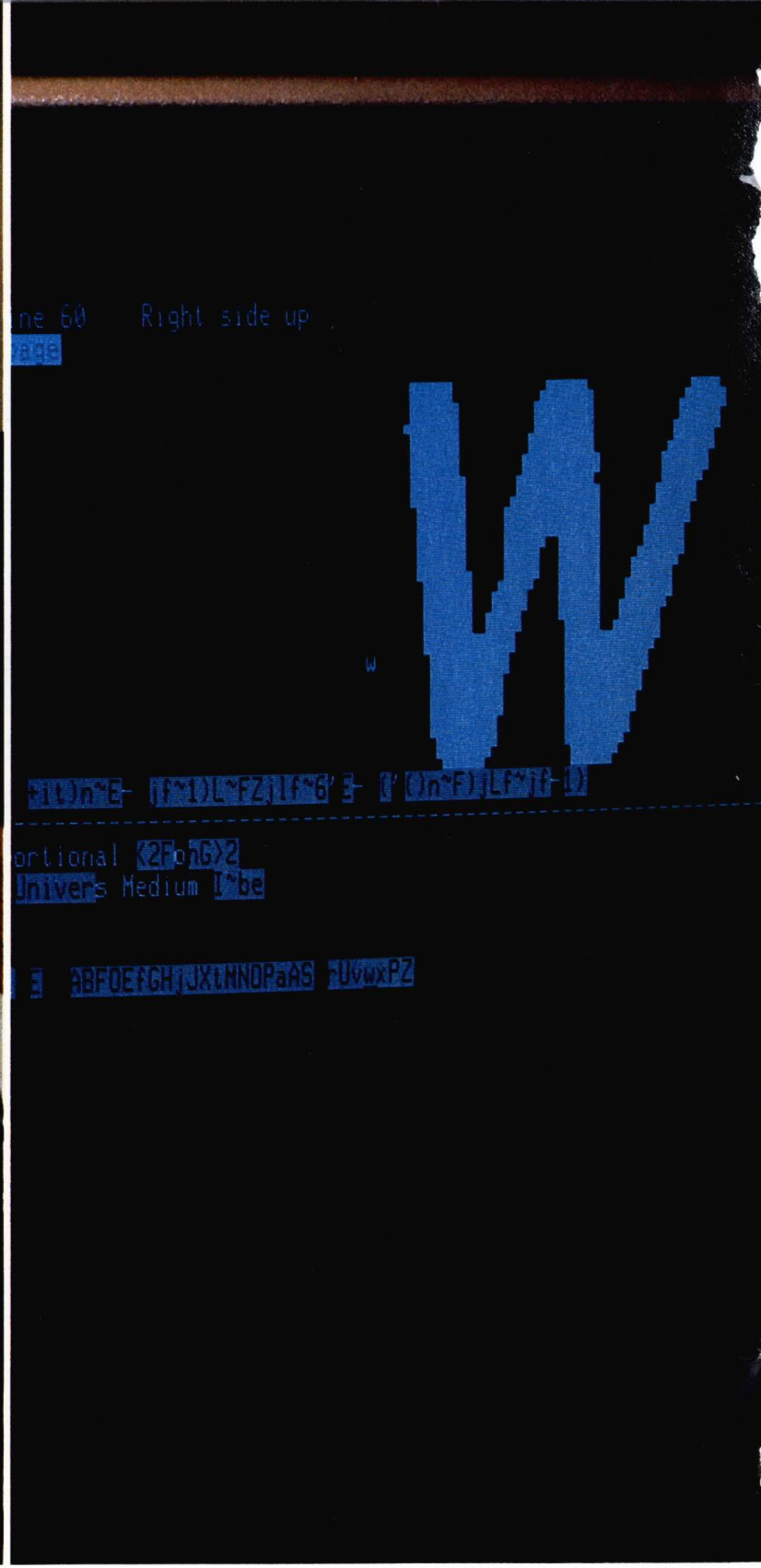
The Home's business is written by approximately 7,250 agents and brokers who are paid on a commission basis and who generally also represent other insurance companies.

The Home participates in a number of voluntary underwriting associations with other insurers, primarily through AFIA. Their purpose is to enable members to participate in foreign risks and in such risks as marine hull, nuclear energy and oil production and refining, which an individual company would not underwrite because of concentration of liability, location or large exposure.

The Home is required to participate in various involuntary pools and associations, such as assigned-risk plans for automobile drivers. The Home's participation in any state is generally in proportion to voluntary writings of related lines of business in that state. In 1979, 1980 and 1981, earned premiums related to such pools and associations were, respectively, \$80.8 million, \$91.0 million and \$72.2 million. The related pretax losses were \$21.8 million, \$49.3 million and \$36.6 million.

Video display terminals enter, transmit and receive information bringing the processing power of large-scale computers to staff desks in Home offices across the country.

Advanced electronic optical scanning and laser printing devices are used to speed production of insurance policies and other documentation.



In accord with industry practice, The Home assumes reinsurance from other insurers and cedes insurance to other insurers or reinsurers. These arrangements provide greater diversification of business and minimize losses arising from large risks or from unusual hazards. Although the ceding of insurance does not discharge the original insurer from primary liability to its policyholder, the company which assumes the coverage assumes the related liability, and it is the practice of insurers for accounting purposes to treat insured risks, to the extent of the reinsurance ceded, as though they were risks for which the original insurer is not liable. The largest amount insured by The Home, after reinsurance, on any one risk (excluding workers' compensation) was \$5.0 million at December 31, 1981. Since many policies may be involved in a single occurrence, the maximum exposure of The Home in connection with an occurrence may not be limited to the largest amount insured on any one risk.

Following are earned premiums and pretax underwriting results for the property and casualty operations of The Home, prepared in accordance with generally accepted accounting principles. Underwriting results include the effects of allocating certain items, including general overhead, losses from involuntary pools and reserves for unreported claims and loss expenses, which are necessarily based on future rates of inflation and other factors.

Year Ended Dec. 31 (\$ millions)	1979	1980	1981
<b>Workers' compensation:</b>			
Earned premiums	\$ 274.4	\$ 287.0	\$ 301.4
Underwriting results	(12.2)	(34.7)	(81.1)
<b>Commercial property:</b>			
Earned premiums	\$ 283.1	\$ 282.6	\$ 301.7
Underwriting results	19.9	14.2	(12.0)
<b>Major lines:</b>			
Earned premiums	\$ 190.8	\$ 213.9	\$ 187.8
Underwriting results	(1.5)	(33.2)	(47.1)
<b>Personal auto:</b>			
Earned premiums	\$ 189.8	\$ 192.7	\$ 201.2
Underwriting results	(15.3)	(19.8)	(27.5)
<b>Commercial auto:</b>			
Earned premiums	\$ 145.4	\$ 158.6	\$ 179.5
Underwriting results	(2.9)	(9.5)	(21.1)
<b>General liability:</b>			
Earned premiums	\$ 81.5	\$ 86.1	\$ 78.9
Underwriting results	13.6	8.4	5.4
<b>Personal property:</b>			
Earned premiums	\$ 83.2	\$ 79.2	\$ 79.5
Underwriting results	(2.0)	(.9)	(.1)

Year Ended Dec. 31 (\$ millions)	1979	1980	1981
<b>Marine:</b>			
Earned premiums	\$ 58.9	\$ 60.7	\$ 58.0
Underwriting results	(6.5)	(7.5)	(12.3)
<b>Assumed reinsurance:</b>			
Earned premiums	\$ 35.4	\$ 39.4	\$ 59.8
Underwriting results	.7	(6.6)	.4
<b>Voluntary underwriting associations:</b>			
Earned premiums	\$ 128.0	\$ 131.7	\$ 166.4
Underwriting results	(6.5)	(5.3)	(2.5)
<b>Other lines:</b>			
Earned premiums	\$ 86.1	\$ 107.6	\$ 90.6
Underwriting results	(39.5)	(40.2)	(40.4)
<b>Total</b>			
Earned premiums	\$1,556.6	\$1,639.5	\$1,704.8
Underwriting results	\$ (52.2)	\$ (135.1)	\$ (238.3)

Underwriting results of The Home in the past three years were adversely affected by a number of industry and economic factors. Intense price competition, particularly in commercial lines, combined with regulatory and public resistance to premium rate increases, limited the company's ability to raise rates. High levels of inflation have also affected The Home's results in the past three years, as did unusually heavy losses from catastrophic storms in 1979. Price competition is expected to continue to adversely affect property and casualty insurance operations in 1982.

Workers' compensation has shown increased underwriting losses because of increases in mandated benefits, higher settlements and awards, and, particularly in 1981, a significant strengthening of unpaid loss reserves. In 1980 and 1981, premium growth slowed as price competition intensified and levels of industrial activity and employment moderated. The increase in premium volume in 1981 is due primarily to increased payrolls and employment levels through the first half of the year. The decline in employment that began in the second half of 1981 and intense competitive pressures are expected to impede premium growth in 1982. Underwriting losses from involuntary pools in 1979, 1980 and 1981, accounted, respectively, for \$9.8 million, \$22.0 million and \$9.4 million. The 1980 loss includes \$15 million of legislated increases in Black Lung benefits in three states.

Commercial property, including both commercial multi-peril packages and fire insurance, has shown little earned premium growth during the three-year period. Price competition, which intensified in this line early in 1979 and continued through 1981, has resulted in greater amounts of insured risks, in part attributable to inflation, without corresponding premium rate increases.

Major lines, primarily the underwriting of casualty insurance for commercial clients whose premium per account is \$300,000 or more, has experienced vigorous competition from a variety of programs, including self-insurance, resulting in intensified competition for the remaining business. Increased paid losses, additions to unpaid loss reserves and losses from involuntary pools were responsible for greatly increased losses in the company's major lines in 1980 and 1981.

Personal auto results have been adversely affected by inflation in claim settlements, increased underwriting expenses, losses from involuntary pools and the inability to obtain sufficient rate increases due to regulatory and competitive conditions.

Earned premium growth in commercial auto improved in 1981 from that of 1980 following The Home's increased marketing emphasis. Increasing claim and underwriting costs further exceeded premium rate increases, which have been subject to intensive price competition.

General liability, which insures against third-party claims, showed a decline in earned premiums due to price competition and a shifting of these risks into commercial multi-peril package products. The Home's coverage of municipal risks in these product lines, a major factor in the industry, has declined as these risks were transferred to self-insurance programs. The decrease in underwriting profit during 1981 was primarily attributable to rate increases that were insufficient to cover increased claim costs.

Intense competition and regulatory restrictions have limited growth in personal property earned premiums. Losses have been modest during the three-year period.

Marine insurance has had stable levels of earned premiums during the past three years. Underwriting losses during this period were primarily due to increases in the number of large losses.

Earned premiums of assumed reinsurance, excluding experience of the various voluntary and involuntary pools and associations, increased in 1981 as emphasis was placed on this line. The large underwriting loss experienced during 1980 includes the result of reserve strengthening during that year. The marginal gain in 1981, despite a 52% increase in earned premiums, reflects the impact of price competition and increased claim costs.

The Home records its percentage participations in voluntary underwriting associations, principally AFIA, based on periodic reports received from the associations.

Other lines include excess coverage, surety and boiler and machinery. Profitability during the three-year period has been adversely affected by substantial additions made to unpaid loss reserves to provide for higher anticipated payments under excess lines policies.

#### **Life, Accident and Health Insurance**

Life, accident and health insurance is written through Federal Home Life Insurance Company throughout the United States (except New York) and Canada. Life and health insurance is written in New York by PHF Life Insurance Company, which also writes credit life and credit accident and health insurance in 40 states. These companies are now represented by 850 general agents and 10,400 brokers, who are paid on a commission basis and who generally also represent other companies.

Revenues and earnings reached record levels in 1981. Revenues, including earned premiums and investment income, rose 10%, to \$176.5 million, and income from operations rose 15%, to \$17.2 million. Assets grew to \$410 million by year-end 1981. Life insurance in force rose to \$5.3 billion, an increase of 14%, comprising \$2.4 billion of individual life, \$1.7 billion of group life and \$1.2 billion of credit life.

### Investment Income

Investment income is derived from the investment portfolios of City's insurance subsidiaries. Investment income rose significantly in 1981, principally as a result of increased yields and continued strong cash flow.

Investment results of the portfolio are summarized below:

Year Ended Dec. 31 (\$ millions)	1979	1980	1981
Net investment income(1) (2)	\$156.1	\$211.6	\$275.6
Return on invested assets at book	7.15%	8.72%	10.19%
Net gains (losses):			
Realized(2)	\$ —	\$ 10.6	\$ 6.6
Unrealized(3)	\$ 36.6	\$ (5.3)	\$ 2.4

(1) After deduction of investment expenses, but before gains and losses on sale of securities. (2) Before income taxes. (3) Represents the change in market value of equity securities from the beginning to the end of the period, net of deferred Federal taxes applicable to the excess of book basis of certain securities over tax basis.

The following table summarizes the investment portfolios of City's insurance subsidiaries:

December 31 (\$ millions)	1980	1981	Yield*
Commercial paper	\$ 204.5	\$ 127.8	12.92%
Other cash equivalents	52.7	12.0	12.81
Total short-term investments	257.2	139.8	12.91
Taxable bonds	979.3	1,557.3	12.64
Non-taxable bonds	594.2	599.6	6.45
Redeemable preferred stocks	161.7	179.4	10.24
Total fixed maturities (principally at amortized cost)	1,735.2	2,336.3	10.87
Non-redeemable preferred stocks	10.3	7.1	8.91
Common stocks	410.2	289.4	8.49
Total equity securities (at market)	420.5	296.5	8.50
Mortgages and policy loans	52.6	55.0	6.62
<b>Total</b>	<b>\$2,465.5</b>	<b>\$2,827.6</b>	<b>10.64</b>

\* At December 31, 1981, annualized.

### Insurance Regulation

City's insurance subsidiaries are subject to regulation and supervision in the various states where they transact business. The extent of regulation varies but generally has its source in state statutes which delegate regulatory authority to departments of insurance. Regulation generally covers standards of solvency which must be met and maintained, licensing of insurers and their agents, the nature of and limitations on investments, premium rates, restrictions on the size of risks which may be insured under a single policy, provisions for unearned premiums, losses and other purposes, deposits of securities for the benefit of policyholders and approval of policy forms. Insurance departments also conduct periodic examinations of insurance companies and require filing of annual and other reports relating to financial condition and other matters.

The amount of business a property and casualty insurance company may write is based in part on the amount of its policyholders' surplus as determined in accordance with applicable insurance regulations. At December 31, 1980 and 1981, policyholders' surplus of The Home and its subsidiaries, as determined in accordance with New Hampshire law, the state of The Home's incorporation, was \$641.6 million and \$637.7 million, respectively, and the premiums-to-surplus ratio was 2.6 to 1 and 2.7 to 1, respectively.

## Management's Discussion and Analysis of Results of Operations and Financial Position

### Selected Financial Data

Year Ended Dec. 31 (\$000, except per share data)	1977	1978	1979	1980	1981
Total revenues	\$3,064,911	\$3,791,875	\$5,040,710	\$5,386,178	\$5,796,594
Income from operations	255,222	328,470	368,536	294,695	275,113
Net income	85,158	112,420	132,550	111,316	120,206
Total assets	\$4,663,732	\$5,783,419	\$6,865,456	\$7,688,809	\$8,522,028
Long-term debt	830,244	1,118,010	1,445,340	1,555,577	1,702,758
Shareholders' equity	733,474	793,516	927,042	1,000,385	1,056,289
Net income per share — assuming full dilution	\$ 2.36	\$ 3.06	\$ 3.60	\$ 3.01	\$ 3.25
Book value per share of common stock	18.66	21.42	26.75	27.68	29.08
Common stock cash dividends	.80	1.00	1.20	1.50	1.60



Daniel E. Lyons  
Executive Vice President and  
Chief Financial Officer

**M**any of City's businesses are sensitive to changing economic conditions. City's housing and housing-related products are affected by interest rate levels and home mortgage credit availability. Container and business form operations and industrial food services are affected by the general level of industrial activity. Property and casualty insurance operations are affected by inflation, which increases the cost of claims, and competitive pricing pressures, particularly during periods of high interest rates.

From 1977 through mid-1979, City experienced substantial growth in revenues and income from operations as a result of generally favorable economic conditions, credit availability and strong industrial activity. The growth in revenues during this period reflects substantial increases in units sold by the Company's various manufacturing and housing operations, growth through acquisitions, and increased prices, resulting principally from inflation. Beginning in mid-1979, City's operations were significantly affected by rising interest rates, double-digit inflation and recessionary conditions generally, and in many instances unit volume declined. As the prime interest rate reached record levels during 1980 and 1981, interest rates on parent company and subsidiary variable-rate obligations rose in proportion. In City's housing operations, record high interest rates eliminated many potential buyers from the market. Conversely, higher interest rates resulted in increased insurance company investment income.

**Common stock cash dividends**

77	\$ .80
78	\$1.00
79	\$1.20
80	\$1.50
81	\$1.60

**Book value per share of common stock**

77	\$18.66
78	\$21.42
79	\$26.75
80	\$27.68
81	\$29.08

Continued high interest rates, restrictions on the availability of consumer credit and mortgage loans and recessionary conditions in general are currently expected to adversely affect the revenues and income of certain of City's operations during 1982. Profitability may also be adversely affected by interest expense for borrowings under agreements providing for variable interest rates. The effect of high interest rates will be offset, in part, by anticipated yields on new investments of The Home. It is expected that new investments will be made from 1982 cash flow and proceeds from the maturities of short-term bonds and cash equivalents. In addition, 1982 investment income will benefit from proceeds of \$175 million in cash received from the sale of The Home Insurance Company headquarters building in September 1981, and \$84.5 million in cash from the sale of Seaboard Surety Company in January 1982.

**Total Revenues**

Units sold by City's manufacturing and housing operations increased significantly during the period 1977 to 1979. In 1980 and 1981, unit sales decreased in most operations due to the conditions described above. For further information concerning unit sales and price increases, see the description of City's operations beginning on page 5 herein.

In September 1978, pursuant to a cash tender offer, GDV acquired 63.5% of the outstanding stock of Servomation. The balance was acquired by merger in January 1979. This acquisition added \$112.4 million to 1978 revenues, representing operations for the fourth quarter, and \$488.2 million to 1979 revenues, its first full year of operation under GDV. Uarco was acquired for cash as of January 1, 1979, and contributed \$278.2 million to 1979 revenues.

As a measure of the effect of inflation on City's revenues over the five-year period, set forth below are City's historical revenues and revenues adjusted for inflation as measured by the Consumer Price Index:

( \$000 )	Historical amounts	Adjusted for inflation
1977	\$3,064,911	\$4,599,899
1978	3,791,875	5,286,114
1979	5,040,710	6,315,959
1980	5,386,178	5,944,874
<b>1981</b>	<b>5,796,594</b>	<b>5,796,594</b>

The decrease in revenues in 1980 and 1981, as adjusted for inflation, reflects a decrease in unit volume in many of City's businesses and the inability to match price increases to the general rate of inflation. See also Note 14 to Consolidated Financial Statements.

## Income from Operations

City's income from operations in 1978 and 1979 reflected growth in unit volume, price increases and the effects of major acquisitions, which are included in income from operations exclusive of interest costs on funds borrowed to finance the acquisitions. Servomation and Uarco contributed \$56.6 million to City's 1979 income from operations, their first full year of inclusion in City's results. In 1980 and 1981, income from operations declined as a result of abnormally high interest rates and recessionary conditions generally.

The other major factor affecting income from operations over the five-year period was property and casualty insurance results, as follows:

(\$000)	Underwriting results	Net investment income
1977	\$ 12,175	\$ 82,432
1978	20,923	102,150
1979	(52,188)	132,892
1980	(135,127)	185,676
<b>1981</b>	<b>(238,297)</b>	<b>246,766</b>

After reporting underwriting profits in 1977 and 1978, The Home, and the insurance industry generally, experienced intense price competition and double-digit inflation, which began in the latter half of 1979 and continued throughout 1980 and 1981, and resulted in significantly higher claim costs. Such price competition and inflation resulted in substantial losses in underwriting as reflected above. In addition, underwriting results in 1981 include an increase of \$50 million in insurance reserves, additional to the Company's continuing program of reserve strengthening. Increases in investment income resulted from substantial cash flows to the investment portfolio and from higher yields. The investment portfolio of the property and casualty insurance operation increased \$1.4 billion over the five-year period ended December 31, 1981, to \$2.5 billion.

## Corporate Items

In addition to those factors which affected total revenues and income from operations, City's net income reflects the effects of corporate items, principally administrative expense; interest expense; net gains on dispositions of assets; income taxes; securities gains; and minority interests.

Corporate administrative expense, which includes parent company amounts of City, The Home Group and GDV, amounted to \$27.2 million, \$28.5 million and \$24.2 million for the three years ended December 31, 1981. The \$4.3 million decrease in 1981 primarily resulted from reduced accruals for employee costs.

Corporate interest, which includes parent company amounts of City, The Home Group and GDV, amounted to \$98.1 million, \$119.6 million and \$162.0 million for the three years ended December 31, 1981. These increases reflect increases in borrowing levels and higher interest rates.

Net gains on dispositions of assets amounted to \$2.8 million, \$24.5 million and \$75.1 million for the three years ended December 31, 1981. See Note 7 to Consolidated Financial Statements for information on gains on dispositions of assets, provisions for write-down of securities investments and reserves for shutdowns of various operating facilities.

City's effective income tax rate is significantly lower than the statutory rate, primarily because of tax-free interest and the 85% dividends received deduction generated from the investment income of insurance operations. For the years ended December 31, 1980 and 1981, the effective income tax rates applicable to income from operations were 26.0% and 17.3%, respectively. The reduced effective income tax rate in 1981 reflects the application of the capital gains rate to gains arising from certain asset dispositions.

During 1980 and 1981, sales of securities by insurance subsidiaries resulted in after-tax gains of \$6.8 million and \$4.8 million, respectively. Realization of gain or loss on sales of securities is, to a certain extent, within the control of management, which determines the timing and selection of securities sold.

Minority interests decreased from \$31.7 million in 1979 to \$22.1 million in 1980 and totaled \$20.4 million in 1981. During 1980 and 1981, minority interests declined as a result of substantially reduced earnings of GDV and certain International operations, offset in 1981 by significantly increased earnings of the Company's Mexican operation.



## Financial Position

City generally has followed the practice of meeting its borrowing needs on the basis of a system in which each operating subsidiary finances its own capital requirements based on its own capitalization and liquidity positions. GDV and The Home Group, holding company subsidiaries of City, financed the acquisitions of Servomation and Uarco and the purchases of marketable securities, based on their respective capitalization and liquidity positions and, in the case of GDV's acquisition of Servomation, City's guaranty, which was subsequently released.

City's consolidated long-term debt increased \$872.5 million from year-end 1977 to year-end 1981 primarily in connection with the following activities (in millions):

Initial costs of acquisitions of Uarco and Servomation, including debt on subsidiary books at dates of acquisition	\$334.1
Additional shares of GDV acquired pursuant to cash tender offers	67.5
Community development	39.2
Magazine printing	50.8
Budget motels	115.7
Single-family homes	71.2
International activities, including costs of acquisitions	109.4
Investment in preferred stock of The Home Insurance Company	100.0
Other	(15.4)
Total	\$872.5

Of the \$872.5 million increase in long-term debt, \$124.6 million was incurred at the City parent company level, increasing its long-term debt to \$650.3 million at December 31, 1981; \$355.8 million was incurred at the GDV and The Home Group parent companies; and \$392.1 million was incurred at subsidiary operating units.

Substantially all parent company (City, GDV and The Home Group) internal sources of funds consist of dividends and income tax payments from subsidiaries. Consistent with the manner in which each operating subsidiary finances its own requirements, the earnings of most subsidiaries are subject to restrictions imposed by debt instruments and, in the case of insurance subsidiaries, by state regulations on the amounts of dividends they may pay.

City has ample financial resources in relation to its needs and plans. Assets have grown to \$8.5 billion and shareholders' equity to \$1.1 billion. Unused committed credits available to City and its subsidiaries at December 31, 1981, approximated \$571 million. Through recoveries from the

currently depressed housing and insurance industry cycles, the Company currently projects during the next five years significant increases in shareholders' equity and a related increase in the ratio of shareholders' equity to total capital. Commensurate with expected growth in shareholders' equity, the Company expects continuing increases in book value per share, which increased 56% from year-end 1977 to \$29.08 at December 31, 1981.

As a matter of policy, the Board of Directors has favored a progressive increase in City's common stock cash dividends. The common stock dividend has increased steadily, from an annual rate of \$.80 per share in 1977 to its present level of \$1.60 per share.

## Asset Disposition Plan

In September 1980, City announced plans for the disposition of certain assets having a book value of \$541 million and an estimated market value of \$800 million. City has made significant progress in this program. Sales totaling approximately \$431 million have been completed. Transactions completed in 1981 include sale of: Rheem's consumer freezer and Tipper Tie divisions; a leasehold interest in land in Long Beach, California; City's oil and gas subsidiaries, City Petroleum Company and City Exploration Company; and The Home's headquarters building in downtown New York City. In January 1982, the sale of Seaboard Surety Company was completed.

# Financial Report

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# Statement of Consolidated Income

City Investing Company  
and Subsidiaries

Year Ended December 31 (000, except per share data)	1979	1980	1981
<b>Total revenues</b>	\$5,040,710	\$5,386,178	\$5,796,594
<b>Expenses</b>			
Insurance company expenses	1,751,092	1,923,062	2,105,793
Operating costs	2,427,963	2,561,227	2,754,228
Selling and general expenses	319,311	387,526	403,623
Depreciation and amortization	87,628	104,950	112,250
Interest and debt expense, net	86,180	114,718	145,587
<b>Total expenses</b>	<b>4,672,174</b>	<b>5,091,483</b>	<b>5,521,481</b>
<b>Income from operations</b>	<b>368,536</b>	<b>294,695</b>	<b>275,113</b>
Corporate administrative expense (1)	27,223	28,504	24,193
Corporate interest and debt expense, net (1)	98,103	119,588	161,953
Gains on dispositions of assets, net	(2,760)	(24,463)	(75,142)
Income taxes	81,758	44,402	28,322
Net gains on sales of securities, net of income taxes of \$3,834 and \$1,858 (2)	—	(6,798)	(4,776)
Minority interests	31,662	22,146	20,357
<b>Net income</b>	<b>\$ 132,550</b>	<b>\$ 111,316</b>	<b>\$ 120,206</b>
Net income per share — assuming full dilution (3)	\$ 3.60	\$ 3.01	\$ 3.25
Average shares — assuming full dilution (3)	37,173	37,193	37,093

(1) Corporate administrative expense and corporate interest and debt expense, net, include parent company expenses of City Investing Company, The Home Group, Inc. and GDV, Inc.

(2) Net gains on sales of securities represent realized gains of insurance subsidiaries. Amounts exclude unrealized appreciation (depreciation) of equity securities of \$36,559, \$(5,309) and \$2,412 for the three years ended December 31, 1981.

(3) Average primary shares outstanding were 23,175, 27,862 and 32,568 for the three years ended December 31, 1981. The increase in the 1980 and 1981 periods reflects substantial conversions of convertible securities into common stock. Primary net income per share was \$5.07, \$3.66 and \$3.53 for the respective periods.

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheet

<b>Assets</b>	December 31 (\$000)	1980	1981
<b>Current assets, excluding insurance and financial companies</b>			
Cash		\$ 72,895	\$ 59,011
Accounts receivable, less allowances, \$11,157 and \$10,032		372,538	439,676
Contracts receivable from homesite sales, net		25,890	26,540
Inventories		532,396	529,308
Other		49,340	71,242
		1,053,059	1,125,777
<b>Investments of insurance and financial companies</b>			
Fixed maturities, principally at amortized cost (market \$1,413,629 and \$1,843,264)		1,737,753	2,343,701
Equity securities at market value (cost \$465,542 and \$338,835)		420,468	296,477
Mortgage loans		822,952	955,668
Short-term investments		331,019	229,544
Other		149,357	129,037
		3,461,549	3,954,427
Insurance premiums receivable		520,669	618,101
Deferred insurance policy acquisition costs		212,006	222,925
Property, plant, equipment and capital leases, net		1,042,178	1,166,107
Other investments and long-term receivables			
Contracts receivable from homesite sales, net		156,461	191,444
Homesite land and improvements		59,152	56,408
Other		150,525	123,347
		366,138	371,199
Carrying amount over the equity in net assets of subsidiaries		552,507	538,666
Assets of underwriting associations, principally AFIA		191,230	177,588
Other assets, principally of insurance and financial companies		289,473	347,238
<b>Total assets</b>		<b>\$7,688,809</b>	<b>\$8,522,028</b>

See accompanying notes to consolidated financial statements.

<b>Liabilities and Shareholders' Equity</b>	December 31 (\$000)	1980	1981
Current liabilities, excluding insurance and financial companies			
Notes payable		\$ 137,711	\$ 150,052
Accounts payable		190,006	204,634
Accrued pension and other employee benefits		40,758	42,241
Accrued interest		33,711	36,365
Other accrued liabilities		160,544	175,441
Current maturities of long-term debt		64,569	70,622
Income taxes payable		21,261	34,337
		648,560	713,692
Reserves and liabilities of insurance and financial companies			
Unpaid losses, loss expenses and future policy benefits		2,005,468	2,294,789
Unearned premiums		775,023	813,356
Savings accounts		678,520	801,333
Loans payable		126,052	176,234
Other		330,551	461,570
		3,915,614	4,547,282
Long-term debt		1,555,577	1,702,758
Obligations under capital leases		77,528	73,042
Deferred income taxes		212,456	182,554
Other liabilities		107,576	115,006
Minority interests		121,113	81,405
Redeemable preferred stock of subsidiary		50,000	50,000
Shareholders' equity			
Cumulative preference stocks (preference in involuntary liquidation \$139,010 and \$82,196)		5,008	3,334
Common stock		39,934	42,906
Capital surplus		563,504	564,724
Unrealized depreciation of equity securities held by insurance companies		(34,007)	(31,595)
Unrealized foreign currency translation adjustments		—	(11,769)
Retained earnings		436,355	499,055
Cost of common stock in treasury		(10,409)	(10,366)
Total shareholders' equity		1,000,385	1,056,289
Commitments and contingent liabilities			
Total liabilities and shareholders' equity		\$7,688,809	\$8,522,028

## Statement of Consolidated Capital Surplus

City Investing Company  
and Subsidiaries

Year Ended December 31 (\$000)	1979	1980	1981
Balance at beginning of year	\$542,176	\$548,545	\$563,504
Conversion of preference stocks	(617)	(3,449)	(1,342)
Conversion of debentures	6,981	21,391	2,508
Miscellaneous	5	(2,983)	54
<b>Balance at end of year</b>	<b>\$548,545</b>	<b>\$563,504</b>	<b>\$564,724</b>

## Statement of Consolidated Retained Earnings

Year Ended December 31 (\$000)	1979	1980	1981
Balance at beginning of year	\$288,156	\$377,792	\$436,355
Net income	132,550	111,316	120,206
	420,706	489,108	556,561
Dividends declared			
Cumulative preference stocks	15,068	9,221	4,957
Common stock	27,846	43,532	52,549
	42,914	52,753	57,506
<b>Balance at end of year</b>	<b>\$377,792</b>	<b>\$436,355</b>	<b>\$499,055</b>

See accompanying notes to consolidated financial statements.

# Statement of Changes in Consolidated Financial Position

City Investing Company  
and Subsidiaries

Year Ended December 31 (\$'000)	1979	1980	1981
<b>Source of funds</b>			
Net income	\$ 132,550	\$ 111,316	\$ 120,206
Non-fund charges (credits) to income			
Increases in insurance reserves, premiums receivable, net, and deferred insurance policy acquisition costs	288,773	262,957	266,119
Depreciation and amortization	87,628	104,950	112,250
Gains on disposition of assets, net	(2,760)	(24,463)	(75,142)
Interest credited to savings accounts	21,490	21,452	49,612
Deferred income taxes	17,700	5,400	(35,200)
Other, net	18,859	(35,832)	44,726
Funds provided from operations	564,240	445,780	482,571
Bank and other borrowings	382,706	268,022	288,197
Proceeds from asset disposition program	—	9,614	336,892
Net increase in savings accounts and loans payable	42,278	86,693	104,187
Issuance of common stock on conversion of debentures and preference stocks	8,227	26,796	4,138
Working capital of companies acquired	53,676	(1,355)	20,143
	\$1,051,127	\$ 835,550	\$1,236,128
<b>Application of funds</b>			
Reduction of long-term debt	\$ 77,108	\$ 166,252	\$ 165,059
Cash dividends	42,914	52,753	57,506
Increase (decrease) in investments of insurance and financial companies			
Fixed maturities	174,742	366,533	605,948
Equity securities	183,030	(346,693)	(123,991)
Mortgage loans	73,669	106,703	113,409
Other	62,659	154,673	(82,590)
	494,100	281,216	512,776
Additions to property, plant and equipment	220,288	201,054	249,917
Acquisitions of companies	192,761	55,224	80,869
Increase in notes and contracts receivable	21,329	27,111	71,778
Increase in working capital	65,232	5,590	7,586
Other, net	(62,605)	46,350	90,637
	\$1,051,127	\$ 835,550	\$1,236,128
<b>Working capital increase by component</b>			
Cash	\$ (50,574)	\$ 4,600	\$ (13,884)
Inventories	135,937	11,863	(3,088)
Other current assets	93,033	16,203	89,690
Notes payable	(19,068)	(9,626)	(12,341)
Current maturities of long-term debt	11,691	(15,556)	(6,053)
Accounts payable and other current liabilities	(105,787)	(1,894)	(46,738)
	\$ 65,232	\$ 5,590	\$ 7,586

See note 12 to consolidated financial statements for additional information regarding acquisitions of companies.

See accompanying notes to consolidated financial statements.

**Notes to  
Consolidated Financial  
Statements**

City Investing Company  
and Subsidiaries

**1. Principles of Consolidation**

The consolidated financial statements include the accounts of all significant subsidiaries. The accounts of insurance subsidiaries and the savings and loan subsidiary are included as insurance and financial companies.

In late 1981, City acquired 2,879,440 shares of GDV, Inc. common stock at a cost of \$57,872,000 pursuant to a cash tender offer, increasing City's ownership to 98.6% from 80.3%.

During 1980 certain foreign companies, including a photographic processing business based in The Netherlands and Belgium, were acquired for cash and notes aggregating \$26,681,000, and during 1981 the minority interest in the photographic processing business was acquired at a cost of \$7,938,000. Also during 1981, City's jointly-owned Mexican manufacturing operation acquired 52% of a steel pipeline manufacturing business at a cost of \$13,042,000.

During 1979 and 1980, GDV purchased from Sambo's Restaurants, Inc., Cumulative Convertible Voting Preferred Stocks for \$13,659,000 and \$15,000,000, respectively, in cash. The shares are convertible into approximately 34% of the then-outstanding common stock of Sambo's. Sambo's is currently the subject of reorganization proceedings under the Federal bankruptcy laws, and in 1981, GDV established a reserve in the full amount of its investment.

In December 1981, the Financial Accounting Standards Board issued Statement No. 52, *Foreign Currency Translation*, which revised standards of financial accounting and reporting for foreign currency transactions and for translating foreign currency financial statements. The Company adopted the revised standards as of January 1, 1981, the effect of which was insignificant to results of 1981, including the quarterly periods thereof. Unrealized foreign currency translation adjustments are accumulated as a separate component of shareholders' equity and aggregated \$2,256,000 at January 1, 1981. Translation adjustments during 1981 aggregated \$9,513,000 and the year-end unrealized balance amounted to \$11,769,000.

For additional information regarding acquisitions of companies, see Note 12 to Consolidated Financial Statements. For information regarding net gains on dispositions of assets, see Note 7 to Consolidated Financial Statements.

The carrying amount over the equity in net assets of subsidiaries is not being amortized except where there is an indication of diminution in value or for amounts arising after October 31, 1970, which are being amortized over periods of 40 years or less. The amounts being amortized at December 31, 1980 and 1981, were \$248,317,000 and \$237,526,000, respectively. Amounts charged to expense were \$6,324,000, \$7,226,000 and \$10,612,000 for the three years ended December 31, 1981.

All significant intercompany items are eliminated in consolidation. Amounts for 1979 and 1980 have been reclassified to conform to the 1981 presentation.

**2. Specialized Industry Accounting Practices**

**Insurance Accounting.**

Unearned premiums and deferred insurance policy acquisition costs are recognized in the statement of income ratably over the terms of the policies. The method followed in computing deferred insurance policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. In determining estimated realizable value, the computation gives effect to the premium to be earned, related investment income, losses and loss expenses and certain other costs expected to be incurred as the premium is earned.



Unpaid losses and loss expenses are based on case-basis estimates for reported claims and on estimates, based on experience, for unreported claims and loss expenses. The provision for unpaid losses and loss expenses, net of estimated salvage recoverable, at December 31, 1980 and 1981, has been established to cover the estimated net cost of insured losses. The amounts are necessarily based on estimates of future rates of inflation and other factors, including the time value of money, and, accordingly, there can be no assurance that the ultimate liability will not exceed such estimates.

Investments in equity securities, which include common stocks and non-redeemable preferred stocks, are carried at market value. Unrealized appreciation or depreciation of equity securities is shown as a separate component of shareholders' equity, but is not included in the determination of net income. Unrealized depreciation at December 31, 1981, before income tax benefit, reflects unrealized gains of \$15,953,000 and unrealized losses of \$58,311,000. Unrealized depreciation at December 31, 1980 and 1981, is after income tax benefit resulting from excess of book basis of certain securities over tax basis of \$11,067,000 and \$10,763,000, respectively. Investments in fixed maturities, which include bonds, certificates of deposit and redeemable preferred stocks, are carried at cost or amortized cost and, accordingly, unrealized changes in the market value thereof are not reflected on the income statement or balance sheet. An identified certificate basis is used to determine cost of securities sold.

**Real Estate Accounting.**

Homesite sales are made by GDV under non-recourse installment contracts which require payments over an average period of ten years. A sale is recorded when aggregate payments equivalent to 10% of the contract price have been received. The gross profit on recorded sales is deferred and recognized in income on a pro rata basis as payments of principal are received. Deferred profit amounted to \$106,779,000 and \$126,115,000 at December 31, 1980 and 1981, respectively. Costs and direct expenses are recorded at the time the sale is recognized.

Sales of homesites are generally made in advance of the completion of land improvements. The estimated cost of such improvements to be completed in the future is accrued when the sale is recorded. The unexpended cost to complete areas from which homesites are presently offered for sale was estimated to be \$160,600,000 and \$197,000,000 at December 31, 1980 and 1981, respectively, of which \$57,829,000 and \$55,981,000, respectively, related to homesites sold was accrued in the balance sheet, including \$21,400,000 and \$32,600,000, respectively, classified as a current liability.

**3. Inventories**

Inventories are stated at the lower of cost (generally first-in, first-out and average) or market. Year-end balances are summarized as follows (in thousands):

	1980	1981
Raw materials and work in process	\$270,556	\$268,182
Finished goods	87,776	77,092
Subdivision land and houses	101,362	117,732
Homesite land, improvements and houses	52,273	46,870
Food and vending machine products	20,429	19,432
	\$532,396	\$529,308

#### 4. Property, Plant, Equipment and Capital Leases

Depreciation is recorded principally on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortization provisions include amortization of capital leases. The Company generally follows the practice of amortizing investment tax credits. Year-end balances follow (in thousands):

	1980	1981
Land and improvements	\$ 70,815	\$ 77,403
Buildings and leasehold improvements	585,331	608,951
Machinery and equipment	957,013	1,087,352
Accumulated depreciation and amortization	(570,981)	(607,599)
	\$1,042,178	\$1,166,107

Leases that transfer substantially all the benefits and risks incident to the ownership of property are considered capital leases and are reflected as assets and liabilities in the balance sheet. Assets recorded under capital leases, primarily buildings and leasehold improvements of the Company's budget motel subsidiary, amounted to \$108,651,000 and \$107,550,000 at December 31, 1980 and 1981, respectively. Related accumulated amortization was \$35,253,000 and \$35,873,000. Minimum payments due under capital leases for the years subsequent to December 31, 1981, are as follows (in thousands):

	1982	1983	1984	1985	1986	Thereafter	Total
Minimum payments	\$ 12,226	\$ 11,489	\$ 10,500	\$ 9,904	\$ 9,853	\$107,402	\$161,374
Imputed interest							(84,074)
Current amount							(4,258)
Obligations under capital leases							\$ 73,042

#### 5. Long-Term Debt

Year-end balances, exclusive of amounts due within one year, are summarized as follows (in thousands):

	1980	1981
Notes payable to banks under revolving credit agreements, due through 1989, average interest rate 16.13%	\$ 663,300	\$ 783,100
Loans payable to insurance companies, due through 1997, average interest rate 9.32%	276,577	252,581
Sinking fund debentures, due through 1997, average interest rate 9.05%	195,250	186,485
Subordinated debentures, due through 1991, average interest rate 8.02%	88,838	83,645
Notes secured by property and equipment, subdivision land and houses, and real estate, average interest rate 16.37%	145,480	153,356
Guaranteed notes, due through 1988, average interest rate 14.46%	85,000	81,800
Foreign subsidiary borrowings, average interest rate 21.86%	33,524	52,798
Other notes payable, average interest rate 13.14%	100,276	138,054
Unamortized discount	(32,668)	(29,061)
	\$1,555,577	\$1,702,758

Interest rates represent average stated rates at December 31, 1981, except for borrowing rates in effect under revolving credit agreements, which are based on the December 31, 1981, prime lending rate or the London interbank offering rate. The stated interest rates are effectively increased by the amortization to interest expense of debt discount. Consolidated long-term debt at December 31, 1980 and 1981, including current maturities, had a weighted average interest rate of approximately 15.4% and 14.0%, respectively. Included in corporate interest and debt expense, net, are gains from redemption of debentures of \$5,855,000, \$8,788,000 and \$2,671,000 for the three years ended December 31, 1981. Interest and debt expense, net, of subsidiaries is shown net of amounts capitalized of \$13,792,000, \$17,647,000 and \$27,146,000 for the three years ended December 31, 1981.

In connection with certain revolving credit and other bank borrowings, the Company maintains cash compensating balances or pays fees in lieu thereof. During 1981, the average compensating balance was approximately \$27.4 million, and approximately \$32.0 million was maintained at December 31, 1981. At December 31, 1981, the unused portion of commitments under revolving credit agreements amounted to \$480 million, and the Company also had available an aggregate of \$91 million of unused short-term lines of credit. Terms of the revolving credit agreements generally call for a fee of ½ % per annum on the unused portion. Maturities of long-term debt during the five years subsequent to December 31, 1981, are as follows (in thousands):

	1982	1983	1984	1985	1986
Revolving credit agreements	\$ —	\$ 45,900	\$137,950	\$149,074	\$182,574
Insurance company loans	23,828	26,128	34,462	34,462	34,960
Subordinated debentures	2,500	2,500	2,500	2,500	4,581
Notes secured by property and equipment	15,969	12,865	12,307	12,114	12,195
Guaranteed notes	3,200	3,200	28,400	3,200	5,000
Foreign subsidiary borrowings	18,304	13,959	15,998	12,319	6,404
Other	6,821	5,076	4,203	17,209	24,953
<b>Total</b>	<b>\$70,622</b>	<b>\$109,628</b>	<b>\$235,820</b>	<b>\$230,878</b>	<b>\$270,667</b>

Subordinated debentures at December 31, 1981, include debentures with a principal amount of \$6,514,000 convertible into common stock at \$16.50 per share. Included in loans payable of insurance and financial companies is \$37,000,000 of notes payable to banks by the savings and loan subsidiary. The notes are repayable in 20 quarterly installments of \$1,850,000, commencing October 1, 1983, and bear interest at 9¼ %.

The Company has complied with the restrictions and limitations required under the terms of various loan agreements. Retained earnings not subject to restrictions at December 31, 1981, approximated \$184 million. Substantially all of City's income consists of earnings of subsidiaries. Since the earnings of most subsidiaries are subject to restrictions imposed by debt instruments or applicable law on the amount of funds that may be paid in the form of loans, advances or dividends, these earnings are not necessarily available to City on a current basis. At December 31, 1981, subsidiary net assets aggregating approximately \$300 million were not subject to such restrictions.

**6. Capital Stock**

Authorized capital stock consists of 15,000,000 shares of \$1.00 par value cumulative preference stock issuable in series and 60,000,000 shares of \$1.25 par value common stock. Capital stock information as of and for the three years ended December 31, 1981, is summarized as follows (dollars in thousands):

Issued at December 31	Common	Series A	Series B	Series D
<b>1978</b>				
Shares	23,369,912	53,636	7,704,595	2,000
Amount	\$ 29,213	\$ 134	\$ 7,705	\$ 2,000
<b>1979</b>				
Shares	24,861,036	43,277	7,055,947	1,750
Amount	\$ 31,076	\$ 108	\$ 7,056	\$ 1,750
<b>1980</b>				
Shares	31,947,058	33,329	3,425,499	1,500
Amount	\$ 39,934	\$ 83	\$ 3,425	\$ 1,500
<b>1981</b>				
Shares	34,324,644	28,255	2,013,284	1,250
Amount	\$ 42,906	\$ 71	\$ 2,013	\$ 1,250

Common shares issued during the three years ended December 31, 1981, are summarized as follows:

	1979	1980	1981
Conversion of preference stocks	1,033,399	5,683,471	2,213,147
Conversion of debentures	457,725	1,402,551	164,439
<b>Total</b>	<b>1,491,124</b>	<b>7,086,022</b>	<b>2,377,586</b>

Preference stock activity, other than conversions, reflects redemptions of series D preference stock.

Common stock issued includes 829,117 and 825,717 treasury shares at December 31, 1980 and 1981, respectively. During 1979, 1980 and 1981, respectively, 1,900, 14,264 and 3,400 treasury shares were reissued.

Each share of cumulative preference stock is entitled to one vote. Each series A and B share is convertible into 2.08 and 1.56 common shares, respectively, subject to customary anti-dilution adjustments. Preference shares are redeemable at the option of the Company as follows: series A, \$49.00; series B, \$40.00; and series D, \$1,000.00. The series A shares are carried at their stated value of \$2.50 and the series D shares are carried at their liquidation preference of \$1,000.00. The annual dividends on series A, series B and series D shares are \$1.31, \$2.00 and \$100.00, respectively. The preference in involuntary liquidation on preference shares is as follows: series A, \$14.70 per share, series B, \$40.00 per share and series D, \$1,000.00 per share.

At December 31, 1981, there were 3,199,493 shares of common stock reserved for the conversion of preference stock, 887,058 shares reserved for issuance upon the conversion of outstanding debentures and warrants and 1,200,000 shares reserved for issuance under the Company's share unit plan. Warrants which expire on March 1, 1984, are outstanding to purchase 492,270 shares of common stock at \$27.30 per share. Warrants which expire on July 15, 1983, are outstanding to purchase 2,040,000 shares of GDV common stock from City at \$27.70 per share.

A subsidiary of the Company, The Home Group, Inc., is authorized to issue up to 10,000,000 shares of cumulative preferred stock, \$1.00 par value, of which 5,000,000 shares were outstanding at December 31, 1980 and 1981. This preferred stock is entitled to a sinking fund commencing December 1, 1986, sufficient to retire the preferred stock by December 1, 2005, has a stated annual dividend of \$1.10 per share, is redeemable for sinking fund purposes at \$10.00 per share plus accrued dividends and is currently redeemable at \$10.77 per share. Dividends on The Home Group preferred stock are reflected as minority interest in the Statement of Consolidated Income.

#### 7. Gains on Dispositions of Assets, Net

Gains on dispositions of assets, net, in 1979 include realized pretax gains from sales of certain security investments of \$11,039,000 and provision for litigation settlement against a City subsidiary of \$13,000,000 pretax. Amounts in 1980 reflect the sale of substantially all domestic oil and gas reserves and a realized pretax gain from sale of a security investment.

Gains on dispositions of assets, net, in 1981 include recognized gains on dispositions of assets of \$152,000,000, comprising a \$90,000,000 recognized gain from the sale of an office building in New York City and \$62,000,000 from sales of a leasehold interest in land, the Company's Tipper Tie unit, and the Company's remaining energy activities. Amounts in 1981 also include provisions of \$33,389,000 relating to the write-down of certain security investments, principally Sambo's Restaurants, Inc., and \$43,469,000 principally relating to operating losses and reserves for shutdown of various operating facilities, including those of certain foreign operations. Of the total gain arising from the sale of the New York City office building, \$45,532,000 was deferred and is being amortized over the term of a lease entered into by a subsidiary of the Company.

In January 1982, a subsidiary of the Company sold Seaboard Surety Company for \$84,500,000 in cash.

#### 8. Income Taxes

Provisions for income taxes include state income taxes of \$13,702,000, \$11,936,000 and \$16,395,000 and foreign income taxes of \$27,036,000, \$30,408,000 and \$35,142,000 for the three years ended December 31, 1981. A reconciliation between income taxes and the amount computed at the statutory Federal ordinary rate of 46% follows (in thousands):

	1979	1980	1981
Amount at statutory Federal ordinary rate	\$113,146	\$ 78,690	\$ 75,490
Tax-free interest and 85% dividends received deduction	(32,994)	(35,062)	(35,025)
State income taxes, net of Federal tax benefit	7,399	6,445	8,853
Income taxed at capital gains rate, net of preference tax	(2,907)	(3,203)	(9,854)
Investment tax credits	(6,550)	(6,561)	(9,032)
Miscellaneous items	3,664	4,093	(2,110)
	\$ 81,758	\$ 44,402	\$ 28,322

Deferred income tax provisions result from items which are reflected in income for tax purposes in different years than they are reflected in income for financial statement purposes. The source and income tax effects, primarily Federal, of these timing differences between book and taxable income are as follows (in thousands):

	1979	1980	1981
Installment accounting practices	\$ 11,500	\$(16,800)	\$(12,400)
Estimated salvage recoverable on insurance claims and deferred insurance policy acquisition costs	10,900	7,900	5,000
Accrued employee benefits	(6,900)	4,100	(800)
Depreciation and investment tax credits	(4,600)	(10,200)	15,200
Settlement of litigation expenditure	(5,800)	5,800	—
Accelerated interest income and deferred interest expense	1,000	(1,300)	(16,900)
Deferred gain on sale of building	—	—	(9,300)
Reserve for book losses	1,900	900	(10,800)
Miscellaneous items	9,700	15,000	(5,200)
	\$ 17,700	\$ 5,400	\$(35,200)

## 9. Earnings Per Share

Primary earnings per share is calculated by dividing income, after deducting dividends on the series B and D preference stocks, by the weighted average of common and common equivalent shares outstanding during the year. The cumulative preference stock convertible series A is included as a common stock equivalent. Primary net income per share for the 1980 and 1981 periods reflects substantial conversions of convertible securities into common stock.

Fully diluted earnings per share is calculated by dividing income, after adding back interest (net of the income tax effect) on debentures assumed converted and after deducting dividends on the series D preference stock, by the weighted average common and common equivalent shares outstanding during the year, with the assumption that outstanding convertible debentures and the series B preference stock were converted at the beginning of the year.

## 10. Pension and Share Unit Plans

Pension plans cover substantially all employees who meet eligibility requirements. Actuarial assumptions of the respective plans are generally standardized. Assets are reflected at estimated fair value.

Provisions charged against income include normal cost plus interest on unfunded past service costs and include amortization of prior service costs over 30 years. Total expense under pension plans was \$26,900,000, \$28,500,000 and \$30,300,000 for the three years ended December 31, 1981. Subsequent to the inception of the plans, it has been the policy of the Company generally to fund amounts provided. At January 1, 1980, and January 1, 1981, the date of the most recent actuarial valuation, the actuarial present value of accumulated plan benefits was \$211 million and \$255 million, respectively, of which \$195 million and \$227 million, respectively, was vested. Net assets available for benefits at those respective dates were \$186 million and \$251 million. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%.

The Company's share unit plan provides that participants receive, for each unit awarded, either common stock of the Company or cash equivalent to the increase in market value per share of the Company's common stock over a five-year period commencing on the date of award. In addition, each participant's account is credited with dividend units equivalent to cash dividends on total units in their account on dividend payment dates. Compensation is based on the increase in value of units awarded and the market value of accumulated dividend units.

### 11. Information About Segments of the Company's Operations

Information about the Company's operations in different industries as of and for the three years ended December 31, 1981, follows (in millions):

	Revenues	Operating Profit	Income from Operations	Depreciation and Amortization	Assets	Capital Expenditures
<b>1979</b>						
Manufacturing	\$1,285.9	\$123.2	\$ 97.4	\$ 30.5	\$ 877.5	\$ 78.1
International	565.5	72.4	49.2	12.1	429.8	28.9
Housing	747.0	96.8	78.1	8.2	1,361.9	17.1
Consumer Services	595.7	66.8	48.3	36.8	535.0	96.2
Insurance	1,846.6	95.5	95.5	—	3,569.5	—
Combined	\$5,040.7	\$454.7	\$368.5	\$ 87.6	\$6,773.7	\$220.3
<b>1980</b>						
Manufacturing	\$1,341.8	\$111.4	\$ 80.0	\$ 36.3	\$ 854.9	\$ 55.5
International	715.0	88.5	49.8	18.3	549.1	39.9
Housing	714.5	71.3	49.4	9.5	1,588.8	17.1
Consumer Services	626.8	73.1	50.4	40.8	591.7	88.5
Insurance	1,988.1	65.1	65.1	—	3,984.9	—
Combined	\$5,386.2	\$409.4	\$294.7	\$104.9	\$7,569.4	\$201.0
<b>1981</b>						
Manufacturing	\$1,468.0	\$133.3	\$103.1	\$ 38.2	\$ 908.9	\$ 86.6
International	732.6	109.3	50.2	21.1	614.0	36.8
Housing	788.4	60.9	30.6	10.3	1,838.2	42.3
Consumer Services	675.4	90.8	64.8	42.7	621.4	84.2
Insurance	2,132.2	26.4	26.4	—	4,450.7	—
Combined	\$5,796.6	\$420.7	\$275.1	\$112.3	\$8,433.2	\$249.9

Additional information with respect to revenues and income from operations of the Company's segments is presented elsewhere herein. Operating profit represents revenues less all operating expenses except interest expense. Income from operations represents revenues less all operating expenses including interest expense. Depreciation and amortization included in the determination of operating profit reflects, where applicable, amortization of carrying amount over equity in net assets. Additional items included in the determination of consolidated net income are reflected in the Statement of Consolidated Income.

Assets reflected for the respective segments include, where applicable, the carrying amount over equity in net assets. The difference between total combined assets in the preceding table and total assets in the consolidated balance sheet primarily represents corporate assets.

Information about the Company's operations in the United States and foreign countries as of and for the three years ended December 31, 1981, follows (in millions):

	Revenues	Operating Profit	Income from Operations	Assets
<b>1979</b>				
United States	\$4,261.3	\$369.3	\$307.2	\$6,084.1
Foreign Countries				
Manufacturing	56.7	6.7	5.8	39.1
International	565.5	72.4	49.2	429.8
Consumer Services	4.3	.2	.2	1.0
Insurance	152.9	6.1	6.1	219.7
<b>Combined</b>	<b>\$5,040.7</b>	<b>\$454.7</b>	<b>\$368.5</b>	<b>\$6,773.7</b>
<b>1980</b>				
United States	\$4,426.6	\$307.9	\$233.1	\$6,696.7
Foreign Countries				
Manufacturing	67.4	8.8	7.6	40.7
International	715.0	88.5	49.8	549.1
Consumer Services	5.0	.2	.2	1.3
Insurance	172.2	4.0	4.0	281.6
<b>Combined</b>	<b>\$5,386.2</b>	<b>\$409.4</b>	<b>\$294.7</b>	<b>\$7,569.4</b>
<b>1981</b>				
United States	\$4,754.3	\$293.7	\$208.9	\$7,472.7
Foreign Countries				
Manufacturing	75.1	7.8	6.1	44.3
International	732.6	109.3	50.2	614.1
Consumer Services	8.0	.5	.5	2.2
Insurance	226.6	9.4	9.4	299.9
<b>Combined</b>	<b>\$5,796.6</b>	<b>\$420.7</b>	<b>\$275.1</b>	<b>\$8,433.2</b>



Operations in foreign countries of the Manufacturing segment represent Canadian activities of the Business Forms, Water Heater and Container operations. Operations in foreign countries of the International segment are described under "International" beginning on page 10 herein. Operations in foreign countries of the Consumer Services segment represent Canadian operations of the Company's food services operations. Operations in foreign countries of the Insurance segment include the Company's participation in AFIA, an association of insurers engaged in insuring foreign risks, and its Canadian insurance operation.

## 12. Supplemental Information Regarding Changes in Consolidated Financial Position

Assets acquired and liabilities assumed in connection with acquisitions of companies for the three years ended December 31, 1981, are summarized as follows (in thousands):

	1979	1980	1981
Assets acquired			
Working capital	\$ 53,676	\$ (1,355)	\$ 20,143
Mortgage loans	—	43,616	19,307
Property, plant, equipment and capital leases	61,664	26,903	24,899
Carrying amount over equity in net assets	43,624	10,834	(1,289)
Other assets	3,263	34,280	1,587
	162,227	114,278	64,647
Less liabilities assumed			
Savings accounts	—	47,436	19,196
Long-term debt	18,168	762	20,540
Other liabilities	10,469	3,548	2,465
Net assets before minority interests	133,590	62,532	22,446
Minority interests acquired	59,171	(7,308)	58,423
Cost of acquired companies	\$192,761	\$ 55,224	\$ 80,869

A summary of major acquisitions during the three years ended December 31, 1981, follows (in thousands):

	1979	1980	1981
Shares of GDV, Inc.	\$ 9,600	\$ —	\$ 57,872
Minority interest of 36.5% in Servomation Corp.	70,098	—	—
Balance of 85.3% of Uarco Incorporated	90,881	—	—
Savings and loan acquisitions	—	8,316	2,017
Investment in Sambo's Restaurants, Inc.	13,659	15,000	—
Foreign companies	—	26,681	20,980
Other	8,523	5,227	—
	\$192,761	\$ 55,224	\$ 80,869

**13. Unaudited Quarterly Summary of Operations**

The following Summary of Operations for the four quarters of 1980 and 1981 is unaudited but, in the opinion of City's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the interim periods presented have been included. Caution should be exercised in comparing the results of consecutive quarterly periods, since many of City's businesses are seasonal (in thousands):

1980	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$1,307,705	\$1,342,789	\$1,345,161	\$1,390,523
Expenses				
Insurance company expenses	447,751	496,516	482,209	496,586
Operating costs	639,813	617,445	634,893	669,076
Interest and debt expense, net	27,897	29,958	27,469	29,394
Other expenses	117,566	119,736	125,296	129,878
Total expenses	1,233,027	1,263,655	1,269,867	1,324,934
Income from operations	\$ 74,678	\$ 79,134	\$ 75,294	\$ 65,589
Net income	\$ 26,711	\$ 30,673	\$ 32,172	\$ 21,760
Net income per share — assuming full dilution	\$ .72	\$ .83	\$ .87	\$ .59
<b>1981</b>				
Total revenues	\$1,413,127	\$1,479,561	\$1,405,497	\$1,498,409
Expenses				
Insurance company expenses	486,435	495,914	563,680	559,764
Operating costs	680,732	724,456	648,005	701,035
Interest and debt expense, net	33,678	40,638	37,993	33,278
Other expenses	131,862	134,412	119,772	129,827
Total expenses	1,332,707	1,395,420	1,369,450	1,423,904
Income from operations	\$ 80,420	\$ 84,141	\$ 36,047	\$ 74,505
Net income	\$ 28,419	\$ 31,652	\$ 36,583	\$ 23,552
Net income per share — assuming full dilution	\$ .77	\$ .85	\$ .99	\$ .64

Amounts for the 1981 third quarter reflect net pretax gains on dispositions of assets of \$58,865,000 which are classified separate from income from operations in the Statement of Consolidated Income.

Primary net income per share was \$.94, \$1.08, \$1.02 and \$.62 for the respective quarters of 1980 and \$.85, \$.95, \$1.07 and \$.66 for the respective quarters of 1981. Primary net income per share for 1980, particularly the third and fourth quarters, reflects substantial conversions of convertible securities into common stock.

#### 14. Unaudited Supplementary Information about the Effects of Changing Prices

##### Background.

The purpose of the supplementary information presented is to provide information with respect to the impact of general inflation (constant dollar) and specific price changes (current costs). The information presented herein is limited and is not necessarily comparable with that of other companies, including those companies within the respective industries in which the Company operates. Of additional significance is the effect of a fixed income tax amount on such data. Rules governing the presentation of this information prohibit adjusting income tax expense for the increase in costs determined under the constant dollar and current cost computations.

##### Constant Dollar Information.

Constant dollar accounting represents a method of reporting financial statement information in dollars having a fixed purchasing power. Under constant dollar accounting, historical costs of property, plant, equipment and capital leases and related depreciation and amortization expense are adjusted by using the Consumer Price Index for All Urban Consumers, "CPI-U." Inventories and the related effect of inventories on cost of sales included in operating costs are similarly adjusted. The constant dollar data is expressed in average 1981 dollars and reflects changes that have occurred in the purchasing power of the dollar as measured by the CPI-U. These amounts do not represent any measure of current value.

##### Current Cost Information.

Current cost accounting represents a method of measuring and reporting the number of dollars currently required to purchase or manufacture assets having the same service potential as specific assets owned by the Company. Current costs of property, plant, equipment and capital leases and related depreciation and amortization expense were determined by the application of appropriate indices supplied by appraisers. Where recent appraisals of land were available, such appraisals were updated on a sample basis.

Current costs, and related cost of sales included in operating costs, of Manufacturing inventories, including International, were determined primarily by indexation of historical amounts and, in certain instances, by application of the estimated average current cost of units sold during the year. Current costs of Housing inventories, including homesite land, are based on estimated current value of raw acreage, determined, in part, by recent sales of comparable properties and indexation of historical amounts of development costs. Related estimated cost of homesite improvements is representative of current cost and, therefore, no adjustment was necessary.

**Gain from Decline in Purchasing Power.**

A gain from decline in purchasing power of net amounts owed results from an excess of monetary liabilities (obligations to pay a fixed sum of money) over monetary assets (money or claims to an amount of money which is fixed). During periods of inflation, financing acquisitions of nonmonetary assets, such as property, plant and equipment, inventories and intangibles arising from acquisitions of companies, through incurrence of indebtedness will result in a gain from decline in purchasing power of net amounts owed, reflecting the reduced purchasing power required to satisfy the obligations. In the Company's consolidated balance sheet, a significant portion of assets is represented by assets classified as nonmonetary. Accordingly, the Company reflects a significant gain from decline in purchasing power of net amounts owed.

The following schedule reflects the effect of the application of the constant dollar and current cost methods of measuring the impact of inflation (in thousands) (1):

As of and for the year ended December 31, 1981	Constant dollars	Estimated current costs
Net income, as reported in the Statement of Consolidated Income	\$ 120,206	\$ 120,206
Inventory adjustments included in operating costs	60,299	28,660
Adjustments to depreciation and amortization expense	52,196	39,405
Total adjustments	112,495	68,065
Defined net income	\$ 7,711	\$ 52,141
Defined net income per share		
Primary	\$ .08	\$ 1.45
Assuming full dilution	.08	1.41
Gain from decline in purchasing power of net amounts owed	\$ 106,377	\$ 106,377
Net assets at beginning of year	\$1,320,136	\$1,262,160
Net assets at end of year	1,528,119	1,410,031
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year		\$ 136,974
Effect of increase in general price level		175,212
Excess of increase in the general price level over increase in specific prices		\$ 38,238

(1) See preceding summary comments.

Estimated current cost of inventories, including amounts classified as long-term, was \$703,310,000 at December 31, 1981, or \$117,594,000 higher than historical cost of \$585,716,000, of which \$87,665,000 was related to housing operations. Estimated current cost of property, plant, equipment and capital leases, net of accumulated depreciation and amortization, was \$1,410,000,000 at December 31, 1981, compared with historical cost of \$1,166,107,000.

Certain information for the five years ended December 31, 1981, on an historical basis and as adjusted for general inflation measured by changes in CPI-U follows (1):

(In thousands, except per share data and index)	1977	1978	1979	1980	1981
<b>Total revenues</b>					
Historical amounts	\$3,064,911	\$3,791,875	\$5,040,710	\$5,386,178	\$5,796,594
Adjusted for general inflation	4,599,899	5,286,114	6,315,959	5,944,874	5,796,594
<b>Defined net income — constant dollars</b>			\$ 66,517	\$ 23,263	\$ 7,711
Per primary share			2.06	.46	.08
Assuming full dilution			1.83	.46	.08
<b>Defined net income — current costs</b>			\$ 98,896	\$ 57,906	\$ 52,141
Per primary share			3.45	1.71	1.45
Assuming full dilution			2.70	1.58	1.41
<b>Gain from decline in purchasing power of net amounts owed</b>			\$ 169,712	\$ 165,902	\$ 106,377
<b>Excess of increase in the general price level over increase in specific prices</b>			\$ 119,513	\$ 108,254	\$ 38,238
<b>Common stock cash dividends per share</b>					
Historical amounts	\$ .80	\$ 1.00	\$ 1.20	\$ 1.50	\$ 1.60
Adjusted for general inflation	1.20	1.39	1.50	1.66	1.60
<b>Year-end common stock market price</b>					
Historical amounts	\$ 12.875	\$ 13.625	\$ 18.000	\$ 21.500	\$ 22.750
Adjusted for general inflation	18.846	18.292	21.328	22.665	22.015
<b>Consumer price index</b>					
Year-end	186.1	202.9	229.9	258.4	281.5
Average	181.5	195.4	217.4	246.8	272.4

(1) See preceding summary comments.



## Corporate Data

### Corporate Offices

59 Maiden Lane, New York, New York 10038  
Telephone (212) 530-7300

### Independent Auditors

Peat, Marwick, Mitchell & Co.

### Transfer Agents

Common Stock and Series A Preference Stock:  
Chemical Bank, 55 Water Street, New York, New York 10041

Common Stock and Series B Preference Stock:  
Bank of America, N.T.&S.A., P.O. Box 3702, San Francisco, California 94137  
Continental Illinois National Bank and Trust Company of Chicago,  
231 S. LaSalle Street, Chicago, Illinois 60690

Series B Preference Stock:  
Citibank, N.A., 111 Wall Street, New York, New York 10015

7½ % Convertible Subordinated Debentures:  
Marine Midland Bank, N.A., 250 Park Avenue, New York, New York 10017

8% and 8½ % Subordinated Debentures:  
Citibank, N.A., 111 Wall Street, New York, New York 10015

8¾ % Sinking Fund Debentures:  
First National Bank of Boston, P.O. Box 1897, Boston, Massachusetts 02105

9% and 9½ % Sinking Fund Debentures:  
Manufacturers Hanover Trust Company, Corporate Trust Department,  
40 Wall Street, New York, New York 10015

### Incorporation

City Investing Company was incorporated in New York in 1904 and reincorporated in Delaware in 1967.

### Properties

At December 31, 1981, City and its subsidiaries occupied approximately 26 million square feet of plant and office space in the United States, approximately 39% of which was leased. City believes that such properties, including the equipment located therein, are suitable and adequate to meet the requirements of businesses conducted therein. The facilities are, for the most part, being fully utilized.

### 1982 Annual Meeting

The annual meeting of stockholders of City Investing Company will be held at 10:00 a.m. on Friday, May 14, 1982, in the Conference Center at General Development Corporation's Sandpiper Bay Resort, Port St. Lucie, Florida.

### Form 10-K

On request, the Company will send to shareholders the additional financial information and schedules included in its Form 10-K filing with the Securities and Exchange Commission. Requests should be made in writing to the Secretary, City Investing Company, 59 Maiden Lane, New York, New York 10038.

### Summary of Dividends and Stock Prices

Common Stock: Dividends declared for each quarter of 1980 and 1981 were 37½ cents and 40 cents per share, respectively, and totaled \$1.50 and \$1.60 per share for each of the two years.

Preference Stocks: Series A and Series B Preference Stock dividends for each quarter of 1980 and 1981 were 32¾ cents and 50 cents per share, respectively, and totaled \$1.31 and \$2.00 per share during each of the two years.

The principal market for City's Common Stock and Series A and B Preference Stock is The New York Stock Exchange. The high and low sales prices for such securities for the periods indicated, as shown on the composite tape for issues listed on The New York Stock Exchange, were as follows:

Class of Stock	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
<b>1980</b>								
Common	19	14½	29	14⅞	30¼	22½	28¼	20¾
Series A	37	31¾	57	52	58	52½	52⅞	52⅞
Series B	29	22¼	45	23	46	35⅞	43¼	32¾
<b>1981</b>								
Common	27⅞	20⅞	30⅞	24¾	28⅞	20⅞	25	21⅞
Series A	47	43	*	*	53½	49½	49	47
Series B	42	32½	47	39	43	32	38½	33¾

\*Not traded

### Stockholders

Number of Record Holders January 4, 1982

Common Stock	34,736
Cumulative Preference Stocks	15,021

### Securities Listed

The New York Stock Exchange (Common, Series A & B Preference, 7½ % Convertible Subordinated Debentures, 8%, 8½ % Subordinated Debentures, 8⅞ %, 9% and 9½ % Sinking Fund Debentures)

Midwest Stock Exchange (Common, Series B Preference)

Pacific Stock Exchange (Common, Series B Preference)

Amsterdam Stock Exchange (Common)

Basle, Geneva, Lausanne and Zurich Stock Exchanges (Common)

Brussels and Antwerp Stock Exchanges (Common)

Frankfurt Stock Exchange (Common)

London Stock Exchange (Common, Series B Preference)

Luxembourg Stock Exchange (Common)

Paris Bourse (Common)

### Automatic Dividend Investment and Voluntary Share Purchase Plan

This plan enables shareholders to acquire additional shares of Common Stock by automatic investment of their dividends and additional cash purchases, if desired, without paying brokerage commissions or bank service charges. Shareholders may obtain a descriptive brochure by writing to: City Investing Company, Shareholder Services Department, P.O. Box 3192, Church Street Station, New York, New York 10008.



## Operating Management

### Manufacturing



George J. Papas  
Executive Vice President-  
Administration  
Rheem Manufacturing Company

Benjamin F. Cake  
President  
Rheem Container Division

Gregson L. Barker  
President  
Uarco Incorporated



Robert B. Gilbert  
President, Rheem Air  
Conditioning Division

Willis C. Hagan, Jr.  
President  
Hayes International Corporation

N. Clyde Oberlin  
President  
World Color Press, Inc.

WARCO

WORLD COLOR PRESS

ALMA plastics company

William E. Fahey  
President  
Rheem Water Heater Division

Daniel B. Dawley  
President  
Rheem Refrigeration  
Products Division

Leo Fleming  
President  
Alma Plastics Company

Rheem International, Inc.

### International

Rheem Metalúrgica S.A.

James V. Risk  
President  
Rheem International, Inc.

Tony Schreiber  
Managing Director  
TMT S.A., Belgium

Giuseppe Ranzini  
Managing Director  
Rheem Radi, S.p.A., and  
Rheem Safim, S.p.A., Italy



RASSINI RHEEM,  
S. A. DE C. V.

Michael Aerts  
Senior Vice President-Europe  
Rheem International, Inc.

Jan Bezemer and  
C.G.P. van Kleef  
Managing Directors  
Photofinishing International  
B.V., The Netherlands

Gary L. Tapella  
Managing Director  
Rheem Hume Pte. Limited  
Singapore



PHOTOFINISHING  
HOLDING INTERNATIONAL B.V.

Fernando Pernambuco  
Chairman  
Rheem Metalúrgica, S.A., Brazil

A. R. Sparrow  
Chairman  
Rheem Blagden Limited  
England

N. S. Park  
Managing Director  
Rheem South Africa (Pty.) Ltd.  
South Africa



Rheem  
Blagden  
Limited

Sergio Romero  
Managing Director  
Rassini Rheem, S.A. de C.V.,  
Mexico



WOOD BROS.  
HOMES

### Housing

Robert F. Ehrling  
President, General  
Development Corporation

William H. Tucker  
President  
Wood Bros. Homes, Inc.

Kenneth D. Childs  
President, Southern California  
Savings & Loan Association



SERVOMATION CORPORATION

### Consumer Services

William R. Avella  
President, Servomation Corp.

James A. Lucas  
President, Motel 6, Inc.



### Insurance

#### Corporate

Peter C. R. Huang  
Chairman & President  
The Home Insurance Company

Steven H. Newman  
Executive Vice President

John W. Hilton  
Senior Vice President-Claim

Joseph C. Kaminski  
Senior Vice President-  
Chief Financial Officer

John D. Russell  
Senior Vice President-  
Human Resources

Robert J. Seery  
Senior Vice President-  
Reinsurance & Excess Lines

Donald G. Smith  
Senior Vice President-  
Chief Investment Officer

Gordon P. Smith  
Senior Vice President-  
Management Information  
Services

John J. Welsh, Jr.  
Senior Vice President-  
Government & Industry  
Relations

Peter J. Wolfe  
Senior Vice President-  
Operations Management

#### Field

Henry P. Lenz  
Executive Vice President-  
Southern Region

Edward P. Sheridan  
Executive Vice President-  
Eastern Region

Robert B. Clune  
Senior Vice President-  
Western Region

James A. Kickler  
Senior Vice President-  
Midwestern Region

John M. Cantu  
President  
Federal Home Companies



INSURANCE  
HOME  
COMPANIES

## Officers and Directors

### Officers

Geo. T. Scharffenberger  
Chairman & Chief  
Executive Officer

Peter C. R. Huang  
President & Chief  
Operating Officer

Daniel E. Lyons  
Executive Vice President  
& Chief Financial Officer

Steven H. Newman  
Senior Vice President

Edward P. Sheridan  
Senior Vice President

David Fain Brown  
Vice President &  
General Counsel

Joseph L. DeMieri  
Vice President & Controller

John J. C. Herndon  
Vice President-  
Corporate Communications

John J. McHugh  
Vice President & Secretary

Lester J. Mantell  
Vice President &  
Director of Taxes

Frank R. Moothart  
Vice President

John J. Quirk  
Vice President & Treasurer

John D. Russell  
Vice President-  
Human Resources

Charles R. Carson  
Assistant Vice President &  
Assistant Treasurer

Herman N. Cohen  
Assistant Vice President-  
Human Resources

J. Barclay Collins II  
Assistant-Vice President &  
Assistant General Counsel

Eugene L. Ferretti  
Assistant Vice President

Thomas E. McDonnell  
Assistant Vice President &  
Director-Advertising  
& Public Relations

Virginia R. Ortleb  
Assistant to the Chairman

Wendell H. Bautz  
Assistant Secretary

James N. Castleberry  
Assistant Controller

Mauno Rydell  
Assistant Treasurer

Catherine A. Wahl  
Assistant Secretary

### Directors

Arthur C. Babson  
Director of various  
companies (1) (3)

F. L. Cappaert  
Cappaert Enterprises,  
Private investment company

Edwin I. Hatch  
of counsel to the firm of  
Troutman, Sanders,  
Lockerman and Ashmore;  
former Chairman, Georgia  
Power Company (3)

Peter C. R. Huang  
President & Chief  
Operating Officer

Joe E. Lonning  
Director & former Chairman,  
Kellogg Company (2)

Daniel E. Lyons  
Executive Vice President  
& Chief Financial Officer

Eben W. Pyne  
Senior Vice President,  
Citibank, N.A. (1) (2) (3)

Geo. T. Scharffenberger  
Chairman & Chief Executive  
Officer (1)

Elliot H. Stein  
President, Scherck, Stein &  
Franc, Inc., Members of  
The New York Stock  
Exchange (1) (2)

Fred R. Sullivan  
Chairman, President & Chief  
Executive Officer, Kidde, Inc. (2)

A. Lightfoot Walker  
Chairman of the Executive  
Committee (1)

John H. Washburn  
former Chairman, The Home  
Insurance Company (1)

### Advisory Committee to the Board

Sir David Barran  
Director & former Chairman,  
Shell Transport & Trading  
Company

John L. Gibbons  
former Advisor to the  
Fiduciary Division,  
Chemical Bank

Earle M. Jorgensen  
Chairman, Earle M.  
Jorgensen Company

Roswell Messing, Jr.  
former Chairman, World Color  
Press, Inc.

- (1) Member of the Executive Committee.  
(2) Member of the Accounting and Audit Committee.  
(3) Member of the Personnel Committee.



**City Investing Company**

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