City Investing Company Annual Report 1980

Financial Highlights

($ millions, except per share data)	1978	1979	**1980**
Total revenues	$3,791.9	$5,040.7	$5,386.2
Net income	112.4	132.6	111.3
Total assets	5,783.4	6,865.5	7,688.8
Common stock dividends	$ 22.5	$ 27.8	$ 43.5
Preferred stock dividends	15.7	15.1	9.2
Total dividends	38.2	42.9	52.7
Earnings per primary share	$ 4.27	$ 5.07	$ 3.66
Earnings per share — assuming full dilution	3.06	3.60	3.01
Book value per share of common stock	21.42	26.75	27.68
Common stock dividends per share	1.00	1.20	1.50
Employees	61,500	69,400	67,300
Shareholders	69,000	65,000	53,700

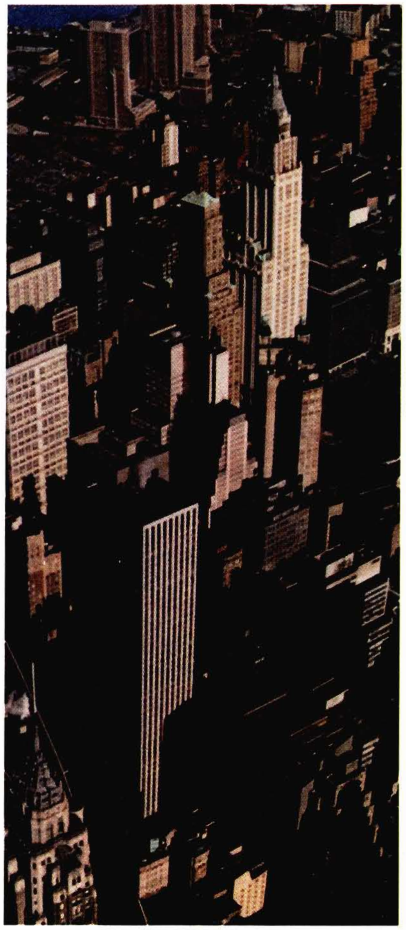
1981 Annual Meeting

The annual meeting of stockholders of City Investing Company will be held in the Auditorium (8th Floor) of The Harris Trust and Savings Bank, 111 West Monroe Street, Chicago, Illinois, at 11:00 a.m. on Friday, May 22, 1981. Commencing at 10 a.m., the Company will hold a shareholder information session, including a review of Company operations and a question and answer period.

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.

City Investing Company Annual Report 1980



In 1980, City Investing consolidated its corporate offices at its Home Insurance Company building, 59 Maiden Lane, in New York City.

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City Investing Company has five principal operating groups:

Domestic manufacturing includes the production of central air conditioning equipment, water heaters, steel and plastic shipping containers, and the printing of magazines and business forms.

International operations are located principally in Brazil, Mexico and Western Europe. Products and services include containers, water heaters, automotive springs, building components and photographic film processing.

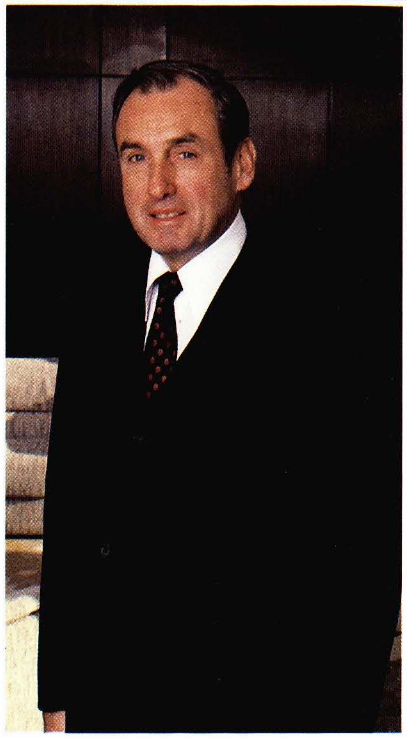
Housing operations comprise community development in Florida, site-built and manufactured single-family housing, and Southern California Savings and Loan Association.

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.

City Investing Company was incorporated in New York in 1904. It was reincorporated in Delaware in 1967 and succeeded to the business of the New York corporation.

To Our Shareholders:



About 15 years ago, as we developed our planning for the growth and diversification of City Investing Company from its traditional business of managing real estate investments in New York City, we set certain goals and a time-frame for their realization. We saw the 1980's as a prospective time of fruition, when the Company's growth in earnings and asset values would provide opportunities for considerably enhanced returns to shareholders. We are well on course with respect to our objectives, and we are more than ever convinced that the next several years will provide not only exciting further growth but also opportunities for realization of greater values for shareholders.

Our results for 1980, as discussed in the following review, reflect the impact of unusually high interest and inflation rates, particularly as these conditions have affected property and casualty insurance and housing operations, two of City's principal businesses. While we cannot be satisfied with an interruption in City's earnings growth, the 1980 results still represent one of City's better years and demonstrate resilience to unfavorable business cycles and conditions.

It is too early to suggest that the adverse cycles in the insurance and housing industries have reached a turning point, and for the near term City's operating results may continue to be affected accordingly. There is a parallel with the cyclical circumstances of the mid-1970's, and we perceive the prospect of similar, substantial earnings recovery and growth looking ahead to the next several years. Since the last cycle, however, City's operations have become much larger, so that the magnitude of the potential improvement should be far greater. We are doing everything possible to assure the realization of this truly dynamic earnings growth and a related, progressively stronger return on shareholders' equity, from the threshold rate of about 15% reached in 1979.

At year-end 1980, City's assets totaled $7.7 billion and shareholders' equity reached the $1 billion level. As earnings increase, we foresee a potential for doubling shareholders' equity in the next five years and for a corresponding strengthening of our capitalization. We currently maintain unused committed credits of approximately $500 million, available to City and its subsidiaries.

In September 1980, we announced a program to dispose of certain assets which do not contribute significantly to the mainstream of income from operations and which therefore are not vital to our prospective earnings growth. These assets have a book value of $541 million and an estimated market value of $800 million. We have assigned a majority of these assets to investment bankers and brokers for their assistance in disposition, and we have under consideration specific offers for certain of the assets. We would intend to use the proceeds from the sale of these assets, to the extent that they are owned by the parent company, for repayment of variable-rate bank borrowings, thereby accelerating our planned reduction of parent company indebtedness and further improving earnings by reducing interest costs.

Beyond this asset disposition program, which principally relates to investments, we shall constantly monitor and evaluate all of the Company's operations to assure that each business asset is generating sufficient earnings growth in the context of the Company's objectives.

Several developments in the course of the last year have represented a recognition of the Company's developing and potential values. As we reported to shareholders in July 1980, Tamco Enterprises, Inc. made a proposal to our board of directors to purchase City's assets for a price equivalent to $32.50 per common share, subject to certain conditions, including the completion of necessary financing. The Tamco proposal was considered by a committee of non-employee City directors which was assisted in its evaluation by two investment banking firms. The committee's determination, which was adopted by the entire board, was that the Company's assets have a potential realization value approximately fifty percent higher than the price per share suggested by Tamco and, accordingly, that the proposal was not in the best interests of the Company's shareholders.

In turning down Tamco's proposal, City's board and management have assumed an implicit commitment to attain on behalf of shareholders a substantially higher value as a prospective total return on their investment. We believe that the potential earnings growth in the next several years, related strengthening of our balance sheet ratios and the beneficial effects of our asset redeployment program should provide the basis for an appreciating market value for City's shares. Concurrently, we expect to continue to increase cash dividends progressively as earnings improve.

As we are unable to control or predict the future market price per share as an element of total return, we shall consider alternative strategies, which might afford conceivably greater values to shareholders in the event of a persisting disparity between the share price and possible sale value per share of the Company's assets. Such options could include, for example, various forms of restructuring, possibilities for merger and a more far-reaching divestment of assets than envisaged in our current program.

We believe that the Company's present operations and financial resources provide the basis for the growth we foresee. At this stage, our plans do not call for further, major acquisitions, although we shall continue to consider subsidiary acquisitions to complement existing businesses, when and where appropriate. We do not see a need for important new financings, although we shall always consider opportunities for improving the terms of existing financial arrangements. Perhaps uniquely, we have an awareness, as a result of the studies undertaken in 1980, of the intrinsic worth of our Company and this will serve as a benchmark for our future decision making.

The capacity of City's operations to generate increasing earnings represents our fundamental resource. The following pages offer a comprehensive description and review of these operations.

Geo. T. Scharffenberger

Geo. T. Scharffenberger
Chairman and Chief
Executive Officer

March 9, 1981

Operating Review

Principal Industry Segments

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Manufacturing	$ 878.2	$1,285.9	$1,341.8
International	463.7	565.5	715.0
Housing	600.8	747.0	714.5
Consumer Services	200.3	595.7	626.8
Insurance	1,648.9	1,846.6	1,988.1
Total	$3,791.9	$5,040.7	$5,386.2
Income from Operations			
Manufacturing	$ 66.3	$ 97.4	$ 80.0
International	41.9	49.2	49.8
Housing	61.0	78.1	49.4
Consumer Services	23.3	48.3	50.4
Insurance	136.0	95.5	65.1
Total	$ 328.5	$ 368.5	$ 294.7

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. Amounts have been reclassified to conform to the 1980 presentation.

In 1980, City's total revenues increased 7% to a record $5.4 billion, while income from operations declined 20% to $295 million. Each of City's five operating groups was affected to some extent by accelerated inflation, abnormally high interest rates and the economic recession.

The manufacturing group's income from operations declined 18% in 1980. As a result of the sharp reduction of housing starts nationwide, our shipments of central air conditioning equipment and water heaters declined, although we were able to improve our market share in these lines. The economic slowdown affected our volume in such industrially-oriented products as steel shipping containers and business forms. Our magazine printing operation reported increased earnings for the year based on improved efficiencies and continued high volume.

City's international operations reported substantially higher revenues and a relatively small improvement in earnings as compared with prior years, reflecting the impact of recessionary conditions on our European manufacturing operations in the latter part of the year. Our can-making operation in Brazil, diversified steel products manufacturing in Mexico and the newly-acquired photofinishing business in the Netherlands were the principal contributors to international earnings and offer exceptional growth potential. We are particularly enthusiastic about the growth prospects of our Mexican operation, a joint venture in association with Altos Hornos de Mexico, S.A. In 1980, the Mexican operation added a new facility for the production of automotive coil springs, and in 1981 its product range will be further expanded with the acquisition of a steel pipeline manufacturing operation.

The housing group's income from operations declined 37% in 1980, as our deliveries of single-family homes in the southwestern states and shipments of mobile homes were impacted by the rapid escalation of interest rates. However, our community development operations in Florida achieved record revenues and earnings from continued strong homesite and housing sales.

Our consumer services group reported a 4% increase in income from operations. While results of institutional food services were affected by reduced levels of industrial employment, new management succeeded in obtaining a substantial volume of new customer accounts in the second-half of the year, reflecting their new thrust in marketing. Our budget motel chain achieved further growth in revenues and earnings in 1980, as a result of higher room rates and continued favorable occupancy.

The insurance group's income from operations declined 32% in 1980. Substantially increased losses in property and casualty underwriting were partly offset by continued growth of investment income from the insurance portfolio. Our underwriting results, and those of the insurance industry generally, were adversely affected by high inflation reflected in substantially increased claim costs, combined with limited premium growth as a result of intense competition and inadequate rate increases.

Looking beyond the present economic conditions, we foresee exceptionally strong earnings growth on the basis of cyclical recovery in housing and insurance combined with renewed growth of our consumer services and domestic and international manufacturing operations, many of which are leaders in their industries.

Fundamental to the achievement of City's past and prospective growth is the calibre of our operating management and the way we manage our businesses. We focus on the performance and growth of our individual operating units, and each manager has clear-cut responsibility and accountability for his operating results. There are no layers of intermediate, group-level management, and the 50 primary profit centers essentially report direct to the office of the president. This simple, largely horizontal organization permits direct contact with operating management and expedites decision making. The primary profit centers are, in turn, organized into sub-profit centers and sub-sub-profit centers.

Basic to the decentralized profit center organization is our accounting and financial control system. Our internal management reports break down all costs into fixed and variable elements to permit constant monitoring of margins. We place great emphasis on monthly measurement of performance, both against annual budget and prior year results.

Exceptionally qualified operating management is essential to the decentralized profit center organization, and we seek to continually renew and reinforce our management. Many of our operations have training programs for qualified college graduates. Uarco, for example, has an ongoing program under which approximately 200 college graduates are hired each year for business forms sales and management. At the corporate level, we have had a program for many years of recruiting and training highly qualified business school graduates, many of whom have gone on to senior staff and operating positions, such as the president of our housing business and the chief financial officer of our international operations. Where necessary, we also seek to hire senior management people from outside the Company. This provides vitality and freshness and an infusion of new ideas.

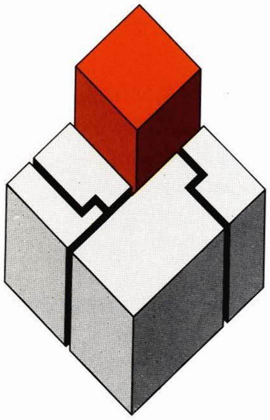
Decentralized profit centers, accountability and superior management are integral to our management philosophy. We believe that we have the right people in place throughout the system and that our decentralized profit center organization provides optimum control, accountability and motivation. In terms of its management resources, City has never been in a stronger position.

Peter C. R. Huang

Peter C. R. Huang
President and Chief
Operating Officer

March 9, 1981

Manufacturing



25% of total revenues

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Air Conditioning	$ 174.0	$ 204.8	$ 184.9
Water Heaters (1)	148.7	164.8	174.7
Containers (1)	154.9	182.5	181.7
Business Forms	—	278.2	311.7
Magazine Printing	241.3	257.6	274.1
Miscellaneous	159.3	198.0	214.7
Total	$ 878.2	$1,285.9	$1,341.8
Income from Operations			
Air Conditioning	$ 12.1	$ 6.7	$ 1.3
Water Heaters (1)	14.9	13.1	9.4
Containers (1)	15.7	18.9	17.1
Business Forms	—	28.6	25.1
Magazine Printing	19.5	21.5	25.9
Miscellaneous	4.1	8.6	1.2
Total	$ 66.3	$ 97.4	$ 80.0

(1) Amounts for 1978 and 1979 have been reclassified to include Canadian operations to conform to the 1980 presentation.

City's Rheem Manufacturing Company produces central heating and air conditioning equipment, primarily for residential use. This equipment is manufactured at three plants in Arkansas, Georgia and Alabama and is sold primarily through independent distributors, dealers and sales representatives.

Air conditioning's reduced income from operations in 1979 and 1980 reflects lower unit shipments as a result of the progressive, sharp reduction in the nation's housing starts, from 2.0 million units in 1978, to 1.7 million in 1979 to 1.3 million in 1980. Operations in 1979 were also affected by excess capacity, arising from the completion in mid-year of a new plant designed to double residential unit capacity. During 1980, inventories and plant staffing were adjusted to meet reduced requirements, and manufacture of a commercial line of heating equipment was discontinued. Based on reported industry statistics, during 1980 Rheem improved 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 through independent distributors, dealers and sales representatives.

Although water heater products are housing-oriented, the replacement market, which is believed to account for more than 60 percent of residential unit sales, makes this operation's volume less dependent on housing trends. Unit volume was lower in 1980 than in the two previous years, and selling prices increased less than necessary to keep up with inflation in material costs, reflecting overcapacity in

Manufacturing operations include magazine printing at World Color, drum production at Rheem, and printing of business forms by Uarco.

Rheem is one of the country's leading producers of air conditioning equipment and storage water heaters.

the industry and related competition. On the basis of reported industry shipments of residential water heaters, Rheem increased its market share in 1980.

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 and in Puerto Rico and Canada and are sold directly to users primarily through an internal sales staff. Container operations also include the Tipper Tie unit, which manufactures metal fasteners and clip-closing systems for packaging food and other products.

Container results in 1980 were affected by reduced volume of steel drums and pails, owing to generally lower industrial activity, including automotive industry requirements for paints. The Tipper Tie unit reported further earnings growth and increased sales.

Uarco Incorporated, acquired as of January 1, 1979, is a major manufacturer of business forms. Uarco produces forms for a variety of business transactions, including purchase orders, bills of lading, payroll checks, direct-response and regular mailing forms and label marking forms. Most forms produced by Uarco are custom-designed for the user. However, a comprehensive line of stock forms is also maintained. Approximately 75% of such forms are designed for use in computer processing equipment. Uarco also makes forms-handling equipment, such as deleavers, bursters, imprinters and autographic registers. It operates a total of 202 presses at 11 manufacturing plants in the United States.

Uarco's Canadian subsidiary, Drummond Business Forms Limited, operates three plants in Quebec and Ontario. In 1980, Drummond contributed 12% of Uarco's total revenues and 16% of its income from operations. 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 second application for approval. If it is denied, City may be required to sell a controlling interest in Drummond to Canadian investors.

Uarco generated lower income from operations than the 1979 record level, resulting from decreased demand and more competitive pricing in a slow business environment.

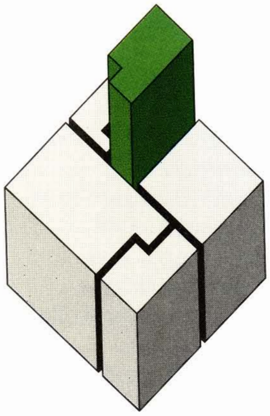
World Color Press prints magazines, such as Woman's Day, Cosmopolitan, Forbes, Vogue, Popular Science, Motor Trend and Golf Digest, under long-term contracts for a number of publishers. World Color also prints newspaper comic supplements, comic magazines, catalog sections and other special-purpose publications. Printing operations are conducted at four plants, aggregating 2,100,000 square feet, in southern Illinois. These facilities contain a total of 11 letterpress presses, 42 offset presses and 8 rotogravure presses. The Mt. Vernon, Illinois plant began operations in mid-1980. The initial cost of this 300,000-square-foot facility, including equipment, was approximately $29 million. Additional expenditures of approximately $20 million for equipment are expected to be made in 1981 as additional printing contracts for the facility are obtained. A 168,000-square-foot facility, under construction at Merced, California, is expected to begin operation by the fall of 1981. The initial cost of this facility, including equipment, is estimated at $28 million. This facility will initially print approximately 2.5 million copies each week of the program section of TV Guide, under a new 10-year contract.

World Color's growth in revenues in 1980 was largely attributable to inflation. New business acquired during the year offset the reduction in advertising pages in certain publications. Income from operations increased at a more favorable rate due to improvements in efficiency and materials consumption, as well as the inclusion in income of certain non-operating items. Continued softness in the economy and high interest rates could adversely affect operating results for 1981, particularly during the first half of the year.

Other domestic manufacturing includes refrigeration products, aircraft maintenance and overhaul, and plastic products. Income from these operations was reduced sharply in 1980, attributable primarily to a loss incurred in the plastic products operation, where sales of components to the automotive and appliance industries declined substantially due to the recession in those industries. Reduced earnings of the refrigeration operation reflect lower volume of residential refrigerators and freezers, while shipments of scientific products improved.

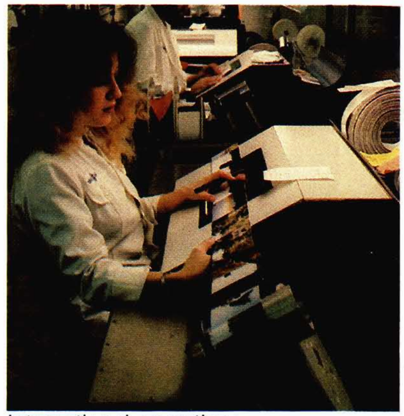
City's manufacturing operations are subject to Federal and state environmental legislation and regulations and from time to time are parties to administrative proceedings relating to such matters. It is not anticipated that compliance with such regulations, or the results of any pending or contemplated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

International



13% of total revenues

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Brazil	$105.9	$134.1	$140.2
Mexico	69.6	92.3	123.6
European manufacturing	241.2	284.2	337.3
Photofinishing	—	—	50.3
Other operations	38.3	51.4	70.4
Corporate and other	8.7	3.5	(6.8)
Total	$463.7	$565.5	$715.0
Income from Operations			
Brazil	$ 13.8	$ 6.9	$ 13.4
Mexico	10.0	12.0	12.0
European manufacturing	20.6	21.9	10.8
Photofinishing	—	—	12.7
Other operations	6.9	8.5	11.2
Corporate and other	(9.4)	(.1)	(10.3)
Total	$ 41.9	$ 49.2	$ 49.8



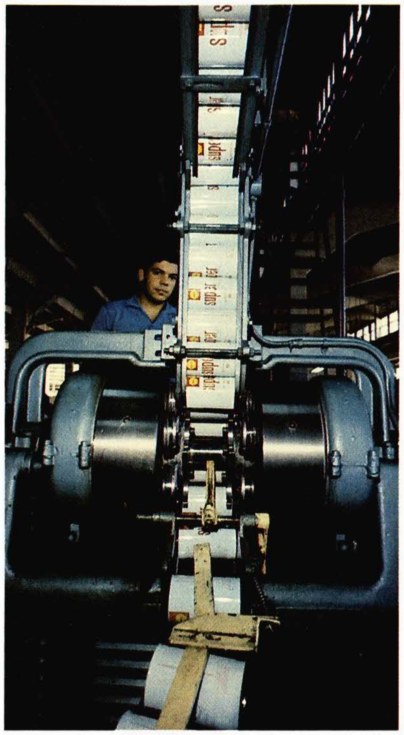
International operations include photographic processing in the Netherlands, and 55-gallon drum production in Singapore.

International manufacturing operations are conducted in 80 plants in 19 countries through foreign subsidiaries and affiliates, several of which are jointly owned with major foreign corporations.

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

City's Brazilian subsidiary, the leading can manufacturer in that country, reported high growth in that area of its activities, with significant increases in food, edible oil, and beer cans. Income from operations showed substantial improvement, the magnitude of the change influenced by 1979 results having been impacted by the major devaluation in December of 1979. This company is continuing to expand its capacity for high volume production of food and beverage cans.

Mexican operations, approximately 50%-owned, are entering a period of substantial growth as the Mexican industrial base continues to expand. Sales within Mexico increased significantly in 1980. During the year, this company opened a new facility for the production of coil springs for compact cars, and plans were made for the acquisition of a steel pipeline manufacturing operation, which is expected to be consolidated into the Mexican company in early 1981. Income from operations was level with the prior year, primarily due to the drop in volume experienced by products sold to the United States automotive industry and increased interest expenses relating to business expansion.



Automotive leaf and coil springs are manufactured in Mexico; and beverage cans are produced in Brazil.

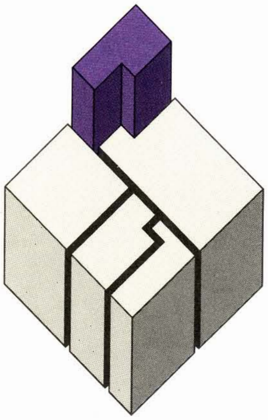
Recessionary conditions in Europe affected results of the principal operating companies, based in the United Kingdom, Belgium and Italy. Volume of the principal product lines of these operations declined as a result of depressed demand. Competitive pricing pressures and increased interest rates in these economies contributed to lower operating margins.

The photofinishing business, acquired as of January 1, 1980, provided a substantial contribution in 1980 to international income from operations. Corporate charges, shown in the above table, include $1.9 million of costs incurred in 1980 related to this acquisition.

Other operations include consolidated container operations in Singapore and South Africa. During 1980, revenues and income from operations increased significantly on higher unit shipments of steel drums.

Corporate and other includes unconsolidated operations in Argentina, Japan and Spain. The principal product of these companies is containers. This category also includes International's corporate expenses and other corporate items and, in 1980, certain intercompany sales eliminations. The decrease in the 1979 loss reflects increased equity income from unconsolidated investments. In addition, the 1978 loss includes a provision for changes in asset valuations which was offset in part during 1979. The increased loss in 1980 reflects reduced equity income from unconsolidated investments, increased corporate interest expense and a provision for changes in asset valuations.

Housing



13% of total revenues

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Community development	$147.9	$223.3	$279.7
Single-family housing	392.7	444.6	341.7
Savings and loan	60.2	79.1	93.1
Total	$600.8	$747.0	$714.5
Income from Operations			
Community development	$ 19.6	$ 29.0	$ 33.3
Single-family housing	30.0	38.6	10.6
Savings and loan	11.4	10.5	5.5
Total	$ 61.0	$ 78.1	$ 49.4

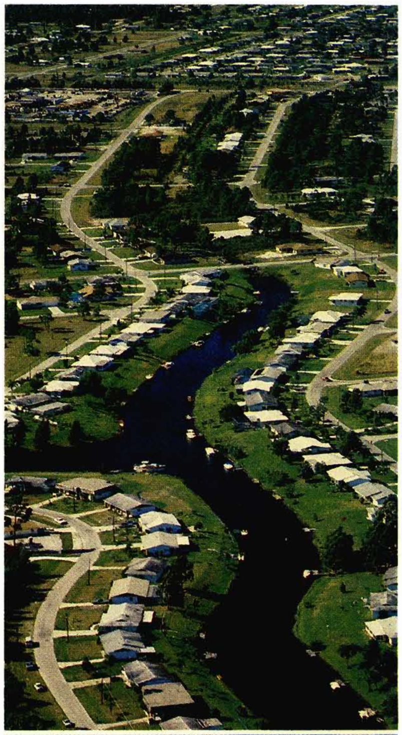
Single-family housing includes mobile home operations.

City'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 GDV, Inc. (80.3% owned). City also owns Southern California Savings and Loan Association.

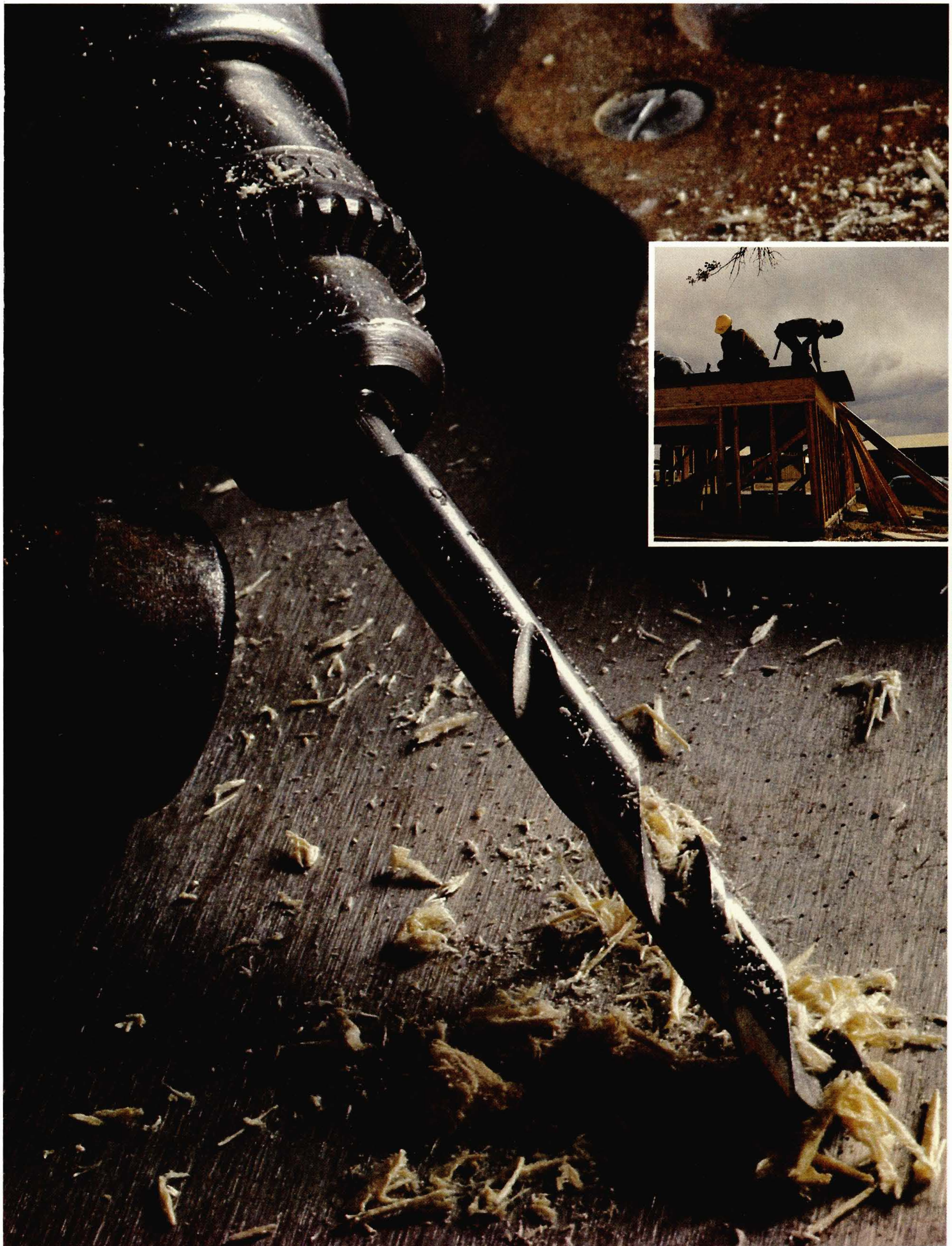
After five years of substantial growth culminating in the record results achieved in 1979, the housing group reported reduced revenues and significantly lower income from operations in 1980, reflecting the impact of abnormally high interest rates. Continuing high interest rates may delay a recovery in the housing industry.

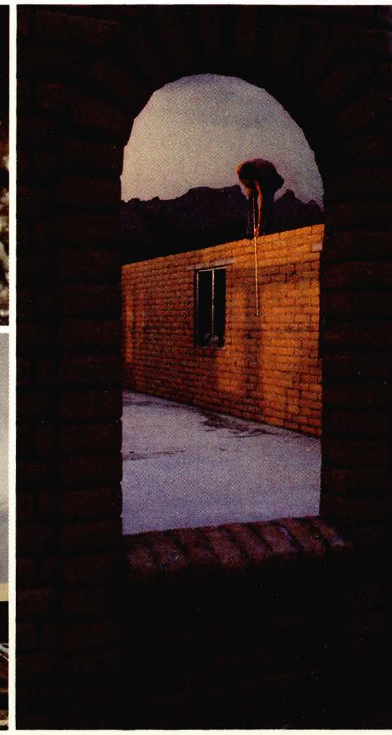
General Development Corporation is a major developer of planned communities in Florida. General's principal business is the sale of homesites and the construction of homes in seven Florida communities comprising approximately 236,000 acres. In these communities, General typically owns and operates water, sewer and gas utilities, and the principal recreational facilities such as country clubs, golf courses, community centers and marinas. General also offers for sale commercial and special-purpose sites in these communities. General's principal communities are Port Charlotte on the west coast of Florida, Port St. Lucie and Port Malabar on the east coast of Florida and Port LaBelle in south central Florida. At December 31, 1980, 110,000 acres had been sold and paid for in full, 41,000 acres were subject to outstanding sales contracts, 35,000 acres were allocated for future sale 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 $37,000 to $170,000 (including land), condominiums and cluster villas from $54,000 to $156,000 and mobile homes from $31,000 to $50,000 (including land).

Counter to the trend of housing results nationally, in 1980 General achieved record revenues and income from operations, based on favorable results in homesite sales and homebuilding, as well as increased interest income from



More than 80,000 people live in General Development's seven planned communities in Florida.





City's Sun Belt housing activities and mobile home operations rank among the nation's leaders.

higher contracts receivable balances. Homesite revenues were $100.9 million in 1980, compared with $80.1 million the previous year. Average selling prices increased to $7,759 in 1980 from $6,886 in 1979. However, the number of new homesite contracts remained approximately flat. General's portfolio of contracts receivable grew to $289 million at December 31, 1980, from $250 million at the previous year end.

General's housing revenues increased to $128.6 million in 1980 from $97.1 million in 1979, reflecting improved unit sales and higher selling prices. As new housing orders closely approximated closings, General mantained nearly the same backlog at year-end 1980 as it did a year ago.

Wood Bros. Homes is engaged in the construction and sale of single-family homes, primarily in the Southwest, with projects 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 $35,000 to $179,000. 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 18 plants throughout the country and are principally marketed through independent dealers and, to a lesser extent, through company-owned sales outlets.

Wood Bros.' single-family homebuilding operations and the market for mobile homes were particularly affected by abnormally high interest rates during 1980. Unit closings and sales declined substantially, and the backlog at year-end was reduced from that of a year ago. Wood Bros. reduced inventory levels, improved its average selling price and maintained a favorable margin. During 1980, Guerdon's unit shipments declined 19%, compared with the estimated decline in total industry shipments of 21%.

Selected housing data follows:

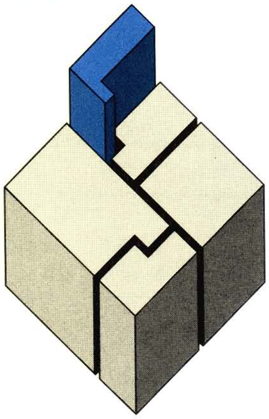
Year Ended Dec. 31	1978	1979	**1980**
Houses delivered:			
General Development	1,284	1,983	2,303
Wood Bros. Homes	3,937	3,665	2,363
Total	5,221	5,648	4,666
Houses contracted for sale:			
General Development	2,010	2,301	2,250
Wood Bros. Homes	3,925	3,083	2,070
Total	5,935	5,384	4,320
Unit backlog at December 31:			
General Development	1,125	1,443	1,390
Wood Bros. Homes	1,614	1,032	739
Total	2,739	2,475	2,129
Average sales price ($000):			
General Development	$ 41.7	$ 46.6	$ 53.4
Wood Bros. Homes	$ 55.1	$ 68.0	$ 74.7
Mobile homes:			
Unit shipments	15,636	15,111	12,179
Average sales price ($000)	$ 10.5	$ 12.2	$ 12.9

Southern California Savings and Loan Association conducts its business through 35 offices in Southern California and the San Francisco Bay Area. The Association employs depositors' funds to make first 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, 1980, the Association's savings deposits were $679 million, compared with $535 million at the prior year-end, and total assets were $881 million versus $700 million. The year-end 1980 totals for deposits and assets include the acquisition of Civic Federal Savings and Loan Association's eight branches in Northern California as of December 31, 1980. During 1980, negotiations commenced for the acquisition of five branches from Homestead Savings and Loan Association.

The Association's results from traditional savings and loan activities were adversely affected in 1980 by substantially increased interest paid on savings accounts, resulting in a severely reduced interest spread. Income from operations on savings and loan activities declined to $1.5 million from $6.5 million in 1979. Building activities of the Savings and Loan generated $4.0 million of the Association's income from operations in 1979 and in 1980.

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



12% of total revenues

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Food services	$112.4	$488.2	$495.5
Budget motels	87.9	107.5	131.3
Total	$200.3	$595.7	$626.8
Income from Operations			
Food services	$ 7.7	$ 28.0	$ 22.3
Budget motels	15.6	20.3	28.1
Total	$ 23.3	$ 48.3	$ 50.4

Revenues and income from operations from food services, as shown for 1978, relate only to the fourth quarter of that year, since Servomation was acquired as of October 1, 1978.

Consumer services are conducted through GDV (80.3% owned) and consist of Servomation Corp. and Motel 6, Inc.

Servomation has institutional food service operations in 40 states and Canada, conducted from approximately 140 service centers in the United States. Servomation provides 24-hour vending services, including soups, hot and cold entrees, salads, sandwiches, desserts, snacks and appetizers, 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 and other public areas. During 1980, approximately 63% of Servomation's total revenues was derived from vending machine operations and approximately 37% was derived from institutional and concession food service operations.

Servomation owns, services and supplies approximately 88,000 vending machines installed at customer locations. It owns approximately 2,900 specially-equipped delivery trucks, other vehicles and office and warehouse equipment necessary for its operations. Servomation owns approximately 64% of the service facilities it operates. The balance is leased.

Servomation's revenues from food service activities increased slightly while income from operations declined significantly in 1980, reflecting lower levels of industrial activity and employment. The recession and related plant layoffs in the automotive industry affected the company's vending operations in the Midwest, while results of vending activities in other areas of the country were affected to a lesser extent.

Servomation's revenues from institutional dining, cafeteria services and recreational concessions improved in 1980 while income from operations in these areas was affected by start-up costs relating to new business obtained in the last quarter.

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


Diego Federal
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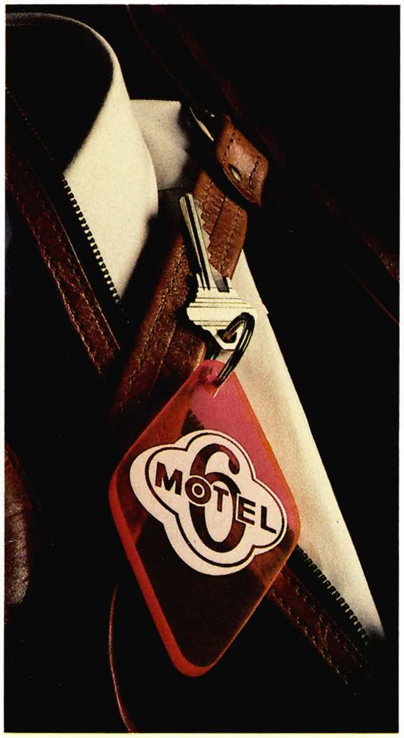


Motel 6 offers clean, economically-priced accommodations.

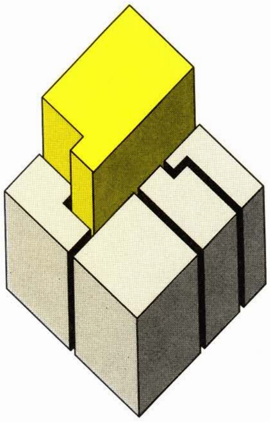
Servomation succeeded in developing new customer accounts representing incremental annual sales of $78 million, a record for new business acquired, compared with $54 million in 1979.

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 $11.95 to $18.95 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 and year-round. Motel 6 plans to add approximately 25 motels annually for the next several years.

Motel 6's revenues increased 22% during 1980 from 1979, and income from operations improved 38%, primarily due to an 11% increase in average room rate 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 follows:

	1978	1979	**1980**
Number of motels	254	283	303
Number of rooms	25,473	29,504	32,132
Annual occupancy rate	81.4%	81.6%	80.3%
Average room rate	$11.67	$12.48	$13.84

Insurance



37% of total revenues

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Revenues			
Property and casualty:			
Earned premiums (1)	$1,409.3	$1,556.6	$1,639.5
Investment income	104.0	134.9	188.2
Life, accident and health:			
Earned premiums	113.2	130.2	134.3
Investment income	20.4	23.6	26.5
Other	2.0	1.3	(0.4)
Total	$1,648.9	$1,846.6	$1,988.1
Income from Operations			
Property and casualty:			
Underwriting results (1)	$ 20.9	$ (52.2)	$ (135.1)
Net investment income	102.2	132.9	185.7
Life, accident and health (2)	10.9	13.5	14.9
Other	2.0	1.3	(0.4)
Total	$ 136.0	$ 95.5	$ 65.1

(1) See "Property and Casualty Insurance" below for earned premiums and underwriting results by segment.

(2) 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.

The latest in management information systems technology helps The Home provide efficient service to customers like the Abercrombie Drilling Co., Wichita, Kansas, and the Knoxville World's Fair.

City'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.

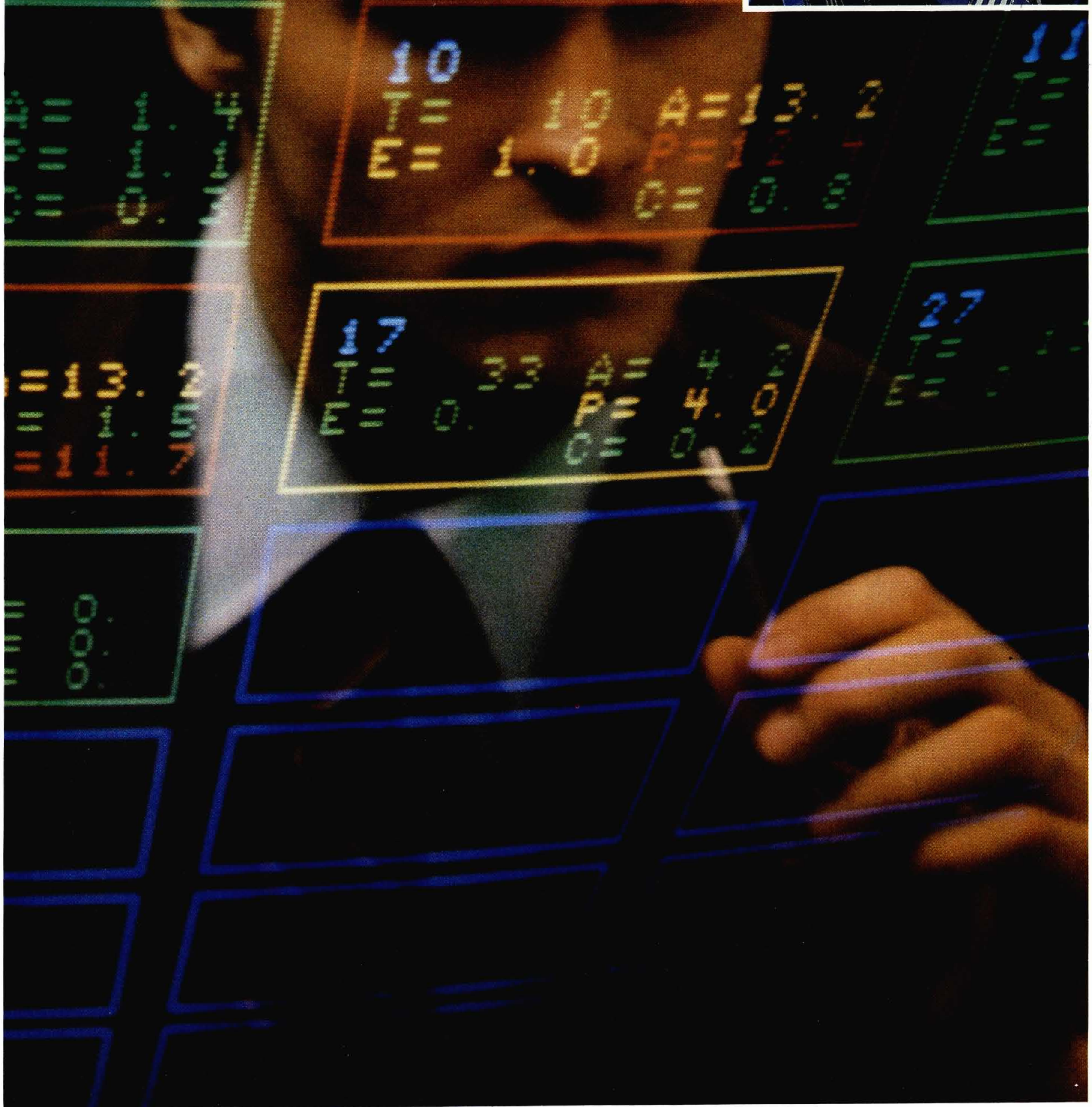
Property and Casualty Insurance

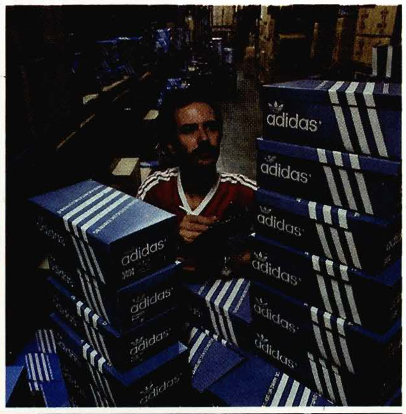
The Home writes a full line of property, casualty, fidelity and surety insurance in every state of the United States, the District of Columbia, Canada and certain other countries. Approximately 80% of The Home's business is in commercial lines and the remainder is in personal lines. In 1980, 9.9% of The Home's direct property and casualty insurance premiums were written in New York and the balance was distributed through all other states, of which California, Michigan, Pennsylvania and Texas each accounted for more than 5%. For 1980, The Home's written premiums included approximately $118.3 million from its participation in AFIA, an association of insurers engaged in insuring foreign risks through approximately 250 branches in 80 foreign countries. During the year, The Home increased its share of participation in AFIA from 20.9% to 27.1%.

On the basis of net premiums written, according to Best's Executive Data Service, The Home ranked 13th among the stock, mutual and reciprocal property and casualty groups in the United States in 1979, the latest year for which figures are available.


WIDE LOAD


NGLRAHPSK)
LERTNET/ALERTNET/ALERTNET





The Home provides total property coverage for the Sun Valley Ski Resort, and insures Libco, Inc., distributors of Adidas sports equipment in the eastern United States.

The Home's business is written through approximately 6,700 agents and brokers. Agents are paid on a commission basis and also represent other insurance companies. Insurance brokers place business with The Home, either directly or through agents, and receive commissions as compensation.

Primarily through AFIA, the Home participates in a number of voluntary underwriting associations with other insurers. The purpose of such associations 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 unable to obtain insurance in the voluntary market. The Home's participation in any state is generally proportional to voluntary writings of related lines of business in that state. In 1979 and 1980, pretax losses attributable to such pools and associations were $21.8 million and $49.3 million, respectively. Earned premiums were $80.8 million and $91.0 million, respectively.

In accordance with industry practice, The Home assumes reinsurance from other insurers and cedes reinsurance to other insurers or reinsurers. These reinsurance arrangements provide greater diversification of business and minimize The Home's losses arising from large risks or from hazards of an unusual nature. Although the ceding of insurance does not discharge the original insurer from its primary liability to its policyholder, the insurance 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, 1980. 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.

The following table sets forth earned premiums and pretax underwriting results by property and casualty insurance segment for The Home, prepared in accordance with generally accepted accounting principles. The segments previously reported for 1978 and 1979 have been reclassified from a statutory basis to conform to the 1980 presentation, which reflects underwriting activities as viewed by management.

Year Ended Dec. 31 ($ millions)	1978	1979	**1980**
Workers' compensation:			
Earned premiums	$ 223.7	$ 274.4	$ 287.0
Underwriting results	(10.2)	(12.2)	(34.7)
Commercial property:			
Earned premiums	$ 279.4	$ 283.1	$ 282.6
Underwriting results	50.4	19.9	14.2
Major lines:			
Earned premiums	$ 177.9	$ 190.8	$ 213.9
Underwriting results	10.7	(1.5)	(33.2)
Personal auto:			
Earned premiums	$ 186.8	$ 189.8	$ 192.7
Underwriting results	(4.1)	(15.3)	(19.8)
Commercial auto:			
Earned premiums	$ 118.8	$ 145.4	$ 158.6
Underwriting results	3.0	(2.9)	(9.5)
General liability:			
Earned premiums	$ 71.4	$ 81.5	$ 86.1
Underwriting results	10.0	13.6	8.4
Personal property:			
Earned premiums	$ 89.6	$ 83.2	$ 79.2
Underwriting results	3.4	(2.0)	(.9)
Marine:			
Earned premiums	$ 57.0	$ 58.9	$ 60.7
Underwriting results	(.6)	(6.5)	(7.5)
Assumed reinsurance:			
Earned premiums	$ 33.4	$ 35.4	$ 39.4
Underwriting results	(1.3)	.7	(6.6)
Voluntary underwriting associations:			
Earned premiums	$ 104.3	$ 128.0	$ 131.7
Underwriting results	(2.2)	(6.5)	(5.3)
Other lines:			
Earned premiums	$ 67.0	$ 86.1	$ 107.6
Underwriting results	(38.2)	(39.5)	(40.2)
Total			
Earned premiums	$1,409.3	$1,556.6	$1,639.5
Underwriting results	$ 20.9	$ (52.2)	$ (135.1)

Primarily as a result of rate increases effected in 1976, The Home reported underwriting profits in 1977 and 1978. In 1979, underwriting results were adversely affected by intensive price competition, particularly in commercial lines, regulatory and public resistance to premium rate increases, double-digit inflation, particularly during the second half, and increased losses from catastrophic storms and involuntary pools. These conditions intensified throughout 1980, particularly those pertaining to inflation, price competition and losses from involuntary pools, and underwriting losses increased significantly. High levels of inflation and intensive price competition during 1981 will continue to adversely affect the profitability of property and casualty insurance operations.

Underwriting results in each of the segments reported above include the effect of allocating certain items, including general overhead, losses from involuntary pools and reserves for unreported claims and loss expenses, which are necessarily based on estimated future rates of inflation and other factors. See Note 2 to Consolidated Financial Statements.

Workers' compensation has shown increased underwriting losses as a result of increases in mandated benefits and higher settlements and awards. These increases have not been matched by rate increases which are regulated by state insurance commissions. In 1979, the increase in premium volume was primarily attributable to increased payrolls reflecting inflation in wage rates, increased employment levels and increased premium rates, attributable to the improvement in benefits. In 1980, premium growth slowed as price competition intensified and levels of industrial activity and employment moderated. In addition, The Home's participation in involuntary pools accounted for approximately one-half of the increased loss in 1980.

Commercial property, which includes both commercial multi-peril packages and commercial fire, has shown little earned premium growth during the three-year period. Price competition intensified in this line in the early part of 1979 and continued through 1980, resulting 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 accounts where the premium per account is $300,000 or more, has been experiencing increased competition from a variety of programs, including self-insurance, which has caused intense price competition and restriction in premium growth. The underwriting loss in 1980 was also affected by increases in paid losses, additions to unpaid loss reserves and losses from involuntary pools.

Personal auto results have been adversely affected by inflation in claim settlements, increased underwriting expenses, losses from involuntary pools, particularly in 1979 and 1980, and the inability to obtain sufficient rate increases due to regulatory and competitive conditions.

The rate of increase in commercial auto earned premiums slowed during 1980. Price competition intensified and increases in underwriting expenses and claim costs exceeded premium rate increases.

General liability, which insures against third-party claims, has shown moderated growth in earned premiums. The decrease in underwriting profit during 1980 was primarily attributable to increased price competition, which resulted in rate increases insufficient to cover increased claim costs.

Personal property earned premiums decreased in 1979 and 1980. The line is subject to intensive price competition and regulatory restrictions. Underwriting losses in 1979 were primarily due to storm losses. The underwriting loss in 1980 was due to inflation and price competition.

Marine insurance has had stable levels of earned premiums during the past three years. Underwriting losses in 1979 and 1980 were primarily due to an increase in the number of large losses.

Assumed reinsurance earned premiums increased in 1980 as additional emphasis was placed on this line. The large underwriting loss experienced during 1980 includes the result of reserve strengthening during the year.

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

Other lines include excess coverage, surety, and boiler and machinery. The high costs on paid claims, primarily in excess lines, have resulted in significant underwriting losses during the three-year period. Profitability was also 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 32 states.

Life, accident and health insurance companies are represented by approximately 600 general agents and 6,000 brokers, some of whom are licensed through general agents. General agents and brokers are paid on a commission basis and in most instances also represent other insurance companies.

During the year ended December 31, 1980, life insurance premiums written constituted approximately one-third of total writings and accident and health insurance approximately two-thirds. Life insurance in force at December 31, 1980, aggregated $4.7 billion, comprised of individual life, $2.0 billion; group life, $1.3 billion; and credit life, $1.4 billion.

During 1980, premiums written decreased 6% as compared to an increase of 18% in the prior year. Moderate increases in written premiums of individual and group lines were more than offset by a 31% decrease in writings of credit life and credit accident and health lines, which are sensitive to general economic conditions and the level of consumer borrowing. Premiums earned increased 3%, compared to an increase of 15% in the prior year, reflecting the decrease in volume. Income from operations increased 23% in 1979 and 10% in 1980, primarily as a result of increased investment income and higher yields on new investments.

Investment Income

Investment income is derived from the investment portfolios of City's insurance subsidiaries. Investment income rose significantly in 1980, principally as a result of increased yields and continued strong cash flow from operations.

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

December 31 ($000)	1979	**1980**	**Yield***
Commercial paper	$ 99,038	$ 204,497	18.74%
Cash and cash equivalents	9,794	52,705	11.64
Total	108,832	257,202	17.29
Taxable bonds	757,528	979,361	10.63
Non-taxable bonds	609,678	594,171	6.39
Total (at amortized cost)	1,367,206	1,573,532	9.03
Preferred stocks	134,821	171,950	10.51
Common stocks	632,340	410,228	7.39
Total (at market)	767,161	582,178	8.31
Mortgages and policy loans	51,660	52,569	7.06
Total	$2,294,859	$2,465,481	9.68

* At December 31, 1980, annualized.

Investments in bonds are carried at amortized cost. Investments in stocks are carried at market values. Unrealized appreciation or depreciation of stocks is shown as a separate component of shareholders' equity, but is not included in the determination of net income. Unrealized changes in the market values of bond investments are not reflected on the income statement or balance sheet. Realized gains and losses on the disposition of investments are reflected in income.

Investment results of the portfolio are summarized below:

Year Ended Dec. 31 ($000)	1978	1979	**1980**
Net investment income (1) (2)	$ 121,949	$ 156,066	$ 211,638
Return on invested assets at book	6.65%	7.15%	8.72%
Net gains (losses):			
Realized (2)	$ —	$ —	$ 10,632
Unrealized (3)	$ (11,258)	$ 36,559	$ (5,309)

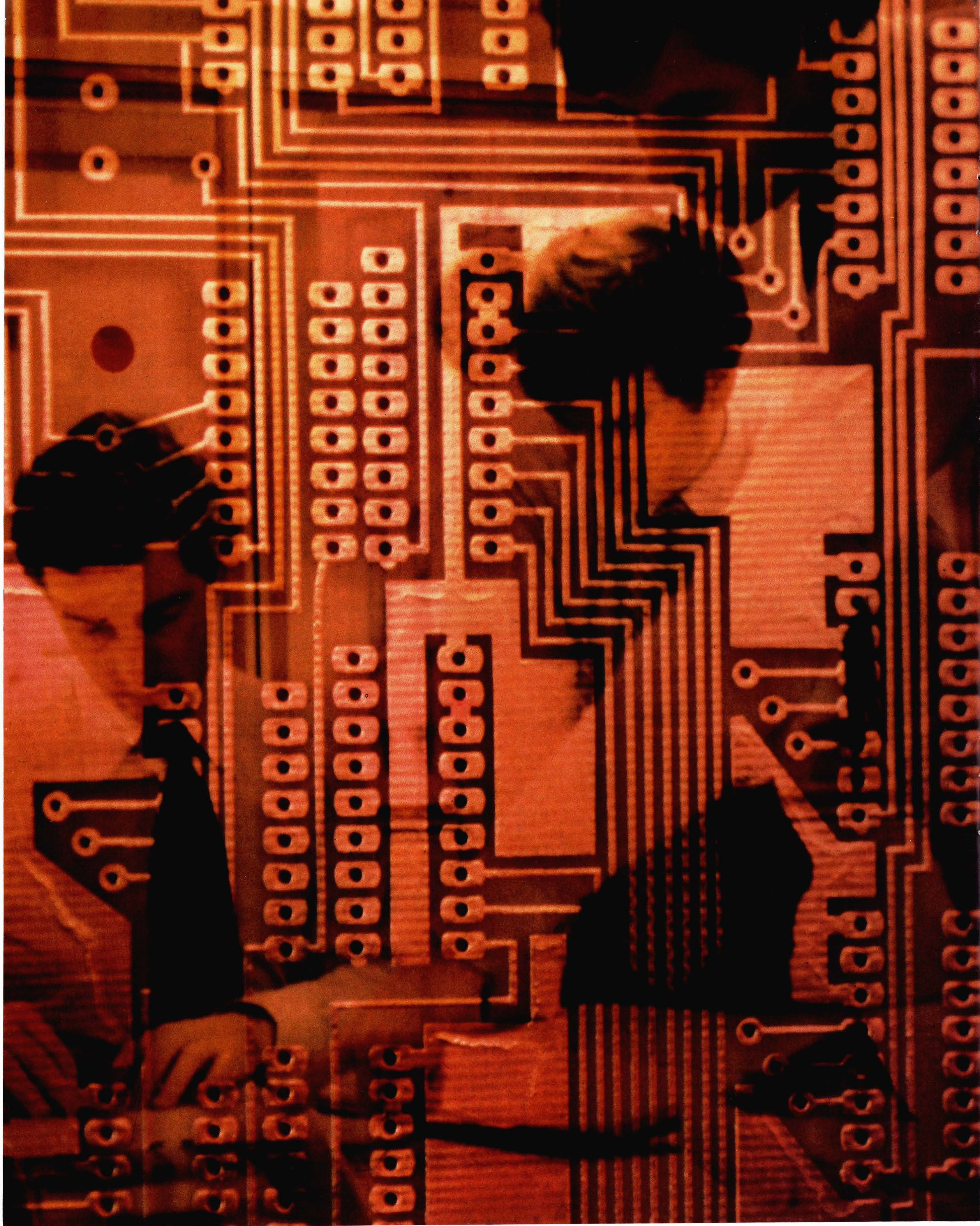
(1) After deduction of investment expenses, but before gains and losses on the sale of securities. (2) Before income taxes. (3) Represents the changes in market value of stocks from the beginning to the end of the period, net of deferred Federal taxes applicable to the excess of book basis of certain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

Insurance Regulation

City's insurance subsidiaries are subject to regulation and supervision in jurisdictions in which they transact business. The extent of such regulation varies but generally has its source in state statutes which delegate regulatory authority to departments of insurance. Regulation generally covers, among other things, standards of solvency which must be met and maintained, the 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 the 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, 1979 and 1980, policyholders' surplus of The Home, as determined in accordance with New Hampshire law, the state of The Home's incorporation, was $536.2 million and $641.6 million, respectively, and the premiums-to-surplus ratio was 3.0 to 1 and 2.6 to 1, respectively. These ratios afford an acceptable level of protection to its policyholders. Methods of calculating surplus vary from state to state and the application of other methods could result in a higher ratio of premiums to surplus.

Effective December 31, 1980, City contributed all the outstanding stock of World Color Press, Inc. to The Home Insurance Company. For statutory accounting purposes, World Color is carried at $132 million. It is The Home's intention to transfer to City in 1981 its investment in Sterling Forest Corporation, which owns a 20,000-acre tract of land located near Tuxedo, New York. The investment is carried at $38.4 million.



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

Selected Financial Data

Year Ended Dec. 31 ($000, except per share data)	1976	1977	1978	1979	**1980**
Total revenues	$2,529,496	$3,064,911	$3,791,875	$5,040,710	$5,386,178
Income from operations	152,828	255,222	328,470	368,536	294,695
Net income	43,960	85,158	112,420	132,550	111,316
Total assets	$4,173,519	$4,663,732	$5,783,419	$6,865,456	$7,688,809
Long-term debt	720,085	830,244	1,118,010	1,445,340	1,555,577
Shareholders' equity	694,451	733,474	793,516	927,042	1,000,385
Net income per share					
Primary	$ 1.36	$ 3.13	$ 4.27	$ 5.07	$ 3.66
Assuming full dilution	1.28	2.36	3.06	3.60	3.01
Book value per common share	17.58	18.66	21.42	26.75	27.68
Common stock cash dividends	.66	.80	1.00	1.20	1.50

City's housing and housing-related products are affected by interest rate levels and home mortgage credit conditions. Container and business forms 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.

From 1976 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, 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 better-than-anticipated insurance company investment income.

Continued high levels of inflation and interest rates and restrictions on the availability of consumer credit and mortgage loans during 1981 may continue to adversely affect the revenues and profitability of certain of City's operations. Profitability may also be adversely affected by increased interest expense for borrowings under agreements providing for variable interest rates (see Note 6 to Consolidated Financial Statements). The adverse effects of high levels of inflation and interest rates will be offset, in part, by anticipated higher yields on new bond investments of The Home. It is expected that new bond investments will be made from 1981 cash flow and proceeds from the maturities of short-term bonds and cash equivalents.

Total Revenues

Units sold by City's manufacturing and housing operations increased significantly during the period 1977 to 1979. In 1980, 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 6 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 general inflation on City's revenues over the five-year period, set forth below are City's historical revenues and revenues adjusted for general inflation as measured by the Consumer Price Index:

($000)	1976	1977	1978	1979	**1980**
Historical amounts	$2,529,496	$3,064,911	$3,791,875	$5,040,710	$5,386,178
Adjusted for general inflation	$3,661,464	$4,167,603	$4,789,328	$5,722,388	$5,386,178

The decrease in revenues from 1979 to 1980 as adjusted for general 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 herein.

Income from Operations

City's income from operations over the five-year period generally reflects 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.

The other major factor affecting income from operations was property and casualty insurance results, as follows:

($000)	1976	1977	1978	1979	**1980**
Underwriting results	$ (29,031)	$ 12,175	$ 20,923	$ (52,188)	$ (135,127)
Investment income	$ 70,433	$ 82,432	$ 102,150	$ 132,892	$ 185,676

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. This resulted in significantly higher claim costs. Increases in investment income resulted from substantial cash flows to the investment portfolio and higher yields. The investment portfolio of the property and casualty insurance operation increased $1.0 billion over the four-year period ended December 31, 1980, to $2.2 billion.

Corporate Items

In addition to those factors which affected total revenues and income from operations during the five-year period, City's net income reflects the effects of corporate items, principally interest expense, energy and other investments, income taxes, security gains and minority interests.

Corporate interest, which includes parent company amounts of City, The Home and GDV, amounted to $60.0 million, $98.1 million and $119.6 million for the three years ended December 31, 1980. These increases reflect increases in borrowing levels (see below) and higher interest rates.

City's energy investments contributed $16.8 million to pretax income during 1980 versus $.8 million in 1979 and a $10.5 million loss in 1978. Results in 1980 include a pretax gain of $14.5 million from the sale of substantially all domestic reserves.

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. See Note 9 to Consolidated Financial Statements.

During 1980, sales of securities by insurance subsidiaries resulted in after-tax gains of $6.8 million. 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 increased from $24.2 million in 1978 to $31.7 million in 1979 and totaled $22.1 million during 1980. The 1979 increase reflects substantial growth in International operations in Mexico and England and at GDV. During 1980, minority interests declined as a result of substantially reduced earnings of GDV and certain International operations.

Earnings per Share

Primary net income per share for the 1980 period reflects substantial conversions of convertible securities into common stock. At December 31, 1980, there were 31,947,058 common shares outstanding, including 829,117 treasury shares, compared with 24,861,036 common shares outstanding at December 31, 1979, including 843,381 treasury shares.

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 consistent with its own capitalization and liquidity considerations. GDV and The Home Group, holding company subsidiaries of City, financed the acquisitions of Servomation and Uarco, and the purchases of marketable securities, consistent with their own respective capitalization and liquidity considerations. It is City's current objective to increase the ratio of shareholders' equity to total capital through increased earnings and debt reduction over the next five years. See also "Asset Disposition Plan" below.

City's consolidated long-term debt increased $835.5 million from year-end 1976 to year-end 1980. This increase was incurred 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
Air conditioners, water heaters and containers	52.9
Magazine printing	37.3
Budget motels	127.0
Single-family homes	60.0
International activities, including costs of acquisitions	60.8
Investments in marketable securities, including $100 million by The Home Insurance Company	133.4
Other	30.0
Total	$835.5

Of the $835.5 million increase in long-term debt, $89.7 million was incurred at the City parent company level, increasing its long-term debt to $584.2 million at December 31, 1980; $353.7 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 that they may pay.

City has ample financial resources in relation to its needs and plans. Assets have grown to $7.7 billion and shareholders' equity to $1.0 billion. Unused committed credits available to City and its subsidiaries approximate $400 million.

For a discussion of City's plan to dispose of certain assets, see ''Asset Disposition Plan'', below. Through this plan and the recoveries from the currently depressed housing and insurance industry cycles, expected to be reflected beginning with 1982 results, the Company projects during the next five years significant increases in stated equity while long-term debt levels are reduced. Commensurate with expected growth in stated equity, the Company expects continuing increases in book value per share, which increased 57% from year-end 1976 to $27.68 at December 31, 1980.

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, consistent with the Company's earnings growth, from an annual rate of $.66 per share in 1976 to its present level of $1.50 per share. On an inflation-adjusted basis, the common stock dividend reflects steady increases from $.96 in 1976 to $1.50 in 1980.

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. These assets do not contribute significantly to income from operations. Management is proceeding, with the assistance of investment bankers and brokers, to identify interested parties and engage in negotiations with respect to these assets. There can be no assurance that such negotiations will result in sales, or as to the timing of any sales or that the full estimated market value of such assets will be realized. City currently intends to apply the proceeds of such sales to debt reduction and, in certain cases, to invest the proceeds in existing operations.

As the initial step in this program, in October 1980, City sold its entire holding of 1,031,800 shares of stock of C.I. Mortgage Group, a former real estate investment trust, for approximately $10 million in cash.

Statement of Consolidated Income

City Investing Company and Subsidiaries

Year Ended December 31 ($000, except per share data)	1978	1979	**1980**
Total revenues	$3,791,875	$5,040,710	$5,386,178
Expenses			
Insurance company expenses	1,512,821	1,751,092	1,923,062
Operating costs	1,636,110	2,427,963	2,561,227
Selling and general expenses	202,561	319,311	387,526
Depreciation and amortization	55,514	87,628	104,950
Interest and debt expense, net	56,399	86,180	114,718
Total expenses	3,463,405	4,672,174	5,091,483
Income from operations	328,470	368,536	294,695
Corporate expenses, net (1)	26,512	29,184	25,691
Corporate interest and debt expense, net (1)	60,020	98,103	119,588
Energy and other (income) expenses	19,778	(4,721)	(21,650)
Income taxes	85,521	81,758	44,402
Net gains on sales of securities, net of income taxes of $3,834* (2)	—	—	(6,798)
Minority interests	24,219	31,662	22,146
Net income	$ 112,420	$ 132,550	$ 111,316
Net income per share			
Primary	$ 4.27	$ 5.07	$ 3.66
Assuming full dilution	$ 3.06	$ 3.60	$ 3.01
Average shares (000)			
Primary	22,693	23,175	27,862
Assuming full dilution	37,136	37,173	37,193

* Excludes unrealized appreciation (depreciation) of stocks of $(11,258,000), $36,559,000 and $(5,309,000) for the three years ended December 31, 1980.

(1) Corporate expenses, net, 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.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

City Investing Company
and Subsidiaries

Assets December 31 ($000)	1979	**1980**
Current assets, excluding insurance and financial companies		
Cash and marketable securities	$ 68,295	$ 72,895
Accounts receivable, less allowances, $9,444 and $11,157	351,439	372,538
Contracts receivable from homesite sales, net	26,060	25,890
Inventories	520,533	532,396
Other	54,066	49,340
	1,020,393	1,053,059
Investments of insurance and financial companies		
Bonds at amortized cost (market $1,197,844 and $1,260,961)	1,379,067	1,585,633
Stocks at market value (cost $805,252 and $627,252)	767,161	582,178
Mortgage loans	672,633	822,952
Cash and commercial paper	173,713	321,429
Real estate, less accumulated depreciation, $16,636 and $19,871	82,538	99,026
Other	54,939	50,331
	3,130,051	3,461,549
Insurance premiums receivable	387,378	520,669
Prepaid insurance acquisition costs	195,148	212,006
Property, plant, equipment and capital leases, net	923,957	1,042,178
Other investments and long-term receivables		
Contracts receivable from homesite sales, net	132,281	156,461
Homesite land and improvements	62,786	59,152
Other	99,101	150,525
	294,168	366,138
Carrying amount over the equity in net assets of subsidiaries	543,463	552,507
Assets of underwriting associations	134,731	191,230
Other assets, principally of insurance and financial companies	236,167	289,473
Total assets	$6,865,456	$7,688,809

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity December 31 ($000)	1979	**1980**
Current liabilities, excluding insurance and financial companies		
Notes payable	$ 128,085	$ 137,711
Accounts payable	198,650	190,006
Accrued pension and other employee benefits	37,083	40,758
Accrued interest	30,312	33,711
Other accrued liabilities	124,417	147,105
Current maturities of long-term debt	49,013	64,569
Dividends payable	10,803	13,439
Income taxes payable	43,121	21,261
	621,484	648,560
Reserves and liabilities of insurance and financial companies		
Unpaid losses and loss expenses	1,488,264	1,847,569
Unearned premiums	720,843	760,284
Savings accounts	535,347	678,520
Aggregate life reserves	161,311	172.638
Loans payable	111,722	126,052
Other	296,171	330,551
	3,313,658	3,915,614
Long-term debt	1,445,340	1,555,577
Obligations under capital leases	85,152	77,528
Deferred income taxes	214,814	212,456
Other liabilities	107,101	107,576
Minority interests	100,865	121,113
Redeemable preferred stock of subsidiary	50,000	50,000
Shareholders' equity		
Cumulative preference stocks (preference in involuntary liquidation $284,624 and $139,010)	8,914	5,008
Common stock	31,076	39,934
Capital surplus	548,545	563,504
Unrealized depreciation of stocks held by insurance companies	(28,698)	(34,007)
Retained earnings	377,792	436,355
Cost of common stock in treasury	(10,587)	(10,409)
Total shareholders' equity	927,042	1,000,385
Commitments and contingent liabilities		
Total liabilities and shareholders' equity	$6,865,456	$7,688,809

Statement of Consolidated Capital Surplus

City Investing Company and Subsidiaries

Year Ended December 31 ($000)	1978	1979	**1980**
Balance at beginning of year	$542,131	$542,176	$548,545
Conversion of preference stock	(5)	(617)	(3,449)
Conversion of debentures	45	6,981	21,391
Miscellaneous	5	5	(2,983)
Balance at end of year	$542,176	$548,545	$563,504

See accompanying notes to consolidated financial statements.

Statement of Consolidated Retained Earnings

City Investing Company and Subsidiaries

Year Ended December 31 ($000)	1978	1979	**1980**
Balance at beginning of year	$213,933	$288,156	$377,792
Net income	112,420	132,550	111,316
	326,353	420,706	489,108
Dividends declared			
Cumulative preference stocks	15,693	15,068	9,221
Common stock	22,504	27,846	43,532
	38,197	42,914	52,753
Balance at end of year	$288,156	$377,792	$436,355

See accompanying notes to consolidated financial statements.

Statement of Unrealized Depreciation of Stocks Held by Insurance Companies

City Investing Company and Subsidiaries

Year Ended December 31 ($000)	1978	1979	**1980**
Balance at beginning of year			
Depreciation based on quoted market prices	$(72,607)	$(84,787)	$(38,091)
Income tax benefit resulting from excess of book basis of certain securities over tax basis	18,608	19,530	9,393
Net balance at beginning of year	(53,999)	(65,257)	(28,698)
Appreciation (depreciation) based on end of year quoted market, net of income taxes of $533, $(7,381) and $4,334	(13,515)	27,180	12,657
Effect of sale transactions during the year			
Appreciation (depreciation) at beginning of year	1,868	12,135	(15,306)
Income tax effect of book basis over tax basis	389	(2,756)	(2,660)
Net change during the year	(11,258)	36,559	(5,309)
Balance at end of year			
Depreciation based on quoted market prices	(84,787)	(38,091)	(45,074)
Income tax benefit resulting from excess of book basis of certain securities over tax basis	19,530	9,393	11,067
Net balance at end of year	$(65,257)	$(28,698)	$(34,007)

See accompanying notes to consolidated financial statements.

Statement of Changes in Consolidated Financial Position

City Investing Company
and Subsidiaries

Year Ended December 31 ($000)	1978	1979	**1980**
Source of funds			
Net income	$112,420	$ 132,550	$ 111,316
Non-fund charges (credits) to income			
Increase in insurance reserves and change in premiums receivable and prepaid insurance acquisition costs	216,917	271,932	259,924
Depreciation and amortization	55,514	87,628	104,950
Deferred income taxes	25,800	17,700	5,400
Other	57,854	47,348	(35,215)
Funds provided from operations	468,505	557,158	446,375
Issuance of common stock on conversion of debentures and preference stock	119	8,227	26,796
Bank and other borrowings	344,209	382,706	268,022
Net increase in savings accounts and loans payable	67,239	42,278	86,693
Working capital of companies acquired	30,161	53,676	(1,355)
Other, net	(41)	1,662	(57,459)
	$910,192	$1,045,707	$ 769,072
Application of funds			
Reduction of long-term debt	$ 77,936	$ 77,108	$ 166,252
Cash dividends	38,197	42,914	52,753
Increase (decrease) in investments of insurance and financial companies			
Bonds	37,256	177,140	206,566
Stocks	206,353	183,030	(184,983)
Mortgage loans	46,542	73,669	106,703
Other	18,690	60,261	152,930
	308,841	494,100	281,216
Increase (decrease) in unrealized depreciation of stocks	12,180	(46,696)	6,983
Acquisitions of companies	168,848	192,761	55,224
Additions to property, plant and equipment	198,583	220,288	201,054
Increase in working capital, excluding insurance and financial companies	105,607	65,232	5,590
	$910,192	$1,045,707	$ 769,072
Working capital increase by component			
Cash and marketable securities	$ 56,619	$ (50,574)	$ 4,600
Inventories	85,356	135,937	11,863
Other current assets	82,585	93,033	16,203
Notes payable	(10,115)	(19,068)	(9,626)
Current maturities of long-term debt	(18,001)	11,691	(15,556)
Accounts payable and other current liabilities	(90,837)	(105,787)	(1,894)
	$105,607	$ 65,232	$ 5,590

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(Including Significant Accounting Policies)

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.

As of January 1, 1978, City transferred to GDV, Inc. all the stock of Wood Bros. Homes, Inc. in exchange for a 10% Senior Promissory Note of GDV in the principal amount of $25,000,000. On July 27, 1978, City transferred to GDV all the stock of Guerdon Industries, Inc. in exchange for 1,990,105 new shares of GDV common stock, increasing City's ownership of GDV common stock from 59% to 66.2%. As of April 1, 1979, City transferred to GDV all the stock of Motel 6, Inc. in exchange for 4,400,000 new shares of GDV common stock, increasing City's ownership of GDV common stock to 75.8%, and 20,000 shares of voting 9% Cumulative Preference Stock, Series A, of GDV, having a redemption value of $1,000 per share. In December 1979, City acquired an additional 800,000 shares of GDV common stock at a cost of $9,600,000 pursuant to a cash tender offer, increasing City's ownership to 80.3%.

In September 1978, GDV acquired 63.5% of the outstanding stock of Servomation Corp., a food services company, for cash of $121,733,000. In January 1979, GDV acquired the balance of Servomation for additional cash and notes. The total cost of the acquisition, which has been accounted for as a purchase, was $191,831,000. Servomation's results have been included in the Statement of Consolidated Income since October 1, 1978.

In December 1978, the Company acquired approximately 14.7% of the outstanding common stock of Uarco Incorporated, a manufacturer of business forms, at a cost of $14,978,000. The balance of Uarco was acquired for cash in January 1979. The total cost of the acquisition, which has been accounted for as a purchase, was $105,859,000. Uarco's results have been included in the Statement of Consolidated Income from January 1, 1979.

In December 1978, the Company acquired First Surety Corp., which includes Surety Savings and Loan Association, for $26,291,000. The acquisition has been accounted for as a purchase and results of Surety's operations have been included in the Statement of Consolidated Income from January 1, 1979. In December 1980, the Company acquired Civic Savings and Loan, for $8,316,000, and Civic has been included in the December 31, 1980, Consolidated Balance Sheet. The acquisition has been accounted for as a purchase and results of Civic's operations are being included in the Statement of Consolidated Income from January 1, 1981. During 1979, certain companies were acquired for cash aggregating $3,940,000, and 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.

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, 1979 and 1980, were $239,182,000 and $248,317,000, respectively. Amortization amounted to $4,464,000, $6,324,000 and $7,226,000, for the three years ended December 31, 1980.

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

2. Specialized Industry Accounting Practices

Specialized industry accounting practices pertain to the insurance and real estate industries.

Insurance Accounting.
The insurance operations of the Company are conducted through its subsidiary, The Home Group, Inc. Total revenues of The Home Group were $1,648,855,000, $1,846,572,000 and $1,988,112,000 for the three years ended December 31, 1980. Net income was $99,673,000, $94,309,000 and $77,756,000 for the same respective periods. Shareholders' equity of The Home Group was $846,449,000 at December 31, 1980, excluding redeemable preferred stock of The Home Group of $50,000,000.

Unearned premiums and prepaid insurance acquisition costs are recognized in the statement of income ratably over the terms of the policies. The method followed in computing prepaid insurance acquisition costs limits the amount of such deferred costs to their estimated realizable value by giving effect to the 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, 1979 and 1980, 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 stocks are carried at market value. Unrealized appreciation or depreciation of stocks is shown as a separate component of shareholders' equity, but is not included in the determination of net income. Unrealized depreciation at December 31, 1980, before income tax benefit, reflects unrealized gains of $33,616,000 and unrealized losses of $78,690,000. Investments in bonds are carried at 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 the Company's 80.3%-owned subsidiary, GDV, Inc., 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 $91,264,000 and $106,779,000 at December 31, 1979 and 1980, 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 approximately $152,600,000 and $160,600,000 at December 31, 1979 and 1980, respectively, of which $50,075,000 and $57,829,000, respectively, related to homesites sold was accrued in the balance sheet, including $15,500,000 and $21,400,000, 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):

	1979	**1980**
Raw materials and work in process	$291,486	$270,556
Finished goods	64,574	87,776
Subdivision land and houses	105,961	101,362
Homesite land, improvements and houses	40,974	52,273
Food and vending machine products	17,538	20,429
	$520,533	$532,396

4. Property, Plant, Equipment and Capital Leases

Additions and major renewals and betterments which have the effect of extending the useful lives of property are carried at cost. Maintenance, repairs and minor renewals are charged against earnings. 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 follows the practice of amortizing investment tax credits. Year-end balances follow (in thousands):

	1979	**1980**
Land and improvements	$ 70,171	$ 70,815
Buildings and leasehold improvements	531,364	585,331
Machinery and equipment	825,685	957,013
Accumulated depreciation and amortization	(503,263)	(570,981)
	$ 923,957	$1,042,178

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 $118,469,000 and $108,651,000 at December 31, 1979 and 1980, respectively. Related accumulated amortization was $36,164,000 and $35,253,000. Minimum payments due under capital leases for the years subsequent to December 31, 1980, are as follows (in thousands):

	1981	1982	1983	1984	1985	Thereafter	Total
Minimum payments	$ 11,182	$ 11,003	$ 10,746	$ 10,635	$ 10,490	$120,249	$174,305
Less imputed interest							93,289
							81,016
Less current amount							3,488
Obligations under capital leases							$ 77,528

5. Other Investments

Energy investments are represented by participations in leases and concessions principally in Ecuador and the North Sea. The Company follows the successful efforts method of accounting for costs incurred in searching for and developing oil and gas reserves. Only direct costs incurred in individual successful acquisitions and activities are capitalized. Other costs are expensed as incurred. The carrying amount of energy investments at December 31, 1980, was $16,776,000 before deducting long-term debt of $20,350,000.

5. continued

Energy and other reflects a loss from energy activities of $10,511,000 in 1978 and income of $783,000 in 1979 and $16,786,000 in 1980. The 1980 amount includes income from sale of substantially all domestic oil and gas reserves. Proceeds of the sale consisted of 2,837,740 common shares of MCO Resources, Inc.

During 1979, GDV purchased from Sambo's Restaurants, Inc. a first series of Cumulative Convertible Voting Preferred Stock for $13,659,000 in cash. During 1980, GDV purchased a second series of Cumulative Convertible Voting Preferred Stock for $15,000,000 in cash. The shares are convertible into approximately 34% of the then-outstanding common stock of Sambo's. GDV owns approximately 5.2% of the outstanding common stock of Stokely-Van Camp, Inc. with a carrying amount of $4,391,000.

During 1979 and 1980, City sold its positions in C.I. Realty Investors and C.I. Mortgage Group and realized pretax gains of $5,721,000 and $2,813,000, respectively. During 1979, GDV sold its positions in The Lamson & Sessions Company and Chicago Pneumatic Tool Company and realized a pretax gain of $5,318,000. These gains are included in corporate expenses, net. Also included in corporate expenses, net, for 1979, is provision for litigation settlement against a City subsidiary of $13,000,000 pretax.

6. Long-Term Debt

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

	1979	**1980**
Notes payable to banks under revolving credit agreements, due through 1988, average interest rate 22.61%	$ 523,685	$ 663,300
Loans payable to insurance companies, due through 1997, average interest rate 9.26%	275,405	276,577
Sinking fund debentures, due through 1997, average interest rate 9.05%	238,125	195,250
Subordinated debentures, due through 1990, average interest rate 8.0%	115,757	88,838
Notes secured by property and equipment, subdivision land and houses, and real estate, average interest rate 11.51%	127,722	145,480
Guaranteed notes, due through 1988, average interest rate 9.66%	88,200	85,000
Foreign subsidiary borrowings, average interest rate 12.76%	27,311	33,524
Other notes payable, average interest rate 13.93%	90,023	100,276
	1,486,228	1,588,245
Less unamortized discount	40,888	32,668
	$1,445,340	$1,555,577

Interest rates represent average stated rates at December 31, 1980, except for borrowing rates in effect under revolving credit agreements, which are based on the December 31, 1980 prime lending rate. The stated interest rates are effectively increased by the amortization to interest expense of debt discount. Consolidated long-term debt at December 31, 1979 and 1980, including current maturities, had a weighted average interest rate of approximately 11.78% and 15.40%, respectively. Included in 1979 and 1980 corporate interest and debt expense, net, are gains from redemption of debentures of $5,855,000 and $8,788,000, respectively. Interest and debt expense, net, of subsidiaries is shown net of amounts capitalized of $5,164,000, $13,792,000 and $17,647,000 for the three years ended December 31, 1980.

In connection with revolving credit and other bank borrowings, the Company maintains average cash compensating balances of 10% of the total commitments plus 10% of the outstanding indebtedness, or pays a fee in lieu thereof. During 1980, the average compensating balance was approximately $33.9 million and approximately $42.3 million was maintained at December 31, 1980. At December 31, 1980, the unused portion of commitments under revolving credit agreements amounted to $219 million, and the Company also had

6. continued

available an aggregate of $95 million of other unused long-term lines of credit and $86 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, 1980, are as follows (in thousands):

	1981	1982	1983	1984	1985
Revolving credit agreements	$ —	$ 72,500	$ 79,500	$119,550	$141,500
Insurance company loans	23,828	23,828	26,128	34,462	34,462
Subordinated debentures	—	2,500	2,500	2,500	2,500
Notes secured by property and equipment	19,090	12,943	12,168	11,771	11,663
Guaranteed notes	2,200	3,200	3,200	28,400	3,200
Foreign subsidiary borrowings	7,198	8,478	4,710	4,801	3,449
Other	12,253	4,850	3,183	10,414	22,072
Total	$ 64,569	$128,299	$131,389	$211,898	$218,846

Subordinated debentures at December 31, 1980, include debentures with a principal amount of $9,228,000 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 customary restrictions and limitations required under terms of various loan agreements. Retained earnings not subject to restrictions at December 31, 1980, approximated $170 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 dividends that may be paid, these earnings are not necessarily available to City on a current basis. At December 31, 1980, approximately $374 million of retained earnings of City's subsidiaries were not so restricted.

7. Capital Stock and Retained Earnings

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, 1980, is summarized as follows (dollars in thousands):

Issued at December 31	Common	Series A	Series B	Series D
1977				
Shares	23,306,887	80,978	7,706,657	5,000
Amount	$ 29,134	$ 202	$ 7,707	$ 5,000
1978				
Shares	23,369,912	53,636	7,704,595	2,000
Amount	$ 29,213	$ 134	$ 7,705	$ 2,000
1979				
Shares	24,861,036	43,277	7,055,947	1,750
Amount	$ 31,076	$ 108	$ 7,056	$ 1,750
1980				
Shares	31,947,058	33,329	3,425,499	1,500
Amount	$ 39,934	$ 83	$ 3,425	$ 1,500

7. continued

Common shares issued during the three years ended December 31, 1980, are summarized as follows:

	1978	1979	**1980**
Conversion of preference stock	60,057	1,033,399	5,683,471
Conversion of debentures	2,968	457,725	1,402,551
Total	63,025	1,491,124	7,086,022

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

Common stock issued includes 843,381 and 829,117 treasury shares at December 31, 1979 and 1980, respectively. During 1978, 1979 and 1980, respectively, 1,800, 1,900, and 14,264 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. All preference shares are redeemable at the option of the Company as follows: series A, $49.00; series B, $40.00; series D, $1,000.00. The series A shares are carried at their stated value of $2.50 per share and the series D shares are carried at their liquidation preference of $1,000.00 per share. 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, 1980, there were 5,413,102 shares of common stock reserved for the conversion of preference stock, 559,273 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, 1979 and 1980. 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 $10.825 per share. Dividends on The Home Group preferred stock are reflected as minority interest in the Statement of Consolidated Income.

8. 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 period 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.

9. Income Taxes

Provisions for income taxes include state income taxes of $9,285,000, $13,702,000 and $11,936,000 and foreign income taxes of $23,876,000, $27,036,000 and $30,408,000 for the three years ended December 31, 1980. A reconciliation between income taxes and the amount computed at the statutory Federal ordinary rate of 46% (48% in 1978) follows (in thousands):

	1978	1979	**1980**
Amount at statutory Federal ordinary rate	$106,637	$113,146	$ 78,690
Tax-free interest and 85% dividends received deduction	(27,246)	(32,994)	(35,062)
State income taxes, net of Federal tax benefit	4,828	7,399	6,445
Income taxed at capital gains rate	100	(2,907)	(4,325)
Miscellaneous items	1,202	(2,886)	(1,346)
	$ 85,521	$ 81,758	$ 44,402

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):

	1978	1979	**1980**
Installment accounting practices	$ 2,700	$11,500	$(16,800)
Estimated salvage recoverable on insurance claims and prepaid insurance acquisition costs	4,100	10,900	7,900
Equity in oil and gas investments	2,800	3,500	4,000
Accrued employee benefits	(6,900)	(6,900)	4,100
Excess of tax (book) depreciation and investment tax credits	13,300	(3,700)	(6,600)
Settlement of litigation	—	(5,800)	5,800
Miscellaneous items	9,800	8,200	7,000
	$25,800	$17,700	$ 5,400

10. Pension and Share Unit Plans

Pension plans are in effect which 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 $20,396,000, $26,869,000 and $28,509,000 for the three years ended December 31, 1980. Subsequent to the inception of the plans, it has been the policy of the Company generally to fund amounts provided. At January 1, 1980, the date of the most recent actuarial valuation, the actuarial present value of accumulated plan benefits was $211 million, of which $195 million was vested. Net assets available for benefits at that date were $186 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 an initial 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 initial 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, 1980, follows (in millions):

	Revenues	Operating Profit	Income from Operations	Depreciation and Amortization	Assets	Capital Expenditures
1978						
Manufacturing	$ 878.2	$ 84.3	$ 66.3	$ 18.9	$ 599.8	$ 74.2
International	463.7	53.2	41.9	11.4	382.1	37.8
Housing	600.8	75.1	61.0	8.3	1,240.4	15.3
Consumer Services	200.3	36.3	23.3	16.9	478.4	71.3
Insurance	1,648.9	136.0	136.0	—	2,980.5	—
Combined	$3,791.9	$384.9	$328.5	$ 55.5	$5,681.2	$198.6
1979						
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
1980						
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

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, the 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. A reconciliation of combined total assets and consolidated assets appearing in the accompanying balance sheet as of December 31, 1979 and 1980, follows (in millions):

	1979	**1980**
Combined total assets	$6,773.7	$7,569.4
Corporate assets	73.6	95.9
Discontinued operations	18.2	23.5
Consolidated assets	$6,865.5	$7,688.8

11. continued

Information about the Company's operations in the United States and foreign countries as of and for the three years ended December 31, 1980, follows (in millions):

	Revenues	Operating Profit	Income from Operations	Assets
1978				
United States	$3,176.1	$ 319.5	$ 275.1	$5,062.7
Foreign Countries				
Manufacturing	22.2	.9	.2	13.4
International	463.7	53.2	41.9	382.1
Insurance	129.9	11.3	11.3	223.0
Combined	$3,791.9	$ 384.9	$ 328.5	$5,681.2
1979				
United States	$4,252.7	$ 365.4	$ 303.3	$6,010.6
Foreign Countries				
Manufacturing	56.7	6.1	5.2	39.1
International	565.5	72.4	49.2	429.8
Consumer Services	4.3	.2	.2	1.0
Insurance	161.5	10.6	10.6	293.2
Combined	$5,040.7	$ 454.7	$ 368.5	$6,773.7
1980				
United States	$4,417.7	$ 304.6	$ 229.8	$6,648.5
Foreign Countries				
Manufacturing	67.4	8.1	6.9	40.7
International	715.0	88.5	49.8	549.1
Consumer Services	5.0	.2	.2	1.3
Insurance	181.1	8.0	8.0	329.8
Combined	$5,386.2	$ 409.4	$ 294.7	$7,569.4

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 conducted principally in Western Europe, Brazil and Mexico. Principal products include steel containers, water heaters and metal and plastic products. Also included is a photographic processing business based in the Netherlands and Belgium, acquired as of January 1, 1980. Additional information with respect to revenues and income from operations of the International segment are presented elsewhere 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 six insurers engaged in insuring foreign risks.

12. Supplemental Information Regarding Changes in Consolidated Financial Position

Assets acquired and liabilities assumed in connection with acquisitions of companies are summarized as follows (in thousands):

	1978	1979	**1980**
Assets acquired			
Working capital	$ 30,161	$ 53,676	$ (1,355)
Mortgage loans	159,296	—	43,616
Property, plant, equipment and capital leases	120,936	61,664	26,903
Carrying amount over equity in net assets	57,800	43,624	10,834
Other investments and long-term receivables	—	—	22,427
Other assets	42,782	3,263	11,853
	410,975	162,227	114,278
Less liabilities assumed			
Savings accounts	153,461	—	47,436
Long-term debt	18,339	18,168	762
Capital leases and other liabilities	26,594	10,469	3,548
	212,581	133,590	62,532
Minority interests	(43,733)	59,171	(7,308)
Cost of acquired companies	$168,848	$192,761	$ 55,224

13. Unaudited Quarterly Summary of Operations

The following Summary of Operations for the four quarters of 1979 and 1980 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 (in thousands):

1979	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$1,171,811	$1,275,449	$1,282,984	$1,310,466
Expenses				
Insurance company expenses	402,486	423,368	442,000	483,238
Operating costs	566,369	623,413	621,267	616,914
Interest and debt expense, net	22,428	18,818	21,503	23,431
Other expenses	102,931	106,056	100,382	97,570
Total expenses	1,094,214	1,171,655	1,185,152	1,221,153
Income from operations	$ 77,597	$ 103,794	$ 97,832	$ 89,313
Net income	$ 22,037	$ 35,956	$ 37,668	$ 36,889
Primary net income per share	$ .79	$ 1.41	$ 1.46	$ 1.41
Net income per share — assuming full dilution	$ .60	$ .97	$ 1.02	$ 1.01

13. continued

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
Primary net income per share	$ .94	$ 1.08	$ 1.02	$ .62
Net income per share — assuming full dilution	$ .72	$ .83	$ .87	$ .59

Caution should be exercised in comparing the results of consecutive quarterly periods since many of City's businesses are seasonal.

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

In 1979 the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices. The purpose of the Statement is to provide additional supplementary information with respect to the impact of general inflation (constant dollar) and specific price changes (current costs) on public enterprises. In issuing the Statement, the Board recognized that there was no consensus on the general, practical usefulness of either constant dollar information or current cost information. They concluded, however, that there was an urgent need for enterprises to provide information about the effects of inflation. Accordingly, the Statement establishes limited information requirements, emphasizes flexibility and encourages experimentation. The Company, therefore, cautions against any simplistic use of constant dollar or current cost data.
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.

Constant Dollar Information

Constant dollar accounting represents a method of reporting financial statement information in dollars having a fixed purchasing power (i.e., dollars of equivalent value). 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" (the base year of 100 of the CPI-U is 1967). 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 1980 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.

14. continued

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. These indices do not reflect technological changes or improved production methods associated with the normal replacement of productive capacity.

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.

Summary

Under both the constant dollar and the current cost methods, net income of the Company is lower than that determined under the historical cost method. Under each method, however, because of the Company's financial structure, i.e., monetary liabilities in excess of monetary assets, the indicated decline in net income is more than offset by the gain from decline in purchasing power of net amounts owed. 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.

The Company also emphasizes the experimental nature of the information presented herein:

Over the past few years, there has been considerable debate in the insurance industry over classification of certain financial statement elements as either monetary or nonmonetary, and definitional changes could be made in future reports which could result in material changes to reported amounts.

Calculations for depreciation and amortization expense do not reflect technological changes and improved production methods associated with the normal replacement of productive capacity. Plant and equipment are replaced over many years and, in many cases, will be accomplished by rebuilding existing assets.

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, which, in addition to the items mentioned above, include investments in stocks by insurance subsidiaries and prepaid insurance acquisition costs, while substantially all liabilities, except unearned premiums of insurance subsidiaries, are classified as monetary. Accordingly, the Company reflects a significant gain from decline in purchasing power of net amounts owed. The Company cautions that definitional changes in classification of monetary and nonmonetary items could significantly affect the data presented.

14. continued

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, **1980**	Constant dollars	Estimated current costs
Net income, as reported in the Statement of Consolidated Income	$ 111,316	$ 111,316
Inventory adjustments included in operating costs	35,930	33,537
Adjustments to depreciation and amortization expense	36,578	25,315
Total adjustments	72,508	58,852
Defined net income	$ 38,808	$ 52,464
Defined net income per share		
Primary	$ 1.06	$ 1.55
Assuming full dilution	1.06	1.43
Gain from decline in purchasing power of net amounts owed	$ 150,311	$ 150,311
Net assets at beginning of year	$1,412,486	$1,379,018
Net assets at end of year	1,196,070	1,143,543
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year		$ 162,554
Effect of increase in general price level		260,635
Excess of increase in the general price level over increase in specific prices		$ 98,081

(1) See preceding summary comments.

Estimated current cost of inventories, including amounts classified as long-term, was $717,976,000 at December 31, 1980, or $126,428,000 higher than historical cost of $591,548,000, of which $99,559,000 related to housing operations. Estimated current cost of property, plant, equipment and capital leases, net of accumulated depreciation and amortization, was $1,262,251,000 at December 31, 1980, compared with historical cost of $1,042,178,000.

14. continued

Certain information for the five years ended December 31, 1980, 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)	1976	1977	1978	1979	**1980**
Total revenues					
Historical amounts	$2,529,496	$3,064,911	$3,791,875	$5,040,710	$5,386,178
Adjusted for general inflation	3,661,464	4,167,603	4,789,328	5,722,388	5,386,178
Defined net income — constant dollars				$ 60,266	$ 38,808
Per primary share				1.87	1.06
Assuming full dilution				1.66	1.06
Defined net income — current costs				$ 89,602	$ 52,464
Per primary share				3.13	1.55
Assuming full dilution				2.45	1.43
Gain from decline in purchasing power on net amounts owed				$ 153,763	$ 150,311
Excess of increase in the general price level over increase in specific prices				$ 108,281	$ 98,081
Common stock cash dividends per share					
Historical amounts	$ .66	$ .80	$ 1.00	$ 1.20	$ 1.50
Adjusted for general inflation	.96	1.09	1.26	1.36	1.50
Year-end common stock market price					
Historical amounts	$ 13.250	$ 12.875	$ 13.625	$ 18.000	$ 21.500
Adjusted for general inflation	18.761	17.074	16.573	19.323	20.535
Consumer price index					
Year-end	174.3	186.1	202.9	229.9	258.4
Average	170.5	181.5	195.4	217.4	246.8

(1) See preceding summary comments.

Accountants' Report

The Board of Directors and Shareholders
City Investing Company:

We have examined the consolidated balance sheet of City Investing Company and subsidiaries as of December 31, 1979 and 1980, and the related consolidated statements of income, capital surplus, retained earnings, unrealized depreciation of stocks held by insurance companies and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the consolidated financial position of City Investing Company and subsidiaries at December 31, 1979 and 1980, and the results of their operations, and changes in capital surplus, retained earnings, unrealized depreciation of stocks held by insurance companies and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied during the periods.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 16, 1981

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 8⅛% Subordinated Debentures:
Citibank, N.A., 111 Wall Street, New York, New York 10015

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

9% and 9⅛% Sinking Fund Debentures:
Manufacturers Hanover Trust Company, Corporate Trust Department,
40 Wall Street, New York, New York 10015

Properties
At December 31, 1980, City and its subsidiaries occupied approximately 30 million square feet of plant and office space in the United States, approximately 38% 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.

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.

Summary of Dividends and Stock Prices

Common Stock: Dividends declared for each quarter of 1979 and 1980 were 30 cents and 37½ cents per share, respectively, and totaled $1.20 and $1.50 per share for each of the two years.

Preference Stocks: Series A and Series B Preference Stock dividends for each quarter of 1979 and 1980 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
1979								
Common	16⅞	13¼	17⅞	14⅜	22	17⅛	19⅝	15⅞
Series A	29	29	34	34	41	36½	39	35
Series B	30½	22¼	27⅝	23	34	26⅝	30¼	24⅜
1980								
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	35⅛	43¼	32¾

Stockholders	Number of Record Holders March 2, 1981
Common Stock	36,156
Cumulative Preference Stocks	17,570

Securities Listed

The New York Stock Exchange (Common, Series A & B Preference, 7½% Convertible Subordinated Debentures, 8%, 8⅛% Subordinated Debentures, 8⅞%, 9% and 9⅛% Sinking Fund Debentures)
Midwest Stock Exchange (Common, Series B Preference)
Pacific Stock Exchange (Common, Series B Preference)
Amsterdam Stock Exchange (Common)
Brussels and Antwerp Stock Exchanges (Common)
Frankfurt Stock Exchange (Common)
London Stock Exchange (Common, Series B Preference)
Paris Bourse (Common)
Zurich, Geneva, Lausanne and Basle Stock Exchanges (Common)

Operating Management

Manufacturing

George J. Papas, Executive Vice President — Administration, Rheem Manufacturing Company
Robert B. Gilbert, President, Rheem Air Conditioning Division
William E. Fahey, President, Rheem Water Heater Division
Carl W. Dinger, President, Rheem Container Division
Daniel B. Dawley, President, Rheem Refrigeration Products Division
Gregson L. Barker, President, Uarco Incorporated
N. Clyde Oberlin, President, World Color Press, Inc.
Leo Fleming, President, Alma Plastics Company
Willis C. Hagan, Jr., President, Hayes International Corporation

International

James V. Risk, President, Rheem International, Inc.
Fernando Pernambuco, President, Rheem Metalurgica, S.A., Brazil
Sergio Romero, Managing Director, Rassini Rheem, S.A. de C.V., Mexico
Michel Aerts, Managing Director, TMT S.A., Belgium
Jan Bezemer, Managing Director, Photofinishing International B.V., The Netherlands
C.G.P. van Kleef, Managing Director, Photofinishing International B.V., The Netherlands
J. K. Noakes, Chairman, Rheem Blagden Limited, England
David S. Scott, Managing Director, Rheem Safim, S.p.A., Italy
Giuseppe Ranzini, Managing Director, Rheem Radi, S.p.A., Italy
Michael Y.O. Fam, Chairman, Rheem Hume Pte. Limited, Singapore
N. S. Park, Managing Director, Rheem South Africa (Pty.) Ltd.

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

Consumer Services

William R. Avella, President, Servomation Corp.
James A. Lucas, President, Motel 6, Inc.

Insurance

Peter C. R. Huang, Chairman & President, The Home Insurance Company
Henry P. Lenz, Executive Vice President — Insurance Operations
Edward P. Sheridan, Executive Vice President — Subsidiary Companies & Eastern Region
Norman H. Bressman, Senior Vice President — Southern Region
Robert B. Clune, Senior Vice President — Western Region
John W. Hilton, Senior Vice President — Claim
Joseph C. Kaminski, Senior Vice President — Chief Financial Officer
James A. Kickler, Senior Vice President — Midwestern Region
Jeremiah J. Mulhall, Senior Vice President — Underwriting
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
Albert C. Trussell, President, Federal Home Companies
Robert P. Scaglione, President, Seaboard Surety Company

Design: Gips + Balkind + Associates, Inc.

Officers and Directors

Officers

Geo. T. Scharffenberger, Chairman & Chief Executive Officer
Peter C. R. Huang, President & Chief Operating Officer
Stephen E. O'Neil, Vice Chairman
Daniel E. Lyons, Executive Vice President & Chief Financial Officer
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
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
Stephen E. O'Neil, Vice Chairman
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, Walter Kidde & Company, 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., Chairman of the Executive Committee, 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
59 Maiden Lane
New York, NY 10038
(212) 530-7300